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business insurance

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

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New Lloyd's fiduciary plan gives United its first layer

By MARGARET LeROUX

NEW YORK—After eight months of negotiations between insurance markets in the U.S. and London, United Airlines Inc. obtained $15 million in fiduciary liability coverage by adding it as an endorsement to its directors' and officers' liability insurance policy, *Business Insurance* learned.

United Airlines' freight services are a major part of its operation.

United is now negotiating with London markets for excess layers for the liability endorsement. Waller Smith, director of insurance, said, "We'll probably end up with $30 million in coverage, between the primary and excess layers."

The endorsement covers United's estimated 25 employe benefit plans and includes more than $700 million in pension funds.

The endorsement picks up fiduciary liability for the plans, insures the sponsoring company and also names employes who are not officers, but who act in a fiduciary capacity, as insureds.

Chief among domestic insurers competing for the United account was GATX Insurance Co. Earlier this year he favored GATX, Mr. Smith related, because at the time it allowed the employer/sponsor to be named as an insured, something the Lloyd's policy did not then allow.

However, in June, Lloyd's announced that it had changed its policy, citing pressure from clients, and would include employer/sponsors as insureds for fiduciary liability (*Business Insurance*, June [illegible]).

That apparently turned the United tide in London's direction.

"I wanted both our fiduciary liability and our directors' and officers' liability in the same market," Mr. Smith explained, so that there would be no argument between underwriters over who would defend any claims filed.

If United had taken its directors' and officers' liability coverage out of the London market, the insurance director added, the company would have been charged a "significant short rate penalty," for ending the coverage before the policy expired.

Mr. Smith declined to disclose the premium involved in the two coverages, noting United's good standing and amiable relations with stockholders put it in a favorable rating position. ■

TVA retains its nuclear self-insurance even as critical fire report is released

By RICHARD L. GORDON

KNOXVILLE, TN.—A combined property damage and business interruption loss of "at least $50 million" has apparently not shaken the Tennessee Valley Authority's (TVA) confidence in self-insuring property coverage for its nuclear power plants.

The loss resulted from a "major" fire at TVA's Brown's Ferry Nuclear Station near Decatur, Al., last March 22 which caused considerable property damage and has forced the shutdown of two generators for months while repairs are made.

TVA, the only nuclear utility to self-insure for property damage, "is still satisfied with it's self-insured program," a spokesman told *Business Insurance*.

While still smarting under the financial burden of the fire—including a daily cost of around $250,000 to purchase power once generated by the shut-down plant—TVA was the subject of a confidential and critical analysis of the accident by the Nuclear Energy Liability-Property Insurance Assn. (NEL-PIA), the pool of stock insurance companies that writes property and liability coverage for nuclear plants.

That "eyes only" NEL-PIA report was made public this month by consumer advocate Ralph Nader.

The report was drawn up by an NEL-PIA inspection team that visited the Brown's Ferry plant and was later distributed to engineers of the Factory Insurance Assn. (FIA), which conducts plant inspections under contract for NEL-PIA.

NEL-PIA wrote liability cover for the Brown's Ferry plant, but not property damage. The pool writes property insurance for another 25 reactors, however, and the engineers were directed to inspect these for hazards in the power plant cable splitting room, point of origin for the Brown's Ferry fire.

The inspection engineers were told by NEL-PIA to "keep in mind that this was no sophisticated or highly complex nuclear peril that caused a combined PD and BI loss of at least $50 million, but was simply a breakdown of basic HPR fire protection procedures.

"Consider," said NEL-PIA, "lack of cut-offs and unprotected openings, unsupervised 'hot work,' poor emergency planning, poor fire brigade response, inadequate fixed protection, and inadequate control of operations in general."

The multimillion dollar loss, itself, has been blamed on the careless use of—a candle.

A new cable had been pulled into the cable splitting room from the adjacent reactor building and workmen had sealed up the opening between the two structures with a foam type packing.

While checking with a candle for air leaks in the packing, the foam caught fire and eventually spread to a maze of cable trays in the room, igniting the insulating material used on the cable.

"Without portable fire extinguishers immediately available nor a 'fire watch' on the other side of the fire wall, the fire began to burn uncontrolled," the NEL-PIA analysis said. It was not finally extinguished until six hours later.

The NEL-PIA engineers reserved their sharpest criticism for the design of the cable splitting room. "The congestion in this CSR was inexcusable," the analysis said.

"Such a massive array of cable trays in the *absence* (NEL-PIA's emphasis) of aisles voids any realistic firefighting effort without subjecting firemen to possible injury or even loss of life," according to the report.

"To go into the heart of this CSR full of smoke and acrid fumes to put out a fire even wearing self-contained breathing apparatus would be considered beyond the realm of heroism," the report said.

"Unless automatic fixed fire

Continued on page 2

After four months in Wisconsin:

Malpractice pool 'solution' troubled

MADISON, WI.—Wisconsin's new malpractice law, in effect for little more than four months, already has created rather than solved problems for hospitals in the state seeking professional liability coverage.

Hospitals are finding if they place their malpractice risks with the pool created by the new law, they can't get coverage for premises liability (comprehensive general liability, boiler and machinery, and auto, for example) from commercial underwriters, *Business Insurance* learned.

Insurance companies are refusing to separate liability coverage for the hospitals, arguing that it's difficult to draw the line between a premises liability situation and a situation involving malpractice.

The joint underwriting association which includes all personal liability insurers in the state, writes malpractice insurance on an occurrence basis to limits of $200,000 per occurrence up to $600,000 in a single year.

The pool, however, is prohibited from writing any other form of liability coverage.

A second part of the malpractice legislation, The Patients' Compensation Fund established by assessing all health care providers in the state, provides excess liability for malpractice situations.

Hospitals must pay $75 per bed to the fund and through it their malpractice liability is limited to $200,000 per occurrence or $600,000 aggregate.

The combination of payments to the Patients' Compensation Fund and increases in liability premiums by liability underwriters in the state has created financial crisis for many of the state's hospitals.

"In essence hospitals are paying a higher premium dollar for coverage from commercial underwriters," Lester Wakefield, representative for the state Hospital Assn. said, "the same type of coverage they could get from the pool."

Liability premiums for hospitals throughout the state are being increased as much as 800% and 2,000%, Mr. Wakefield said.

In one case, a 57-bed hospital in Rice Lake, a small town in the northwest area of the state paid $3,500 last year for up to $100,000 single incident and $300,000 aggregate. This year the premium was increased to $60,000, "and there was not a single claim filed," Mr. Wakefield noted.

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Gulf Oil blaze

Gulf Oil Corp.'s $40 million insurance poilicy with the Oil Insurance Assn. will cover property damages resulting from the $10 million-plus fire at Gulf's eastern refinery in Philadelphia. The OIA policy includes a $1 million deductible, a Gulf spokesman said, and the company insures excess property layers with Oil Ltd. Six persons were reported dead and 23 injured in the blaze which destroyed fire storage tanks containing 150,000 barrels of oil, estimated at $1.8 million. The administration building containing all the refinery's records was destroyed in the blaze which began after a pipe connecting a tanker unloading Venezuelan crude oil to a storage tank ruptured. The resulting oil spillage in the Schuykill River apparently ignited, setting off explosions and the blaze which burned for more than 24 hours.

James personnel cuts for efficiency reasons

CHICAGO—Fred S. James & Co. is reducing its corporate administrative staff of 100 by about 15 people, as part of a close examination of staff efficiency and a renewed emphasis on insurance sales.

William E. Burch, president since early June, told *Business Insurance* in an interview that there is no "personality purge" being carried on at James in order to excise any memory of Thomas J. Ryan, who bowed out as chief executive officer June 9. "We are not making indiscriminate or broad brush cuts. We intend to emphasize the professional insursurance brokerage part of our business," Mr. Burch said.

Commercial clients of Fred S. James may be affected by the reorganization to the extent that more stress is being put on brokers to sell more insurance and generate new business. But, Mr. Burch added, the emphasis is not solely on new accounts. "Our emphasis is going to be on retention of present accounts and proper servicing of those accounts, plus the generation of new (insurance) business."

Unlike some brokerage firms which have expressed concern about having too much business derived from large national accounts, James officials said less than 20% of the firm's business comes from large accounts, and that steps are being taken to "increase our exposure" to large national accounts. As part of a study of this area, James is presently updating its "large lines" list.

There will be a de-emphasis of the non-insurance-related parts of the James organization, which had received more attention and where people had been added in recent years, he noted. One area to be de-emphasized will be communication with securities analysts and the financial community.

"Our feeling is that we should be available to anyone who's interested in the company, but we don't need a staff of people working on this from a press relations standpoint," Mr. Burch stated.

In July, Arthur M. Jens told of his plans to retire as Jame's chairman of the board in September. He will be succeeded by James H. Vaughn, executive vp.

Some of those people found to be expendable because they were not functioning as basic producers, said Mr. Burch, were retained by James "and are working in sales production at the local office level to produce revenues."

James officials are also "taking a very close look at our overall data processing operations and the accounting department" in terms of economy and efficiency, John C. Crane, vp-finance said.

Mass marketing business (insurance sales to company members of trade associations) has also been re-evaluated, with a subsequent consolidation of the service function for these clients.

This has been a fast-growing area for James, said Mr. Burch, who believes "the tight market is going to make a difference in this field."

James will continue to actively seek out acquisitions, but will approach this differently, using local managers and regional directors for key contacts and initial recommendations. Previously there was a separate mergers and acquisitions staff concentrating on this function. "We'll probably still be as active, but the pace has certainly slowed since 1971-72. Our emphasis now is on quality instead of quantity," said Mr. Crane.

Mr. Burch said it would be incorrect and an overstatement to say that there's an overriding concern at James with getting rid of Mr. Ryan's image at the company. "People are not being let go because they're Ryan's people. It's an elimination of non-necessary or non-insurance functions."

Mr. Burch took care to explain that this change in direction for James won't mean that clients will lose their account servicing as all attention is shifted to production of new business. "But we are saying we want as near 100% of everyone's time as possible spent on the business. We don't want people sitting in their offices shuffling papers," he said.

Mr. Burch noted that James has a very high ratio of technical service people—property conservation and loss prevention engineers—to total employes. He described as "pure baloney" reports which had been circulating in the insurance community that the firm was on a major cost-cutting campaign in order to beef up near-term results. ■

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U.S. Trust Co. faces lawsuit with no E&O

NEW YORK—U.S. Trust Co., named in a $14 million lawsuit by the Teachers Retirement System of New York for alleged portfolio losses has no trust department errors and omissions coverage *Business Insurance* learned.

"Most, if not all the New York clearing house banks don't carry the coverage," a spokesman for U.S. Trust said, "It's prohibitively expensive and most banks self-insure this exposure."

The self-insurance practice does not apply to comprehensive general liability and other forms of liability coverage where blanke tpolicies are in effect.

The lawsuit, characterized by the U.S. Trust spokesman as "a pension trust liability action under the Employe Retirement Income Security Act," charges the bank with breach of contract and of fiduciary duties in delaying sales of two portfolio securities.

The Teachers System said it suffered a loss of approximately $7.4 million on its holdings of Pennsylvania Life Co. and approximately $6 million in Singer Co. shares.

The U.S. trust spokesman said the bank is looking into fiduciary liability coverage, "but we haven't obtained a quote on it yet." ■

Malpractice 'solution' . . .

Continued from page 1

St. Paul Fire & Marine Insurance Co. and Employers of Wausau are two of the major liability underwriters for the state's 180 hospitals. St. Paul recently announced it would write liability coverage for hospitals only on a claims-made basis.

A spokesman for the St. Paul Cos., which insures 65 of the hospitals in the state, said that it is "very unusual for malpractice insurance to be sold separately from premises liability coverage."

If such were the case, the St. Paul spokesman said, "it would lead to conflicts between underwriters as to who has the liability in a given claim."

"If a patient being walked down the hall by a nurse slips and falls, who can say if it was a malpractice situation or general liability—did he slip due to the nurse's negligence or because of a waxed floor?" the spokesman asked.

Employers of Wausau hasn't made a final decision on whether it will write premises liability coverage for hospitals, a spokesman said.

"We're waiting for the law to be clarified; it will take time for things to shake out," the spokesman said.

Hospitals haven't got time to wait, Mr. Wakefield maintains. Many of them have renewals coming up at the end of August.

"It's a matter for the legislature to decide," he said. However the legislature won't reconvene until Sept. 2 and "I'm skeptical about how they're going to receive this issue," he added.

Wisconsin's insurance commissioner, Harold Wilde agrees that the state's malpractice law needs amending.

"Some type of amendment allowing the pool to write premises liability should be proposed," he stated.

Another solution would be to find an underwriter willing to write premises liability coverage only for hospitals in the state.

"Writing premises liability does not appear to be a bad risk," Commissioner Wilde said, "it can be a good market."

For the "gray areas" of questionable liability, the commissioner suggested arbitration procedure to determine if a situation involved premises liability or malpractice. ■

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Nuclear . . .

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extinguishment is provided to protect the hazards in these rooms, a loss beyond imagination should be anticipated," the report found.

NEL-PIA officials told this magazine that while they were obviously concerned about the shortcomings of the Brown's Ferry plant, their examination revealed that similar conditions were not widespread at the other plants.

Of 20 plants inspected by FIA engineers since the Brown's Ferry fire, NEL-PIA said, only three had deficiencies in their cable splitting rooms that required changes.

While NEL-PIA tried to play down that tough, alarmed tone in its study of Brown's Ferry, one expert in nuclear insurance at a leading brokerage commented that the report was "extremely strong, no doubt about it."

Ironically, without Mr. Nader's disclosure of the confidential document, it was unlikely that TVA officials would have ever seen it.

"We haven't had the benefit of that report yet," a TVA official said, "but now we've been promised a copy." NEL-PIA had distributed the document to FIA engineers in late May. ■

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Shell Oil warned about potentially catastrophic rail accident last year

Last year's Houston freight collision is blamed on epoxy resin coating.

WASHINGTON—Almost a year before a $13 million blast ripped through a Houston freight yard, the Southern Pacific Transportation Co. (SP) had "clearly explained" to Shell Oil Co. officials that chemical spills on tracks at Shell's facility near Houston could lead to a "potentially catastrophic" accident at the railroad's yard, a National Transportation Safety Board (NTSB) report has revealed.

Last September 21, two tank cars loaded with liquified petroleum gas rolled unchecked through car retarders meant to slow them down. They collided with a standing freight car in the yard while travelling 18 to 20 miles per hour, four or five times the intended speed.

One of the tank cars was punctured. Its cargo began to leak; moments later the blast occurred.

The car speed retarders failed, according to the NTSB, because the wheels of two freight cars immediately preceding the tank cars were coated with epoxy resin. The cars loaded with liquefied petro-Shell plant the night before.

SP officials told *Business Insurance* that they have put Shell "on notice" that the oil concern faces claims for damages from the railroad.

Shell officials declined comment on specific insurance coverages, but they said that liability protection was inforce.

SP is self-insured and has several insured execs layers of property and liability under umbrella policies (*Business Insurance*, Sept. 30, 1974.)

The NTSB report cited both SP and Shell for contributing to the accident—the railroad for not excluding cars with foreign substances from the yard's hump system, a low hill over which cars are pushed and then rolled onto classification tracks; and Shell for not having cleaned up the resin from tracks at its plant.

The NTSB said the Houston blast was the third open air railroad yard explosion in less than three years, and the second in 1974.

The September accident at Houston and a July accident at a Norfolk & Western railroad yard in Decatur, Il., caused combined losses of $32 million—more than the 1965-70 total of $23.3 million in damages in all types of tank car punctures.

The NTSB noted that a similar resin-related failure of the retarding system had occurred Oct. 12, 1973 in which a car was derailed in the Englewood Yard.

A letter sent to E. S. Martin, the Shell plant manager, by the railroad said, "in view of the extremely sensitive nature of commodities originating not only in your plant, but in the greater Houston area, which must be handled through our Englewood facilities, it is imperative that all steps be taken to control a spillage which could result in a recurring situation of this nature." This letter was dated Oct. 15, 1973.

A Shell memo dated Oct. 23, 1973 described a subsequent meeting between SP and Shell officials in which an SP official made about "45 minutes of disparaging remarks relative to our operation in this area."

The Shell memo said an SP official, R. G. McWhorter, had remarked that "if this was anyone but Shell and in consideration of the gross revenue they received from this plant, (the railroad) would spike our switches and leave them. However, (they) would give us a chance provided the area was completely cleaned and all resin removed from car heels to their satisfaction."

The NTSB report said, however, that "Shell personnel continued to regard the spilled resin only as an irritant to the trainmen who worked in the area."

Shell said, in a statement, that it had conducted its own tests of the "foreign substance" on the car wheels and concluded that none of the tested material accounted for the failure of the yard's braking system.

"The only conclusion that we can reach," Shell said, is that there had been "other contributory equipment failure, design error, or human error in the operation of the Englewood yard."

The company also criticized what it called inadequate emergency measures for slowing runaway cars.

An engineer working 600 feet from the point of impact was fatally burned in the blast and resulting fire. Some 235 other persons who worked or lived in the area were injured. Fifteen were hospitalized.

Property damage included 231 railroad cars destroyed, and another 282 cars substantially damaged. Considerable fixed railroad property was also destroyed or damaged in the blast.

Southern Pacific estimated costs of $5.5 million for third party damage, including personal injury liability; $4.8 million for railroad equipment; $1.7 million for lading; and $1.2 million for fixed plant. ■

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Incendiary losses tend to increase in a depressed economy: FIA study

By TIMM HERDT

NEW YORK—Arson, unlike lightning, can be expected to strike twice in the same place.

Repetition, as well as multiple simultaneous fires, are incendiary facts of life. Of 637 plants insured by Factory Insurance Assn., which were hit by incendiary fires in the last six years, 116—more than one in six experienced a second fire. The time between fires was, in some instances, less than two days; in most cases the second fire followed within six months.

And a firm's chances of suffering an incendiary loss are increasing steadily. As with other crimes, the incidence of arson increases in a depressed economy. National Fire Prevention Assn. figures show that firms of known or suspected incendiary origin have increased 205% in the last decade.

The Insurance Information Institute estimates that nearly $1.6 billion was lost in fires in the United States during the first five months of this year. Arson, believed to be the cause of one-third of all fires, was thus responsible for $530 million in damages in just five months.

For the Factory Mutual System, a leading insurer of large industrial and institutional concerns, the percentage of incendiary fire losses to total fire losses has increased 67% since 1970. Last year incendiary fires accounted for 14.8% of its fire losses. Spokesman Harrison Goff sums up the Factory Mutuals' attitude: "I used to say we weren't very concerned about arson—now, we have to be."

Although there are no data relating the increase in incendiary fires to fire insurance premiums, it is obvious that arson losses will have on impact on premiums. Mr. Goff said the upsurge in arson is still too recent to have had a direct effect on premiums, but "the insurance industry cannot coin money; losses have to be reflected in premiums."

An indicator that incendiarism is being reflected in premiums is the experience of the New York state fire pool. The pool asked the state insurance department last month for a 35.8% increase in rates for fire, extended coverage and additional perils insurance. The requested increase is based upon large losses in recent years, many of which were a result of incendiary fires.

As the rate of incendiarism rises, it appears companies will move toward increased selectivity in writing fire policies. Mr. Goff states his company has become) "a little more careful" in reviewing an insured's financial status before making a commitment to insure its risk.

The alarming increase is due, in part, to the fact that arson—one of the easiest crimes to commit—remains one of the most difficult to detect.

For this reason, the American Insurance Assn. states, it is important that immediate steps be taken following a fire to determine the cause. If it is found to be incendiary, steps must be taken to prevent repetition.

At a seminar here, two AIA officials, L. Bruce Bogart and Joe Rottman, outlined steps to be taken after a fire to determine the fire's cause and origin.

First, it is important to get to the scene of the fire as soon as possible. Incendiary fires have common traits that can readily identify them as such: They burn quickly, are extremely hot and frequently, they are accompanied by separate, uncommunicated fires.

If it is possible to get to the fire before it is extinguished, inspection of the premises can uncover evidence of a suspicious fire. Incendiary fires set with the use of accelerants, such as petroleum, burn in unusual patterns and leave wood severely charred and blistered. Natural fires burn from lowest to highest point; evidence of rapid horizontal burning can indicate the use of accelerants.

Although the motivations of arsonists vary greatly, the timing of a fire and the events preceding the fire can give cause for suspicion. Incendiary fires most frequently occur during late night or early morning hours. Arson is often used as a method to cover up other crimes, such as vandalism, embezzlement or pilferage.

Once a loss is determined—or suspected—to be incendiary, certain steps should be implemented to prevent repitition. FIA recommends the following actions:

- Restore all sprinkler and other fire protection systems immediately.
- Institute special security and guard systems.
- Attempt to salvage damaged material and photect contents against further damage.
- Take immediate action to resume production.
- Investigate the circumstances of the loss.
- Review the entire plant in respect to hazards and incendiary potential and take corrective action as necessary. ■

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Firm partly covered for fire damage

NEW HAVEN—Simkins Industries Inc. is insured for up to $5 million for the fire which "wiped out" its cardboard box factory in Miami late last month, according to W. S. Medinger, controller.

He estimated that the damage to the factory, considering unrecoverable business interruption expenses, could go as high as $10 million.

"So far as we know, no one was injured," he said, referring to the fact that casualty coverage was not involved.

Simkins has a deductible of $10,000 on the property coverage, Mr. Medinger said.

He could think of only one other major fire in the company's history. That one caused about $1 million damage and occurred "several years ago." Mr. Medinger said.

Bala Cynwyd Assoc., Narberth, Pa., is Simkins' broker for property coverage. The first layer is underwritten by Argonaut Insurance Co., the second layer by Calvert Fire Insurance Co. and the third layer by Great American Insurance Co., according to Mr. Medinger.

Temporary quarters to allow resumption of operations are expected to be ready in September, he told *Business Insurance*. ■

When one man's floor is another man's ceiling, you better be careful about tearing up the floor.

Our construction specialist was checking the plans of a policyholder's road building job in West Virginia when he saw something that bothered him. There were three coal mines that either passed beneath or adjoined the roadway. However, since the mines were all well below grade level, no problems were apparent at first. In fact, our policyholder, the Frank Mashuda Co., Inc., Evans City, Pennsylvania, had already begun construction work.

But it's an insurance company's responsibility to look beyond the obvious. It's a job for experts. And we had the right expert on the right job.

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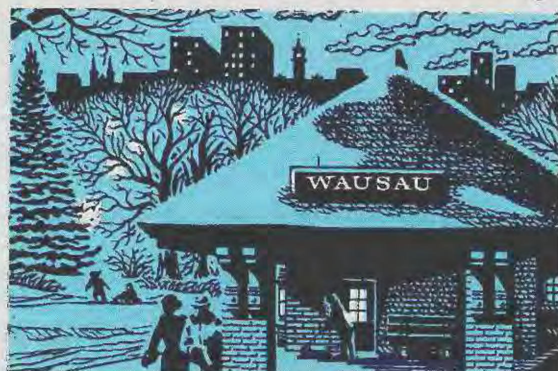

EMPLOYERS INSURANCE OF WAUSAU Wausau, Wisconsin

Iron workers settle on benefit contributions

SAN FRANCISCO—The hourly fringe benefit contribution negotiated by the district council of iron workers to cover the next two years pays for the rising cost of the last contract's benefit package but does not provide for any expansion in the benefit program.

For the first year of the contract, which began July 1, 50½¢ per hour worked will be contributed as an increment to the iron workers benefit package, according to Dale Ray, president of the district council of iron workers for California, Nevada, Arizona and Hawaii. The previous increment was 75¢ per hour worked for fringe benefits.

For the second contract year, an additional 43¢ per hour worked will be contributed by the employer to the benefit package, he said. The new contract brings the total fringe benefit contribution to $3.84 per hour worked from $3.33 per hour worked.

The largest single chunk, 27.5 cents per hour worked in 1975 and 18 cents per hour worked in 1976, is earmarked for the union's pension plan "because of anticipated compliance problems with the Employe Retirement Income Security Act," according to Mr. Ray.

"We feel it's an honest settlement," he said, adding "we don't want to get out of line with other unions in our field because of the state of the economy and the fact that so many people are unemployed." He explained that because benefit contributions are made only for hours worked, it was in the union's best interest to put less emphasis on new benefits and more emphasis toward reducing unemployment for union members.

The district council represents seven outside locals covering about 10,000 iron workers, Mr. Ray said. Local unions request the district council to negotiate for them, and the negotiations allocate how the money will be spent on benefits, he said. Other of the 320 locals and their district councils around the U.S. are expected to seek the same benefits.

Effective July 1, benefit allocations from the 50.5 cents per hour worked are: 7 cents per hour for the vacation plan (a type of short term savings program), 5 cents oper hour for the welfare fund (which provides for health care), 27.5 cents per hour for the pension plan and 1 cent per hour for the administrative trust (which handles any problems connected with the negotiated contract.)

An additional 10 cents per hour will be contributed beginning January 1, 1976 to the welfare fund.

On July 1, 1976, an additional 5 cents per hour will be contributed to the vacation plan, 6 cents to the welfare fund, 18 cents to the pension plan and 1 cent to the apprenticeship program. On January 1, 1977, an additional 5 cents per hour goes to the vacation plan, 5 cents goes to the welfare fund and 3 cents to the pension plan.

Benefit recommendations and cost estimates are provided to the union by Martin E. Segal Co., the New York-based actuarial consulting firm, according to Juel D. Drake, general secretary of the union and based in Washington D.C. ■

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Citibank and N.Y. captive offer low cost liability cover

NEW YORK—First National City Bank worked out a deal with the newly-formed captive insurance company of New York doctors to offer the physicians low-interest loans to help pay for malpractice insurance premiums, *Business Insurance* learned.

The captive, known as the Medical Liability Insurance Co., will provide between $100,000 and $3 million in coverage to licensed physicians (*Business Insurance*, June 30). It requires a $1,750 contribution to the captive's surplus fund plus premiums from any physician it insures, however.

The medical liability insurance premium financing plan being offered by Citibank will provide financing for this $1,750 capitalization contribution, and for malpractice insurance premium payments for one-year policies.

The financing plan was originally aimed at policies written to cover the period of July 1, 1975 to July 1, 1976, but the bank extended the grace period at least into August.

Citibank, in a letter sent to all 38,000 New York doctors, said the loan is priced "significantly lower than either (our) consumer installment loans or regular monthly payment business loans." The premium financing loans carry an annual percentage rate of 9.75% as compared to, for example 11.58% on 12-month consumer or small business loans.

Premiums paid to the captive will range from 15% to 20% more than what New York doctors formerly paid to outside insurance companies, according to H. F. Wanvig, the brokerage firm which manages the captive.

One portion of the Citibank letter to doctors indicates how high physician's yearly malpractice premiums can be: "For loans in excess of $10,000," it reads, "there will be a minimal charge for group credit life insurance." ■

Pension hike is feature of new contract

SAN FRANCISCO—A new three-year contract ratified by members of the International Longshoremen's and Warehousemen's union mandates a wage boost of 70 cents an hour retroactive to June 28, raising the hourly rate from $6.22 to $6.92.

The new contract, which also boosts maximum pension rates, stipulates that employes receive an additional hourly increase of 60 cents on July 3, 1976, and 85 cents on July 2, 1977.

Four new holidays were added by the pact. The spokesman said they are Columbus Day, which will be added in 1976; Veterans Day, which will be added in 1977; and Washington's Birthday and Memorial Day, both of which become holidays in 1978.

A new maximum pension benefit of $400 a month was also set by the contract for those who are either retired or will be retired as of July, 1975. After that, the basic pension rate moves up to $425 as of July, 1976, and up to $450, as of July, 1977. ■

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Texas Hospital Assn plans to have its reciprocal underwriting by Sept. 1

By LINDA MOSKOWITZ

AUSTIN, TX.—The Texas Hospital Hospital Assn. (THA) a statewide trade association for over 675 hospitals and health care institutions, expects to have its own reciprocal insurance company for underwriting professional liability coverage in operation by Sept. 1 of this year, *Business Insurance* learned.

"We anticipate that our insurance company will be a prime writer of hospital professional liability insurance in Texas," said C. Dean Davis, legal counsel for THA.

"Our company will write the entire liability coverage for our member hospitals. In turn our company will cede or place a portion of the coverage on each hospital with other carriers such as the Joint Underwriting Assn. and other major insurance companies," continued Mr. Davis.

The Boon-Chapman Agency, consultants to THA, will also act as consultants and managers for the new captive company.

The Joint Underwriting Assn. is a reinsurance pool which requires all insurance companies writing any type of liability insurance in Texas "to participate and provide insurance for hospital professional liability coverage and physicians' and surgeons' malpractice insurance, if they (hospitals and doctors) cannot obtain coverage in the private sector," according to Claude L. Webster, director of THA insurance programs.

The private contributing insurance companies, in turn, can obtain reinsurance on liability policies that they write of up to $300,000 from the pool.

This method of reinsurance was chosen over American Hospital Assn. (AHA) sponsored reinsurance because the AHA has only "stand-by authority" to reinsure and the system is not yet operative, according to Mr. Webster.

In another change in THA sponsored plans, the $1 million directors' officers' and trustees' liability policy (DOT), underwritten by Argonaut Insurance Co. last year (*Business Insurance*, Sept. 16, 1974) which Argonaut cancelled as of July 1, will be picked up by the Midland Group of N.Y. under the same terms as the Argonaut policy.

The transaction is being handled through Walker & Co., brokers of Los Angeles. There will be no lapse in coverage for the member companies.

DOT insurance will not be insured through the new reciprocal company, Mr. Webster explained, because it relates to wrongful acts, not malpractice liability, which the insurer was set up to cover.

Premiums paid by the hospitals to the THA malpractice captive "will vary according to the risk involved," Mr. Webster said. "Limits wil be exactly what the hospital wants," he added.

Coverage under the captive will be extended to hospitals and their employes, which excludes doctors unless they own the hospital, Mr. Webster said, explaining that Texas state law does not permit doctors to "be employed."

While the THA has "no desire to get into the insurance business," Mr. Webster explained that it has been forced to. A study was undertaken two years ago by the THA to determine the feasibility of setting up a captive.

It is hoped that the creation of the new insurance exchange will help to keep private insurance company malpractice rates competitive, as well as to keep the cost of health care down. The Texas board of insurance recently reviewed proposed hospital malpractice rates of various private companies. The only rates disapproved were those of Argonaut Insurance Co., which were $539.32 per person, per incident, for $100,000-$300,000 worth of coverage for $597.52 per person, per incident for $200,000-$600,000 worth of coverage.

Mr. Webster felt that the approved rates were generally good, but added "I wonder how many of these companies will write new business." ■

PROPOSED HOSPITAL RATES

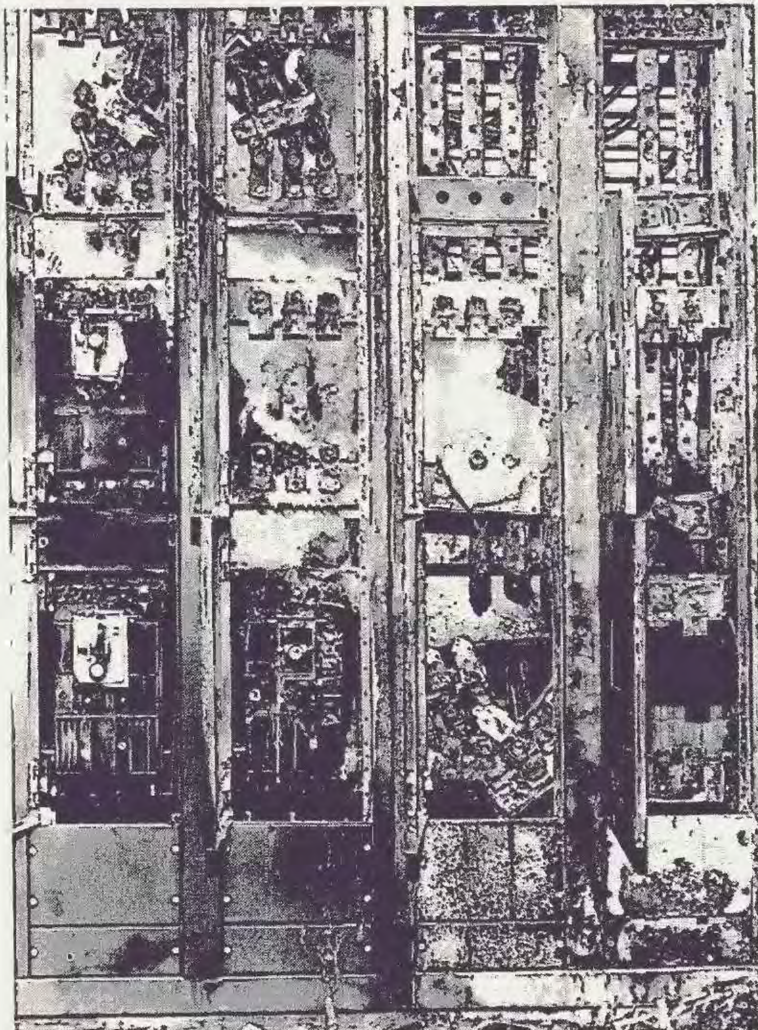
Company	Premium on $100,000-$300,000	Premium on $200,000-$600,000
Aetna Insurance	$261.32	$289.52
Aetna Group Casualty & Surety	230.74	255.64
Argonaut	539.32	597.52
Continental	208.50	231.00
Employers Casualty	129.27	143.22
Hartford Group	91.74	101.64
Liberty Mutual	154.29	170.94
Professional Mutual	151.51	167.86
St. Paul		
(for San Antonio, Dallas, Galveston, Houston, Fort Worth)	177.92	197.12
(for all other areas)	132.05	146.30
U.S. Fire	180.70	200.20
Western Casualty & Surety	261.32	289.52

Each rate is listed on a per person, per incident basis.
All rates have been approved with the exception of those of the Argonaut Insurance Co.

Include VD in policies

Veneral disease is now being included in many health insurance policies, as is drug addiction, according to the Health Insurance Institute. VD was once routinely excluded under a "self-inflicted illness" clause, the institute said. Insurers have presumably reevaluated their experience on how the disease is transmitted. The organization also reports that last year persons with group policy coverage received more than $11 billion in insurance company health insurance payments overall.

THE $54,000 MOUSETRAP.



MICE AIN'T NICE. A large motor control center can be the target of a costly accident. When a curious mouse scurried across some live terminals, he destroyed this entire unit. The cost: $54,000. Newly developed ground fault relays could have considerably reduced the loss. As for the mouse, an inexpensive mousetrap and a piece of cheese could have done the job.

All it takes to zap a 480 volt motor control center is a furry little beast with an ounce of curiosity. It's the kind of potential loss that's rarely seen or thought about by most risk managers and other executives responsible for loss prevention and conservation of assets.

One of our jobs is to help make you aware of sources of potential equipment failure in your plant. Then to help prevent losses, or at least reduce the risk of loss, through diagnosis and preventive techniques.

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So when you want to call in the experts, you have one choice. And that's to call in the Marines. For a complete list of our offices, and a report on our operations, write James T. Kelley, executive vice president, MOAC, 80 Maiden Lane, New York, N.Y. 10038.

We know our business. And we want yours.

MOAC

benefit tax slants

ESOPs offer employers working capital with tax-deductible dollars

By JOSEPH S. ROBINSON

THE 1975 TAX Reduction Act contains a provision which encourages corporations to raise fresh capital, expand their business and give a piece of the action to employes—all with tax-deductible dollars.

The law hikes the tax credit from 7% to 10% that a business may take for capital investments. An additional 1% is awarded to companies that put the extra point into a qualified employe stock ownership plan (ESOP). Thus, corporations that take advantage of this provision can obtain limited subtractions from their tax bills for pay-ins to such a plan.

While there is nothing new about ESOPs, the free distribution of stock to employes is taking hold by virtue of the additional tax credit allowed under current tax rules. As for the company, it receives an immediate infusion of capital from the transfer of its stock to a trust.

Typically, an ESOP arrangement involves three components:

- The employer company sells some of its stock to the ESOP trust for cash.
- The ESOP trust borrows the purchase price from a bank, using the stock as collateral.
- The employer company makes a commitment to contribute an annual amount to the trust sufficient to repay the loan and interest.

In effect, the company is borrowing the money from the bank at an extremely low rate, since it is going to repay the money with pre-tax dollars. If it borrowed $1 million in a conventional way, it would have to gross some $2 million to repay the loan with after-tax dollars.

Generally speaking, an ESOP can use life insurance in these ways:

- The trust can purchase key-man insurance to indemnify the plan and its participants for the loss of a top level executive.
- The plan can provide an incidental death benefit funded by life insurance subject to the same percent limitation applicable to profit-sharing plans.
- The trust can enter into stock purchase agreements with shareholders, funded by the purchase of insurance on the lives of the shareholders.

* * *

Wall Street has recently embarked on a new program of "unfixed" rates. In other words, brokers are free to negotiate their commission with customers. As a result, a number of companies are shopping around and offering a volume business from the executive suite in exchange for reduced rates of commission. The whole idea makes sense since the broker is happy to get the business and the executives can save money on their stock dealings. What's more, the employer hasn't laid out a red cent for this new fringe benefit.

* * *

A combination group term-permanent policy wrapped up in a package with one level premium is a red hot fringe benefit making the rounds today. The amount of term protection declines each year in proportion to the increase in a permanent coverage. Thus, the death benefit remains constant at all times.

Taxwise, the employer takes a deduction for both the term portion of the premium and the cost of permanent protection with the latter treated as additional compensation. The employe is taxed on the premium for the permanent element (unless he pays for it) while the premium for the first $50,000 of group term protection escapes tax.

The tax benefits of group life insurance, however, hinges upon the medical requirements of the insurance company among other factors. The tax rules say that evidence of insurability should be determined solely on the basis of a medical questionnaire completed by the employe.

In other words, if the insurance company demands a medical examination before it issues a policy, the tax benefits can be lost. What's more, the insurance company cannot engage in fancy shenanigans to get around this rule by asking for a medical examination merely to determine the rate to be charged on the employe or ostensibly to approve some other unrelated policy. A private letter ruling issued by the Internal Revenus Service in August, 1974 makes this practice a no-no *(Treas. Reg. Sec. 1. 79-1(b)(1) (iii)(d)(3)*.

In this connection, it is worth noting that the IRS has modified its position with regard to group term life insurance. It now okays a level premium five year term policy where there is no paid up value, cash surrender or equivalent value. *(Rev. Rul. 75-91)*.

* * *

Unemployment pay can be taxable to workers who are laid off if received as:

- Severance pay given by the employer,
- Supplemental unemployment benefits financed by the employer.
- Guaranteed wages paid under collective bargaining agreements. *(Treasury Release I R 1464, 3/10/75)*

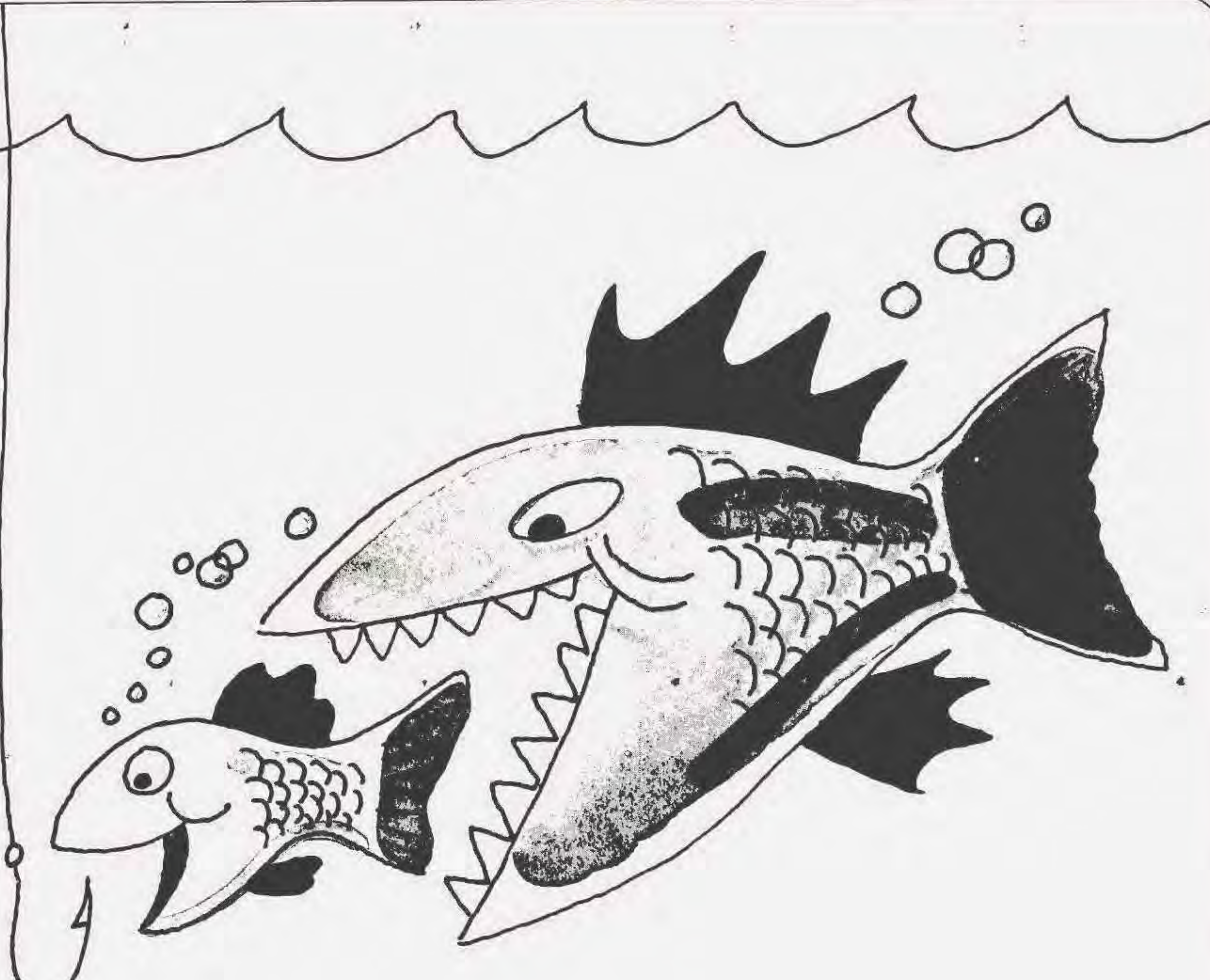
* * *

Doctors, lawyers and other professionals can benefit from a blockbuster court decision on pensions. Here's the story:

A group of dentists formed a corporation to hold title to a building in which the dentists leased space. Later, the dentists shifted their employes to the corporation when they decided to set up a retirement plan just for themselves. The IRS disqualified the plan as discriminatory, stating that the corporation employes really worked for the dentists. But the Tax Court sided with the dentists and upheld the arrangement in all respects *(Packard 63 T.C. No. 59)*. ■

Strictly consultant

Employe Benefit Consultants based in Santa Ana, Ca., was incorrectly identified as a brokerage firm in *Business Insurance's* July 28 issue. The firm is strictly a consultant operation. It is a consultant to the Institute of Scrap Iron & Steel on its group insurance, underwritten by CNA.



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Biggest area of its risk management attention is workers' compensation

By JUDI TALIT

HUNTINGTON, N.Y.—Despite the suburban Long Island setting of Instrument Systems Corp., the risk management techniques practiced there are unmistakenly cosmopolitan.

The company's insurance manager of scarcely 18 months, Mike McDonald, moved into a multifaceted operation with 40-odd subsidiary companies and quickly analyzed the risks. He also established the approach he would take. He is now heavily into new safety programs, and doesn't view himself as an "insurance buyer."

Mr. McDonald's responsibility definitely includes corporate insurance programs, however, as well as safety and employe benefits. The biggest area of risk for Instrument Systems is "losses in casualty lines, basically workers' compensation," Mr. McDonald assessed.

As a result, the firm cracked down on industrial safety, instituting an intensive accident-prevention program earlier this year. The company also has a recently-hired safety engineer to work along with Mr. McDonald, enabling the risk manager to "stay in the office more now, and pick the problem areas that I want to concentrate on."

Mr. McDonald's office is evidence enough of his concentration on the safety domain. One wall is covered with a bulletin board containing a list of safety rules. Safety glasses rest at his elbow, and a safety helmet is ready for action on the bookshelf.

Insurance is not the key to a successful loss prevention program, Mr. McDonald asserted, in an interview with *Business Insurance.* "It is simply the best method of protection against catastrophic occurrences. It should only be used to provide coverage in excess of whatever the exposure to loss the corporation feels it can retain."

Self-insurance funds have been set up to prevent "adverse effects of a large self-insured loss" or series of losses on any one of the many companies in the corporation.

Kemper Insurance Co. is the corporation's casualty carrier.

Factory Mutual insures the property for the firm under a blanket policy with limits of $150 million. All Instrument Systems facilities are HPR-rated.

Insurance carriers only supplement the corporate insurance department's responsibility, this insurance manager believes.

"These programs can only be successful with the understanding and cooperation of and close coordination with operating management," Mr. McDonald explained.

The insurers are impressed with his philosophy. "I anticipate a substantial reduction in losses and their resulting costs in the future," he said.

Johnson & Higgins, as broker, does not share in major insurance buying decisions. Mr. McDonald's system of constant review means that "all policies are competitively quoted on each renewal by several major brokers. None of my policies renew automatically. I'm not just an insurance buyer. I never will be," he insisted.

Product liability is an area of great concern for the multi-million dollar manufacturer. And it was an area long overlooked. "All manufacturers have to be more concerned with product liability in the future and were no exception," Mr. McDonald sums up the issue.

Instrument Systems, with operations ranging from manufacturing of building materials and plastics to lighting and stereo equipment, is dealing with consumers more than ever. And that's not just industrial consumers. That's sales to the "public," which have increased substantially in recent years. (The company recorded sales volume last year of $233 million.)

As a result, the company is becoming more conscious of product safety problems, and the ramifications of the Consumer Product Safety Act.

In terms of the price Instrument Systems has to pay for product liability insurance these days, the firm "probably suffers more from the product liability climate than from our own experience," Mr. McDonald believes.

There has been a definite increase in product liability exposure, he agreed. Mr. McDonald personally believes it's due to the advent of no-fault auto laws. It seems that "attorneys who handled auto cases are now turning to product cases" for new business, he said.

Liability coverage carried by the firm reaches a limit of $26 million. This is adequate coverage, according to the insurance manager. The policy is layered. Kemper has the primary and umbrella CGL coverage. Excess coverage of $20 million is split among other carriers.

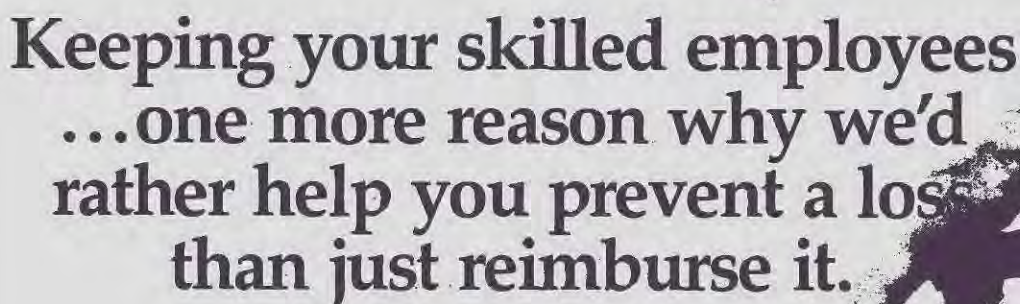
When asked whether the company found the insurance market tight now, with limits difficult to negotiate, the insurance manager replied negatively.

Kemper also underwrites the firm's ocean marine policy. Instrument Systems does a great deal of importing and exporting. The policy is worldwide and experience-rated. It covers $600,000 in cargo value per shipment. "I am more than pleased with the policy we negotiated," the insurance manager commented.

It is rare that a policy of this type be a "dividend" policy or experience-rated, although that's what Mr. McDonald was able to swing. The rates on the coverage are low, he said. But he declined comment on precisely how low. They are "lower than those obtainable in Puerto Rico," he disclosed.

Instrument Systems is a member of RIMS (Risk and Insurance Managers Society), but its difficult, for Mr. McDonald to travel to the city for meetings. So, he joined a discussion group to keep abreast of new trends. The Long Island Risk and Insurance Managers is an informal group that discusses insurance problems, and exchanges ideas without the interference of brokers and insurers. The group hopes to draw up a charter soon. It is less than two years old, but already has about 10 corporate members, including The Alling Group, County of Nassau, Pleussy Co. Ltd. (NA), County of Suffolk, Commander Oil and Vernitron Corp. Mr. McDonald is the group's acting president.

The company's scenic locale, poses other problems for insurance manager McDonald. "I like to conduct business on a face-to-face basis" and traveling to New York City is inconvenient. He does manage, however, to see his broker from Johnson & Higgins every two weeks. ■



If your plant was severely damaged by fire tomorrow, could you retain your skilled employees?

Chances are, many of them — including valuable salesmen — will find jobs with competitors, aggravating the situation for the company trying to rebuild its plant and keep its customers. This amounts to a lost investment, not recoverable from insurance. And then there's the cost of hiring and training new employees.

The hard fact is that against today's economic background a company cannot afford a catastrophic loss which imposes severe and unrecoverable indirect losses.

That's why, before we provide insurance, we'll work closely with you to protect your business against the perils that cause so much unnecessary damage and loss. Our experts can show you how a loss prevention program helps you to protect yourself.

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editorial opinions

Dealing with enormous risk potential

WE ARE TOLD there is currently in progress a stampede toward electronic banking. In addition to the several million bank and retail charge cards now in the hands of consumers, there will likely be even more cards issued by banks for use in guaranteeing checks by machine and automatically transferring funds from a bank account to a retailer when purchasing goods.

These cards also will be used to withdraw cash from savings and checking accounts and get installment loans. Small electronic point-of-sale terminals may appear in stores, supermarkets, shopping malls and other scattered locations which banks see as easily accessible.

The electronic funds transfer system (EFTS) will not come about overnight. But there are indications that competition among big banks for card dominance and the most convenient terminal locations is heating up.

It seems to us that the banks at the forefront of the EFTS gambit have adopted the attitude that what they gain in terms of revenues and competitive edge from these systems outweighs the risks. They seem to be discounting the ultimate possibility of heavy losses which might arise from the various exposures posed by these new systems.

Other bankers, however, have raised questions about the frightening and inadequately assessed risks in these systems. And we've heard some bank executives say the cost of losses over the long term could very well negate any cost saving potential seen in the automation of bank services.

The losses, they have said, will come in the areas of theft of plastic customer identification cards, and the misuse of those cards. The cards are designed to be inserted in terminal machines in order to transfer funds to retail stores for the purchase of goods, or withdraw cash from checking accounts in the form of consumer loans.

Furthermore, there are substantial risks in the point-of-sale and automated teller machines used in EFTS, for machines will be placed in a variety of locations, all of them vulnerable to some degree to more frequent thefts.

Then there is an acknowledged "catastrophic loss potential" inherent in the computerized automated clearing houses, although the banks which are promoting EFTS are trying to see that this risk isn't "blown out of proportion." Bank officers agree nonetheless that there hasn't been enough study of this particular risk of internal or external fraud.

This risk is basically one of someone inside or outside the banks or the Federal Reserve System tapping into the computers and transferring funds all over the place. The prospects here are frightening, and it's not inconceivable that a computer fraud tapped into the right source could wipe out a major banking institution in this country.

There's presently no insurance product available to cover this risk. And it's expected to take some time for the insurance industry to agree to underwrite the risk by coming up with an acceptable policy form.

If the insurance industry proceeds with caution, we can't say that we blame them. They are dealing with an enormous risk potential, and one we feel bankers in their rush to jump on board the automated banking train may not be giving enough consideration to.

A close-up look at safety and security

OCTOBER 20 is the date of our annual close-up look at safety and security. Safety of employes and security for a company's assets are a key consideration of good risk management.

Thus, once a year we take a very close look at the loss prevention job of our readers. We inspect the systems they use to assure that losses by theft are minimized, if not prevented altogether. And we review the procedures instituted within companies to assure safe and secure operations.

More corporations are adopting very tough safety programs, because they know that workplace accidents hit them in the insurance pocketbook, and they can greatly lower their costs by demanding more emphasis on occupational safety. We'll look at a number of safety programs implemented by companies which have made an effort to move beyond a "reaction" to OSHA and its minimum safety standards, by making safety a chief operating goal.

Bank security measures are the focus of change, in the wake of charges that banks have been too lax on security in recent years.

Industrial fire protection is being revolutionized with modern electronic systems being used to complement the reliable sprinkler systems. We'll look at some trends in fire protection, as well as several companies believed to have the best in fire prevention systems and policies.

Product safety risks are being assessed and solved by product committees which include experts from all phases of manufacturing operations. We'll zero in on the problems, solutions, costs and methods of several committees which have been operating for several years.

A subject of growing importance to risk managers is the threat of theft by employes, causing more firms to turn to pre-employment honesty testing systems. We'll look at the kinds of systems available, cost, companies using them, and some experiences.

Huge shopping centers with their masses of people, groups of stores, and concentrated values require massive protection from shoplifter, pockpockets, and thieves in the night. We'll look at how some of the biggest centers in the country manage safety and security.

Readers who have suggestions or comments in the area of safety and security are invited to share their ideas with Susan Alt, managing editor, 740 N. Rush St., Chicago, Il. 60611, by mid-September, please.

letters

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

ECCO not ESSO

To the Editor: In the "Agent/Broker Profiles" of your July 28, 1975 issue of *Business Insurance* (Page 59) you set forth the name of "ESSO Insurance Services Inc." This is clearly a mistake, I presume typographical, since there is no ESSO Insurance Services Inc., and we understand the correct name of the firm to be ECCO. We trust you will issue an appropriate correction in your next issue.

John L. LaCrosse
Insurance & risk manager, Exxon Co., Houston, Tx.

Price before protection?

To the Editor: In the July 28, 1975 issue there is a page one story of the dilemma of Gulf Oil as to which insurer would respond to a $68 million suit.

Here we have a situation where some coverage is provided by two different leading insurers. The circumstances of the claim presents doubt, not that there is not insurance protection, but rather which of the two covers apply. Gulf Oil may well find itself being told, by each insurer, that Gulf Oil has very good insurance, but with the other company. In short Gulf Oil can find itself in the middle of a squabble between two insurance companies as to applicability of coverage.

Such a situation would not be present if both covers were written by the same insurer. Gulf Oil could then say, "You have our insurance, defend us. We do not care which policy you apply it to."

This type of situation usually develops when consideration of price is put before consideration of protection. A sound insurance program demands the reverse of that procedure.

Walter S. Attridge
Walter S. Attridge Co., Boston, Ma.

Independent brokers

To the Editor: Congratulations for another comprehensive and thorough job in your Agent/Broker Profile issue of July 28, 1975.

I am sure that your listings of the top twenty brokers and their revenue changes from 1973 was of great interest to all of us in the insurance industry. Interestingly enough, the vast majority of those brokerage firms showed an increase in revenues from 1973 to 1974.

During the past year, a good

Continued on page 18

business insurance

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letters

Continued from page 16

deal of space was devoted to these large insurance brokers and the many acquisitions that were made. It seems only fair that somewhere mention should be made of brokerage firms that separate from large corporations and became independent once again.

Such is the case at Brokerage Resources. In 1973, we reported a combined gross revenue of $7,000,000 and in 1974 showed revenue of $4,000,000. The basic reason for this bears explanation.

Brokerage Resources Inc., New York, is no longer part of its previous parent, Integrated Resources Inc., but is a separate and individually owned brokerage firm with offices at 156 William Street, New York City. It has no affiliation with any other firm bearing the name of Brokerage Resources Inc.

Actually, our firm showed an increase of $400,000 in gross revenue over last year. Unfortunately, there was no way of our indicating this in the report sent to you and this letter should clarify any misunderstanding that exists.

Harold Miller

vp, Brokerage Resources Inc., New York, N.Y.

Not commissions

To the Editor: I am intrigued by your article in the July 28, 1975 issue of *Business Insurance* indicating that Assurex generates $315,000,000 in commissions from 61 offices. Simple division would indicate that Assurex offices have an average commission income of $5,000,000. I would have to guess that you omitted a decimal point since I am sure the average commission would be close to $500,000. Will you please confirm?

Jack R. Trainer

President, Walter P. Dolle, Inc., Cincinnati, Oh.

Editor's note: Good catch, Mr. Trainer. In fact, Assurex handles $315,000,000 in annual premiums, and it was our error in using the term commissions with this figure.

Cook-Treadwell

To the Editor: In the July 28 edition of *Business Insurance*, the mailing address of Cook-Treadwell & Harry, Inc., was listed as 2185 Democrat Road. That is the address of our parent company, Cook Industries, Inc. Our mailing address is:

Cook-Treadwell & Harry, Inc., 855 Ridge Lake Boulevard, P. O. Box 17986, Memphis, Tennessee 38117.

We would appreciate your printing an address correction in a near future issue of *Business Insurance*.

Lloyd Kelley

Cook-Treadwell & Harry Inc., Memphis, Tn.

Hospital savings

To the Editor: As you no doubt know, the health care industry and particularly hospitals have been the whipping boys of the media for some time now. Therefore, we seldom take exception to items that have any semblance of credibility or truth.

However, we must take strong exception to the article published in your publication on June 30, 1975, which apparently came out of Atlanta and quotes the Health and Institutional Consultants (HIC), based in Atlanta, on that organization's suggestion for systems of "shared savings" to give both hospitals and insurance companies an incentive.

The article goes ahead to explain in two different places that an estimated $750 billion could be saved each year if hospitals were financially "rewarded" for increasing efficiency and reducing costs. This figure is obtained by additional information that maximum savings for a medium to large hospital would be about $240,000 a year for the 3,700 hospitals with more than 100 beds in the nation. This, again, the article indicates, could save as much as $750 billion.

Since this did not seem right even to a country boy, I multiplied 3,700 times the maximum savings estimated by $240,000 and find that the most possible that could be realized, even if the accuracy of HIC is greater than its mathematical ability, could be no more than $888 million.

Perhaps in these days where millions and billions mean nothing, your publication can be forgiven for picking up such an item without checking the math involved in the calculations, but it is extremely difficult to see how consultants to the health care field could make such a boo boo. Indeed, it is down right frightening!

Hopefully, you will see fit to correct this information, although the correction will probably be of little interest to many readers who would much rather feel that we live in an inefficient, don't-give-a-damn world.

Robert L. English

Senior vp, Texas Hospital Assn., Austin, Tx.

Editor's note: We do give a damn and Mr. English is correct. The original HIC source reported million, but somehow, from them to us to the printer, we ended up with billion. Our error and our apologizes.

Work comp study

To the Editor: I am interested in obtaining a copy of the research study conducted by the California Workers' Compensation Institute, San Francisco, mentioned in your Editorial Opinions' section of *Business Insurance* for the week of July 28.

Will you please advise particulars on where to write to get a copy of this report. Thank you.

G. S. Duncan

Assistant Chief Engineer, Bangor & Aroostook Railroad Co., Bangor, Me.

Editor's note: You may obtain a copy of the report on litigation in workers' compensation by writing to the California Workers' Compensation Institute, 315 Montgomery St., San Francisco, Ca. 94104.

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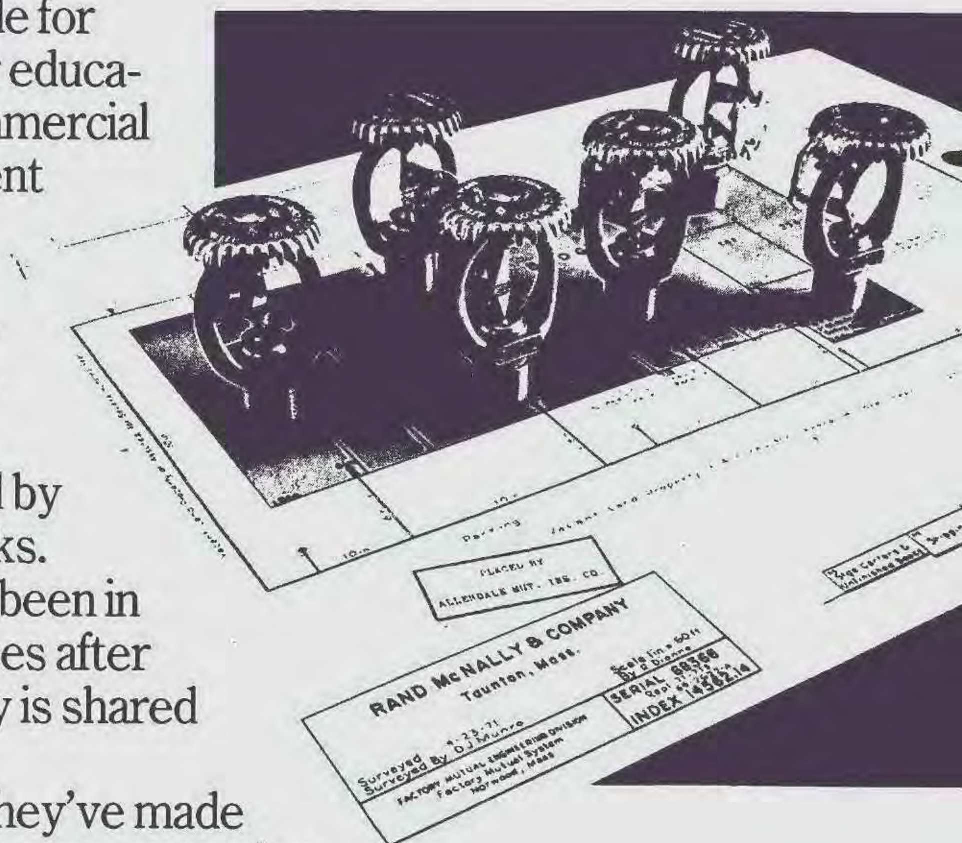

Rand McNally & Company is known world-wide for its road maps, atlases, globes, books and other educational materials. They also print tickets for commercial airlines. They even produce checks and payment booklets for banks and loan companies.

Nearly all the products they manufacture are made of paper. So it's easy to see why they're very concerned about preventing fires at all their locations.

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Brokers looking at ESOPs as new client service

By MARIE KRAKOWIECKI

NEW YORK—Brokers here are starting to look at employe stock ownership trusts (ESOPs) as possible new additions to their list of services for corporate clients.

ESOPs can tie in conveniently with corporate key man life insurance policies, and this apparently is the main way brokers would link up the stock bonus plans with a corporate insurance program.

Frank B. Hall & Co. has already launched a program in its employe benefits consulting division to explain ESOPs to clients. And in late June, a cluster of about 35 representatives from the major insurance brokerage houses gathered at Morgan Guaranty to attend a jam session on ESOPs sponsored by H. Malcolm Teare Agency, agents for CNA.

Companies represented included Marsh & McLennan; Johnson & Higgins; Alexander & Alexander; Frank B. Hall; Bayly, Martin & Fay; Fred S. James; and R.B. Jones, among others.

R.B. Jones may have a jump on the others, because it has already established an ESOP for its own employes, and Hallmark Cards Inc., one of its major clients, also has an ESOP.

Although ESOPs have been around for a long time (California lawyer Louis O. Kelso is generally credited with devising them about 20 years ago as a means of broadening capital ownership), few firms outside of the West Coast have attempted to tackle their somewhat esoteric fine points.

Probably the major feature of ESOPs that has attracted attention from cash-hungry companies, is the way the plans permit an employer to take out a loan to establish an employe stock ownership trust (ESOT) for employes, and then use the money without paying taxes on it. Technically the money is going to "buy" shares of company stock for the trust—shares that are tax exempt.

By and large, brokers have steered clear of advising their clients on these sort of set-ups in the past, but apparently are finding they have to keep up with the demand from some corporations to find ways to improve on cash flow situations.

Malcolm ("Bud") Teare, who runs the Teare Agency tells the story of one major broker which was questioned at its annual 1975 meeting on what it was doing to keep up on the ESOP scene. The chief executive paused momentarily, assured the stockholder the firm was on top of the situation. Later he was heard to ask an operating officer in an aside, "What the hell is an ESOP?"

The ancedote at the very least underscores growing public awareness of ESOPs. Brokers see a need to inform themselves about ESOPs so they can pass information along to clients.

Once an ESOP is established, its trust, the ESOT, may buy key man insurance on the premise that it protects participants in the trust against the loss by death of a vital employe shareholder.

Brokers and some consultants are also investigating sales of stock purchase insurance and employe death benefits through ESOTs.

In some cases, well-known employe benefits consulting operations or brokerage houses have already joined forces with investment banking firms that market ESOTs. Working as a team, one firm makes the entree to known prospective clients for the other.

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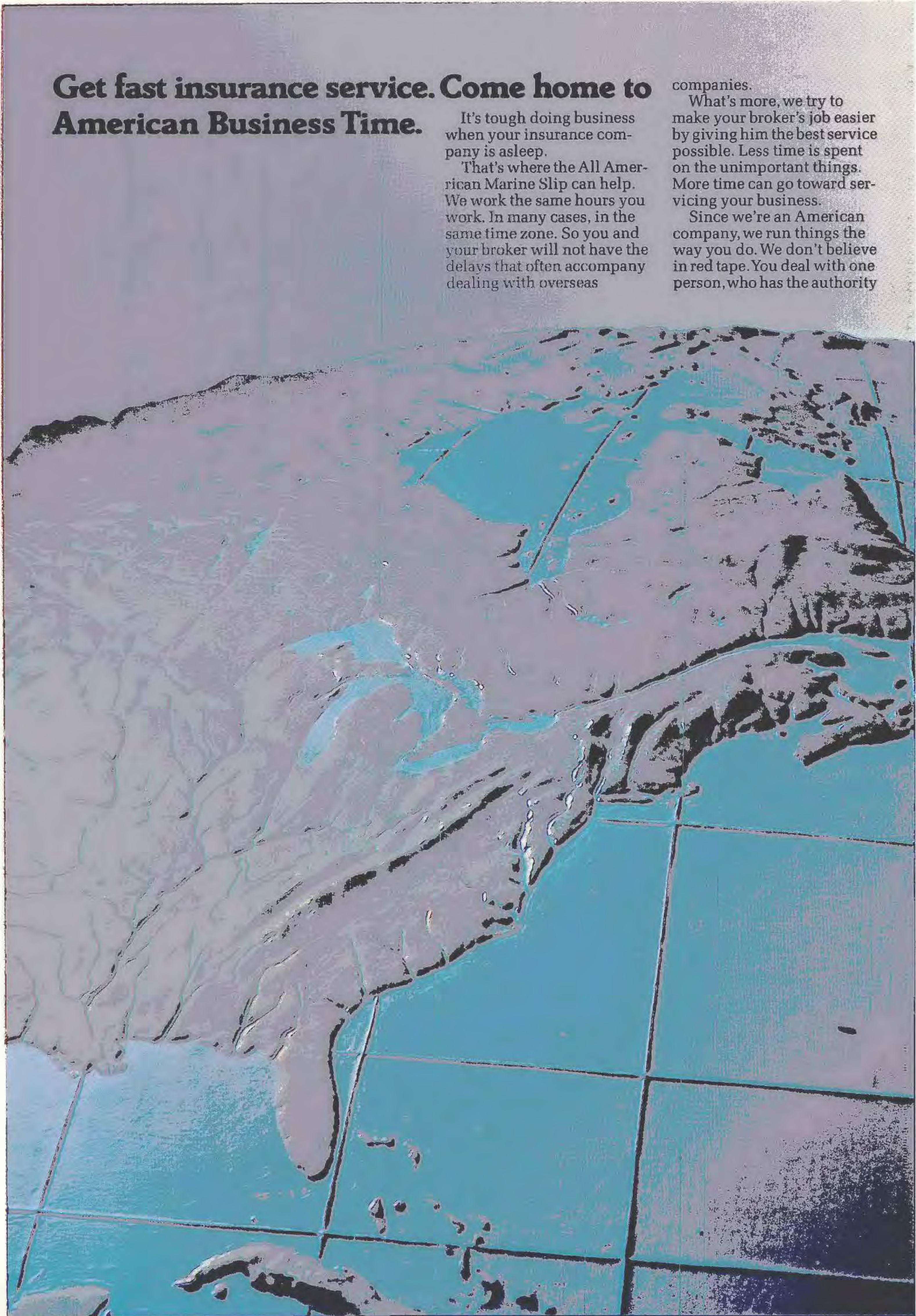

This is the approach that Specialized Corporate Services, a Los Angeles designer of ESOTs, has used with the John O. Todd Organization of Evanston, Illinois, for example. Back in 1973, SCS was already approaching Todd clients to explain the concept to them. If they decided to start up a plan, Todd could then move in to sell coordinating key man life insurance.

Of the firms that are known to have established ESOPs for their employes, the majority are smaller, family-owned concerns withclosely-held stock. Most of the ESOPs have been used as replacements for existing profit-sharing plans.

Besides Hallmark Cards and R.B. Jones, some other companies with ESOPs include Food World Inc. of North Carolina, operator of the Big Bear supermarkets chains; Kenny Construction Co. Wheeling, Il.; Reliance Clay Products, a Texas brick manufacturer; S&Z Tool & Die Co., Cleveland; Parr Inc., a chemical company also in Cleveland; and Infant Specialties, Los Angeles.

A number of Las Vegas gambling casinos adopted the approach, including Jerry's Nugget and Lady Luck. E-Systems, a Dallas electronics firm; Robinson-Humphrey Co. of Atlanta; and California brokerage Sutro & Co. are all on record as ESOP users.

Senator Russell Long, chairman of the Senate Finance Committee and acknowledged supporter of ESOPs, said on CBS television with interviewer Mike Wallace, that he was urging Pan American Airways to start an ESOP to help save the airline.

Pan Am, incidentally, is a well-known client of broker Frank B. Hall. But Hall officials from the employe benefits consulting division remain mum on what the airline might be currently up to regarding ESOPs, and whether there is any direct tie-in with the airline's corporate insurance program.

Costs of instituting an ESOP can vary dramatically according to problems attached to the financing aspects, the options open to employes to cash in their stock, and plans that may already be in existence. And the insurance brokerage houses that are looking into selling ESOPs, or at least the concept, are a little skeptical about the best way they could be compensated; many feel at this point it wouldn't be worth their while to handle the business any way other than on a fee basis, unless they can manage to sell life insurance along with the product.

Frank B. Hall, which uses a time-charge basis approach, and bills everything (except possibly the valuation of private stock) has a minimum charge of $5,000. This magazine has heard cost estimates for some plans (not designed by Hall) that ran in excess of $75,000, however.

Whether risk managers will be approached by brokers selling this expensive product remains to be seen. Even the brokers and agents getting into the ESOP game plan at this point seem to feel they may go directly to the companies' chief financial officers where such high price tags are under consideration. ■

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Inland dental plan insured by Equitable

CHICAGO—Inland Steel Co.'s dental plan, which became effective on August 1, is insured by Equitable Life Assurance Society of the U.S., according to Albert F. Winston, employe benefits manager.

Costs for the first year are expected to reach $6 million for Inland, he said. Benefits under the plan are identical to those offered by all the largest steel companies through negotiated contracts with the United Steel Workers (UAW).

Inland, which has one principal plant, chose Equitable as the underwriter because it already insures the company's medical and hospitalization plan and because Inland felt that Equitable "was geared up to handle it," Mr. Winston said.

Equitable set up a claims processing office at Merrillville, In. for their steel company insureds in that area, Mr. Winston said. They include U.S. Steel and Youngstown-Lykes, aside from Inland. Armco Steel, although located in Ohio, is also handled by Equitable's claims processing facility in Merrillville, he said.

Mr. Winston expressed concern that there may not be an adequate number of dentists in the area now but added that he expects other dentists to move in to fill the gap.

Dental benefits negotiated by the steelworkers cover the employe and eligible dependents and include 100% of the reasonable and customary charges for preventive dental services (oral exams, teeth cleaning and space maintainers for dependents under age 19); 85% of the reasonable and customary charges for bridgework and dentures; and 50% of the reasonable and customary charges for orthodontics.

The maximum dental benefit for one year is $750/individual/-year except for orthodontia work for which there is a separate, lifetime maximum of $500/individual for employes or dependents under age 19, Mr. Winston said. ■

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business insurance

PERSPECTIVE

Fire protection services fall short on quality

By E. SANFORD BELL
vp, The Calibre Group
Kansas City, Mo.

INSURANCE ENGINEERING—that provided by insurance companies, brokers and rating authorities—is a valuable source of fire protection assistance. In most cases however it falls short of providing the in-depth, cost-conscious service so important to the risk manager.

Faced with increased pressure to improve and protect cash flow, the risk manager may find need for changes in his technique of risk treatment. In many cases these changes will involve an increased need to eliminate or reduce the possibility of loss by fire. Self-insurance and higher deductibles offer cost saving potential, but both require a serious look at loss potential.

Loss probabilities and maximum anticipated losses which were acceptable a short time ago may no longer be reasonable. In such situations fire protection takes on new importance. The probability of a loss occurrence may have to be reduced. For self-insurance the MFL, MPL or PML may have to be reduced.

To achieve these goals higher levels of protection are frequently needed. New protection systems, upgrading of protection systems, increased fire protection activities, new equipment, etc. are all more important than ever.

But at the same time there is a clear need to minimize expenditures. Dollars available for fire protection must be stretched their limit. The return on the investment for fire protection must be competitive with other corporate demands for funds. If not, fire protection will be subjugated by more profitable projects.

"Insurance engineering" has historically provided the risk manager with a source of free fire protection service. This continues to be a valuable source but many factors affect how heavily he can rely on such "engineering".

Insurance companies provide valuable fire protection service and normally their requirements and recommendations are aimed at higher levels of protection and the reduction of losses.

This appears to fit well with the needs of the risk manager but it must be remembered that the insurance company's primary interest is the protection of its own assets. Its underwriters, inspectors and engineers are generally not equipped to evaluate the return on investment aspects of their fire protection requirements.

They know that increased levels of protection, at any cost, tend to reduce insured losses.

The recommended approach may not offer any real advantage to the risk manager, however. The reduction of MFL, MPL, or PML, for example, would have distinct meaning to the insurer. But for the insured risk manager with a large deductible, there may be no advantage other than to satisfy the underwriter.

Alternatives may be available which reduce the probability of loss or limit the extent of loss within the deductible or self-insured amount. This offers benefit to both the risk manager and the insured. The insured, however, may not have the insight or the motivation to develop such alternatives.

In the past there has been some assistance available from property insurance rating authorities. This has diminished significantly in the recent past.

"The risk manager can benefit greatly by the use of outside fire protection experts."

Notably, the Insurance Services Office has reinforced its position that its function is to establish insurance rates, not to provide engineering assistance. They continue to perform a valuable service by providing recommendations relating to insurance rates for sprinklered properties and proposed fire protection systems such as sprinklers.

Here again the ISO is not staffed to provide evaluation of cost-effective alternatives.

Currently some of the larger brokerage firms have excellent fire protection engineering capabilities available which tend to have stronger client interest than other sources of insurance engineering.

In using this source care should be exercised to assure that the engineering is more than superficial. The fact that the firm has an engineering staff does not necessarily mean that the desired level of service is available.

In some cases the "engineering" available is only oriented around the insurance aspects of fire protection. It may also be that the in-depth knowledge and capabilities exist only in the regional or home office staff. This usually can be made available for complex problems or if specially requested.

Most insurance engineering sources offer little or no assistance when it comes to life safety and building code compliance. This is particularly important at a time when there is a heightened public awareness and sensitivity to life safety from fire, especially in such areas as high rise buildings.

Recent changes are important but often obscure. Changes in the field of fire protection have ocurred in the past few years, even in recent months, which are significant to the risk manager.

The risk manager is not likely to be aware of specific changes in building codes, fire prevention codes and national fire protection standards such as the NFPA standards.

While these continue to offer only minimal guidelines for protection of life and property they have also become more complex and offer broader alternatives for protection.

Strictly speaking, "insurance engineering" does not take cognizance of these complexities and alternatives except for relatively narrow interpretations aimed principally at the reduction of insured losses.

This is not to imply that these organizations are not receptive to alternatives or to new approaches. They must however be shown that deviations from their recommended or standard approaches will result in at least equivalent protection.

Their interest simply is not in the development of cost effective protection but that

Continued on following page

Quantitative methods can help in risk management presentations

"The use of quantitative tools . . . is one of the most under-utilized methods available to today's risk manager for improving not only the decisions that must be made but also presentations to top management."

By THOMAS G. BRIGGIN
Risk Manager
Sacramento Municipal Utility District
Sacramento, California

IT PROBABLY GOES without saying that all risk managers can improve the quality of their performance to some degree. Today, risk management is gaining more acceptance by top management and is making an important contribution to the profitable performance of the firm. Aside from contributing to and improving the profit performance of the firm, the second most important goal, perhaps, for the risk manager is gaining acceptance of top management for his function.

He, more than anyone else, sells his function to his company based on the performance of his activity and of himself. He can, of course, better represent his function by improving technical skills and acquiring education in his field. He can improve the performance of his function by cultivating good working relationships with data processing and other departments within the firm that provide the input information.

The use of quantitative tools, while gaining acceptance, however, is still one of the most under-utilized methods available to today's risk manager for improving not only the decisions that must be made but also presentations to top management on critical firm issues.

Contrary to popular belief, quantitative methods and statistical techniques are not difficult to master, although it takes time. Granted, much of the literature pertaining to quantitative methods is not particularly simple to absorb. However, short periods of time devoted to understanding the techniques and their applicability to problems can provide the risk manager with a good practical working knowledge within a few years.

The first step that risk managers should go through to begin utilizing quantitative methods is to make a comprehensive list of the modeling techniques that are available and to define the types of problems to which the techniques can be applied. Corresponding to this is a list of the advantages and disadvantages, benefits and pitfalls, etc., which are associated with each technique. The purpose here is to familiarize the risk manager with the particular quantitative method applicable to various types of problems.

Once the risk manager has defined his problem, a requirement for successful solution, he will then have little trouble selecting the best quantitative technique to apply to the problem.

A recent article in *Business Insurance* illustrated the "use of probability techniques applied to relevant empirical data" to predict future losses incurred from fires, wild wells, etc. Here the company was able to estimate the probabilities that certain adverse events would occur by use of a "Monte Carlo" simulation program. "Monte Carlo" is a numerical technique for conducting experiments using a computer to describe the behavior of a business system over extended periods of time. The technique employs the utilization of knowledge about the structure of the model, the probability distribution of the inputs, and the variables actually used for the inputs. By using randomly selected combinations of inputs and by repeating the process a large number of times, the most probable results are determined and are available for analysis.

The testimony of R. C. Thompson, Shell Oil Co. controller, before the Financial Accounting Standards Board is indicative of the strength of presentation of results which can be made to top management or

Continued on following page

business insurance
PERSPECTIVE

Fire protection services . . .

Continued from preceding page
the protection be provided.

There is an additional factor which is given little thought in the development of protection, particularly when "insurance engineering" is used. Codes and standards by their very nature lag behind new developments in fire protection products, design and application as well as changes in construction methods and materials.

These changes are occurring at a rapid pace and any approach which ignores them by applying a fixed standard or interpretation ignores the economies and improved protection available from their use.

A good example is the case where sprinklers are required or recommended. Experienced engineers can readily provide input defining the required discharge densities and water supplies. They will also review plans to assure that proposed installations will meet the design criteria.

There may, however, be alternates available in sprinkler system design involving layouts, looping, loop matrices, etc. which can provide the required protection at lower cost and at the same time reduce water supply requirements. This is particularly significant to the risk manager who is self-insured or insured through a captive with little or no fire protection engineering available to him.

Close analysis may also reveal alternatives which can reduce density requirements or eliminate the need for sprinklers entirely. As pointed out earlier insurance engineering departments are normally not staffed to delve into the problems to such depth.

The more sophisticated HPR engineering staffs are capable of analyzing alternatives once presented to them to assure themselves that their interests are being given proper attention. In some cases, however, it may require substantial negotiations to convince these organizations that the return on investment simply does not justify expenditure for protection as recommended or required using their established guidelines.

The risk manager can benefit greatly by the use of fire protection experts who are not encumbered by outside interests or responsibilities. There are two principal categories of experts who fit this description.

First is the in-house fire protection specialist. This is an ideal approach if the in-house expert has adequate education, training and experience in fire protection engineering and is not overburdened with other responsibilities. Even then the specialist must be able to keep up with the rapid pace of change.

This is an expensive approach involving substantial continuing expense—not justified except in larger organizations.

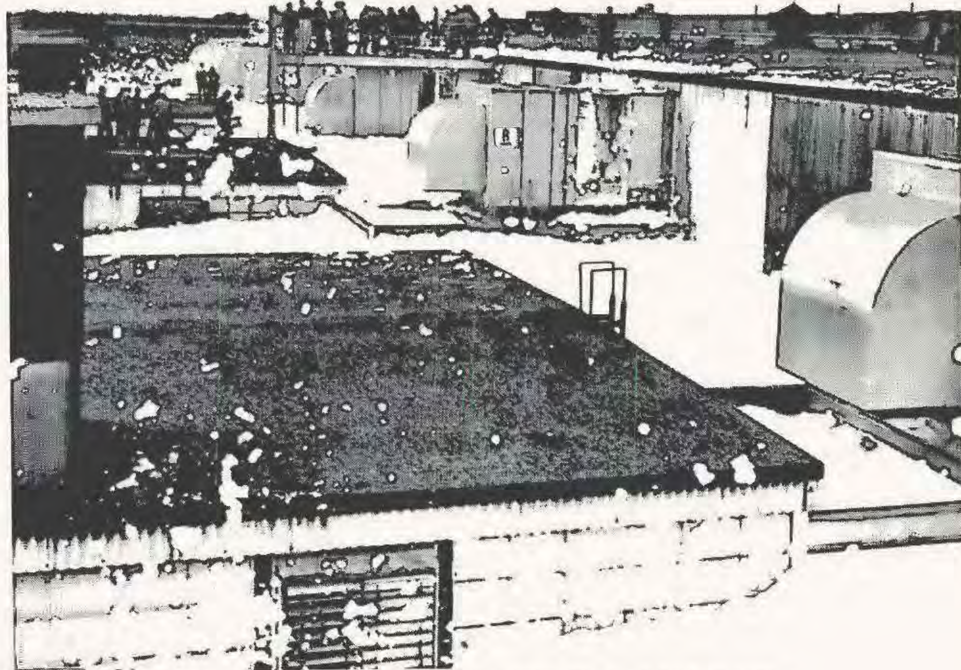
When full time staff specialists cannot be justified or where there are periods where the load is too great for existing staff, an outside consultant makes good sense. This approach normally results in substantial savings over that of employing a full time staff specialist. This is particularly true when the specialist cannot be used effectively on a full time basis.

The value is even greater in the use of a fire protection consulting firm composed of many individual experts with broad and diversified experience in areas of specific expertise.

A fire protection consulting firm offers the risk manager a much broader scope of cost-effective fire protection that can normally be found through any other single source. That scope encompasses the ability to evaluate, design, implement and monitor a comprehensive fire protection program aimed at the protection of human as well as physical assets and continuity of operations.

The fire protection consultant offers the additional flexibility of assisting the risk manager in the evaluation of insurance costs and underwriting ramifications. He can provide valuable assistance in dealing with building codes, architects, engineers and contractors. The more diversified consulting firms also provide assistance in working with rating authorities and insurance underwriters, engineers and brokers.

The expanded technology of fire protection has taken its proper application out of the hands of semi-qualified or part-time fire protection "experts".



Today's fire protection involves new products such as foam.

The changes are too rapid and have too much impact.

To rely on anything resembling a cookbook approach to fire protection results in imprudent and excessive use of corporate funds, poor return on investment and in many cases inadequate control of loss exposures.

Today's fire protection revolves around innovative use of fundamentals as well as new techniques, new products and newly learned lessons. It involves questions such as:

- What is the proper protection for value-dense storage facilities—are there alternates which can produce the same results at less cost?
- What provides the best potential for cost effective fire control—water, foam, high expansion foam, light water, carbon dioxide, dry chemical, Halons?
- What plastics can be safely used—what protection is required for their safe use and storage?
- What new products are available to provide better levels of protection—is their cost worth their increased effectiveness?

Answers to these questions and many like them are vitally important to the risk manager. Unfortunately there is no fixed set of rules and no patented answers.

In each case the answer depends on the unique factors involved. The answers can only be determined by experts devoted to the development of cost-effective fire protection. ■

E. Sanford Bell is a Vice President of The Calibre Group, a Kansas City based fire protection, safety and management consulting firm which is a subsidiary of R. B. Jones. Mr. Bell has a B.S. degree in Fire Protection Engineering from the Illinois Institute of Technology, is a CPCU and holds the IIA Associate in Risk Management designation.

Quantitative techniques . . .

Continued from preceding page
other interested parties. A well known insurance consultant also recently completed a "Monte Carlo" simulation for an electric utility based on the frequency and severity of losses for a recent five-year period of time in which the average increase in frequency and severity was assumed to be 10%. Upon completion of the simulation, the "model" produced expected loss projections in dollar amounts for various levels of deductibles and determined the best deductible levels for given types of insurance. The technique allows the prediction of future losses within various confidence limits and better defines loss exposure.

A second quantitative method which should be used more by the risk manager is correlation and regression analysis. This technique has the ability to provide explanation for past occurrences as well as make short-term predictions for the future.

Correlation refers to the degree of association of, for example, a variable you want to predict, and another variable (or multiple variables), while regression is the process of deriving the numerical relationship. Correlations can be done with internal or external variables. For example, company losses can be related to internal financial data series to derive the relationship of losses to the firm's own statistics. This can be useful in establishing annual budget figures. Or, losses can be related to external variables such as economic variables (population, employment, credit applications, etc.). In the latter case, an assortment of variables can be tested to predict losses via a stepwise multiple regression program. This program will identify the two or three variables which are most highly correlated with losses and which contribute most to explaining changes which can occur. If the data is logged for a year, the model can become an excellent short-term predictor when the correlations between variables are high.

A critical element in the use of quantitative methods, is the data or lack of it, or the form in which the data is available for use by the risk manager. In many cases, the application of quantitative methods is prevented by the amount of clerical work that is necessary to obtain and organize the data to which the quantitative method can be applied.

One way to reduce the laborious clerical work which is associated with many studies is through the use of sampling the data. Essentially, sampling consists of obtaining information from a small portion of a larger group of data. Sampling reduces costs and manpower requirements, gathers vital information quickly and, if the sample is selected properly, provides accurate results. The sample data itself can be used to construct basic frequency distributions upon which many risk management decisions can be made.

If the frequency distribution, which can be described in any statistical textbook, does not provide the entire answer to a risk management problem, the sample data can provide the input for further quantitative study.

Are quantitative techniques worth learning and using? Even when top management may be skeptical about the value of the technique itself or about your ability to handle such a study? To the manager who is interested in his company's profit orientation and wishes to increase the value of risk management to his company, the answer is "yes." Not only can the risk manager educate himself by learning about the various quantitative techniques and how to apply them, but the use of a quantitative technique establishes a methodology by which the risk manager can develop a procedure for gathering and processing information to determine a result and a recommended course of action for a problem. It is the discipline required by the development and execution of the methodology required by the quantitative technique which helps the risk manager to concentrate on his problem, the information which is available to him, and enables him to evaluate the solution or alternative solutions which are provided by the quantitative technique.

The entire process builds managerial confidence preparing the risk manager to make the best possible presentation to his management, and working with the data and evaluating possible solutions helps the manager to prepare in advance to answer any questions or objections favorably which might come his way. Through making a strong presentation, top management over time develops more confidence in the risk manager and the risk management function.

To be effective, results of quantitative studies must be interpreted by the manager for his management or for whomever he is discussing the problem with. Quantitative techniques are not substitutes for good communication, however. Results can be stated with probabilities of success or failure or within the appropriate limitations or error ranges. The clear presentation of quantitative study results can assist company planning and decision-making activities. ■

Mr. Briggin wrote this article while he was still risk manager for the Sacramento Municipal Utility District in California, although he subsequently joined Risk Planning Group as a risk management consultant. While with the utility district, Mr. Briggin was responsible for administration of the insurance and employe benefits programs. Mr. Briggin also worked as a consultant for Ebasco Services Inc., and was an underwriting supervisor for INA. He has an MBA from Columbia University.

THE PROPERTY AND CASUALTY INSURANCE INDUSTRY

Challenges and Opportunities

As the property and casualty insurance industry finds itself at midpoint in the seventies, the time is opportune to take a broad view of the problems besetting it and their possible solutions. Indeed, this vital business has great opportunities which must bring back to it the stability and financial health on which the American public and business community are so dependent.

Because of the tremendous importance of the insurance industry to our economy, the editors of Business Insurance are planning to review and analyze the problems and challenges facing the business in an exhaustive special issue to be published on September 22, 1975. They are bringing to their task experience in news gathering and analysis as well as curiosity and the desire to provide the readers of the newsmagazine with a complete update of an industry whose social significance has not been fully recognized by the public.

The September 22 special Property and Casualty Insurance issue of Business Insurance will be much awaited by everyone who is involved in the design, underwriting and any other phase of property/casualty insurance programs as well as in the marketing and the use of the industry's products and services.

This will be a special insurance industry issue in the true tradition of the editorial leadership of Business Insurance. Anybody connected with the property and casualty business and its distribution systems, anyone interested in its financial and operating aspects will find the September 22 issue of special significance both from a readership as well as from an advertising standpoint.

Advertising forms close on September 10.

For more information contact your nearest Business Insurance office or call Don Walsh at 212/986-5050.

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Set up statewide group legal system in Oregon

PORTLAND, OR.—The first statewide program of prepaid legal insurance is now in effect in Oregon.

Oregon Prepaid Legal Insurance or OPL is a wholly-owned subsidiary of the Oregon State Bar Assn. It utilizes the open panel method of attorney selection.

Just now, the program boasts only a single participant, the Durametal Corp., Tualatan, Or.

Morris Arntson, president of the tiny firm that manufactures cast iron break drums for the trucking industry, told *Business Insurance* that he agreed to become the first employer to offer his employes legal coverage because: "First of all, I am a lawyer myself. Then I believe that prepaid legal insurance will become a popular benefit in the future."

Mr. Arntson said that 46 out of his total workforce of 53 employes have signed up for the coverage which went into effect at Durametal on July 1.

Set up on a contributory basis, he said that monthly premiums for a family amount to $9.23 of which Durametal pays $4.73. For single employes, the monthly premium is $6.92 of which the worker pays $3.

Thus far, 750 attorneys in the state have signed up with OPL, according to F. J. Lutz, executive director of the program.

Midwest Mutual Insurance Co., West Des Moines, Ia., is the underwriter, chosen out of a group of 20 major insurers who were vying for the job.

OPL swung into action in May with a mandatory $13 assessment on every lawyer who does business in the state.

The following are the major coverages of OPL: non-business bankruptcy; court adoption proceedings; divorce, separation and annulment; insanity or infirmity proceedings; juvenile court proceedings; habeas corpus court proceedings; defense of felony charges; defense of the charge of driving while intoxicated; defense of charges involving violation of motor vehicle traffic statutes and simple document preparation.

Typical maximum benefits include: $300 for non-business bankruptcy; $600 for martial proceedings; and $500 fcr court adoption proceedings. ■

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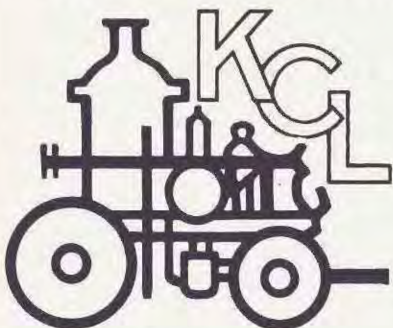

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Reliance files for new trial after $2 million award against insurer

INTIO, CA.—Reliance Insurance Co. of Philadelphia filed a motion for a new trial and for an award judgment notwithstanding the verdict in superior court here. The action followed the awarding by a jury of a record $8 million punitive damage award against the insurance carrier for fraud in the removal of a left turn blinker from a jeep owned by Robert Blackwood of Blythe, Ca., the plaintiff.

Judge Richard Marsh immediately reduced the award to $2 million after polling the jury.

Thomas Anderson, attorney for Mr. Blackwood is expected to appeal the award reduction. However, he is presently on a month-long vacation and could not be reached for verification.

On November 16, 1969, Mr. Blackwood was paralyzed from the waist down by back injuries suffered when his jeep was struck by a truck owned by the Desert Gin Co. of Blythe. He settled the claim with Reliace Insurance, the insurer for Desert Gin Co., by accepting a payment of $250,000.

Mr. Blackwood, however, later sued Reliance, General Adustment in Los Angels, Stephen Blewett & Associates Co. of Altedena, Ca., a specialist in accident reconstruction, for fraud, oppression of evidence and malice in connection with the removal of the left turn blinker.

The jury returned a verdict against the General Adjustment Buureau in the amount of $250,000. Blewett was fined $5.93.

A Los Angeles attorney representing the GAB told *Business Insurance* that his client will join Reliance Insurance in making a motion for a new trial and for a judgment notwithstanding the verdict.

According to published reports of the case, Mr. Anderson charges that two investigators hired by Reliance went to Mr. Blackwood's parent's home and made unauthorized entry into the garage which housed his jeep. There they removed the left turn blinker signal which Mr. Anderson reportedly described as a necessary piece of evidence to prove the legality of the left turn at the time of the accident.

Then a couple days after the blinker signal was taken, two GAB representatives are said to have visited Mr. Blackwood in the hospital.

The jury found them guilty of posing as employes of Allstate employes of Allstate Insurance Co., Mr. Blackwood's insurer.

According to reports, Mr. Anderson contends that the information obtained from Mr. Blackwood was deliberately "distorted" by the GAB employes in their later report for Reliance. ■

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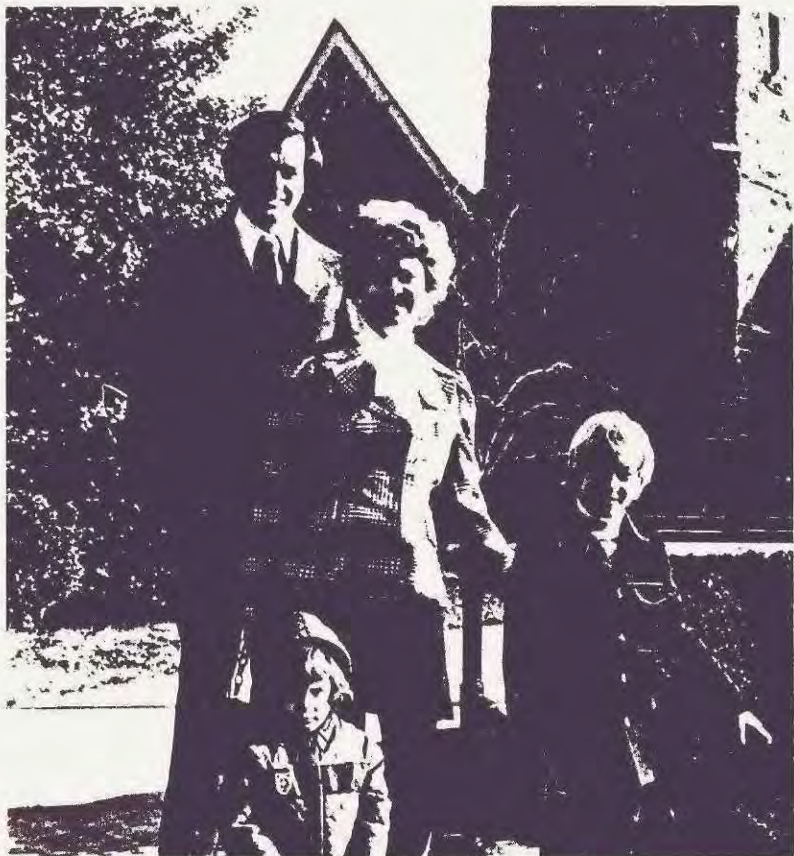

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Pennsylvania boosts work comp rates

HARRISBURG, PA.—A $55 million premium rate increase for workers' compensation insurance in Pennsylvania was approved, effective Sept. 1.

The approved rate filing contains two parts. The first permits a change in the experience rating formula which applies to employers where workers' compensation premium amounts to at least $3,000 during the rating period.

This change in the experience rating plan corrects an inequitable situation, the Pennsylvania insurance department said, by allowing an adjustment in "expected losses" to recognize the amount of loss eliminated by the use of "maximum value" placed on one accident.

In so doing, it eliminates a situation whereby manual rated risks, those risks too small to qualify for the experience rating plan, were subsidized by the experienced rated risks.

This change is expected to generate $26 million annually in premiums, the state said.

The second part of the filing increases manual rates by approximately 8.4%, generating an additional $29 million in premium annually.

The state said the reason for the boosts was the need for additional funding for increased benefits mandated by the legislature. ■

Nebraska damage

Mid-July storms caused an estimated insured loss of $2,250,000 in portions of Nebraska, according to the American Insurance Assn. Heaviest damage occurred in the central part of the state, including Grand Island.

Associations growing as lobbyists in dealing with federal intervention

By RICHARD L. GORDON

WASHINGTON—What stands between the corporate insurance buyer and ever-increasing federal intervention in the insurance marketplace?

The answer may be an alphabet soup roster of professional associations representing insurance agents and brokers—such as the National Assn. of Insurance Agents (NAIA), the National Assn. of Mutual Insurance Agents (NAMIA), the National Assn. of Insurance Brokers (NAIB), or the National Assn. of Casualty and Surety Agents (NACSA).

The constituencies of these associations range from thousands of smaller, independent agents making up NAIA and NAMIA to the big national and regional brokerage firms that belong to NAIB and NACSA.

They may not be able to halt the federal government's increasing forays in the insurance field, but they may modify the worst of the effects.

The two associations representing the big brokers and agents with the big insurance-buying clients are not as active and agressive on Capitol Hill as NAMIA and NAIA.

The NAIB and the NACSA make more of a point about representing not their own interests, but their clients' interest, in dealing with the federal government.

"We're not a lobbying group, but we do try to maintain certain contacts in Washington," said a member of the NAIB's board. Although the NAIB is not a frequent witness at Congressional hearings, "we would not respond negatively to a request to testify," the board member said.

NAIB, for instance, has agreed with the Ford Administration's decision to delay action on national health insurance proposals.

"But we didn't feel it was appropriate to take a position on no-fault auto insurance," the NAIB man said. "Other associations would find more of a direct interest in that, but our clients are quite different."

NACSA has already testified in the Senate, and will testify in the House, in opposition to any federal standards for no-fault auto insurance programs.

Both associations maintain Washington staffs which follow federal government developments in the insurance area. NACSA maintains a Washington law firm as its legislative counsel. NAIB periodically distributes studies of proposed federal legislation among its members.

The more visible, tough dealing is done by NAMIA and the NAIA, whose small businessmen members are more vulnerable to the affects of federal action.

NAIA and its state chapters "are never going to agree to federal regulation," an NAIA official in Washington said. At the same time, however, he admitted, "We're not too naive to realize that Washington is becoming the insurance capital of the country."

Positions appear a little more flexible at NAMIA, where officials told *Business Insurance*, "We're committed to state regulation of the business, but we believe in cooperation with the federal government."

"Cooperation" in NAMIA's case has meant basic agreement with the federal standards approach toward no-fault auto insurance legislation that seems bound to pass the Senate again this year.

It also means that, if the political situation warrants, NAMIA will also back a federal standards approach in another controversial insurance area—workers' compensation reform.

NAMIA acknowledges, however, that its agent members aren't that active in the workers' compensation market.

"Instead of going against a legislative proposal, we almost always come up with a positive response," said a NAMIA lobbyist. "It's being constructive."

"We think it's kind of stupid," said another NAMIA official, "to keep beating the drum to keep the federal government out of insurance when they are already in it."

A sign of the times is that the mass membership insurance agent associations are girding up for a serious siege in Washington with political war chests like the National Assn. of Life Underwriters' Political Action Committee (LUPAC), NAMIA's American Insurance Men's Political Action Committee (AIMPAC), and the NAIA's National Agents Political Action Committee (NAPAC).

Even the larger firms of the National Assn. of Casualty and Surety Agents have a political fund, the NACSA Political Action Committee.

The LUPAC fund is getting to a size where it can begin to play political hardball like more established interest groups in Washington. It raised more than a quarter of a million dollars last year.

AIMPAC raised about $30,000, and the NACSA fund just under $5,000. NAIA's fund didn't really get started last year, but officials say they will be looking for contributions this year and predict that, "it's not going to be a small figure." ■

Small plans exempt from filing EBS-1

WASHINGTON — Contributory employe welfare benefit plans with fewer than 100 members will be exempt from filing the Labor Department's new plan description form, EBS-1, the department said late last month.

The form, actually a much shortened two page version of the original EBS-1, must be filed with the federal government by August 31.

Without this exemption, the small contributory welfare plans would have had to meet the filing deadline. The department had already proposed exempting small non-contributory plans from the EBS-1 requirement.

Final reporting and disclosure regulations to be announced later this month will exempt unfunded and insured welfare benefit plans with fewer than 100 members from most of the other reporting requirements under the pension reform law, such as the annual reporting requirement.

The department will still require that a summary plan description and summaries of plan amendments be provided to plan participants and beneficiaries, however. ■

All about AOA

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Robbed robot insured, unsecured; Lloyd's reward no pay-off in hunt

NEW YORK—Lloyd's of London and the All-Star Insurance Corp. of Milwaukee shared a $75,000 risk on a hard-headed fourth grade teacher named Leahcim.

Lloyd's has a $7,500 price on his head, while insurance adjuster Harold J. Smith is fielding phone calls on his whereabouts.

But it's not a typical case of kidnap insurance. Leahcim is a robot. He was stolen after making a television appearance in Chicago.

His creator and owner, Michael Freeman, a 28-year-old college teacher here, insured Leahcim (Michael spelled backwards) with an all-risk policy for $75,000. Lloyd's had two-thirds participation, and All-Star underwrote the remaining third.

The broker for both carriers was Advocate Brokerage Inc., in Scarsdale, N.Y. The underwriting manager for Lloyd's was Cornwall-Devon Co. Inc. in New York City, while All-Star's excess lines broker was I. Arthur Yanoff & Co. Ltd., Valley Stream, Long Island.

Harold Smith, president of the Harold J. Smith insurance adjusting firm here, is acting as Lloyd's representative in handling the claim on Leahcim. Since he publicized the $7,500 reward for the return of the robot, Mr. Smith says he has been swamped with phone calls from people with tips on where the creature is.

"He really shouldn't be all that hard to find." Mr. Smith commented. Leahcim is six feet tall, weighs 200 pounds, has a wooden head and electric light eyes. He can answer questions and remember names.

Leahcim, who appeared several times on television, is programmed to work with five students at a time in grammar school classes. Mr. Freeman's wife Gail, a teacher at P.S. 106 in the Bronx, uses the robot as a teaching aid with her fourth-graders.

Mr. Smith said the robot was stolen in June from the back of a truck off the Pennsylvania Turnpike while Mr. Freeman was asleep in a nearby motel. The thieves used sophisticated tools to break the lock on the truck, and apparently intend to keep the teacher-robot.

When the $7,500 reward was offered by Lloyd's in July, Mr. Smith was optimistic it would hasten Leahcim's return.

However, by mid-August, although a massive robot hunt was continuing, no promising leads on Leahcim's whereabouts had surfaced.

Brokerage sources have speculated that the robot was stolen by industrial saboteurs who might want to find out how to put together their own version of the electric light bulb-eyed, question-answering marvel.

Meanwhile, Leahcim's inventor, Mr. Freeman is waiting for the insurers to pay up his claim, and Mr. Smith conceded they would probably do so soon unless the robot is rescued. He had asked the question earlier.

"If that robot is so smart, I wonder why it doesn't turn itself in?" ■

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Public plans face reform next session

WASHINGTON—A bill to reform public employe pension plans has been filed, as expected, in the House of Representatives by Reps. John H. Dent (D-Pa.) and John N. Erlenborn (R-Il.)

The Dent-Erlenborn bill—the Public Service Employes Retirement Income Security Act of 1975 (H.R. 9155)—went into the Congressional hopper just before Congress broke for its August recess.

The bill is nearly identical to Titles I and IV of the Employe Retirement Income Security Act of 1974 (ERISA), enacted into law for private plans last September.

Title I includes reporting and disclosure, participation and vesting, funding and fiduciary responsibility rules.

Title IV is the somewhat controversial provision establishing the plan termination insurance program and the Pension Benefit Guaranty Corp. (PBGC).

Rep. Dent's House Subcommittee on Labor Standards hopes to begin hearings on the bill in mid-September. The subcommittee staff was unable to say immediately who would invited to appear.

While this could be the first shot in a major confrontation over federal intervention in public pension plans, Rep. Dent is taking a very cautious approach about getting his feet wet in what could be hot water.

Rep. Dent said H.R. 9155 is not intended as a "legislative vehicle," but rather "as a focus for what we hope will develop into a revealing examination of the issues by our subcommittee."

After delaying action on public plans during the debate over ERISA, he said, "We are now ready to study and listen."

Rep. Dent even acknowledged that the transplant of the ERISA rules into his public plans bill "in all likelihood will prove inappropriate in the context of public pension plans.

"We do expect our subcommittee and its witnesses to focus attention on specifics rather than generalities," he explained. "Accordingly, it is appropriate to introduce a comprehensive regulatory scheme as is contained in H.R. 9155 so that all of the interrelated aspects of the general topic of public employe benefit plans can be addressed in their proper relationship to each other."

He encouraged "broad-range participation by knowledgeable persons" in upcoming hearings.

The Ford administration and the Labor Department, which has heavy administrative responsibilities under Titles I and IV, have not yet commented on the need for legislation to reform public plans.

Senate committees concerned with pension perform, most importantly Sen. Harrison Williams' Labor and Public Welfare Committee, have said they are some ways off from taking up the public plan issue, although ERISA calls for a study of public plan problems. ■

Alaska expansion told

Wackenhut Corp., an international investigative and security organization, purchased American Guard & Alert Inc. The Anchorage guard and patrol company will continue to operate under its present name and offers a full range of physical security systems and services in Alaska.

Offer dental cover to small & medium firms

LONG GROVE, IL.—A one-location manufacturing plant with 50 to 100 employes is Kemper Insurance Cos.' idea of a good risk for dental insurance.

"Bad risks," according to William P. Montgomery, group life and health officer for the company, include "church groups, associations, small auto dealerships and insurance agencies."

Kemper is paying close attention to these factors because it expects to offer various types of dental coverage to the small- and medium-sized employer pending state approval.

"Because the group health insurance needs of each company are so different, we must offer a great deal of flexibility and a variety of options in a dental care program," said Richard E. Sauder, president of Kemper Life Insurance Cos.

Kemper's group dental expense program can be written alone, if the group consists of 50 or more employes, or it can be included with the group life/health package, Mr. Sauder said. The policy offers a number of family deductible options, dependent coverage and no "pre-existing conditions limitations," he said.

Two basic benefit and payment choices are offered: Comprehensive or scheduled dental programs.

A sample rate for a group of 50 employes under the comprehensive plan would be $3 per employe per month and $7 per month for all dependents, Mr. Montgomery said. The benefits in this sample rate would include: $1,000 maximum yearly benefit and $2,000 maximum lifetime benefit; $50 annual deductible; employer-paid co-insurance of the reasonable and customary charges for oral exams, fluoride treatments and X-rays; employer-paid co-insurance of 80% of the reasonable and customary charges for fillings, extractions, oral surgery, endodontics and periodontics; and employer-paid co-insurance of 60% of the reasonable and customary charges for dentures and bridgework. No orthodontia work would be included under this sample rate for a comprehensive plan, Mr. Montgomery said.

For the scheduled benefit plan, based on approximately the same benefits, costs would be 22% higher, Mr. Montgomery said. He explained that the comprehensive plan, which pays a percentage of reasonable and customary charges, provides a higher level of benefits than the scheduled plan, which pays fixed dollar limits for certain dental procedures.

"It's common to have a yearly maximum benefit of $500 to $1,000 per individual with the scheduled plan," Mr. Montgomery said. With the comprehensive plan, $500 to $2,000 maximum yearly benefits per individual are the rule.

Kemper requires that the employer pay at least 50% of the dental package premium. Orthodontia is an optional benefit for either plan and usually carries a $500 to $2,000 lifetime maximum benefit per person, he said.

Mr. Montgomery said the coverage was being limited to what he called "class A employers"—those with a single location, one employer group and ideally, a "stable" workforce of 50 to 100 persons. He added that the workforce size could range from 10 employes on up but said Kemper was "leery" of a 5,000- to 10,000-employe size workforce. ■

Open new surplus lines brokerage firm

Baccala & Shoop Insurance Services, a new managing general agents and surplus line brokerage firm was opened in Los Angeles. The firm will concentrate their underwriting in the areas of excess liability on large commercial risks with high limits and on excess liability and workers' compensation with self-insured risks. Other areas to be covered by the firm include quota-share, first loss and excess of loss on large property lines such as builders risks and difference-in-conditions. William P. Baccale and Jack Shoop, the two principles, previously worked with Sayre & Toso, Inc., the special risk division of the Mission Equities Group.

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Nothing is taken for granted by the City of Memphis' risk manager

By PAUL R. MERRION

MEMPHIS—On the back seat of her car sits a battered hardhat, readily available for the occasions when Betty Conner, insurance coordinator for the city of Memphis, needs to make an inspection.

"One of these days I'm going to paint some flowers on that thing," explains Mrs. Conner. But no feminine touches are needed on the often-used safety helmet.

It symbolizes the savvy, take-nothing-for-granted practices of a risk manager who is revamping the way this city buys its insurance by calling on her 20 years of agency experience in rating risks, writing policies and placing all types of commercial lines.

"If there's anything to be done in insurance, I've done it at least once," she says. "It makes it easy to know when policies are not correct."

She also knows when an insurer is unjustifiably balking at a claim, as when an insurance company didn't want to pay damages arising from a fork-lift truck accident.

She telephoned the adjustor. "I told him, 'I know it's covered, and you know it's covered,' so he paid it," Mrs. Conner says with a grin.

And her hardhat was used often when she inspected construction risks at the city's Mid-America Mall, which cuts through the center of Memphis and will be the country's longest pedestrian mall when it is finished in October 1976.

She was asked to read and check on some of the mall's more unusual construction risks. Because she started working for the city after the project was underway, Mrs. Conner was not involved in formulating the original insurance requirements. "They would have been different if I was," she says.

A major flaw was found in the policy covering the demolition of the Justice Center to make way for the 10-block walkway. She found no coverage for collapse or underground explosion risks. "What about the gas mains?" she says she asked the agent who bid on the policy without the explosion coverage.

Mrs. Conner has had to wear many different hats since taking over the insurance reins from Gail Lail, who left the job to devote more time to her family. The post was vacant for one month before Mrs. Conner took the job in April 1974, mainly because James Blackard, manager of the real estate department and overseer of insurance operations, wanted to hire a professional to give the insurance department a risk management emphasis.

Even before Mrs. Conner doffed her underwriter's hat to become a municipal risk manager, Mr. Blackard had commissioned Warren, McVeigh, Griffin and Huntington, San Francisco, to do a complete study of the city's insurance. The study should be finished by the end of the next fiscal year, the consultant says.

Betty Conner

Hiring an experienced insurance underwriter as insurance coordinator was the first step in putting the city on a risk management basis. Compared to her predecessor, Mrs. Conner says she relies much less on the city's advisory insurance committee for example, thus making it easier for other city officials to get fast answers on insurance matters.

The Insurance Advisory Committee is "the best committee the mayor has," according to Mrs. Conner. It is composed of two local risk managers and six insurance company officials, appointed to staggered three-year terms. The chairman is the resident vp of Maryland Casualty Co., and the risk managers are from the Memphis Light, Gas & Water Co. and Holiday Inns Inc., which has its corporate headquarters here.

The committee reviews bids for insurance policies after they are screened by Mrs. Conner and Mr. Blackard. The committee's task has been easier since Mrs. Conner started working for the city. "In my time here, the committee has not disagreed with my thoughts on the bids," she says.

Revamping the Memphis insurance operations meant constant labor for more than a year; things are just beginning to settle down after her thorough housecleaning and organization. Among her tasks was consolidation of the city's boiler-machinery policies into one blanket contract that fills a spiral notebook for the policy and a three-inch-thick manila folder for a list of insured equipment. The boiler-machinery insurer is Continental Insurance Co. of New York; the policy's limit is $1 million per accident with a premium of $41,868.

Boiler-machinery insurance on the city's properties—which amount to "a good deal over $500 million," Mrs. Conner says—is an immense undertaking both for its scope and complexity. The insurance department must secure coverage for such varied risks as a $35 million convention center, a $17.5 million waste treatment plant, five hospitals, the Memphis school system, the public library and the municipal airport.

"There's no way to know the full extent of the risks to be covered," she says. So Mrs. Conner sent copies of the blanket policy to each location to check and make sure they're adequately covered.

Mrs. Conner is the first to admit that her job could not be done without cooperation from other city officials. "It's impossible to do it without putting responsibility on the departments," she says. On the city's fleet coverage, the insurance coordinator sends a list to all the storage locations every of all vehicles owned by the city two months.

Another major change made by Mrs. Conner concerned the city's

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The Memphis Mid-American Mall. Construction will be completed in Oct. 1976.

practice of distributing broker commissions. Previously, 50% of the commission on each policy would go into a trust fund, which once a year would be divided equally among all brokers and agents in surrounding Shelby County.

The system began in the late 1950s, when the city was in fiscal and political turmoil, according to Mrs. Conner. The idea was to get more input from brokers and to spread the benefits of placing insurance for the city.

But participation was slim, for the amount of reimbursement was the same whether or not an agent or a broker made an effort to secure city business.

Mrs. Conner decided to return the commission money only to those who were interested in the city's insurance. So, starting last year, she instituted a point system whereby a broker or an agent gets 25 points for making a bid, and five points merely for picking up the bid specifications, which are formulated by Mrs. Conner.

Tthe results have been encouraging, Mrs. Conner says. Of the 110 agents in the country, 51 picked up specifications for excess auto liability and 17 came in for information on the city's excess third party liability requirements. On the property coverage, 40 firms picked up specifications, and 20 bids were submitted, a substantial increase.

At the beginning of this year, $80,136.50 was reimbursed to the agents and brokers on the basis of their accumulated points. Mrs. Conner feels that the city will undoubtedly benefit from more participation and competition among its brokers.

As if overhauling a municipal insurance department isn't enough work, Mrs. Conner had to handle two major crises shortly after she assumed her post. Northwestern National Insurance Co., Milwaukee, raised the premium for the $900,000 excess fleet liability cover from $5,000 to about $28,000, followed shortly by cancellation of the city's property insurance by Unigard Insurance Co., Seattle.

"We couldn't afford it," Mrs. Conner says of the excess premium bid, "so we raised the basic coverage to $300,000 from $100,000 and dropped the excess." Fire and police vehicles are still uninsured for liability, as in the past, along with most city cars.

A group of maps with clusters of red pins points out the other major insurance problem faced by Memphis last year. The pins indicate instances of school vandalism, with the number of pins steadily increasing from the 1972 map to the 1974 map.

They stopped keeping track of losses on the maps in 1974 "because there were so many pins," Mrs. Conner says.

The 1973-1974 fiscal year was a "freak year" for losses, she admits, with school vandalism accounting for most of the $1 million in property damages suffered by the city.

In July the property insurance policy was cancelled, in the midst of the annual city council budget hearings. As a result, the council allocated an extra $200,000 to the insurance department because "we didn't know how much it was going to cost" to get property insurance, Mrs. Conner says. As it turned out, she was able to return $138,000 to the city.

Along with a "substantial increase" in premiums, the new insurer for property, Lexington Insurance Co., required a restructuring of the deductibles, says Mrs. Conner. Previously, there was a $200,000 aggregate deductible, and a $25,000 deductible per loss. The new policy carries the same $25,000 deductible for most city buildings, but the deductible on the schools is $250,000 per location, with no aggregate limit, an indication of the vandalism's severity.

But school vandalism seems to be leveling out or declining now, the insurance coordinator says. There have been no losses so far this year. Much of the increase in vandalism during 1973-1974 can be attributed to the beginning of school integration in the fall of 1973, she adds, a situation which does not seem to be upsetting people today as much as it did at first. Also, the city is installing burglar alarms in some of the more troublesome schools.

On top of the $10 million limit for property insurance carried by Lexington, the city has a $15 million excess layer with Appalachian Insurance Co. and a second excess layer for $10 million with INA. The bill for property insurance adds up to over $325,000, Mrs. Conner says. ■

Non-profit liability plan

Non-profit associations and their officials are offered a group liability insurance program which "protects against court claims for errors and omissions and acts of negligence or personal injury" by the Albert H. Wohlers & Co., based in Park Ridge, Il. Additional liability coverage for fiduciary responsibility is available. Wohlers estimates that most associations will pay about half the individual cost of the coverage.

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Connecticut law sets health plan minimums

HARTFORD—Gov. Ella T. Grasso signed into law last month the Connecticut Health Care Act, a measure she says will provide state residents with the most comprehensive health insurance coverage in the country.

The statute establishes minimum standard benefits which must be provided by all individual and group health care plans. Among the benefits which must be made available beginning April 1, 1976, is up to $1 million of lifetime coverage for catastrophic illness.

To guarantee availability of such plans, the act authorizes the formation of the state Health Reinsurance Assn. which will make group comprehensive health care plans available to resident employers.

Further, the act requires every carrier offering group health insurance in the state to make a health care plan available to every Connecticut employer of three or more employes.

A company may meet the requirements of the law by either providing its plan through a carrier or by participation in the Health Reinsurance Assn.

The association, to be supervised by the state insurance commissioner, is empowered to establish rates, administer reinsurance for members, set limits on reinsurance and issue insurance in its own name on behalf of its members.

Under the law, every group plan must make coverage available to each employe, the employe's spouse and their dependent children. The plan must also have a conversion priviledge which will give the employe the option of continuing coverage for 90 days following layoff, leave of absence or termination of employment. In case of death of the employe, the coverage must be available to the spouse and dependent children for 90 days.

The law will not effect existing group policies until the next regular renewal. ■

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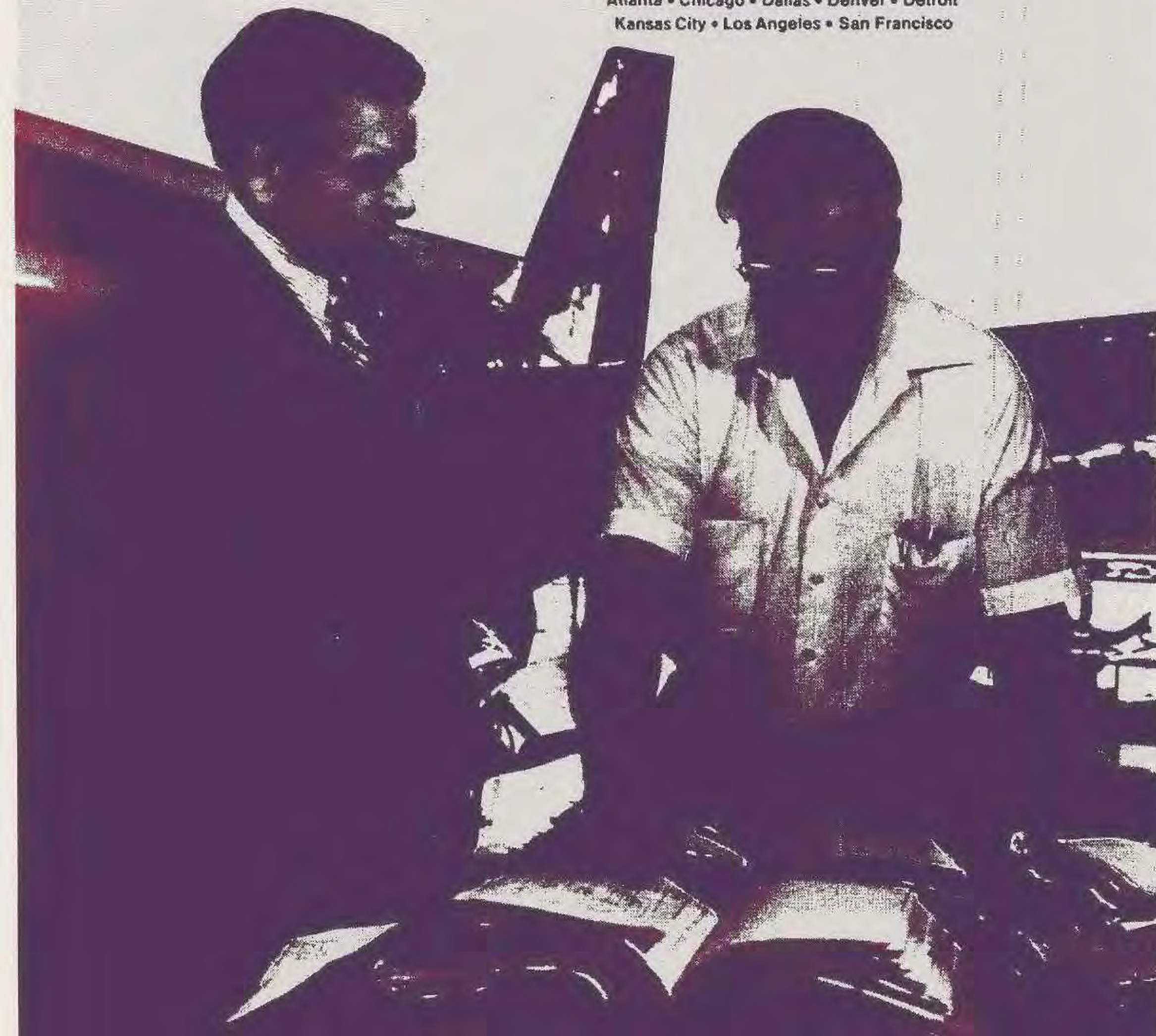

dates for buyers

Sept. 7-11: The 61st annual convention of the International Assn. of Industrial Accident Boards and Commissions will be held in Salt Lake City. Internationally recognized experts on workers' compensation, rehabilitation and occupational safety will speak, including Dr. Arthur Larson and Lord Woodhouse of New Zealand. For further details write to Harry W. Dahl, executive director, IAIABC, 5600 Grand Ave., Des Moines, Ia. 50312.

Sept. 8-11: The Educational Conference of Health, Welfare and Pension Plans Inc. will hold a regional seminar for trustees and administrators of jointly managed and unilateral funds. Problems of ERISA and related matters will be discussed at the conference site in Cherry Hill, N.J. For further details contact the conference, 432 Park Avenue South, New York, N.Y. 10016.

Sept. 8-12: A Basic Safety Management course will be held at INA Corp's International Safety Academy in Macon, Ga. Designed for the newly appointed safety person or others who wish to learn the basics of loss control, the course includes sessions on environmental health and OSHA. Tuition is $360. Write to the academy at 1021 Georgia Ave., Macon, Ga. 31204, for more details.

Sept. 16-18: The International Foundation of Employe Benefit Plans' Washington Legislative Educational Conference will be held in Washington, D.C., to give a briefing on government interest in the labor-management employe benefit trust fund field. Senators and congressmen who sponsor or support key legislative proposals, staff aides and agency spokesman responsible for formulating and administering regulations will be on hand to present their views. For more details, write to the foundation at P.O. Box 69, Brookfield, Wi. 53005.

Sept. 17-19: Group Dental Benefit Plans will be the subject of an American Management Assn. workshop in Chicago. A team of knowledgeable speakers—including employe benefit managers and insurance company representatives—will explain the complexities of various plans: scheduled, comprehensive, major medical and others. For more information, write to the AMA, 135 W. 50th St., New York, N.Y. 10020.

Sept. 25-26: Hay Associates and Huggins & Co. Inc. will co-sponsor a seminar on Communicating Compensation and Benefit Programs, to be held in Philadelphia. Attendance cost is $225. For further information, contact Joseph A. Banik, Huggins & Co. Inc. 1401 Walnut St., Philadelphia, Pa. 19102.

Sept. 27-Oct. 1: Employe Benefits: The Challenge—Private or Public Domain? will be the theme of the Eighth Annual Conference of the International Foundation of Employe Benefit Plans, to be held in Vancouver, British Columbia. Workshops will be offered on legislation relating to employe benefits, union/management negotiation of contributions, union/management negotiation of benefits and the future of dental benefits. Additional information can be obtained from Edward D. Zacharko, president, Funds Administrative Services, 2204 Imperial Oil Building, 10025 Jasper Ave., Edmonton, Alberta, T5J 1W2.

Oct. 9-11: The 29th Annual Conference on Employe Benefits, sponsored by the Council on Employe Benefits, will be held in Chicago. National health insurance, Social Security, union views of employe benefits and retirement planning will be among the topics.

Oct. 12-15: With "The Pension Revolution" as its theme, the seventh annual conference of the American Society of Pension Actuaries will be held in Washington, D.C. Nearly 1000 pension actuaries will meet to discuss the impacts and shortcomings of the pension reform act. Registration fee will be $160 for members; $175 for nonmembers. Write to Joseph P. Leary, executive director, A.S.P.A., 1028 Connecticut Ave., Suite 1121, Washington, D.C. 20036.

Nov. 3-5: The National Insurance Conference, sponsored by the American Management Assn., will be held in New Orleans. It will be divided into two sections: general insurance and employe benefits. For further information, contact John Devitt group program manager, AMA.

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Expect late summer vote on Senate no-fault bill

WASHINGTON—The 1975 version of no-fault auto insurance legislation is on its way to the Senate floor for a vote probably late this summer.

The Senate passed a similar, but not identical, bill last year by a vote of 53 to 42 (*Business Insurance*, May 14, 1974). This year's bill is also expected to be approved.

Only three members of Sen. Warren G. Magnuson's Senate Commerce Committee were opposed to the bill when the committee voted to favorably report it to the full Senate.

The dissenters were Sens. Vance Hartke (D-In.), Ernest F. Hollings (D-S.C.), and James L. Buckley (Conservative—N.Y.).

Action on no-fault in the House of Representatives stalled last year, but the House Consumer Protection Subcommittee has been holding hearings on no-fault and expects to begin writing its own legislation on the subject by September.

House sources were predicting that a no-fault bill, similar to the Senate legislation, will be reported out this year by the House Interstate and Foreign Commerce Committee and stands a good chance of favorable action by the full House.

Last minute jockeying for position on the Senate side of the Capitol produced some lobbying wins for the American Insurance Assn. (AIA), auto insurance agents, and Attorney General Edward Levi.

The losses go to the American Trucking Assn., (ATA) and perhaps to the Blue Cross-Blue Shield organization, who saw their positions weakened somewhat in the final version of S. 354 as reported by the committee.

The Senate bill had raised some constitutional questions at the Justice Department because it imposed a set of federal minimum standards on the traditionally state regulated insurance industry.

To lower the federal profile in the eventual no-fault system, the committee cut back the powers it had given the Secretary of Transportation in the 1974 bill and proposed a new independent agency —the No-Fault Insurance Plan Review Board.

The new board will take over what had been the Transportation Secretary's sole authority to pass judgment on the adequacy of state no-fault plans to meet the federal minimum requirements for coverage established by the act.

The Transportation Secretary will remain as chairman of the proposed board, but the four other board members "will have an orientation toward state interests," according to the committee.

The President would appoint the four members, but nominations would come from the National Governors Conference and the National Assn. of Insurance Commissioners.

The other area of constitutional uncertainty concerned the federal government's authority to compel recalcitrant states to operate no-fault plans.

The compliance deadlines in the 1975 bill give states that have no-fault laws on the book by Sept. 1, 1975, four years to bring those plans into compliance with the new federal standards.

For states that don't meet the September 1 cutoff, a program meeting the standards must be in effect within nine months of the close of the first regular legislative session that starts after the enactment date of the new federal law.

The 1974 bill gave the federal government the power to compel states which don't meet those deadlines to operate a federal minimum standards program at the state's own expense.

"Such a state would be required to employ its own agencies and employes to administer and implement directly an act of Congress," the Senate committee noted. "This imposition of affirmative duties on the states has been heavily criticized as unwise and or unconstitutional."

The 1975 bill states that the federal government will operate such programs, as its own expense, unless the states voluntarily agree to take on the cost.

Another significant change in the bill, as reported by the committee, concerns the question of subrogation of claims between passenger vehicles and heavier vehicles such as trucks.

The committee's decision on this question may well cost the bill the support it has had so far from the American Trucking Assn.

The ATA has backed a "pure" no-fault concept, one that would not single them out for special treatment because of the fact that the heavier weight of trucks is more likely to cause serious injury in an accident with a passenger vehicle.

The bill as filed this year provided that subrogation of claims in truck-car accidents would only take place when benefits paid were in excess of $5,000. The Senate committee slashed that figure to a $100 threshold.

That was a "major worsening" of the bill in the eyes of ATA, the association's vp and general counsel, Peter Beardsley said.

"If we get a reduction in insurance rates, it's a 'windfall,'" Mr. Beardsley complained. "If the car owner gets something, it's a 'savings.'"

The truckers may turn lukewarm on no-fault now, but Allstate Insurance Cos., already luke warm about the federal standards move, found the subrogation decision one of the few good things to applaud in the bill.

An Allstate spokesmn criticized the bill as still being too expensive, but noted "commercial vehicles will now bear their fair share of losses."

In another compromise—one which should keep the American Insurance Association lined up behind the bill—the Senate committee sidestepped the controversial issue of primacy. That is the question of whether auto insurance or health insurance should be the primary payer of benefits under no fault.

The final committee version of the bill says the question should be investigated, but on the state level. The AIA strongly backs auto policies as the primary coverage for all no-fault benefits.

A rejected alternative proposal had directed state insurance authorities to allow health insurance to be primarly. It allowed auto policies to be primary only if state authorities found it to be in the best interests of the consumer.

"That proposal was just too stacked against us and not one we wanted to battle in every state and every insurance department," an AIA official said. ■

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Simplified report form is proposed by PBGC

WASHINGTON—A revised and simplified Premium Payment Declaration/Annual Report Form has been proposed by the Pension Benefit Guaranty Corp. (PBGC) for use by the defined benefit pension plans covered by the Employe Retirement Income Security Act.

PBGC simplified its filing requirements by combining the estimated and adjusted premium payments and the annual report requirements into one package with flexible filing options.

The form provides for payment of the estimated premium for the second full plan year beginning on or after Sept. 2, 1975. The form also provides for a premium adjustment to reconcile the difference between the estimated premium previously paid and the actual premium, which is due within one year and 30 days after the end of the plan year (on the same due date for the estimated premium for the second full plan year.)

In using this form, plan administrators are not required to make computations for interest or late payment charges. PBGC will bill the plan directly for such charges, if any, after the premium declaration has been received.

The revised form, still known as PBGC-1, may also be used for satisfying the annual report requirements if none of the reportable events or other events requiring notice to PBGC have occurred during the first full plan year which began on or after Sept. 2, 1974.

Reportable events under the law include:

- An amendment to the plan that decreases benefits;
- A decline in the number of active participants to less than 80% of the number at the beginning of the plan year;
- A failure to meet minimum funding rules;
- A merger, consolidation, or transfer of plan assets.

If reportable events or other events requiring notice have occurred, then the annual report must be submitted on Form PBGC-1A, which is due within six months after the end of the plan year.

The form will be mailed to administrators when it is finalized. ■

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Chicago risk seminar

A three-day, advanced risk management seminar will be offerred in Chicago by the University of Dallas from Nov. 17 to 20.

The seminar, whose theme is "frontiers of risk management," includes analysis of data needed for an effective risk management presentation, comparison of views regarding risk management expense projections, analysis of proper quantitative methods in risk management, communication of risk management to others and exploration of potential "frontier" areas.

Tuition for the course is $300 and 30 participants will be the maximum number admitted to the seminar, which will be held at the Conrad Hilton Hotel. Deputy members of Risk & Insurance Management Society (RIMS) are entitled to a special tuition rate.

For further information, write to Prof. Bruce Evans, University of Dallas, Management Laboratories Of America Inc., Irving, Tx. 75061, or phone 214-438-1123, ext. 330.

New cover available for turbine-powered jets and helicopters

CHICAGO—Industrial and commercial concerns which operate their own fleets of turbine-powered jets or helicopters can now buy gas turbine insurance coverage that was previously unavailable.

The product, introduced in June by broker James S. Kemper & Co., is not new from a technical viewpoint. Gas turbine coverage has been around for years. But before, a Kemper spokesman said, only stationary gas turbines would be considered for coverage. The departure in this insurance is its application to general aviation situations.

Commercial airlines and operators of charter services, like those offering helicopter shuttle service between airports, are excluded from the insurance.

However, for firms needing to insure corporate fleets of as few as two aircraft, this "turbine reliability" coverage can be written without a deductible to protect against mechanical failure of engines, a provision typically excluded from hull policies.

The turbine policy includes the internal failure of any section of the engine or any of its internal components "coming in two parts." Its first-party physical damage protection also covers engine overheating.

Presently, standard limits are running at $250,000 for each engine unit insured, although higher limits can be individually negotiated.

Royal-Globe Insurance Co. of New York was the first carrier to work with James S. Kemper in agreeing to underwrite the turbine coverage. By mid-July, however, Kemper was negotiating with several other insurers who also expressed interest in writing the coverage.

Bernard J. Sullivan, a Kemper vp, emphasized that the policy is not intended to take the place of aircraft warranties. He said the contract contains a provision that to the extent a warranty applies, a deductible applies.

Policy rates will also vary by the value of the engine and the time it has logged. For instance, a deductible will also apply until an engine has 100 hours of completed flight time.

Mr. Sullivan, commenting on his organization's decision to offer the product, said gas turbines in helicopters and planes appeared to be a comparatively good risk, since under Federal Aviation Administration rules they are usually much better supervised than stationary gas turbines.

The company pointed out that while standard hull policies exclude mechanical failure, this frequently constitutes the largest exposure, since engines are so costly to repair or replace. ■

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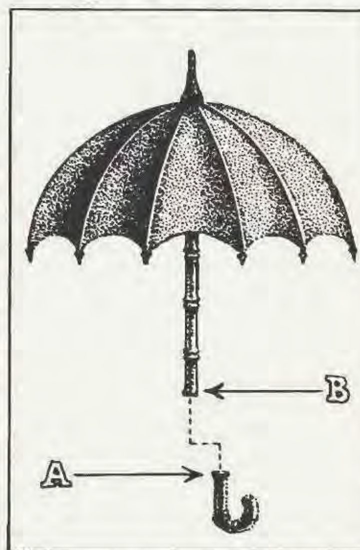

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Rules in Anaconda's favor in OPIC dispute

WASHINGTON—An arbitration panel ruled in favor of The Anaconda Co. in that company's dispute with the Overseas Private Investment Corp. (OPIC) over the 1971 expropriation of two of its Chilean mining properties.

Anaconda had filed claims seeking $154 million from OPIC, but the actual amount the company will be paid is to be determined in another round of arbitration. OPIC said its insurance reserves now amount to $175 million.

OPIC had originally denied the claim on the ground that Anaconda's investments in the Chuquicamata and El Salvador copper mines were nationalized in 1969 when Anaconda's insurance coverage was not in effect.

Anaconda sold the two mines to Chile in 1969 under the threat of nationalization, OPIC said. At the time of the sale, Anaconda had no current insurance coverage, but only standby insurance.

Standby insurance gives the investor the option to activate coverage at a later date, but does not provide protection in the interim, OPIC said. It carries a much lower premium than current coverage.

OPIC President Marshall T. Mays said, "Our denial of Anaconda's claims was consistent with a 1969 determination by OPIC's predecessor agency, AID, that Anaconda had no right to insurance coverage after it had sold its interests in the two copper mines to the government of Chile in 1969 under the threat of nationalization legislation.

"Naturally, we are disappointed in the decision of the panel," he said, "however, OPIC intends to proceed promptly to a determination of the amount of its liability."

Anaconda already received $11.9 million from OPIC in September, 1972, for the expropriation of its Exitica copper mine in Chile, a property not involved in this proceeding.

OPIC, a government corporation, writes coverage for expropriation, inconvertibility, and war risks on U.S. corporate investments in certain foreign nations. ■

Balance is needed between wages and pension benefits

DENVER—Workers should be advised against taking too much of a negotiated raise in current wages rather than in contributions to their pension plans, a consulting actuary told a meeting of employe benefit fund advisors.

"Younger workers should understand that the same force which causes them to seek higher current wages—inflation—also increases the need for higher pension benefits," said Martin Stempel, vp of Dan McGinn & Assoc. Inc., Los Angeles.

He addressed the annual Fund Advisors Institute of the International Foundation of Employe Benefit Plans here.

On the other hand, increasing pensions to offset inflation should not be done "at too great an expense to active employes,". Mr. Stempel said. "Trustees must give more thought to the allocation of new pension contributions between past and future service."

Mr. Stempel warned that "younger workers often have chosen high cash income over higher pension plan contributions. And this works to the detriment of those employes approaching retirement." ■

County notes self-insurance cost savings

SACRAMENTO, CA.—A self-insurance program covering property, general and automobile liability for Sacramento County has netted a cost savings of $273,000 in its second year of existence, revealed Vincent Pisani, risk manager. He said this is a conservative estimate.

However, Mr. Pisani told *Business Insurance* that first year cost savings were somewhat greater or approximately $325,000.

He explained that his cost reduction estimates are based on 1973 premium figures. Mr. Pisani cautioned that those figures should be regarded warily because, as everyone knows, municipal liability premiums have been streaking upward in the last few months.

Arthur J. Gallagher & Co., Chicago, is the broker for the self-insurance program which was initiated in 1973. Mr. Pisani pointed out that the brokerage firm was selected because, on the advice of the consulting firm of Warren, McVeigh, Griffin & Huntington, the county requested local and national brokerage firms that year to outline how they would handle the county's insurance business.

The brokers also were asked to reveal the service fees, net of commissions, they would charge for brokering, field claims work and safety engineering services.

Mr. Pisani said that the first year of the program resulted in a total cost of $531,000 compared to a previously fully insured cost of $810,000. Total cost for the second year was $577,000, he said, explaining that the increment was caused by the need to cover new exposures and the fact that the courthouse coverage increased by $5 million.

The cash flow springing from the self-insurance program created payouts for the first 27 months of $184,583 versus reserves for losses of $364,000.

"And that money is still with Sacramento County, drawing interest for us," underscored by risk manager. ■

Partnership dissolved

The consulting firm, Betterley Assoc., announced a dissolution of the partnership between George M. Betterley and Delbert A. Betterley on August 1. In its place two new firms were formed. D. A. Betterly Risk Consultants is located in Worcester, Ma. and George Betterley Consulting Group is in Boston.

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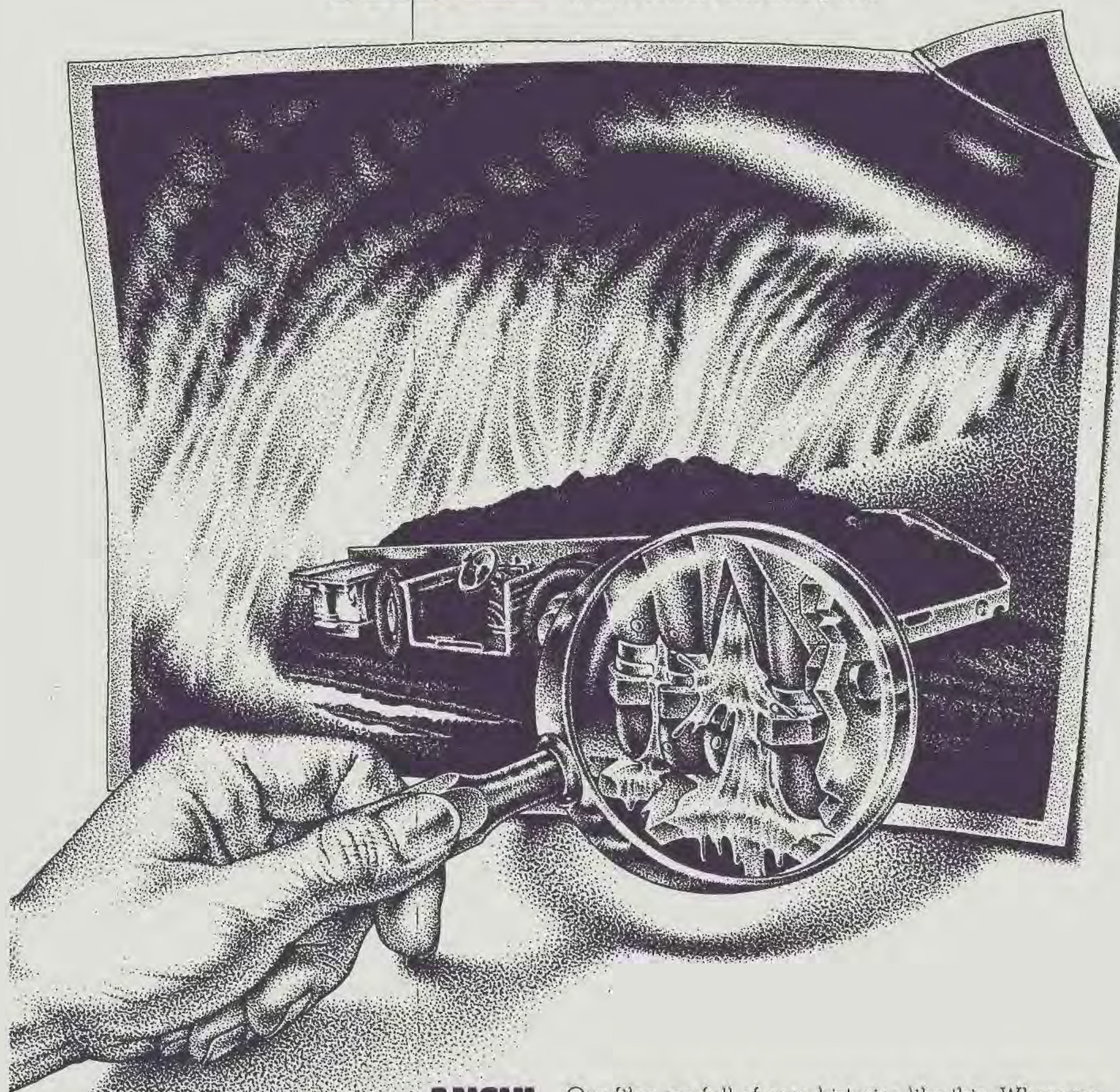

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people

Pennsylvania appoints Delia first risk manager

THE STATE OF Pennsylvania named **Joseph R. Delia** director of the bureau of risk and insurance management, a "greatly upgraded position" from the former state position of director of insurance, according to a spokesman. The search for the Harrisburg-based position has been underway for seven months. Mr. Delia manages a 10-person department and is responsible for property/casualty insurance, employe benefits coverage and loss prevention programs, which total $10 million in annual premiums for the state. Self-insurance will be considered also. He reports to the secretary of the department of property and supplies. The former department secretary and director of insurance were convicted of receiving kickbacks on state insurance purchases in the spring of this year. A study completed in January by the Pennsylvania Economy League, a non-profit, business-supported organization, recommended that a risk manager be appointed. Mr. Delia formerly was director of insurance for the Finsure division of Studebaker-Worthington Inc., New York. The position is still open.

* * *

President Ford appointed **Frank R. Barnako** chairman of the Occupational Safety and Health Review Commission, effective August 5. Mr. Barnako retired from Bethlehem Steel Corp. on July 31 as manager of safety and workers' compensation. In his new position as head of an independent federal agency, which is a six-year appointment, Mr. Barnako reports directly to President Ford. He replaces **Robert Moran** as chairman, though Mr. Moran remains a member of the commission. Mr. Moran had received criticism from labor and business groups for the way he conducted the commission's appeal reviews of Labor Department citations. Replacing Mr. Barnako at Bethlehem is **Thomas E. Kobrick**, formerly assistant to the manager of safety and workers' compensation.

* * *

Nabisco Inc., New York, announced the election of **Edward J. Matthews Jr.** to corporate treasurer. Formerly, he was assistant treasurer. Mr. Matthews, 41, replaces and continues to report to **C. Richard Owens**, who was promoted to vp-finance. Mr. Owens takes over that position from **Warren J. Robertson**, who was made senior vp. Mr. Matthews, who has an MBA and is a CPA, is responsible for all divisions of the treasury department including insurance.

* * *

John A. Beckman, a CPCU and member of the Illinois bar, left his position as insurance manager at Ceco Corp., Chicago, to become an associate with T. E. Brennan Co., a Milwaukee-based insurance consulting firm. Ceco Corp. is still looking for a replacement for Mr. Beckman, who recently took the Wisconsin bar exam. At T. E. Brennan, Mr. Beckman is responsible for a full range of consultive services for the accounts assigned to him.

* * *

J. C. Penney Co., New York, announced two promotions in their benefits department. **R. I. Messinger** was named manager of benefits and heads up a new division combining the former benefits planning and development division with the benefits administration division. He previously was benefits administration manager. **Robert G. Bivona** was named benefits administration manager in the corporate offices. He formerly was assistant director of personnel for Supermarkets Interstate, a subsidiary. Both men report to the director of compensation and benefits.

* * *

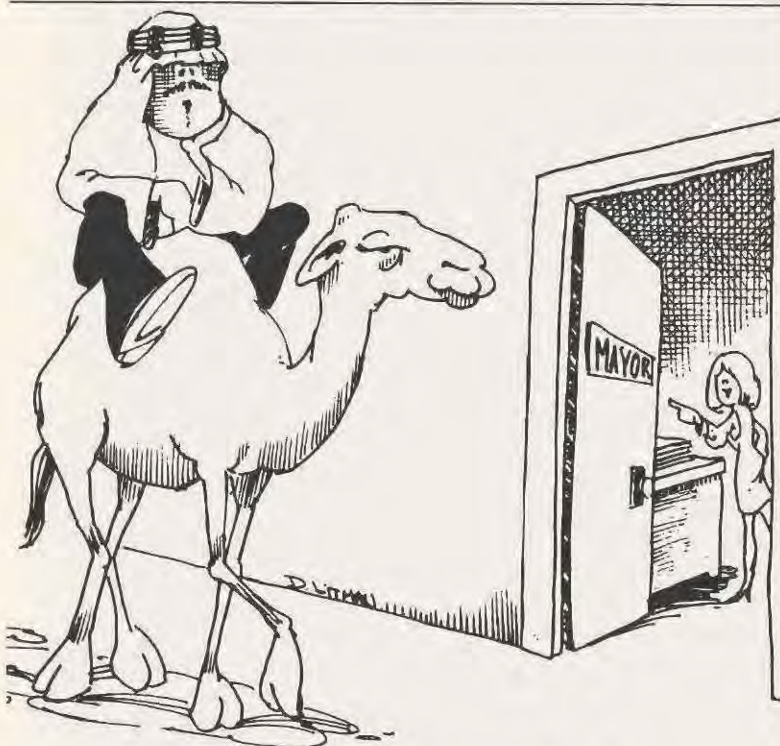
John Otto Nees, corporate director of insurance for American Broadcasting Cos., New York, died August 2, it was announced. No one has been named to replace him. Mr. Nees was responsible for property/casualty and employe benefits coverage, as well as safety programs. A CPCU, Mr. Nees was a member of the board of directors of the Risk and Insurance Management Society and lectured at the College of Insurance and the American Management Assn.

* * *

Burton J. Carbino Jr. was elected vp of Irving Trust Co., New York, the nation's 13th largest bank. Mr. Carbino, who joined the bank on August 1, is special assistant to the executive vp and will develop a "risk management program in the broadest application," he told *Business Insurance*. Part of his job will be to develop and further define the risk management function within the banking structure. Mr. Carbino was risk and insurance manager for Schlumberger Ltd., New York, from 1968 to 1975. No one has been named to replace him there yet, he said. From 1964 to 1968, Mr. Carbino worked for the Travelers Insurance Co. He served as national vp of RIMS.

* * *

Kraft Foods, Chicago, named **Raymond Sutkowski** as employe benefits administrator, a newly-created position. He reports to the employe benefits and personnel information manager. Mr. Sutkowski's responsibilities include analyzing and communicating benefits more effectively as well as making recommendations for benefit changes, according to Richard Emerson, his boss. Mr. Sutkowski formerly was personnel manager for Tatham, Laird & Kudner advertising agency. ■



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BALTIMORE—When you drag your decorator into court for installing that prisonyard-grey rug in your office after you ordered brilliant magenta, chances are the interior designer will be insured for up to $300,000.

Professional liability insurance for interior designers has been available for a couple of years. Only recently, however, a firm here has begun an aggressive marketing campaign to sell the product.

In a four-day period alone, Schoenfeld Insurance Associates reported answering queries about the product from more than 100 interior design firms. Henry F. Schoenfeld, CPCU, is acting as program administrator for the insurance, being provided by American Home Assurance Co., under the sponsorship of the American Society of Interior Designers (ASID).

Aggregate limits available are $300,000. Limits per claim are $100,000, and a $500 property damage deductible applies. While the minimum premium for the designers' insurance is $200, the amount will range depending on the number of persons to be insured, and the individual insured firm's gross sales and gross receipts.

The policy provides legal defense of lawsuits and payments of all sums, up to the contract limits, that designers could become legally obligated to pay as damages arising out of their professional performance. The liability may be caused by errors, omissions or negligent acts of the designer or anyone for whom the designer is legally responsible. ■

Stewart Smith East

The East Coast operations of Stewart Smith, including Stewart Smith Aviation Inc., Stewart Smith Management Corp., Stewart Smith Marine, Managers Inc. and Stewart Smith Treaties Inc. have been reorganized under a new single corporation known as Stewart Smith East Inc. Headquarters of the new company are at 116 John St., New York.

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