

Burmah's unique plan pays dividends

HOUSTON—Burmah Oil & Gas Co. recently completed the placement of a record-breaking risk in the world's insurance markets, establishing some major precedents and saving Burmah substantial premium dollars.

The person behind the whole marketing effort was Allon J. Greene, property and casualty risk manager, who approached this problem in some entirely new ways because he figured "this was a good risk, and there just had to be a better way to place it."

With this program, Mr. Greene and his associates established several "firsts" in the insurance industry, including:

- **Capacity:** Burmah obtained over \$300 million worth of coverage for the largest single offshore oil drilling platform ever constructed, also the most Northerly platform location in the North Sea fields, standing in 550 feet of water and subject to waves up to 96 feet. The previous high capacity for offshore platforms was \$160 million on a single risk.

- **Policy layering:** The placement is the first such layered offshore construction program, with the first layer to \$175 million, second layer \$25 million in excess of that, third is \$15 million over that, fourth is \$85 million over that, and the fifth is \$25 million excess over \$300 million.

- **Joint participation by underwriters:** The placement is the first offshore oil drilling risk on which more than 100 insurance carriers are on the policies jointly, said Mr. Greene.

- **Approach to markets:** The placement is the first which resulted in "such close control" between world insurers and Burmah's managers, Mr. Greene believes.

- **Use of manuals:** Mr. Greene prepared large detailed manuals describing the risk, the coverage

needed and other technical details to be used in the rating process, and mailed them out as an initial presentation of the risk for review and analysis purposes.

THE OBJECT of this whole exercise was to achieve the ultimate degree of control of markets. And it worked, Mr. Greene is most pleased to admit.

The premium cost savings were enormous, for Burmah and the eight other companies participating in the joint venture which

controls ownership of the huge offshore platform, Mr. Greene told *Business Insurance*. He noted with this size of risk, quite the opposite result could have occurred had the nine owners of the rig and the contractors gone helter-skelter into an increasingly tight marketplace.

A one cent reduction in the rig rate meant a premium savings of \$30,000. Mr. Greene disclosed that Burmah spent some \$20,000 on travel expenses for himself and

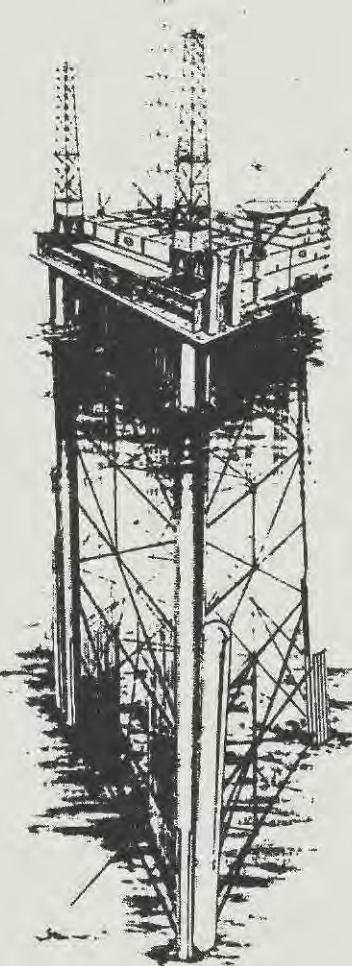
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Week of April 21, 1975

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Rules bar expensing of future uninsured losses

STAMFORD, CT.—The Financial Accounting Standards Board issued final rules governing corporate accounting for self-insured and uninsured losses which corporations believe will occur sometime in the future.

The rules, essentially the same as proposed last year, (*Business Insurance*, Jan. 13) are important to corporate risk and insurance managers since many companies which have routinely recorded as expenses in their periodic financial statements the amounts charged to "accrued reserves" for future self-insured losses will no longer be able to use this accounting method.

The FASB established certain ground rules for making these accruals from now on. Both of two conditions must be met before such expenses can appear on the profit and loss statements, once the rules become effective July 1, 1975, the board said. First, "it must be probable that an asset had been im-

paired or a liability incurred at the date of the statement," and the amount of the loss must be reasonably estimable. The FASB defined a "probable" loss as a future event which is "likely to occur."

Thus, allocation of predicted loss costs for most self-insured property and liability risks "would not be appropriate until the actual event" giving rise to a loss has taken place, the FASB said.

IT'S NOT KNOWN exactly what impact these rules will have on corporations' risk retention or self-insurance programs. While many brokers and risk management consultants contend the impact will be minor, those firms responding to the FASB's proposed rules last fall said they would:

- be forced to buy insurance (or reinsurance in the case of insurance companies and captive insurers) if not allowed to accrue for future losses;
- look less favorably upon risk

retention and self-insurance if large losses have to be recorded in total at the time they occur, causing a volatile profit and loss picture. This could force companies to turn to insurance because of their need to have a stable pattern of profit growth so that investors are attracted to the company.

In a surprise move, the Financial Accounting Standards Board included in its accounting rules for self-insured future losses two rules governing "payments to

insurance companies that may not involve transfer of risk."

It appears that one of these may affect the way companies record expenses for premiums paid to insurance underwriters used as fronting companies in various kinds of insured cash flow plans. The FASB's line of reasoning is that some insurance contracts, despite their form, do not "provide for indemnification of the insured by the insurer." In these cases, the premium paid, less the amount of

the premium to be retained by the insurer or reinsurer, "shall be accounted for as a deposit by the insured or the ceding company," said the FASB rules.

"Those contracts may be structured in various ways, but if, regardless of form, their substance is that all or part of the premium paid by the insured or the ceding company is a deposit, it shall be accounted for as such," the board declared.

Continued on page 8

Survey reveals which risk managers are seen as foremost in their field

By STEPHEN D. GILKENSON and SUSAN ALT

CHICAGO—A good risk manager is loyal, trustworthy, thrifty and brave. As well as tenacious, of course, not to mention any number of other things.

Executives of insurance companies and major national brokerage firms as well as independent consultants, told *Business Insurance* in a wide-ranging informal survey conducted two weeks ago that they judge risk managers by a host of conflicting criteria. Sometimes the risk manager must have a mixture of seemingly impossible qualities in order to be forceful yet effective in his own organization.

In fact, the clearest criterion revealed by more than 30 phone conversations is that an exceptionally good risk manager is, above all, effective in his own organization. "It's not necessarily the manager who is in front of the public a lot, or who only talks a good game," summed up a top official of an underwriter.

Thus, nearly everyone agreed that judgments about the so-called superlative risk managers may be distorted, because the most effective individual in the whole country in terms of his or her impact on one corporation may be virtually unknown.

Acknowledging that truism, this magazine compiled a list of 18 risk managers judged to have had a substantial impact on insurance markets and the risk management profession. In addition they were noted to have displayed technical knowledge of risk management and insurance coupled with unusual ability to solve problems within their companies.

Some of the risk managers are

RIMS/Dallas

CONFERENCE spotlight issue begins on page 25. The focus: *The economy and its effect on risk managers. A survey of leading corporations disclosed widespread belt-tightening, page 25. Premium financing firms register growth, page 30. Laid-off workers care for recessionary ills, cause benefit bulge, page 42. Managers eye money flows, page 44.*

Moving contrary to the recession, however, are oil-related industries. Associate editor Margaret LeRoux visited Texas for a view of risk management in the field: Pollution control (page 29), insurance (page 34), and programs at Penrod, a leading drilling contractor (page 38). Risk manager at LTV Corp., shared views on conglomerate risks (page 26).

persons who've been in the insurance and risk management field for 20 and more years, such as E. William Altstaetter with Rockwell International Corp., Charles F. Krauter of W. R. Grace Co. and Waller Smith of United Air Lines Inc. One well-seasoned team, mentioned numerous times in a single breath, includes Woody Paris, Walt Woodard and Robert Hoff of Boeing Co., described as a singularly effective group.

Also ending up on the newly-compiled list of some exceptional risk managers were Allon Greene of Burmah Oil & Gas Co., Edward Kettel of Atlantic Richfield Co. and William Baxter of J. C. Penney Co. Inc.

Also among the most capable risk managers were S. Peter Law of U. S. Industries, Charles Bailey of Tenneco Inc., Howard Weber of 3M Co. and Richard Soper of Levi Strauss & Co.

Risk managers having 15 years or less in the field and mentioned as having had a notable impact on the industry and their own companies included Rollyn Storey of SCM Corp., Burton Carbinio of Schlumberger Ltd., Stefan Valovic of Kaiser Aluminum & Chemical, Herbert Cunningham of Transamerica Corp. and Irvin Nicholas of the University of California at Berkeley.

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FIA plant inspection cut draws clients' ire

By MARGARET LeROUX

NEW YORK—An apparent failure by the Factory Insurance Assn. (FIA) to communicate a change in its fire inspection schedule has raised the ire of some insureds.

"All of a sudden we're getting fewer inspections than last year on the same property insured with the FIA," one risk manager told *Business Insurance*.

FIA, however, maintains the inspection schedule has been changed only to reflect inflation's effect on the value of properties insured with them.

According to a change in fire inspection schedules implemented "late in the final quarter of last year," an FIA spokesman said, "if a property value stayed the same, there would be a slight decrease in inspection frequency, but if there were a substantial increase in the

value of the property, inspections would be more frequent."

"I'm not sure what they mean by inflationary trends," another risk manager said, "but 25 of our plants are getting less frequent inspections than last year with no change in premiums or premium credit."

THE RISK manager explained that on a combination direct damage and business interruption policy with the FIA, his company had a schedule providing for an inspection every nine months for plants valued between \$1 million and \$3 million; one inspection every seven months for plants valued between \$3 million and \$5 million; and one inspection every five months for plants valued between \$5 million and \$7 million.

FIA changed the schedule, rais-

Continued on page 2

FIA inspections . . .

Continued from page 1

ing the property values qualifying for these inspection schedules. Properties valued between \$1.3 million and \$4 million now get inspected once every nine months; properties valued between \$4 million and \$7 million get inspected once every seven months; and properties valued at more than \$7 million get an inspection every five months, the risk manager said.

The two-month lag in inspections in the new schedule could mean a significant increase in fire hazards in any plant, the risk manager claimed.

The entire thrust of the "highly protected risk" (HPR) program is the basis for his corporation's insuring with FIA, he continued. The decrease in inspections will have a definite effect on loss prevention, the risk manager said.

FIA claims that monetary value is but one of a number of criteria used in determining how often a property requires inspection.

THE HAZARDS involved, the size of a property, type of occupancy and the quality of risk management are other considerations used in determining inspection frequency, a spokesman for the FIA said.

A high-risk property with the same value as that of a low-risk property will require more attention and more frequent inspections, he continued.

When asked how inflationary changes in inspection schedules were determined, the FIA spokesman said that such information was "not available at present," and that "the basic inspection schedule is proprietary information."

"Our level of service is still adequate for this period of inflationary economy," he stated.

He noted that until the change in inspections occurred, he had no criticism of FIA's service. "We think they provided excellent service in the past," he said. But the underwriter's failure to inform insureds of the altered inspection schedule is unfair, this risk manager claimed.

"Apparently the change went into effect last August, but we didn't find out until last month," he said.

Inspections are a plant level activity and it's not until summary reports are forwarded that corporate headquarters is informed of any changes, the risk manager explained.

He advised other FIA insureds to check with their plants on the fire inspection schedules. "I'm sure there are a number of risk managers who don't even know they're getting fewer inspections," he said. ■

Most highrise fires due to 'human error'

PHILADELPHIA—Although stringent codes and regular fire inspection make it "unlikely" that a towering inferno-type fire could occur in a high rise building in the U.S., "human error, ignorance and carelessness" might lead to a holocaust despite the absence of construction or design deficiencies, said Lt. Michael Dougherty of the city's fire department.

Lt. Dougherty, who addressed the Mutual Insurance Engineer's conference meeting here said the following examples of human error could create unnecessary risk:

- allowing building conditions to deteriorate to the point at which a fire could occur;
- failure to sound the alarm and notify the fire department

and evacuate the building;

- attempting to fight the fire before notifying the fire department or before leaving the building; and

- failure to compartmentalize the blaze by leaving doors open.

Referring to a highrise fire in Sao Paulo last year which took 170 lives, Lt. Dougherty stressed that the cause of the fire was "not inevitable" in spite of a design feature that allowed for only one stairway that could be used for evacuation after the fire started. The cause was due to human error, he said.

The city fire department has conducted a training program to explain the special conditions of older buildings where pre-code conditions exist, he said.

The department assigned a special highrise team to full time fire prevention activities such as teaching all highrise building managers and tenants about fire safety and life-saving techniques. ■

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Agents and brokers important notice

A mailing of questionnaires for the fourth annual *Business Insurance Agent/Broker Profile* issue, to be published July 28, went out today. For further information on how your agency or brokerage may have a listing included in this issue please see editorial on page 14.

Vol. 9 No. 8—Business Insurance is published every other Monday at 740 Rush St., Chicago, Il. 60611. Controlled circulation postage paid at Chicago, Il. Copyright 1975 by Crain Communications Inc.

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Illinois risk manager uses computer to cut costs, self-insure, control losses

By PAUL R. MERRION

CHICAGO—"If risk management is in its infancy, governmental risk management is even more so."

But if Illinois risk manager Donald Schieck says he is crawling like a baby with his insurance program, his predecessors and non-risk management-oriented insurance managers in government elsewhere are not even out of the play-pen yet.

While at the top Illinois insurance post for barely a year, he has managed to lop off more than \$600,000 from the state's insurance bill by putting into practice some basic risk management principles.

For instance, he cut the vehicle insurance premium by \$90,000 after he looked closely at the policy and found that many unlicensed vehicles—such as lawnmowers and snowplows—were insured unnecessarily.

And he saved the state about \$350,000 when he stopped buying builder's risk insurance for projects that in most cases were already covered by the contractor's own insurance. Usually, he said, the individual policies covered more exposures, such as transit risks.

CONSOLIDATION AND elimination of many other insurance policies created savings elsewhere, and he expects to put those savings into the million dollar range in future years.

Part of those savings will come from his newly received authority to self-assume workers' compensation insurance. With a \$5 million claims budget, he hopes to drastically reduce costs through a computerized central data file, safety programs, and better financial management, including use of excess aggregate stop-loss insurance. "Risk management practices have been lacking in workers' compensation," Mr. Schieck said.

His main tool in putting the Illinois insurance program on a risk management basis is an electronic data processing system for loss control that is better than many comparable systems in private industry, Mr. Schieck said. For instance, he can pull quarterly or yearly vehicle accident reports from the state's own computer, broken down by type of accident, cause of accident, department, and other criteria.

Developed by Mr. Schieck and his staff last October (and programmed by an outside firm), the data processing system will be expanded regularly to keep tabs on all aspects of the Illinois insurance program, he said. During the next fiscal year, he plans to develop a computerized inventory of all state property. An historically self-assumed risk, property exposures may be self-insured when Mr. Schieck figures he has enough data, such as what it would cost the state to replace a building destroyed by fire.

The computer has already paid off with large savings on vehicle insurance.

Armed with accurate accident

Argonaut not reinsuring

Argonaut Insurance Co. said April 8 that it is withdrawing from the reinsurance market. Jerrold V. Jerome, the firm's president, said the decision was made to allow Argonaut "to devote its time and efforts to its basic workers' compensation and related liability lines." Mr. Jerome emphasized the decision would be carried out in an "orderly" fashion.

information on the state's almost 11,000 vehicles, Mr. Schieck was able to set a minimum unit risk charge of \$36 that could be allocated to each automobile or truck within a department. Based on the loss history of the department, he then makes additional charges where the accidents occur most often.

The new vehicle insurer, Trinity Universal Insurance Co., Dallas, had to make two important agreements to win the three-year, \$765,000 premium contract: They use accident report forms specially developed by Mr. Schieck and his four-man staff, which facilitates computer analyses of losses, and the company employs an engineer to design a safety program.

So far, Mr. Schieck has found that 86% of the accidents are the result of the driver's failure to recognize a dangerous driving situation and, thus, were preventable. He has instituted a loss review board to investigate drivers with bad safety records.

Also, the capacity for producing OSHA reports on state employee accidents is being built into the system, even though the information probably will not be required for years.

BUT COMPUTERIZED data control is not new to risk managers everywhere. Mr. Schieck, who was previously the assistant risk manager at Rockwell International Corp., said although there are

many similarities between government and business risk management, some problems must inevitably be unique.

One of Mr. Schieck's major jobs in the last year was arrangement of the insurance details for the new Illinois lottery. A system for bonding the 10,000 people who sell the lottery tickets was developed so that the cost per agent is only \$.39 for a \$10,000 bond, compared to the \$1.25 per person charge if the bonds were bought on an individual basis. National Surety Corp., a subsidiary of Fireman's Fund Insurance Co., does the bonding.

He also set up a program with Metropolitan Life Insurance Co. to guarantee prizes to the lottery winners, because of the lottery commission's concern that future state legislators might not appropriate payments. For \$435,000, the state purchases an annuity that guarantees the \$1 million winner his annual prize of \$50,000 for 20

years, Mr. Schieck said.

Mr. Schieck and his staff also rewrote and consolidated all the personal liability policies because in many cases they were not comprehensive enough, he said. An important feature of the policies for police officers is that they now include protection from suits for violation of constitutional rights.

BUT, AS MR. SCHIECK said, most of the exposures in government and business are the same, so the risk management techniques are the same. "The problem is, you have to make the insurance program fit the statutes and the accounting system," he said. "Since no state has unlimited resources, the purpose of risk management in government must be to preserve the tax structure."

Because sophisticated insurance techniques are seldom heard of or used by public entities, "the results can be enormous," Mr. Schieck said. ■

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Kemper division joins with James on new fiduciary liability cover

CHICAGO—Fred. S. James & Co. Inc. is aggressively marketing a new fiduciary liability policy underwritten by Sequoia Insurance Co.

It uses a single form for single and multiemployer benefit plans, ostensibly offering discounts up to 25% and more for clients wishing to retain higher deductibles up to \$250,000 or purchase narrower coverage.

William H. Gill, casualty manager of James's office here, told *Business Insurance* in early April that James had already sold 12 policies and had another 40 quotes out. James is issuing only one-year policies, Mr. Gill said.

Cost of the fiduciary liability policy for different plans had end-

ed up being roughly one-third the cost of a D&O insurance policy from the same carrier. James and Sequoia are offering up to \$3 million coverage with a standard minimum \$1,000 deductible, although Mr. Gill said additional capacity may be available in the future. Sequoia is a wholly-owned subsidiary of Kemper Insurance Co.

THE RATE schedule being used for the policy includes three basic charges, based on three-year plans. The first is a charge per fund. Plans with assets under \$10 million pay \$500, assets to \$25 million pay \$750, assets to \$50 million pay \$1,000, assets to \$75 million pay \$2,000, assets to \$100 mil-

lion pay \$3,500, and assets over \$100 million pay \$5,000.

Fully insured plans pay a basic \$100 charge.

The second charge is per named fiduciary. Plans with assets up to \$10 million pay \$75 per named fiduciary, to \$25 million pay \$90, to \$50 million pay \$150, assets to \$75 million pay \$175 per named fiduciary, to \$100 million pay \$200, and assets over \$100 million pay \$250 per named fiduciary. Fully insured plans pay a basic charge of \$25 per named fiduciary.

The third charge is a participant and beneficiaries charge. The charge is 25 cents per participant for the first 5,000, 15 cents for the next 5,000 and 10 cents for the next 10,000 participants.

There "can be" additional charges for Taft-Hartley plans, as well as for a lack of outside investment advisers or a lack of actuarial review of the plan, Mr. Gill said. Plans with unfunded service liabilities also may be charged additionally, he noted.

The policy includes coverage for parties-in-interest, covers damages for non-pecuniary relief, and has no retro date exclusion, Mr. Gill said. The form covers all plans a sponsoring company may have, and all fiduciaries, not only the named fiduciaries or those listed on the policy.

Clients may negotiate endorsements for expanded coverage, or may limit their coverage only to named fiduciaries, Mr. Gill noted.

HE CITED some costs of coverage under this policy for specific policyholders. They included:

- \$1,165 per year for coverage for seven fully insured plans with 21 fiduciaries and 700 participants.

- \$1,611 per year for a funded plan with assets under \$10 million, 14 fiduciaries and 768 participants.

- \$825 for one year for an association's plan (one funded with assets under \$10 million) having five fiduciaries and 462 participants.

- \$2,743 for one year for six funded plans, assets under \$10 million each, plus six insured plans, with a total of 37 fiduciaries for the funded plans and 12 fiduciaries for the insured plans, total of 3,000 participants.

- \$822 a year for a company with one funded plan (assets under \$10 million and with five fiduciaries) and five insured plans having 20 fiduciaries, with a total of 1,400 participants.

- \$750 a year for a firm with two funded plans (assets under \$10 million each) having eight fiduciaries and 25 participants.

- \$2,473 a year for a company wanting to cover one funded plan (assets under \$10 million, three fiduciaries), two funded plans with assets between \$10 million and \$25 million having three fiduciaries, and four insured plans having eight fiduciaries, total of 25,861 participants.

Frank B. Hall is a tightwad

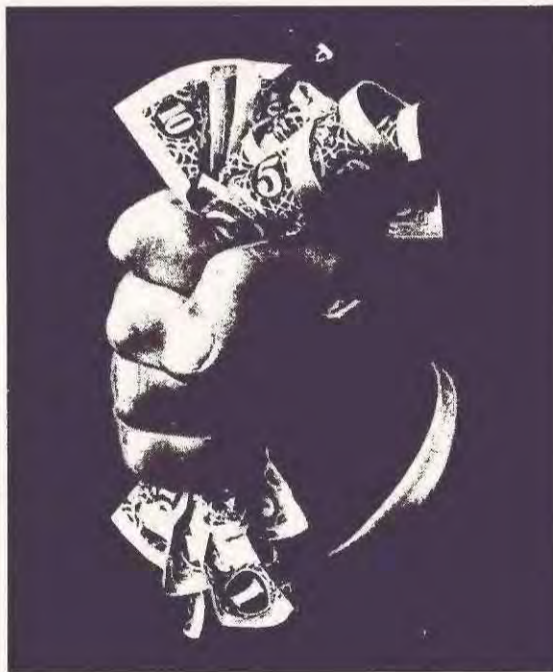
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Arson seen prevalent in a recession

NEW YORK—Arson, already the villain in an estimated third of all dollar losses from building fires, is expected to flare up this year if the economy continues a downturn.

This conclusion was reached separately by the Insurance Information Institute and by the director of the Insurance Crime Prevention Institute, James F. Ahern.

One of the nation's costliest crimes, arson already costs more than \$1 billion a year in the United States, the III's publication, the *Journal of Insurance*, reported.

Mr. Ahern noted that the arson rate has tripled in the last 10 years. Speaking before the property claim services committee of the American Insurance Assn., he said the 1974 fire loss rate had already risen 20% over 1973, a year in which the arson rate jumped 30% over that of 1972.

THE NATIONAL Fire Protection Assn. has done studies showing that the number and severity of fires usually rise during a downturn in business conditions. Experts have said a majority of arson cases are motivated by insurance frauds. Yet according to the Stanford Research Institute, less than one per cent of deliberately set fires end in conviction.

Mr. Ahern appealed for help from claims personnel in a pilot project aimed at uncovering patterns in arson. He said the Insurance Crime Prevention Institute is running a year-long study of patterns of large property insurance fraud cases in Los Angeles and New York.

He asked claims people to also provide the ICPI with information concerning similar large losses of roughly \$100,000 or more from other areas of the country to aid the study.

He summed up what may literally become the torch song accompanying the current business recession when he told his listeners:

"When owners of real property cannot find a buyer who can get reasonable financing, and when small businesses are folding and the vacancy rate in commercial buildings soars, arson becomes a very attractive method, if not the only method, of getting some return on investment property." ■

Let the buyer beware ...of the seller who "buys"

"Buying" business with a low price is not uncommon — even in times like these when realistic pricing would seem to be the order of the day for all sellers.

How does a business insurance buyer know — and why should he care — if his business is being "bought"?

Let's say he's asked for five competitive proposals. Four are fairly close in price; the fifth is drastically lower. If all the insurance companies had the same underwriting information, chances are that the low bidder is "buying," not selling.

What happens *after* the sale?

Any insurer can tempt a buyer with a low price to get his business. But it's what he's going to do *after* he gets the business that should be the buyer's *first* consideration. If the insurer can't show the buyer how he will work with him to reduce losses, he is simply selling "hope," not performance. And, later, when the premiums prove to be too little to pay the losses, you can bet that

the low bidder will be back for increases. Or drop the business.

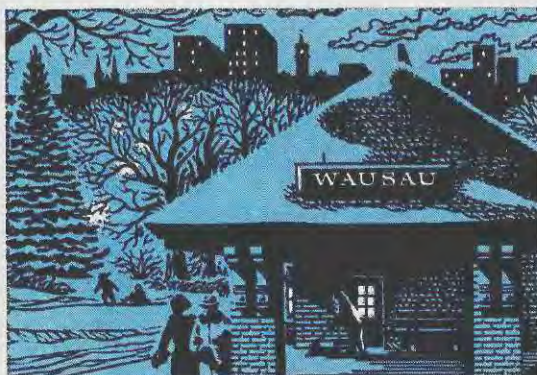
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washington watch

Employers may face 8% premium tax on group health to fund unemployed

WASHINGTON — Employers face the possibility of an 8% tax on group health insurance premiums to fund health insurance benefits for unemployed workers following House Ways and Means Committee action this month.

The full committee April 9 ordered major changes made in H.R. 5000, Rep. Daniel Rostenkowski's (D-IL.) bill to provide health insurance to laid off workers. (*Business Insurance*, March 24, 1975).

The Rostenkowski bill, as first reported by his subcommittee on health, contemplated a temporary

1% premium tax.

Despite the big jump in the proposed tax, a subcommittee staff member told *Business Insurance* "the net effect on employers is not really any different. That sounds hard to believe, but it's really about the same."

THE REASON for the cost parity lies in the legislative maneuvering that occurred once the Rostenkowski bill reached the full Ways and Means Committee.

The original Rostenkowski proposal consisted of a temporary and

a permanent program.

The temporary program included establishment of a special trust fund for one year to fund health insurance benefits during that period. It would be financed through a 1% tax on premiums for a five year period.

The trust fund would borrow money from the federal government to pay the benefits. The government would be repaid through revenues generated by the premium tax.

The tax would be levied on health insurers, but the cost passed

on to corporate purchasers of health insurance.

The permanent part of the program included a requirement that corporations extend health insurance coverage to their laid-off employees for as long as the employee was eligible for unemployment compensation. That was estimated to average about 90 days, but it could be for a longer period.

Employers not meeting the extension requirement faced the possibility of losing some of the tax deductibility of their health insurance costs.

THE TEMPORARY and permanent programs combined were expected to add about 7% to 8% to health insurance cost for the nation's employers, or about \$2.5 billion in the first year of operation.

On that basis, the cost of revised bill is about the same as the cost of the original Rostenkowski proposal.

An unusual combination of liberals and conservatives on the full committee sent the original Rostenkowski bill back to the legislative draftsmen with orders that its permanent provision be dropped and its temporary provisions be made "permanent."

What that means is that the trust fund now would pay health insurance claims for an indefinite period, rather than for just one year. The tax would also be of indefinite duration.

The bill's designers said that makes it impossible to finance the trust fund on a delayed basis, as was contemplated by the five year 1% tax to finance one year of trust fund operation.

Instead, the trust fund would have to be financed on a current basis, which means a much higher 8% premium tax.

The full committee's changes may be more acceptable to employe benefits managers, however, because it relieves them of the requirement to change their existing health insurance plans to provide extended protection to laid-off employees.

AND WHILE the word "permanent" has been tossed around very freely, it should be understood that the entire program might well be scrapped once Congress gets around to devising a comprehensive national health plan.

The White House reception to whatever plan emerges from Congress on health insurance for the unemployed is expected to be cool. The indications are that any proposal would probably lack the necessary support in Congress to be veto proof.

At press time, the full Ways and Means Committee had not finished work on the Rostenkowski bill and more changes were still possible before the legislative package goes to the floor of the House.

In the Senate, the Labor and Public Welfare Committee is expected to report its own version of a health insurance bill for the unemployed any day.

The bill S. 625, is sponsored by Sens. Harrison A. Williams Jr. (D-N.J.) and Jacob K. Javits (R-N.Y.), senior Democrat and Republican on the committee.

IT WOULD finance the health insurance protection directly from the general revenue of the Treasury, rather than a through any tax on health insurance premiums.

The employe benefits manager of one of the nation's largest employers, who asked not to be identified, said it was the "permanent provisions" of the original Rostenkowski bill that caused him the most concern.

He said he feared the forced changes in corporate health insurance plans might be used as a "back door" into an eventual national health insurance system.

Also, his company's health insurance plans now provide extended health insurance protection to only those employees with at least one year of service. Health insurance for laid off employees with less than that amount of experience lasts only until the end of the month in which the layoff occurs.

The revised bill contemplates the proposed tax becoming effective around April, 1976, but benefits would be supplied to laid-off workers immediately upon inactment. Any worker eligible for unemployment compensation would be eligible for the program.

To finance the benefits before the tax revenues are available, the trust fund would borrow, at prevailing interest rates, from the Medicare trust fund of the Social Security System.

Some members of the labor committee, however, have already dropped their support of the Williams-Javits bill in favor of the Rostenkowski approach. ■

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Accounting rules set...

Continued from page 1

The other rule involves premiums paid to industry captives or mutual insurance companies such as OIL Ltd. "Whether the premium paid represents a payment for the transfer of risk or whether it represents merely a deposit will depend on the circumstances surrounding each enterprise's interest in and insurance arrangement with the mutual insurance company. An analysis of the contract is required to determine whether risk has been transferred and to what extent," the FASB stated.

Workers' compensation, disability insurance, group insurance and pension accounting practices are unaffected by these new rules on accounting for contingencies, the FASB said. These are covered by Accounting Principles Board opinions previously in effect.

Disclosure of losses which will affect a company is now required in many instances, the FASB ruled, even though both of the conditions are not present for accruals to be made.

"Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable," the board said.

A number of respondents to the FASB's exposure draft on this matter asked whether it is the board's intent to require disclosure of noninsurance or underinsurance, the FASB disclosed. "Some recommended that the board require dis-

closures with respect to uninsured risks that enterprises ordinarily insure against. Others said that they were unable to define risks that would ordinarily be insured against because the insurance practices of enterprises are so varied."

The FASB decided not to require disclosure of uninsured risks "because of problems involved in developing operational criteria."

ACCRUALS OF "reserves for general contingencies" which have been used by some companies in the past are prohibited under the new FASB rules.

Establishment or "appropriation" of corporate retained earnings as a reserve for future loss contingencies is not prohibited by the FASB statement. The FASB said such appropriations were sometimes shown outside the stockbrokers' equity section of the balance sheet, and that is no longer permitted. These retained earnings dollars set aside to pay for self-insured losses must

also be clearly identified as an appropriation of retained profits. "Costs or losses shall not be charged to an appropriation of retained earnings, and no part of the appropriation shall be transferred to income," the FASB ruled.

In the 87 position papers, comments and outlines received in response to the March, 1974 discussion memorandum, and the flood of 212 letters of comments submitted following October publication of the exposure draft, the FASB found enough conflicts and confusion to note: "Accrual of a loss related to a contingency does not create or set aside funds to lessen the possible financial impact of a loss, although some respondents argued to the contrary.

"The board believes that confusion exists between accounting accruals, sometimes referred to as accounting reserves, and the reserving or setting aside of specific assets to be used for a particular purpose or contingency."

Accounting accruals have no effect at all on a firm's cash flow, the FASB noted. "An enterprise may choose to maintain or have access to sufficient liquid assets to replace or repair lost or damaged property or to pay claims in case a loss occurs (or it may) transfer the risk by purchasing insurance.

"Those are financial decisions, and if management decides to do neither, the presence or absence of an accrued credit balance on the balance sheet will have no effect on the consequences of that decision. The accounting standards set forth do not affect the fundamental business economics of that decision," the FASB asserted.

TO THOSE who contend this rule will not permit periodic accrual of so-called self-insurance reserves and will force companies to buy insurance now that the "protection" afforded by accruals no longer exists, the FASB responded that accruals have never protected uninsured property, and never provided any assets to repair or replace that property.

"Financial statement users have indicated, however, that information about earnings variability is important to them" because of the need for information allowing them to measure expected return on investment as well as the factors which cause deviations from that expected return.

Some persons argued that companies would be forced to buy insurance or reinsurance to achieve the more stable pattern of reported earnings that tends to accompany an accounting reserve, should accruals for future uninsured losses be prohibited.

The FASB, however, reiterated that these accounting reserves do not reduce or eliminate risk, and because of this fact, the board rejected outright "the contention that the use of accounting reserves is an alternative to insurance and reinsurance in protecting against risk."

Earnings fluctuations are "inherent" in risk retention, and they should be reported as they occur, the FASB declared. "The board cannot sanction the use of an accounting procedure to create the illusion of protection from risk when, in fact, protection does not exist," the statement said.

THE FASB said losses from uncollectible receivables and obligations related to product warranties and product defects would normally meet the conditions for accrual at the time a sale is made.

Liabilities for product injuries or damage may be accrued, the FASB said, if it is probable that claims will arise. This condition would be met, for instance, "with respect to a drug product or toys that have been sold if a health or safety hazard related to those products is discovered and as a result it is considered probable that liabilities have been incurred."

While the FASB's drafted rules had contained a number of statements about captive insurance companies which were considered highly controversial, the final rules contain only one mention of captives. A footnote to the rules states that "the effects of transactions between a parent or other investor and a subsidiary or investee insurance company shall be eliminated from an enterprise's financial statements."

Self-insured and uninsured casualty risks generally do not meet the accrual conditions, the FASB said. The board cited the example of an enterprise with a fleet of vehicles self-insured for liabilities for injuries or damage caused by the vehicles. The firm should not accrue for future liability losses even if the amount of those losses may be reasonably estimable, the FASB said. ■

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No consensus yet on fiduciary liability cover

CHICAGO—A show of hands during an American Management Assn. conference on fiduciary liability here indicated about 20 to 25 persons in the audience of over 80 presently have purchased fiduciary liability insurance.

A similar number of people indicated they do not have the insurance coverage.

Many in the group said they were in the process of making up their minds whether to purchase the coverage, and some of the rest were insurance industry personnel wanting to learn more about loss exposures under the Employee Retirement Income Security Act of 1974.

All in all, the two-day session was lively and informative, those who attended agreed. They left feeling more certain of the steps to be taken in reckoning with requirements of ERISA, particularly those involving fiduciary liability. Not all were convinced, however, that they should insure against the risks, and there remained many questions about the value of various policies and often conflicting judgments about specific policy provisions.

"WE'RE TELLING clients that they should insure everybody," said Rian Yaffe, senior vp and actuary with S.M. Hyman Co., Baltimore. "We haven't included corporate directors specifically in this advice, but we probably should," he added.

Mr. Yaffe believes "some unions are having trouble getting people to sit on their (health and welfare) plan committees, the representatives are dropping off right and left."

Hamlin M. Gilbert, vp with Alexander & Alexander in New York, views non-contributory defined benefit plans as less risky for fiduciaries, and possibly less of a target for the flurry of lawsuits that nearly all pension experts foresee.

"I think your most vulnerable plans are profit sharing, contributory or otherwise," he said, adding that he does not see the pension plan area as generating most activity in the future.

Mr. Gilbert and Howard Weber, insurance director of Minneapolis-based 3M Co., agreed that as long as the sponsoring company having non-contributory, defined benefit plans remained solvent and able to pay its bills, the exposure to beneficiary suits is minimized.

"But I think non-insured contributory plans are in trouble," Mr. Weber added.

Mr. Gilbert offered the opinion that the philosophy of fiduciary liability insurance underwriters is to "keep the professionals

out of the coverage," by professionals he means external advisers and managers of benefit funds, such as actuaries, lawyers, outside administrators, bank trust departments and especially investment managers. Mr. Gilbert believes underwriters want to exclude these external fiduciaries from corporate fiduciary liability coverage "because they want to retain the right of subrogation against" the so-called out-house professionals.

He noted that at least three of the leading fiduciary liability underwriters refuse to cover fiduciaries outside the sponsoring corporation, including AIG, GATX and Lloyd's of London. Aetna will include these external plan fiduciaries, he said.



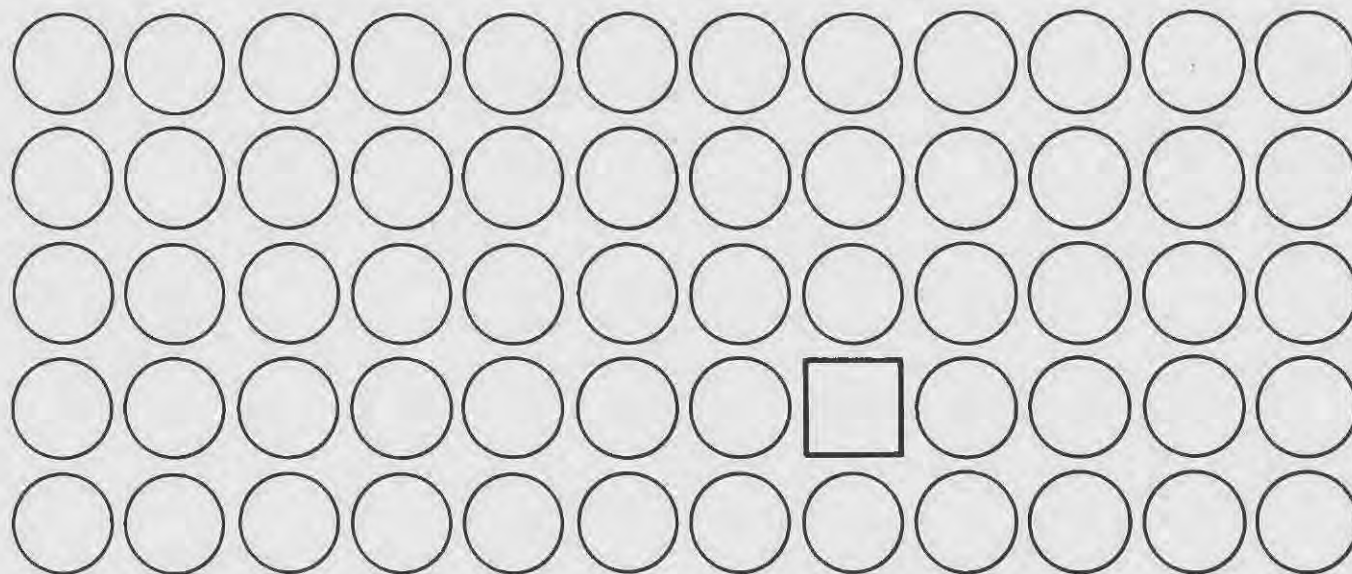
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Wyatt acquires risk consultants, expands

Wyatt Co., Chicago-based actuarial and consulting firm, acquired Management Insurance Advisors, and independent insurance and risk management consulting firm based in Birmingham, Mi. The firm was owned by Adolph E. Baron and Nathan H. Siegel, who joined Wyatt's Detroit office. Warren G. Brockmeier, director of risk management consulting services for Wyatt, said that with this expansion, three of Wyatt's 19 offices are now staffed for risk management consulting. Henry P. Devlin of the Chicago Wyatt staff and formerly with Ford Motor Co., is also in the Detroit office of Wyatt.

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Heublein looking at split-dollar life cover

FARMINGTON, CT.—Heublein, Inc. is looking at new ways to administer its employee benefit program in-house and is presently working out a plan to go to split-dollar life insurance for a large group of management personnel, as part of a plan to put the entire benefit program on a total compensation basis, *Business Insurance* learned.

Nancy Zongol, corporate director of human resources administration and director of employee benefits, said the move to get expanded split-dollar coverage is unusual because of its scope.

"Most places that use the split-dollar concept just apply it to a few people. We're studying its application to a large group, in-

cluding management personnel not only for Heublein, but top management in all the subsidiaries, too," she said.

The usual arrangement in a split-dollar program involves the employer paying a part of the life insurance premium that equals the annual increase in the cash value of the policy, while the employee pays the rest. If the employee dies, the employer recovers the total of the company's payments from the death value, and the remainder goes to the employee's beneficiary.

MRS. ZONGOL said the plan under study at Heublein might also be a vehicle for picking up dollar amounts in excess of that required by the pension reform law. She said the company was concurrently moving toward some "major changes" in its retirement benefits.

One step the company already made along those lines was granting its retirees a total cost-of-living benefit increase, based on the consumer price index, Mrs. Zongol said.

At present, the employee benefits changes under study at Heublein do not include plans to involve more underwriters.

"We're doing this pretty much as an in-house project," Mrs. Zongol said earlier this month, noting that the changes under study involve "a lot of added expense" to the company's benefit budget.

Heublein, which is best known for its Smirnoff vodka and Kentucky Fried Chicken products, derives its revenues and profits about equally from its food and beverage groups. Last year, the firm's revenues increased 24%, earnings 17%, and earnings per share 16%. ■

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Banks wary of risks under ERISA

CHICAGO—Banks are becoming very wary of accepting any more pension trust business which involves an outside investment adviser having the power of direction over money management, said a leading bank trust official here.

Because of the "policing" duty clearly arising under the Employee Retirement Income Security Act of 1974 (ERISA) some banks won't take these so-called direction accounts any more, according to Peter J. Brennan, vp and trust counsel for Harris Trust & Savings Bank based here.

Speaking at an American Management Assn. fiduciary liability conference here, Mr. Brennan noted that there is clearly a policing duty of a fiduciary over a co-fiduciary and of trustees over co-trustees under the pension law, stemming from the law's provision that a fiduciary can't conceal a breach of trust, can't knowingly participate in a breach and has to disclose a breach.

No one knows yet, though, how far this policing provision goes when determining fiduciary liability, Mr. Brennan said. "Direction accounts have always troubled us" because of the bank's fiduciary trust responsibilities, he went on to comment.

"But now we are being very careful with whom we are in tandem" on pension plan management, he declared. ■

“In Dallas we were discussing ways to prevent losses and someone asked if our insurance company belongs to the Factory Mutual System.”



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editorial opinions

Unnecessary burden on employers

A PROPOSED regulation to a section of the Health Maintenance Act of 1973, it now seems, would put an unneeded burden on American business and industry. The regulation would add to the administrative load of companies and generally run contrary to one of the intents of the law itself—to improve medical efficiency.

Westinghouse Electric and Uniroyal, among others, in urging that the Health Maintenance Act be amended by Congress to raise to 25 from one the minimum number of employees at

We join with employe benefit officials at General Motors, a branch location who must be offered a prepaid health maintenance plan as an option to traditional health insurance.

The so-called "dual choice option" in the law "is the single most serious problem raised by the act," wrote General Motors vp Robert Magill in comments filed with the Health Educa-

tion and Welfare Department. "It is strongly recommended that a technical amendment to the act be passed by the current Congress requiring that at least 25 employees must reside in an HMO's service area before an employer is obligated to make the option available.

"Otherwise," added Mr. Magill, "this provision would place an extremely heavy administrative burden on employers, especially employers with multi-plant locations on a nationwide basis."

Certainly one of the long-term intents of the Health Maintenance Act is to correct some of the excessiveness of the health delivery system as we know it today. The burdens created when, say, a company must provide the HMO option for one, two or three branch employees out in the boondocks does nothing to reduce that excessiveness.

Tribute to risk management professional

BEGINNING on page one of this issue there's a story we've been wanting to do for some time, and it's probably most appropriate that it appears the week the Risk and Insurance Management Society (formerly the American Society of Insurance Management) meets for its annual conference.

The article, in which we've tried to come up with a list of some of the more astute risk managers around the country, demands some qualifications, however.

When we set to this task we were tempted to call such a list "the best and the brightest" in the business. We decided against that, for it just isn't true. Certainly there are many astute risk managers out there that we've missed.

Nevertheless, what we have come up with makes interesting reading, and at the risk of bruising a few egos we stand by it until someone comes up with a better list (and if you think we've really blown it, send us a list of your own and tell us why).

In any event, our list was pulled together from well over a score of interviews with knowledgeable "suppliers" to the field of risk management—underwriters, brokers, consultants. These are people who are in an excellent position to see how the risk managers we've identified operate within their own companies as well as in the insurance-related marketplace.

That such a list can be compiled is a real tribute to the evolution of risk management, and even more so because none of the people we sought nominees from had any real difficulty coming up with the names of several candidates.

Much of the credit for this, of course, must go to the Risk and Insurance Management Society. The society, celebrating its 25th anniversary year, has made an enormous impact on the field it serves and its individual members.

It is no coincidence that most of those on our list are or have been active members of the society, and those who have been active with the society can be respected on two fronts: first, for becoming truly effective risk management professionals within their own companies and, second, for making a contribution beyond what their employers expect of them, a contribution to the future of risk management.

When RIMS was founded 25 years ago it would not have

been possible to come up with a list such as that published in this issue. Imagine asking a broker or an underwriter in 1950, for the names of, say, five of the most astute risk managers the underwriter or broker had come into contact with. "Five risk what-did-you-say?"

The first 25 years have been good ones for RIMS. In the last few, the society has grown rapidly, but its foundation appears strong thanks to the leadership of some who made our list and many, many more who did not. The next 25 years should be even more profitable for the society and the goals it has set for itself. This magazine is and will continue to be supportive of those goals.

Agent/broker call

ON JULY 28 *Business Insurance* will publish its fourth annual Agent/Broker Profiles issue.

As in the past the issue will profile agents and brokers capable of servicing commercial insurance consumers, and over the years our profiles issue has become a primary source of vital information on agents and brokers with these capabilities.

To be included in our agent/broker issue firms must meet two criteria: (1) gross revenues of the firm must be \$150,000 a year or more, and (2) 50% or more of the firm's business must come from commercial accounts. There is no charge for the listing.

Notices were mailed this week to agents and brokers who were included in last year's issue. Please watch for these and return the questionnaire included promptly. The deadline for all returns is June 10.

Agents and brokers who were not listed in last year's issue may receive a copy of this year's questionnaire by requesting one on company letterhead.

Requests should be mailed to Ms. Linda Moskowitz, *Business Insurance*; 708 Third Ave., New York 10017. Or, for more immediate attention, Ms. Moskowitz may be reached by telephone, 212/986-5050.

letters

This column is a readers' forum. Letters are welcome. Address letters to the Editor of *Business Insurance*, 708 Third Ave., New York, N.Y. 10017.

Fiduciary cover

To the Editor: Your editorial opinions entitled "Here's One to Think About" in the Feb. 24, 1975 issue neglects to bring out one important fact. Most corporations who have fiduciaries in various corporate capacities will in most cases pay the entire fiduciary liability premium itself rather than to charge the premium to the plan or to the individuals themselves.

I disagree with your statement that you feel the coverage is questionable. Put yourself for a moment, if you will, in the position of a fiduciary. You may now be held personally liable for your actions in the management of the employees welfare plans. In a suit, say, brought by a disgruntled employe as a class action alleging mismanagement, you might be on the hook for defense costs in the five figures just defending what may be a groundless action.

How would you feel going home and telling the kids they couldn't go to college and your wife that she'd better get used to living in a tent?

F. Whitman Haggerson
Manager, insurance department,
Springs Mills Inc., Fort
Mills, S.C.

Corrective measures

To the Editor: The February 10, 1975, issue of *Business Insurance* carried an article on page 42 regarding regulatory action by the Wisconsin Insurance Department which states in part:

"Fourteen insurance companies have been served with compulsory surplus orders since August from state insurance commissioner Stanley C. DuRose, who announced a hearing Feb. 20 to discuss proposed amendments to the state administrative code covering regulation of insurance companies."

The fourteen companies referred to were named in the second paragraph and included Fidelity Bankers Life Insurance Company.

The facts in the matter are these:

1. Fidelity Bankers Life had a very large increase in group accident & health premium income in 1973 and the first half of 1974.

2. The Wisconsin statutes do give the Commissioner of Insurance authority to specify the minimum capital and surplus required of an admitted insurer.

3. On September 23, 1974, the Commissioner of Insurance issued

Continued on page 17

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Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Pensions & Investments, Industrial Marketing, M. A. HARTENFIELD, executive vice president; D. J. CLEARY JR., senior vice president; ALFRED MALECKI, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, ROBERT W. KRAFT, vice presidents; MERRILEE P. CRAIN, assistant secretary; JAMES M. FRANKLIN, director of finance and administration. Cable address: CRAINCOM

Published biweekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices at 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). 50 cents a copy. \$12 a year in U.S. Elsewhere \$4 a year additional. WILLIAM STRONG, circulation director. ROGER DEGRECORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611



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List steps for choosing bank security system

DALLAS—"Where do you draw the line on security equipment?" asked H. S. Range, chief of security for Republic National Bank here. Answer: "Only after a thorough study of your bank's needs."

Speaking at the sixth Bank Administration Institute's bank security conference, Mr. Range listed the factors he considers most important in choosing a bank security system:

- Size of the premises: "Obviously, a one-story structure staffed with 10 employees will not need the security equipment or personnel that a highrise building with hundreds of employees will require."

- Location and environment:

"The vulnerability of a bank is increased if it is located in a high crime section of town or in a city with a high incidence of crime. The better the rapport with local law enforcement personnel, the better the bank will be protected," Mr. Range said.

- Track record: "The amount and kind of security equipment you choose will be affected by the number of robberies, burglaries, thefts and assaults your bank has suffered."

- Equipment: "It may be simple or complex and sophisticated, but you cannot rely on that equipment 100%." Mr. Range added that equipment must be maintained properly and tested fre-

quently. Personnel must be trained to use and respond to it efficiently.

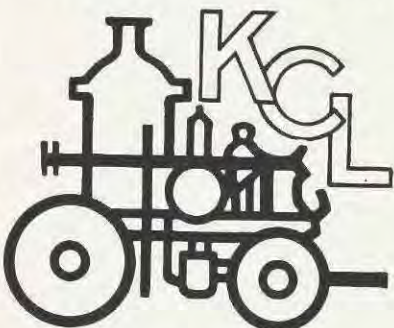
"I've seen very few cases of over-protection," Mr. Range said. He advised bank managers to "seek the opinions of others. Security system evaluations should be conducted on a continuing basis because of technological advances and the rapid changes in our society."

He suggested that a committee be established to evaluate security systems on a semi-annual or annual basis.

Once a decision about the type of system is made, Mr. Range recommended that several bids be taken. "Remember, the lowest bidder is not necessarily the best."

Once the bid is chosen, warranty and method of payment should be considered, he advised. "Payment (should) be made only when the system is installed and operational."

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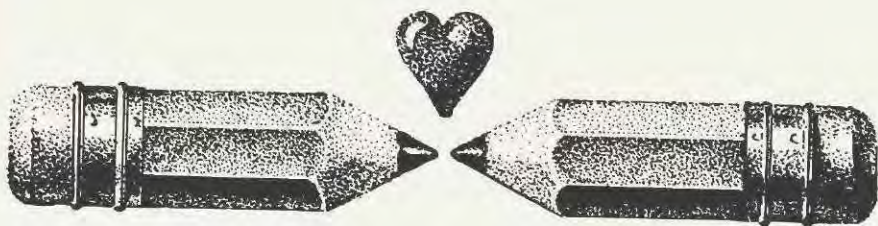
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- American Assurance Co. and American International Underwriters are offering a descriptive brochure on their expertise and capacity to write **Utility Insurance**. Coverages for difference in conditions, builder's risk, standard fire and contractor's all risk are described. For a free copy write to the companies at Dept. A, 102 Maiden Lane, New York, N.Y. 10005.

- A promotional brochure on **Swiss Life's Master Cover Contract for Multinational Employee Benefits** is available without cost from the company. It describes Swiss Life's way of linking two or more local group contracts under a pooling arrangement. Address: Swiss Life Insurance and Pension Co., International Dept., General Guisan Quai 40, CH-8002 Zurich, Switzerland.

- A brochure on **Pension Trust Liability Insurance** is available from National Union Fire Insurance Co. of Pittsburgh, Pa. It briefly explains ERISA's new liabilities for the fiduciary, and a specimen insurance policy describes the company's coverage provisions, terms and conditions. Write to Product Info, Corporate Communications, American International Cos., 102 Maiden Lane, New York, N.Y. 10005.

- **Schedule of Bank Insurance** is an American Bankers Assn. brochure that describes various insurance policies and bonds used by banks, with space to record the bank's coverages and a composite easy-reference table for determining proper bond amounts. The 16-page booklet costs \$1.50 and is available by writing to the association at 1120 Connecticut Ave., NW, Washington, D.C. 20036.

- The U.S. Chamber of Commerce is making available its **1975 Analysis of Workmen's Compensation Laws**. All states plus Canadian provinces are covered and a specific report is provided on legislative progress within each state. The 48-page booklet is divided into three categories: benefits provided, coverage of laws and administration. Single copies (publication #3771) are \$3 and bulk prices are available. Address: U.S. Chamber of Commerce, 1615 H St., NW, Washington, D.C. 20062.

- **More for Your Premium Dollar** is a booklet published by E. H. Crump Companies Inc. which contains a brief but detailed description of the programs and services available to corporate executives, agents and brokers who may need special handling of special risks. For a free copy write Frank Pidgeon, E. H. Crump & Co., 110 Adams Ave., Memphis, Tn. 38103.

- **All Apartment Houses are not Created Equal**, released by Commerce and Industry Insurance Co., talks about management and how they should be concerned with construction details and properly installed and approved heating and electric systems. A preferred risk program for concerned management is described in this pamphlet along with an application which clearly states the criteria. For a free copy write Commerce and Industry, 102

Maiden Lane, Dept. 12, New York, N.Y. 10038.

- An audilex cassette tape explanation featuring compliance help on the new pension reform law is offered by Commerce Clearing House Inc. for \$15. **The 1974 Pension Reform Act—A New Challenge** by Sidney Kess and published in September includes a copy of CCH's explanation of Pension Reform Act of 1974 and a quizzer, prepared under AICPA-approved guidelines on continuing education. Successful completion should qualify the listener for a one-hour continuing education credit. For a copy, write to: James Golden, 4025 W. Peterson Ave., Chicago, IL 60646.

- American International Life Assurance Co. of New York is offering a brochure that describes the **New Concepts in International Employee Benefits** that the firm provides, including group life, group medical, plans for third country nationals, pensions and group accident-travel accident. For a free copy, write the firm at 102 Maiden Lane, New York, N.Y. 10005.

- **Company Philosophy and Employee Benefits**, published by the International Dept. of the Swiss Life Insurance and Pension Co., describes various company types (ethnocentric, polio-centric, geocentric) as well as their implications in the multinational employee benefit field. Topics dealt with are: business objectives versus pension fund goals, targets, kind of benefits, priorities, eligibility, social security and funding aspects. For a free copy write Hans-Heini Scotoni, account executive, Swiss Life Insurance and Pension Co., International Dept., General Guisan-Quai 40, Zurich, Switzerland CH-8002.

- Marsh & McLennan Inc. has made available **Employee Benefits in Australia in the 1970s**, a booklet that examines the effect certain characteristics of the economy bear on employee benefit planning in the Commonwealth of Australia. Current practices as well as future trends are discussed. For a free copy write William D. Welsford, Marsh & McLennan/International Benefit Services, 7 King Street East, Toronto, Canada, M5C 1A2.

- **Specialists in Excess Lines Coverage**, published by Shand, Morahan & Co., is a brochure outlining the company's services. The brochure gives a background of the company and its staff, distinguishes between the standard and surplus lines markets and touches briefly on the company's role in the field of reinsurance placement. For a free copy write the company, 636 Church St., Evanston, IL 60201.

- **Directors and Officers Liability** is a new brochure available from Stewart, Smith Management Corp. The purpose of the brochure is to give some insight into the legal exposures of directors and officers and illustrate how properly designed d&o can protect them. The brochure is available free from the company, 116 John St., New York, N.Y. 10038.

letters

Continued from page 14

an order that Fidelity Bankers should "maintain (your) capital and surplus funds in an amount at least equal to the sum of 17.5% of net annual premiums written on accident and sickness insurance and 7% of the assets equal to the aggregate reserve for life policies and contracts."

4. On October 17, 1974, the company advised the department that it had greatly reduced its writing of accident and sickness premiums in the second quarter of 1974 and that further reduction was anticipated in the remainder of the year.

5. The company's convention statement for 1974 shows that its total capital and surplus funds exceed the Wisconsin requirement with a substantial margin to spare.

In brief, the dramatic increase in accident and sickness premium produced a temporary situation in which our total capital and surplus funds were less than called for by the formula specified by the Wisconsin Commissioner of Insurance. Corrective measures had been taken prior to the commissioner's action and the company is in full compliance with his order at this time.

The *Business Insurance* article quotes the Wisconsin commissioner as saying that basically the compulsory surplus requirement is "an amount that provides reasonable security against contingencies affecting its financial position that are not fully covered by reserves or by reinsurance." Fidelity Bankers is in full agreement that the security of policyholders must be placed above all other considerations.

Charles P. Williams

President, Fidelity Bankers Life Insurance Co., Richmond, Va.

Pension series

To the Editor: We are developing a brochure explaining the duties and liabilities of fiduciaries under the new law.

Recently, your publication ran a series of articles on the above topic. Please forward several copies of the reprint if there are any available.

Brian Samway

Financial Services Dept.,
American Home Assurance Co.,
New York, N.Y.

Editor's note: The series of articles that have elaborated the cost aspects, vesting provisions, fiduciary standards, funding requirements, reporting and disclosure aspects and termination insurance provisions of the pension reform law is now available in print form to Business Insurance readers. Copies of single articles are \$1 each; the entire series

Reinstate riot reinsurance

WASHINGTON—The federal government reinstated its riot reinsurance program in Georgia March 22, ending a suspension that began last December 31.

The federal reinsurance program was ended because the statute under which Georgia's FAIR plan was operating expired at the end of 1974 and was not renewed until February.

Policies written before the suspension date were honored. The government said that federal riot reinsurance is now in full force in Georgia except for losses incurred during the suspension period. ■

of six articles is \$4. Checks, money orders or cash must accompany order, made payable to Business Insurance, 708 Third Ave., New York, N.Y. 10017.

Banker's blanket bond

To the Editor: The headline of "the legal brief" column appearing March 24 read, "Banker's blanket bond doesn't cover losses from check kiting operation." It appears to me that the writer of the headline did not carefully check the text. The impression given by the headline is completely reversed by the next to last paragraph. I suggest that you clarify the situation in a forthcoming issue so that those people who read only the headlines will not be left with an erroneous impression about banker's blanket bond coverage.

William J. Flather III

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Safety management pays off at Boise Cascade

BOISE—A three-year emphasis on safety management at Boise Cascade netted a 10% drop in workers' compensation costs, a 9% decrease in lost work days and an 11% decline in accident costs per work hour.

One of the keys to the program's success is that accident cost data is available on a weekly basis, according to Jerry T. Fields, corporate manager of safety and workers' compensation.

"The number and costs of accidents is known on a plant-by-plant basis," he said. "Each supervisor is held accountable for his area's safety performance."

Accident control has become a central planning goal for the company, explained Mr. Fields, who reports to the vp of employee relations.

Another factor in Boise's suc-

cess was the decision to combine safety, health and workers' compensation into one department, which Mr. Fields manages. He purchases workers' compensation, oversees Boise's self-insured coverage and audits the state carrier coverage where applicable.

Clayton E. Carlson, manager of corporate insurance continues to be responsible for property and casualty coverage.

EVERY ACCIDENT is reported with a cost breakdown on workers' compensation including disability, medical and lost wages. The report first goes to the plant insurance department, then to the regional claims offices and finally to the corporate insurance department, Mr. Fields said.

Payments are made out of the central corporate headquarters,

but the total cost is incurred back to the location of the accident. "It's a similar set-up in many companies in our industry," he said. Mr. Fields defined total cost as insurance premiums and benefit payouts.

In 1972, Boise's workers' compensation cost was \$4.8 million. In 1973 and 1974, the cost was about \$3.2 million for each year.

"We had fewer accidents and fatalities in 1974 but the costs didn't come down because medical costs rose after the Wage Price ceiling was lifted," Mr. Fields said. He estimated the increase for medical benefits was about 7% more in 1974 than in 1973.

"Compliance with the Occupational Safety and Health Administration corrected conditions but 99% of the accidents still occurred," Mr. Fields continued.

He believes that worker actions make the critical difference between a low accident rate and a high one.

Boise's management responsibility approach is in line with the safety philosophy of D. A. Weaver, policyholder education director for Employers of Wausau, the company's private workers' compensation carrier.

"**WE SOMETIMES** act as if safety motivation is found in the goal of safety itself. It is not. Safety levels must be deliberately chosen and required by management," Mr. Weaver said in an interview with the company's magazine, Quarterly.

"You cannot motivate workers to perform in a given way unless they are supervised in that given way," he told Alice Dieter, the

Quarterly's associate editor. "Training causes performance in response to what is clearly wanted and required by the boss."

Mr. Fields believes that safety management requires clear and persuasive communication. "Chartered goals must move off the charts and into the work patterns of all employees," he said.

Emphasis shifted from viewing safety as a humane concern only to a built-in accident control and training system "to protect both lives and profits" about three years ago. This change was reinforced by a review of Boise's accidents from 1970 through the first half of 1974.

The study showed the company lost \$91 million as a result of all accidents. Of that, \$18 million went to workers' compensation payments. Another \$73 million represented indirect but identifiable costs such as damaged equipment, lost production, business interruption, cost of supervisory time in investigations, costs of correcting unsafe conditions and the "other interrelated costs that multiply from each accident."

During the study period, 120,000 working days were lost to accidents and 21 employees died as a result of industrial accidents at the company, according to the report.

"Approaching safety as a humane concern only blurs both data collection and management responsibility," Mr. Fields believes. "The direct cost of workers' compensation payments is tied to the unpleasant reality of accidents and provides an accurate measurement of effective safety management."

MONTHLY SAFETY meetings are held at all Boise locations between supervisors and workers. Often a specific job and its hazards is discussed. The program not only includes orientation for new employees but also job transfers, Mr. Fields said.

Boise's safety standards and concerns are reaching into new areas such as minimizing damaging noise levels, defining acceptable levels of stress from heat and cold and examining the effects of the chemical components of manufacturing, he said.

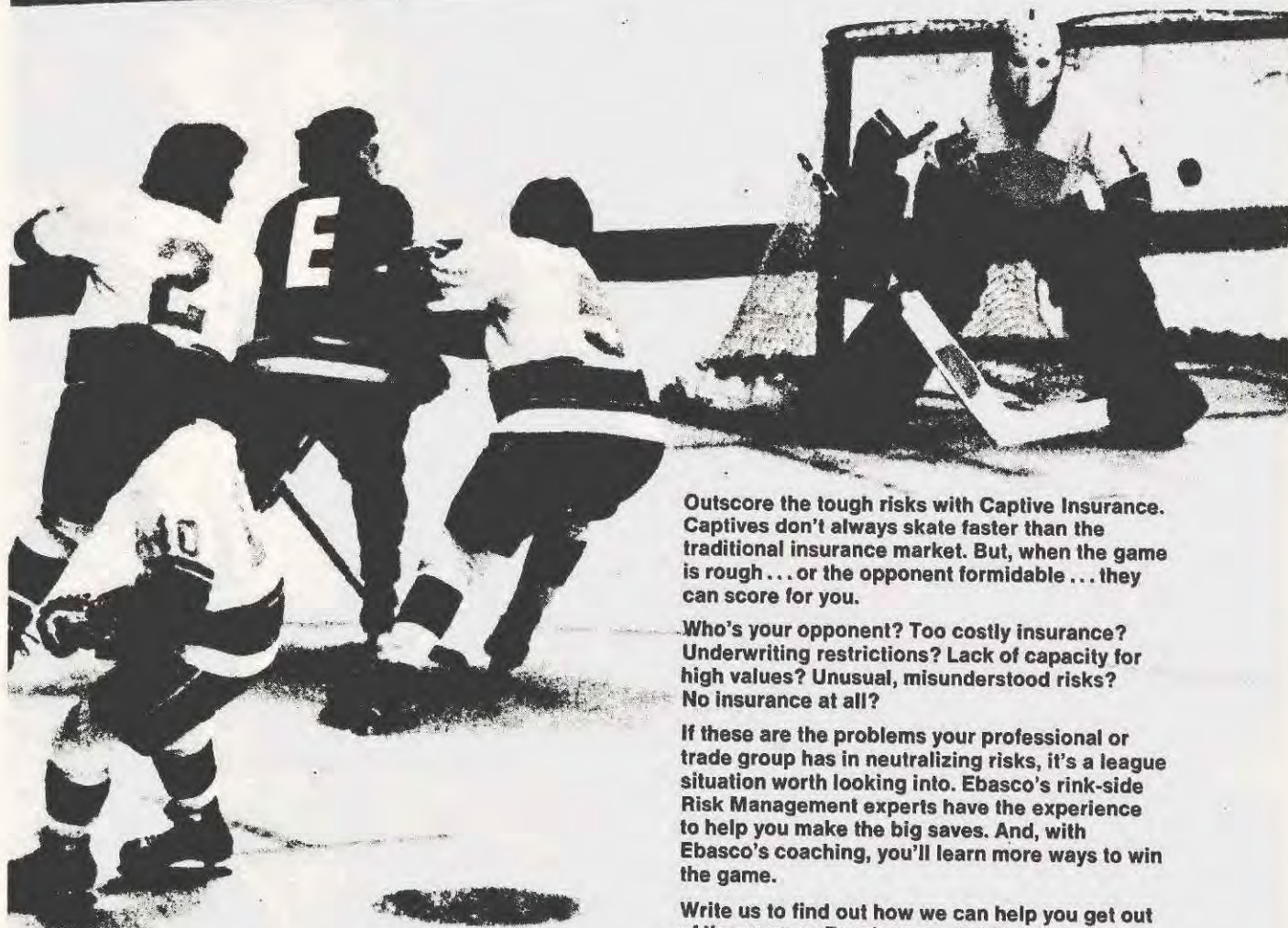
No statistics were available about other companies' accident records, Mr. Fields, though Boise attempted to collect such data in its industry. He said he doesn't think Boise is "either the best or the worst in its industry" in terms of its accident record.

Management support for safety programs evolved gradually, Mr. Fields explained. "They were tuned into the cost factors of accidents. One area where you can control costs is accidents. If there's no accident, then there's no cost."

Establish Saudi insurer

A new Saudi Arabian insurance carrier, the Red Sea Insurance Co., capitalized at \$3.5 million, was organized at Hong Kong to engage in all aspects of insurance in a nation where Islamic law traditionally has rejected the concept of insurance. Stock control will be in the hands of Saudi Arabian nationals, with a 7% interest held by Fireman's Fund American Insurance Co., San Francisco, and an equal 7% ownership divided among C. T. Bowring & Co. Ltd of Great Britain and Dowa Fire and Marine Insurance Co. of Japan. A wholly owned subsidiary, Red Sea Development Co., will act as sole agent in Saudi Arabia.

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Actuarial assumptions must now be disclosed

LOS ANGELES—The 1974 Employee Retirement Income Security Act (ERISA) ultimately will be interpreted by the courts to mean that actuarial assumptions must be publicly disclosed, an actuarial consultant predicted.

Daniel F. McGinn, president of Dan McGinn & Associates, based here, said actuaries must adopt a set of actuarial principles and practices for pension plans or federal intervention will probably occur. He spoke to a meeting of the Society of Actuaries at the Century Plaza Hotel here.

"Any principles and procedures adopted by the profession should clearly reflect that the actuary's primary responsibility is to the employee rather than to the corporation," he said. The reason is that ERISA includes actuaries in its definition of fiduciaries, he explained.

Another example of actuarial responsibility, according to Mr. McGinn, is the ERISA provision requiring that all significant corporate events which could affect pension benefits be disclosed to employees in the actuarial certification and report.

"IF THE ACTUARY knows of a planned plant shutdown and the corresponding termination of a substantial number of employees, shouldn't he be required to reflect that knowledge?" Mr. McGinn asked.

Among the "adverse results" that would materialize, in Mr. McGinn's opinion, if the actuarial profession could not agree to a core of fundamental principles are: "A continuation of plan terminations with the loss of benefits by employees, increasing bureaucratic control over funding and ultimately the demise of private pension plans as we know them."

He recommended a speed-up in the development of principles analogous to those formulated by the accounting profession.

Mr. McGinn believes the state of the U.S. Social Security system is an example of a significant actuarial error in judgment.

Savvy buyer gets credit for group surge

NEW YORK—The Equitable Life Assurance Society of the U.S. credited a "more sophisticated buying mechanism" by corporate risk managers and insurance departments with the surge of group business premiums that poured in during the first two months of 1975.

At a press conference here to review Equitable's 1974 operations, James A. Attwood, executive vp of group operations, told *Business Insurance* that on one day alone, January 2, the company pulled in a quarter of a billion dollars in group premiums.

"For the first two months this year, we're running almost double of what we did last year," Mr. Attwood noted. He said much of the increased group business is attributable to policy changes from one carrier to another. He credited the tight money period with sharpening the insurance buying habits of corporate customers.

J. Henry Smith, chairman and chief executive officer, called group pensions "the big star" of 1974's group lineup. ■

Actuaries assumed the population would grow indefinitely at the same rate it did in the 1950s and 1960s, he noted. "But . . . the population rate has fallen drastically. As a result, contributions to Social Security have not kept pace with the actuaries' assumptions and the system—as the government has confirmed—is faced the equivalent of bankruptcy within five years," Mr. McGinn said.

"The actuary's assumptions are the most critical element in planning the funding of pension benefits (because) it can mean the difference between a sound, continuing pension plan and a plan that ultimately will go bankrupt," he said. ■

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Gold Kist contracts for property captive study

ATLANTA—Gold Kist Inc. contracted with Armrisk Inc. for a captive insurance company feasibility study, which Gold Kist plans will be completed in June.

Robert E. Rich, director of corporate insurance for the farmers' growers' cooperative, said he is considering a captive to underwrite property risks as a direct result of proposed Financial Accounting Standards Board rules which would apply stiff guidelines on the internal reserves which publicly held corporations report to their stockholders.

Mr. Rich said Gold Kist is accustomed to funding internal reserves for self-insurance against property losses. He believes the FASB's proposed rules would make

it less attractive for Gold Kist to maintain these self-insurance reserves. Funds which are put into these reserves by a company each year serve to reduce gross income, and to lower net profit.

Gold Kist has about \$600 million worth of property and inventory assets to protect. Because of the seasonal nature of Gold Kist's business, inventory values are higher at harvest times, and vary widely throughout the year, Mr. Rich said.

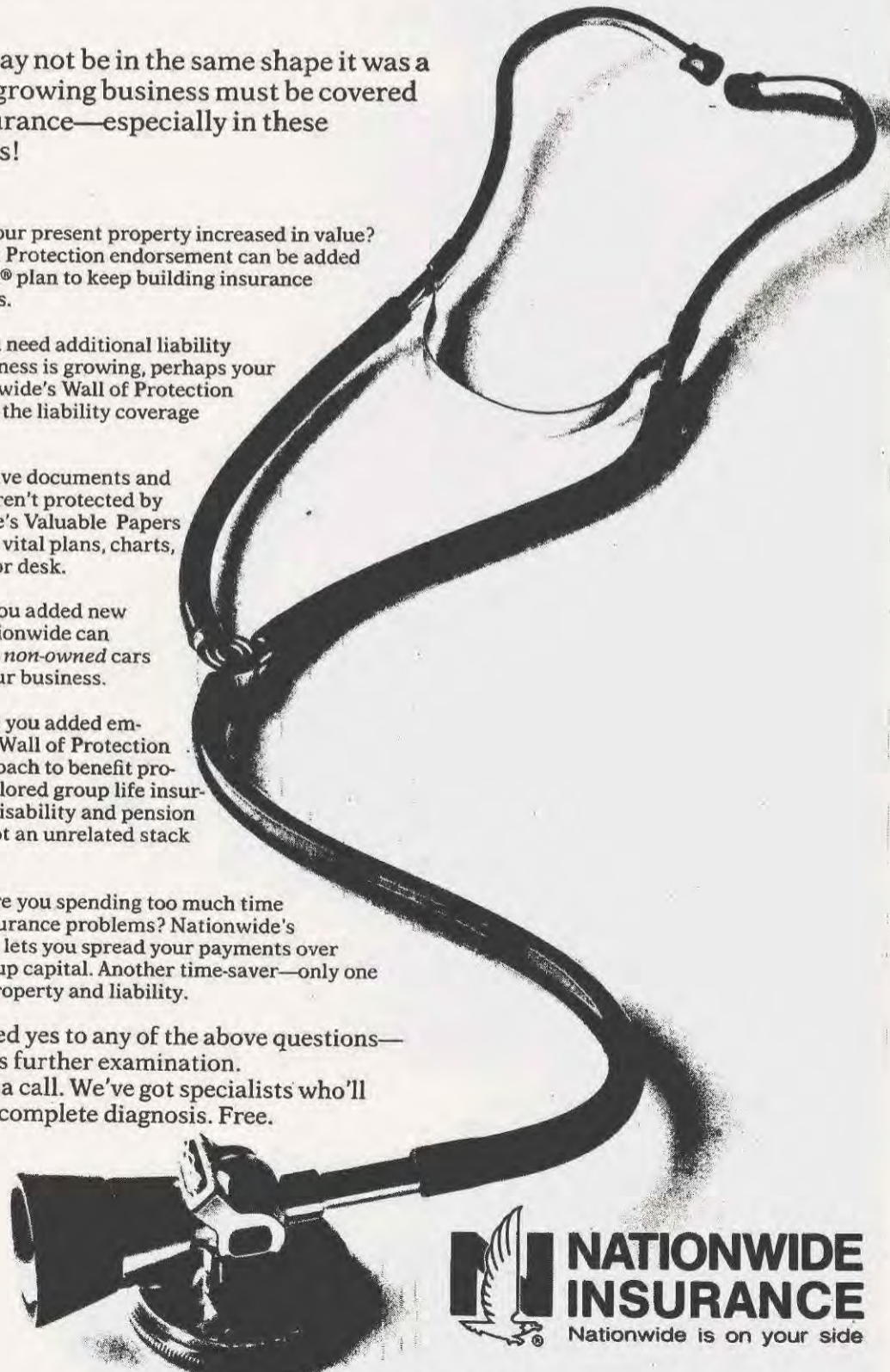
William S. Mortimer, vp of Armrisk Inc., is in charge of the study for Gold Kist, Mr. Rich said. Armrisk is a division of American Risk Management Inc., manager of captives in Bermuda. Mr. Mortimer is based in Laguna Beach, Ca.

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GOLD KIST presently has a complicated layered program of property insurance with Unigard acting as the lead underwriter on the first of about 18 layers, Mr. Rich said.

Gold Kist's Mr. Rich is also using two doctoral candidates from the department of risk and insurance at the University of Georgia to do a study of the advantages for Gold Kist in self-insuring workers' compensation.

The doctoral candidates are making this study the subject of their doctoral dissertations, Mr. Rich said, noting the study will not cost Gold Kist anything. He lined up the study through E. J. Leveratt, dean of the department.

The cooperative employs 14,000 workers at the peak harvest time, with average monthly employment of 9,600. The firm found workers' compensation injuries and losses are high in both frequency and severity during harvest times, although at other times of the year, losses are high in frequency and low in severity, Mr. Rich said. ■

Amusement park fire loss fully insured

BUENA PARK, CA.—A \$1 million-plus fire which roared through an amusement area, still under construction, at Knott's Berry Farm in late March is covered by a cost-of-construction fire policy underwritten by Fireman's Fund American Insurance Cos.

Guy Tester, director of administration for the well-known Orange County recreational park, said the cost-of-construction policy has a \$3 million limit.

First reports placed damage from the fire at \$3 million. Firemen fought the blaze for more than an hour. The cause remains unknown.

"THE ORIGINAL estimate of damage was scaled down when it was confirmed that the damage was confined to one new ride inside a building," explained Mr. Tester. He said the ride was one of four under construction on a 10-acre plot to be known as the Roaring Twenties.

Along with the cost-of-construction policy, he said that Knott's Berry Farm has a \$16 million master fire policy underwritten by eight insurers, led by Aetna.

Jay & Renfro, Newport Beach, is the broker handling most of the amusement park's policies.

Mr. Tester said that because of the fire damage the opening of the damaged ride has been postponed from June 1 to mid-June. ■

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Dallas loaded with gourmet eateries, claims 'nightclubbing-est' city award

DALLAS—Dallas prides itself on its sophistication and points to restaurants of every nationality as proof of the city's claim to be the "nightclubbing-est" city in the nation.

In fact, when this reporter asked where the best food could be found, nary a chili parlor was mentioned. The top eateries feature French and Continental cuisine. Some persistent digging turned up a few Mexican and Tex-Mex spots, but if it's an authentic barbeque you're after, you'll have to find a rancher.

The restaurants listed range from expensive (\$10 and up) to moderate (up to \$8). Most require reservations. Given Dallas' spread-out geography, a long cab ride from downtown hotels may be required.

PATRY'S—French, and rated "number one" by everybody asked. Specialties include coq au vin, stuffed leeks and rack of lamb. Expensive. Closed Mondays. Located at 2504 McKinney Ave. (748-3754).

OLD WARSAW—French cuisine (duck a l'orange is recommended) and elegant decor. Prices are high. Located at 2610 Maple Ave., not far from the convention center. (528-0032).

PYRAMID ROOM—Right in the Fairmont Hotel at Ross and Akard, expensive gourmet fare at a leisurely pace is the rule here. (748-5454).

CASA DOMINGUEZ—The best Tex-Mex style food in Dallas. Save room for dessert pralines. Dark, cantina atmosphere at 2127 Cedar Springs. Moderate. (742-4945).

CHIQUITA—Another good Mexican restaurant. Try the enchiladas with sour cream or carne asada: ceviche is tops among appetizers. The margaritas here are great. Moderate. 3325 Oak Lawn. (521-0721).

ZODIAC ROOM—You'll want to see the famed Neiman-Marcus department store, so why not stop in its tea room? The sandwiches are delicious and the seafood crepes are also recommended. Lunch from 11-12:30; hors d'oeuvres and buffet from 5-7:30. Moderate. (741-6911)

There are plenty of nightclubs in Dallas. All the downtown hotels feature at least one lounge. Some of the best spots, however, are private clubs, but temporary memberships (good for a couple nights) are available at most private clubs.

BARNEY OLDFIELD'S—At the Sheraton Inn, 1893 Mocking-

bird Lane features a salute to Elvis Presley weeknights.

OZ—Neon/deco characterizes the newest of Dallas' "chic" spots, a discotheque with split-level dance floor. Though a private club, a three-day membership can be purchased for \$5. Located at 5429 LBJ Freeway.

THE STONELEIGH P—An old pharmacy with '40s decor, Bentwood chairs. Boasts the best juke box in town. Located at 2927 Maple.

GREEK KEY CLUB AND RESTAURANT—Bouzoukis and a belly dancer. 2920 NW Highway.



(1) Convention Center

(2) Union Terminal Building



Why is a company known for loss control talking about rehabilitation?

Steamships suspend service to Vietnam

SAN FRANCISCO—At the height of mass panic and refugee flights from war-torn South Vietnam, two steamship lines here suspended service to that country because of escalated war risk insurance rates.

American President Lines and States Steamship Co. announced "temporary" suspension of service to Saigon following a move by the steamship conference of which they are members to increase the Vietnam war risk surcharge from \$6 to \$30 per ton.

The 500% rate increase, revealed by D.D. Day, Jr., chairman of the Pacific Westbound Conference, will be effective April 17. Mr. Day cited increased premiums for hull and machinery and crew war risk insurance by underwriters as boost.

In addition to the higher surcharge, conference members will also stop extending credit privileges for bills of lading to Vietnam on April 17.

Two other steamship lines, Pacific Far East Line and Sea-Land Service, were also considering suspension of their service to Saigon.

RIMS/Dallas

Economic woes force managers to shave fat from staffs, budgets

NEW YORK—Inflation and recession are causing many a risk manager to tighten the corporate belt, according to a *Business Insurance* survey of the country's top corporations.

Describing management's reaction to the current economic problems, a risk manager for a New York-based food processor said, "I've had to show reasons, good reasons, for expenditures."

One basic departmental expenditure now under close scrutiny in many companies is the hiring of

new personnel.

"As a matter of corporate policy, we're not hiring any new people," William Hyland, director of pensions and insurance at General Telephone & Electronics Corp. said, "Attrition in the department hasn't been a problem yet, but you can't rule it out. If I ever need to replace somebody here, I might be hard pressed to do it."

"ATTRITION has very definitely affected this department," David Whatmough, insurance

manager, RCA Corp. said. When the man who handled the international program retired recently, his responsibilities were added to those of the insurance manager.

Coca-Cola's insurance manager, Joseph M. Collins, said he must now get approval on hiring new personnel and a spokesman for a New York-based oil company reported "clerical staff reductions."

"There is a freeze on hiring, but it's corporate policy, not just restricted to this department," Charles Christian, general insur-

ance manager, Western Electric Co. stated.

At B. F. Goodrich, however, the present economic conditions and status of the insurance market have resulted in the addition of a financial analyst to the risk management staff.

Spencer J. Traver, director of risk management explained: A way to keep costs in line is with detailed analysis. . . . Since we have considerable premium outflow, we want to give more emphasis to present value concepts so we can get a good handle on deductibles."

"WE ALSO find we must spend a considerable amount of additional time on loss analysis to give quoting companies more detailed information," Mr. Traver added, "Our influence is expanding, if anything."

One of the first items pared from departmental budgets in time of economic duress is travel expenditures.

"Travel budgets are being held under close control," a spokesman for a West Coast-based corporate giant said. "There are fewer cookies to go around, so we're having to plan trips more carefully for the people in the department."

A spokesman for a petroleum company headquartered in New York noted the only areas where budgets have been affected by shortage are travel and salaries.

"With the tremendous increase in air fares and other travel expenses, we are consolidating more trips," the spokesman said. "We're not cutting back on travel where it's necessary, but we're trying to accomplish more on each trip."

One business trip some companies are eliminating this year is the excursion to Dallas for the RIMS convention.

"This is the first year I won't be attending the convention," George Beis, insurance manager for B. F. Goodrich Co. said.

Stefan Valovic, director of insurance for Kaiser Aluminum & Chemical Corp. is sending an assistant to the convention in lieu of attending it himself.

For some companies another budget fatality is the outside consultant.

"Outside services have been eliminated right down the line," a spokesman for an East Coast food processing corporation said. "For this department that means no more insurance consultants."

"We run a tight department at all times, keeping watch on third parties like brokers," a spokesman for a New York-based oil company commented.

"WE USE our brokers with much more voracity," RCA's Mr. Whatmough said.

At Caterpillar Tractor Co., Ralph F. White, manager of property and liability insurance said, "there have been substantial increases in cost in some areas. But we feel we need loss prevention service and we are prepared to pay for that service."

A spokesman for a Southwestern-based oil company noted that loss prevention has come in for special attention during the present economic crisis.

"We try to stress it and I think our department heads are getting the message. . . they only have to experience one loss to learn."

Yet another risk manager is cutting costs by cutting loss prevention in the form of sprinkler systems.

"In our construction program, for example, where we would routinely install sprinkler systems, we are now taking a second look at the degree of protection we're going to put in," he said.

There is some disagreement among risk managers over what has a greater effect on their departments: recession or inflation.

"Recession has not really created any problems," GET's Mr. Hyland said. "The story is different for inflation."

"THE SERIOUS problem here is watching property values," he continued. "We are on a replacement cost system of insurance, and we're going to stay there. We're on a bi-annual valuation basis."

"Inflation very definitely has had an impact," Mr. Whatmough of RCA noted, "particularly in our foreign area. We're doing updated valuations of all our properties to make sure they're insurable."

Mr. Whatmough said his department uses tables from Marshall Swift for appreciation of fixed asset values, and also uses the updated trending factors to apply to first costs if they're on actual cash values.

At Standard Oil of Indiana, Martin R. Flink Jr., director of risk management said, "We must watch increases in values because

Continued on page 28

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Flexibility key to risk management at LTV

DALLAS—Risk management at LTV Corp. encompasses land, sea and air—sometimes all at once. Witness the following events which occurred in a recent week:

- The company lost a \$1 million executive aircraft in a take-off mishap.
- A \$35 million transportation system LTV designed and built for the world's largest airport became the object of a legal battle.
- Meanwhile, finishing touches were being put on a multi-million dollar inter-island marine transportation system.

D. C. Morris, manager of insurance and transportation for LTV Corp., took a few moments between business telephone calls at his office in LTV's corporate

headquarters to discuss how he manages such a variety of risks. "You have to be flexible," he said. "Be able to wear many hats at the same time."

BESIDES THE jet aircraft and missiles LTV manufactures for the U.S. government, the company has additional aviation exposure from its five company executive planes. It was one of these, a Falcon jet, which failed in takeoff at Dallas Naval Air Station recently, overran the runway and went into Mountain Creek Lake at the end of the runway.

Among the five persons on board was Sol Love, president and chief operating officer for LTV's Aerospace subsidiary, who sustained a broken finger and bruises.

LTV is insured with American Aviation Underwriters for hull and property coverage for its aircraft, Mr. Morris noted, and has key man accident insurance for its executives.

On land, LTV is engaged in a legal battle with the cities of Dallas, Ft. Worth and the Regional Airport Board over Airtrans, a \$35 million subway-like system for transporting people and goods between terminals at the Dallas/Ft. Worth Airport.

Acceptance of the system is at issue. The board claims Airtrans hasn't achieved sufficient reliability; LTV contends the system meets contract requirements. The firm pulled its maintenance crews off Airtrans for a period in March, after operating the system without a new maintenance contract since January.

A new six-month contract on a cost-plus basis has been negotiated as a stop-gap measure "until we resolve our differences," Mr. Morris said.

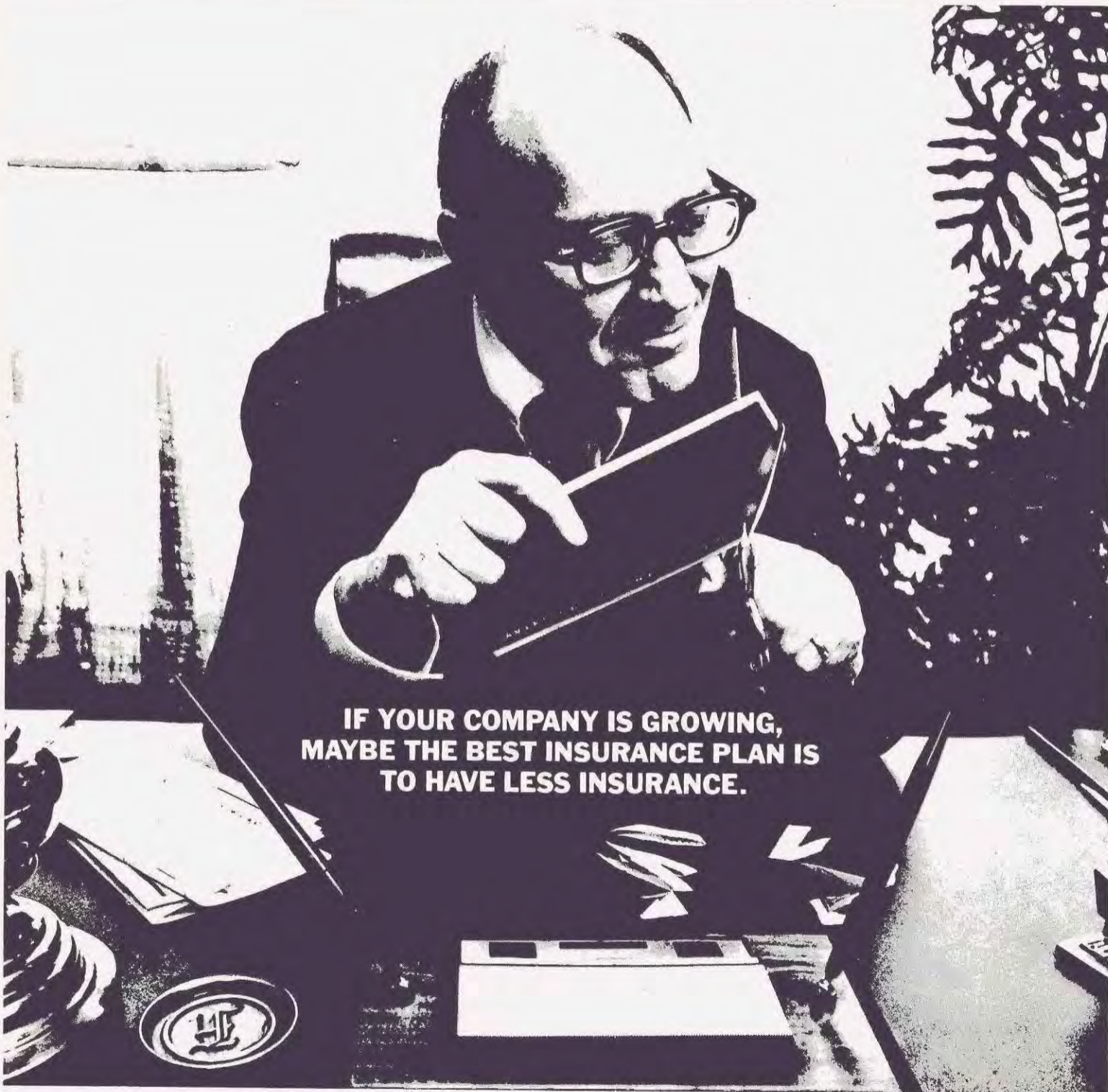
Airtrans is insured under LTV's blanket CGL policy with Continental Insurance Co., with a separate builder's risk policy underwritten by the Hartford Casualty Insurance Co.

Donning his marine risks cap, Mr. Morris explained he's in the process of "designing a tailor-made coverage," for the hydrofoil transportation which he expects to insure "for several million dollars."

The system will begin operations between the Hawaiian Islands in May. Boeing Corp. built the three hydrofoils for LTV's Pacific Sea Transportation Ltd. which will operate them as passenger service between the islands.

CNA turnaround

During the fourth quarter of 1974, the insurance group of CNA Financial Corp. returned a profit for the first time since the third quarter of 1973, the company reported. Continental Assurance Co. reported operating income before taxes of \$17.7 million for the fourth quarter of 1974, offsetting the pre-tax operating loss of \$15.8 million during the fourth quarter for Continental Casualty Co. CNA Financial Corp., however, reported a net loss of \$15.7 million for the same period, including realized losses on investments. According to Laurence A. Tisch, chairman of the board: "Results for the year reflect the impact of underwriting losses and additions to reserves for prior years' periods relating to casualty insurance operations, and the write-off of the company's entire investment in The Larwin Group, CNA's real estate subsidiary."



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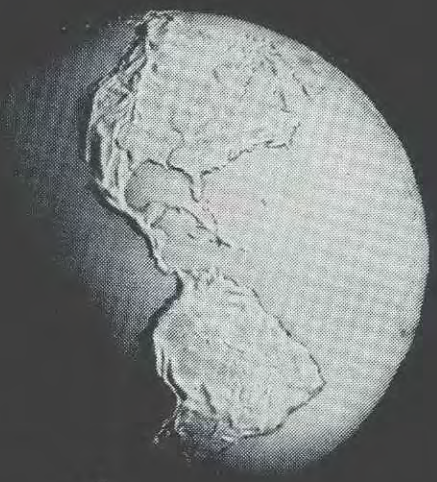
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Belt tightening . . .

Continued from page 25

of inflation. Exposures we had assumed we could leave uninsured, we insure now."

Oil tankers have caused a budgetary problem for another East Coast oil firm whose spokesman acknowledged the company "has a glut of tankers just at a time there is a lack of need for tankers."

To reduce insurance costs, "We're taking them out of service and anchoring in protected waters."

"You can get a fairly decent reduction in insurance that way," the oil company spokesman observed, estimating his company's savings will range between 25% and 75%.

The "credit crunch" has led one East Coast based food products corporation to "sharpen the focus on the financial aspects," a spokesman said.

"As cash flow becomes more cru-

cial, the financial factors get more crucial too," he said.

"We've looked into 501(c)9 trusts, administrative-services-only plans, minimum deductibles and self-insurance," he added.

Another Eastern food products corporation which suffered a major property loss in 1974 has made arrangements to finance premiums, "for the first time in the history of the corporation."

THE DIRECTOR of insurance at a Midwest-based consumer products firm reported his department has injected an installment approach into the premium payment program to improve cash flow.

"If the premium is normally \$120,000 a year, we'll pay \$10,000 a month," he said, "but there's no interest fee where we have purchasing power and can negotiate.

It's not always possible, though," he added.

"From a capital expenditure standpoint, we've really retrenched," RCA's Mr. Whatmough said, "No large projects are in the offing."

At Coca-Cola, Mr. Collin noted, "We're considering a higher deductible, but credits for assuming a higher deductible are hard to get."

"As a general rule, we're less eager to assume more of a risk because of cash flow and liquidity problems," a spokesman for a New York based oil company noted.

Another oil company spokesman said, "Since we're forced with a tight money situation, we're taking a look at keeping more dollars at home."

"It's a good time to take a chance in self-insuring some risks," he said.

One risk under evaluation in many risk and insurance management departments is business in-

terruption.

Business interruption values all have to be more closely monitored, a spokesman for a food processor said.

"We're now trying to implement producing business interruption values on a six month basis rather than annually," he said, "We're also trying—it's not easy to set property values on a more frequent basis than annually."

THE SPOKESMAN explained that since property values are constantly going up, old annual repair and replacement policies are becoming outdated quickly and actual cash value policies, re-evaluated frequently, are better to have.

"You have to watch business interruption risks more carefully now," W. F. Wynne, director of risk management at Champion International Corp. said. "And be attentive so you're not over-insured."

"If we have losses now, the

business interruption costs would be lower than a year ago," a spokesman for the Celanese Corp. added.

Robert C. Lee, director of insurance for Armco Steel noted no reduction in business interruption limits.

"We've gone through a rather quick cycle here," he explained. "A year ago so many things were in short supply and there were delays in getting equipment and spare parts. We and other companies were considering increases in business interruption limits or purchasing business interruption where we'd never had it before."

One company which just added business interruption to its property insurance is NCR Corp.

NCR'S INSURANCE manager Harold S. Koller said, "For the first time the price was finally right. And NCR has been very fortunate in the past. We have never suffered a large loss."

"The economic tightness has changed our emphasis, but it has not changed our basic concepts one bit," a spokesman for an Eastern food products firm said.

The company's insurance program "is more in focus because of the economic trouble," he added, "but we will not change our approach at all."

At Champion International Corp., Mr. Wynne explained, "We've always worked with an awareness of cash flow. If you've done your job well all along, there's not much else you have to do when the economy is not good."

At IBM, "we don't see the current economic climate as affecting us in the insurance department in our day to day business," Patrick Hopkins, insurance manager commented. But he had some advice for dealing with underwriters who, as another survey respondent noted, "took a real beating in the market."

"I think people in our position should find it incumbent upon themselves to look at the financial conditions of insurance companies they deal with," Mr. Hopkins advised.

Administration of workers' compensation programs has also been affected by current economic woes.

"THE MAJOR impact of the recession has been "more work in administering benefits, because of the layoffs," Rudy Davis, manager, insurance department at Firestone Tire and Rubber said.

The company has made no major changes in benefits programs and has experienced no rash of claims to add to expense, he added.

The corporate risk manager for a food processor noted "Workers' compensation is the prime risk that requires more attention in a recessionary period." "There must be an emphasis on safety to reduce exposure," he added.

At Armco, a spokesman in the employe benefits department acknowledged an increase in health insurance, sickness and accident claims. He believed this occurred "in anticipation of layoffs," the spokesman said, "Some of it is again legitimate . . . a particular operation they delayed doing while they were working, for example."

Many of the claims come from laid off workers, the Armco spokesman continued, because the company extends coverage for six months for workers, with at least two years' experience.

"We see them rushing to get their kids to the dentist while the insurance might cover it."

The spokesman estimated the increase in claims at 5% to 18%.

The company is watching sickness and accident claims closely, particularly for short-term employes who don't qualify for extended health insurance, Armco's spokesman said, "We do think there is a possibility for abuse." ■

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Pollution control is a key oil industry concern

HOUSTON—Loss prevention programs represent a multi-million dollar investment for the major oil corporations.

RIMS/Dallas

"We're spending a fantastic amount on loss control," one oil company risk manager noted, "because of our big retention" in property damage and liability insurance programs.

Most oil companies belong to at least one or more of the 100-plus pollution control cooperatives set up to control spill cleanup costs along inland and coastal water ways of the U.S. since 1967.

One of the largest of these cooperatives is Clean Gulf Associates, whose 37 member companies represent 98% of the total oil production in the Gulf of Mexico.

Clean Gulf's members include Shell Oil Co., Texaco Inc., Gulf Oil Co.-USA, Exxon Co. U.S.A., Continental Oil Co., Atlantic Richfield Co. and Amorada Hess Corp.

Each company pays a \$5,000 membership fee and is assured a proportionate share of the unamortized balance of the cost of pollution cleanup equipment.

Clean Gulf contracts with Halliburton Services, a division of the Halliburton Co., for cleanup equip-

Federal post for former Argonaut vp

WASHINGTON—Eli P. Bernzweig, former vp for professional liability insurance programs for Argonaut Insurance Co., was named special assistant to acting Federal Insurance Administrator J. Robert Hunter.

The appointment should expand the expertise available to the Federal Insurance Administrator's office, which is part of the Housing and Urban Development (HUD) Department.

HUD administers federal flood and crime programs and a riot reinsurance program.

HUD SAID Mr. Bernzweig will also be available to Mr. Hunter when he is called upon to advise the White House on such matters as national health insurance, medical malpractice insurance, and any other matters relating to the insurance industry.

"Mr. Bernzweig's expertise will be a valuable asset to FIA," Mr. Hunter said, "in helping to identify and evaluate new and expanding needs of the public and the industry and recommending solutions compatible with recognized insurance principles and techniques."

Mr. Bernzweig spent several years working for the Health, Education and Welfare (HEW) Department specializing in problems involving medical malpractice insurance. He has written two books on the subject, along with numerous articles, HUD said. ■

R.B. Jones expands

R. B. Jones Corp., Kansas City, announced the acquisition of Mueller & Milford Agency in St. Louis, and the local agency business of George S. Kausler Ltd. in New Orleans. They are expected to add \$175,000 and \$200,000 a year, respectively, to R. B. Jones' revenues.

ment. More than \$7 million worth of equipment including open sea and bay skimmers, a high volume open sea skimmer system (HOSS), shallow water and beach protection equipment are stockpiled at bases in New Orleans and Tampa.

Some companies contract with loss control services such as Risk Surveyors Inc., a division of Matthews Daniel Co., for safety inspection.

Risk Surveyors Inc. provides inspection and risk control recommendations on a 50-50 split billing basis between insurers and insureds. Some of its clients include Brown & Root Drilling Co., Fluor Ocean Services, J. Ray McDermott Co. and Diamond M. Drill Co. ■

Liability of Corporate Officers and Directors

By Attorney William E. Knepper

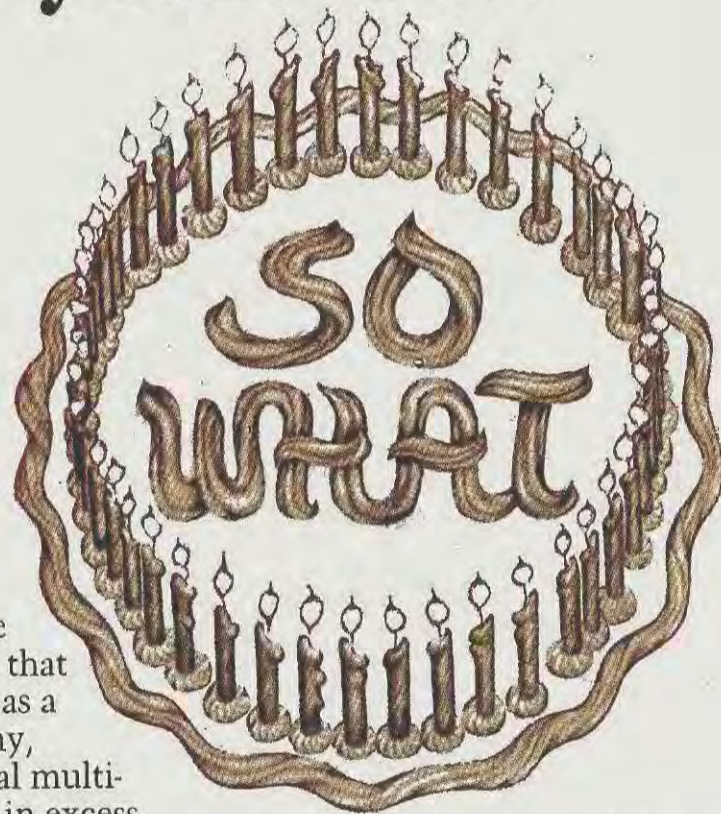
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More companies join line outside doors of big premium financiers

By MARIE KRAKOWIECKI

NEW YORK—The corporate cash squeeze has sent more companies than ever to the doors of insurance premium financing companies, although some firms are embarrassed to talk about it.

The risk manager of a large conglomerate which posted a deficit for 1974 told this magazine that his company has made arrangements to finance property/casualty premiums for the first time in its history.

"The cash squeeze has absolutely made changes in the insurance

department," he said. "Before 1974, we would routinely go to financing companies for quotes on what they would charge to finance our premiums. Then we'd show the figures to our financial analysts who would run them through the computer. We always used to find out we'd be better off without the loans. This year it's different," he said.

MOST RISK managers aren't so open about talking of insurance premium financing, even when assured anonymity, but a growing number seem to be turning to the premium finance companies as their departments' contribution to corporate cash flow problems.

The trend becomes apparent from the increase in business at premium finance companies.

The largest of these, Afco Credit Corp., has seen a significant increase in the number of companies that have turned to premium financing, according to Paul Holland, Afco's agency vp. He anticipates a 25% jump this year over dollar volume the firm did in 1974.

The trend is even more pronounced at AMGRO Inc., a Worcester, Ma.-based firm. AMGRO is a member of the 28-company America Group.

Frank Baril, AMGRO treasurer said there's been a "tremendous growth" in his firm's business since 1973. Last year financing jumped 48%, according to Mr. Baril. This year he looks for it to jump another 44%.

When AMGRO started five years ago, its officials estimated that approximately 5% of all commercial property/casualty accounts were having their insurance premiums financed. Although the AMGRO treasurer could not accurately estimate the percentage today, he is confident that the figure far exceeds 5%.

The credit crunch and aggravated cash flow problem appear to be at the heart of the search for loans to pay off premiums.

BANKS HAVE BEEN a traditional source for premium financing through the years. But, as one financing company official put it, overuse of the bank's services in that area can create credit strains for the insured which might prove uncomfortable.

"If you get an insurance buyer with a \$100,000 annual insurance premium for which he needs a loan, you will get a situation where he is using up a line of credit if he goes to the bank to get that loan.

"Some insurance managers from big companies have two or three commercial bank relationships. They might be able to work out a deal with compensating balances or the like, or get a loan at prime. But other buyers will just find they've exhausted a line of credit they might need for something else later," one industry spokesman said.

Banks themselves present quite a split in positions on premium financing. Union Bank in Los Angeles dropped its entire premium financing department last October because it was not profitable enough.

The bank had been offering premium financing for eight years; mostly as a lure for trust accounts. During that time it handled some \$80 million in loans. Now it wants no part of premium loans.

Continued on page 32

Mr. Agent: The advertisement below is part of USAIG's effort to help you increase your aviation business. It will appear in the aviation press during the next several months in full page format.

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Premium financing . . .

Continued from page 30

Union Bank assistant vp Brady Mora explained that the bank's overhead was too high, and that premium financing interfered with the bank's activity in offering construction loans, which are its specialty.

"Premium financing is not all it's cracked up to be. For one thing, banks are not allowed to operate out of state like Afco to attract more trust accounts. Our stipulation was that an agent would do trust accounts with us if we gave him premium financing. But it just wasn't that profitable." Mr. Mora said.

AT UNION BANK, a typical rate of interest on a corporate account loan would have been around 12%, up from the 10% corporate rate of about four or

five years ago, the "heyday" of premium financing according to Union Bank.

Corporate customers at the Chartered Bank of London in San Francisco will find dramatic differences if they seek premium financing. Dennis Bansen, vp at the bank, says premium financing is very profitable. The bank, which merged with Liberty National Bank last July 1, has been into premium financing for 10 years on the Liberty National side.

For commercial accounts, it handles between \$2 million and \$2.5 million a month, with an overall unit count of 10,000 contracts a month.

Mr. Hansen said that for 1974 the overall (personal and commercial) increase in premium financing was 5%; while commercial accounts were up 10%. And his pro-

jections for 1975, based on the first three months of the year, are generally high. "We expect much better than a 10% increase in commercial accounts this year," he said.

For corporate insureds who finance their premiums through Afco, AMGRO or any number of banks, the business is generated by big agents and brokers almost without exception. It is a rare case indeed for an insured to deal directly with a financing company.

RATHER, A FIRM like Marsh & McLennan or Alexander & Alexander will give its account executives discretion over where to get premium financing for an insured. There is a good deal of competition to woo account execs to a particular line of premium financing, according to Chartered Bank of London's Mr. Hansen.

But once the relationship is forged, it appears to be solid. Mr. Hansen says some of the account ex-

ecutives who work with his bank have been delivering corporate insureds for premium financing for more than 10 years. ("Satisfied? They're always satisfied.")

Even if a corporate insured wants to deal directly with a premium financier, chances are the insured will be gently but firmly asked to deal through an insurance broker.

"If an insured comes directly to us, we ask for the agent or broker," said Afco's Mr. Holland. "After all, we were started by the agency system, and it seems more insurance-industry oriented to do things this way. And it doesn't cost the insured any more."

For Afco, the system seems to be a well-oiled one. In 1973 the company made loans to 190,000 mostly commercial accounts, averaging two or three policies per account. By 1974, there was a 6% increase in accounts, bringing the total to 201,000. Projections for 1975 based on first quarter re-

sults point to 12% account increase, or 227,000 by year-end.

On a dollar-volume basis, Afco gives the following breakdown of its premium financed accounts; 1973, \$361 million; 1974, \$366 million, for a 3% increase; and 1975 (projected), \$456 million, for a 25% increase.

Afco, AMGRO and the banks that are into premium financing say there is increased interest by insurance buyers in premium financing mainly because of the advantage financing offers for cash flow usage.

Afco's Mr. Holland claims that on a \$100,000 premium, if the insured prepays the entire amount to the insurance company, he will lose the use of the money, resulting in a loss of some \$10,450 during the course of a year. Mr. Holland says the same premium, financed, would carry interest charges of \$4,820, for a net saving to the insured of some \$5,630.

OF COURSE HIS estimates hinge on an assumed rate of return on that \$100,000 of more than 10%.

The premium financiers themselves depend largely on the commercial paper market as a source of capital. AMGRO's treasurer Frank Baril, explained:

"We borrow money on a short-term basis through the commercial paper market, and then we loan it out on insurance policies of up to three years. One of the risks of this business for us is that you don't really know what your cost will be over a three-year period."

"You can do a lot better if you're financing over an eight or nine month period rather than for three years, because you know pretty much what the money market will be doing from one month to the next."

Some insurance managers prefer to get direct financing deals from underwriters rather than resorting to a financing company for premium loans.

Some underwriters offer "cash flow plans" which may provide funding of predictable losses with excess insurance plus risk management services, for instance.

One popular format is offered by the Factory Insurance Assn. The corporate insured takes out a three-year policy, but pays the premium in annual installments plus an interest rate. RCA Corp. is known to favor this arrangement and pays FIA 5% on a program it renewed in July.

For the most part, risk managers who will discuss premium financing at all do so reluctantly. One insurance manager of a large food concern made vague references to a "comprehensive" study the department did on premium financing. However, he remarked that the money crunch was not at the heart of the study.

Other risk managers merely shrug off the possibility that their companies might find premium financing a viable management technique. "What, us? We're too big to be getting into something like that," was a common and indignant response from risk managers surveyed by this magazine.

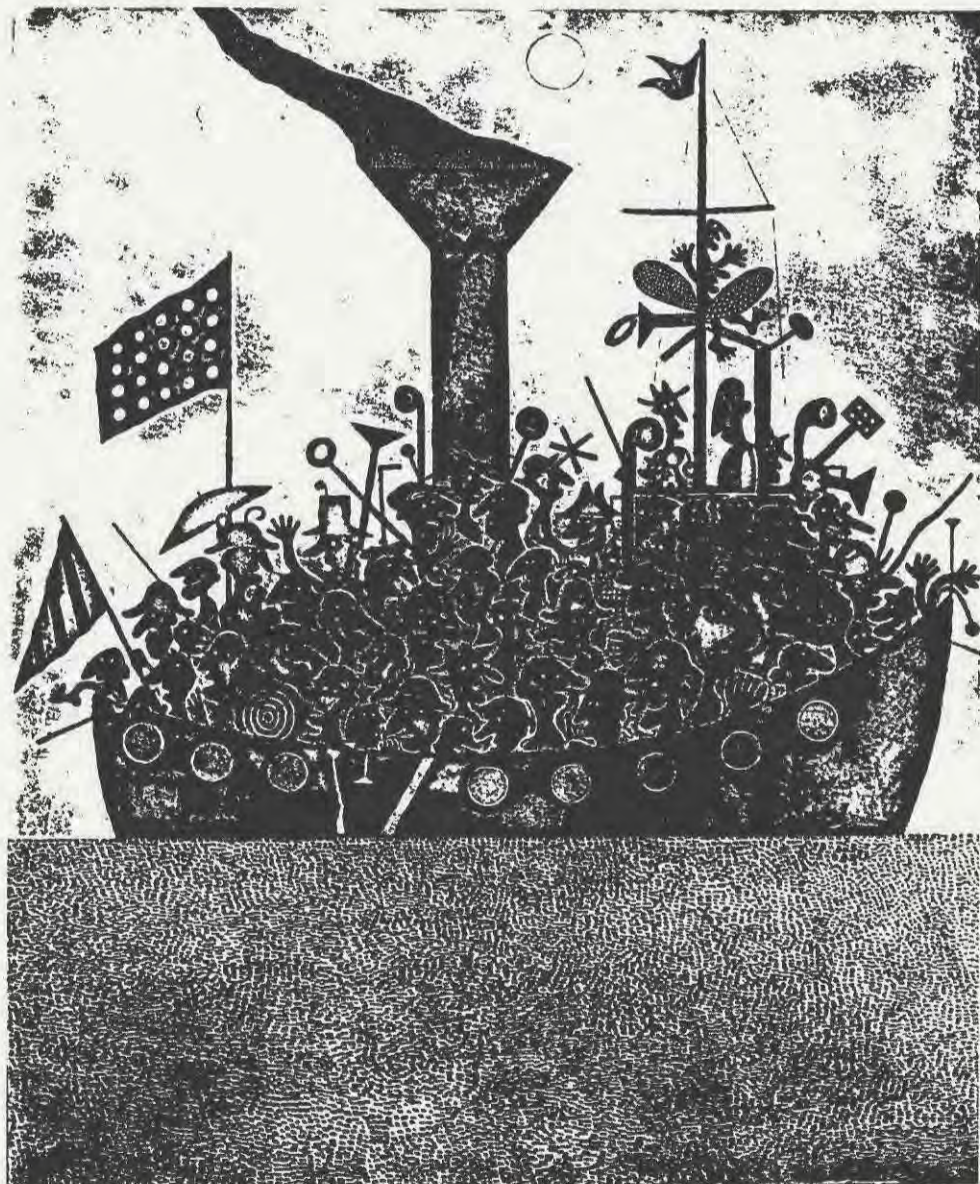
AFCO SAID IT has handled corporate accounts with insurance premiums of up to \$4 million, so apparently size is not the snag.

The snag it would seem, is old-fashioned embarrassment. AMGRO treasurer Frank Baril put it this way:

"We have some corporate insureds who are very, very secretive about going to finance their premiums. The old-timers especially don't like the stigma they feel is attached to it."

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Texas: Wrestlin' with the big oil industry risks

By MARGARET LEROUX

HOUSTON—After last year's oil shortage and problems in the Middle East heightened in the black gold—and boosted prices as well—the oil-rich heartlands of Texas are reaping the benefits of a major exploration boom.

The race to find, market and profit from The Big "O" in this state is spawning new oil-related insurance businesses, as well as risk management and loss prevention servicers hoping to capitalize on a good thing.

Unlike the rest of the nation Dallas and Houston have no unemployment problems. Furthermore, oil-related employers seem to have no trouble absorbing workers native to Texas labor market as well as a continuous stream of people from around the

country migrating to the Lone Star State.

Nationwide, U.S. companies spent some \$24 billion last year for oil drilling and oil-related business. Texans are convinced that oil-related insurance and risk management generates annually at least several billions of dollars worth of business.

RIMS/Dallas

The mammoth market for oil-risk insurance stems from the enormous values involved—offshore rigs worth \$40 million right now, and rigs being built that will be worth \$75 million and more—while the huge and growing market for oil-connected risk management and loss control services is spurred by traditionally

high retentions, often ranging up to \$5 million and \$10 million on one exposure.

As a spokesman for a large oil company observed to *Business Insurance* during interviews around the state: "It's about time the price of crude oil began to reflect the risks involved in drilling for it."

Those risks require some sophisticated management, and this magazine found bevy of specialists around the state working with oil exploration, oil retailing, oil shipping and transport, and oil engineering-construction firms to manage insurance and risks.

The American Petroleum Institute estimated that 90% of exploratory wells drilled offshore fail to find commercially useful deposits of oil and each of these wells costs \$3 million or more.

Since the costs involved are so

high, usually more than one company is involved in a given offshore drilling operation. In organizing such a venture, the company with the most at stake is the owner or operator and the other companies involved are known as joint venturers.

The operator acts for the joint venturers and the results of the operation, both assets and liabilities, the shared in proportion to the interest each member has in the total venture.

"In other words, the liabilities are the same, but the costs differ," one broker stated.

THE MAJOR exposures involved in offshore exploration according to another leading oil industry source are: cost of well control, pollution and damage to underground resources.

"Basically adequate coverage is available in all three areas," Russel Sammis, senior vp with Marsh & McLennan, Houston said.

"Though the potential for losses from damage to underground resources is catastrophic, the actual losses so far have been zero," he added.

The market for cost-of-well control insurance has developed in the last three years, according to Mr. Sammis. "Before that, there was no American market and the limit of coverage available in London was \$3 million," he noted.

Today the American International Group (AIG) and All-American Marine Slip compete with London, and the available limit has jumped to \$30 million or more.

Insurance Co. of North America (INA) is a newcomer to the offshore drilling market. Through an exclusive arrangement with the J.H. Blades Co. in Houston, INA writes property, physical damage and control-of-well coverage for offshore drilling rigs up to \$20 million.

DEDUCTIBLES and limits are scaled to financial interest in the well, with \$250,000 a common retention. Coverage for damage to underground resources carries with it deductibles ranging from \$5,000 to \$10,000 under a cost-plus rating plan.

Cost-of-well control coverage is often written in conjunction with pollution coverage, Mr. Sammis explained. One such policy covers the following costs: Control of a blowout well explosion; extinguishing an oil or gas fire; debris removal; damage to property or bodily injury in connection with seepage, pollution or contamination; containment, disposal or removal of polluting substances, and damage to or destruction of property by an insured peril.

OIL Ltd., the Bermuda-based petroleum industry pool also provides control-of-well and pollution damage coverage for its 35 members to a limit of \$75 million each. Operators assume a deductible of \$1 million with deductibles for joint ventures scaled to their financial interests in the wells.

The existence of OIL Ltd. has had a definite impact on the insurance market, oil industry risk managers and brokers agreed. "OIL has, in effect, removed a large portion of the companies from the market," Mr. Sammis stated.

"OIL made the biggest dent in the market in a long time," an oil and gas company risk manager observed.

Whether OIL's effect will be permanent, remains a subject for conjecture. One industry source claims: "Actuarially, OIL isn't sound. There's a real problem in whether or not it could handle a disaster."

HOWEVER, the risk manager for a Houston-based oil and gas company noted, "OIL suits our purpose just fine."

In addition to OIL, most of the major petroleum suppliers have captive insurance subsidiaries handling portions of their risks.

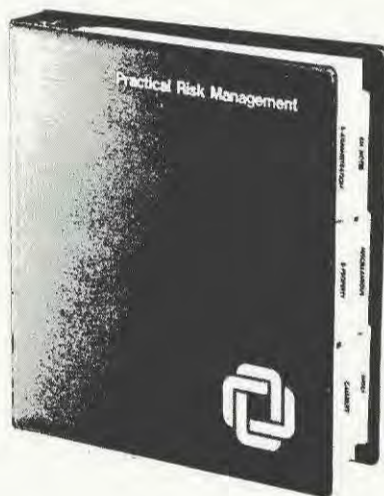
Exxon's subsidiary, Petroleum Casualty Co., handles the company's workers' compensation, Gulf Oil Corp. operates a captive to handle international property risks, as do Tenneco and Continental Oil Co.

How the major oil companies handle their offshore risks depends on management's philosophy, risk and insurance mana-

Continued on page 38

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Texas oil . . .

Continued from page 34
gers for those companies agreed. "Some companies buy insurance from the first dollar, but most carry a big retention, especially on property damage," a spokesman for one of the major oil corporations commented.

The retention varies according to the risk, another oil company risk manager noted, "It varies from as little as \$10,000 to amounts in the millions."

"IT USED TO BE we'd insure everything in sight," yet another oil and gas company risk manager said. "Now there's a lot more emphasis on risk management."

One company whose risk management techniques have developed with its involvement in offshore drilling is Superior Oil Co. Based in Houston, Superior was the first company to drill offshore

in the Gulf of Mexico, according to insurance manager K.D. English. "Back in 1938 we were drilling off the coast of Louisiana" he noted.

The company, which reported operating revenues of \$332,651,000 (In 1974 the company consolidated its Canadian subsidiary) in 1974, has always had a strong handle on losses for its Gulf operations, Mr. English said.

SUPERIOR HASN'T experienced a loss in the Gulf since 1957. "We have good records and a good loss history and can determine where the losses that do happen are most likely to occur," the insurance manager explained.

Consequently, the company assumes a \$250,000 deductible for its offshore operations. Superior is a member of OIL Ltd. and has a \$20 million primary limit CGL policy with the Highlands Insurance Co. The company also operates a captive in Bermuda ■

Safety and benefits combine for good loss prevention at Penrod

By MARGARET LeROUX

DALLAS—A combination of safety and unusual employee benefits programs has resulted in successful loss prevention at Penrod Drilling Co., a major contractor for offshore oil drilling.

The company, a subsidiary of Hunt Oil Co., operates 35 drilling rigs worldwide and has lost only two rigs since the company became involved in offshore drilling in the 1950s.

The offshore drilling industry has not been noted for its employee benefits programs, Bob Thomas, Penrod's insurance manager said in an interview.

"Some don't even have major medical programs," he noted.

Penrod offers its 1,800 employees a major medical and dental group policy on a 60/40 employer/employee contribution rate. The policy is underwritten by Lone Star Life and Lincoln National Life insurance companies.

PENROD RECENTLY negotiated a new group accident policy to cover 400-500 field and office workers which for the first time includes drillers as well as tool pushers.

Tool pushers are the supervisors on drilling rigs; drillers are the crew members involved in the actual drilling.

"Until this year drillers weren't included in the accident policy because the rates for them were so

high," Mr. Thomas explained. "But they have the same exposure as the tool pusher; the only difference drillers are paid by the hour and tool pushers are salaried."

Penrod changed underwriters from American Home Assurance Co. through Quebec & Bouquim brokerage firm in Lafayette, La. to Bankers Life through Johnson & Higgins.

"This was one of the few instances we've changed carriers," Mr. Thomas noted, "but American Home informed us our rates were going to be increased even though we had experienced no losses; the increase was based on the industry's losses."

Though he prefers the domestic market for group policies, ("I'd rather stay domestic for the claims service") Mr. Thomas sought quotes from the London market in negotiating the new policy.

"**SURPRISINGLY** there was only about three cents per \$1,000 in coverage difference between the London and domestic markets," the insurance manager said of the quotes he received.

American Home quoted \$1.30 per \$1,000 coverage for field workers with an additional 72 cents per \$1,000 coverage for spouses; Banker's Life quoted \$1.35 per \$1,000 for field workers and additional 74 cents for spouses and London quoted \$1.50 per \$1,000 coverage for field workers, 90 cents per \$1,000 coverage additional for spouses.

For office workers American Home quoted 85 cents per \$1,000 coverage and an additional 80 cents per \$1,000 for spouses; Bankers Life quoted 76 cents per \$1,000 for office workers and 74 cents per \$1,000 for spouses and the London quote was 72 cents per \$1,000 for office workers and the same amount for spouses.

What sold him on the domestic policy, Mr. Thomas noted, was the better claims handling ability of a domestic carrier.

Penrod boasts of another first in employee benefits in the offshore drilling industry: an income protection plan for the hourly paid domestic drilling crew.

For a premium of approximately \$16 per month, employees are guaranteed an income ranging from \$400-\$500 per month for one year following an accident or during sickness.

Though the plan, underwritten by Tennessee Life Insurance Co., is strictly voluntary with no contribution by the company, it's been enthusiastically received—94% participation—by the employees.

"**THERE'S BEEN** a better response to this plan than there was to the last wage increase," Mr. Thomas noted.

"From our point of view," he continued, "it will help control the workers' compensation ratio and will make it easier to settle comp claims."

In the three years he's been insurance manager at Penrod, Mr. Thomas has effected closer management of the workers' compensation program which is insured with the Hartford.

He changed the limit on claims settled from field offices to \$1,800 from the previous \$7,500 limit. "I didn't feel we were getting enough cooperation (in loss control) from our field personnel with that limit," he noted.

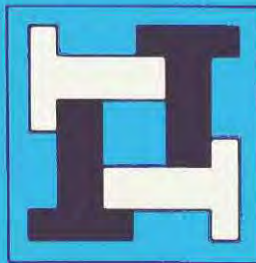
The insurance manager also attends all trials involving workers' *Continued on page 40*

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Penrod loss control . . .

Continued from page 38

compensation, Jones Act and Longshoremen and Harbor Workers Act cases. "The company feels, since it's our money involved, we want to see those juries," he said.

Penrod has always stressed internal management of the safety program, Mr. Thomas related. "Management doesn't want to rely entirely on the insurance carrier," he said, "because the carrier doesn't have the technical expertise in the drilling industry."

A full time safety director and two safety engineers, all taken from the ranks of drilling crews are in charge of the domestic loss control program.

Safety personnel devised a manual of safety regulations and the tool pusher on every drilling rig is responsible for enforcing regulations.

The safety engineers inspect each rig on a periodic basis, "on the average, twice a month," Mr. Thomas explained, "Our people are on the offshore rigs so often, we have few problems with the Coast Guard."

RIMS/Dallas

A safety incentive program offers drilling crews a chance to get free gear for cutting down on accidents.

For each 30-day period with no lost time due to accidents, crews are awarded certificates which can be exchanged for equipment such as work gloves, coveralls, and boots.

Though he admits, "There's no telling what the equipment bill is for our safety award program,"

Mr. Thomas noted that management "would rather make sure our people have good equipment. This in itself is a big factor in accident prevention, he concluded.

Penrod's offshore drilling crew members are also sent to training schools offered by the International Assn. of Drilling Contractors (IADC).

Domestic safety programs receive the bulk of the attention Mr. Thomas explained, mainly because the Gulf of Mexico is the biggest risk area.

"We'll have 10 accidents there for every one elsewhere in the world," he said, though the company has experienced only two fatal accidents in the three years the risk management program has been in effect.

Overseas, Penrod relies on the American International Underwriters loss control services, to monitor the company's "cream of the crop" crews.

Our overseas crews are more ex-

perienced, better paid, and have better safety records," Mr. Thomas said.

Overseas crews work on a 28 days on-28 days off basis with the company picking up the tab for air transport to and from the rig. Domestic crews are on a seven days on-seven days off schedule.

"OUR AIRLINE bill is something like \$125,000 a month," Mr. Thomas related, but the amount is less than the cost of relocating crew members and their families overseas, he added.

"Besides, in many of our drilling locations, the medical assistance available is poor; our workers would rather come home for treatment," he said.

Penrod's insurance manager attributes the company's good safety record in part to its hiring process. "We're really choosy," he noted "Out of a whole basket of applications, we'll hire about five applicants.

"It's the companies who hire just anyone who comes along that have the terrible loss experience."

Despite the extensive loss control program, Mr. Thomas acknowledges, "we're living on borrowed time. We're pitting our safety program against the unknown factor—and we're cocky enough to think that we'll win. ■

Good 1st year dividend for oil reciprocal

DALLAS—The first reciprocal insurance company in the oil and gas industry, whose members include independent offshore drilling contractors in Texas reported a 11.6% dividend after its first year of operation.

United General Insurance Exchange reported a combined loss and expense ratio of 73.1% to its 75 oil well service contractor members as well as a 24.9% underwriting profit.

United General provides property coverage for oil drilling rigs with a limit of the replacement value of the rig.

Members assume a \$5,000 deductible and the Exchange covers amounts from \$5,000-\$25,000 and reinsures everything over \$25,000.

The company reported a 41.8% loss ratio for the first year of operations.

"We had 18 losses totaling \$102,000 to the Exchange after reinsurance," Kenneth Callaway, executive vp of the United General Insurance Agency, managers of the Exchange, said.

"The largest loss was \$50,000," Mr. Callaway said, noting that the average loss was between \$10,000 and \$11,000.

The reciprocal's member companies include: Globe Well Service Inc., Jet Well Service, D.C. Well Service Inc., Spartan Well Service, Bighorn Well Servicing Co. and Hoffman Oil Well Service Co. ■

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Home Insurance Companies



\$5 million policy covers export sales

RYE, N.Y.—American Avitron Inc., an aircraft and aerospace equipment and service parts distributor here, bought a \$5 million master policy with the Foreign Credit Insurance Assn., covering its export sales.

Fred Monsell, Avitron's senior vp, negotiated terms of the policy. No broker was involved in the transaction. Mr. Monsell told *Business Insurance* the policy was for one year and would be renewable on an annual basis.

"The policy is pretty open, and it covers us against the possibility of any foreign country we deal with taking over our business," Mr. Monsell said.

"It's a good way for us to cover our receivables, and it's also a good marketing tool because it cuts back on our risk factors. As you might imagine, we've been concerned about Italy."

Total sales for Avitron amounted to \$30 million for fiscal 1974, and some 85% of those sales were made to foreign buyers. The company plans heavier penetration in export markets. The FCIA policy it bought covers losses that result when foreign buyers fail to pay for their purchases, either due to commercial or political circumstances like insolvency or war.

Avitron and FCIA would not reveal the premium level. ■

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became satisfied with his success and got soft.
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insurance needs of our growing list of clients.

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gives you more for your insurance dollar.
And you can bet your bottom dollar
we'll never become a fat cat.

CORROON & BLACK

We make it our business to understand your business.



Recessionary ills boost benefit bills; workers feel trapped by economy

By RICHARD L. GORDON

FLINT, MI.—Laid off auto-workers in this General Motors-dominated town feel "trapped" by the recession, a psychiatric social worker said this month.

Employe benefits managers at recession-battered corporations are in much the same boat—watching what appear to be more health insurance claims, and higher costs, roll in through the door.

Another observation from the social worker spells out part of the problem. "It's not so bad as long as supplemental unemployment benefits (SUB) and fringe benefits are available to them, but there's a lot of fear about what will happen when benefits run

out," the social worker said.

That fear is contributing to what may be a small wave of benefits claims increases as workers seek treatment for "recessionary" ailments—illnesses like hernias, ulcers, hemorrhoids—before the health insurance and sickness and accident benefits disappear.

THESE ARE the types of illnesses where treatment might be deferred in better economic times, when workers are working.

"There is an indication that our experience is up," said Victor Zink, General Motors' employe benefits manager. "But do we know why?"

Part of it may be unfolding in Flint, where unemployment hit

19.6% in February, double the national rate.

"We always get an increase during layoff times," Mr. Zink said. "It's very difficult to determine what's legitimate and what isn't. Sometimes the economic pressures produce a kind of sickness."

Part of the ebb and flow of claims in the auto business can be explained in economic terms.

GM employes with one year or more service qualify for SUB benefits. These payments, with employment compensation, provide about 90% of normal pay, while the SUB fund lasts.

Having a recessionary illness while on the SUB rolls can actually cost an employe money.

Sickness and accident benefits provide only 75% to 80% of pay, and there is also the deductible under the health insurance to be paid.

"BUT, OUR United Auto Workers SUB plan probably won't have much money after April, and we're going to have a severe drop in benefits at that point," Mr. Zink said.

Once that happens, he explained, the economic differential will favor a laid off worker having surgery, and picking up his sickness and accident benefit check, while still covered by company health insurance.

By summer, GM will have a new wave of employes in this situation. They will be laid off for the traditional model change-over period, will have health insurance, but no SUB benefit incentive to stay out of the hospital.

"We don't know what will happen," Mr. Zink said, "but we'll

be keeping a close look. Now the employe will get that hernia fixed. He will get more money from sickness and accident benefits than from unemployment compensation alone."

Akron-based B.F. Goodrich Co. is another corporation caught up in the auto industry's recession troubles.

More claims and more costs are expected because of the recession, said John Hohl, supervisor of group benefits.

"THE MAIN reason is that employes who are actively at work will put off going into the hospital," he said. But it's still "a little difficult to tell if we're into a substantial increase in claims."

Goodrich's self-insured sickness and accident plan offers \$95 a week to totally disabled employes who file claims anytime within 90 days of lay off. The company expands health insurance benefits for the same period.

"We wouldn't initially scrutinize these too closely because all our payments are based on certification by a doctor," he said.

Other symptoms of the impression are increased numbers of calls by employes asking about coverage of office visits to doctors.

"Or, can I turn in a claim for an X-ray I had last July and still get my \$15?" Mr. Hohl said.

"They're ordinary calls," he explained. "We're just getting more of them."

Those troubles aren't over for Goodrich. The company is laying off 2,875 employes for two weeks in partial shut down of three tire plants.

THE OTHER horn of the dilemma facing benefits men in this recession year is inflation. While current inflation rates seem to be slowing, last year's big cost jumps for medical care are still moving their way through the insurance industry and are now appearing as big rate increase requests.

"I can recall only a few rate increases of more than 20% last year," said Richard Burns, senior consultant for Corporate Policyholders Counsel, Chicago-based risk management consultants.

"This year I can recall only a few under 20%," he said.

"And I know of no one who has reduced plans in the employe benefit area," he adds. "It's almost impossible to do, and the economy's been going up and up and nobody's been thinking about it."

GM's Mr. Zink said Michigan Blue Cross-Blue Shield is seeking a rate increase of between 30% and 35%. About half of GM's employes are in Michigan.

The size of the current request is due in some part to earlier rate boost requests that were refused, he explained. And state insurance officials this year still probably won't grant that large a jump.

The full amount would mean another \$100 million or so in health insurance costs to GM, he said. Even a 10% jump would aid around \$30 million to costs.

"NO MATTER how it comes out, it's going to cost us a substantial amount of money when we can least afford it," he said.

Is there any way to pinch pennies? Maybe, says Mr. Burns, the consultant.

"At least an employer can protect himself from the very big claims by going into a pooling, or medical forgiveness arrangement," he said.

The insurance carrier would forgive individual claims in excess of specific dollar amounts. The price for that, he said, is about 5% of premium.

"And it's currently a bargain," he added. ■

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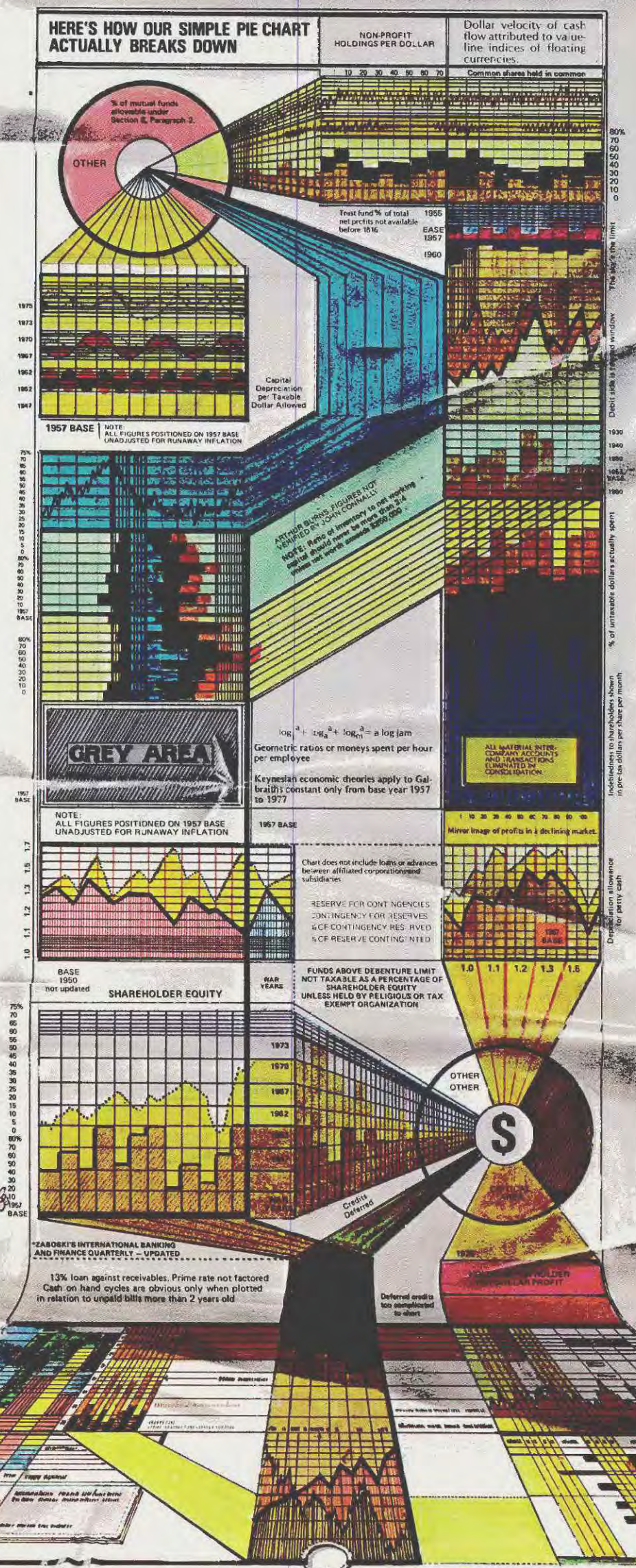
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Risk managers heed recession but don't panic

By ELISABETH M. WECHSLER and
JOANNE GAMLIN

CHICAGO—What do risk managers do when their bosses tell them to shave costs and improve internal cash flow?

Nine risk managers contacted by *Business Insurance* responded with a broad range of suggestions that include cutting personnel, turning to self-insurance, increasing deductibles, breaking out or aggregating coverage and inviting more carriers to bid on their policies.

And though the risk managers contacted had plenty of advice, most said they weren't changing their own approaches solely as a result of the recession.

The insurance manager for a

West Coast petroleum company, who insisted on anonymity, said his insurance program has always been aimed at maximum utilization of cash.

"We always follow programs designed to enhance cash flow," he said, adding that he has not been asked yet to shave costs.

"For example, in the construction aspect of our business, we normally pay on a progress basis rather than acceding to underwriters' demands to give them a substantial sum up-front. On construction projects we don't complete the payment of our premiums until we have a value at risk."

When his corporation does put an up-front deposit, he said it pays that sum in the form of monthly

payments and not as a single lump sum.

Retro plans, similarly, are used for employer's liability and worker's compensation, he continued.

THE CORPORATE risk manager for a large conglomerate with truck manufacturing interests launched a program January 1st to increase cash flow that, he said, was only coincident with the current economic squeeze. The program had been "under evaluation for three years."

This risk manager, who also requested anonymity, explained that the company switched brokers last year and asked its underwriters to make January 1 the "effective renewal date for policies—mostly ex-

cess layers—that were set to expire in 1974. With a pro-rata extension of these policies, we were able to bargain and negotiate every single placement," he said. The result was a "substantial reduction in 1975 premiums."

He emphasized that while brokers were changed for this new direction in his domestic insurance program, the underwriters remain the same and agreed to a premium reduction in the excess rates.

"My underwriters concluded they could make money with lowered premiums," he said. "It was obvious to them that we were paying too much for certain covers."

The risk manager explained that negotiating centralized placements

was one reason he was able to arrange such a favorable arrangement when underwriters themselves needed a stronger cash flow and were charging higher premiums.

Until January, he said, his company's various subsidiaries had placed their own policies. "By making our placements on a centralized basis, we gained a lot of new muscle," he noted.

But that wasn't all. The risk manager said that as of January 1, his workers' compensation program became self-insured in eight states that contain 85% of his corporation's payroll.

AT THE SAME TIME, self-insurance was adopted for general and auto liability in all 50 states.

The cash conserving thrust of his revamped insurance program couldn't have been a better fit for current economic conditions but he passed it off as "just pure good fortune and good timing."

Ralph F. White, manager of property and liability coverage at Caterpillar Tractor Co. in Peoria, Ill., says he hasn't done anything in particular to cut costs lately except to continue raising deductible levels which was started several years ago.

Deductibles for property (including business interruption) at Caterpillar were raised seven years ago and are now "substantial," Mr. White said. He would not specify the amount of the deductible but said he thinks only chemical or oil companies have larger property deductibles.

Product liability and auto coverage deductibles were raised beginning four years ago and they too are pegged at what Mr. White described as "substantial" levels.

The money conserved from premium payments was "cranked into fire protection and security," Mr. White explained. "It's enabled better loss experience and also has allowed for continuity of operations," which he emphasized was particularly important to top management.

Cash flow techniques at Caterpillar's insurance department include assisting in budget preparation in September or October for the coming year and planning expenditures for a five-year period, Mr. White said. "We put together the best information provided by our group on the costs of insurance for all facilities throughout the U.S."

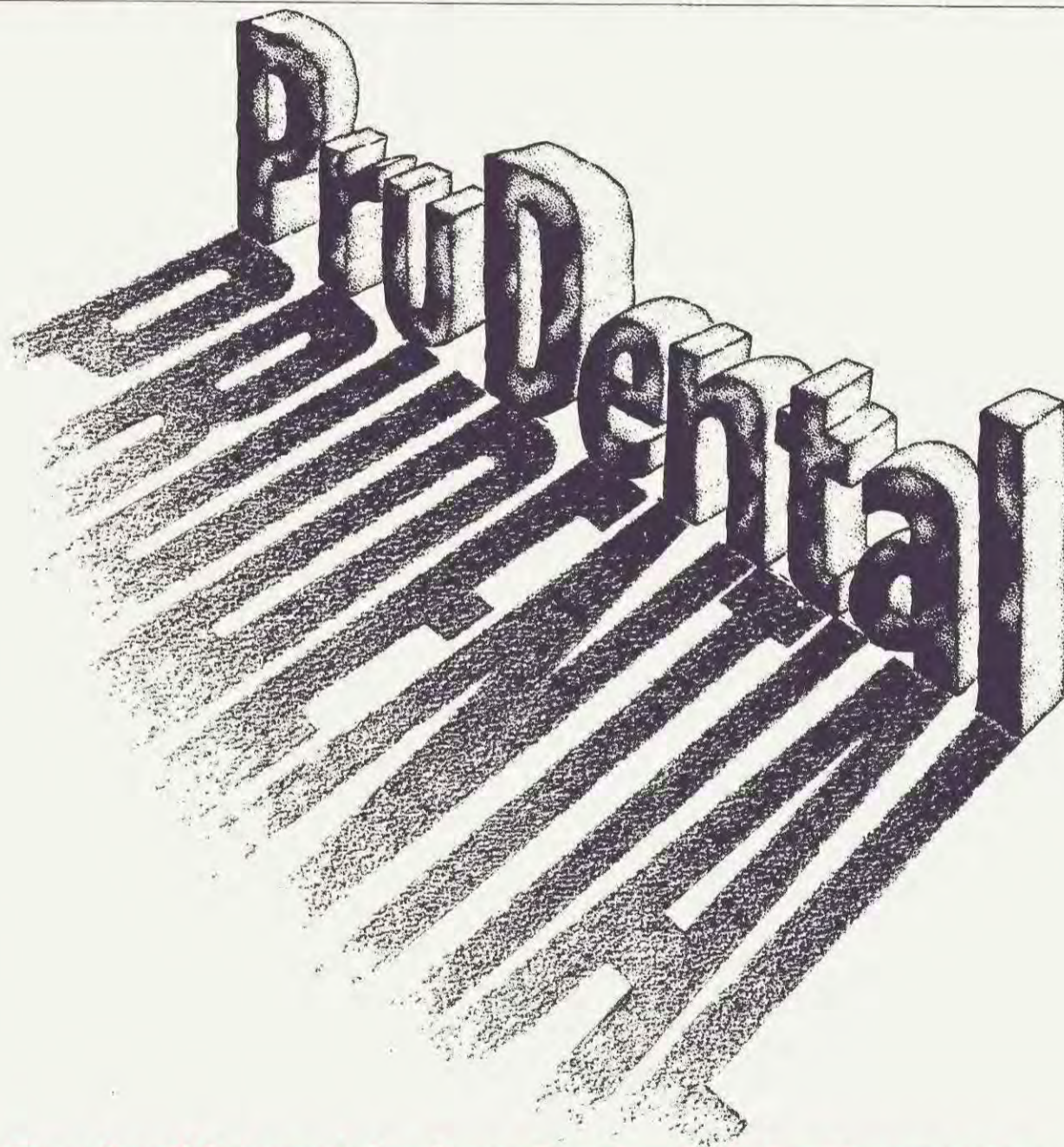
"WE THINK the best way to save money is to increase self-insurance. It gives us the use of the money and better control over the claims," said Harold L. Flax, director of risk management for Ryder Truck Lines Inc. and its sister company, Pacific Intermountain Express Co. (PIE). Both companies are subsidiaries of IU International Corp.

Mr. Flax said he increased the companies' liability deductible from \$100,000 to \$250,000 in 1972 but added he didn't think there would be a dollar saving to increase it further. "We've got to be able to show a potential saving by changing it," he said, adding that the reserve "should not be funded but accrued."

Ryder's and PIE's fire coverage deductible presently is \$25,000 and Mr. Flax said he is thinking of increasing it. One drawback is that a number of corporate locations are valued at under \$100,000 and a higher deductible "might not be advisable" for this reason.

Another item in the trend toward self-insurance is the dental

Continued on page 46



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Heed recession . . .

Continued from page 44

benefit plan which includes in-house claims processing. "We handle everything for medical and accidental now," Mr. Flax said.

Other recessionary techniques suggested by Mr. Flax were trimming excess personnel or shortening the work week, cutting out fringes such as conventions and asking more brokers to evaluate their coverage.

"We think our program is the most economical but maybe another broker can offer a suggestion," Mr. Flax said. He warned, however, against the possible trade-off between "temporary saving and long term stability."

The director of insurance for a Midwest railroad invited more than its usual one or two principal brokers to make a survey of the corporation's coverage by May 1st

to "see if they have any new ideas to help cut costs." The insurance manager, who requested anonymity, emphasized that his company "wants to save all the money it can."

RIMS/Dallas

Juggling priorities was mentioned by Martin R. Flink Jr., risk manager for Standard Oil of Indiana, as an inevitable dilemma of insurance management in recessionary times.

"We normally stress loss prevention and find some plants are only operating at partial productivity now. It's hard to get funds for that (project) now," Mr. Flink said. "It's not that we leave them unprotected but we can't move ahead with fire protection improve-

ments," he said, adding that he personally disagrees with the decision. He emphasized that loss prevention "should be the last area to cut down on."

Among Mr. Flink's other suggestions were to cut back on personnel or future projects and spend more time on current problems. He also suggested "increasing deductibles in the areas of your best experience."

"We haven't faced internal cash flow problems," Mr. Flink said. "Though the premiums sound like a lot of dollars, they are a low percentage by any comparison for our company. It's also a low figure because we're largely uninsured."

The spokesman for another oil company said that like many of its competitors, "the economic situation has had no impact on the corporation as yet."

"Changes have been made only in two areas as a result of the recession," he said. The excess layers of the liability policy were shifted

from a base adjusted to gross revenues to one tied to the firm's payroll and insurable values of the firm's marine fleet were increased to 25%, he said.

"Originally it was thought equitable to relate our premiums on our excess liability coverage to our gross revenues because they were anticipated to increase in an orderly manner," he said. "However, with last year's profit explosion, that base came to be regarded as unrealistic."

THE INSURABLE value of his company's marine tanker fleet was increased primarily because of a drastic increase in construction costs. "We found that if we insured a marine tanker for \$10 million and it was lost, we (would) spend \$15 million to replace it," he said, noting his corporation has decided for the moment not to purchase any marine tankers. Instead, he explained, it is entering into time-charter agreements to ac-

quire the use of such vessels.

He described the corporation's cash flow as "solid" and noted that the firm has the cash to meet its self-insurance needs because losses were under \$1 million.

The risk manager at an aircraft manufacturer, who also did not wish to be quoted, said his company's credit agreement with 24 banks prohibits him from altering his insurance program in any meaningful way.

"Self-insurance? Our property is collateral for bank loans," he said. "I think the banks like the idea of possessing solid insurance to protect these properties. I fear they would take a dim view of self-insurance."

Spencer J. Traver, director of risk management at B.F. Goodrich, had several suggestions for recession-minded insurance managers.

"The first thing to shave are the blanket property policies where deductibles are set on the basis of market conditions rather than on true experience," Mr. Traver said. "Insist upon a rate for individual components such as the percentage rate for fire or burglary" within the blanket policy. "You can sometimes get a deductible cut for a peril (your underwriters) are least afraid of," he noted.

"CONSIDER ALL funding devices which are viable for your firm such as a captive insurance company," Mr. Traver said.

"You may find you can afford a different deductible level because the loss is more predictable," he said. "Combine more policies among property coverage. Reducing the number to two or three can give you bigger discounts."

Mr. Traver advised small and medium sized companies to consider using consultants. "They could take significant advantage of (their) advice in this situation."

"Look for those markets where there's still competition," he said. "Take a hard look at the financial statements of companies where you place coverage. Underwriters try to stick it to you harder at renewal if they're in trouble. Choose the company which weathers the economic storm best, because it shows which have the most financial ability. Most risk managers take Bests' rating for granted as godliness. But (carriers') stock losses are a different matter because (their management) must cope with this loss," he said.

"It really boils down to the fact that you think you've got a good insurance program," Mr. Traver said. "But conditions don't stay the same. A monitoring system is necessary so you can be sure the merit of your decision still exists."

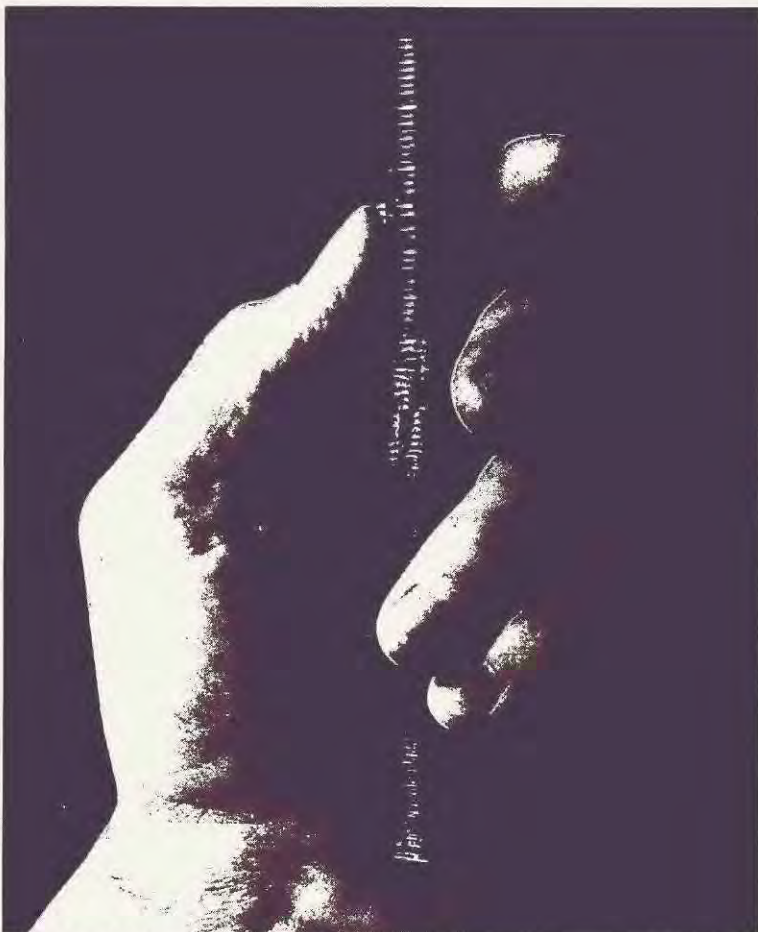
Pru continues health cover for jobless

NEWARK, N.J.—Prudential Insurance Co. announced it will continue health coverage to unemployed workers and their families now covered by group contracts.

The carrier said it has contacted the more than 90,000 employers who have such contracts for their employes. It will offer either regular individual major medical policies to laid-off workers or will encourage group policy holders to continue health care benefits for laid-off workers by "making the normal contribution or by permitting these former employes to pay the entire premium cost."

Prudential said it may permit unemployed workers to convert to a regular individual major medical policy which would provide broad health care coverage. ■

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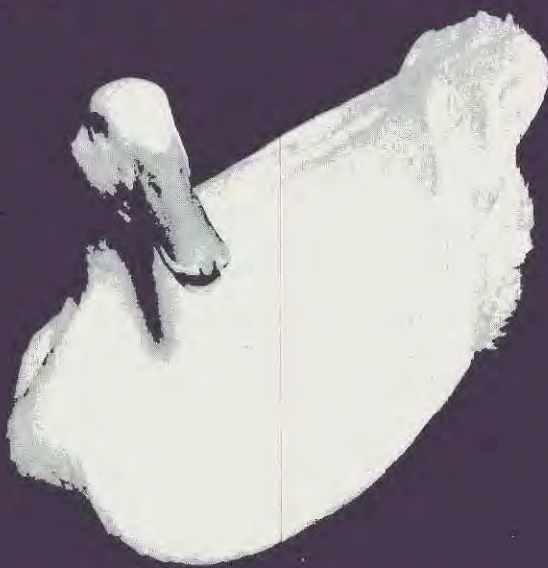
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ant," said a risk management computer expert, "is that even if they

50/business insurance, April 21, 1975

Exceptional managers ...

Continued from page 49

the entire airline industry in terms of property/casualty and benefits.

ROLLYN L. STOREY: director of risk management and real

estate, SCM Corp., New York. Has a BBA, an MBA and a JD from University of Michigan. After joining Glidden Co. in 1951 in the accounting department, moved to insurance department as acting director of safety for Glid-

den-Durkee in 1963; promoted to manager-insurance and safety in 1964, and became manager of insurance and safety for SCM when the two firms merged in 1967. Appointed to present position, 1974. Manages department of 11 people, property/casualty only. Known for his notably well-rounded background, and for understanding fire protection backward and forward, with strong negotiating and loss adjusting skills. Known also as a self-insurance and loss prevention innovator, with good grasp of how to integrate risk management methods.

STEFAN J. VALOVIC: director of insurance, Kaiser Aluminum & Chemical Corp., Oakland, Ca. Has a BS in fire protection and safety engineering from Illinois Institute of Technology, and a law degree from John Marshall Law School, Chicago. Has been a fire protection engineer for the Cook County inspec-

tion bureau, joined Standard Oil of California in 1961 as a fire protection engineer, moved to the insurance department of Standard after three years. Joined Kaiser in 1966, named director of insurance in 1969, responsible for worldwide property/casualty risk management, with a department of six people. Known for his analytic ability, technical skills in developing workable alternatives solutions before making decisions. Also known for his knack in running a highly centralized department within a highly diversified company.

HOWARD T. WEBER: insurance director with the finance division of 3M Co., St. Paul, Mn. Has a BBA from University of Minnesota. Was assistant to the treasurer for Economics Laboratory 1949 to 1957, also acting as part-time insurance buyer after 1951. Joined 3M 1957 as manager of insurance, and named insur-

ance director in 1970, responsible for property/casualty and loss control. Manages a 12-person department. Known for good administrative skills, ability to delegate, being on top of 3M's exposures.

WOODY PARIS, WALT WOODARD AND ROBERT HOFF: corporate insurance manager, assistant corporate insurance manager and aviation insurance administrator, respectively, for Boeing Co., Seattle, Wa. Mr. Paris has been with Boeing since 1939, and involved in the insurance function since the mid-1940s. He started as a timekeeper and moved to general accounting, then insurance. Mr. Woodard, a graduate of the University of Washington in economics and business, present position since 1967. Mr. Hoff, who has a law degree, joined the firm in 1969 and handles contractual matters. "The Boeing people make a unique team. Very few industries have had the problems of the large aircraft manufacturers, and the fact these people have weathered the storms so well and are such a compatible team says a lot for them as people," noted a leading insurance executive. ■



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Hilton selects James in first casualty plan account split

BEVERLY HILLS, CA.—Hilton Hotels Corp. switched its property and workers' compensation as well as its liability policies, both primary and a portion of the excess layers, from the Los Angeles office of Marsh & McLennan to the Los Angeles office of Fred. S. James, *Business Insurance* learned.

The move represents a substantial change, said sources knowledgeable about the Hilton account change, "because Hilton has dealt exclusively with Marsh & McLennan for more than 20 years."

At the same time, it is common knowledge in the insurance industry here that Hilton is mostly self-insured for workers' compensation and primary liability.

The switch in brokerage firms also produced a change in underwriters. The primary liability policy, which had been underwritten by CNA, was transferred at the time of the brokerage change to Allstate Insurance Co. Similarly, workers' compensation was moved from CNA to Allstate.

THE LAYERED property policy has a limit in excess of \$100 million. It is now underwritten by a group of carriers led by Aetna, who also represent a change from the lineup of underwriters in force during the tenure of M&M.

Aetna is also the underwriter for the piece of excess liability coverage now in the hands of James.

One reason why the primary liability policy was moved to James is that the hotel chain was known to have been seeking a fixed-cost liability program which James was able to offer. Marsh & McLennan apparently could not come up with such a program and reportedly argued that, during an increasingly tight liability insurance market, it would not be prudent to do so. Managers at Hilton declined to comment on the changes.

At present, James and Marsh & McLennan stand about equal on a net commission dollar basis, insurance industry observers said. But in total dollars, the James program is believed to be less costly, they added. ■

3M's ERISA reaction includes liability cover

By SUSAN ALT

CHICAGO—3M Co. is taking a number of steps to reduce its fiduciary liability exposures under the federal pension reform law, including the purchase of fiduciary liability insurance coverage as an endorsement to its comprehensive general liability policy, Howard T. Weber, insurance director in the finance division, said here.

Outlining his program for handling risks under the Employee Retirement Income Security Act of 1974 (ERISA), Mr. Weber also said 3M is now in the process of drawing up new benefit trust documents which designate one named fiduciary as having administrative responsibility for all of 3M's plans. He declined to disclose who that person is, however, until disclosures have been made to plan participants.

"Last September, 3M officials held the first pension task force meeting to figure out what to do under the soon-to-be-enacted reform law, and the initial thought of all those attending that meeting was: 'We're all fiduciaries, and we've got to have insurance.'" Mr. Weber told his audience at an American Management Assn. fiduciary liability conference here.

He described this initial view of the need for fiduciary liability insurance as typical of the "mass hysteria" which has gripped everyone facing the risks defined by the law.

"WE DECIDED there's nothing new in ERISA," said Mr. Weber. It did, indeed, define more specifically the extent of fiduciary liabilities and set up some new criminal penalties, but generally restated old risks, said Mr. Weber, reviewing his procedure. "Our first conclusion, then, was to avoid over-reacting."

Furthermore, 3M has no Taft-Hartley plans, and its bigger exposures under ERISA involve a number of non-contributory defined benefit plans, which Mr. Weber believes are the best kind of risks.

Thus, the company determined it didn't need new insurance against fiduciary liability risks; it was just as feasible to look to policies already in force for additional coverage, he said. "Now, I've got an admission to make," he went on. "We promptly ran out and bought some fiduciary liability insurance."

The reasons? "There were too many questions unanswered about possible liabilities," and "just to save our own necks," said Mr. Weber. "We felt the premium investment was worthwhile."

ONE TROUBLESOME question, which made the insurance more attractive, he said, is whether the employer can indemnify the employe-fiduciaries for any liability loss incurred in the course of acting as fiduciaries. Although Mr. Weber said he is still waiting for an answer from 3M's legal department about this, he said "there is no reason to believe now that we cannot assume the liabilities of our employes." This right of indemnification varies by statutes in the state of incorporation, said Mr. Weber, noting that 3M is a Delaware corporation. "I've heard the opposite opinion about a New York corporation," he added.

And what about indemnification of outside fiduciaries... the investment managers, accountants, actuaries, banks, etc.? 3M wondered. "Our first reaction was

to let them fend for themselves," Mr. Weber recalled. But after going through all the arguments about why the employer should protect plan assets, "it came down to the simple fact that without it (the insurance) you cannot secure the services of the necessary outside experts," he said.

To date, however, no outsider has asked 3M for any fiduciary liability protection, Mr. Weber noted. "To the contrary, we have gone to many of these outside people to ask them what coverage they have to protect themselves and us," he added.

MR. WEBER is now convinced that 3M really needs the broad form of fiduciary liability insurance it now has, but since there were no premium credits for eliminating some of that coverage, it

Continued on page 52

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3M's fiduciary moves...

Continued from page 51

was best to get most coverage for the money, he reasoned. "We'll change," he said, "when an underwriter gives adequate credits for plans without Taft-Hartley exposures, and other plan characteristics which Mr. Weber believes have only "nominal" risk exposures.

Since his assessment of the fiduciary liability risks which 3M faces is that the largest possible loss faced is fairly small, Mr. Weber is not absolutely convinced the company should even insure against the risk. His reasoning on the small exposure is based on the assumption that "we're really looking at the liability of individuals, primarily" when viewing fiduciary liability. "We're not looking at the benefits liability of the plan," concludes Mr. Weber.

"We felt that as long as 3M was solvent and could pay its bills, we would be relatively loss-free," said Mr. Weber, noting that this would probably also be true of any non-contributory, defined benefit plan.

There were three available sources of fiduciary liability insurance for 3M, including the present CGL carrier (the same company also underwrites the firm's primary employe fidelity bond and benefit liability coverage); the carrier for the D&O insurance policy ("The lead underwriter on this, in London, did offer to provide fiduciary liability to us for a price," said Mr. Weber.); and a separate carrier underwriting separate coverage. "The best wording and lowest cost alternative fell into the last category," Mr. Weber noted.

3M WENT with the first of these alternatives. "We bought our coverage under program number one because we decided to go where it could do us some good" on the other programs with this same carrier, "as long as the premiums for this coverage are pretty stiff."

The details of the coverage are

"still under negotiation" after three months, Mr. Weber said. "We all know that the broadest kind of coverage we can get is a binder, and that's what we're under," he added.

3M BOUGHT the coverage from Travelers Insurance Co. as an endorsement to the CGL policy. Travelers is the only underwriter presently offering fiduciary liability insurance as an endorsement. "We notified all of our excess (liability insurance) carriers of the addition of this fiduciary liability to our primary insurance, and until we hear from these excess carriers about specific exclusions for this under their excess policies, we assume we have the insurance under our umbrella liability policies," Mr. Weber added. He declined to disclose limits.

Mr. Weber established what 3M believes is a proper liability risk reduction program under ERISA:

- Establish areas of responsibility, and assign specific persons to take charge of those areas, with documentation in the minutes of the board of directors meetings, as well as descriptions of responsibilities in other company papers such as job descriptions, pension committee minutes, etc.
- Establish or reaffirm investment policies and practices, and make sure investment managers and advisers are well informed of these policies.
- Put specific requirements of ERISA in writing and disseminate this information to everyone involved in plan administration to whom responsibilities have been assigned.

• Consider and deal with any internal conflicts of interest that may be present in the administration of benefit plans.

• Review all benefit plans covered by ERISA to make sure all are included in documents relating to delegation of responsibilities.

Important future considerations for 3M's task force include fiduciary liabilities which may arise from future acquisitions. The key question concerns whether purchased companies should be required to have fiduciary liability insurance for the periods before and after the time of acquisition of assets, Mr. Weber noted.

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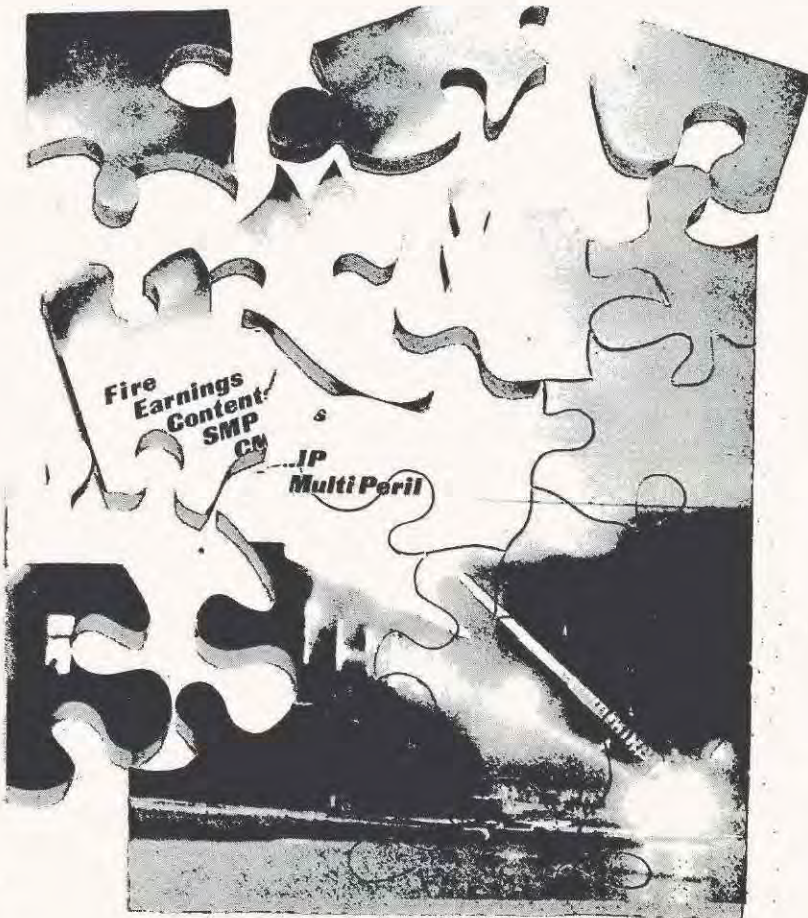
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Can convert group health cover in NY

NEW YORK—A bill guaranteeing group medical expense insurance conversion privileges, the first such bill of its kind in the U.S. was passed by the New York state legislature recently.

Sponsored by the New York State Assn. of Life Underwriters, the bill means any employe covered by group major medical expense insurance will be able to take the protection with them when separating from his employer for any reason.

The bill will also increase the level of hospital and surgical expense benefits available, by conversion, to employes whose group insurance benefits are terminated by separation from employment.

Present law requires employes whose group insurance is terminated, such as when leaving employment, be guaranteed the right to continue limited hospital and surgical expense benefits through conversion to an individual policy.

No provision was made however for a similar continuation of major medical expense insurance benefits.

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2,500 in office products assn. offered new p/c coverage through Aetna

HARTFORD—The 2,500 members of the National Office Products Assn. (NOPA) will average a 15% saving on their basic fire and general liability coverage if they purchase it from Aetna Life & Casualty Co., a company spokesman estimated.

If Aetna can sign up 100% of NOPA's members, it will mean \$2.5 million to \$3 million in premiums for the carrier. Tom Rowley, marketing department administrator for Aetna, says he is "shooting for 300 subscribers the first year."

Ten to 15% participation the first year is "good," Mr. Rowley said.

The three-year policies will be "individually tailored" and sold through Aetna agents around the country. Aside from the standard multi-peril coverage, a variety of property, casualty and bond coverages are available on an optional basis, depending on the retailer's individual needs.

"The basic coverage includes the building (if owned by the NOPA member), its contents, the stock he sells and insurance for liability suits arising from someone being injured on his premises or being hurt by one of the products he sells," Mr. Rowley explained.

"EVEN THOUGH there is a common base of coverage, there will be different insurance needs and different amounts of money available to spend," Mr. Rowley added.

As loss figures are compiled, an association-backed loss control program will be developed to help members reduce fire hazards and liability losses, he said.

"All of Aetna's inspection and loss reports will be directed to a central source. We'll get the word back to all members on how to prevent losses," Mr. Rowley said, "probably through the association newsletter."

The NOPA policies will be available to retailer members in all states except Alaska, Hawaii, Kansas, Maine, Mississippi, New Mexico, Oklahoma, Texas and Vermont where regulations do not permit mass marketed programs, he said.

"Historically, insurance is one area that the small businessman seems to have ignored when it comes to getting the most for his dollar. But with today's economy, the businessman now realizes that there are ways to economize in insurance and still get proper coverage. The days of giving your business to your buddy are gone," he said.

"Today's businessman has become more professional and looks for ways to reduce costs," he continued. "He's more concerned about this than ever before and he's looking to his association for

Multi-peril package

A multi-peril package for motels, hotels and office buildings in Texas is available from Royal-Globe Insurance Cos. A recent state ruling permits the packaging of property, liability, crime, inland marine, boiler and machinery and other coverages into a single, customized policy. TEX-AShield, described as cost-saving, is expected to be expanded later this year to include institutional, apartment, mercantile, processing and industrial classes, pending state approval.

assistance."

Mass marketing of property and casualty coverage has occurred only in the last five years, Mr. Rowley said.

"SINCE THIS is a large group of homogeneous businesses it is easier for us to remain a stable market for this large group from both a coverage and pricing standpoint than it we were to look at each business individually," he said.

Another important benefit, according to Mr. Rowley, is that the program is marketed and serviced

on a local basis.

Cost savings to NOPA members could range from virtually zero up to 50%, Mr. Rowley said. Fifteen percent is a reasonable average, he added.

"The savings will vary because our agent may find serious deficiencies or overlaps in the member's present insurance program that obviously have a direct effect on the cost," he said. "If the retailer opts for better coverage, the actual savings may be less than 15% but he will be properly covered."

"We are not selling dividends, he said. "If and when they are declared they should be considered icing on the cake. We haven't loaded the policy with excess dollars to be returned in the form of a big dividend at a later date."

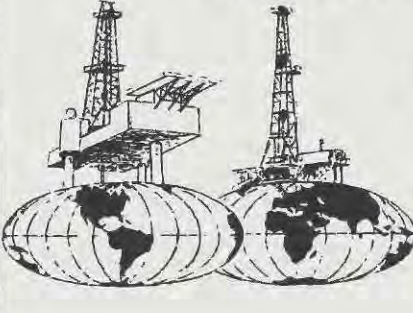
To be eligible for the coverage Mr. Rowley emphasized that the retailer must meet "normal underwriting rules and standards."

"We can't insure those members

who refuse to comply with what we consider reasonable safety recommendations. If we were to insure these high risks, losses would undoubtedly occur which would disturb the overall experience of the NOPA program," he said.

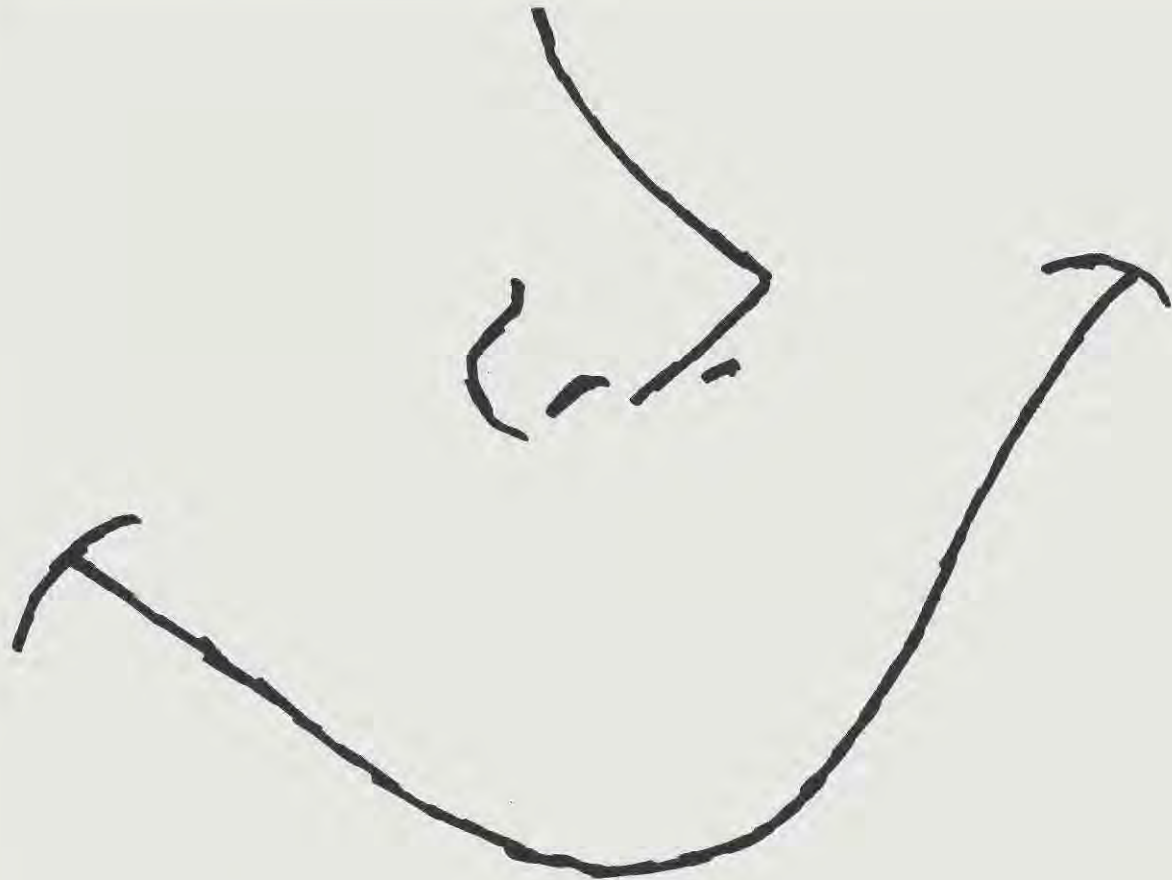
A NOPA member currently buying insurance from two or three agents "could be doing himself a disservice," Mr. Rowley said, "because no single agent will have a complete picture of the member's total insurance needs." ■

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Claims are up, but payments are down for insurer's health maintenance plan

By JOANNE GAMLIN

NEWPORT BEACH, Ca.—Pacific Mutual Life Insurance Co. five years ago inaugurated a health maintenance plan around the provocative concept that "most people would prefer out-patient treatment on a first-dollar basis to hospital confinement under a traditional insurance plan." Today, according to J. Frank Todd, assistant vp of group sales, while the plan is experiencing a 30% increase in the number of individual claims submitted, "the total dollar claims payments are actually down.

"What we are doing," he continued, "is paying out a lot of small claims. Yet what we are not doing is paying for a lot of surgery and hospitalization."

Pacific Mutual's theory, he elaborated, is that overall medical costs can be controlled if an attractive incentive is devised that will motivate people to seek medication on an out-patient basis.

To do this, Pacific Mutual's

health maintenance plan, which has been sold to small and medium-sized Southern California companies such as Denny's Restaurant and Sheldon Industries, comes with no deductible for hospital out-patient treatments for sickness, accidents or for physicians' services. Conversely, it asks for a \$100 deductible for hospital confinement, prescriptions and nursing services as well as for dental benefits, an optional coverage. The same coverages come with an 80% coinsurance feature on the first \$2,500 of covered expenses. After that, 100% of expenses are paid in a calendar year.

ONE CATEGORY of doctor visits for which the plan will not pay is routine physical examinations.

But that isn't all. The plan contains a second element designed to stabilize medical costs. It limits hospital room and board charges to a schedule of benefits and hence lacks the "reasonable and customary care" features of traditional

group health plans. This feature which earned it high marks from one brokerage spokesman and from corporate buyers such as Norma Baker, insurance manager for Denny's Restaurant, La Mirada, Ca., a firm whose stock is traded on the New York Stock Exchange.

"Those (reasonable and customary charge) provisions are at the heart of exploding medical costs," contended a broker. He said he favors interior limits on hospital room and board—in the case of the Pacific Mutual plan, they cannot go above \$100 a day—because he believes that ultimately they will place a lid on the cost of health care.

Denny's Restaurant, with 2,200 management-type employees covered, is probably the plan's largest policyholder in Southern California. Ms. Baker told *Business Insurance* that the employees' reaction to the plan, which had its inception in June, 1973, has been excellent. She explained that it re-

placed a major medical plan, also from Pacific Mutual, which required employees to pay the first \$75 of their out-patient visits.

Under the health maintenance plan, Ms. Baker said employees feel free to seek early medical diagnosis on an out-patient basis. To date, the health maintenance plan has not meant a cost increase over the old plan, she said.

"Although there may be more claims, they are mostly small and I believe that the total dollar payout is down from the former plan," she said. Denny's pays the premium under the plan for the employees and dependents.

THE ORANGE County Medical Foundation administers and pays all claims for Denny's. Sandy Gordon, administrator at the foundation, reiterated Ms. Baker's assertion that Denny's employees are happy with the health maintenance plan.

"But the interesting thing is that our doctors like it too." Physicians prefer out-patient treatment, she explained, because it frees hospital beds for those acutely ill.

Out-patient treatments generally cost about one-third the charges on the same work done in a hospital, calculates Ms. Baker.

"Take the D&C examination," she continued. "Performed on an out-patient basis, it may cost about \$75. Performed in a hospital, it could consume three days and cost approximately \$300."

SHELDON INDUSTRIES, Monrovia, Ca., adopted the health maintenance plan last October for its staff of some 40 employees. A spokesman said that so far employee response has been positive and no one seems disturbed by the shift away from hospitalization.

Several other small companies in Southern California also indicated their experience with the plan has been good.

However, Phone Mate Inc., Torrance, Ca., said it recently replaced its health maintenance plan with a program from Blue Shield because of fears that escalating claims would result in a premium hike. A spokesman for Pacific Mutual said no such increase was in the offing and he cited personal reasons for the company's switch in carriers. ■

Study shows benefits up 25% to 50%

NEW YORK—Pension benefits in most industries showed median gains between 25% and 50% in 1974, according to a study by Martin E. Segal Co., consulting and actuarial firm.

The study analyzed 660 contracts collectively bargained, involving at least 1,000 workers each and covering a total 4.6 million people.

Approximately 80% of employees covered in new union contracts last year received benefit improvements as well as wage increases, the study found, while 20% obtained pay increases only in 1974.

THE STUDY predicted that 1975 contracts will probably reflect a stronger emphasis on job security than employee benefits, although what shape the desire for security will take is not yet clear.

Other highlights of the study include:

- New denial plans were established in 76 new contracts and extended to dependents in all other agreements. Prescription drug coverage was provided in 15 contracts and optical benefits in 10.

- More paid holidays, ranging from a low of six to a high of 15, were given approximately 1.5 million workers. Only two of the 17 major industry groups have a median number of less than 10 holidays.

- **VACATIONS WERE** also expanded to an overall median of five weeks in the newly negotiated contracts.

- Major medical insurance has become standard in a majority of firms with maximum coverage being raised to \$50,000 in many instances. As a rule plans are \$100 deductible with coinsurance requiring the employee to pay 20% of charges above this amount.

- Hospitalization benefits in new contracts are standardized at 120 days full service coverage, with many set at 365 days.

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Illinois work comp 'one of five worst in country'

CHICAGO—"It boils down to having dollar incentives for safety," said Mel Rosenbloom, chairman of the Illinois state industrial commission, referring to necessary improvements in the state workers' compensation system.

"As long as it doesn't cost as much to compensate for injuries as it does to make safety changes, then safety won't be a high priority," he said, speaking at a recent Risk & Insurance Management Society (RIMS) dinner meeting here.

"If the death case benefit were higher than \$31,000 or \$32,000 on average, there would be more of an incentive for safety," Mr. Rosenbloom said. "Benefit schedules should fit the true cost of the dis-

ability."

He criticized the state's workers' compensation system as "one of the five worst in the country" and described it as a "rotten, outmoded system." It is "substantially the same as it was in 1911," he said.

MR. ROSENBLIOM urged RIMS members to lobby for improved workers' compensation at state legislative hearings on particular bills. For most effective lobbying, he advised risk managers to testify on particular areas of a proposed act. "If several company representatives decide to lobby together, they should divide subject areas of the bill among themselves," he said.

"The people in this room have a

great amount of clout because of the importance of their companies," he said, and "by hiring the majority of the people in the state."

Another approach is to make the company's views known among local state representatives, Mr. Rosenbloom advised. "The company should send letters to tell them their future depends on how well they represent (your point of view)."

Mr. Rosenbloom observed that "the human waste in industrial and other accidents is much more critical than that from street crime." In his opinion, the "main cause of unemployment is industrial injury and disease in Illinois."

Over 700,000 compensable accidents happen each year—or 3,500 per work day—in Illinois, Mr. Rosenbloom said. Of these, 15% or 500 per day are considered "serious," he said.

The industrial commission "directly helps more working adults in the state than any other agency," he said, estimating the commission hears 40,000 cases a year.

He acknowledged that phony claims "probably exist" though he said he'd never seen such a case. "We can't recognize phonies because we don't have the investigative capabilities."

Hall is low bidder for LA airport policy

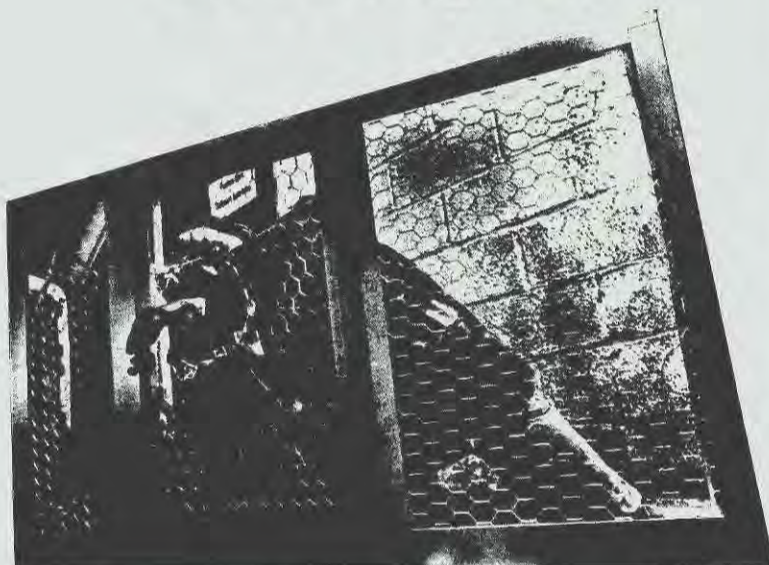
LOS ANGELES—Frank B. Hall & Co., Los Angeles, was selected as the low bidder for a \$150 million liability policy for the Los Angeles International airport (LAX).

An LAX spokesman said that the city charter mandates that the lowest bid be selected.

Lloyd's is the underwriter for the policy which includes a \$100 primary layer and a \$50 million excess layer.

Hall which had been the broker for the former liability policy for LAX submitted a competitive bid which was the lowest by about \$30,000 over a three year period, according to a spokesman for the brokerage firm.

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PERSPECTIVE

Discovery, follow-up of fidelity losses are critical in the current economic climate

By DAVID EVERT
Insurance Administrator
Control Data Corp.

WHEN DISCUSSING employe dishonesty, the points to cover must include:

- What is employe dishonesty?
- Who perpetrates these thefts?
- How is it done?
- How do we assure ourselves we will uncover these thefts?
- What do we do after discovery?
- What effect do these losses have on our corporation?

Acts of dishonesty come in all shapes and sizes. The methods employed are limited by only two factors: first, sound management; and secondly, lack of imagination on the part of the thief.

The sound management principle deserves some emphasis. It is generally held in the fidelity field that a bad loss experience is indicative of bad management. If a company's experience has been bad, its control practices need an overhaul.

PERHAPS THE MOST difficult task is to convince management of the urgency of remedial action. First, the problem is not visible until after a loss; second, some managers refuse to believe any of their people could possibly be capable of stealing; and last, pride sometimes causes them to suppress or hide from the facts.

In the first instance, management must be made aware of the dollars identified as lost through employe fraud. Second, they must be convinced that the amount in all probability represents far less than 50% of the fraud being perpetrated. Third, they must be educated to think of this loss exposure as an uninsurable loss of pure profit. Those dollars involved in the over 50% of cases never discovered are being absorbed by the corporation through simple non-recognition. If you cannot identify the loss, you can hardly hope to insure it and prove a collectable claim.

Most corporations today carry fidelity bond coverage. The marketplace from which this coverage is purchased, however, is unique. The premiums by and large are not excessively high. In most cases, this is greatly influenced by the deductible chosen. Unless the attitudes in the bond market change, we probably would never encounter a premium charge so great that we would choose to totally self-insure this exposure. It is, however, far more likely that we would find ourselves unable to purchase a bond at any price.

VERY RECENTLY a top bond man for a large fidelity carrier was complaining about the bad loss experience in a particular fidelity field. When asked why his company didn't increase the premium, he matter-of-factly stated, "We haven't and won't consider that. If we can't make money at our present premium level, we will just stop writing bonds for risks which historically have adverse loss experience."

Who is it that steals from his employer? Characteristically, the most commonly identified employe fits this description. He is a faithful, well trusted employe who has earned his company's trust and steady promotions by his conscientious attention

to duty. He has at least five to ten years with the company. He is an active member of his church and community. He has never been in conflict with the law. He is the proverbial pillar of society.

Why does this person suddenly turn against his employer? To begin with, he usually does so out of circumstantial need rather than a planned or premeditated intent to steal. Some employes don't even recognize what they are doing as theft. In our society, institutions such as insurance companies, governments and corporations have become fair game for the average Mr. Public to cheat, defraud, and steal from. There appears to be an increasing trend to include one's employer in this group.

IN ONE CASE I reviewed, a bookkeeper was caught after having embezzled some \$40,000. As often occurs, after he was discovered, he agreed to give a confession. When in the course of the questioning his supervisor asked if he had taken items of equipment, inventory or supplies, his shocked reply was "of course not, what do you think I am—a crook?"

The most common reasons employes give to explain their actions include: gambling, extravagant living, unusual family expenses, undesirable associates, inadequate income, and employe malice.

The first two are most common. However, because of current economic conditions, the last two deserve some special attention.

The newspapers and trade publications



The plight of workers being laid off and high-paid executives on the verge of bankruptcy creates exposures to fidelity losses for corporate employers which require careful scrutiny, especially of employes with access to company funds.

are full of articles reciting the plight of workers being laid off and high-paid executives on the verge of bankruptcy. A recent industry magazine carried an article on executives in the \$50,000 to \$100,000 range. As inflation runs rampant in our economy, they are finding themselves with more and more month left over at the end of their paychecks.

These men have huge house payments, an expensive standard of living which they are either reluctant or unable to give up, stock options in some cases could have them paying several times the market price, and stock once used as collateral for loans is no longer adequate to satisfy the bank. Now due to the money crunch, these executives are faced with a lower than expected salary increase, no increase at all, or possibly even a decrease.

Couple the above with (1) insecurities about their corporate future because decisions made six months ago are now a disaster, very probably not through their own fault; (2) constant re-evaluating of their performance which may be interpreted as second guessing; and (3) the knowledge that these conditions historically have led to a general managerial house-cleaning—and you have a country full of newly created embezzlement risks.

I have chosen the example of executives to dramatize the increased risk that exists today with the assumption that one

will recognize the implications at all levels within an organization and also because executives often have easier access to larger sums of money.

Consider for a moment the various ways the employe being laid off, facing a pay cut, or being denied an increase in salary can hurt his employer. He can sabotage property, sell trade secrets, steal and forge checks, clean out the petty cash fund, etc.

In one case, a man was refused a salary increase so he decided to take it from a petty cash fund of \$300. He withdrew \$5 from the fund daily. At the age of 52 and as a vice president with 30 years of experience and service, he was caught and admitted to a total embezzlement of \$146,000. Almost \$40,000 of that had been taken from this small petty cash fund.

A SMALL CASH fund can generate many times its value if the turnover is rapid enough. Some may move as much as \$5,000 in a week's time.

Management should think of the hidden costs involved in replacing a 30-year veteran and the huge investment that the company has in a man such as that. His loss is similar to that of suddenly losing a major capital asset in a manufacturing plant.

The experience of the bonding industry shows that when economic conditions be-

Continued on following page

British property losses indicate priorities need revising

Fire protection need is stressed

By CHRISTOPHER J. TEMPLE
Risk Management Consultant
Keith Shipton Developments Ltd.
division of C.T. Bowring Group, London

FIRE PROTECTION has as its aim the preservation of life, property and services. In 1973 in the U.K. alone fire caused over 1,000 deaths and material damage reached a new high of over 179 million pounds. Consequential losses, which are difficult to assess added a further 600-800 million pounds to the total fire bill. (For currency translation purposes, one pound sterling equals \$2.40.)

Fire protection encompasses not only the design, layout and construction of plant and buildings, detection, alarm and extinguishing systems but also the entire field of fire prevention which includes education, training, safety organizations and reporting systems and hence requires the continuing involvement of senior management.

Until recently it has been generally accepted that insurance was the cheapest and easiest answer to the fire problem—if the insurance company insisted on two extinguishers for every 200 sq. meters of floor area, or even a sprinkler system this was a bit of a nuisance but then one probably benefited from a premium discount.

Nowadays the changing pattern of fire losses is beginning to alter this viewpoint and some of the more farseeing companies are realising that insurance, although a useful tool in tackling their fire risk, is not necessarily the only answer. Fire protection as part of a total loss control program is now seen having value in its own right.

An analysis of large fires in 1973 shows that a mere 37 fires, or an average of one every two months for each major conurbation in Great Britain, were responsible for 39 million pounds of damage.

IT IS TOO EARLY to say definitely that the fire loss pattern is changing, but the signs are that not only are the total annual losses increasing but that a growing proportion of the loss is due to fires causing over one million pounds worth of material damage.

Up until 1972 the proportion of the total annual fire losses was fairly constant at 6-8%. In 1973 the number of such fires increased to 10, amounting to 11% of the total. Up to July 31 of this year, not including the Flixborough disaster, there were 10 fires (16% of the total) and with Flixborough the proportion would be 37%. Between July and October there have been another three such fires, estimated at a

further five million pounds.

Height presents difficulties of access for fire fighters and for the escape of occupants, as shown so vividly in the Joelma fire in Sao Paulo, Brazil, where 179 people died and the hotel fire in Seoul, Korea where 153 people were killed. Coupled with this is the increased size, even in single story structures, which gives rise to larger spaces and hence a greater volume of contents to provide fuel to a fire.

TO COMBAT THIS increasing problem we must make greater use of compartmentation to subdivide, both vertically and horizontally, and so confine a fire to a small area of the whole building.

Sometimes industry and commerce will resist compartmentation on the grounds that they require an open-plan design for their production lines and to give them flexibility. Even so there may be ways of segregating fire risks from one another—for example by dividing a building lengthwise, with fire resisting rooms.

Fire doors should be used to maintain the integrity of a compartment wall, and shutters on fusible links can be used on conveyors, where they pass from one compartment to another.

Ventilation can be a valuable aid in fire-

Continued on following page

business insurance

PERSPECTIVE

Theft . . .

Continued from preceding page

come difficult as they are today, fidelity losses increase in number and size, particularly in the white collar class.

What do we do to prevent and reduce these losses? As stated earlier, the internal auditor is not the first line of defense. That is the duty of management at all levels. If adequate control measures are designed and implemented the management level nearest the problem will do the discovering and usually in a relatively short time.

TO ASSIST ITSELF in this function, the employer must have three basic elements in its control system:

- Complete personal history on employees.
- Effective accounting controls.
- An explicit post-discovery procedure.

A firm needs complete knowledge about the people occupying positions of trust. The personal history of the prospective employee must include his family, education, employment history, outstanding financial obligations, whether or not this person has ever forfeited or been denied a bond, the person's standing and reputation in the community; and whether or not there is a criminal record. This should be the function of the personnel department. To further complicate matters, some of these questions cannot be asked directly due to recent legislation such as EEO.

Consider the facts in this case. A citizen of a foreign country applies for a job with your company. He brings with him letters of recommendation from prior employers in different countries, is hired as a lower grade accounting clerk and within a matter of weeks is given credit card privileges which allow him to charge in the corporation's name unlimited amounts of expenditures.

None of his references were checked. They were later thought to have been forged. No background check was done to determine the reasons for his entry into this country nor the conditions of his departure from the former, when in fact his employment was conditional upon his applying for and being granted a permanent visa in the country. But no one checked to see if that was done. He was transferred at his employer's expense back to the country from which he had entered the U.S., only four days before the immigration authorities were going to deport him. However, his employer was unaware of that. He was fired shortly after arriving at his point of transfer. After his termination, he kept the credit instrument so graciously given him, and feeling that he had been unfairly discharged, he decided to get even. In a short time he had charged almost \$300,000 in his former employer's name, selling for cash or converting to his own use the purchase those charges represented.

The employer in this case accepted everything he was told, gave a stranger access to his company's money and then turned his back on him. Would we do the same with our own money? How many people do you know who would take a stranger into their home and give him access to their cash, check book, or credit cards even before they had an opportunity to get to know him or check his background and then kick him out and allow him to leave with the check book or credit cards? Well if we won't do it with our money, don't do it with your company's.

ADEQUATE ACCOUNTING procedures are needed to assure prompt and certain detection of defalcations: splitting and dividing responsibilities to provide checks and balances. It is one thing to embezzle alone and quite another to do so in collusion with another. Checks should require countersignatures. The authority to endorse should be limited to "For deposit only."

The person issuing checks should be different from the one reconciling the bank statement. Inactive accounts require very careful supervision.

Losses are definitely going to continue and probably increase. What do we do after a loss is discovered? If there is any area in which management does a worse job than they do in avoiding losses, it is probably in the follow-up after a loss occurs.

In my experience, the follow-up is usually disjointed, incomplete and uncoordinated. It produces decisions and actions founded not on facts but on assumption, conclusions and inference.

Let's look at what happens in the average case of discovery. After discovery, through anyone of several methods, auditing may be instructed to do an audit. Often by the time they have arrived on the scene, the suspected employe has quit, been fired or just disappeared. You confirm there is a loss, now where do you turn for direction and authority? Where does local management turn for direction?

The average manager will not be personally involved in this specialized problem

Property . . .

Continued from preceding page

fighting in large area single story structures. A system should be designed to enable smoke and hot gases to escape. The necessity for roof venting became apparent after a fire in Michigan, at a large motor manufacturer premises. Firemen could not get at the seat of the fire, and in the end almost the entire area of 17.5 hectares were involved. Almost ten years later a fire started in England at another motor manufacturer, but this time roof ventilation and sprinklers were installed. Heat and smoke were vented and firemen could easily see the source of fire and tackle it without breathing apparatus—only 1,200 sq.m. of roof were damaged.

Smoke can also cause extensive damage out of all proportion to the size of fire. At one large single-story warehouse, floor area about 8,500 sq.m., a small pile of powdered coal and a quantity of baled nylon thread caught fire. Fire was confined to a very small area in one corner, and damage by fire was slight but smoke quickly spread over the entire floor area, and the contents, mainly baled jute, were extensively damaged. Similar problems can arise in the food and medical industries in particular.

LET US NOW move on from the effects of the dimensions of a building to its constituents. Materials and methods of construction in themselves capable of spreading fire and contributing to its intensity. The behavior of materials in fire conditions are, in some countries, the subject of tests to assess (1) combustibility, (2) ignitability, (3) flame spread, (4) fire propagation and (5) smoke production. However the results from such tests must be treated with caution because they are only carried out on small scale samples.

Oroglass, which was used in the walls of the Summerland complex, was reported by the architect as non-combustible, based on a test where it was held horizontal. But in the actual fire where it was used vertically as well as horizontally it burnt very rapidly. Similarly grades of so-called flame retardant or self-extinguishing grades of polyurethane foam, when tested by the application of an ignition source which is then removed will not continue burning. However, in actual fires these foams have burnt extremely fast, producing large quantities of dense black smoke and toxic fumes.

A study in the U.K. of the factors which

once in a lifetime and, therefore, cannot hope to ever be anything better than an amateur.

Because of the diverse ramifications of a fidelity loss, it seems that sound management would require the various departments—personnel, public relations, treasury, controller, legal and corporate insurance—to draft a procedure which would assure central control of every dishonesty case. In this manner, the auditor and local management know exactly what each is required to do and just as importantly what not to do.

CORPORATIONS often deal in such huge amounts of money that the individual sometimes loses sight of what a dollar is and then lost dollars lose their visibility,

This is well illustrated by a business interruption loss suffered by a profit center of a large corporation. The division management submitted their loss of revenue claim in this manner. After computing the percentage of time a computer produced revenue as between 50% and 60%, they rounded it down to 50%. After computing the hourly dollar revenue, they rounded that down to the nearest \$100. Multiplying these produced a figure just over \$102,000 which they rounded down to \$100,000 and submitted this to the insurer. The risk manager sent it back with a request for the exact figures, with the suggestion that since the insurer surely wouldn't accept the claim if they had rounded these figures up, he saw no purpose for rounding them down. In a couple of weeks the exact figures were submitted showing an actual loss of \$117,650.

Suppose for example a company was

able to earn 4% net profit on its sales. To offset this \$5,000 loss, one of its salesmen would have to sell over and above his present best effort \$125,000. The \$17,650 would require sales of \$415,000.

Altogether, the fraudulent losses reviewed, represent \$650,000. Using the same 4% formula, we would need sales of \$16,250,000 to erase the effect on profits caused by these frauds.

No one knows how much money is lost each year through employe dishonesty. Those who deal with this problem all the time may become a little pessimistic, but they are not wrong in professing that like the iceberg, that which is visible is only the tip. Some of the reasons for its lack of visibility is that it seldom gets publicized; its perpetrated right under our noses quietly by faithful and trusted co-workers to whom we've given the key to our buildings and the combination of our safe; and even with bond coverages and accounting procedures, many losses are never reported to the insurance, auditing or legal departments. They are absorbed into operating budgets.

Mr. Evert's remarks were presented in Minneapolis at a seminar for a group of corporate auditors. Mr. Evert is a native Nebraskan educated at Creighton University, where he graduated with a degree in general business. He worked five years as a claims representative in Omaha for CNA, and was then transferred to Minneapolis where he supervised claims for over four years. He joined Control Data as insurance administrator in July 1974, and is a member of the Minneapolis chapter of the Risk and Insurance Management Society.

contributed to the overall size and severity of large fires and the magnitude of the direct loss shows a regular pattern involving the following factors:

- A tendency for fire discovery in the early morning or at the end of the working day.
- A tendency for delay in calling the fire brigade.
- A tendency for fires to occur in parts of the building which are unoccupied at night or are infrequently visited.

It is clear therefore that in order to reduce large fires suitable automatic detection systems are needed. Manual alarms are invaluable in terms of reliability, but require 'human' detectors, which are not always available.

CHOICE BETWEEN systems will depend on the nature of the occupancy, which affects the rate of fire development, the building characteristics which can affect the rapidity of detection, sensitivity characteristics of the detection system and environmental factors such as corrosive, humid, dirty or dusty atmospheres, heating and ventilating systems, excessive vibration, and the likelihood of physical impact. One of the main difficulties with automatic detection systems is the question of reliability, one report has put the ratio of false calls to genuine ones as high as 11:1. However, they act considerably faster than automatic sprinklers and in some circumstances this can be a definite advantage.

The effectiveness of first-aid fire-fighting, whether by removal of the burning material, use of portable extinguishers, smothering, buckets of water or hose reels, is often underestimated. In 1971 about a quarter of all fires in buildings which the fire brigade attended were extinguished before they arrived, and daily in industry minor outbreaks are prevented from becoming major losses by the quick action of trained operators with suitable fire fighting equipment.

This leads to the whole field of fire prevention activities. Education and training are the key to any fire protection program, with the lead coming from senior management. Many of the incidents we read about could have been prevented by the prompt action of an individual who has been trained in the correct course of action to take. This not only involves making personnel aware of the fire hazards around them but also giving them practice in dealing with fires by letting them tackle actual fires with extinguishers.

Another important part of fire pre-

vention is the standard of housekeeping. Process waste and rubbish provide a breeding ground for fire. Also important in any fire prevention system are procedures to eliminate unsafe practices—such as permit-to-work schemes. In this way one can control work in dangerous parts of a factory—for example hot working, such as welding and cutting, should be very carefully controlled in areas where flammable liquids and other combustible goods are used.

Finally we must be aware of the fact that the fire loss risk is not static and several important changes have occurred in the last few years which must be taken into account. For example, the most frequent cause of starting of large fires is no longer electrical wiring of smokers' materials but malicious or intentional ignition. In terms of material damage, the deliberately and maliciously started large fires in 1973 caused 23 million pounds of damage. This, allied with the increasing problem of political incendiarism, calls for a different emphasis when one looks at the problem of controlling ignition sources.

Similarly the material most frequently reported as having been first ignited in industrial fires is now "flammable liquids" instead of "combustible waste and rubbish". This means that the nature of a lot of fires has altered from a slow-growing one, to a very rapidly spreading possible explosive situation.

The drive for higher production for greater height and volume of storage and for speed in transportation is continuing. Where fire is concerned this ever increasing scale and complexity of operations often results in greater vulnerability and greater consequences. This is demonstrated in recent disasters involving ocean tankers, petrochemical complexes, high-rise buildings and vast amusement centers. Only if managerial awareness and competence are deliberately developed to keep pace with this growth shall we be capable of answering the challenge of fire loss prevention.

Mr. Temple is a consultant in the scientific risk management division of Keith Shipton Developments Ltd., an international risk management consultancy based in London. He was educated at Rydal School and London University where he obtained a B.Sc. (Engineering), the Diploma of Imperial College and a M.Sc. in Industrial Safety. Before joining K.S.D. he was an Assistant Scientific Officer at the U.K. Fire Research Station, and was employed by the Eagle Star Group as a fire surveyor and underwriter.

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March	—	—	35,530	—	35,530
April	16,747	17,718	17,812	—	17,812
May	24,129	25,528	10,002	—	10,002
June	30,763	32,547	2,983	—	2,983
July	12,535	13,262	22,268	—	22,268
August	26,366	27,895	7,635	—	7,635
September	28,321	29,964	5,566	—	5,566
October	31,816	33,661	1,869	—	1,869
November	38,858	41,112	- 5,582	—	- 5,582
December	22,883	24,210	11,320	—	11,320
January	16,993	17,979	17,551	—	17,551
Total	\$249,411	\$263,876	\$162,484	\$40,565	\$121,919

Note: This is an illustration of a claim payment pattern that could be expected in the first year of a case.

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Insurance managers at cosmetic firms take wait-and-see stand on hair dyes

By LINDA MOSKOWITZ

NEW YORK—Despite a recent report by a University of California biochemist suggesting the possibility of mutagenic and carcinogenic properties existing in hair dyes, risk managers at major cosmetic firms do not appear to be worried about related effects on their liability insurance programs.

The majority of officials involved in the \$250-million hair dye market feel that the evidence so far is of a highly hypothetical nature and simply not conclusive enough to create a panic.

Among the firms that will be affected if further proof of the health hazards are found in the dyes are Clairol, a division of Bristol-Myers, L'Oreal, and Revlon. These three companies account for about 80% of the market.

Other firms manufacturing or supplying hair dye are Alberto-Culver, Tussy Cosmetics Inc., Cosmair Inc., The Gillette Co. and Roux Laboratories Inc.

A SPOKESMAN at Clairol expressed little concern, at this point, about the potential risk. "We'll have to wait until higher forms of life are tested," he said, explaining that it's too premature to become apprehensive.

The recently publicized tests conducted by Dr. Bruce Ames,

were performed on a bacteria strain, where 150 of 169 different hair dyes tested caused changes in the genetic characteristics of the bacteria when administered to the samples.

These findings could imply a risk of the dyes causing birth defects or possible cancer, since mutagenicity is often associated with carcinogenicity. However, these issues are now highly controversial and will require more testing for scientific confirmation.

Further tests are to be conducted by the National Institute of Environmental Health Services. However, animal studies conducted so far, in part by the National Cancer Institute and the Food and Drug Administration, have not indicated any results similar to those of the Ames study.

And until more hard evidence is turned up, corporate risk managers are taking the matter lightly.

"FROM AN insurance point of view, I have nothing to say," said Harry Landesman, director of tax and insurance at Revlon, who feels it's too soon to worry, since "nothing definite has come out of the Ames report."

"I've discussed it with my research people, and they give no credence to the report," said Bruce Strausberg, director of employee relations at Alberto-Culver, who is also responsible for corporate risk matters.

"Hair dyes are like anything else," Mr. Strausberg continued. "Some people are going to have allergic reactions," adding that hair dyes, however, are not noted especially for this problem.

Mr. Strausberg compared this issue with the problem raised about cyclamates several years ago, where people became alarmed before all the evidence was in.

A representative from L'Oreal echoed these sentiments and commented that the firm is as yet "not impressed by the evidence."

Another L'Oreal employe reported that the company's broker

advised that he didn't think the study's results would affect rates of the firm's product liability insurance unless more conclusive evidence is produced.

"THE ARTICLE was very hypothetical," responded an official of a prominent New York brokerage firm referring to the report.

This wait-and-see attitude was also expressed by Anthony E. Anzalone, vice president of legal affairs at Lehn & Fink Products Division of Sterling Drugs, which owns the Tussy Cosmetic Co., a supplier of hair dyes.

"We have had no such claims or experiences with our hair color products and we have no comment to make with respect to the claims put forward at this time," said Mr. Anzalone.

"You can rest assured that if these products are harmful they won't be marketed," he also commented.

BI editor is awarded ABA fellowship

CHICAGO—Susan Alt, managing editor of *Business Insurance*, was awarded one of two American Bankers Assn. fellowships to attend the 1975 session of Stonier Graduate School of Banking at Rutgers University.

The fellowship is named in honor of the late Dr. Joseph E. Hughes, a prominent banker who was in the first graduating class of Stonier and served as chairman of its board of regents. This is the eighth year of the Hughes Financial Writers Fellowship, awarded to two business journalists each year by the ABA.

Leonard Curry, Washington business editor of *United Press International*, also received a Hughes fellowship. Recipients were selected by the New York Financial Writers Assn.



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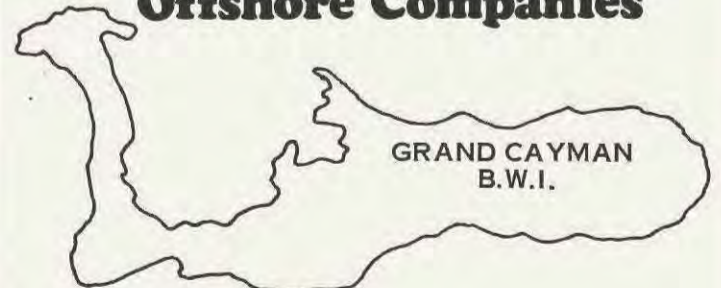
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Continued from page 1

engineering personnel between October 1973 and late 1974, but saved many times that marketing cost in premiums. "The owners were well satisfied with the rates, which were very equitable for this type of risk, and were accomplished when the markets were tightening," Mr. Greene said.

"In September of 1973 when we were faced with this large risk, we realized it would require careful and very well controlled marketing," related Mr. Greene. "Our big concern, of course, was capacity. We thought it was desirable to carry the story of that risk and especially the engineering capabilities of the people here, to the lead underwriters, and to control the entire marketing effort, including reinsurance.

"This way, each underwriter could carefully project what his total retention would be. This way, they also knew that the risk was only coming to them through limited sources and not from different directions," Mr. Greene said. In the end, as a result of time spent with world underwriters on this offshore platform risk, and the closely controlled marketing, one insurer who initially planned to retain only \$5 million of the risk came on the program for \$10 million, he added.

"WE ALSO wanted to provide for what I felt was a more efficient utilization of the premium dollar. This was accomplished by reducing the number of retrocessions and intermediaries involved in the total placement," Mr. Greene reasoned. Each additional middleman

in this insuring process adds to the cost and stirs up the markets more.

The first step Mr. Greene took was to find a broker for this program. He sought one with a track record in handling offshore oil drilling projects, and with extensive knowledge of worldwide markets, especially the insurance and reinsurance markets in the U.S. and Europe.

After discussing the relative qualifications of a number of brokers with other RIMS members in the petroleum industry, Mr. Greene chose J. William Shearer of Armistead Miller Wallace Inc. in New Orleans, to handle the project. "I knew of (Armistead Miller Wallace) before, but had never worked with them. Mr. Shearer came highly recommended," said Mr. Greene. "I retained

him on a fixed fee basis designed to compensate him for his work. It was a straight fee arrangement, which turned out to be less than commissions would have run, but it was not designed to be that way," he added.

Mr. Greene then met with the lead underwriters and reinsurers who would be working on this program to discuss the marketing approach being taken and "to advise them we were in full control of the placement." (While Mr. Greene did have numerous face-to-face meetings directly with underwriters to discuss rating, engineering, coverage, etc., he cautiously noted he did not arrange any direct placements with them.)

"IF THE OWNERS and contractors had gone out separately into the markets, capacity would have shrunk dramatically and confusion would have resulted. Initial estimates were that we could get capacity up to about \$174 million,

but no more. We increased capacity by carefully controlling each step of this insuring process," Mr. Greene said. He is convinced that this personal experience clearly showed "that an astute buyer can influence underwriters far more" than insurance experts and brokers would have believed was possible.

The next step for Burmah's Mr. Greene was to develop "a high quality" risk presentation manual. This was, in Mr. Greene's view, an important tool and "part of the psychology of dealing with the underwriters and their engineering staffs."

The manual ended up being a hardback volume about three inches thick. The printing was done internally at Burmah, but the gold-embossed covers for the 50 books to be sent out to underwriters cost about \$35 each.

Manuals were sent out to the lead insurers (defined as those underwriters whose net retention was \$5 million or higher) 60 to 90 days before the second meeting with them, "to allow them to review and analyze the risk." The manuals included a brief description and drawing of the structure itself, a description of coverage sought, a manuscripted policy form drawn up by Mr. Greene and Mr. Shearer, engineering data and annual reports of the nine joint ventures.

MR. GREENE also sent a copy of the manual to Dr. Tony Denton, a leading world marine surveyor, and met several times with Dr. Denton to discuss the risk. Participating in most meetings throughout the marketing of this risk were Mr. Greene, Burmah's leading engineer and Mr. Shearer.

For the next meeting with underwriters, Mr. Greene and others travelled around the world, visiting each carrier separately. "Ultimately we talked to carriers in just about every country that has insurance operations." Initially, Mr. Greene had even approached the People's Republic of China and U.S.S.R. insurance markets, although they did not end up participating on the risk.

"We met with Lloyd's underwriters and reinsurers, as well as the company markets in London. We selected the very capable marine department of Bland, Payne to work Lloyd's and the U.K. company markets. Bland, Payne has the majority of offshore oil business, and their acceptance of the concepts I proposed was enthusiastic," Mr. Greene said. In the U.S., the principal underwriting help came from All-American Marine Slip, American International Group and INA. "INA ended up being one of the higher retention companies involved," said Mr. Greene. He took at least four major trips during this placement.

BURMAH'S RISK manager found more eagerness than ever on the part of Lloyd's underwriters to meet directly with him as a buyer, in order to discuss the buyer's specific needs, and the risk management philosophies of those seeking insurance. "I took part in all the meetings, and was able to speak authoritatively on the technical aspects of the risk. If points of concern arose that were likely to have an adverse effect on the rating, I could suggest early in the discussions alternatives that would ease their minds, such as sublimits, higher retentions, additional engineering surveys, etc. Direct meetings also provide underwriters with a greater degree of assurance that there is complete understanding of all details on all sides," Mr. Greene believes.

Things are slowing down now, said Mr. Greene, who is leisurely working to line up insurers for the final layer over \$300 million.

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labor beat

Pension puzzle delays union contract talks

WASHINGTON—A financially troubled pension fund is one of the main issues holding up negotiations between representatives of the nation's 2,300 anthracite miners, on strike since April 1, and mine operators.

The near-bankrupt Anthracite Health and Welfare Fund which reported a balance of \$349,943 as of Dec. 31, 1973 is currently paying 15,000 retired anthracite miners \$30 a month in benefits. The fund is also a source of conflict within the union (United Mine-workers of America).

Prior to the strike the Anthracite Fund applied to the Pension Benefit Guaranty Corp. (PBGC) for \$4.4 million due beneficiaries.

The request is the first by a multiemployer fund for pension reinsurance coverage by PBGC, a new government corporation established under the Employee Retirement Income Security Act.

PBGC is required to reinsure basic pension benefits or multi-employer plans after Jan. 1, 1978, but the coverage is discretionary for plans seeking coverage before that date.

THE ANTHRACITE Fund is seeking a partial termination, with the PBGC taking over the payments to 6,300 miners who have less than 14 years of union covered service since June 1, 1946 or who have retired from a company that ceased contributions to the fund prior to Jan. 1, 1975.

The PBGC would then be assigned all of the funds current claims to delinquent contributions due from employers.

The anthracite industry has been in decline for a number of years, but drastic changes in the energy demand picture in recent years have improved the industry's prospects, a spokesman for the UMWA said.

However, a group calling itself the UMWA Miners and Pensioners Committee is protesting

Insurers cover award made to blind girl

NEW YORK—Employers Mutual of Wausau and the London market were the underwriters responsible for arranging the \$165,000 malpractice suit settlement which the plaintiff accepted moments before the jury was ready to award her \$900,000, *Business Insurance* learned.

Gail Kalmowitz, 21 and nearly blind from an overdose of oxygen administered to her at her premature birth at Brookdale Hospital in Brooklyn, had sued the hospital and two of its doctors for \$2 million.

She accepted the \$165,000 settlement, forfeiting \$735,000, because she was afraid of losing the entire amount and didn't want to become a burden to her family, she told reporters.

According to Anthony DiCicco, attorney for the hospital, Employers Mutual of Wausau was the insurer for the two doctors, and paid \$125,000 of the settlement. Part of a Lloyd's of London syndicate provided coverage for the hospital, and paid the balance of the settlement. ■

any PBGC coverage of the plan, charging the UMWA has "renege" on pledges to include the Anthracite workers in the larger United Mine Workers Health and Retirement Funds which cover bituminous coal miners.

THE COMMITTEE charged that the union should be held liable for delinquent contributions due the fund from the anthracite mine operators and that it should use current labor negotiations in the anthracite industry to turn the Anthracite Fund into "an honest bona fide" plan.

The UMWA Health and Retirement Fund which reported total assets of \$111,521,668 as of June 30, 1974 is currently paying retirees a \$200 pension per month, with increases scheduled for the next three years.

Contract talks between anthracite miner representatives and mine operators broke off shortly after they began, with federal mediators called in the second week in April.

A spokesman for the UMWA said that major differences exist including wages and pension benefits, improved medical and disability coverage.

The PBGC which was scheduled to open hearings on the Anthracite Fund request April 14, postponed the hearings until contract negotiations are completed and the strike is settled. ■

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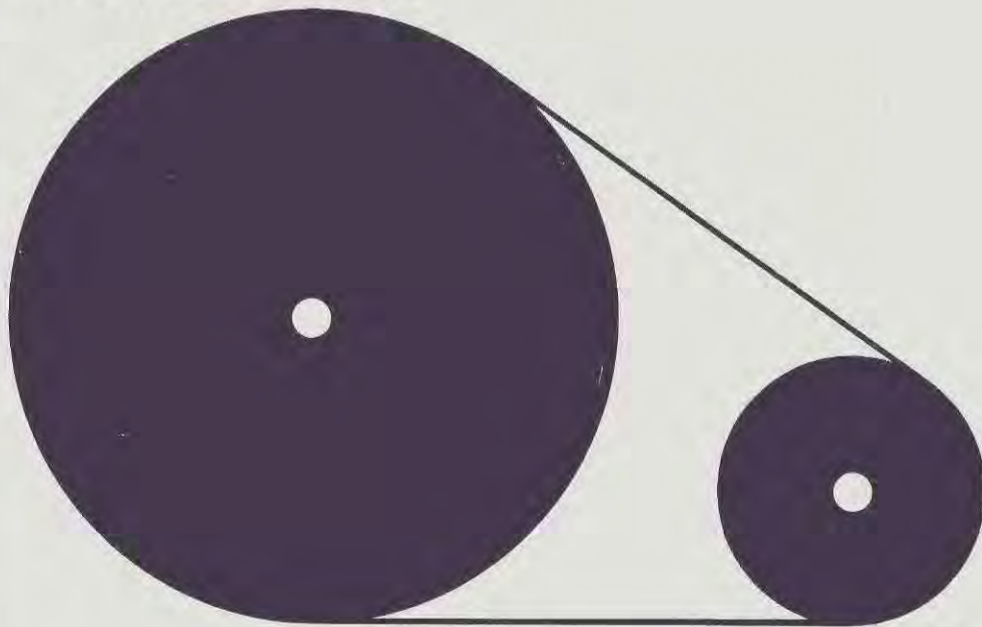
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Obtain fiduciary liability cover as rider to D&O

By MARIE KRAKOWIECKI

NEW YORK—Sperry E. Hutchinson Co. negotiated fiduciary liability coverage with Home Insurance Co., *Business Insurance* learned.

The fiduciary cover was worked out as a rider to the three-year directors' and officers' liability policy the company has with Home. That policy is currently in its mid-term.

The rider will cover about 40 pension plans with approximately 250 named fiduciaries. Bayly Martin & Fay Inc., an S&H subsidiary, was broker on the contract.

Premium rates for the fiduciary

coverage are set at one-fifth of the total premium rate for the D&O cover, according to Donald W. Cherry, S&H's corporate insurance manager. Mr. Cherry declined comment on the D&O total policy limits.

The insurance manager has been active in negotiating updated insurance coverages for S&H. Two years ago the firm used Home Insurance Co. for its liability coverage in addition to the current D&O policy (*Business Insurance*, March 26, 1973).

THE HOME then underwrote liability coverage on property and products liability with basic limits of \$100,000, and provided limits of \$200,000 to \$1 million for bodily injury.

Subsequently, Mr. Cherry switched basic liability covers to the Utica Mutual Insurance Co., with blanket limits of \$300,000. All other liability is covered by an excess policy from North River Insurance Co.

The insurance manager also hopes to save S&H some premium dollars by on-site visits he and his assistant, Neil Hemmer, will be making to the firm's manufacturing subsidiaries.

S&H owns Bigelow-Sanford, America's oldest carpet maker, as well as six interior furnishing companies. At present, the Factory Insurance Assn. underwrites the carpet and furniture plants around the country on a replacement cost basis, which makes the insurer responsible to replace the property in essentially its present form if damaged.

Mr. Cherry believes a number of plants (some of which are 20 years old) could be more sensibly and more cheaply insured on an actual cash value basis.

Mr. Cherry and Mr. Hemmer

plan to visit different facilities to determine which ones would be replaced in their present form if destroyed, and which ones have more outdated manufacturing equipment, for which actual cash value policies would be more economical. They expect their study to continue through the summer.

THE S&H insurance manager says he's more concerned than ever about fire exposures at the plants. Since the recession a number of them were forced to shut down. And a recurrent concern in the back of Mr. Cherry's mind is that

of a disgruntled, laid-off worker turning firebug for revenge. Both the Insurance Information Institute and the Insurance Crime Prevention Institute predict an upsurge in arson losses due to the recession.

Mr. Cherry doesn't anticipate an actual increase in losses but says the current economic recession has made him even more determined to make sure the plants are insured in the most efficient and economical way. And he thinks the actual cash value approach for some of the plants is a step in the right direction. ■

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UAW official charges Blues with neglecting needed cost controls

DETROIT—A United Auto Workers (UAW) official charged Blue Cross and Blue Shield with negligence about cost controls and accused the Blues of being "tools of doctors and hospitals."

Describing current health care costs as "frightening," Bard Young, a regional union director here, recommended the state insurance commissioner be given authority to impose cost containment policies on the Blues.

Impetus for the union's concern, Mr. Young told *Business Insurance*, is that with medical benefit costs taking more of the negotiated dollar, "there's less of the pie left."

He criticized the Blues for "gross ineptitude to raise rates 33%" because it would "very substantially affect" the majority of the 5.25 million Michigan Blues' members.

THAT INCLUDES tens of thousands of unemployed workers, Mr. Young explained, "who either have lost or shortly face the loss of their employer-related health insurance coverage in the coming months."

A spokesman for the Michigan Blues declined to comment on Mr. Young's charges because "the determination of a rate increase is pending."

Mr. Young charged that Blue Cross and Blue Shield repeatedly have ignored or only partially implemented orders issued by state insurance commissioners.

"THE UAW protests the never-ending increases in subscription rates," Mr. Young said. He appeared on behalf of the union's state Community Action Program (CAP) and urged reforms through legislation, if necessary.

Noting that Blue Cross was ordered last year to implement a meaningful cost containment program," the UAW director urged Commissioner Daniel Demlow to determine "the Blue Cross budg-

et for its cost containment functions and how it has been spent."

"We insist that the commissioner follow his 1974 ruling that expenses arising from the failure to aggressively implement cost containment measures will be disallowed in future rate review hearings... for purposes of rate determination," Mr. Young emphasized.

Mr. Young recommended a ceiling on aggregate payments to hospitals and physicians for the next two rating years. He also urged more efforts by the Blues to reduce hospital admissions for unnecessary surgery and to control ordering of unnecessary tests. ■

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Unhappily, Directors and Officers Liability Insurance has received adverse comment because of a few litigated situations on coverage. Regrettably, there is no standardization of policy form, application for insurance coverage, nor indemnity provision available to Directors and Officers.

Too little attention has been addressed to coverage at time of quotation and policy issue and too much attention has been focused on price. Therefore, many unfortunate decisions to accept limited insurance protection in exchange for what appeared to be a cheap price.

The principal problem areas include:

- No Prior Acts Coverage (no coverage applied to wrongful conduct which took place prior to the inception date of the policy, but which ripened into a claim during the policy period).
- Single policy format (some contracts have been issued attempting to insure both the corporate obligation and the directors' and officers' obligations in one policy contract which poses serious problems of enforceability of the insurance contract in many states).
- Bodily Injury and Property Damage Exclusions have been introduced.
- Not all Officer and Directorship positions have been automatically insured.
- Subsidiaries of the parent corporation frequently have *not* been properly insured.
- Newly acquired corporations have *not* been automatically insured.
- Mergers Exclusions have been introduced.
- Unconscionable deductibles have been required.

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1974 work comp loss ratios reported higher

NEW YORK—Workers' compensation underwriting results deteriorated in 1974 with loss ratios indicating an increase of nearly five points, according to George F. Reall, president of the National Council on Compensation Insurance.

At the group's annual meeting here, Mr. Reall pegged the estimated loss and loss adjustment ratio for the year at 82.5%. Premium volume was expected to increase 12.5% to \$5.75 billion.

More expansive and liberally interpreted and administered benefits systems, plus unlimited medical benefits were factors which contributed to the underwriting results, Mr. Reall said.

A change in the ratemaking procedure which was introduced in 1974 was not reflected in the figures of the NCCI's annual report.

SEVERAL SPECIFIC areas were treated by the report, including coal mine operator's liability to pay permanent total disability or death benefits for black lung. This liability has now existed for over a year under terms of the Federal Coal Mine Health and Safety Act of 1969 and the May 1972 amendments to the act. The NCCI worked with the Labor Department to place an insurance program which could be adopted by mine operators to cover lia-

bilities imposed by the law, the report said.

The report also noted the possibility of expanding federal jurisdiction in workers' compensation cases as a result of a line of administrative decisions which emerged in 1974 under the U.S. Longshoremen's and Harbor Worker's Compensation Act.

One major change in workers' compensation the report noted for 1974 was the introduction of a special program known as "wrap-up rating," a program designed for large construction projects.

This procedure allows the owner, general contractor and all sub-contractors on an eligible large construction project to be treated as a single risk for premium discount or retrospective rating purposes.

This will result, the report said, in an overall reduced premium for the project since higher premium discounts will apply. ■

Z-A offers consequential loss package for small firm

CHICAGO—Business interruption coverage for small and medium sized businesses including both loss of earnings and extra expenses with a single limit is now available from Zurich-American Insurance Companies. Typical premiums range from \$200 to \$1,000 "and up," according to Glen Schulte, assistant director of commercial property underwriting.

The form is attached to Zurich-American's fire and allied perils policies or to package policies. For this reason, the rating structure is a percentage of the basic property coverage rate. "If the business fire rate is high, then the cost (of the new policy) is high," Mr. Schulte said.

AN OPTIONAL growth feature provides automatic, noncompounding, quarterly increases in the amount of insurance to help keep the coverage amount current, Mr. Schulte continued.

Coverage applies for 31 days after the property has been repaired or replaced but before "the full earning power of the business has been restored," Mr. Schulte said. An extension to cover up to 360 days is available for additional premium, he added.

Although the policy is designed

for small-to-medium sized risks, manufacturing risks will cost about 10% more to insure than mercantile or non-manufacturing risks, Mr. Schulte said. ■

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Rock Island plan chugging to halt

CHICAGO—Rock Island Railroad's supplemental pension plan for salaried workers may reach the end of the line when the company does on May 15, but the Railroad Retirement System will keep the steam up for the basic plan that covers both management and hourly workers.

The pay-as-you-go plan for the line's approximately 900 white-collar workers personnel and 620 retirees may either be dissolved or funded through a decision of the bankruptcy judge, Frank J. McGarr, to set aside a portion of the proceeds from liquidation of the railroad, according to Robert Sullivan, secretary of the Rock Island pension board.

So far, no studies have been made by the retirement board or the plan's actuarial consultant, The Wyatt Co., Chicago, to determine the cost of future supplemental benefits, Mr. Sullivan and a Wyatt spokesman said.

THE RAILROAD Retirement System will continue basic benefits for all Rock Island workers with more than 10 years of service, including those who lose supplemental benefits under the plan for white-collar workers, a spokesman at the system said.

The loss of taxes paid to the system by Rock Island will not have a serious effect on the system's funding, the spokesman said. "The

loss of the Rock Island Railroad is not good for the Railroad Retirement System, but it's not the Penn Central," he explained. Rock Island currently employs about 14,000 people, while the Penn Central has about 90,000.

Workers must wait until age 65 before they can receive benefits from the Railroad Retirement System. If they hold a non-railroad job between the time they leave Rock Island and the time they retire, their service record would be lessened and their expected pension benefit also would be decreased.

Supplemental pension benefits for Rock Island's white-collar workers are figured on the basis of the highest salary for any five-year period multiplied by 1.2, and reduced by 85% of the Railroad Retirement System benefit that is also received. The benefit is also adjusted to include payments to the spouse after death, but the minimum benefit is always \$25.

The Railroad Retirement System benefit is composed of two parts: the first is an equivalent of what the worker would receive under Social Security, which does not cover rail workers, and the second is based on the amount of railroad service. ■

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Haas takes risk mgr. task at Fairchild

Philip Haas, assistant treasurer for Fairchild Camera & Instrument Corp., Mountain View, Ca., has also taken over the job of risk manager. Mr. Haas considers the new job "temporary, until a decision is made about the future of the risk management department." He replaces Ralph F. Perry who left Fairchild, as reported Feb. 2. As risk manager Mr. Haas is responsible for employee benefits as

well as property and casualty coverage. His duties as assistant treasurer include pension administration and managing company-owned or leased real estate. A veteran with 21 years at the company, Mr. Haas reports to the treasurer.

Nancy B. Zongol, corporate director of employee benefits at Heublein Inc., was promoted to the additional and newly-created position of corporate director of human resources administration. Mrs. Zongol's responsibilities include benefit administration, compensation and human resources policy and information systems for the Farmington, Ct.-based marketing company. Heublein, which specializes in food and alcoholic beverages, markets Smirnoff vodka and Kentucky Fried Chicken.

The Bureau of Naval Personnel,

Department of the Navy, named Alan M. Long to the newly-created position of assistant head of insurance and safety section. The section provides risk and insurance management services for Navy recreation, open mess and ships stores, services which are not funded by congressional appropriation. Mr. Long reports to Howard T. Watson, head of the insurance and safety section. Previously Mr. Long worked for National City Co., insurance agents and brokers, in Washington, D.C. Before that, Mr. Long served in various risk and insurance management capacities with the General Conference Insurance Service of the General Conference of Seventh-Day Adventists in Washington.

C. David Bass joined Gold Kist Inc., Atlanta, as assistant director of risk management and insurance.

He reports to Robert E. Rich, director of risk management and insurance for farmers' cooperative. Mr. Bass replaces Carlton Revels, who left Gold Kist, as recently reported. Mr. Bass worked for Insurance Agents Inc., an independent insurance agency in Atlanta, before going to Gold Kist. Prior to that, he worked seven years for Liberty Mutual Insurance Co.

Stone Container Corp., Chicago, named George S. Simpson assistant insurance manager. Mr. Simpson's responsibilities include property and casualty insurance management and claims handling. He reports to Leonard Baines, manager of insurance, and replaced Richard P. Hayes, who left Stone Container

to become claims manager for Parliament Insurance Co. Mr. Simpson was director of product development and services at Zurich-American Insurance Cos. until a year ago, at which time he took a "non-insurance-related" position according to Mr. Baines.

Jean Raphael was promoted to the new post of insurance manager for Smith International Inc., Newport Beach, Ca., an international corporation that manufactures drilling tools for the mining, petroleum and construction industries. Ms. Raphael was formerly accounting supervisor. In her new job, Ms. Raphael will work with James L. Macdonald, corporate safety director.

Degree of fault to determine liability in California courts

Adopt 'comparative negligence' rule

SAN FRANCISCO—California's 103-year-old doctrine of contributory negligence was abandoned by a ruling of the state supreme court, which substituted for use in all California courts the system of comparative negligence, which assesses liability in direct proportion to fault.

The precedent-setting decision stemmed from a Nov. 21, 1968 accident in Los Angeles in which a woman physician, Dr. Nga Li suffered back injuries in a crash in-

volving her 1967 Oldsmobile and a Yellow Cab Co. taxi driven by Robert Phillips.

A Los Angeles superior court judge had dismissed Dr. Li's suit for damages on the basis that although Mr. Phillips was negligent in driving at an unsafe speed and through a yellow traffic light, Dr. Li was guilty of contributory negligence in having made an illegal left turn just prior to the crash.

The supreme court ruling reversed that decision with the com-

parative negligence concept which will permit juries and judges to award money damages even if the litigant's own acts partially caused injuries for which damages are sought.

THE DECISION makes California the 27th state to adopt the comparative negligence system in civil liability damage lawsuits. The concept of comparative negligence, Justice Raymond L. Sullivan said, "should be applied in California in its so-called pure form, under which the assessment of liability in proportion to fault proceeds in spite of the fact that the plaintiff is equally at fault or more at fault than the defendant."

The "pure" form of comparative negligence the court adopted for California already applies in Florida by state supreme court rule, and in Mississippi, Rhode Island and Washington by legislative action. Under this pure form, liability is apportioned in direct proportion to fault in all cases.

Another form of comparative negligence has been adopted by statute in 19 states where apportionment is based on fault to the point at which the plaintiff's blame is equal to or greater than that of the defendant. When that point is reached, the plaintiff is barred from recovering damages.

Under the current California decision, in all future actions for negligence resulting in injury to person or property, the contributory negligence of the person injured shall not bar recovery. The damages awarded, however, shall be diminished in proportion to the amount of fault attributable to the person injured.

The doctrine of "last clear chance" is abolished and the defense of assumption of risk are also abolished by the ruling, to the extent that they are merely variants of the former doctrine of contributory negligence.

Free HMO fact sheet

WASHINGTON—A fact sheet in question and answer form, explaining the federal government's proposed regulation on health maintenance organizations as "dual options" is available from the Health, Education and Welfare Department.

Single copies can be obtained free by writing for the Fact Sheet of Proposed Regulations—40-F.R. 6602 from the Health, Education and Welfare Department, Health Services Administration.

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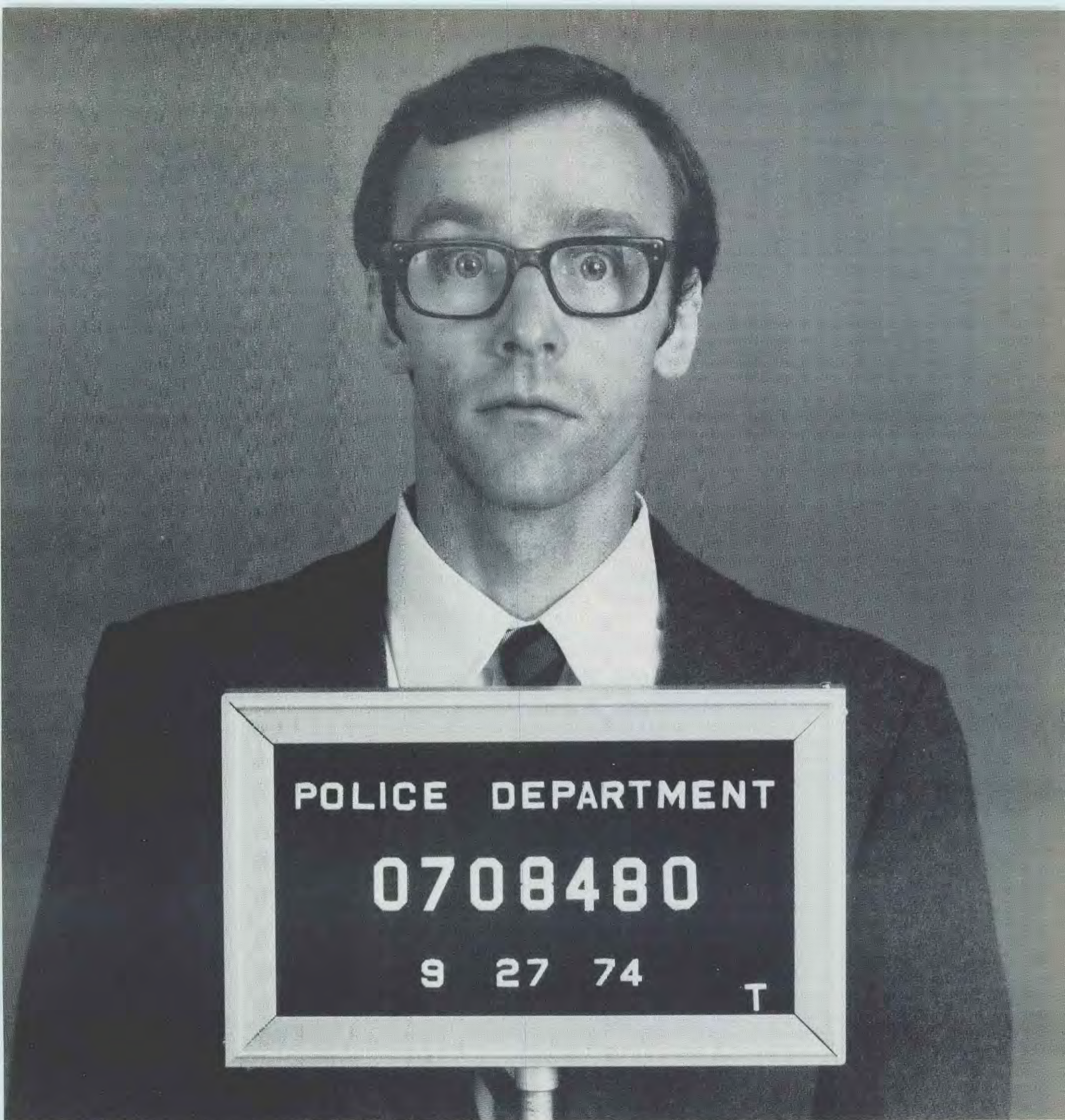
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Disability: surprise killer of small businesses



The disability of a key salesman, or designer, or engineer can cripple a company. Their productivity stops. But the costs of operating the business continue.

It's called "economic death." It's always unexpected... often unanticipated by many insurance programs. In fact, a person between 17 and 44 has just as great a chance of becoming permanently disabled as of dying.

The economic consequences can be even more disastrous than death. They can drive a small business to the wall. Credit is impaired. Profits decline. Morale drops. Accounts and clients drift away. Competitors lure away key employees.

In some cases, the disabled man himself may find his business interest waning. And the company may lack the necessary liquidity to buy him out.

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