Week of April 3, 1978

business insurance

the national newsmagazine of loss prevention, risk financing and employe benefit management

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New fronting restrictions assailed at N.Y. hearing

By REBECCA A. FANNIN

NEW YORK—Risk managers joined brokers, insurers and reinsurers to tell the New York insurance department that its proposal to restrict fronting arrangements is an unnecessary attack on a legitimate technique.

Representatives of all segments of the industry said the regulation is vague, ambiguous and would further complicate problems the department is trying to correct.

"This regulation strikes at the very heart of a fundamental solution to availability and affordability problems," said Richard J. Rice, vp and manager of the special projects department at Johnson & Higgins.

Under most fronting arrangements, a corporation obtains an insurance policy from a licensed insurance company which then reinsures the bulk of the risk with the corporation's captive insurance

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ISO kills punitive damage exclusion; 3 insurers apply retroactive coverage

NEW YORK—The Insurance Services Office last week killed its controversial exclusion of punitive damages awards in liability insurance policies, deciding that no industry position is better than a divided one.

The endorsement, which had been filed around the country in November and approved in 33 jurisdictions, was withdrawn by ISO on March 29, eliminating its use by member ISO companies. Insurers who had embraced the exclusion are expected to revert to prior practices: determining coverage on existing policy language and circumstances.

Two insurers who had enthusiastically embraced the exclusion have already announced its retroactive elimination. "You've heard of how Russia has non-persons," Fireman's Fund Insurance Co. vp Creighton White said. "Well, we have a non-exclusion. It doesn't exist." The Home Insurance Co. notified its offices that it would no longer attach the exclusion and "in the interest of equity to our policyholders, the exclusion is withdrawn retroactively from inception to all to which it has been attached."

Continental Insurance Cos., which had announced it was adopting the exclusion but would delete it under certain circumstances, is also voiding the exclusion retroactively, "though we are alerting our staff that we do not interpret this action to mean we are broadening coverage or providing coverage for all punitive damage claims," said assistant vp John Cooney.

This story is based on reporting by Kathryn J. McIntyre, Ellis Simon and Jerry Geisel. It was written by Ms. McIntyre.

St. Paul Fire & Marine announced it had "ventured into this punitive damages amendatory endorsement as a member company of ISO and we are withdrawing on the same basis. Our policies never were intended to cover punitive damages, so our adoption of the endorsement only meant a clarification of our position."

Aetna Life & Casualty, which was delaying adoption of the exclusion due to procedural problems, will not adopt it now. The Travelers, which had formerly reserved its right to alter the ISO-filed exclusion, is now following the new ISO position "but may apply the exclusion to selected accounts where determined necessary by the underwriter."

The Hartford Insurance Group, which had consistently declined to adopt the exclusion, would not comment on ISO's return to the position The Hartford had held all along.

Other insurers, stunned by ISO's sudden reversal of its hard fought line, are catching their breath. INA and SAFECO Cos., which had prepared endorsements to cover punitive damages in cases of vicarious liability, asked for a few days to assess the new situation.

Buyers and brokers of commercial insurance, who had vigorously opposed the exclusion, cheered the ISO reversal as a consumer victory. "It's fantastic. The power and the voice of the consumer is being heard," said outgoing Risk & In-

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RIMS Preview

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Reeves practices what he preached, allocates most costs to HCA captive

By SUSAN ALT

NASHVILLE—Less than a year ago, Bob Reeves stood in front of a large group and offered his opinion that practically all risk management department salaries and expenses could be allocated to a captive insurance company—provided a company had a captive.

This, he said, would effectively create a true cost center for risk management operations while achieving several other important objectives as well.

He's done what he said should be done, using a new job as vp of insurance for the Hospital Corp. of America here as the opportunity to practice what he preached. At the time of his remarks at last year's risk management conference in New York, Mr. Reeves was risk and insurance manager for Kentucky-based Ashland Oil Inc. In August he moved his belongings into a well decorated, wood-panelled executive office at HCA and set about building a risk management department from the ground up for the fast-growing chain of 76 proprietary hospitals with 15,000 beds. HCA also manages under contract 26 additional hospitals around the U.S. and overseas.

In the months since 33-year-old Robert A. Reeves arrived to shake things up at HCA, he has rearranged risk-related operations and has added a number of new people, transferring nearly everybody to the books of the HCA captive, Parthenon Insurance Co., estab-

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Doubt is cast on benefit cuts

By JERRY GEISEL

WASHINGTON—Companies may be forced to provide economic justifications before reducing or terminating benefits for employes who continue to work past age 65.

Several congressmen raised the prospect that employers may not be able to automatically reduce benefits as the House and Senate gave final approval to a landmark measure raising the mandatory retirement age to 70 for private industry and eliminating forced retirement at any age for federal employes.

"Passage of this act should not be construed by any employer or any court to permit the sudden, total and unilateral termination of a capable and healthy worker from a health insurance or other welfare benefit plan solely on the basis of age and without full economic justification," warned Rep. Claude Pepper (D-Fla.).

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Photo: Wide World

Supertanker Amoco Cadiz breaks up off French coast causing widespread damage

3 markets on tanker disaster

By JOHN H. MILLER

LONDON—Lloyd's, British insurance companies and U.S. insurers will bear most of the insured loss of the supertanker Amoco Cadiz, which had an insured hull value of $12 million with a deductible of $5 million.

The remaining $7 million loss rests 80% with Lloyd's underwriters and companies in the London market and 20% in the U.S. insurance markets. The London spread is 45% Lloyd's and 55% U.K. companies.

The loss isn't expected to have any major impact on marine rates in London or the U.S. and isn't causing underwriters much concern, *Business Insurance* learned.

The huge ship, carrying 220,000 tons of crude oil, is owned by a division of Standard Oil Co. of Indiana and was on charter to Shell International, an affiliate of the Royal Dutch/Shell group, en route to Rotterdam

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Products liability insurance.

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It's 3M's Howard T. Weber

21 years on the job refining a system, he keeps on trying

By KATHRYN J. McINTYRE

ST. PAUL — When Howard T. Weber took the job of insurance supervisor at 3M Co. 21 years ago, he predicted, "If I spend the rest of my career in the insurance department at 3M it will be a big enough job that I'll never get bored."

He repeats that assertion today with the same confidence as director of insurance for the company that has grown tenfold since he arrived in 1957. Outlining his risk management program for the $4 billion multinational manufacturer, recalling the major breakthroughs in its development, the first recipient of the *Business Insurance* Risk Manager of the Year award emanates an enthusiasm that is only slightly restrained by his quiet personality.

Who could get bored and who wouldn't be enthusiastic about putting together one of the first centrally controlled and integrated multinational insurance programs or developing and instituting the most sophisticated in-house underwriting facility in force anywhere? Who could get tired of figuring out how to most effectively use two Bermuda-based subsidiary insurance companies while staying one step ahead of regulators who are not as taken with the captive concept as risk managers? Who could lose interest in sitting down with the most influential underwriters in the domestic and overseas markets to convince them to subscribe to a $95 million excess insurance program?

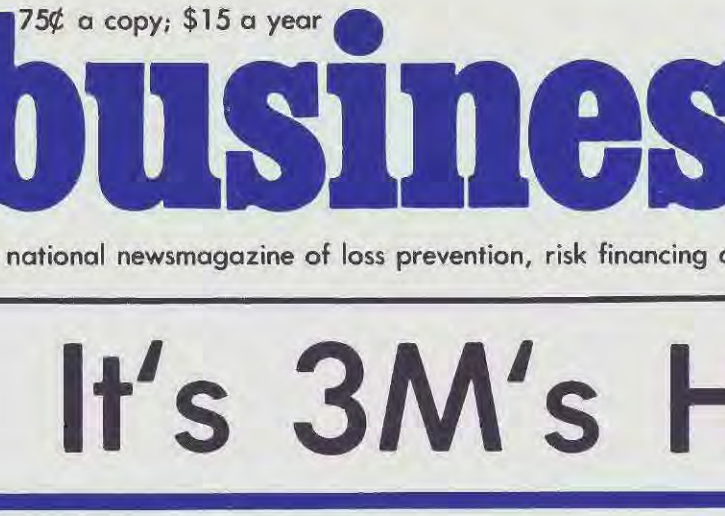
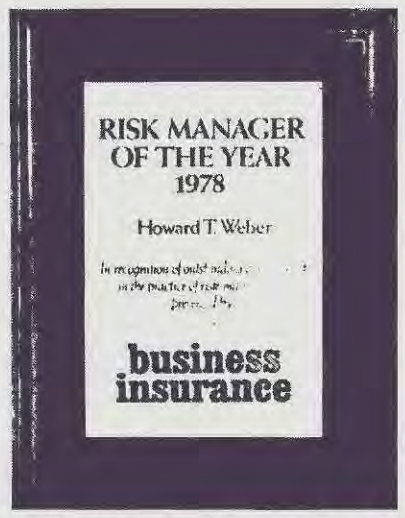


Photo: Kathryn J. McIntyre

Howard Weber has a five-minute walk from his office to the office of any 3M corporate executive at 3M Center.



Add to those financial concerns the risk identification, evaluation and prevention aspects of the risk management job for a company that sells over 40,000 different products and operates in 50 countries around the world. The responsibilities require that the Minneapolis native travel nearly 25% of the time including trips to Europe and the British Isles, international travel that he enjoys.

Bored? Not Howard Weber.

"He does not let anyone in his department become bored either," said John Hart, manager of casualty and surety in the 12-person department. "We're always running to catch up because he's 10 miles ahead of us." Treasurer Ralph Ebbott adds, "I'm glad to hear that—he sure keeps us going."

The 51-year-old risk manager elicits that kind of respect from superiors and subordinates who have watched him over two decades develop a very standard insurance program appropriate for the quiet 1950s into a highly sophisticated risk management program to meet the needs of a multinational in the explosive 1970s.

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By SUSAN ALT

CHICAGO—Howard T. Weber, 51, director of insurance for 3M Co. in St. Paul, Minn., is *Business Insurance's* first Risk Manager of the Year.

An acknowledged leader in his field, Mr. Weber responded with subdued pleasure to the news he'd been chosen by 10 experts to receive the award. "I am approaching this, of course, with some trepidation," he told *Business Insurance*. "You always wonder why you won . . . is it because I write well, because I talk a lot or because I'm really good at my job?"

He won because of the excellent job he's done at 3M, according to the judges who met here March 6 to choose the winner. Working only with the nominating statements and leaving aside personal knowledge of the candidates, the judges selected Mr. Weber for this award from a field of risk managers residing in 12 states as well as Canada and Europe. Candidates included both men and women working for corporations, public utilities and governmental entities of all sizes.

After reviewing and discussing the nominations, the judges agreed that Mr. Weber's accomplishments were outstanding in each of 10 areas established as criteria for this competition. In his 21-year insurance management career with 3M, Mr. Weber has woven a program of insurance and financial protection for the corporation, using the full range of risk management techniques. He's faced a wide variety of challenges in a company that operates in 50 countries and makes 40,000 different products.

Don E. Garretson, vp of finance at 3M, submitted a concise, low-keyed nominating statement that portrayed Mr. Weber as a keen problem-solver and innovator in his position as head of the company's insurance department.

Raymond Herzog, 3M's chairman of the board, pointed out that in Mr. Weber's years with 3M, he has caused a good many waves internally with some of his approaches to insurance management. He laughingly described Mr. Weber as "a problem" in his own right, often raising the ire of operating managers with his insurance accounting system. Because the system allocates uninsured losses and premium costs to the various operating di-

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These experts chose our Risk Manager of the Year

THE RISK MANAGER of the Year was chosen by 10 experts in the field of insurance and risk management, representing the risk management profession, the insurance industry, the insurance brokerage industry, independent risk management consultants and the academic community.

The judges who served in this competition included:

George M. Betterley is managing director of Betterley Consulting Group, Boston, and has 30 years' experience in risk management consulting. He has a BS degree in administrative engineering from Lafayette College in Easton, Pa., and has taken special courses at Harvard Business School. He is currently a director of the Risk Studies Foundation and was founder and first president of the Institute of Risk Management Consultants.

James Scott Kemper Jr. is chairman of Kemper Insurance Cos., Long Grove, Ill. He serves as a director of Stewart-Warner Corp. as well as of numerous other insurance, civic and charitable organi-

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Photo: Mary Cairns

The judges are (front row, left to right) George M. Betterley, Therese A. Maloney, Alan B. Middleton and Robert C. Nevins. Also (back row, left to right) John W. Hall, A. Grant Whitney, James S. Kemper Jr., Donald M. Stuart, Thomas V. Hallett and Waller B. Smith.

Sunbelt Spotlight
See pages 11-38

N.Y. police probe Sasse risks

By JOHN H. MILLER

LONDON—Investigations by Lloyd's and by a Brazilian reinsurer have led to a New York police probe into possible arson as the cause of heavy losses for a Lloyd's syndicate, *Business Insurance* learned.

Den-Har Underwriters Inc. bound F. H. Sasse & Others syndicate at Lloyd's to large blocks of property risks in New York City. There's now some suspicion that the properties included tenement buildings which were burned to collect the insurance.

As reported, Sasse was suspended by Lloyd's after Sasse paid heavy losses on the business, which resulted in its being unable to meet a yearend 1977 financial audit by Lloyd's (*BI*, Feb. 6).

Sasse subsequently sued the Instituto de Reaseguros do Brazil (IRB) for not paying its share of the losses after the policies were reinsured en masse with IRB (*BI*, Feb. 20).

IRB assigned international loss adjuster Graham Miller & Co. to investigate the coverage and the loss claims. It's not been known precisely why the IRB was refusing to pay some $3 million in losses, jeopardizing Sasse.

Although no official reports have been disclosed by the IRB, its lawyers or the adjusters, reports now indicate that high-risk properties in New York were involved, insured in 1976 for inflated values at premium rates substantially lower than those being charged by the New York FAIR plan.

Police and fire department authorities in New York reportedly are carrying on a further check to see if there is a relationship between the fires. They are likely to be in touch with the London investigators on the case, sources indicated.

Insurers supposedly were interested in this business generated by Den-Har because of the large premium cash flow, since Den-Har is thought to have bound Sasse to business involving some $14 million in premiums.

The subsequent fires causing suspicion are thought to have occurred in more than 30 separate properties in New York City.

The Sasse syndicate's attempt to get an early hearing on its lawsuit against the IRB to recover the $3 million has been adjourned until May. ■

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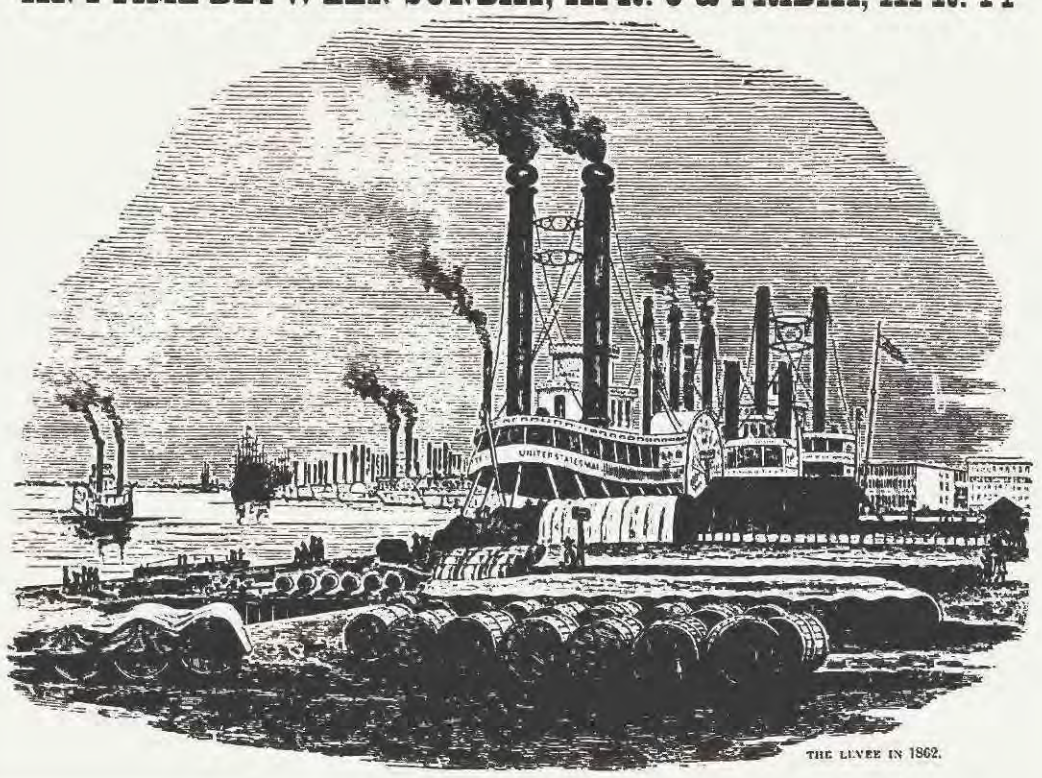

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for your information...

Physician fees outpace inflation with a 9.3% increase last year

WASHINGTON—Physician fees last year jumped 9.3% or 50% more than other consumer prices, the Council on Wage and Price Stability reports.

Since 1950, physician fees have outpaced the inflation rate, except during the 1971-74 period of wage and price controls. Between 1950 and 1977, physician fees rose 43% faster per year than non-medical care prices.

Health care outlays now consume 9.3% of GNP, compared to 4.5% in 1950. In the same period, consumer outlays for physicians services increased from $2.7 billion to about $35 billion, the Council says.

Court to consider work comp case

WASHINGTON — The Supreme Court has agreed to decide whether a jury should take income taxes into consideration in determining a damage award to an injured worker to compensate for loss of future earnings.

A lower court earlier refused to allow Chicago, Rock Island & Pacific Railroad attorneys to reveal that future wages are subject to federal and state income taxes, while a damage award is tax-free.

The railroad contended that it had been deprived of its rights to due process because a Kansas state court judge declined to permit its attorneys to bring up the impact of income taxes while allowing the injured worker to introduce "speculative and conjectural testimony" about the effect inflation would have had on his projected lost salary.

Lower courts have been divided on whether taxes should be taken into account in calculating future wages.

Carter aide sees liability problem

WASHINGTON—A top official of the Office of Management and Budget said for the first time that the Carter Administration considers product liability to be a problem and plans to respond to a Commerce Department paper recommending solutions to the problem.

Wayne Granquist, OMB associate director for management and regulatory policy, told *Business Insurance* that the Commerce Department paper is now being reviewed and the Administration plans to "encompass some kind of answer in the near future."

Mr. Granquist declined to be more specific about what he meant by "near future" saying that "in a White House known for its artificial deadlines we are not going to put one" on the response to the report.

But any action taken on the report will be made public, Mr. Granquist said.

Court OKs airline pregnancy rule

WASHINGTON—The Supreme Court let stand a lower court ruling that United Airlines is not engaging in sex discrimination by requiring all stewardesses to stop flying as soon as they discover they are pregnant.

The Fourth Circuit Court of Appeals ruled last summer that United's policy of forced leave was justifiable since pregnancy "could incapacitate a stewardess in ways that might threaten the safe operation of aircraft."

The suit contended that each stewardess should be allowed to continue work as long as she could safely perform her duties.

Freight car wheels ordered recalled

WASHINGTON—The Federal Railroad Administration has ordered the removal of the type of freight car wheel that caused a massive train derailment in Waverly, Tenn., in which 12 persons died after liquid propane ignited.

The wheels, which are made by Southern Wheel Co., must be removed by June 30 from any train carrying hazardous material.

In addition, all of the estimated 100,000 wheels now in use on freight cars will have to be removed by the end of the year.

The FRA also plans to hold hearings to determine if the government should order a speed-up in the four-year time limit railroad tank owners have to install better safety devices including head shields and protective coatings.

Coast Guard clears tanker in mishap

WASHINGTON—A Coast Guard investigation has not turned up any evidence of misconduct or negligence by the crew of a sulfur tanker that struck and knocked out a section of a bridge over the James River near Hopewell, Va.

The report labeled the accident the result of an electrical failure in the steering mechanism which caused the Marine Floridian's rudder to freeze as the tanker approached the Benjamin Harrison Bridge in February 1977.

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AIA recommends arson funding

WASHINGTON—The National Fire Academy must have sufficient financing to win a war on arson, an insurance company executive told a congressional committee.

Walter D. Swift, vp of the American Insurance Assn., said disorganization and insufficient training hinder efforts to combat arson, a crime now costing more than $12 billion a year.

The AIA exec says his organization was working on steps insurers could take to eliminate or reduce arson. But he said additional efforts by the federal government were also required. ■

the benefit beat

Coal miners approve pact after deductibles slashed

COAL MINERS finally agreed to a new contract after mine operators drastically reduced the medical coverage deductibles that were imposed in previous contract proposals rejected by the UMW rank and file. Under previous proposals, miners would have paid as much as 15% of hospital expenses up to a maximum of $500 per year and $7.50 per doctor visit up to an annual maximum of $150. Now miners will be forced to pay $5 per prescription up to an annual maximum of $50 and $7.50 per doctor visit up to an annual maximum of $150. There will be no deductible or coinsurance on hospitalization, reducing potential out-of-pocket expenses to $200 from $700. Miners' medical expenses were completely covered by the union's benefit plans until financial trouble required the imposition of medical deductibles last summer.

The 1974 Benefit Trust will be scrapped in the new agreement and benefits will be provided through insurance company contracts purchased by mine operators. The 1950 Benefit Trust, which covers miners who retired before 1976, will continue to provide benefits, which will now be guaranteed by employers. Miners will receive life insurance benefits for the first time with $12,000 going to the beneficiary. The amount is doubled in the event of accidential death.

The new contract establishes a vision care program that will pay $20 for an eye exam every 24 months. Pension benefits for miners covered under the 1950 Pension Trust will increase immediately to $275 a month from the current $250 a month. Participants in the 1950 trust will receive pension checks for February and March that were cut off when the strike began.

The contract is expected to raise the cost of wages and benefits for miners 39% over three years.

PATTERSON, N.J., has saved $190,000 during the first four months of self-insuring its group employe health benefits, according to mayor Lawrence F. Kramer. The city began self-insuring health benefits for its 1,475 employes and their 2,600 dependents Nov. 1 after an analysis revealed that Patterson was paying more in premiums to Blue Cross and Blue Shield than was warranted by the claims experience. Patterson is the first New Jersey municipality to self-insure on employe health benefits. Its claims for the first four months were $239,954 while premiums paid to the Blues for that period would have been $429,874, said the mayor. Patterson expects to save $810,000 over the first two years of the self-insurance program while providing identical coverage with the Blues.

A stop-loss excess policy, placed with Lloyd's, will cover health care expenditures in excess of $827,154. Beta Consultants & Administrators Inc. of King of Prussia, Pa., was hired to manage the program and a full-time claims administrator has been assigned by the firm to Patterson.

COCA COLA Bottling Co. of Los Angeles has signed up the California Medical Group as its second health care maintenance organization, says compensation manager Roland W. Nelson. Mr. Nelson said that California Medical Group was selected because its coverage reaches most of Los Angeles and Orange counties. Maxicare of Hawthorne, Calif., a smaller HMO, is the other HMO serving Coca Cola Bottling Co., a unit of Northwest Industries Inc. of Chicago. The HMOs, both federally qualified, have about 19% participation of Coca Cola employes, according to Mr. Nelson.

Ruland & Mattingley of Pasadena, Calif., a self-insurance consultant, helped in the selection of the California Medical Group. Allstate Insurance Co. is the underwriter of Coca Cola's insured group medical/dental, program, Mr. Nelson said.

BERTEA CORP. of Irving, Calif., has moved the reinsurance for its self-insured group medical and dental plan from Lloyd's of London to American Accident Reinsurance Group of San Francisco. The new reinsurance policy has an attachment point of $15,000, after which it pays 100% of a claim up to $250,000, according to Ruland & Mattingley of Pasadena, Calif., a self-insurance consultant. The Lloyd's reinsurance policy had an attachment point of $10,000 and paid 90% up to $100,000.

Administrax Inc., a part of Ruland and Mattingley, is the third party administrator for the new policy. Special Market Placement Corp. of San Francisco was the consultant on the reinsurance placement. Bertea began its self-insurance program in group medical/dental in January 1976. The company, which is in the hydraulics business, also offers its employes an HMO option in which about 30% of the employes are enrolled. The HMO used by Bertea is Family Health Plan, Long Beach, Calif., a federally qualified organization.

CANADIAN RAILWAY unions have agreed on a new one-year contract with the Canadian Pacific, Canadian National and 11 smaller railroads that involve benefit improvements and will boost wages 6%. Under Canadian wage and price controls, wages can only be increased by 6% in one year. Maximum sick leave benefits are slated to rise to $160 per week. This is an increase from the current weekly maximum benefit of $147. Paid-up life insurance for retirees will climb to $3,368, an increase from $1,000. Railroad employes will be permitted to retain their existing travel pass privileges when VIA Rail, the Canadian equivalent of AMTRAK, takes over the passenger services of the private railroads. The pact covers 100,000 employes in 17 different unions throughout Canada. Negotiations on heftier benefit increases will resume next year at which the Canadian wage and price controls will be lifted.

Kentucky, Georgia, Tennessee

Indiana enacts tort bill; 3 others near final OK

By JERRY GEISEL

WASHINGTON—Another state joined the ranks of product liability reformers last month as three more states near final approval of tort reform legislation.

Indiana Gov. Otis Bowen signed a measure that establishes a 10-year statute of limitations and gives manufacturers specific defenses in product liability actions.

Product liability bills also have been passed by the Kentucky, Georgia and Tennessee state legislatures. But those measures still must be approved by those states' governors before they become law.

The action in Indiana raises the number of states that have passed reform legislation to five since the drive to change the tort law as it affects product liability began in 1977. Utah, Colorado and Oregon passed major reform bills last year and South Dakota enacted a six-year statute of limitations earlier this year.

The Indiana bill (H.B. 1396) requires that product liability suits be filed within 10 years after the date a product was delivered to the first user and within two years of the time of injury or accident.

The measure offers manufacturers and sellers a defense against liability if product misuse or alteration was the proximate cause of injury.

Liability also is eliminated if the defending party can prove that the product was made in conformity with generally recognized industry standards at the time of manufacture. Recovery is barred if the injured person used a product with knowledge that the product was defective.

A united business community was the key factor in getting the bill through both houses, said Brian Krenzke, vp of the Indiana Manufacturers Assn. in Indianapolis.

The bill, which cleared the house March 2 on a 75-20 vote and the senate two days later by a 35-13 margin, goes into effect July 1, 1978.

The Kentucky bill (S.B. 119), which Gov. Julian Carroll is expected to sign, is the most comprehensive of all the recently passed measures.

In lieu of a statute of limitations, which is illegal under the Kentucky constitution, a product would be assumed to be free of defects five years after the date of sale to the first customer or eight years after the date of manufacture. After that, the burden of proof of establishing that a defect caused an injury would rest with the plaintiff.

In addition, manufacturers and sellers are allowed a state of the art and alteration or modification of product defenses against liability.

The bill stipulates that a plaintiff must exercise reasonable care in using a product and allows a judge to rule, without a jury being present, on whether certain evidence shall be admissible in a product liability case.

And in a provision to help distributors, a wholesaler who passes along a product in its original manufactured condition or package could not be held liable unless he or she had some knowledge that the product was defective.

Associated Industries of Kentucky president Rayburn Watkins considers the measure to be "the best product liability bill in the country." If signed by the governor, the measure would go into effect May 19, 1978.

The Georgia legislation is more limited. One of the proposals (S.B. 512) to clear the legislature establishes a 10-year statute of limitations from the time of first sale or use. A suit must be filed no later than two years after the time of injury.

The other measure (S.B. 511) allows manufacturers and sellers an affirmative defense if the product was "substantially" modified or altered by the consumer after the product was first put into use.

The bills were approved by overwhelming majorities in the house and senate. The measures would go into effect July 1, 1978, but Gov. George Busbee has not indicated yet if he will sign the legislation.

Georgia Business and Industry Assn. vp Jim Loyd described the reform legislation as an "excellent initial step in remedying some of the problems now surfacing in product liability."

The Tennessee bill (S.B. 2188) establishes a 10-year statute of limitations and requires the plaintiff to file suit no later than six years from the time of injury.

Defenses against liability include conformity with industry and government safety standards at the time of manufacture. Suits would be barred if the product was altered or modified after it left the control of the manufacturer.

As in the Kentucky measure, wholesaler-distributors could not be held liable for damages if they only passed along a product in its original condition or package unless they had some knowledge that the product was defective.

Both houses now must patch up differences in the legislation that cleared each branch before a bill can be sent to Gov. Ray Blanton. The act would go into effect July 1, 1978.

Meanwhile, in a related development, the Kansas house passed legislation (H.B. 2903) requiring product liability suits to be filed within 10 years of the date the product is sold to the first user. The proposal is before the senate.

In Oklahoma, however, a house-passed measure (H.B. 1635) establishing a seven-year statute of limitations died in the senate. ■

George Wallace and Yvon Menard of the International Department of Tomenson Saunders Whitehead, together with Alan Routledge of Tomenson Saunders Whitehead (U.K.) Ltd. confer with John McCarter of Massey-Ferguson.

Reaping new harvests for Massey-Ferguson.

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Illinois rejects Blues rate hike

SPRINGFIELD—Illinois insurance director Richard L. Mathias has rejected a rate increase proposed by Blue Cross for groups with less than 23 employes.

The Blues had requested rate increases ranging from 20.6% to 27.5% for small groups.

"Blue Cross has not sufficiently substantiated its proposed rate increase on an actuarial or financial need basis," said Mr. Mathias. "It is my judgment that (Blue Cross) has overestimated its needs to maintain its financial viability." ■

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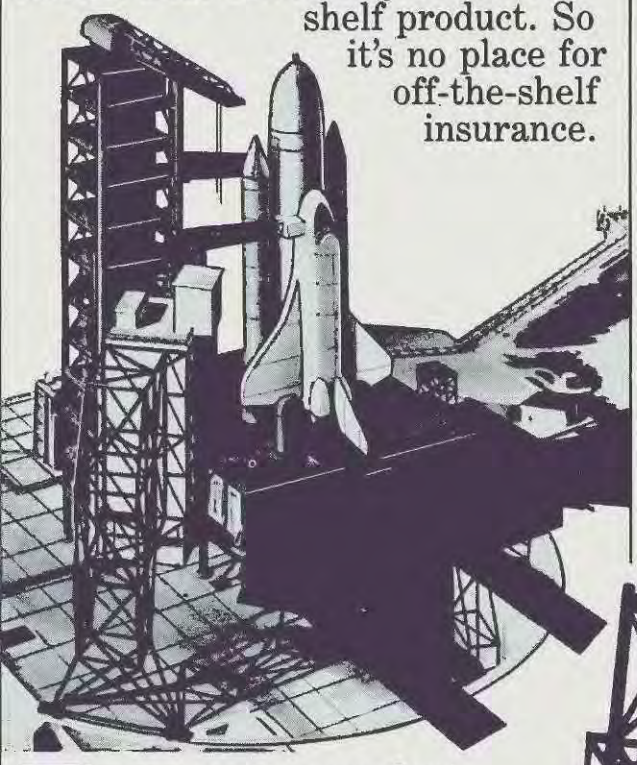
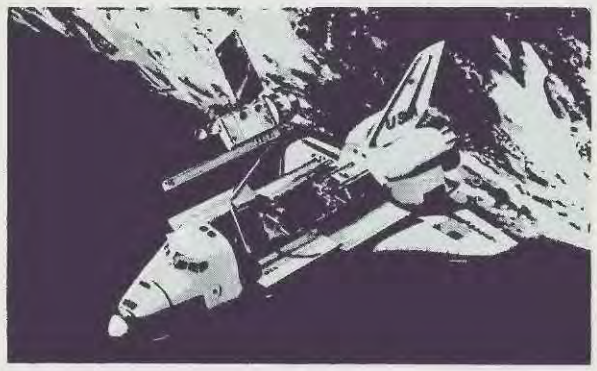


There are no precedents. What makes the whole thing feasible is Blount Brothers' good record on other ventures with which we've been associated. And their attitude about their own responsibilities in the insurance partnership.



"Insurance is no substitute for care," says project manager, Jeff Abrecht. "Our insurance program is geared to the goal of never having to file a claim."

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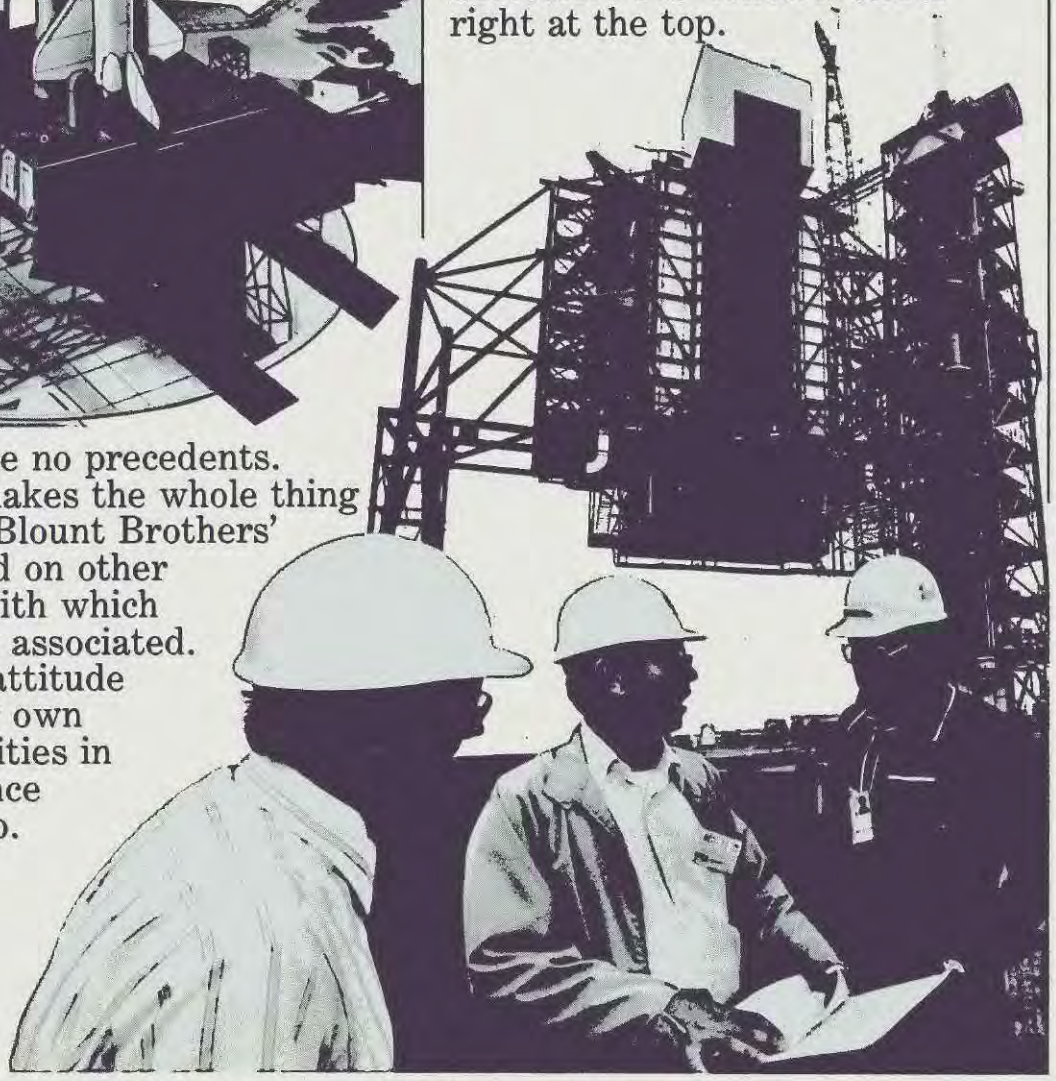
"A company must *earn* its reputation for prevention of property losses," says Dick Hart, Blount Brothers' Safety Director. "Our concern starts right at the top.



Left to right: Jack Wilson, of Employers Insurance, and Dick Hart and Jeff Abrecht of Blount Brothers Corporation

"We try to be very watchful — and one of the things we count on Employers to do is to provide 'that other set of eyes' for us in case we develop any bad habits."

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Due to product liability lawsuits

2 automakers agree to indemnify their dealers

DETROIT—Two of the big three automakers have responded to pressure from their dealers who are plagued by threats of product liability lawsuits with promises to indemnify them for costs of legal actions that clearly concern only the manufacturer.

Ford Motor Co. and General Motors Corp. announced this month their intent to insert indemnification clauses in their sales agreements with dealers, a move long urged by the National Automobile Dealers Assn. out of concern for the exposure and insurance costs.

Chrysler Corp. says it has a better idea but it won't provide any details yet. "Chrysler has a practice on product liability protection that we believe has offered and now offers a more beneficial program for the dealer than the proposed NADA indemnification clause . . . Within a month we will send the details of our programs to all Chrysler, Dodge and Plymouth dealers," a company spokesman said.

Ford's statement that it will include the indemnification clause in dealer agreements beginning May 15 comes on the heels of the company's announcement that Ford and Lincoln/Mercury dealers will be able to buy an umbrella liability insurance policy underwritten by American Road Insurance Co., a subsidiary of Ford Motor Credit Co. (*BI*, March 6).

"This supplemental insurance provides $1 million to $5 million in protection against judgments and settlements which may exceed the dealership's primary garage liability policy," said Ford corporate insurance manager William D. Kramer. "This policy also provides better product liability protection against most product-related consumer lawsuits not covered by the dealership's primary insurance," he said. The insurance will be available as soon as state approvals and licenses are obtained.

The cost of claims involving property damage or bodily injury resulting solely from factory defects in a Ford product (except tires and diesel engines made by others) will, however, fall to Ford under the indemnification agreement with its dealers.

General Motors has agreed to indemnify its dealers beginning in June for lawsuits based on an alleged defect in the design, manufacture or assembly of the product and claims that the product fails to conform to GM advertisements or product brochures. GM will also indemnify for damage repaired by the division prior to the time the product is delivered to the dealer unless the dealer is notified in writing about the damage and repair prior to delivery to the first retail customer.

Both Ford and GM are, of course, requiring that their dealers indemnify the manufacturer for claims arising from the dealer's conduct. Ford requires the dealer indemnify Ford for "claims resulting solely from sales practices of the dealer or his employes or their failure to comply with obligations of the dealer under the sales and service agreement," according to the Ford announcement.

GM requires the dealer indemnify GM for lawsuits based on the dealer's failure to properly repair a vehicle, the dealer's breach of its contract with its customer and false or misleading statements or advertisements by the dealer or the dealer's employes.

NADA praised Ford and GM for finally agreeing to incorporate these clauses in sales agreements with dealers, spelling out exactly where the liability lies in product liability lawsuits.

Seven foreign automakers already include these indemnification clauses in various forms in their sales agreements with dealers, as does one domestic truck manufacturer, Freight Liner Corp. of Portland, Ore. ■

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editorial opinions

A solution for punitive damage awards

MANY MONTHS ago, in an editorial calling for a number of specific tort reforms, we denounced the practice of punitive damages being paid to the plaintiff (with huge portions, of course, being siphoned off beforehand by the plaintiff's attorney).

Punitive damages, we suggested, should be paid into a fund to pay for the rehabilitation of injured parties. In that fashion, the defendant corporation (since those penalized in this manner are seldom individuals) would feel the sting of a deterrent to future negligence, but the injustice of unequal damage awards to injured parties would be somewhat offset.

Sticking with our original proposition that punitive damages shouldn't ever go to the plaintiff and his/her attorney but should be put to a better use, we propose an even simpler and more far-reaching solution of what to do with punitive awards.

They should go into the Social Security fund to relieve part of the heavy tax burden on the shoulders of employes and employers alike.

Several aspects of this solution are better than the earlier idea. If punitive awards were to be paid into a rehabilitation fund, an enormous state or federal bureaucracy would have to be built in order to disperse the monies. Laws would have to be passed to establish guidelines for who would receive the funds and it is possible that, like Social Security, the funds going in wouldn't be adequate after a while to pay the mounting claims of those injured. All of this could lead to still more inequities.

Society would clearly be served, however, if punitive damage awards were to be used for Social Security. It is conceivable that some bitterness would result if punitive damages were to pay for rehabilitation and support of the injured, since those of us who are uninjured would never "profit" from such a plan. And injured parties could "profit" too much.

But we all have the misfortune of growing old. Unlike injury, old age is not the result of dangerous products, a manufacturer's negligence or our own carelessness. Few people would argue with the need for old age assistance programs and for medical care for the indigent or aged. Our generous social nature has already brought us to the point where there is an enormous bureaucracy in place to administer these programs.

Lawyers, of course, won't be happy about the prospect of losing their chance to become millionaires on successful injury cases. They're likely to fight this all the way through Congress. On the other hand, businesses could be enlisted as a powerful lobbying force in favor of such a change. It's an attractive possibility to think that the bankrupt Social Security system wouldn't have to continue increasing taxes and reducing its benefits every few years, as has been forecast.

Best of all, this would eliminate the get-rich-quick philosophy motivating many people to sue manufacturers, doctors and anybody else who looks wealthy enough to pay a million dollars for any kind of injury.

ERISA loophole somebody should plug

IN THE END we weren't able to find out whether The Chicago Daily News had done anything unusual. But that makes the newspaper's actions no less controversial. In fact, we would describe as downright outrageous a provision in The Daily News's contract with the Newspaper Guild that all severance pay comes out of pension funds.

Thus, when Field Enterprises announced it was terminating the afternoon newspaper in March, people who'd worked for the firm for 15, 20, even 30 years were thrown onto the streets with severance checks that in many cases completely depleted the pensions they had built over the years. Few employes realized until it was too late that this was the case, that what they took in severance pay literally came out of their own pockets, leaving only the hollow promises that their hard work would earn them a retirement benefit.

The contract specified that severance would include two weeks pay for every year worked, a fairly standard provision. But we've never heard of any companies that took the funds out of pension monies. Though employe benefit consultants were pretty vague, they didn't seem to have heard of any other plans like this, either.

About 200 of the 600 laid off workers were members of the two noncontributory retirement plans with this provision.

The Labor Department pension experts hemmed and hawed about their reaction to this sort of chicanery. Field Enterprises didn't want to talk about it at all.

In the end we've had to conclude that ERISA has failed in its most important objective if something like this can slide by without so much as raising a Washington eyebrow. Wasn't the whole point of federal pension reform to assure that employers wouldn't make idle promises they had no intention of fulfilling?

The enforcers in Washington had better quit worrying about all of the paperwork they seem to be buried in—and that they're burying pension sponsors in—and get busy seeing to the important parts of benefit plans. It would be very unfair if other employes found themselves caught in this same trap that ensnared so many at The Daily News.

■ Faced with the choice of a severance check for being fired or a pension sometime in the future, which would it be: To eat or not to eat (now vs. when you're 65)?

letters

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

American Can

To the editor: I read with interest your article (March 6) on American Can's flexible benefits program and I appreciate the front page coverage you gave us. I would like to take this opportunity, however, to comment on your statement that "Hewitt Associates designed the innovative plan, and the benefits will be underwritten by Metropolitan Life."

Actually, it was designed and implemented by American Can Co. for American Can's employes. We investigated the applicability of the flexible benefits concept for close to a year and, once it was deemed feasible, a committee was set up within our company to design and implement the program. While I am more than willing to give Hewitt the credit they deserve, I must make it clear that they acted only as consultants working with our committee as did Metropolitan Life, our insurance carrier (who underwrites only the group insurance parts of the program), and Dewey, Ballantine, Bushby, Palmer & Wood, our legal advisers.

Robert B. Bogart
Director, benefit plans, American Can Co., Greenwich, Conn.

Punitive damages

To the editor: In your Feb. 20 issue, I note the following:

On page 75, under "Ford judgment," the statement, "California law prohibits the payment of punitive damages out of insurance coverage."

On page 76, under "Punitive damages," there is a list of states in which "case law does not permit an insurer to pay punitive damages assessed against its insured for certain tort actions." The list does not include California. The California law could be statutory rather than common (case) law, of course. But even so the question of "who is who" needs straightening out.

Bob A. Hedges
Professor of Insurance and Risk, Temple University, Philadelphia, Pa.

The list on page 76 was compiled by the Insurance Services Office. A noted California attorney, however, reports that lower courts in the state have held that punitive damages are not insurable. That

Continued on page 99

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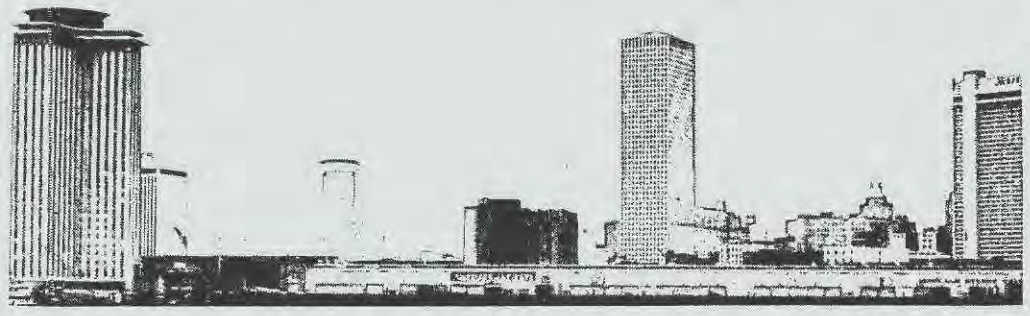

With the Risk & Insurance Management Society invading the Sunbelt for its annual conference, *Business Insurance* dispatched associate editor Ellis Simon to Houston and New Orleans to report on risk management and employe benefits in this fast-growing region. Mr. Simon's report, based on interviews with risk managers, employe benefit executives, brokers and insurers, continues through **page 38.**

Huge oil exposures gush Texas-sized risk problems

By ELLIS SIMON

HOUSTON—It's fitting that the oil industry is concentrated in Texas because the industry's potential for catastrophe can only be described as "Texas-sized."

"From a catastrophe and liability standpoint oil risks are not dramatically different from marine exposures," said Don Baughman, executive vp at Corroon & Black's Houston office. "However, the property exposures are huge."

Those tremendous values are what separates oil industry risk management from other industries, agreed Larmon R. Salmon, president of Harlan Inc. of Texas.

An oil company risk manager's worries could include finding insurance for a refinery worth $500 million or an offshore production platform that cost more than $750 million.

Offshore exposures, particularly permanent production platforms, represent the greatest property coverage problem for the industry. It is a problem of world market capacity, explained Mr. Baughman. To place coverage on some of the largest offshore exposures, risk managers and brokers have had to tap the London, U.S. and world markets.

To date the largest placement on a single offshore platform is believed to be $630 million on the Thistle Platform in the North Sea. Underwriters are wary of such risks not only because of the high values, but because the offshore platform is susceptible to a total loss, unlike refineries and other expensive industrial complexes, Mr. Baughman explained.

"We've never had a major disaster, but it's going to raise hell if one of them (offshore platforms) goes," added Lee Stentz, president of Southern Marine & Aviation Underwriters.

"At present, there hasn't been anything built exceeding world

There has never been a major disaster with an offshore platform, says one expert, but "it's going to raise hell if one of them goes."

capacity, however a few years ago there was this problem," said Mr. Salmon. "Brokers would muster whatever capacity could be achieved worldwide and the owners would still find themselves going bare or self-insuring.

"There aren't many risks getting up to world capacity levels, but as we get into larger areas and start working offshore of New York (Baltimore Canyon), who knows what the ultimate values will be."

Capacity is also a problem for onshore property exposures, but a less severe one now than in previous years.

Over the past 10 years, a tremendous number of projects, including tanker terminals and liquid natural gas (LNG) facilities with projected values in excess of $400 million never left the drawing board because of capacity problems, said John Hervey of John L. Wortham & Sons.

Since then, the onshore property market has improved considerably, remarked Mr. Baughman. Industrial Risk Insurers (IRI) and AIG affiliate Star Technical Risk Agency Inc., the two major U.S. refinery markets, are willing to write coverage over fairly low deductibles, he noted.

While Mr. Baughman said neither IRI nor Star gives adequate credit recognition for high retentions, he added that the situation is improving.

IRI's current capacity is $100 million and the property organization is considering expanding that, said R. B. McClelland, assistant general manager. Mr. Salmon estimated Star's capacity to be $75 million, but an official there said additional capacity could probably be put together if needed.

While refinery values normally are much higher than that, often upward of $500 million, the facilities are rarely insured for full value, Mr. Baughman said. Instead, underwriters base coverage on probable maximum loss.

With newer facilities, loss prevention engineers get involved in the planning stages, Mr. Baughman continued. Minimizing catastrophic loss is a goal in plant design and refinery units are placed farther apart to help achieve that aim, he added.

Although the values involved are not as great, placing coverage for offshore drilling rigs is not without problems. The jackup unit, a drilling barge with three movable towers that rest on the ocean floor, historically has had insurance problems.

Mr. Salmon noted that several jackup units were lost in the Gulf of Mexico during Hurricane Betsy in 1965.

The three towers resting on the sea bed support the jackup units

Continued on page 12

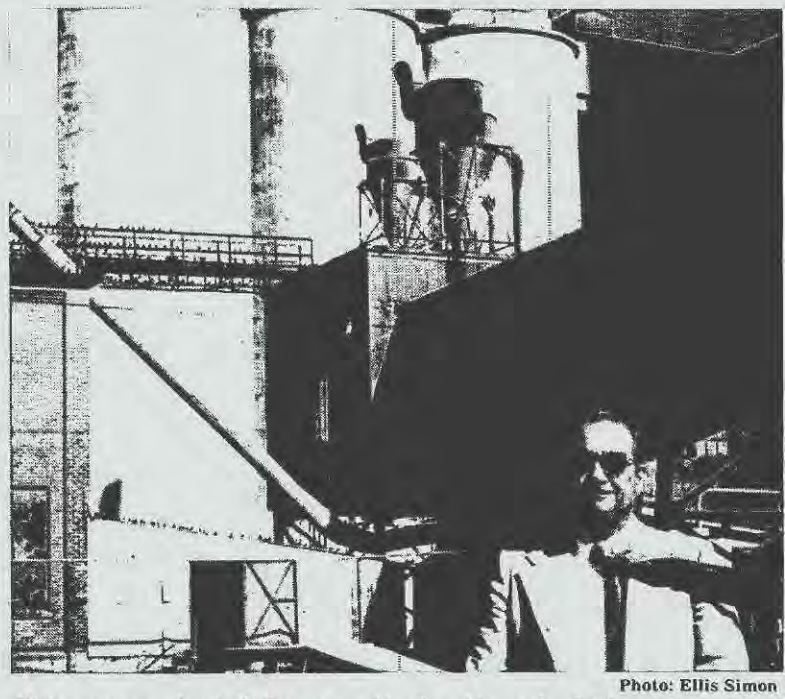

Photo: Ellis Simon

Risk manager Louis F. Brown and broker Alexander & Alexander combed the markets to place coverage on this grain elevator at the Port of Houston.

Port places elevator in last-ditch effort

HOUSTON—It went "down to the wire," but the Port of Houston delivered a grain stock insurance policy to the Texas insurance department only 25 hours before its coverage was set to expire.

Rangers Insurance Co. notified the port in January that it was canceling the port's grain stock policy in the first industry reaction to two grain elevator explosions in December that killed more than 50 persons.

Ranger eventually agreed to insure the top $10 million layer on the new $20 million policy, said Louis F. Brown, manager of marine, fire and safety for the port. However, Mr. Brown and Alexander & Alexander were forced to comb the markets to find takers for a $5 million primary layer and the first $5 million excess layer.

Eventually Lexington Insurance Co., Insurance Co. of the State of Pennsylvania, Lloyd's National Surety Corp., California Union Insurance Co., Bellefonte Insurance Co. and Great American Excess agreed to participate in the primary layer.

Great American Excess, National Surety, Lloyd's, Holland-American Insurance Co. and Northbrook Insurance Co. agreed to the second layer with Ranger taking the $10 million third layer.

Prior to the renewal, the Port of Houston had coverage to $30 million at a cost of $171,000 over a three-year period. The annual

Continued on page 15

Experts discover savings for all in thrift plans

HOUSTON—Thrift plans are gaining favor among benefit managers here while traditional defined benefit pension plans are losing their appeal, largely as a result of ERISA.

Group health and life insurance benefits are also increasing, say Sunbelt benefit experts, with some firms offering unlimited major medical benefits and term life insurance twice annual salary. Group dental plans are also making inroads at some of the larger employers in Houston.

Use of thrift plans is "booming," according to Robert Field, a benefits specialist in the Houston office of Peat Marwick Mitchell & Co. The contributory plans provide something for everyone, he explained.

Thrift plans were the most widely used retirement and savings vehicle among benefit managers interviewed. Benefit managers said they used the plans separately or in combination with defined benefit pension plans.

In a thrift plan, the employe agrees to put aside part of his salary for retirement and the employer matches all or part of the contribution. Employe and employer contributions are invested either jointly or separately, with the employe often selecting how his contribution is to be invested.

The plan guarantees an employe a return on his investment and the yield is not taxed until the employe chooses to withdraw funds from the program. Mr. Field observed. Employers find the plan attractive since the IRS treats contributions similarly to profit sharing and their contributions can vary to reflect corporate performance.

Zapata Corp. combines a thrift plan with a defined benefit pension plan. Employes can contribute between 1% and 6% of their salary to the thrift program and the company will match between 10% and 100% of that contribution, said Jim Traber, compensation and employe benefits manager.

Since 1973 the average company contribution has been 73%, he added. The company lets employes invest their money in either an equity fund, fixed income fund or company stock and in 1977 the fixed income fund gained 9.9%, while the equity fund lost 1.5%, he said.

First Mortgage Co. of Houston also combines a thrift program with a traditional pension plan, matching 50% of employe contributions up to 6% of pay and allowing employes to contribute an

Continued on page 14

Oil risks . . .

Continued from preceding page
like a set of giant stilts. A well blowout or collapse of the ocean floor could disrupt these legs, suddenly bringing down the drilling unit, explained Ron Guidry, insurance manager for The Offshore Co.

Besides installing blowout preventers on the wells, there is little that can be done to minimize such risks, Mr. Guidry noted. And drilling is particularly hazardous in areas where little drilling has been done before because of the uncertainties, he said.

The best loss experience and insurance ratings are on semi-submersible drilling rigs; not quite as good are self-propelled drilling ships. The semi-submersibles achieve buoyancy by taking water into holding tanks below the operating platform, similar to a submarine making a dive.

RIMS PREVIEW

However, a semi-submersible rig could cost upward of $70 million while the top jackup unit runs about $30 million, Mr. Guidry said. Therefore, jackups are normally used in water less than 300 feet deep.

Mr. Guidry places coverage on his firm's 26 drilling rigs through one of two Bermuda captives—Malvern Insurance Co. Ltd. for international properties and Burton Insurance Co. Ltd. for domestic properties—and reinsures in the London market.

A separate policy on war risks was placed with London, but a political risk policy that would cover confiscation and expropriation of the rigs was not purchased because of the high cost, he said.

Navigation coverage on jackups and semi-submersible rigs is normally limited to a certain part of the world. While a jackup unit could be operated anywhere in the Persian Gulf, separate trip insurance would be needed if the rig were moved from the Persian Gulf to the Gulf of Suez, Mr. Guidry explained.

Those trip policies, which are placed through the captive and London, provide hull, protection and indemnity (P&I) and war coverages. Premiums reflect the route, distance, length of trip and season of travel, he said.

A greater insurance problem for risk managers working with drilling rigs is workers compensation. Drilling rig crew members fall under the Jones Act and, like other seamen, can sue their employer for injuries resulting from a rig being operated in an unseaworthy manner.

Such an exposure not only is costly but unpredictable. "If an offshore drilling barge goes down with all hands, are you going to be able to tell me what the judgment will be in a particular city?" pondered Robert Quinn, president of J.H. Blades & Co. "It could be $500,000 per person in New York, $200,000 per person in Beaumont, Tex., and $750,000 per person in Los Angeles."

Workers on stationary offshore production platforms come under the federal Longshoremen and Harbor Workers Act and receive federal benefits in the event of a disabling injury. Weekly benefits could run as high as $367.22, compared with state benefits paid in Texas which in 1977 reached $91, said Mr. Salmon.

Casualty rates on offshore covarage are four to five times higher than they have been because of greater hazards and higher benefits, noted Herman Kuhlman of Wortham & Sons. "I never dreamed of a rate of $50 per $100 of comp cover."

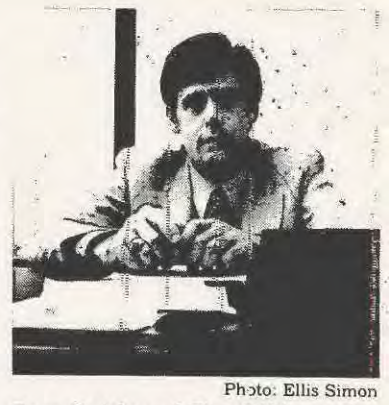

Photo: Ellis Simon

Ron Guidry of The Offshore Co. places coverage on drilling rigs through two Bermuda captives.

However, unlike general liability, workers compensation exposure generally can be measured, he added.

Pollution liability and the concentration of risk are the main concerns of companies writing casualty coverage for the oil industry, according to Mr. Baughman. Many insurers had bad losses in the late 1960s from such disasters as the Santa Barbara Channel blowout and Torrey Canyon oil spills, he said.

In addition, there is an enormous concentration of wells and platforms on the Texas Gulf Coast, in southern Louisiana and off Louisiana, he said. The Houston Ship Channel has a high concentration of oil refineries and petrochemical plants, he added.

While pollution losses have not been too numerous and represent a fraction of losses, they attract the most public attention, said Mr. Salmon. "When they occur, they're dramatic and the expense of bringing them back into control is high."

The market for pollution coverage is limited, but it is improving, Mr. Salmon said. Lower levels of liability coverage can be obtained and pollution clean-up costs are sometimes covered under a physical damage policy extension.

In offshore drilling situations, pollution coverage is usually provided by the oil company or the syndicate insuring the drilling ship since drilling rig operators can only obtain coverage at extremely high costs.

The oil industry was one of the earliest to be hit by escalating costs for casualty insurance, noted Corroon & Black's Mr. Baughman. As a result, the industry was one of the first to become involved with captives because of the need to gain better access to the reinsurance markets, he explained.

Despite indications that the casualty market may be stabilizing for other industries, the oil industry faces continued problems, particularly for offshore exposures, said Mr. Salmon.

The insurance industry feels that its rates are justified based on its experiences in 1974, said Mr. Kuhlman, "But I don't think they're pricing to recoup. They're pricing to make sure they're not going to fall into the same dilemma they've had."

Oil Insurance Ltd. (OIL), the group captive owned by about 30 major oil companies, was established because the oil firms did not feel that they were being properly rated by the commercial marketplace, explained Blades's Mr. Quinn.

"There would be no way to prove that other than by what they did and I believe they've proved it (to date)," he said. "But, you don't really prove anything in five years."

To date, OIL has had a fantastic loss experience, but its rates will probably have to go up eventually, Mr. Quinn said. By the nature of its business, there are bound to be losses, he added. ■

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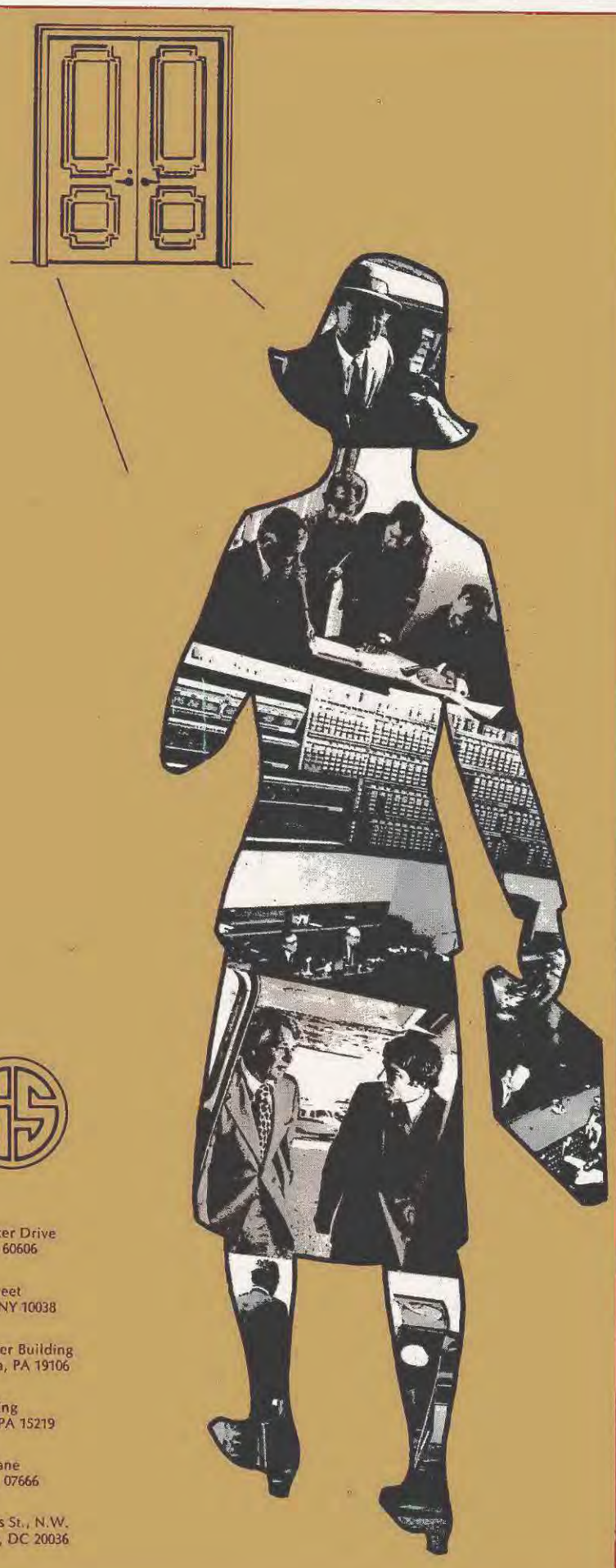

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Sunbelt benefits . . .

Continued from page 11

unmatched additional 6%.

The firm also offers high, low and middle risk alternatives with a 9.02% return guaranteed on the fixed income fund while performance of the high risk fund has varied from plus 36% to minus 24%, said vp Don H. Eldridge.

Thrift plans offer employes the opportunity to have their retirement savings tied to more than their employer's profitability, he explained. The company offers more than one investment alternative to prevent an employe from suing under ERISA and charging that his money was not prudently invested.

The number of investment alternatives a company offers is limited only by its bookkeeping and data processing capabilities, said Peat, Marwick's Mr. Field.

According to Mr. Field, the advent of ERISA and higher social security taxes have acted as a deterrent to new defined benefit pension plans.

However, he said he did not see the thrift plan as a substitute for such vehicles. Rather, the thrift plan should serve as an adjunct to the retirement plan and also as a savings program to help employes provide money for house down payment, college and financial crises, he said.

While noting that the number of pension plan terminations since the advent of ERISA is high, Mr. Field said much of that increase in terminations was probably due to poor plans using ERISA as a "last straw" excuse to get out of the pension field.

RIMS PREVIEW

It is not uncommon in the Sunbelt for a company with a large number of low-paid workers to switch to a non-qualified retirement plan and lose their tax advantages rather than comply with ERISA, he explained.

Benefit levels in the South, particularly in Houston, improved considerably in recent years with the oil industry acting as a catalyst for this movement in Houston.

Million dollar limits on health coverage are quite common and some companies are providing unlimited "Cadillac" health coverage, said Mr. Field.

Maternity benefits are gaining increasing acceptance in Houston, with employers providing the benefit for both employes and their dependents, he noted.

"Years ago, people would say that maternity was the only cost you had nine months to save for and they used to take maternity benefits out," he explained. "However, a maternity claim often is the first employe exposure to group health. Why should it be negative?"

Dental benefits are also coming into vogue among Houston employers, Mr. Field said, "The push is for more benefits and if you look at the average benefit plan and are looking for a place to improve, group dental is a logical extension of benefits."

George K. Hamilton, Houston group office director for the Prudential Insurance Co., said his firm has written between 40 and 50 group dental programs in Texas. Among those offering the benefit are Southwestern Bell, members of the International Brotherhood of Electrical Workers Union and Tenneco, which started its program Jan. 1.

Part of the improvement of benefit levels in the Houston area is due to rising health care costs. Virtually all companies in the Houston area have had to drastically change their health plans during the past five years to provide adequate coverage, said Roger Loban, manager of the employe benefits department at Brown & Root.

Mr. Loban's firm, which employs 15,000 persons in the Houston area, recently increased its maximum lifetime medical benefit to $100,000 from $50,000.

Benefit levels in Houston are lower than other large cities because costs are still lower here, said Mr. Hamilton.

"In Houston, room and board charges are lower, but they may charge you for every Dixie Cup you use and when you're adding it up, your per day costs may be the same," he said.

Group life and long term disability benefits have also risen in the Houston area, Mr. Hamilton continued. Many firms are providing life benefits equaling up to two years salary and up to 65% of pay for long term disability.

Benefit levels in Houston are good because where employers are committed to providing benefits, they want to do it on a quality basis, said Mr. Hamilton. In addition, "we've had a melting pot of people accustomed to getting good benefits. People expect it and want it continued."

Mr. Field noted the leadership role in benefits taken by the oil companies and the catch-up role taken by drilling companies and other energy-related businesses which compete for talent. "Benefits are needed to attract people and retain those people," he said.

"While we would prefer that someone's reason for coming to us is to join a team of professionals rather than to participate in benefits, without benefits it would be more difficult to attract him," said Mr. Eldridge. ■

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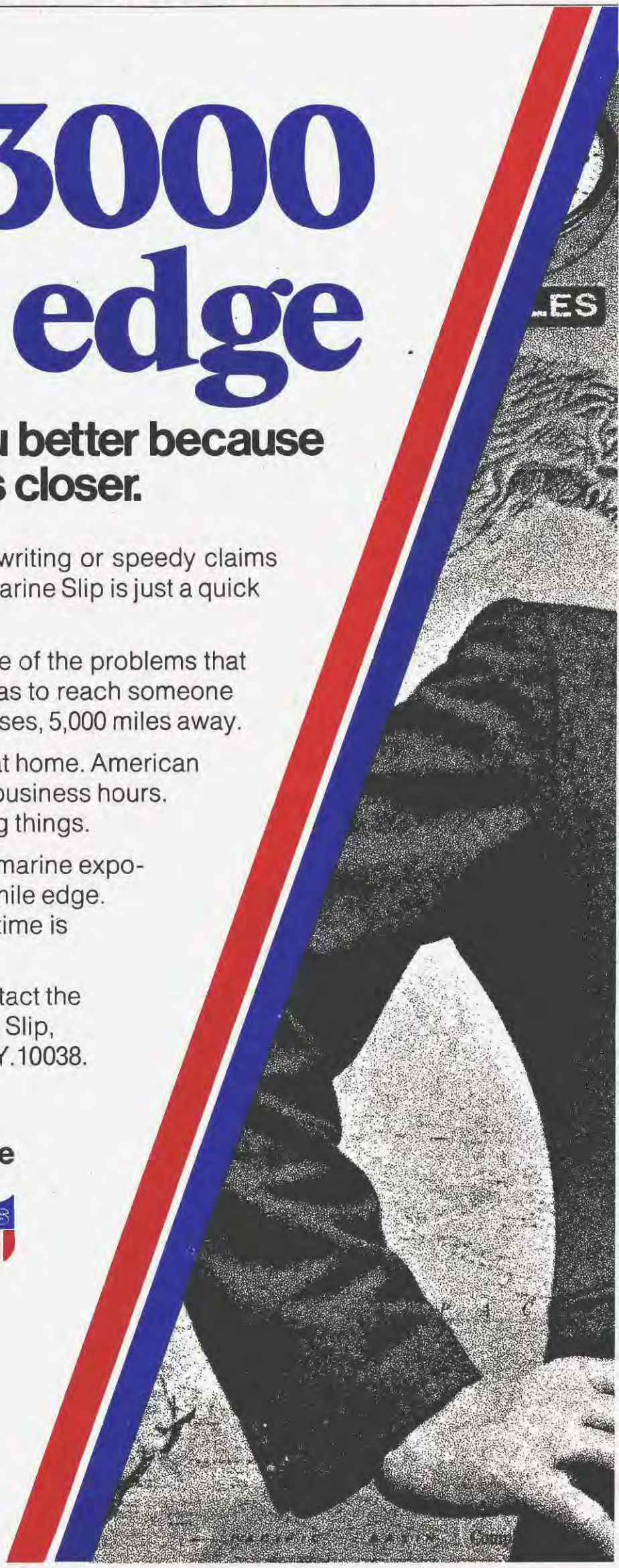


Houston port . . .

Continued from page 11

premium on the new policy is $215,000 plus premium tax on unlicensed companies and coverage is for only $20 million, Mr. Brown said.

The $20 million policy is not adequate, according to Mr. Brown. Grain stocks will have to be watched carefully to make sure that value in the elevator does not exceed the insured amount, he explained.

A sudden jump in the value of wheat, now around $3.20 per bushel, could cause problems if a large amount was stored in the elevator, Mr. Brown said. Similarly, a high concentration of soybeans in the elevator, worth about $6 per bushel, could exceed the policy limits.

Fortunately for the port, property coverage on the elevator was renewed in October 1977, two months before the grain disasters. The port retains the first $100,000 on the elevator property exposure with Holland America taking a primary layer of $1 million.

Three excess layers, each for $3 million, were placed with First State Insurance Co., Central National Insurance Co. of Omaha and Northbrook.

Since the December explosions, protecting the elevator has preoccupied the port's marine, fire and safety department. Mr. Brown's assistant devotes much of his working hours to supervising the elevator's safety program.

In addition, a fire department official meets daily with the port superintendent to make sure "we're doing what we say we'll do," Mr. Brown said.

The port is in the process of installing a new dust collection system for the elevator, forcing manual cleaning to be done at night, Mr. Brown continued. This not only reduces the elevator's operating effectiveness, but makes it a less attractive risk, he said.

The precautions are not unwarranted. On Feb. 23, federal grain inspectors closed the elevator because of low humidity. The following day, "hot spots" were found in a silo storing bran and rice and several hundred bushels of grain were removed from the bottom of the silo and hosed down. However, the grain stock losses were minimal and were covered by port operating funds, Mr. Brown said.

The grain elevator is not Mr. Brown's only insurance concern. The Port of Houston is the third largest in the U.S. and its total insurance premiums reach $750,000 a year.

Although five miles of the 25-mile Houston Ship Channel is not classified as part of U.S. navigable waters, the area is navigated by ocean-going ships and the port must maintain them to a proper depth. Failure to do so could result in a negligence suit if a ship bottoms out, Mr. Brown said.

The port maintains a patrol boat to check channel depths and clear debris from the waterway.

Similarly, the port must maintain its roads and equipment to prevent such calamities as having a 300-ton crane crash through a wharf, he said.

Much of the risk involved in the port's operations are assumed elsewhere. Cargo stored in transit sheds or on open wharves is the responsibility of the "owner" of the goods, either the steamship company or freight handler, Mr. Brown explained.

Only items stored in the port's four bonded warehouses are the port's responsibility and it self-insures such risks, Mr. Brown said. Harbor pilots, who are licensed by the port, are independent contractors and carry their own insurance.

In addition, stevedoring firms and other firms leasing cranes from the port assume the responsibility for them, he said.

The port's property coverage, for total value of $85 million, is written on an all-risk basis by American Home Assurance Co. The port retains a $100,000 deductible. Coverage is for replacement value less architects' fees, utilities and wharf aprons.

The wharf aprons are uninsured because "if a ship rams an apron, we know who did it. But if a warehouse burns, we can't figure out who was responsible," Mr. Brown explained.

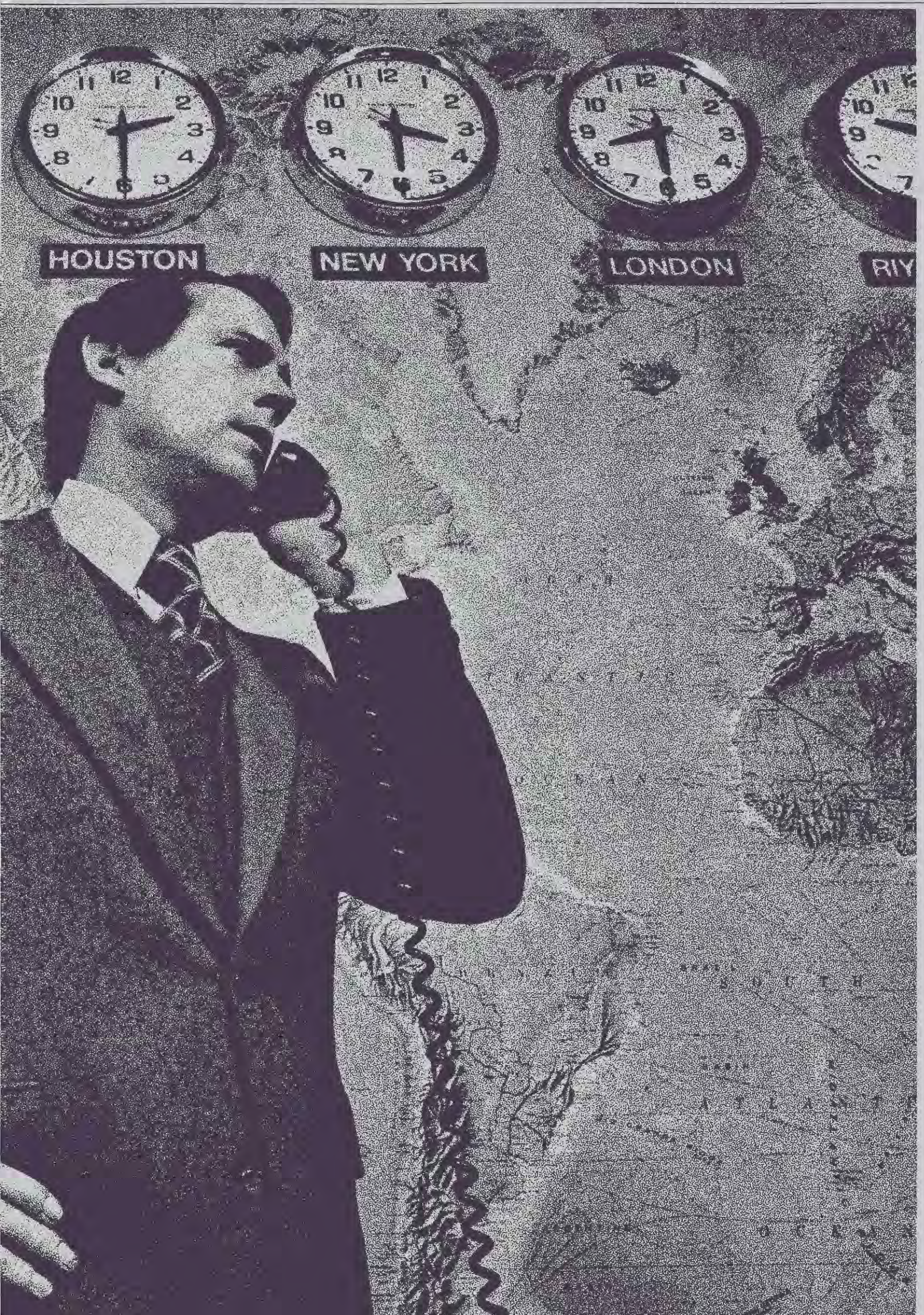
The port's marine hull and property and indemnity coverage on its two fireboats, patrol boat and tour boat is placed with Midland Insurance Co.

General and auto liability coverage is underwritten by National Surety Corp. and a $5 million excess liability policy for the tour boat is carried by Arkwright-Boston.

Obtaining workers compensation coverage has not been a problem for the port despite its grain exposure.

As a state agency, the port is also exempt from having to provide federal Longshoremen and Harbor Workers Act benefits, said Mr. Brown. Firemen's Fund is the port's workers compensation insurer and the program is retrospectively rated with a monthly premium of $35,000.

For 1976, the port had an 81% compensation modification factor. However, a death and heart attack during 1977 raised that to 98%, he noted. ■



RIMS PREVIEW

Seaman's comp sails rough seas for marine firms

NEW ORLEANS—"If a seaman is injured on our vessel and can show that the vessel was unseaworthy, he can sue the hell out of us."

Thus Robert G. Schirmer, director of insurance services for Ingram Corp., succinctly sums up the number one problem of risk managers in marine industries.

Seamen are not covered under workers compensation, but fall under the federal maritime liability law or Jones Act. Should they be injured on the job, they can turn around and sue their employer for negligence by operating the craft in an unseaworthy manner.

In addition to crew members on ocean-going U.S. cargo and passenger ships, the Jones Act covers personnel on the crew and supply boats servicing the offshore oil industry, the offshore drilling rigs and vessels plying the inland waterways system.

For risk managers in cities like Houston and New Orleans, where shipping, offshore exploration and marine services are major industries, the impact is significant. Ken Allen, who heads the New Orleans

RIMS PREVIEW

office of Alexander & Alexander, said many of his clients with marine liability exposures have found obtaining coverage extremely difficult over the past two years.

The vessel operators are not the only ones in the area facing a peculiar workers compensation situation. Employes of stevedoring firms, ships supply companies and crew members on stationary offshore production platforms come under the federal Longshoremen and Harbor Workers Act. Unlike the Jones Act, this law does provide for prescribed weekly benefits in exchange for employes giving up the right to sue.

But, there is one small catch. U.S. L&H benefits are about four times those provided for by state compensation acts in Texas and Louisiana.

In addition, U.S. L&H jurisdiction is not clear, particularly as it applies to shipyard employes. Avondale Shipyards has most of its employes covered under U.S. L&H even though there is "no clear line" distinguishing between who should be covered under state and federal compensation laws, said risk manager Dean Church.

At J. Ray McDermott Co.'s Harvey Canal facility, which constructs support towers for offshore production platforms, workers come under state or federal benefits according to the type of job they do, explained Walter M. Falencki, corporate risk manager. Some people fall into a questionable area.

Benefits under the U.S. L&H Act have risen considerably since 1972, and, as a result few insurance companies are willing to write the coverage, said A&A's Mr. Allen. Insurance companies feel the rates are never high enough to make a profit and are unwilling to get involved where there is a marine or longshoremen exposure, he explained. "Since insurance companies can write all the workers compensation premiums they want without considering this area, why do it?" he asked.

High settlement costs and unpredictability of incidents have made maritime liability and longshoremen and harbor workers compensation coverage risky to underwrite. A number of settlements under the Jones Act have run into the high six figures, noted Larmon R. Salmon, president of Harlan Inc. of Texas.

U.S. L&H benefits increase with the cost of living, noted Jean Reynolds, risk manager for Zapata Offshore Co. A young wife with two children whose husband died could receive $3.8 million over a lifetime, she said.

To some degree the Jones Act exposure is predictable since a company will get an appreciable number of claims, although it is not actuarially possible to rate them, said James Niemeyer, executive vp of George S. Kausler Ltd., a marine insurance specialist.

However, the large liability and bodily injury losses are not predictable, he added.

Overseas, U.S. companies, particularly offshore drilling contractors, face differing workers compensation situations depending upon the nationality of a crew member and the country off which work is being performed.

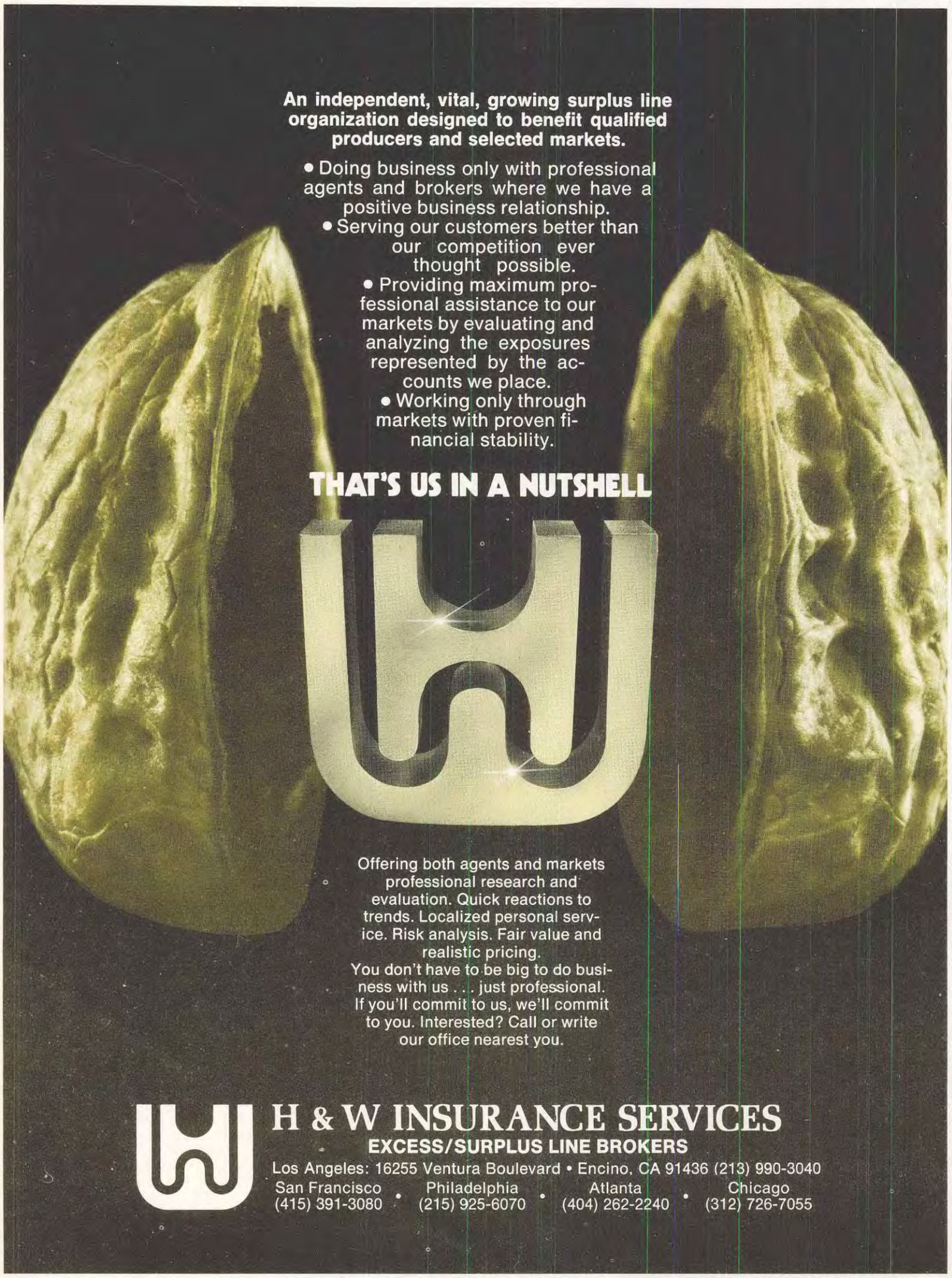
McDermott provides U.S. benefits, either Jones Act or U.S. L&H, to Americans working overseas and benefits of the local country to local nationals working on McDermott operations, said Mr. Falencki. Third-party nationals, such as a European working off Indonesia, would receive the benefits of their native land, he added.

However, Ron Guidry, insurance manager for The Offshore Co., noted that even though local and third-party nationals receive their countries' prescribed benefits, they can still sue their employer under the Jones Act.

The Offshore Co.'s worldwide compensation program is written by American International Group. AIG handles arrangements in countries where support of social insurance programs or use of local insurers is required. However, employers liability coverage, written by AIG, is also carried to protect against suits brought by local nationals, he explained.

While compensation benefits paid to local nationals under their countries' insurance program are less than U.S. benefits, local natives are not always hired because of the need for skilled and safety

Continued on page 18



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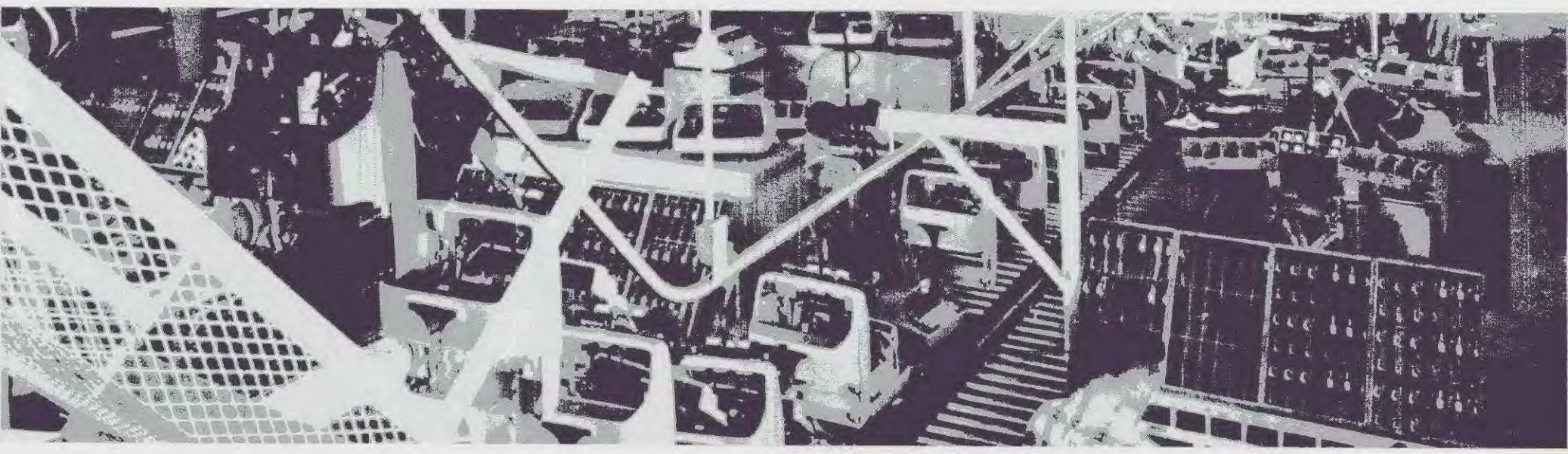

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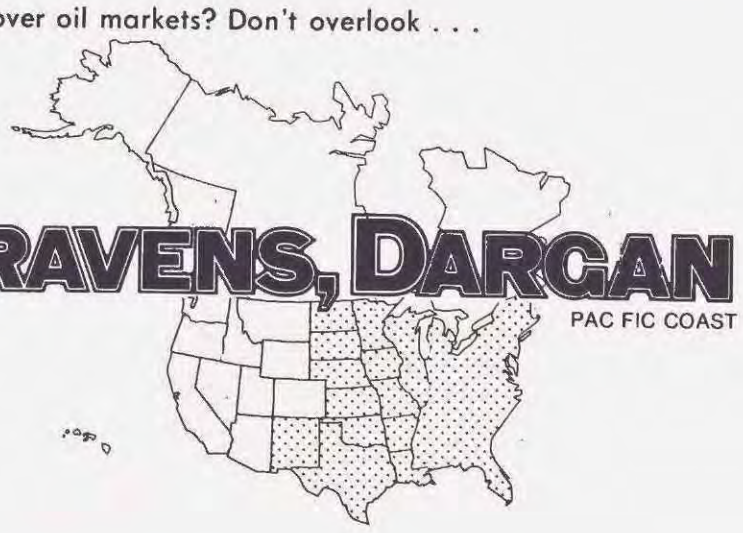

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Jones Act . . .

Continued from page 16

conscious workers in offshore drilling work, Mr. Guidry noted.

As in other compensation areas, safety programs and worker training are the main tools for preventing losses.

Mr. Schirmer said that a safety program has reduced Ingram Corp.'s compensation rating factor from 100% to 62% over a four-year period. This means that Ingram currently pays 62 cents for each dollar of premium listed in the rates published by the National Council on Compensation Insurance.

Housekeeping aboard ship, keeping decks clear and making sure everything is where it's supposed to be, is the greatest safety factor, said Sean G. Burke, assistant to the vp-administration at Lyke Brothers Steamship Co.

Photo: Ellis Simon

Jean Reynolds of Zapata Offshore Co. says a young wife with two children whose husband died could receive $3.8 million.

"As far as painting yellow stripes in front of steps goes, it looks good but doesn't stop accidents," said Frank Deutschmann, senior vp at Tidewater Marine Services. "If you have unsafe equipment or incompetent people, you'll have accidents and injuries."

"A man properly trained in the performance of his job is not as likely to be hurt," said Zapata's Ms. Reynolds. Her firm employs a safety specialist aboard each of its 18 drilling rigs and conducts monthly safety inspections.

Zapata has also initiated a program aimed at minimizing the number of lawsuits from injured employes by helping to get them back to work. Company representatives late last year began going to the homes of injured employes to assist with their needs and check on their progress.

"If someone needs something, we provide it," said Ms. Reynolds. "For a man who had a severe facial injury, we provided a Water Pik to brush his teeth with and a blender for preparing food."

The idea is to get injured employes to feel that the company is concerned about their welfare, she explained. "It's difficult for a person to sue a friend. People feel guilty if they file suit against a friend."

However, Ms. Reynolds added the drilling rig crew members are well aware of their rights. "In any given crew, there's bound to be one or more members who's had a Jones Act settlement with an employer."

Zapata also provides voluntary weekly benefits to injured crew members which are at levels just under U.S. L&H benefits. The Offshore Co. also provides voluntary benefits for European and American crew members, but Third World nationals are covered under their countries' benefits.

However, Ingram Corp. specifies only medical expenses, maintenance and cure and the $8 per day compensation prescribed under The Jones Act. "If we went beyond the law, we'd be opening up for bigger suits," explained Mr. Schirmer.

Ingram does arrange salary continuation and provides long term disability with the provisions worked out on an individual basis, however, and actively works to rehabilitate injured employes.

Such loss control measures do not always succeed. "A guy who was injured might be able to come back to the job, but he still might sue you," said Mr. Schirmer.

"We once had a claim from a guy who lost a leg and we thought we had it under control and all of a sudden we're hit with a suit. We can't talk to the man any more, we have to go through his attorney and that changes the complexion of the whole thing." ■

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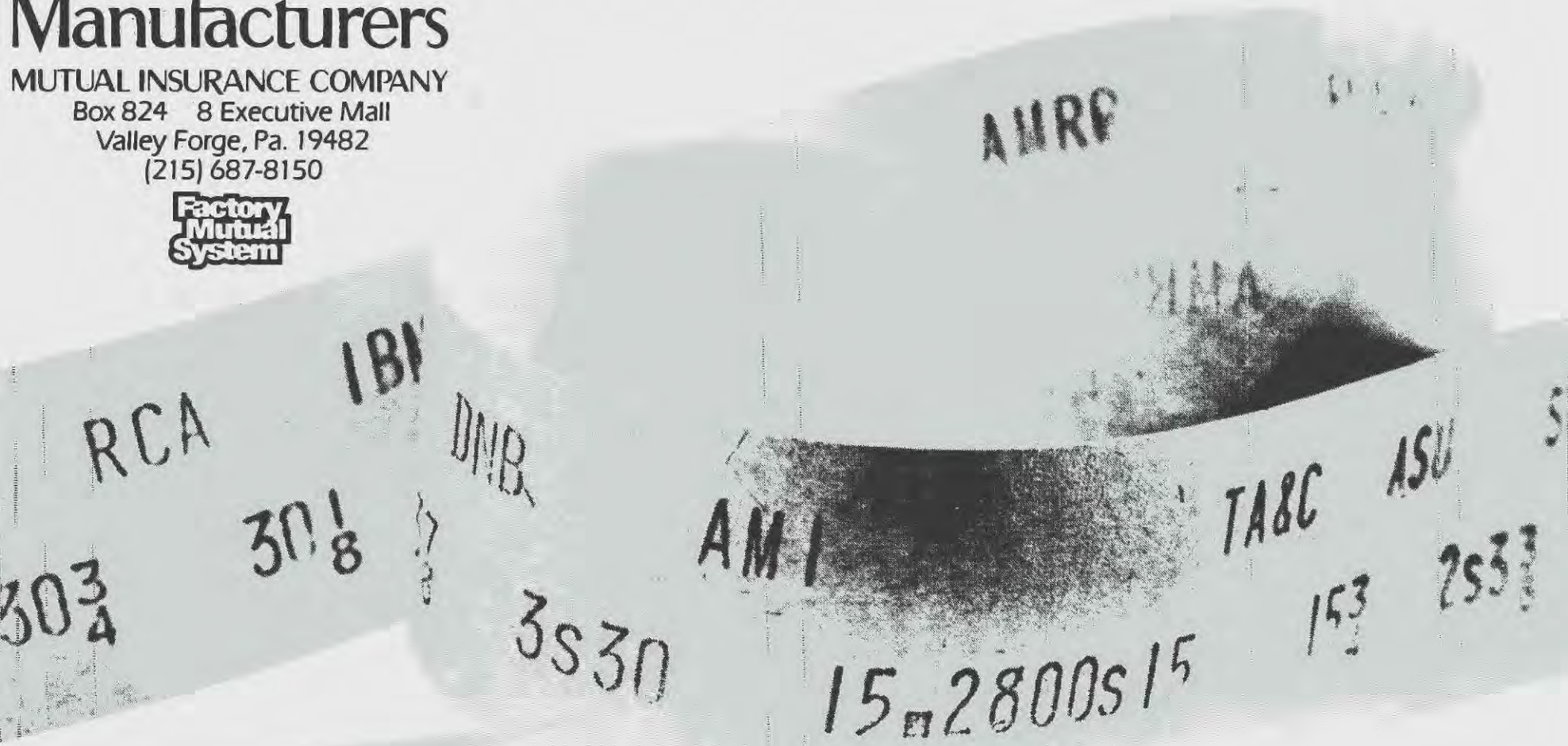

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Some can make money for their own firms

HOUSTON—A good risk manager in the offshore drilling and oil service industries can not only save his company money, he can help his firm make money.

Oil drilling and service companies are contractors and their ability to attract business depends on their ability to hold costs to competitive levels. Since it is not uncommon for large operating companies to transfer liability to the smaller contracting firms, says Don Baughman, executive vp with Corroon & Black here, insurance costs can have a direct impact on a company's competitive position.

The large operating companies often require more insurance than the contractor would normally carry, Mr. Baughman observed, forcing the contractor to purchase additional insurance. A small service company might be able to beat out its competition with a good insurance program, he said.

The division of risk among operators, contractors and subcontractors generally follows standardized formats, although there are no hardfast rules, observed Brian F. Davidson, regional insurance manager for Gulf Oil Corp.

Gulf and other major oil firms use blanket contract forms based on model agreement prepared by the American Petroleum Institute. Areas such as drilling, seismic studies, well workover, construction, boat charters, financing and leasing arrangements are covered by such contracts.

While the majors have size to their advantage, they try to be fair and separate risk responsibility, contended Mr. Davidson. When a contractor rejects an article in the blanket form; insurance related or otherwise, the two parties negotiate, he explained.

Market factors usually dictate how the contract will be arranged, Mr. Davidson said. "If you have a bunch of shipshape and semi-submersible drilling rigs not working, you may agree to do a hell of a lot of things to get them working," he explained.

In a weak market, a contractor may, in addition to assuming a greater part of the risk, absorb the insurance costs, rather than passing them on to the operator by reflecting premium value in his day rate, Mr. Davidson added.

Conversely, an operator might be forced by market conditions to assume more of the risk. This would be the case should a company attempt to hire a rig to drill in an area where no drilling has been done before—a venture with tremendous exposure to well blowouts and other hazards.

When the operator assumes most of the risk, his risk manager must make sure that the firm gets the benefit of having the contractor delete premium costs from his day rate, Mr. Davidson continued. However, often this is not feasable because contractors build insurance costs into their overhead.

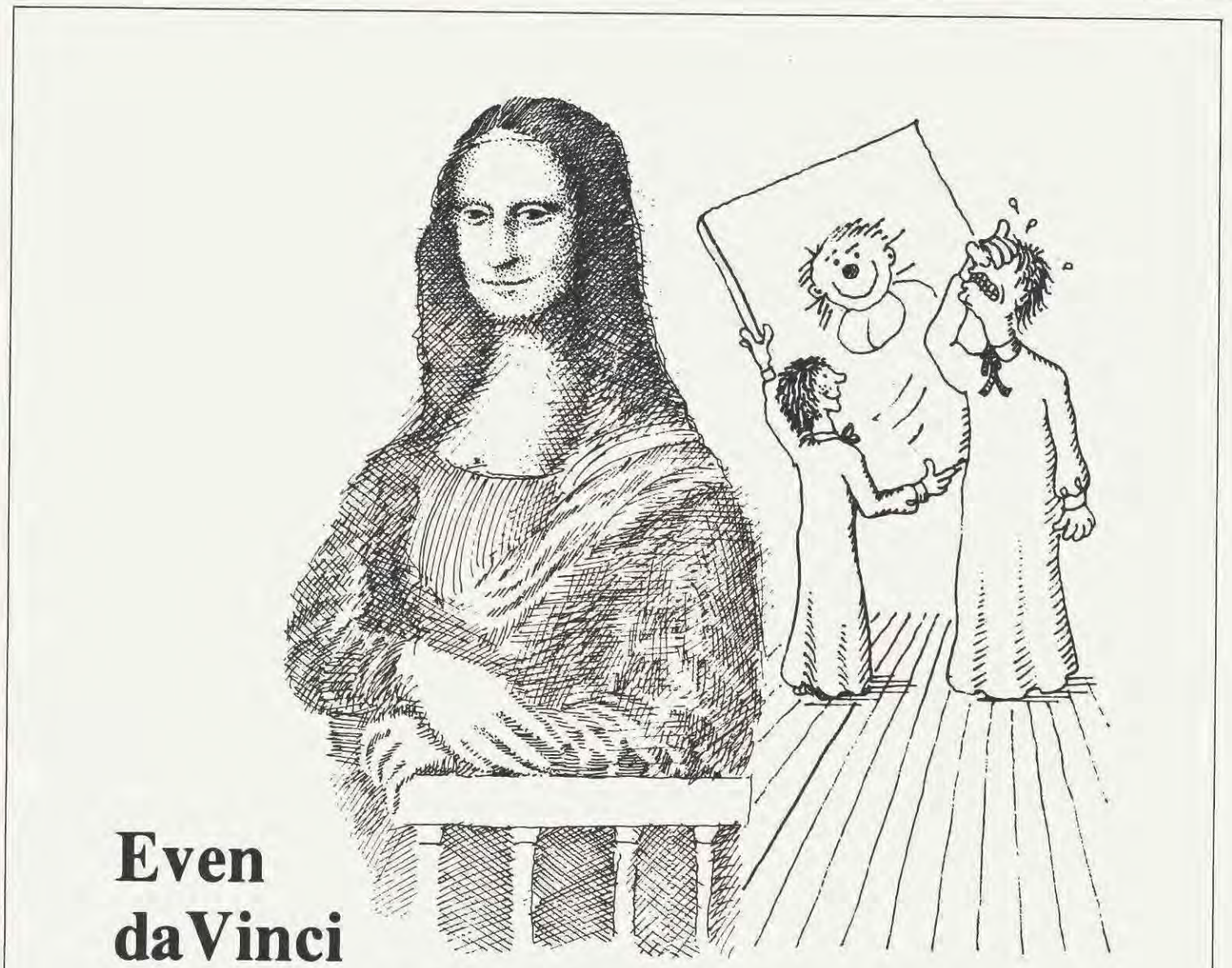
Some firms in the oil well supply business are listing insurance as a separate item on their day rate, noted Herman Kuhlman of John L. Wortham & Sons, a Houston brokerage firm.

On some risks, the operator can obtain coverage for less than the contractor. Such is the case with pollution liability and clean-up insurance, which is virtually unavailable for drilling companies, said Jean Reynolds, risk manager for Zapata Offshore Co.

Russel F. Sammis, head of Marsh & McLennan's Houston office, has provided generally used guidelines on contractual risk arrangements between operators and drilling contractors.

Normally, the operating company assumes the risk for loss or damage to his property; pollution liability, clean-up and containment costs except where due to the contractor's negligence; well control costs; liability for damage to underground resources; subsea gear on shipshape and semi-submersible drilling rigs; war and political risks, and liability to the operator's employes.

On personal injury (Jones Act) liability protection, Mr. Sammis recommended that the operator, drilling contractor and subcontractors each take responsibility for their own employes.



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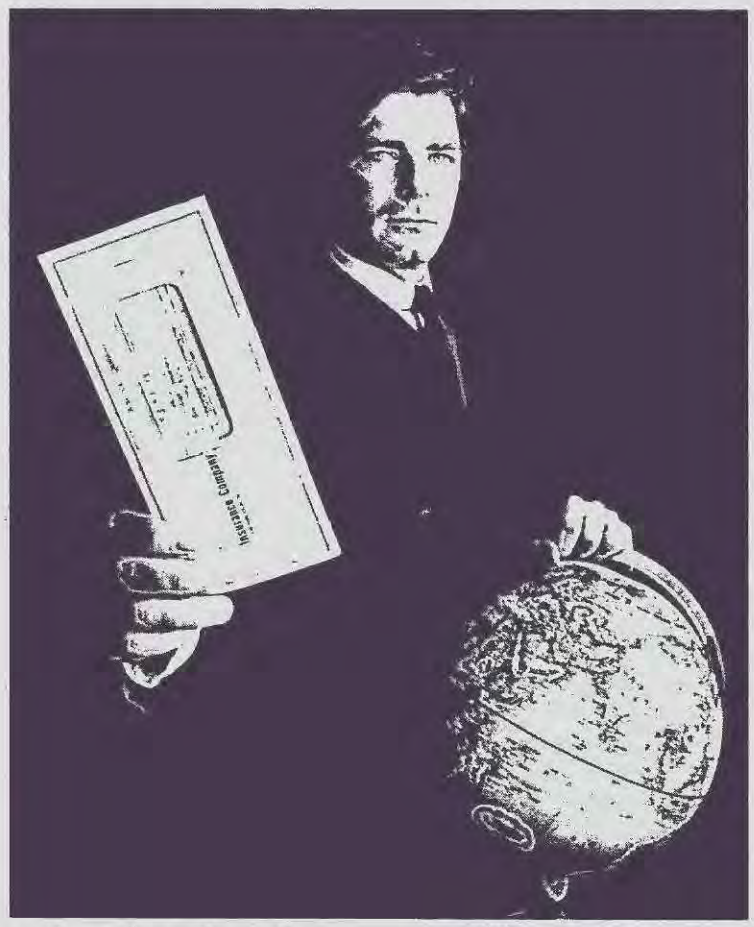

Example: Or assume a U.S. manufacturer wanted his domestic general liability policy endorsed worldwide. And assume his salesman was demonstrating the product in a remote factory in the Far East and inadvertently injured an employee. Without having local facilities, it would take several days before a bond could be posted and the salesman be permitted to leave.

Example: Or suppose a U.S. manufacturer was covered by the workmen's compensation laws of his state and sent one of his able executives to the Middle East. While there a plant accident hospitalized the executive. Who would he turn to for help who knew the language, the doctors, or could provide needed services immediately?

Example: One last example. In South America, a consumer brings a complaint against a U.S. company which has its domestic liability policy endorsed. Obviously it would take some time for the insurer to locate facilities, to investigate the claim, obtain legal counsel and protect the insured. In the meantime, the consumer's attorney, noting the company was foreign and could walk away from the case, could obtain a court order to impound the company's merchandise until the claim was settled.

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Inland rivers wind formidable exposures

RIMS PREVIEW

NEW ORLEANS—River pilot Mark Twain's heirs better have good risk managers working for them.

Inland waterways marine transportation is an extremely high risk business to underwrite, said James A. Niemeyer, executive vp at George S. Kausler Ltd., a marine underwriting subsidiary of the Mission Insurance Group. Values, losses and the personal injury rate are high.

Hull insurance costs have doubled over the past five years, noted Robert Schirmer, director of insurance services for Ingram Corp., owner of one of the largest barge lines on the Mississippi River waterway system.

A large tow or string of barges moving on the river could represent a property exposure in excess of $20 million. The largest towboats cost between $5 million and $6 million and they are capable of moving 35 barges, each worth between $100,000 and $200,000 and each carrying 50,000 bushels of soybeans valued at $300,000, explained Mr. Niemeyer.

Navigation on the Mississippi River is treacherous. The river twists and turns on most of its southern reaches, its heaviest trafficked section.

A Mississippi River pilot could have 1,000 feet of barge in front of him as he tries to dodge other vessels. In addition, he must be wary of low water which could cause him to run aground and unusual currents which could propel him into a bridge, pier or other obstruction.

The experience of the riverboat captain is the ultimate factor in rating inland waterway risks, said Mr. Niemeyer. The captain knows the river and his boat and he can tell how many barges can effectively be moved in a tow, he explained.

Different stretches of a river have varying barge capacities, he continued. The water level and amount of traffic, plus the pilot's skill, could determine whether a tow could handle 35 or 25 barges, he added.

The experience of a barge company shows what kind of experience they've had in hiring captains, Mr. Niemeyer said. The loss history is the most important thing in rating a river risk and an operator, in effect, determines his premium by the loss record he earns, he explained.

The barge line operator's exposures are not limited to hull, personal injury and damage to other vessels and structures along the river. If a barge owned by another firm is in his tow and gets damaged due to his negligence, he is liable and must protect against towers liability, said Mr. Schirmer.

In addition, if a company charters a vessel and a general averages is declared to save it, there is exposure to charterers liability.

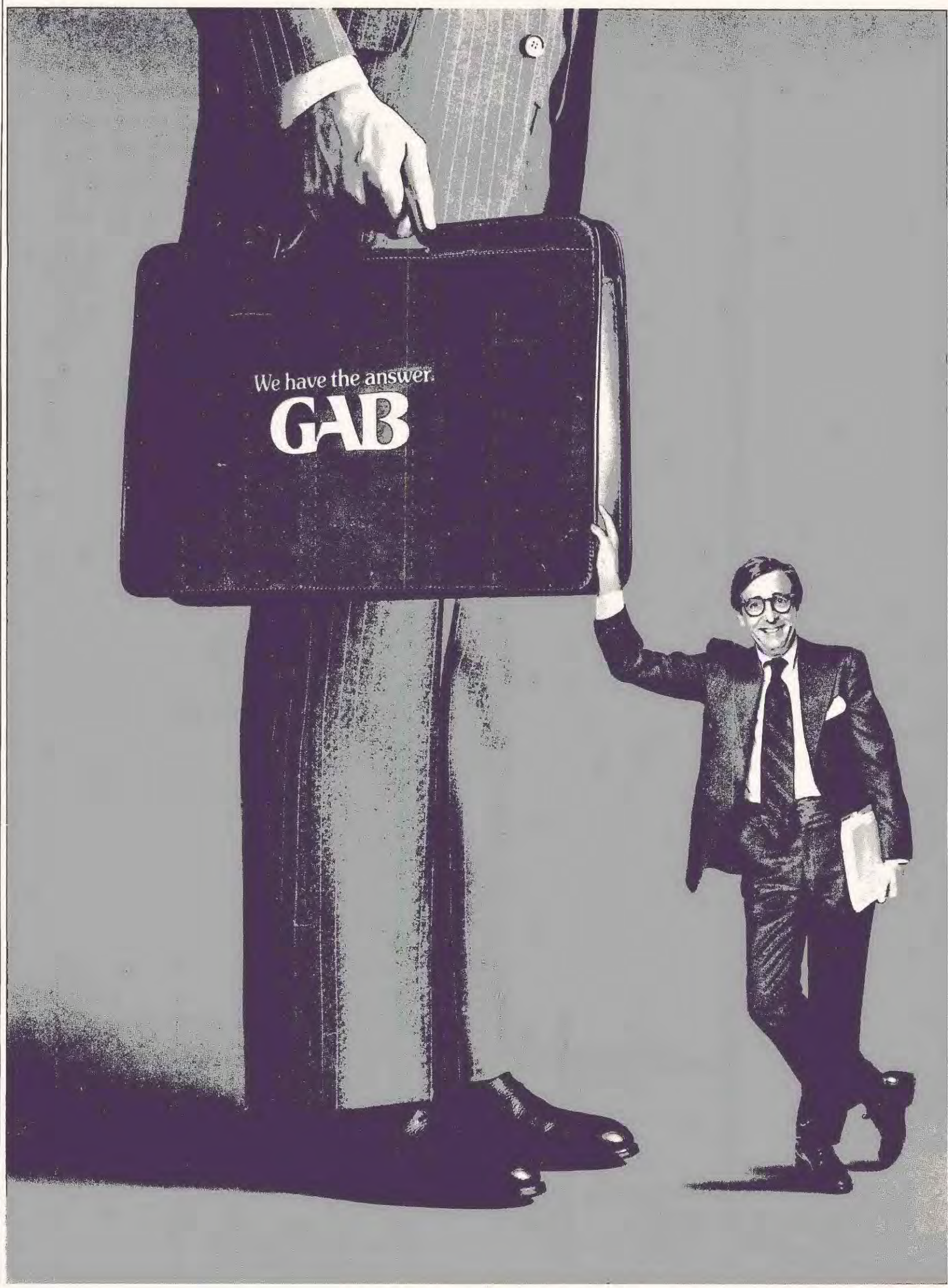
Ingram has been most effective at reducing the cost of its exposure to maritime liability or Jones Act losses. Its engineering staff has made safety improvements and its in-house claims and legal staff have controlled losses, resulting in a reduction over a four-year period in the company's compensation modification factor from 100% to 62%, Mr. Schirmer said.

Ingram's hull coverage for its river fleet is placed with the Coastwise Syndicate of America, a marine underwriting pool with Talbot, Bird & Co as lead underwriter. The barge line has a $25,000 per occurrence deductible.

The river protection and indemnity program involves a self-insured layer, using Ingram's captive insurer, Universal Marine Insurance Co. Ltd., to write the first excess layer above the self-insured retention and additional layers placed principally with Lloyd's.

Pollution liability is also included in the general liability program. However pollution clean-up coverage is provided using self-insurance plus participation in the Water Quality Insurance Syndicate, which provides $125 per ton for cleaning up oil spills.

Corroon & Black of New Orleans is the broker on the program. ■



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SEE OUR AD ON PAGE 3

New Orleans's drive to Houston just gets longer

By ELLIS SIMON

HOUSTON—It takes less than a day to drive from New Orleans to Houston, but it will take the Crescent City considerably longer than that to catch up with the economic growth of its rival to the west.

Houston is the largest city in the Sunbelt and the showplace for America's fastest growing region. It spanks of newness in its skyscrapers, entertainment complexes, multi-story shopping centers and expressways as wide as a football field.

New Orleans too boasts of skyscrapers, modern luxury hotels and the Superdome, but the city is marked by its heritage typified by the wooden bench trolley that links the French Quarter and the antebellum Garden District.

Insurance communities in the two cities differ as well. Houston has become an insurance center, noted Larmon R. Salmon, president of Harlan Inc. of Texas. Pushed by the needs of its economic mainstay, the oil industry, the city has emerged as an area of sophisticated and aggressive risk management.

RIMS PREVIEW

But New Orleans lacks the corporate headquarters of Houston or Atlanta, the other major Sunbelt center. As a result there isn't the need for the sophisticated services that are required in Houston.

The two cities were approximately the same size 20 years ago, observed J. William Sherar, chairman of Corroon & Black of Louisiana. But Houston's growth took off when the oil companies began relocating there a decade ago and today 2.5 million people live in metropolitan Houston while a little over 1 million persons live in New Orleans.

That and the number of firms headquartered in each city is reflected in the size of the cities' risk management population. The Houston chapter boasts almost 100 corporate members while New Orleans lags far behind with 25 members.

Although saying that risk managers are equally talented in both cities, Pete Richardson believes risk managers in Houston have a higher profile than risk managers in New Orleans. Mr. Richardson moved from Houston to New Orleans to become risk manager at Newpark Resources Inc.

Don Baughman, executive vp of Corroon & Black's Houston office, said area risk managers have become increasingly sophisticated in insurance, finance, accounting and legal matters over the past 10 years. Loss prevention, loss cost control and optimum risk finance programs are gaining in importance, he added.

Brian Davidson, president of the Houston RIMS chapter, noted a large number of young people are entering risk management and the turnover among risk managers and competition for good ones is high. "We're seeing small companies offering between $35,000 and $45,000 for a risk manager," he said.

Apparently, salaries in New Orleans are also attractive. Mr. Richardson, who left Exxon's Houston office to join Newpark, said, "I didn't come here for my health."

Dan Craven, president of the New Orleans RIMS chapter, said the quality of risk management is improving in that city as well. Companies are becoming aware of increased insurance costs and are looking for ways to control the costs, leading to growth of the risk management field, he added.

However, Houston and Atlanta have the large corporate headquarters that New Orleans does not and those corporate offices are where the risk managers normally are located, said Conrad Faulk, risk manager at Middle South Utilities.

Mr. Richardson noted that only eight Louisiana corporations are listed on the New York Stock Exchange.

New Orleans's ability to attract

Continued on following page

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Two cities . . .

Continued from preceding page

economic growth suffers in part because of the city's geography. The Mississippi River winds around the city's front and Lake Ponchartrain is at its rear. The land in between is limited and piles must be driven into the ground before heavy construction can begin.

It is impossible to build spread out and costly to build up high, said Mr. Richardson. He added that there is little attraction for companies to move their headquarters to New Orleans since "we have a state income tax, Houston does not."

Corroon & Black's Mr. Sherar noted that while New Orleans is one of the nation's three most popular tourist cities, it ranks in the bottom three among locations for a corporate headquarters.

Other than the small shops, restaurants and hotels, the city's tourism industry provides little opportunity for the city's insurance brokers since the larger hotels are part of chains and insured elsewhere, noted Ken Allen, manager of Alexander & Alexander's New Orleans office.

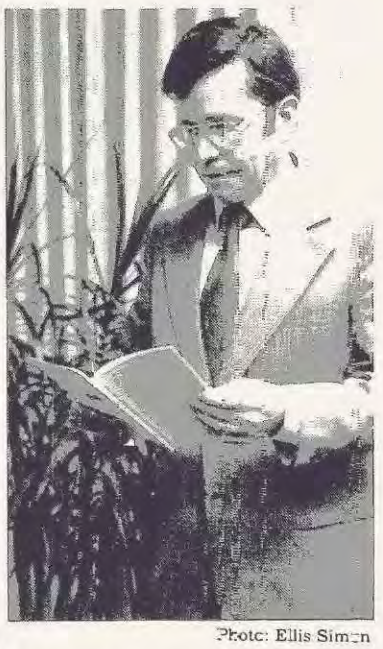


Photo: Ellis Simon

Competition among brokers in Houston has intensified in the past several years, says Harlan's Larmon Salmon.

The port and the petrochemical and oil industry complexes in the area have limited opportunities since most of the cargo is insured elsewhere, as are the giant refineries and chemical plants, he said.

Rather, for New Orleans brokers, the opportunities are in servicing the tugboat operators, barge lines, stevedoring firms, and oil industry subcontractors who make New Orleans their home, he explained.

Competition among brokers in Houston has intensified over the past several years, Mr. Salmon said. Fred Burns, a partner with John L. Wortham & Sons, which has the largest share of the Houston insurance market, reported rising turnover in accounts during the past five years as the major national brokers established their presence.

But Wortham's John Hersey noted that when the national brokerage firms moved in, they acquired older local agencies. "It's no longer Chuck Barton (a local agent), it's now Corroon & Black. It's the same people operating under different names," he explained.

Despite the intensity of competition, the city's insurance producers are prospering noted Mr. Salmon. Wortham's revenues are up almost tenfold since the mid-1960s, said Mr. Burns. ■

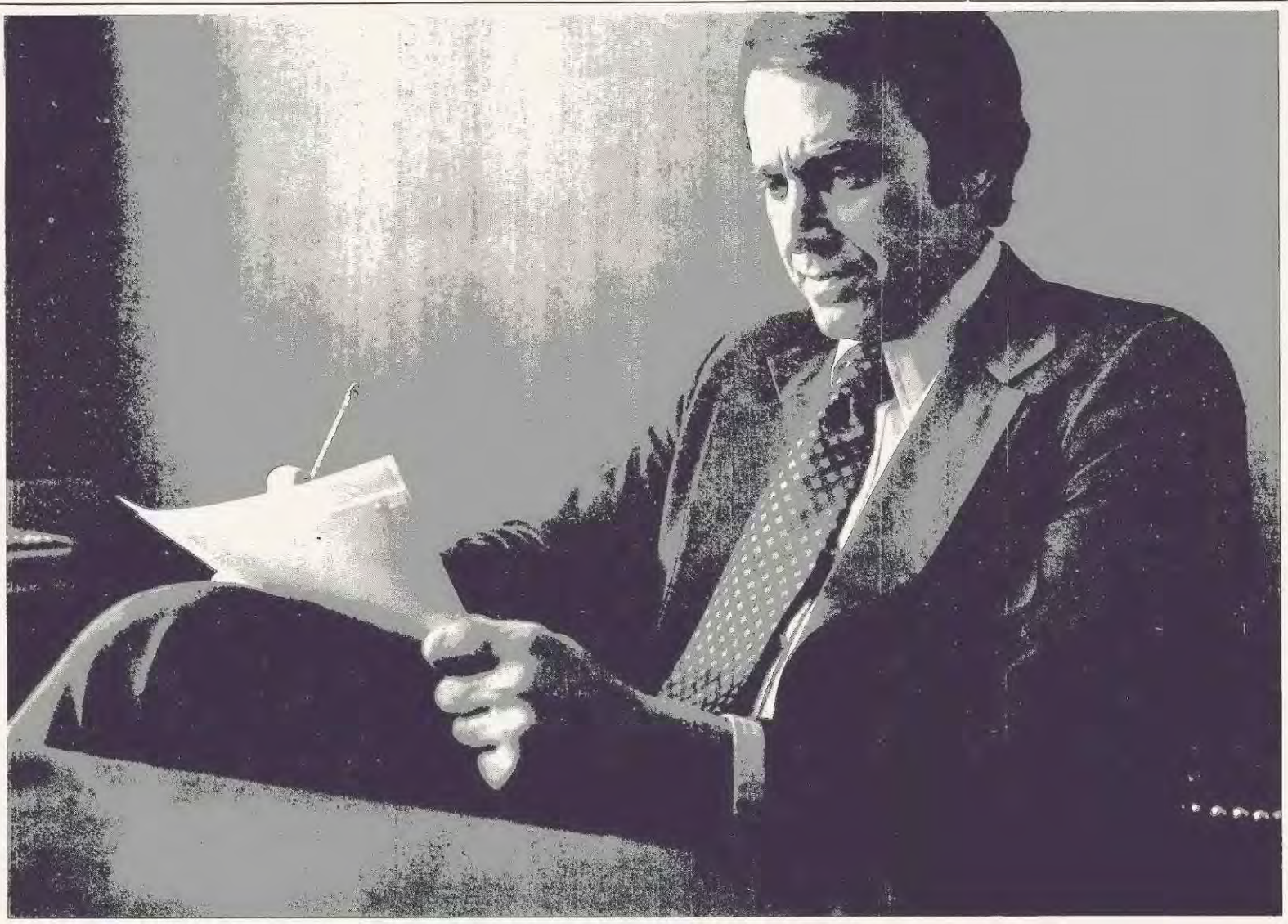
RIMS PREVIEW

Denver chooses Allendale firm

DENVER—The city and county of Denver have named Allendale Mutual Insurance as the underwriter for its blanket boiler coverage, said risk manager Jack Love. Allendale replaces the Hartford Boiler Inspection and Insurance Co.

Mr. Love said the new coverage has a $1 million limit and a $2,000 deductible. The former coverage was for $500,000 limits without a deductible.

The change was made because Allendale's broader policy includes electrical and mechanical apparatus, Mr. Love said. ■



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By the way, this aerial photo depicts rice paddies in Sacramento, California.

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'Olympic' brokers lift the record again

NEW ORLEANS—J. William Sherar, James Gardner, Jonathan Gilbert and Donald Payne have become to the insurance brokerage industry what Vasily Alexeyev is to the Olympics.

Mr. Alexeyev, the Russian strongman, has set world records for weightlifting and then gone on to break his own records.

The four brokers, Messrs. Sherar and Gardner from Corroon & Black in New Orleans and Messrs. Gilbert and Payne from Bland Payne in London, have done the same thing—set a record for placement on a single risk and then gone on to top that record on the same risk.

The risk was Thistle Platform, an offshore oil production facility sitting in 550 feet of water in the northernmost reaches of the North Sea. The platform is owned by a consortium of British, German and American interests led by British National Oil Co.

A new policy on Thistle went into effect in August 1977 representing an insured value of $630 million. That represents about 93% of the platform's total value of $680 million, said Mr. Sherar, chairman of Corroon & Black-Armistead Miller Wallace of Louisiana.

Consortium members have chosen to self-insure or insure through Oil Insurance Ltd., he explained.

A 1975 placement insured the platform, for $300 million, which was a record then.

Because of inflation, Thistle's value increases annually and additional coverage must be purchased on a regular basis, Mr. Sherar noted.

It was for this reason that he and his associates chose to restructure the Thistle program. The new coverage is much more streamlined than the original program.

That program required four layers to reach the $300 million mark and since 1975 three additional layers were put together, bringing total coverage to $460 million.

Participating in that program were approximately 350 underwriters from the London, United States, Continental and world markets, Mr. Sherar noted.

The new program calls for only two layers and involves about 50 underwriters, including several pools. A primary layer of $430 million was arranged with $400 million in the London Master Rig Slip and $30 million in Continental and U.S. markets.

An excess layer of $250 million involved underwriters in the London, U.S., Continental, Far East and Latin American markets. Among those participating was the People's Republic of China.

Mr. Sherar said that according to London underwriters, Thistle platform represents the highest single value insured commercially. Some North Sea oil fields, with several platforms and pipeline networks, have higher combined values, however.

Several insurance precedents were established in the original placement and these were carried over on the rewriting of the coverage. These include layering on an offshore risk and getting the London, U.S. and Continental markets to insure the same risk at the same rates, Mr. Sherar said.

Corroon & Black has become extensively involved in international

RIMS PREVIEW

insurance through its New Orleans office.

According to Mr. Sherar, the office's international activities grew out of its involvement in placing builders risk coverage on the overseas projects of U.S. firms. That led to placing coverage on an installation in Dubai for Dubai Petroleum.

As a result of the Dubai placement, Corroon & Black worked with A.E. Rodgers of the United Kingdom, on placing coverage for the Viking Platform, a North Sea project consisting of three offshore gas production platforms, 85 miles of pipeline and an onshore gas plant.

In each year since 1974 the New Orleans office has placed builders risk coverage on more than $1 billion worth of construction projects in the United States and abroad.

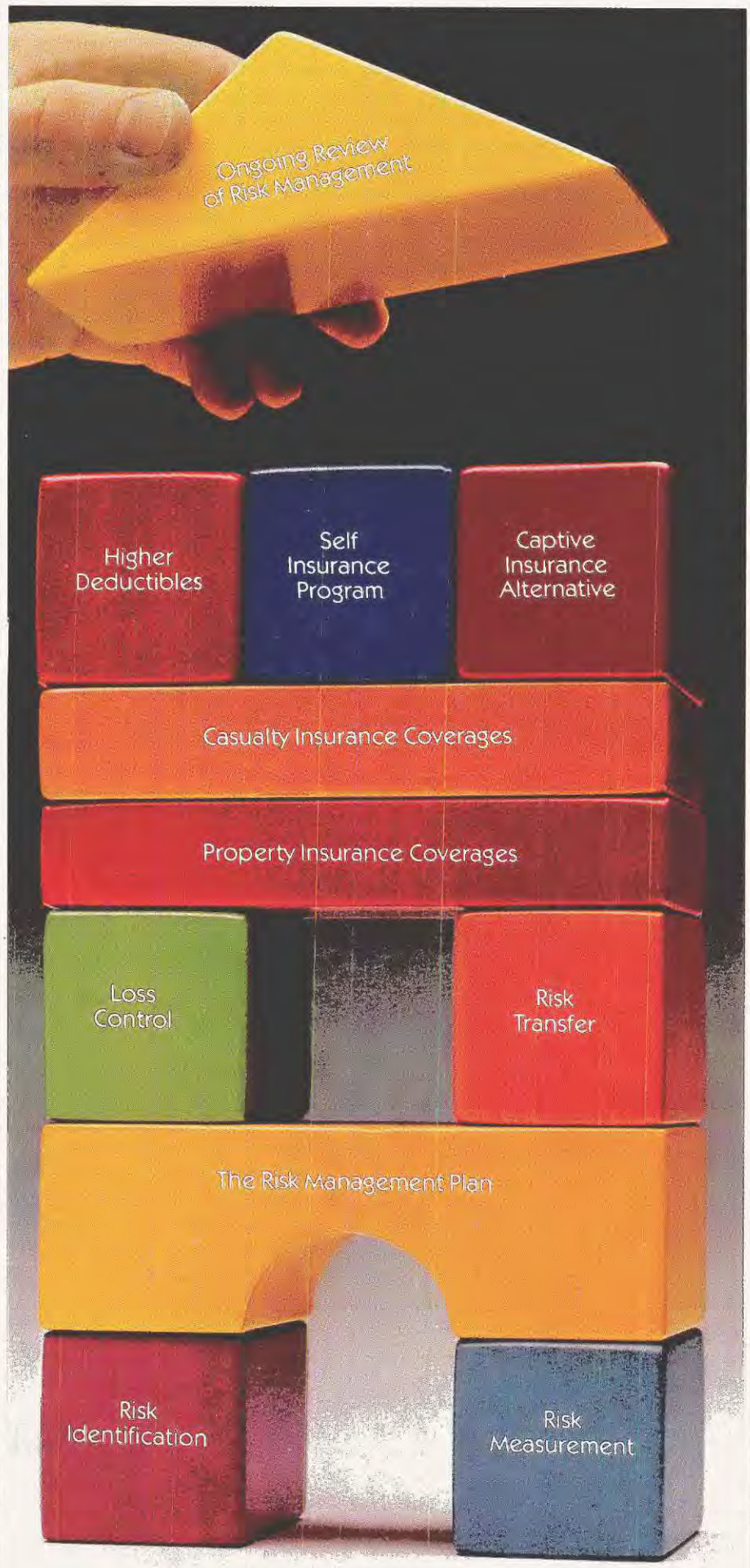
These include a marine terminal being built by Elf-Aquitaine in Tunisia, two sewage treatment plants in Libya and the Chinese National Overseas Bank Building in Singapore.

In the United States, Mr. Sherar and his associates have placed partial property coverage on a $650 million petrochemical plant in Corpus Christi, Tex., jointly owned by Imperial Chemical Industries of Great Britain, Solvay of Belgium and Champion Petroleum.

The firm has also placed coverage on the $450 million Energy Corp. of Louisiana refinery and has recently been awarded the contract for the Louisiana Offshore Oil Port. ■

Photo: Ellis Simon

J. William Sherar has reduced the number of underwriters on the Thistle platform to 50 and consolidated the coverage in two layers.



MEMO FROM MARSH & McLENNAN

How your company may be able to obtain 'more insurance,' without necessarily buying more insurance.

What's insurance all about anyway? Just one thing: shielding your assets from unexpected losses. For this protection and peace of mind, you are willing to plan for and pay a specified sum that you consider a fair price for this removal of risk.

Errors are made when you lose sight of the fact that protection is the goal while insurance is merely one means to attain that goal. It follows then that "more insurance" is not necessarily the most advantageous way to achieve a higher level of protection.

The risk management concept

The idea is to start thinking in terms of managing the multitude of risk situations, search-

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SEE OUR AD ON PAGE 3

Photo: Ellis Simon

'We were a step ahead of the (ERISA) ballgame,' says Louisiana General's John Goodwyne, since the firm was following the spirit of the law before its passage.

Small Louisiana firm steps quickly to be first to win ERISA okay

RIMS PREVIEW

NEW ORLEANS—If there is a special satisfaction in knowing that your pension plan was among the first in the nation to be submitted for government approval following the passage of the pension reform law, it belongs to John Goodwyne, benefits manager at Louisiana General Services Inc.

And Mr. Goodwyne has the extra satisfaction of knowing that he did it himself.

ERISA was so new in late 1974 that "when we went to New York to have (fund manager) Equitable's lawyers rewrite the plan, they didn't even know the law," he recalled.

Therefore, he took it upon himself to spend four "intensive" months studying ERISA and rewriting the benefits program with the assistance of a staff attorney. "The ERISA law was our Bible," said non-attorney Mr. Goodwyne.

The plan was submitted in March 1975 and compliance with the 1000-hour rule was the only change needed when IRS approval was granted later that year, he said.

Louisiana General Services and its predecessor, Louisiana Gas Services, were "complying" with ERISA's spirit long before pension reform received congressional scrutiny. For example, the company began providing summary plan descriptions for employes in 1960, Mr. Goodwyne noted.

"We were a step ahead of the ballgame because we had the booklets. If we wanted to start now, we couldn't catch up," he added.

Louisiana General Services is a small firm (536 employes and retirees), and Mr. Goodwyne handles virtually all aspects of the benefits program himself. He placed coverage on all benefits with the exception of long term disability and he prepared the company's benefit booklets and individualized reports.

The firm self-administers its benefits, handling all aspects of claims processing short of writing the check. Self-administration saves the company about 10% to 15% on premiums although most of this is eaten up by claims handling costs, Mr. Goodwyne noted. Yet, he feels self-administration is justified because it permits direct relations with employes.

The benefit booklet provides detailed information in a series of questions and answers and charts are used in several places to give additional insight. "If you're going to spend a lot of money on benefits, employes should know about them and know how to use them," Mr. Goodwyne said.

Competition for skilled workers and a desire to avoid unionization have made the company a benefits leader in the New Orleans area. The firm spends $4,000 a year, per employe on benefits.

The benefits are in line with other utilities and the state public service commission finds such high levels to be acceptable, Mr. Goodwyne said, since the commission realizes that utilities must attract and retain highly skilled people to provide quality service.

While employes at firms like Avondale Shipyards and J. Ray McDermott receive higher direct compensation, their purchasing power is less because their benefits which are not taxed are lower, Mr. Goodwyne added.

The threat of unionization also weighed upon the gas utility's decision to provide strong benefits. "As unions got higher benefits, if you wanted to keep unions out, you improved benefits," Mr. Good-

Continued on following page

ing always for the most efficient method of attaining the necessary protection. The concept of risk management in today's complex business and legal environment requires more than conventional insurance responses.

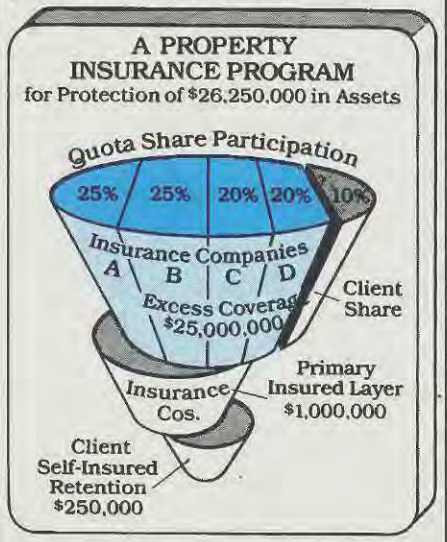
In simplest terms, risk management entails identifying risks, assigning value to them, anticipating losses and making objective decisions about what steps to take before losses occur, so that they have the least impact on the operation of your business.

Linked to this, of course, is the need to implement a meaningful loss control program which will help to prevent or reduce the incidence and severity of losses.

Two principal options are open

First of all, risks may be transferred in the conventional insurance manner. The important thing to remember here is that this decision is made only after a thorough review and examination when it is concluded that this is the correct response in the particular case under consideration. It should not be a reflex action.

Secondly, risks may be assumed by your company, either in whole or in part. A higher deductible is an obvious way for a company to assume a portion of the risk and thereby reduce the cost of purchased insurance—yet still retain adequate insurance protection against catastrophic loss. An established self-insurance program is another way for a company to assume its own risks,



while diverting the money earmarked for premiums into a separate fund to cover projected losses.

The optimum plan may very well contain elements of both(see chart) but only with expert analysis can one approach the optimum with confidence.

Which direction for you?

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Louisiana General . . .

Continued from preceding page

wyne said.

"Our strategy is not to react to a threat, but to prevent threats. It has been our position not to get into a spot where you have to do something dramatic to keep the union out."

Louisiana General Services Jan. 1 became the second firm in the New Orleans area to adopt the "rule of 85," which permits employes with a combination of 85 years of age and service to retire without taking a reduction in benefits for early retirement, Mr. Goodwyne said.

This would enable a person age 55 with 30 years service to retire on full pension, rather than take a reduction of one-third of his benefits for early retirement, he explained.

In addition, the company provides $2.75 for every $1 contributed by employes to the savings and investment (profit sharing) fund. Mr. Goodwyne said he believed this was the highest company contribution offered by any company in the New Orleans area using such a plan.

RIMS PREVIEW

For an employe setting aside 6% of salary for the plan, the maximum contribution allowed, the company's contribution will bring the total investment to 21% of pay, he noted.

The savings and investment fund is a type of employe stock ownership plan since company contributions and no less than 50% of an employe's contribution is invested in Louisiana General Services common stock. The balance of employe contributions go into a bond fund.

Through the fund, employes have come to control 11% of the company's stock, and to a large extent that puts them in control of their destiny, Mr. Goodwyne asserted. Over the past few years, the stock's performance has remained even and the dividend yield is slightly over 6%, he added.

Part of the company contribution to the fund is a result of the 1% investment tax credit allowed for purchase of stock for employes. That represents an additional $60,000 a year for the fund, Mr. Goodwyne noted.

Pension benefits at Louisiana General Services are also liberal. The company provides 1.25% of salary per year of service on the first $650 of monthly income and 1.75% on income above that.

The benefits paid are in excess of Social Security and a person retiring with final average wages of $1,000 per month and 35 years service would receive a monthly benefit of $499.10 from the company alone or almost 50% of his pay.

The pension plan has a 10-year vesting, but it only takes three years for an employe to become fully vested under the savings and investment plan.

The company provides life insurance equal to 2½ times annual salary. Louisiana General Services participates in a trust sponsored by Metropolitan Life Insurance Co. which enables the firm to circumvent a Louisiana law limiting coverage to two times pay, said Mr. Goodwyne.

The group health program lists a schedule of benefits for room and board, surgery and other medical services. The room and board benefit of $75 per day is slightly below the average cost of a semi-private room in New Orleans, however, Mr. Goodwyne said.

There is a major medical annual deductible of $100 and the plan pays 80% of the first $2,500 per calendar year and 100% after that with a lifetime maximum of $250,000.

The company's long term disability program provides 50% of salary for persons not covered under Social Security. When combined with Social Security benefits it provides a total of 65% of pay.

The short term program, for persons out less than 26 weeks provides benefits which are considerably less, ranging from 84% of pay for persons earning $100 a month to 31% for persons earning $900 a month.

The group health, life and disability plans are contributory, with the employes providing about 10% of cost of group health and just under 20% of cost on life and disability.

Life General Security Insurance Co., a subsidiary firm, is insurer on the group health and short term disability plans. Mutual Benefit Life Insurance Co. handles the long term disability plan and The Marquette National Bank of Minneapolis is trustee of the savings and investment plan. ■

OSHA requests EDB comments

WASHINGTON—The Occupational Safety and Health Administration (OSHA) is asking employers for information and comments on worker exposure to ethylene dibromide (EDB), a gasoline additive used as a solvent for resins, gums and waxes.

Information needed by OSHA includes health effects of exposure to EDB and the technological and economic aspects of controling employe exposure.

OSHA currently is considering substantially reducing the permitted exposure level to EDB, which is extensively used as a gasoline additive.

The present OSHA standard limits worker exposure to 20 parts of EDB per million parts of air averaged over an eight-hour period.

Animal studies have linked exposure to EDB with sterility, degeneration of the kidney, liver and spleen and depression of the central nervous system

Comments on EDB and the economic cost of reducing the exposure level of those who come in contact with it should be sent to the Docket Officer, Docket H-111, U. S. Department of Labor, Third and Constitution Ave., N.W., Room S-6212, Washington, D.C. 20210. ■

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SEE OUR AD ON PAGE 3

Solar energy devices can brighten risk management: Gold Kist's Rich

ATLANTA—Solar energy as a risk management tool? It has that potential, according to Robert E. Rich, director of risk management and insurance for Gold Kist Inc., a southern farm co-op.

Mr. Rich could become one of the first industrial risk managers to place coverage on a solar energy installation when a solar powered grain dryer is installed at his company's soybean processing plant in Decatur, Ala. The dryer should be operational in August 1979.

Gold Kist, Teledyne Inc. and the U.S. Energy Research and Development Administration (ERDA) are participants in the venture which was selected as the winner of an ERDA-sponsored competition to develop effective applications of solar energy to industrial processes.

While the solar powered grain dryer was designed primarily for energy conservation, there are savings from a risk management viewpoint as well, Mr. Rich said.

Grain dryers have always been nemeses because of the high risk of fires starting in them and spreading to adjacent elevators, he explained. However, solar power eliminates the source of ignition found in conventional dryers which are fueled by oil or gas, he said.

This has impressed the Factory Mutual system, insurers of the soybean plant, and their engineers are working closely with Gold Kist and Teledyne, Mr. Rich added.

The hexane extraction units at each of Gold Kist's three soybean plants are the most serious exposures Mr. Rich must deal with. The units are highly explosive and if one went up it would result in a catastrophic loss, he said.

Gold Kist has installed automatic foam and deluge systems above the hexane extractors, which would envelop the units should they ignite. In addition, monitors have been placed throughout the area to detect escaping gasses which could become exposed to an ignition source.

Security at the soybean plants is strict to prevent outsiders from being near the units should one explode, Mr. Rich said. In addition, workers are required to wear rubber-soled shoes and only non-sparking tools are permitted in the extraction unit's vicinity.

Electrical control systems have been installed to shut down the plants in the event of an explosion. Probable maximum loss studies reveal that a disaster would start in the extractor unit and spread from there, Mr. Rich said. However, he added that some parts of the plant would probably be damaged even though the controls could slow the spreading inferno.

Workers compensation and general liability coverages for the plants are not a problem since few employes are in the vicinity of the extraction units and Gold Kist's tough security program keeps potential innocent bystanders out of the way, Mr. Rich noted.

Grain stocks are also a risk management problem since quantities on hand and values fluctuate on soybeans. The soybean plants can store between 10 million and 18 million bushels of grain.

Mr. Rich must monitor the Chicago Board of Trade to keep abreast of the soybean market. As the price changes, so does the amount of coverage needed and it is not unusual for him to change coverage limits six times a year as a result of price fluctuations on the beans.

Gold Kist's other property exposures are diverse. Included in the co-op $500 million assets are 130 grain elevators, 142 retail farm centers, 16 feed mills, four fertilizer plants, three insecticide plants, two meat packing houses and a seed processing plant.

Photo: Ellis Simon

Gold Kist's Robert Rich is working closely with the Factory Mutual system on coverage for his new solar-powered grain dryer.

One of the company's newest acquisitions was the Plains, Ga., peanut warehouse owned by President Jimmy Carter and his family.

The Factory Mutual system has coverage on the Decatur soybean plant and Gold Kist's corporate offices in Atlanta. The two remaining soybean plants and the grain elevators are insured by the Assn. of Mill & Elevator Mutuals, with National Agriculture Underwriters participating in the Marks, Miss., soybean plant.

Although grain elevators traditionally have been costly to insure because of the fire and explosion hazards associated with them, Gold Kist does not have this problem "because we've communicated with underwriters and kept losses at a minimum over the past three to four years," Mr. Rich said.

In addition, the co-op only has country elevators, rather than the larger terminal elevators which have been the victims of recent explosions in Louisiana and Texas.

Gold Kist goes direct to underwriters and reinsurers to place coverage on its exposures, Mr. Rich said. Brokers are involved only because Georgia state law prohibits Mr. Rich from acting as his own agent.

On difficult risks, Mr. Rich said he invites underwriters to visit the site to ask questions about particular aspects of a risk. This practice eliminates class underwriting, he said.

The firm has also reduced its exposure by installing steel grain elevators rather than concrete ones. These units have external grain handling machinery which eliminates the potential of dust building up in a confined area, Mr. Rich explained.

The steel units are also less expensive to construct and, should a fire or explosion occur, only one bin will be lost because without internal grain handling machinery there is no path for a fire or explosion to spread by, he said.

Gold Kist has separate policies for its general and product liability, workers compensation and automotive liabilities coverages.

The programs are separate since distinct rating factors affect each area, Mr. Rich explained.

Aetna Life & Casualty Co. has the primary layer on each policy in excess of a self-insured retention. Crum & Forster underwrites Gold Kist casualty losses in excess of $500,000.

The separate coverages facilitate self-rating. Losses are charged back to local operations giving local operators an incentive to act as risk managers since their insurance costs directly reflect their individual loss experience.

Gold Kist processes compensation claims up to its deductible level and claims manager Guy Storey, who along with Mr. Rich and insurance manager Dennis McGovern comprise the entire risk management department, coordinates investigation of all litigation matters.

However, Gold Kist, like other feed grain manufacturers and distributors, has seen the cost of product liability coverage rise as a result of the Michigan Farm Bureau disaster that resulted from a poison (polybrominated biphenyl) being substituted for a feed nutrient.

Coverage costs on the primary layer jumped 32% after the Michigan incident, Mr. Rich noted.

"Underwriters have panicked in the feed industry," Mr. Rich said. A study by the Feed Grain Manufacturers Association revealed that 44% of all feed processors never had product claims against them and only three claims, including claims in Michigan were for in excess of $250,000, he noted.

Mr. Rich has taken the same strategy he normally uses in handling such situations. He talked directly with the underwriters and was able to get a 60% credit on the rate charged for 1977. ■

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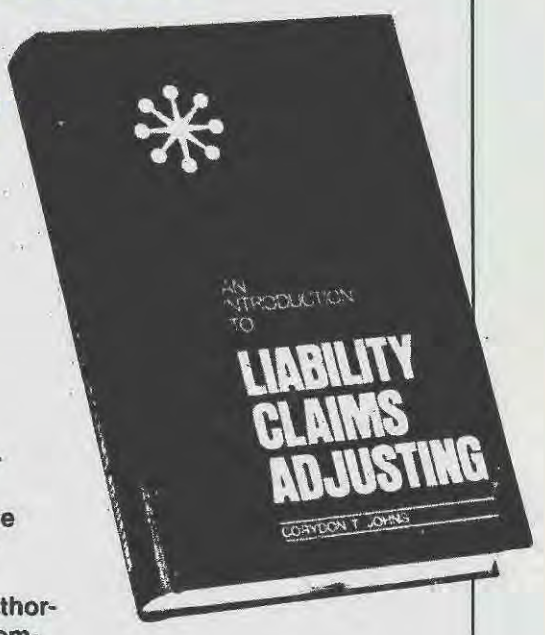

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Avondale risk manager Dean Church says the concentration of his ships is the biggest concern with his builders risk coverage. 'It's not like having 20 vessels all over the world,' he says.

Photo: Ellis Simon

Avondale . . .

Continued from preceding page

we'd get wouldn't warrant the risk," Mr. Church said.

While delivery of a ship ends Avondale's builder's risk exposure, its insurance worries are not over. Next comes product liability.

Avondale transfers much of this exposure by having the manufacturers of engines and machinery guarantee their product for the same one-year period that the builder warranties the ship.

Insurance coverage for product liability is included in Avondale's comprehensive general liability program.

While the product liability crisis has not affected the firm's $2 million primary layer, the cost of excess liability coverage has risen by between 300% and 400%, Mr. Church said.

Avondale's situation "reflects a trend in all industries where product liability is very popular with plaintiffs attorneys," said Mr. Church. "Each ship is manned by union labor and they know about lawsuits as much as anybody.

"They'll sue the shipowner under the Jones Act and sue everybody else in sight. It happens with some regularity."

Avondale self-insures its own workers compensation with excess coverage carried by Midland Insurance Co. A separate department administers compensation claims.

"We deal with our employes directly and don't have a stranger coming in and saying what they get," Mr. Church explained. "It's a big plus for employe relations."

The shipyard's employes are covered under the federal Longshoremen and Harbor Worker's Act, even though no clear line has been defined between who should receive federal benefits and who is eligible for the lower state compensation payments.

Compensation and general liability claims are investigated immediately by the compensation and safety departments.

Avondale's insurance program is placed as part of the master program of its parent company, Ogden Corp. Frank B. Hall's New York office brokers the coverage.

On comprehensive general liability, Travelers Insurance Co. carries the primary layer and the excess layers are parceled out among several firms.

Property coverage on Avondale's five divisions is placed with Allendale Mutual. Business interruption is not included since it is "hardly conceivable that the whole of Avondale can be shut at once," Mr. Church said. "Short of a bombing attack, I can't see anything knocking us out here or elsewhere." ■

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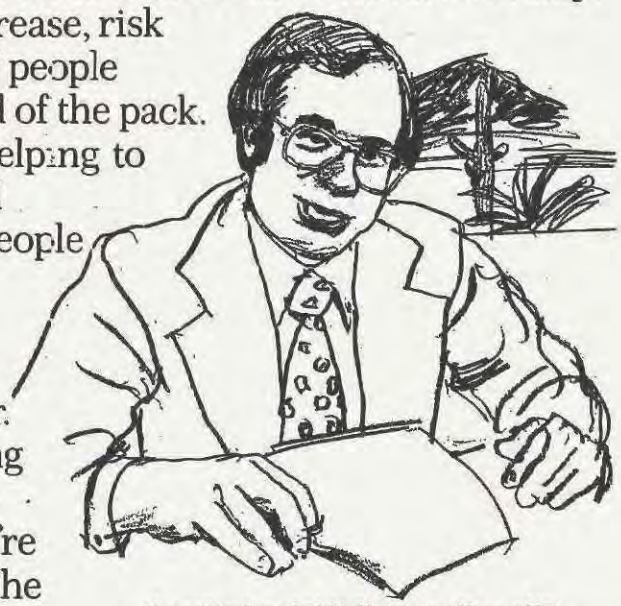

Gary Rimler of J&H Phoenix, Class of '71, is finishing his master's studies in finance at Arizona State.

Rufus Williams of J&H Houston, Class of '72, received his law degree in December 1976.

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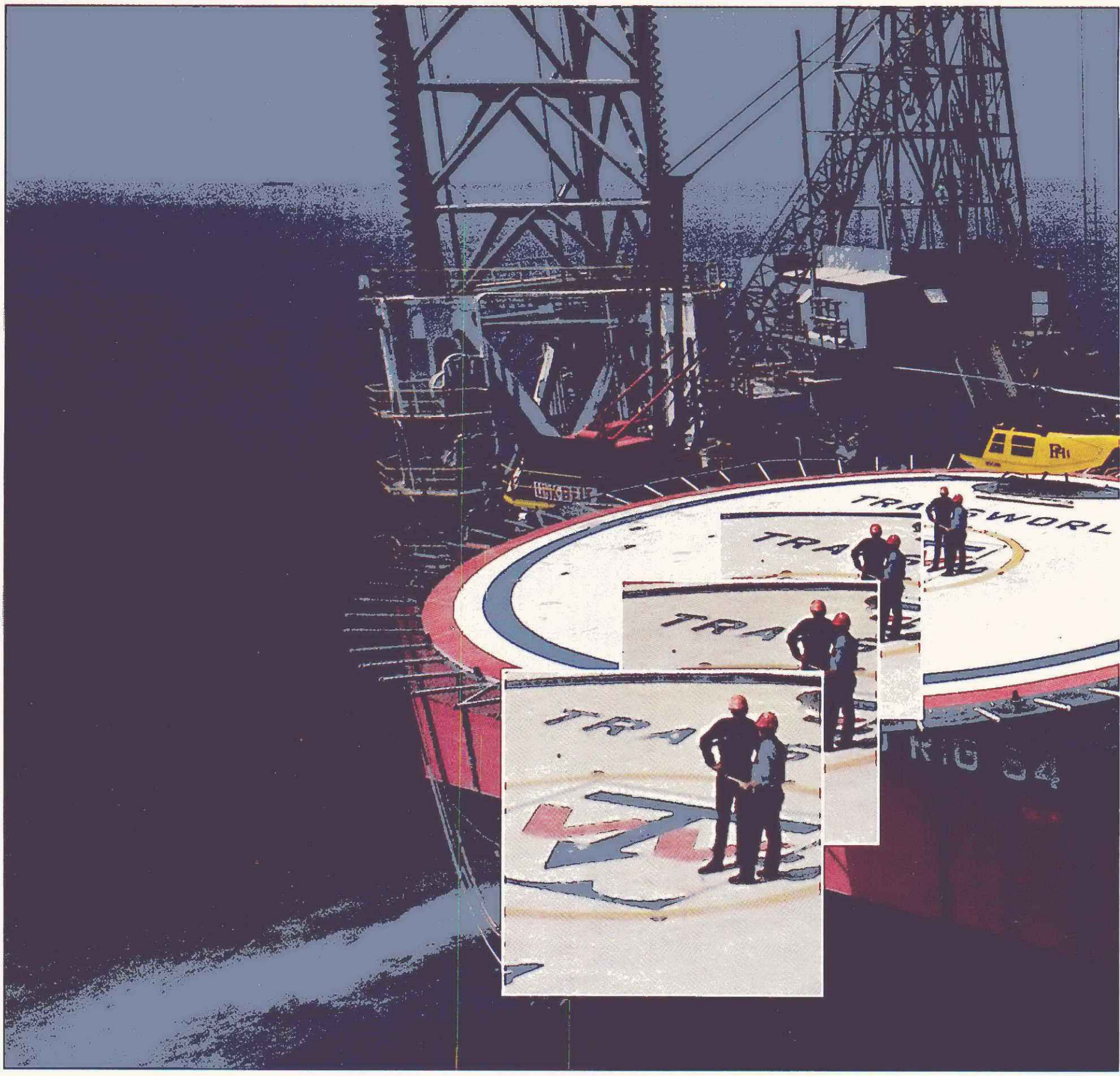

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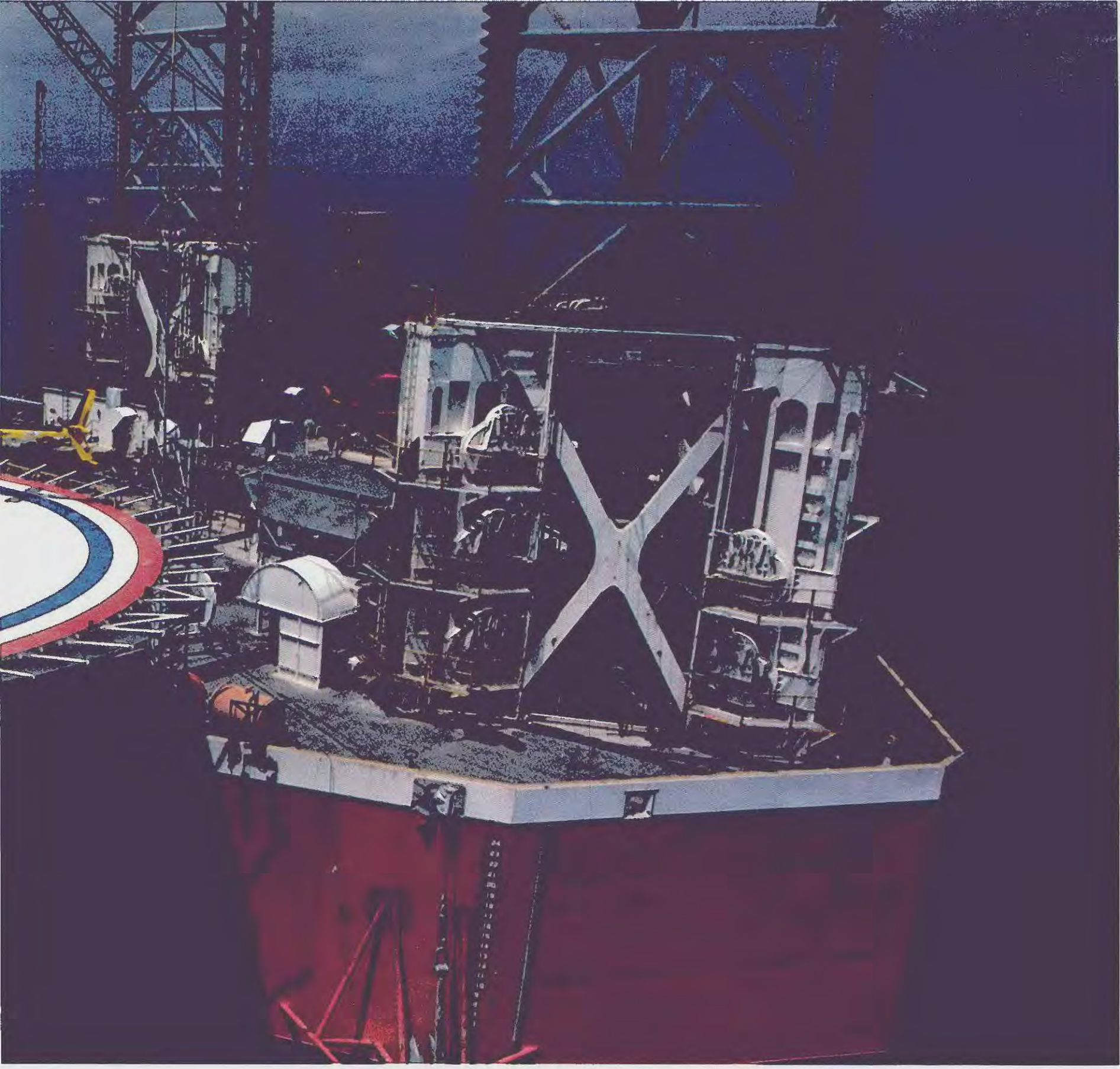

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Specialist Ranger seeks property business

RIMS PREVIEW

HOUSTON—Long known as a specialist in insuring liquified petroleum and natural gas distributors, Houston's Ranger Insurance Co. has taken advantage of the Sunbelt's economic boom to expand into the commercial property market.

In 1974, Ranger began aggessively seeking to insure semi-highly protected risks—mostly shopping centers and office buildings valued at up to $50 million. Since then, volume in this line has increased between four and five times, said underwriting manager Dennis Bralow.

Currently, commercial property represents between 35% and 40% of Ranger's premium volume, which Mr. Bralow said was about $70 million.

Texas accounts represent most of Ranger's new property underwriting activities, with most of the other premiums written in surrounding states, he said. "The area has a need for a strong insurance company and we intend to be there."

In its push to attract commercial business, Ranger has stressed flexibility and capacity. "We're willing to look at high deductible risks and give proper pricing and being a small company we don't have to go through a bureaucracy," Mr. Bralow explained.

In addition, Ranger is experimenting with retrospective rating plans for property insurance. "If you get the right account and put it on retro, it does good for you and the insured," he noted.

One reason for Ranger's flexibility has been its establishment of a "Texas Lloyds" company, a special arrangement permitted under Texas insurance law that allows insurers to price their product on an individual basis.

While insurance companies normally file their rates and allowable deviations, Ranger's Lloyds and other Texas Lloyds operations file the limits in which they will set rates and are allowed to charge anything within those points.

Ranger is making extensive use of reinsurance markets in its expansion drive. "With the ability of the reinsurers to support us, we can normally put together any line we want to," he said.

Reinsurance is placed both through treaties and on a facultative basis. "We don't use reinsurance to make a bad risk acceptable," Mr. Bralow said. "We use reinsurance to increase capacity."

Mr. Bralow added that on some risks Ranger retains 100% of coverage while on others reinsurance could cover as much as 95%.

In commercial property, Ranger is seeking risks which do not need a lot of improvement, he noted. However, the company must also watch its concentration of risk to avoid the possible financial disasters which could result from a severe windstorm.

Ranger's philosophy is to write a large part of an industry that it feels comfortable with. That way, "we can control the risk and have a major influence on it," Mr. Bralow explained.

Such was the case with liquified petroleum gas and natural gas distributors, a risky business which the insurance industry for the most part shunned. Ranger was able to develop it into a profitable business and it has a majority of this business in states where Ranger is active, Mr. Bralow said.

Ranger also stresses engineering in covering grain risks, a volatile area which has gotten national attention as a result of disasters in recent months which claimed more than 50 lives.

Each grain risk is inspected annually by one of four full time grain engineering specialists, it was noted. As a result of the blasts, Ranger has become much more stringent on maintenance.

Despite cancellation of the grain elevator at the Port of Houston, Ranger is "committed to the grain business. We're not going to get out," Mr. Bralow said. "The industry will get out of the crisis when the market comes around and we intend to be one of the people making it come around." ■

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Consolidated Financial Statement/Statutory Basis/December 31, 1977

ASSETS

Marketable securities:	
Bonds	$1,302,422,086
Preferred stocks	32,551,582
Common stocks	244,486,346
Investments — unconsolidated overseas subsidiaries	19,430,131
Real estate	22,436,929
Cash in banks and office	12,866,069
Premiums and accounts receivable	127,360,479
Accrued interest and dividends	24,950,344
Other admitted assets	53,718,151
TOTAL	$1,840,222,117

LIABILITIES, CAPITAL AND SURPLUS

Claims and benefits reserves	$ 992,710,068
Life and unearned premium reserves	405,364,721
Federal and foreign income taxes payable — current	1,371,300
Reserve for commissions, taxes and other liabilities	95,345,929
Funds held under reinsurance treaties	22,743,126
Mortgage payable	20,000,000
Total Liabilities	1,537,535,144
Capital (shares authorized and outstanding 5,445,000; par value $2.00 each)	10,890,000
Paid-in capital	5,179,304
Unassigned surplus	286,617,669
Policyholders' surplus	302,686,973
TOTAL	$1,840,222,117

Bonds are stated at amortized value in accordance with the requirements of regulatory authorities and would be $1,331,758,757 at December 31, 1977 if valued at market. Stocks are stated at market value except stocks in unconsolidated overseas subsidiaries which are carried at net worth.

The above financial statement is consolidated with respect to the parent company and domestic subsidiaries.

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RIMS membership rolls jump 20% in best year

ATLANTA—RIMS membership rolls jumped by 20% in the past year, the best performance in the society's history, says outgoing president Robert S. Spencer.

RIMS's growth rate has increased in each of the past five years, but "we've never had a year like this in the past," he said. The society's membership currently numbers about 2,700 companies and 5,000 deputies.

Mr. Spencer, vp of risk management at Fuqua Industries here, said the continuing tight insurance market has contributed to the society's growth as corporations have become increasingly aware of risk managment as a result of high insurance costs.

RIMS PREVIEW

Small firms are adding risk managers to their staffs and these companies make up a sizable portion of RIMS's growth, Mr. Spencer said. Often, these risk managers have other duties assigned to them, he noted.

RIMS's growth has boosted its revenues to over $1 million for the first time in its history, giving the society the "seed money" it needs to establish many of its programs, Mr. Spencer said. The additional funds have led to the establishment of new courses and the purchase of a desk top computer to compile RIMS membership list.

The computer has aided in other facets of society work, as well. When RIMS recently took a stand opposing a New York State proposal to ban fronting operations, the society was able to learn from its computer list that 701 member firms used fronting arrangements.

Such areas as self-insurance costs, loss data and premiums could be analyzed with the computer, Mr. Spencer said. RIMS established a research position on its staff during 1977 to help the society gather information on risk management problems.

For instance, while RIMS opposes the ISO position to exclude coverage for punitive damages from liability policies "we don't have statistics. We can't prove it isn't a serious problem any more than they (ISO) can prove it is," he explained.

Another RIMS accomplishment during 1977-78 was the Sibson survey of risk managers salaries. Average salaries for risk managers increased from $17,600 in 1968, the year of the last study, to $28,800.

More significant, Mr. Spencer said, was the increase in the level of management at which the risk manager reported, alluding to the field's growing importance within the corporation.

Mr. Spencer sees risk management evolving into a profession within the next five years. "I foresee a risk management designation which will rank with certified public accountants and lawyers," he said.

The first doctorate degree in risk management is expected to be awarded at the University of Georgia during 1978 and 10 schools offer the masters in business administration degree with a risk management concentration, he noted. Twenty years ago, only one risk management degree was available at the universities, he added.

One area where Mr. Spencer sees an increasing need for risk manager involvement is in communications with the public. The media has heightened public awareness of environmental and product dangers and it reacts more quickly to dangerous situations, he explained.

The risk manager should get involved in telling the public how to use products safely and how high liability awards affect all individuals, Mr. Spencer continued. Communicating with the public can help defeat plaintiff attorneys.

The risk manager should educate his management to the problems resulting from poor working conditions and workmanship, Mr. Spencer noted. Excessive workers compensation claims and product liability suits affect the bottom line and the risk manager can be the "conscience of management" in pointing this out, he explained. ■

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Here's your guide to things to do, places to eat in lively New Orleans

NEW ORLEANS—You won't be bored here after the RIMS meetings and seminars finish for the day. Rich in French and Spanish heritage, New Orleans is one of America's great tourist meccas.

The **French Quarter** is the city's number one tourist attraction. Federal money led to its revival during the depression and today it jumps day and night. It's streets are lined with numerous shops, restaurants, bars and nightclubs.

Bourbon Street is the district's main thoroughfare and the sound of jazz blares from clubs at each intersection. Most have free admission or a one-drink minimum. The ante is considerably higher to hear name acts like Al Hirt or Pete Fountain, however.

On **Bourbon Street** one will also find the sleazy side. Countless tourist shops line the street, each offering rolling papers, posters and their own version of the "Grandpa went to New Orleans and all I got was this stinking shirt."

In addition, the burlesque shows and topless joints are here. But don't get suckered in by the provocative signs and fast-talking hucksters. The drinks are expensive and the dancers pass the hat after each number.

Off to the side streets are some of the better attractions of the French Quarter. For jazz buffs, **Preservation Hall** is a must. For $1 the visitor can sit or stand in a rough-finished room and listen as seven old-timers perform in a style that dates to the turn of the century.

But, if you want to hear "The Saints Go Marching In," be prepared. It's a special request and the charge is $5.

Next to Preservation Hall is **Pat O'Brien's,** the French Quarter's most popular bar, noted for its outdoor courtyard and the "Hurricane," a fruity concoction served in a 28-ounce tulip-shaped glass. For an extra dollar, Pat's lets you keep the glass.

Also on the side streets are the French Quarter's most famous restaurants. **Brennans,** 417 Rue Royale; **Antoine's,** 713-717 Rue St. Louis, and **Court of the Two Sisters,** 613 Rue Royale, are among the finest and enjoy international reputations.

The Creole cuisine includes such rich and spicy dishes as oysters rockefeller, pompano en papilotte and gumbo, a seafood soup that could make a New Englander forget about clam chowder. The atmosphere at these eateries is formal and the prices are high.

More casual and less expensive is **Felix's,** 739 Iberville St., which specializes in seafood and steak. An oyster bar at the front is usually crowded with local residents and tourists who enjoy theirs on the half shell with plenty of hot sauce.

Elsewhere, **Christian's,** 3835 Iberville St., a converted church, and **Tchoupitoulas Planation,** 6535 River Road, Avondale, the estate of a former New Orleans madame, offer excellent interpretations of famous Creole and French recipes.

For sightseeing by day, the best value is New Orleans Public Service's St. Charles Ave. trolley line. The dark green cars are the oldest regularly used streetcars in the U.S. and for 30 cents each way you can ride through New Orleans famed **Garden District.**

Near the intersection of Decatur and St. Ann Streets begins the recently restored **French Market,** which is being filled with restaurants and boutiques.

The oldest of these, **Cafe DuMond,** in the first building, serves superb coffees and French pastries called beignets all night. For natives and tourists alike, this is the traditional last stop during an evening of partying in New Orleans. ■

Photo Ellis Simar

The Charles Street trolley line is the best bet for sightseeing by day and the cost is only 30 cents each way.

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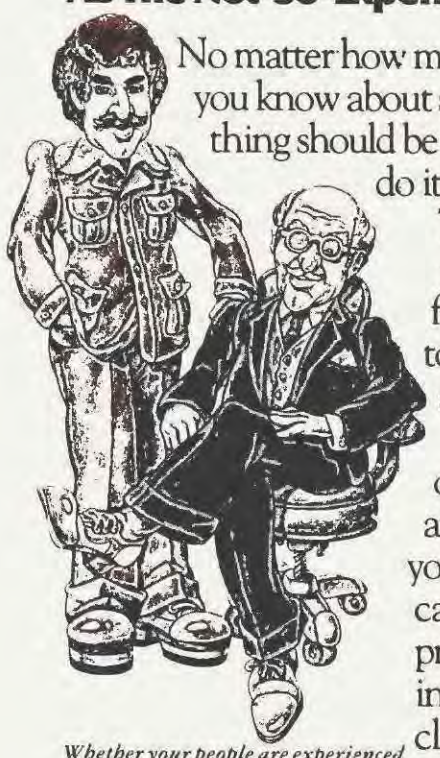

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RIMS mobilizes for battles on public issues

By JERRY GEISEL

'The superstructure of some companies makes it difficult for someone in the middle management area to be publicly effective.'

—Edith Lichota,
legislative panel chairman

WASHINGTON—RIMS members are shedding their traditional cloak of reticence and are stepping out into the political area to make their views known and influence legislation that affects their profession.

Legislative representatives from RIMS chapters around the country now are in the thick of things battling for reform in such vital areas as product liability and workers compensation.

On the national level, RIMS has beefed up its administrative staff to improve communications between the New York headquarters and regional chapters.

In addition, RIMS is making a bigger push for passage of legislation on the national level such as federal guidelines for a system of no-fault auto insurance.

This greater willingness to become involved isn't to say that RIMS has licked its problems of member apathy and indifference.

Indeed, many regional legislative representatives complain that members won't take part in political issues or their firms won't let them.

But RIMS members report that apathy is on the wane.

Policy formation and execution is divided on three levels. If a local issue emerges, such as the recent attempt to restrict fronting in New York, legislative chairmen of regional chapters are expected to respond.

When a national issue crops up, it is up to the RIMS legislative policy committee, chaired by Edith Lichota, assistant treasurer of the Carborundum Co. in Niagara Falls, N.Y., to formulate policy.

After a policy statement is hammered out by the committee, whose members represent both the risk management and employe benefits side of the ledger, RIMS executive committee headed by president Robert S. Spencer must approve the statement.

Once the statement is approved, it is incorporated in the RIMS policy handbook, the definitive guide to RIMS policy. The policy statements in the handbook are deliberately phrased very generally to help members quickly determine if proposed legislation in their states meets those guidelines.

Legislation establishing federal guidelines for no-fault automobile insurance illustrates how RIMS reacted on a national issue.

When the measure was introduced, a lobbying group favoring passage of the bill contacted Reg Beane, director of government and industry relations, asking for RIMS support.

Mr. Beane informed the policy committee of the request for RIMS backing. Although the bill didn't square 100% with RIMS guidelines, there was enough in it, as Mr. Beane put it, that RIMS could support it.

After the policy committee signaled its approval, Mr. Beane called RIMS chapter legislative directors. Those directors were asked to contact their representatives on the Senate Commerce Committee to urge for passage of the bill.

Mr. Beane acknowledges it is difficult to gauge the impact of RIMS on the legislation. But he said RIMS support of the bill clearly was a factor in the decision of the committee to try to get the bill onto the Senate floor.

RIMS critics fault the society for being too slow to react to issues. Mrs. Lichota said there may have been some truth to that charge in the past, but the situation has improved markedly.

For example, one of the hottest issues in the next Congress will be legislation allowing businesses tax deductions for funds placed in a reserve to pay for product liability losses.

A RIMS policy statement supporting the concept already has been drafted by the national committee. RIMS will analyze how the deduction for reserves will affect members pending final approval by the executive director, Mrs. Lichota said.

Results of the RIMS study will be made available to congressional committees that will be holding hearings on the concept as well as to the Department of Treasury, which is conducting its own study.

At the regional chapter level, RIMS members have pushed

Continued on following page

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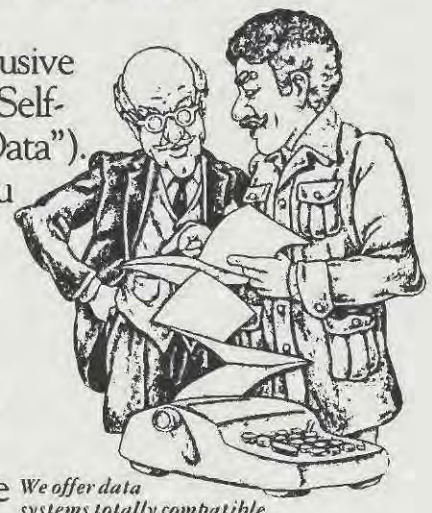

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RIMS mobilizes...

Continued from preceding page

especially hard for tort reform in the area of product liability. The Greater Kansas City chapter, for example, has joined forces with the state chamber of commerce and manufacturers association to push for passage of a statute of limitations, said legislative chairman William Hembree.

In South Carolina, RIMS members serve on the state's market assistance program that helps find product liability insurance coverage for companies, said Carolinas legislative representative Edward Lloyd.

The respect for RIMS is high enough that the South Carolina insurance commissioner recently called in nine RIMS members to discuss various insurance issues.

RIMS members give high marks to Mr. Beane for acting as a clearinghouse of information to keep them abreast of what is going on around the country.

"There is hardly a week that goes by when I don't receive something from him," said Richard Heydinger, national representative of the Central Ohio chapter in Columbus.

Other RIMS members believe the New York administrative staff should be beefed up by adding risk and insurance managers to its staff.

One Canadian risk manager believes RIMS missed a golden opportunity by not trying to hire former United Airlines risk manager Waller Smith when he retired. "It would have added a lot of professionalism to RIMS," the risk manager said.

Although improvement has come, RIMS legislative directors readily acknowledge that some members either can't or won't get involved in the political process.

"I have known companies that don't permit their employes to take public positions. They are gagged," said Mrs. Lichota. "Others say you can talk, but only after it has cleared the public relations and legal department. The superstructure in some companies makes it difficult for someone lodged in the middle management area to be publicly effective."

Other RIMS members believe their companies should give them time they need to have an impact on legislation. "We have got to get more risk management personnel freed from their jobs so they can spend time on legislation," said one New York insurance manager.

"How in the hell are we going to accomplish anything if we don't do it that way?" he asked.

Other trade groups credit RIMS for keeping members informed of key developments. "They have done a very good job of keeping their members aware of what is going on," said Patricia Maxwell, vp of RETORT, a trade group seeking product liability reform.

"RIMS is very much out in front. It has taken some work for them to be as well represented and well organized as they are." ■

RIMS PREVIEW

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Recent laws force many plan changes

WILLOW GROVE, Pa. — The pension reform law, Equal Employment Opportunities Commission and opposition to forced retirement have virtually re-created pension plans, according to a recent survey by the Administrative Management Society.

Many companies, however, are still adjusting to these pressures. For example, while ERISA requires employers to furnish employes a statement of total benefits accrued and the nonforfeitable pension benefits which have accrued, only 85% of the companies responding said they periodically distribute such statements and a surprising 7% stated they are still considering such action.

Another section of ERISA provides that once an employe is eligible for early retirement in a plan that provides benefits through an annuity, he may elect to protect his benefit through a joint survivor annuity. Of the companies surveyed, only 52% said they provided this benefit without cost to participants and 6% are considering it. ■

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Lobbying risk managers usually employ letters

RIMS PREVIEW

By JOANNE GAMLIN

LOS ANGELES — The scattered risk managers who engage in personal lobbying on public issues outside the auspices of RIMS chapters tend to do so like any citizen who is "mad as hell." They dash off a carefully constructed letter to a chosen legislator.

But even these part time lobbyists require some prodding. Most said that spark came internally from their company's government affairs, legal or public relations department.

Andy Meuwissen, assistant treasurer of the Peavey Co. in Minneapolis, is a risk and employe benefit manager who can get exercised enough about a proposal to put pen to paper. Like most other activists in his capacity, Mr. Meuwissen indicated he is most likely to become galvanized by issues that involve workers compensation and employe benefits.

Noting that the Minnesota legislature tends to be prolific in passing bills on employe benefits, Mr. Meuwissen said that he attended meetings of legislative subcommittees on abuses in employe rehabilitation programs.

He did this, he said, because he believes there is misuse of workers compensation rehabilitation programs in the state. Employes are able to use the law to gain an education they could not afford on their own, he asserted, citing the example of a high school educated employe who used the rehabilitation program to go back to school to get a college-level job. The Minnesota rehabilitation program also permitted a Peavey Co. duplicating machine operator to get a two-year education and become a drug dependency counselor, he complained.

If his lobbying eventually results in any modification of the rehabilitation statutes, Mr. Meuwissen indicated he thinks it will be time well spent.

In writing letters to the Minnesota legislature, he said he tries to use a "carrot and stick" approach, citing positive aspects of a measure as well as the negative stuff. He said this approach worked well in the case of a comprehensive health bill.

A. Bruce Gibson, insurance manager for Arcata National in Menlo Park, Calif., is a man who has been motivated by his company's man in Washington to write to both state and federal representatives.

"He tells me who is involved in a bill and he gives me the key names of the secretary of the proper committee," he related.

A man who believes there is "a big bang for the buck" in conveying his views to federal and state legislators, Mr. Gibson noted that he has dispatched letters to Sacramento on proposals dealing with workers compensation. In particular, he recalled that last summer he wrote letters dealing with the highly controversial measure that transfers cumulative trauma claims to the last employer.

Because Arcata National is in the timber business, Mr. Gibson said he has also written Washington about the bill to expand the Redwoods National Park in Northern California.

Punitive damages is another issue that touches fire with Mr. Gibson. He joined an army of risk and insurance managers who have scribbled protests to the Insurance Service Office (ISO) about its drive to have its jurisdictions adopt an exclusion on coverage for punitive damages.

"The issues have to be there for me to write letters," he observed. As for insurance proposals on the state level, he indicated he supports all measures "that are on my side."

Letter writing is effective, he's convinced. Mr. Gibson noted that some legislators have told him that they seldom receive as many as 10 letters on a given issue.

If this is true, well constructed letters have got to pack a punch, he

Continued on page 48

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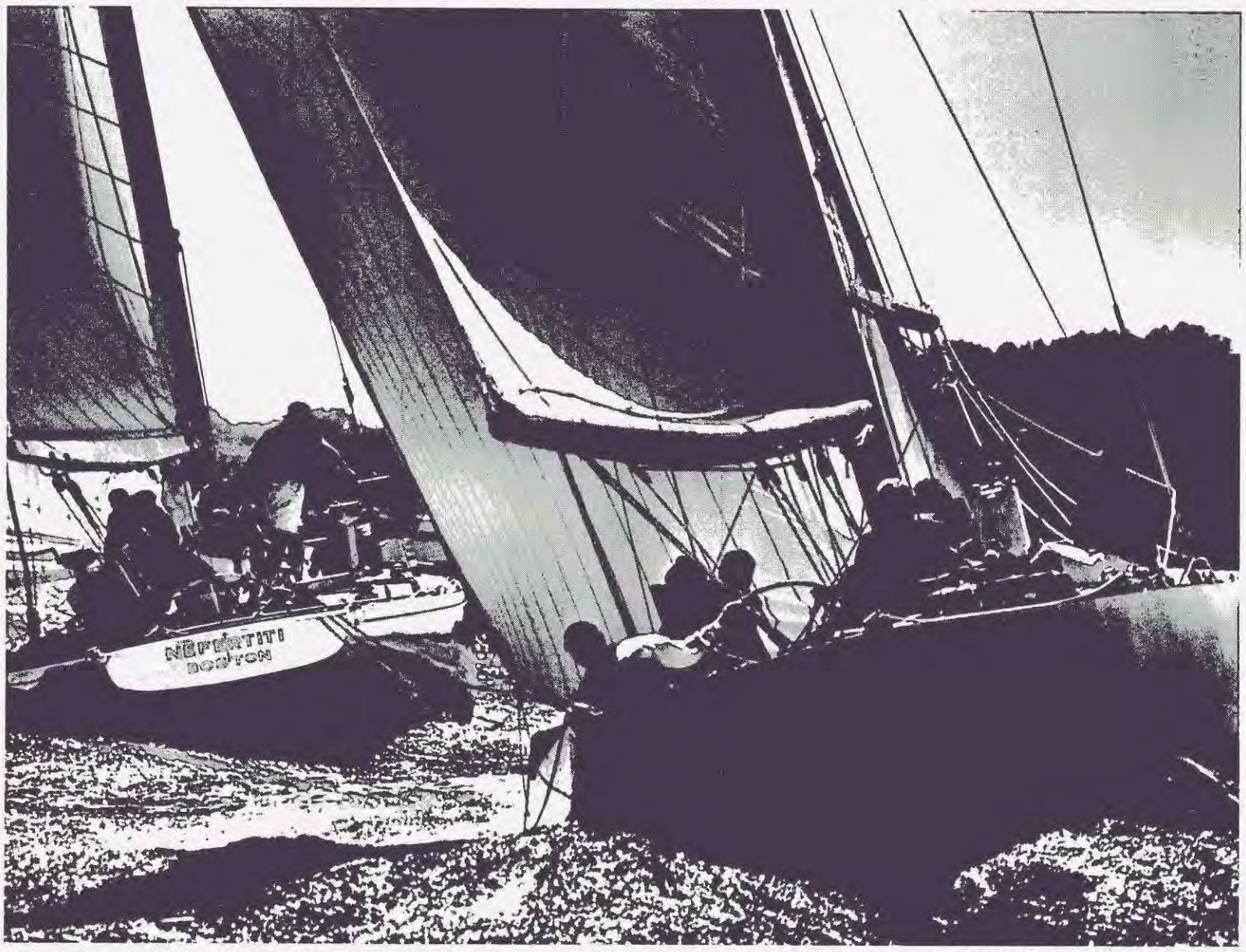

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Lobbying managers . . .

Continued from page 46
asserted, adding "and I always get a response."

Woody B. Anderson, who is now risk manager for Fibreboard Corp., in San Francisco, recalled that he spent a "reasonably significant" amount of time writing letters to legislators when he was with a former employer.

"At that time, we had two full-time lobbyists in Sacramento and one in Washington and I could review all relevant assembly and senate bills," he said.

His present employer is not large enough to warrant such an effort in the state and federal capital. It works with the Northern California chapter of RIMS, he said.

Idaho, a fast-growing state in the West, also has its share of involved risk and insurance managers. Ron Winans, director of risk management and administrative services for Simplot Corp. in Boise, pointed out that he both participates in the Boise RIMS chapter efforts to mold legislation and does the same thing on his own.

Just this year, Mr. Winans contacted all of Idaho's congressmen, its two senators and two representatives, to present his views on national health insurance. Because there are only four men who go to Washington for Idaho, Mr. Winans said he is able to be personally acquainted with all of them.

"They are four neat guys," he said, acknowledging that composing a letter to a lawmaker you know personally is more effective than doing the same with a representative whose face is totally unfamiliar.

Communication with state legislators also is somewhat easier for Mr. Winans because Boise is the state capital and he sees these lawmakers on the street frequently.

Like all the other activist risk managers, Mr. Winans is confident that writing letters to legislators works.

Foremost-McKesson's Alan Pearce, assistant treasurer and director of risk and insurance management, was the only risk manager to cite the Chamber of Commerce as an inspiration for lobbying.

He recalled that he often wrote letters to senators and congressmen while working in Houston on issues suggested to him by the Chamber of Commerce. That body was a big help, he said, because it not only suggested issues but also supplied "meaty" background data.

Workers compensation and no-fault automobile insurance, which Mr. Pearce opposed, were two areas that received a lot of attention in his letters to lawmakers, he recollected.

Moreover, he noted that while in Texas he also composed letters to the state insurance commissioner inquiring why the state did not permit employers to self-insure workers' compensation coverage.

"I pointed out that Texas permitted the Texas General Indemnity Co. to write no-risk retro plans which is akin to a subterfuge for self-insured workers compensation," he said. "And I also noted that public entities in the state were allowed to self-insure the coverage."

However, responses from the state commissioner were disappointing, he said.

Foremost-McKesson, which is based in San Francisco, may set up a public affairs program this year, he noted. If it does he would like to be one of those tapped to talk on national health insurance.

"I am concerned that it would be like Social Security," he observed. ■

2 associations get dividends

PHILADELPHIA — Two trade associations have earned dividends on fire, theft and liability insurance programs with Market-Dyne International, an INA subsidiary.

The International Assn. of Wall & Ceiling Contractors/Gypsum Drywall Contractors International earned an 11.7% dividend. The Mechanical Contractors Assn. of American received 11.6%. ■

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Despite need, most benefit execs keep low profile

By REBECCA A. FANNIN

NEW YORK—Many employe benefit managers say they see the need to take a more active role in shaping legislation yet few directly confront those public issues that affect their jobs.

Some benefit managers are stymied from taking action because top management prefers, and sometimes directs, that employes assume a low profile.

Such a corporate philosophy originates, according to one employe benefit manager, because speaking out against legislation could result in loss of a government contract.

So instead of each company individually lobbying against proposed legislation, most employe benefit managers organize into groups such as the Council on Employe Benefits, which speaks and testifies for them.

RIMS PREVIEW

"There's a sensitivity of being singled out," said A. John Lamantia, employe benefits administrator at Lever Bros. Co. "Sometimes it's not very popular to take a stand against some issues. You could be setting yourself up as a target."

Testifying against such an issue as pregnancy disability payments is like being against motherhood and apple pie, said another employe benefit manager.

Constraints against individual lobbying by benefit managers also occur because the corporation requires that several departments approve even a letter to a state legislator. Thus some benefit managers said they can't respond quickly to public issues.

But in other companies, such as Allied Chemical Corp., General Motors Corp., Puritan Fashions Corp. and U.S. Industries Inc., employes are encouraged to speak out.

"Our company encourages all sorts of involvement," said Don Gilmartin, manager of employe benefit services at Allied Chemical. In Morristown, N.J., where the company is located and has 3,000 employes, employes are involved in all sorts of community organizations and this is very effective, Mr. Gilmartin said.

"Our management doesn't mind if we speak out because it helps the company," said Constance D'Agosta, administrator of employe benefits at Puritan Fashions Corp.

Ms. D'Agosta said she frequently writes to the American Medical Assn. to complain about high hospital costs and surgical costs. She also writes to Congressional committee heads considering legislation and talks to local congressmen, who she said are very receptive.

Ms. D'Agosta said she griped to her local congressman about the state's Human Rights Commission, which was passing out literature telling women employes to angrily demand their employer pay for pregnancy disability. Yet at the same time, Ms. D'Agosta said, employe benefit managers hadn't been informed of their responsibilities or obligations in this area.

The Human Rights Commission eventually toned down its approach in trying to outrage women employes.

General Motors also actively pursues legislative matters, said Victor Zink, General Motor's director of employe benefits and services. GM becomes involved in every important benefit plan issue, among them pregnancy disability, mandatory retirement and Social Security legislation.

But Texas Instruments and U.S. Industries are more selective when deciding to take public stances.

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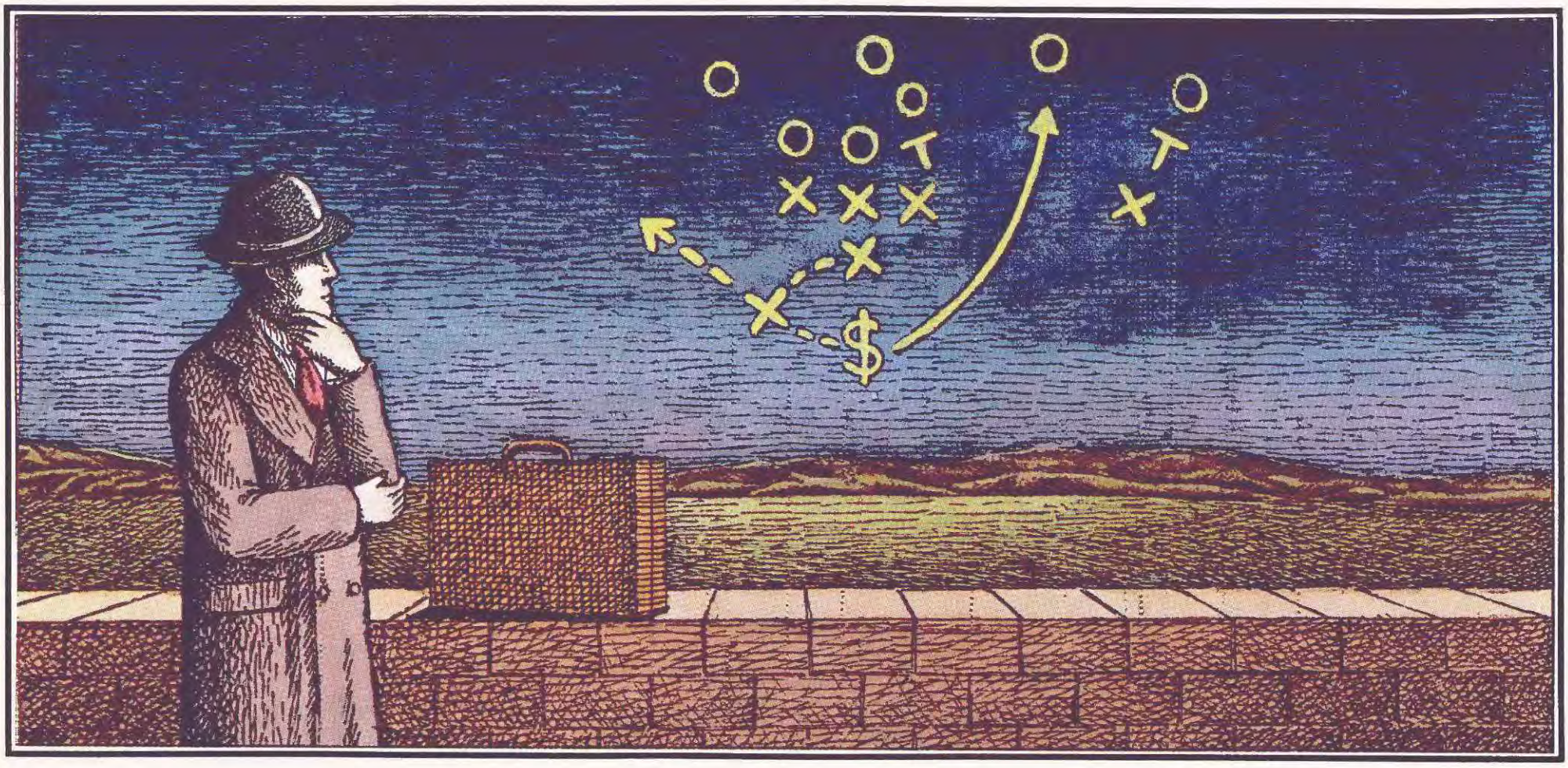

With more risks being retained and funded by companies themselves, risk managers face an increasingly complex array of strategic decisions in providing protection for their firms' assets.

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

Sometime in the past few years, a corporate risk manager is likely to have undergone an unsettling experience.

He may have discovered, when an insurance policy came up for renewal, that the cost of an important part of his company's insurance coverage had climbed to unprecedented heights—perhaps even doubling or tripling. Moreover, some portions of his company's risks may have become uninsurable at any cost. For the risk manager, such an occasion may have represented a milestone—the start of the self-insurance era.

Although there has been some measure of relief from the tight insurance markets of the early 1970s, primary insurance for business is not again likely to be as easily available and relatively inexpensive as it was a decade ago. Inflation, broader concepts of corporate liability and high jury awards have raised the demand for insurance beyond the supply. To fully protect his company's assets, the risk manager is now retaining large portions of many risks, rather than transferring them to commercial insurers.

Which risks? By and large, those exposures can be self-insured which predictably result in a large volume of small claims and which are not subject to catastrophic losses. The two principal ways of retaining risks are by means of high deductibles and by establishing a formal funded self-insurance program. For a corporation with upwards of $250 million in annual sales, this can mean retaining as much as the first $1 million or more of aggregate corporate risks.

In short, the risk manager is tending more and more to become his own primary underwriter.

in Self-Insurance

Major considerations

As such, he must choose, from among a number of complex alternatives, a program that assures his company the fullest possible protection at minimum risk and expense.

The financial capacity of the company to assume risk must be determined. All feasible internal funding methods need to be reviewed, and appropriate funds must be earmarked as risk retention reserves (including those formerly intended for insurance premiums). Tax consequences must be evaluated—for example, insurance premiums are fully deductible from federal income taxes, while funds set aside as reserves may not be.

Cut-off levels must be established beyond which the company's exposures will be transferred to commercial insurers. Even the formation of a company-owned "captive" insurance company may be indicated.

And as part of a self-insurance program, the risk manager must take over many of the functions of an insurance company. These include such responsibilities as loss control, claims adjustment and even salvage and subrogation. For all of these, he may elect to use the services of an outside organization.

Filling the gaps

A further complexity for the risk manager is that many primary insurers are holding down the upper limits of their policies. Insurance above those limits must be placed with "excess" carriers, who may have restrictions of their own.

For example, on $20 million of coverage wanted for a given risk, a primary carrier may not be willing to underwrite more than $250,000 to $500,000 (above the deductible). Yet the first excess carrier may itself have a minimum lower limit of $1 million—thereby creating a gap which can be difficult to fill. Moreover, to reach the $20 million limit, several layers of excess insurance may be needed, all of which must fit smoothly together.

Arranging for such complex insurance coverages has become an important responsibility of the risk manager and his broker. In response to this need, INA has created a special facility to provide comprehensive products and services covering all aspects of insurance and risk management.

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INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on current trends in self-insurance, write INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

The last stand of the "first dollar"

Insurance policies that provide business with "first dollar" coverage—protection without deductibles, right down to the smallest claims—appear to be going the way of the five-cent cigar.

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Large numbers of very small claims, they point out, are most efficiently handled outside the insurance mechanism. Incorporated in insurance, they are unproductive, forcing rates up.

INA
The Professionals

Benefit execs . . .

Continued from page 49

Although Texas Instruments usually likes a low profile, if the issue is important enough the company responds with a stronger approach, said Gene McGarrah, employe benefits director. On some issues, Mr. McGarrah added, the company has initiated letter campaigns to national and state governments.

U.S. Industries proceeds cautiously, choosing only proposed legislation that they can sway by their influence. U.S. Industries testifies most frequently on New York state insurance legislation, most recently regulation 20, which allows insurers to take credit for reinsurance based with offshore companies. The company also plans to testify at the public hearing to outlaw fronting in New York.

RIMS PREVIEW

Those who do apply pressure to influence forthcoming legislation said their efforts are well received. "The Labor Department and the Internal Revenue Service welcome our responses and sometimes solicit them," said Jim Tobin, employe benefit manager at Union Carbide Corp.

"It's very effective to get your voice in the hopper," said Allied Chemical's Mr. Gilmartin. "It adds to the body of knowledge to develop legislation."

Yet some benefit managers aren't satisfied with their input in lawmaking.

"They're legislating like mad in the area of employe benefits, to the point of no end," said Paul Porch, corporate director of compensation and benefits at Emerson Electric in St. Louis.

"There's such a total profusion of legislation that we can't keep up with the surface matters and still know what's percolating beneath," Mr. Porch added. "We're just retreating continually and they are few topics that business can agree on so we can join together."

Referring to the small impact of one letter from one company concerning an issue, Lever Bros.'s Mr. Lamantia said, "My one letter wouldn't mean that much. Groups carry more clout."

"You get a better response from groups and there's always safety in numbers," Ms. D'Agosta said.

Most benefit managers belong to such groups as the Washington Business Group on Health, National Assn. of Manufacturers, Risk & Insurance Management Society, Council on Employe Benefits and ERIC, the ERISA Industry Committee.

> 'There's such a total profusion of legislation that we can't keep up with the surface matters and still know what's percolating beneath.'
>
> **—Paul Porch,** Emerson Electric

These groups, plus brokers and consultants, keep the benefit managers aware of public issues that may affect their jobs, benefit managers said. The groups also effectively represent companies by testifying before committee heads in Congress and making the business opinion known.

But such organizations sometimes aren't responsive to the needs of a specific company since they try to represent them as a whole.

"When they're not as responsive as we feel they should be, then we begin our own efforts," Mr. Gilmartin said.

Most of the companies interviewed maintain their own Washington office to establish a liaison between departments within the company and the government.

At General Motors, the governmental affairs department arranges for Mr. Zink and other department heads to give testimony. The Washington office can do so because of its familiar contacts in Washington, but the department heads themselves determine the content of the testimony.

Union Carbide also maintains a Washington representative who "keeps on top of all legislation," Mr. Tobin said. "Most large companies feel it is important to have someone on the scene."

Mr. Tobin added that the Washington office is continually asking the benefit departments for input. "I trust the Washington liaison office is helpful or they wouldn't be there," he said. ■

Arkwright-Boston forms 6th panel

WALTHAM, Mass.—Arkwright-Boston Manufacturers Mutual Insurance Co. has formed a policyholders advisory board on the West Coast, the sixth such panel for the insurer of industrial property.

Among the members of the board are executives from Whittaker Corp., Pacific Power & Light Co.,* Basic Vegetable Products Inc., Kern Foods Inc., Cominco-American Inc., Olympia Brewing Co. and Western Cooperative Fertilizers Ltd. ■

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Reveal 145 entries in BI benefit contest

Communicators favor printed media, stress firms

NEW YORK—The 145 entries in the sixth annual Employe Benefits Communication Award sponsored by *Business Insurance* show that benefit communicators are increasingly reinforcing the company's name throughout the presentation.

Other communication trends, according to Ronnie Drachman, coordinator for the competition, include the growing use of ring binders and plastic identification cards to verify coverage.

While last year's competition showed the popularity of audio-visual presentations, this year's competition received an increasing number of updated audio visuals. The use of audio visuals, however, declined in the category for total communications programs.

"Usually we receive both printed and audio-visual entries for the total communications category, but this year quite a number of companies submitted only printed material," said Ms. Drachman.

Of the four entry categories—booklets, personalized correspondence, audio-visual presentations and total communications programs—the booklets category remained the most popular with 60 entries.

Personalized correspondence received 26 entries, while 39 entries were submitted in audio-visual and 20 in total communications.

The winners will be announced

RIMS PREVIEW

at a luncheon April 11 at the annual RIMS conference in New Orleans. The winning efforts will also be profiled in a future issue of *Business Insurance*.

Thirty-two different consulting firms and 117 different companies and unions submitted entries. Companies of all sizes and types entered the competition, Ms. Drachman said.

The *BI* Benefits Communications Award has seen a growing number of entries from the first year it was sponsored. This year's 145 entries is up from 120 entries last year and up from the 80 entries received the first year.

Judges for this year's competition included mostly representatives from the employe benefits field. They were: Melvin L. Benjamin, director of international compensation and benefits for Johnson & Johnson; Mary Jane Buddy, manager of employe benefits for Chesebrough-Ponds Inc.; Constance D'Agosta, administrator of employe benefits for Puritan Fashions Corp., and Marie Krakow, a former *BI* editor who is now managing editor for CBS Educational Services.

Also: Gerard A. Kraemer, manager of employe benefits for AMF Inc.; Diane Kremin, benefits specialist for Kennecott Copper, Corp.; Niels H. Nielsen, head of personnel services at ARA Services Inc., Nancy Oblinger, manager of internal communications at Swett & Crawford, and William S. Rice, corporation benefits planning consultant for Celanese Corp.

Rounding out the judging panel were Elliot Romm, corporation manager of employe benefits at International Nickel Co.; Vincent Tomo, manager of employe benefits at Inmont Corp. and Ann D. Wyant, manager of public information at Bristol-Myers Co.

The companies and consultants submitting entries for this contest were:

Booklets

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Avon Products Inc.
Baxter Travenol Laboratories Inc.
Bradford National Corporation
Buckeye Pipe Line Company
Butterick Fashion Marketing Company
Central States Health & Welfare Fund
Chemical Bank
Comerco Inc.
The Continental Corporation
Consolidated Freightways Inc.
Eaton Corporation
Electrical Trustees Insurance
FMC Corporation
BF Goodrich & Company
W.W. Grainger Inc.
The Greater Marshfield Community Health Plan
Heublein Inc.
Keebler Company
Kemper Insurance
Lever Brothers Company
Levi Strauss & Company
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R.P. McDavid Co. Inc.
Medical College of Wisconsin
Memorial Sloan Kettering Cancer Center
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Mobil Oil Corporation
Molton, Allen & Williams Inc.
Motorola Inc.
Nabisco Inc.
Noland Company
Ohio Brass Company
Pepsico Inc.
Pfizer Inc.
Philip Morris Inc.
Protection Mutual
Puerto Rico Marine Management Inc.
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Raytheon Company
Reed National Corporation
R. J. Reynolds Industries Inc.
Ryder Systems Inc.
Science Applications Inc.
The Sunmark Companies
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The Upjohn Company
Vernay Laboratories Inc.
Arthur Young & Company
Wagner Electric Corporation
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Avon Products Inc.
BASF Wyandotte
The Bergen Record
Bliss Laughlin Industries
Cabot Corporation
Carrier Corporation
Adolph Coors Company
Dart Industries Inc.
Eaton Corporation
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Continued on page 56

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New injury stats available

WASHINGTON — The Bureau of Labor statistics says the first detailed state information on occupational injuries is now available.

The information is obtained by the supplementary data system, a cooperative state-federal program which collects information on occupational injuries from state workers compensation programs. Thirty-one states now participate in the system.

Requests for information should be sent to Theodore J. Golonka, Assistant Commissioner for Occupational Safety and Health Statistics, 200 Constitution Ave., NW, Room C-4311 or telephone 202-523-9271 ■

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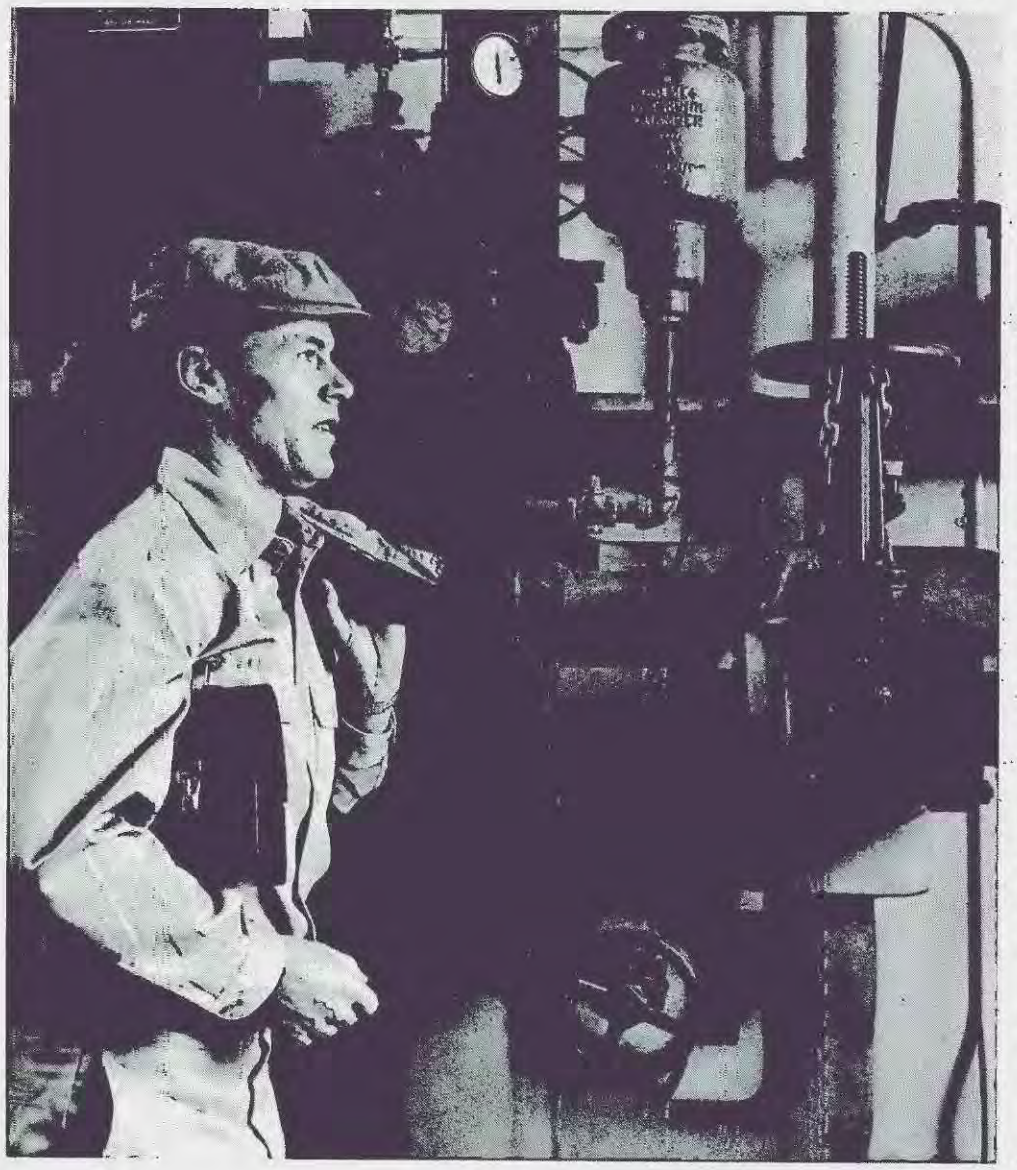

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BI contest . . .

Continued from page 54

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Bath Iron Works—Division of Congoleum Corporation
Borden Inc.
Chatlen Drug & Chemical Company
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Buckeye Pipe Line Company
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Perry Communications Inc.
Prudential Insurance Company
Southern Employe Communications
Towers, Perrin, Forster & Crosby
Ray Welsh Associates Inc.
Young & Rubicam (Corporation Communications)

RIMS PREVIEW

A&A moves to acquire 2 companies

NEW YORK — Alexander & Alexander Inc., the nation's third largest brokerage firm, has acquired two more operations.

A&A announced it has merged with American Risk Management Co., formerly O'Conner-Laffey Co., a general insurance agency in North Arlington, N.J. Thomas A. Laffey, one of the principals of American Risk Management, has been named managing vp with A&A, while two other principals are joining A&A as vice presidents.

A&A also acquired Property Tax Services Inc., a Los Angeles consulting firm, and merged it with A&A Property Tax Service Co. A&A said the latest acquistion makes it the only firm to offer property tax consulting services nationwide.

Alexander & Alexander reported a 59.9% increase in net income for 1977 to $28.5 million from $17.8 million. Revenues last year were up 29.1% to $219.4 million from $170 million. ■

Animal beneficiary?

Animal lovers are advised that they can choose anyone to receive the proceeds of their life insurance policy including their favorite cat—as long as they name a human or corporate beneficiary to act as a guardian for their pet. The cat couldn't cash the checks, says the American Council of Life Insurance, but if you name a lawyer or relative as trustee, he or she can cash them for the cat's walfare.

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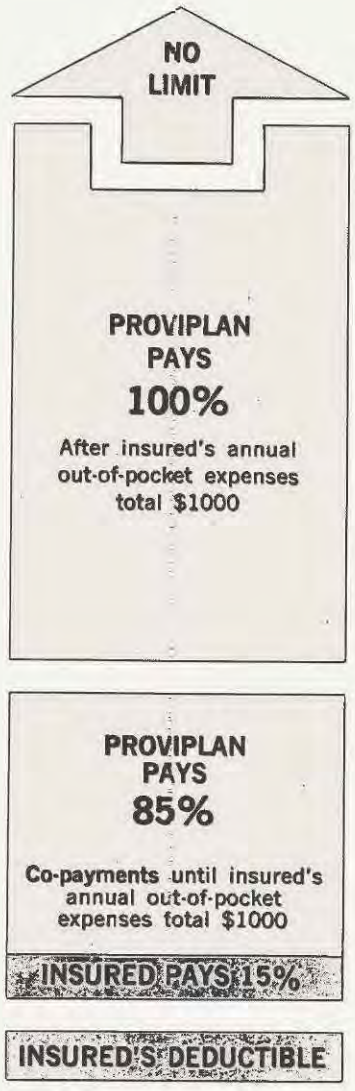

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Recruiter bets his own prospects on hot job market

By SUSAN ALT

DALLAS—The job market for risk and insurance managers is, needless to say, improving. Some would even call it "hot."

One who would describe it in those terms is Don Delaney, placement manager with Insurance Recruiters Inc. here, whose ads for positions in corporate risk management have been appearing more frequently in recent months.

Mr. Delaney hopes the market will heat up even more, since he made the decision last October to establish a division specializing only in corporate risk and insurance management placements and recruiting.

Since then he's received and filed some 150 resumes of risk and insurance managers who are looking for jobs. He put together a portfolio of 22 open jobs by the final quarter of 1977, but has only filled two so far. Mr. Delaney is the first recruiter and placement specialist to devote full time to the narrow field of risk and insurance management, catering solely to corporations and institutions needing buyers of insurance and administrators of risk management and loss prevention programs.

Mr. Delaney decided to specialize in the field because he was told by a number of knowledgeable people that at any one time there are probably 75 to 100 risk management positions available around the U.S., including everything from insurance analyst up to vp of insurance.

Most jobs in this field have been filled by word of mouth in the past, although higher level positions commanding salaries of $40,000 a year and more have been handled by executive search firms. The Risk & Insurance Management Society has been active in placing individuals in risk management and insurance positions through its in-house referral service. Brokers have been very active in helping to fill openings as well, eager to find an appropriate new manager or replacement who's favorably disposed toward the incumbent broker.

> Most companies with risk management openings frequently 'want to promote the No. 2 person, but need to look around first.'
>
> —Don Delaney, Insurance Recruiters Inc.

One reason there's more call for a specialist in the field now, Mr. Delaney believes, is because companies with risk management openings frequently "want to promote the No. 2 person, but need to look around first."

He figures that, based on estimates he's gathered and trends now underway in risk management, he can count on a 20% increase annually in the number of jobs to be filled in this field.

Brokers who've done a lot of recruiting in the past haven't always felt comfortable at the task, says Mr. Delaney. It was an insurance brokerage firm that actually encouraged him to start this specialized recruiting business "because they felt we could be impartial in who we recommend and who we don't recommend. Good brokers, because they sell insurance, don't feel comfortable with the job of recruiting risk managers, especially if this involves pulling

Continued on following page

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Recruiter says risk managers earn about 1.5% of premiums

DALLAS—Don Delaney of Insurance Recruiters Inc., who's recently begun specializing in filling corporate risk and insurance management jobs, has developed his own rule of thumb about risk managers' salaries.

Corporate risk managers "tend to earn" 1% to 1.5% of what a corporation spends on annual premiums for insurance, he says. He came to this conclusion from asking a lot of companies and risk managers about salaries relative to insurance premiums.

He hasn't seen or heard of a single "full" risk manager recently who is earning less than $25,000 a year. In this category he includes risk managers who use the comprehensive tools of insurance and self-insurance and possibly a captive, with full authority to design, change, buy and negotiate the entire insurance program, "which I differentiate from an insurance manager who is merely a liaison between the company and the broker."

The most frequent complaint Mr. Delaney hears from risk managers about their pay levels is that their compensation isn't tied in some way to the performance of the insurance program. "Many wish they had an incentive program tied in some way to what they save the corporation on its insurance premium costs," he says.

Hot job market . . .

Continued from preceding page
somebody from one corporation to fill a spot at another corporation.

"What if the corporation you're stealing from happens to be a client?" he asked. Or if the corporation isn't a client, but you might have a chance to win the business? It doesn't look good if you've enticed that firm's risk manager away for another position and it doesn't improve your chance to win that account."

Nonetheless, he adds, brokers are still heavily involved in helping corporate clients find insurance personnel, mainly because they can't resist the opportunity to place people friendly to that broker's philosophy.

"I can call any brokerage office anywhere in the country and the top agency executive will have in his top drawer one, two or three situations that he is looking for someone to fill," relates Mr. Delaney.

An employer will typically interview four to eight candidates for an insurance department position before selecting an individual. After Mr. Delaney is retained by a company to find someone for an insurance buying or insurance management position, it's normally two to six months until the task is completed.

"The urgency to fill a risk management position isn't as great as to fill other corporate positions," says Mr. Delaney. "Very often, the broker can step in and do much of what the risk manager was doing until they find somebody. Also, corporations don't consider this an urgent or top priority position because there aren't pressing tasks day-to-day."

Insurance Recruiters currently has 25 jobs open in the corporate risk management/insurance field, with salaries ranging from $16,000 to $45,000 a year. Ads draw between three and eight resumes from job seekers each day, in addition to some resulting from the scouting Mr. Delaney does over the phone with probably a half-dozen individuals each week that he's been referred to by other risk managers and experts in the field.

There are all kinds of people looking for jobs. Of the 150 resumes he has on hand from people responding to ads, most are from people earning near the $28,800 that is the average for the profession. The lowest salary represented is $15,000 being earned by a female risk manager in Florida with the title of insurance administrator. The highest salary represented is that of a vp of insurance for a Fortune 100 company who's drawing $75,000 a year with a bonus.

More jobs are opening up, too, says Mr. Delaney enthusiastically. He swears he sees at least five new corporate risk management or insurance management positions being created every 30 to 60 days. "We have found that corporations generally think of starting an insurance department when they're paying $1 million or more in insurance premiums, exclusive of employe benefits," he affirms.

Geographically speaking, the 25 positions now open are spread all over the country, with heavier concentrations in the Eastern industrial states of New York, New Jersey, Connecticut and Massachusetts. There are several in Georgia, some in Florida, Texas and Denver. Both Northern and Southern California have jobs open, while there are also positions available in the Midwest—Chicago, Detroit and through Ohio.

Mr. Delaney's firm is paid by the employer who's seeking someone to fill a position and Mr. Delaney gets paid only if he's successful in filling the spot. This approach is called a contingency or success-based fee. ■

OSHA slashes DBCP limits

WASHINGTON—Worker exposure to DBCP, a pesticide which causes sterility, has been slashed sharply under a new permanent standard announced last month by the Occupational Safety and Health Administration (OSHA).

The OSHA standard limits exposure to DBCP to one part per billion parts of air averaged over an eight-hour workday; eye and skin contact with DBCP is prohibited.

The standard becomes effective April 17. ■

Auction house risk manager's brush paints covers for a fresco of risks

By SUSAN ALT

LONDON—Imagine, if you will, a multistory frame building with worn staircases and countless dim hallways leading to showroom after showroom of art objects. Beyond a large auction room filled with chairs and a few people speaking in hushed voices is a room filled with Dutch masters. Beyond that, a room stuffed to overflowing with Oriental antiques.

Down a narrow wooden staircase is the basement, a labyrinthine assortment of dozens of large high-ceilinged rooms full to the rafters with stacks and racks of paintings, woodcarvings, handcast brass buddha statues, vases, tapestries, jewelry, porcelain, china, rugs and other paraphernalia. The thick, white paint on the walls is peeling, leaving no doubt that one is in a very old part of London, and that possibly the building's foundations are as old as some of the antiquities stashed in every nook and cranny of the storerooms.

No, this isn't a museum we're in. It's the headquarters of the famous Sotheby Parke Bernet auctioneers. And it has to constitute a whale of an exposure for any risk manager to handle.

Notwithstanding the frame construction, the concentration of values, visitors wandering everywhere, Rolph Lloyd-Williams is almost nonchalant about the risk for which he has to maintain insurance and administer claims.

Sotheby's handles a formidable array of auctionable artifacts, including such unlikely items as airplanes and steam engines. Not everything is terribly valuable, says Mr. Lloyd-Williams in good humor, laughing about the many strange small items that have sold for as little as a dollar or two. The most expensive objets d'arts Sotheby's has sold include seven Impressionist paintings auctioned in 1958 for 750,000 pounds sterling; a group of 49 Impressionist paintings in 1962 that brought 1 million pounds sterling; a Renoir painting auctioned in 1976 for 620,000 pounds sterling, and a Renoir painting sold by Parke Bernet in the U.S. in 1968 for over $1.5 million.

Needless to say, Mr. Lloyd-Williams's biggest problem as an insurance manager is the "very large" goods-in-trust exposure, as he describes it coolly in understated terms. To look at the cellar storerooms of Sotheby's rickety headquarters in London is to know that there is a goods-in-trust exposure of almost unbelievable dimensions.

Values, and thus the limits of insurance policies, vary by location, but Mr. Lloyd-Williams has to assure adequate coverage for well over $115 million values at the London headquarters and over $20 million values at the second London office.

To illustrate the flow of goods through Sotheby's here, consider that this building alone is host to nearly 500 auction sales each year (an average of nearly two a day) at which 137,000 "lots" of goods are sold. The average lot doesn't represent big money, generating only about $550 per lot, on the average. About 75% of the so-called lots generate $1,000 or less.

It's not surprising that Mr. Lloyd-Williams says "because of the very size of the operation, you can't handle insurance bit-by-bit." What he means is that Sotheby's (pronounced suth-eh-bees) needs to have *big* floaters, to cover big values and the transfer of goods all over the world.

A work of art, a ring, or a price-

Continued on following page

Photo: Susan Alt

Rolph Lloyd-Williams, who's been with Sotheby Parke Bernet auctioneers as insurance manager since 1961, takes a visitor through the basement storage rooms of Sotheby's main headquarters in London, where thousands of valuable and not-so-valuable paintings and art objects are stashed in every corner. Most are antiques, and many are so old they look fragile enough to crumble at a touch. Mr. Lloyd-Williams was an average adjuster in the marine insurance business before he joined Sotheby's where he and two assistants handle some 600 claims a year.

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Auction house . . .

Continued from preceding page

less china vase might be accepted at headquarters in London and then transferred in time to each of Sotheby's 11 major selling centers in Continental Europe and in the U.S., necessitating worldwide coverage.

Sotheby's pays about $500,000 a year for its fine arts and goods-in-trust floaters that covers the well-traveled artifacts.

Though claims and losses are common, the firm with gross revenues of well over $200 million a year hasn't had to worry about many large losses. Until last year, that is, when Sotheby's experienced its biggest single claim yet when two diamond rings disappeared while on display in Sotheby's Zurich office. Their value: about $650,000. They weren't recovered.

This loss "played havoc" with premium costs, boosting them about 15%, acknowledged Mr. Lloyd-Williams. The policies are written on an aggregate excess-of-loss basis. Sotheby's had a 75,000 pound sterling (about $150,000) deductible or self-insured retention until the loss, when the retention was driven up to 125,000 pounds sterling (approximately $250,000).

Sotheby's is big on providing the ultimate in friendly service to its clients, frequently people of wealth and status for whom the institution auctions personal belongings. Thus, Sotheby's will handle all insurance matters for clients, using Mr. Lloyd-Williams to coordinate the details. He spends about 50% of his time, in fact, on insurance for goods belonging to clients, while the other half of his available time is spent on "the normal business insurance matters."

Business interruption risks are the most important exposures for him to manage on the general insurance side of the operation. The policy covering any business interruption loss makes good on Sotheby's loss of revenue during the entire recovery period after any interruption extending over a three-year indemnity period.

Mr. Lloyd-Williams is allowed by the insurers to intentionally over-insure by 50%, though he generally insures for only slightly more than the revenue forecast for the coming year simply to be on the safe side. Sotheby's is then allowed to recover up to 50% of its premiums when a yearly adjustment is made.

The 60,000 pounds sterling (about $120,000) that Sotheby's pays each year for its general insurance includes business interruption and consequential loss coverage, building coverage for fire and catastrophe hazards, office contents coverage, insurance against water damage on the buildings (coverage that the British describe as storm, tempest or flood coverage) and an all-risk policy on certain company machinery and equipment such as phone equipment, internal reference books and catalogues.

Coverage is written in the London markets, of course. Sotheby's uses J.H. Minet & Co. brokers in Britain and Europe, but uses Great Northern Brokerage in New York and Fred S. James elsewhere in the U.S.

Merrett Dixey Syndicate at Lloyd's is the lead insurer on Sotheby's fine arts floater. Sotheby's says in its conditions of acceptance of goods from clients that it will handle all insurance details for a flat charge. A Sotheby's client can decide not to avail himself of this service, but most take advantage of the offer, says Mr. Lloyd-Williams.

Sotheby's catalogue announcing an auction.

The floater is written on a notification basis, with everything insured to-be-declared as it is accepted from a client. Mr. Lloyd-Williams and his staff of two do their own calculations of premiums so they know what fee to charge clients for insurance.

Claims take up a lot of time, and Mr. Lloyd-Williams's desk is usually occupied by broken statues, chipped china or damaged paintings. In-house repair experts at Sotheby's can often correct accidents, though some antiquities or artifacts are sold damaged. Mr. Lloyd-Williams handles a lot of damages and mysterious disappearances, tending last year to about 500 to 600 claims, not including any in North America. The average claim amounts to about $300 to $400. ■

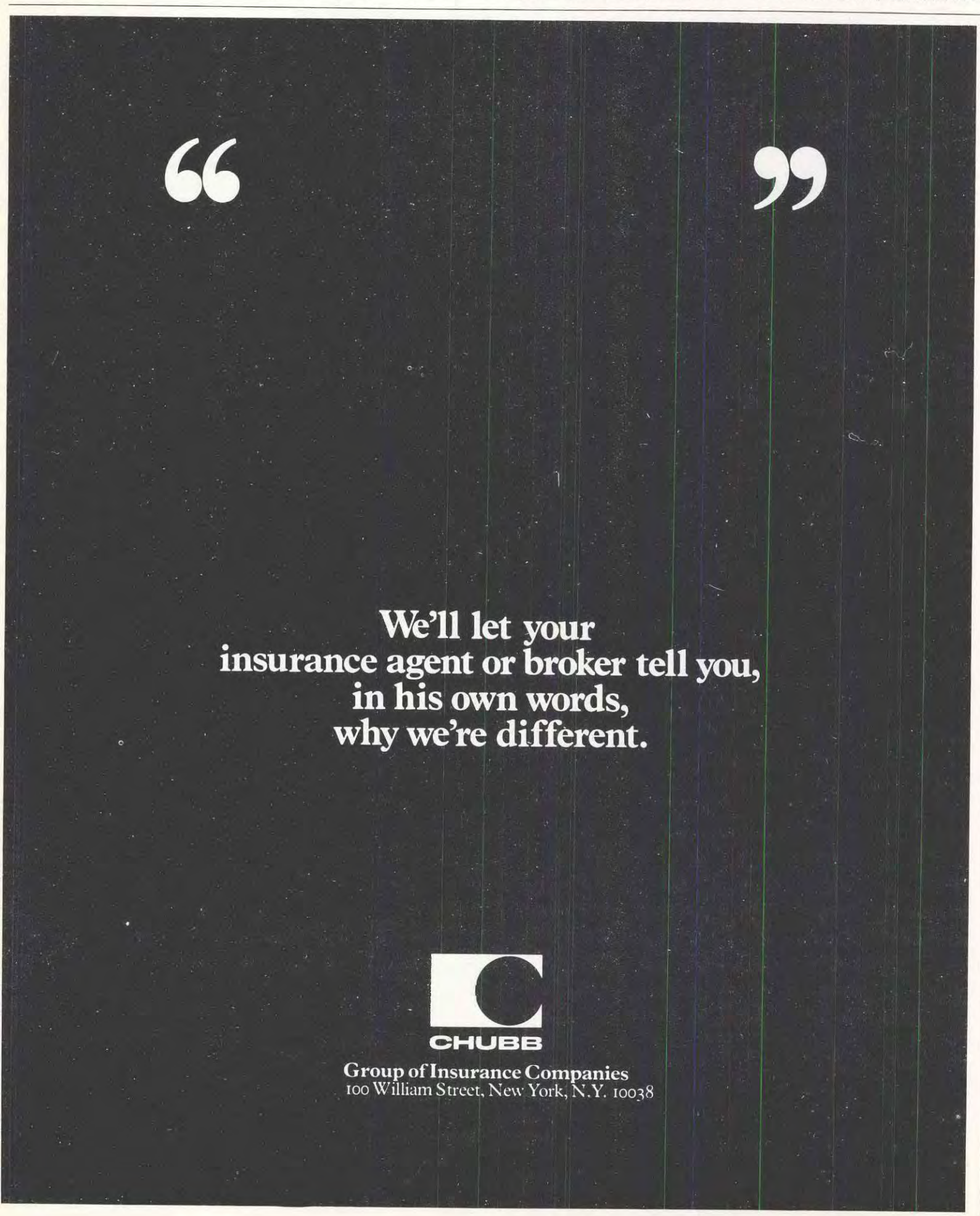
Bakery moves account to Foa

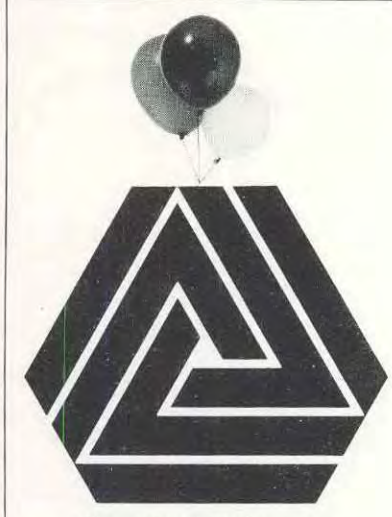
LONG ISLAND CITY, N.Y. — Fink's Bakery has named Foa & Son of New York as broker of record for all of its insurance coverages. Foa & Son replaces Johnson & Higgins in that capacity.

The brokerage firm will also administer claims in Fink's new self-insured workers compensation and product liability program, according to president Richard Fink.

Approximately $300,000 in premiums and insurance costs are involved in the bakery's coverage, Mr. Fink said. Mr. Fink noted, however, that he expects to save about $200,000 in premium costs with the self-insurance programs.

Johnson & Higgins has been the bakery's broker for three years. ■





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Study discloses 20% annual increase in lawsuits

Architects draw a line on rising suits, premiums

By REBECCA A. FANNIN

NEW YORK—The increasing number and severity of malpractice suits filed against architects and engineers, and the resulting huge increase in insurance costs, confronts those professionals with problems rivaling those of the medical profession.

Major malpractice suits against architects and engineers have increased 20% annually in recent years, according to a recent study by Victor O. Schinnerer, a major underwriting manager for architects and engineers.

In addition, the study found that the average value of claims has tripled since 1960, increasing from an average value of $5,481 per claim to $16,751 per claim in 1976.

Frequency of the claims, as well, has risen. The Schinnerer study found that the claims frequency against architects and engineers insured by Schinnerer has risen from 12.5 per 100 insured firms in 1960 to 29.6 per 100 in 1976.

As a result, insurance costs have become a major burden for architects and engineers, some of whom pay malpractice insurance rates higher than their rent, said Peter Samton, a partner in the New York firm of Gruzen & Partners and president of the New York chapter of the American Institute of Architects.

The cost of premiums have soared to 2% to 10% of architects' and engineers' gross income, when a few years ago the cost ranged less than 1% of his gross income, said Paul L. Genecki, a vp with Schinnerer.

The Schinnerer study shows that coverage that cost $100 in 1962 cost approximately $439 in 1972.

Such increases have contributed to the closing of a few architectural firms, said George Lewis, executive director of the New York Chapter of the AIA.

A primary reason for the premium rate increases between 1960 and 1976 is the number of claims in the under $100,000 category. These are troublesome from an underwriting standpoint, said the study, in terms of the amount of time and effort spent on processing and defending and in terms of total dollars required.

In architectural circles, such suits are often called frivolous.

As an example, AIA's Mr. Lewis said, "If a workman is injured on the construction site, even though the architect wasn't at fault, the plaintiff's lawyer will sue the architect and everyone who had anything to do with the building process."

Meanwhile, the insurance market for architects and engineers professional liability has constricted. Only a handful of insurers underwrite the risk, among them Schinnerer who administers such policies for Continental Casualty Co. (CNA) and Shand-Morahan & Co. Inc., underwriting managers for Northbrook Insurance Co., the two major writers. In addition, Illinois R.B. Jones Inc., writes these policies via a correspondent relationship with Lloyd's.

GATX Underwriters Agency Inc., New York-based Professional Coverage Managers Inc. and San Francisco-based Design Professional Insurance Co. also provide professional liability policies for architects and engineers.

William B. Turner, vp of GATX, said several insurers have pulled out of the market during the last several years including General Accident Fire & Life Assurance Corp. Ltd. and the Travelers Insurance Co., which stopped writing these policies in New York. He also noted that facultative reinsurance for such policies, which was always difficult to obtain, is becoming more difficult.

While malpractice insurance for architects and engineers continues to be available, Mr. Turner said the architect's and engineer's insurance problem could loom larger than those in the medical malpractice crisis.

"Architects and engineers don't exert influence on the public that the medical profession does," he said. "They just don't wield the

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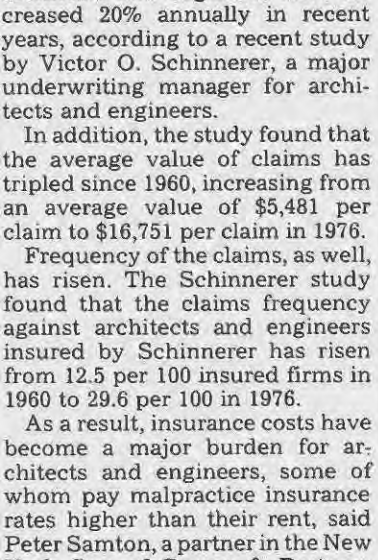

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Architects study . . .

Continued from preceding page
clout to seek recourse from the problem."

Insurance markets are further constricted by the small limits of coverage available even though architects and engineers are, in some cases, seeking higher limits.

"We offer $5 million limits. We just can't get enough premium to offer $10 million," said GATX's Mr. Turner.

Continental Casualty and Northbrook are the only known insurers that offer $10 million limits of coverage, while R.B. Jones provides $1 million limits but has facilities up to $3 million and possibly $5 million. Design Professional recently reduced its coverage limits from $3 million to $1 million because of lack of surplus.

But architects and engineers may get some relief as they are slowly moving toward larger deductibles.

Schinnerer's Mr. Genecki said some of the larger firms have assumed self-retentions up to $500,000 and Edward B. Howell, president of Design Professional Insurance Co., said some of the highest deductibles range from $500,000 to $1 million.

The average deductible, however, ranges around $10,000. Mr. Genecki added that it's not unusual to see deductibles amounting to $15,000 to $25,000.

According to AIA's Mr. Lewis, the architects and engineers are taking much larger deductibles because "they would rather take this risk and reduce the premium."

Self-insurance, however, doesn't appear to be a viable alternative since many of the architectural and engineering firms are small. And the assumption of large self-retentions by architects and engineers has led GATX to adopt a cautious approach in writing above the deductible.

"We're beginning to require financial statements as an indication that the client company can pay these deductibles," Mr. Turner said.

Experts contended that malpractice rates haven't risen because of incompetency by architects and engineers, but because of inflation and overly ambitious lawyers.

With the enactment of no-fault auto insurance and new divorce laws, the Schinnerer study said, the need for legal services in such areas was reduced. At the same time, "the law schools were graduating a significant number of new lawyers who not only had less opportunity to engage in traditional areas of practice but also were bound less to traditional views of professional sanctity," the study noted.

The use of new building materials, sometimes not fully tested, and more costly building structures also have contributed to claims for large sums of money.

Use of relatively new technology resulted in the most famous of architectural liability cases, where so much glass fell out of windows of the 62-story John Hancock Tower in Boston all 10,344 panes had to be replaced.

The most recent example of a building failure was the roof collapse of the $1.4 million roof on the Hartford Civic Center. While several suits amounting to millions of dollars have been filed in the Hancock case, no lawsuits have been filed in Hartford, where the city has just begun an investigation.

Another reason for the dramatic malpractice insurance rate increases is that since 1957 the courts have ruled that architects can be held liable to the general public. Previously, architects and engineers could only be held liable to the owners of buildings.

Also complicating the architect's problems is that the architect is frequently held liable for mistakes made by structural engineers. ■

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Daily News folds in Chicago

Employes choose pensions or severance

By KATHRYN J. McINTYRE

CHICAGO—The 200 editorial and office staffers fired by Field Enterprises Newspaper Division last month when it folded the Chicago Daily News found they had a tough choice to make: collect their severance pay or maintain their pension benefit.

Their severance benefit of two weeks pay for every year of service up to 62 weeks pay was integrated with the pension benefit for those employes who had been there 10 years or more. To take that severance pay meant reducing a pension by an equal amount.

Business Insurance learned the company did offer to pay all 600 terminated employes what it called an "enriched severance" of two weeks pay for the first five years of service and one additional week's pay for each additional five years of service up to a maximum of eight weeks. The non-union, white-collar office staff could collect up to an additional 14 weeks pay under the enriched severance plan.

But they and the 145 Guild members fired by the company that is now publishing one instead of two daily newspapers had to look at their budgets and contemplate the impact on their pensions of taking their regular severance pay. Two non-contributory pension plans were involved, one for members of the Chicago Newspaper Guild jointly administered with the union and another for the non-union office staff.

The Chicago Newspaper Guild has blasted the arrangement but it is in accordance with the contract between the Guild and Field Enterprises. Guild executive director Jerry Minkkinen, who has been in the job just one year, said he's never seen such a provision before. Two top employe benefits consulting firms didn't express alarm at the arrangement, but they did not characterize it as standard practice either.

The severance pay and pension benefit marriage has existed at Field Enterprises as long as anyone can remember. A 25-year-veteran of the surviving sister newspaper, the Sun-Times, said it was in effect when he was hired. But in the early years severance pay was just two weeks pay and therefore not a real drain on one's pension benefit, a Field Enterprises insider noted.

The Guild promises to negotiate a divorce of the severance benefit from pensions in upcoming contract negotiations for Sun-Times editorial employes.

The Field Enterprises employe, who asked not to be identified, expressed disgust with charges that the severance funding arrangement was "little known." The company defender countered that the publisher had called the severance benefit a cruel hoax in two prior contract negotiations with the Guild but it remained in the contract.

A U.S. Labor Department spokesman on pension matters suggested, "It's not good to take severance pay out of pension benefits. One should not be associated with the other . . . .But it's the employer's prerogative."

(The Labor Department recently issued proposed regulations to distinguish severance pay plans from pension plans but the regulations are intended to amend existing rules that have been characterized as discouraging the formation of severance pay plans. Under the proposed regulations, severance pay plans would not be subject to the funding, vesting and participation provisions of ERISA.)

In addition to the enriched severance pay, the publisher is providing terminated employes with hospitalization insurance for six months if they are unemployed.

Guild and non-union, white-collar employes age 60 to 65 were also offered an "enriched pension" benefit that provided them at their termination with benefits equal to what they would have received at 65, assuming the same salary until retirement. Though precluded from taking the enriched severance pay if they opted for the enriched pension plan, they could still withdraw their dismissal pay from their pension plan. Though reducing their pension benefit, the severance pay withdrawal would not affect the enriched portion of the pension.

Guild and white collar employes were also paid for their four weeks of earned 1978 vacation.

The Guild and the Typographical Union are still criticizing Field Enterprises for closing the 102-year-old paper last month and don't consider the terminations settled. The Guild, said Mr. Minkkinen, wants Field Enterprises to justify folding the paper to the National Labor Relations Board. The Guild is also charging the publisher with discriminatory practices in firing editorial staffers. The Typographical Union declines to discuss its negotiation goals.

Harry Conlon, president of Chicago Local 245 of the Graphic Arts International Union, one of the eight unions that settled with Field Enterprises, said, "I'm satisfied. The enriched severance and hospitalization are things the publisher didn't have to do." Eleven of the union's 45 graphic artists employed by Field Enterprises lost their jobs and collected four weeks severance pay under their contract as well as the enriched severance pay. ■

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SEE OUR AD ON PAGE 3

Advocate urges insurers to back no-fault bills

WASHINGTON—No-fault automobile insurance advocate Jeffrey O'Connell implored the insurance industry to lobby actively for adoption of the no-fault concept.

Speaking at this year's Capital I Day, an annual symposium sponsored by insurance companies, trade associations and brokerage firms, Mr. O'Connell said it was "shameful" that many insurance companies remain opposed or indifferent to pending federal legislation establishing uniform no-fault auto insurance guidelines.

Mr. O'Connell, a professor of law at the University of Illinois, acknowledged that all the bugs have not been worked out of the no-fault systems that now exist in 16 states. The monetary threshold which must be reached before an accident victim can sue for damages may have been set too low in some states, Mr. O'Connell said.

Nonetheless, enough conclusive evidence has been established to prove that the original promise of no-fault has been fulfilled: a greater chunk of the insurance premium goes to the accident victim rather than to cover litigation expenses, Mr. O'Connell said.

The Illinois law professor's call for support comes at a time when current no-fault proposals have found the going tough in Congress.

After months of delays, House and Senate committees that have jurisdiction over the legislation have now only begun to mark up the no-fault bills. A vote to get the measures out of committee is expected this month.

Both Senate and House bills would require the states to adopt a no-fault plan that met or exceeded federal guidelines.

If a state failed to adopt a no-fault plan that met those guidelines, the federal plan would automatically go into effect. ■

'76 reported biggest year for captives

CHICAGO—Last year was indeed the biggest year yet for the establishment of captive insurance companies, said H. Felix Kloman, consultant and head of Risk Planning Group in Darien, Conn.

The confirmation came during the Risk Planning Group/Keith Shipton captives conference in Bermuda last month when Shelton Burgess, registrar of companies in Bermuda, told an audience of over 200 people that there was a 26% increase during 1977 in the number of exempt insurers licensed to do business in Bermuda.

Mr. Kloman said that as a result of some new figures he's compiled, he has revised upward his estimate of the number of captive insurers now in operation worldwide. He believes that an estimate by Swiss Reinsurance Co. of 1,000 captive insurers is probably "pretty close to correct," even though many people had thought that figure was high when it was first circulated a few months ago.

There are presently 675 exempt insurance companies licensed in Bermuda, Mr. Burgess told the conference attendees. Mr. Kloman estimates that about 550 of those are captive insurers, owned and used by parent corporations to underwrite parent company risks. Though no one knows how many captives are based in the Bahamas, Mr. Kloman said he has learned there are 50 to 100 captives in the Cayman Islands, with a few more in Curacao. There are over 40 captives domiciled in Guernsey.

Mr. Kloman also said he estimates there are approximately 100 to 150 group association captives now in operation. ■

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dates for buyers

April 10-11. The New Mine Safety and Health Act: What it Means to You sponsored by the Energy Bureau Inc. to be held in Denver. The program is designed for executives and supervisors of the handrock and coal mining industries. Cost: $395; per team member, $295. Contact Robert W. Nash, Executive Director, The Energy Bureau Inc., 101 Park Ave., New York, N.Y. 10017; phone 212-889-7657.

April 18. The New York Metropolitan Chapter of the Society of Fire Protection Engineers will hold its annual seminar in New York. The topic of the meeting will be **Energy Conservation and Fire Protection.** Cost: $30. Contact Mr. W. Robert Powers, c/o New York Board of Fire Underwriters, 85 John St., New York, N.Y. 10038; phone 203-322-7639.

April 18-19. Keith Shipton Developments Ltd. will sponsor a conference on **Aviation Risk Management 1978** in Heathrow. How will the insurance industry respond to increased requirements will be the basis of discussion. Contact Caroline Atkinson or Gillian Morley, Keith Shipton Developments, St. John's House, 124/127 Minories, London, EC3N 1 NT; phone 488-2071.

April 20-21. NAEHMO will hold its second annual meeting on **Health Care Cost Containment** in Kansas City, Mo. Topics will include dual choice regulations, how to negotiate with an HMO, determining the employer's contribution, how to communicate the HMO option, how to administer an HMO and follow-up to the National HMO Conference. Cost: $175, NAEHMO member; $225, non-member. Contact National Assn. of Employers on Health Maintenance Organizations, 1134 Chamber of Commerce Building, 15 S. 5th St., Minneapolis, Minn. 55402; phone 612-338-4823.

April 24-25. Insurance history, investment evaluation, ethics regulation, legislation and public attitudes will be examined during the **Society of Insurance Research Spring Seminar** in Indianapolis, Ind. Cost: $75. Contact James Jones, Nationwide Insurance Co., One Nationwide Plaza, Columbus, Ohio 43216.

April 26-28. The **Assn. of Private Pension and Welfare Plans Inc.** will hold its annual meeting in Washington, D.C. The meeting will focus on amendments to ERISA and include a Congressional reception. Cost: $200, members; $250, non-members. Contact Sue Meldrim, Assn. of Private Pension and Welfare Plans Inc., Suite 909, 1028 Connecticut Ave., N.W., Washington, D.C.; phone 202-659-8274.

April 27-28. International Marine Risk Management Conference to be held in London. The conference will look at different aspects of marine risk and areas of uncertainty prevalent in the marine world. Among the topics to be considered are the shipowner's view of commercial risk, tanker owning, scrapping as a solution to over-tonnage, the future of shipbuilding, a banker's view of commercial risk and commercial risks in port operations, ship safety, safety training, P & I aspects, underwriting risk—U.S. & U.K. markets and a broker's view of marine risk. Contact Caroline Atkinson or Gillian Morley, Keith Shipton Developments, St. John's House, 124/127 Minories, London, EC3; phone 488-2071.

May 7-12. American Industrial Hygiene Conference to be held in Los Angeles, Calif. The conference is the largest of its kind and is sponsored jointly by the American Industrial Hygiene Assn. and the American Conference of Governmental Industrial Hygienists. Sessions will focus on a variety of issues concerning health and safety of people at work including noise, heat stress, work physiology, toxic substances, carcinogens, radiation, nuclear hazards, respiratory diseases, government regulations, air pollution and current legal and socio-occupational health issues. Cost: per day, members $18; per day, non-members $23; special weekly and pre-registration rates available. Contact American Industrial Hygiene Assn., 475 Wolf Ledges, Akron, Ohio 44311; phone 216-762-7294.

May 21-24. Washington Legislative Update 1978, a conference for trustees, administrators and professional advisors who serve labor-management employe benefit plans. The conference is sponsored by the International Foundation of Employe Benefit Plans to be held in Washington, D.C. Meetings will be directed exclusively to the concerns of the Taft-Hartley pension and welfare trusts. Cost: $225, members; $285, non-members. Contact International Foundation of Employe Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; phone 414-786-6700.

ISO to issue manual in S.C.

COLUMBIA, S.C.—The Insurance Services Office will introduce a new consolidated commercial lines manual that uses simple and direct language in South Carolina on July 1.

The manual serves fire and allied lines, general liability, automobile, inland marine, multiple lines, boiler and machinery, crime, glass and farm insurance.

The standard manual will be issued according to the needs to agents. ■

ATV rents its captive to U.S. firm, considers taking more business

By SUSAN ALT

LONDON—There's been a lot of talk about rent-a-captives in the last few years, but few people have been able to find companies providing insurance company facilities for "rent." Fewer still knew of anybody using such arrangements.

But Hugh Loader knows all about rent-a-captives.

He even provides one for a client to use. Moreover, he thinks there'll be more use of captives by companies not having their own subsidiary insurance companies but paying a fee to a company like Mr. Loader's for the privilege of gaining the advantages a captive has to offer.

Hugh Loader is group insurance manager for Associated TeleVision Corp. Ltd. here. He's better known as the risk manager and the firm's better known as ATV, one of the world's leading TV network owners and movie producers with interest in theatres and music recording/publishing.

ATV has its own Bermuda-based captive, begun in 1971 and underwriting for its parent practically every kind of property and liability insurance except a few odds and ends like life insurance, personal accident, excess liability, motor liability and general engineering. (Most of ATV's insurance on its film business is also written outside the captive.)

Marbach Insurance Co. Ltd. was started as a pure captive but has now expanded into the third-party reinsurance business. The company and reinsurance underwriting are managed by Alex Cockburn & Co.

In late 1976 ATV decided to go a step further, establishing another insurance company with its own funds to be used by other corporations. Campton Insurance Co. Ltd. is the Bermuda subsidiary of Marbach Insurance Co. Ltd.

Campton is being used exclusively by an unnamed U.S. corporation in the Fortune 500 to underwrite property insurance. The U.S. "renter" also plans to put liability risks (including product liability coverage for consumer products) into the rent-a-captive. Premiums flowing into Campton from the U.S. client amount to six-figures, covering property primarily in North America.

Campton hasn't suffered any losses, said Mr. Loader, who feels this type of arrangement will be very profitable for ATV and Marbach, establishing Marbach as a true profit center. Marbach also participates in the reinsurance of Campton's risks.

ATV may be nearing the day when it'll expand the facilities it will rent to outsiders for a fee. "We are looking at the present time to provide an isolated slice of one of our present companies in Bermuda for still other companies to use," revealed Mr. Loader.

This business, if it were to be handled through Marbach, would be segregated from ATV or other clients' business, so that a client could determine its own desired retention levels, premium funding levels, banking arrangements, investment strategy, reinsurance programs and claims adjusting procedures.

Campton does accept a certain amount of risk from the U.S. client that's using Campton's facility. "If there is a loss, we could be liable for something under $50 million," said Mr. Loader, who pointed out that it's essential for Marbach and Campton to have an understanding with the client that he'll cover any cumulative losses exceeding the amount of reserves in Campton.

"We have no intention of covering any shortfall from our own funds," says Mr. Loader of the chronological stabilization plan.

Interest in rent-a-captive programs is strong, says Mr. Loader, who's talked with about a dozen

Continued on following page

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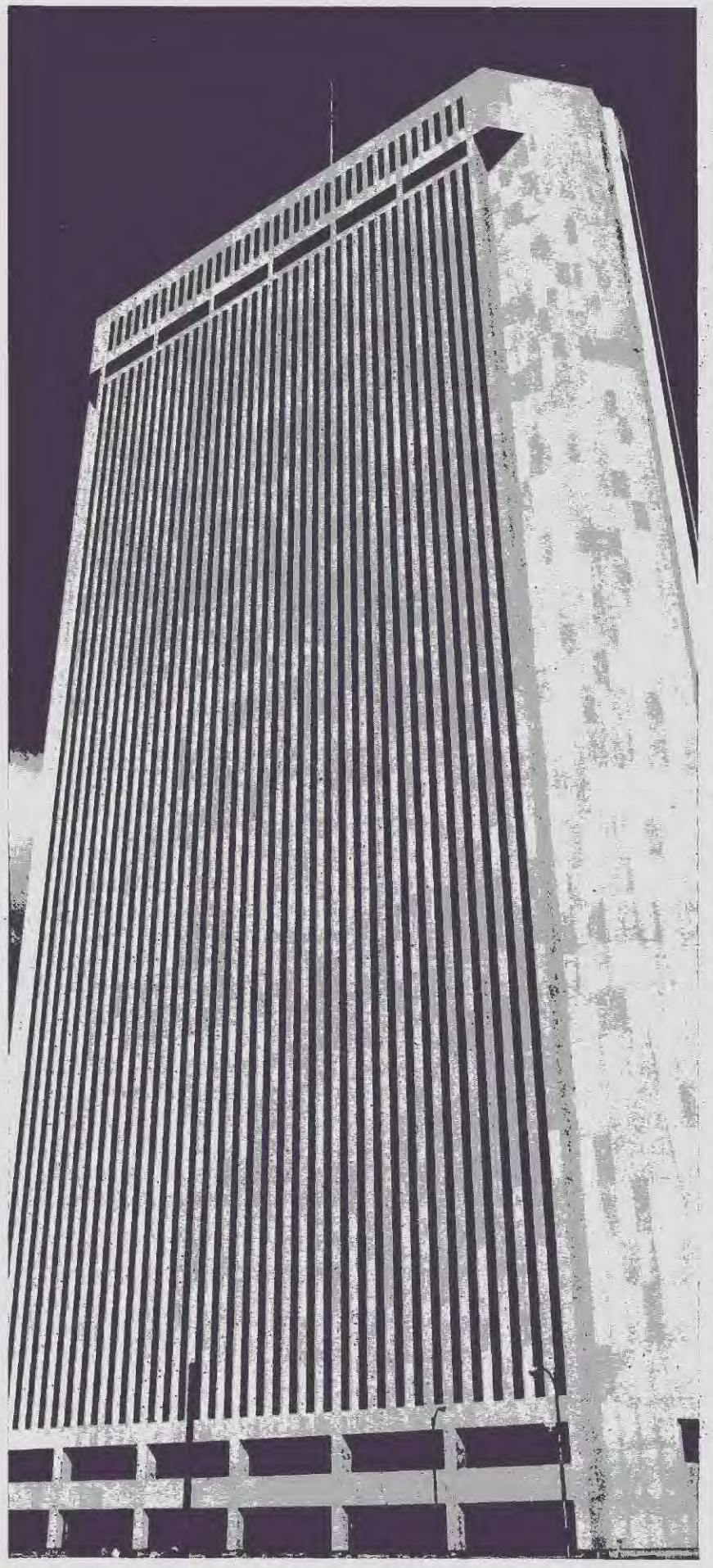

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ATV captive . . .

Continued from preceding page
other corporations interested in paying ATV for the use of similar facilities. The prospects are both U.S. and British firms and include three or four solid leads. ATV might proceed shortly with more rent-a-captive programs using the "isolated slices" of Marbach as additional facilities.

British companies often prefer to use a fronting company in this manner to circumvent debenture restrictions and to avoid the reluctance of some corporate directors to approve the establishment of an insurance company in an offshore tax haven like Bermuda.

ATV's Marbach stands to gain a lot from such deals, collecting a management fee of about 5% of premiums (depending on the amount of premium flowing through the captive), earning a profit participation of 10% to 25% over a three-year account and engineering a participation on the reinsurance to be purchased on the business.

Fees are negotiable, as is the amount of Marbach's participation. Marbach participates in Campton's reinsurance for the U.S. client by writing a net retained line of 100% of the risk immediately above Campton's retention, in the "lower six-figure range." But in other cases, Mr. Loader believes Marbach "might prefer to write higher up, not taking these risks at the lower level, depending on the type of risk being underwritten."

Mr. Loader said there's another large U.K. company in the construction industry that has also set up a captive offering an isolated slice to a client for a fee.

For major corporations, says Mr. Loader, the rent-a-captive idea could be a first step or an interim step along the road of self-insurance, providing a temporary captive facility until the company is ready to capitalize its own captive. For companies smaller in size, he adds, the rent-a-captive "could be a more permanent situation" lasting for many years.

In a speech last year at a conference on captives, Mr. Loader said he believed the advantages of rent-a-captive programs are "identical to those of (having) a single parent captive, but without the disadvantages of the Internal Revenue Service (restrictions) and antitrust."

To ensure a safe position on taxation, the rent-a-captive is completely independent from the client, acting as a trustee holding funds for benefit of the client, he added. Thus, no shares in the captive are owned by the client, nor does the client have any board representation.

Aside from Marbach's rent-a-captive operations, ATV has a diversified insurance operation coordinated by Mr. Loader. By function he is risk manager for ATV, the parent company, but by title he is also a director of Marbach Insurance Services Inc., an in-house brokerage operation employing six people and handling all of ATV's insurance transactions.

Marbach in turn owns Marbach Insurance Co., the captive, and has a 50% interest in another brokerage firm having another half-dozen employes and doing all of its business with outside commercial clients.

ATV's captive has already achieved about a 50-50 split in its insurance business on parent versus third-party risks. This year Mr. Loader expects the parent company portion of business in the Bermuda captive to decline to an even smaller share " because we're writing more and more outside business."

Since Mr. Loader joined ATV and Marbach in 1974 he's changed a few things, such as the procedures for purchasing reinsurance for Marbach. Though Cockburn handles the third-party business that Marbach underwrites, Stewart Wrightson places the reinsurance that Marbach purchases, a piece of business won by S-W in early 1976 on a competitive basis.

Stewart Wrightson also places coverage for ATV at Lloyd's and handles all of the filmmaking insurance business. The consolidation of the Marbach reinsurance volume with these other lines saved ATV money and afforded greater leverage, said Mr. Loader.

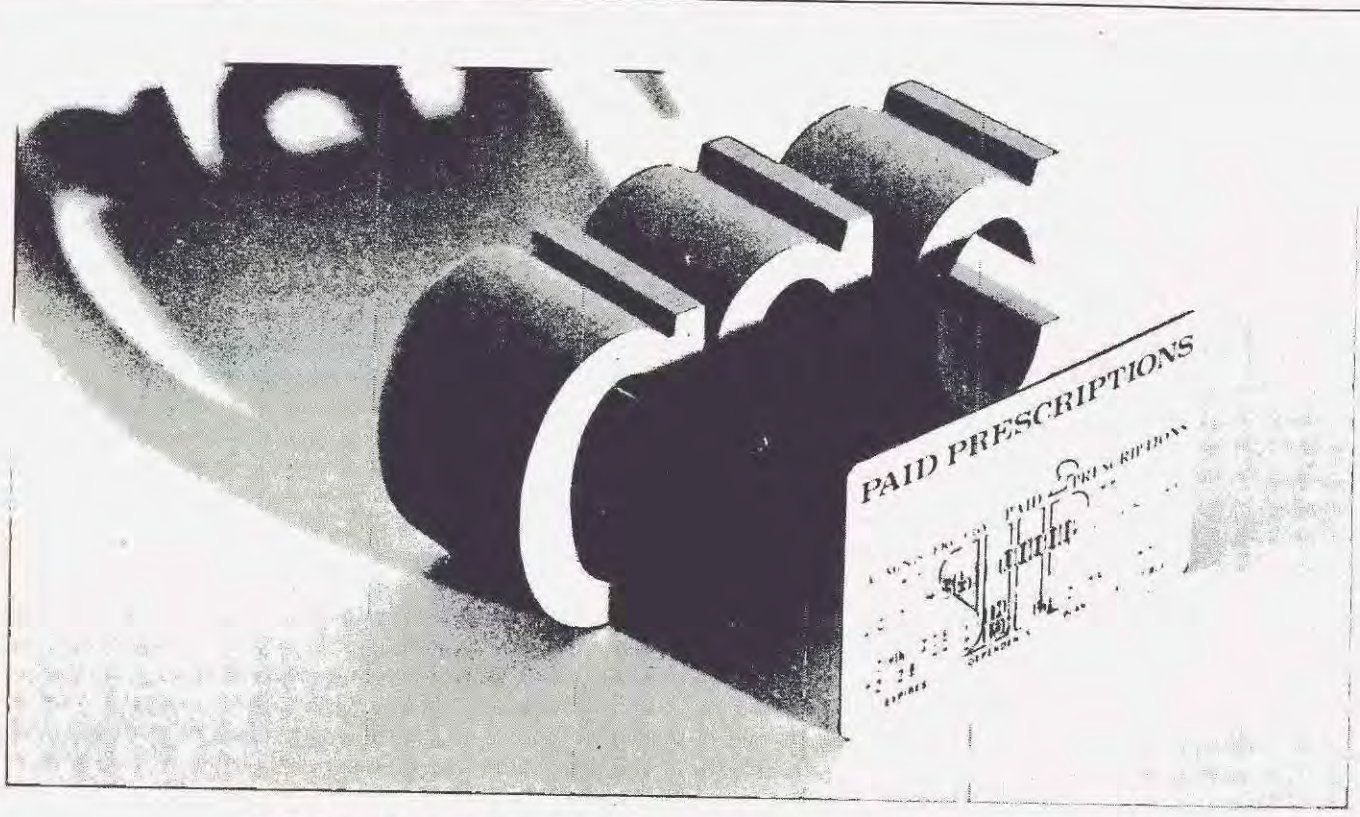
The business handled by Stewart Wrightson is not insignificant. Last year, ATV paid about $2 million for insurance, about half of that going into the captive and the other half to pay for coverage in the world's markets. The film business alone requires substantial insurance coverage. ATV has big-name films costing anywhere from $5 million to $25 million each continuously in production.

The captive retains risk well over $100,000 per loss in every line except liability and libel and slander, for which the retention is "much lower" at under $100,000. The captive reinsures fire, consequential loss and all-risk technical equipment risks to limits of between $50 million and $100 million.

Blanket umbrella liability tops off the global excess liability coverage, leaving less than $100,000 per loss in the captive. The first excess layer extends up to $1 million with the umbrella policy over that.

In 1974 Mr. Loader chose to take personal accident coverage out of the captive, after failing to find catastrophe reinsurance for this exposure."We now have a very competitive direct facility into Lloyd's for personal accident coverage, covering all ATV employes while they are at work," said Mr. Loader, emphasizing the competitiveness of this arrangement but declining to reveal the costs.

"We quite often have a charter aircraft flying around somewhere carrying 60 technicians, crew and all that equipment. If we're making a film overseas, it's common to charter a plane out and back. You could wave cheerio to about $4 million if you lost a film crew and the equipment in one aircraft like that," Mr. Loader quips, furrowing his forehead with worry at the mere thought of such an event. ■



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SEE OUR AD ON PAGE 3

legal brief

Louisiana court decides ambiguity in group policy in favor of insured

THIS SUIT SOUGHT to recover $20,000 in life insurance benefits under a group disability policy issued to a deceased insured. A Louisiana appellate court ruled that an ambiguity in the policy with regard to automatic termination would be resolved against the insurer and in favor of the insured.

The deceased, Mr. Ory, was covered under a group policy issued to Marshland Flight Inc. by Louisiana and Southern Life Insurance Co. (Southern Life). Mr. Ory became totally disabled from cancer in January 1972, at which time the policy was in full force. Mr. Ory terminated active employment as of that date. His employer went bankrupt in April 1972 and Southern Life terminated the group policy effective April 30, 1972, because of the bankruptcy. Mr. Ory died on June 15, 1972. However, prior to the termination of the policy, Ory had applied for a waiver of premium. Southern Life denied the request in May 1972 on the basis that there was no life insurance benefits for which waiver could be granted because all life insurance benefits automatically ceased from the date the policy terminated.

The policy did contain a four-step requirement for waiver of premium because of total disability — all of which Mr. Ory had satisfied. However, the policy also contained a provision that "all insurance hereunder shall automatically cease on the date of the termination of this policy." Mr. Ory's widow sued Southern Life but lost in the trial court.

The appellate court noted that Ory had fully complied with the policy provisions with regard to the waiver of premium which obligated the insurer to pay the life insurance benefits under that portion of the policy. Because the automatic cessation of benefits clause conflicted with the waiver of premium provision, the court said that the ambiguity must be resolved against the insurer who had drawn up the contract of insurance with the participation of the insured.

Thus, the court ordered the insurer to pay the $20,000 life benefit to Ory's widow. *Ory v. Louisiana & Southern Life Ins. Co.*, Court of Appeal of Louisiana, Nov. 10, 1977 (BI/01/A.-$4).

Stroke on job

The Illinois Supreme Court denied an award of workers compensation benefits to a female employe who suffered a stroke as she was rising from her desk to go to lunch. In denying benefits, the court observed that "every employe whose disease or preexisting condition disables him while at work is not entitled to a recovery under the Workmen's Compensation Act."

In this case the employe, a 50 year-old female with a 10-year history of treatment for hypertension (which included two periods of hospitalization) suffered the stroke on Feb. 8, 1971, in the office of the Cook County recorder. She had been employed in that office for about one year. During the last six months of employment immediately prior to the stroke, the employe's duties included handling large books weighing approximately 35 pounds each.

The stroke was diagnosed as an aneurysm of the right cerebral artery with a cerebral hemorrhage resulting in some partial permanent paralysis. Both the industrial commission and the trail court awarded her compensation.

After reviewing the evidence, the appellate court concluded that the employe's disability did not arise from her employment but from the natural risk to which all persons with her disability are exposed. "It is apparent," the court stated, "that her condition had deteriorated to such an extent that any activity could have triggered the disabling episode. The mere fact that she was at work or even engaged in some job-related activity when the episode occurred is not sufficient to support an award." *County of Cook v. Industrial Commission*, Supreme Court of Illinois, Oct. 5, 1977 (BI/02/A.-$4).

Public liability

This suit was brought by an engineering construction firm for a declaration that its comprehensive public liability insurer was contractually required to afford coverage to the construction project owner in two personal injury suits instituted against the project owners by employes of the engineering firm. The Arizona Supreme Court ruled that an exclusionary clause in the policy for personal injuries to any employe of the named insured arising out of and in the course of employment by the "insured" was not ambiguous.

Stearns-Roger Corp. (Stearns), an engineering construction firm, entered into a long term construction contract with Phelps-Dodge Corp. (Phelps). Under the terms of the agreement, Stearns was to provide certain indemnification and insurance coverage. In compliance, Stearns procured insurance from the Hartford Accident & Indem-

Continued on following page

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legal brief

Continued from preceding page
nity Co. (Hartford) in which it was the "named insured." This policy contained an exclusion clause which provided that the insurance did not apply "...personal injury to any employe of the named insured arising out of and in the course of his employment by the insured . . ."

Two employes of Stearns were injured during construction and filed suit against Phelps, the project owner. Phelps tendered the defense to Hartford, but was refused on the basis of lack of coverage. The trial court entered a judgment for Hartford.

On appeal, Stearns's position was that the word "insured" as used in the exclusionary clause referred to a person who is an employe of the insured claiming coverage. Since the persons suing here were not employes of the claimed insured (Phelps), Stearns argued that the exclusion did not apply. The court disagreed believing that, giving a reasonable construction to the clause and the words used, it was apparent that the policy excluded coverage for personal injury to any employe of the "named insured," Stearns, arising out of and in the course of the employment by the insured (Stearns).

Thus, the court concluded that Phelps was not covered under the policy for this incident. *Stearns-Roger Corp. v. Hartford Acc. & Indem.*, Supreme Court of Arizona, Oct. 19, 1977 (BI/03/A.-$4).

Forfeiture upheld

In a suit involving a group disability insurance policy, a federal appellate court ruled that under certain circumstances an insurance company waives its right to elect forfeiture when it accepts a late premium payment. However, the "protecting power" of the policy was suspended until the assessment was paid and the court decided that no recovery could be had for a loss sustained during the continuance of the default.

The insured here was covered under a group disability insurance policy sponsored by the Philadelphia County Medical Society and issued by CNA Insurance and Continental Casualty Co. Premiums were paid semi-annually. There was a 31-day grace period during which an insured could make a late payment without any intervening loss of coverage. Failure to pay by the end of the grace period terminated the policy. The insured did not pay the premium due before the expiration of the grace period on July 31, 1973.

In September 1973 he was injured in an accident and was disabled within the policy terms. In late September, the insured's sister discovered his oversight in failing to make payment. She sent a check for the total amount due to the insurer's agent and this check was accepted.

In late November 1973, the sister advised the insurers of the insured's disability and requested a change of beneficiary. Forms were received, completed and forwarded to the insurers in December 1973. The insurers approved the beneficiary change in January 1974. However, the insurers refused payment of the disability claim on the ground that the policy had lapsed on July 31, 1973. The trial court ordered the insurers to pay the claim.

On appeal, the insured argued that the insurers' action in accepting the premium payment and change of beneficiary constituted an express waiver of their right to declare the policy forfeited because of nonpayment of the July premium. It was the position of the insured that the policy revived from the date of the end of the grace period.

The court did not agree concluding that the Pennsylvania law was that where a premium payment was received after the loss, the acceptance of it merely reinstates the policy as of the date of its receipt.

Thus, the court decided the insurers were not liable. *Schifalacqua v. CNA Insurance & Continental Casualty Co.*, U.S. Court of Appeals for the Third Circuit, Oct. 6, 1977 (BI/04/A.-$4).

Value misrepresentation

A New York appellate court has relieved an insurance company from liability to its insured under a jeweler's block policy because of a misrepresentation as to value as shown on the insured's last inventory prior to the issuance of the policy.

Designcraft Jewel Industries Inc. (Designcraft) took the policy out from St. Paul Fire & Marine Insurance Co. (St. Paul). Prior to issuance of the policy, St. Paul required a proposal to be submitted containing a statement as to when the last inventory was taken and the maximum value of the stock during the preceding twelve months.

Designcraft misstated the dollar value of its last inventory which was less than the true value. Designcraft suffered a theft loss which St. Paul refused to honor because of the material misrepresentation. When Designcraft sued the insurer, St. Paul requested the suit to be dismissed. The trial court refused.

The appellate court concluded that the suit should be dismissed because it was clear that St. Paul would not have issued the policy if it had known the true value of the insured's last inventory prior to the issuance of the policy. The court said that since the premium charged would have been higher, St. Paul was entitled to defeat the recovery for the loss because of the misrepresentation. *Designcraft, Etc. v. St. Paul Fire & Mar. Ins.*, Supreme Court of New York, Appellate Division, Nov. 10, 1977 (BI/05/A.-$4).

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(Copies of the entire decision of cases described may be obtained by sending a check for $4 made out to Cases Unlimited to Legal Briefs, Business Insurance, *740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion requested, which is at the end of the brief.)*

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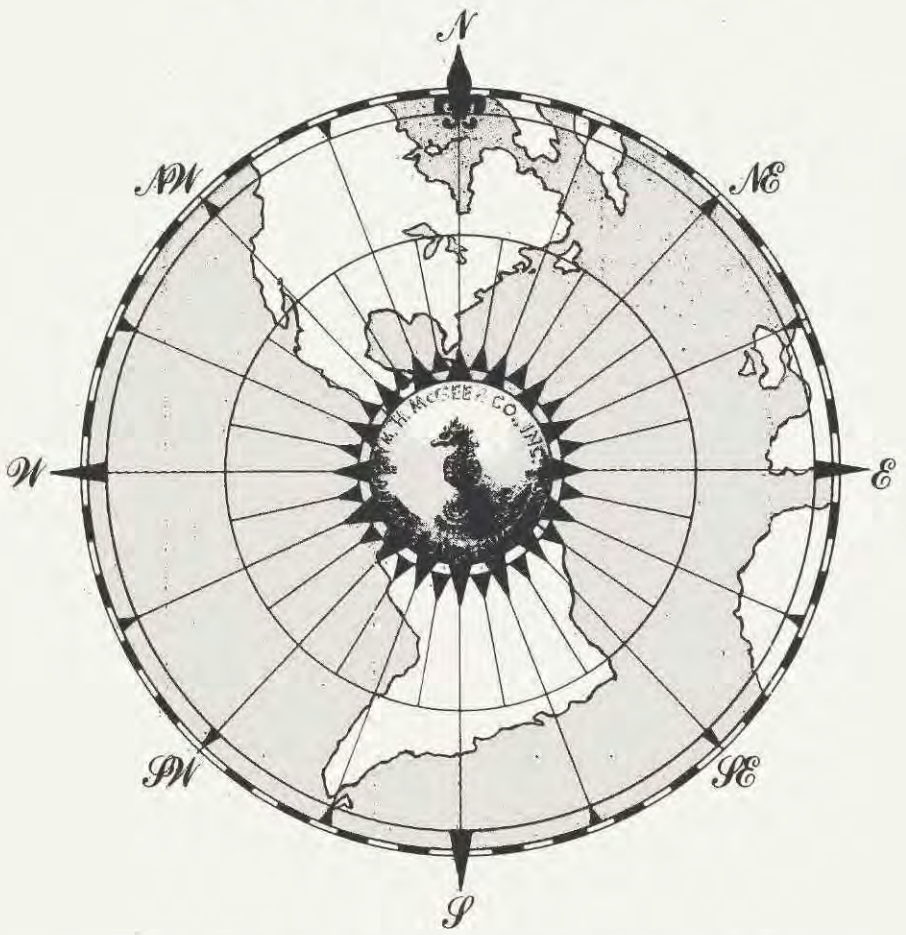

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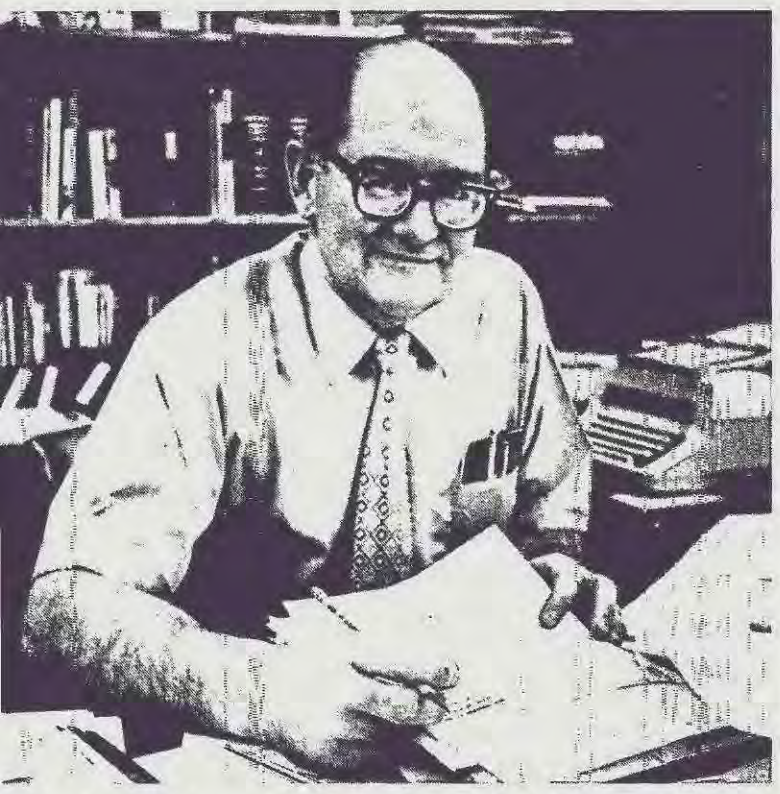

University of Chicago law professor Spencer Kimball says workers compensation rate hikes 'are not terribly far off.'

Dean Kimball applies an academic analysis to work comp disputes

By KATHRYN J. McINTYRE

CHICAGO—In the nameless, faceless, impersonal world of insurance regulation and rate making that confounds your finest efforts at controlling costs there are individuals trying to improve the system. One very influential person is Spencer L. Kimball, 59, former dean of two law schools and currently executive director of the American Bar Foundation and law professor at the University of Chicago Law School.

His books, including "Insurance & Public Policy" and "Insurance, Government & Social Policy," and essays on insurance law are standard sources for insurance regulators. For 11 years the Oxford law graduate has been the prime drafter of the 800-page revised Wisconsin insurance code, the first such extensive recodification of a state's insurance statute.

Most recently, he's made his mark in the tumultuous arena of workers compensation insurance, serving as the hearing officer in two controversial rate hearings in Illinois and Michigan.

The nationally recognized expert in insurance law says the workers compensation rates requested by the industry "are not terribly far off," despite cries of anguish from employers paying the bills. "Losses are high so rates are high," he said. With an understanding of statistics (his undergraduate degree is in mathematics) and the financial workings of insurance companies, however, Mr. Kimball does challenge the adequacy of the methods used to set workers compensation rates.

Though he recommended only slight reductions in the rates requested in Illinois and Michigan, primarily lopping off a percentage of company expense charges, in his written opinions on the hearings Mr. Kimball repeatedly implored the rate makers to expand their research and update the statistics used as the basis for new rates.

Sitting in his office at the American Bar Foundation here, the hefty but soft-spoken Rhodes scholar chooses his words carefully when discussing the National Council on Compensation Insurance. "I haven't intended to be critical of NCCI," he claims. "It is not an inadequate organization."

With 25 years of experience in insurance law, Mr. Kimball does have some suggestions for NCCI. It needs to expand its staff to handle statistical predictions with more sophistication now that the formerly stable line of business has become so volatile, he advises. And applying a trend factor to workers compensation, as NCCI has begun to do, requires researching factors other than inflation that are driving up workers compensation costs, he believes.

Those factors have to be identified and analyzed to determine if they will continue to force increased losses and increased rates or if they will at some point stabilize in their influence, Mr. Kimball explains. Are the increased losses the result of changes in benefits and which ones, he wonders. Or has administration of the compensation laws forced increased losses?

Medical cost increases—recognized as one factor contributing to increased workers compensation costs because they have risen faster than payroll increases—could stabilize at some point, Mr. Kimball suggested. The stepped-up tendency of people to file workers compensation claims—which many say is the result of liberalized benefit laws that make collecting workers compensation more lucrative than working—may only be a temporary change in motivation, he added. The trend in losses then would not be a straight upward line when plotted on a graph but could rise and fall with the changing force of these factors and rates should be set to respond, he concluded.

"That's what NCCI doesn't know enough about. They are very sophisticated people and I think highly of those who testified at the hearings. But they have ignored what has caused the changes in losses and what can be done," Mr.

Continued on following page

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PERSPECTIVE

P. Gallius, P. Marcellus and friends: Where risk management really began

By Peter Downes
Manager of Insurance
American Trading & Production Corp.
Baltimore, Md.

Like their colleagues in ancient Rome who discussed loss control for slaves and let it go at Alexandria Night, today's Administratores Periculorum combine business and pleasure at their annual conference.

THE RECENT BROADCAST of "I Claudius" on public television demonstrated to me once again how little most of us know about history. Not that there was much that was historical about this production. Robert Graves, the author of the books on which the series was based, pulled most of his information from Suetonius, a scandalmonger of the worst sort, from Tacitus, a propagandist for Vespasian, and Livy who did not care too much about facts so long as they read well.

I thought that nevertheless it would be good for my children to see a television show which had literary qualities. Having persuaded them to sit still for the first two episodes, with threats of mayhem if they did not, they became so enthralled that I could not tear them away from the set. Indeed, this was first class family entertainment well laced with episodes of nudity, sex in all its manifestations, flagellations, poisonings, stabbings and a rather neat little execution when Messalina had her head sliced off.

In actual fact, outside the gladiatorial arenas, life in Rome was not quite as gory as many classical authors would have us believe. Most of the early emperors lived quite humdrum lives and suspected deaths from poisoning were often no more than the results of appendicitis or other illnesses which were wholly incurable at the time.

The emperors

Many of the emperors, too, were very capable managers. It was Augustus Caesar for example who, being aware of the conflagration risk in Rome, established the *Civiles*, a combined fire fighting and police force of 7,000 members following the disastrous fires in 33 B.C. and A.D. 6. In fact, he established them so well that they were still in existence 400 years later.

What is less well known is that during this period he also persuaded the Senate to appoint an *Administrator Periculorum Romae*. It was his function to identify *pericula* and then to eliminate them, reduce them or transfer them. When the Emperor Claudius came to power he was so impressed by the arrangement that he extended the system to all Roman provinces. Then, because of the need to provide and exchange information, the first conference of *Administratores Periculorum* met at Rome in A.D. 50 and thereafter at five-year intervals, more or less.

There were the usual complaints about this, especially from the poor and more distant provinces such as Dacia and Pannonia. These complaints centered around the fact that travel was very expensive and the cost of accommodation and meals in Rome had skyrocketed over the years, largely as a result of coin clipping by the Emperor Gaius. Besides this, the *Magister Administratores Periculorum* collected a substantial fee from each province to cover organization expenses. In fact, the Pannonian delegate never did attend a conference—he could not work the cost into his budget.

First conference

However, for those who could get to Rome, the conference was very much worth attending. At the first conference, a well attended session concerned the protection of slave property in galleys. The industrial hygienist P. Marcus Gallius pointed out that the necessity to chain the slaves permanently to their rowing benches created health hazards not only for the property but for the crew and passengers as well. He recommended a loss control program whereby the slaves would be permitted to perform bodily functions only at set hours of the day followed by a general hosing down by the crew. Infraction of the rules would be penalized by 10 lashes. As he said, this should improve the condition of the ship and the slaves, not to mention the reduction of ghastly odors.

In the employe benefit section, Cn. Porcius Marcellus spoke on behalf of Burial Societies. Apparently the Senate had in mind taxing the contributions of members to the Societies. The Societies themselves felt that this was unjust since it taxed the thrifty and those who sought not to be a burden on the state.

He was followed by Claudius' chief bureaucrat, Pallas. He spoke on the function of the regulator and deplored the critics who said that the regulatory function inhibited

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How to rate your broker in today's world

By Norman Hoffman, CPCU
Director of Insurance
Kane-Miller Corp.
Terrytown, N.Y.

Communication is the key to the buyer-broker relationship, says Kane-Miller's Norman Hoffman in updating his 'Brokers and Agents Scorecard.' Although a broker cannot always control what he delivers, he can control what he promises.

AS I SAT AT MY DESK contemplating the relationship between underwriting and reality on Lincoln's birthday, a Mr. Washington telephoned me. He stated that he was conducting a survey and asked if I would answer questions relating to insurance brokers and the services they provide. After I had agreed and named the big five "alphabet" brokers, he zeroed in on those five and asked me to rate their services on a scale of one to five on such matters as: Do they put the customer's interest before their own? Do they have the available staff to help you in all phases of insurance and risk management? Had I read any of their advertisements and if so what did they say? He then asked specific questions about Frank B. Hall and Johnson & Higgins. But when questioned, the interviewer stated that he couldn't tell me who was paying for his survey.

This consumer survey reminded me that seven years ago I had written an article for this publication, entitled "Brokers and Agents Scorecard," in which I set out my criteria for rating the services of brokers and agents. Since then there have been substantial changes in the insurance marketplace. It could be said that risk management came of age in this period for large buyers of insurance. It has been recognized as an educational discipline by colleges and universities and as an important responsibility for corporate management. Among the factors which brought this about are consumerism which brought the enactment of product safety, environmental, employe health and safety legislation. Also affecting corporations were the effects of inflation, underwriting cycles, the need for increased capital by insurance carriers and a consolidation of insurance brokers into fewer, larger firms.

All of these factors created a climate in which insurance buyers are assuming more of their own risks and insuring less of them while their insurance premiums, reflecting increased costs and values, are rising. Proof of this reduction of available coverage by insurers is an advertisement by the Insurance Co. of North America which discusses self-insurance and states that "first dollar coverage appears to be going the way of the five-cent cigar." These changes in the marketplace and the rise of risk management

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PERSPECTIVE

Are top managements revising their view of corporate risk management?

By Margaret LeRoux

CORPORATE INSURANCE has come into its own in the 1970s. With tremendous increases in casualty premiums, disappearing markets for some types of insurance and government attention focused on the problems of product liability, risk management has become almost a catchword. The profession and its practitioners are finding themselves for the first time in the corporate spotlight.

Has this attention meant greater recognition for risk managers? Do they now have better access to top corporate management? *Business Insurance* asked brokers and consultants throughout the U.S. what effect this attention has had on risk managers.

Most were optimistic that risk managers are now on their way up the corporate ladder. A few noted that risk managers are being challenged as never before. Risk managers are increasingly being asked to assess their performance against costs incurred, they said. And against the considerable costs of risk management programs today, the performance of some might not stand up to scrutiny.

"The whole field has gained more visibility," said Ray Rich, president, Corporate Policyholders Council Inc. in Chicago. "Now, when new acquisitions are planned, one of the first considerations is whether there's a product liability exposure."

"Ten years ago risk managers didn't have the ear of top management," said Bernard J. Sullivan, vp of the James S. Kemper Agency in Chicago. "Now management is much more likely to consult with the director of insurance or risk manager when going into new ventures."

"What used to be a fairly narrow window into corporate headquarters has now widened into much greater acceptance," according to Jake Wallace, vp of Corroon & Black in Nashville.

Cost increases

"Even the phrase 'risk manager' is understood by more people," noted George Betterley, managing director of the George Betterley Consulting Group, Boston.

"Just look at the classified ads—salaries offered to risk managers are going up," commented William J. Pinkney, vp of Mund, McLaurin & Co. in Los Angeles. "Companies are willing to pay more for professionals."

"The increasing cost of risk management —that's what catches top management's eye," Donn McVeigh of Warren, McVeigh & Griffin, San Francisco, said. "Budgets of risk management departments are becoming a larger portion of the total corporate budget."

"As the price of the insurance product goes up and the availability of it becomes more and more scarce, top management is exploring other alternatives," said Keith Douglas, president of Parker, Smith & Feek in Seattle.

"More and more companies that embrace the risk management concept are looking to the position as a career stepping-stone," said Thomas J. Ryan, senior vp at Marsh & McLennan in San Francisco. "Many top management people I've talked to see the risk management position as a good spot (from which) to bring someone up in the organization."

"The risk management position on the organization chart may not have changed, but now there's more communication and coordination with top management," Corporate Policyholders' Mr. Rich said.

The quickening development of the risk management services industry is indicative of the increased status of the profession, others said.

"It's a sign of the times," noted Robert Gallagher, president of Arthur J. Gallagher & Co. in Chicago. "The development of the risk management services industry is a tremendous compliment to risk managers themselves."

One consultant, however, saw this trend another way.

"We're seeing a trend to hiring consultants rather than risk managers, by some corporations," offered Ronald J. Jones of RIMCO Inc. in Dallas. "Top management in these companies has identified the increasing premiums as the crux of the problem . . . they've recognized that brokers and insurers are part of the problem, too, so they're going outside the industry for the solution."

Impact of D&O

Attention given to directors and officers liability insurance and product liability insurance precipitated interest by corporate board members in other forms of corporate insurance, Mr. Betterley believes.

"Board members who have had experience with these problems are now getting interested in other forms of corporate insurance," he added.

The increased use of self-insurance, and captives in particular, has enhanced the risk management position, a broker noted.

"Setting up a captive requires a resolution by the board of directors, so we're seeing more risk managers involved with those boards," said Leonard P. Lawrence, president of Emett & Chandler in Los Angeles.

"With the increase in the number of companies getting into some form of self-insurance, there is an increase in the number of people educated about it. Once top management is educated about self-insurance, it's something that stays with them," Mr. Lawrence added.

Risk managers are becoming more educated too, other brokers and consultants said.

"Risk managers are learning the language of business school graduates," said William T. Dunn, senior vp of Johnson & Higgins in New York. "They're learning financial techniques, management by objectives . . . It's just plain common sense," he continued, "companies can't spend the kind of money that's being spent today without knowing what they're doing."

"Top management in many companies is more aggressive in pushing risk managers to explore self-insurance and alternative methods of risk financing," noted Robert Gielow, vp of Alexander & Alexander, in Chicago. "As a result there's been a major breakthrough for risk managers."

But is the communication two-way? Do financial vice presidents understand the language of risk management?

"A lot of top management people cue in on self-insurance and risk management because they read about it in Fortune or Forbes . . . but a lot of them aren't aware of the full impact of risk management," Parker, Smith & Feek's Mr. Douglas said.

"The average financial vp doesn't understand the complexity of the problems of risk management," he continued. "He sees a lot of premium dollars going out and he wants to control that."

Edgar S. Clark, vp of Alexander & Alexander in San Francisco, agreed that "top management is more concerned about cost increases than increased attention to risk management."

Though divided in opinions on the impact of top management's attention to risk management, brokers and consultants agreed that the interest is not likely to be fleeting.

"Once a company has gotten into any form of self-insurance, that business will never move back into the traditional insurance market," Emett & Chandler's Mr. Lawrence said. "Involvement by top management in risk management programs is going to be permanent." ■

'Ten years ago risk managers didn't have the ear of top management . . . . now management is much more likely to consult with the director of insurance or risk manager when going into new ventures.'

—Bernard Sullivan
Vp, James S. Kemper Agency

'The increasing cost of risk management—that's what catches top management's eye. Budgets of risk management departments are becoming a larger portion of the total corporate budget.'

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Consultant, Warren, McVeigh & Griffin

'More and more companies that embrace the risk management concept are looking to the position as a career stepping-stone. Many top management people see the risk management position as a good spot from which to bring someone up.'

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President, Emett & Chandler

'Top management is more concerned about cost increases than increased attention to risk management.'

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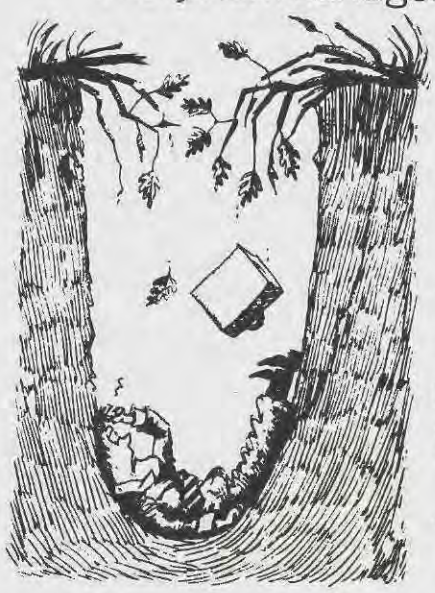

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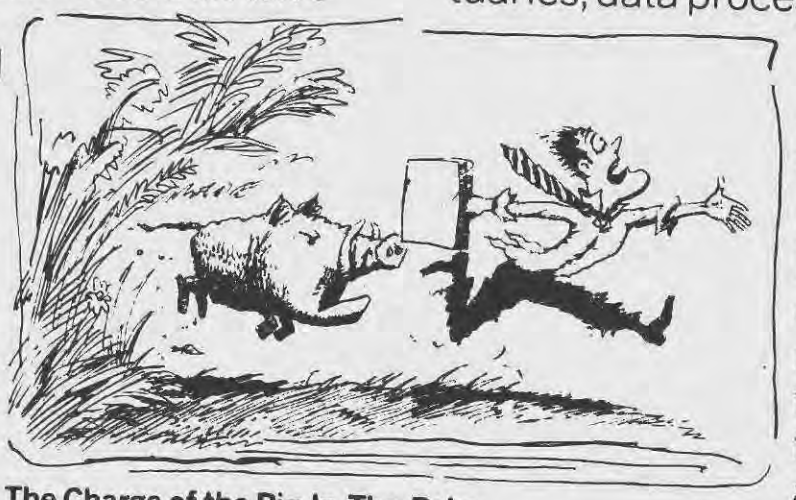

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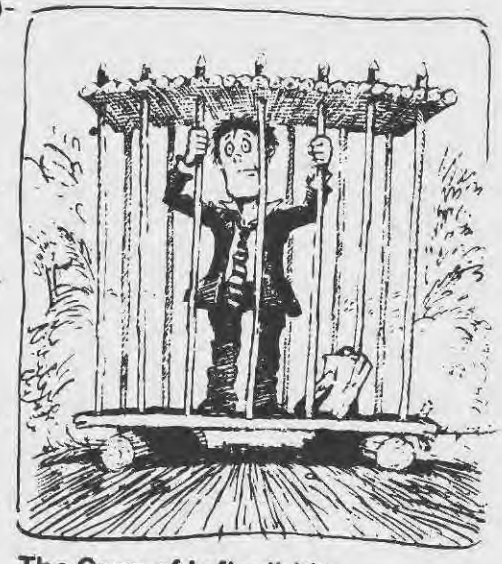

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PERSPECTIVE

Broker scorecard . . .

Continued from page 77
have also altered the functions of brokers and agents.

I have the overall impression on personal coverages that insurance companies no longer permit their exclusive or independent agents or brokers to provide any worthwhile service except for the help the broker may wish to provide after a loss occurs. The handling of personal accounts is so impersonalized that companies now answer their telephones with recordings that switch you to the human who punches the proper keys on an electronic marvel that provides information, records requests, issues invoices, endorsements and policies. If you give the machine the wrong answer on its list of 37 underwriting questions, it will flash red lights and tell the underwriter that you really don't qualify for coverage.

Do brokers have clout?

Perhaps the man who went to court to ask that his name be changed to a number was telling us something and the judge recognized it in disallowing the request and stating that society is already too dehumanized. It could be said that the tenure of a risk manager and broker may be influenced by the service provided for corporate personal insurance matters.

One of the questions Mr. Washington asked was whether I thought that the large national brokers had sufficient "clout" to place business on the terms desired by insureds. I believe I answered "yes." But now I think I would temper that response. Agents have binding authority and therefore the "clout" to bind the insurance company for any risk which falls within their defined underwriting limitations, i.e. very limited clout. Brokers, not having binding authority, have clout if they can call an underwriter with a reasonable certainty that he will take all of their submissions or those within parameters the company had prescribed for him.

Following the recent disastrous underwriting years, I must say that the question is not a realistic one in the current marketplace. A broker may plead, cajole, whisper terms of endearment and otherwise attempt to regale and sway an underwriter, but his success could hardly be attributed to clout. Perhaps "friendly persuasion" might be a more appropriate definition. Nevertheless, marketing is possibly the pre-eminent function of a broker and is one which requires inordinate skill.

At the end of his survey, Mr. Washington asked what I thought were the most important services a broker should provide. I replied that the single most important service would be for him to produce what he promises in quality, quantity and cost. In my 1970 scorecard article I had also placed this first on my list. Essentially what I am asking for is integrity. And it is clear that my principles have not changed.

Buyers generally understand that what a broker is able to deliver to his client is not always completely under his control. What he promises, however, is. Relationships are established and maintained on the basis of the quality of communication between buyer and seller.

Quality service

Quality of service is reflected in the product the broker delivers to the client. "Consumer Reports," when it rates new automobiles, usually reports that car A was found to have 27 minor defects, car B 31, car C12, all of which it infers the dealer should have found and corrected before delivering the car. When I receive a policy, endorsement, audit, invoice, claims run, inspection report or other document issued by an insurance company and transmitted by the broker which contains either clerical or qualitative errors, I feel the same way "Consumer Reports" does about the condition in which automobiles are delivered. I believe that every insured is entitled to have an account executive who assumes responsibility for all the services his organization provides. The buck should stop someplace before it hits the customer.

A recent article in the business section of the New York Times about the YKK Zipper Co. stated that the company had signs throughout their plants reading "Safety First, Quality Second and Production Third." With escalating medical and disability costs and larger retentions by insureds of primary layers of coverage, safety service provided by a broker becomes increasingly important.

Manufacturing companies such as ours may participate in government-sponsored employe training and rehabilitation programs. If they do the government requires the employer to provide specific safety instructions as a part of the occupational training. If the employer has a training or a separate safety department, it may not require its broker's help in this capacity. If the company does not have such in-house capabilities then it relies upon trade organizations, the National Safety Council, its insurance company and its broker.

Insurers vary widely in the quality of the service they provide in the field of loss prevention and safety. Property and boiler insurers provide property conservation inspection service and, in some cases, act as licensing agents for states. Specialty companies, such as those which have been recently formed to write liability coverage for hospitals, do provide specialized inspection, loss prevention, claims reporting and handling information to their clients. There are also companies renowned for providing workers compensation loss prevention programs.

If all of these are provided on a satisfactory basis by the insurer, then similar service provided by the broker may be redundant or unnecessary. But even with the best of companies, service is sometimes provided on a standard far below that which the insurance consumer requires and should reasonably expect.

Are insurers capable?

A manufacturer I am familiar with operates in a substantial compensation risk area and pays more than $250,000 in premiums annually to its insurer, which prides itself on being one of the best compensation loss prevention insurers. Even so esteemed an insurer, I was advised, had not inspected this insured's operation in more than a year and when asked to do so, sent an inspector who had never been to a plant of that type and stated that his assignments were so numerous that it would not be possible for him to visit more often than on a quarterly basis. In such a case it becomes the responsibility of the broker to provide the service promised by the insurer.

If the broker is to provide such services, his organization must have qualified people at all of the possibly widespread locations requiring service. The broker must be staffed with knowledgeable people in various industrial fields so it can avoid making the same mistake this insurer did, which was to send out a boy to do a man's job. Aside from the largest national brokers, I do not believe that many brokerage firms have the required expertise which permits them the alternatives of contracting for outside local help, hiring an insurance company service unit or the insured utilizing his own in-house or outside services.

All of this leads me to the subject of brokerage remuneration. I think it is generally agreed among risk managers that brokers are not entitled to more commission income merely because rates and benefits have increased and premiums have followed. Among the justifications for commission as a basis for brokerage remuneration are: costs which cause premiums to go up also increase the broker's expenses, the broker loses money the first year when he works on difficult placements and has to make it up on renewals and the size of the premium is an indication of the quality of service the broker is expected to provide.

With six-figure premiums now common, the insured must take pause and ask his broker, as Elizabeth asked Robert Browning: "How do I love thee?" The commission or fee I pay should be based upon whether I love thee only for marketing or whether thou wilt provide safety services, loss adjusting services, advice and counsel on deductibles, captives, self-insurance and for the multitude of other ills that the corporate flesh is heir to. ■

What's up in the industry

Luecke

Landolt

WITH ITS TOP two executives nearing forced retirement, the Kemper Insurance Cos. promoted two senior vice presidents to new positions, fueling speculation that they are the leading candidates to eventually head the aggressive Long Grove, Ill., company.

Kemper named 50-year-old Joseph E. Luecke senior executive vp and 55-year-old Rudolph F. Landolt executive vp. "The promotions reflect the growing importance of Messrs. Luecke's and Landolt's responsibilities in the Kemper organization," the company said in a press release unusually hand delivered to the news media in Chicago.

James S. Kemper Jr., chairman and chief executive officer, is 64 and Maxwell D. Rudgers, president and chief operating officer of the principal Kemper subsidiaries, is 63.

Kemper prides itself on open and articulate executives, a role that would seem to be very well filled by Mr. Luecke. One of the industry's best spokesmen, Mr. Luecke recently pinch hit for Mr. Rudgers at a Kemper luncheon, delivering a strong and convincing defense for territorial, age and sex rating in insurance policies.

* * *

Meanwhile, a number of insurance companies have reported record earnings. **American International Group** reported net profits of $121.7 million, up 23% from 1976. AIG's underwriting ratio for the year was 93.53%, down from 94.44%. "Rates for commercial lines remained firm although a more competitive environment is emerging," said president M.R. Greenberg.

Northwestern National Life Insurance Co. said operating income for 1977 hit $23.8 million, a 24.7% gain from the $19 million reported in 1976. **Howden Swann Ltd.** said net profits for 1977 came to $25.6 million, a 33% increase for the London-based group.

New York Life Insurance Co. said premiums from new group insurance programs totaled $105.1 million in 1977, a surprising decrease of 11.3% from last year's record high. **Prudential** said insurance premiums for all its lines totaled $7.1 million, up from $6.4 billion for 1976.

By Greg David

What's up in the industry, a new column on the Perspective pages of Business Insurance, will summarize significant industry news for BI's risk management and employe benefit readers.

Ancient Rome . . .

Continued from page 77
the growth of the industry. He felt that there should be more regulation rather than less. He also discussed the possibility of introducing an empirewide plan to pay medical expenses on behalf of citizens in the event of sickness. Of course, this would require additional taxation both to fund the plan and administer it.

In addition, a representative from the *Civiles* gave an update on Roman fire protection methods. He expressed some concern over the way that the Praetorian Guard burnt the red light district to the ground at periodic intervals. Nevertheless, he firmly believed that never again would the whole city burn down. Needless to say, nobody could have foreseen the events of A.D. 64.

The Vestal Virgins

Besides all these activities, there were other programs held in conjunction with the main conference. For example, some delegates brought their wives who were taken on a conducted tour of the city winding up with a wine and cheese party at the residence of the Vestal Virgins. Various industries also exhibited their wares, such as the latest in fire fighting equipment, slave restraints and the like. A new phenomenon appeared on the scene, the brokers, who argued that their function was to act as agents for those who had dealings with the *Administratores*. Some of them went so far as to say that they knew far more about the function of the *Administratores Periculorum* than the *Administratores* did themselves.

After the day's work was done, everybody trooped off to hospitality suites maintained by suppliers and brokers. The Falernian wine flowed freely and soon small groups of delegates attended by their hosts' representatives would be herded off to the dinners which had been arranged for them. No expense was spared at these functions, either, since everybody who went to Rome felt obliged to sample the larks' tongues as well as more exotic dishes.

Ptolemy Co.'s night

One should also mention in passing the lavish production put on by the Ptolemy Company which they called "*Nox Alexandriae*." On this occasion, invited guests watched a stage production as they ate dinner. The cast for the production consisted of slaves, shipped in from the home office back in Egypt, and it must be said that some of those Nubian girls were quite pretty.

Later in the evening, the hardier specimens would return to the suites where they would eat and drink to excess and view such entertainment as was provided. The Emperor Claudius was seen at one such gathering where he seemed to enjoy hugely a spirited rendition by an impromptu quartet of all 84 verses of "*Erat Navis Bona Venus*." And inevitably there was the drunken boor grabbing somebody by the toga and saying, "You see, there was this merchant, you know, traveling in Gaul, you know, where he got caught late at night, you know, with nowhere to stay. . . ." That farmer's daughter joke had whiskers on it before the Etruscans came and went.

As all good things must, the conference came to an end and in his closing speech the *Magister Administratores Periculorum* commented on the valuable things that they had learned and urged them to be at the next conference to be held at Pompeii. ■

editorial advisory panel

Some don't think their brokers work hard enough

By SUSAN ALT

CHICAGO—There appears to be an unhappy minority among corporate risk managers who don't think their brokers are working as hard as they might.

One out of every four Editorial Advisory Panel members told *Business Insurance* in a survey that they don't think their brokers always do everything possible to get the best insurance deals for their clients. Moreover, a similar portion of the group said they don't think their brokers exhaust all avenues to obtain insurance in the conventional markets before putting their corporate clients into the generally more costly excess/surplus markets.

These are a few of the findings in a wide-ranging survey that covered three distinctly different areas of risk management and insurance activities. In addition to the questions about broker performance, the 94 panelists offered their opinions about direct billing by insurance companies and the extent of their risk management involvement in scrutinizing corporate contracts.

All three of these areas were suggested by panel members themselves as subjects for queries because of the need for collective information about attitudes and activities.

Though most risk managers on the Advisory Panel were pleased with their brokers' efforts to find the best coverage at the best price, participants in this survey were generally unsympathetic to brokers' complaints about the injustice of direct billing.

More insurance companies are turning to direct billing of premiums, circumventing their agents and brokers in an effort to streamline collections. This has created a great deal of animosity among agents and brokers in the commercial insurance business, however, who justifiably contend that direct billing eliminates an important opportunity to stay in touch with the corporate client.

They fear their services are becoming less valuable to commercial clients, since billing and collections traditionally has been a key function of the insurance seller.

Buyers of insurance generally agree with the agents and brokers that direct billing seldom helps the broker and usually works to his detriment. Only one-fourth of the panelists believe direct billing is in the best interests of the brokers.

But two out of every five panelists say that direct billing by insurers is in the best interests of the policyholders. A similar proportion don't think direct billing is good for the buyer at all. (The remaining panelists didn't have any opinion one way or the other.)

The lion's share of risk managers answering our survey said they neither like nor dislike direct billing (40%), while another 35% said they don't like the system. That left 25% of the 94 respondents who said they're in favor of direct billing by insurers.

Particularly revealing about attitudes toward insurers and brokers were the reasons cited by risk managers who don't like direct billing. One-fourth of the risk managers said they depend on their brokers to perform an audit service, checking the premium charges against rates and breaking them down by location or operating division, a service that's canceled by direct billing. If the broker isn't performing this audit, other risk managers commented, it's much harder to catch billing errors and doubly difficult to get the insurer to correct the computer and rectify the error.

Cash flow advantages are greater if the broker does the billing, said some risk managers, noting that brokers tend to be more flexible about grace periods for paying bills. The broker is more responsible about doing his job when he's involved in billing, said one panel member, echoed by another couple of panelists who said they want the broker involved in every single phase of the insurance operation.

Risk managers who like direct billing generally feel that way because of the added efficiency and lower cost of the system. But a couple of insurance buyers who don't like direct billing were unabashedly protective of the brokers' interests, saying they don't like the system because it eliminates a means for the broker to earn additional revenues and that the broker "needs the float."

One risk manager felt that direct billing of premiums forces brokers to "bill fees separately, which causes accounting problems."

Though some risk managers were negative about insurer billing because it's difficult to get answers out of the insurance company without going through a broker,

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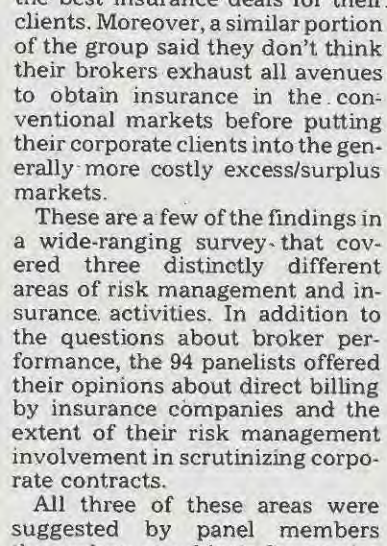

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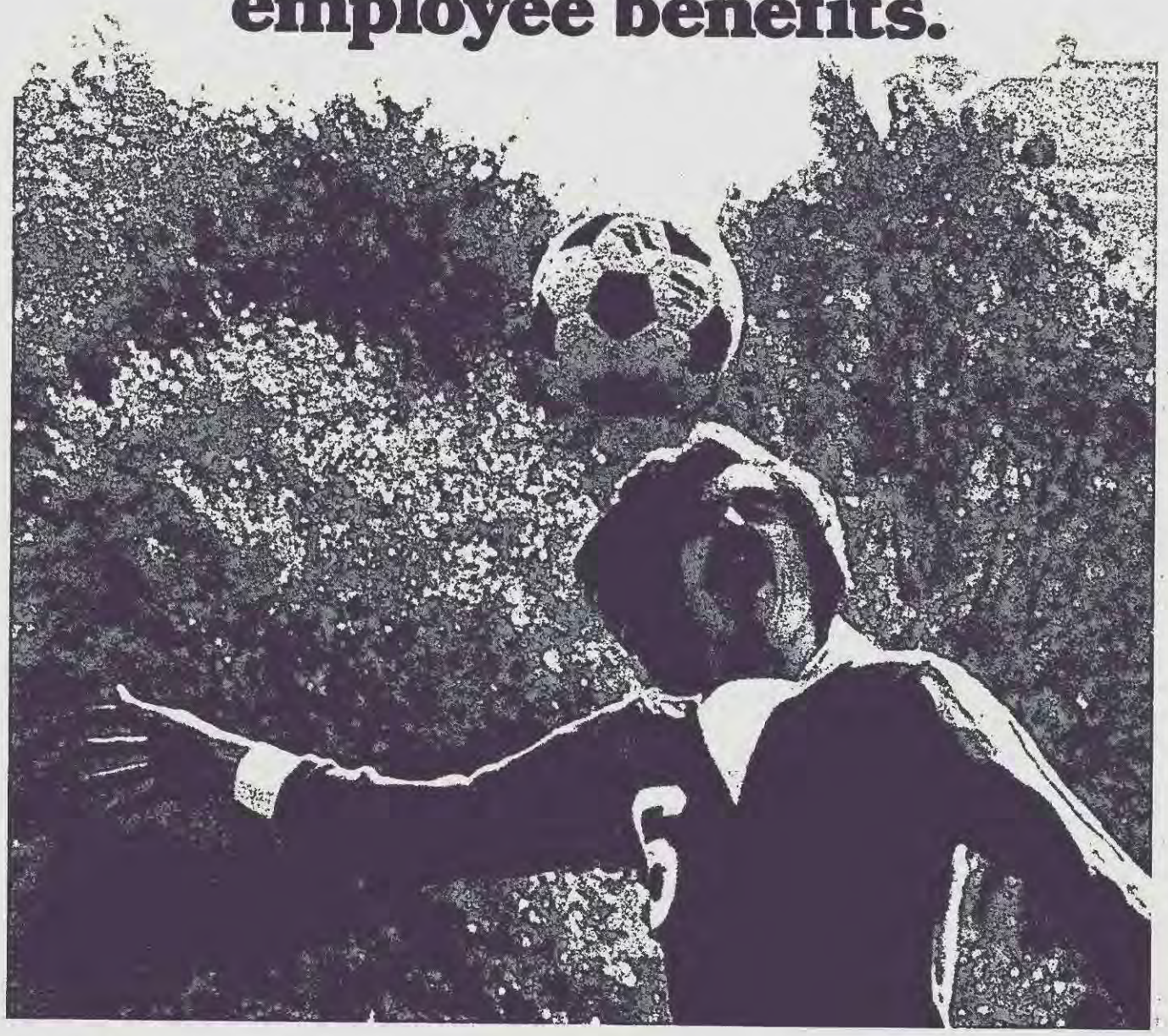

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We'd like to add your voice to the chorus of risk and insurance managers who tell us what they think about issues and trends in risk management. Six times a year *Business Insurance* sends a questionnaire to members of our Editorial Advisory panel. The responses, which are kept strictly confidential, are tabulated and reported in stories in *Business Insurance*.

Just drop us a note with your name and address if you'd like to join our board. The only requirement is that you have responsibility for risks at your corporation or institution. We lost track of some participants when they changed jobs. If you're one of those lost members, just send us a note with your new address.

Send those notes to Susan Alt, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611. If you've any questions, just call editor Ms. Alt at (312) 649-5278.

Advisory panel . . .

Continued from preceding page

other risk managers contradicted this view. A half-dozen panel members said that the main reason they do like the direct billing system is because they get answers much faster by working direct with the insurer.

A key reason why the risk managers who like direct billing are so positive about it is because it reduces the "float" that has traditionally provided an additional source of income for brokers. And buyers don't think that it's fair for brokers to use the premium flow for 45 to 60 days before remitting the payments to insurance companies, investing those funds in the meantime and earning interest on them.

"My pricing should reflect all costs," groused one risk manager about the broker practice of using client premiums for short-term investments. "If the insurer had his money sooner, I might get another 1% credit."

Direct billing by insurers acts as an "audit" on the broker, said a risk manager who doesn't have quite as much confidence in the broker's ability to break down charges for the policyholder.

Another chief reason direct billing is good, said five panelists, is because it enables premiums to be separated from commissions, a healthy development in the insurance business.

Meanwhile, nearly all risk managers on the Editorial Advisory Panel are involved in examining corporate contracts with lessors, lessees, contractors, suppliers and customers for insurance and liability provisions. In fact, nearly half of the 94 panelists responding to this survey said they read ahead of time all of the contracts to be signed by their companies for the presence of hold harmless clauses, limitations to liability and other phraseology affecting their companies' insurance and liability.

The remainder of the panelists said they make a point of reading some, but not all, of the contracts flowing through their companies.

Reading contracts for insurance and liability language isn't considered part of the risk management function for 20% of the panelists, though, the survey revealed.

Slightly under two-thirds of the panelists said that they read the entire contract, while others read selectively, scanning only the sections of contracts which they feel are pertinent.

Of those involved in reading contracts, a full 15% said they only look infrequently for and read the "force majeure" clause, which is a provision that dictates when the parties to a contract can be released from their obligations.

Sixty percent of the panelists said they always read this clause in a contract, while another 25% said they usually seek it out for scrutiny. ■

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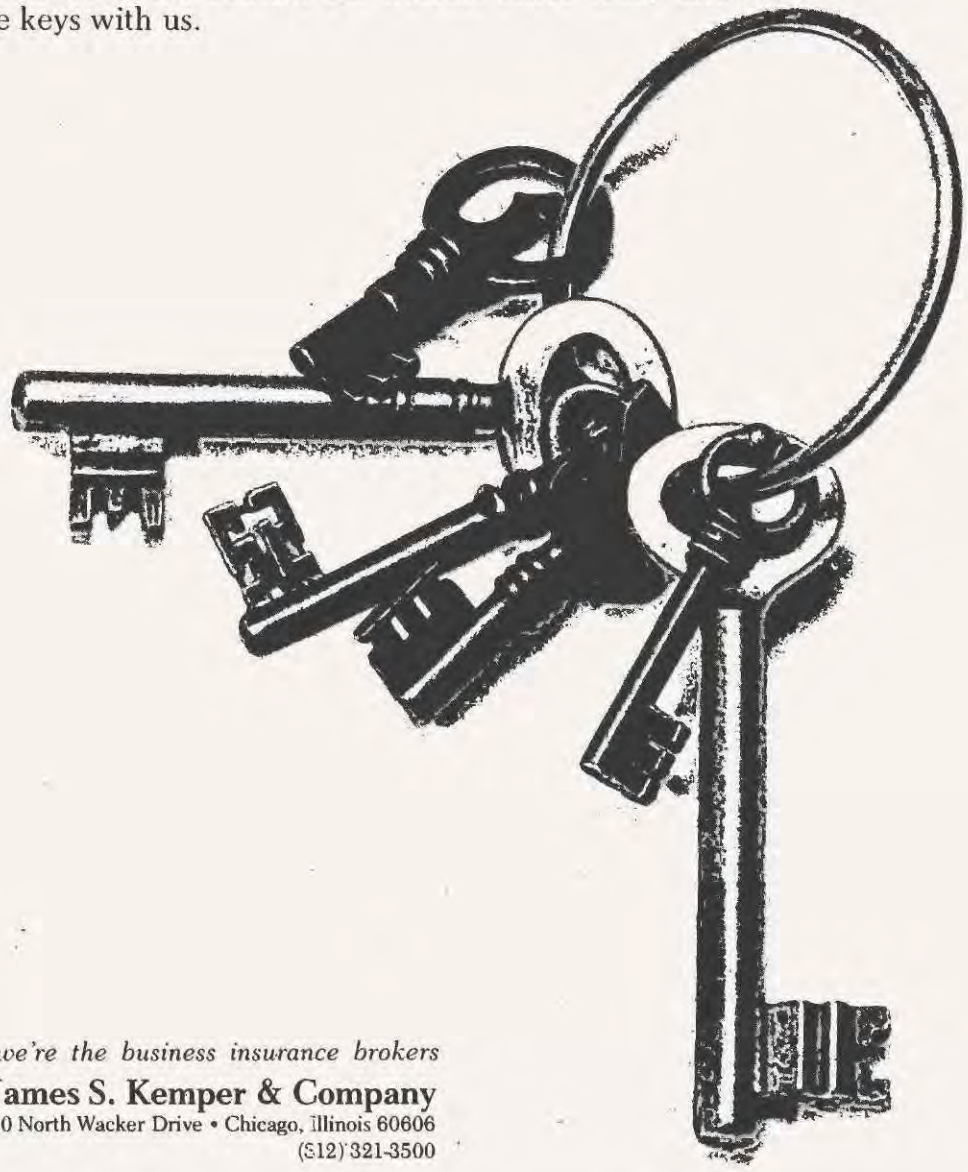

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SEE OUR AD ON PAGE 3

Brewers pay workers savings on medical benefits

By HARRIET KING

SEATTLE—The Northwest Brewers Assn. has designed a plan to hold down the rise in the cost of health and welfare benefits.

The plan encourages employes themselves to keep the lid on rising costs. If they are successful, they share 100% in the resulting savings.

Basically, each union contract spells out the budget for health care and details on a cents-per-hour basis the amount estimated to be needed to cover the rise in costs of existing health and welfare benefits. If the cost of benefits falls below this estimate, then the entire difference is added directly to employes' paychecks.

Robert D. Nelson, a labor relations consultant based in Tacoma, Wash., originated the concept in 1970 and approached one of his clients, the Northwest Brewers Assn., with the idea.

The program was subsequently developed with the Operating Engineers at five breweries in Washington and Oregon—Olympia Brewing Co., Rainier Brewing Co., Carling-Heidelberg, Blitz-Weinhard and General Brewing Co.

In 1977 alone the savings added 8½ cents an hour to wage rates over the last three years and bonuses totaled $343 for each full time employe of the engineers union, Mr. Nelson estimates.

"The savings are resulting because primarily employes are staying healthier," said Mr. Nelson. "They've reduced their costs and when they see it directly in their wage scale, they have a remarkable ability to really care. It's like a credit union—when people are involved in their own destiny, they're more interested.

"They start questioning what is going into these medical costs and want a breakdown of costs such as administration, insurance, doctors, hospitalization, etc. Union members are articulate and skilled and concerned about medical costs, especially with all of the publicity over socialized medicine," continued Mr. Nelson.

By contrast, he notes that "unfortunately, with the unionized types of plans where employes have paid nothing, the employe has often lost sight of what medical care is costing and he has lost his concern for these costs."

Mr. Nelson became interested in rising health care costs a few years ago when he was personnel director for Group Health Cooperative of Puget Sound in Seattle, a pioneer health maintenance organization. "Since I was in counseling, I could see that a good deal of the labor costs are in the benefits area," he says.

The plan that he devised can be "particularly significant" in negotiations for contracts where everyone in the union is involved, when the employes represented are not just one small part of the total number of employes covered by the contract.

"That is, if we had 1,000 employes in a 50,000 employe group, it is still a good idea but would not work to the degree where all 50,000 are involved," he says.

Mr. Daniel Warren, a business agent with Operating Engineers Local 286 in Renton, Wa. concurs. "It helps if all are covered. Otherwise, those who are covered wouldn't have enough influence on the overall loss ratio to affect it."

One example of a success where all union employes were involved is with the Olympia Brewing Co. Olympia bought the Theodore Hamm's brewery in St. Paul in March 1975, but found health and welfare benefits unusually high.

When contract negotiations arose in July 1975, the new plan was implemented. At the time, the insurance carrier was Aetna Life & Casualty Co. But a committee representing labor and management brought in Group Health Service of St. Paul (also an HMO) as an alternative choice.

Olympia agreed to base premiums on the Aetna rates "but Group Health proved to be almost a windfall because its premium rate was substantially under the standard rates by 30 cents per hour. Employes were free to choose either the insurer or the HMO and 30% then switched over to Group Health," says Mr. Nelson.

The results were impressive. In the three years through June 30, 1978, extra pay at the Hamm's brewery for those covered by Aetna came to $799.50 and extra wages for those covered by Group Health totaled $2,047.50.

"Before this agreement, the brewery's contract noted (hypothetically) that $80 would be alloted a day for hospitalization, and $10 for each doctors call, etc.," recalled Mr. Nelson. "It never said anything on what total costs of the benefits were. We spelled it out and changed it around to say the union and employes agree to work toward reducing costs.

Mr. Warren adds that no matter how good an idea it is, "most people haven't abused health and welfare benefits enough to make a substantial difference. The concept of working this way is just one aspect—the real place to reduce the cost of medical care is in the hospital itself. That is where most costs are incurred." ■

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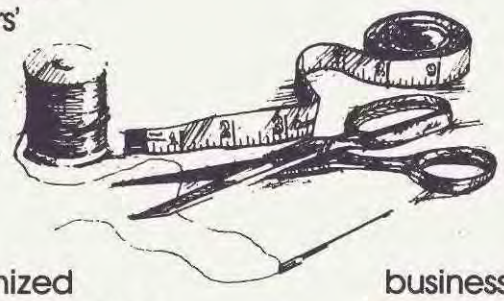

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Dew eyes $100 million mark

Gulf's Insco garners $50 million in premiums

By SUSAN ALT

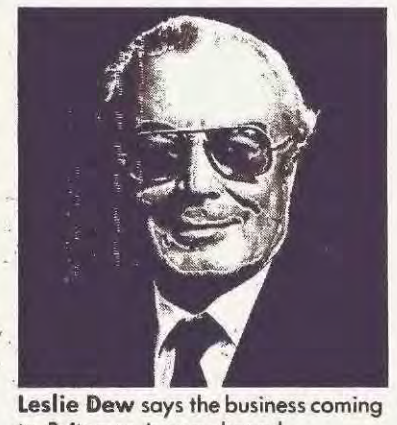
HAMILTON, Bermuda—Gulf Oil Corp's. Insco Ltd. subsidiary here is estimated to already have garnered commercial insurance business worth $50 million to $75 million a year in premiums.

Though Leslie R. Dew, managing director of Insco's underwriting arm, declined to confirm or deny the figures, he acknowledged that Insco is writing a "very substantial volume" that will reach the $100 million mark in the not-too-distant future.

Moreover, Insco has been approved as a non-admitted carrier in 34 states and will probably be approved by another six insurance commissioners in the next few weeks.

Britamco, the underwriting operation that Mr. Dew heads, has contracted with two international insurance companies to act as underwriting agent. A third company will begin using Britamco July 1 and negotiations are underway with about a half-dozen others, said Mr. Dew.

Effective Jan. 1, Britamco began underwriting for a German reinsurance company, Eisen Und Stahl, a subsidiary of Hannover Reinsurance Co., and for Reaseguradora Nacional de Venezuela, a reinsurer owned by most of the insurance companies operating in that country. They are taking a line equivalent to 20% of Insco's



Leslie Dew says the business coming to Britamco is very broad.

writings through Britamco. This summer, a major French insurance company, Le Preservatrice, will also join the stable of Britamco's underwriting clients, taking another 10% of the Insco line.

Mr. Dew is obviously working toward a truly international group of companies for whom he underwrites. He won't say how many he hopes to sign on by the end of 1978, but he admitted he'd like to see a Japanese company and a U.S. insurer join the group.

Britamco is writing for Insco and these other companies: commercial casualty, property, marine, aviation and treaty business, though it's not known how the business breaks down proportionately among these lines.

It's thought that Mr. Dew has participated on about 1,100 different insurance programs since he began underwriting for Insco last April. He's writing what he describes as "a very modest line" with a maximum exposure of $500,000 on any one risk. The average exposure is probably closer to $150,000 per risk, he told *Business Insurance*.

Mr. Dew generally likes to participate on the lower layers of coverage, just above a primary or immediately over a self-insured (or captive insurer) retention. "We're coming in lower down than I've ever done before," he admitted. "I can't possibly interest myself in the higher layers because they don't develop the necessary premiums. You need at least $5,000 premium (per risk) to make any money

Mr. Dew is very happy with all the business that's come his way in only a year of doing business in Bermuda. He's participating with Lloyd's and the London companies on many "slips" submitted by Lloyd's brokers from London. He's getting much U.S. business direct from the major U.S. brokers but is also getting a substantial amount of U.S. and foreign business from "probably all of the leading 50 Lloyd's brokers," he said.

"I feel slightly overwhelmed at the support that we're getting. I expected it to build up more slowly, so that I'd be doing more planning and less underwriting at the outset." Mr. Dew noted. Britamco now employs 23 people, including three underwriters (that figure includes Mr. Dew) and three assistant underwriters.

The business coming to Insco/Britamco is "very broad," said Mr. Dew. The casualty risks, for example, cover a wide range of exposures and all types of layers, with product liability "a frequent offering, along with professional liability," said Mr. Dew, who is also "writing a modest D&O book, more or less in collaboration with London's" programs. ■

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• The Machinery and Allied Products Institute has prepared a 33-page booklet **Company Programs to Reduce Product Liability: Some Matters to Be Considered.** The institute says this booklet is the product of 17 years of MAPI involvement in the growing problem of product liability. Single copies are available for $5 for institute members and $8 for non-members. Write Machinery and Allied Products Institute, 1200 Eighteenth St. NW, Washington, D.C. 20036.

• A series of monthly **articles** from Constructor Magazine providing information on various aspects of **insurance and risk management** is now available from RIMCO. The series costs $5. Write William S. McIntyre, president, RIMCO Inc., Suite 180, 10300 N. Central Expressway, Dallas, Tex. 75231.

• **Insurance Buyer's Checklist for Manufacturers** offers guidelines to determine the best insurance program for manufacturers. The 18-page booklet is designed so the insured can request his insurance agent to schedule coverages presently carried as well as outlining his recommendations or modifications. A copy is $5. Write Ronald J. Jones, RIMCO Inc., Suite 180, 10300 N. Central Expressway, Dallas, Tex. 75231.

• Here's a handbook telling how to draw up specifications when soliciting proposals and bids from suppliers of risk management consulting services. A fictional XYZ corporation is used as an example on how to draw up **Specifications for Risk Management Consulting Services** by RIMCO Inc. Copies are $5. Write William S. McIntyre, RIMCO Inc., Suite 180, 10300 N. Central Expressway, Dallas, Tex. 75231.

• AFIA uncomplicates **boiler and machinery insurance overseas** in a booklet that lists basic considerations, a comparison of types of policies, the coverages available, inspection requirements and special factors relating to coverage abroad. For a free copy write AFIA Worldwide Insurance, 1700 Valley Rd., Wayne, N.J. 07479.

• A promotional brochure describes **All Risk Management Services Inc.'s** background and capabilities in assisting self-insurers. For a free copy write Peter G. Wallace, Assistant vp, All Risk Management Services Inc., 160 Water St., New York, N.Y. 10038.

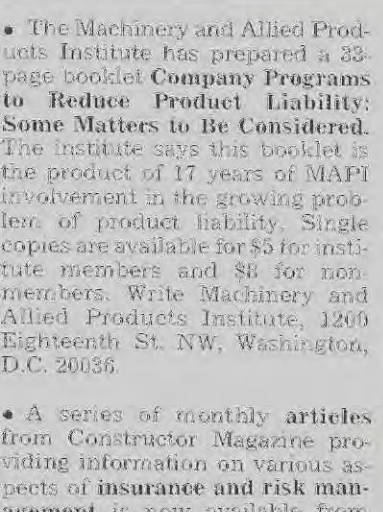
• Is your bank insurance program as effective as it should be? The third edition of **Digest of Bank Insurance** has 200 fact-filled pages in looseleaf form. It features a guide to the amounts of bond coverage a bank should carry and basic coverages offered under essential and optional bank insurance policies. Copies of the digest cost $25. Write John Wolff, Insurance and Protection Division, American Bankers Assn., 1120 Connecticut Ave., N.W., Washington, D.C. 20036. Request catalog number 210400.

• **Insurance Coverage for the Motor Carrier** is a 60-page guide to assist those responsible for motor carrier insurance decisions. It will help analyze past incidences, project adequate insurance needs, comply with legal requirements and formulate a loss prevention program. Cost per copy is $6.50. Write Thomas Fugee, Executive Director, National Accounting & Finance Council, American Trucking Assn., 1616 P St. N.W., Washington, D.C. 20036.

• Are you a librarian or agent who desires to establish or evaluate your insurance program? Whether you are employed by a small or large library **Insurance Manual for Libraries** is a how-to-do-it reference that should help you put together the essential elements of an appropriate insurance program. Suggestions are given for appraising costs for all library items. A glossary of insurance terms is included. Copies are $5 each. Write Order Dept., American Library Assn., 50 E. Huron St., Chicago, Ill. 60611.

• Scarborough and Co., Chicago-based insurance counselors to banks, has updated **Insurance and Protection Handbook.** The 20-page handbook provides a description of services, rules for buying financial institution insurance and highlights of policies available through Scarborough. A loss prevention index has been added that lists many causes of loss, cites the insurance coverages designed to cover them and suggests operational safeguards to reduce risks. For a free copy write Robert W. Marshman, vp-marketing, Scarborough & Co., 222 N. Dearborn St., Chicago, Ill. 60601.

• **A Corporate Profile of RIMCO** is contained in a reprinted article. For a free copy write William S. McIntyre, Suite 180, RIMCO, 10300 N. Central Expressway, Dallas, Tex. 75231.



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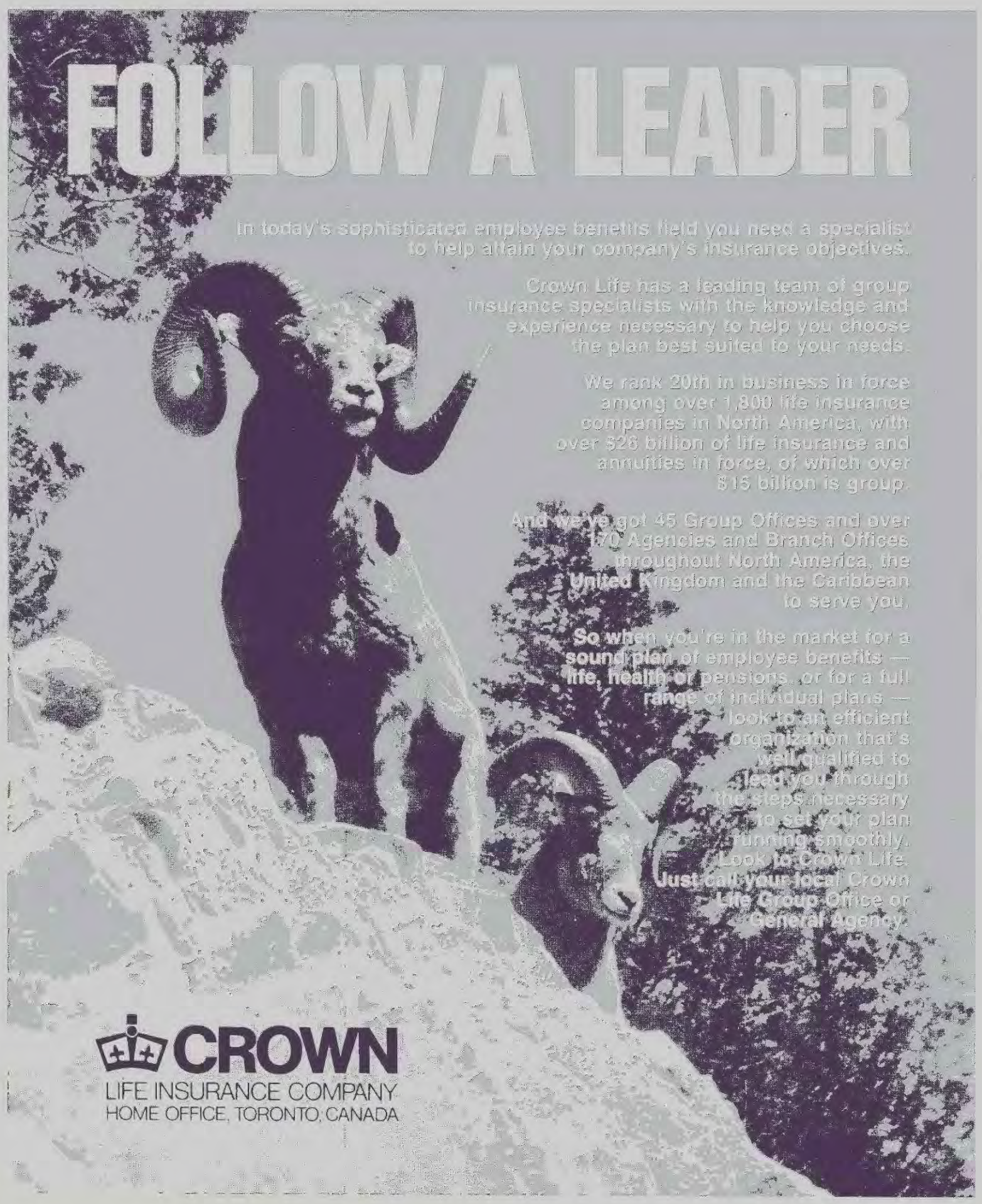

Photo: Kathryn J. McIntyre

Mapping out his risk management program for 3M, Howard Weber points out a new foreign risk in Sierra Leone.

CIRCL's now the top priority

The effective operation of CIRCL, a group-owned, captive insurance company designed to provide a reinsurance facility to its owners, is Howard Weber's most important project right now.

The concept of CIRCL—born on a cold, snowy night a year ago at an American Management Assn. insurance council meeting in Hamilton, N.Y.—is almost a functioning reality. But one stumbling block is the underwriting for the Bermuda based company.

Mr. Weber, one of CIRCL's eight directors, is aghast at suggested reinsurance premiums. A proposed solution is to charge a percentage of standard premium and allow the captive to carry the balance on a retrospective rating plan. Still, the standard premium remains unresolved.

When Captive Insurance & Reinsurance Co. Ltd. is operating it will solve three problems for 3M, Mr. Weber said. One, from an auditor's standpoint, 3M's captive has been assuming more risk than is appropriate for its size and capital structure. CIRCL will provide a reinsurance source to reduce Lakeside Insurance Co. Ltd.'s $5 million liability exposure on 3M's worldwide operations.

Two, Lakeside's ability to properly reserve for the 3M account is inadequate under FASB-5. CIRCL, as a non-controlled foreign corporation, is not subject to the board's standards and can establish its own reserving practices. Lakeside, as a retrocessionaire, will have to maintain reserving practices appropriate to CIRCL. Moreover, participation in CIRCL will turn Lakeside's single account exposure into a book of business.

Finally, reinsuring 90% of Lakeside's risk with CIRCL provides the transfer of risk required by the IRS for approving the deduction from income as a business expense the insurance premiums paid to a captive insurance company.

Weber profile . . .

Continued from page 1

"When I started at 3M the insurance department was primarily an administrative rather than a management department," Mr. Weber recalled. He had left Economics Laboratory Inc. in St. Paul, where he handled insurance part time as an assistant treasurer for eight years, to enter the specialized field of insurance. "The most important part of my job in the beginning was that of insurance technician, concerning policy form wording, retrospective adjustment analysis and claims handling," he remembers.

He purchased standard fire and extended coverage, employe fidelity and a $5 million liability insurance policy for the grand total of $1 million. The program did not address or provide for the catastrophic loss, he notes.

"It wasn't until the early '60s that I could claim the program began to be something other than a relatively routine insurance placement program," the risk manager continued, lighting another in a chain of low tar cigarettes that filled his ashtray by the end of the day. "That's when we converted the program into one that concentrated on the needed financial protection and paid less attention to conventional insurance programs."

A worldwide catastrophe program that included liability, employe fidelity, business interruption and property insurance was developed in response to the needs of a growing international division and the threats of the product liability claims explosion to come.

Worldwide program

"We saw no practical way each company could be insured in its own country. That's generally understood today but in the late '50s and early '60s the industry didn't have the facilities for a worldwide program," Mr. Weber said. Meanwhile, 3M saw a number of bodily injury liability claims and "recognized then that the courts were going to an attitude of strict liability." The worldwide program that covered losses in excess of existing underlying insurance or excess of a $1 million self-insured retention was purchased from various markets with a good portion taken by London underwriters.

A $1 million retention was possible then, Mr. Weber said, because "there was a change in attitude in the mid-'60s toward insurance financing. There was recognition that the corporate ability to finance its own risk and absorb uninsured losses was really much greater than most of us had considered."

By the late 1960s Mr. Weber really began development of a self-insuring system, which he emphasizes means an accounting system for the distribution of loss expense as opposed to non-insuring, which is expensing losses as they happen. The former accountant took the concept of an in-house underwriting facility and carried it to a degree of sophistication that has yet to be duplicated though eight or 10 major corporations have visited the 3M Center in St. Paul to investigate it.

"Basically under our system each business segment is charged a premium appropriate to its risk of loss using past experience where that is credible and using commercial insurance market rates where they are available," Mr. Weber explained slowly in his deliberate and patient manner.

"All of this, of course, is designed to produce a sufficient expense accrual to cover our estimated total insurance costs which for 1978 are approximately $30 million and include both our cost of commercially purchased insurance and our long term projected average loss experience. We are basing the cost on an estimated 70% loss ratio on projected loss experience."

Program today

Mr. Weber has found that since developing this system most of his time has been consumed by the accounting and financial aspects of risk management and the financing systems that include two Bermuda captives.

Under the program today, 3M self-insures for losses of its businesses ranging from a minimum retention of $250,000 to a maximum of $5 million, the latter through its Bermuda subsidiary, Lakeside Insurance Co. Ltd. Above those levels, 3M either purchases insurance commercially or is not insured.

Each division is required to absorb 20% of a loss under its all risk cover from a minimum of $5,000 to a maximum of $25,000. Claims over $5,000 are adjusted by Mr. Weber's department and if there is commercial insurance involved it is also collected by the risk management department. "We operate as an in-house insurance company and commercial insurance is comparable to an insurance company buying reinsurance," Mr. Weber observes.

The risk manager is often asked by plant managers if a loss is insured, meaning is there outside coverage. Mr. Weber declines to distinguish between self-insured and insured losses. As he says

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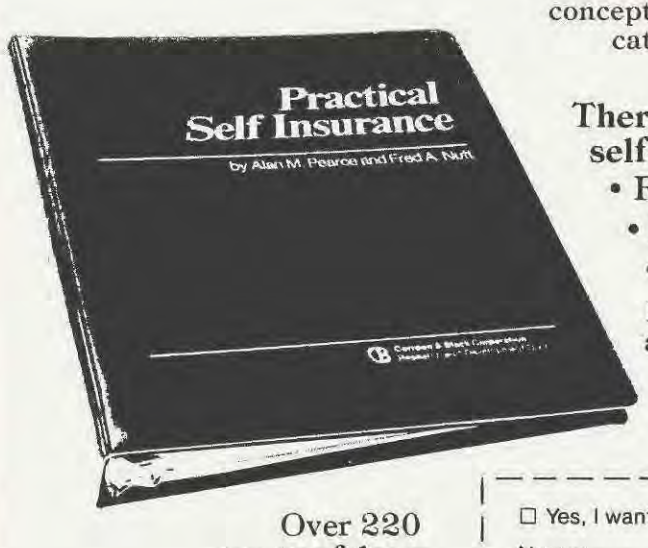

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every time at the end of an insurance presentation to company management, "I hope you think you are in good hands with us, but remember, the money in those hands is 3M's."

Commercial property insurance includes conventional fire and extended coverage and a business interruption policy from Industrial Risk Insurers, and a very broad boiler and machinery policy from Commercial Union, each having a $250,000 deductible. The retention level selected eliminates all charges for expected losses, Mr. Weber said, so increasing the deductible would not decrease the premium.

On top is a DIC program for $65 million that covers property losses worldwide. It is purchased directly through a Lloyd's broker with Lloyd's syndicates in the lead.

The worldwide property program is in excess of $1 million on domestic losses. AFIA insures foreign operations for losses in excess of $100,000 to $5 million, reinsuring the risk with Seaside Insurance Co. Ltd., a captive formed in 1972 specifically for the program. Seaside retains $200,000 of risk and reinsures the balance to a pool of reinsurers managed by AFIA.

"We've had extremely good success with the non-U.S. property program," Mr. Weber said. "We've improved the quality and cost of insurance through AFIA and Johnson & Higgins's international facilities." (J&H was chosen in 1958 by Mr. Weber to handle 3M's foreign insurance as one of his first major changes in 3M's insurance program.)

Liability program

Under the liability insurance program, the first $500,000 is underwritten by Northwestern National Insurance Co. and is reinsured in the Lakeside subsidiary, formed in 1972 as a companion company to Seaside. There are no deductibles applied to division losses under the general liability or workers compensation policies.

Northwestern also provides 3M with excess insurance of $5 million on workers compensation and automobile liability in states with no-fault laws that call for unlimited medical coverage. "I didn't want Lakeside sitting down there with unlimited liability," Mr. Weber says.

Otherwise, coverage for liability losses in excess of $500,000 to $5 million is written directly on a worldwide basis by Lakeside. Mr. Weber is forging ahead as a director of Captive Insurance & Reinsurance Co. Ltd. to move it into operation to reinsure 90% of Lakeside's risk.

The primary and first layer of excess liability insurance now assumed by Lakeside was underwritten from 1966 until this year on domestic operations by The Travelers. The insurer announced in 1976 that it "was no longer in a position to assume any of our risk," he said. Instead, Travelers offered an unlimited retro plan, but Mr. Weber opted for using Lakeside extensively for the first time.

Foreign operations each maintain adequate insurance to cover normal and expected losses in their own countries. Though Lakeside's worldwide umbrella policy is actually first dollar, "we would never use it for small claims," Mr. Weber said. The locally placed insurance protects the worldwide program from frequency of loss and if the small loss is not covered by the local insurance "we tell them to eat it," Mr. Weber said.

A worldwide umbrella for losses in excess of $5 million to $100 million is led in London with extensive use of the European markets and U.S. excess/surplus insurers. This is the first year since 1974 that the $100 million liability package has been 100% placed. The success can be attributed to Mr. Weber's direct involvement for the first time in marketing the program, making two trips to London and the continent in July and November to accompany his Marsh & McLennan affiliated brokers to the underwriters. "I went overseas because we were not getting complete success out of the system we were using and it worked," Mr. Weber said.

Loss experience

In addition, the company's liability exposure on its owned aircraft is insured to $200 million and 3M directors and officers are protected by liability insurance written by a Lloyd's syndicate with a conventional $30,000 deductible.

The risk financing program that Mr. Weber has assembled "is possible because of our excellent loss experience," he suggests. "If there were too much pressure, if we had to eat a lot of losses, I'm not sure we could hold it all together."

Highly systematic and sophisticated risk identification, evaluation and alleviation systems are cited for controlling 3M's losses. Mr. Weber depends upon the division managers to pick up the phone and let him know if they are going to do something that is highly unusual—such as taking a group of visiting employes and customers snowmobiling in the St. Paul snow-filled winter.

"If they are just doing their thing, leasing new buildings or developing new products" the risk management department is alerted to the new risk when it reviews authorization papers which it receives, Mr. Weber said. "An important source of risk identification is to tie into those systems."

While he describes risk evaluation at 3M as "pretty routine," risk alleviation is a shared responsibility with the safety engineering department which is part of the manufacturing group. Its monitoring of all 3M operations works, Mr. Weber said. "They realize that keeping their plants in business is a major responsibility. It's discipling their own group."

Safety function

The company maintains its own in-house industrial hygiene, toxicology and fire protection engineering expertise. "We look to outsiders, like IRI, mainly as an audit for us at the plant level and for their expertise because they see so much more than we do," Mr. Weber said.

The safety function is still closely linked to the risk manage-

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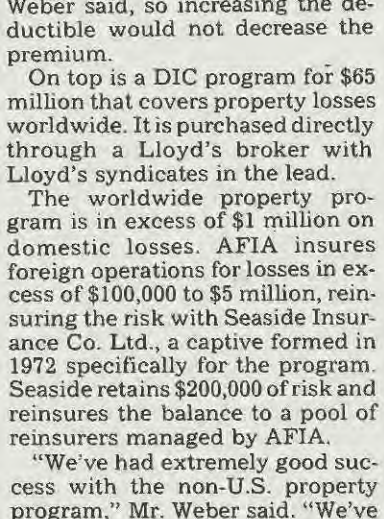

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No ulcers, but there were some hard lessons

"I'm not the kind who would ever get an ulcer because I don't let mistakes bother me," Howard Weber claims. But he does recall some lessons he learned the hard way in 30 years of managing corporate insurance.

"In my early years I assumed the insurance manager's job was a purchasing agent's activity and I assumed I could say what I wanted and get it at the lowest price." On that basis Mr. Weber wrote the specifications for the insurance he wanted, not realizing the specifications eliminated good products.

"A boiler and machinery contract met my specifications, but I found out later I could have had a lot more coverage for only a little more premium elsewhere." That taught him to "spend more time asking the experts what is appropriate."

In international risk management Mr. Weber learned that it's important to be sure the overseas division not only understands the words in his recommendations but also the concepts. He devised a rule of thumb formula for overseas subsidiaries to determine how much risk could safely be self-assumed. "One subsidiary took me literally and canceled insurance on most everything," he recalled. "Technically, they were right. Their sales volume was enough not to need to insure those locations." But while the cash flow was there, the capital wasn't.

"They were over exposed," Mr. Weber said, and by canceling the property insurance, the cost of automobile and general liability increased because the discount for the substantial premium volume was lost. Luckily, there were no losses in the two years it took Mr. Weber to tactfully see that the insurance program was restored to its original status. ■

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Weber profile . . .

Continued from page 87

ment department with George Dyball, loss prevention manager, coordinating the in-house and outside expertise, visiting plants and reviewing copies of safety reports which are sent to him by the safety engineering department.

Mr. Weber has been known to spot a safety problem himself. As he always does when traveling overseas, he stopped at a local plant recently while in Germany. "I walked into the brand new fire pump station and saw the fuel supply stored in the same room as the fire pump." His blue eyes widened in disbelief. "That just is not good operating procedure." He added that to a person not attuned to the concepts of fire prevention it probably made sense to have the fuel supply so handy.

International operations, which account for 40% of 3M's $4 billion annual business, is an assignment he has chosen to keep primarily on his desk. He describes his function on the international scene as "providing a worldwide management system and supplemental facilities." He provides the foreign operations with insurance management guidelines and makes recommendations when a new program is needed, "but they decide the way to go."

If Mr. Weber disagrees with how a foreign operation is handling its insurance, he can try to persuade it to reconsider its approach, he can contact other levels of management, or, if all else fails, "I can go ahead and supplement the program because my responsibility is to be able to tell the 3M board of directors that all our operations all over the world are appropriately insured." While relying on one of the St. Paul worldwide financing systems to provide the supplemental protection, Mr. Weber would "keep working with them to find out who is right."

In other risk management areas, Mr. Weber assumes the responsibility for the development phases of any new major program. Once he is satisfied with the direction it is taking, he shifts the responsibility to one of his four managers responsible for liability and surety, property and marine, loss prevention and accounting/statistical and financial systems.

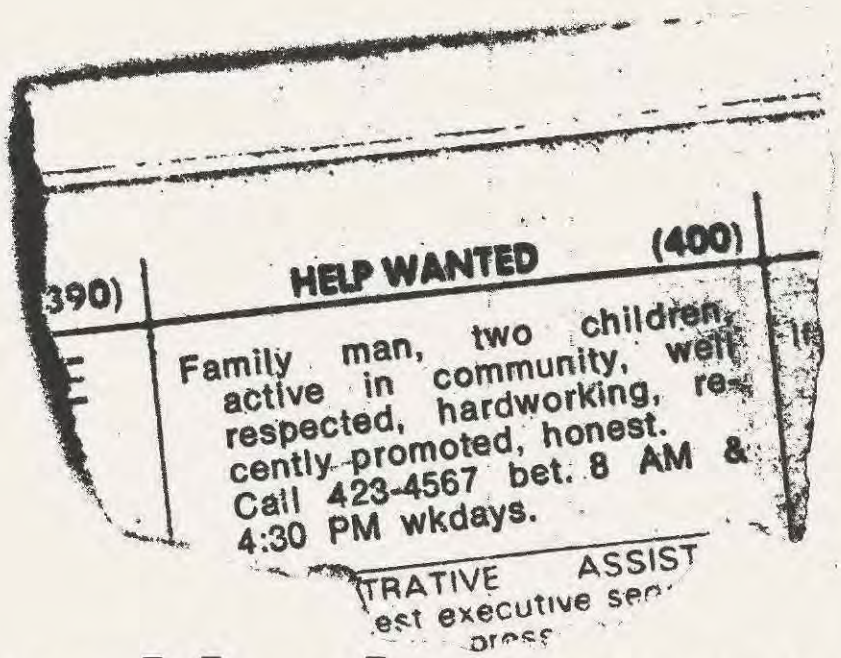
3M structure

Openly loyal to his employer, Mr. Weber commends the management structure of 3M and his predecessors for enabling him to be effective. Since the parent company and the operating company are one, the 40 operating divisions that make 3M, and create its risks, come together in a management organization at the 3M Center in St. Paul. Looking out his second floor window at the other two giant buildings that comprise the center, Mr. Weber said, "I'm within a five minute walk of every corporate officer. If I have a problem with a division—engineering, marketing, sales—the directors are all here. It's a tremendous advantage."

Since so much of his work is with the international division, Mr. Weber reports to international treasurer Robert Stenberg, who is also assistant treasurer of 3M Co. Though three levels removed from the chairman of the board because the total management group is so large, Mr. Weber maintains "where you sit in the corporate structure is important but where you sit in the corporate perspective is far more important."

For Mr. Weber at 3M it's a high priority perspective evidenced by the existence of a board level insurance committee. Financial vp D.E. Garretson is chairman of the committee whose members include the two corporate presidents, the associate general counsel, the vps of engineering and manufacturing, the vp of one of the most important operating groups and vp/treasurer Ralph Ebbott.

"The committee gives me a more direct ear to top management, to



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tell them about my goals, programs, and guidelines and to give them a chance to react," Mr. Weber said.

Top management has a ready grasp of the risk management function. At one time or another Mr. Weber has reported directly to both treasurer Mr. Ebbott and financial vp Mr. Garretson. When he first arrived at 3M, then-president Herbert Buetow had in his past been responsible for insurance and treasurer Clarence King had supervised the insurance program.

"The people who came ahead of me had already created a strong staff position for the department. I didn't have to establish management interest or awareness in risk management," Mr. Weber said. A large loss in 1951—an explosion that claimed 12 lives and caused $2.5 million in property damage—alerted 3M to the vital role of safety engineering.

"So it all existed when I started. I can't claim credit for starting risk management at 3M." He can, however, claim credit for keeping it in the corporate eye. "To a great extent, in whatever field of business management you're considering, the more aggressive managers tend to move in and fill voids. For example, my department is the only one at 3M that has general ledger and cost accounting responsibilities."

Selective tacks

Assessing his risk management program, Mr. Weber confesses, "I don't claim to be very innovative, but I've trained myself to listen to ideas and savor and taste each one to see if it has a use. I'll play with ideas on paper or in my mind for hours. I'll beg, borrow or steal ideas and if one has some application, I'll jump onto it."

He concedes, modestly, "that if I'm an expert in anything it's in accounting and financing. I probably know FASB and CASB as well as any risk manager."

Identifying personal traits that have enabled him to succeed at 3M and in the risk management profession, Mr. Weber cited a good, but discriminating, memory. He admits to a terrible memory for names, but claims ready recall of relevant concepts or facts. He sifts through the barrage of information he is bombarded with daily with the scrutiny of Sherlock Holmes, whom he quoted as once telling Watson after listening to a long dissertation on the universal structure, "Now that you have told me this I will promptly forget it because I see no relevancy to what I am doing."

Continued on following page

Centralized program disperses broker tasks

Howard Weber's centralized risk management program at 3M is highly decentralized when it comes to which broker is placing what insurance. It's a tribute to his memory that he doesn't have a flow chart on his wall to keep track of it all.

Johnson & Higgins has the domestic property business. J&H offices overseas service the 3M foreign operations and J&H Ltd. manages 3M's two Bermuda captive insurance companies. Marsh & McLennan is the broker for 3M's primary liability insurance and Mr. Weber uses M&M and its overseas affiliates for placement of his $95 million excess of $5 million liability insurance package. J.H. Minet of Montreal markets the worldwide $65 million DIC policy and the directors and officers liability policy. Finally, Alexander & Alexander has 3M's boiler and machinery and aviation insurance.

"We didn't intend it to be split that widely," says Mr. Weber, a strong believer in continuity.

Again without a flow chart, he recalled how the business landed this way: Back in the 1940s, 3M exclusively used the Anchor Agency in St. Paul. In about 1950, 3M needed more expertise in loss prevention and transferred its property account to J&H. In 1958, it became apparent a broker with international facilities was needed to service the foreign operations and Mr. Weber chose J&H.

In 1964, Mr. Weber decided 3M needed higher limits of liability and property insurance under its worldwide program. London was the obvious source and Mr. Weber placed the business with London broker J.H. Minet. The following year Mr. Weber tested the domestic primary liability insurance market after over a decade of insuring with INA. Travelers came in with the best package with M&M as the broker.

Last year, when Mr. Weber decided to use every avenue for full placement of his excess liability program, including personal visits to underwriters in London and on the continent, he moved his excess liability account from Minet to M&M and its foreign affiliates.

The Anchor Agency, which had 3M's entire account back in the '40s, was left with its boiler and machinery and aviation risks. Alas, the broker was bought in January by A&A.

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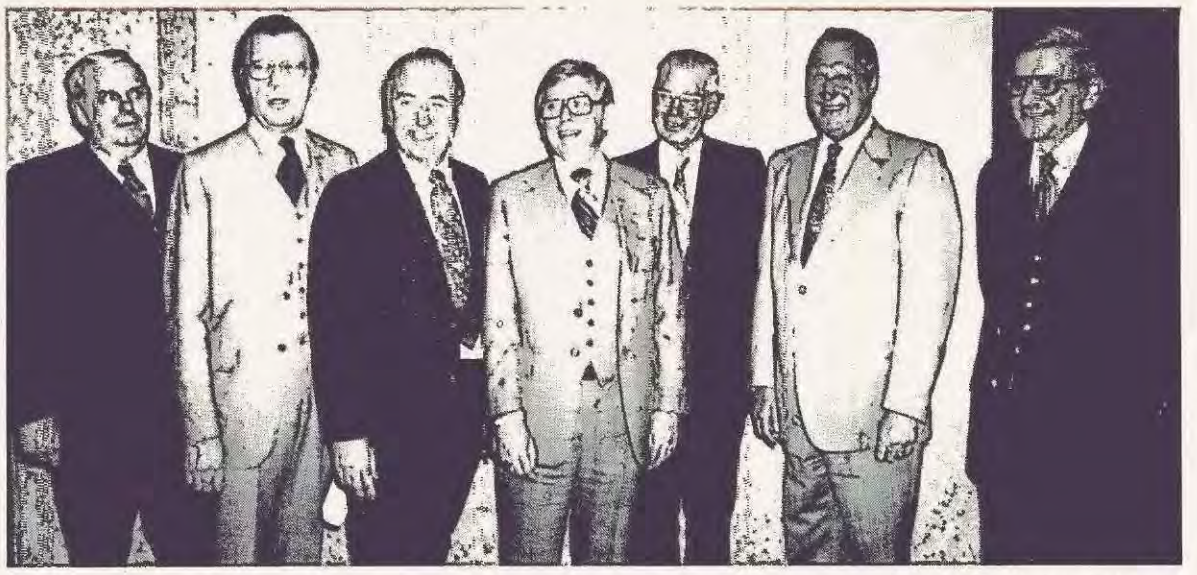

Photo: Kathryn J. McIntyre

3M management and Howard Weber's associates turned out to honor him at a dinner party in St. Paul at which he was presented with the Risk Manager of the Year award. Those attending, from left to right, included Glenn Bauer of the risk management department, 3M treasurer Ralph Ebbott, 3M financial vp D.E. Garretson, Howard Weber, 3M international treasurer Robert Stenberg, 3M chairman of the board Raymond Herzog and John Hart of the risk management department.

Weber profile . . .

Continued from preceding page

A curious and inquisitive mind and a knack for technical vocabularies has helped too, he says. He finds that using the jargon of a particular discipline aids his cause immensely. Two years of majoring in chemistry at the University of Minnesota Institute of Technology before switching to business has also provided him with a valuable background at 3M, he says.

That he left chemistry for business bespeaks Mr. Weber's drive for excellence. "I concluded after two years that I would be only a mediocre chemist and I didn't what to be just mediocre." His position as director of insurance at 3M is rewarding and he claims to be satisfied. "I realized early on not to plan to be treasurer with my BBA from the University of Minnesota when MBAs and CPAs are required here."

Diversity

Mr. Weber is most intrigued by the diversity of the risk management job. At the award dinner he told the chairman of the board, Ray Herzog, that "except for your job, there's no other that gives anyone as legitimate an excuse for sticking his nose in everybody else's business."

But the administrative aspects of the job are not quite as attractive. "It's not that I like administration the least, but it's what I feel least capable of. I make a lot of human relations errors, not because I don't like people but I find the role of supervising people difficult. I started as an accountant and I'm used to dealing with things, numbers in columns. I can argue a concept endlessly but I find human motivation, job descriptions and performance appraisals hard."

Top accomplishment

Looking over two decades of work at 3M, Mr. Weber says his most significant accomplishment will be achieved when CIRCL is functioning. The group-owned captive will be a workable solution to the most difficult problem he has faced at 3M: providing a suitable financing system for the liability exposure.

Among his goals for the future is greater use of the Bermuda subsidiaries as direct policy issuing insurance companies in-house, where permitted by law such as in Sweden or Denmark. Organizational concerns, such as should safety really be as separate from risk management as it is, also exist. But basically, Mr. Weber said, his goals are ones of evolutionary progress as has been the development of the risk management department under his direction.

"How can we do what we do today better?" is the question Mr. Weber wants to answer. ■

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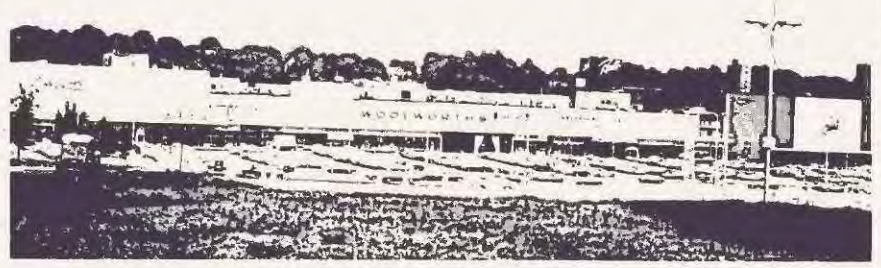

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Judges . . .

Continued from page 1

zations. He has a BA degree from Yale University and a law degree from Harvard University.

A. Grant Whitney, risk manager for Belk Stores in Charlotte, N.C., is also chief executive of the Belk Stores Reciprocal Insurance Co. He is a past president of the national Risk & Insurance Management Society and has participated on many RIMS committees and as an officer for several terms. Mr. Whitney received the President's Award from RIMS in 1971. He has a BS degree in business administration from Boston University.

Robert C. Nevins is managing partner of Dinner Levison Co. in San Francisco. He has spent 18 years in the insurance brokerage business, following nine years with an insurance company. He has a BS from Miami University of Ohio. Mr. Nevins has been president of the national society of CPCU and is very active in furthering insurance and risk management educational programs.

Therese A. Maloney is vp and assistant manager of special accounts for Liberty Mutual Insurance Co. in Boston. As an active member of CPCU, she has been an officer, director and president of her local chapter of the organization. After graduating with a BA in economics from the College of St. Elizabeth in New Jersey, Ms. Maloney held positions with Liberty Mutual in underwriting and special account management.

Thomas V. Hallett is director of corporate risk management for Joy Manufacturing Co. in Pittsburgh. He is president of Joy's subsidiary insurance company and is a director of a joint-venture insurance company. A past president of the local chapter of the Risk & Insurance Management Society, Mr. Hallett is also vice-chairman of the Machinery & Allied Products Institute insurance council. He joined Joy in 1970 after working for Liberty Mutual Insurance Co. as a claims supervisor. He has a BS from Loyola University, Chicago, and a law degree from LaSalle University.

John W. Hall is chairman of the insurance department in the college of business administration at Georgia State University in Atlanta. He received his master's degree as well as his PhD in economics and insurance from the University of Pennsylvania. An active participant in the development of the insurance and risk management education programs of the Insurance Institute of America, Dr. Hall has also served as a consultant to the insurance industry and to risk managers. He is co-author of an authoritative textbook about casualty insurance.

Photo: Kathryn C. McIntyre

Howard Weber, center, accepts the Risk Manager of the Year award from Business Insurance editor Susan Alt and publisher Alfred Malecki.

Donald M. Stuart has been risk and insurance manager for Toronto-based Canada Packers Ltd. for 25 years. In that time, he has planned and implemented substantial loss prevention and self-insurance programs. He is an active member of the Risk & Insurance Management Society and has served as legislative committee chairman for the Ontario chapter of that group.

Alan B. Middleton is president of J.H. Minet & Co. (Canada) Ltd. in Montreal. Born in Nottingham, England, Mr. Middleton worked for a British insurance company and a local insurance brokerage firm before joining Minet in Montreal in 1964. He was named president in September 1977. Mr. Middleton is a fellow of the Chartered Insurance Institute of London. In December, he was elected to the board of Minet Holdings Ltd.

Waller B. Smith joined Rollins Burdick Hunter in Chicago in September 1976 as a vp after spending more than 30 years in risk management with Capitol Airlines and United Airlines. Before he retired from United, Mr. Smith was director of insurance responsible for employe benefits as well as property and liability programs. He has a bachelor's degree from William & Mary and a law degree from George Washington University. Mr. Smith received the President's Award from RIMS in 1973 and is currently a vp and director of the Risk Studies Foundation. ■

The Winner . . .

Continued from page 1

visions, some managers find their budgets and profit targets torpedoed because of inattention to loss prevention or because of a bad record of accidents or losses.

Nonetheless, asserted Mr. Herzog, Mr. Weber has "done a lot to provoke new ways of thinking among our executives. It's no surprise to us that he won this award."

As Mr. Garretson pointed out carefully in his fact-filled nominating statement, Mr. Weber implemented an effective program of financial protection for 3M, using every risk management and financial tool to achieve a workable program.

That Mr. Weber has dealt effectively with people at all levels in the company was clear during the dinner in his honor, attended by three other top executives of 3M in addition to Mr. Herzog, and by two people from Mr. Weber's insurance department.

Robert Stenberg, Mr. Weber's immediate superior at 3M, particularly appreciates the esprit de corps that's been fostered in the 12-person insurance department, resulting in efficiency and stability any manager would envy. "He's respected by those he reports to and those who report to him," said Mr. Stenberg.

Comments by the judges included the following remarks about Mr. Weber's work:

"Excellent use of all risk management tools. Imaginative use of captive and captive reinsurance. Good economies, market control."

"Good risk management techniques. Fosters risk management through talks and articles."

By recognizing an outstanding risk manager with this award, *Business Insurance* also highlights the growing importance of the risk management function and intends to encourage excellence and innovation in its practice.

As 3M's chairman, Mr. Herzog, noted, "insurance until recently has been a nuisance, something you ought to do. But now, it's become something you cannot afford not to be knowledgeable about."

The award was presented to Mr. Weber at a reception in St. Paul in his honor March 13.

The judges found Mr. Weber to be the outstanding candidate for Risk Manager of the Year using the following pre-determined criteria:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems.
- Innovatively applied the diverse tools of risk management.
- Creatively and effectively used the insurance markets.
- Established a workable intelligence system affording access to a flow of information about events and activities having an impact on the organization's risk management programs.
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Insurance costs gobble every fare collected by aerial tram in NYC

By ELLIS SIMON

NEW YORK—Insurance premiums eat up every fare collected by New York's two-year-old Roosevelt Island aerial tramway.

The tram, which is the only public transportation of its kind in the United States, collected $900,000 in fares during 1977, only enough to offset its insurance costs. Other operating costs, such as labor and energy resulted in a $800,000 deficit for the year.

Although New York City requires the tram's owner, the New York State Urban Development Corp., to carry a minimum of $15 million liability protection on the system, the UDC obtained liability coverage for up to $95 million.

The $95 million liability policy was written after UDC consultants had recommended that the tram be insured for $1 million on each of the 125 maximum passengers carried, said UDC public information officer Michele DeMilly. The $95 million figure was the maximum coverage available, she added.

Slightly more than one dozen insurers, including Lloyd's, participate on the layered program. Four brokers, including Alexander & Alexander and Kalvin Miller Inc., placed the original policy.

Photo: Ellis Simon

The New York State agency that owns the tram linking Manhatten and Roosevelt Island expects its insurance costs to drop 25% to 30% when its coverage is renewed.

Liability insurance costs for the tramway are high because there was no previous experience on which to base rates, explained Ms. DeMilly.

However, the tram has had no major claims during its first two years in operation and premium costs should drop by 25% to 30% if the present coverage remains in effect after its policy expiration date of April 15, she added.

UDC has selected Alexander & Alexander as its sole broker to find new coverage at lower costs. The state agency, which does not have a deductible on the current policy, is considering a self-insured retention on its future coverage, Ms. DeMilly noted, reflecting an improvement in UDC's financial position.

The Metropolitan Transportation Authority, which operates the city's subways, buses and the Long Island Rail Road, is reportedly self-insured on liability for the first $2 million per occurrence, with excess coverage provided by Lloyd's.

However, its operating revenues and resources are considerably greater than those of UDC and the tramway, Ms. DeMilly said.

A&A vp Peter Polstein, account executive on the tramway, declined to comment on the tramway.

Several aerial tramways are operated at U.S. ski resorts and other tourist attractions. Locations include Cannon Mountain, N.H., Jay Peak, Vt., Jackson Hole, Wyo., Stone Mountain, Ga., and Squaw Valley, Calif.

From an engineering and insurance standpoint the trams do not present problems, said Richard Williams, vp at Kendall Insurance of Rochester (N.H.). Mr. Williams, who manages the National Ski Area Assn. insurance plan, has placed coverage for several trams and said he felt "comfortable" with liability rates on them.

In the early 1960s, however, one of the tram cars at Cannon Mountain derailed in strong winds and dropped 90 feet to the ground, seriously injuring a state employe who was the sole passenger.

The Lookout Mountain Inclined Railway in Chattanooga, Tenn., which like New York's aerial tram is a unique public transportation operation, has not found liability insurance to present problems, said Arden Blaylock, assistant general manager of the Chattanooga Area Regional Transportation Authority.

Liability rates on the inclined railway, which consists of two cars pulled by cable up a steep slope, are the same as for C.A.R.T.A.'s bus lines. However, higher insurance coverage is carried, he said. ■

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The Info for Buyers column in *Business Insurance* lists educational, informational and promotional material of interest to risk managers and employe benefit executives. The information must be available free or for a modest cost (under $10). The Info for Buyers column in the special risk management services report May 29 will carry reader service numbers, allowing our readers to order several items merely by returning a single card. If you would like to offer material on any risk management or employe benefits topic for the May 29 issue, just send a sample along to Merrill Saltzman, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611. The deadline for info items for the May 29 issue is **May 1.**

HCA captive . . .

Continued from page 1

lished in Colorado in January 1977.

Mr. Reeves's own time (and his salary, expenses, etc.) is allocated about 90% to Parthenon and about 10% to HCA, while four of the risk management people headquartered here are nearly 100% allocated to Parthenon.

Another three risk management department people allocate their expenses based on time records maintained week-to-week, based on what projects are underway.

The department itself now consists of 11 people, supplemented by a risk management designee at each HCA-owned hospital.

Among the organizational changes made since Mr. Reeves's arrival is the incorporation of quality assurance responsibilities (normally, a medical services area) into risk management. Quality assurance had been part of the management systems department since late 1974 when the quality assurance functions were formalized.

Quality assurance is now considered part of loss prevention and programs are being established so that eventually HCA will be able to relate quality of medical care to hospital costs and insurance/loss costs, which nobody in the health care field to date has been able to do. Mr. Reeves and his staff, for example, believe they should be able to arrive at statistical norms so that different hospitals can be compared to the norms and to each other. Management of those institutions can then be refined and improved.

Quality assurance was previously concerned primarily with medical outcomes, but, as Mr. Reeves says, "we're also interested in everything else that can happen to a patient or a building or whatever. We are broadening the responsibilities of the quality assurance people."

Loss prevention

It was logical to pull this management function into risk management because the quality assurance staff were already making regular visits to each hospital and were familiar with many of the activities that needed scrutiny for risk management implications. HCA expects to spend an estimated $300,000 this year and next for its total loss prevention effort, said Mr. Reeves, including salaries of the quality assurance and loss prevention staff.

The use of the captive as an expense (and profit) center dovetails with these reorganized risk management operations to the extent that it serves as a building block for the construction of HCA's risk management program. In essence Mr. Reeves is building a self-contained insurance company operation.

His philosophy is that most major corporations are already in the insurance business, taking as they do large amounts of their own risk. In fact, he added, "many companies are retaining for their own accounts more risk than what's actually taken by primary insurance companies underwriting the policies of those corporations." He goes on to explain that because insurers nearly always reinsure large portions of the risks they underwrite, keeping only a small part of each risk of loss, a corporation self-insuring a large deductible is already paying for more losses than the primary insurer.

Risk managers at major companies are operating insurance companies, he contended, "whether or not they've formalized them" by establishing captives. Self-insurers perform all the same insurance functions for themselves that an insurance company performs for a policyholder.

Key costs

"That is why you should view this whole risk management operation as an insurance company operation and risk management department costs should thus be charged to the insurance subsidiary," reasons Mr. Reeves. Among the costs which he says be-

Continued on following page

HCA risk department now 11 under Reeves

Hospital Corp. of America has an impressive risk management department roster consisting of 11 people reporting to Bob Reeves, vp-insurance.

After joining HCA in August 1977, Mr. Reeves moved quickly to recruit strong people to coordinate HCA's total insurance operation.

In September, he hired Robert E. Pierson to be claims manager of HCA's insurance subsidiary, luring Mr. Pierson from St. Paul Fire & Marine Insurance Co. where he was a branch manager of claims.

Not long after that, he brought in Charles E. Anderson as controller/treasurer of Parthenon Insurance Co. Mr. Anderson was formerly vp of the Second National Bank in Ashland, Ky., where he also had 15 years prior insurance experience with Putnam Agency Inc., for which he was an officer.

In November, Cas J. Castille joined HCA from Humana Inc., one of HCA's biggest hospital management competitors. Mr. Castille had been risk manager for Humana and was in charge of its captive insurer. He also had been corporate safety director for the hospital chain. Mr. Castille is now loss prevention manager for Parthenon Insurance Co.

John P. Hyden joined the corporate staff of HCA in 1972 after being executive director of two HCA hospitals in Texas. He developed the company's quality assurance program which became nationally recognized. He's now Parthenon's staff consultant on quality assurance in the loss prevention division.

Judi Guthrie is research analyst in the loss prevention division of Parthenon, with a background as a registered nurse and experience as a director of nursing services and assistant administrator at HCA hospitals. She joined the quality assurance staff in 1977.

Jill Fainter, who's now quality assurance coordinator for Parthenon, joined the quality assurance department in 1976 after working for several years as head of medical records in an HCA hospital in Virginia.

Janice M. Williams works with Mr. Pierson as a claims analyst for Parthenon, coming aboard in late 1977 after being a supervisor and patient care coordinator with several HCA hospitals.

The remaining three members of Parthenon's staff include two lawyers with a firm in Denver and a top executive of HCA who is an officer of Parthenon. John A. Hill, who serves as chairman of Parthenon and is also a director and chairman of the executive committee of HCA, is a former president of Aetna Life & Casualty Insurance Co. He retired in 1970 from Aetna and became president of HCA, thereafter serving as chairman.

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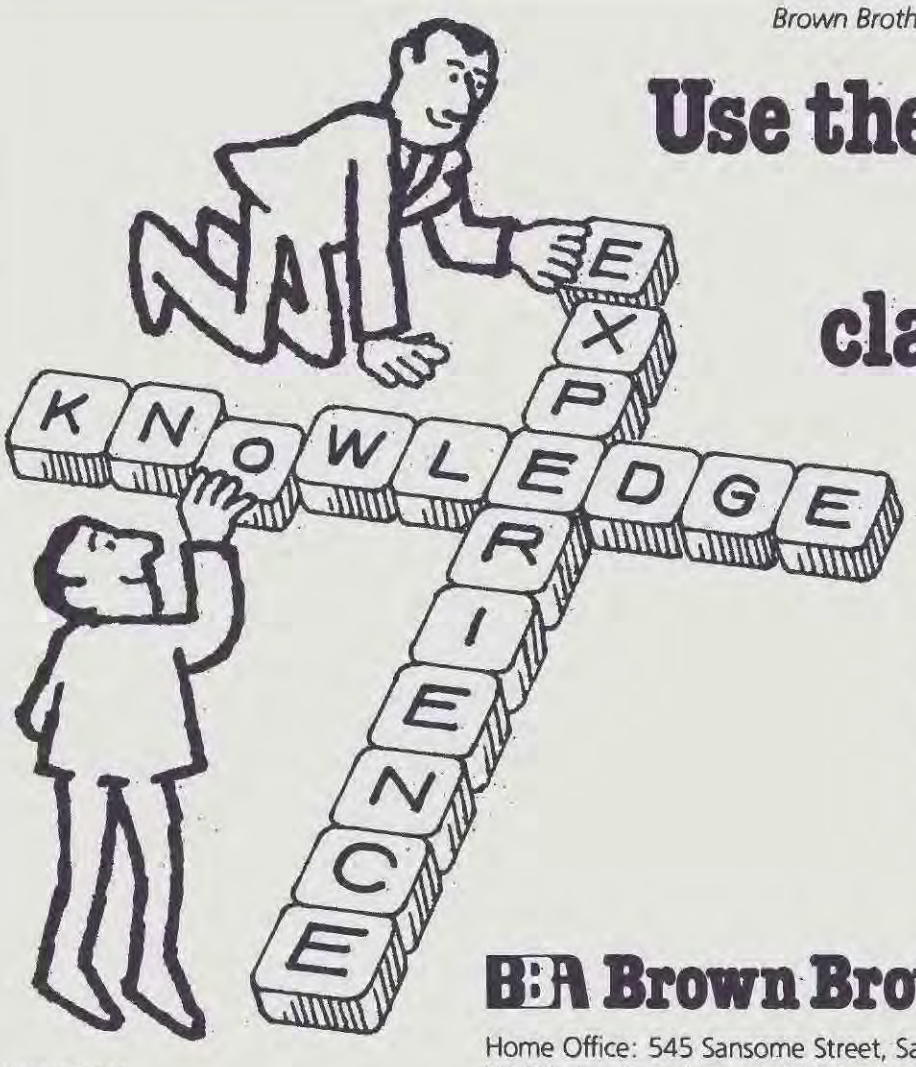

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HCA captive . . .

Continued from preceding page
long to the "insurance operation" are the department's operating costs, the cost of any purchased services, retained losses and insurance costs (premiums for excess coverage and reinsurance).

"If I were the chief executive officer of a major U.S. corporation, I would insist that my insurance operation be structured so that the same controls and indicators be applied to insurance and risk management as I apply to all other operations in the company," Mr. Reeves asserts.

With this in mind, he pushed risk management operations one step ahead by using the captive insurer as the vehicle for establishing a separate formal corporate insurance operation with its own financial reports, budgets, monthly statements of results, profit planning rigors—in short, its own distinct identity.

That's the way Bob Reeves wants it. He thinks risk managers have to be willing to establish that identity, though it involves a good deal more work and sometimes more personal risk as the "insurance operation" becomes highly visible. But he's critical of his colleagues who fear that visibility, who choose to remain hidden behind the administrative trees of most corporate forests.

What this new approach will ultimately lead to, he believes, is the "implementation of an active risk management management-by-objectives (MBO) program in understandable management terms instead of insurance terms."

Photo: Susan Alt

Hospital Corp. of America's Bob Reeves says he'll spend about $615,000 this year to operate his captive.

The advantages

In practical terms, Mr. Reeves said a year ago when he first floated this idea, such a formalized insurance operation would:

- Eliminate duplication of efforts by personnel.
- Bring expenses out of hiding from under the general administrative umbrella and into the open as expenses attributable to an operating subsidiary.
- Serve to reduce administrative expenses for the parent corporation while increasing the operating budget of the captive, facilitating allocation of costs as part of premiums to be charged by the captive of the parent or the operating divisions.

Right now, it doesn't look as if anyone is thinking about controlling Parthenon's operating expenses. Mr. Reeves appears to have carte blanche to build his department and operation the way he thinks it will work best. He says that for 1978 he'll spend about $615,000 for general administrative expenses to operate Parthenon, including salaries, overhead allocations and premium taxes.

But, "by discontinuing purchasing services from outsiders and by doing our work internally, we anticipate savings of just under $1 million for 1977 and 1978," he adds. His goal for Parthenon's insurance operation is to maintain an expense ratio of less than 10% of earned premium, compared with the 30% average expense ratio cited by Best's for most insurance companies.

Mr. Reeves figures he won't have any trouble meeting this goal even though his staff salary expenses are high. Parthenon has practically no acquisition cost, is exempt from assigned risk pools and other assessable funds in Colorado, "and has efficient management, or the expectation thereof," he says confidently and with a laugh.

Mr. Reeves wants close control of claims, with prompt investigations to reduce cost and create goodwill. To achieve this he hired Robert E. Pierson from St. Paul Fire & Marine Insurance Co. where he'd been in charge of claims at a branch operation. As claims manager of HCA's captive insurer, Mr. Pierson coordinates his internal claims handling efforts with those of Underwriters Adjusting Co. which checks into and negotiates all routine claims for an annual time-based fee of more than $250,000.

Mr. Reeves placed all of this reinsurance directly in the markets, with no reinsurance brokers involved. His Lloyd's broker, however, was C.T. Bowring & Co. Ltd. HCA also used Fred S. James & Co. in Atlanta for the London placement.

Work comp next

Workers compensation may be next in line for this kind of revamping. Right now, HCA's workers compensation program is insured with The Continental Insurance Co. of New York, through a local broker who's handled the business for many years and is on a straight commission.

'Hark!" says Bob Reeves when asked whether he'll use Parthenon for HCA's work comp coverage. 'We're getting competitive bids right now, and we're letting it be known that we'd certainly like to (have Parthenon) participate in this program," by reinsuring the primary carrier. There are substantial potential savings in this line, since HCA's 1978 standard work comp premium will hit $3.5 million. The company employs a whopping 30,000 people.

HCA is "buying" more of its insurance coverage all the time from its own subsidiary insurer. At the start of 1978 when liability renewals rolled around, Mr. Reeves wanted better coverage. Because the insurers that had been writing claims-made excess coverage over Parthenon's $250,000 per occurrence/$10 million aggregate policy weren't willing to quote on the coverage he wanted, Mr. Reeves decided to use Parthenon to write higher limits and go to reinsurance instead of an excess liability program.

Parthenon now writes for HCA an occurrence policy with limits of $10 million per occurrence and $30 million aggregate, with the aggregate limits applying only to losses of $250,000 or less. But the new per occurrence limits for coverage above $250,000 pay on an each-and-every basis with no aggregate limit.

13% savings

To his credit, Mr. Reeves ended up saving about 13% of premium at the same time that he obtained broader coverage, though he has all new reinsurers on the program. Parthenon now reinsures everything above $250,000 per occurrence. On the first layer is General Reinsurance Corp. whose Jim Billett decided to take 100% of the $4.75 million layer excess of $250,000. On the next layer, for $5 million excess of $5 million, two markets have a pro-rata participation, with Employers Reinsurance Corp. of Kansas City taking 40% and London taking 60%. Mr. Reeves worked through Bill Gunnison at Employers Re, while Robin Jackson of the Merrett Syn-

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HCA captive . . .

Continued from preceding page
dicate at Lloyd's led the London slip.

To top the liability coverage off, Parthenon issues a $10 million umbrella policy to HCA, reinsured with Prudential Reinsurance Co. through Roger Greiner and Ross Cowan.

As of Jan. 1 this year, and as a result of competitive bidding, Mr. Reeves has the fire insurance program reinsured with the captive by the new carrier, Factory Mutual System's Arkwright Boston. The previous insurer was The Continental Insurance Co. (New York), covering 80 hospitals, including four non-owned units that HCA manages.

Starting this spring, there's likely to be more hospitals and a good deal more premium flowing through FM and the captive as HCA begins offering its property coverage to the rest of the 22 hospitals managed by HCA.

Better coverage

Mr. Reeves felt the insurance program covering HCA's own hospitals could be improved and offered to the hospitals that HCA manages as an added incentive to choose HCA as the contract management company. Therefore, price and coverage were important. Submitting competitive bids were Aetna Life & Casualty, Industrial Risk Insurers and Continental, along with FM.

If rates could be reduced, Mr. Reeves believed 75% of the hospitals HCA manages would be interested in using the HCA program. And the best way to reduce rates, he felt, was by using Parthenon Insurance Co. to reinsure the property coverage underwritten by a primary carrier. The amounts being reinsured into the captive vary depending on the hospital up to a maximum of $50,000 per loss.

Overall, Mr. Reeves was able to achieve savings averaging three-tenths of a cent per $100 value. That doesn't sound like much, but it adds up to savings of about $25,000 a year.

Moreover, he reduced the deductible for each hospital to $5,000 from $50,000 per loss, which is unusual and quite an achievement in itself.

Hospitals pay fire rates as high as 35 cents per $100 or as low as four cents per $100. Though Mr. Reeves wouldn't disclose the rate he's paying, he acknowledged it's toward the lower end of that range.

He works through a local Nashville broker on the property program. Factory Mutual agreed to inspect each hospital at least once a year, and doesn't charge a fee for the inspections.

There's very little left that Mr. Reeves doesn't have in Parthenon. In terms of premiums, less than $200,000 for such things as directors and officers liability coverage and aviation coverage on corporate planes goes into policies purchased separately and probably won't flow through the captive. Both D&O and aviation coverage are handled by Corroon & Black, which won the aviation account last fall on a competitive bid basis using Insurance Co. of North America as the carrier. ■

French oil spill . . .

Continued from page 1
from the Persion Gulf when it broke up on the rocks March 17 off the coast of northern France.

Pollution costs, however, are likely to run into the millions of dollars, as an oil slick spreading over 150 miles washes ashore, ruining fishing beds, killing oysters and waterfowl and damaging holiday resorts. Though the cost of cleanup won't be known for some time, the previous record oil spill occurred in 1967 when the Torrey Canyon went aground off the coast of Britain, dumping 30 million gallons of oil and costing $15 million to clean up.

The Amoco Cadiz has already spilled 65 million gallons of oil and the fate of its remaining few tons isn't known. Bad weather conditions have prevented the offloading of the undamaged oil.

Cleanup costs and other pollution control expenses will be met initially through the vessel owner's membership in the London Protection & Indemnity Club.

French authorities have the right under a recently introduced international law, the Civil Liberty Convention, to demand compensation and damages for incidents in French waters up to $16.8 million. If costs exceed this figure, then the convention contains a provision under which the world's oil companies as a group would voluntarily contribute an additional $17 million to $20 million. This latter provision has no legal force at the present time, but there are moves underway in France to give this regulation statutory force.

Tanker owners for years have contributed to a voluntary fund for oil pollution and cleanup costs in parts of the world not covered by specific regulations or laws. TOVALOP, the name of the organization formed for this purpose, paid $1.1 million following the Argo Merchant oil spill. The highest costs ever covered by TOVALOP were $4.8 million paid in 1971 after two tankers collided in San Francisco Bay.

Keith Williams, chairman of the Institute of London Underwriters, said, "We can take the casualty in our stride and are regarding it as just another problem to be faced in the present state of the marine market. It will not have any immediate effects on rates, as many factors are taken into account when reviewing risks."

Recent demands by international regulatory bodies for duplicate steering mechanisms in all tankers are being discussed since a single broken hydraulic pipeline reportedly caused the grounding of the Amoco Cadiz.

The largest marine loss to date is the Olympic Bravery, which also grounded off the coast of northern France two years ago and cost the insurance industry $29 million for the value of the hull and machinery. There was no resulting oil spill, then, however, because the ship was in ballast on its way to layup.

Meanwhile, the insurance industry also suffered another loss March 17 when the $15 million Greek-registered bulk carrier Pantelis a Lemos ran aground off Capetown, South Africa, breaking in half. It was underwritten 60% in the London markets. ■

Work comp premiums up to $10 billion in '77

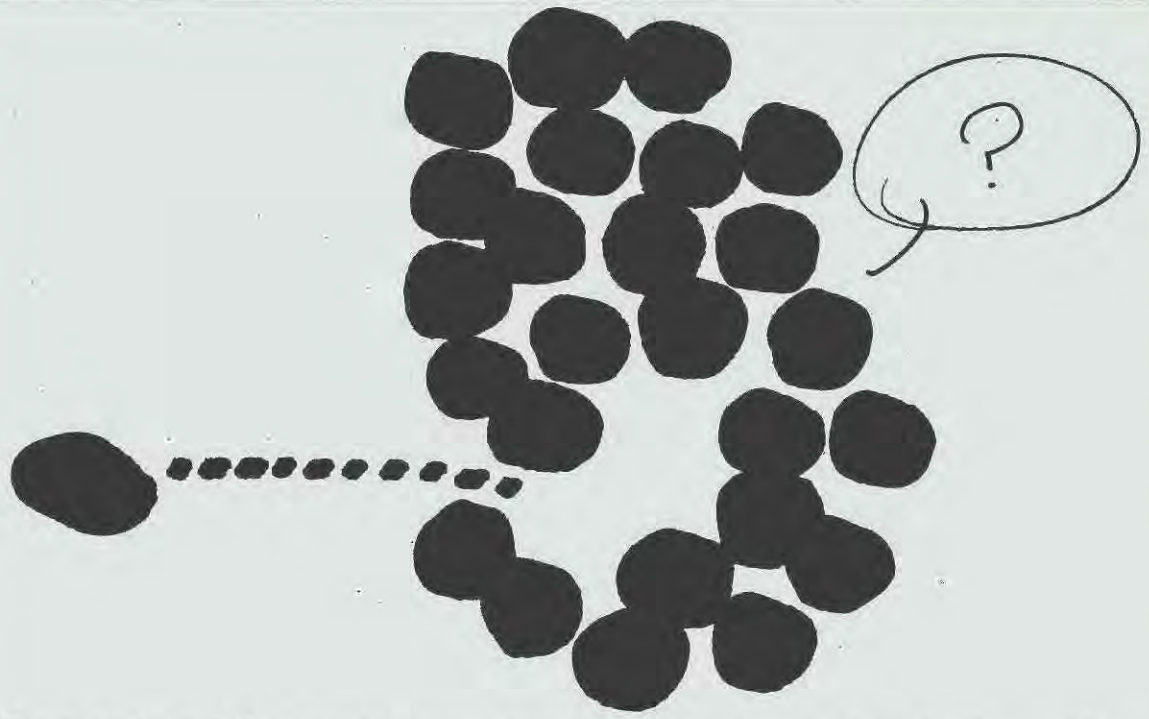
NEW YORK—Workers compensation insurance premium volume climbed 25% to $10 billion in 1977, but the insurance industry closed the year with about the same underwriting results as in 1976: an 86.5% loss adjustment ratio.

"The results for 1977 did not provide the improvement which had generally been expected, and this despite a substantial premium growth," said George F. Reall, president of the National Council on Compensation Insurance.

Nationwide workers compensation insurance rates increased 11.2% in 1977 as a result of 57 rate filings in 39 states, Mr. Reall said, with loss experience demanding 9.2% of the average increase and richer benefits commanding an additional 1.8% increase in rates.

Noting that the workers compensation insurance industry complains of inadequate surplus and rates, Mr. Reall said the number of assigned risks has increased by over 150% in the last two years in states for which NCCI is the rate filing agency.

The future of workers compensation insurance depends on developments in the regulatory process, Mr. Reall said, asking for "a continuing and vigorous address to the issue of rate adequacy by all . . ." ■



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Forced retirement . . .

Continued from page 1

Cutting back benefits for older workers without actuarial data proving higher costs "constitutes discrimination and a conscious effort to evade the purposes of the act," added Rep. Henry Waxman (D-Calif.).

This 11th hour interpretation of how the landmark legislation may affect benefits surprised and upset benefit experts who closely monitored the measure as it quickly sped through Congress. Companies had previously assumed they would be able to reduce benefits for those taking advantage of the new legislation.

"I think we all have been had," said Lloyd Kaye, vp at William M. Mercer Co. Backers of the legislation insisted raising the mandatory retirement age would not affect benefit plans, Mr. Kaye said. "Now they pull this."

But other experts argued that it is too early to raise a fuss on the benefit issue. Debate on the House floor, although useful as an indication of legislative intent, does not carry the weight of law, said one Capitol Hill staffer.

Final resolution of the benefits issue probably won't come until the Supreme Court rules on a test case, said a member of the Senate Human Resources Committee.

In the meantime, the consensus position seems to be that at least initially companies will not have to revamp their plans to equalize benefits for older workers.

Immediate impact

"But the expectation is that it won't be very long before Congress, the regulatory agencies and the courts begin zeroing in on areas they feel people over 65 are being treated inequitably," said Robin Holloway, senior actuary at the consulting firm of Towers, Perrin, Forster & Crosby.

The legislation gives employers some breathing space to get their benefit plans and personnel policies in order.

For federal workers, who currently must retire at age 70, mandatory retirement would end on Sept. 30, 1978. For private employers, the higher retirement age generally would go into effect Jan. 1, 1979.

The effective date of the law would be pushed back for employes covered by a collective bargaining agreement that was in effect by Sept. 1, 1977, and called for retirement at age 65.

In that case, the new upper age limit would not apply until Jan. 1, 1980, or until the expiration of the agreement, whichever comes first.

The new age limit would not cover tenured college and university professors until July 1, 1982.

A highly paid executive still could be forced to retire at age 65 if he or she were in a "bona fide executive or high policy-making position" for at least two years before retirement and were entitled to an annual retirement benefit of at least $27,000.

In computing the $27,000 figure, Social Security benefits and income attributable to employe contributions and contributions by prior employers could not be included.

In addition, that $27,000 figure could be adjusted up or down by the secretary of labor to reflect increases or decreases in the cost of living.

Inflation adjustments

The legislation does not cover firms with less than 20 employes. Furthermore, lower retirement age would be allowed in occupations where increased age may prevent a worker from continuing to safely perform the duties of his or her job. Examples of such occupations include law enforcement, firefighting and air traffic control.

Opening up the employment gates to workers 65 and over, will not be a great leap into the unknown for some employers.

Last year, there were 2.7 million persons age 65 or older working. About 1.6 million were between 65 and 69 while another 1.1 million were 70 and above.

A 1974 study of 33 state agencies in New York found that the job performance of workers between 65 and 70 (New York's mandatory retirement age for state employes) was "about equal to and sometimes noticeably better than younger workers."

The Labor Department estimates that no more than 200,000 persons, out of a work force that now numbers over 90 million, will continue to work after 65.

The trend, in fact, is toward early retirement. From 1950 through 1976, 60% of General Motor Corp.'s hourly employes retired before age 65 and 13% retired at the mandatory retirement age of 68. In 1976 only 2% of GM hourly employes worked until age 68.

Bankers' Life and Casualty Co., which never had a mandatory retirement age, reports that in 1968 only 3% of its employes were 65 and over; in 1977 that figure stood at 4%.

At Connecticut General Life Insurance Co., which eliminated forced retirement last summer for most of its workers, only two employes out of 50 who turned 65 decided to continue to work.

Even if courts rule later that full benefits have to be provided to older employes, the impact may be minimal, said Mr. Holloway of Towers, Perrin, Forster & Crosby.

Pension costs should hold steady or actually decrease since even if benefits accrue after 65, the added benefit an employe would be entitled to would be more than offset by the benefit the employe gives up by working past 65.

Medical costs should remain stable since Medicare will kick in at 65 allowing employers to reduce a big chunk of coverage.

A little ingenuity could hold down life insurance costs, he continued. Instead of providing a group life insurance benefit that is equal to two times salary, as often is the case now, the policy could be changed so that a spouse would receive a life time income of 25% of the employe's pay.

Sick pay

"It sounds like the same coverage for everyone, but it becomes a smaller and smaller benefit for the older employes since the spouse is older and will live for a shorter period of time," Mr. Holloway said.

The biggest question mark is sick leave pay. Court rulings could make it clear that employers would be free to retire workers who frequently are disabled due to illness.

But a congressional staffer contends that the disability issue has been exaggerated since evidence he has seen indicates that workers who work after 65 tend to be healthier than their younger counterparts. ■

The bill's highlights

The landmark legislation would raise the mandatory retirement age from 65 to 70 in most of private industry and completely eliminate involuntary retirement for federal employes.

For federal workers, who currently must retire at age 70, mandatory retirement would end on Sept. 30, 1978.

For private employers, the higher retirement age generally would become effective Jan. 1, 1979, with these exceptions:

- If a collective bargaining agreement providing for retirement at age 65 were in effect on Sept. 1, 1977, the new upper age limit would not apply until Jan. 1, 1980, or until the expiration of the agreement, whichever comes first.
- The new age limit would not cover tenured college and university professors until July 1, 1982.
- A highly paid executive could still be forced to retire at age 65 if he or she were in a "bona fide executive or high policy-making position" for at least two years before retirement and received an annual retirement benefit (excluding Social Security) of at least $27,000.

AIG unit offers new life plan

NEW YORK—Groups of as few as three third-country nationals or Americans working abroad can obtain life and major medical insurance through a new "third-country national trust program" being offered by American International Life Assurance Co., a member of the AIG Group.

Foreign employes and third-country nationals are generally not eligible for parent company group plans unless higher premiums are paid, said Robert Sophia, domestic marketing manager for AI Life. "Since they're subject to frequent transfers, it's usually impractical to insure them locally."

While special programs for third-country nationals and foreign employes have been available in previous years, they required a 10-person minimum participation, he added. AI Life's new program will fill the needs of smaller groups, he noted.

Although the new program does not offer disability or accidental death and dismemberment benefits, they may be offered in the future if warranted by market demands, Mr. Sophia said. ■

Benzene standard

The Occupational Safety and Health Administration (OSHA) has exempted liquids with less than 0.1% benzene from its new permanent standard governing worker exposure to the chemical that has been linked to leukemia. Other parts of the new standard, which limits employe exposure to benzene to one part per million parts of air over an eight-hour period remain unchanged.

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Fronting hearings . . .

Continued from page 1

company, usually located offshore.

The New York department would prohibit fronting when the reinsurer is owned or controlled by the policyholder or when the amount reinsured exceeds the licensed insurer's established retention on a type of business.

Joseph Fahys, senior reinsurance officer of Marsh & McLennan Inc., pointed out that captives provide insurance for risks such as product liability and medical malpractice that corporations have trouble purchasing in the conventional markets.

"If captives are eliminated as reinsurers, then they (corporations) will turn to self-insurance, and we feel that the the use of captives is a far better approach than self-insurance," said Mr. Fahys.

"We've got a tremendous problem here and the department has gone much too far," he added, stressing the financial soundness of captives as reinsurers and stating that he knows of one captive with "$187 million of surplus and it's not in New York."

Noting that many of the 246 corporate members of the New York City chapter of the Risk & Insurance Management Society haven't been able to get satisfactory insurance in the conventional markets, chapter vp Paul Goldschmidt said captives have been a progressive and stabilizing factor in the market.

"With the increase in rates in the last few years the premium-to-surplus ratio of the standard insurance companies has become dangerously low," Mr. Goldschmidt said. "If the large policyholders who own captives had not been in the market, they would have crowded the individual citizen out of the market, and the capacity crunch would be much worse than it has been."

Mr. Goldschmidt, attempting to clarify the proposal's intent, noted that the real reason appears to be the department's fear that unlicensed insurers can exert undue influence on the administration of policies, particularly claims administration.

"So it is suggested that the state throw out the baby with the bath water," he said. "If there have been violations of proper procedures in claims administration, let us know of some of the details of these violations," he pleaded.

Superintendent of insurance Albert L. Lewis said his concern was that a licensed insurer would cover a risk beyond its capacity and then cede to a reinsurer also writing above its capacity.

"If a large loss should occur, there's a calamity," he said. "Then they will look to the guaranty funds for security. Is that something we should be concerned about?" he wondered.

Backing down somewhat from his strong stance, however, Mr. Lewis said it is not his intent to drive insurance business out of the state. "Maybe we're wrong about this regulation, but the fact remains that we don't have any regulatory control until after the fact," he added.

N.J. control

Staffer Alvin Alpert noted that his concern was that a licensed company which refused to cede a block of business to the captive would lose that business to another licensed insurer.

"I realize it's your responsibility to catch fast-buck operators, but don't hurt captives," Mr. Goldschmidt replied. "This is much too broad and sweeping a regulation when you're just talking about one specific case of abuse."

"It's not just an isolated case, it's being done wholesale," Mr. Alpert said.

Mr. Goldschmidt maintained that the department has enough control over fronted business because the licensed insurer takes care to assure that the captive is sound. The licensed insurer is the first one to suffer since ultimately it is responsible to pay claims if the captive fails to do so, he said.

The tension in the room eased when Michael E. Curan, deputy superintendent of the life department, asked if anyone was in favor of the proposed regulation. His request was met with no response and the roomful of people broke into laughter as the participants realized their unified opposition to the insurance department's proposal.

But those present appeared anxious when Mr. Alpert mentioned that another state was also considering adoption of a fronting regulation. Although several people requested the name of the state, Mr. Alpert declined to name it.

4 objections

Mr. Alpert worried that most testimony was centering on the justifications of captives and the harmful effects the proposal would have on captives.

"They're all so caught up in captives and at least on the life side, I had no intent to affect captives," Mr. Alpert said. His aim was to crack down on credit life insurance, where insolvencies such as Old Security Life Insurance Co., were directly due to fronting.

Edith F. Lichota, assistant treasurer of Carborundum Co., who represented the 91 corporate risk mānagers of the upstate New York chapter of RIMS, listed four objections to the proposed regulation that were similar to reasons given in other testimony.

She said the proposal would lead to corporations moving from the state to less restrictive parts of the country since "the only companies large enough to have captives are the companies which can logically consider moving their offices."

Ms. Lichota also questioned the insurance department's authority to implement regulation 82. Since the unlicensed reinsurer is not doing business in New York, she reasoned, any attempt to regulate that insurer would be unconstitutional since it would be regulating interstate and international commerce, an activity reserved for the federal government.

In addition, she said the only justification for regulation is to protect the public but that the "unlicensed insurer has no contact with the public and is being relied upon by a knowledgeable parent to fulfill a financial function."

Defining fronting

Lastly, Ms. Lichota noted that section 112, on which the insurance department based regulation 82, only regulates agents and brokers, not insurers.

Ms. Lichota suggested that if unlicensed insurers had an adverse effect on the claims of the fronting carrier, then the insurance department could control the situation through the fronting carrier.

Peter Flannagan, president of the Life Insurance Council of New York, indicated that he was confused about the department's definition of fronting. The 1958 circular letters prohibiting fronting then were now being used as a basis for reinforcing regulation 82 even though fronting then and now are different. Fronting practices in 1958 were strictly a matter of filing, so Mr. Flannagan didn't understand what the department considers fronting now.

Mr. Alpert responded that he didn't think it was "necessary to define fronting," giving rise to a loud burst of laughter from the audience.

But Mr. Alpert continued, "You have to understand that we're trying to generalize and not limit ourselves to specific cases in life (insurance)." ■

Punitive damages . . .

Continued from page 1

surance Management Society president Robert S. Spencer. "Maybe we got our story across that vicarious liability is an insurable hazard."

Robert Nivens, managing partner of Dinner Levison in San Francisco, characterized the ISO change of heart as "an example of the response of the insurance companies to the consumer," while also recognizing the effect of division in the ranks on the demise of the exclusion.

Though slow acceptance from regulators is also credited with contributing to elimination of the exclusion, as industry observers had predicted, it was ultimately the industry's own disorganization that was the death of the exclusion.

ISO's backslide to a policy that is silent on the specifics of coverage for punitive damages was not anticipated by members of the personal lines, commercial lines and executive committees when they convened for special meetings on March 22 to discuss punitive damages, *Business Insurance* learned.

Not expected

ISO vp Richard R. Savage confirmed that committee members had intended to recognize an endorsement that specifically insured policyholders against punitive damages awards in cases of vicarious liability—a move buyers and brokers had clamored for when saddled with the broad brush exclusion of all punitive damages awards from protection.

But the executive committee voted to drop the whole issue when the representatives of member companies couldn't even agree on an endorsement covering vicarious liability cases, Mr. Savage admitted.

ISO president Daniel J. McNamara said in a publicly released statement that the varying adoption of the exclusion by insurer, by line and by risk as well as the still pending approval in 19 states of the exclusion had caused "substantial confusion and dislocation in the marketplace for the public, insurers and producers." While reaffirming ISO's philosophical belief that "willful and wanton behavior on the part of the insured should not be and is not intended to be covered by insurance," Mr. McNamara conceded, "ISO recognizes the prevailing view within the insurance marketplace that the language of the insurance contract may not be the most practical means of accomplishing our goal."

Tort reform

Now, he said, "ISO believes that the complex issue of the circumstances under which punitive damages should be awarded, the standards governing appropriate and reasonable amounts and the insurability of such awards should be addressed through established legislative and judicial procedures."

ISO is calling on "all insurance trade associations and other trade associations representing business and industry, as well as insurance producer associations and individual insurers, to seek promptly legislative action which will achieve the necessary reform."

Fireman Fund's Mr. White said he hoped that all those who were prepared to take up the banner in marching for tort reform in the face of the exclusion "don't drop the banner now. The thorn is out of their sides but they aren't out of the woods." It would be dangerous to presume that the absence of the exclusion means liability insurance buyers have protection against punitive damages awards, he warned, because state laws vary on the issue and insurers can fall back on policy wording that an occurrence is one that is "neither expected nor intended from the standpoint of insured."

"So we're back to where we were," concluded Johnson & Higgins vp and director David Winton. "Each claim will be considered individually as it always has been. It doesn't mean the insurer will always pay."

Frank W. Barry, Aetna's product manager for commercial lines, characterized ISO's adoption of the exclusion and its recent withdrawal of it as an "interesting and convoluted fiasco. ISO tried to use a broad brush on a serious problem and over painted the picture." ■

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letters

Continued from page 8
state's highest court has yet to rule on the matter.

Punitive damages cont.

To the editor: I find no fault in principle with the theory that punitive insurance coverage defeats the punishment aspect. I think it is against public policy to insure for willful acts. The problem is the courts are not consistent in granting punitive awards and therefore we are all exposed to being caught up in a punitive award where one should not be granted.

Today the way to puff up a liability claim that involves very little compensatory damages is to ask for punitive damages regardless of the lack of a willful act. When one finds himself a defendant in such a case he is likely to receive notice from his carrier that he is on his own for any punitive award. This is true even if there is no basis for a punitive award, in which case there is no public interest being protected.

On the other hand, it is possible to have a punitive award for a willful act but have it against the wrong defendant simply because they are a target defendant. How often is the corporation the defendant for a willful act of an employe who was acting entirely outside his scope of employment, where there should be no liability of any type on the part of the employer. This isn't in the public interest and the employer should be afforded protection in the event an erroneous award is made.

If the denial of punitive coverage could be limited, then I think the public interest would be served and there would still be some measure of protection against some of the wild awards that are being made which although called punitive are clearly not in that category. Perhaps the exclusion could be limited to willful acts rather than based on all punitive awards and coverage for vicarious liability should be maintained.

If punitive awards did not benefit lawyers and claimants, but instead went entirely to a municipality or to a fund for uninsured losses, the public good would be better served, and there would be substantially fewer suits of this type. I suspect that most such suits are more concerned with personal gain than with the public good.

R. K. Rappold
Insurance administrator, Peoples Drug, Alexandria, Va.

Quebec situation

To the editor: The article by Rebecca A. Fannin on the Quebec situation (international update—Feb. 20) had me agree fully with the comments made by Sedrick Gyles, president of Reed Shaw Stenhouse, that "it's a highly delicate situation."

But the problem should not be compounded by biased statements. I refer specifically to Dan Sullivan's comments: "I am not sure whether excess and reinsurance could take to the legalese of French." Such contracts have existed in Quebec for years and no doubt Mr. Sullivan could have found examples by the dozen, if he had cared to look for them. By the same token, Ms. Fannin's comment that the "typical insurance language" is English would probably leave the Japanese, the Germans, the Italians, etc., wondering.

Lucien Bergeron
Vp, administration, Gates Corp. Ltd., Montreal

RIMS abroad

To the editor: I was interested to see a brief article emanating from New York regarding the RIMS International Cooperation Committee in the Feb. 20 issue.

The United Kingdom has its own risk management group which was established in 1963. At least two of our members, of which I am one, are members of RIMS in our own right and a number of multinational organizations belonging to RIMS in the USA have employes who are members of AIRMIC in the United Kingdom.

Hugh R. Loader
Group insurance manager, Associated TeleVision Corp. Ltd., London

Kudos for Downes

To the editor: The Perspective article by Peter Downes ("Government harassment is just too much to bear," March 6) was really great. I wish he would write more of them for you. Thank you for it.

Austin Kellman
Binghamton, N.Y.

Peter Downes is a regular contributor to our Perspective pages and his Speaking Out columns appear in most issues of Business Insurance.

Titles

To the editor: I thought my confusion over the appropriate designation and the duties assigned thereto had pretty well been straightened out by Peter Downes. Then comes along an article (March 6) from Bruce Evans, which further questions exactly which slot I fall into.

Mr. Evans lists three categories: Insurance Buyer, Insurance Manager, and Risk Manager. When I turned to read Peter Downes's column, I noticed he is Manager of Insurance which; referring back to the Evans's article; places Mr. Downes in the middle category of Insurance Manager whereas I had placed him in the category of Risk Manager. Any clarification?

R. B. Ward
Insurance Officer, United Virginia Bankshares, Richmond

To be sure, Mr. Downes considers himself a risk manager. He believes his top management recognizes him as such, and that's what's important. Involvement and performance make the risk manager, not the title. As Peter puts it, "I am what I do, for whomever I do it."

•

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

people

Continued from page 100
risk manager. Mr. Fayne will report to corporate controller Milton A. Graff and will be responsible for all risk management responsibilities including property and casualty coverages, safety programs and employe benefit programs. Prior to joining Chelsea he had been risk manager at S. W. Industries in Providence and worked as corporate insurance manager for Blue Cross/Blue Shield of Greater New York Inc. prior to that.

* * *

Jewell W. Peeke, president of the General Conference Risk Management Service of the General Conference of Seventh Day Adventists, died recently at the age of 60. He had long been active in the Chesapeake Chapter of RIMS and served as a chapter and national officer for the society.

* * *

Brian K. Daley, 36, has been promoted to assistant controller and audit manager at Brown & Williamson Tobacco Corp. in Louisville, Ky. Mr. Daley is responsible for a six-member insurance department as well as internal audits. The insurance department reported to the treasurer prior to this realignment.

* * *

Mike R. Hodge, 28, has been named risk management coordinator for the city of West Covina, Calif. It is a new position. Mr. Hodge was formerly administrative assistant in the risk management division of the city attorney's officer in Hawthorne, Calif. He reports to the director of finance.

* * *

John F. Jansen 28, has been named risk manager for the city of Eugene, Ore., a new position. He reports to personnel director Gary P. Long. Mr. Jansen was formerly a marketing consultant with Scott Wetzel Services Inc. in Portland, Ore. Prior to that he was with the Oregon Accident Insurance Fund.

* * *

Vergil J. Jones Jr., 51, has been named regional claims manager for Montgomery Ward in Oakland, Calif., replacing Gordan Tolchin who resigned. Mr. Jones reports to E.J. York, regional security & safety manager. He formerly worked for the California Self-Insurance Plans section of the state division of industrial relations.

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We'd like to report on staff changes in your risk management or employe benefits department. Just drop a note to Rebecca A. Fannin, Business Insurance, *708 Third Ave., N.Y., N.Y. 10017 or call (212) 986-5050. We'd also like to receive pictures of those involved.*

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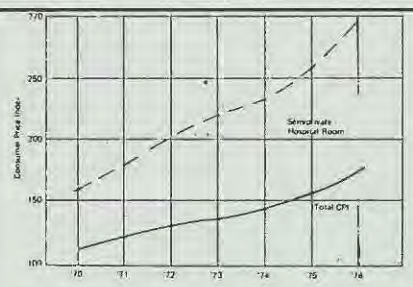

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BI

Nielsen joins ARA Services as personnel chief

Niels H. Nielsen has joined ARA Services Inc. of Philadelphia as director of personnel services. Mr. Nielsen had been director of compensation and benefits with J.C. Penney Co. in New York.

* * *

Bengt Samuelsson has been named to head the newly created risk management department at The Rederiaktiebolaget Nordstjernan of Sweden. Mr. Samuelsson also acts as an adviser to all member companies of the Axel Johnson Group, of which Rederiaktiebolaget is a member. He was previously head of the property insurance department for the Sirius Insurance Co. of Stockholm.

* * *

Chelsea Industries Inc., a manufacturer of textiles, plastics, shoe and food products has appointed **Stanley B. Fayne,** 40, as corporate

Continued on page 99

classified advertising

RATES AND CLOSING TIME: *$3.00 per line, minimum charge $15.00. Cash with order. Figure all cap lines (maximum—two) 30 letters and spaces per line; upper & lower case 40 per line. Add two lines for box number. Replies are forwarded daily. Closing deadline: Copy in written form in Chicago office not later than noon, Monday, 7 days preceding publication date. Published every other Monday. Display classified takes card rate of $33.25 per column inch, and card discounts on size and frequency. Mail ads to Business Insurance, classified advertising dept., 740 N. Rush St., Chicago, Illinois 60611.*

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Salary commensurate with qualifications and experience. We also offer comprehensive benefits package.

Minority candidates and women are encouraged to respond.

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CITY OF TUCSON

The City of Tucson, Arizona (population 310,000) is recruiting for a Risk Manager to administer its Risk Management Division. Responsible for the implementation and administration of programs to identify and evaluate risk exposures and to avoid, reduce, retain and/or transfer these exposures. Program includes umbrella coverage with an underlying self-retention on public liability, loss prevention, workers' compensation (4,000 employees), and other programs and problems common in a growing municipal environment. Experience required in risk management or claims administration. SALARY $18,852 - $22,932. To apply, submit detailed resume to Personnel Director, P.O. Box 27210, Tucson, AZ 85726 (602-791-4241) no later than June 2, 1978.

INSURANCE RISK MANAGER

Washington, D. C. based trade Ass'n seeking experienced Risk Insurance Manager with broad skills in fire, theft, product liability, group medical, work compensation programs. Must have 2 yrs. exp. Will review and analyze member insurance programs and recommend changes. Must have strong communication skills both oral and written. Some travel required. Position offers excellent growth potential opportunities. Excellent benefit package and salary. Send resume and salary history to:

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Commercial agency needs executive with property/casualty experience for account service and development. Excellent opportunity for advancement. Salary open subject to qualifications. Our Western Massachusetss location with its recreational and cultural advantages is also a great place to live. Send resume to Gilbert A. Haberman, James C. Haberman, Inc., 146 Chestnut St., Springfield, MA 01103

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Kinney, Pike, Bell & Conner, Inc. is the largest independent firm in Vermont with premium billings in excess of $8,000,000. The agency operates several branch offices and employs 35 people.

The agency has a fully staffed claims and employees benefits administration department.

This position has developed due to the rapid growth of the agency and the individual selected will be responsible for existing agency accounts, as well as new business production.

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Please send your resume and references in confidence to: **Edward C. Pike, Executive Vice President, Kinney, Pike, Bell & Conner, Inc. 98 Merchants Row, Rutland, Vermont, 05701.**

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Candidate should be at present involved in production for either a direct writer or a Brokerage/Agency operation within the N.J./N.Y. market.

For immediate confidential consideration, please send resume detailing education, business experience and accomplishments to **G. B. Parks & Co., 1107 Convery Blvd., Perth Amboy, N.J. 08861 Attention of Stephen M. Parks, Vice-President.**

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High-level individual sought for General Manager of the SOUTHERN CALIFORNIA JOINT POWERS INSURANCE AUTHORITY, a reciprocal pool organized to fund liability risks of 33 cities located in Southern California. Responsibilities will include risk identification and measurement, claim coordination, design and implementation of loss prevention programs, negotiation of excess insurance or reinsurance, rate analysis and development of standards for indemnity/insurance clauses in legal contracts. Background should include experience with governmental risk management programs with heavy emphasis on risk analysis, loss prevention and claim control. Public administration experience also a plus. Must be excellent communicator and hard worker, with proven ability to manage people and solve complex risk management problems. College degree, CPCU and RM designations helpful, as well as advanced studies in risk management or law.

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