Week of April 14, 1980

business insurance

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Risk Manager of the Year: Thomas V. Hallett

GM exec steers into policy savings with a global plan

By SUSAN ALT

DETROIT—Thomas V. Hallett made his mark at General Motors Corp. with swift, sure moves, reorganizing the risk management department and revamping most of the giant automaker's major insurance programs in his first two years on the job.

Within weeks of joining GM in mid-1978, Mr. Hallett set his priorities and had his work cut out for him. GM chairman Thomas A. Murphy had announced only weeks earlier that GM's overseas and domestic operations were being integrated, centralizing a formerly decentralized management structure. This enabled Mr. Hallett to establish consolidated worldwide property and liability insurance programs for the first time.

Dividing his 46-person department into four functional areas—property, liability, special risks and personal risks—Mr. Hallett deployed his managers and began orchestrating changes in a half-dozen major areas.

Maximizing its massive buyer power and making a long-term commitment to Industrial Risk Insurers, GM cut the cost of its worldwide property insurance 67%. And GM gained much broader coverage for its $40 billion of properties under a tailor-made all-risk

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Photo: Bob Benyas

Policies' sticker price: $200 million

General Motors pays about $200 million each year for a wide range of property and liability insurance programs.

About four-fifths of those dollars go into combined liability insurance programs. The largest portion is spent on product liability insurance, followed far behind by general liability, insured workers compensation programs (GM is self-insured in nearly all states) and auto.

Property insurance accounts for the second largest dollar cost for GM behind product liability insurance, but it's a distant second.

Marine, aviation and "other" programs—including crime, fidelity, surety, D&O and other assorted policies—account for less than 10% of GM's annual premium cost.

GM uses a stable of brokers to service its many insurance programs worldwide.

The lineup includes Alexander & Alexander (product liability, general liability, workers compensation, auto and some reinsurance); Johnson & Higgins (U.S. property and worldwide marine); Frank B. Hall (personal auto insurance for employes, boiler & machinery, aviation, D&O), and Fred S. James & Co. of New York (consulting involving D&O, nuclear and captive studies).

Three minority brokers participate in property insurance and loss prevention services: W.L. Jackson Co. in Dayton; Lewis & Thompson in Detroit, and E.G. Bowman & Co. in New York City.

Top GM brass toast Hallett's award

DETROIT—Thomas V. Hallett, 38, was named Risk Manager of the Year for 1980 by *Business Insurance* at a luncheon here March 31 in his honor.

Mr. Hallett, director of risk management for General Motors Corp., stepped into the top risk management spot at the nation's largest automaker in June 1978. He took over the helm from Robert M. Cone, who retired this month after nearly 23 years in charge of insurance for GM.

Roger B. Smith, executive vp and heir-apparent to retiring GM chairman Thomas A. Murphy, attended the ceremony for Mr. Hallett and testified to the visibility and importance of risk management within GM's financial operations. He complimented Mr. Hallett on having been chosen to receive the award and displayed obvious pride while discussing Mr. Hallett's achievements at GM.

Although GM for many years has recognized the importance of risk management to the corporation, the company pays more attention to Mr. Hallett's department now than before because the cost of insurance has risen and there is more litigation to contend with, Mr. Smith said.

"We're paying more attention to insurance," he noted, pointing to the undeniable effect risk management can have on corporate bottom line profits.

Other GM executives also attended the Detroit fete: John R. Edman, vp-finance; John B. Cook, assistant treasurer and Mr. Hallett's immediate superior; Roy J. Clinton, assistant to the director of risk management, and Daniel J. Bieniek, manager-liability risks.

Financial executives at GM characterized Mr. Hallett as exhibiting outstanding leadership qualities and imagination in orchestrating several major reorganizations of insurance programs.

Mr. Hallett has been involved in insurance since 1964, when he graduated from Loyola University in Chicago with a degree in English and went to work in Liberty Mutual Insurance Co's claims department. He shifted gears and plunged into risk manage-

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NEWSPAPER

Meet the judges
Page 69

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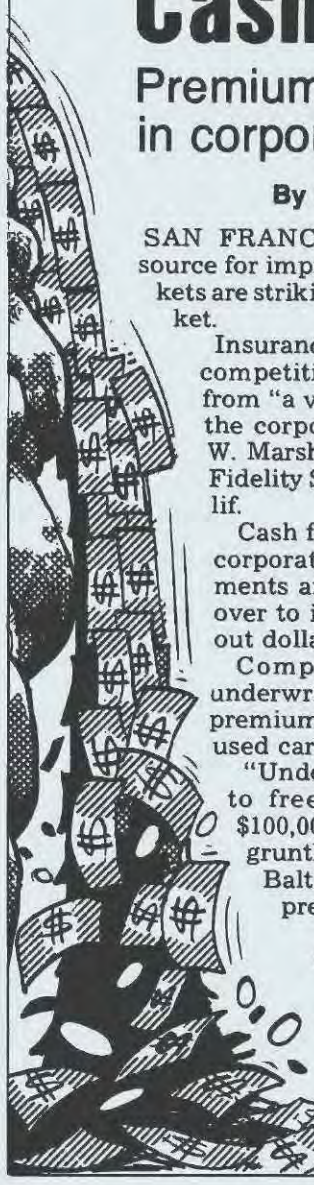
Special report: Calling the shots

Running the risk management and benefit management programs, not letting them run you, takes planning and effort. Successful executives reveal their methods for getting what they want: Special report, **page 37.**

BI Board survey

BI panel members found cheap liability insurance prices irresistible in 1979. And they want brokers to keep their noses out of underwriting: **Page 24.**



Cash flow:

Premiums, reserves remain in corporate buyers' coffers

By MARGARET LeROUX

SAN FRANCISCO—Corporations mining every source for improving cash flow in tight money markets are striking gold in the liability insurance market.

Insurance buyers digging around the hotly competitive insurance markets are picking from "a variety of programs designed to keep the corporate cash flowing," says Richmond W. Marshall, risk and insurance manager for Fidelity Savings & Loan Assn. in Oakland, Calif.

Cash flow insurance programs that allow a corporation to hold on to its premium payments and reserves instead of forking them over to insurers are pumping formerly paid-out dollars into corporate coffers.

Competition for premium dollars has underwriters courting all sizes of risks with premium financing offers that would make a used car salesman blush.

"Underwriters are offering what amounts to free financing for premiums in the $100,000 to $500,000 range," said the disgruntled sales manager for Bufco Inc. in Baltimore, Md., Alexander & Alexander's premium financing subsidiary.

But risk managers caution other buyers against thinking insurers are giving anything away in these cash flow programs. And there is a danger in the plans: The corporation may have to

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Bigger reserves push black lung rates higher

NEW YORK—Black lung claims finally being processed by the Labor Department will force insurer reserves and insurance rates higher this year, *Business Insurance* learned.

The National Council on Compensation Insurance, which administers reinsurance pools that take black lung risks from residual markets, is now informing reinsurers they will have to increase their reserves this year.

Increasing reserves will push black lung insurance rates higher for coal mine operators, NCCI admits.

Self-insurance and captive programs for the black lung risk will also have to increase their reserves, NCCI notes.

The Labor Department, which administers the Black Lung Reform Act, has been slow to process claims for lung disease suffered by coal miners. With minimal claims reports coming from the Labor Department, insurers have lacked information they need to establish the reserves they knew would be required.

NCCI told reinsurers within the last two weeks to cough up another $120 million in reserves to cover the cost of developing claims, one reinsurer told *Business Insurance*. NCCI refused to confirm the figure, because it is still analyzing the numbers.

"It will be about a month before we'll have figures," said an NCCI attorney.

Insurance company analysts at

Continued on page 99

Photo: Dowdy

Grand jury investigates specialty broker for fraud

By LEN STRAZEWSKI

LEXINGTON, Ky.—Postal inspectors and an Eastern District grand jury here are investigating a former excess/surplus insurance broker and the mutual insurer he now operates for possible fraudulent long-haul trucking coverage, *Business Insurance* learned.

The criminal investigation, however, is just the latest twist in a trail of bogus policies issued by Robert R. Campbell. Mr. Campbell and other producers in at least six states issued unauthorized policies on the alleged underwriting authority of a New Jersey excess/surplus lines broker whose purported U.K. markets for the coverage never heard of him.

Mr. Campbell, former principal of Transportation Insurers Inc., voluntarily surrendered his brokers license late last year after a Kentucky insurance department investigation revealed that commercial auto/trucking property damage policies he sold, citing the

Continued on page 100

Firms hop on van pool bandwagon

By RHONDA L. RUNDLE

LOS ANGELES—Employer-sponsored commuter van pools are popular, penny-wise and patriotic.

With that to run on, it's no wonder new van pool fleets are rolling out of major corporate boardrooms faster than any other employe benefit.

Van pooling pioneers such as the Prudential Insurance Co., the Tennessee Valley Authority and Minnesota Mining & Manufacturing Co. are expanding their fleets to extend the commuter benefit to more employes.

Typically, the company buys the 10 to 15 passenger vans and charges employes a monthly fare based on commuting distance to cover capitalization, maintenance, fuel and insurance costs. The employe who chauffeurs the others rides free and gets to use the van evenings and weekends.

As van pools build good loss experience, insurer and liability barriers that put the brakes on the benefit a few years ago appear to be crumbling.

Photo: Prudential

Most van buyers have at least 1,000 workers at one location and as corporate giants merely add company-owned vans to an existing auto liability fleet policy.

No one reports often-feared problems with workers compensation claims arising out of scarce van pool accidents.

Small companies are generally poor van pool candidates, transportation experts say. There is less likelihood at a small company that employes live close enough together to make pool transportation practical. Also, commuter benefits don't make sense if they are only available to a small fraction of the employe population.

Companies that offer the benefit, however, are almost universally upbeat.

At Fluor Corp. in Irvine, Calif., Daniel Archibald, director of employe services, says van pooling has developed into a powerful recruitment tool for the engineering firm. "We have gained employes as a result of our program," he enthuses. "We've also lost employes with long commutes that we couldn't accommodate in a van pool."

Fluor, like many other companies, is sweetening the deal through direct subsidies to employes who ride the vans. The van ride cost varies from $38 to $56 per month, of which 22% is paid by the company. The employe's contribution is deducted directly from his or her check and is not counted as taxable income by IRS.

"Our claims experience has been very good," says Dick Peterson, Fluor's director of insurance and risk management. The fleet is insured through a corporate auto liability master policy that covers about 600 vehicles. After three and a half years, Fluor now owns 52 vans that transport one out of six of its employes to work.

Not every company that extends van pool benefits to employes necessarily owns its own vans. Atlantic Richfield Co. in Los Angeles, for example, leases vans and buses from Commuter Computer. The third-party public and private operator went into business several years ago with a $100,000 grant from ARCO. The oil company pays half of the fare for employes.

Among companies that do own

Continued on page 101

for your information

Va. firms may form captives under law effective July 1

RICHMOND, Va.—Beginning July 1, Virginia-based corporations and trade associations can form captive insurance companies under a new chapter (26) to the insurance law signed by Gov. John Dalton on April 7.

The law allows captives to meet capital and surplus requirements with letters of credit, easing the formation of insurance companies. But the captives will be subject to most other insurance company regulation, making the law stricter than captive laws in Colorado and Tennessee (*BI*, March 17).

Group captives will be subject to the guaranty fund, for example. Pure captives—those underwriting only risks of affiliated companies—are exempt from the guaranty fund assessment, the insurance department clarified. The author of the bill had said all captives would be subject to the guaranty fund.

Only Virginia-based companies and trade groups can form captives, but already the insurance department has answered a half-dozen inquiries about the law.

Ill. halts MET's business

SPRINGFIELD, Ill.—The insurance department here has ordered the uninsured multiple employer trust sponsored by the American Assn. of Trauma Specialists into conservatorship pending liquidation.

The trust, which offered group health and disability coverage to a variety of health service employes, was ordered to stop writing business in Illinois in February after an investigation revealed a large number of unpaid claims (*BI*, Feb. 4).

The AATS trust originally filed for an exemption from state regulation as a qualified ERISA entity. But the plan never made the required information filings, according to the U.S. Department of Labor.

Some of the groups left without coverage have switched policies to the insured Multiple Benefit Trust administered by Variegated Insurance Marketing Concepts Inc. in Van Nuys, Calif. But that trust accepted only about half of the applicants.

Shell gets Salem settlement

LONDON—Shell International has accepted about $30 million from South Africa in settlement of its claim for $56 million in the loss of the oil cargo on the 214,000-ton tanker Salem, which sank mysteriously off Dakar on Jan. 17 (*BI*, Feb. 4).

But Shell will continue its court actions against Lloyd's underwriters and Frederick Soudan, director of the Oxford Shipping Co. of Houston, in hopes of recovering more money.

The joint announcement by Shell and the South African government's oil-buying agency, the SFF Assn., officially reveals the oil was delivered to Durban in mid-December. Until now South Africa had relied on its strict petroleum laws to maintain secrecy over getting the oil, which was delivered there while the Salem's name was changed to Lema and its tanks filled with seawater.

Kansas approves tort reform

TOPEKA—The Kansas legislature has approved tort reform legislation (H.B. 2493) drawn up along the lines of the U.S. Commerce Department's model product liability bill.

The legislation makes it tougher for plaintiffs to win product liability suits in claims involving products more than 10 years old. The bill also generally bars suits against retailers and wholesalers of products.

Business leaders are optimistic that Gov. John Carlin will approve the measure.

N.Y. can't cut aid to Syracuse

SYRACUSE, N.Y.—Under a court order, New York State can't reduce aid to the Syracuse school district for repayment of a $400,000 loan from the state civil service health insurance plan. The state may still fight the court order.

Aid to the school district was reduced by the amount of the loan in 1977, in effect claiming payment of the loan, city of Syracuse corporation counsel Robert Jenkins said.

The loan from the insurance fund was made with the stipulation that it be repaid if school districts and other public entities withdrew from the health insurance plan (*BI*, Jan. 21). The Syracuse district withdrew as of Jan. 1 and the state threatened to reduce aid to the district to repay the loan.

In a related action, the city filed notice of intent to file claim against the state health insurance fund for a return of dividends it lost when it left the system. The dividends were applied to reduce 1980 premiums to public entities remaining in the state system.

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Adopt strict liability, panel tells Ontario

By JERRY GEISEL

TORONTO—Ontario should adopt strict liability, but retain current safeguards in its legal system to prevent product liability problems from approaching the magnitude they've reached in the U.S., a provincial blue-ribbon commission advises.

The Ontario Law Reform Commission, in its final report to the Ontario legislative assembly, recommends a key legal restraint on strict liability: trial by judges, not juries.

Besides offering a blueprint for future product liability law in Ontario, the report comments extensively on the U.S. product liability system.

Despite possible increases in their product liability exposures if strict liability is adopted, Canadian risk managers say the proposal is just. And they don't anticipate strict liability will create unmanageable problems in Canada.

"The commission is saying that if you put a product out of the marketplace, the product shall be safe," says John McArthur, manager of credit and property at Canadian Gypsum. "That's not an unreasonable approach."

To insist that companies "should stand behind their products" is only fair and just, adds Don M. Stuart, coordinator of RIMS Canadian activities.

The adoption of strict liability is needed not because many injured consumers are not compensated, but to eliminate the current anomalies in the law that result in irrational and unjust outcomes in product liability suits, according to the commission.

Under current Canadian law, an injured consumer can sue only if the defendant was negligent in making the product or if a warranty was breached. In strict liability, which rules in the U.S., a plaintiff only has to prove the product was defective at the time it left the control of the manufacturer.

But the commission, whose six members included two former Ontario supreme court justices, recommends a key legal restraint—trial by judges instead of juries—to decide product liability cases.

A jury may show "undue favor to an injured plaintiff where the defendant is assumed to be insured against liability," the commission said in advising against jury trials.

"The judge, by his experience and knowledge, is more likely to base awards on reason than emotion," Mr. Stuart agrees.

The commission doubts the adoption of strict liability will significantly boost product liability insurance premiums, arguing premiums rise more because of large and unpredictable awards than because of liability law.

Million-dollar awards are virtually unknown in Canada. The possibility of future huge awards is unlikely since the supreme court of Canada recently suggested that except in the most unusual circumstances, awards for pain and suffering be limited to $100,000.

Furthermore, strict liability is not likely to boost the number of product liability suits filed by attorneys. Ontario generally bars contingency fee arrangements, a compensation system in the U.S. accused of bolstering litigation. "If you file suit here, you won't get a

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Lawsuits won't explode

Even under strict liability, Canada doesn't expect its product liability to grow as in the U.S.

An injured U.S. worker, for example, can collect workers compensation benefits from his or her employer and then sue the manufacturer of the product. Although work-related accidents result in only 11% of product liability claims, they produce 42% of all product liability payments, the Commerce Department said in 1977.

In Canada's provinces, an injured worker who collects workers compensation is barred from filing a product liability suit. This provision also holds down the number of suits.

"A study of the American situation strongly suggests that the subsequent increases in the cost of insurance premiums have had very little to do with the substantive law of product liability, but are closely related to the high damage awards caused by aspects of the American civil litigation system almost entirely absent from Ontario.

"So long as this state of affairs continues, there would seem to be no danger of importing into Ontario the American product liability crisis," the Ontario Law Reform Commission said.

errors & omissions

• Royal Insurance Co. was quoted incorrectly April 7 ("Investment income cuts ADA plan rate") as saying it doesn't give a policyholder credit for investment income in the ratemaking process unless premiums are more than $7 million. Royal says that except for the very large risk—generating premiums of $7 million to $10 million—investment income is reflected in rates or premiums on a "judgmental basis rather than a formula."

That Royal does not see a thrust toward buyer pressure for investment sharing is largely because sophisticated buyers using such programs as high deductibles, paid retros and captives are able one way or another to gain credit for investment income and recapture loss reserves.

• Northbrook Insurance Co. and The Home Insurance Cos. support the exposure theory of the definition of occurrence as it pertains to INA vs. 48 Insulations, a case currently on appeal to the sixth circuit court in Cincinnati regarding coverage for asbestos product liability claims. An article in the April 7 issue incorrectly reported the case as involving building products manufactured by Johns-Manville Corp.

• John Belcher, a vp at Marsh & McLennan, was incorrectly identified in a caption in the April 7 issue as being employed by AIG.

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Migrants benefit from innovative plans

By RHONDA L. RUNDLE

SALINAS, Calif.—Innovative benefit qualifications under the United Farm Workers of America benefit plans are inspiring agribusiness employers to also design benefits for migrant workers.

The union's unusual accounting for time worked by married couples when figuring benefit eligibility and its provisions for portability of benefits shows benefit plans can be designed for seasonal and part-time workers.

Seasonal workers have long been denied employe benefits because they move around too much to meet the eligibility standards of traditional employer-sponsored plans. Few companies are willing to extend costly pension, health and life insurance benefits to wage-earners who are here today and gone tomorrow.

Employers also argue there are practical problems to providing benefits to itinerant workers. Conventional insurance programs are not designed to accommodate the multiemployer employe, they point out.

But now agribusiness employers are starting plans similar to the UFW's to offer workers an alternative to union benefits, or to combat unionization, depending on one's point of view.

The UFW's tailor-made benefit programs are financed by employer contributions wrung from growers through threatened or actual strikes. Eligibility standards for participation are extremely flexible and realistically reflect the uncertain nature of seasonal employment.

A husband and wife may pool their time, for instance, to meet minimum hours-worked requirements for the Robert F. Kennedy Farm Workers Medical Plan, reports Ralph Magana, plan administrator. The more hours they work collectively, the better are the benefits they can earn for the entire family. Employers shoulder the full bill; there is no coinsurance coverage even for dependent coverage.

The UFW's provision for husband and wife teams may be a prototype for future benefit plans if many more married couples demand part-time employment as futurists predict.

To qualify for the pension plan, a UFW worker must chalk up 500 hours of work each year. Full vesting is earned after 10 years. Usual retirement is at age 65 with early retirement possible at age 59.

The Juan de la Cruz Farm Workers Pension Trust pays retired workers $50 to $300 a month, averaging $75 to $100. The $8 million trust is administered by a joint board of management and labor trustees. The plan began with $20,000 in 1973, says Ken Winterrowd, plan administrator.

Now competing to provide benefits and presumably lessen the need for workers to join the UFW is the Citrus & Avocado Pension Trust. It is supported by 80 employers in the orange, grapefruit, lemon and avocado industries of California and Arizona.

As in the union program, workers can transport benefits among growers. A sliding scale based upon hours worked determines monthly pension payments upon retirement. "There is no distinction between seasonal and full-time workers," adds Jinny Clark, manager of the six-year-old program.

Ms. Clark also manages the Citrus Insurance Trust Fund which provides medical insurance to employes of about 400 participating growers. Workers qualify for the Pacific Mutual Life Insurance Co. plan if they work at least 60 hours per month up to

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Photo: Wide World

Overlooked group

Seasonal workers have long been denied employe benefits because they move around too much to meet eligibility standards.

Lunchtime movies win rave reviews

ALBUQUERQUE, N.M.—Employers are turning the lights out in company cafeterias, not as a reaction to the energy crisis, but as a means of focusing in on a new benefit: lunchtime movies.

Several hundred employers nationwide are already offering employes the new benefit of seeing 20-minute movies three times a week. It kills boredom and improves employe morale, they said.

Movie packages range from sports to history, comedy classics and shortened versions of major films distributed by EFFORTS Group based here.

"The program is designed for the 42 million American workers who have half-hour lunch periods," said EFFORTS president Lew Harris. "It's to help eliminate the boredom and monotony problem."

Clark Trucking Equipment Co. in Albuquerque was the first employer to dim the lights on the silver screen in the lunchroom with EFFORTS' films.

"We got into it for the simple entertainment value and for relief of a rather acute problem: a letdown at lunchtime," said Donald Clark, executive vp and general manager.

The nearly year-old program has not only improved employe morale, but also improved the employe/employer relationship, Mr. Clark said. The movies, costing Clark about $500 a month, also make workers feel appreciated, he said.

Employes at this 35-person light manufacturing company for truck mounts choose the films, which change monthly.

Brake Parts Co. in McHenry, Ill., began offering the movie benefits to its 525 workers just six weeks ago. But already the benefit is playing to rave reviews.

"It's gone over real big," said employe relations manager Vincent Rotello. "People like sitting down, enjoying themselves at lunch and being entertained.

"We got into it to provide some type of entertainment for people doing routine, menial-type factory work," said Mr. Rotello, who recommends the program to other employers.

Though demand for the movies exceeds EFFORTS' distribution ability at present, not all companies are head-over-heels over the reels.

At Coca-Cola Bottling Co. in Albuquerque, which employs 60, movies were shown for three months and then discontinued late last year.

"The people didn't seem to care for it. We have too many different shifts around here. It wound up being more of a hassle than a benefit," said plant manager James Ballejos.

EFFORTS, which test-marketed the service in Albuquerque in May 1979, charges $495 per month if equipment is rented along with the films. The film charge is $295 per month if equipment such as the projector, speakers and screen is purchased for about $600. The movies are now available from EFFORTS distributors in Albuquerque, Chicago and Milwaukee. New distributorships are being planned in Northern California, the United Kingdom and Canada, to name a few.

The company has a five-year film supply if three fresh films are used weekly, Mr. Harris said.

New Maryland law spares hospital $3.2 million cost

By JOHN MAES

BALTIMORE—A new Maryland law will open up excess/surplus malpractice insurance markets to buyers and save the University of Maryland hospital $3.2 million on its liability insurance program.

Passed in the closing hours of the legislature April 7 and assured of the governor's signature, the law will supersede a previous ruling by the insurance department here that the hospital had to switch malpractice insurers.

The insurance department was enforcing a 1975 law that required all new medical malpractice insurance to be written by an insurer admitted in Maryland.

Since the hospital's malpractice risk is insured by an out-of-state firm, Mutual Fire, Marine & Inland Insurance Co. of Philadelphia, it would have been required to switch at renewal time to Medical Mutual Liability Insurance Society of Maryland, a doctor-owned in-state insurer and the only medical malpractice insurer licensed by Maryland.

The new legislation will allow the purchase of malpractice coverage from an out-of-state insurer provided there are less than three firms licensed in Maryland offering the same product.

Transferring the coverage to Medical Mutual would have cost the hospital an estimated $3.2 million more a year than it is paying to cover its 750 doctors, hospital administrators say.

Premiums would have been an additional $1.4 million over the $1.2 million it is paying. The hospital also would have been required to buy additional coverage to cover claims filed for incidents occurring under the existing claims-made policy. That would have cost an additional $1.8 million, said John Midkiff, associate director of the hospital.

Hospital officials are relieved they will not be burdened with the additional expense just to comply with state law. "Nobody in their right mind would spend $3.2 million more than they have to spend and smile at the same time," Mr. Midkiff said.

The hospital purchased the insurance from Mutual Fire, Marine & Inland at a time when Medical Mutual was still a fledgling operation and not yet prepared to underwrite so large a risk.

Thomas P. Riamondi, assistant insurance commissioner in Maryland, said the department had no choice but to stand behind the existing insurance code in dealing with the hospital's insurance. "We're a regulatory agency and we had to endorse the code," he said. "To change the law is a legislative function, the code is very specific on that."

Legislators introduced the bill after noticing the hospital would be saddled with the additional expense if the code were not amended.

The original law, designed to maintain somewhat reasonable rates, was passed in 1975 at the height of the malpractice insurance crisis when companies were either pulling out of the market altogether or charging extremely high rates for the coverage because of rapid increases in malpractice suits.

At that time, St. Paul Fire & Marine Insurance Co., which was insuring nearly 80% of the doctors in the state, pulled out of the market in Maryland after the state insurance commission denied it the rate increase it was seeking. Commissioners thought the request was excessive.

The physician-run mutual was formed to provide malpractice coverage and the 1975 law was passed to protect the mutual's market from out-of-state competition. But Medical Mutual has now taken over the near-monopoly that St. Paul once enjoyed and insures most of the state's 6,500 physicians, observers say. ■

Dental plan to cover PIA members

MORE THAN 1,800 independent insurance agents will begin receiving dental coverage this week under a new plan started by the National Assn. of Professional Insurance Agents.

The plan, underwritten by New York Life Insurance Co., will pay 80% of charges for regular dental services including exams, x-rays, oral surgery, extractions, fillings, anesthesia, periodontal and endodontic treatments, medicines, drugs and fluorides.

It will also cover 50% of special services including gold fillings and installation and repair of crowns, inlays and bridgework along with repair and relining of dentures.

A $50 per person deductible is suspended after the third member of a member's family has paid it. The maximum benefit is $1,500 per year per person.

Premiums will be $8.25 per month for a single employe and $20.82 for family coverage. Employers will be required to pay at least 50% of the premium but can elect to pay more, the PIA said.

New member agencies may enroll in the program within 90 days of joining PIA.

benefit beat

New dental plan

Workers at the Standard Oil Co. of Indiana refinery in Whiting, Ind., ended a 12-week strike winning increased company payments for health insurance and a dental plan.

The health insurance and dental increases are similar to the pattern settlement won by Gulf Oil Co. workers last month (*BI*, March 31).

Under the pact covering 1,400 members of the Oil, Chemical and Atomic Workers union at the Whiting facility, Standard Oil will increase monthly payments for family health coverage to $102.50 of the $106 premium, from $84, in the first year of the two-year pact. In the second year, with premiums expected to rise, Standard Oil will increase its contribution to $120. Individual employe health insurance is fully paid by Standard Oil.

Under the new dental plan, Standard Oil will pay $4 per month of the $6.50 total premium for single employes and $15.50 per month of the total $20 premium for family coverage.

ASO contract

Blue Cross/ Blue Shield of Alabama has the administrative services only contract for a bank trust health plan covering public employes in Madison County, Ala. (*BI*, March 31).

County commissioners voted to set up a trust account with the Central Bank of Birmingham for health coverage at the same time they raised the maximum benefit for health coverage to $1 million from the previous $250,000.

Blue Cross/Blue Shield had been the county's health insurer.

Blue Cross/Blue Shield's administration fee is 7.5% of paid claims.

HMO start-up

Employers and the medical community in Greensboro, N.C., are studying ways of structuring and financing a health maintenance organization to become operational within the next year.

The start-up cost of the individual practice association-type HMO, found feasible in a $40,000 study commissioned by seven area firms, is estimated at $750,000.

Local businesses would probably be responsible for the costs of the HMO, which will obtain subscriptions and handle claims for the health organization, said Calvin A. Michaels of Burlington Industries, chairman of the study steering committee.

The doctors, in turn, would cover initial costs of the IPA, a professional corporation that will contract with the HMO to provide service. Loans would be secured to guarantee the operation for the first three years.

About 12,000 to 15,000 subscribers out of a service area of 250,000 would be needed to make the operation viable, Mr. Michaels estimated.

Companies directly involved in financing the HMO feasibility study aside from Burlington are: Cone Mills, Carolina By-Products, Guilford Mills, Blue Bell Inc., Pilot Life and Jefferson Standard Life.

Fitness program

More than 40,000 subscribers and their dependents are eligible to shape up in a 10-week YMCA physical fitness program offered through the Compcare Health Plan of Greater Milwaukee, a health maintenance organization. The HMO is marketed by Blue Cross/Blue Shield United of Wisconsin.

The "Starter Fitness Program" is a benefit of HMO membership and so its cost is picked up by Compcare. The program consists of three one-hour classes per week with a complete fitness evaluation before the course and another at the end of the program. Enrollees may also use any other YMCA facilities while they are participating in the fitness classes.

A BC/BS spokesman declined to give participation figures or identify employers utilizing the fitness program, but 124 employes of Marquette University who belong to the Compcare HMO are among those eligible (*BI*, Feb. 18).

Savings bonus

LLC Corp. of St. Louis is offering a bonus to employes based on inflation if they deposit money in their individual savings accounts.

About 3,000 workers in the banking, financial and restaurant firm will be eligible for a bonus if they make savings deposits between March 31 and next April 30.

The bonus will be figured by multiplying the average monthly balance in the savings account by the difference between interest earned on the account, 6.5%, and the yearly rise in the Consumer Price Index.

The plan was devised by LLC president and chairman Stephen Friedrich and will be a good hedge against inflation because it will encourage savings and bolster savings accounts, corporate officials say.

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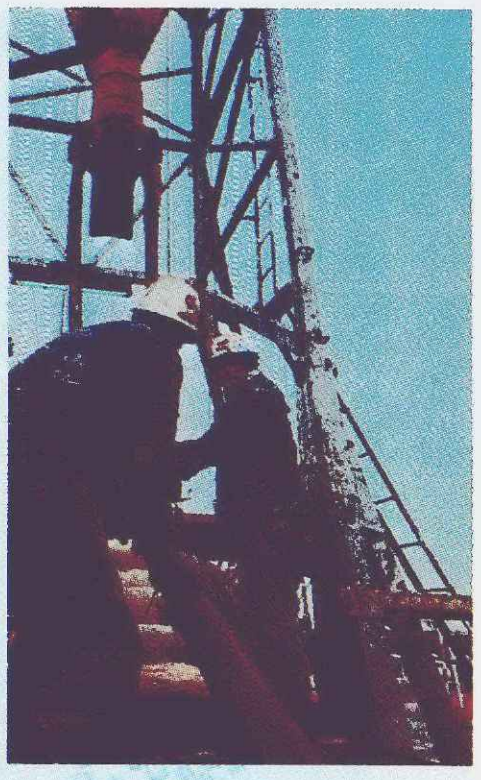

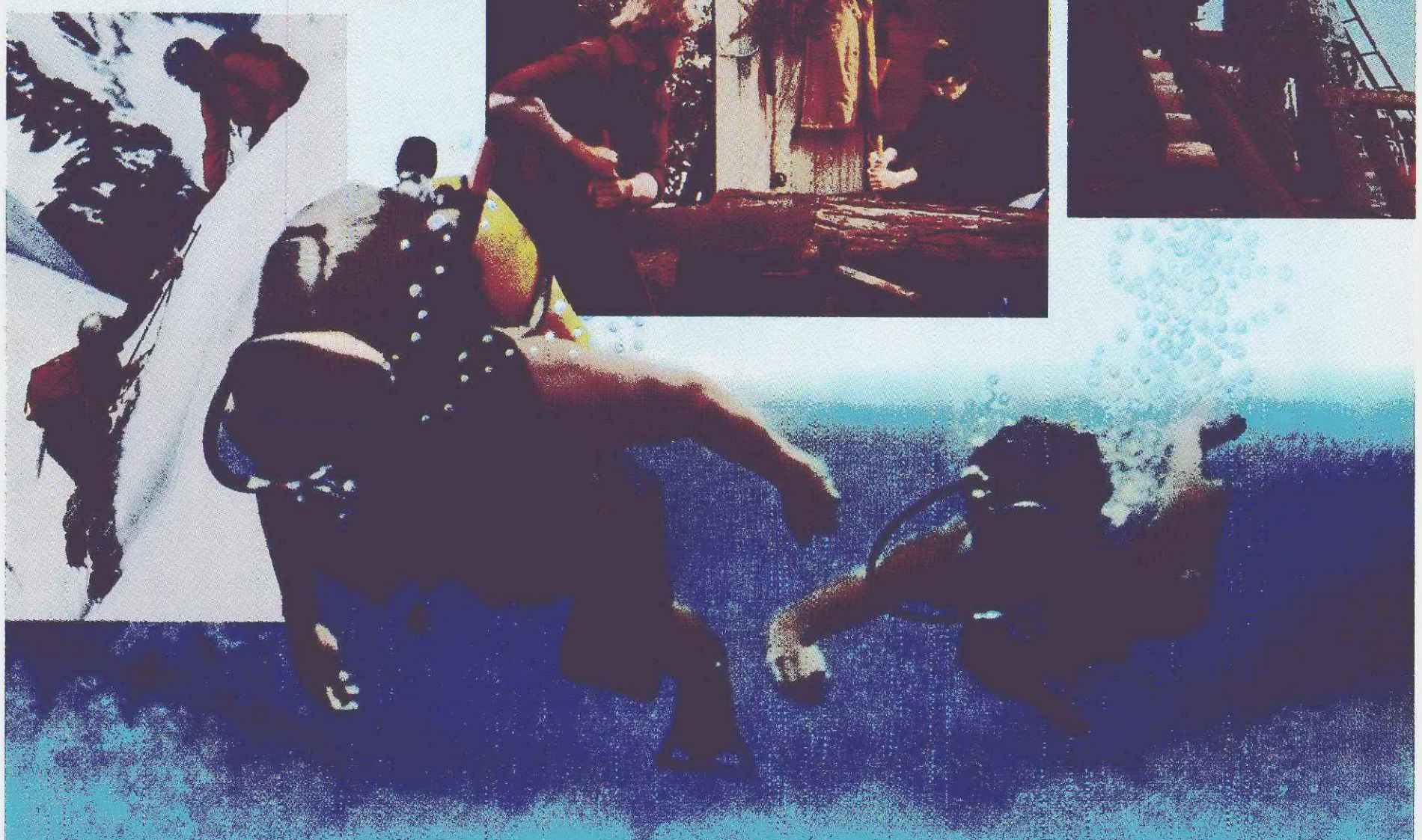

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Calif. tax cut may hurt work comp unit

Howard Jarvis's new proposition may be costly for employers.

By RHONDA L. RUNDLE

SAN FRANCISCO—Another voter-initiated tax cut in California could push the cost of financing the workers compensation system onto employers' shoulders.

California's $27 million workers compensation program will face a severe financial crisis if the voters approve the latest Howard Jarvis tax cut initiative at the polls June 3, state officials warn.

Contingency planning here is focusing on a shift in funding from the general tax coffers to employers, reports Sara Cory, chief of ancillary services in the California division of industrial accidents.

The present finances of the division are so precarious, she says, it may be necessary to seek other funding even if the Jarvis initiative is defeated.

About 10 other states, including Wisconsin, Arizona and Montana, assess employers for the cost of running a workers compensation system, Ms. Cory said.

Anticipating the Jarvis amendment will be passed, Gov. Jerry Brown has asked every state agency to prepare belt-tightening budgets reflecting a 30% revenue reduction. His mandate was to cut programs, not just staff, Ms. Cory said.

Franklin Grady, industrial accidents division administrative director, has submitted his scaled-back budget to the governor. It contains some "drastic measures," on which Ms. Cory declined to elaborate. She hinted that it might become necessary to throw workers compensation back into the civil courts or to eliminate the information and assistance bureau, designed to reduce the amount of litigation.

Labeling such steps unacceptable, the department is studying new funding sources. The legislature would have to approve any levy on employers to finance the system, Ms. Cory said. But she said she did not know what specific form such a direct levy would take or how much it would cost employers.

"We've never been reasonably staffed to get the job done anyway," she declared. According to department records, workers compensation litigation has increased 110% over the past 15 years while the number of judges has declined more than 20%. The division's 124 judges hear approximately 120,000 cases a year.

The Jarvis initiative, alternately called Proposition 9 or Jarvis II, mandates a 50% cut in personal income taxes in California. The fiscal impact of the proposition is the subject of intense debate in the state, but Mr. Jarvis's "Cut the Income Tax Committee" estimates it will slash $3.6 billion out of annual revenues. Others believe it will cut a lot more.

Although he has pledged to implement the initiative in the "most humane way possible," Gov. Brown opposes Jarvis II. A tax cut would hurt social programs, he argues.

"Prop. 9 will force a catharsis in the workers compensation system," acknowledged Alan Tebb, general manager of the California Workers Compensation Institute. But the real question, Mr. Tebb says, is whether the system is on the right track in the first place. "There is a tendency to increase staff in order to speed up litigation, rather than studying how to slow down or stop the litigation mill," he said.

Since workers compensation began as a no-fault guarantee of medical benefits to injured workers, any kind of litigation is anathema to employers and counterproductive to the system, Mr. Tebb added.

Many employers doubt whether more is better, notes Joe Markey, executive director of the California Self-Insurers Assn. "We need innovative ideas to reduce the need for expansion of the system," he stressed.

Employers are also bound to oppose direct funding of the workers compensation system on grounds that private employers will shoulder the lion's share of the load. State and local governments are protected from paying increased costs for workers compensation by a recent constitutional amendment.

"It's true that the burden would fall on private industry," notes William McClure, chief of the workers compensation division of Los Angeles County. The Gann Initiative, passed last year, put a constitutional lid on state spending increases, he pointed out. Any mandated increases in state or local spending must be reimbursed out of the general tax fund. Consequently, a move to shift workers compensation financing to employers would have no net effect on state or local governments, although the federal government is not exempt.

Ms. Cory says the DIA's study of employer funding evolved through her efforts to find funds for an additional 19 clerical and technical positions in the rehabilitation bureau.

Since funds were not available to create those new jobs, she began looking for other means to achieve her objective. Soon the administrative director suggested she seek alternative funding for the entire rehabilitation bureau.

From there it was just a short stretch of the imagination that set the division to considering direct employer assessments to fund the entire workers compensation function, Ms. Cory says. ■

Storm damage

Winds, rains, floods and tornadoes caused an estimated $5 million in insured property damage in Alabama, Georgia, Virginia, New Jersey, New York, and possibly other areas March 20-22. The damage estimate does not include losses insured under the National Flood Insurance Program.

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S2

editorial opinions

Array of achievements

ONE THING WE'VE LEARNED in the three years we've presented an award to the Risk Manager of the Year is that there are as many different types of organizations and risk management problems as there are companies.

No two risk management efforts are alike, particularly when it comes to the difference between risk management for a large firm versus a smaller one, for a governmental entity versus a for-profit organization, for a nonprofit institution versus any of these.

Good risk management, while meaning different things to different organizations, makes an equally valuable contribution to each.

Title doesn't matter

From the start, our intention has been to recognize an outstanding practitioner of the art-and-science of risk management regardless of whether he/she is full-time chief of a risk management department or a manager with another title (corporate controller, financial analyst, assistant treasurer, etc.) who tackles risk management along with many other responsibilities.

We want top executives everywhere to recognize the contribution that a good risk manager—regardless of title—can make to the stability and financial integrity of an organization.

Professional risk management has undergone incredible growth and acceptance in many types of organizations. Only in recent years have most senior executives come to know what a professional risk manager can accomplish by applying techniques involving engineering, safety, claims administration, insurance buying, self-insurance and other approaches.

Adding Honor Roll

Our way of honoring excellence in the practice of risk management by people in a wide variety of settings it to add, as part of next year's Risk Manager of the Year award announcement, a Risk Management Honor Roll.

We are establishing four categories into which all nominees will be separated:

- Large corporations, with sales of $300 million or more, and/or employing more than 1,000 people.
- Smaller corporations and businesses, with sales of less than $300 million and/or employing fewer than 1,000 people.
- Governmental bodies.
- Tax-exempt and not-for-profit institutions of all sizes, including hospitals, universities, foundations, and so on.

The judges will select the Risk Manager of the Year by the same method as they have each year since the competition started, scoring each nominee on the basis of nine broad criteria measuring performance and achievement on the job. Once the winner has been selected, however, the remaining nominees will be classified according to the four different types of organizations. The highest scorer in each of the three categories not represented by the winner will be named to the Risk Management Honor Roll.

It's important for individuals facing different problems to know they will be noticed for doing the best possible job of managing risk within the framework of, perhaps, a less complex company or within a city government with a limited budget for covering risk management programs.

More role models

Just as *Business Insurance* subscribers represent all levels of management in all different sizes and types of organizations, we want the Honor Roll to recognize achievement in many types of structures.

Nobody could ask for a better array of nominees than the 17 individuals whose names were submitted in this year's competition. For three years now, nominees have represented the whole gamut of risk managers, for all types of companies. This year, the cross-section of organizations represented was impressively varied, including six large corporations, four smaller companies, four government bodies, two universities and one hospital.

The quality of nominees all three years has been testimony to the value of an award to risk managers everywhere. We want you to have models in each year's award winner—and in the members of the Honor Roll to be named each year henceforth. Their example is worth emulating, their successes and practices provide a beacon for your own work and their contributions are proof of the worth of risk management within any enterprise.

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 space. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Financial link

To the editor: Your editorial on the relationship between risk and cash management, insurance and finance ("Giant step for risk execs," March 3) caught our eye.

As a leading bank to many major corporations, we at Citibank have been giving considerable thought to this very matter. Clearly, with the trend toward self-retention, today's risk manager becomes a manager of cash as well as an architect of insurance programs and it is our belief that the banking community should respond to this evolution with banking services tailored to the new needs of the risk manager. In fact, we consider the risk manager to be an emerging customer of ours, and we welcome your journal's drawing attention to what seems to us a very important development indeed.

The fact that I, as a banker providing services to corporations, am a reader of your newspaper bears testimony to your observation that the risk manager is, in fact, a member of the financial community as well as the insurance community.

Tereze Gluck
Assistant vp-insurance services
Citibank, N.A.
New York, N.Y.

Stock omission

To the editor: As a subscriber to *Business Insurance* and as an investor, I noted with interest the *BI* Industry Stock Report (appearing every other week). However, I noted that my latest acquisition, GEICO, is not included, nor is Criterion Insurance or Government Employe Life Insurance Co. Is there any reason for this?

Kenneth Bush
Kent County
Grand Rapids, Mich.

▪ *We tried to list the leading companies in the commercial insurance business, omitting the firms doing solely personal lines/individual business.*

Bank's note

To the editor: In reference to the article "Captive steers bus group into profits" (March 24), I wish to point out that Chuck Hiatt is not now nor has he ever been consulting actuary to the Bank of Nova Scotia Trust Co. (Cayman) Ltd.

Consulting actuaries employed by captives in the Caymans are retained by the individual companies themselves.

Anthony Stelling
Assistant manager
Bank of Nova Scotia
Trust Co. (Cayman) Ltd.
Grand Cayman Island

Libel coverage

To the editor: Re: (*BI*, March 24), the Mutual Insurance Co. Ltd. is

Continued on page 98

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See our ad on page 6

Acid leak claims may hurt railroad

B&M fights bankruptcy

By ELLIS SIMON

SOMERVILLE, Mass.—Claims against the Boston & Maine Railroad arising out of a toxic chemical leak in a freight yard here could sidetrack the bankrupt line's journey back to solvency.

Boston & Maine self-insures the first $1 million liability per occurrence, according to insurance industry sources. The London market writes most of the excess coverage with some participation by California Union and Lexington Insurance Cos., *Business Insurance* learned.

The railroad's liability limits are believed to be in excess of $10 million. Fairfield & Ellis of Boston is broker for the account, which was marketed through Stewart Smith East of New York.

No lawsuits have been filed against the railroad yet, but numerous actions are anticipated. Losses will hurt the railroad's financial recovery efforts, but will not necessarily preclude reorganization, said a spokesman for the bankrupt line. The B&M has been struggling to get out of bankruptcy since rejecting inclusion in Conrail in 1976.

A switch engine struck the chemical tanker that had been partially blocking a switch track, causing the tanker to rupture.

As many as 400 persons were treated at area hospitals for exposure to phosphoric acid and hydrochloric acid. The acids formed when phosphorous trichloride leaked from the ruptured tank car April 3, said Capt. Thomas Doherty of the Somerville Fire Department.

The acid fumes forced the evacuation of about 10,000 persons in Somerville, Cambridge and Boston.

Of those treated at area hospitals, only two were hospitalized, Capt. Doherty said. One person reportedly suffered a heart attack. Several persons were also to undergo further testing to determine if they suffered partial liver damage, he added. Most suffered only skin and eye irritations.

The leak was brought under control by area firefighters, chemical control experts and railroad workers who were able to patch the ruptured car with fiberglass and construct a ditch to contain the spilled liquid.

Although the B&M each year moves about 8,000 carloads of hazardous chemicals through its Somerville yard, this was the first serious incident involving hazardous chemicals, noted Capt. Doherty.

Both the railroad and local fire departments are trained in the handling of hazardous substance leaks.

Railroads have come under strong criticism in recent years for unsafe handling of hazardous chemicals (*BI*, Feb. 25). ■

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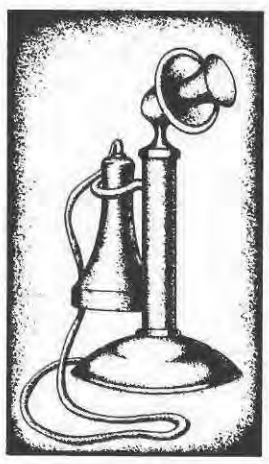

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Tappan moves account to J&H

MANSFIELD, Ohio—Tappan Co. here moved most of its casualty account to Johnson & Higgins from Alexander & Alexander, *Business Insurance* learned.

The remaining casualty coverage on foreign risks will be transferred to J&H at the next renewal. Tappan's casualty premiums are nearly $1 million a year.

J&H was chosen as the new broker of record largely for its marketing expertise and the fact it was able to put together better programs at significantly lower costs, *BI* learned.

At one time, A&A reportedly earned $150,000 in commissions on the Tappan account. Beginning in 1978, the property insurance was moved from Fireman's Fund through A&A to Affiliated FM, a direct writer, and then later to First State, because of substantial cost savings and broader coverage.

Tappan Co.'s risk manager declined to comment on the changes. ■

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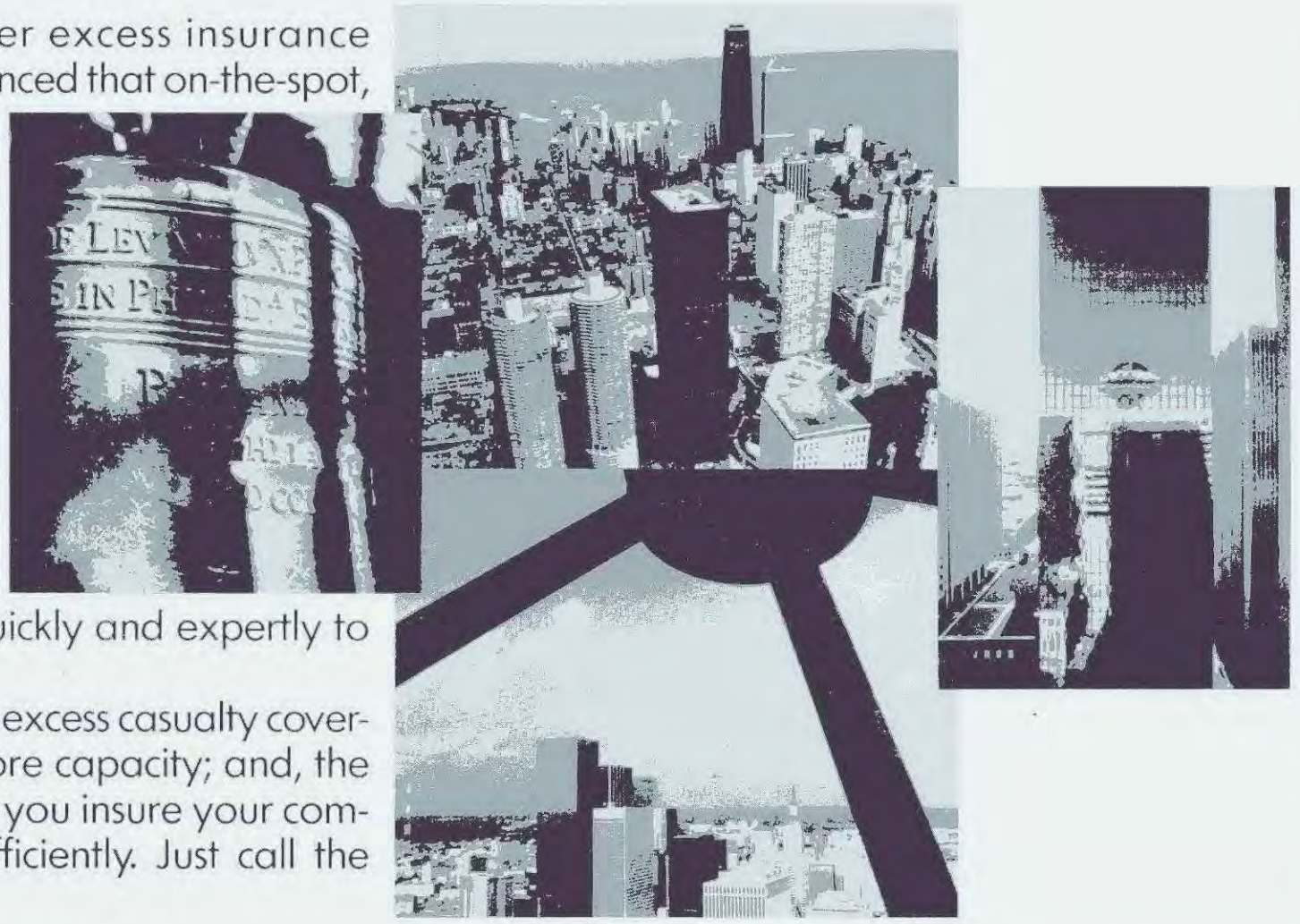

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Maximum benefits increased

Ky. limits disability payment span

FRANKFORT—Disabled workers in Kentucky will be entitled to higher weekly benefits for injuries but for a shorter period of time, under a new bill passed by the state legislature.

The bill (H.B. 532), sponsored by Rep. Lloyd Clapp, places an eight-year cap on benefits a worker may receive for permanent partial disability. A worker may receive benefits for life under current law.

Workers will receive higher benefits for all types of injury under the new law. The maximum payment a permanently totally disabled worker can receive will be boosted to 100% of the state average weekly wage from 66.6%. Permanently partially disabled workers and those temporarily and totally disabled will be entitled to an increase in maximum payment to 75% of the state average weekly wage from 60%. The average wage in Kentucky is now $217 per week.

The new law will become effective July 15 if it is signed by the governor as expected.

Company fined

NEW YORK—Trans World Life Insurance Co. of New York, three of its agents and two adjusting firms must refund $1.9 million in excessive loss reserves and service fees to nine union welfare funds.

The recovery ordered by the New York insurance department is the largest ever, said superintendent Albert B. Lewis.

A total fine of $70,000 was also levied against Trans World agents Winick Associates Inc. of New York, W.V. Brokerage Corp. Inc. of Lynbrook, N.Y., and W.V. Brokerage Co. of Woodmore, N.Y., and adjusters Serv-Co Administrators Inc. of New York and Prepaid Prescription Plans Inc. of Los Angeles and New York.

An 18-month insurance department investigation revealed Trans World's retention on certain experience-rated group accounts exceeded "highest reasonable retention levels" and service fees paid by Trans World to firms acting as third-party administrators were excessive.

Welfare funds that will receive disbursements from the insurance departments are: Teamsters Local 237 Welfare Fund of New York ($1,277,071), Teamsters Local 237 Town of Islip Employers Welfare Fund ($52,589), Teamsters Local 210 Health and Insurance Fund in New York ($86,613), Textile Workers Joint Board Welfare Fund in New York ($17,039), Fur, Leather and Machinery Workers Joint Board Welfare Fund in New York ($135,080), Meat Cutters Local 34 Welfare Fund, Buffalo ($48,118), Meat Cutters Local 342 Welfare Fund in Jamaica, N.Y. ($236,555), Meat Cutters Local 342 A&P Employes Welfare Fund ($1,301) and Meat Cutter Local 5 Packing House Employes Welfare Fund in Queens, N.Y. ($29,864).

Reverse malpractice

NASHVILLE—The Tennessee court of appeals has upheld a $11,500 award to an physician in a reverse malpractice case.

Dr. C. Gordon Peerman Jr. was awarded $3,500 in actual damages and $8,000 in punitive damages in the countersuit filed against former Nashville lawyer Stanley Sidicane.

The doctor's suit charged Mr. Sidicane with malicious prosecution and abuse of process. Mr. Sidicane was disbarred in 1979, according to the state disciplinary board.

around the states

Dr. Peerman won the reverse malpractice case, which was filed in 1974, on a summary judgment that was upheld by the state appeals court.

Self-insured pools

ATLANTA—Georgia municipalities as well as trade and professional groups will be able to form workers compensation self-insurance pools under a bill (S.B. 250) signed into law April 8.

The new legislation will take effect July 1, 1981.

Work comp pools

ANNAPOLIS—Legislation permitting groups of Maryland employers to form self-insurance pools for workers compensation was approved by the state senate and sent to the house.

Supporters view the proposal as especially helpful to the state's construction industry.

Howard R. Hunt, executive officer of the Maryland chapter of Associated General Contractors of America, said construction industry employers in the state had to absorb a 34% increase in workers compensation rates in 1979.

Current law doesn't allow the state workers compensation commission to grant self-insurance status to groups of employers.

The senate bill would allow self-insurance pools if the group meets normal self-insurance requirements, including proof of financial ability, periodic reports to the state insurance division and catastrophe insurance. Only employers with at least five employes and in the same industry can form self-insurance pools under the bill.

Currently, 149 large firms in the state self-insure, according to testimony at the hearing by Samuel W. Christine III, lobbyist for the Maryland Chamber of Commerce, which supported the bill. The Maryland Self-Insurance Assn. also supported the bill.

Chemical disclosure

LANSING—Legislation designed to protect Michigan workers who handle chemicals was signed into law by Gov. William Milliken.

Employers will be required to post information about such chemicals and instructions for handling emergencies.

"Workers are powerless to protect themselves if they do not know they are in danger," Gov. Milliken said. ■

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The Matter of Captives.
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Silver hijacking may cost $7.5 million

LONDON—East German underwriters and London reinsurers face $7.5 million in losses unless a load of hijacked silver ingots is recovered.

The shipment, just purchased by East German traders, was enroute from London to Tilbury Port on the Thames Estuary when it was commandeered by hijackers posing as traffic police officers.

At risk is the East German state insurance organization, DAR, and London reinsurers.

The stolen shipment is the object of intensive investigation by Scotland Yard. The police and U.K. loss adjusters have offered $750,000 in rewards for information leading to recovery of the load. Authorities are also reportedly tapping underworld informants in hopes they will help them.

The East Germans had taken the silver to London, sold it at substantial profit at the peak of the gold-silver boom, then repurchased at a much lower rate as the prices were plummeting, sources said.

The traders apparently unwittingly abetted the thieves by trying to keep the transaction a secret and not reporting to authorities the silver was being transported, sources said. As a result, the hijackers were able to set up a phony roadblock and steal the shipment.

worldwide

Joint research

WASHINGTON—U.S. and Swedish labor officials have proposed a cooperative agreement to conduct joint research and training geared at reducing accidents and health hazards in the workplace.

Following a week-long conference here, the labor departments of both countries have proposed the joint effort to examine the following areas of workplace safety:

- Methods of training workers to recognize chemical hazards.
- Organizing labor/management committees such as those currently used in Sweden to promote safety.
- Studies on disease distribution and control from information registers in both countries.
- Methods of analyzing and using equipment to assess hazardous chemical exposures.
- Developing information on control technologies to deal with chemical hazards.

Damages awarded

CANBERRA—The Warringah Shire council in Australia has been ordered to pay a record $981,333 in damages to a 26-year-old woman who was paralyzed seven years ago in a swimming accident.

Annettee Merryl Janieson of Wahroonga sued the municipality after she dived off a board into a tidal pool and broke her spinal cord, paralyzing her from the neck down. She charged the municipality that controls and owns the pool with negligence.

Warringah Shire was insured for only $210,000 at the time of the accident, council officials said. Taxpayers will have to pay the rest of the bill, they said.

The council was considering an appeal of the court verdict.

Legislation sought

SYDNEY—Frantic rate cutting in Australia's commercial insurance industry has led to a clamor for minimum rate legislation but the government remains reluctant to intervene for fear of tampering with the free enterprise system.

Rate slashing, brought on by industry competition, has forced some companies to collapse and others to buck the trend and raise rates to avoid bankruptcy, sources say.

Australian treasurer John Howard, echoing the sentiments of many members of Parliament, said he does not believe in rate legislation. It's contrary to the free enterprise system, he argues.

Italian pool

ROME—A group of 78 major Italian insurers are setting up a pool to insure corporations against liability for losses related to damaging the environment.

One policy already issued insures a firm owning a pipeline in Northern Italy against cracks in the pipe and accidents that could lead to environmental damage and subsequent claims.

Among member firms are Assicurazioni Generali, Riunione Adriatica Sicurta, Assicurazioni d'Italia, Toro Assicurazioni and Reale Mutua.

Firms participating in the pool will write coverage of up to $2.85 million per risk.

Accord near

BRUSSELS—The Swiss insurance industry is reportedly close to an agreement with the European Economic Community nations that would allow Swiss casualty companies to do business in and among EEC countries.

The only point still unsettled involves the extent to which the so-called free reserve level should be controlled.

Swiss regulatory agencies control reserves while there are no such restrictions on use investment under EEC rules, observers say. ■

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Ill. work comp measures seek benefit cutback

By JILL KAPLAN

SPRINGFIELD, Ill.—Workers compensation benefits for permanently partially disabled Illinois workers will be cut 25% if a controversial new two-bill package introduced in the house here is passed.

The bills (H.B. 1795 and H.B. 1796), backed by a group of seven business organizations and sponsored by Sen. David J. Regner, comprise one of two packages recently introduced in the house to revise current workers compensation laws.

Illinois employers are clamoring for reform of Illinois's workers compensation laws, arguing that benefit increases awarded in 1975 legislation are too costly. The AFL-CIO in Illinois, however, is vigorously fighting efforts to amend the law that would reduce benefits.

Illinois legislators have until June 30 to pass a reform measure this session.

The Regner package attacks the cost of permanent partial disability payments which now are the same as benefits for temporary and permanent total disability and death benefits: two-thirds of the worker's average weekly wage or a maximum of $353.19.

Other changes would:

- Absolve the employer of any liability for a pre-existing condition or disability not caused by an accidental injury at work. Employers now frequently pay for congenital handicaps and other non-related disabilites, they complain.
- Eliminate the right of the employe to choose his/her own physician for treatment. Workers would choose a physician from a panel of experts offered by the employer.
- Establish more stringent guidelines for determining partial loss of hearing and the level of noise exposure necessary to induce hearing loss.

Business pressure
Illinois employers are clamoring for reform of the work comp law.

- Tighten the definition of an injury entitled to an award so that a worker is only compensated for risks assumed in performing the duties of employment. Under the present system, workers are receiving awards for accidents incurred during recreational time.

While not cutting permanent partial disability payments 25%, a three-bill package instroduced by Sen. Aldo DeAngelis proposes similar changes in the current workers compensation law.

In cases where a pre-existing injury is involved, the employer will only be responsible for the second injury. But unlike Sen. Regner's proposal, Sen. DeAngelis's bills would provide the worker with compensation paid by a subsequent injury fund if disability exceeds 70%.

Specifically, the bills (H.B. 1739 and H.B. 1740) would:

- Require insurance companies to offer a $1,000 deductible for medical expense insurance.
- Permit a group of employers in a similar risk category to band together to jointly self-insure.
- Allow companies in the same safety grouping to buy casualty insurance as a group based on pooled experience.
- Require the Illinois Industrial Commission to establish standards for determining disability.
- Require insurance companies to report information on income from reserves, types of claims processed and administrative expenses. ■

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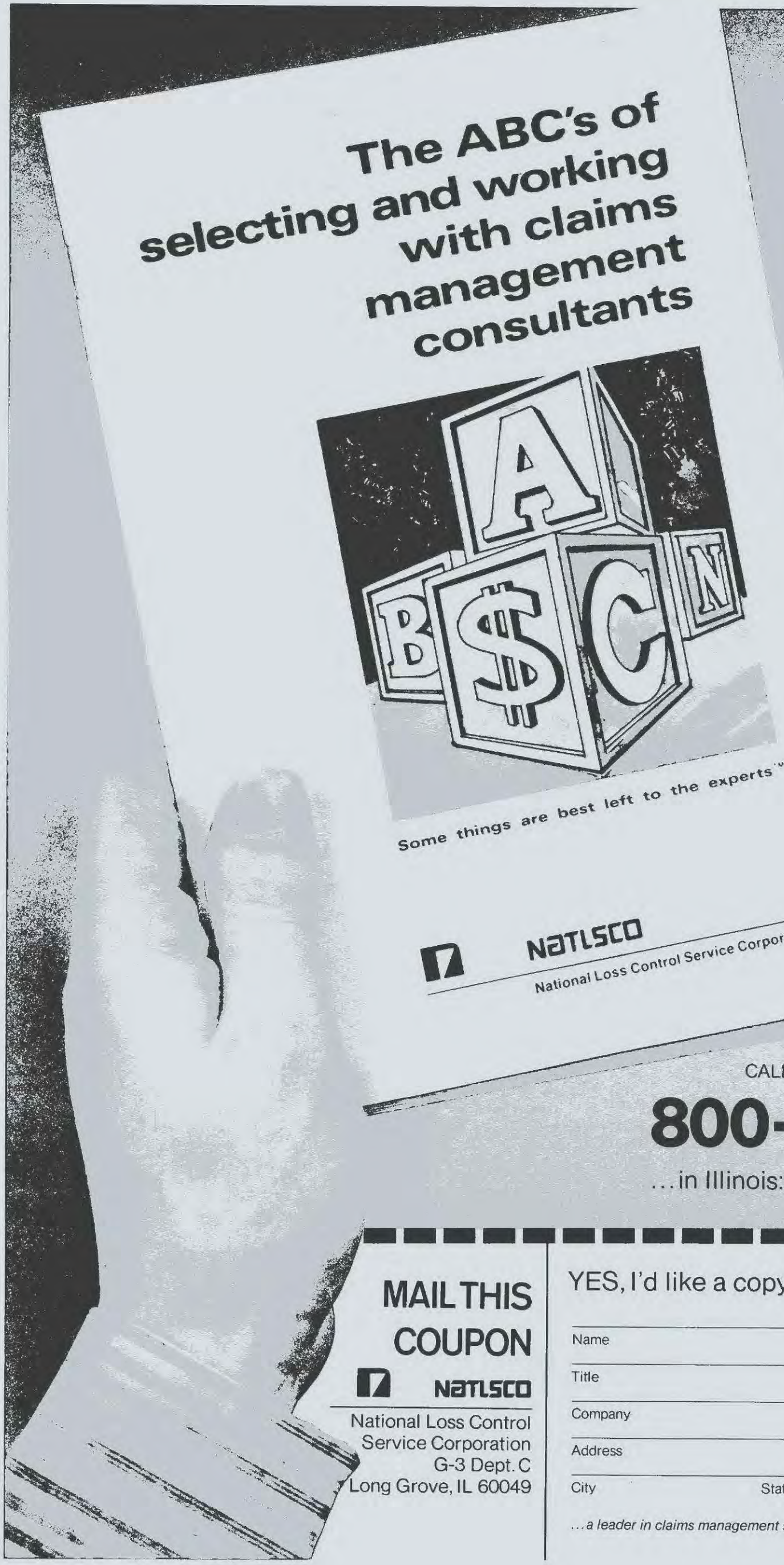

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THE WORLD OF THE LANDMARK GROUP

La. court ruling could spur suits among coworkers

By JILL KAPLAN

NEW ORLEANS—Fellow employe suits can be filed in Louisiana when an employe breaches his duty to another employe, the court of appeals has ruled, possibly opening the gates on more law suits.

The court held that an employe has a right to sue his fellow employe for damages even though the harm suffered wasn't foreseen.

Fellow employe suits are generally prohibited under workers compensation laws except when the plaintiff can prove intentional harm under a strict definition of the word intentional, says Robert Collyer, executive assistant at UBA, legislative specialists in workers compensation.

But the court of appeals held that an act by a fellow employe can be considered intentional even if the harm caused wasn't foreseen.

Sidney Bazley, an employe of the Jefferson Parish sanitation department, charges that intentional acts by a coworker caused him to be struck by a car while performing duties on the job in 1977.

Mr. Bazley alleges his coworker was guilty of intentional acts by: operating an unsafe and hazardous garbage truck, continuing the operation of the truck when he acknowleged it was unsafe, failing to keep a proper lookout, stopping the truck in a dangerous position and failing to warn the plaintiff of an oncoming danger.

A district court had blocked Mr. Bazley's earlier attempt to sue Fireman's Fund Insurance Cos., insurer of the coworker, on the grounds of insufficient cause of action.

Fireman's Fund now has little more than a week to ask the supreme court for a reversal on the ruling. If the insurer takes no action or if the supreme court rules against the insured, the case will go to a lower court for trial.

Executive officers and co-employes have been exempt from tort liability except for intentional acts since a ruling in 1976 amended state law, it's been argued. Some fear that this decision broadening the definition of intentional harm could usher in a new wave of tort liability litigation.

"If allowed on a larger scale, this would be ruinous to the no-fault workers compensation system. We'd be back to tort liability," said Mr. Collyer of UBA.

Plaintiffs attorneys deny the ruling will have a great effect on the workers compensation situation.

"This will not open the floodgates for litigation," contended Steven M. Koenig, attorney for Mr. Bazley. "There was not much litigation against employers before the statute granting them immunity was passed in 1976. There are not many cases of an employe suing a third party."

"Insurance companies are using scare tactics on the businessman by claiming that this will cause insurance rates to rise again. Insurers want to make every buck they can," said John J. McCann, amicus curiae on behalf of the Academy of New Orleans Trial Lawyers.

Mr. McCann said that although the case is a serious matter, it should not be blown out of proportion.

"Executive officers can be sued for tort liability in 33 other states," Mr. McCann said. "We wouldn't be doing anything that isn't being done in the majority of the other states." ■

Opening the gate

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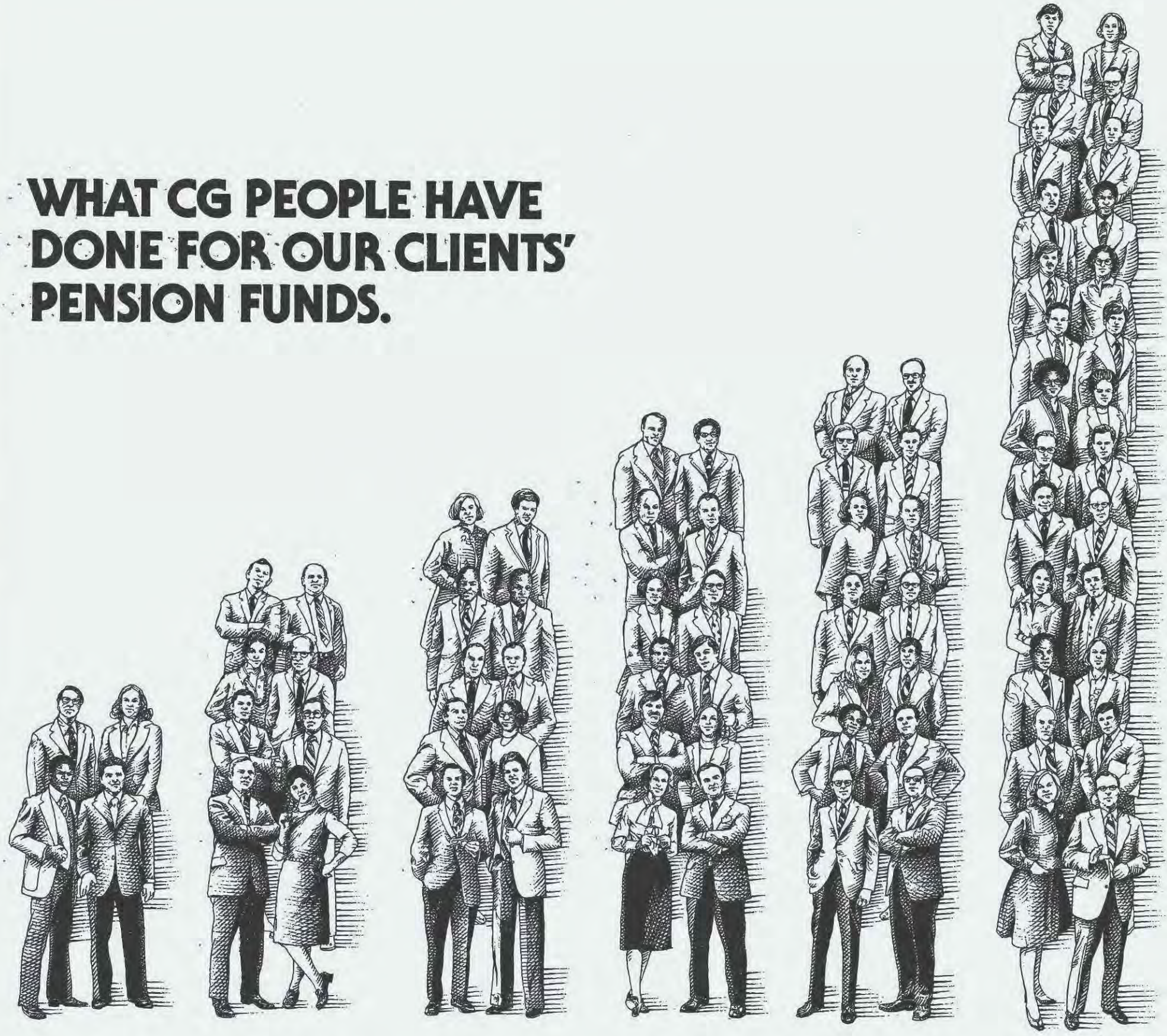

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SUED: GAB claim work is under attack

By RHONDA L. RUNDLE

LOS ANGELES—The Southern California Rapid Transit District here is suing GAB Services Inc. charging the claims administrator with breach of contract, bad faith and negligence.

The suit was filed after RTD, which operates the metro bus fleet here, cancelled its $2.7 million claims administration contract with GAB.

The adjusting company failed to employ sufficient staff to responsibly handle the transit district's self-insured public liability and property damage claims, RTD charges. Poor reserving practices by GAB resulted in troubling, sudden requests for substantial additional funds to cover claims, RTD also alleges.

GAB Business Services contends that its disgruntled former customer demanded services above and beyond those specified in their contract. Besides a motion to dismiss the charges, which will be heard this week, GAB has filed a counterclaim seeking restitution for loss of business and damage to its reputation.

Both sides are seeking unspecified compensatory and punitive damages, as well as payment of all attorneys' fees.

GAB's attorney expects a trial in federal court within a year.

The business relationship between the two entities began to deteriorate shortly after a three-year contract was signed in July 1978, judging from a December 1978 letter of complaint written by RTD general manager Jack R. Gilstrap.

Threatening cancellation of the contract, Mr. Gilstrap sternly rebuked GAB for inadequate monitoring of reserves. Ongoing review of files should result in slow and steady increases in reserves when necessary, he noted.

Instead, Mr. Gilstrap declared, he was shocked to learn that at the end of 1978 there was a predicted 20% to 25% deficit in the district's reserves. "This would amount to an instant reserve increase of $4 million," he calculated.

Counterclaim

GAB contends the transit district demanded services beyond those specified in the contract.

The failure to conduct such a continuous review is a direct result of insufficient staffing, he maintained. "If corrective action is not taken, the district's board of directors will be asked to consider exercising its option of giving 60 days notice of cancellation," he warned.

GAB acknowledged in a reply its obligations to the district and generally spelled out its intention to improve service and expand staff.

GAB now says it had met the standards of service outlined in that letter before RTD cancelled the contract on Feb. 15, 1980.

RTD, however, insists that instead of improving, claims handling continued to deteriorate.

"Our client was complying with the general industrywide standard," says David J. Prager, attorney with the Los Angeles firm of Long & Levit, which is representing GAB Business Services. "RTD wants something more than they bargained for. To do it their way would mean more time spent adjusting claims than in settling them."

R. Joseph De Briyn, attorney with Musick, Peeler & Garrett which is representing RTD, filed suit Feb. 22 in the state superior court in Los Angeles.

GAB is asking that the action be tried in federal court, since the litigants are based in different states: The Southern California Rapid Transit District in Los Angeles County and GAB Financial Services is a corporation located in Delaware. ■

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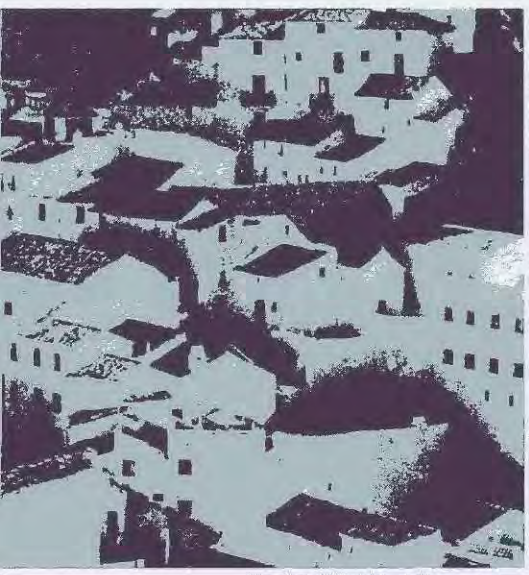

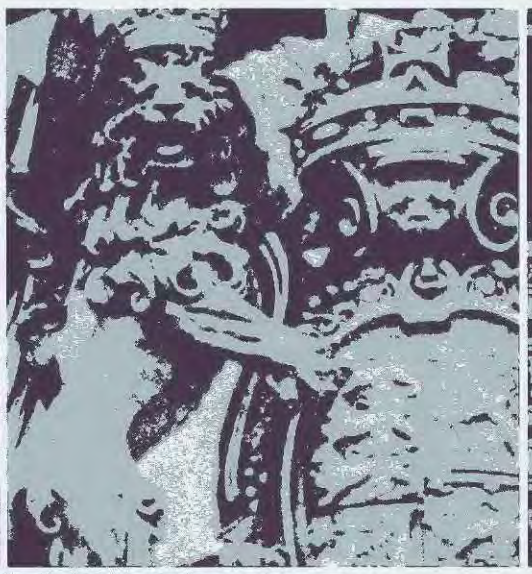

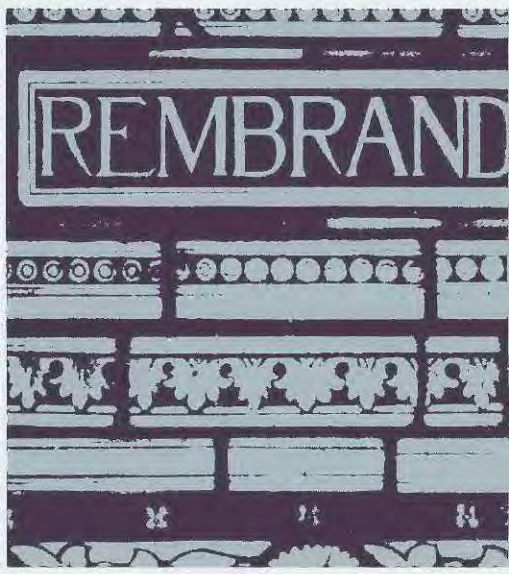

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Uniroyal workers at closing plants will get benefits

By CHARLES EPSTEIN

MIDDLEBURY, Conn.—Up to 3,200 workers will receive extended health and insurance benefits while another 1,000 will be eligible for early retirement when Uniroyal Inc. closes two of its U.S. tire production facilities in June.

The effect of the two plant closings on the company's employe benefit costs was not disclosed.

Under the current three-year contract between the United Rubber Workers and Uniroyal, the status of the benefit coverage for the 3,200 affected workers is well-defined.

The agreement, signed in May 1979, says the company must give six months notice of any plant closing. During that period, the company continues all benefit coverage, including the payment of pension contributions.

Dental, life insurance, accident and sickness, supplemental unemployment and major medical (including prescription) are among the insured benefits the company will continue to provide employes for varying periods after the two plants are closed.

Because mature workers comprise the workforces of both plants being closed, the effect on pension costs "is almost nothing," said Norma Sullivan, director of employe benefits. The corporation will no longer have to fund for future services of terminated em-

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Contract clause

Employes will continue to receive insured benefits for varying periods.

ployes. The additional $200,000 to $300,000 per year in contributions, which arose because of the maturity of the plans, can be written off over a 15-year-period, she said.

Uniroyal paid $65 million in contributions to its defined benefit pension plan in 1979.

Ms. Sullivan estimated 1,100 workers at the two plants will be eligible for immediate retirement. Under Uniroyal's plan provisions, normal retirement is possible after 25 years of service or at age 55 with five years of service.

This also includes dropping the normal 10-year vesting period and substituting a five-year termination allowance. This allows the employe to accrue benefits after a minimum of five years.

However, when a plant closes, pension eligibility is accelerated. In addition, Uniroyal is giving a termination allowance of $12.50 per month per year of service. Uniroyal "will fully implement everything we negotiated," Ms. Sullivan said.

As a result of the 1979 URW-Uniroyal negotiations and job security talks that began in 1976, 24 months of medical coverage will be provided to affected workers at no cost. This includes hospitalization, surgical coverage and drugs. Ms. Sullivan estimated that comparable coverage if privately sought would cost the employe about $100 to $125 per month.

Also under the contract, Uniroyal pays dental benefits for active workers only. However, the URW provides coverage for the severed workers at a cost of $2.07

Continued on page 22

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Laid-off employes to receive benefits

Continued from page 20

per hour. Of that amount, Uniroyal diverts 11.5 cents per hour from cost-of-living payments to the cost; the worker pays the remainder.

After the plants are closed, three months of free life insurance coverage is provided. An optional additional 21 months of coverage is offered for a premium of 60 cents per $1,000 of coverage.

A supplemental unemployment benefit plan provides additional money to state and federal programs. The 1979 contract calls for the company to pay out-of-pocket benefits to $1 million for each of the three years of the contract. This was funded by a company contribution of 15 cents per hour worked.

Recently, "the drag on these funds has been extreme" because of the depressed nature of the rubber industry, Ms. Sullivan said. For this reason, the URW allows the company a short period after the first $1 million is paid so it can recoup additional funds to pay the supplemental unemployment benefit plan pool.

Also, if a participant is vested at the time of the plant closing, the company will continue to pay contributions to the savings plan.

Benefits covered under the category of "employment practices," such as funeral and bereavement pay, vacation, jury and holiday pay and night shift bonuses are all discontinued after the plant shutdowns. These benefits are not covered under the URW contract.

Salaried employes at Uniroyal not covered under the URW Pact have a different schedule of benefits under full or partial plant closings.

Basic hospital and surgical benefits are extended for up to two years. However, there are no major medical, prescription or dental benefits. Contributory life insurance can be extended for up to 12 months. One free month of life insurance is available as well as an additional 11 months of coverage if the employe assumes the costs. ■

Grain firm sued over chemicals

SIOUX CITY, Iowa—Cargill Inc., a diversified grain company, is being sued here for $25 million by a meat producer charging Cargill with selling it contaminated feed, leading to the quarantine of 33,000 hogs and 3,500 cattle.

Cargill, a Minneapolis-based firm, is insured for product liability to limits exceeding the amount being sought in the lawsuit, said Ralph Koepsell, corporate insurance manager.

Northwest National Insurance Co. of Milwaukee is its primary product liability insurer; St. Paul Fire & Marine Insurance Co. handles the first layer of excess coverage, he said. Mr. Koepsell wouldn't disclose the limits.

In its lawsuit filed in federal court here, Bryant Beef Inc. of Aurelia, Iowa, charges that corn feed purchased from Cargill contained aldrin, a chemical used as a rootworm insecticide until the Environmental Protection Agency barred its sale in 1974. The substance contains cancer-causing substances, the EPA ruled.

Spot checks by the U.S. Department of Agriculture showed hogs marketed by Bryant Beef contained positive levels of the substance. The USDA asked the company to quarantine its 33,000 hogs pending testing to determine the levels of aldrin. The firm is also quarantining its 3,500 head of cattle.

Cargill has been Bryant Beef's sole supplier of feed, said a Bryant Beef attorney. ■

Western storms

Tornadoes and other severe storms that hit California and Arizona Feb. 13-19 and Feb. 20-22 caused an estimated $18 million in insured property damage, the American Insurance Assn. reports. The Insurance Services Office assigned both storm systems Catastrophe No. 47.

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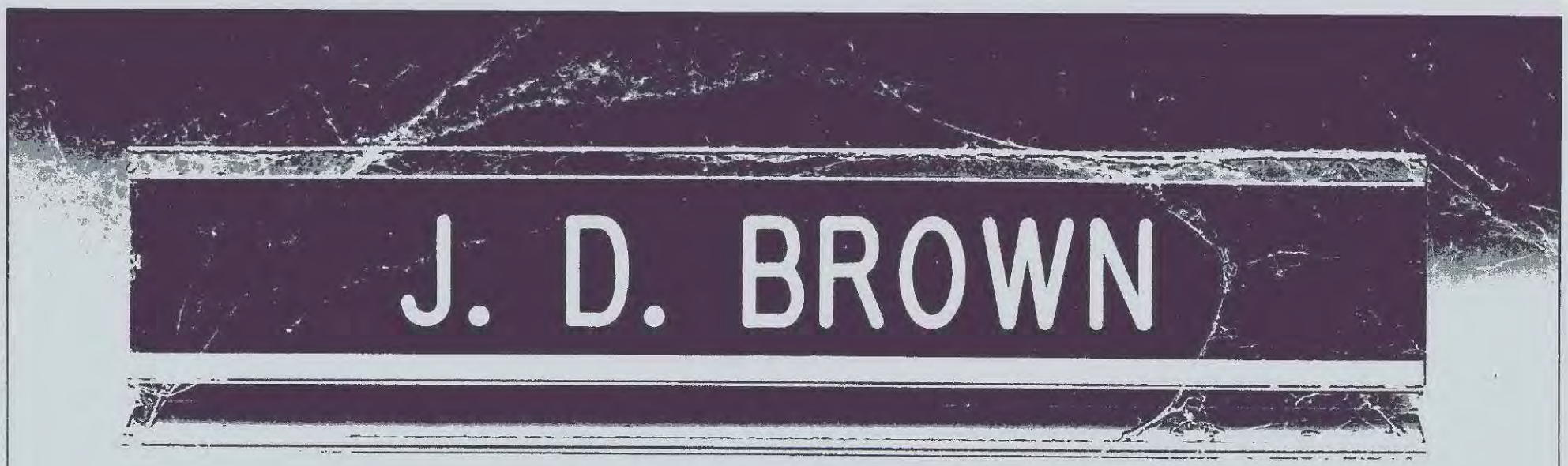

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Price proves incentive for higher limits

By SUSAN ALT

risk management board

CHICAGO—The price was right in 1979 and it proved to be a powerful draw for many corporate insurance buyers whose executives may have wanted to sleep a little easier knowing the company's liability limits had just been boosted.

Two out of five corporate risk managers taking part in the latest *Business Insurance* Risk Management Board survey said the price was so right they bought anywhere from 15% to 500% more liability coverage in the last year. Most frequently they raised limits 50%.

The last *BI* survey of risk and insurance managers at 82 corporations also revealed interesting shifts in deductibles for property insurance as well as liability insurance.

But a spending spree on liability insurance in the last year is the most dramatic change in corporate insurance buying trends.

It's now commonplace for all kinds of organizations—whether in the private sector or public sector, for-profit or nonprofit—to purchase $50 million or more of liability insurance, simply because it's available for the asking. Forty-three percent of the participants in the latest study said they have between $50 million and $300 million of coverage; a surprising 11 firms have $175 million or more coverage for liability losses.

Of the firms that raced out to buy more insurance because it was so cheap, four increased limits 15% to 20%, four upped limits 25%, six raised limits by one-third, nine boosted coverage 40% to 50% and five doubled their coverage.

Among firms doubling their insured liability limits, two went from $10 million to $20 million, one from $25 million to $50 million and two from $50 million to $100 million. One company used the opportunity to buy $25 million in liability coverage last year, up from only $5 million previously.

The greatest shift in deductibles revealed in the second *BI* Risk Management Board survey of 1980 was in property deductibles. Although many large companies continue to have low property insurance deductibles compared with liability retentions, more companies raised their property deductibles than boosted their liability retentions, 14 to 10.

Of the 17 firms which changed property deductibles in the last year, 14 boosted deductibles and three firms reduced the retention on each loss. Most firms raising deductibles were in the $1,000 to $10,000 per loss deductible previously.

Property deductibles, however, are still much lower on the average than liability deductibles.

Property deductibles for the 82 firms whose answers were tallied averaged $185,000 per occurrence, although the middle value was a much lower $25,000. Seventeen firms (21%) have property insurance retentions upwards of $100,000 per occurrence, while a sizeable group of 25 (31%) have low deductibles of $20,000 or less.

The most popular property deductibles are either $25,000 per loss or $100,000 per loss, the survey indicated.

Twelve firms specifically noted that they have aggregate property deductibles. This puts a cap on the out-of-pocket costs they have to pay yearly under the policy.

When asked about liability insurance, nobody mentioned aggregate deductibles, but five risk managers noted they have separate deductibles for product liability losses, nearly always much higher than their general liability retentions.

Only 10 managers said they upped their liability deductibles during the past year, compared with 14 who took higher property deductibles in that same time. This may reflect the tapering off in liability deductible activity following an extended period between 1975 and 1979 when insurers forced pclicyholders to take bigger deductibles.

Liability deductibles are much higher on the average than are property deductibles. Liability deductibles averaged $210,000, though again the middle value in the range was a much lower $50,000. The most popular liability

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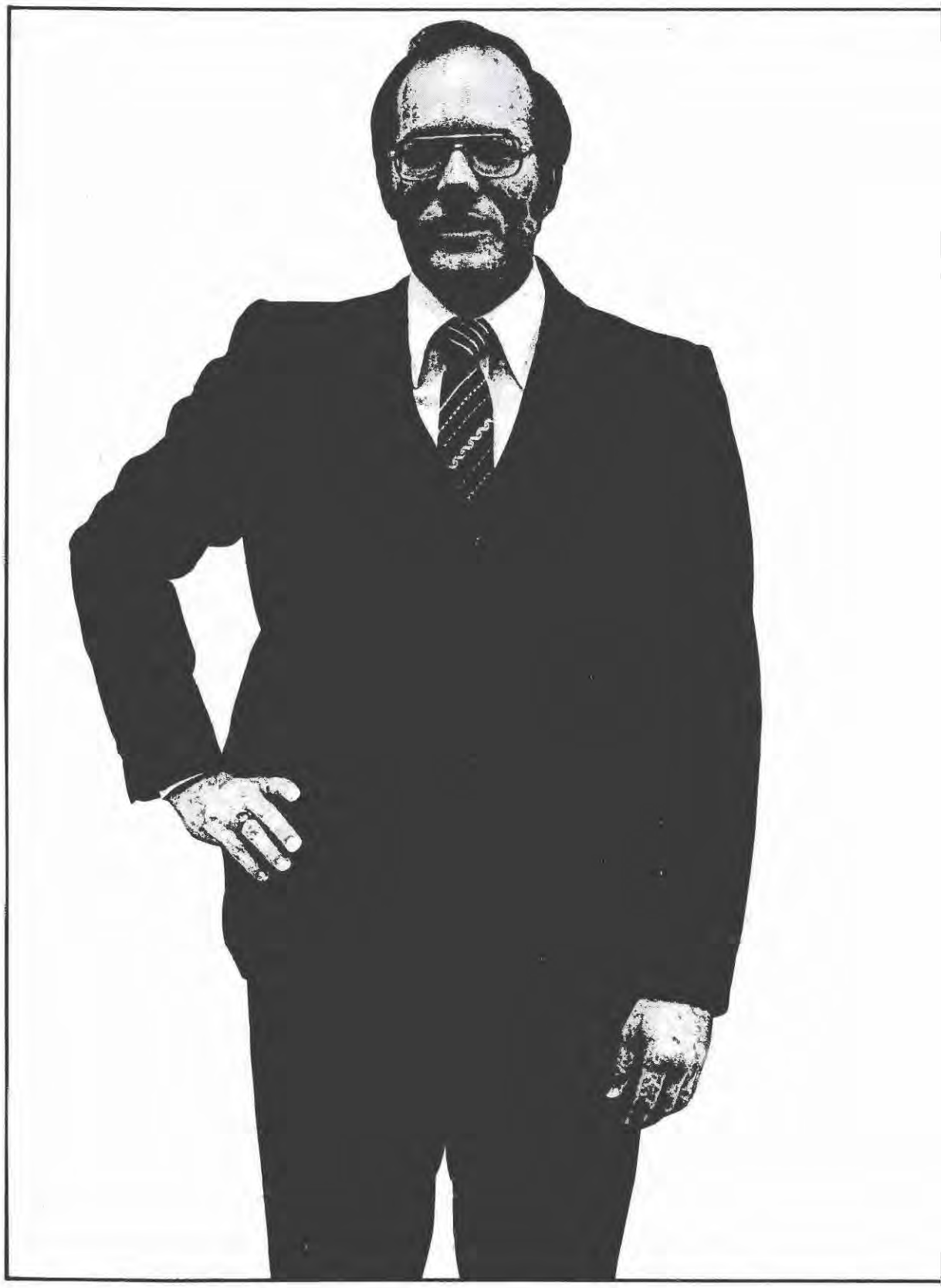
NO	51
REASON	Price: 21
	Other: 10*

*Company growth, greater exposure potential, to keep pace with current trends.

Liability Insurance Limits Purchased

(in millions)

Limits	No. of Companies
$1-$5	3
$6-$10	10
$11-$15	5
$16-$25	7
$26-$35	5
$36-$55	13
$56-$75	10
$100-$105	3
$125	5
$150-$160	3
$175	8
$200-$300	3
No response	7



deductible was zero; a whopping 31 companies disclosed they have first-dollar liability insurance coverage.

Of the 10 firms taking higher liability deductibles most were already at very high deductible levels between $100,000 and $750,000, but pushed them still higher.

Primary liability insurance policies most often have limits between $600,000 and $1 million (50%), the Risk Management Board survey showed.

But 23% of the firms participating buy primary coverage with limits between $100,000 and $500,000. Another 22% buy primary liability policies with limits ranging from $1.5 million up to $7 million.

•

Want to be on the Business Insurance Risk Management Board? Drop a note to Susan Alt, editor, at 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5278.

Deductibles

Property Insurance		Liability Insurance	
Amount	**No. of Cos.**	**Amount**	**No. of Cos.**
$0-$10,000	23	$0	31
$11,000-$30,000	21	$10,000-$50,000	10
$31,000-$50,000	6	$51,000-$100,000	10
$51,000-$100,000	14	$101,000-$200,000	3
$101,000-$500,000	12	$201,000-$300,000	9
$501,000-$1 mill.	3	$301,000-$500,000	8
Over $1 mill.	2	$501,000-$999,000	0
No response	1	$1 mill.-$1.5 mill.	9
		$2 mill.-$5 mill.	2
Median: $25,000		**Median:** $50,000	
Average: $185,000		**Average** $210,000	
Mode: $25,000		**Mode:** zero	

Risk managers criticize brokers that sell coverage

CHICAGO—Risk managers strongly oppose brokers becoming insurers.

Brokers owning insurance companies would lose their long-standing objectivity and serve their own interests, say seven out of ten risk managers in the second *Business Insurance* Risk Management Board survey of 1980.

Of the 82 participants, an overwhelming 70% of the board voiced grave misgivings about brokers underwriting clients' policies.

So strong was the worry about role conflicts when brokers become underwriters that one risk manager, feeling particularly vehement about his relationship with "distributors" whose fingers are in every pot, offered a derisive comment verging on the obscene. He called for restrictions on brokers' broadening ventures.

Brokers have the advantage of seeing outside quotes and could use this information to their own advantage, fear many of those surveyed.

"This will lessen the value of their main function—as an impartial access to the marketplace," said a board member.

"In searching for possible markets, brokers would certainly emphasize their own. It's a matter of grinding their own ax more extensively," offered another.

There will also be a loss of objectivity if brokers start selling their own insurance. Managers fear brokers will keep the biggest and best accounts for themselves and distribute only the smaller ones producing the most losses to other insurers. This could lessen competition and lead to one-sided, unjust premium quotes.

Of the 82 board members surveyed, 56 strongly opposed brokers being involved in insurance underwriting activities. Ten percent (eight risk managers), however, indicated their belief the fewer middlemen there are involved in buying insurance, the more cost-effective the insurance product will be.

"Any enhancement of market availability would be welcome," said one risk manager.

But the majority of managers feel betrayed by this new trend toward vertical integration. "I always felt brokers should be on my side, fighting for me," said an injured party. "This is the advantage I have in using a broker as opposed to dealing with a direct writer," he said.

One manager expressed concern that the desire to expand the scope of business activity will obscure the traditional roles of insurers and brokers.

"If insurers desire more service income, will they write business for its service income value and dictate to the underwriters?" he wondered. "If a broker's management wants more profitable underwriting, will it dictate to the marketing people?"

One risk manager said there's no reason to worry about the future of brokers because, "They are no longer 'brokers.' Their credibility as service-oriented companies is in doubt."

Two managers weren't sure about their feelings, and 16 didn't comment. ■

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OSHA: Senate panel holds hearings

By JERRY GEISEL

WASHINGTON—Claims of achievement and complaints of abuse about the Occupational Safety and Health Administration are being hurled now at a Senate committee assembled to determine OSHA's future.

The Senate Labor and Human Resources Committee is holding hearings all this month on OSHA, coinciding with the ninth anniversary of the federal agency created to protect American workers' health and safety.

The committee is expected to take a close look at legislation (S. 2153) that would bar OSHA safety inspections at businesses with good safety records. The committee has not decided how to handle the bill proposed by panel member Richard Schweiker (R-Pa.).

The hearings kicked off last week with an unusually acrimonious debate over OSHA between the U.S. Chamber of Commerce and the Labor Department.

OSHA "at best has been a major disappointment, at worst an abysmal failure," Chamber president Richard Lesher told the Senate Labor and Human Resources Committee.

OSHA has been a boondoggle imposing costs of more than $25 billion on American business in its nine-year history without improving worker safety or health, Mr. Lesher charged.

Labor Department statistics reveal that the number of days lost through work-related injuries and illnesses shot up 33% between 1972 and 1978, Mr. Lesher said.

Labor Department secretary Ray Marshall countered that worker injury and fatality rates have plummeted in the last six years—evidence of OSHA's effectiveness.

The overall injury rate has dropped to 9.2 injuries per 100 workers in 1978 from 10.6 injuries in 1973, a 13% improvement, he said. "This means that there were almost 4 million fewer injuries between 1973 and 1978 than would have occurred at the 1973 rate."

Furthermore, Mr. Marshall noted, there have been 14% fewer fatalities since 1973 at firms with 11 or more employes.

While not denying that the accident rate has dipped in recent years, Mr. Lesher contended that the "massive piles" of paperwork required by OSHA "have not of themselves saved one life or prevented one injury in the workplace."

The high cost of workers compensation insurance and claims is a far greater deterrent to occupational illnesses and injuries than an OSHA "policeman" with a club, Mr. Lesher said.

Mr. Lesher recommended "reforming" OSHA, to require that the secretary of labor file a cost/benefit statement with any new proposed safety standard. The statement would detail the cost to industry of complying with the standard and would give industry more advanced notice of the amount of money it would be required to spend.

"We are talking about people's lives, not the indifference of some cost accountants," Mr. Marshall countered, quoting former Texas senator Ralph Yarborough. "We are talking about assuring the men and women who work in our plants and factories that they will go home after a day's work with their bodies intact."

The secretary of labor also argued that industry has vastly exaggerated OSHA compliance costs.

Industry experts predicted in 1974 that an OSHA safety standard on exposure to vinyl chloride would force all polyvinyl chloride plants to shut down and cost the economy $90 billion, he recalled.

But the actual cost has been about $480 million, he boasted. ■

Business view

OSHA "at best has been a major disappointment," says the Chamber president.

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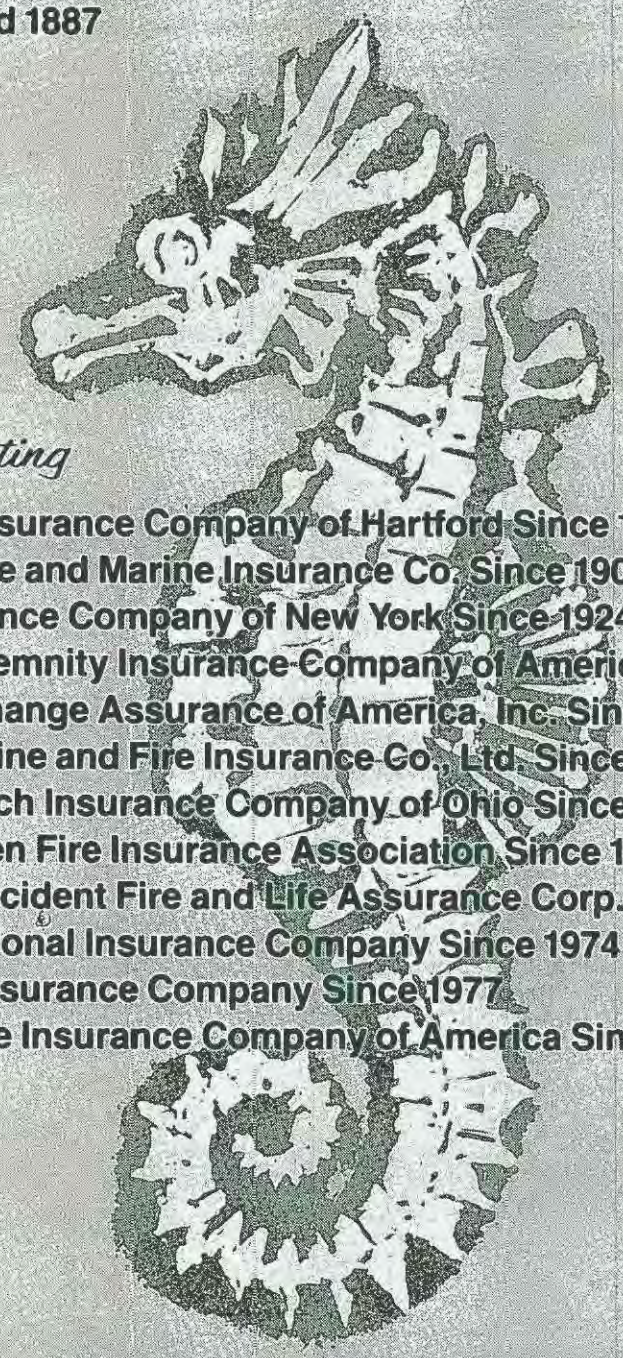

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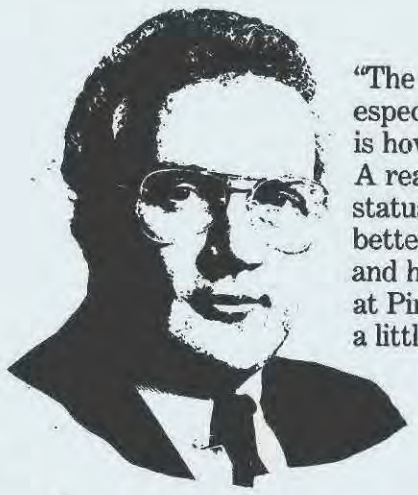

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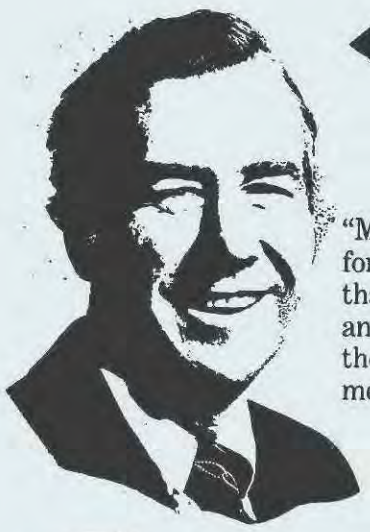

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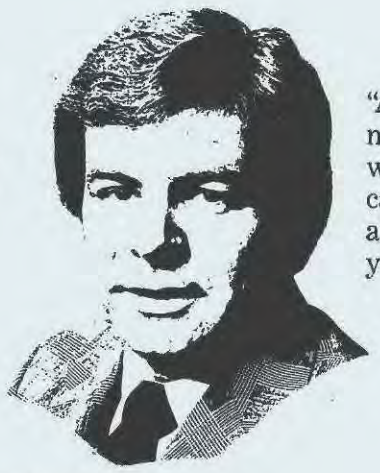

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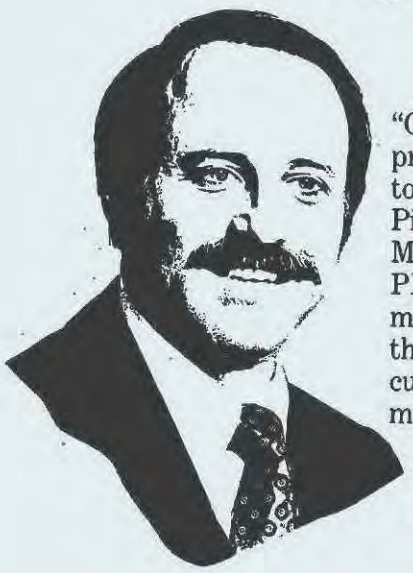

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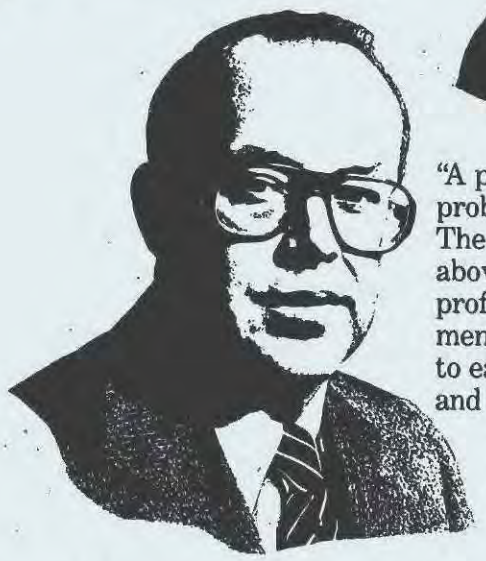

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Portland ally

Computer helps city calculate exposures

By JOHN MAES

PORTLAND, Ore.—The municipal risk management department here is cultivating a new ally in the effort to keep losses and accidents under control: the computer.

Risk manager David C. Fleming is taking his loss prevention program to the computer facility owned by the city and county. The idea is not only to reduce losses, but also to anticipate hazards and identify liability exposures of the city and its 4,115 employes.

The ultimate goal: to assemble a data base so large he can tell any city department head who asks what the risks will be for just about any construction or renovation project.

He wants "to be able to tell the street department, 'for every mile of street you resurface, for every mile of bike path you build, here's the amount of risk that goes along with.' "

Mr. Fleming also sees the system as a means of tackling a problem that confronts many municipalities like Portland: how to deal with the safety problems of individual departments in a highly fragmented organization.

That point may be a few years away, Mr. Fleming admits. But the city is already taking the first steps toward it. For instance, in the risk management department's new budget, Mr. Fleming wants to hire two full-time risk analysts to work with the loss prevention data that will be fed into the computer. There were two vacancies for loss control field representatives, but Mr. Fleming said he wants to hire the risk analysts, instead.

Their job will be to analyze, monitor and update the information in the data base and look for trends that could be causing accidents. The risk management department will collect data from a variety of sources, the mainstream coming from the reports of field representatives inspecting worksites. Other information will be generated by employe complaints and hazard reports from citizens.

"The two analysts will devote full time and effort to extracting and identifying hazards," he said. "That way, if it comes out that every time a city crew goes out on a job where they lift concrete blocks it generates two or three back strains, we'll know we need to evaluate the work methods being used."

Mr. Fleming said the program was inspired by the availability of the expansive city and county computer facility that will make the storage of large amounts of data and such ambitious projects possible.

Already the computer has come to the risk manager's aid in dealing with a hazard. Mr. Fleming had suspected that back injuries among city maintenance crews were a problem; the computerized information confirmed it.

A physician has been hired to set up an experimental prevention program of exercises and lessons on proper use of back muscles for 35 of nearly 80 employes in the department. If the program succeeds in reducing back injuries among the participants, Mr. Fleming says he'll approach the city council for money to expand the program for all city employes.

The computer will also soon hold a data base showing the entire range of auto, workers compensation and property liability exposures for each individual work unit of the city payroll. ■

Computer solution
Mr. Fleming sees the system as a means for tackling a common municipal problem.

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Our annual January report on captive insurers, their parents and captive management companies around the world, has become the standard in its field. Our new report on EDP risk management information systems offered by major vendors promises to become a similar standard.

And in addition, as editor, I take aim at some of the inconsistencies of the business in "Current Comment," the lead section for each issue.

All in all, **Risk Management Reports** is an important intellectual stimulus for over 1,000 risk managers and individuals interested in this fast-growing discipline. I invite you to join us.

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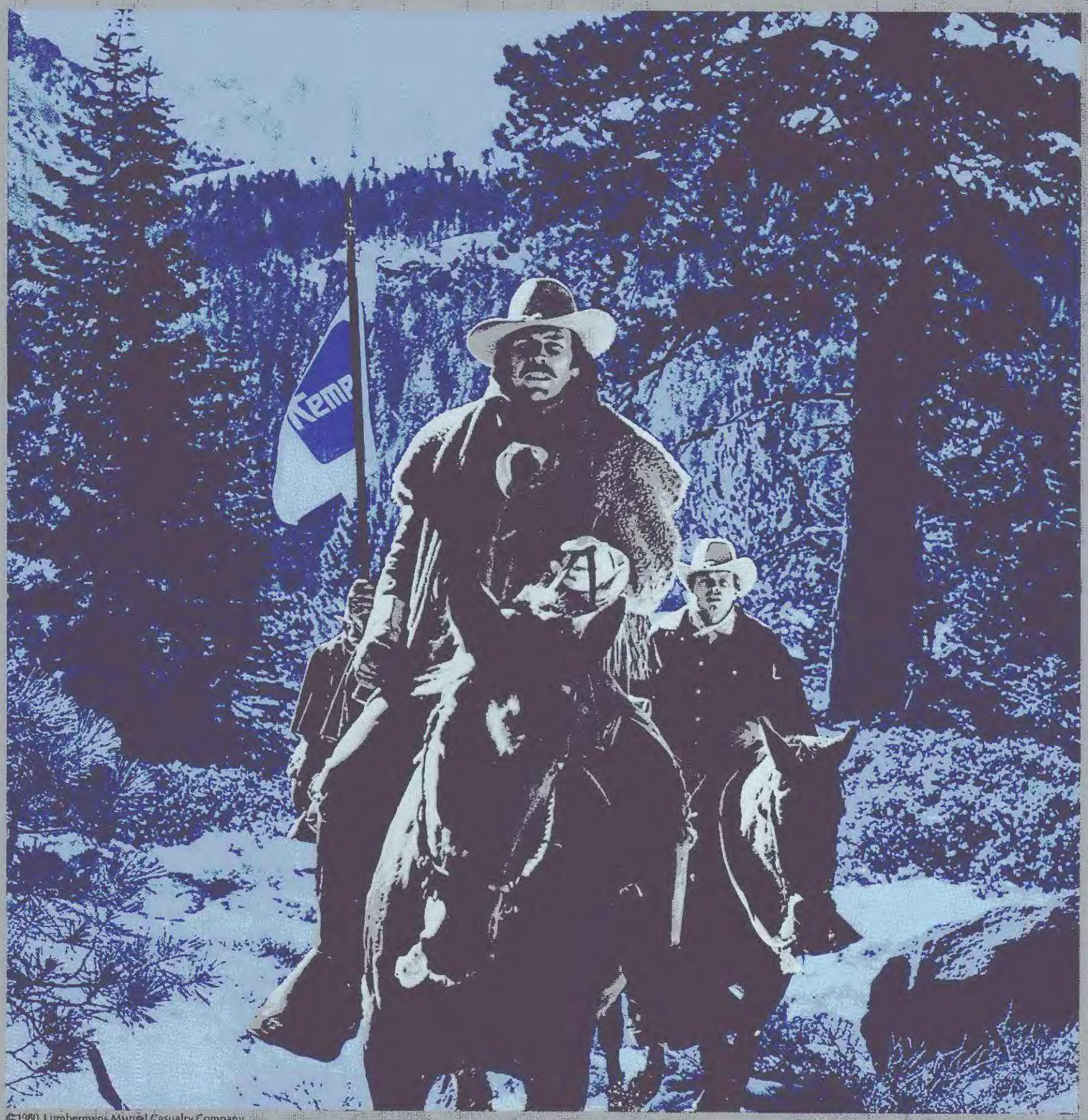

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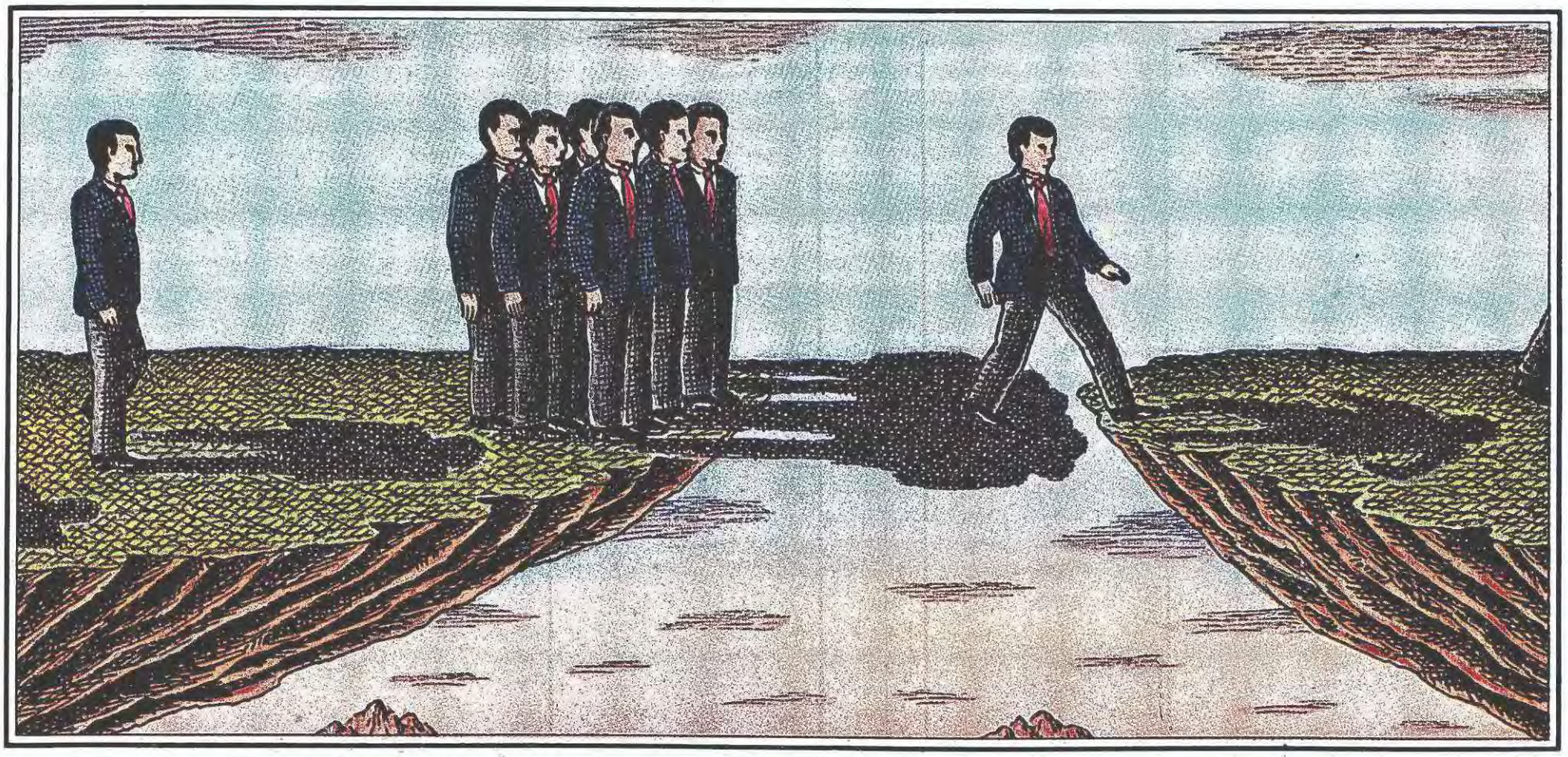
Risk Management



Techniques of risk management once considered suitable only for corporate giants are now being successfully used by smaller businesses to cope with expanding liabilities and higher insurance costs.

A brief review by INA of an insurance topic of interest to business executives.

Few companies with annual sales of less than $25 million employ a risk manager. But because of continuing inflation and its effect on insurance costs, many such firms are gradually adopting risk management techniques to attain more cost-efficient financial and insurance programs.

Full-service commercial insurance companies will assist in assessing risk management alternatives to first-dollar risk transfer and in structuring the program which best fits the individual company's needs.

Some of the techniques coming into more widespread use include participating group coverage in property and general liability, self-insurance (with professionally supplied services such as claims handling and loss control) and association captives.

In addition, specialized package policies have been developed to deal with the unique needs of specific types of business. A package policy can help eliminate wasteful overlapping and superfluous coverages, as well as unsuspected – and possibly costly – coverage gaps. Together with a companion workers' compensation policy, they can meet most of the insurance needs of various types of firms – among them druggists, jewelers, appliance dealers, contractors, broadcasters and financial institutions. Package policies are also available for such nonprofit organizations as schools, colleges and churches.

Risk pooling

While package policies can be bought individually, a growing number are purchased through safety group plans. Typically, the initiative comes from an insurance company representative who proposes an industry-tailored policy for the members of a trade association. If the association endorses the policy, it generally recommends it to its members, but members are free to join or not as they see fit. Each member accepted for insurance is issued an individual policy, usually written at standard rates.

The possibility of an annual dividend being paid to the policyholders of a group is the chief attraction of safety groups. While dividends are never guaranteed, they are declared if the group's loss experience is sufficiently favorable. Dividends have ranged from 1% of

for Small Businesses

the premiums paid to over 25%. Adherence to a loss reduction program often accounts for favorable loss records on which dividends can be based.

For example, for 1978, each member of the Northern Ohio Retail Grocers Association safety group received a dividend equal to 16.7% of the premium paid for that year. In 1977 the dividend was 5.7% and in 1976 it was 6.3%.

Self-insurance

As a means of partial self-insurance, higher deductibles are increasingly employed by many smaller companies. Implicit in any high deductible program is a need for some form of risk management to control the company's greater dollar exposures.

As an instance, a California manufacturer of sporting equipment retained a $25,000 per occurrence deductible on product liability, in order to secure insurance coverage above that retention. In this case, the insurance carrier also provided loss control consultation which led to a formal program and the hiring of a safety engineer.

Full retention of a given risk is also coming into greater use as a form of self-insurance. The risks chosen are generally characterized by occurrences of relatively high frequency but low severity.

For example, an Indiana commercial laundry has a fleet of fifteen delivery vans, for which the risk of physical loss or damage is entirely assumed by the company. (Liability insurance for the fleet, however, as well as fire insurance while it is garaged, is covered by commercial policies.) The laundry enforces a loss control program for the fleet which includes numerous preventive measures in both maintenance and operation, thereby improving its loss experience.

Association captives

While most captive insurance companies are wholly owned subsidiaries of large companies, more and more small businesses are making use of the captive concept through association captives. An association captive is usually formed by a trade association for the benefit of those member companies who wish to join it. Over 50 association captives are now in operation, nearly all of them started within the last four years.

The formation of an association captive can be attended with numerous pitfalls and should not be undertaken without expert legal, financial and insurance advice. If a study suggests that a captive is advisable, insurance brokers and some insurance companies – including INA – can be instrumental in its creation and management.

Comprehensive services for business

Recognizing and meeting complex needs, such as those of small businesses, typifies INA's comprehensive approach to increasingly sophisticated business insurance and risk management problems.

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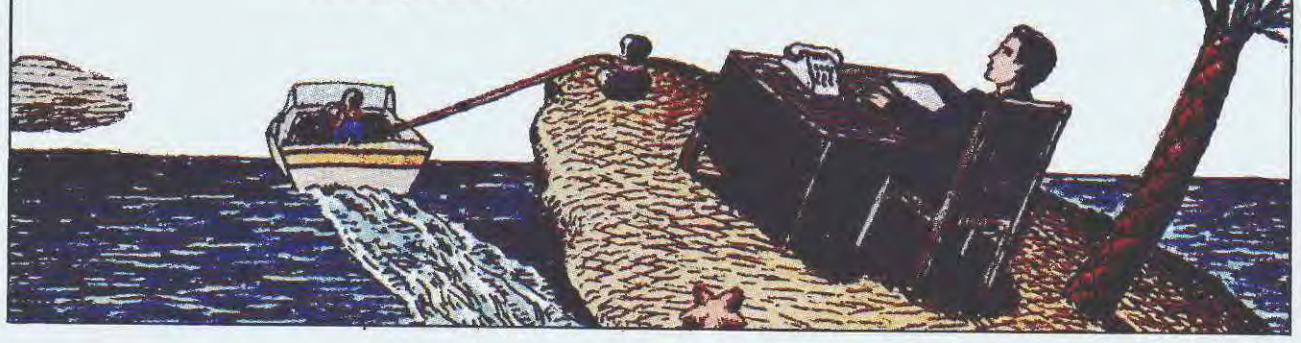
For an informative booklet on risk management for small businesses, write INA, 1600 Arch Street, Philadelphia, PA 19101.

Suggestion for smaller firms: "Rent-a-captive"

Lacking an association captive, a company may find it worthwhile to "rent" the use of a separately owned insurance organization, particularly for coverages otherwise difficult to obtain.

In such a rental arrangement, the insurance company issues a policy to the renter and the renter's account is segregated for experience purposes. This arrangement is backed by some form of security, such as a deposit of funds or a letter of credit. The ultimate premium may then reflect the low cost of a "captive" operation, as well as the renter's individual loss experience.



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House committee approves raise in PBGC rates

WASHINGTON—Multiemployer pension plans can look forward to getting benefit guaranty insurance, but at substantially higher premiums with House Ways and Means Committee approval of the changes.

The committee approved legislation (H.R. 3904) that would raise to $2.60 per participant the annual premiums multiemployer pension plans pay for termination insurance from the current 50-cent premium. The increase would be phased in over nine years.

The higher premium is necessary to cover the cost of guaranteeing most participants of terminated multiemployer pension plans 100% of the first $5 per month per year in vested benefits and 70% of the next $15 per month per year in vested benefits, also mandated under the legislation.

But participants of plans that were in poor financial shape before the passage of ERISA will be guaranteed $5 per month per year in vested benefits and only 60% of the next $15 per month per year in vested benefits.

The bill still must be approved by the Senate Finance Committee, as well as by the full House and Senate. Eventual congressional approval is considered certain.

The legislation, approved by the committee March 28, is designed to give the Pension Benefit Guaranty Corp. more assets and reduce its liability to multiemployer pension plan participants.

The measure, already approved by the Senate Labor and Human Resources Committee and the House Education and Labor Committee, would for the first time give mandatory federal benefit guarantees to the nation's eight million participants in multiemployer pension plans. Many of these plans are concentrated in construction, mining, textiles and trucking firms.

Since ERISA went into effect Jan. 1, 1975, the PBGC has guaranteed 100% of the vested benefits of participants of single employer pension plans, subject to a ceiling of $1,159.09 per month.

But PBGC's coverage of multiemployer plans has been discretionary. Since so many multiemployer plans are in financial trouble, it was feared mandatory coverage of the plans could bankrupt the PBGC as the plans terminated.

Congress has put off mandatory coverage of multiemployer plans to work out a long-term solution to guaranteeing benefits. By raising premiums and cutting back benefits, the PBGC should be better prepared to handle multiemployer terminations when federal coverage becomes mandatory May 1.

The legislation, though, has drawn some fire from pension rights groups. For example, Karen Ferguson, director of the Pension Rights Center here, has labeled the bill a "giveaway" because it could reduce benefits to retirees.

But supporters of the legislation, such as Senate sponsor Jacob Javits (R-N.Y.), argue that the bill must be passed to ensure the viability of multiemployer plans. ■

Bolstering program

The bill would give the PBGC more assets and reduce its liability to multiemployer pension plans.

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Group power boosts agency benefits

Consultant Peter Hill helps CAPs fight their problem of a transient image.

NEW HAVEN, Conn.—Group buying power helps the Community Action Programs agencies around New England milk a below-average benefits budget for a variety of employe-pleasing health and welfare plans.

But uniting the loosely allied local groups into a national buying power is no easy task for CAP executive vp Robert E. Chain and benefit consultant Peter G. Hill. They fight poor funding, fragmented administration and a reputation for an unstable workforce in order to add inexpensive tax-sheltered annuities, vision and dental care to the agencies' benefit package for a membership of more than 300,000.

Only 23% of the money budgeted for gross salaries purchases workers compensation insurance and employe benefits including unemployment benefits: life, health, disability insurance and pensions. That's 14% below the national average, according to CAP figures.

At a time when many employers are trying to cut the cost of expansive employe benefit plans, CAP directors look at their benefit management challenge from a different perspective.

CAP directors are not looking to save money for their groups, but to purchase as much as they can for what they have or face a reduced budget.

"A savings to us would mean only a decrease in funds designated for buying benefits," explained Robert Burgess, executive director of Norwalk Economic Opportunity Now Inc., a CAP agency with 140 employes that recently tapped group buying.

"And this also means absorbing yearly inflationary costs of benefits," he added. "Since our salaries are so low, we have a real need for having good benefits in order to keep our employes."

CAP funding comes from federal, state and local governments and private business contributions. A board of directors composed of elected officials, representatives of private businesses and citizens oversees spending.

One year ago, Mr. Burgess followed the advice of Mr. Hill and switched his group's retirement savings plan to a tax-sheltered annuity managed by the Great West Life Assurance Co. Mr. Burgess now reports 90% employe participation, an improvement over the former plan that had one participant.

Though the Great West plan is now being replaced by a Paul Revere Life Insurance Co. plan, the Great West annuity was a breakthrough for New England CAPs. A CAP agency in Newport, R.I., also had poor participation in its plan and another group in Keene, N.H., did not offer the benefit.

The Paul Revere annuity allows an employe to shelter from $3 per week to a peak of one-sixth of annual earnings with CAP matching 2% to 5% of salary. Employes can elect to contribute up to 25% of salary to make up for past years of service.

Full vesting is after four years retroactive to the date of employment, though an employe may not withdraw the agency's contribution until he or she leaves the organization or suffers total disability.

Paul Revere pays 10.5% and charges a 5% administratve fee. The Great West plan paid only 8.5% interest. The Newport plan reports 80% participation after two months of the new plan.

Though Mr. Hill began working with CAP seven years ago in negotiating its medical plan, he still hasn't conquered one image problem. Insurers view the organizations as transient.

"When I become involved with CAPs, the predominant image was that they are here today and gone tomorrow," Mr. Hill explained, "and insurers shy away from underwriting unstable groups."

The average length of employment for a CAP member, he told insurers, is three to five years, not the few months that they charged. If one local agency closes, he noted, another one opens in the area with many of the same employes.

Making his point with Prudential Insurance Co., Mr. Hill and Mr. Chain negotiated the CAP groups' first mass-marketed coverage, a dental plan with a rider that covers eyeglasses.

With a potential of 300,000 members (2,000 are currently enrolled), the plan is designed to attract lower-salary employes and encourage preventive dental care. The policy offers 100% coverage for preventive care, 80% coverage for routine care and oral surgery and 50% for major dental care.

The dental plan has a lifetime $25 deductible per person and a yearly limit of $1,000. The eyeglasses rider has no deductible and provides for one pair of glasses every two years to a maximum reimbursement of $55. The rider pays $15 for an annual eye examination.

"And for many of these people, this may be the first time they visit a dentist," added Ronald Miller, executive director of New Visions, the Newport CAP agency.

The Newport organization pays all the $6 monthly premium for the employe and half of the $14.50 family monthly premium.

In Keene, N.H. where William Marcello is in charge of the Southwest Community Services Inc. agency, the dental coverage was added at a cost of $1 more per participant.

"We revamped our medical coverage and with the savings we realized under the new medical plan, we were able to add dental for just $1 per participant," he said.

Group buying still hasn't taken over all of the national organization, but it is growing, Mr. Hill says. Its success in New England is paving the way for work on a national scope. ■

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Blues, U.S. lend money, expertise to troubled HMO

BRIDGEPORT, Conn.—Blue Cross/Blue Shield of Connecticut and the federal government are patching up a troubled health maintenance organization here with an infusion of money and BC/BS management.

Connecticut Health Plan, an HMO that started in March 1977, filed on Jan. 31 for protection under Chapter XI of the federal bankruptcy act.

Blue Cross stepped in and offered the HMO a $1 million interest-free loan and the Department of Health and Human Services is working out a loan of $700,000 to $800,000.

Blue Cross also deferred payment of a $300,000 debt. Payment on the principal of a $2.5 million federal start-up loan, another burden on the organization, doesn't start until March 1982.

Management changes, including a new executive director and board of directors from Blue Cross, will begin this month.

"We've spent the last three months laying the foundation for reorganizing the health plan; much has already been implemented," said Ted Weinberg, director of compliance for the HMO office of HHS.

A 12% rate increase is also on the way, says Sue Brown, marketing director of the HMO, as part of the general overhaul that has not disrupted service to the organization's 10,000 subscribers from 220 employer groups.

Although this federally qualified HMO appears to be on the road to recovery, the track record of HMOs under the HMO Act is not impressive.

The folding or merging of six federally qualified HMOs has cost the government $12 million in defaulted loans out of $165 million worth of loans provided to the organizations. ■

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Medical ed may pose problems

Crain News Service

ITHACA, N.Y.—The quality of medical education may decline during the 1980s, increasing hospitals' risk management problems, warns a leading educator.

The value of clerkships to residents is declining as a result of changes in patient-physician relationships since the introduction of the Medicare and Medicaid programs in 1965, says Walsh McDermott, M.D., emeritus professor, public health and medicine, Cornell University Medical College here.

The growth since 1968 of medical schools that use small groups of community hospitals instead of university-owned teaching hospitals is also making it much more difficult to provide young doctors with the kind of role models and teachers who produce high quality, thorough physicians, Dr. McDermott says.

Constant surveillance and teaching in a university hospital gives young residents the self-discipline to be thorough that lectures and the mere observation of older physicians at work can't produce, he said.

"The great vital principle—the secret if you will, of U.S. medical education and training at its highest quality—lies not in impressive facilities or glittering diagnostic apparatus, but in this deep-seated tradition of self-discipline."

If many new medical graduates are less self-disciplined and thorough, as suggested by Dr. McDermott, they are more likely to make mistakes that will lead to risk management and quality assurance problems for hospitals. ■

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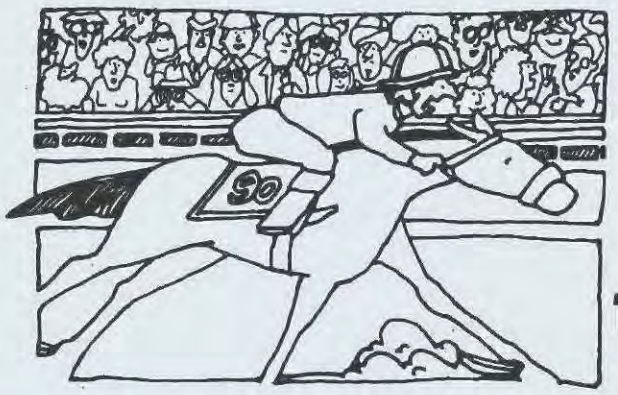

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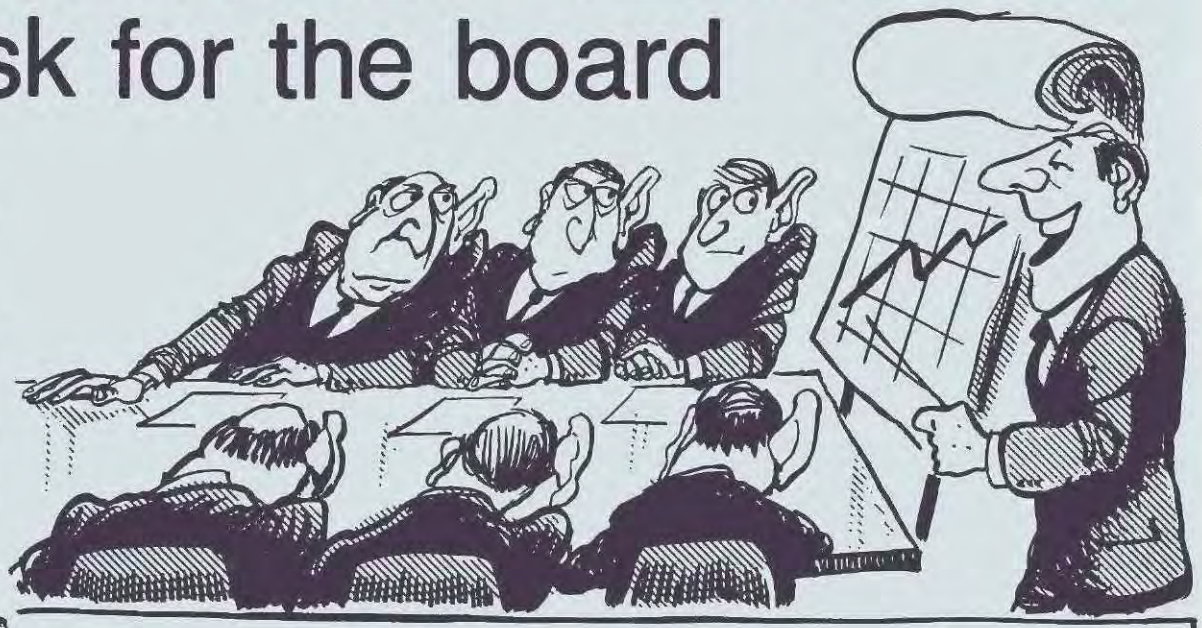
RIMS Preview

CALLING THE SHOTS

Keep it brief, brisk for the board



BY JILL KAPLAN

CHICAGO—Brisk, brief and to-the-point are the key words when addressing a legislative body or board of directors, say leading risk and benefit managers.

Facts, not theatrics, are the show-stoppers.

"Say it and summarize it," says Edith F. Lichota, insurance and risk management manager at Kennecott Copper Corp. in Connecticut.

"Make a quick and dirty presentation and get off the stage," agrees Russell A. Drake Jr., risk manager at Borden Inc. in Ohio.

"They're looking for documentation and statistics, not entertainment," contends Coe Hankinson, risk manager at Shakespeare Co. in South Carolina. "Catchy phrases don't help too much."

Risk and benefit managers are increasingly called upon to explain their expensive insurance programs to boards of directors and to testify more on regulations and laws affecting their bailiwick. They try to tread a fine line between generating interest in listeners and putting on a show.

Continued on page 38

Legal advice: Listen well, tell truth when testifying

CHICAGO—You don't have to be Perry Mason to make an effective courtroom appearance.

Testifying can be easy if you remember some basic guidelines recommended by lawyers and those experienced on the stand.

"Tell the truth, don't volunteer information and listen to the question carefully is information I tell any witness," says Theodore Koskoff, president of the Assn. of Trial Lawyers of America in Washington.

"If a lawyer asks 'what day is it?' say 'Monday,' not 'April 14,' " cautions Mark Gertner, an ERISA attorney in Ohio. "Always answer the question asked to you."

While popping in and out of court may not be routine, risk and benefit managers may be called upon to testify in product liability cases or in suits over benefits.

Lawyer Gertner advises risk and benefit managers on the stand, "If you don't understand a question, don't answer. Say you don't understand and be asked again." Don't be afraid to say "I don't know," he adds. "Witnesses get into trouble by trying to help themselves look good. There's nothing wrong if it's the right answer."

"Never guess or hint at what the lawyer's getting at, don't worry where he's going," Mr. Gertner counsels. "Very few witnesses are as good as lawyers in cross-examination."

"A smart lawyer can try to unnerve you," warns Alex H. Dolnick, a Chicago attorney who gives clients a thorough prep talk before their appearances.

Some lawyers brief clients by

Continued on page 44

Inspections and peptalks spread safety message

By JOHN MAES

CHICAGO—One risk manager conveys the message by operating a mini-insurance company within his company. Another employs the tenacious approach of a football coach delivering a locker room peptalk and meting out discipline for errors. Still another regularly travels the world, inspecting company installations.

These are three different ways three risk managers try to reduce accidents and insurance costs by keeping loss prevention in the forefront of everyone's mind. Their message is safety.

Bruce Wilson, manager of corporate insurance at Bell & Howell Corp. in the Chicago suburb of Lincolnwood, places himself on the front lines of the battle against losses and accidents.

Bell & Howell had a policy that its workplace must be safe when Mr. Wilson joined the company in 1975. His task is to keep it safe.

He uses the tactic of running a mini-insurance company to show directors of various corporate facilities how insurance costs can be held down

Continued on page 40

Keep presentation brief before board

Continued from previous page

"I try to be provocative, intentionally exaggerate a little bit. Nothing is deadlier than somebody telling a fact offhand," explained 3M director of insurance Howard T. Weber.

Mr. Weber meets with directors of 3M and is a frequent speaker on risk management topics. He suggests speakers dramatize their listeners' involvement in the subject being discussed.

"Instead of telling corporate officers to remember the Pinto case when making decisions, I ask them 'Do you want to appear on the witness stand?' "

Use expression

"Never read a prepared statement verbatim," warns Ms. Lichota of Kennecott Copper, who often addresses lawmakers on issues of insurance.

Instead, Ms. Lichota suggests that speakers work from the copy of their text on which they scribbled notes or from an outline.

"Lift your eyes, strive for some expression so it's not apparent you're reading from a text," Ms. Lichota says.

Art of speaking
"I try to be provocative, exaggerate a little," says Howard Weber.

"Embellish a prepared statement with anecdotal illustrations," she urges.

"Dollars and cents is an eye-opener for all issues today," added Richard Heydinger, risk management director at Hallmark Cards Inc. in Missouri, offering his tips on how to be a good advocate.

"Try to involve the audience, create a two-way communication. Draw them out with questions," Mr. Heydinger advised.

The best way to begin a speech, experts agree, is to get at the heart of the matter as quickly as possible.

"Too often if you're building up, you'll hit a phrase that strikes some of your listeners and they won't be ready to hear the key point," warns Borden's Mr. Drake.

"Listeners form their opinions within the first three minutes and then turn off," added Coe Hankinson.

Boost credibility

Ms. Hankinson suggests a speaker can boost his/her credibility by getting to know the audience to be influenced. "Make as

CALLING THE SHOTS

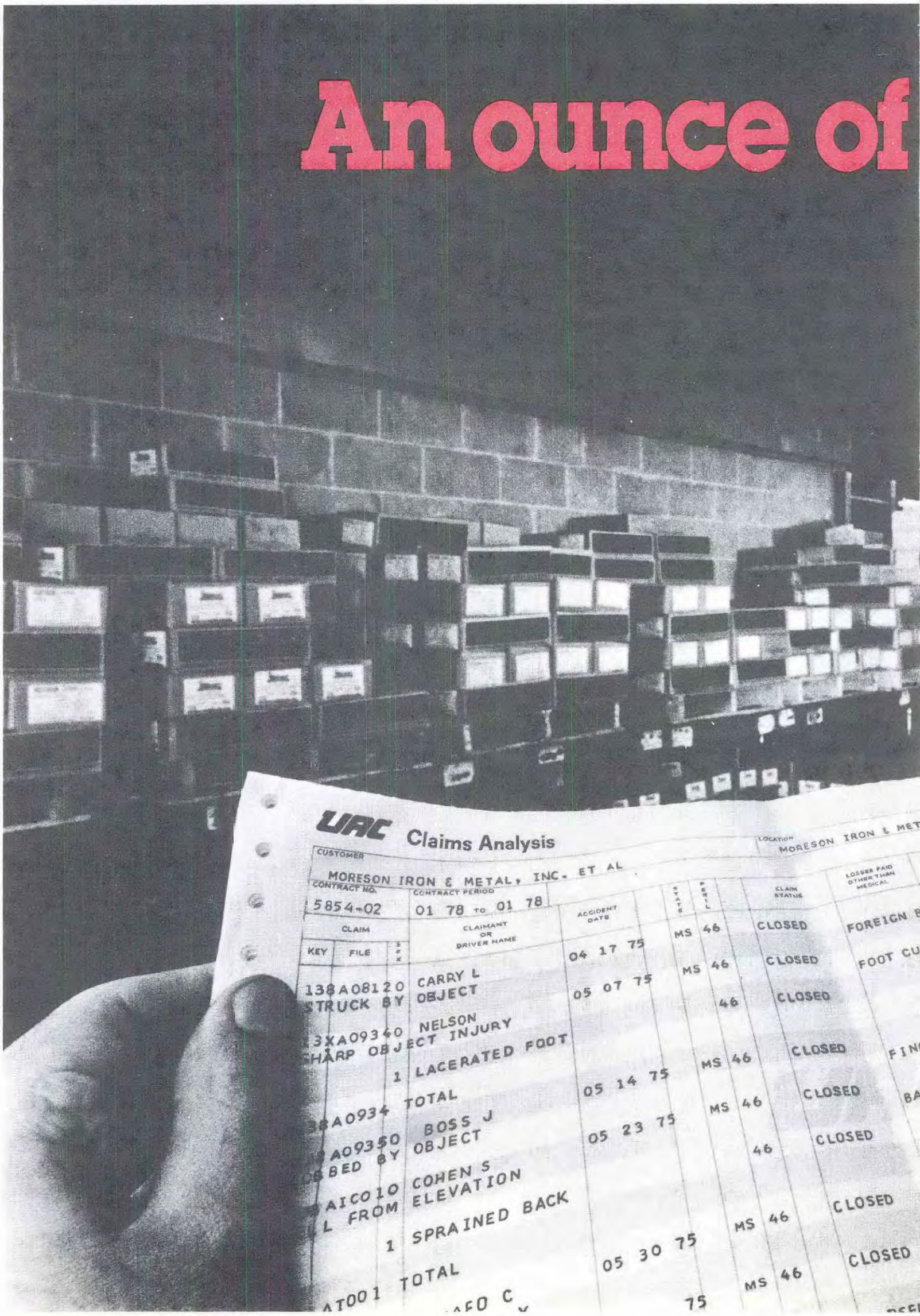
many contacts as you can. Set up meetings with them, go to social outings, become active on other legislative bodies with which they're affiliated," Ms. Hankinson advises.

"Know your audience so what you're saying is pertinent to their interests," Mr. Weber agrees. "Too many of us are guilty of saying what's important to ourselves without sufficiently perceiving the concerns of the group."

Not every audience can be treated in exactly the same way, however.

When addressing lawmakers, don't assume you understand their body language, warns lobbying-seasoned Steven Schanes, president of Schanes & Associates, a San Diego consulting firm. "In Hawaii legislators nodding their heads mean, 'I hear what you're saying.' In other locations this means 'yes, I agree.' "

For board meetings, Mr. Schanes says come prepared. "I've seen a lot of managers shot down who don't do their homework before a board meeting. They don't



realize that it's not a traveling road show—you have to prepare for each engagement separately," he said.

Is your audience wincing, doodling or in tears?

"You should be alert to every movement in the room. If people are not reacting the way you want, re-examine the text as you make your presentation," says Mr. Schanes, first director of the Pension Benefit Guaranty Corp.

Mr. Schanes contends that one of the most effective ways to make a presentation is to use charts. Choose a limited number, with not too many words on each. Always pass out material after, never during, the presentation, he says.

Use charts

"Flip charts allow freedom of movement so the whole thing appears to flow easily. The room is dark for slide presentations and the audience can't take notes. It's not half as effective," Mr. Schanes claims.

Trial runs are one sure way to make sure things will run smoothly. But experienced speakers run the risk of becoming too smug.

"There is a tendency to bask in the limelight more than you have to. Don't get carried away by your own eloquence," cautions Ms. Lichota.

"I'm always a little nervous," admits 3M's Mr. Weber.

"It's necessary to be uptight a little bit. If you're too at ease you're not projecting any sense of urgency or concern," Mr. Weber contends.

Coe Hankinson enjoys addressing a board of directors.

"It gives you the chance to say what's bothering you and to perhaps change the things you're complaining about," she says.

"They have questions and they want answers. They're just people like you and me." ■

No reading

"Never read a prepared statement verbatim," warns Edith Lichota.

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Photo: Mary Cairns

Pep talks, inspections keep safety foremost

Continued from page 37

by adhering to safe work practices.

Mr. Wilson isolates the particular division and calculates what its insurance premium would be, based on its particular loss experience as if it were a freestanding company rather than part of the Bell & Howell system. Then he calculates model premium to show how much lower the division's insurance costs would be if it decreased losses.

Safety spotter

Bruce C. Wilson keeps close tabs on division safety heads.

Recalling one success story, Mr. Wilson said, "I reviewed loss experience reports for all installations and picked out certain facilities that seemed to be having problems. I found a good number of accidents were occurring at our plant in Phillipsburg, N.J.," he said. The plant was experiencing a high number of workers compensation claims.

Mr. Wilson visited the facility, inspected it and told the plant director because of its losses alone, it would be paying about $125,000 in workers compensation premiums if it were an individual firm. But if it beefed up its worker safety practices, it could cut that premium to $50,000 yearly.

CALLING THE SHOTS

Talking costs

"It's probably the easiest way to get them to understand that the cost is controllable and sometimes you have to hit them with that large expense at the front end," he said.

The plant has since cut its workers compensation losses by about 30% and the resulting premium refund has been turned over to the division because it's a separate profit center of Bell & Howell, said Mr. Wilson.

Now the plant director realizes he actually pays for his own losses. He understands the importance of controlling the expense to save money and increase profits, said Mr. Wilson.

But if a safety program is to work, the risk manager must keep in constant touch with branch facilities, risk managers agree. Mr. Wilson likes to do this just to let division heads know he's there to help them with their problems and answer their questions. This is especially important when the company acquires a new facility, he said.

Steady drilling

In Nashville, Tenn., Robert L. Sinclair holds the dual role of risk manager and safety director for the city and surrounding Davidson County. He says he hammers safety into the heads of municipal supervisors and holds them accountable for the accidents of public employes much like a football coach demands good performance of his team.

Supervisors are required to attend regularly scheduled meetings devoted entirely to safety. "We just drill into them: safety, safety, safety. We tell them what to look for on the job site, what to report. And that if there is an accident, they will be held accountable," said Mr. Sinclair.

The city showed it meant business on that score not long ago when an employe on duty in a city truck was arrested for drunken driving. The employe was promptly fired and his supervisor was suspended for three days without pay. "If the supervisor had not known about that situation, he should have known," said Mr. Sinclair.

Mr. Sinclair contends that training lower-level managers will do the most good because they work directly with employes and are in the best position to enforce safe practices.

Cracking heads

"In the police department, we go to the sergeants instead of the captains and in the public works department, we go to the foremen."

City safety engineers, who actually ride herd over supervisors, are becoming the most hated people on the public payroll, Mr. Sinclair quipped. "But we know that if he doesn't crack some heads once in a while and call some people to task over things, the engineer's not doing his job."

To further enforce the importance of safety, Nashville will soon require under its civil service rules

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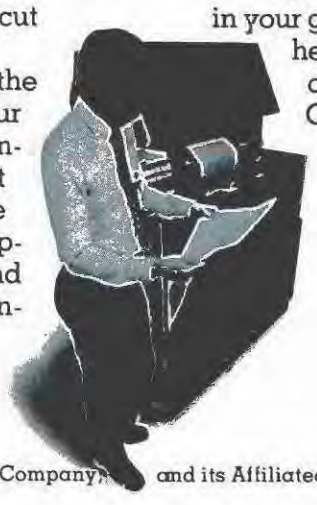

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that an employe certify when hired that he or she has received a copy of municipal safety rules. The employe must also certify that he or she understands that violating safety regulations is grounds for dismissal.

Mr. Sinclair maintains that this vigilance has reduced accident rates, even though statistics wouldn't show it. Nashville's entire accident reporting system was revised in the last year to be more exact and comprehensive than it was before. As a result, the number of accidents may seem to have increased because "even near misses will have to be reported," he said.

Personal inspections

Frank McCahill, director of insurance and safety for Bristol-Myers Co. in New York, is another risk manager who spends a large portion of his time trying to keep accident rates under control.

Mr. McCahill and his four-man staff spend two to three months of every year out of the office visiting the 75 domestic and foreign company installations. The fact that a manager of a Bristol-Myers facility knows Mr. McCahill or one of his staff will arrive armed with a 17-page checklist to conduct a top-to-bottom inspection is how the risk manager keeps the subject of

Tough policy
Nashville employes can be fired for violating safety rules under John Sinclair's policy.

safety alive in the firm.

On an inspection, Mr. McCahill looks for the number of fire extinguishers and how they are placed, whether fire drills are periodically conducted and whether workers in high-hazard work zones are wearing the proper protective equipment.

If Mr. McCahill's records show that one type of accident has happened repeatedly at one location, the plant director will be asked why. "We'll tell him, 'This loss has occurred four or five times here. Now why the hell haven't you eliminated that condition and corrected that hazard?' "

Mr. McCahill said he likes to get input from rank-and-file workers but tries to communicate more with the plant manager because the manager is in the best position to carry out recommendations and monitor how well they are working in the entire facility.

If the recommendations are being ignored, Mr. McCahill rests assured he will know about it, even though Bristol-Myers has some 40,000 employes. Meticulous records are kept and Mr. McCahill follows up to see whether plant directors have put his safety recommendations into practice.

"We're happy with the ways things have gone," he said. "Our injury rate is only 50% to 75% of industrywide loss experience."

It's not hard to sell management and employes on the idea of safety because it's easy to make them realize it's for the good of all concerned, Mr. McCahill said. Property protection measures will also be viewed favorably by management once the risk manager has presented a clearcut picture of how a property loss or plant shutdown can wipe out an entire segment of the sales market that cannot be retrieved.

The risk manager who wants to make safety an issue in the corporation shouldn't hesitate to stand up and preach, Mr. McCahill says. "Get the ears of as many people as you can, especially top management, and just harp on the importance of any situation." ■

Globe trotter
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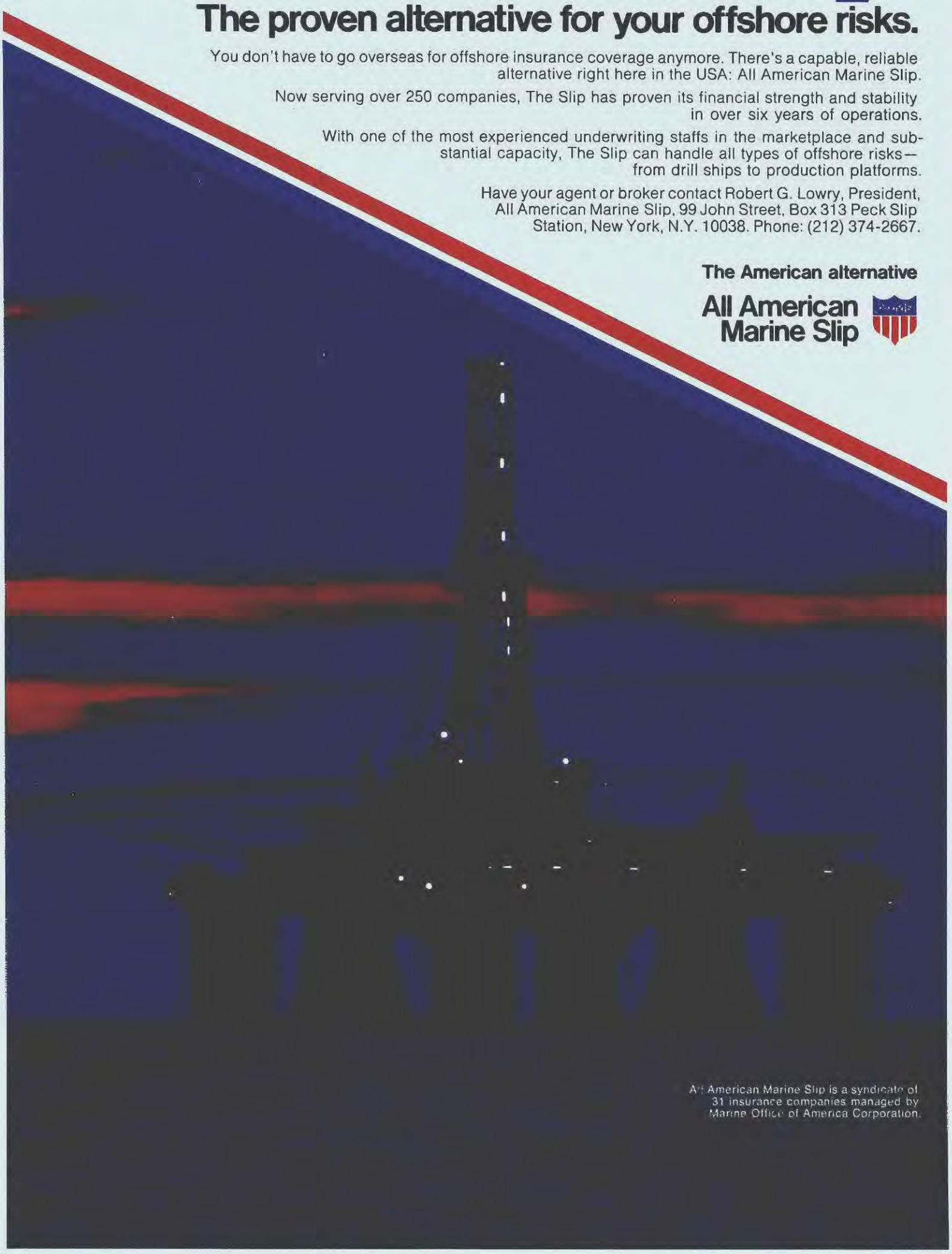

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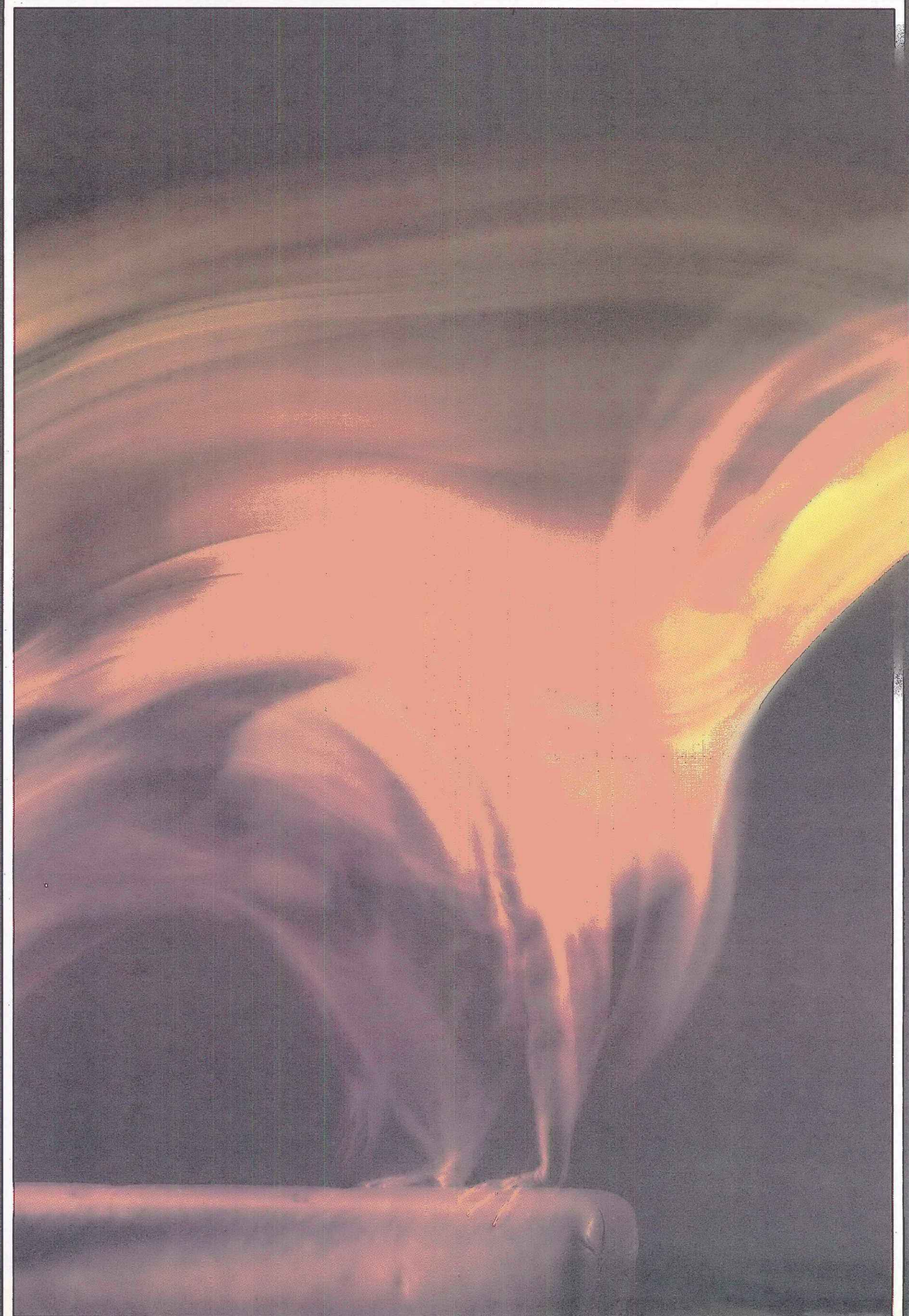

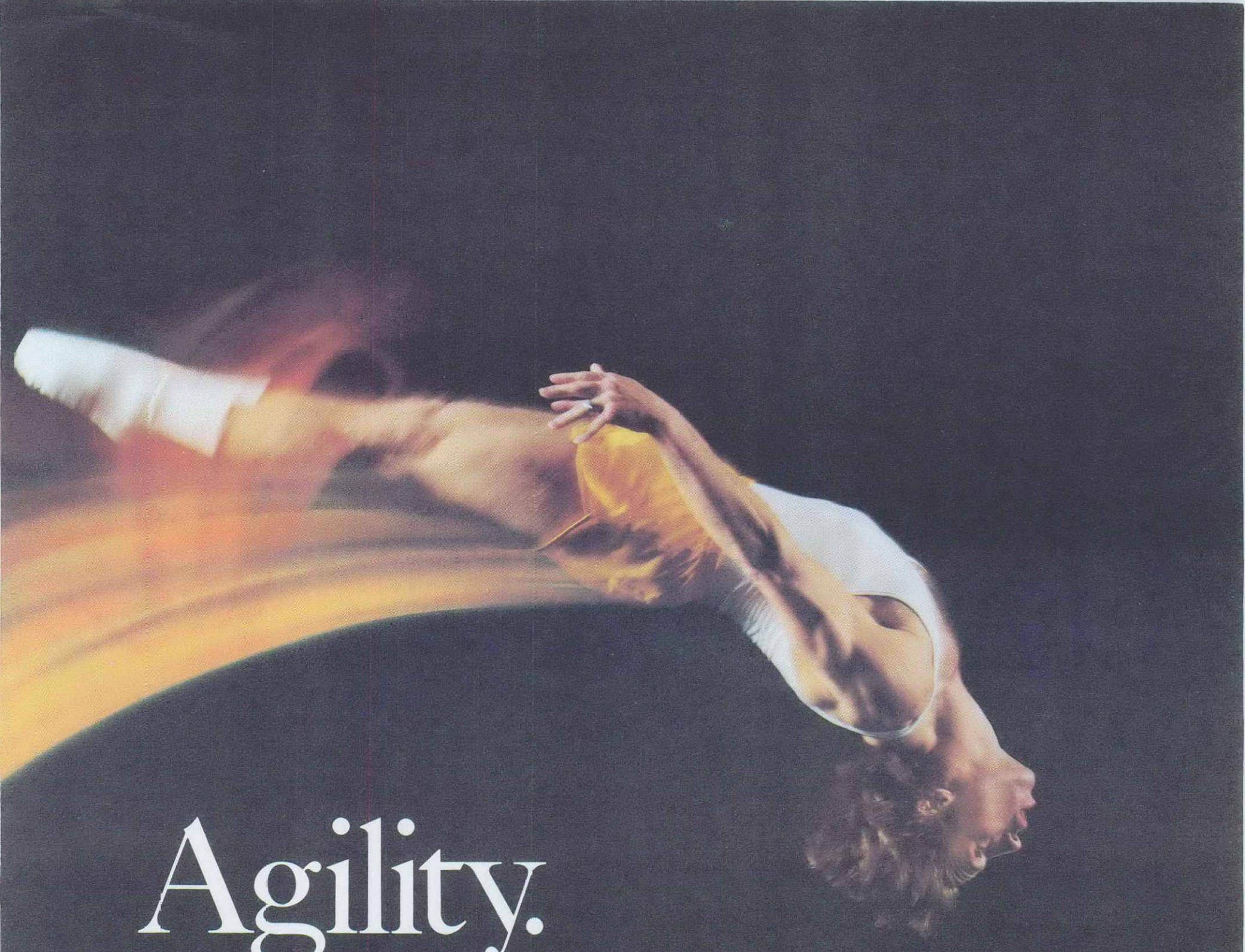

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Lawyer's advice

Listen, tell truth when testifying

Continued from page 37

showing films of lawyers in instructive situations or by reviewing "trick" cross-examination questions.

"Did you talk to anybody before today about testifying?" or "Is somebody paying you to testify?" are questions commonly asked to trip a defendant.

Stating the case

Following guidelines will help risk managers on the witness stand make a good impression.

CALLING THE SHOTS

"Witnesses instinctively want to answer 'no' to these questions," says attorney Mark Gertner.

"They think that if they've talked they're tainted or will get in trouble. Witnesses want to say 'nobody is paying me for my time in court.' "

"Sure a witness will talk to his lawyer, a boss or wife," says Mr. Gertner. "A lawyer will jump all over you and make you look bad if you don't answer truthfully. It's part of the game to unnerve the witness."

"No matter how much a lawyer baits you, never get angry," stresses the counsel. "Answer as if you are in the army, with 'Yes, sir' or 'No, sir.' "

Mr. Gertner advises his clients to "look up and speak up."

"We tend not to believe someone who mumbles and looks down at his shoes. Sit erect, look at the person asking the question and answer directly," urges Mr. Gertner.

Appearance is important for anyone taking the stand. Flashy risk and benefit managers would do well to tone down dress, experts say.

Appearance counts

Flashy risk and benefits managers should tone down dress when they take the stand.

"I wouldn't appear in a flowered Hawaiian shirt," admits Russell A. Drake, Borden Inc. risk manager in Columbus, Ohio, who has twice testified in court.

Edith Lichota, risk manager at Kennecott Copper Corp. in Connecticut, cautions that a woman should never wear a skirt that is too short.

"Dress conservatively—always. Juries tend to come from working-class backgrounds, as a rule. They regard as noncredible anyone too elaborately dressed," she says.

Ms. Lichota advises risk managers on the stand to maintain eye contact with jurors and to avoid technological terms.

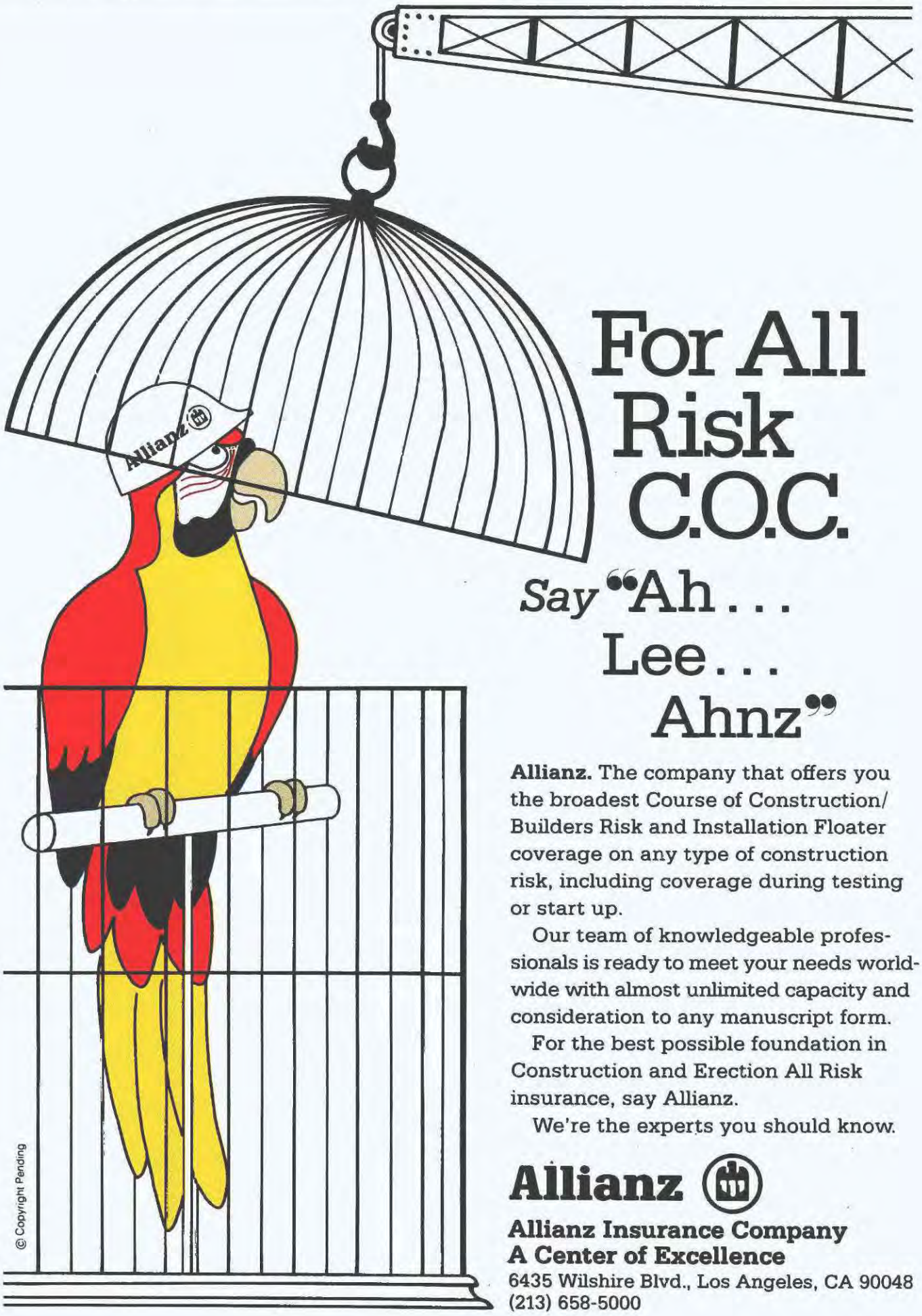
"Don't try to dazzle them or use an 18-syllable word if a three-syllable word will do. You can get so technical you're past impressing jurors and will only confuse them," says Ms. Lichota.

"While levity might be appropriate in the board room, it will offend jurors, who regard their business as deadly serious," Ms. Lichota added.

Ms. Lichota, who often addresses lawmakers on insurance matters, says she doesn't get too concerned about courtroom appearances.

"Dealing with 12 unknown faces is the greatest cause of unease. There could be someone there who hates women in navy blue suits," she points out. "Everything should be stated to arouse no prejudices."

"You do the best job you can," says Ms. Lichota. "That's all anybody can do." ■



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Sleep and citrus help relax execs before a speech

CALLING THE SHOTS

CHICAGO—Heart beating wildly, you're drenched in sweat, the room is a blur and your throat is so tight you can't utter a sound.

Speaking in public can be a harrowing experience, but here's how a few of the pros recommend you relax:

"Suck on lemons," advises Russell A. Drake Jr., risk manager at Borden Inc. and an 18-year veteran on the public speaking circuit.

"Citric acid helps you relax. Drink orange juice and lemon juice," Mr. Drake suggests.

It's better not to go sucking on citrus in public, however, he adds.

On a more conventional note, Mr. Drake recommends getting a lot of sleep the night before an appearance. Strenuous exercise the evening before a speech can also be a good tension-release, he says.

Risk and benefit managers who appear in court are usually briefed by lawyers on tension-reducing techniques.

"If nerves are getting to you, find some time to settle and compose yourself," suggests ERISA attorney Mark Gertner, in Ohio. "If you're thirsty, ask the judge 'May I have a drink?' If you have a cramp, stand up," Mr. Gertner counsels his clients.

Under control
Looking calm, cool and collected even when you're nervous is possible if you follow a couple of tips.

Mr. Gertner says that an alert attorney who senses his client's distress can manage a break in the action by voicing an objection or asking for a recess. "Any break in the action, whether it be two to three minutes or 30 seconds" can be enough to have a calming effect, Mr. Gertner claims.

"The key thing is to recognize you're not unique in being afraid," confides Steven Schanes, president of his own consulting firm.

"Everybody's nervous. The lawyer walking to the courtroom is as nervous as you are," agrees Alex H. Dolnick, a Chicago attorney who gives clients a thorough briefing before they take the stand. Taking along a package of mints can often be a life-saver, he adds.

"I always visualized taking myself in there by the scruff of the neck," says Edith F. Lichota, insurance and risk management manager at Kennecott Copper Corp. in Connecticut.

Ms. Lichota frequently addresses legislative and regulatory committees on matters of insurance.

"You must will yourself not to clutch up," says Ms. Lichota. "Just get in there and do it." ■

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Prove need for benefit to win new program

By MARGARET LeROUX

SAN FRANCISCO—You can get management approval to squeeze in another benefit that you think belongs in your company's employe benefit package if you:

- Prove the benefit is needed.
- Lay out how much it will cost as a percent of payroll and as a percent of earnings per share.
- Rally support for the new benefit from others in the company.

These are the three top recommendations of benefit managers who have successfully moved a benefit from an idea into a reality in their companies.

It also doesn't hurt to report to the decision-makers, benefit managers add. (See related story, page 48).

Proving need requires doing a lot of research, benefit managers agree. Both the company's benefit program and the benefit programs of the industry or area the company operates in have to be examined.

"You don't want one division to get ahead of another," cautions John Lamantia, benefit manager at Amerace Corp. in New York. "Survey others in your industry."

"Find out if your plan is competitive," advises Eleanor Kohler, director of employe benefits at Time Inc. in New York. "You've got to know what the trends are."

Some benefit managers do this work themselves, others rely on consultants or consultants' reports to get the facts.

One benefit manager, who complains that his management lacks a benefit philosophy, uses the Hay-Huggins & Associates survey of the benefits offered by the Fortune 500 companies. "Then I go to management, usually telling them we're out in left field in comparison with other companies in the Hay survey."

"You can't take any chances with your research," says David McIntire, director of benefits at General Mills in Minneapolis.

Besides facts and figures, documenting employe demand for a benefit is a strong way of proving need, benefit managers agree.

"When I introduce a new benefit, it's because we've been getting loud complaints from one of the divisions," admits the benefit manager who gets no direction from management on what kind of benefit package it wants to offer.

But at Levi Strauss & Co., a San Francisco company known for young management and a young workforce that promotes good employe morale, the issue of need is resolved by answering the question, "Are we doing right by the employes?" says Sara Gingrich, health and welfare plans administrator.

Strong employe demand prompted Levi's to introduce an orthodontia benefit in January separate from the existing dental benefit plan. "Orthodontia was by far the most requested benefit we've ever put into effect," Ms. Gingrich noted.

The new benefit, self-insured by Levi's, provides a lifetime benefit of $1,000.

Starting up a new benefit plan may not sound attractive to management no matter how well the need is established, if the cost appears to be too high.

"With benefits now costing Amerace between 35% and 40% of payroll, any change has to be looked at like any other major cost of doing business," says benefits manager Mr. Lamantia.

CALLING THE SHOTS

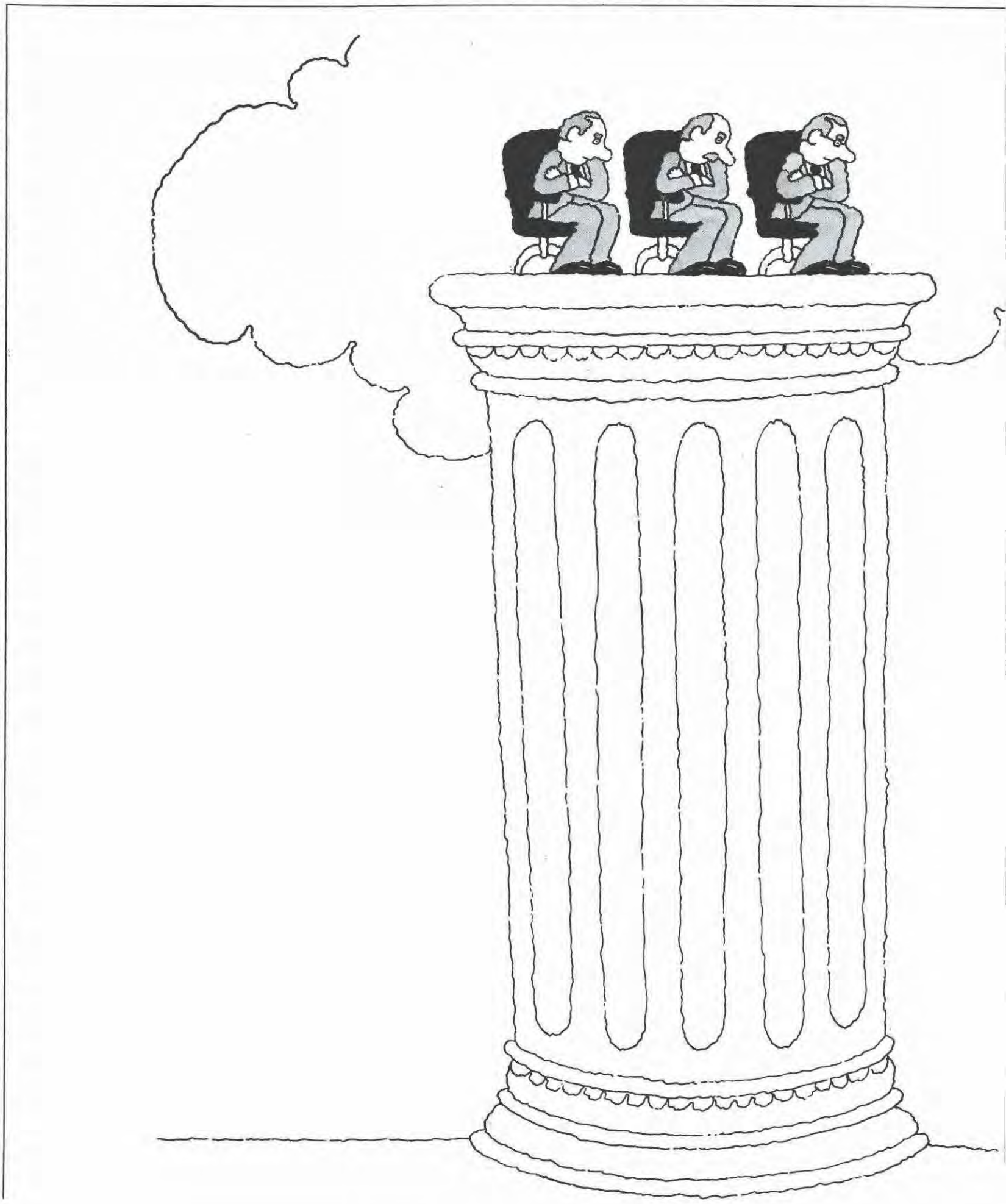
Levi's may be interested in employe morale, but cost is equally as important as need, says Ms. Gingrich. "We already have an extremely expensive program; a new benefit has to be reasonable."

The best way of showing that the cost of a benefit is reasonable is "to present a benefit proposal in terms of percentage of payroll," says Dennis A. Kairis, director of employe benefits at Borden Inc. in Columbus, Ohio. "How much additional profit, revenue and sales will have to be generated to cover the cost of the benefit?"

But don't rely on benefit management department clout alone to implement new benefits, advises Martin S. Brown, retirement plans manager at Clorox Co. in Oakland, Calif. "If you want your benefit proposal to succeed, it had better have the support of management other than the benefits staff." ■

Cost important

"We already have an extremely expensive benefit program; a new benefit has to be reasonable," says Sara Gingrich of Levi Strauss.



Budget holds seeds of new programs

NEW YORK—The budget process for a risk management or benefit management department is a chance to plant the seeds for a new program the manager wants to nurture into bloom as well as get the money needed to do today's job.

"The budget is probably the most important planned activity in the risk management group," says Burton J. Carbino, vp-risk management at New York's Irving Trust Co.

"It's the vehicle for long-range planning, planting the seeds of acceptance for new programs and obtaining funding for objectives in the short-term."

"I'm a firm believer in planting the seed," says Joseph Duva, director of benefits and compensation at SCM in New York.

"You don't just introduce something new and have it get done by sending off a memo," says Mr. Carbino. "New ideas require a long gestation period and we create at budget time a familiarity with the gem of an idea."

This approach also quickly kills off ideas that don't gain much interest from senior management, Mr. Carbino points out. Finding out management isn't interested in a project is better than having staff work many hours only to have the completed effort rejected, he says.

But Mr. Duva warns against running into a budget meeting with an off-the-cuff idea. "The worst thing for a good cause is to rush it," he says. "Once it's shot down, it's hard to resurrect it."

Beyond planting seeds for future

projects, making a successful budget presentation depends on having a sound budget and being able to build confidence in it, the risk managers agree.

"The reason our budget is successfully sold is because every penny is specifically related to an ongoing activity or new objective that is clearly costed out," Mr. Carbino of Irving Trust said. "There's no fat in it. We don't play games with the budget because our management expects its managers to be efficient in leaning-out the budget."

"If we don't think the money is available, we don't even bother" to present the new proposal, said John T. Daugherty, director of benefits planning at Squibb Corp. in New York.

Building a reputation for being frugal helps, too, managers say. Benefit and risk managers claim to run departments with lean staffs.

But when there's a need for a new staffer, a new benefit or a new risk management project, and the manager knows the money is available, being prepared is crucial, it's agreed.

Mr. Daugherty's approach is to answer all questions before they are asked. His budget presentation includes details of current program costs, costs of maintaining those programs in the upcoming year, benefits he would like to implement the following year and their costs, benefits that could be implemented and combined cost projections.

These costs are then translated into a percentage of payroll and compared with industrywide costs.

Mr. Carbino, however, cautions against giving too much detail when presenting a budget for approval. "I've only got 45 minutes scheduled in which to make my case. The risk manager makes a mistake if he overwhelms the budget committee with detail."

"They want to know what the problem is, what the method of dealing with it is and what the expense will be. They don't want to see probability tables supporting the taking of a $10,000 deductible."

Mr. Carbino's budget presentations include information about trends, both internal and external, that will influence the risk management budget in the coming year. For instance, he predicted the rash of bank robberies that hit New York City in 1979 and was able to obtain more money for security

Different functions, though, require slightly different approaches.

Be prepared
"The worst thing for a good cause is to rush it," warns Joseph Duva.

Rollyn L. Storey, assistant treasurer and director of risk management at SCM Corp. in New York, doesn't have to budget for insurance, losses, or loss prevention because the diversified manufacturing company is structured for each local profit center to handle these tasks, acting on Mr. Storey's recommendations. But Mr. Storey has to justify his department's personnel expenses so he has the people-power to see that the programs are correctly implemented.

Mr. Storey ranks his ability to build management's confidence in him foremost in the tools needed to get support for his budget, followed by success in handling catastrophic losses and the success of safety and loss prevention efforts.

"Successful handling of a catastrophic loss gets more attention and better acceptance for your function than a successful loss prevention program," he said. "If you haven't been successful, they won't give you your money."

When catastrophes occur, most people panic, Mr. Storey explained. "If you can take control, get people back in business, get necessary information together and successfully collect for a loss, you get attention." ■

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New proposal takes time

Work on a new benefit proposal may take years.

John T. Daugherty, director of benefits planning at Squibb Corp. in New York, began work about two years ago on a retirement benefit increase that was implemented this January.

He started by finding out how much inflation had cut down retirements at the company, how the company could supplement the pension benefits and how much the company could afford. Squibb hadn't adjusted retirement benefits since 1968. Mr. Daugherty decided an increase costing $500,000 was in order.

He also prepared a backup proposal in case he couldn't get a pension plan increase through.

Indeed, several other managers were opposed to increasing Squibb's unfunded liabilities. But Mr. Daugherty had his other proposal—annual supplements for retirees. And he had letters from retirees describing their financial problems for the budget committee.

Mr. Daugherty won annual supplements for retirees initially costing $1 million a year and sidestepping the unfunded liabilities problem.

Access to upper execs eases benefit approval

SAN FRANCISCO—Getting a new benefit approved can be as simple as a friendly game of bridge among friends or as tough as card counting at a Las Vegas blackjack table.

Strict or lax reporting structures and the benefit manager's position in a company affect the ease with which a new benefit plan is implemented.

"The closer you are to top management, the less likely you are to end up with a benefit that's like the proverbial camel designed by committee," says the benefits director for an international corporation in New York.

Dennis Kairis, director of employe benefits at Borden Inc. in Columbus, Ohio, has both access to the chief executive officer of the company and responsibility for all aspects of benefits—considered two trump cards in the benefit approval game.

"We have a high degree of visibility and concentrate all elements of management in a single department," said Mr. Kairis. "Our ceo feels benefits are of high enough priority that he should involve himself in their planning and approval. It makes for a very short reporting process."

Such a close, direct line to the ceo also makes a benefit proposal very short-lived if the ceo doesn't agree with it, Mr. Kairis admitted.

CALLING THE SHOTS

A benefit manager at one of the Detroit-based automakers where benefits are part of the finance department faces an intricate approval process. Presentations are made for the head of salaried personnel, then the vp, treasurer and vp, personnel, senior vps of personnel and finance before top management even receives the benefit proposal.

At Time Inc. in New York, benefit director Eleanor Kohler seeks approval for benefit proposals from her boss, the director of personnel. He obtains clearance from his boss, a group vp, before presenting anything to top management.

At General Mills in Minneapolis, where benefits are part of personnel, "Whatever is being designed or recommended works its way up to the vp of employe relations who then seeks approval by the management policy committee," said David McIntire, benefits director.

That committee is made up of the chief executive officer, president, senior executive vp, and executive vp of the company.

Trump cards

The reporting structure helps or hinders a benefit manager with a new plan.

"Relatively minor changes can be routed through a lower-level plan amendment committee," Mr. McIntire added.

At the Clorox Co. in Oakland, cost of a new benefit or change in benefits determines the route of approval, according to Martin S. Brown, retirement plans manager.

If the new benefit costs less than $50,000 it must be approved by a management committee made up of representatives from sales, manufacturing and accounting for the division whose benefits are at issue. A benefit costing more than $50,000 must be approved by Clorox's chief executive officer.

"If the benefit is for hourly employes, the industrial relations staff is involved," Mr. Brown explained. "If it's for salaried employes, the manager of personnel administration—my boss—is involved."

"If I get approval after this step, it's time to start thinking about implementation," he said.

At Levi Strauss & Co. in San Francisco, benefit proposals are incorporated in an annual benefit report submitted by Ernest L. Griffes, director of employe benefits, to top management of the sports apparel company.

Mr. Griffes reports to the vp of personnel who reports to the president of Levi's. Often in making a benefit proposal, both the benefit director and vp of personnel discuss it with the president. ■

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Take time for planning, staff issues

By RHONDA L. RUNDLE

LOS ANGELES—Risk and benefit managers can get so busy putting out fires on the insurance lines that they overlook their long-term planning and staff management functions, warn many of their number who know the pitfalls and strive to avoid them.

If a manager never seems to have the time to plan and organize, it may be because he is not delegating authority or making the best use of his staff. Good employe development is one of the hallmarks of an effective risk or employe benefits manager, it's agreed. But one needs a good staff.

"High turnover in a department undermines morale, creates chaos and contributes to a much higher incidence of mistakes," says former Beatrice Foods benefits manager Frederick I. Schick. "It's important to create an environment where employes know they can advance," points out Mr. Schick, who is now a senior consultant for Hay Group in Chicago.

"Favor hiring people at a low level and promoting from within," he continues. This is especially important in the insurance field, he says candidly, because "many low-level jobs can be pretty boring." Managers should encourage and guide employes to upgrade their skills so they can advance in the company, he sums up.

To stay abreast of what's new in the marketplace it's important to attend industry meetings and read business publications, observed another risk manager for a large corporation in the Pacific Northwest.

"You may learn that you can exert more leverage with a broker or insurer than you thought when you talk to your colleagues about their programs at these meetings," he explained. "Or you may learn about a new funding vehicle you thought beyond the scope of a company your size."

The very best risk and employe benefits managers are always looking ahead, anticipating changes in their companies five or over 10 years down the line, industry observers agree. In today's world of horizontal acquisitions, the challenges are especially keen.

"If your company is diversifying, growing quickly or planning big changes, long-term thinking is critical," emphasizes Patrick A. Dutson, corporate vp at Meidinger & Associates, benefit consultants.

Good morale

"It's important to create an environment where people know they can advance," says Fred Schick.

Keep morale high: Exec

Watch out for the amount of pressure you put on the people under you, urges Thomas V. Hallett, director of risk management at General Motors Corp.

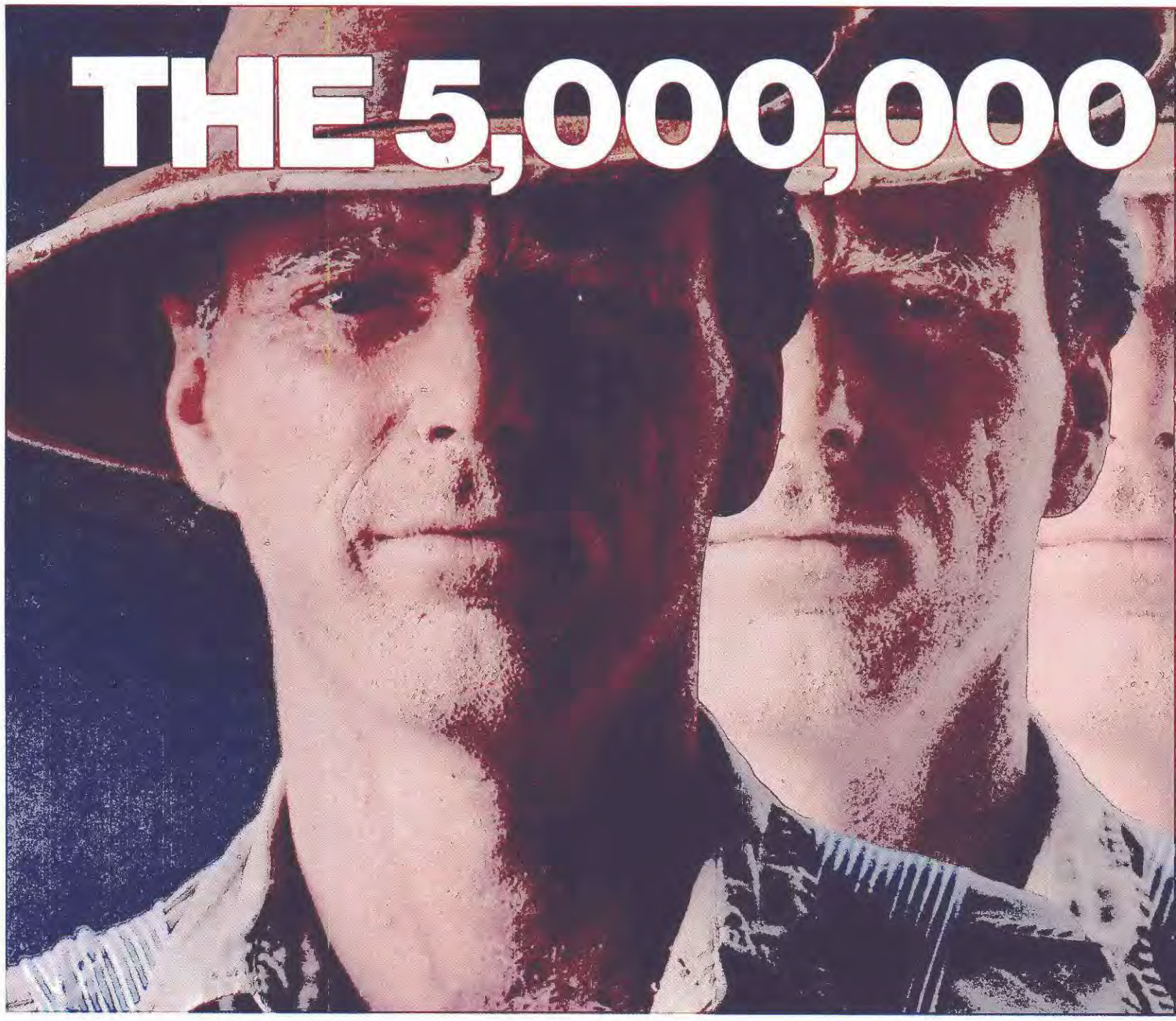
The advice comes from a 14-hour-a-day workaholic who's been trying to cut back to 10-hour days.

"I try to get all my people not to work overtime because I want them to feel that if we have to crash on a big project with a tight deadline, they'll willingly put in the hours," he says.

This is often more difficult, he acknowledges, when workloads are increasing at the same time budgets are being cut back and hiring freezes are announced. This has happened at GM and many other companies in recent months.

"It's important for people to feel they work in a good environment," Mr. Hallett contends. "I don't like to be put in highly stressful situations, and I don't think they do either. I don't want people to think I am the wrath of God walking around here.

"I like to be fair and then morale is healthy."



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Good organization can reap tangible benefits. Advance planning expands the number of alternatives available to the insurance buyer.

A corporation may acquire an entirely new employe population overnight in a company acquisition. Neither the risks nor the benefits expectations of employes will necessarily be the same as those that existed in the corporation before.

If risk benefit managers don't plan ahead, they will find themselves caught in the "action/reaction syndrome," says Mr. Dutson. Policy renewals, premium negotiations and other responsibilities are important, he notes, but they must allow time for "a manager to act like a manager."

The risk manager and employe benefits manager must plan, organize, lead and control, he stressed.

Good organization, for instance, can reap tangible benefits. Advance planning expands the number of alternatives available to an insurance buyer.

At the University of Southern California, Alex Ratka, director of risk management and insurance, emphasizes the usefulness of maintaining a good renewal file and contacting brokers early on renewals.

"Brokers want to work for you if you'll let them," he declares. "The problem is, they are busy people with lots of accounts, so if you don't give them plenty of lead time, they can't do the best job for you."

He recommends alerting brokers to a renewal three or four months before a policy expires. This leaves time to arrange meetings with new brokers, too. Waiting until the eleventh hour, he predicts, leaves time for a broker to get only one quote.

"Put your communications in writing," he adds. "Organize your thoughts into an agenda and set deadlines before meetings take place. You want to tap brokers' expertise, but you'll get a head start if you put your own ideas and requirements on paper first."

Plan ahead
"If your company is diversifying, long-term thinking is critical," says consultant Patrick Dutson.

Brokers and consultants gripe that too many of their clients waste their time—and run up big bills in the process—because the managers aren't prepared.

"Get all your data together in a manageable form before passing it along to a consultant," urges Mr. Schick of Hay Group. "Asking a consulting firm to handle your clerical work is like going to a heart specialist when all you have is an ingrown toenail."

In a pinch, he suggests, it makes more sense for the busy benefits or risk manager to hire temporary help to sort out unorganized data before turning it over to a consultant.

Try to keep outside consultants fully informed of internal changes, urges Robert Paul, vice chairman of Martin S. Segal, the New York benefits consultants. Consulting relationships are often unnecessarily episodic, he observes. A client gets more mileage from a broker or consultant if he or she keeps the vendor posted on new acquisitions, management turnover and other news likely to change the corporate picture.

Larry Thompson, benefits manager at the California Institute of Technology, says it's crucial to sit down with underwriters as well as brokers to negotiate the best deal. In this forum, the benefits manager can bring his or her technical expertise to bear. ■

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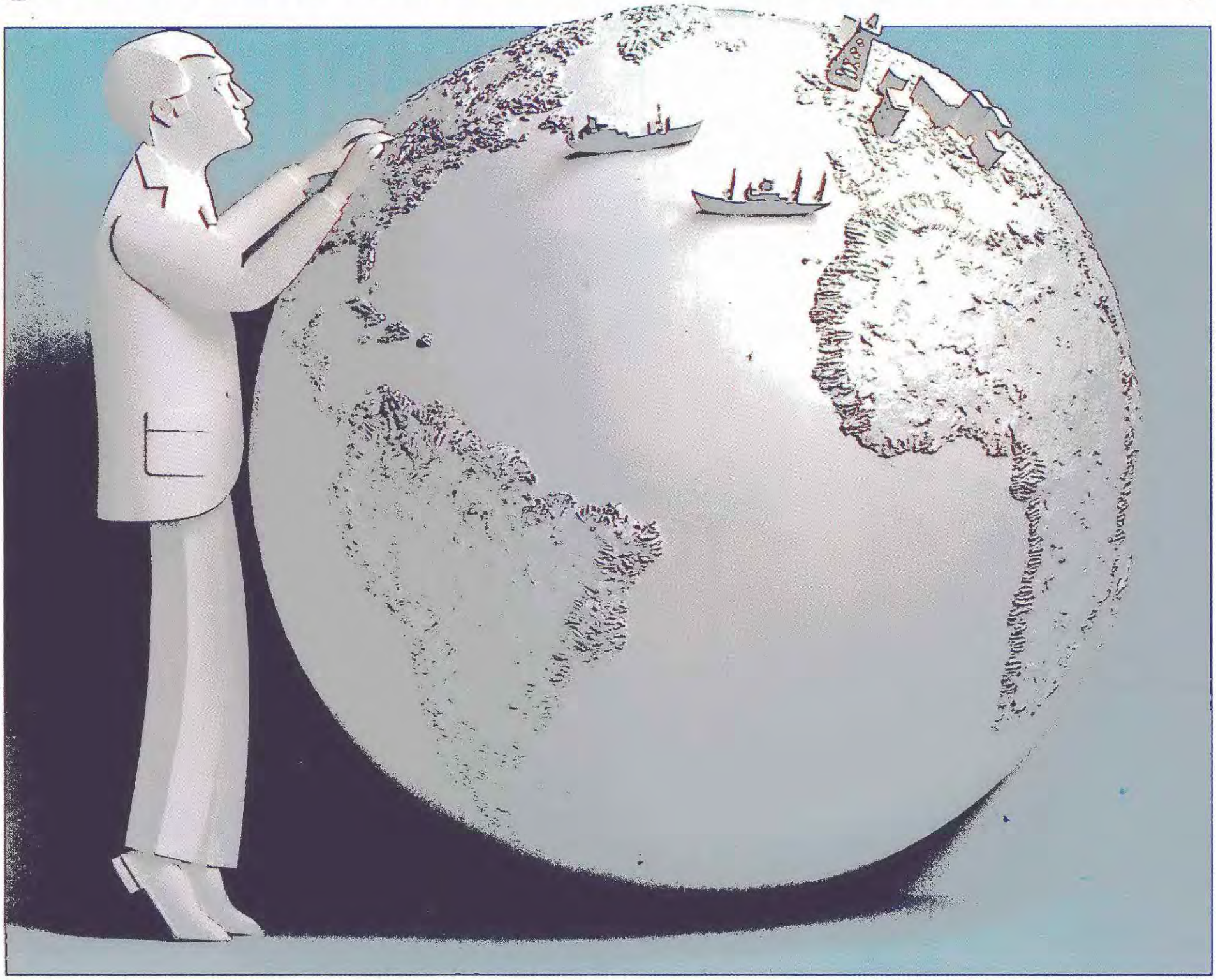

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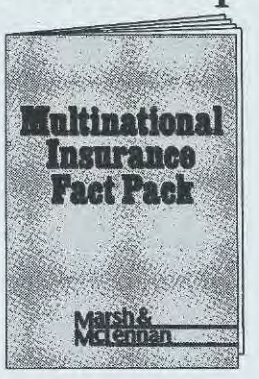

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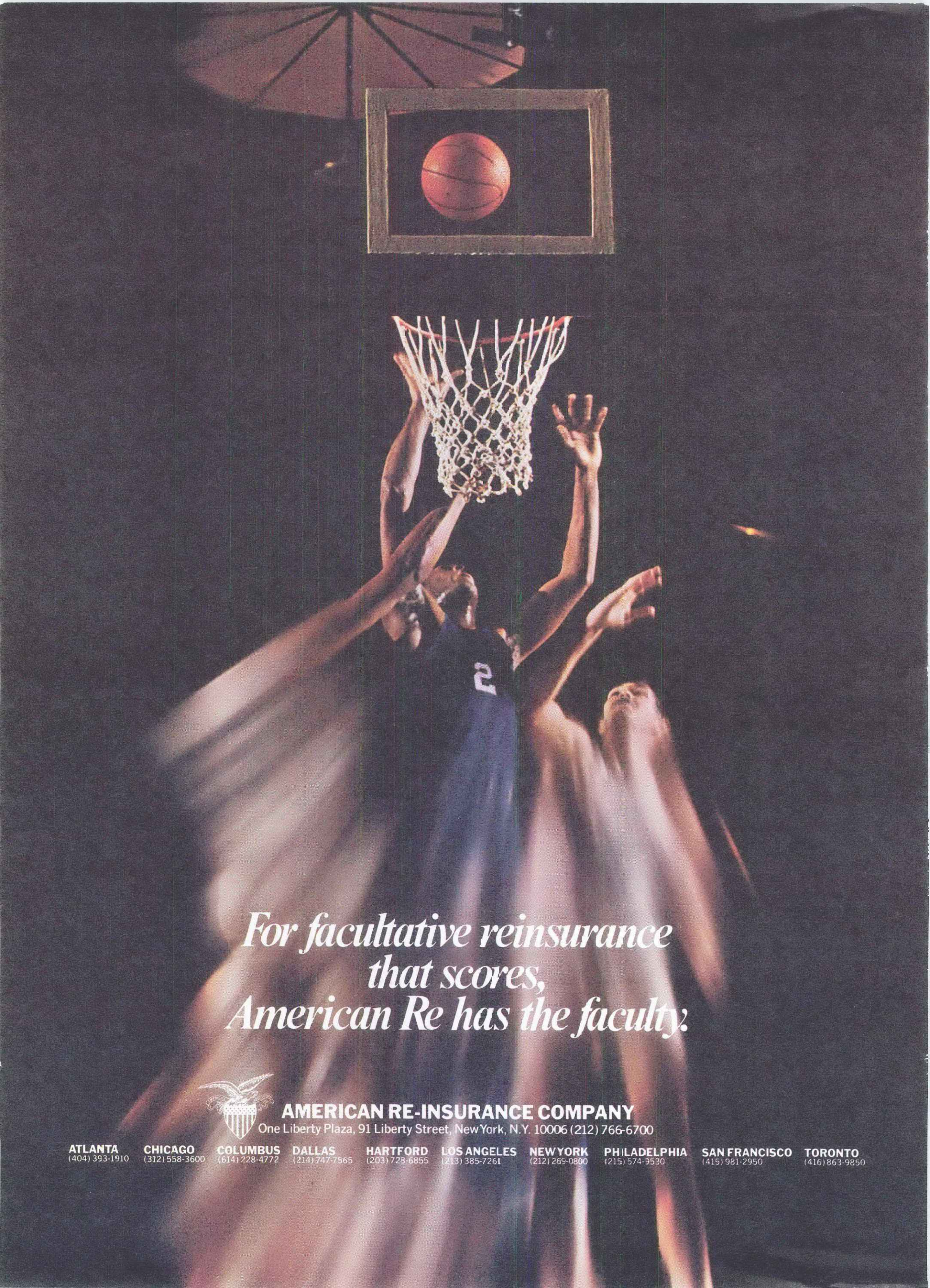
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perspective

International risks

Global risk managers tap brokers, diplomacy

By Robin Lamprecht

TO ACHIEVE ANYTHING in life, you must first want it, and secondly, you must want it enough to go after it aggressively. Most risk managers want a centralized, controlled, global insurance program to gain the purchasing power of their world premium dollars and to provide them with uniform policy conditions insuring their company's worldwide assets.

The risk manager's willingness to aggressively pursue his goal will determine whether he implements such a coordinated program.

If the risk manager is ever to succeed in implementing a global insurance program, he must be willing to accept some basic facts. He cannot do it alone, and he cannot do it at once. And he can only take one step at a time.

He must first ask some searching questions about the worldwide program, such as:

- Do I leave it up to local managers overseas and not get involved?
- Do I design a wraparound program in the U. S. to supplement the gaps in overseas coverage?
- Do I involve myself in a total global program and build from the ground up?

To create a centralized, coordinated global insurance program, you should take three important steps. Select a broker with whom you are going to work. There is only one key word to consider—service.

The broker should have the capabilities to service multinationals wherever they are located in the world and to coordinate this service and to communicate it to the risk managers in the United States. Do not allow a broker to tell you that he will get on a plane and fly overseas to all of your locations, and solve all your problems. He can't.

With this need for service established, ask the top five international brokers to submit conceptual reports on how they would handle your global insurance needs in each of the countries in which you operate. Have them detail their facilities in each country.

Select the broker with whom you will work based on this report. Do not pit brokers against each other in bidding for your account. There are only half a dozen major international insurers with the capabilities to structure a global insurance program and any one broker can approach all six to establish a competitive price.

Your prime consideration must be service. There must, of course, be a savings in premiums, but this almost always follows in any combined program. Taking your worldwide premium dollars and giving them to one insurance company provides the incentive to lower the premiums. Now that you have selected your broker, level with him. Tell him about the political problems worldwide: those managers who might want to come into such a program and those who will fight it.

Now, you must present your recommendations to top management. Use the broker's conceptual report as your basis for this.

Having gained top management approval for international risk survey in preparation for designing a worldwide program, new issues emerge.

With strong arguments for both admitted and nonadmitted coverage, the logical solution is normally a combination of the two to provide a fully integrated worldwide insurance program. The reasons for this are simple.

- The combined program facilitates investigation of losses and legal defense.
- It provides broader coverage but does not ignore conformity to local law and allows for mandatory local insurance where the industry is nationalized.
- It allows local premiums to be deducted for local tax purposes.

Next, you begin gathering information so you and your broker can market a plan to the major international insurance companies consistent with the requirements of your global philosophy. When you appointed your broker, and you sold your management on carrying out an international insurance survey, it was just the beginning of your selling job.

Now you have to sell your managers overseas on cooperating with you. There are several approaches you can use. First, you can get on a plane and fly to each of your locations overseas and gather the necessary information. Second, your U.S. broker can get on a plane and go overseas and gather the necessary information with or without you. Third, the offices of your U.S. broker overseas can go and visit your local manager. And fourth, you and your U.S. broker can go overseas and take with you the U.S. broker's local branch office people.

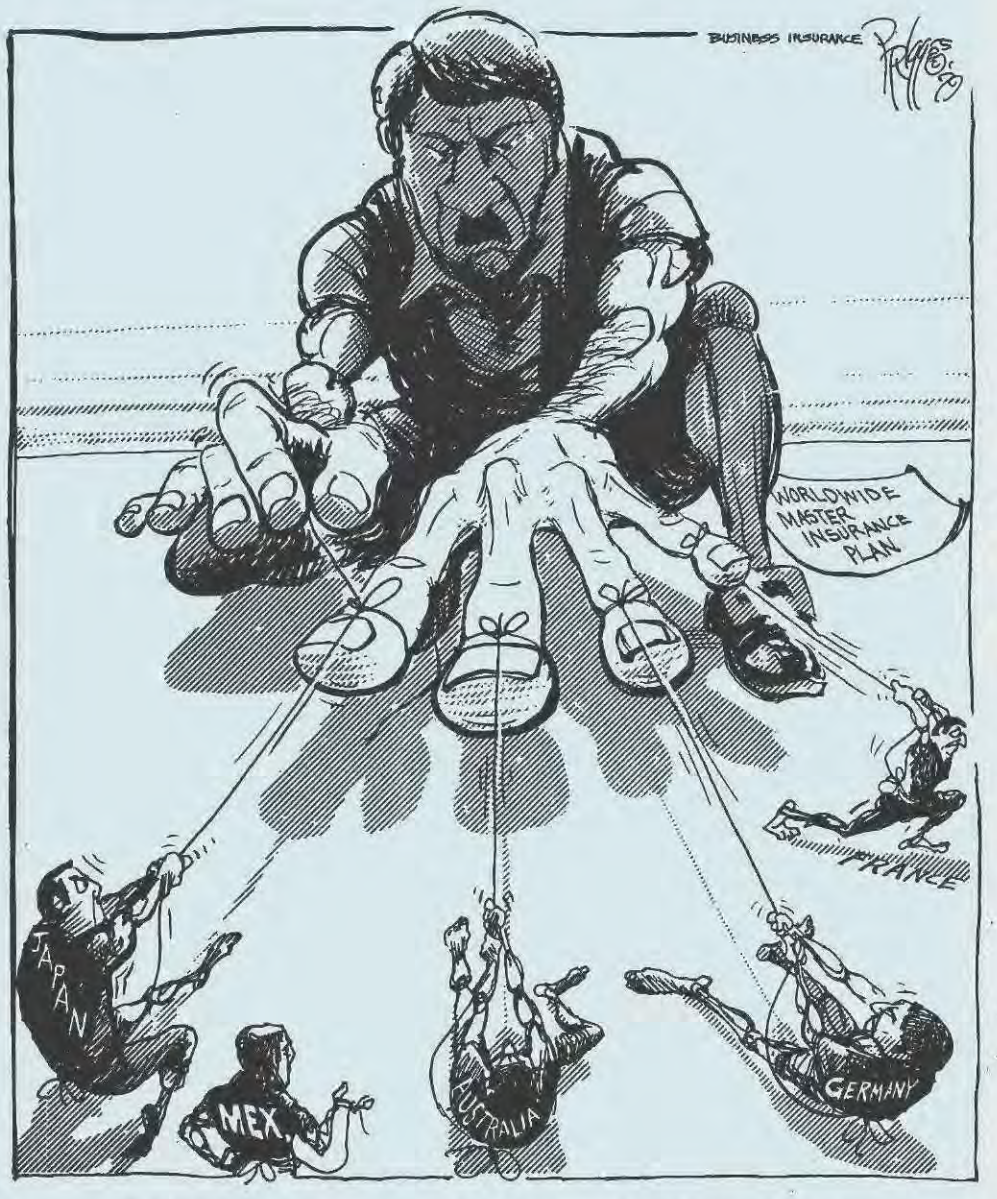
There is no one perfect solution. But considering what you are going to do, bear in mind that up to now you have been aggressive in getting the program started. You are on the right path, but the time has come for diplomacy. You are dealing with people who have different customs, different background and possibly even a different language.

The insurance regulations are also completely different from anything you might know. Even if you take with you a broker who is aware of these regulations, and can possibly speak the language, you may still find hostility. Put yourself in their shoes and try to imagine yourself in the reverse circumstances. You are working here in the United States with your insurance requirements serviced by a local U.S. broker, and both of you are fully conversant with the local U.S. situation and regulations in the insurance business. Your home office in another country sends a foreigner in to see you to gather the necessary information so he can design a program back in his home country. While he may be reasonably intelligent about United States forms and conditions, in the majority of cases he can't possibly know as much as your local broker who deals with them on a day-to-day basis, and he may have difficulty even relating to you on a personal level. These are the same set of circumstances you are thrusting on your managers overseas.

Let your broker relate to your manager at his level and gather the information that you need to market the global program. That is your ultimate goal. Write a letter to your managers overseas, diplomatically informing them that you intend to conduct a study to possibly reduce costs and broaden coverage within their insurance program. Inform them who the broker is you have selected to carry out the study and advise them of the individual who will contact them. If you or the U.S. broker intend to join this meeting, inform them of your arrival dates.

Now you have taken the first three steps, and possibly the most important ones on the path toward your ultimate global insurance program. There is a way to go yet. The information has to be gathered, a marketing report prepared by the broker, insurance companies contacted, a program designed, costs reviewed, your American management's approval gained and ultimately, the program sold once more in its final form to each of your managers overseas. Each step will be made a great deal easier if you work in partnership with your broker.

Don't leap into captive studies and sophisticated demands such as risk management surveys or loss prevention programs until you have all completed all of these steps. At the end of all of this, your own knowledge will have improved immeasurably. Following the implementation of your program, you will be able to travel in a more relaxed fashion, rather than rushing from country to country. In this manner you will learn a little about each of the country's own peculiarities and you will get to know your own people and the broker's people a great deal better. ■



Keeping a finger in every foreign office

Robin Lamprecht is senior vp of Reed Stenhouse International.

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perspective

Chasing fires

Investigate your losses to douse future claims

By Elliott R. Berrin

AWARENESS OF the serious arson "epidemic" that has been going on in this country has finally come about. Fire protection engineers and fire investigators have known for years that not only arson, defined as the *owner* setting fire to his own property for insurance fraud purposes, but incendiarism generally (any intentional hostile fire) is a serious problem. Various reasons for incendiarism exist including revenge, thrills and organized crime.

I doubt that there is a risk manager who wants any loss to occur, but occasionally fire losses do occur. When they do, it is important to determine the cause, for several reasons. First, lessons can be learned from losses. Prevention of future losses and design of improved protection features are but two beneficial results of a cause of loss study. Another reason for such a study would be the detection of incendiarism, if it does exist.

A third reason for a cause investigation is of interest to both the insurer and the risk manager: subrogation. Where large deductibles exist, for example, both parties have a financial interest in the possibility of recovery. Therefore, a thorough investigation should include a careful study of all mechanical and electrical devices in the area of the fire origin.

There are certain clues to seek and a specific methodology used in a causal investigation. While the risk manager is not expected to be a trained fire investigator, he can be the one to recognize the possibility of a successful subrogation action, or possible incendiary fire. To do so, he must be armed with some basic knowledge. Here is some food for thought:

- Fire burns upward and outward; look for low points of burning. If there is more than one independent low point, incendiarism can be suspected.
- At the low point(s), look for electrical or mechanical devices that could have initiated the fire. Prevent access to these low points.
- Unusually deep charring of wood or spalling of concrete at the low point might mean an accelerant was used.
- If the facility is sprinklered, and the fire was not controlled by the sprinklers, this might mean the sprinklers were not in service.
- If a fire detection system is installed, ask if it operated properly. It may have been disconnected.
- Interview witnesses about anything unusual about the fire, such as:

1. Color of smoke—thick and black (petroleum based) or pure white (phosphorous).
2. Rapid spread of flames. Total involvement in minutes or seconds.
3. Unusual odors (gasoline, kerosene, alcohol or other chemicals).

Although all fires are accidental until proven otherwise, nothing prevents you from "looking for the otherwise."

A fire investigator should be retained promptly by either the insurer or property owner or jointly, where one or more of the above symptoms appears. If incendiarism is suspected, notify the appropriate law enforcement agency and insist that the fire scene be left undisturbed until your engineer/fire investigator arrives.

Without disturbing the scene, photograph it thoroughly, particularly at any suspected origin point(s) and any obvious burn patterns.

Mechanical or electrical devices at an apparent origin point should be left untouched for the engineer/fire investigator's examination.

If law enforcement is investigating the fire, advise them of the private investigation that you are initiating: ask that they cooperate in the matter. If your engineer/fire investigator is delayed enroute, law enforcement will proceed to take photographs, take samples of the debris, etc. Advise them of your engineer's arrival time and ask their cooperation in leaving the fire scene undisturbed until he gets there.

Interview employes and others. Inquire about recent changes in the plant, like new electrical wiring or devices, new unit heaters and new process equipment. Look for any reason for incendiarism: labor or union problems, disgruntled employes, disenchanted customers, neighborhood vandalism or organized crime. Provide as much information to your engineer/fire investigator as you can during the initial assignment interview. He has to know what to look for, what instruments to bring with him and where to seek out pertinent information. ■

Elliott R. Berrin, P.E., is an assistant professor at The College of Insurance, New York, N.Y., and, also, a consulting engineer in the fields of fire protection and fire investigation.

Burn out
Risk executives can learn possible fire loss causes by examining the rubble for clues and interviewing victims.

Hold execs with bonus benefits

By Joseph S. Robinson
Attorney-at-Law

THE PROXY STATEMENT issued by Twentieth Century Fox Film Corp. gave some details about the bonus arrangement of Dennis Stanfill, its chief executive. The bonus, by contractual commitment, was to be a maximum of $1.5 million if company earnings per share ending December 31, 1980, totaled at least $13.56. The company, however, achieved such earnings in the three years that ended December 31, 1978, and Mr. Stanfill has picked up $1.375 million—a lower amount to reflect the early payment of the bonus. Mr. Stanfill is obligated to purchase company stock with the aftertax residue of this bonus.

One of the purposes of the arrangement was to get the chief executive to increase his stake in the company via the stock purchase.

In addition to such stock purchase deals financed by a bonus, many companies offer their executives stock options, stock appreciation rights and perks.

In the 1,014-company study of executive compensation published by a division of Martin E. Segal Co., the three most common perks for the highest-paid executives were: use of a company car; extra life insurance and company-paid club membership.

Another survey of 907 businesses by the American Management Assns. found that at least 80% of all companies provide company cars to their top executives. Company-paid membership in clubs, free tickets to theater and sporting events, first-class air travel, luxury apartments and top-heavy life insurance coverage were also common.

A "box score" of executive fringe benefits, based on a survey of 505 companies by consultants Hay-Huggins, indicates that the most popular perk was free medical examinations, provided by 82% of the companies. Other benefits and their prevalence include:

Special parking	78%
Company car	63
Stock options	60
Luncheon club	51
Country club	45

benefit tax slants

Who can have an IRA?

Often an employe thinks that simply because he is not covered by a pension plan he may start an IRA. This is true only when he has not participated in a pension program at any time during the tax year. A subsequent change or loss of pension rights is not a relevant consideration. Recent tax court cases point out a common misconception about who is eligible for IRAs.

- A manufacturing manager was covered by DuPont's pension plan until he changed jobs in November 1975. In so doing, he forfeited all his pension rights and was not covered by any pension plan in December 1975 when he started an IRA. (Kacin, TCM 1979-410).
- A decorated Vietnam veteran entered business school and obtained part-time employment following his discharge in June 1975. Consultations with an insurance company and the IRS information office led him to believe he was eligible for the IRA he established. But he had been covered by the Army's retirement plan prior to his discharge. (Tallon, TCM 1979-423)

In each of the above cases, IRS's denial of a deduction for the IRA contribution was upheld by the court. ■

Reforms: New state and federal regulations will drive buyers to lawmakers

MUST RISK MANAGERS become lobbyists in the future to cope with a flood of regulation and restrictions? Maybe not, but the *BI* round table suggests that corporate buyers may have to get aggressive in fighting excessive rules and fixing problems they may cause.

The round table panel included: John R. Cox, president of Insurance Co. of North America; Linda Rice, director of risk management, The New York Times; Harold Hines, vice chairman of Marsh & McLennan Inc.; John A. Bogardus, president of Alexander & Alexander; Michael I.D. Morrison, president of American Home Assurance Co.; Peter Lopez, director of insurance, St. Regis Paper Co.; Len Strazewski, features editor, *Business Insurance* moderator. Also, Kathryn McIntyre, managing editor of *Business Insurance*.

BI: Is there something cooking in state and federal regulation that may not relate to the competitiveness of the market, but might relate to the way one buys insurance?

Mr. Bogardus: Certainly there seems to be, certainly coming out of Washington. I think any of the regulations affect the financial vulnerability of companies, the decision on investing capital. I think this might proliferate. And when OSHA has just identified a hundred or five hundred areas of carcinogenics to be worried about, the emission problems facing the oil and chemical fields, the atmosphere, the water, and all of those things—and they're going to proliferate in the decade of the '80s and it's going to be a problem for all of us—the insurance industry collectively has to resolve these for industry.

Ms. Rice: I think that's a major problem. What we know today versus what's going to be a carcinogen 10 years from now is a major problem confronting industry, even with the things that have been identified. How do you really protect yourself? How many tests do you run? How many files do you keep? How often do you bother your employes and say, "Now we're going to test you every year for this or that." And you're still not protected, because science is not that advanced.

I think it's a very frightening concept. You don't know what that unknown liability is going to be.

Mr. Cox: It brings up the question of whether liability can run forever. And I'm not talking about the insurance company. I'm talking about from anyone's point of view. Shouldn't there be some time factor.

Mr. Lopez: State of the art defense, or something like that?

Mr. Cox: You take asbestos as a very interesting thing and the many, many cases being tried all over the country. No one can tell you when the event took place as respects the loss.

Mr. Hines: I think that is an important point. In the 1980s the issue is likely to be how much government regulation the American community can tolerate. There will be challenges to government regulation as it is or might be that become muted when special interests are threatened.

I am, for example, disappointed with state regulatory processes and the ability of the federal legislature to deal with tort reforms.

The product liability Risk Retention Act brings the federal government into a different regulatory position than it has been before, producing dangers as well as benefits. If the act only creates funding mechanisms, it does not solve inherent problems. Interest groups that use tort law for their special benefit are, of course, part of the problem. The unwillingness of government to repudiate them is most unfortunate. Perhaps society's growing awareness will produce reforms.

Regulations affecting the financial vulnerability of insurers will proliferate, says John A. Bogardus.

Mr. Lopez: Yes, in my opinion it is a social problem. The way I look at it there's got to be a real grass roots change. It's got to really start in the home, there's got to be more respect for the work ethic.

I've had some very rewarding work experiences so far coming back to American Co. Pharmaceuticals and Celanese Corps. before St. Regis. Yet, when I look back over that whole thing all these problems have existed all that whole time and grown worse. I've not seen enough effort on the part of corporations and insurance companies acting as a group to try to educate and communicate to the public about what's happening. As a matter of fact, when the chemists association disbanded its insurance committee, I thought, "Well, great, with what the American Paper Institute is doing in this regard. . ." it doesn't seem to be enough anyway.

Mr. Cox: You know we're talking about regulation. There was very little hollering that I heard from any segment of our industry when Williams-Javits looked like it could become a reality. And looking at the N.Y. Times, you must do business in a number of states, in the United States, and I know St. Regis does. If you had uniform standards in workers compensation, what the Williams-Javits program would have done overnight, your costs would have just dramatically changed, and no one having any real interest.

BI: Dramatically up or down?

Mr. Cox: Mostly up, in some cases. Maybe a state like Alaska would have come down, but up for the most part.

Mr. Bogardus: I think most people just haven't placed it as a kind of priority; it's an assumption that it's not going to go through.

Mr. Cox: Well Jack, now I'll take a little bit of umbrage of my own side of the house. Too many people in the insurance company side look to The Alliance or AIA to do their job for them. You've got to do your own job. You've got to have your own people in Washington and the various state legislatures to deal with it.

The issue of the 1980's will be how much regulation America can stand, says Harold Hines.

Today the states of New York and Pennsylvania both have drives to go monopoly on comp. And there are very few people that are out there fighting the issue; it's down to the same few people all the time.

Mr. Hines: I'd like to criticize our industry's lobbying practices which proliferate through so many trade groups. We don't work together. Each segment of our business has a solid trade association, but there is not enough coordination between them. We must cooperate through some umbrella organization which identifies issues of concern to all and, from a collective perspective work for society's overall good. What John has observed are clear violations of that good.

Mr. Lopez: I don't know whether a risk manager has to become the lobbyist, but I think he's got to encourage his firm to lobby in some behalf in its own industry segment in order to reduce its costs. ■

Risk Retention Act

Insurers don't see small firm's woes

By James H. Mack

THE HOUSE OF Representatives overwhelmingly adopted the Risk Retention Act (H.R. 6152) on March 10. Support for the bill—332 votes—was bipartisan and cut across ideological lines. Only 17 Congressmen opposed it. The battleground now shifts to the Senate, where similar legislation (S. 1789) has been introduced by Sen. John Culver (D-Iowa), Daniel Inouye (D-Hawaii), Gaylord Nelson (D-Wis)., Larry Pressler (R-S. Dakota) and Paul Tsongas (D-Mass.).

The Risk Retention Bill is supported by a coalition of manufacturer and distributor groups, the small business community and consumer and trial bar associations. Members of our group, the National Machine Tool Builders' Assn., suffer plights typical of many small businesses. One out of every eight of our members is unable to obtain affordable product liability insurance. Another 40% has deductibles or self-retentions averaging $95,000.

The principal opposition to the Risk Retention Bill comes from associations of insurance companies and their agents.

We fail to understand the intensity with which some insurance groups have opposed this legislation. Frankly, the opposition of most insurance carriers and their trade associations comes with ill grace. They testify in Washington that there is no problem, yet in the various state legislatures they sound the alarm of a product liability crisis.

They refuse to provide coverage that over one-half of our members can afford and in the next breath they tell our members that they don't want them to help themselves.

We think that this conduct is very shortsighted indeed. The Risk Retention Act is a very modest proposal to address a very narrow, albeit serious, current problem. Others have come forward with much more extreme and wide ranging proposals which the manufacturing and distributing community have generally not supported in the past. But now our members' backs are against the wall, so to speak.

We think that the opposition of these insurance groups is also very shortsighted from their own business perspective. Apparently they fail to realize

Continued on next page

speaking out

Bridging the generation gaps

By Peter Downes

Comical Onion?

Even the old line insurer Commercial Union has entered the 20th century. Shouldn't we all, asks Peter Downes?

EARLY IN MY CAREER, I worked as a fire insurance rating clerk (in American parlance that would be underwriter) in an office located on Threadneedle Street in the heart of the city of London. As with so many jobs of the kind, after some smart organization first thing in the morning, work would be completed for the day within an hour or so whereupon we would sit around swilling tea until such time as the typists sent the work back.

During our interminable discussions about other insurance companies, all the aged and hoary jokes about them would be trotted out once more. One of these related that when we would get our just desserts and would be sent to hell, the first thing we would see when we got inside would be a Royal Insurance Co. agent established on one side of the street and a Commercial Union agent on the other.

We never mentioned the Commercial Union by name, at least not without an apology. Those who worked for that august institution said they worked for the C.U. and we ordinary mortals employed by other companies sophomorically referred to it as the Comical Onion.

Old memories stay with me so that when I read that the butt of long ago jokes had actually done something imaginative, I felt a small shock of surprise, the kind of shock one might get when told that a staid middle-aged spinster of one's acquaintance has run off with a character of doubtful virtue and no visible means of support.

The Commercial Union has done this to me twice within the last year or two. I noted the first incident with mild surprise but never paid much more attention than this at the time. On that occasion, it was announced by the Commercial Union that it had decided to revamp completely its method of underwriting automobile insurance. There must have been some merit in what was being suggested because the Massachusetts insurance commissioner promptly condemned it. I never followed the outcome of the suggestion and for all I know the idea may have been stillborn. What intrigued me then and now, however, was that an old line insurance company had shown initiative and suggested innovation.

I find it hard to recall the last time anything like this had been done by an insurance company. This may happen from time to time but the only instance I can remember offhand was the establishment of ESIS by the Insurance Company of North America. ESIS has done nothing new since the services it provides have always been available from other sources. The innovation in this case was that management of INA recognized the value of self insurance services to risk managers and others and instead of condemning a departure from classical methods decided that since it could not beat the system, it would be as well to join it. Few insurers are capable of thinking like this.

And now the Commercial Union has done it again. In itself it was no earth shaking event and it probably went unnoticed by most risk managers. What it has done this time is to appoint a former president of the Independent Insurance Agents of America to the position of senior vice president in charge of agency operations. The appointee is George T. Fraizer, who will continue as head of Anderson-Frazier Agency of Hope in Arkansas, but he will live in Boston.

There are doubtless many reasons why the Commercial Union made this appointment. Of two which have been mentioned in particular, one is an awareness of the inroads that various arms of government are making in their efforts to destroy the business of insurance. The other is that the company is very much alive to the fact that agents are being inundated with paper work that seems to be growing at exponential rates. Obviously, neither agents nor company will get anywhere unless they have a full understanding of their mutual problems. So who better is there than a functioning agent to bridge any communication gap between the parties?

Needless to say, none of this may work. An outsider who has not grown up inside the company itself may find that what he has to say will be stolidly opposed by those who have been sitting around the company for years and who will resent an intruder telling them what to do. But yet, the opportunity is there to do something of value and I for one shall be interested in hearing how it all works out.

Why should this interest a risk manager? My answer to this question is that anything which happens in the insurance world may have its effect on me, however indirectly this may occur. Most risk managers are not too much interested by what is happening in the world of personal lines and small business insurance and in all probability few of us employ the services of a small independent agent. Nevertheless, their problems to some extent are the problems of all of us.

The way I see it, if state and federal governments do succeed in socializing and destroying the business, as officials and legislators like Sheeran, Ingram and Metzenbaum are assiduously trying to do, then as soon as they have succeeded they will start looking around to see who will have escaped their net. It is not hard to suggest who will be their next target.

Therefore, one can only commend an insurer who has taken a positive step to help itself and its agents. And if it comes up with another innovative idea, I will foreswear telling juvenile jokes about the Comical Onion. ■

Peter Downe's satire and humor on insurance issues regularly appear in the Perspective section. He is manager of insurance at American Trading & Production Corp. in Baltimore.

Insurers ignore small business needs

Continued from previous page

that this proposal not only will not take business away from them, but also will in fact create new areas in which commercial insurers can service product sellers' needs.

We recognize that the regulation of insurance has traditionally been a matter generally left to the discretion of the individual states. However, private insurers recognize the interstate complexion of product liability and set rates on a national, not a state-by-state, basis.

We do not now advocate, nor does this bill propose, that federal legislation completely pre-empt state regulation of insurance companies. Rather, what this bill proposes, and what we strongly support, is the rational recognition and treatment of a national problem with a national solution.

The overriding objective of state insurance regulatory systems is to ensure the solvency of commercial insurers. Admitted to transact the business of insurance, these insurers are authorized to issue policies to the public at large.

The states seek to meet the objective of protecting the public from insolvent insurers by:

- Requiring substantial insurer capitalization.
- Establishing complex reporting systems designed to provide early warning of potential insolvency problems.
- Requiring detailed rate and policy form regulation.
- Requiring insurer membership in state insurance guaranty funds to protect the public against insurer insolvencies (in most states).

While these requirements are directed at commercial insurers, they effectively preclude the formation of risk retention groups—even in the two states (Colorado and Tennessee) which permit the incorporation of domestic captives. Of course, captives can currently be formed offshore, but this only leads to a flow of capital out of this country.

By contrast, the risk retention groups which this bill authorizes would not be in the general insurance business and therefore logically should not be subject to all of the many regulations imposed upon full line commercial insurers. Thus, the Risk Retention Act must be viewed as a form of regulatory reform in that its net effect is to reduce regulation, even though the regulatory authority would be transferred to a federal agency.

The bill does subject approved groups to very stringent requirements, appropriate to a cooperative risk pooling arrangement which deals with its own members and does not offer insurance to the general public. In addition, the House very wisely included a four-year "sunset" provision in H.R. 6152. This obliterates an argument by the bill's opponents that even if no groups are formed the Commerce Department will mischievously seek ways to regulate the insurance industry from Washington.

The alternative insurance vehicles which would be created by virtue of the Risk Retention Act in no way serve to put commercial carriers at a disadvantage. Moreover, this proposal provides competitive incentives which can only benefit all consumers.

A comment concerning the applicability of the antitrust and security laws also seems particularly relevant at this time.

The federal antitrust laws would be applicable to risk retention groups, their members and member affiliates, notwithstanding the general commercial insurer immunity provided by the McCarran-Ferguson Act. However, the later immunity would in no way be affected by this bill.

My point: Risk retention groups will be regulated to the extent necessary to protect their members and to the degree required in the narrow area of providing a competitive option to commercial insurance carriers for product sellers in search of affordable product liability coverage.

Moreover, the existence of this system will serve as a brake on future inequities in insurance underwriting practices. In a very broad sense, the bill is a modern consumer protection act.

We urge its speedy adoption by the Senate. ■

James H. Mack is public affairs director of the National Machine Tool Builders' Assn. in Washington D.C.

Don't fear broker's appeal to higher-up

By KATHRYN J. MCINTYRE

CHICAGO—Risk managers wielding facts and senior management's confidence can knock the rungs out from under a broker who goes up the corporate ladder to protect an account.

Risk managers who are confident of their control over the risk management program also suggest keeping senior management informed of major changes in brokers to prevent a losing broker from gaining a toehold with a call upstairs.

"I keep my boss informed of major account movements," says Bruce Fowler, corporate risk manager at ATO Inc. in Willoughby, Ohio. "I don't have to, but I don't want there to be any surprises. I keep my boss wired in."

Risk managers expect a broker in danger of losing a major account to use every method he can to keep it—including an appeal to senior management.

Keep calm

"An emotional risk manager can get himself into trouble," says Duane Allen.

"This is not infrequent," says Duane Allen, assistant treasurer at Hanna Mining Co. in Cleveland. "Usually it's top management to top management and the broker is emotional, he uses a loyalty appeal."

The risk manager's best response is not to counterattack or be emotional, Mr. Allen says. "An emotional risk manager can get himself into trouble." He runs the risk of breaking the cardinal rule of corporate hierarchy: "Never knock top management to top management."

Instead, the risk manager should "show your actions are for the good of the company. Don't make a personal attack. Let them know the factual situation, your position," Mr. Allen says.

"I've not been in that position, but I can imagine the risk manager's first reaction is unhappiness," says Richard P. Ackerman, director of asset and risk management for R.J. Reynolds Industries Inc. in Winston-Salem, N.C.

A risk manager needn't be concerned, however, if "you've done your homework, can substantiate your position and have the confidence of senior management," he said.

A risk manager lacking the confidence of senior management "has bigger problems than brokers going over his head," Mr. Ackerman contends.

"I have confidence in senior management and they have confidence in me," he notes. "They won't be responsive to a broker unless they have doubts about the risk manager."

"Every risk manager has the burden to prove himself competent to senior management," adds Joe I. Cline, risk manager at Republic Steel Corp. in Cleveland.

CALLING THE SHOTS

Having won their confidence, he needn't fear a call from the broker to his boss.

It helps, though, to keep senior management informed of major changes about to be made in brokers, risk managers agree.

Mr. Ackerman at R.J. Reynolds doesn't directly handle brokerage relationships anymore, but approves the decisions of his staff. "I need not pass it above me, but if there's a major change, I'd notify management so they don't get grief about something they don't know anything about," he says.

Mr. Cline at Republic Steel does the same. "If we were to make a major change, I would tell senior management. I don't have to tell

Continued on next page

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MOAC has the depth

Don't be afraid of broker's talk with higher-ups

Continued from previous page
them but it helps because then the decision isn't being made in a vacuum. And if someone is out on a golf course and the topic comes up, management can say, 'I know about that.' "

This could even work to the risk manager's advantage, contends Mr. Cline, a firm believer in lasting relationships with brokers. If the company is unhappy about a split with a broker, the management golf partners might see a way to prevent the breakup, he says.

Casual discussions at golf courses, however, are different from direct appeals to senior management when a broker wants a risk manager's decision overruled. Risk managers can discourage such appeals on a day-to-day basis by letting the broker know it will be a waste of energy.

"I tell brokers they can call my boss, but here's the seat of decision-making," says Mr. Fowler at ATO.

Risk managers should also avoid encouraging the vendors to bypass them, says James Mascarella, vp for insurance at Gould Inc.

"There are risk managers who create situations in which a broker is justified in going over his head to higher management," he says. Insurance buyers who invite bids on coverage that has already been planned with another broker or who reject a bid without a clear reason are inviting another appeal to the buyer's boss, he explained.

"I've come to expect somebody trying to go over my head as part of the natural course of events," Mr. Mascarella added. "Some broker is always going to be on the same golf foursome or in the same social club as your boss and they are always going to try to use that leverage.

"I don't like it, but I've learned to live with it."

If ever overruled on a decision as the result of a direct broker appeal to his boss, Mr. Fowler says: "I would resign. I wouldn't work for someone who agreed to that.

"But I'm not working for a firm like that."

Risk managers, however, shouldn't blame a broker for calling senior management when he's trying to save an account, it's agreed.

"I've never been a broker, but I can understand him making every effort to keep an account," Mr. Ackerman says.

"Brokers have a right to protect their business, and income," says Mr. Cline of Republic Steel.

"It's logical," says Mr. Allen of Hanna Mining. "It's not unethical at all."

Don't be afraid of broker encounters with your bosses, risk managers counsel. "Brokers have called management when losing an account; all I've heard was 'Give the broker a fair hearing,' " Mr. Fowler says.

There might even be times a risk manager should expect a broker to go to his boss.

"If a broker honestly believed I was doing something detrimental to Republic and I couldn't or wouldn't understand him, he should go over my head," Mr. Cline says.

"If a broker came to me and said, 'You aren't giving me a fair hearing, I'm going to your boss,' I'd say: 'Let's go together,'" Mr. Ackerman says.

Contact between the senior management of the brokerage house and the risk managers' senior management also shouldn't concern risk managers, it's agreed.

"It's part of the business world, cementing relationships," says Mr. Ackerman. "Lawyers and accountants do it and so do brokers." ■

CALLING THE SHOTS

"Every risk manager has the burden to prove himself competent," says Joe Cline (left), while Richard Ackerman stresses respect between senior executives and risk managers.

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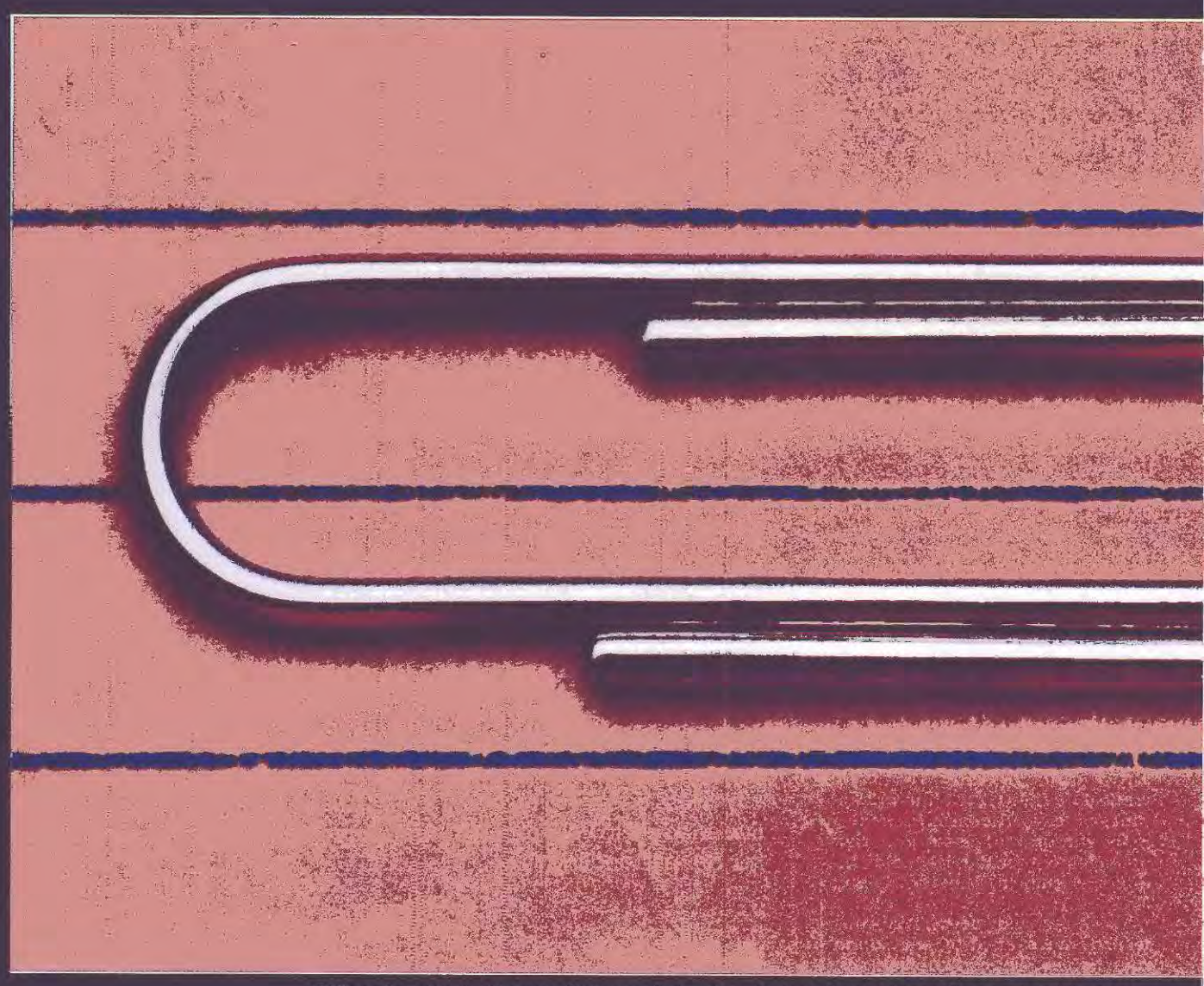

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Wrestling with your brokers' mistakes

By LEN STRAZEWSKI

CHICAGO—Risk managers are willing to wrestle with brokers to settle errors and omissions complaints and keep mistakes out of court. But if they must, the executives will take the producers to the mat with lawsuits.

Bruce Fowler, corporate risk manager of ATO Inc. in Willoughby, Ohio, a former broker, has never had to sue a broker "but would if I had to."

"If anything goes sour beyond a certain point, I will be looking for comfort," he told *Business Insurance*.

Comfort doesn't mean personal relaxation, but restitution for his corporation. That's the way most complaints against brokers are settled—by careful negotiation that weighs the costs and values of service against the seriousness of a mistake.

Mistakes do happen, say risk executives around the country, and so do lawsuits when the negotiations fail. Marsh & McLennan, for example, is currently being sued for fraud for its part in placing a computer leasing risk (*BI*, Aug. 20, 1979).

One risk manager also told *BI* that his firm could sue his broker if a present problem over wrong coverage and limits is not resolved soon.

Major brokers admit mistakes can happen, but they work hard to preserve a sound relationship.

"When you've developed a relationship with a broker and most of the job is well done, you don't want to throw the baby out with the bath

water," Mr. Fowler remarked.

James Mascarella, insurance vp for Gould Inc., agrees there are "many many courses of action before lawsuits, but lawsuits are inevitable with the expansion of tort laws. Why should brokers be immune?"

Brokers, he explained, should be aware that growing professionalism in risk management demands higher levels of professionalism from brokers.

"However, more problems are likely to occur in firms that do not have insurance managers but who rely heavily on a broker's expertise," he added. "Obviously the risk manager is responsible for mistakes. It's the corporation's decision to sue."

Joe I. Cline Jr., manager of the risk management section at Republic Steel in Cleveland, takes a hard stance on the issue and lets his brokers know his policy at the start of their business relationship.

"If you mess up, you are going to pay the bill," he tells brokers. "We expect professional services and professionals should be held accountable."

Beneath the gruffness of that policy, human and business understanding still prevail. Mr. Cline has never had to file a suit against a broker, though at a previous job he "had to sit down and have serious discussions" with a broker over a botched-up job.

Inadvertent misrepresentation of a risk to the underwriter is the biggest danger area, Mr. Cline says. It could happen because the risk exec doesn't think some aspect of the risk is important or unusual enough to tell the broker about, or the broker doesn't think something is important enough to relay to the underwriter.

This can return to haunt the firm if an insurer tries to deny coverage on the grounds of misrepresentation. Mr. Cline beats the problem by meeting the underwriters on his account.

"We almost insist on it. It helps eliminate the problem of someone misunderstanding," he said.

The relationship between broker and risk exec is the key to avoiding problems, agrees Mead Corp. risk manager T.A. Reiff. He tries to maintain frequent contact with his account executives.

But the exposure for brokers continues to grow as they expand services, Mr. Reiff notes. "Claims and loss prevention services do open up more potential for problems. On a couple of occasions I have had to chat with them about claims because I thought they were slow."

Sometimes the fees for service come in higher than estimated, and that's plenty to arouse the ire of a cost-conscious risk manager.

"If they're doing a service for a fee of $10,000 and when it's done they say it cost $30,000, I tell them,

Legal problem?

New services by brokers are increasing the likelihood of foul-ups and may create more lawsuits, say insurance managers.

'You eat the $20,000,' " says Richard P. Ackerman, director of asset and risk management at R.J. Reynolds Industries Inc. in Winston-Salem, N.C. "In general, brokers can find a way to do that on large accounts."

But buyers can expect a tussle from the brokers before they receive cash in hand. The large brokerage houses usually have an organized method for tracking and stopping errors and omissions losses led by a senior executive.

E&O insurance limits are high for the big brokers—"whatever the market will let us buy," said one senior brokerage executive. Competitive markets in London, where the coverage usually lands, keeps limits as high as $50 million.

But large deductibles, ranging from $500,000 to $1.5 million, make brokers reluctant to pay claims without a serious investigation.

"As soon as there is a complaint, there is an immediate investigation," explained Reginald Thayer Jr., Marsh & McLennan vp who helped plan the broker's current coverage. "If the problem looks like it may have some substantial cost, our legal department gets involved immediately."

M&M maintains a file on the problem so that if a claim develops it already has the case fully researched.

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Continued on next page

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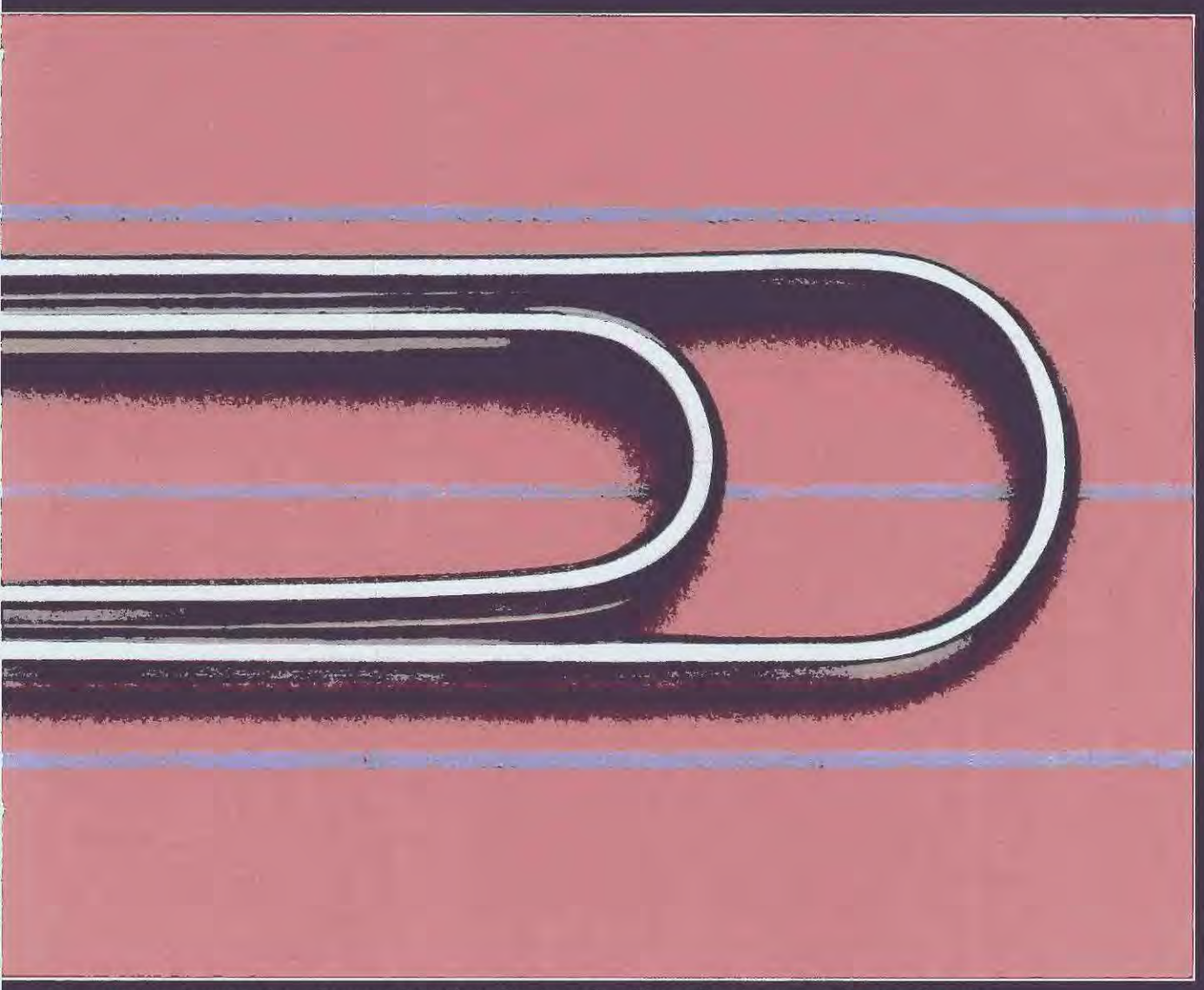

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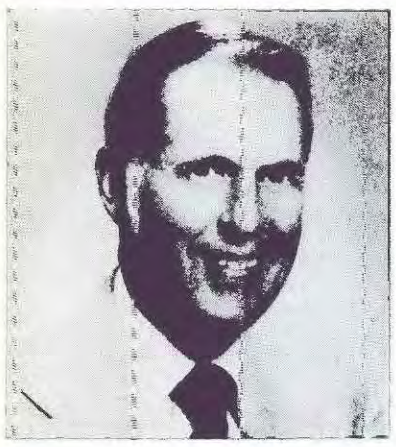


Fixing errors

Broker teamwork can prevent serious errors, says broker George Parkes (left).

But risk execs should seek restitution if a mistake does occur, says Bruce Fowler.

Pin down errors, talk to brokers before filing suit

Continued from previous page

viewing procedures for errors and omissions investigation under the auspices of its legal department, but would not go into details for *BI*.

Alexander & Alexander also offered no comment, but a division of the broker is embroiled in a lawsuit over captive management services in Bermuda. A&A reportedly has E&O coverage placed through its Shand Morahan subsidiary and reinsured with Lloyd's.

Though the potential for error is clearly acknowledged by the brokers, Reed Stenhouse, the largest insurance broker in Canada with many offices in the U.S., was pleased to report that it hasn't had an E&O claim since its big U.S. expansion push.

"We're probably a little different from some of the other brokers," explained senior vp George Parkes, a regional manager based in St. Louis who is also in charge of all U.S. errors and omissions investigations. "We have a senior executive continually auditing the work of our younger teams on large accounts.

"That way we can usually catch any problems early and upfront before claims go unpaid. The account auditor keeps in nearly daily contact with the risk manager," he said.

"The likelihood of lawsuits is increasing, though," he said. "And the services brokers provide create new exposures, particularly in loss prevention and claims for fees."

But the biggest problem occurs when a risk manager orders a particular coverage and an accident occurs before the coverage is placed, he explained. "That's just a big gray area and nobody can really tell who's responsible without a check," he said.

Reed Stenhouse in the U.S. says it has not had a successful claim against it in four years.

The broker has a smaller than usual deductible of $500,000 on coverage placed in London, with Royal Insurance Co. and Commercial Union participating in the primary layers. Excess insurance is also placed in London.

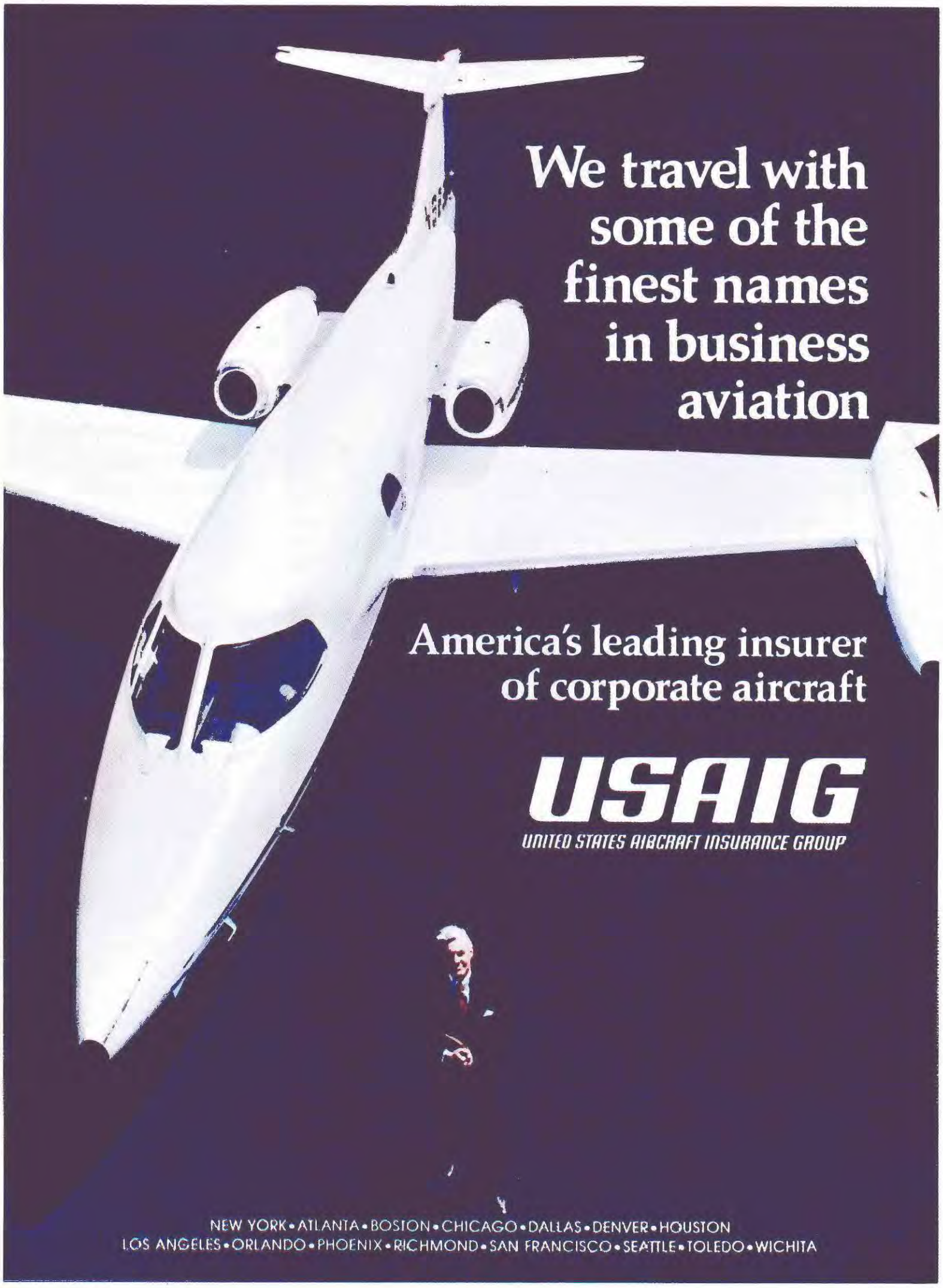
"We like to solve the problem before it gets big," said Mr. Parkes, "because when it gets to be a legal matter, it's out of the broker's hands." ■

Frequent errors

Duane Allen advises risk execs to watch for these common mistakes by brokers:

- Looking at an order and getting the wording messed up; either the endorsement is gone or there's an exclusion on the policy.
- Miscalculation of premiums.
- Letting a claim denial go through when the claim should be covered.
- Improper, incorrect or distorted information provided to the insurer. This can cost the risk manager more in premiums and even the coverage.

If you find an error, you should put it in writing to the broker, not rely on a telephone call. Always carefully review policies.



Benefit managers take the control of plan narrative

By STUART EMMRICH

CALLING THE SHOTS

NEW YORK—Benefit managers in many of the nation's largest corporations are taking control of how the employe benefit package is explained to prospective and current employes.

Gone are the days when prospective employes would get a cursory explanation of the company's benefits program from personnel managers who were probably more interested in haggling over salaries than going into great detail about long-term disability coverage.

Benefit managers say they and their departments are the ones who put together the brochures and books on the benefits for personnel departments to use when meeting with prospective employes.

Benefit managers are also the ones who run the orientation programs on benefits. And they are the ones who are responsible for putting together the audiovisual part of the new employes' orientation and the literature that explains the benefits.

"I and my staff have final signoff on the galleys," says Margaret Gagliardi, vp of employe benefits at American Express Co. in New York. Her department writes the booklets and "if there are specific changes in benefits, we write the supplements to explain them. We make sure everything is correct."

This new control over how the company's benefits program is described to employes and prospective employes prevents any misinformation from being released and keeps any benefit plans

Lending a hand

Campus recruiters need training to explain employe benefit plans to prospects.

or details from "falling through the cracks," explain benefit managers.

There's no problem stepping in and assuming the job. Recruiters and personnel people are thankful for the help, benefit managers say.

American Express Corp., for example, radically changed in the last year the method it uses for informing potential employes of its benefits when Ms. Gagliardi realized that the program wasn't being touted well enough.

"When we are recruiting on campuses," she said, "the prospective employe is given a book about the company that contains a blurb in the back about the benefits programs. We realized that there was an obvious gap there."

Ms. Gagliardi and her staff put together a brochure that explains in greater detail the company's benefits. The brochure, 20,000 copies of which were printed by the company, is only used for recruiting.

The brochure has a twofold purpose: to expand on the previous blurb in the company booklet and to prevent chatty personnel managers from possibly misstating what the benefits actually were.

"My personal feeling is that the people who do the interviewing don't have the facility to explain the benefits programs in a way that our benefits people might like them explained," Ms. Gagliardi said. "In the past, that has led to certain expectations that were false."

Continued on page 66

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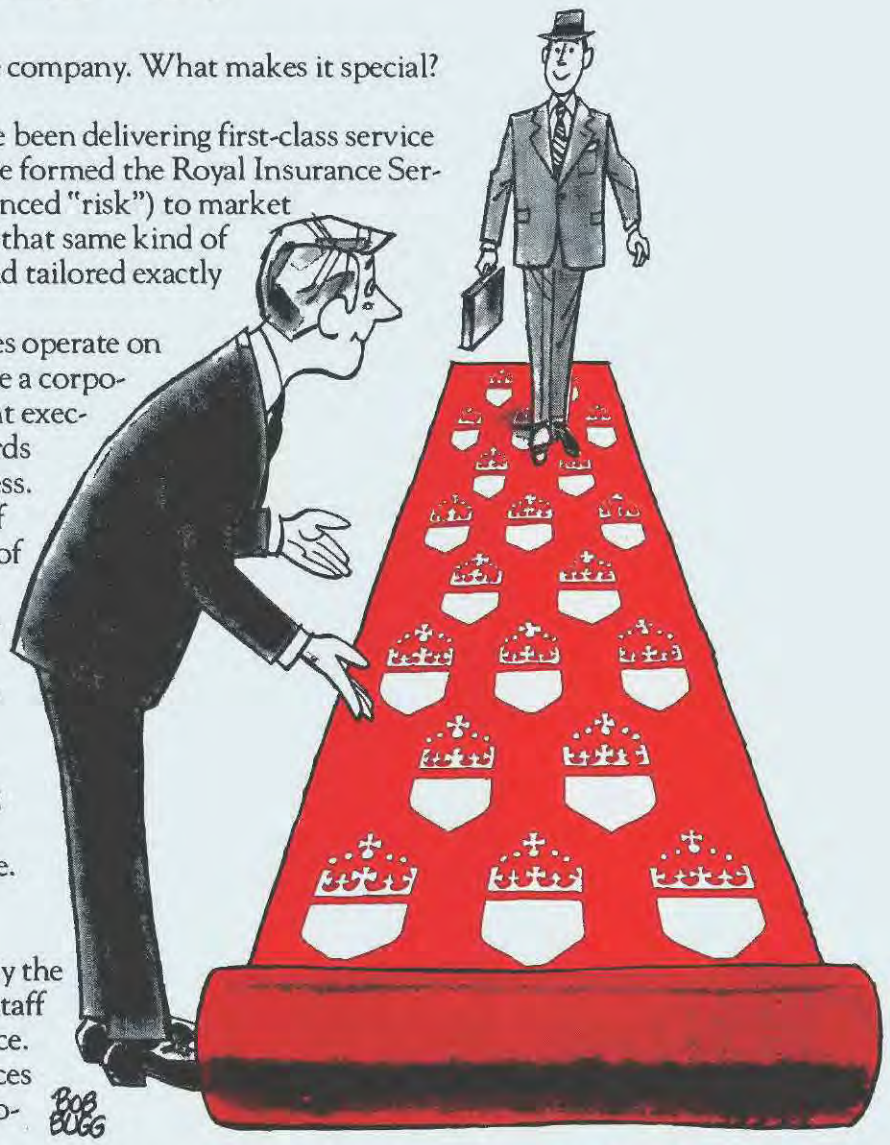

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Writing the scipt for benefit stories

Continued from Page 65

"If you rely on a nonbenefits person to do that, you are going to have those sorts of problems. If you have something that can be disseminated succinctly and accurately, then it helps everyone involved."

The recruiters' response to the booklet has been "just incredible," Ms. Gagliardi says. "They say they have always needed something like this."

Although also relying heavily on a brochure prepared by its benefits department, the St. Regis Paper Co., with about 120 locations around the country, also periodically makes sure that the people giving out those brochures understand exactly what is in them.

Andrew Bandstra, manager of benefit administration at St. Regis in New York City, said his office annually brings together the personnel people from around the country for a joint meeting to go over any changes in the benefits programs and also to answer any questions that might have come from employes.

The company also holds several regional meetings a year to make sure everyone is up-to-date and understands the benefits.

The booklet, a 40-page publication that includes for present employes a computer printout about their individual benefits, is revised every year to reflect changes in the program and to answer questions that have come from employes.

"We are always looking for better ways that we can explain our program," Mr. Bandstra said. The company is also considering putting together an audiovisual program on the benefits offerings.

American Can Co. of Greenwich, Conn., and Tenneco Inc. of Houston use somewhat informal methods of selling benefits to prospective employes, but at both firms benefits department-created programs introduce new employes to those benefits.

Robert Felder, manager of retirement and group insurance at American Can, holds a monthly orientation program to explain the benefit programs and medical options available to newly hired employes. As a backup, a weekly "benefits listening post" is held every Thursday for an hour, where benefits staff members meet on a one-to-one basis with employes who have questions or problems.

The listening post is well-advertized in the company newsletter and through placards placed near the building's elevators every Wednesday. About five to 10 employes use it each week.

It was also simple to arrange, Mr. Felder said. "The biggest problem we had was in finding space. Other than that, it was easy."

American Can also provides employes with a loose-leaf binder that explains various benefit programs in comprehensive detail.

At Tenneco in Houston, the benefits department added an audiovisual program last year to supplement the hardcover booklet on benefits. The program is now shown to all employes who join the company, said Anthony Stewart, manager of employe relations.

The slide show is divided up into benefits the employe can use right now and those that will come to him in the future, such as retirement income.

A recent survey of 800 employes about the audiovisual program turned up praise and some suggestions to make the explanations of the benefits a bit clearer. The suggestions are being incorporated into a revised program, noted Mr. Stewart. ■

Personal attention

Robert Felder meets monthly with newly hired employes to explain the plans.

Final say

Benefit managers are taking the final say on benefit brochures.

THE COST TRAP IN HEALTH CARE COVERAGE.

Do homework before feds come calling

By JERRY GEISEL

WASHINGTON—Doing your homework before the federal government comes calling is the best way to win passing grades when the Labor Department examines a pension plan.

Before regulators are on the scene, "I consult with them on the telephone to discuss what it is they really want to accomplish," says Michael Marra, compliance officer for the Carborundum Co. in Niagara Falls, N.Y. "I'll have a thorough discussion so I can do an extensive preparation and organization of records so there is minimal disruption when the agents come in."

Learning how to cope with a federal pension plan investigation is becoming increasingly important to more firms after the decision of the Labor Department and the Internal Revenue Service, the two agencies responsible for administering and enforcing the pension reform law, to step up the number of plan audits.

Just last month, for example, the IRS began a massive two-year random audit of a good chunk of the nation's 550,000 pension plans. Before the audit ends late next year, some 22,500 plans will be scrutinized for errors in computing pension benefits (*BI*, March 24). The Labor Department, meanwhile, is increasing its audits of large pension plans.

When the feds come calling, don't treat it as a routine matter and leave it to lower-level personnel, advises Claude Dorais, a highly respected Beverly Hills, Calif., pension attorney. "Pay serious attention to DOL's request right away and give it toplevel executive attention early."

CALLING THE SHOTS

Allowing employes who lack an understanding of how a firm's pension plan operates to deal with regulators can have disastrous consequences, Mr. Dorais notes. "If an investigator comes in with a specific question and the employe handling the request doesn't know how to deal with it, he'll probably deluge the investigator with all sorts of information. Pretty soon the investigators have so many questions in their minds that they end up conducting a formal audit in order to resolve what may be a very simple question."

Mr. Dorais advises giving the federal investigators a solid, highly-focused presentation of what they are looking for right away. This strategy seems to have paid off. "So far we have not had a single investigative request turn into a full-scale audit," Mr. Dorais boasts.

Federal investigators' suspicions are immediately raised when a company can't readily produce pension materials and documents, says Steve Schanes, president of a San Diego consulting firm bearing his name.

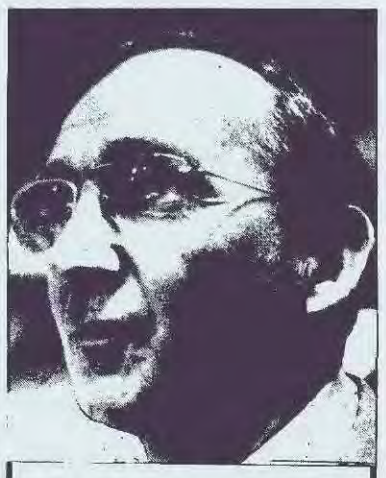
"To say, 'I don't have all the materials: they are all over the place' is evasive and is bound to raise suspicions that there is more there than meets the eye," says the former executive director of the Pension Benefit Guaranty Corp. "Anytime the federal government walks in, you have to prepared," he adds.

Being prepared amounts to good housekeeping, says Lloyd Kaye of William M. Mercer Inc. in New York. Organized copies of actuarial reports, employment records, accounting audits and trustees' meetings should be on hand during an investigation.

When investigators probe a plan and want to look at the books, don't "play games with them," cautions Sherwin Kaplan, assistant to Ian Lanoff, administrator of the Labor Department's Office of Pension and Welfare Benefit Programs. Playing games means holding back on information, Mr. Kaplan says.

"A lot of times a benefit manager will tell an investigator, 'Tell us what you are looking for and we'll get that document.' " Other related documents may be withheld, arousing Labor Department concern.

"Don't hold back. If we are conducting an investigation, we really have to be the final judges of what is relevant and what is not," Mr. Kaplan points out.



Words of warning
"Anytime the federal government walks in you have to be prepared," says Steve Schanes.

Supporting information also aids the Labor Department in conducting a pension plan investigation quickly.

For example, if a pension plan made a loan, the department would be interested in examining records to determine what kind of credit check was made on the borrower.

Labor Department investigations of pension plans can be triggered by an employe complaint about a denied benefit, by an error on Form 5500, the annual pension reporting form, or because the department wants to make its presence felt in a geographic area.

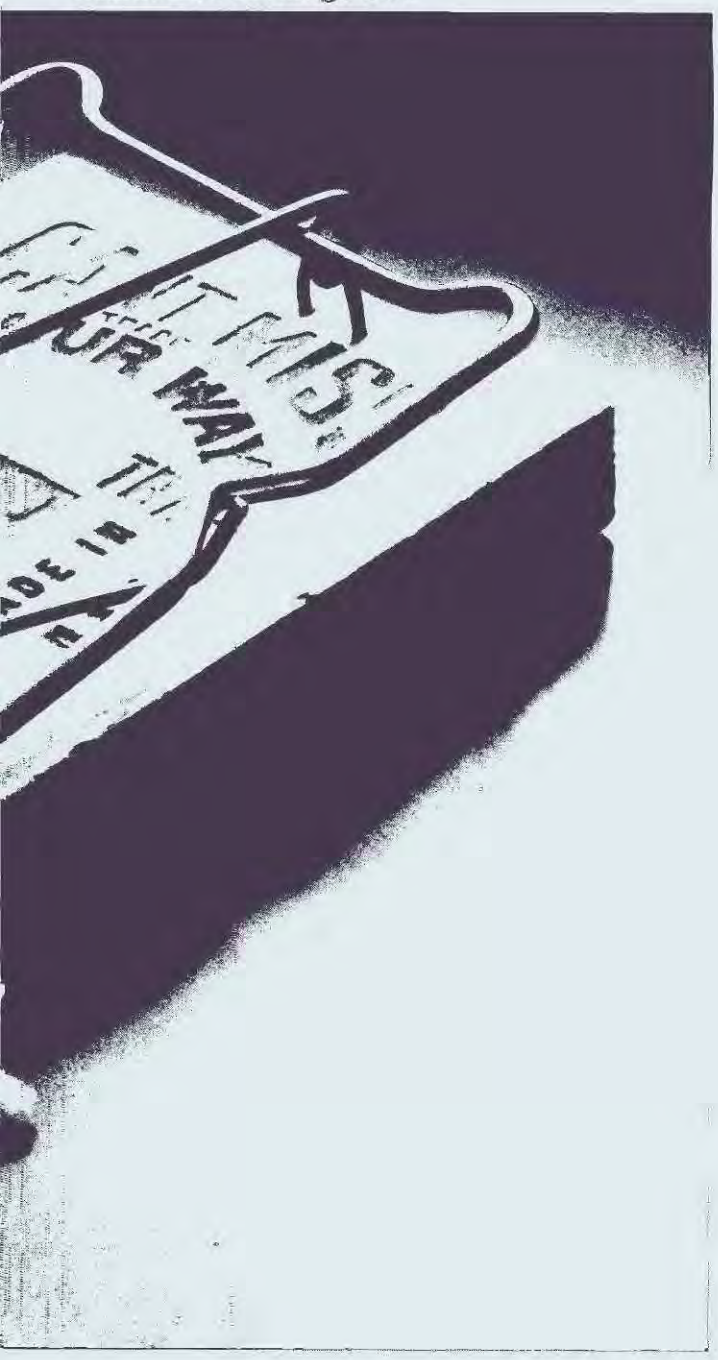
In 95% of the cases, investigations can be conducted quickly with minimal time and expense. But firms that have been sloppy about maintaining records can expect to be hit with full-scale audits with everyone the loser. "They can't throw you in jail, but they can make life very uncomfortable by demanding all sorts of things," says Mercer's Mr. Kaye. ■

Everybody wants to control health care coverage costs. But sometimes executives can make a costly error.

THE PROBLEM.

You see, the cost of health care protection has two basic parts. The cost of benefits, and retention costs, (everything from administrative costs to risk charges).

Some purchasers are caught in a trap by concentrating only on retention costs, which generally are only between 5 and 10% of the total health care coverage bill.



They forget that the really big savings come from holding down benefit costs, which usually make up 90 to 95% of what you spend for health care protection.

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Photo: Elan

Elan

Perimeter Center's disco/restaurant, Elan offers a nightspot atmosphere for RIMS conventioneers, says risk exec Bob Rich.

Atlanta buyers order fine cuisine for visitors

ATLANTA—Gastronomes visiting this city sometimes go home less than thrilled with its culinary offerings, but there is good food to be found in Atlanta and lots of it. A person just has to know where to look.

Often stuck in the downtown area glutted with hotel restaurants and other establishments that depend more on ersatz Southern charm than culinary expertise to draw patrons into their dining rooms, afficionados of good food can go days without finding a meal to challenge their palates.

Fortunately, for the more than 3,000 people expected to attend the RIMS conference here this month, their fellow risk managers who live in this Georgia city are only too willing to offer a few suggestions on where to find a fine meal.

The offerings range from a dazzling Russian restaurant high atop the city to an intimate French bistro. A sleek, well-run Northern Italian spot is also recommended. And, yes, there are enough places serving good Southern cooking to win over any Northerner.

Among the spots Harold Vogel, risk manager at Citizens & Southern National Bank, frequents is Anthony's, a spectacular antebellum mansion. It was transplanted from its rural Georgia home and rebuilt—brick by brick—at its present Piedmont Road location, about a 15-minute ride from downtown.

The food is a mix of Southern and continental cooking, with rack of lamb and veal Oscar among the choicest offerings. Prices are high, but a bourbon with branch water before dinner will probably reduce one's resistance to paying the bill.

Houlihan's, at Lenox Square, also gets a vote of approval from Mr. Vogel. While this place has a good dinner menu, it is probably best known by Atlantans for its crowded "happy hour" that draws many of the city's young professionals.

For a more intimate setting, Bob Rich, risk manager at Gold Kist, suggests Anna-Marie's, a small French restaurant in Tower Place. "The cuisine is just excellent; I have never had a bad meal there," he says. "Anna-Marie does all the cooking herself."

Reservations are a necessity here, because the restaurant only seats about 60 people.

Mr. Rich also recommends Brennan's, a New Orleans-style restaurant that is probably most famous for its elaborate and mammoth brunches, and Élan, a popular nightspot at Perimeter Center that offers a disco for patrons after they have finished their meals.

The downtown area, despite its potential pitfalls, gets a vote of confidence from Bill Sharrow, insurance claims manager for the Metropolitan Atlanta Rapid Transit Authority.

He is especially pleased with Pittypat's Porch, a Southern-style establishment that takes its name from the matron in "Gone With the Wind" and lives up to its title.

Diners usually begin their evening sipping mint juleps in the front porch's rocking chairs and then go inside to gorge themselves on the unlimited hors d'oeuvres of oysters, clams and shrimp.

"I take about everyone from out of town there," Mr. Sharrow said. "The food is great and the bill is not that bad. A regular dinner can run you about $8.50 to $10, which is a real bargain."

For the "best seafood in town," Mr. Sharrow recommends the Harbor House, located in the Hilton.

The Hilton also has two other restaurants that were consistently praised, the Cafe de le Paix and Nikolai's Roof.

Nikolai's Roof, which specializes in food from the era of Imperial Russia, has one drawback though. Reservations usually have to be made two or three months in advance for one of the two nightly seatings.

Eston Walling, risk manager at Royal Crown Cola, gives a backhanded compliment to the Pleasant Peasant, with locations near downtown on Peachtree Road at Phipps Plaza.

"I went there once. My wife loved it, but I will never go back again," he said of the small, country French restaurant. "I'm a meat and potatoes man."

But devotees of the Peasant—and they cram into the place every night to wait an hour or more for a table—rave about the chicken Florentine and the "flowerpot" dessert—a combination of ice cream, cake, fruit and chocolate that will push any weight-watcher off his or her diet. No reservations are accepted here.

Mr. Walling, his wife notwithstanding, prefers the food at the Mansion, another refurbished Victorian home near the downtown area and the Abbey, a popular restaurant located in a converted church featuring excellent continental cooking, waiters in monk outfits, a spectacular dining room and high prices—an average minimum of $25 per person.

'I take about everyone to Pittypat's Porch. The food is great,' says Atlanta risk manager Bill Sharrow.

For Italian food, Bill Quay at Coca-Cola recommends Bugatti's, a toney restaurant located in the Omni. The Northern Italian cooking has never failed him, he says. "One of the best places I have ever been to in town."

Joseph's, a New Orleans restaurant on Piedmont Road that has a large following and a long reservation list, is another of Mr. Quay's favorites.

Also frequently recommended by risk managers: the Midnight Sun, an architectual wonder located in Peachtree Plaza that specializes in Scandinavian food; the Sundial, a revolving restaurant atop Peachtree Plaza that gives a panoramic view of the city; the Coach and Six, a pricey American-style restaurant on Piedmont Road, and Victoria Station, a good place for steak, also located on Piedmont Road.

Almost all the restaurants require reservations. ■

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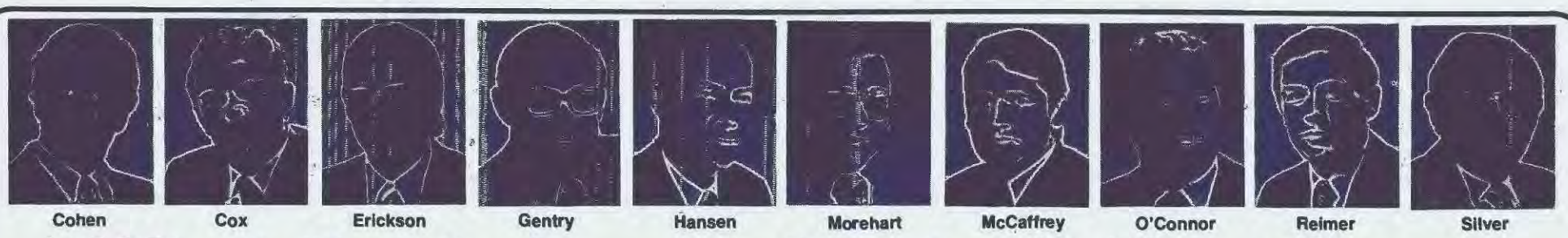

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What the judges said about the winner

"Good delegation, coordination. Good new foreign insurance program including uniform engineering standards. Personally involved in reinsurance marketing and study of liability financing."

"Very sophisticated for his age. Small staff for scope of operations."

"His activities in the most recent 12 to 18 months make him the best candidate."

CALLING THE SHOTS
Risk Manager of the Year

"Has had a definite positive impact on a major risk management program."

"Brings other technical expertise into risk management effort."

"Clearly a leader in the risk management profession."

"Outstanding record as a risk manager."

Hallett named top risk exec

Continued from page 1

ment in 1970 when he joined Joy Manufacturing Co. in Pittsburgh as an insurance administrator. He moved up only 1½ years later to director of corporate risk management.

While at Joy, he was director of Wrenford Insurance Co. Ltd. and president of Quantum Insurance Co. Ltd., Joy's two captive insurers.

Mr. Hallett was chosen to receive the Risk Manager of the Year award for 1980 from a field of 17 nominees who are insurance and risk management professionals from six large and four smaller corporations, four government bodies, two universities and one hospital nationwide.

Among the other organizations whose risk managers were nominated for the annual award were food processors, energy utilities, banks, chemical processors, diversified holding companies and metal products fabricators.

Choosing the winner were 10 judges from the risk management profession, the insurance underwriting community, the insurance brokerage industry, academe and the consulting profession.

Mr. Hallett was nominated by Mr. Cone, GM's retiring risk manager.

This is the third year *Business Insurance* has presented an award to a risk manager judged to have performed exceptionally well. Howard T. Weber, director of insurance for 3M Co., received the first award in 1978, followed by Edward L. Erickson of ABC Inc. in 1979.

Judges who chose the 1980 Risk Manager of the Year included risk managers Mr. Erickson of ABC, Edward D. Hansen of Trans Union Corp., and Ralph E. Gentry of the Times-Mirror Co. Representing corporate management was Kenneth F. Reimer, executive vp of Lehndorff Group in Dallas.

From academia was Thomas B. Morehart of Arizona State University, professor of insurance. From the insurance brokerage community were John F. McCaffrey of Frank B. Hall & Co., and William C. Cohen, president of Insurance Management Associates.

Leonard J. Silver of First Risk Management Co. in Philadelphia represented consultants.

Insurance company judges included John R. Cox, INA Corp. president, and Hal B. O'Connor, senior vp-operations of American Mutual Insurance Co. ■

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Photo: Bob Benyas

In recognition

GM executives turned out to show their appreciation for Thomas Hallett (holding plaque) at a luncheon honoring him as *Business Insurance* Risk Manager of the Year for his achievements with the company. From left to right are: Daniel Bieniek, manager-liability risks; Robert M. Cone, retired director of the insurance/pension section; Mr. Hallett; Roy J. Clinton, assistant to the director of risk management; Roger B. Smith, executive vp; John B. Cook, assistant treasurer; John R. Edman, vp-finance.

Hallett's revamp helps broaden GM's insurance

Continued from page 1

policy written personally by Mr. Hallett. The master policy, brokered overseas by Marsh & McLennan and domestically by Johnson & Higgins, combined coverage formerly contained in about 63 different property policies on overseas risks.

Mr. Hallett is understandably proud of the results, reflecting M&M's help with reinsurance of the IRI risks, put together by GM and IRI, as well as the application of uniform HPR fire engineering standards companywide at GM.

CALLING THE SHOTS

Risk Manager of the Year

In some foreign countries, GM relies on INA to issue local policies; INA takes some risk and reinsures with IRI.

"We're certainly not done yet, but we've come a long way," says Mr. Hallett, checking a color-coded chart showing only a handful of countries where property insurance is yet to be melded into the worldwide plan. Most involve joint ventures, risks that aren't under General Motors' insurance control.

Worldwide change

Beginning with a Paris meeting of European managers in November 1978, Mr. Hallett revealed the new consolidated property insurance plans to GM managers around the world, revealing too that worldwide liability and marine programs were to follow. In March 1979 the combined property program was finalized.

GM is trying to preserve some of the local relationships and nationalistic ties within its new program. Local managers are given the option of continuing to do some business with local banks and insurance companies in foreign countries if they choose. But most operations are asked to take higher deductibles (upwards of $250,000) than they had formerly taken (zero to $250,000), applying standard deductibles to each of the 43 overseas facilities.

This was the first step for GM on the road to worldwide property, worldwide liability and worldwide marine insurance programs. M&M had previously handled only nominal business with General Motors. It was the only "new" broker chosen to participate in the revised GM programs, rounded out by J&H on domestic property business, J&H on worldwide marine business and Alexander & Alexander on the worldwide liability account (including product liability, general liability and U.S. insured workers compensation).

Meanwhile, Mr. Hallett was working with Royal Insurance Co. (Royal Globe in the U.S.), another long-standing GM insurer, to complete a worldwide liability policy. He wanted to consolidate another batch of fragmented policies and draw heavily on GM subsidiary Motors Insurance Co. as a participant in the risks with Royal.

Limits doubled

In the end, Mr. Hallett doubled nearly all of GM's liability limits, had a program based on an elaborate retrospective rating formula that offered GM the ultimate in cash flow advantages and generated savings of 20% on liability premiums. The liability master plan, dubbed Reserve Asset Management, is constantly being fine-tuned to stay within Internal Revenue Service rulings to qualify for legitimate premium deductions.

GM and Royal establish premium rates for each GM operation worldwide based on its size, the country where the operation is lo-

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cated and the financial needs of the operation. The premium is based on one of three formulas: retrospective rating, modified schedule rating or guaranteed cost.

GM's liability program includes very high self-insured retentions. Royal's primary policy extends up to $50 million or so, topped by a number of excess umbrella liability policies with undisclosed limits.

Arriving at the best cash flow program involved studying compensating balance arrangements, retro notes, investment income and the impact of each of these plans on taxation and on reports to shareholders. Mr. Hallett won't disclose whether GM's insurer gives its giant policyholder credit for investment income on premiums paid and reserves being held in GM's name. Generally speaking, he notes, RAM uses an insurance mechanism based on retrospective rating.

"The liability program involves the biggest piece of our money. This is where we have the biggest dollars tied up. The task force we've set up (including people from risk management, tax and legal departments of GM) continually monitors legislative and tax issues," Mr. Hallett says.

Reinsurance expanded

As if these consolidations weren't enough, Mr. Hallett, in concert with his department managers, also negotiated new facultative reinsurance programs for Motors Insurance Co., a $500 million operation in its own right. They expanded to all GM construction projects the GM-controlled wrapup insurance program covering contractors' risks during building projects, saving $20 million last year alone.

The administrative operation in the Motors Insurance Co. personal risks division was reorganized, and programs to generate more employe participation in MIC insurance programs to improve profits were planned. And they negotiated a highly unusual reinsurance arrangement with GM's surety underwriter. The contract provides that half of all bid bond and performance bond business written for GM be reinsured with Motors Insurance Co. The plan saved more than one-third of the annual premium cost of surety bonds last year.

London visit

Most recently, Mr. Hallett visited underwriters in London to discuss D&O insurance. He convinced them to expand GM's limits to more than $50 million and remove most standard exclusions from the policy. The ones they wouldn't de-

Continued on next page

Trace costs of services

DETROIT—Conserving cash involves tracing all the outflows, then inspecting and unbundling all the incremental costs of services, says Tom Hallett.

He not only wants to know how much of his premium dollar is going to pay for claims administration by the insurance company, but he also wants to know down to the penny how much the "average" claim costs to administer until it is settled.

Cash conservation at GM also means constantly monitoring loss recoveries from insurers. "We are always negotiating advance claims settlements, some in the magnitude of $10 million or more, so they aren't insignificant," he says.

"When we're under orders to conserve cash we look at the possibility of increasing our retentions. If we have a dollar-trading situation where we're putting a lot of money up front in premiums, we may be able to achieve substantial savings."

When GM puts a freeze on hiring and budgets are cut, Mr. Hallett scrutinizes the tasks performed by each person in the department and eliminates unnecessary clerical tasks.

Most recently, one such study led to GM's transferring inland marine claims handling to Johnson & Higgins, freeing several people at GM to do other jobs.

"In a time of constraints, we want to retain control and keep our sophistication, but get rid of the junk work."

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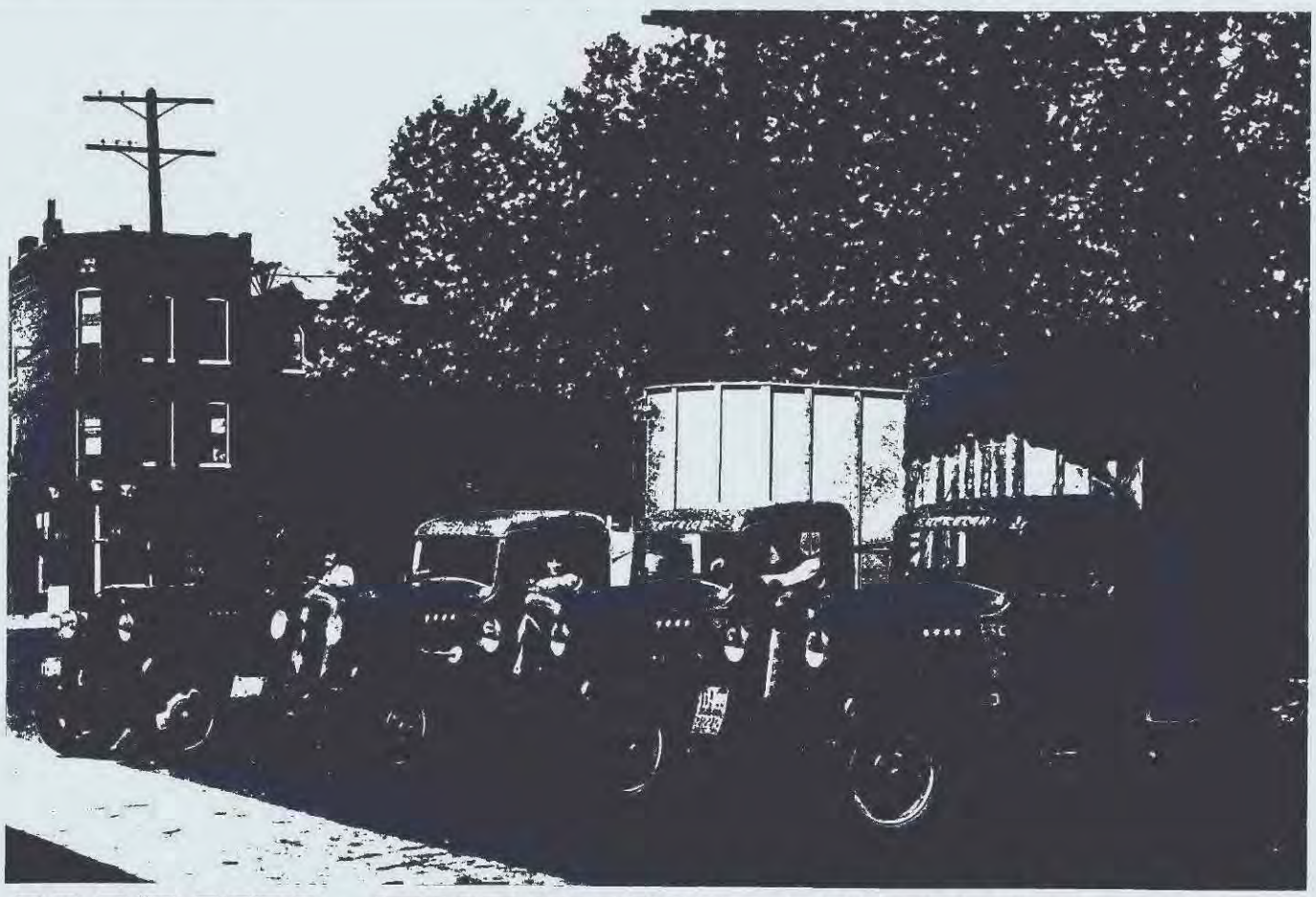

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Get guidelines on risk

One of the major problems many risk managers have is they aren't bold enough to push top management into clarifying their willingness to bear risk, says Tom Hallett.

"The risk manager is frequently too timid to go to the decision-makers at a company and say, 'How much can you afford to lose without being embarrassed?' "

With this information, a risk manager can put together a program that makes everybody look good. But without guidelines, the manager will fall flat on his or her face, not only with deductibles but also by putting time into fire protection where it's not wanted or needed or improving loss prevention at an operation about to be sold.

"You have to go beyond the technical insurance programs to ask yourself what's going on in the company, what management is thinking about. This is where risk managers make mistakes, in the absence of communications with people in top management, about the business environment, about the way they want things done," Mr. Hallett says.

Arriving at a realistic notion of a company's risk-taking philosophy is the first step, however. "This can be in terms of cents per share, or a flat amount or an amount per loss.

"Sometimes a company can look at what has happened historically to see if management was embarrassed over a loss. Sometimes you can even look at an event that didn't involve a pure risk situation; perhaps there was something like a marketing fiasco—the company put a lot of money into a new program and it fell on its face. That can be an indication of how much the company is willing to risk."

GM cuts costs, extends coverage in new program

Continued from previous page

lete entirely, he was able to modify substantially so that the policy's coverage is much broader than normal for losses such as those involving pollution.

Cost consciousness motivates Mr. Hallett to deeply probe what GM pays for every little service and how much it costs to use each person in the risk management department to perform tasks such as claims handling and report auditing.

He not only wants to know how many premium dollars GM is paying out, but also what each cent of each dollar buys. Take the study done last year to determine exactly how much it costs Royal to administer each of the thousands of liability claims it processes annually for GM.

Cost figures

Royal, GM's risk management department and A&A's Anistics and Alexsis divisions were each assigned to come up with standard cost figures for administering claims. In the end, the three figures were pretty close together, Mr. Hallett says. Royal agreed to charge GM for claims administration based on a standard charge for claims categorized on the basis of their size, whether they involve litigation or not and whether they require local review, home office review or GM involvement. This saved GM $3 million or so last year in insurance charges.

"We try to unbundle every outlay we make, identifying each increment of cost. If we're looking at a dollar of premium, we want to know what that represents. We want about 90 cents of that dollar to be for losses, about 7 cents to cover claims handling, about 1 cent for overhead and a couple cents for profit," Mr. Hallett says.

On another occasion, Mr. Hallett did a task-functional study of the time it took to internally process inland marine claims. The upshot of the study: He found it was more cost-effective to assign Johnson & Higgins to process inland marine claims.

Monthly audit

The risk management department now performs a monthly audit using J&H's reports and is freer for other jobs.

There are at least a half-dozen major projects on Mr. Hallett's docket for this year, including:

- Scrutinizing worldwide marine insurance programs with an eye to further consolidation, increasing retentions and improving coverage.
- Further study of the potential advantages of an offshore insurance subsidiary for international marine, liability or property risks.
- Continuing to develop an internal computerized risk management information system and a usuable data base.
- Determining the cost of risk for each type of exposure GM has to measure the effectiveness of GM's risk management programs, establish optimum retention levels for each worldwide facility and allocate self-insurance and insurance costs to those operations.
- Examining the possibility of purchasing business interruption insurance on a catastrophic basis over extremely high retentions of $50 million or $100 million or more. GM presently doesn't buy any business interruption insurance.
- Expanding Motors Insurance Co.'s personal lines insurance business and improving MIC's profits.

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Fred S. James & Co.'s New York office, which often does consulting work for Mr. Hallett, has recently completed a feasibility study for an offshore captive that could be used to finance some of GM's international programs.

"We had to consolidate the international programs first, before we could think about a captive," Mr. Hallett explains. "We had to get things down to their simplest form before we could get fancy."

Since early last year, the entire risk management department has been working to collect loss data and quantify risks to set up a computerized information system. Mr. Hallett is deciding now on the hardware to buy. This will ultimately be linked to the computer systems of each of GM's brokers and the General Motors corporate information system.

This system will be used not only for recordkeeping but also to determine GM's cost of risk relative to sales, assets, payroll and any other relevant yardsticks.

Drawing: Jill Kaplan

Hallett

Cash conservation

"The cost of risk approach, using computers, will be the key to cash conservation in the 1980s," Mr. Hallett says.

Mr. Hallett expects the hardware to be installed within several months so GM can start putting information into the system. But he doesn't think he'll be able to get the figures he wants out of the system for as long as two years from now. The first thing he wants to use the system for is to develop experience rating plans for each of the worldwide facilities.

"One reason we don't buy business interruption insurance—there are many different reasons—is because there might not be enough capacity available to insure the kind of risks GM would have if a plant was shut down. We're still trying to get our hands around what the risk really is and where our exposures would be, with the evolution of the so-called world car and other concepts now on the drawing boards," Mr. Hallett says. ■

Scrutinize problems

Ferreting out potential losses is the job of any risk manager.

That losses can be prevented with close attention to possible problems is evident in the plant smokestack emission problems that GM's risk management department detected when poring over routine plant inspection reports and claims reports.

"Frequently, if the plant is giving off sulfur, for example, employes' cars parked nearby may be damaged and claims may come in under our general liability coverage. This sort of thing could cost us millions of dollars if it goes unnoticed," says Tom Hallett.

Just such a situation arose last year and was noticed by those scrutinizing routine reports.

Emissions were cleared up, claims tapered off and the risk management department figured it saved GM over $1 million with its quick action.

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Winner predicts risk management, market changes

CALLING THE SHOTS
Risk Manager of the Year

DETROIT—What will happen to risk management and insurance in the 1980s?

Tom Hallett foresees several major changes affecting the laws of insurance supply and demand, the automation of risk management and the practice of risk management by smaller companies.

"You're going to see the risk management consultant increasing in popularity and utilization, particularly for smaller firms," he says. There will be more so-called multiple-company risk managers, usually in the form of consultants working for five or 10 different companies at once, he thinks.

The insurance marketplace will continue to be characterized by excess underwriting capacity, he predicts. The premium flow to insurers will continue to ebb because of a long-term dropoff in demand for commercial insurance. Buyers forced to turn to group captives and self-insured programs during the 1970s when underwriters turned customers away will continue to maintain these programs. Commercial buyers will not be easily lured back to buying first dollar insurance.

"The old insurance cycle in which buyers disappeared when markets were tight and came back begging when capacity expanded isn't going to be repeated," he's convinced. "They've formed insurance companies of their own now, or they've learned to live with self-insurance."

Changes seen

"There will be more so-called multiple-company risk managers, usually in the form of consultants," Mr. Hallett predicts.

Though there may be more demand for higher insurance limits, these programs don't generate enough premium to make up for the loss of premiums at the low end, Mr. Hallett reasons. "There's no problem putting together a $400 million liability program today. The price of high-limit coverage is cheap and the market is wide open. I don't think the capacity available is going to be used up for a long time."

Primary insurers have imposed large deductibles on their customers. "They've lost forever the portion of premiums related to those deductibles, even though they're now seeking to recapture it," he concludes.

Because of this available capacity in the insurance business, it'll be 1985 or beyond before Bermuda becomes "a really meaningful marketplace, a major factor," Mr. Hallett says.

Insurance buyers and risk managers in large and small companies alike will become more dependent in the next decade on data processing systems to help them with internal risk cost allocations and recordkeeping, Mr. Hallett predicts. ■

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	December 31, 1979	December 31, 1978
ASSETS		
Bonds	$ 860,218,984	$803,096,488
Stock	139,190,965	57,056,387
Cash	5,357,269	4,364,566
Accounts receivable—premium	52,316,156	40,596,567
Funds held by ceding reinsurers	33,477,922	29,245,006
Other Assets	19,403,825	11,980,886
TOTAL ASSETS	$1,109,965,121	$946,339,900
LIABILITIES, CAPITAL AND SURPLUS		
Loss and Loss Expense Reserve	$ 828,303,701	$705,898,354
Unearned Premium Reserve	117,826,310	104,354,301
Reserve for Commissions, Taxes and other liabilities	29,242,067	28,881,681
TOTAL LIABILITIES	$ 975,372,078	$839,134,336
Capital paid up	$ 2,500,000	$ 2,500,000
Contributed Surplus	75,001,598	75,001,598
Unassigned Surplus	57,091,445	29,703,966
POLICYHOLDERS' SURPLUS	$ 134,593,043	$ 107,205,564
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	$1,109,965,121	$946,339,900

Information is from the Company's Annual Statement as filed in Delaware, the state of domicile, under rules promulgated by The National Association of Insurance Commissioners.

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Blanket, worldwide, all-risk

Property policy includes virtually all company risks

DETROIT—GM's blanket worldwide all-risk property insurance policy eliminates arguments among insurers over the cause of a loss and who will pay.

The manuscript policy contains virtually no exclusion, says Tom Hallett. The policy starts out with the words, "This policy insures any property anywhere in the world against all risks of loss..."

From that beginning, Mr. Hallett negotiated with IRI and GM's brokers and reinsurers the broadest possible coverage, combining blanket fire, boiler and machinery, transit, difference in conditions and other policies.

"In a program like this, involving so many risks and locations, your ultimate contract has to be, if anything, very brief and to the point," suggests Mr. Hallett.

CALLING THE SHOTS

Risk Manager of the Year

"Then when there's a questionable loss, it'll be covered. For example, last year we had a roof collapse in Kansas City during a storm which turned out to be the largest property loss all year in the U.S. Under the old program, if it had been caused by an extended peril it would have gone to the property insurer, but if it was caused by some other problem it might have fallen under the DIC policy. Since the program is unified now and the deductible is the same, it made no difference what the determining factors were. In fact, the cause of the collapse hasn't yet been determined."

Under GM's new manuscript all-risk policy, collapse isn't even mentioned, although insurers traditionally have been accustomed to using collapse endorsements containing fairly narrow wording.

GM obtained under its property policy automatic unlimited coverage for all new locations. They are reported when the next schedule of properties is prepared, sometimes not until many months after the coverage has been provided.

As the leading property insurer for General Motors, Industrial Risk Insurers, too, obtains advantages, says Mr. Hallett. IRI can now plan its reinsurance programs from year to year knowing that any new construction planned by GM will belong to IRI's insurance program. "Under the old program, they didn't know ahead of time what size piece of business they'd get that year. But we've made a commitment to them, and they can count on our business." ■

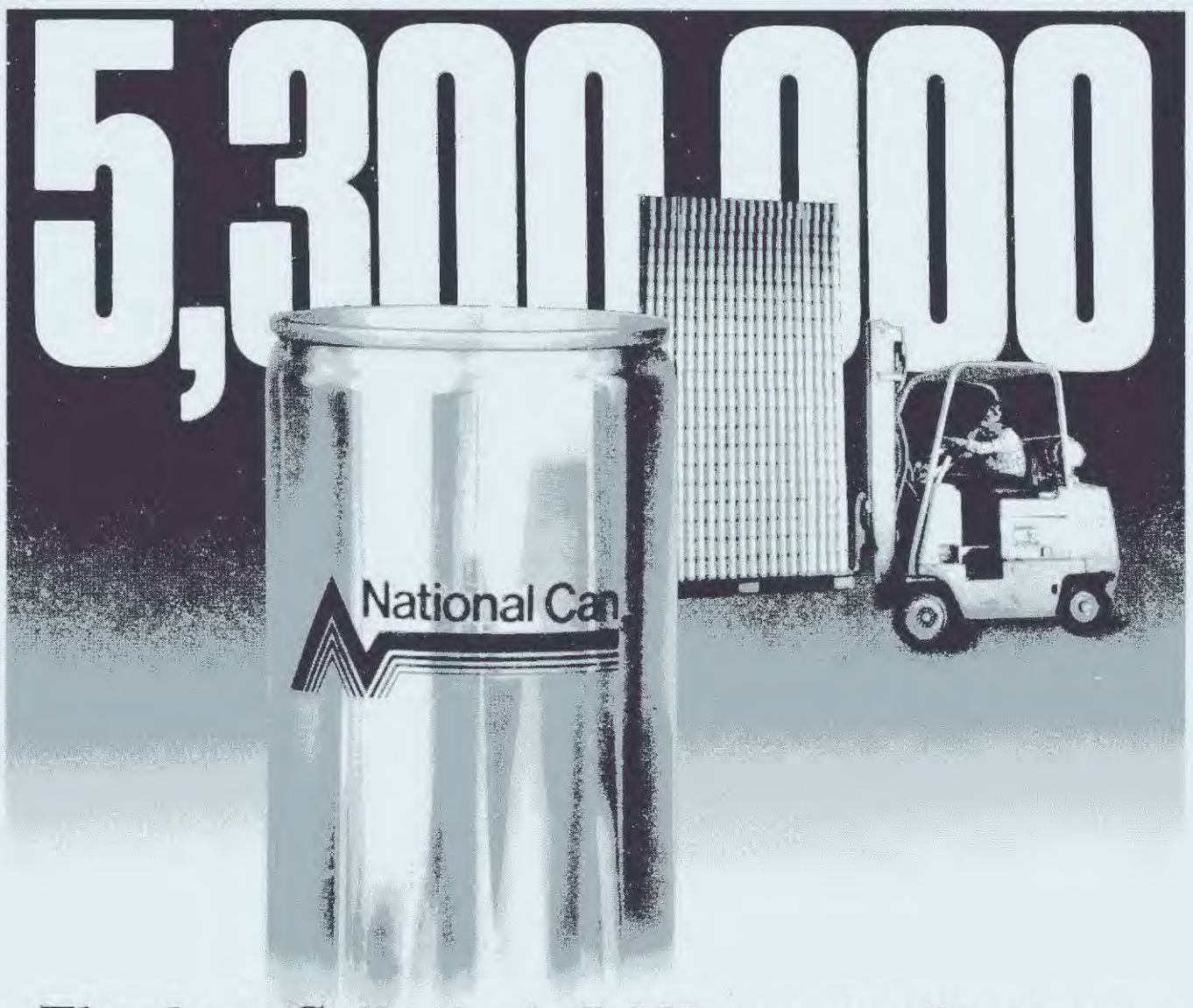
Planning ahead

General Motors obtained under its property policy automatic unlimited coverage for all new locations. The new properties are reported later.

Photo: Bob Benyas

All bases covered

Tom Hallett outlines GM's risk management department structure. Under the international division, a worldwide property insurance program was put together that provides GM with a policy lacking virtually any exclusion.



Thanks to Gallagher's Self Insurance Program, National Can has returned $5,300,000 to working capital.

And that's only the beginning!

In seven years, the sales of National Can Corporation more than doubled. Yet the Corporation's incidence of worker injury actually decreased 54%. The result: National Can was able to return over $5.3 million from a self insurance accrual to operating capital, through cash flow savings.

That's significant, of course. But any well-designed self insurance program should help cash flow. The *extra* payout for National Can is the Corporation's ability to control loss-producing situations, often before they occur.

Working as a team, National Can and Arthur J. Gallagher & Co. designed, implemented and serviced a self insurance program with emphasis on safety. Gallagher's Certified Safety Professionals recommended accountability for all Company divisions. And the savings here far exceed those of a typical cash flow plan. One example: under the Gallagher plan, workdays lost due to injury were cut in half—a boon to productivity.

Extraordinary results for major companies such as National Can explain why Arthur J. Gallagher & Co. is the fastest growing top ten broker in the country —over 32% compounded annually for the last ten years.

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Photo: GM

Thomas Hallett, in his Detroit office at GM, is pondering how to improve employe participation in the personal lines programs underwritten by GM's subsidiary MIC.

Division insures employes

Motors Insurance Co., a General Motors domestic insurance subsidiary, underwrites four types of personal lines coverage for GM employes:

- The physical damage portion of an auto insurance package (bodily injury coverage is underwritten by Employers of Wausau) for employes in Michigan and Ohio. Coverage is individually rated and employes pay their own premiums if they choose to buy the insurance that's offered.
- Employe-paid accident insurance, which 43,000 workers buy.
- Trip transit coverage, purchased by GM for employes transferred by the company.
- Personal umbrella liability policies for a select group of GM employes.

Tom Hallett is eyeing the employe participation level in the personal auto program as an area for improvement. He hopes to increase participation in the plans from about 3% of all employes to as high as 64%. Presently, about 23,000 GM employes out of 845,000 buy their auto insurance through MIC, purchasing a total of 87,000 separate policies.

MIC is heavily involved in reinsuring and participating in GM's corporate property and liability insurance programs. Parent company risks generate about one-fourth of MIC's annual $500 million in premiums.

When GM buys insurance or reinsurance from MIC, it places coverage through brokers to preserve an arm's-length relationship with the subsidiary.

Photo: Bob Benyas

GM's top financial execs will keep a close eye on the cash flow aspects of risk management during the 1980s. Left to right are: John R. Edman, vp-finance; Thomas V. Hallett, risk manager, and Roger B. Smith, executive vp.

Timing reaps cash flow benefits

The most fertile ground for change in risk management for the 1980s is cash flow, and cash flow is all a matter of timing, says Tom Hallett.

When a company is looking to save money by self-insuring more risk, there are short-term and long-term advantages and disadvantages to consider, Mr. Hallett says.

"When you get five years down the road, you may have lost a lot of tax deductions for premiums you would have paid, if you choose to self-insure, but in about the fifth year your cash outflow stabilizes with the self-insured plan and you'll have the same cash flow results as you had five years earlier."

Self-insurance pays off, but only after this time lag. "So your objective short term is to gradually take more front-end risk to minimize the effect of losing the premium deductions you would have had. The best route to take is to gradually increase your retention each year until your self-assumed loss outflow is approaching your former premium payments, so the tax deductions will equalize," Mr. Hallett advises. ■

riskWatch

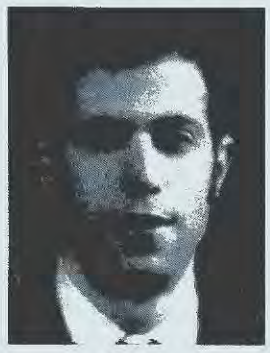
'Play it again, Uncle Sam for tort reform': Council

By JERRY GEISEL

A new round of Congressional hearings this month promises to reopen a three-year-old controversy over whether the nation's state product liability laws should be reformed by each state or replaced by federal tort law.

Business groups across the country have spent considerable time and money since 1977 lobbying state legislatures to amend the product liability case law now on the books.

Despite having their noses bloodied in more than a score of states, business groups usually operating under the auspices of state chambers of commerce have met with considerable success. Some 21 states in the last three years have passed tort reform bills. Indications are that several more states will follow suit this year.



Geisel

But now a major coalition representing large industrial corporations, the National Product Liability Council, is casting new doubts about the wisdom of state tort reform bills.

James Henderson, a professor at Boston University's School of Law, will represent the NPLC when the group comes to Washington this month to testify before the House Interstate and Foreign Commerce consumer subcommittee. He questions if the current piecemeal approach of getting one state at a time to pass product liability bills is the best way to give insurers the predictability and uniformity they say they need in the tort law to more accurately set product liability insurance rates.

The state-by-state approach may widen existing disparities, Mr. Henderson says. "A reasonable federal measure may be the right vehicle to achieve the desired uniformity."

There is some evidence to suggest that the rash of product liability reform bills enacted in recent years won't do much to clear up insurers' current confusion with varying tort laws—a confusion they say contributes to higher product liability insurance rates.

With much fanfare, Utah in the spring of 1977 passed major legislation requiring product liability suits to be filed within 10 years of the time a product was manufactured. South Dakota's product liability reform bill, however, sets the statute of repose at six years. And to make things even more confusing, Michigan in 1978 passed legislation that makes it tougher—but not impossible—to sue a manufacturer 10 years after a product is produced.

In other states, product liability bills have been so hastily put together that they threatened to completely unravel the tort law, according to legal experts. Some proposals contained unintended restraints.

Considering the speed at which some of the state product liability bills have been put together, it's not surprising that the tort reform proposals contain structural weaknesses. It's tough, if not impossible, to properly amend tort laws and justly deal with the same issues that the nation's leading judicial authorities have spent years examining. The Commerce Department, for example, worked a solid year drafting its proposed model product liability bill.

Now, Mr. Henderson and NPLC offer businesses another option: a bill designed for passage by Congress. The bill would create some uniform tort law.

No hasty product, the NPLC's model bill was drafted over the last three years by Sidley & Austin, the prestigious Chicago law firm.

The model bill (H.R. 5626) introduced by Rep. James Sensenbrenner, a Wisconsin Republican, would require that product liability be filed 10 years from the date of sale. Product alteration would be a defense, but only if the alteration was a substantial cause of the accident.

Furthermore, plaintiffs attempting to prove liability could not merely charge a design was defective. They would have to prove that a manufacturer was aware and had the means to adopt an alternative design that would have prevented the accident.

The NPLC's model bill reforms fewer points in the tort law than the Commerce Department bill. But if passed by Congress, it would result in the "uniformity needed by all parties—consumers, trial lawyers, businesses and insurers—to more soundly assess their exposures," says Rod Dwyer, associate counsel of the Outdoor Power Equipment Institute and supporter of NPLC's bill.

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Solar energy risks face sunny future

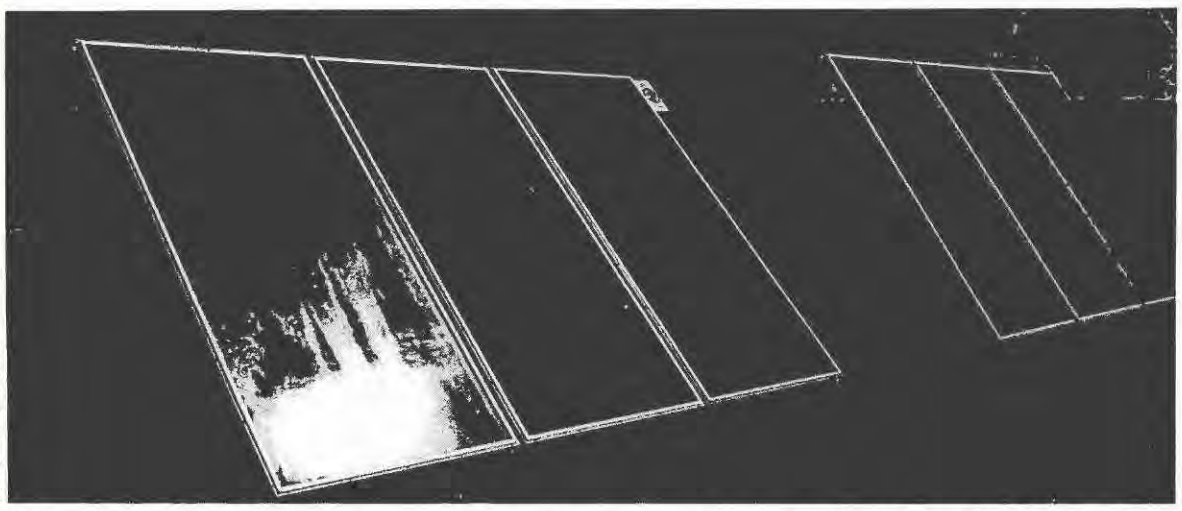

Photo: Mary Cairns

Solar energy receptors like these will probably present minimal hazard and liability risks, say Battelle researchers in a study conducted for the U.S. Department of Energy.

By STACY SHAPIRO

CHICAGO—Risks don't grow under the sun's rays like geraniums, but even if a few losses sprout from solar energy systems, so far they are insured under existing policies.

Converting solar energy into electricity on a grand scale will probably present minimal risks for users and makers of the alternative energy system, concludes Battelle's Columbus Laboratories in Ohio.

Designers, manufacturers and installers of photovoltaic systems will face minimal risk in the forms of hazard and liability, Battelle says in a study conducted for the U.S. Department of Energy's Sandia Laboratories.

Insurers and researchers analyzed insurance requirements that may affect residential, commercial and industrial photovoltaic installations. They investigated hazards and perils, product liability insurance and the availability of it, liability to homeowner or other operators and the availability of insurance to operators.

Among the possible risks are that the sun's rays bouncing off panels could damage the eyes of workers installing the system, says George Watkins, who directed the study. A roof could collapse if it isn't designed for the weight of the system. A solar energy station could also interfere with radio or radar systems.

Sunlight creates an extra fire hazard zone around the system, Mr. Watkins adds. Fire may be the biggest risk with solar energy, but even that is minimal.

All the possible hazards "are all manageable with existing techniques in the industry," Mr. Watkins contends.

Insurers such as Nationwide Insurance Co., State Farm Insurance Co., the National Assn. of Insurance Brokers and the insurance department of Ohio reviewed the types of product liability insurance needed for the future solar systems. The risks include the normal range of express warranty, implied warranty, negligence and misrepresentation.

Strict liability may present difficulties because the government has yet to set regulations on the solar systems. "There are no government safety standards set up yet because it's too new," Mr Watkins says.

But he's confident insurers will take the risk when photovoltaics become popular. "All indications are that the insurance industry will be receptive to the need for insurance coverage for photovoltaic systems.

"But experience will dictate fu-

Information available

Though solar energy is not yet a major industry, there is an enormous amount of material available on the subject. If you're interested in building a system or insuring one, contact the National Solar Heating and Cooling Information Center, P.O. Box 1607, Rockville, Md. 20850; 800-523-2929.

The Solar Center mails a letter called "Solar Status," which details insurers' views of solar energy and what is needed to cover solar systems. The center also conducts seminars across the nation on solar systems.

Copies of the Department of Energy's study on photovoltaic industry is not yet available, but will be in a month or so, says Kent Birringer, sponsor of the study. If interested in obtaining one hot off the press, contact the National Technical Information Service, U.S. Department of Commerce 5285 Port Royal Road, Springfield, Va. 22161; #SAND79-7054. The study, available in print form or microfiche, is $9.50.

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Sunshine laws

Can you sue for your rights to the sun?

Many states have anticipated this question and ordinances are on many legislatures' agendas.

California says a tree or shrub cannot cast shade over more than 10% of a collector on an adjacent property between 10 a.m. and 2 p.m. A bill is also pending to provide easement rights to sunlight crossing over land.

Because there are no court precedents as yet on sun rights, judges have to take out the dusty books to find the answer. Under the English Doctrine of Ancient Lights, says George Watkins of Battelle Laboratories, "If a landowner has received light from across his neighbor's land for a specified number of years, he has a right to the continued use of a reasonable amount of light without obstruction."

ture attitudes and the costs to the consumer," he says. "Consequently, it is important that efforts be made to ensure that early experiences are positive."

Insurers and manufacturers of solar heating and cooling units agree there is no need for new policies to cover present solar systems.

American International Group Inc. in New York insures alternative energy installations through its new AIG Energy Inc. division.

Michael I.D. Morrison, president of AIG Energy Inc., says there isn't a great demand for solar coverage as yet. Most solar heating units can be covered under existing property and liability policies. "You can't sell front door insurance when you put in a new front door, and we find the same thing with solar energy," he says.

Honeywell Inc. in Minneapolis, which makes equipment used in solar systems, is insured under existing general liability and all-risk insurance policies. There have been no claims as yet, although it could be because of the newness of the industry, a Honeywell spokesman said.

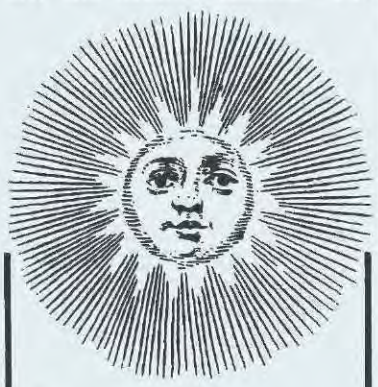
Battelle also examined building codes, ordinances and environmental impacts of the solar industry. Researchers found that present model zoning ordinances used by local and state governments do not include any provisions for photovoltaic or thermal solar systems.

Control Data Corp. in St. Paul, Minn., with two buildings heated by solar energy, is satisfied with the zoning codes, however.

Control Data's solar panels would have been blocked by a new condominium going up on property nearby. The city council of St. Paul voted against giving the condominium builder a permit, protecting Control Data's energy supply.

Control Data Corp. is insured by Factory Mutual Insurance Co. against physical damage to the solar collectors. The solar system, however, is not insured for blocked sun.

Mr. Watkins says the best insurance against sun "spots" is to buy a buffer zone to prevent all buildings from blocking solar energy. ■



Sunny side

Insurers say special policies for present solar systems aren't needed.

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Consolidated Financial Statement/Statutory Basis/December 31, 1979

ASSETS

Marketable securities:	
Bonds at amortized cost	$1,963,102,304
Preferred stocks	35,725,780
Common stocks at market	249,467,788
Investments — unconsolidated overseas subsidiaries	30,382,843
Real Estate	27,226,312
Cash in banks and office	13,143,572
Premiums and accounts receivable	162,507,149
Accrued interest and dividends	38,666,017
Other admitted assets	20,960,059
TOTAL	$2,541,181,824

LIABILITIES, CAPITAL AND SURPLUS

Claims and benefits	$1,420,854,222
Unearned premium and life reserves	427,418,502
Federal and foreign income taxes payable	12,310,336
Reserve for commissions, taxes and other liabilities	104,556,096
Funds held under reinsurance treaties	14,006,572
Mortgage 7.70% payable 1979 to 1998	19,555,545
Total Liabilities	1,998,701,273
Capital (shares authorized: 12,000,000; issued and outstanding 10,898,523; par value $1.00 each)	10,898,523
Paid-in capital	5,933,582
Unassigned surplus	525,648,446
Policyholders' surplus	542,480,551
TOTAL	$2,541,181,824

Bonds are stated at amortized value in accordance with the requirements of regulatory authorities and would be $1,766,792,825 at December 31, 1979 if valued at market. Stocks are stated at market value except stocks in unconsolidated overseas subsidiaries which are carried at net worth.

The above financial statement is consolidated with respect to the parent company and domestic subsidiaries.

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Domestic:
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North Star Reinsurance Corporation.
Herbert Clough Inc.
GRC Realty Corporation.

Overseas:
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Reinsurance Company of Australasia Ltd., Sydney, Australia.
General Re Services Ltd., Hamilton, Bermuda.

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Bellefonte forms new management unit for captives

THE BELLEFONTE COS. has established a new division to consolidate services offered to captive insurance companies and risk managers. Bellefonte Management Corp., the new unit composed of Armco Risk Management, Armco Insurance Management and Bellefonte International Insurance Co., is responsible for providing underwriting, administrative and technical services.

Bellefonte Cos. president Robert C. Lee assumes responsibility for the new division's operations, and R. Wayne Newman, senior vp-underwriting and administration, will report to him.

Among the services to be provided are an offshore mutual fund for money management for client companies and a reinsurance pool to provide captives with third-party business.

"Bellefonte comes from a corporate risk environment," said Mr. Lee, referring to Bellefonte's beginnings as a captive insurance company. "We're using this fund of experience to develop programs for others."

markets

Movie coverage

When the Oscar presenters ask for "the envelope, please" on April 14, Fireman's Fund Insurance Cos. will be more anxious than most insurers to hear the results.

Of the motion pictures nominated for Academy Awards this year, Fireman's Fund insured 18, with total production costs of more than $150 million.

The films range from the low-budget "La Cage Aux Folles" to one of the most costly motion pictures of all time: "Star Trek—The Motion Picture."

Under its motion picture portfolio policy, Fireman's Fund insures producers against losses involving props and equipment and also covers losses arising as a result of the stars being unable to perform.

"Even with the array of filming locations and the number of stars involved, only one movie sustained large production losses," said Edward Hamby, head of Fireman's Fund's entertainment industry division. "That was 'Apocalypse Now,' which generated more than $1 million in losses when sets were damaged by a typhoon during filming in the Philippines."

Other films insured by Fireman's Fund that have received Oscar nominations include "Starting Over," "Kramer vs. Kramer," "All That Jazz," "10," "Breaking Away," "The China Syndrome," "Electric Horseman," "Black Stallion," "...And Justice For All," "Manhattan," "Amityville Horror," "A Little Romance," "Moonraker," "Chapter Two" and "1941."

Expanded operation

Western Employers Insurance, a California-based workers compensation underwriter, has expanded operations at its Los Angeles office with the addition of a full underwriting capability. The office will now offer complete production services, including marketing and underwriting, to the brokerages Western Employers serves in the area.

Z-A reorganization

Zurich-American Insurance Cos. has reorganized its operations into four divisions: special risks, standard lines, life/health and the Empire Cos. of Omaha.

The special risks division combines activities of the international department, all national accounts and the Chicago and New York branches. The standard lines division combines operations of all other Z-A branches and will focus on development of commercial

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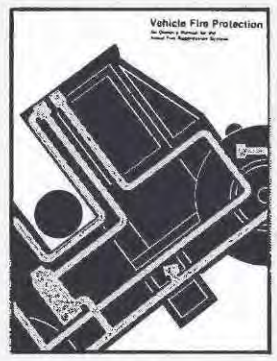

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business other than national accounts and personal lines. Excess and surplus lines, underwritten by Zurich-American Insurance Co. of Illinois, will be part of this division.

Travelers expands

The Travelers Insurance Cos. will expand its business operations in Montana with the opening of a new commercial lines district office in Billings.

The office will serve the 50 independent agents in Billings and all of Eastern Montana who are contracted to do business with The Travelers. Thomas E. Borstad is district manager of the new office.

U.S. subsidiary

Richards, Longstaff Insurance Ltd. of London has formed a subsidiary in Atlanta, Richards, Longstaff (USA) Ltd. The company will provide excess and surplus markets for independent agencies in the South and will be able to place business with Lloyd's underwriters or with London-based insurance companies as well as domestic E/S underwriters.

New consultant

CMS Retirement Plans, which specializes in advising on pension and profit-sharing plans, has been formed by Consulting Group Inc. and CMS Cos.

CMS Retirement Plans' headquarters will be located in CMS Cos.' 21st and Pine office, Philadelphia, Pa. 19103.

Markel subsidiary

Markel Corp., an insurance holding company, has formed a new subsidiary, Underwriting Management Inc. in St. Paul, Minn. The new firm will be managing underwriter for various insurers, including a Markel Corp. company now being established.

Richard L. Smith is president of Underwriting Management Inc. and Raymond A. Johnson is vp-underwriting. They previously formed and operated St. Paul Surplus Lines Insurance Co.

Management advice

Risk management and insurance are two of the concentrations of Rockmoor Associates, a new management consulting firm in Rhode Island. The company, which also boasts expertise in such diverse areas as annual reports, employe communications and sales, is headed by Harrison H. Goff and is located at Ocean Avenue, Newport, R.I. 02840; 401-846-3297. Mr. Goff was formerly vp-corporate relations for Allendale Mutual Insurance Co.

Name change

The Assn. of International Insurance Agents has changed its name. It is now called INTERSURE—The International Insurance Agents Assn.

New offices

Frontier Adjusters Inc. has opened two new offices. One is at 2808 Via Magia, Carlsbad, Calif. 92008; 714-434-4267. The other is at 216 W. High, Grants, N.M. 87020; 505-285-6162.

International Rehabilitation Associates has moved two offices. The Western regional office is now at 959 E. Walnut St., Pasadena, Calif. 91106; 213-577-8096. The New York district office is now at 77 Brant Ave., Clark, N.J. 07066; 201-388-0900.

Gay & Taylor Inc. has opened its first Arizona office at 3800 N. Central Ave., Phoenix, Ariz. 85012; 602-264-4128.

Johns Eastern Co. Inc. has opened a branch office at 551 W. Lancaster Ave., Haverford, Pa. 19041; 215-525-9750.

Frank B. Hall & Co. of California has opened a new headquarters for its Orange County division at 695 Town Center Drive, Costa Mesa, Calif. 92626; 714-641-8355.

Picton-Cavanaugh has moved to 136 N. Summit, Toledo, Ohio 43603; 419-241-8211.

C&F Credit Corp. has opened a West Coast office at 255 California St., San Francisco, Calif. 94119; 415-391-5015.

Acquisitions

Corroon & Black has completed its acquisition of the **Puritan Agency Inc.**

Fireman's Fund Insurance Cos. is negotiating to acquire **Southern Guaranty Insurance Co.** of Montgomery, Ala., for $19 million cash or $31.66 a share.

The **Clinton P. Anderson Agency Inc.** of Albuquerque has merged with **Alexander & Alexander.**

Fiduciary & General Corp. has acquired Florida General Financial Services Inc., of Coral Gables, Fla., a holding company that includes **Florida General Life Insurance Co.,** for $2.3 million cash.

National Insurance Associates has completed the merger with **Jacob Emmanuel Inc.** of Freehold, N.J. ■

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More information is available from John Fitzgerald, director of Fund 3/12, Fireman's Fund American Life Insurance Co., P.O. Box 2060, San Rafael, Calif., 94911; 415-492-5144.

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More information is available from INAX Underwriters Agency Inc., 10 S. Riverside Plaza, Chicago, Ill. 60606; 312-930-1300.

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HMO growth

Incentive plan shows signs of success

By BILL CUSHING

SEATTLE—Safeco Insurance Co.'s innovative prepaid group health plan, started four years ago to pull sky-high health care costs back to earth with the help of financial incentives for physicians, may be on track.

Doctors in the plan earn more for keeping hospital stays short and treatment bills low. They earn less if hospital stays and bills are excessive.

Just how successful the Northwest Pacific-based plan, called United Healthcare, has been so far is somewhat unclear. But there are signs that it is beginning to work to reduce hospital stays, the most expensive component of health care bills.

Among the signs, according to the research of United medical director Stephen Moore, are:

• The hospital utilization rate per thousand admissions was significantly lower for United Healthcare patients than for two co-payment plans it was compared with for 1978.

• United's members had an average hospital stay that was lower than that of the Seattle area's closed panel HMO, Group Health Cooperative of Puget Sound. Although Group Health's admissions rate was lower than United's, United recorded 88 hospital admissions per 1,000 during 1978 compared with 101 for Blue Cross of Washington State, 115 for Blue Cross nationwide in 1977 and 81 for Group Health.

• Further length-of-stay figures show United members averaged 3.3 days, while Blue Cross of Washington state averaged 4.7, Blue Cross nationally for 1977 averaged 6.4 and Group Health had a 4.2 day average stay.

• Bed days per thousand patients were also lower for United, at 293, than for its competitors. Blue Cross of Washington State had 479, Group Health had 350 and Blue Cross nationwide in 1977 had 733.

Whether United Healthcare really does have a method to lower hospital stays and health care bills or whether its lower hospitalization rates are just coincidence will be the subject of a followup study by the University of Washington. Researchers will look into the reasons for United's experience under a three-year grant by the Health Care Financing Administration.

United administrators say the plan, which has enrolled 36,000 members and 750 primary care doctors in Washington state, Northern California and Salt Lake City, is still operating in the red. But it is expected to break even this year and may even show a profit in 1981.

The plan is more expensive than indemnity coverage and slightly more expensive than other HMOs, but it still has the support of benefit managers in institutions where it is offered to employes.

United coverage, with premiums ranging from $34 to $43 per month, allows members to use their own doctor if he participates in the plan.

At Swedish Hospital in Seattle, the plan has drawn 12% of the eligible employes compared with 4.7% who joined another prepaid plan, said Barbara James, personnel director. Most of the employes, as is the national trend, chose Blue Cross/Blue Shield coverage.

United Healthcare is still well received among hospital employes even though employes pay $7.45 more per month in premiums than for the Blue Cross/Blue Shield plan and 55 cents more than for the other prepaid plan.

Ms. James isn't necessarily sold on United Healthcare, as much as she feels that an employer needs to provide diversification in its benefit plans to attract high-quality employes. "I see health insurance as an inducement to recruit and maintain good employes. But I don't see this one as any different from others. It's a nice plan but I'm not sure it's worth more money."

Another benefit manager, Eunice Hostetter of Northwest Hospital in Seattle, said the United plan was chosen by 135 of the hospital's 500 workers. Even though United has only been offered since January, "the reaction has been very positive and we've had few employe complaints, especially about claims handling. Not having to fill out forms is a big plus."

Ms. Hostetter said she receives numerous complaints about delays in claims handling on King County Blue Shield, the other plan offered to hospital workers. "We did a benefit survey last summer and one of the chief complaints was about handling of claims," she said.

In the June 1979 benefit survey, employes indicated they wanted a plan that provided preventive care benefits. "Of particular interest was the fact that physical exams, which must be paid for in full in other indemnification plans, are provided for $25 under the United Healthcare plan. Some physicians, who feel the physical is needed on an annual basis, usually authorize payment."

The plan attempts to control costs by organizing the entire health care delivery system around the primary care physician, who alone decides whether

Hopeful sign

United Healthcare patients had a lower hospital rate than other patients, Stephen Moore says.

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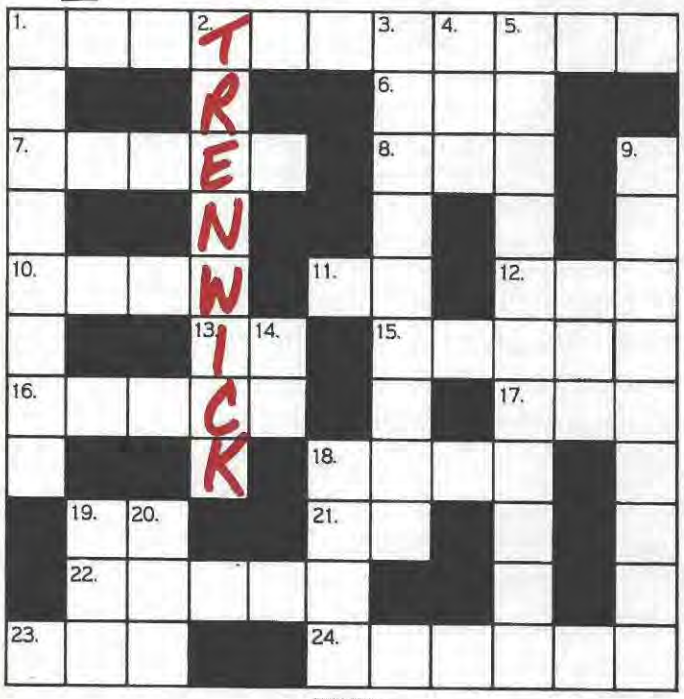

ACROSS

1. A bank in Bermuda. **6.** Federal Agency challenging captives. **7.** What actuaries attempt to determine. **8.** Difference between assumed and ceded premiums. **10.** Newport to Bermuda racers. **11.** Initials of Insurance Company in Milwaukee. **12.** Lawyers must pass one; underwriters seldom pass one. **13.** Prefix for syn. of bankrupt. **15.** State in earthquake zone four. **16.** Wife of sovereign in whose country the Reinsurance Rendezvous is held. **17.** Oldest American stock insurance company. **18.** The security of a reinsurance company refers to whether or not it.... **19.** First two initials of Bermuda law firm. **21.** Abbr. for Automotive Liability. **22.** Multi-owner Bermuda Company whose owners captives share in reinsurance. **23.** Antonym for his, or sign on woman's washroom. **24.** Home of John Lloyd.

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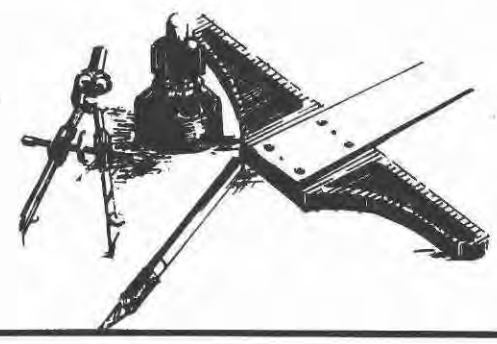

Doctor keeps tabs

Dr. Anna H. Chavelle is a participating physician with United Healthcare who pays strict attention to the hospital billings she receives. She's so strict that when she recently got a bill for a member patient for $63.75 for emergency room treatment and a throat culture for a cold, she refused to pay it.

"It was the wrong use of an emergency room treatment in the first place, so I don't feel any responsibility to honor her bill," she said. "My own charge would have been $18 for an office call and $7.50 for a throat culture."

The doctor said she had her telephone log checked and found out the cold patient had not called her that day. In a previous case, a woman who broke her jaw in an accident went directly to the hospital for emergency treatment without calling in but Dr. Chavelle paid the bill because she considered it legitimate.

the patient should have diagnostic tests, be referred to a specialist or hospitalized. The plan only pays expenses approved by the doctor except for emergency care. All out-of-office expenses are paid directly from the doctor's account, which is funded by the plan based on the age, sex and number of United Healthcare patients he/she treats.

Participating doctors receive a monthly check reimbursing them for their fees. Along with payment comes a monthly statement itemizing deductions from their individual accounts for the different categories of care provided outside the office.

"This 30-day box-score provides a psychological incentive to make the doctor aware of costs," said James O'Keefe, United's plan marketing director. Doctors are more conscious of expenses because they know their accounts are being charged directly.

Another reckoning with cost-consciousness comes at the end of the year when the physician's account is totaled. If an individual account shows a surplus, the physician keeps half. If it is in deficit, the doctor can be made to share up to 10% of his total fees for the year if he treated fewer than 50 patients and 5% if he treated more than 50.

This system of credits and debits doesn't amount to much, but Mr. O'Keefe said the system has an important psychological effect upon physicians. "When a doctor has to pay a health care plan, he really squirms," he said.

One doctor in the plan interviewed admits to paying more attention to costs now, but says the plan's financial inducements aren't prime motivators. "I had $2,200 left over in the pot last year," said Dr. Anna H. Chavelle, "so I got 50%, or roughly $10 per patient as it works out. That's not much of a financial inducement; it's actually very small." If the bill for the $1,200 tubal plasty she approved had come in before the end of the year, "it would have wiped that out," she said.

United Healthcare is planning to expand into Idaho and is applying for permission to operate in Kansas and Texas.

But setting up shop in a city can be more of a time-consuming process than it is for other prepaid plans. Safeco requires the plan to sign up at least 60% of a community's primary care physicians—including general and family practitioners, pediatricians, internists, obstetricians and gynecologists and general surgeons—before selling it to corporations.

"We would like to be in the tri-cities area of Washington right now but it takes a year of training to put one man into action signing up doctors," said Mr. O'Keefe.

Even though the plan has yet to turn a profit, the insurer is committed to the project "from top management down," said Mr. Moore.

United Healthcare is being moved away from the parent company and will be made a wholly-owned subsidiary. ■

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THE WORLD OF THE LANDMARK GROUP

Kaiser marks $300 million for HMOs

By MARGARET LeROUX

Crain news service

OAKLAND, Calif.—Kaiser Foundation Health Plan Inc. here will spend more than $300 million in the next two years to expand and develop its health maintenance organizations in six regions of the U.S.

This is in addition to $186 million Kaiser spent on capital improvements in 1979, more than double the amount spent in 1978 and triple the capital expenditures in 1977.

Kaiser's interest in land, buildings and equipment shows how far prepaid health plans have come from the days when they were dismissed by leaders in traditional fee-for-service plans as not serious competition.

For almost 45 years Kaiser was virtually alone in offering prepaid health plans. Now, with more than 3.7 million members, it is a Goliath in the field of healthcare delivery systems.

A lot of David-sized HMOs have sprung up to take on the giant since 1976 when federal legislation provided additional start-up funds and revised restrictive benefit requirements.

Kaiser acknowledges the competition "is becoming increasingly keener," says an executive in the planning department.

But Kaiser Foundation president James A. Vohs disavows any strong competitive posture in the HMO market. "We don't have any strategy to develop HMOs throughout the U.S.," Mr. Vohs said. "We have no specific plans for geographic expansion outside of our six existing regions."

But within those regions—Northern California, Southern California, Oregon, Hawaii, Ohio and Colorado—clearly, there's going to be much activity in the next few years.

In Northern California, new facilities will be opening south of San Francisco this spring. Northern California is the largest of Kaiser's six regions, having one-fourth of the HMO's total membership, 12 hospitals and 17 outpatient facilities.

There will be new offices for group plan physicians in Fremont. In Santa Rosa, plans call for a medical center with a capacity for 40 physicians by late 1981. The first phase of that project, a five-office complex, is scheduled to open this month.

"We've been asked to open offices in Livermore, Vaccaville and Pleasanton," said Mark Blumberg, M.D., corporate planning advisor. However, he added, no decision has been made on facilities east of San Francisco.

Kaiser "can be very selective about requests we get from groups and individual hospitals to colonize their community," said John Custer, vp with Kaiser-Permanente Advisory Services, the planning arm of the Kaiser system.

For example, membership in the Southern California region has been closed for two years despite requests from several employers and employe groups.

"In some areas of the region there are not enough resources to serve the members," Dr. Blumberg said. "We can't be open in some parts of Southern California and not others."

The closed status of the Southern California region may soon change. Kaiser recently acquired Canyon General Hospital, a 242-bed facility in Van Nuys, "that will give us a foothold in Orange County" where competing HMOs are strong, said Dr. Blumberg.

Also included in Kaiser's plans for the 1980s are new facilities to replace an existing hospital in Honolulu. Construction is to begin soon on a medical center including a 96-bed hospital and offices for 25 physicians.

In Salem, Ore., Kaiser recently opened a branch of its Portland operations. Three full-time physicians are on duty at the new location, which will eventually service members employed in Oregon state government offices.

The Colorado region has potential for a lot of growth, Kaiser officials say, "but there are no plans to build or acquire a hospital in the Denver area at present," Mr. Vohs said.

"We own enough land east of Denver that we could build a facility on," he added. Kaiser plans to continue using St. Joseph's Community Hospital in Denver where members of its local group plan make up 25% of the inpatient load.

Estimates of the rate of growth in the number of enrollees among Kaiser's six regions over the next few years range from an optimistic 15% by Mr. Custer to a conservative 6% by Mr. Vohs.

Both executives pointed out that the regions are autonomous. "We don't direct them from Oakland," Mr. Vohs said.

"We have a policy committee made up of senior people from each region, and they have to concur on any plans for expansion," Mr. Custer said.

As the largest HMO in the United States, any increase in membership Kaiser achieves is significant, Dr. Blumberg pointed out.

"If we were to add members at the conservative annual rate of 6%, that means more than 200,000 people each year," he said, "and it means more than 350 hospital beds and more than 200 doctors."

Kaiser's fastest growing HMO in percent of new members is in Dallas-Ft. Worth where membership increased to 6,000 in January from 2,000 last December. However, the healthcare giant doesn't consider the Sunbelt location one of its regions.

Kaiser entered the Dallas-Ft. Worth area in a joint venture with Prudential Insurance Co. Each contributed $3 million to support initial operating costs.

Mr. Vohs noted the Texas venture "has a limited goal and I think we're achieving it." Kaiser doesn't plan any further ventures with Prudential.

Mr. Vohs didn't dismiss the possibility of Kaiser expanding outside its six current regions. "Though we have nothing specific in mind, I don't mean to say we wouldn't be interested if the right opportunity presented itself," he said.

Kaiser sees its role as encouraging private industry to become active in HMO programs, Mr. Vohs said. Kaiser served as a consultant when Ford Motor Co. helped set up an HMO program in Detroit. "We're continuing in a similar capacity with other corporations," he noted (*BI*, March 17).

A 1977 Kaiser study indicated the feasibility of establishing an

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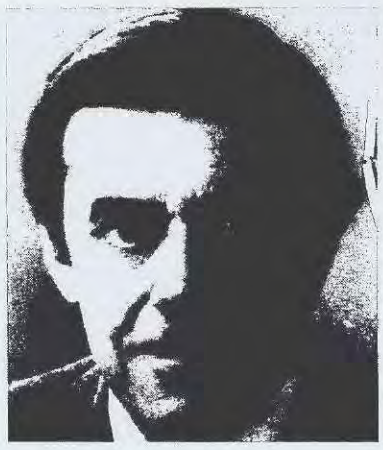

Limited plans

Kaiser's James A. Vohs (left) disavows any plan for geographic expansion; John Custer says Kaiser is selective in development.

HMO in Detroit. The plan that resulted two years later provides health care for more than 200,000 people.

Kaiser is currently doing a similar study on the feasibility of establishing an HMO in Delaware for the E.I. DuPont de Nemours Corp.

"When Kaiser starts up another HMO, the reaction in the industry is ho-hum," Mr. Custer said. "But when Ford Motor Co. starts up an HMO, then you get a reaction.

"People should have a choice," Mr. Custer said. "Just because there is one IPA in a community doesn't mean there is competition. If there were two, you'd begin to get the elements of competition, but it would be better if there were the choice among IPAs and a group practice HMO too."

"What it boils down to is how many people are offered a choice and how many choose prepaid health plans," Dr. Blumberg said. "If 15,000 people are offered (the choice of an HMO as well as fee-for-service plans) and 3,000 of them choose the prepaid option, then the competition begins to hear you."

Fee-for-service plans often charge that Kaiser and other HMOs "skim" available membership pools by enrolling only young, relatively health people.

Scott Fleming, a senior vp at Kaiser, disputed the charges. Economic self-interest dictates that enrollees expecting to need medical care tend to select group practice prepayment plans because such plans almost invariably offer more comprehensive benefits with lower out-of-pocket charges. But people with known medical problems usually have established a relationship with a doctor, Mr. Fleming continued. If they are generally satisfied with their doctors, they will be reluctant to change to a group practice prepayment plan. These two factors counterbalance each other, Mr. Fleming said.

National health insurance is a development issue that could radically change the outlook for HMOs in the next decade.

Various proposals before Congress could range from "putting us out of business to having no effect at all," Dr. Blumberg said.

Kaiser Foundation's vp and counsel, James A. Lane, is encouraged that national health insurance proposals are beginning to deal with HMOs as a distinct delivery mode.

Another reason the future is brighter for HMOs now is a change in attitude by physicians, Kaiser executives note.

"Most medical students today have a friendly bias toward HMOs," according to Bruce J. Sams, M.D., executive director of the Northern California Permanente Medical Group. In the past most physicians had a hostile bias against HMOs. It's now easier to recruit doctors, Dr. Sams points out.

Kaiser's Northern California region recruits more than 150 new doctors each year with average turnover of 10% during the first year of service. ■

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	ISSUE DATE	AD CLOSING
17. R.I.M.S. Conference Report #2	APR 28	Apr 16
18.	MAY 5	Apr 23
19.	MAY 12	Apr 30
20. LOSS PREVENTION — SAFETY/SECURITY	MAY 19	May 6
21.	MAY 26	May 14
22.	JUN 2	May 20
23. Market Report: California	JUN 9	May 28
24.	JUN 16	Jun 4
25. EXCESS/SURPLUS	JUN 23	Jun 10
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27.	JUL 7	Jun 25
28. Spotlight Report: Fidelity & Surety Bonds	JUL 14	Jul 1
29.	JUL 21	Jul 9

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Group legal use averages 15%: Study

VERONA, N.J.—Thinking of starting a group legal plan for employes? Expect 15% to 20% of the employes to use the benefit and the average claim to be $300, says a report from Personnel Research Associates.

The first year of a group legal plan will see the most use, say the consultants, because employes will be attending to a backlog of legal needs. Use will level off in later years.

Plan use will rise, however, if a unionized workforce goes on strike. Employes suing for public benefits will give the plan a good workout according to the report.

A Washington, D.C.-based labor union plan had 19.2% of its new cases during one year involve public benefit matters—such as workers suing to collect benefits denied them during the strike.

During peace on the labor front, legal advice on public assistance is sought much less often. For the Washington plan, new cases relating to public benefits were 1.7% and 1.4% of all cases in the previous years.

About 2,700 employe groups are now covered under prepaid legal plans, but no more than one-quarter of them are funded as benefits won in collective bargaining, says the Personnel Research Report. In all, four million workers in the U.S. are covered by group legal plans.

The claims experience of the Laborers Union group legal plan in 1975-1976 indicates the type of cases employes bring to such a plan, although the group may not be typical.

Traffic cases, traffic violations and drunken driving arrests were the subject of 26.8% of the cases. Criminal and juvenile matters accounted for 8.1% of the cases, housing matters made up 8.4%, 7.5% were consumer-related problems and 6.5% were credit cases.

Marital matters made up 6.2%, family cases were 5.3% of the total and adoptions were 1%. Landlord/tenant disputes were 4.2%, wills and probate actions were 2.6% and taxes were .9% of the cases. The tax cases exclude the preparation of 1,276 income tax returns performed under the plan.

Commercial insurance companies are the principal underwriters of group legal plans, according to the report. The largest is Midwest Mutual Insurance Co. of West Des Moines, Iowa, which writes plans in 17 states. Prudential Insurance Co., Aetna Life & Casualty Co. and Bankers Life & Casualty Co. are also active in the market.

Blue Cross/Blue Shield plans in several states also offer group legal coverage.

The report cautions that companies marketing the service to mostly nonemploye groups can present problems. "This approach can lead to adverse selection, with only those in real need of legal services joining and because this kind of group is covered, high utilization occurs."

Midwest Mutual markets plans of this type in conjunction with bar associations, benefit consultants, unions and consumer organizations. They are sold primarily to clubs and organizations rather than employe groups.

Note of caution

Legal plans marketed to non-employe groups can cause problems.

Services are provided by participating attorneys for a basic premium of $6.92 per month for a single person and $9.23 for a family. There are no deductibles or copayments for basic coverage, which includes legal advice, court representation and major trial coverage.

Another plan, called Conserv, is the basic employe group plan offered by Consumer Service Casualty Insurance Co. of Pittsburgh, a subsidiary of Blue Cross of Western Pennsylvania. The plan requires that employers contribute part of the premium.

Participating attorneys are paid directly by the plan for services provided while nonparticipating attorneys are paid by members who are indemnified for costs.

Coverage includes office and preparatory work, advice and consultation along with extended representation beyond the third day of a judicial or administrative proceeding to a maximum yearly benefit of $5,000.

•

A copy of "Group Legal Service Plans" is available from Personnel Research Associates, 49 Oakridge Road, Verona, N.J., for $12.

Risk exec named to state board

BALTIMORE—John F. Mahoney, director of insurance at the Archdiocese of Baltimore, has been appointed to the state of Maryland's Health Benefits Advisory Committee.

Mr. Mahoney's appointment marks the first time someone outside government circles has been named to the 10-member panel.

The committee advises the secretary of state regarding benefits and administration of the state employes' group health insurance program. ■

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Mass. doctors group withdraws support of Blue Shield plan

By MARY ANN MATLOCK

BOSTON—There's only bark, no bite, in the decision by Massachusetts doctors to withdraw support of the state's Blue Shield plan.

The action emphasizes the long-standing struggle between the doctors and the Massachusetts Blue Shield plan over a policy requiring doctors to participate in the Blue Shield plan or not be reimbursed by Blue Shield for services.

Participating doctors must accept Blue Shield fee schedules.

Still waiting for action on a 1977 lawsuit challenging the Blue Shield policy, the Massachusetts doctors voted to withdraw support.

But the action has no effect on treatment of Blue Shield subscribers or reimbursement for services.

The recent action was taken merely "to underline the dissatisfaction of the physicians with the policies of Blue Shield," said Dr. Grant Rodkey, president of the medical society. "It has no legal force whatsoever because the legislature removed the medical society from governance of Blue Shield."

Nor will doctors quit Blue Shield, Dr. Rodkey said; they can't afford to quit.

But Massachusetts doctors are determined to change the Blue Shield policy which they claim forces physicians to belong to Blue Shield—especially in this state where 60% of the population is covered by Blue Shield plans.

The participation requirement denies a subscriber free choice, limits the physician/patient relationship and curbs the earning potential of the physicians since Blue Shield fee schedules must be adhered to, the doctors argue.

The problems with this requirement are unique to Massachusetts since laws mandating similar policies have been overturned in all other states.

The policy is mandated in Massachusetts under a 1941 law which created Blue Shield. At that time, he said, the medical society supported the law since it provided membership for the fledgling insurance organization.

Now, however, there is no official support of the policy by the society's 9,500 members. The society is instead backing two bills introduced in the state senate—S.B. 659 and S.B. 1941—to overturn the 1941 mandate. S.B. 659 is in the committee on human services; S.B. 1941 is in the committee on insurance.

While awaiting action on these bills, the group is gathering data to support its charges against Blue Shield. For example, Dr. Rodkey said, statistics show the earning potential of physicians in the New England area is significantly restrained, largely due to Blue Shield fee schedules.

A 1978 study of fees showed earnings of physicians in New England to be $54,330 per year, the lowest in the nation, Dr. Rodkey said. The high was the Southwest at $73,750 per year.

The average fees for periodic exams in general practice, surgery and pediatrics were also lowest in the New England area, according to the study.

A resolution explaining the doctors' grievances has been forwarded to the national Blue Shield Assns. in hopes that the group will force action on the state level.

Blue Shield declined to comment on the dispute. ■

Hit in the wallet

The Blue Shield requirement curbs doctors' earning potential, they say.

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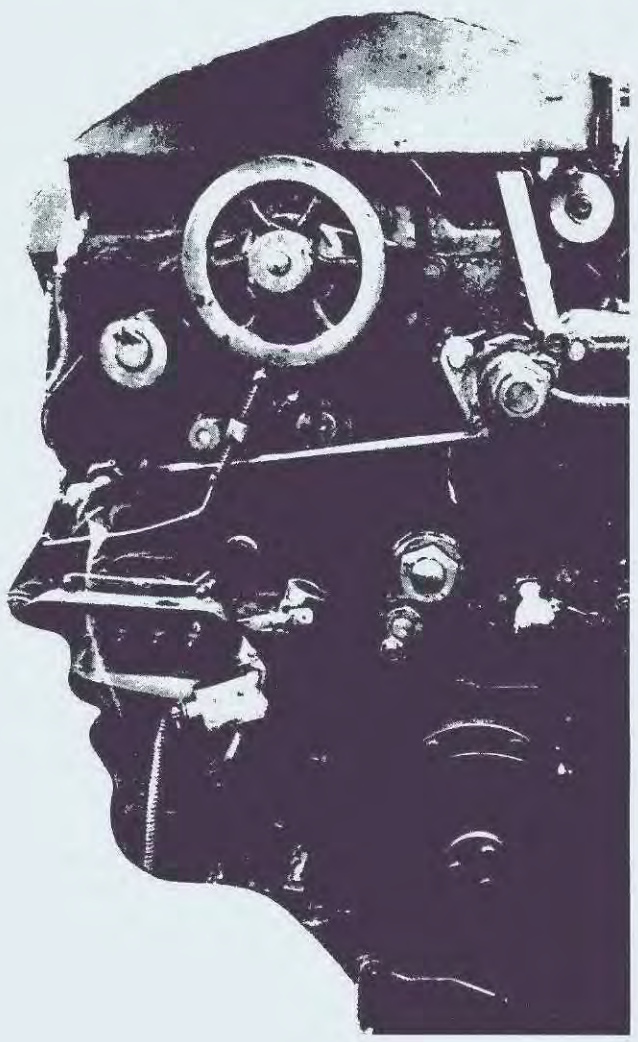

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Calif. juries give highest awards

Injury suits prove costly

NEW YORK—Companies defending themselves against personal injury suits, in a product liability case, for instance, would do well to steer clear of the courts of California, New York and Florida.

Those are the states where awards for more than $1 million have been most frequent in the last 17 years.

"Sometimes people want to move a case out of New York, thinking they might find a more sympathetic jury," says lawyer Abraham Fuchsberg. "Well, if you are going to move it out of New York, don't move it to California of all places."

Since 1963, when the first $1 million award in a personal injury suit was given by a jury in New York, California courts have awarded more than $1 million 59 times, Mr. Fuchsberg said. Florida courts have made 46 such awards, New York 42. Also among the leaders are Michigan (32), Texas (21) and Illinois (19).

Product liability cases have produced the most $1 million verdicts —77—during the same period, Mr. Fuchsberg said. Medical malpractice awards produced 55 and automobile cases produced 44.

Although inflation is blamed for much of the escalation in trial judgments, Mr. Fuchsberg said growing sophistication in the legal profession has also contributed to larger awards.

Economists are often now brought in to testify for the plaintiffs, Mr. Fuchsberg said, to estimate what will happen to the cost of living in the next 20 or 30 years. Films have been made and used in courts that show a paraplegic going through his daily routines to demonstrate how much supervision is needed. Testimony has been given to estimate the economic value of a housewife to her family—as cook, cleaner, babysitter, driver, for instance—and what would have to be spent by that family to hire those people to take her place. ■

9 accept asbestos settlements

PHILADELPHIA, Pa.—Attorneys for nine employes of the Philadelphia Naval Shipyard who suffered serious illnesses from contact with asbestos products have accepted a total of nearly $1 million in out-of-court settlements with 18 asbestos-manufacturing firms.

The agreements settle the first nine of 650 separate lawsuits in court involving the firms.

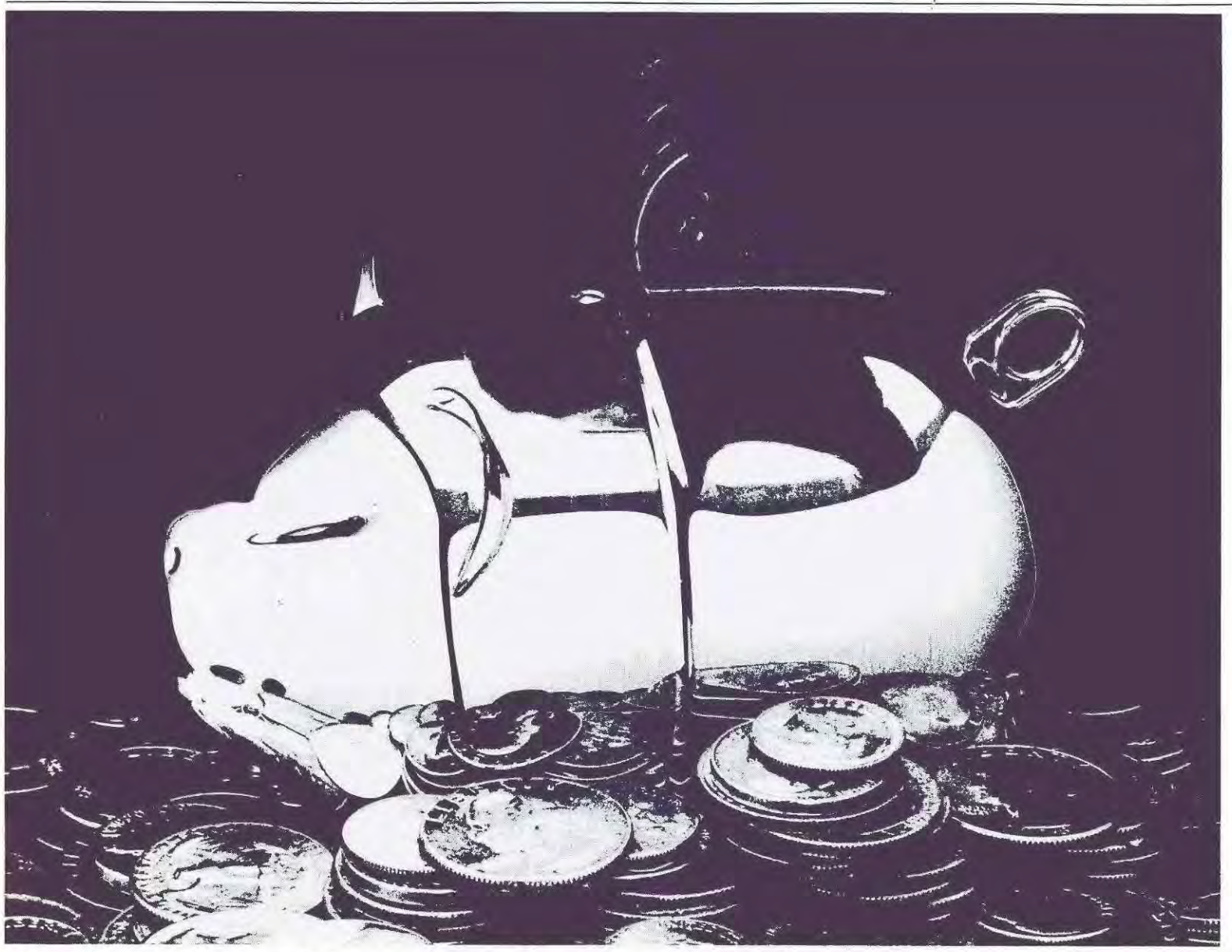
The average amount of each of the settlements was about $100,000, with specific amounts ranging from about $25,000 to $300,000, depending on the severity of the illnesses, said a spokesman for the Asbestos Litigation Group, an organization of lawyers engaged in asbestos-related damage suits.

Ten other cases were scheduled for trial April 7, said Common Pleas Judge Harry A. Takiff, who has been assigned to hear all 650 lawsuits.

Attorneys for the nine shipyard workers and for the defendants declined to discuss the settlements because of requests from their clients and because of the possible effects the settlements would have on the remaining, untried cases.

The shipyard workers' lawsuits were originally filed in 1977, charging the asbestos-manufacturing firms with willful neglect in allowing them to come in contact with asbestos products without providing any safeguards or warnings. Their suits were similar to thousands across the country filed in recent years after the health hazards of working with asbestos began to be recognized (*BI*, June 11, 1979).

Among the firms involved in the suits are Johns-Manville Corp., Raybestos-Manhattan Corp. and Owens Corning Fiberglass. ■



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New tanker disasters strain market

By JOHN MILLER

LONDON—Two more supertanker disasters have put another strain on the capacity of the loss-riddled marine insurance market, and will likely prompt higher premiums.

The 239,000-ton Albahaa B and the 240,000-ton Mycene sank within a few hours of each other off the African coast on April 1. The losses will add another $50 million or more to the lengthening list of claims on underwriters in the U.K. and abroad, increasing this year's tanker loss bill to more than $100 million in only the first quarter.

The $40 million Maria Alejandra sank off West Africa in March.

Tank cleaning problems may be to blame for all three disasters.

The Albahaa B, which blew up off Dar-es-Salaam, was insured for $24 million, 45% covered in the London market. The Mycene, only about three years old, sank off Senegal and is thought to have a high insured value.

Both vessels were traveling toward the Persian Gulf. The Albahaa B had delivered oil to South Africa, doing so in secret because of the Middle East ban on deliveries there. The Mycene was on its way from Genoa to the Gulf.

Sasse suit

The history of Den-Har Underwriting Agency in South Miami, Fla., is under attack in a lawsuit filed in London over the Sasse Syndicate's $41 million losses in 1976-77.

The suit has been brought by Murray G. Gordon, a U.K. businessman who stands to forfeit nearly $1 million of his own funds under Lloyd's rules for syndicate liabilities. Seven other syndicate members have joined him in seeking indemnity for their position, either from Lloyd's or from the Sasse Turnbull & Co. underwriting agency that controlled its operations.

Thirty-eight litigants are now suing Lloyd's or other parties, representing more than 40% of the Sasse members who have had to bear its losses (*BI*, Feb. 11).

The latest criticism is that Sasse Turnbull, headed by Frederick H. Sasse, took a risk in granting Den-Har authority to write nonmarine risks in its name in the U.S.

"No reasonable steps were taken to check with Lloyd's that Den-Har had been approved, or what sort of reputation is possessed," the court documents say. "It was associated with persons of an unsavory reputation, or who were suspected of dishonest dealings in the U.S. insurance market.

"The risk of incompetent or reckless underwriting is one that 'tribunalization' by Lloyd's, and an investigation of an agent's reputation, are intended to avoid. The losses which occurred are the kind of consequences likely to result from the appointment of a nontribunalized and uninvestigated coverholder."

Named in U.K. High Court records as being of an alleged "unsavory or dishonest reputation" are Edward T. Smith, Richard Mamarella, John Goepfert and another U.S. operator named as Karlinski, all of whom are reputed to have been associated with Den-Har.

It is suggested that some of the insurance cover placed through or by Den-Har was involved in the insolvencies of three unnamed U.S. insurers and the near-insolvency of the Argonaut Insurance Co. The coverage was of an "unattractive, high-risk nature," and the state insurance departments in New York, Florida and Texas are reported to have expressed doubts about Den-Har's bona fides.

london line

"They were interested in alleged infringements of state insurance laws by Den-Har or its producers," the record continues. "Some of the business on property in high-risk city areas had been written at very low rates of premium, and premium limits were greatly exceeded, partly through Den-Har's widespread use of producers.

"The premiums were not being accounted for in a proper manner by Den-Har and had not been remitted to Lloyd's American Trust Fund. They were split to pay reinsurance premiums in the U.S. and mingled with other accounts operated by Den-Har and used to pay claims. It was difficult to get an accurate picture of what business had been written."

Limits of $500,000 on any one fire risk were purportedly exceeded in August 1976 by Den-Har on Wakeform Shoprite Inc., which later got its $1 million claim paid by the London market. Cover was granted to Town Lake Apartment Associates and McCoy Development Corp. in April 1976 for property damage up to $4.5 million, but it is not known whether any claims were paid.

Even after its binding authority was cancelled on July 31, 1976, Den-Har, its subagents and producers wrote no less than 115 new risks.

Consequently, claims were either presented or paid under policies issued to Community Distributors, Bushberg Brothers, Marley Shirt Co., Neelrack Inc., Somerset Farms, Mortimers, Carsten and Wakefern Food Corp. for the period after the binder was ended.

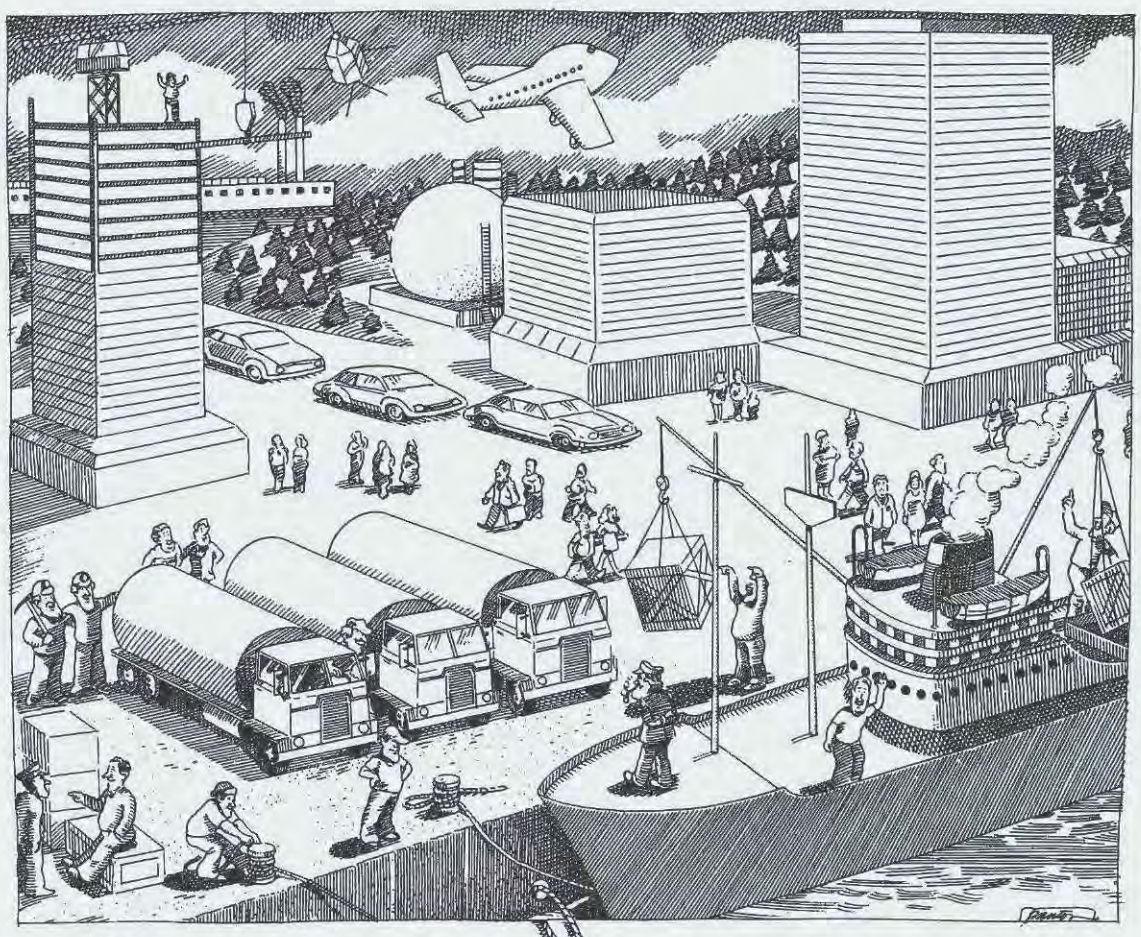
Business written under the Den-Har binder arrangement produced income greatly exceeding premium limits by June 1976, less than eight months after it came into operation, and Sasse Turnbull should have known this, the suit alleges. Information was circulating that the business was largely substandard and the Sasse syndicate would have been "well out of it."

But Mr. Sasse was an unorthodox underwriter, according to the terms used by Murray Gordon, chairman of Combined English Stores, and his fellow litigants. They suggest he might well have been out of touch with market news and information.

But they urge the court to accept that if Lloyd's had stopped Sasse Turnbull from further underwriting as soon as it heard what was going on in 1976 by suspending it from the agent's register, it would have avoided further risks being accepted in the 1977 underwriting year. Because it failed to do so, the plantiffs fear they have suffered loss and damage.

Full responses to their legal action are likely to be filed soon by both Lloyd's and the Sasse Turnbull agency. ■

Can you put a price tag on this picture?



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• **Employe Benefit Perspective 1980** is a promotional and educational newsletter published by Pension Planning Co. Inc. that focuses on cost control in an inflationary economy. Copies may be obtained free by writing Communications Dept., Pension Planning Co. Inc., 355 Lexington Ave., New York, N.Y. 10017.

• **Multinational Benefits Assessment** covers such topics as the need for an international benefit system, corporate benefit planning, local management and employe relations and cost control of benefits abroad. For a free copy, write Multinational Benefit Assns., 980 Post Rd., Darien, Conn. 06820.

• **Employe benefits self-funding** is becoming increasingly attractive to employers. Jefferson National Life Insurance Co. has compiled a self-funding administrators kit designed to give a brief overview of self-funding, an explanation of the variety and flexibility of the company's stop-loss products and a checklist for establishing a new self-funded plan. For a free copy of this administrators kit, write Jefferson National Life Insurance Co., Group Dept., 1 Virginia Ave., Indianapolis, Ind. 46204.

• **Loss Assumption** is an article reprinted from Financial Executive outlining the basic risk management process that a corporation should consider to reduce the total cost of risk. For a free copy, write Keith Kakacek, RIMCO Risk Management Inc., Suite 350, 10300 N. Central Expressway, Dallas, Tex. 75231.

• Plant Shutdowns—Accounting for **Unfunded Pension Liabilities** is discussed in a Kwasha-Lipton newsletter. For a free copy, write Kwasha-Lipton, Dept. M, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• Victor O'Schinnerer describes in a brochure the **hospital liability** protection program it jointly designed with Columbia Casualty Co., a CNA Insurance Co. subsidiary. A hospital funds a risk it is capable of funding and then transfers what it cannot afford to assume to O'Schinnerer/CNA. For a free copy, write Thomas F. Tucker, Victor O'Schinnerer & Co., 55 E. Jackson Blvd., Chicago, Ill. 60604.

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• A promotional brochure prepared by Self-Insurers Service Inc. of Chicago describing its services for the employer **self-funding employe benefit** plan is available. An overview of self-funding, loss control services, reporting services and information about the company are included in the neatly indexed brochure. A similar brochure is also available for the employer self-insuring **workers compensation.** For free copies, write Self-Insurers Service Inc., 55 E. Monroe St., Chicago, Ill. 60603.

• "There Is No Insurance In Self-Insurance" is a pamphlet prepared by Union Labor Insurance Co. outlining the risk involved in **self-funding.** The pamphlet looks at ERISA and the legal considerations, the estimated savings versus the guarantees, reserves and

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• The **Captive Insurance Concept** is the name of a kit prepared by The Landmark Insurance Group discussing the reasons for forming a captive, what a front company is and what it does, the sites for captive company formation and the tax ramifications of such a decision. For a free copy, write The Landmark Insurance Group Inc., 1515 Classen Blvd., Oklahoma City, Okla. 73106.

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• Considering adding dental insurance or changing an existing plan? **Planning For Group Dental Insurance** discusses dental benefits, plan design trends and claims delivery. For a free copy, write Ruth Jeffries, C311, Group Insurance, Connecticut General Life Insurance Co., Hartford, Conn. 06152.

• A new combined **Life Insurance and Health Insurance Addendum** to the basic Life Insurance Primer and the basic Health Insurance Primer is available from Werbel Publishing Co. for $5.25. The addendum is designed for the student preparing for the state of New York license examinations in these fields. Write Werbel Publishing Co., 595 Old Willets Path, Smithtown, N.Y. 11787.

• The **pregnancy discrimination act** and its impact on employers is the subject of a pamphlet prepared by the U.S. Chamber of Commerce. The pamphlet gives a background of the act and outlines the employer's responsibilities under the new legislation. Cost is $1.25 for a single copy, $1 each for two to nine copies and 75 cents each for 10 or more copies. Write the Chamber of Commerce of the United States, 1615 H St. N.W., Washington, D.C. 20062, and request publication #6088.

• Alliance of American Insurers has revised the **Handbook of Organic Industrial Solvents** by expanding the text describing hazards to humans from organic solvents. The handbook gives information on the characteristics of solvents, evaluation of exposures and appropriate control measures. Copies are available for $3.59 each from the Loss Control Dept., Alliance of American Insurers, 20 N. Wacker Dr., Chicago, Ill. 60606.

• The Employe Benefit Research Institute is offering the results of a study based on a review of **pension plan termination insurance** programs in the U.S. and abroad. The study shows that the presence of a soundly funded, privately financed termination benefit guaranty program plays a critical role in determining the degree to which a nation will rely upon private sector provision of retirement income. Cost is $10. Write the Employe Benefit Research Institute, 1800 M St., Washington, D.C. 20036. ▪

How to place items

Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? *Business Insurance* will describe your material as an editorial service in the weekly Info for Buyers column. Simply send us a short description of the material to be offered, along with a cost (less than $15) and mailing address. Address all contributions to: Jill Kaplan, Info for Buyers, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

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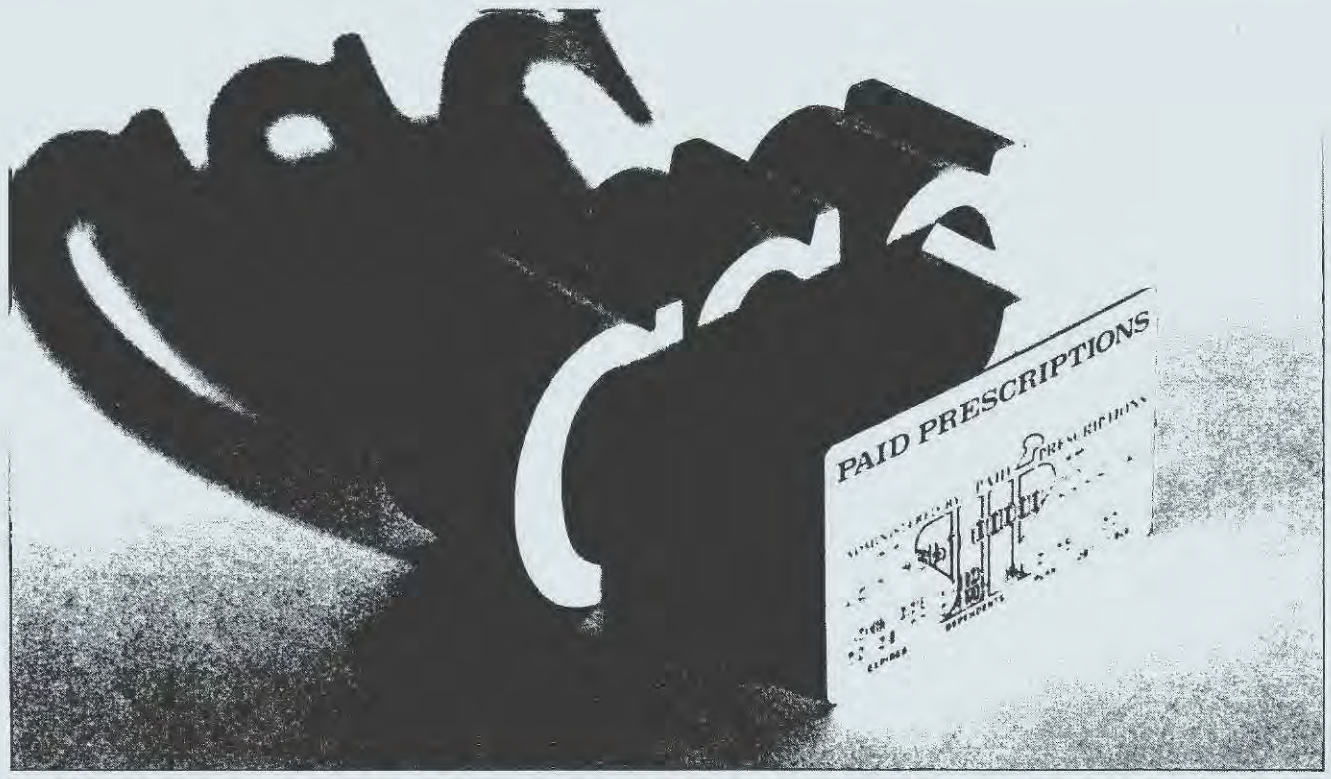

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MAY 12-15. Life Safety Code Seminar in San Francisco, sponsored by the National Fire Protection Agency; $295 for members, $310 for nonmembers. Also **June 9-12** in Detroit. Ina L. Miller, National Fire Protection Assn., Division for Continuing Education, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

MAY 13-14. Update in Total Loss Control Management Seminar in Houston, Tex., sponsored by International Safety Academy; $325 tuition. International Safety Academy, P.O. Box 19600, 10575 Katy Freeway, Houston, Tex. 77024; 713-932-9400.

MAY 14-16. Risk & Insurance Management Society Conference in Williamsburg, Va., sponsored by the RIMS Virginia chapter; $45, $15 for spouse. Virginia Ayers, General Medical Corp., 8741 Landmark Road, Richmond, Va. 23228; 804-264-7525.

MAY 15-16. Management and Disposal of Hazardous and Chemical Wastes Course in San Juan, sponsored by Advanced Environment Technology Corp. and J.T. Baker Chemical Co.; $345. Also **May 19-20** in Saddle Brook, N.J.; **May 22-23** in Philadelphia, and **May 28-29** in Charlotte, N.C. Anne Logan, J.T. Baker Chemical Co., 222 Red School Lane, Phillipsburgh, N.J. 08865; 201-454-2500.

MAY 18-20. Coping with Post-retirement Inflation Conference in San Antonio, Tex., sponsored by the Southwest Pension Conference; $165 for nonmembers. Marie T. Spivey, Coopers & Lybrand, 5000 First International Bldg., Dallas, Tex. 75270; 214-714-5000.

MAY 18-23. 1980 American Industrial Hygiene Conference in Houston, sponsored by the American Industrial Hygiene Assn. and American Conference of Governmental Industrial Hygienists; $50 for members, $75 for nonmembers (preregistered). American Industrial Hygiene Assn., 475 Wolf Ledges Parkway, Akron, Ohio 44311; 216-762-7294.

MAY 19-22. National Fire Protection Assn. Annual Conference in Boston; $60 for members, $90 for nonmembers. NFPA, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

MAY 20-21. American Insurance Assn. Annual Conference in New York; free. American Insurance Assn., 85 John St., New York, N.Y. 10038; 212-433-4400.

MAY 21-23. Reinsurance Practice Course in Hong Kong, sponsored by Risk Research Group Ltd.; $2,250. Jane Coghill, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

MAY 26-28. Managing Marine Risk course in Manila, sponsored by Risk Research Group Ltd.; $400. Elaine R. Cumberland, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

MAY 28-29. Risk Management Accounting Seminar in Atlanta, sponsored by Corporate Systems; $345. Connie Oak, Corporate Systems, P.O. Box 31780, Amarillo, Tex. 79120; 806-376-4223.

MAY 28-30. Canadian Federation of Insurance Claimsmen Conference in Montreal; $90. Claude Faure, Gestas Inc., 410 St. Nicholas St., Montreal, Quebec H2Y 2P5; 514-288-5611.

MAY 29-30. National Safety Congress's Eastern Regional Safety Congress and Exposition in Washington, D.C. NSC., 444 N. Michigan Ave. (attn. Congress Planning), Chicago, Ill. 60611; 312-527-4800.

MAY 29-30. Eastern Regional Safety Congress and Exposition in Chicago, sponsored by the National Safety Congress; $45 in advance; $55 at the show. Congress Planning, National Safety Congress, 444 N. Michigan Ave., Chicago, Ill.; 312-527-4800.

JUNE 1-4. Insurance Accounting and Statistical Assn. Annual conference in San Diego; $70 for members, $100 for nonmembers. Contact Walter Mason, I.A.S.A., Mutual Plaza, Durham, N.C. 27701; 919-683-2356. ■

What makes John Hancock's International Group Program the best in the world? Ask Derek Chilvers.

Derek Chilvers, Vice President International Group Department, is one of the key people responsible for the formation and development of IGP.

WHAT SETS IGP APART FROM THE COMPETITION?

The first thing you'll notice is our staff organization. For example, in the Sales and Service Division, we use an approach that's quite unique in the business. Our staff of account executives, research and support personnel is organized into teams. This offers the clients served by each team more resources to draw from as well as continuity of service.

This arrangement also allows us to rotate travel schedules so there's always a team member in the field to help clients deal with local problems.

YOU MENTION PROBLEMS. HOW INVOLVED DO YOU GET WITH YOUR CLIENTS' PROBLEMS?

We feel that one of our primary responsibilities is to help our clients and their advisers work together with our Associate Insurers to maintain an effective program. Although problems don't arise often, when they do we get as involved as necessary to bring about a quick and satisfactory solution.

Which brings me to another point that separates us from the rest: *flexibility.* If a client asks for something, our people know that they're to do everything possible to get it done. Even if it's never been done before. And if it's a problem on the local level, we go as far up the ladder as necessary with our Associate Insurer to work it out. It's understood. We do it automatically, every day, no question.

So, as far as our clients are concerned, they'd say what really sets us apart is our people and how they work.

BESIDES THIS FLEXIBILITY, IS YOUR STAFF REALLY ANY DIFFERENT?

Definitely.

First, we have more people than anyone else, which translates into better, more comprehensive service. But more important, there isn't another international network that compares with our staff in experience and overall competence.

WHERE DO YOU GET PEOPLE WITH THIS KIND OF EXPERIENCE?

Through our own training program. It allows future account executives to spend two or three years working with one of our teams before they assume responsibility for a client. It's been a very successful program.

Particularly in the field of international networks we feel experience is important. Because while our clients are very sophisticated people, the international concept is still relatively young. So they depend on experienced account executives to guide them through the intricacies of this new business. Not just to service them.

HOW CAN YOU RUN AN ORGANIZATION LIKE THIS AT A COMPETITIVE COST?

Well, we're not always the cheapest, if that's what you mean. But at year end, when you add up all the money you save by eliminating the hidden costs inherent in a less efficient program, we feel we've got everyone beat. Most of the biggest multinationals – and many smaller ones – agree. If they didn't, we wouldn't be handling their business.

Actually, it's the classic difference between getting the lowest price and getting the most for your money.

HOW WOULD YOU SUMMARIZE THE ADVANTAGES OF IGP?

In two words: our people.

Their experience. Their flexibility. And their ability to develop and maintain competitive, effective programs. But to see how true this really is, you should talk to them. Just call (617) 421-2548. Then you'll see what makes IGP the best in the world.

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"We have 37 people with a lot of experience, the largest staff in the international employee benefits field. Naturally, we can offer better and more comprehensive sevices. We play a wacle differen: kind of ball game."

"Unfortunately, many multinationals just consider up front costs. They don't see the hidden costs of a less efficient program. In the end, they could spend as much or more. And get much less."

"People perceive insurance companies, and I think rightfully so in many cases, as a bunch of people who simply go by the book. If it says 'XYZ', you say 'XYZ'. We don't operate that way at all."

"International Group Program" and "IGP" are registered service marks of the John Hancock Mutual Life Insurance Company, Boston, MA 02117, USA.

6 steps avert fiduciary claims: Wyatt

CHICAGO—To avoid fiduciary liability claims and losses, consultant The Wyatt Co. suggests companies follow a six-point plan:

- List all of your plans and all possible fiduciaries within the definitions of ERISA.
- Develop sets of guidelines for permitted and prohibited activities of fiduciaries and parties in interest and make sure all fiduciaries and parties in interest are well acquainted with these guidelines.
- Transfer certain risks to outside professionals, when appropriate and economically sound to do so.
- Establish rules and procedures for meeting the reporting and disclosure requirements of ERISA.
- Make certain of the qualifications of every person or organization involved in your plans, whether an employe or an outside professional fiduciary. The risk of potential liability is in geometrical proportion to the chance of incompetency in the handling of your plans.
- With the aid and advice of legal counsel, consider adopting appropriate by-laws, charter amendments or corporate resolutions, providing for indemnification of officers or employes by the plan sponsor to the extent legally permissible.

"Having done all this, it still may be advisable to carry fiduciary liability insurance," says an extensive report on the specialized insurance by Wyatt.

The insurance, underwritten by 14 insurance companies either in separate policies or as endorsements to other policies, generally protects trustees or other fiduciaries against personal liability suits arising out of their involvement in the plan. It is also intended to reimburse the plan for any losses because of errors or omissions by the trustee or other fiduciary.

The Employe Retirement Income Security Act established fiduciary liability, although liability can be found under statutes and in common law.

Fourteen insurance companies underwrite fiduciary liability insurance policies or cover the risk in an endorsement to another policy, the report says.

Twelve companies provide specific fiduciary liability policies and seven companies will endorse a directors and officers liability insurance policy to include fiduciary liability risks.

The 12 insurers that write specific fiduciary liability policies are: Aetna Casualty & Surety; American Casualty Co. (CNA Group); Federal Insurance Co. (Chubb Group); First State Insurance Co.; Harbor Insurance Co. (Swett & Crawford Group); The Home Insurance Co. (Home Group); Imperial Casualty & Indemnity Co.; International Surplus Lines Insurance Co. (Crum & Forster Group); Liberty Mutual Insurance Co.; Lloyd's of London; Michigan Mutual Insurance Co., and National Union Fire Insurance Co. (American International Group).

Insurers that will provide fiduciary coverage as an endorsement to directors and officers liability policies are: CNA Insurance Group; The Home Insurance Co. (Home Group); International Surplus Lines Insurance (Crum & Forster Group); Lloyd's of London; National Union Fire Insurance Co. (American International Group); St. Paul Insurance Co., and Wausau International Underwriters (Employers of Wausau Group).

An exhaustive Wyatt analysis of the policies underwritten by these insurers suggest the broadest coverage is written by Imperial, Lloyd's corporate form, Liberty Mutual, Michigan Mutual and International Surplus Lines. CNA's directors and officers liability form is described as almost as broad.

Wyatt cites as the most restrictive policies the fiduciary liability insurance policies underwritten by The Home and St. Paul and the directors and officers liability insurance policy of The Home.

Most policies exclude tax penalties, dishonest acts by the insured and claims for "bodily injury, personal injury, property damage liability, libel or slander."

All underwriters impose deductibles, usually to any series of related wrongful acts. First State applies a per claim deductible.

Limits of liability insurance purchased by companies recently surveyed by Wyatt range from $100,000 to $65 million.

As with most insurance policies, the policyholder can't settle claims without the consent of the insurer. Three insurers reserve the sole right to settle claims: CNA, Federal and the liability policy from Employers of Wausau.

All fiduciary policies, with the exception of Imperial's discovered loss form, are on a claims made basis. All insurers give the policyholder the right to extend the policy for varying amounts of time should the insurance company decide to terminate the policy.

While there may be some duplication of coverage provided under employe benefits liability insurance when purchased in addition to fiduciary liability coverage, Wyatt suggests, "It is not advisable to cancel employe benefits liability coverage in favor of reliance on a fiduciary liability policy unless you have assurance from the insurer that such liability is intended to be covered."

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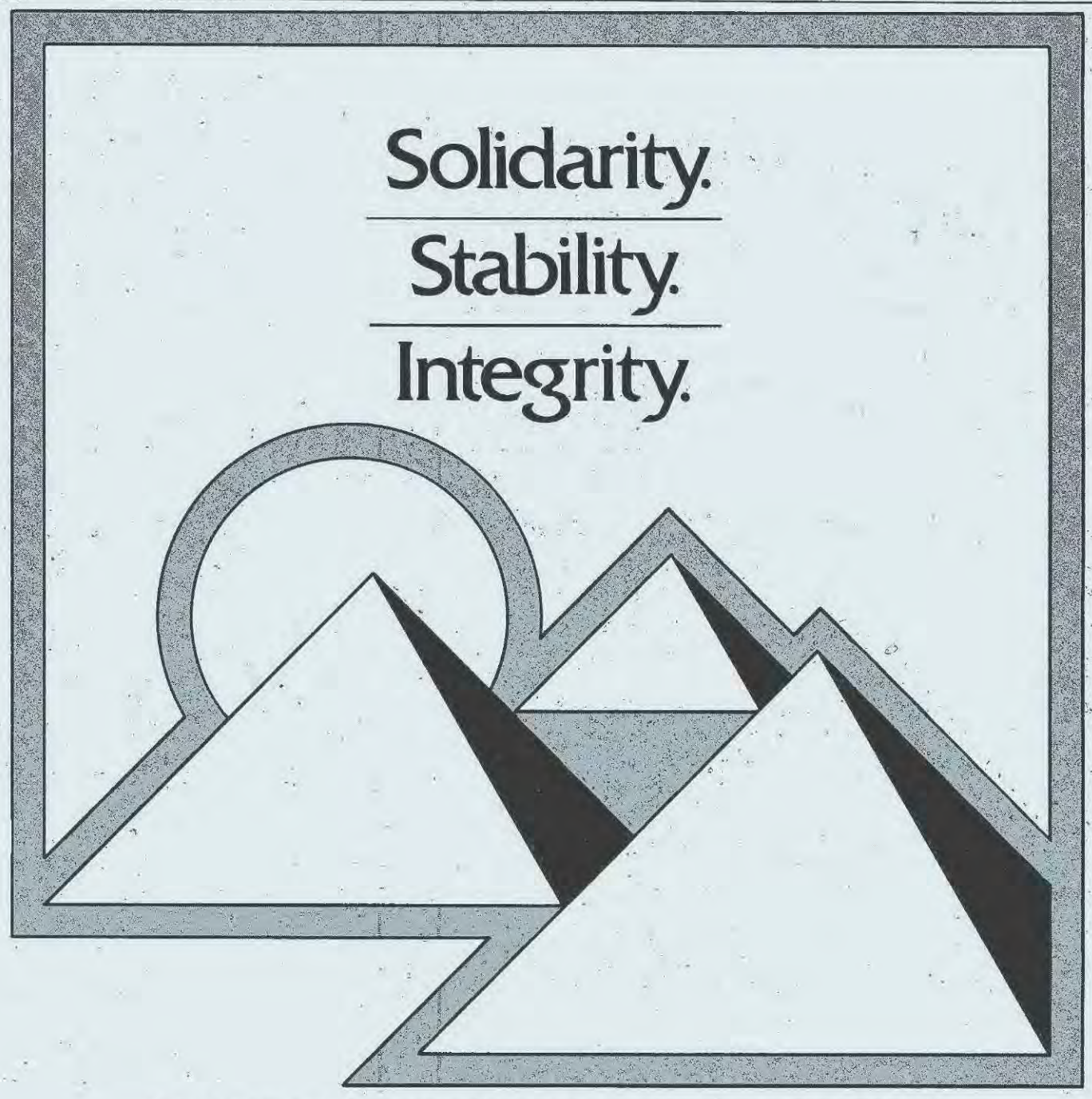
Copies of "Analysis of Fiduciary Liability Insurance Policies" are available free to Wyatt clients. Cost is $15 to others. Suite 5600, Sears Tower, 233 S. Wacker Drive, Chicago, Ill. 60606.

Competency counts

The risk of potential liability is in geometrical proportion to the chance of incompetency in the handling of your plans, The Wyatt Co. says in its report on fiduciary liability insurance.



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Fellows takes over at Swett & Crawford

LOS ANGELES—William F.W. Fellows, president and chief executive officer of Swett & Crawford Group since 1974, has been appointed chairman.

He is succeeded by Mac W. Henderson as president and chief executive officer of Swett & Crawford's worldwide property and casualty insurance and reinsurance operations. Charles L. Norman will take over Mr. Fellows' former responsibility as president of Harbor Insurance Co., a principal Swett & Crawford subsidiary.

Fellows

Mr. Fellows joined Swett & Crawford in 1949, bringing insurance management experience and an extensive background in the Lloyd's of London market. He was elected a vp in 1959, a director in 1964, executive vp in 1971 and president in 1974. He also was president of Buffalo Reinsurance Co. from 1971 to 1977.

Mr. Henderson joined Swett & Crawford in 1972. In addition to his new responsibilities, he continues as president of Reinsurance Facilities Corp., a reinsurance intermediary subsidiary he organized in 1962.

Mr. Norman joined Swett & Crawford in 1962 and has served as executive vp and chief operating officer of the Harbor Insurance Co. since 1971.

Other insurer changes:

comings & goings: buyers

Darrell W. Alligood elected senior vp of the New Hampshire Insurance Co. in Manchester, N.H.

Edward Facciani promoted to resident vp and manager of Mission Insurance Co. in San Francisco.

Edmund F. Golaszewski appointed property-casualty underwriting manager for the standard lines division of Zurich-American Insurance Cos. in Schaumburg, Ill.

Broker changes

Peter R. McPherson elected vp of loss control claims analysis and **Konrad Gerstenbrand** elected assistant vp of James S. Kemper Agency in Chicago.

Peter A. Cohen named account executive with Marsh & McLennan Inc. in St. Louis.

Suzanne W. Schwank named account executive for commercial property and liability with Pritchard & Jerden in Atlanta.

Ben Wilcox joined Adams & Porter Associates Inc. in Houston.

Other suppliers

John N. Corey promoted to senior vp and **Arthur J. Salkin** promoted to assistant vp in the Birmingham, Ala., and Winston-Salem, N.C., offices, respectively, of Booke & Co. ■

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Pro	
40% - 60% discount on New York State group rates	• Requires 10 or more lives • Coverage terminates at age 70

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Standard Life sues to stop takeover

STANDARD LIFE Insurance Co. has filed suit in U.S. District Court of California to stop Kaufman & Broad Inc. and its Sun Life Group Inc. subsidiary from going through with its tender offer for controlling interest in the common stock of Standard Life. The suit charges the defendants with violations of the federal securities laws and other alleged wrongdoings.

The complaint filed by the Indiana-based company alleges that Kaufman & Broad recently sought to sell its insurance business and that one purpose of the Sun Group's offer to purchase Standard Life may be to include it as a part of "a more attractive insurance business package."

"Our analysis suggests that Kaufman & Broad may be in financial trouble and may be attempting to acquire Standard Life to help bail itself out," charges William H. O'Brien, vp of Standard Life. "We are not interested in such an arrangement and intend to resist Kaufman & Broad's offer vigorously."

Meanwhile, in Indiana, the state insurance commissioner has postponed until April 14 a hearing on the tender offer of Kaufman & Broad. Kaufman & Broad cannot buy any shares of Standard Life without prior approval of the commissioner.

Sun Life

Sun Life Group, the Atlanta-based wholly owned subsidiary of Kaufman & Broad, recently reported that its life insurance revenues rose 14% to $36.5 million in the first quarter of 1980. This contributed to an 11% growth in pretax life insurance income to $4.7 million, from $4.2 million earned during the same period in 1979. The company reports that life insurance was the largest contributor to Kaufman & Broad's first-quarter net income, which rose to $4.2 million from $2.6 million, an increase of 61%.

Yasuda

Yasuda Fire & Marine Co. of America has received $2 million in capital funds from its parent, Yasuda Fire & Marine Insurance Co. Ltd. of Tokyo.

Aneco Re

Aneco Reinsurance Co. Ltd. reported an operating net income of $295,000 for 1979, the first full year of business for the Bermuda-based reinsurer. Overall net income was reduced to $72,000, primarily through a $193,000 loss on the company's bond holdings. Net premiums for the year were $1.4 million.

AIG

American International Group has taken control of about 10% of the common stock of United Guaranty Corp., a North Carolina mortgage guaranty insurance holding company. The purchase of the 485,000 shares was completed by AIG subsidiary National Union Fire Insurance Co. AIG officials said the stock purchase was solely for investment purposes.

Lincoln National

Lincoln National Corp. of Fort Wayne, Ind., says it expects improved earnings in its life and health insurance operations to offset continuing worsening property/casualty operating results and boost the company's profit in 1980. Earnings last year rose 6% to $6.85 a share.

BI ticker

INA

INA Corp. of Philadelphia has declared a regular quarterly dividend of 55 cents per share of common stock. The dividend is payable May 15 to shareholders of record April 17.

Connecticut General

The Kansas commissioner of insurance has approved the application of Connecticut General Insurance Corp. to acquire control of ERC Corp.

In Missouri, a June 2 trial date has been set for Connecticut General's appeal of the insurance director's decision to bar the purchase. The trial will be in the circuit court of Cole County.

Nationwide

Nationwide Corp., a holding company with five insurance subsidiaries, increased net income 16% during 1979 to a record $36.3 million. That compares with $31.2 million earned in 1978.

A 31% increase in individual life insurance, combined with a steady rise in investment income, was attributed with much of the company's growth during the past year. Total life insurance sales, including group, rose 26% to $3.3 billion. Group sales grew to $907 million from 1978's $786.9 million, an increase of 15%.

Washington National

Washington National Corp., the Evanston-based life, annuity and health insurance complex, recorded a 3% gain in net income during 1979, to a record $35.8 million from 1978's $31.5 million.

Although all the life insurance operations showed sharp increases over the previous year, the group life division was among the fastest gainers, with sales jumping more than 38% to $1.2 billion from $911 million.

Interstate

Interstate Insurance Group, a Chicago-based insurer that specializes in nonstandard and higher risks, experienced a 14% drop in net adjusted income in 1979. Net income decreased to $4.9 million from the $5.7 million recorded a year ago.

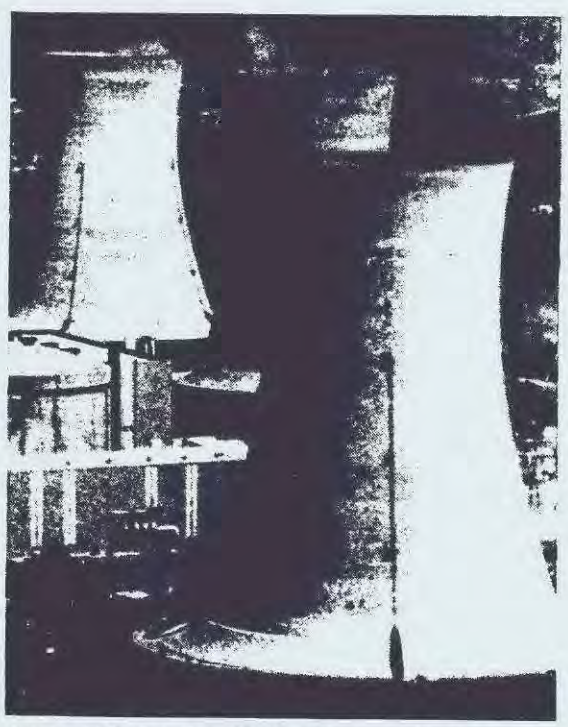
Statutory underwriting income dropped from $3.9 million in 1978 to a loss of $51 million last year, while the combined ratio increased to 98.9% from 88.2%.

McM Corp.

Net income for McM Corp., a North Carolina-based parent company of six insurance firms, increased 15% in 1979, to $10.8 million from $9.3 million. Consolidated revenues for the year rose 24%, to $165 million from $133 million. ■

THE "TAIL" OF TWO CITIES

San Francisco, 1906. An estimated $18,000,000 loss to reinsurers. Our company paid a large share of that loss. Fortunately, in those days the "tail" was a lot shorter and less expensive than it is today.



Three-Mile Island, 1979. The loss? The length of the "tail"? Claims, and losses, will run to the year 2,000. And when inflation is added to the loss picture, the cost of this "tail" will be enormous.

As professional reinsurers, the length and cost of the "tail" of future catastrophe losses is of constant concern. That's why we can promise that we'll be there when you need us, when the next big loss occurs.

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R.N. to develop hospital risk programs

comings & goings: buyers

Karmi Pelston, 40, has been named director of risk management for the Arizona Hospital Assn. In this new position funded by Kellogg Foundation, Ms. Pelston will develop risk management programs over the next three years for nine hospitals in Arizona, Colorado and Idaho. The registered nurse, who has set up risk management programs at St. John's Hospital in Santa Monica, Calif., and Summit Health Ltd. in Studio City, Calif., reports to vp of membership services Robert Crams. She holds an R.N. degree from Toledo Hospital School of Nursing.

* * *

Joseph F. McGuigan was promoted to director of safety and risk management from manager of the same function at Orange & Rockland Utilities Inc. in Pearl River, N.Y. Mr. McGuigan will continue to be responsible for defining risks and implementing protection measures. He joined the utility company in 1948 as a meter tester helper, in 1968 became safety and training manager and in 1972 was named manager of insurance and services. He has certificates in safety and management development from New York University and Rutgers University. Mr. McGuigan, who reports to Orange & Rockland vp and secretary Kenneth A. Archer, belongs to the American Society of Safety Engineers and the Risk & Insurance Management Society.

McGuigan

* * *

Interlake Industries in Oakbrook, Ill., named **Brenda Gillette** senior insurance analyst to replace **Allan Krasner,** who left the company as reported. Previously Ms. Gillette was an adjuster specializing in bond claims at Underwriter Adjusting Co. in Chicago. She has a bachelor of science degree from Iowa State University and reports to assistant treasurer Leonard Hellerich.

* * *

The city of Fond Du Lac, Wis., named **Kevin Houlihan,** 31, to the new position of risk manager. Mr. Houlihan was previously risk and insurance manager for the University of Wisconsin in Milwaukee, a position now vacant. He has a BBA from the University of Wisconsin and is working for an ARM. Mr. Houlihan reports to city manager Myron J. Medin Jr.

* * *

Thomas M. Bulman was named director of the office of risk management for the Commonwealth of Virginia. Mr. Bulman, in this newly created position, will report to H. Douglas Hamner, director of the general services department. Mr. Bulman had been risk manager for the state of Arizona, a position now held by **Ben Nygaard.** Mr. Bulman attended the University of Arizona.

* * *

Harold Vogel, 49, has been named risk manager at Citizens & Southern National Bank in Atlanta to replace **C. David Bass,** who left the company. Mr. Vogel has been an auditor for the bank for the last eight years; he has been with the company for 25 years. The Southern Illinois University graduate now reports to senior vp James Dixon.

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We'd like to report on staff changes in your risk management or employe benefits department. Just drop a note to Mary Ann Matlock, Business Insurance, 708 Third Ave., N.Y., N.Y., 10017 or call 212-986-5050. We'd also like to receive pictures of the people.

letters

Continued from page 8

not in the Bahamas. It was founded by an act of the Royal Colonial Parliament of Bermuda, effective March 31, 1961.

It was the first mutual insurance company founded in Bermuda and at that time dealt only with strike insurance for daily newspaper members of ANPA in both the U.S., Canada and all their possessions. This was a group policy and a requirement of the insurance company was that members of the group, for control purposes, belong to the ANPA or be wholly owned by a newspaper member of ANPA.

The Mutual Co. insures first-dollar defense costs above the deductible which is based on circulation. All of these measures have considerably revolutionized the approach of other insurers to libel insurance, at least in the newspaper field.

Potomac Insurance Co. Ltd., a subsidiary of Mutual Insurance Co. Ltd., insures a large number of weekly newspapers which are not members of ANPA.

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Reserves force black lung rate hike

Continued from page 1

Conning & Co. predicted last fall insurers would need to increase reserves by $1.3 billion to cover black lung claims. The company is now revising its estimate and expects it to be somewhat lower, said analyst Claire Greenspan.

The insurance industry had expected disability benefit payments to mount under the liberalized benefit structure created by the Black Lung Reform Act of 1977.

Under the act, claims for injuries suffered before 1970 are being paid out of a trust fund. Claims for injuries suffered after 1970 are administered by the Labor Department and charged against the coal operator or his insurer.

But the Labor Department has just recently started moving the claims for black lung disability benefits after hiring people to move the backlog of claims. "Liability notices are coming out so insurers are now putting up reserves," the NCCI attorney said. "We've never before had notice of these claims."

Insurers and reinsurers have expected the losses. "This shouldn't be a surprise," the NCCI attorney added.

Higher losses for insurers will result in increased workers compensation premiums charged by the residual market facilities in the various states. These higher costs will be passed on to coal consumers, mostly electric utilities, and eventually to the general public, at a time when coal is becoming an increasingly desirable energy alternative to foreign oil.

Retrospective basis

Old Republic Insurance Co. of Greensburg, Pa., is the only market writing primary black lung coverage on a voluntary basis.

Market sources point out, however, that most of its writings are on a full retrospective basis written for the convenience of mine operators who want an insurance policy as a buffer between them and claimants.

Little transfer of risk is said to take place in the Old Republic programs.

Large coal mine operators usually self-fund the black lung disability payment risk, through captives or 501 (c) 21 trusts. The trusts, named for the section of the tax code permitting their use, are tax-exempt and allow coal mines to tax-deduct reserve payments for filed, pending, paid and incurred but not reported claims for black lung disability benefits.

Stop-loss excess insurance is no longer available. Liberalized eligibility standards forced Employers Reinsurance Corp., the sole aggregate excess insurer, to withdraw from the black lung market last fall.

A footnote in ERC Corp. financial statements admits the company's black lung losses could be greater than its current reserves.

The company did not estimate its potential black lung losses and Don Williams, ERC vp-finance and treasurer, would not discuss black lung claims.

One analyst's guess put the Kansas City-based firm's 1979 and 1980 black lung losses at about $10 million. ■

Suit alleges bad faith

MONTGOMERY, Ala.—A $125,000 lawsuit filed here by a husband and wife charges Blue Cross/Blue Shield of Alabama with negligence and bad faith in handling a major medical expense claim.

Jimmy D. Marsh and Kay Marsh charge Blue Cross led them to believe that all members of their family were covered under an employers' policy when their infant daughter was hospitalized for an illness in mid-1977.

But after the couple submitted a claim in December 1977, they received a form letter from the health insurer in April 1978 saying they were not covered. Because of the delay, Mr. and Mrs. Marsh to lost eligibility for public financial assistance and had to pay their hospital bills themselves.

Attorneys for the Alabama plan declined comment on the case but said the suit will be contested. ■

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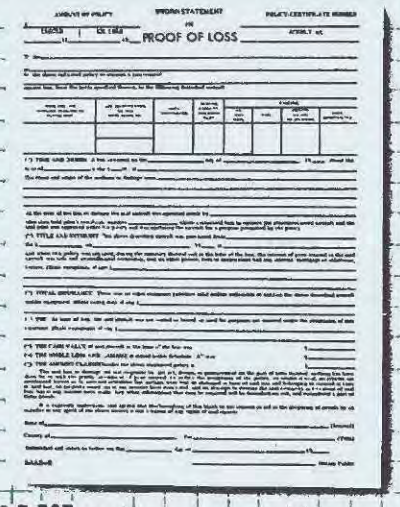

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Grand jury investigates E/S broker

Continued from page 1
underwriting authority of S&L Associates in Aberdeen Township, N.J., were never approved by the purported insurers.

The U.K. insurers Orion Insurance Co., Minster Insurance Co., La Concorde, Pinetop U.K. and Scottish Lion Insurance Co. claimed to have no knowledge of Mr. Campbell, S&L Associates or the principal of S&L, Stanley Siebenberg, who signed the policies.

State investigations

The bogus trucking policies issued to an unknown number of trucking firms have prompted insurance department investigations in New Jersey, Missouri, Florida, New Mexico and Louisiana. The investigations have recently resulted in the forced closing of S&L Associates and the suspension of the license of Mr. Siebenberg in New Jersey, according to the New Jersey insurance department.

The new Kentucky investigation, say sources, centers on the property damage risks after attorneys Le Boeuf, Lamb, Leiby & MacRae, representing three of the insurers, circulated letters denying coverage.

Attempting to provide replacement for the coverage that did not exist, Mr. Campbell tapped the resources of his own Highlands Mutual Insurance Co., the Kentucky department says. Now the question is whether or not the Highlands is adequately reinsured for the risks.

No claims are outstanding in Kentucky, according to the department.

Highlands Mutual does not have a listed telephone number in Lexington where its address is a post office box number. Mr. Campbell would not return messages placed with Transportation Insurers Inc., which is currently operated by his wife Janice Campbell, who is still a licensed broker.

"After we circulated a letter on behalf of our clients, I don't really know what happened to the risks," explained Thomas Burke, partner at Le Boeuf, Lamb, "but the problems stemming from the S&L Associates alleged policies have been spreading all over the place."

Mr. Burke entered the case when the Florida insurance department contacted client insurers, including Orion and Lloyd's, in response to complaints about unpaid claims. In Florida, the coverage was sold by Global Underwriters agency on the alleged authority of S&L Associates, Mr. Burke said.

Reinsurance help

"My clients had never heard of S&L, so obviously the firm and principal Stanley Siebenberg had no authority," he said. "In tracking this down to other states, we came in contact with Mr. Campbell."

Mr. Siebenberg, however, told *Business Insurance* that his only direct connection with Robert Campbell was helping him negotiate reinsurance for Highlands Mutual with a Jamaican insurer, Central Fire Insurance Co., in 1978.

When Mr. Campbell later sought trucking coverage, Mr. Campbell's brokerage contacted the Florida firm, Global Underwriters, for help in placing the coverage. Global, Mr. Siebenberg said, contacted him for help. At the advice of London broker George Herbert, Mr. Siebenberg said he recommended three U.K. insurers—Orion, Sovereign Fire & Marine and Turguem Insurance Co.—to underwrite physical damage insurance for Mr. Campbell's clients.

"What Mr. Campbell did was have cover notes printed up and sign my name to them," Mr. Siebenberg charged. "Through Global, I had him on a monthly reporting form for trucking physical damage.

"He was collecting an annual premium and only sending me small premiums, say, every other month, based only on the accidents he reported."

No approval

The coverage, though, according to LeBoeuf, Lamb, had never been approved or recommended to the British insurers.

"A couple of times," Mr. Siebenberg added, "I came across claims from trucking firms that I did not have recorded.

"When I asked Mr. Campbell, he just said he would take care of it. When an agency says it will take care of a $10,000 claim on its own, you know something is wrong," he said.

'Nightmare' situation

When Mr. Siebenberg attempted to open a New York state office under the initials of his children, S.A. Blythe, he said, cover notes that he had never issued began to turn up, bearing the name S.A. Blythe and his old New Jersey address. He accuses Mr. Campbell of issuing them.

"This whole thing has been like a nightmare to me," Mr. Siebenberg said. "I've had everybody from insurance departments to the FBI in here looking at my books. And the whole situation is so complicated it could take me years to explain."

Thousands of policies may be involved, he said. ■

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Planning migrants' benefits

Continued from page 3
full-time employment.

Eligibility standards are less stringent in the UFW's medical plan than for the Citrus Insurance Fund's health plan. The UFW self-insures the benefit with employer contributions of about 34¢ per employer-hour worked. Lower contributions are paid by some employers.

To receive minimum benefits a man and wife must together work 50 hours in three months, 100 hours in six months or 150 hours in nine months. Minimum benefits provide outpatient care only, however. Each spouse, as well as each dependent child under age 19, may receive up to $8 per doctor visit; $200 for lab tests per calendar year; $60 for prescription medicine; $50 for emergency room care; $50 for ambulance services and $50 for emergency dental treatment.

Hospitalization and major medical coverage are also provided. Each family member receives up to $800 for in-patient hospital care and $500 for surgery. In addition, at the second level of benefits, 80% of in-patient bills are paid up to $2,000. That limit is increased to $10,000 under the best plan for workers who can establish eligibility—250 hours worked within the preceding three months, 500 hours within the preceding six months, or 750 hours within the preceding nine months.

Until recently, most growers paid 16.5 cents per employe-worked hour into the plan. With new contracts requiring more than double that amount, "we are reviewing and analyzing the plan to put it in line with increased contributions," says Mr. Magana.

About $10,000,000 has been paid in medical claims out of the plan since it began in 1969, Mr. Magana said. Until 1979, however, the plan included only minimum benefits without major medical coverage. Both the Robert F. Kennedy Medical Plan and the Juan de la Cruz Pension Trust try to hold administrative costs to 5% of revenues, estimates Marc Grossman, a top UFW administrator. ■

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Photo: Fireman's Fund

The safety records of corporate van pools have been excellent, and drivers are usually carefully screened.

Van pool bandwagon picks up more riders

Continued from page 1

vans, risk managers report few problems finding insurance since the Insurance Services Office established a separate classification for the risk two years ago. ISO took van pools out of the livery class, grouped with trucks and other common commercial carriers, and created a separate category whose rates are closer to those of private passenger automobiles.

A few years ago it could cost $2,000 to insure a van used for ridesharing, recalls Dr. Frank W. Davis, professor of transportation at the University of Tennessee in Knoxville and one of the nation's foremost experts on the subject. Today coverage is generally available in the $250 to $700 bracket, he says.

Individual cases

Insurers are more reluctant to quote premiums, saying risks vary enormously and must be considered on a case-by-case basis.

The Travelers Insurance Co., described as a good market by insurance buyers, follows "normal underwriting procedures" in its approach to van pools, reports Tony Rezoski, assistant director of commercial lines. He describes the company's attitude as "interested, but not aggressive."

Good driver selection and control weigh heavily in The Traveler's underwriting criteria, Mr. Rezoski says. "Van pool risks also are more attractive if we are already handling collateral lines of coverage for the customer."

Aetna Insurance Co. writes the business as part of a corporate fleet policy but not on an individual separate contract basis. Workers compensation questions are still a roadblock to stronger marketing of van pool coverage, a spokesman said.

Indeed, "If there's any one insurance issue that could dampen enthusiasm for van pooling, it's workers compensation," said Clarence Shallbetter, president of Ridesharing Inc., a private corporation founded in St. Paul in January to provide employer transportation services. Mr. Shallbetter is also a member of President Carter's National Task Force on Ridesharing, organized to identify and promote ridesharing to employers around the country.

"Workers compensation is still an unresolved issue that is a cloud over ridesharing," Mr. Shallbetter contiued. The laws governing liability vary from state to state, but in general the courts have shown a recent propensity to extend employers' responsibilities under workers compensation laws.

Ironically, workers compensation would probably be the most economical approach to insuring van pool risks involving employes. But such limited liability would not protect employers against civil lawsuits. Consequently, some employes worry they could be hit from two directions: higher workers compensation as well as automobile liability premiums.

These fears are probably more "illusory than real," Mr. Shallbetter contends. Workers compensation costs have risen so dramatically over recent years that employers are skittish of anything that threatens to hike premiums, he says.

Business Insurance was unable to locate a single claim to date against an employer's workers compensation insurance arising out of a van pool incident.

The giant corporations that own and operate van pools are probably not too concerned about primary coverage, Mr. Shallbetter noted. They figure that if an employe is hurt, the company will pay out of one pot or another, whether it be under health and life, automobile liability or workers compensation.

It may be tougher to get insurance in some no-fault states in which liability automatically follows either the van or the driver, insurers say.

One such state, Colorado, recently passed legislation to encourage ridesharing by shifting primary responsibility for personal injury from the driver of a vehicle to the individual passengers. The bill (S.B. 1) also increases the no-fault threshold from $500 to $5,000 in ridesharing accidents.

Excellent record

Legal observers, however warn this section of the law may be short-lived. A similar law in Michigan was recently overturned, they point out, on the grounds it treats risks unequally.

Proponents of corporate van pooling stress the safety performance has been excellent. This is not surprising, they say, since drivers are usually carefully screened, travel the same familiar route every day and are under peer pressure to drive defensively.

Insurance companies, in fact, have been in the forefront of the van pooling boom across the country. The Prudential Insurance Co., with fleets at nine regional home offices and some satellite locations, boasts a corporate fleet of 275 vehicles, making it the largest corporate van pooler in the U.S., said a Prudential spokesman.

Fireman's Fund in San Francisco has been expanding its van pool fleet. About 260 employes in 25 vans now travel to the two San Rafael offices and the home office in San Francisco. ■

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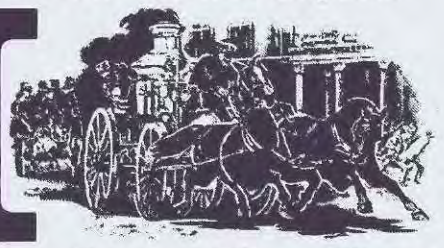

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Use strict liability: Ont. panel

Continued from page 2

free ride," says Mr. McArthur of Canadian Gypsum.

The commission, however, wants to increase the exposures of American companies exporting to Canada—a step the commission says is long overdue.

U.S. manufacturers

"The American manufacturer who distributes goods in Canada finds himself more favorably treated here than at home," the commission noted. "In view of the very close trading relationship between the United States and Canada . . . the disparity in levels of liability seems strange." Strict liability was adopted by a majority of the states in the 1960s.

The commission found little sympathy with arguments that manufacturers' liability needs to be cut off after a certain number of years.

A 10-year statute of repose inevitably would present "very real practical problems" to the consumer. In the case of many products, an initial defect may not come to light within 10 years of the time a product is sold. Furthermore, some products, such as aircraft parts or building materials, are expected to last more than 10 years, the commission said.

Defense rejected

Similarly, the commission rejected an absolute defense for manufacturers based on compliance with government safety standards—a proposal business groups in the U.S. have been urging their state legislatures to adopt.

"In our view, it would be unwise to adopt a rule making compliance conclusive . . . proof of the absence of a defect. Often, statutory standards are incomplete, out of date or are enacted for social purposes other than product safety," according to the commission.

Instead, the commission recommends compliance with government safety standards be taken into account by courts when determining liability.

•

Copies of the Ontario Law Reform Commission's "Report on Product Liability" may be obtained from the Government Bookstore, 880 Bay St., 5th floor, Toronto, Ont. Canada M7A1N8. A check for $3.25 must accompany an order.

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Plans take many forms

Premium deferral plans mean premiums are paid in installments, one-twelfth each month or only a deposit in the first month and no payments until losses occur.

Deferral plans have evolved into a complicated formula under which an estimate is made of the first premium return at the time of the first retrospective adjustment. Premium payment is then deferred until the first adjustment is actually made, and then the debit or credit to the account increases or decreases the amount of the first installment.

A compensating balance plan allows a policyholder to put a deposit premium in the bank of his/her choice in the name of the insurer and guarantee the balance required to pay any losses during the year by using a line of credit.

Paid-loss retro plans require a policyholder to deposit a minimal percentage of the annual premium with the insurer and a promissory note or letter of credit for the rest of the premium. More payments are made as losses occur.

Regardless of the type of plan, the policyholder is usually permitted some credit throughout the year for a portion of the interest income earned on reserves held by the insurer.

Liability programs put cash in buyer's coffer

Continued from page 1

come up with a lot of cash quickly to pay a big loss, they add.

Nearly all property/casualty insurers are offering buyers cash flow programs to grab an account.

But one of the major property insurance markets, the Factory Mutual System, remains outside the competitive fray.

Despite corporate insurance buyers' growing demand for the use of their cash that is tied up in premium deposits amounting to roughly three years of premiums, FM insurers don't plan to change their payment requirements, said David Brower of Arkwright-Boston.

In the face of some resistance among buyers, Mr. Brower defended the system's payment requirements. "It's not a policy we apply haphazardly; the requirements apply to all our insureds. It's the way we do business."

The property insurer's purist approach is in sharp contrast with the compromises the liability market will make for large and small accounts.

"You don't have to be a jumbo risk to take advantage of their offers," said a risk manager for a national chain of sportswear stores based in Northern California.

In a recent remarketing of the retail risk, "We received quotes requiring as little as 30% down with nine monthly installments and 20% down with 11 monthly installments on liability insurance premiums in the $200,000 range," the risk manager said. "From our standpoint, the competition in the market is a phenomenal advantage to our cash flow situation."

Paid loss retros

"It would not be at all shocking for a corporate insurance buyer to be able to defer 25% or more of the premium and not pay it at all during the policy year," said an executive of a major New York broker.

"More buyers are demanding cash flow programs today than ever before," said a spokesman for Liberty Mutual Insurance Co. in Boston, a leading provider of cash flow programs for nearly a decade.

Among the most popular devices for keeping the corporate cash flowing are paid loss retro plans, which allow policyholders to defer paying premiums and instead pay losses as they occur.

The advantage of paid loss retros "is that you have the reserves, not the insurance company," said the risk manager for an East Coast-based pharmaceutical manufacturing firm. "With interest rates at 20%, that's a significant financial advantage."

Almost every liability insurance underwriter offers paid loss retros. However, in California the insurance commissioner ordered companies to stop writing paid loss retros for workers compensation premiums, pending further investigation (*BI*, Nov. 26, 1979).

"The momentum is building for paid loss retros," said Leonard P. Lawrence, president of broker Emett & Chandler Inc. in Los Angeles, "instead of the emphasis on captives and other forms of self-insurance."

Joseph Lombardo, senior vp at Schiff Terhune in New York, described the trend as a "back to the basics approach."

"For insureds that aren't ready to take the plunge into captives or don't want the hassles of administering a self-insured plan, premium deferred plans like paid loss retros are the answer to cash flow problems," Mr. Lombardo said.

Underwriters that lost millions of premium dollars to captives and self-insurance in recent years admitted the current varieties of cash flow programs represent an attempt to recoup that business.

"After fighting self-insurance tooth and nail for years, insurance companies are realizing it's better to offer attractive alternatives," said Samuel Alcorn, senior vp at broker Bayly, Martin & Fay International Inc. in Los Angeles.

The loss of investment income by allowing policyholders to defer payment of premiums is more than supplemented by the gain of business, Mr. Alcorn added.

According to Emett & Chandler's Mr. Lawrence, the competition for that business is so fierce "whether the money is paid upfront or down the road is secondary; the rates and premiums are the issue."

Perhaps a bit dazzled by the current very attractive array of cash flow programs and competitive premium rates, risk managers are nevertheless jaded about the motives behind the underwriters' seeming largess.

"Insurance companies certainly aren't offering cash flow programs as a loss leader," said William Dodge, risk manager at Fuqua Industries in Atlanta. "The buyers are paying for it, either at the front end or later on in the policy period."

At Kaiser Aluminum & Chemical Corp. in Oakland, Emmett Monahan, director of insurance, noted, "All these schemes start off with insurers knowing they have to make a certain amount of money on the risk. They may defer it to the future, but they'll make it eventually."

Individual factors

Underwriters are charging for their "loss of use of money," Shiff Terhune's Mr. Lombardo said. "They know how much they need for overhead, administrative costs and profit. Somewhere in the premium either hidden or upfront is a charge for that loss."

Premiums for cash flow programs are individually calculated. Factors considered include loss experience, size of the risk and how badly the insurer wants the business.

Not all risk managers are enticed by cash flow programs currently being marketed.

"Unless you're really strapped for cash, I'm not convinced paid loss retros and other such programs are the way to go," said Mr. Monahan of Kaiser Aluminum.

His counterpart at an East Coast-headquartered manufacturing company pointed out that the advantage of cash flow today could be wiped out by a hefty bill for a loss that occurs tomorrow.

A big loss could wipe out a company that hadn't reserved for it, the risk manager warned. "If your company is marginal on cash, you might look at other methods of saving than your insurance program." ■

Big business for CNA

Cash flow programs amount to big business for CNA, one of the dozen leading insurers anxious to offer their choicest customers flexible payment plans.

"Cash flow plans constitute a pretty substantial part of our overall book of business," says Thomas M. Harmon, vp of CNA's national accounts division. "This business is growing fast; it's very much in demand."

During the last 18 months, cash flow plans have exploded in popularity, largely because of the combined factors of tight insurance markets and the high cost of money, says Mr. Harmon of CNA. CNA has a few scattered customers with cash flow plans begun as long ago as the early 1970s, but now has probably two dozen customers using paid loss retro programs alone, and this is only one type of plan, Mr. Harmon says.

CNA figures it should make a profit of at least 5% to 8% on each cash flow account. To ensure this return, CNA runs each prospective casualty account's loss statistics and premium plan through a computer model that predicts the bottom-line payments on behalf of the policyholder, charging a fee based on the findings.

"This business isn't as lucrative for us as traditional kinds of insurance, but it is profitable," Mr. Harmon says.

Paid loss retro plans and premium deferral plans are the most popular cash flow programs, while fewer corporations establish compensating balance arrangements with their insurers.

CNA, for example, has more customers using straight deferral plans than any other type of cash flow programs, although the greatest dollar volume for CNA is in paid loss retros.

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- ☐ Does your policy provide defense costs within limits of liability?
- ☐ Does your policy limit loss to damages by definition, and exclude non-pecuniary claims?
- ☐ Does your policy by definition exclude employee benefits liability losses?
- ☐ Does your policy include outside persons as insured fiduciaries?
- ☐ Does your policy contain a limited retroactive acts exclusion?
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- ☐ Has your policy been purchased without the advice of competent legal counsel who has rendered an opinion in writing as to which contract he felt offered the broadest coverage?

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