

# business insurance

## update:

### Additional \$50 million added to DC-10 fund

LONDON—Insurers for American Airlines are adding another \$50 million to the liability fund covering claims from the 1979 DC-10 crash in Chicago, but insurers for McDonnell-Douglas Corp., the plane's manufacturer, won't be contributing this time.

An out-of-court settlement between the two companies states that American's in-

*Continued on next page*

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$30 a year

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What's the risk pictured here?  
Answer: Page 3

Photo: Moline Daily Dispatch

## Federal ruling permits ERISA control of METs

By JERRY GEISEL

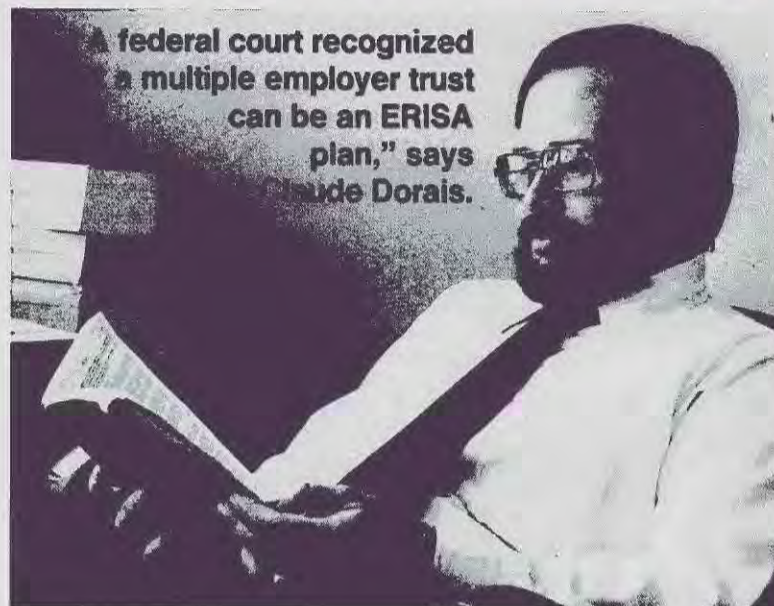
LOS ANGELES—Employers can band together in a trust arrangement to self-fund employee benefits as an employee benefit plan covered by ERISA and exempt from state regulation, a federal judge has ruled.

The first federal court ruling to concede that any self-funded multiple employer trust can qualify as an ERISA plan came July 24 when U.S. District Court Judge Robert Takasugi dismissed a 2-year-old suit by Insurance & Prepaid Benefit Trusts.

That self-funded MET in Tustin, Calif., had sued to require the U.S. Department of Labor to recognize that IBT is an employee benefit plan under ERISA.

In dismissing the suit, Judge Takasugi made it clear that an association set up by employers for a specific purpose, such as self-funding health insurance benefits, can be considered an ERISA benefit plan. However, he said IBT didn't meet all the qualifications to pass that test.

"The significance of this case is



A federal court recognized a multiple employer trust can be an ERISA plan," says Claude Dorais.

that a federal court has recognized that a multiple employer trust like IBT can be an ERISA plan, a proposition that regulatory agencies have not been willing to accept," said Claude Dorais, a Los Angeles

attorney who represented IBT in the lawsuit.

"We lost the battle, but won the war," added Thomas Wilkie, IBT administrator. "We're disappointed

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## Risk Retention Act could be law soon

By JERRY GEISEL

WASHINGTON—The two-year push for federal legislation to help manufacturers solve product liability insurance problems finally may succeed in Congress this month—in time to help with the next insurance crunch.

The proposed Risk Retention Act, which would allow manufacturers to self-fund their product liability risks in groups exempt from most state regulation, cleared two legislative hurdles last week. It was approved without opposition by the House of Representatives and the Senate Commerce Committee.

Only Senate passage stands in the bill's way, since the Reagan administration has already endorsed the bill.

"If passed, the Risk Retention Act would help allay the product liability problem and encourage industry to be more productive and innovative," Commerce Secretary Malcolm Baldrige said. "These are twin goals we all share."

Insurance industry opposition has been quelled by substantive revisions to the act as

originally proposed in 1979.

With no apparent opponents, backers of the legislation, H.R. 2120 and S.1096, say that final congressional approval may come before the August recess.

"We hope the Senate acts quickly and sends the bill to President Reagan before the August recess," said Dirk Van Dongen, president of the National Assn. of Wholesalers-Distributors, a major force backing the product liability pooling legislation.

First introduced in the wake of scarce markets for product liability insurance, the Risk Retention Act has languished in Congress under opposition from the insurance industry and disinterest among some congressmen. In the meantime, product liability insurance became available at cheaper prices. Although the competition among insurers to underwrite all types of insurance has removed the immediate need for the bill, supporters want the act in place should insurance prices go up again.

The bill is moving now because all the major problems have been resolved, said Les

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## City raids loss reserves to reduce budget deficit

By RHONDA L. RUNDLE

SAN JOSE, Calif.—Over the strong objections of its risk manager, the fourth-largest city in California is raiding its self-insured loss reserves for \$3.8 million to reduce a budget deficit.

Diverting loss reserves for general budget use has been feared by public agency risk managers who see their officials scrambling to cover costs with reduced tax revenues.

The San Jose City Council decided to funnel nearly half of the \$8 million in general and automobile liability loss reserves into the 1982 fiscal budget, but didn't touch the \$12 million workers compensation loss fund.

"The city's elected officials saw a large pool of money sitting idly by and no tangible sacrifice to be made by drawing on it," says Edward J.L. Stevens, San Jose's risk manager since January.

Self-insured loss reserves are under heavy pressure in California public agen-

cies as city officials search for ways to make ends meet since the state's Proposition 13 drastically reduced tax revenues. It's the first time self-insured reserves have been diverted for general budget use, say risk managers in other California public agencies, but they aren't surprised by the San Jose council's action.

Mr. Stevens, however, was especially disturbed that the council moved so quickly that he had no chance to purchase aggregate stop-loss insurance or to investigate the possibility of retroactive insurance, for which his broker says there is a market.

The \$8 million reserve for self-assumed general liability losses has accumulated over eight years through appropriations by the city. Since the mid-1970s, San Jose has steadily increased its self-insured retention levels to \$950,000 per claim under \$25 million of layered excess insurance.

"It would not take many large settlements to wipe out the \$4 million remain-

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# update:

## \$50 million added to fund

Continued from previous page  
 insurers pay 75% of liabilities costs and McDonnell-Douglas' insurers pay 25%, according to one of the reinsurers of the American policy (BI, May 4).

Insurers for McDonnell-Douglas won't pay in this time under the terms of the settlement.

American's direct insurers have been asked to put up letters of credit for \$50 million instead of pouring cash into the fund set up at Citibank in New York. However, some reinsurers have been asked to pay in cash, but they've been assured that they will receive interest on their money until insurers cover their letters of credit.

Some 130 of the 275 claims in the case have been settled.

## Cayman Re, Muir sued

NEW YORK—Cayman Islands Reinsurance Corp., the only publicly held reinsurance company in Cayman, and John Muir & Co., Cayman Re's stock underwriter, have been accused of scheming to use the funds from Cayman Re's \$4.8 million public offering to buy shares in new issues underwritten by Muir.

The suit, filed by Nancy Spector, a Cayman Re shareholder, contends that the firms violated securities laws by issuing a false and misleading prospectus and by employing devices to defraud.

Proceeds from Cayman Re's stock offering were invested in several companies underwritten by John Muir, including Basic Earth Science Systems Inc., Security America Corp., Brady Energy Corp and Aneco Reinsurance Co.

Cayman Re, Muir and Federated Reinsurance Co. recently were sued by Aneco Re, a reinsurer based in Bermuda and a Muir client (BI, July 20). The suit claimed the three companies plotted to acquire Aneco.

Ms. Spector's suit claims that Cayman Re's offering was conditioned on its agreement to purchase other securities brought to market by Muir.

## 17 more Hyatt claims filed

KANSAS CITY, Mo.—Seventeen additional lawsuits have been filed in federal and state courts since July 23 in connection with the July 17 Hyatt Regency Hotel disaster (BI, July 27).

Two new suits were filed in U.S. District Court in Kansas City. A \$2 million suit was filed on July 23 by the wife and two children of William Longmoor, who was killed in the disaster. On July 24, the wife and children of Roger Grigsby filed a \$10 million suit.

A total of five suits have been filed in federal court as of July 29.

Fifteen additional suits have been filed in Jackson County Circuit Court since July 23, bringing to 20 the number of actions filed in that court since the catastrophe.

## Biannual COLA increases cut

WASHINGTON—The biannual cost-of-living increases added to the pension benefits of retired federal employees and military personnel will be cut to once a year, under legislation approved by House-Senate conferees. The cutback is expected to save the federal government more than \$1 billion in retirement costs.

## Fremont sued by former exec

LOS ANGELES—F. Nelson Chaffin, a former executive of Fremont General Corp., is suing the insurance holding company, claiming it defrauded some association policyholders out of workers compensation premium dividends.

Mr. Chaffin alleges he was fired for attempting to investigate a company policy of withholding dividends from group policyholders that switch insurers. The suit, filed in Los Angeles Superior Court, seeks \$100,000 in general and \$2 million in punitive damages.

## Asbestos trials may start soon

SAN FRANCISCO—California Supreme Court Justice Rose Bird will appoint a trial judge in the next three weeks to hear four coordinated asbestos cases, predicts Victor B. Levit, attorney for The Travelers Insurance Co (BI, April 13).

The court also is expected to rule on alignment of parties, a crucial decision in coordinated cases. Most of the parties in these cases, involving disputed claims liability, favor a division pitting insurance companies against policyholders.

Both sides may file challenges to the appointment of the coordination trial judge, according to rules set by the court. A final selection is expected before September with pretrial hearings likely to begin 30 days thereafter.

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# Court says drug makers don't have to warn public

By JERRY GEISEL

COLUMBUS, Ohio—Makers of prescription drugs need only warn a doctor, not the patient, of risks associated with their products, the Ohio Supreme Court has ruled.

In a case involving a manufacturer's responsibility to provide product warnings, the state's high court also said there must be a link between the failure to warn and the specific injury as it dismissed a \$2 million product liability suit against pharmaceutical giant G.D. Searle & Co. of Skokie, Ill.

In overturning an appellate court decision, the court said a manufacturer of prescription drugs satisfies its duty to warn of risks associated with the product by providing warnings to doctors and not to consumers.

"This is a very important decision," said Searle attorney David Greer of Bieser, Greer & Landis in Dayton. Manufacturers' liability would have been substantially increased if the Supreme Court had not reversed an appeals court decision increasing the manufactur-

ers' duty to warn the consumer, he added.

Plaintiff's attorney Jane M. Grote of Dismore, Shohl, Coates & Deupree of Cincinnati is disappointed with the decision. "We feel a drug company should directly warn consumers of possible risks," she said.

"This would offer more protection to consumers."

The case dates back to 1968 when 21-year-old Angela Seley received a prescription from her Belleville, Ill., gynecologist for Ovulen, a birth control pill made by Searle.

Later that year, Mrs. Seley and her husband moved to Erie, Pa., where another physician renewed her Ovulen prescription.

In February 1970, Mrs. Seley stopped taking Ovulen and became pregnant. The same year, the Seleys moved to Tulsa, Okla.

During her pregnancy, Mrs. Seley developed toxemia or blood poisoning, a condition that can cause the blood pressure to soar. Mrs. Seley received medication and her blood pressure returned to normal.

In 1972, a year after giving birth to a boy, Mrs. Seley

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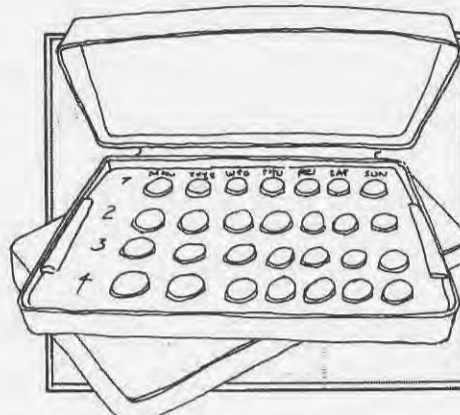


Illustration: Leslie Gignilliat

# 68,000 to share Chrysler profits

Chrysler Corp. last month reported its first quarterly profit in several years, and employees are hoping the automaker keeps up the good work.

Some 68,000 United Auto Workers members employed by Chrysler in the United States and Canada will participate in a new profit-sharing plan. They will receive a \$50 payment on Oct. 16 as the first step in the plan.

The plan, which must be approved by the federal Chrysler Loan Guarantee Board, will provide compensation to qualified employees in 1983 based on the company's 1982 profits.

Eligible employees will share an amount equal to 15% of Chrysler's 1982 profits in excess of 10% of the company's net worth in 1982.

A UAW spokesman provided the following example of how the formula works, based on an assumption that Chrysler makes a \$200 million profit this year and ends up with a net worth of \$800 million:

- Chrysler profits in excess of 10% of net worth would equal \$120 million.
- 15% of that figure is \$18 mil-

lion, which will be shared by the eligible employees.

An employee must work during at least 13 pay periods in 1982 to qualify. The more he works, said the spokesman, the greater share of the profits he will earn.

Employees will receive their profit-sharing compensation in the form of Chrysler stock or as a credit toward the purchase of a U.S. or Canadian vehicle at the

rate of \$1.50 for each \$1 share.

Employees will not receive cash as part of the plan, the spokesman said, and it has not yet been determined whether the employee will be able to cash in the stock.

Chrysler also maintains an Employee Stock Ownership Plan for its union and non-union employees. The spokesman did not know if the two plans would be coordinated.

## Pension tax write-offs OK'd

By JERRY GEISEL

WASHINGTON—Employers will be able to encourage employees more to share in the cost of retirement benefits now that Congress has approved tax deductions for employee pension contributions.

As part of the massive tax-cut legislation, both the House and the Senate voted last week to give employees covered by pension plans a choice, beginning Jan. 1, of receiving a tax deduction for voluntary contributions to a corporate plan or to an Individual Retirement Account.

Under the current law, an employee covered by a corporate pension plan is not allowed to set up an IRA. In addition, tax deductions are not allowed for employee contributions to employer-sponsored

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# Court says stress benefits apply only to job pressure

By CAROL G. BLITZER and EILEEN NORRIS

PORTLAND, Ore.—Workers in Oregon seeking compensation for job stress now will have to prove their disability was caused by pressures they wouldn't ordinarily encounter off the job.

A state Supreme Court decision earlier this year established a new standard for determining eligibility for stress-related workers compensation benefits under the state's occupational disease statute.

Now, the state Workers Compensation Board must apply the new standard in six cases remanded back by the high court in its decision. The first decisions are expected within two months.

The effect of the standard established by the court decision, employers and insurers say, will be to dismiss frivolous occupational disease claims involving stress that may have been generated or compounded at home or outside the workplace. Oregon now has the highest workers compensation rates in the nation.

Some sources say the Jan. 20 Supreme Court decision doesn't establish a new standard but merely reaffirms the intent of a statute that had been liberalized and misinterpreted in earlier decisions.

The major case cited in the court's decision was Dianne L.

Continued on page 29



Illustration: John Sandford

# Ban on cost containment won't stop Blues efforts

By JOHN MAES

CINCINNATI—Blue Cross/Blue Shield officials say its cost-containment programs around the country will not be threatened by a court ruling that ordered one of its plans to suspend five such programs in 86 Ohio hospitals.

Hospital Care Corp., a Blue Cross plan based in Cincinnati, has withdrawn the disputed programs and will pay some \$200,000 in denied reimbursements to the hospitals after a court ruled the programs were a contract violation.

Blue Cross, which said it was operating under a 1976 mandate of the Ohio Legislature to show good faith in health care cost containment, will attempt to negotiate various cost-containment programs separately with the hospitals.

The court ruling, handed down this spring in Hamilton County Common Pleas Court,

stated that Blue Cross breached its contract with the hospitals by unilaterally implementing the cost-saving programs in November 1980.

However, BC/BS attorneys in Chicago said the situation was "peculiar to Ohio" and does not pose a threat to cost-containment efforts elsewhere.

The plans have not unilaterally set up programs in any states other than Ohio, they said.

Jewish and Bethesda Hospitals in Cincinnati filed the lawsuits challenging the Ohio programs.

The cost-containment measures included denial of payment for room and board for plan members admitted to hospitals on weekends unless doctors could show why the weekend admission was necessary. Reimbursement for dental care admissions also was eliminated.

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# City jumps into trouble with safety bag

By EILEEN NORRIS

MOLINE, Ill.—Sometimes it doesn't pay to jump into things feet first.

Consider the 50-year-old secretary who works for this city of fewer than 50,000 people who, along with about 400 others, volunteered to test jump into an inflatable rescue bag the city had purchased for fire emergencies. The woman, said to be an athletic type, fractured her spine and ankle in several places.

Apparently, Mayor Robert W. Anderson's temporary secretary was overly concerned with keeping her dress intact as she took the test plunge from the third-story roof of the city's Emergency Center.

Instead of jumping, as instructed, with her legs straight out in front of her to make a sit-down landing, she "jumped feet first with her toes pointed," said the city's risk manager, Michael Wieck.

As a result, Moline has ended up with a workers compensation claim, which will be covered under its \$150,000 self-insured retention, he said.

Even though the woman was a temporary employee, she had previously served full-time as the city administrator's secretary and remained on the payroll to fill in on a part-time basis, he said. The city decided it would approve her medical bills, but it might be facing a few other medical claims as well.

Six members of the city police and fire departments have filed accident reports stemming from their test jumps. Two men broke their eyeglasses when they rolled over on the spectacles, which were stored in their pockets, as they got off the rescue bag.

One employee reported a friction burn from a rough landing in the 10-foot-deep,



## The Answer

marshmallow-like bag, and three other employees reported slight sprains, Mr. Wieck said.

The neighboring city of Rock Island, which was to show off the rescue bag at its Summerfest celebration, had to cancel those plans after the owner of the building from which the jumpers were to leap heard of Moline's potential liability problems.

The air bag, which was purchased as a loss-prevention measure to aid residents who could be trapped by fire in the city's several high-rises or tall hotels, has given the city of Moline a whole lot of bad publicity and a "black eye," Mr. Wieck said.

But he is instituting more loss control. A handy list of air bag "dos and don'ts" has been prepared for the city's firefighters and police officers. They will be the only ones allowed to practice jump into the rescue bag.

"It's something we should have done before," Mr. Wieck said of the instruction list, "but I still think the bag is a fantastic safety device."

# A&A, Sedgwick cancel their plan to join forces

By KATHRYN J. McINTYRE

As royal wedding bells were chiming and the champagne poured in London for the marriage of Prince Charles and Lady Diana, Alexander & Alexander Services Inc. and Sedgwick Group Ltd. broke off their engagement to become equal partners in a "megabroker" marriage.

Tax problems came between the second-largest U.S. broker and London's largest broker, leaving A&A as one of the few leading U.S. brokers without a financial partner in the London market (See related story, page 30).

The split was not unexpected. A&A President John A. Bogardus Jr. hinted last month that tax problems could stop the planned merger (BI, June 29). And Sedgwick Chairman Neil Mills made it clear that only a merger of equals and not a take-over would satisfy his company.

A&A wouldn't say if it would look for another merger or acquisition candidate in London, noting the end of the merger talks will not affect current joint ventures between A&A and Sedgwick or Sedgwick's service of A&A accounts in the London market.

Most stock analysts—whose reaction to the news ranged from disappointment to relief—say that A&A must pursue the international insurance market to compete for multinational clients and to grow in the 1980s.

The end of the 2½-year courtship between A&A and Sedgwick announced last Thursday would have been announced Wednesday if London hadn't been closed for business to celebrate the royal wedding.

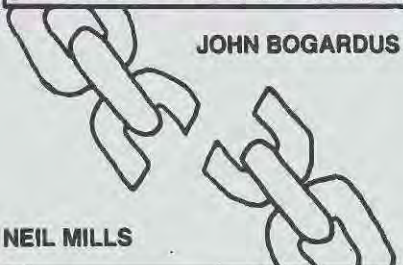
The two brokers had to call it quits on their merger when their financial advisers decided that the tax penalties on the proposed structure of the new company were too onerous.

"There was no way we could put together a financial deal that would have been good for both companies," conceded Frank R. Wiczynski, A&A Services Inc. vp and secretary. "Once you took out for taxes what was necessary, there weren't enough pieces of the pie left."

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JOHN BOGARDUS



NEIL MILLS



# Florida regulator wants 15.6% comp rate cut

By STEVE SHERWOOD

TALLAHASSEE, Fla.—Florida employers can look forward to a workers compensation rate reduction of almost 16% if Insurance Commissioner Bill Gunter gets his way.

Mr. Gunter last week ordered the National Council on Compensation Insurance to refile for a 15.6% rate reduction after he rejected the rating bureau's proposed 2.8% rate cut.

The commissioner's office says he will not compromise on the size of the reduction. The NCCI has 30 days to refile for a rate reduction of 15.6% or more, or withdraw its filing, the commissioner's office said.

If the commissioner's request is heeded, it would be retroactive to July 1.

The NCCI says its classification and rate committee, which includes worker compensation insurers and NCCI staffers, will study the insurance commissioner's order and

make a decision on refile in about six weeks.

Besides requesting a 2.8% rate reduction, the NCCI also proposed a change in the workers compensation premium discount plan. Under the proposal, the discount system would be expanded to include any employers who pay at least \$1,000 in premium a year. Now the cutoff is \$5,000.

Mr. Gunter was highly critical of the NCCI's filing in his announcement.

"The NCCI underestimated the impact of investment income" in coming up with its proposed filing and "largely ignored downward trends in loss estimates," he announced July 28. Mr. Gunter also found that the NCCI gave insufficient weight to recent data reflecting Florida's improved loss experience under its wage-loss law and that the quality of data was below acceptable standards.

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# States switching negligence doctrines

By STEPHEN TARNOFF

CHICAGO—In mid-July, a Cook County Circuit Court jury awarded \$1.125 million to the family of an Illinois truck driver who was killed by a train as he drove across railroad tracks.

The jury, convinced that the train was going too fast and that there was inadequate crossing protection, awarded the money even though it also believed the victim had a clear view of the train.

Six months ago, the family might not have received anything. But because the Illinois Supreme Court has adopted the doctrine of

comparative negligence for apportion damages in liability cases, the truck driver's family got 75% of what the jury thought the damages were.

If the doctrine of contributory negligence had been applied, the jury might not have awarded any damages because the truck driver was found partly at fault for the accident.

Plaintiff's attorney Joseph A. Power Jr. conceded that without comparative negligence, the case would have been tougher to win. "There's no doubt about that."

Illinois became the latest state to adopt comparative negligence on

April 17. It currently is law in nearly 40 states. Most have adopted it in the last decade.

Besides Illinois, New Mexico adopted comparative negligence in February while a Colorado statute applying the doctrine to product liability cases went into effect July 1.

Not everyone is in favor of the movement, however, and it is too early to tell how this shift will affect litigation and, ultimately, insurance rates, observers say.

Under the doctrine of comparative negligence, a jury may apportion damages among plaintiffs and

defendants according to their relative percentages of fault. Under a contributory negligence system, if the plaintiff is even the slightest degree at fault, he could not recover anything.

And while juries often circumvented the contributory negligence rule to prevent harsh judgments against the plaintiffs, deserving plaintiffs were often left without any recovery.

It was such "harsh and unjust results" that the Illinois Supreme Court addressed in its decision.

"We believe that the concept of comparative negligence, which produces a more just and socially

desirable distribution of loss, is demanded by today's society," the court said.

"We cannot continue to ignore the plight of plaintiffs who, because of some negligence on their part, are forced to bear the entire burden of their injuries."

Illinois adopted a "pure" comparative negligence doctrine that allows a plaintiff to recover damages even if he was 99% negligent. Most states have adopted variations of a "modified" form. Wisconsin, for example, bars recovery if the plaintiff is more than 50% negligent.

Continued on page 28

# Du Pont dental plan now covers retirees

Du Pont Corp. has extended its prepaid dental coverage to include an assistance plan for eligible pensioners, survivors and dependents. The new coverage is identical to that provided DuPont employees.

Covered expenses under the assistance plan, which became effective June 1, include routine oral examinations and cleaning, dental X-rays, restorations, extractions and oral surgery, endodontic treatment, periodontal treatment, prosthodontics and orthodontics.

The plan includes a \$750 per person annual limit for services other than orthodontics, which has a \$500 per person lifetime limit.

The plan is administered by Connecticut General Life Insurance Co. Claims for pensioners and survivors will be handled by Connecticut General's Wilmington,

## benefit beat

Del., office.

### Sporting goods

Employee benefits are becoming increasingly important in attracting and keeping good employees in the sporting goods industry, especially for large companies that are able to afford a variety of benefits, an industry publication says.

Large sporting goods stores with annual volumes of more than \$1 million tend to offer better benefits to employees, according to a study by The Sporting Goods Dealer.

Sixty-four percent of all sporting goods retailers with sales of \$1 million or more said they found bene-

fits were more important in attracting good help, while only 45% of retailers with sales of \$300,000 or less thought benefits were important in luring workers.

The most important benefits, according to the survey, are employee merchandise discounts, which are offered by 92% of the sporting goods retailers polled. Paid vacations were ranked second in importance by the retailers, with medical insurance and profit-sharing following.

### Cost of benefits

Basic employee benefits—such as pensions and group medical and

life insurance plans—are costing U.S. companies an average of 12% of total payroll, according a William M. Mercer Inc. survey.

Among the industry groups surveyed, the average cost of basic benefits is highest for the utility industry at 13.8% of payroll and lowest for retail and wholesale merchandisers at 5.7%.

Companies in the Northeast have the highest average benefit cost at 11.2% of payroll, while companies in the South Central region have the lowest figure at 8.7%.

The survey also indicated that the average cost of employee benefits approaches 18% of payroll if employers' Social Security costs are added.

The Mercer study was based on the responses of more than 400 U.S. companies.

### Post-retirement work

New Labor Department regulations may prohibit employers from permanently withholding monthly pension benefits from employees who work past retirement age or return to work for the company after retirement.

Companies are permitted to suspend monthly pension benefits for such employees, but the new regulations, which became effective Aug. 1, require companies to reimburse them unless they fall into a special category.

Robert Schnitzer, vp and manager of retirement benefits practices for Olanie Hurst & Hemrich in Los Angeles, said companies with non-contributory plans may permanently withhold employees' monthly pension benefit only when they work at least 40 hours in a calendar month after either reaching retirement age or returning to work after retiring. They must work for their pre-retirement employer, or in the case of a multiemployer plan, an employer in the same industry, craft or geographical location.

If an employee does not meet these criteria, Mr. Schnitzer said, the pension benefits may be temporarily withheld but not forfeited.

Upon subsequent retirement, he said, the employee must receive either a lump-sum payment equal to the omitted payments plus interest or an actuarial adjustment to his previously accrued retirement benefit.

The same rule applies to contributory pension plans in which the employee makes a mandatory contribution, Mr. Schnitzer said. In such cases, the employer must provide a lump-sum payment or actuarial adjustment to the employee-provided benefit upon subsequent retirement.

Up until now, he said, few if any companies have tried to make up retirement benefits that an employee misses by working past retirement age or by returning to work after retirement.

"Nobody is doing that now," he said.

The regulations also includes detailed notification requirements for affected employees.

Mr. Schnitzer said he bases his analysis on an "interpretation" of the regulations. While other consulting firms may have different assessments, Mr. Schnitzer said he is "very confident" that his interpretation is correct.

## 23 catastrophes cost \$589 million

NEW YORK—Property/casualty companies paid out \$589 million in property damage claims during the first half of 1981 as a result of 23 catastrophes, according to the American Insurance Assn.

That figure was equal to the amount paid out in the first half of 1980 for 31 such occurrences.

The Insurance Information Institute defines a catastrophe as any occurrence where the expected insured loss is likely to exceed \$1 million. That figure will be increased to \$5 million on Jan 1.

The most severe catastrophe in the first half of the year took place May 7-10 when wind, hail and tronadoes in Texas, Oklahoma, Kansas and Louisiana resulted in property damage of more than \$200 million.

The largest non-weather catastrophe occurred Feb. 10 when a fire at the Las Vegas Hilton hotel resulted in insured property damage of \$30 million.

# What about Dental?



It's come to be a common question — "What about Dental?" — An entire case may depend on your answer, so you want to get it right.

Fortunately, Crown Life is one of the most flexible and innovative carriers of Group Dental Insurance in the business, with sound plan design and competitive rates.

Crown's approach organizes dental services into a series of levels. In this way, the Dental Plan can be constructed to best meet your clients' needs and financial resources.

Larger groups can begin their plan with **Preventive Services** such as examinations and flouride treatment and then add **Restorative Services** like fillings and extractions. Many firms will also want to include **Major Restorative Services** such as crowns and bridges and then complete their coverage with **Orthodontics** for children. These clients may choose benefits on either a **scheduled or Reasonable and Customary** basis.

Firms with 10 or more employees can include one of several available Dental Plans along with

any Health Plan other than Weekly Income in the **Crown Employee Benefit Packages**.

Ask us about Dental. Contact your local Crown Life Group Office, or simply fill in the coupon below.

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# Reinsurance funds flow overseas

WASHINGTON—U.S. insurers netted \$922.1 million in reinsurance premiums for coverage sold in foreign countries in 1980, but still failed to equal what U.S. insurers paid to foreign reinsurers.

U.S. firms reinsuring foreign risks received net premiums of \$922.1 million, paid out \$671.1 million in losses and had net receipts of \$251 million, according to the U.S. Commerce Department's Bureau of Economic Analysis.

But at the same time, U.S. insurers paid out more than \$2.1 billion in net premiums (premiums minus commissions) to foreign reinsurers in 1980, the largest amount in the department's reporting history.

Most of these payments, \$751 million, went to Bermuda reinsurers, while British reinsurance companies received \$636.9 million in net premiums, according to the department.

U.S. insurers recovered \$1.136 billion in losses on the \$2.1 billion in net premiums they paid to foreign reinsurers, resulting in U.S. payments of \$966 million for reinsurance of U.S. risks accepted abroad.

The Commerce Department cautions that the reinsurance payment results are meant to show the effect of reinsurance transactions on the nation's balance of payments. They are not meant to indicate the underwriting results of the reporting companies.

Comparing the net U.S. receipts of \$251 million with the net U.S. payments of \$966 million, the effect of all 1980 international reinsurance transactions was a net outflow of \$715 million to foreign reinsurers.

The Commerce Department insurance statistics indicate long-term trends in underwriting, with the growth of U.S. reinsurance payments outstripping receipts.

In 1950, the first year for which figures are available, foreign insurers received \$129.7 million for reinsuring risks of U.S. companies. By contrast, the U.S. insurers received only \$17.5 million for reinsuring the risks of foreign underwriters.

The Commerce Department breaks down the payments and receipts from abroad to show transactions with the European Economic Community, the United Kingdom, Canada, Japan, Switzerland, Latin American republics, Bermuda and other Western Hemisphere countries.

The statistics in this year's study are preliminary and will not be finalized until next year's report is released in June or July.

# Insurance college registration set

NEW YORK—Registration for the fall semester at The College of Insurance will be Sept. 8-10.

Classes in insurance, business administration and liberal arts will begin the week of Sept. 14 and end by Dec. 23. The college offers evening division classes that are held during lunch hours and after 5 p.m. for those who continue to work while attending classes.

The college offers programs leading to associate, bachelor's and master's degrees and a professional certificate program. The college also offers special courses for agents and brokers, actuarial examinations and CPCU and CLU programs.

Registration will be held from 11:30 a.m. to 2 p.m. and from 4:30 to 6 p.m. on the college's campus, 123 William Street in New York.

# Brokers deny insurance certificates

By LEN STRAZEWSKI

NEW YORK—A disclaimer ad in this week's *Business Insurance* caps seven months of investigations into allegedly phony insurance certificates naming Lloyd's of London as the insurer of substandard property in New York.

Although only one claim for about \$4,000 is outstanding, according to Lloyd's U.S. general counsel, LeBoeuf, Lamb, Leiby & McRae, Lloyd's, Lloyd's broker Alexander Howden Insurance Brokers Ltd. and a Howden subsidiary are denying all certificates issued by the Commander Agency Ltd.; Stuart Bernbach, Commander's principal; and New Jersey surplus lines brokerage Loudon-French Ltd., which allegedly provided Commander with the certificates.

Richard Marshall, president of Loudon-French, along with four other brokers, previously was charged with fraud in New York

for his role in placing substandard property risks with the Sasse Syndicate at Lloyd's. The indictment cited him as Richard Mammarella, not using the Marshall alias, according to the U.S. Attorney's office (BI, May 18).

Loudon-French, which is no longer in business, also was the broker for Interpool Ltd., a New York container-leasing firm that was sued by The Home Insurance Co. over policies placed by Loudon-French. The Home charged Interpool and Loudon-French with fraud and misrepresentation of the loss history of some containers and denied coverage.

Interpool countersued and no criminal charges were brought against any participant (BI, May 11).

This latest round of denied coverages and conflicting stories came to light early this year, according to Lloyd's attorneys. A mortgagee of commercial property in the Bronx contacted the LeBoeuf, Lamb to verify coverage allegedly held by Lloyd's and brokered by

Halford, Shead & Co., a division of Alexander Howden that formerly marketed jewelers block coverage.

The certificate was issued by the Commander Agency.

Halford, Shead denied that coverage and several other certificates later presented to LeBoeuf, Lamb.

By April, more certificates labeled "Companies Collective Policies" and naming Lloyd's underwriters were uncovered. They also were denied.

Also that month, as part of an ongoing investigation into the Commander Agency, the New York Insurance Department ordered Mr. Bernbach, Commander's principal, to cease and desist from operating as an excess/surplus broker since he was not then a licensed broker in New York nor was he licensed when the certificates were delivered.

Mr. Bernbach told investigators that Loudon-French brokered the policies.



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# Pennsylvania revises black lung rates

HARRISBURG, Pa.—The Pennsylvania Insurance Department has revised its rates for black lung occupational disease insurance purchased by anthracite and bituminous coal mine operators.

The changes include a rate differential between the anthracite and bituminous coal mining operations. The insurance industry sought to rate anthracite and bituminous mines separately because of the higher frequency of black lung insurance claims from anthracite coal miners.

The overall effect of the new rates will be to reduce annual premiums for black lung insurance by more than 12%.

## Fire regulations

NEW ROCHELLE, N.Y.— Gov.

## around the states

Hugh Carey has signed a bill requiring communities to adopt state fire and building codes.

The legislation requires all New York municipalities to adopt the state building construction and fire prevention codes by March 1, 1982. The bill also creates a 17-member council to develop a stricter state fire code to go into effect in 1984.

The law also requires state approval of any retroactive regulations, such as installation of sprinklers in existing buildings or the removal from buildings of construction materials thought to be flammable.

The governor signed the bill near Stouffer's Inn in Westchester

County, the site of a flash fire Dec. 4 that killed 26 executives.

## Blue Shield rate hike

HARRISBURG, Pa.—The Pennsylvania Insurance Department has approved a \$32.2 million rate hike covering Pennsylvania Blue Shield's community-rated medical and surgical group and non-group plans.

However, the department denied a request by the company to increase rates for its 65-Special Plan.

Rates for the medical and surgical plans will rise an average of 24% for some 1.7 million subscribers. The department said the in-

crease was justified by rising medical costs and increased use by subscribers. The amount approved is \$12.5 million less than that originally sought by Blue Shield.

## Deputy named

SACRAMENTO, Calif.—Frank L. Damon has been appointed California's chief deputy insurance commissioner.

Mr. Damon, 37, was most recently assistant corporate counsel of Mission Insurance Group.

Mr. Damon, who assumed his new duties late last month, will head the department's Los Angeles office.

## Conversion plans

ALBANY, N.Y.—Gov. Hugh

Carey has signed a pair of bills authorizing the conversion of certain mutual insurers into domestic stock insurers.

The legislation permits the conversion of mutual casualty, surety, fire or marine insurance companies. A conversion plan, if approved by the state superintendent of insurance, must be adopted by a two-thirds vote of the company's policyholders to become effective.

The measures provide safeguards to assure the integrity of new stock insurers, including a prohibition against redomestication outside the state for 10 years.

## Retirement study

HARRISBURG, Pa.—Gov. Richard Thornburgh has signed legislation that will establish a commission to study all public employee retirement systems in the state.

Commission responsibilities include:

- Recommending a recovery program to shore up financially ailing municipal pension systems.
- Monitoring and evaluating the financial condition of public pension plans.
- Monitoring and evaluating existing Pennsylvania retirement laws.

"Liabilities facing municipal pension funds, especially in many of our cities, are very serious," Gov. Thornburgh said.

"Unless remedial action is taken soon, the fiscal solvency of these communities could be undermined, and a default in the obligation to pay benefits may well occur."

## Fire relief fund

TOPEKA, Kan.—More than 400 paid and volunteer fire departments in Kansas and the Kansas State Fire Fighters Assn. Inc. will soon receive more than \$2 million as part of the state's 85th annual distribution of firefighters' relief tax funds.

The fund is collected from insurance companies licensed to operate in Kansas and is based on the fire premium written on property within the corporate limits of qualified cities, townships, counties and fire districts, according to state Commissioner of Insurance Fletcher Bell.

Fire departments receiving money from the fund can use it for payments to firefighters injured in the course of duty.

A portion allocated to the firefighters association finances regional fire, special hazard and arson schools conducted by the association.

## Work comp fees

SACRAMENTO, Calif.—Physicians' fees for treatment of injured workers in California will increase an average of 33% next year, based on medical fee revisions adopted by the state Division of Industrial Accidents.

The revised Official Medical Fee Schedule will cover medical treatment beginning Jan. 1. Workers' compensation benefit increases and insurance rate revisions also will go into effect on that date.

The new schedule will increase payments by insurers to physicians by an estimated \$130 million over 1980 payments and increase employers' compensation costs an average 6.8%, according to the state Workers Compensation Insurance Rating Bureau. However, the total cost to most employers is not expected to rise that much because of an expected overall decrease in premium rates on Jan. 1.



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# Program aims to trim health care costs

By WILLIAM BOOTH

NEW YORK—In an effort to control the escalating cost of health care premiums for its group policyholders, Connecticut General Corp. is offering employers a new cost-containment program.

Connecticut General's pilot program dubbed REMEDI rigorously monitors hospital stays and pays for only those services approved.

Besides using hospital utilization review committees to monitor hospital stays, REMEDI employs second surgical opinions, pre-admission testing and more thorough health education in an effort to cut hospital costs before they occur.

"The need for a multifaceted approach to holding the line on health care costs has become painfully obvious," says Jack Sinton,

manager of Connecticut General's Seattle group office.

Health care claim costs and group health insurance rates continue to rise despite employer and insurer efforts to control them. The Connecticut General plan, called REMEDI as the acronym for Reducing Excessive Medical Expenses Through Direct Involvement, pulls together in one program the tactics to fight rising health care costs recommended in the past by many health care experts.

Connecticut General will use existing professional standards review organizations to determine if a hospital admission is necessary, if the length of the patient's stay is appropriate and if the extent of the hospital services rendered are correct, explains Ronald Whalec,

director of health care programs for Connecticut General.

If a patient remains in the hospital longer than the stay recommended by the PSRO without sufficient medical cause, both the patient and his physician are advised that the additional costs may not be covered by Connecticut General.

Mr. Whalec says each case is considered separately and an appeal process exists. "The thing isn't designed to throw people out of the hospital," he says. "It's designed to stop people from checking in on Friday for elective surgery that won't happen until Monday morning. It's to stop abuses."

Although the American Medical Assn. initially opposed the creation of hospital utilization reviews some years ago, an AMA spokesman says the organization has no complaints

as long as the review process is being handled by physicians.

Under second surgical opinion programs, a patient seeks the opinion of another doctor before undergoing recommended surgery. Under pre-admission testing programs, hospital patients are administered tests on an outpatient basis when possible to reduce the costly hospital stays.

The effectiveness of any one of these measures is still uncertain, but risk and benefit managers involved with the pilot program say they are optimistic it will help control health care costs.

"Up until now, group insurance has been a blank check for the medical industry," says Morton Vogel, director of risk management for Avnet Inc. in New York

City. The company joined the REMEDI program five months ago to cut claims costs.

Mr. Vogel says he supports second surgical opinions and the hospital review system. "Hospitals are one of the only places where no one will ask the price," he says.

When Florida Coast Banks Inc. found its claims costs increasing, it gave its support to the REMEDI program in the hopes of teaching its employees about medical care alternatives that offer cost savings.

After just three months in the program, Personnel Vp Edward Binkerd says, "It's like an advertising campaign. It's difficult to establish what part of your cost reductions can be attributed to the program. But we feel positive about it. It appears we are starting to succeed."

## Drugmakers need not warn consumers

Continued from page 2

and her husband moved to Cincinnati where her new gynecologist renewed her prescription for Ovulen.

On Jan. 27, 1973, Mrs. Seley suffered a stroke that left her left side numb and partially paralyzed.

The Seleys sued Searle charging that the manufacturer's warnings that accompany Ovulen are deficient because they fail to warn that women with a history of toxemia during pregnancy are more likely to have a stroke if they used birth control pills.

But Mrs. Seley's Cincinnati gynecologist testified during the trial that she never told him that she had had toxemia.

Without that knowledge, Mrs. Seley's gynecologist could not have warned her of the risks even if Searle had provided the type of a product warning the Seleys said was necessary, the court said.

"Where, as here, an adequate warning would have made no difference in the physician's decision as to whether to prescribe a drug... the required proximate cause between the warning and the ingestion of the drug is lacking," the court said.

Mrs. Seley also testified that she had received a Searle-prepared pamphlet containing warnings and instructions for Ovulen. The pamphlet was written in easy-to-read language and was distributed to users of the pill.

Having voluntarily provided such warnings, Searle could be held liable if the warnings did not provide a full explanation of the risks of taking Ovulen and if Mrs. Seley relied on those warnings, the appellate court ruled.

But the state Supreme Court rejected the appellate court argument. "The voluntary duty doctrine, however, has no application to cases based on failure to provide adequate warnings with prescription drugs," the court said.

This rule, the court noted, is based on the theory that a physician acts as a "learned intermediary" between the manufacturer and the consumer.

The patient is expected to place primary reliance on the physician's judgment and to follow his advice and instructions on using a prescription drug, the court said.

Although the brochures are designed to benefit consumers, a prescription drug manufacturer that voluntarily prepares such pamphlets does not extend the scope of its duty to warn, the court said.



MR. R. G. WILLIAMS, GENERAL MANAGER, MEDIBANK.

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## editorial opinions

# A worthwhile P.R. job

ANYONE IN CHARGE of workers compensation insurance for a company has some internal public relations work to do.

Researchers for Fireman's Fund Insurance Cos. found that eight out of 10 employees have some knowledge about how workers compensation works or what it does for them, but the knowledge is limited and in too many cases is ill-founded.

Consider that fewer than 50% of the employees know that their employers foot the bill for workers compensation benefits. Employers are missing a great opportunity to give employees another reason to work safely and reduce accidents: to increase corporate profits and their share of them.

Employees know that the amount of their next raise, improvements in the group benefit plans and their share of a profit-sharing plan depend on the company's profits. Explain to them that every workplace accident reduces company profits not only by reducing productivity but also by increasing corporate overhead for workers compensation benefits that must be paid.

Granted, the self-preservation instinct induces most individuals to be cautious in their own work habits, but it may not compel them to suggest to their fellow workers that they be careful, too. An employee who sees his next raise or bonus or benefit improvement go up in the scream of an ambulance for a fellow employee will feel more than empathy for the injured worker.

Employees also need to understand how the workers compensation system works. Almost half of the employees surveyed by Fireman's Fund didn't know injured workers receive reimbursement for all medical bills for work-related accidents, and about half didn't understand the disability benefit system and what it pays. These ill-informed employees will be very worried workers if they are ever hurt on the job. And the first thing they may do is call

a lawyer instead of you.

We don't need to remind you that workers compensation insurance, or benefits if you self-fund, are very expensive. Take the time to explain the system to employees so they appreciate that you are paying the bills—and so they know what they can expect if they are hurt on the job.

The information could be incorporated in the company employee benefit communications effort. In companies where the same person handles benefits and workers compensation, it will be easy to do. In companies where the duties are split between two departments, some cooperation will be needed.

The result could well be worth the effort in increased employee attention to job safety.

## Look before . . .

POOR MOLINE, Ill. The city's investment in a life-saving device is going to end up costing it some workers compensation losses because testing the device went awry.

As reported in this issue, the city invited its employees to try out a new inflatable bag used to rescue people jumping from the higher floors of burning buildings. Unfortunately, one volunteer didn't jump properly and was injured and a few other would-be stuntmen have filed some minor claims.

Now the city has a list of do's and don'ts for using the bag, and only firefighters and police officers can practice jumps into the bag.

The extent of injury and the cost of the loss for the city under its self-insured retention aren't devastating, but every risk manager should note the circumstances. As Moline risk manager Michael Wieck says of the new restrictions on the use of the bags, "It's something we should have done before."

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## letters

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## Siver's 'destructive' result . . .

To the editor: The most destructive result of Edward Siver's June 29 article "Independent agents may be overrated" may be that his remarks have been taken seriously by your readers.

I think there is a more realistic and balanced view of the independent agent and broker in response to his "counterpoints":

- "Prospecting and salesmanship are a lost art in the Independent Agency System." For how many years was it also true that selling wasn't necessary in the property/casualty profession? Now it is. The catching up is being done. Direct writers increased commercial lines market share in Illinois in 1980 a negligible 1.3%.

- "The independent agent largely serves himself first." The costs involved for an agent to properly review every account in his office and fully market it at least annually are underestimated. It can't be done on today's commissions. Computerization won't come quickly enough. Until we have multi-company computer interface, the independent agent will continue to come up short in trying to do the proper kind of marketing job.

- "The bulk of independent agents doesn't measure up to either definition . . . of a professional." His efficiency suffers from inadequate insurance company service. At the same time, he is bombarded by change. The agent is responsible for expertise in his own field and for at least a current working knowledge in the fields of each of his customers. As a result, the impacts of technological, economic and social changes are applied to him geometrically. The sooner the agent stops telling his clients how "professional" he is and starts telling them how good a job he can do for them getting things done, the better off he'll be.

Mr. Siver could have made a contribution to the agency system with some good suggestions on how an agent might position himself to adjust to change. His criticism without suggestions was destructive.

Jerry W. O'Kane  
Manager/secretary  
Chicago Board of Underwriters  
Chicago

## . . . May not be all that harmful

To the editor: Every so often, it is good for an independent agent/broker who considers himself or herself a professional to take stock, so to speak, and see how he or she measures up to real professional standards.

That is why I enjoyed the article by Edward W. Siver in the June 29 issue of *Business Insurance*.

Although on first reading some adverse emotional reaction was felt (understandable!), on rereading I felt there was little to disagree with. Mr. Siver, I believe, is right on target, and I wish the article would be distributed to all members of agency associations.

S.J. Davidian  
Hallmark Insurance Associates  
Fresno, Calif.

## It's still a pretty long bridge

To the editor: In the article "Big risk" (*BI*, July 13), it is mentioned that the world's longest bridge is 4,626 feet long and is located in Hull, England. If I am not mistaken, 5,280 feet equals one statute mile; thus, it is not even a mile long.

However, Interstate 295 crosses the St. Johns River in Orange Park, Fla., and that bridge is three

miles long.

Perhaps the author meant the bridge in Hull was the longest cable-spanned bridge.

Ruth W. Lee II  
American Home/National  
Union Fire Insurance Co.  
New York

■ We goofed. Officials in Hull say the bridge is the world's longest single-span suspension bridge.

## Social Security solutions

To the editor: I read with great interest Jerry Geisel's review of A. Haeworth Robertson's book on Social Security (*BI*, July 13). I really cannot agree that the administration's proposals have completely "sunk to the bottom." Not all of the proposals will be enacted, but there is an excellent chance for many of them. Certainly, something must be done.

As to Mr. Haeworth's book, I disagree that there is great misunderstanding about the Social Security program, or even that it is essential for its successful operation that everybody must understand all technical details about it. After all, everybody can enjoy automobiles and television (and even private pension plans), even if they don't fully understand how they operate.

Finally, I must say that I don't agree with Mr. Haeworth's proposed plan because I think it is not feasible, either policy-wise or from

a political standpoint.

Robert J. Myers  
Deputy commissioner for programs  
Social Security Administration  
Washington

## Ill-timed remarks

To the editor: Many of us will never forget the tremendous amount of work Joe Blades put into the captive industry. He spent years building and promoting and, more importantly, believing in the whole concept of captives.

B.P. Russell, chief executive officer of Crum & Forster Group, recently came out with a somewhat opposing viewpoint on captives (*BI*, June 29). Whether or not he is correct, I think his timing is in poor taste.

Robin Spencer-Arscott  
Executive vp  
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# Securities firms may be violating ERISA

By JERRY GEISEL

washington

WASHINGTON—Many securities firms in the Los Angeles area that provide investment advice and brokerage services to employee benefit plans may be inadvertently violating the pension reform law, the Labor Department says.

Under a special exemption to the Employee Retirement Income Security Act, securities broker-dealers who also are plan fiduciaries may engage in securities

transactions for the employee benefit plans if they meet certain conditions.

Such conditions include obtaining written authorization from the plan authorizing the transactions and furnishing the independent plan fiduciary with a quarterly report of securities transactions and charges.

But a Labor Department investi-

gation of 12 Los Angeles broker-dealers found that six firms had not made all the disclosures required under the special ERISA exemption.

As a result, those firms violated ERISA's conflict-of-interest provisions, the Labor Department says. The department is now determining what penalties, if any, will be imposed.

## Social Security

House and Senate conferees have agreed to abolish the minimum Social Security benefit next March.

The minimum benefit of \$122 a month, or more in some cases, goes to people who did not contribute enough to the program while working to earn that much in monthly benefits.

Elimination of the minimum benefit, which 3 million people now receive, would save Social Se-

curity about \$1 billion next year and \$7 billion over the next five years.

## OPIC authority

The House Foreign Affairs Committee has approved legislation to extend and broaden the underwriting authority of the Overseas Private Investment Corp. to Sept. 30, 1985.

OPIC is the federal agency that provides political risk insurance to employers investing in underdeveloped countries.

The measure, H.R. 3136, would allow OPIC to provide a full range of political risk insurance policies to employers investing in countries with a per capita income of up to \$2,900 in 1979 dollars.

Under OPIC's current authority, which expires Sept. 30, it is restricted to operation in countries with a per capita income of \$1,000 or less.

The Senate Foreign Relations Committee earlier approved similar legislation, S. 993, to renew the corporation's mandate (BI, July 20).

Full House and Senate approval is expected by fall.

## Mine rescue teams

All underground mines must have rescue teams available in the event of an emergency, according to a government safety rule that went into effect last month.

The new rule requires operators of underground mines to establish two rescue teams, each composed of five members and one alternate member.

These teams, which may be established independently or through a cooperative arrangement, must be available when miners are underground.

In addition, the regulation, issued by the Mine Safety and Health Administration, requires that rescue team members must be physically fit, properly trained and appropriately equipped.

## Auto safety rules

The National Highway Transportation Safety Administration has changed its mind and decided not to propose special safety standards for plastic automobile fuel tanks.

The NHTSA first considered the issue after a Ford Motor Co. petition said plastic fuel tanks would become more common in the future.

The agency published a proposal and sought technical information. A majority of those commenting on the NHTSA proposal said that regulation of plastic tanks "is not warranted."

NHTSA studies show that only 2% of the cars on the road are equipped with non-metallic tanks and that there is no evidence linking plastic tanks with gasoline fires.

## Black lung claims

The number of black lung disability claims approved by the Labor Department has dropped by two-thirds over the last 16 months, but there are still problems with the program, the General Accounting Office says.

Morton Henig, a senior associate director of the GAO, told a House Ways and Means subcommittee that the number of approved claims had dropped from 45% to 15%, due to stricter eligibility standards.

But the standards still do not ensure that benefits go to miners who actually have black lung, Mr. Henig said.

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# Republic Steel Corp. promotes Cline, Julien

Republic Steel Corp. of Cleveland has promoted **Joseph I. Cline Jr.** to the newly created position of director of risk management and insurance operations and **Denis A. Julien** to corporate risk manager.

In his new position, Mr. Cline will be responsible for corporate risk management policy and the operations of Republic's insurance brokerage and underwriting subsidiaries. As corporate risk manager, Mr. Julien will be responsible for implementing and administering risk management activities at Republic and its subsidiary companies.



Cline



Julien

Mr. Cline joined Republic in 1975 as assistant manager of the insurance division after several years in insurance administration and risk management. He was promoted to risk manager in 1976 and was named director of risk management in 1979. He has also served as officer of Republic's insurance holding company, Republic Steel Services Group Inc. A native of Virginia, Mr. Cline holds a bachelor's degree in business administration from Bridgewater College in Bridgewater, Va. He also attended the graduate schools of business at both Virginia Commonwealth University in Richmond and Cleveland State University. He has associate degrees in general insurance, insurance loss and claims adjusting and risk management from the Insurance Institute of America.

Mr. Julien joined Republic in August 1979 as supervisor of insurance claims. Before that he worked as a multiline claims adjuster with AMICA Mutual Insurance Company in Atlanta. He received his bachelor's degree from Rhode Island College and a master's degree in risk management and insurance from Georgia State University. He holds associate degrees in claims and loss control management from the Insurance Institute of America and is a Chartered Property Casualty Underwriter.

**Richard F. Ronston** was promoted to manager of benefits and insurance at American District Telegraph Co. In the newly created position, Mr. Ronston will be responsible for ADT's employee benefits and risk insurance programs.

**Leslie J. Abel** has been named manager of claims and risk analysis at PepsiCo Inc. in Purchase, N.Y. Mr. Abel will be responsible for the coordination of claims, loss control and captive activities with corporate and divisional management. He reports to Phillip J. Baecker, director of corporate risk management and insurance. Mr. Abel was formerly employed by AIG Risk Management in New York as secretary and metropolitan manager.

**William O. Brewer** has been named director of insurance of Moore McCormack Lines Inc., the ocean shipping subsidiary of Moore McCormack Resources Inc. Mr. Brewer joined the company in 1978 as assistant to the insurance director and was named acting insurance director in January. He worked at Johnson & Higgins from

## comings & goings: buyers

1972 to 1978. Mr. Brewer graduated from St. Lawrence University with a bachelor's degree in 1968. He has an master's of business administration degree from the University of San Francisco.

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BI-83

# Arab nations enter reinsurance market

MANAMA, Bahrain—The Arab Reinsurance and Insurance Group, the new \$3 billion Arab venture into the world insurance market, has opened for business.

The venture, owned jointly by Kuwait, Libya and the United Arab Emirates, initially will limit itself to reinsurance but could become a major force in the world insurance market over time, observers predict.

An official of the insurer recently said in London that initial sales efforts will be centered in Southeast Asia, but plans call for expansion into the European and American markets.

The company has advertised in the United States for insurance professionals to staff the operation, but it has yet to select an executive director.

## worldwide

Norwegian inquiry commission, which has been studying the losses of the Berge Istrs and Berge Vange in 1975 and 1979.

The two catastrophes cost the marine insurance market more than \$50 million and led to calls for further safety measures.

Both tankers exploded while carrying iron ore from Brazil to Japan. They sank so suddenly that only two crew members were saved from the Berge Istrs and none were rescued from the Berge Vange.

Marine experts in Norway, under the supervision of its maritime directorate, suggest that a kind of cofferdam should be built

between the ship's bottom and the crew quarters to protect crew members.

Such a barrier would minimize the effects of the explosion long enough to give the crew a chance to get off the ship, even if it sank rapidly, the experts say.

## Investment cover

OTTAWA—The Export Development Corp. has approved \$11.5 million in foreign investment insurance for a variety of business ventures in 14 nations.

The insurance will cover such ventures as exploration for hydrocarbons, wood pulp industries,

spare parts for engines and equipment and offshore drilling rigs.

The countries are the United States, Great Britain, Algeria, Austria, Belgium, France, Germany, Greece, Guyana, Indonesia, Israel, the Netherlands, the Philippines and Switzerland.

The EDC is a Canadian national corporation that provides wide-ranging insurance and bank guarantee services to Canadian exporters and arranges credit for foreign buyers as a means of developing Canada's export business.

## Spanish risks

NEW YORK—Basque separatists and other extremist organizations currently make Spain a risky place for multinational companies to do business, according to a Frost &

Sullivan political risk survey.

"Democracy has only a tenuous position in Spain, mainly because of the actions of aggressive terrorist organizations (particularly the Basque separatists) matched against the military," the report said.

"The military has provisionally remained behind the scenes in pressuring the civilian government for tougher anti-terrorist policies; but, as the aborted coup of February 1981 showed, the military also included many members willing to take political power into their own hands in an attempt to quell political violence."

A seizure of power by an extremist group would diminish the spirit of cooperation in other countries toward the regime, the consultants said. ■

## Excess coverage

TOKYO—U.S. firms operating in Japan should carry employers liability insurance as a form of excess coverage for claims exceeding the benefits paid by the governmental workers compensation commission, according to Johnson & Higgins International.

The coverage protects multinationals when the governmental commission denies a claim that is then approved by local governmental authorities. In those cases, employers must pay the full benefits.

## Pension deductions

WASHINGTON—The IRS will now allow companies to deduct pension plan expenses for foreign retirement plans.

The ruling, explained in IRS Announcement 81-114, expands the boundaries of IRS Code Section 404A and allows firms to apply its provisions for deductions and tax credits to qualified plans in foreign countries.

If it has not compiled all the necessary information to properly use the new procedure, a company can apply the rule without claiming specific tax deductions or credits by attaching a statement to its corporate tax return.

Companies considering use of the provision should decide whether its use should be retroactive to prior tax years and the amount of U.S. deductions or credits to be claimed, according to an information release from consultant A.S. Hansen.

## Australian work comp

SYDNEY, Australia—Increasing claims, along with higher medical and legal service charges, will force an increase in Australian workers compensation rates and in benefits, a newsletter predicts.

The increase is forecast in a newsletter published by Sedgwick Forbes Bland Payne of Australia.

Proposed amendments to workers compensation legislation are calling for a 31% increase in benefits for certain types of injuries.

For example, compensation for loss of a limb or sight would rise 31% over the \$31,000 now paid.

Benefits for husbands of women employees, which are currently not awarded, would also be paid.

The proposal also would expand employers' liability for workers who become deaf to all employers for whom the person worked during the previous five years. Currently, only the last "noisy employer" is liable.

## Shipping safety

OSLO, Norway—Blast barriers to protect massive oil and ore tankers have been recommended by a

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## Chinese engineers backed by AIG

PALO ALTO, Calif.—A Chinese engineering company's second U.S. project will again be backed up with a performance bond issued by American Home Assurance Co., a member of the American International Group.

Outbidding its U.S. rivals, Oriental Supply & Engineering Co., a marketing arm of China National Machinery & Equipment Import & Export Corp. (CMEC), landed a \$230,570 contract to build a turbine generator unit for the Placer County Water Agency.

Broker Rollins Burdick Hunter of Northern California arranged the required performance bond priced at an estimated \$1,700, only the second time such a bond has been executed for a Chinese contractor, according to David Svendsen, an RBH vp.

The initial bond was executed last December when CMEC clinched a similar but larger contract for another Northern California utility company (BI, Jan. 12).

Because Chinese companies do not prepare financial reports such as those required by the Securities and Exchange Commission, they pose an underwriting dilemma to U.S. insurers. American International Group was willing to write the bond without a letter of credit, based on the recommendation of the People's Insurance Co. of China.

To expedite execution of U.S. performance bonds for CMEC in the future, RBH is asking China-America to extend a \$5 million line of credit to the engineering company.

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# New P&I association formed to cover Western shippers

The Pan American Club, a new protection and indemnity club, has been formed for shipowners and operators in the Western Hemisphere.

The club is part of PACINDAT Mutual Protection and Indemnity Assn. Ltd.

"The domestic fleets in the Americas, especially Latin America, have become a significant force in world shipping," said Sir. Edwin Leather, vp of the association and former governor of Bermuda. "And for some time observers have commented upon the need for greater recognition of this fact by the P&I associations."

The new club is registered in Bermuda, but the day-to-day man-

## markets

agement will be through offices in New York and London. The reinsurance program is placed with Lloyd's of London and others.

The club's offices are at Pan American Ship Mutual Management Inc., 127 John St., New York, N.Y. 10038; 212-363-2551, and at Pan American P&I Consultants Ltd., Plantation House, Fenchurch Street, London EC3.

## Consulting firm

Robert Courtney Inc., a consulting firm specializing in risk assess-

ment, contingency planning, data processing security and internal controls, was established on July 1.

The company plans to offer electronic data processing project management and communications planning soon. Contact Robert Courtney Inc., Box 836, Port Ewen, N.Y. 12466; 914-338-2525.

## New division

ComCo Management Inc. is a newly created division of D.W. White & Co. Inc., specializing in the administration of self-insured workers compensation programs.

Offices are at 660 Newport Center Drive, Newport Beach, Calif. 92660; 714-644-4124.

## New reinsurer

The Kansa Group of insurance companies, a Finnish firm, has established a new Panamanian subsidiary, Kansa Reinsurance (Latin America), S.A.

The new firm, to be known as KANLA, will be used to develop Latin American business for the Kansa Group. The reinsurers has an authorized capitalization of \$20 million.

KANLA's offices will be at ECSSA House, Calle 50-A Este Esquina Ave., Panama City, Panama.

## New offices

Toplis & Harding Inc., adjusters and surveyors, have opened a new office at 3445 Peachtree Road N.E., Atlanta, Ga. 30326.

Towers, Perrin, Forster & Crosby, management consultants, has opened a new office at One Landmark Square, Stamford, Conn. 066901.

American Mutual Insurance Cos. has moved its Charlotte, N.C., office to 1221 E. Morehead St., P.O. Box 35069, Charlotte, N.C. 28235.

Geo. F. Brown & Sons Inc. is moving its Atlanta branch to 1140 Hammond Drive, Suite 910, Atlanta, Ga., 404-396-7620.

Marsh & McLennan Inc. has opened a new office at 2645 N. Third St., Harrisburg, Pa. 17105; 717-236-3866. M&M also restructured its offices in Buffalo, Syracuse and Rochester, N.Y., into one operation. The broker will still have offices in each city.

Poe & Associates Inc. has moved its corporate headquarters to the TECO Plaza Building at 700 N. Franklin, Tampa, Fla. The company's mailing address and phone number remain unchanged at P.O. Box 1348, Tampa, Fla. 33601; 813-228-7361.

Johns Eastern Co. Inc. has moved its Pinellas County, Fla., offices to 3700 Ulmerton Road, Clearwater, Fla.

MacCreedy & Gutmann Insurance Services Inc. has moved to 185 Post St., San Francisco, Calif.

Biles & Cook Administrators Inc. and Total Health Care Services Corp., Los Angeles-based employee benefit administrators, have opened new California offices in Oakland, Tustin and San Diego.

Horan, Goldman Cos. has relocated its Maryland office to the Clark Building, Suite 301, 5565 Sterrett Place, Columbia, Md. 1044.

## Acquisitions

Marsh & McLennan Inc. has merged with Howse Insurance Agency of Wichita, Kan.

Booke & Co., consultants and actuaries, have acquired Merwyn A. Hayes and Associates Inc., a management consulting and training firm located in Winston-Salem

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

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

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

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

## **T**he insurance capacity crunch

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

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

still greater amounts and in forms responsive to its particular technological characteristics.

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

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

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

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

their clients in these areas, brokers will have a greater need for loss-control and risk-management talent than ever before.

## **T**he growing need for specialized talent

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

Implementing the risk-management approach in any field calls for the broker to have strong teams of specialists in many engineering disciplines. To meet the future needs of clients in the energy industry, these teams will have to be enlarged and strengthened, so

that risk-analysis and loss-control specialists can evaluate any new installation, operation, or process as a whole, rather than as a series of disconnected technical problems.

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

## **E**nvironmental concerns

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

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

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

## **S**ummary: the challenge for the insurance broker

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

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

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

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# Police to pay only part of riot damage

By STACY SHAPIRO

LONDON—Damages from last month's rioting in Britain will total tens of millions of pounds, but the Riot Act of 1886 will pay only about 30% of the losses, according to a Lloyd's broker.

The act, which allows insurance companies, businesses and individuals to file damage claims with local police within 14 days of the riot, does not require police to pay business interruption losses, according to a Bain Dawes Ltd. report. The act also contains several other exclusions.

"As a result, it is estimated that on average people receive only about 30% of what they have claimed and settlement takes a long time," the report says.

For example, the Bristol police

## london line

have settled only 12 of 30 claims arising from rioting last year.

In Brixton, a section of London where some of the fiercest battles took place last month, 270 claims totaling 6.5 million pounds have been submitted to police. Officials there are becoming alarmed at the limitations of the act.

Businesses that have riot coverage built into their property and fire policies don't have to worry about the inadequacies of the Riot Damages Act, the report says.

### Reference guide

A reference guide to the British insurance market will be released

next March by City Financial Business Publications Ltd.

The Insurance Register will contain information on 600 insurance and reinsurance companies approved by the Department of Trade, 200 Lloyd's and non-Lloyd's brokers, more than 100 contact offices and underwriting agents and 250 loss adjusters and assessors.

Financial data, share and loan capital and a list of large shareholders will be included for most companies, along with a guide to directors, senior management and major British subsidiaries.

The book will cost about 50 pounds (\$100), plus 10 pounds (\$20) for packing and shipping. For in-

formation contact Ian McDonald Wood, City Financial Business Publications Ltd., Orient House, 42/45 New Broad St., London EC2M 10Y.

### New office in Ulster

LONDON—Opening an office in Northern Ireland is a big risk, but the Sedgwick Group thinks the rewards of helping insurance clients and generating new ones will be worth it.

"I just moved to Belfast," said A.B. Fleming, general manager of Sedgwick Northern Ireland Ltd., which opened its doors late June. "The people are very pleasant, very kind. Of course, there are troops around, but I walk around as freely as I can."

And Mr. Fleming said there's no fear of losing money insuring risks

in Northern Ireland, even if they are destroyed by terrorists.

"All insurers have a terrorist exclusion clause on fire policies," he said. "Therefore, insurance companies are not paying off (losses) in those instances so fire rates are quite soft, as in the rest of Britain."

"Rates for liability are high because awards are made by the jury and are, therefore, invariably higher," Mr. Fleming said.

Sedgwick has been doing business in Northern Ireland for some time, but this is its first move to establish a base here.

"The new office can now service existing Northern Irish and multinational companies without the extra expense to the client of flying to and from England," Mr. Fleming said. "Now we can help the client even more."

## action line

### 'Open rating' stumps reader

**Action Line:**  
Many articles concerning "open rating" have appeared in Business Insurance and other publications recently.

The trouble is that they offer no definition of "open rating."

Is it a system of insurance ratemaking without regulation and requiring no filings with a regulatory body?

Is it a system of "no prior approval" of rates that eventually must be filed?

There is a vast difference between the two systems and unless the reader is made aware of what the author has in mind, the articles have little meaning.

Daniel P. Roth  
The Roth Agencies  
New York, N.Y.

Mr. Roth: We have been using the term open rating regarding workers compensation insurance when reporting on the debate among insurance regulators over the use of rating bureaus. Some regulators believe each insurer should file its own workers compensation insurance rates instead of using uniform rates filed by rating bureaus such as the National Council on Compensation Insurance. The proponents of this kind of open rating say it will increase competition on rates among workers compensation insurers.

Regarding the regulation of these individually filed rates, Minnesota, the first state to pass open rating for workers compensation effective in 1983, will regulate rates by allowing insurers to file and use them subject to state Insurance Department approval. But they do not have to be approved before use.

Illinois Insurance Director Philip R. O'Connor, who advocates open rating for his state, also wants to regulate workers compensation insurance rates under the use-and-file system.

#### Address requests:

In response to numerous requests, the address to contact the New York Business Group on Health (BI, June 8) is 200 Madison Ave., Third Floor, New York, N.Y. 10016; 212-561-2051. The organization of New York businesses, insurers and health care providers started earlier this year to teach the business community about health care cost-control techniques and to provide a platform for business to speak with a unified voice on health care issues.



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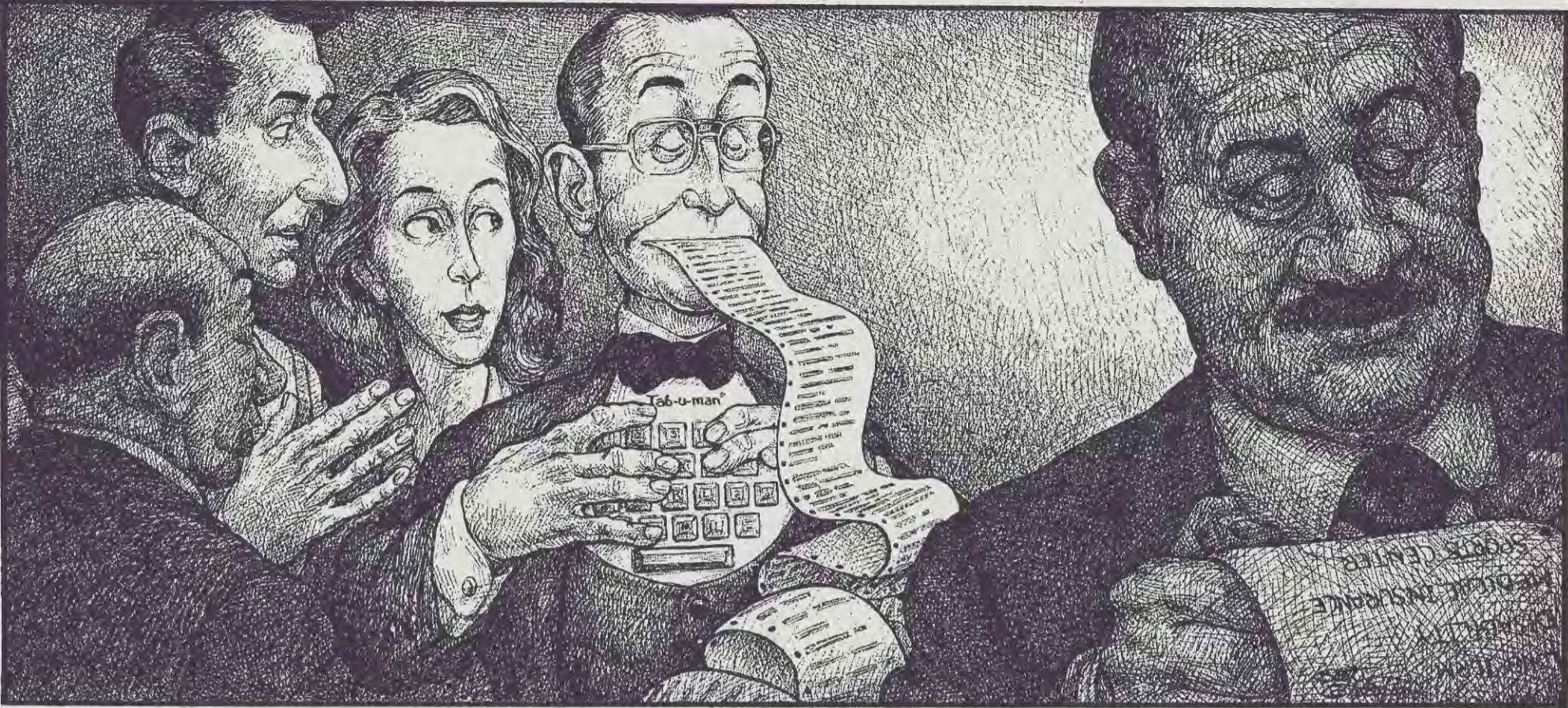


Illustration: Scott Gustafson

# Employee input

## Let workers assess benefit programs

By Carson E. Beadle

**K**NOWING HOW employees perceive their current benefits can be the key to achieving maximum impact from benefit plan changes. Such information is very useful in determining which changes are likely to be popular. Furthermore, employee participation in assessing income security needs goes a long way toward selling these changes.

An employee survey process called Climate Review has been developed that eliminates pre-conditioned responses and the risk of arousing expectations that frequently accompany written attitude surveys.

Here's an example how it works: A company was about to consider several traditional, but important, benefit changes that it thought coincided with employee wishes. As it turned out, however, the company's information had been distorted by the perceptions of various managers.

With millions of dollars involved in benefit plan improvements, a highly reliable survey of employee attitudes was deemed necessary. At first, a standard written attitude survey was considered. But the reliability of a written survey would be limited to the replies to the issues the survey draftsman identified.

A more reliable survey technique was needed, one that could determine just how employees really felt about their company, their compensation and

benefits. It also needed to determine what hang-ups existed, what misconceptions were smoldering, which benefit programs were most favored and what regional differences existed.

Thus, Climate Review was born. Climate Review would encompass a cross-section of salaried employees through 40 interviews involving 10 to 12 employees each.

**I**nterviews were to be given with no superiors or subordinates present. Group discussions would be held with employees representing a broad spectrum of age, job grade, sex and geography. Those employees who were to attend were selected at random from computer listings of peer groups. They were told of the meeting only a day or two in advance and were not asked to prepare for it. One objective was to assess as accurately as possible how employees really felt about benefit issues.

At the session, the interviewer explained that workers were being asked to give their views about benefits and compensation but the company would probably not be able to do everything workers thought it should. However, efforts would be directed toward areas suggested by the employees.

The employees knew that their comments would get back to management but that their anonymity would be preserved.

In almost every meeting employees hesitated, at first, to speak their minds. After they had become acclimated, some employees were emotional about issues of special concern. Without exception, however, the meetings fell into a pattern of calm discussion of the areas of greatest

It was management's plan, based on the messages it had received, to provide feedback to employees on what the company planned to do in the area of benefits. As a result, it was possible to create a feeling among the employees that their views were important.

Because there were no agenda and no prepared questions or answers, discussion centered on issues raised by the group. At the end of each meeting, the interviewer completed a personal survey sheet that identified every subject raised by participants, quantified the interest and quality of discussion on a scale of zero to five and made notes of issues of particular interest.

The results of 40 surveys took the shape of a huge matrix that identified and rated all the issues raised. Ultimately, there were three matrices arranged according to job grade, age and geographical data.

This way, the most important general issues, along with the grade, age or geographical groups most interested in them, were identified. It should be noted that there were few issues raised about which management did not already know. What distinguished this survey was that it quantified information and established priorities in a most precise manner.

An interesting anecdote concerned the only issue that was given a top rating of 5 out of 70 issues covered in the 40 interviews: a moving allowance entitling employees to be transferred back to their original place of employment. Those most interested in the benefit were head office executives over age 50.

Employees were also annoyed by a perceived lack of company interest about a salary administration program. Since the company prided itself on the program

management was shocked.

Analysis revealed that while the plan and staff training had been particularly effective at the outset, there was no ongoing training. Transfers, promotions and departures had seriously eroded the base of knowledgeable people in the field. The resulting lack of information about it was interpreted as a lack of emphasis on the program.

**E**mployee responses to interviewers were consistently frank and to the point. Participants were frequently colorful in articulating issues of special concern.

Their comments and the ratings described above added important credibility in supporting proposed changes and in obtaining management approval.

Upon completion of this study, the president wrote to all employees telling them the results and informing them of what changes would be made and those that could not. A listing of changes was developed in order of priorities.

While companies have succeeded without Climate Review, the greater accuracy and timeliness of this type of information is of considerable help.

First-hand information coming through a third-party monitor is most useful in establishing priorities and in clearing the air of nagging issues that a company may never have intended to address.

Feedback to employees on important findings of a climate review and the steps taken are essential and present an unusual opportunity for constructive communications with employees.

Third-party involvement ensures that findings are objective and, more importantly, are perceived to be that way

Carson E. Beadle is the regional director of William M. Mercer Inc. in New York.

**perspective**

# Sleuthing

## Risk manager turns Sherlock Holmes . . .

By Theodore Kolb

**R**ISK MANAGERS wear many hats. In one context they act similarly to air traffic controllers. Their job is to scan the horizon for exposures that could lead the corporate ship into a catastrophe and guide the ship safely out of danger.

In another capacity, the risk manager acts as an aide to law enforcement, using techniques designed to prevent attacks on corporate assets from inside and out.

Here's a case study about how a risk manager managed to guide his company's ship through such a storm:

In April 1979, an employee in the consumer credit department of a bank noticed an unusual amount of loan activity at one of its small branches. The computer report indicated that some 35 new unsecured loans, each for \$5,000, had been approved by the branch manager during a three-week period. All were to people residing outside of the trading area of this community bank in a somewhat rural area.

The employee called the matter to the attention of his supervisor, who in turn called the bank's auditing department. An investigation of the credit applications revealed that the branch manager had done little or no credit checking before approving the loans. Further delving into the branch records showed that most of the proceeds from these loans had been endorsed over to a single depositor who had recently been turned down for a large loan.

Armed with this information, the bank's auditors questioned the branch manager about the unusual circumstances surrounding this series of loans. The manager, a woman in her late 40s, had been with the bank some 15 years, rising from clerk-typist to secretary to assistant branch manager and, less than a year earlier, to branch manager.

She acknowledged that she had failed to follow the bank's credit-checking procedures in a few cases, but

emphatically denied any wrongdoing. Asked about her relationship with the unsuccessful loan applicant, she said only that he was a customer whom she had tried to help with a loan for development of a modular housing project in the area. She knew he had been denied the loan by the main office.

Under federal regulations for national banks, the bank was obligated to report the situation as a "possible or suspected fraud" to the FBI, the office of the Comptroller of the Currency and the bank's bonding company.

The FBI, on reviewing the case, immediately recognized the man as a former used-car dealer who was known to have attempted swindling several banks in a confidence game, arranging for branch managers to lend only to people he brought in, none of whom had acceptable credit ratings.

He apparently had been able to convince the managers that he would see to it that the loans were repaid out of the venture that the loans were funding. The borrowers, it was discovered, were paid a small cash fee for signing the notes, with assurance that he would see to their repayment. The suspected confidence man had twice been under investigation for fraud but never convicted.

The FBI felt that this time they might be able to stop him. They questioned the branch manager with little success. She admitted knowing that the people were brought in for loans and that the money was somehow going back to the suspect, but declared that she was acting within the scope of her authority to bring loan business into the bank. She firmly rejected any inference of complicity in the scheme or that she was benefitting financially from this arrangement.

The bank asked for her resignation for violation of bank rules, but it made no other accusations against her.

At this point the risk manager was first made aware of this alleged scheme, which the auditors then assessed to be a

potential loss of about \$175,000. The risk manager was faced with the following obstacles to recovery for this loss:

- The Banker's Blanket Bond Form 24 specifically defines employee dishonesty as "the manifest intent by an employee to defraud the bank." It appeared highly unlikely that the dismissed manager would admit to intending to defraud the bank, and in the absence of her cooperation it would be difficult to prove that she acted with deliberate intent.

- The bond also requires proof that the employee received financial gain and/or that she conspired with a non-employee to cause the loss, thereby benefitting the third party. Unless the FBI brought charges against both parties, it did not appear that sufficient evidence could be presented to collect from insurers.

- The bond requires a fully documented proof of loss to be filed within six months of discovery.

To complicate matters further, the FBI agent who originally handled the case resigned in June 1979. It was nearly a year before a new agent was assigned and actually working on the case. The risk manager applied for three extensions of time for filing the proof of loss, all of which were granted. As of July 1980, however, he realized that the best chance of recovery was not to depend on the FBI but to present a completely documented case to the insurer based on the evidence contained in bank records.

The risk manager enlisted the aid of the employee who had first noticed the unusual loans. Working with internal documents including the loan applications and collection files, they constructed a full dossier on each of the 35 borrowers. They tracked down non-existent employment references, false addresses and phone



. . . and solves fraud

numbers and other pieces of evidence that led to the conclusion that this was a deliberately planned operation.

In November 1980, the risk manager presented to the insurer a fully documented proof of loss. He also provided the identical documents to the local U.S. attorney.

With the help of the FBI and the evidence in these files, charges of conspiracy to defraud the bank were brought against the suspect, the branch manager and a third person who allegedly acted as a go-between.

All three were scheduled for trial in March 1981. Some weeks before the trial commenced, the insurer agreed to pay the full loss to the bank, exactly as submitted, less the applicable deductible.

The ring leader and his non-bank accomplice pleaded guilty, and both were ordered to serve prison terms. The branch manager pleaded not guilty, claiming she was pressured to make loans in order to keep her job. But the prosecution introduced several witnesses who obtained loans from her. She changed her plea and was given a suspended sentence.

As a classic case of bank loan fraud, this gambit has been tried many times. The outcome of this case was favorable to the bank, thanks to its own efforts to document the evidence in compliance with the terms of its coverage.

For risk managers, a word of advice: Know your policy and its conditions, especially those relating to exclusions, requirements in case of loss and time limits. Do not expect any help in filing your claim, either from your insurer or the government.

**legal briefs**

## Waiver of premium clause ambiguous

**A** WAIVER OF PREMIUM clause in the event of disability in a group life insurance policy was found to be ambiguous by a North Carolina appellate court. Thus, the court allowed a widow to recover benefits against an insurer.

John Gatewood was covered under the policy issued to his employer by Nationwide Insurance Co. Under a waiver of premium clause, insurance continued for a totally disabled insured if satisfactory proof was furnished within one year after he became totally disabled. If death occurred during disability, the policy provided that Nationwide would pay the life insurance benefits if notice of death was

given it within a year of death.

Mr. Gatewood became disabled from a work-related accident in 1973 and received workers compensation. His employment was terminated in August 1974. Although his employer knew of his disability, no notice of disability was filed with Nationwide. Mr. Gatewood died in December 1975 and notice of his death disability was given to the insurer in January 1976. Nationwide declined coverage. A trial court awarded the widow benefits.

The appellate court rejected Nationwide's contention that the waiver of premium clause created a condition precedent to Nationwide's liability—that it required

the insured to furnish proof of disability to the home office within the specified time. The court was satisfied that the intent of the parties was that employees were to deal exclusively with the employer.

Thus the court concluded that the clause as to requirements for initial notice of disability was ambiguous and should be interpreted in favor of the insured. *First National Bank, etc. vs. Nationwide Insurance Co.*, Court of Appeals of North Carolina, Nov. 4, 1980 (BI/05/Ju.-\$5).

A copy of the decision may be obtained by sending \$5 to Cases Unlimited, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the case number.



Theodore Kolb is assistant vp of Rhode Island Hospital Trust National Bank in Providence, R.I.

## datebook

**SEPT. 15-17. Financial Analysis for Risk Management Decisions** seminar in Chicago, sponsored by Cozzolino Associates Inc.; \$685, plus \$50 registration fee for each company. Carol L. Cozzolino, Cozzolino Associates Inc., 12 Chippenham Drive, W. Berlin, N.J. 08091; 609-784-7105.

**SEPT. 21-22. Life Safety Code Revisions** workshop in Denver, sponsored by the division for continuing education of the National Fire Protection Assn.; NFPA members, \$185; non-members, \$210. Also **Sept. 24-25** in San Francisco. National Fire Protection Assn., Batterymarch Park, Quincy, Mass. 02269; 617-328-9290.

**SEPT. 21-24. Fundamentals of Reinsurance** seminar in Irving, Tex., sponsored by the University of Dallas Risk Management Institute; \$395. Prof. Bruce D. Evans, University of Dallas, Risk Management Institute, International Center, Univ. of Dallas Station, Irving, Texas 75061; 214-579-5360/579-5299.

**SEPT. 24-25. Captives and Pools** conference in Warren, Vt., sponsored by the Risk Planning Group, \$550 per person, \$475 for each additional participant from same firm. Risk Planning Group Inc., Conference on Captives and Pools, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

**SEPT. 30-OCT. 1. Key Issues in Asian Insurance** meeting in Hong Kong, sponsored by the Institute for International Research; \$495; two or more attendants from same company, \$460. Ms. Mariam Mohamed, I.I.R. Ltd, 6/F, Sincere Insurance Bldg., 6 Hennessy Road, Hong Kong.

**OCT. 1-2. First Annual Self-Insurance Institute of America** conference in New Orleans, sponsored by the Self-Insurance Institute of America. Cost of conference depends on business of participant. SIIA, 1700 E. Dyer Road, Suite 165, Santa Ana, Calif. 92705; 714-979-6318.

**OCT. 4-9. Financial Managers Development** program in Bloomingdale, Ill., sponsored by the College of Commerce and Business Administration, University of Illinois; \$1,050. Mary R. Strack, Program manager, Executive Development Center, 205 David Kinley Hall, 1407 W. Gregory Drive, University of Illinois, Urbana, Ill. 61801; 217-333-4552.

**OCT. 11-14. Health Care Cost Containment** seminar in Palm Springs, Calif., sponsored by the International Foundation of Employee Benefit Plans. Members, \$440; non-members, \$515. International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

**OCT. 11-15. 1981 CPCU Annual Meeting** in New Orleans, sponsored by the Society of Chartered Property & Casualty Underwriters; \$185, for members & CPCU designees only. Joan S. Keys, Director of Public Relations, Society of CPCU, Kahler Hall, Providence Road (CB#9), Malvern, Pa. 19355; 215-648-0440.

**OCT. 12-14. International Risk Management** conference in Monte Carlo, Monaco, sponsored by the Risk & Insurance Management Society and the Association Europeenne des Assure de L'Industrie. Risk managers, \$675; other insurance industry personnel, \$775. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**OCT. 12-16. Lloyd's World of Shipping** conference in Hong Kong, sponsored by Lloyd's of London Press. For further information and cost, contact Roy Bake, Conference Division, Lloyd's of London Press Ltd., 16/17 Bride Lane, London, EC4Y 8EB, England; 01-353-1000, ext. 30.

**OCT. 18-22. 69th National Safety Congress** in Chicago, sponsored by the National Safety Council. Members, \$60; non-members, \$80 in advance. Congress Planning, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

**OCT. 21-24. International Benefits** seminar in Montreal, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 West Bluemound Road, Brookfield, Wisconsin 53005; 414-786-6700.

**OCT. 22-23. 4th Annual Aviation Law/Insurance** symposium in Orlando, Fla., sponsored by Embry-Riddle Aeronautical University; \$225. Mr. Bob Whempner, E-RAU, Star Route Box 540, Bunnell, Fla. 32010; 904-672-3439.

**OCT. 22-24. 34th Annual Profit Sharing Council** conference in Atlanta, sponsored by the Profit Sharing Council of America. Merl Douglas, Director of Public Relations and Communications, PSCA, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-3411.

**OCT. 23-24. Hospital Liability and Risk Management** seminar in New York, sponsored by the Practising Law Institute; \$275. Also **Nov. 20-21** in Miami. Practising Law Institute, Dept. SWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-6700.

**OCT. 25-28. 1981 Corporate Benefits Management** conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans. Members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

**OCT. 26-27. Eighth Annual Environment and Safety Briefing** sessions in Washington, D.C., sponsored by the Bureau of National Affairs Inc.; \$250. Environment Conference Secretary, BNA Education Systems, Suite S-602, 1231 25th St. N.W., Washington, D.C. 20037; 800-424-9890; 202-452-4420.

**NOV. 11-14. 1981 Public Employees** conference in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans;

members, \$360; non-members, \$435. IFEBP, 18700 W. Bluemound Road, Brookfield, Wis. 53005; 414-786-6700.

**NOV. 15-21. Security Trainers** seminar in Winchester, Va., sponsored by the Academy of Security Educators and Trainers Inc.; \$1,400. Dr. Joseph J. Grau, Dept. of Criminal Justice, Long Island University, Greenvale, N.Y. 11548; 516-299-2467.

**NOV. 15-17. Business Insurance Communicat-**  
**ing Employee Benefits** Conference in Chicago, sponsored by Business Insurance. The latest tips and techniques to effectively communicate benefits to employees. Registration fee includes Nov. 16 awards dinner honoring winners of the BI Benefits Communications competition. Valerie Adams, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 1-800-621-6877; in Illinois, 312-649-5242.

## Study says sprinklers are effective

**HARTFORD, Conn.**—Automatic sprinkler systems have an enviable record in controlling fires and limiting losses caused by fires, according to a study by Industrial Risk Insurers.

IRI recently analyzed 1,076 fire losses and concluded that the average loss in properties without sprinklers is four times greater than the average loss in areas equipped with sprinklers.

For 313 fires that occurred in areas without sprinklers, the loss figure averaged \$160,839, while the 763 properties that were equipped

with sprinklers had an average loss of \$42,575.

Sometimes, though, areas with sprinklers are heavily damaged by fire. When an automatic sprinkler system fails to do its job, it is generally due to one or a combination of the following:

- Sprinkler protection was not fully provided
- Sprinkler protection was impaired.
- Sprinkler protection was improperly designed.
- Sprinkler protection water supplies were inadequate.

• Sprinkler protection was overcome by external exposure.

To fully protect property, the IRI report suggests that all combustible areas should be equipped with sprinklers, not just those with an obvious fire danger. In fact, IRI recommends that non-combustible areas should also have sprinkler protection.

IRI, an association of 45 leading insurance companies, underwrites some 40,000 risks in all industries, including service and institutional risks. Insurance in force exceeds \$500 billion in 60 nations.

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# Health policy to cover foreign travelers

A new health insurance program may be a big help to Americans who are injured or become ill while traveling outside the United States.

Sometimes, even the best-designed group health insurance plan may be of little immediate help for someone who must be hospitalized in a foreign country.

"People think: 'I have insurance. I'm covered.' But then they need money on the spot to pay a hospital bill and then they can't collect," says Eric Rohtla, an international insurance consultant in New York.

Mr. Rohtla and Parkington Associates, a McLean, Va., wholesale insurance broker, have teamed up to create the new policy, which will provide fast reimbursement for people who are hospitalized abroad.

The policy, which was unveiled this month at a meeting of trade association executives in Washington, is initially aimed at trade groups that sponsor conferences in foreign countries.

The policy, which will be issued by Continental Corp., would provide up to \$300 a day in cash to cover medical and hospitalization expenses outside the United States.

It's unclear whether divisions of

## products & services

Continental or INA Corp., two companies with dozens of offices abroad, will administer the program. Mr. Rohtla said the program will be designed to get cash to injured or sick people within 24 hours of a claim.

A standard policy that would provide coverage for an illness that occurred during a seven-day period would cost \$14, including \$50,000 of life insurance. A 14-day policy would cost \$28.

The policy would cover all accidents and injuries except treatment for an illness for which the insured was hospitalized up to six months before the policy was bought.

Lawrence Willoughby, president of Parkington Associates, said the premium could be included as part of the registration fee a trade association charges for an overseas conference.

Mr. Rohtla came up with the idea of an overseas reimbursement health insurance policy for trade association members after hearing complaints from officials of the European Economic Community who had trouble paying hospital

bills when they got sick outside their home countries.

"A Dane with the EEC got sick in Switzerland," Mr. Rohtla explained. "The Swiss hospital demanded \$2,000 before they would admit him. The kind of insurance the man had didn't matter. The hospital wanted cash on the barrel-head."

Mr. Rohtla and Mr. Willoughby said they aren't sure how large a premium flow the program could develop, but they believe demand for the policy could rise as the number of trade associations that hold conferences outside the United States increases.

### Sinkhole coverage

Gordon B. Phillips & Co. Inc. of Orlando, Fla., now offers insurance for land lost to sinkholes.

The policy will carry limits up to \$1 million for a single parcel of land. Premiums are based on the frequency of sinkholes in an area. Coverage is underwritten by Lloyd's of London, St. Paul Surplus Lines Insurance Co., Zurich

American Insurance Co. of Illinois, Great Southwest Fire Insurance Co. and others.

For more information contact Gordon B. Phillips, Gordon B. Phillips & Co. Inc., 3113 Lawton Road, Suite 130, Orlando, Fla. 32803; 305-856-4991; in Florida, 800-432-4875.

### Gas detector

Heath Consultants has developed a new lightweight, hand-held Flame Ionization gas detector, the Porta-FID.

The Porta-FID has three ranges extending from 10 particles per minute to 1,000 ppm, full-scale. The battery-powered instrument samples up to 375 cubic centimeters of air per minute with a visual read-out, pulsating leak alarm and continuous audible flame-out alarm.

The Porta-FID field kit includes carrying case, battery charger, air filters, sampling probe, spare hydrogen/nitrogen fuel cylinder, transfiller for refilling portable bottles and full instructions.

Write Heath Consultants Inc., 100 Tosca Drive, Stoughton, Mass. 02072; 617-344-1400.

### Safety treads

Flex-Tred is a safety tread from Worcester Products. Flex-Tred has a pressure-sensitive adhesive backing that sticks to many surfaces.

Sizes of Flex-Tred range from 3/4 by 24 inches up to 3 by 36 inches. Cartons contain 50 pieces of a single size. Sixty-foot rolls of various sizes are also available.

For information contact Charles E. Hess, Sales and Marketing Manager, Worcester Products Inc., 1000 Spruce St., Wooster, Ohio 44691; 800-321-4936; in Ohio, 216-264-2844.

### New policy

The Continental Insurance Cos. have introduced a new business insurance package policy, Business Owners Xtra. The policy was developed especially for small commercial businesses.

The policy includes single blanket property coverage for building and personal property, comprehensive business income protection and \$1 million in liability limits. Property insurance deductibles are optional, along with extra coverage for plate glass and signs.

Business Owners Xtra will be available Aug. 1, according to the company.

For information contact William S. Cooper or William J. Killen, The Continental Insurance Cos., 80 Maiden Lane, New York, N.Y. 10038; 212-440-2280.

### Rent a manager

Growing companies now can "rent" risk and insurance managers from imaginAction Inc.

Personnel from imaginAction can provide total management services from finance and treasury functions to systems analysis and risk management. Then, as a client fills a vacancy or assigns staff, imaginAction helps smooth the transition using their own employees full time.

To receive more information write imaginAction Inc., 133 Lawrence Expressway, P.O. Box 2959, Santa Clara, Calif. 95055; 408-248-3006.

### Security control

Western Security Products has developed a new premise control device, the model WSP-214.

The WSP-214 rings a bell, operates an 18-volt siren driver and a 30-watt speaker. The audible signal has an automatic turnoff and reset. A regulated power supply keeps a gel cell ready for emergency use.

Up to four remote key switches with LEDs can be used in the panel. A 24-hour supervised emergency circuit is reset with the same key switch to avoid confusing separate switches.

For more details on the WSP-214 contact Tony Ciaccio, Western Security Products Inc., 210 W. Walnut St., Compton, Calif. 90220; 213-774-2395.

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# info

- The 18th edition of **Statutes Affecting Liability Insurance**, prepared by the American Insurance Assn., is available. Last issued in March 1977, the pamphlet contains digests of state statutes on negligence suits and liability insurance coverage. All state laws enacted before Jan. 1 are included, along with the time limitations on personal injury, property damage, wrongful death and medical malpractice actions. The pamphlet is available for \$8 to association members and \$10 to non-members, plus applicable sales tax. The cost includes future supplements. Write Publications Department, American Insurance Assn., 85 John St., New York, N.Y. 10038.

- **International Benefit Guidelines 1981**, a new reference book providing abbreviated information on employee benefits in 42 countries, has been published by William M. Mercer International, a division of William M. Mercer Inc. Information on each country includes government-mandated benefits, pension legislation, health plans and financing programs. The book groups countries into five regions with a general overview that describes the impact of economic, political and social factors on benefit programs in each region. For a free copy write William M. Mercer International, 1211 Ave. of the Americas, New York, N.Y. 10036.

- A leading member of Congress and top insurance industry officials share their **views on key workers compensation issues** on a videotape available to insurance producers and corporate officials. Prepared by the National Council on Compensation Insurance, the tape features selections from an address by Rep. John Erlenborn, R-Ill., and a roundtable discussion by top insurance company executives on various workers compensation issues including federal program costs, occupational disease, open competition and self-insurance. Participants in the discussion include William O. Bailey, president and director, Aetna Life & Casualty Co.; Melvin B. Bradshaw, president and chief executive officer, Liberty Mutual Insurance Cos.; and John A. Schoneman, president and chief executive officer, Wausau Insurance Cos. The videotape, which is edited, is available in 1/2-inch and 3/4-inch formats and costs \$50. To order contact the Public Affairs Department, National Council on Compensation Insurance, One Penn Plaza, New York, N.Y. 10019.

- A new directory of employee benefit terminology is available from the International Benefits Research Associates Inc. Entitled **Employee Benefit Terminology in the United States of America**, the directory defines and explains more than 300 terms that have special application to the employee welfare and retirement plan design and financing. The directory costs \$7.50. Contact International Benefits Research Associates Inc., Box 241, Old Greenwich, Conn. 06870.

- A new 12-page employee education folder, **Your Personal Backache Prevention Wall Chart**, is available from Dray Publications Inc. The folder opens up into a daily check-off chart featuring four basic stretching exercises designed to "recharge" your posture. A catalog of safety training materials, that includes ordering information and prices, is available from Dray Publications Inc., Route 5, Deerfield, Mass. 01342.

- Also available from Dray Publications is a **life-size fire-fighting poster**, part of a 1981 fire

prevention program, "Stop Fire." Other material includes a picture booklet showing step-by-step how most home fires start, a two-part fire escape folder covering both high-rise and home-escape procedures and a coloring cutout kit for kids. Samples and ordering information are available from Dray Publications Inc., Route 5, Deerfield, Mass. 01342.

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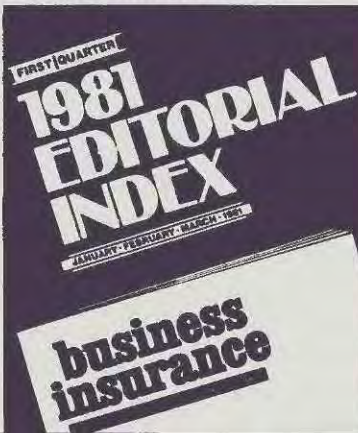
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# Burch resigns as James' chief executive

**William E. Burch**, president of Fred S. James & Co. Inc., is resigning as a member of James' office of the chief executive.

Chairman **Charles A. O'Malley** is now the sole chief executive officer of the firm. The action formalizes Mr. Burch's previously announced plans to relinquish senior management responsibilities and to focus his attention on the production of business from the office he is establishing in Los Angeles. He will continue as president

## comings & goings: industry

and a member of the executive committee.

**Other agent/broker changes:**  
**Edward J. Lunney** named president and chief executive officer of Rollins Burdick Hunter of Pennsylvania. He was previously senior vp of RBH's Pennsylvania subsidiary and manager of its Hershey office.

**Robert M. Cheverton** elected president of Bayly, Martin & Fay of San Diego. **Milton R. Cheverton**, who had been president, becomes chairman.

**John L. Goodyear** named managing vp of the Bloomfield, N.J., office of Alexander & Alexander Services Inc. **William D. Boyle** has joined A&A's Boston office as a vp and producer.

**Ralph L. Gremmel** appointed director of risk management for Fred S. James & Co.'s Southwestern region.

**Christopher G. Drivas** appointed vp of the National Boiler & Machinery Division of Fred S. James & Co. He will be located in Los Angeles.



Brown

**Michael N. Brown** promoted to senior vp of Corroon & Black/Kessler-Bodenheimer Inc.

**Donald A. Gemming, John S. Childress, S. Hobart Lockett, Raymond**

**S. Guidos, Charles Sabatino, David M. Santi and Walter S. Tomenson Jr.** named senior vps of Marsh & McLennan, Inc. **Anthony F. Fauerbach** named vp.

**Lawrence E. Gilbert** promoted to vp in the property/casualty department of Corroon & Black Co. of New York Inc.

**Charles Proctor** named marketing and risk management services manager of Marsh & McLennan Inc.'s Washington, D.C., office.

**John P. Gallagher and Stephen J. Weiss** appointed assistant vps of Johnson & Higgins of Ohio Inc. in Cleveland.

**William E. Morrow** joined Bayly, Martin & Fay's Los Angeles division as senior average adjuster and marine executive.

**Ruth Goodenough** promoted to account executive at Fred S. James of Texas.

**Mary Donna Doyle** named an associate of Barney & Barney in

San Diego. Also joining that firm was **Michael T. Walsh**.

**Jerome Aparton** elected senior vp of Clifton & Co., headquartered in San Francisco. **Thomas P. Barrett and Sandra J. Miller** were elected vps, while **Rebecca A. Breedlove, Gregory M. Doherty, Leland R. Lewis, Terry L. Murray and Edward M. Troy** were named assistant vps.

**John K. Handel** appointed resident vp of Markel Service Inc., a general insurance agency in Tampa, Fla.

**Charles L. Kaufmann, Kevin J. McGreevy and Jerome J. Reardon** made partners of Thomas McGee & Sons Insurance Agency in Kansas City, Mo.

**Hebert Friedlander, Timothy Gaffney and Frank Wheeler** appointed vps of Seitlin & Co. in Miami.

### Insurers

**Robert D. Nunes and Bruce E. Mackenzie** promoted to executive vps of UniCare Insurance Co., a workers compensation insurer in Orange County, Calif.

Underwriters Salvage Co. set up a new regional alignment of its salvage division. The regional managers are: **H. Frank Lively**, Southeast; **John C. Richmann**, Northeast; **F. Jack Garvin**, Midwest; and **Herman C. Peters**, West.

Philadelphia Manufacturers Mutual Insurance Co. in Valley Forge, Pa., elected four vps: **Daniel F. Downey**, vp of boiler and machinery underwriting; **John A. Kukulka**, vp and treasurer; **Robert W. Speers**, vp of boiler and machinery engineering; and **Paul E. Towhey**, vp and controller.

**Kenneth A. Jones** named to the post of director of fire, claims and data entry systems at Nationwide Insurance of Columbus, Ohio. **Gaylord E. Smith** named director of management information system development and **George A. Lett** named reinsurance officer at the same company.

**Harold R. Hopkins** elected vp of group pension services for Prudential Insurance Co.'s Group Pension Office Florham Park, N.J.

**David A. Cairns** appointed resident vp of INA Underwriters Insurance Co. and its subsidiary, Pacific Employers Insurance Co.

The New Hampshire Insurance Group appointed **Edward S. Colburn** director of the marine department. The New Hampshire Insurance Group is a subsidiary of American International Group Inc.

**Joseph P. McGrath** elected vp of excess and special risk underwriting for the U.S. Insurance Group, a Crum & Forster subsidiary.

**William C. Alexander II** promoted to second vp of the claims division for the Maryland Casualty Co. in Baltimore.

American International Cos. announced a number of promotions at various subsidiaries. At American Home Assurance Co., **Ernest J. Briesch** named Midwest regional property manager; **Jill Wendorf** promoted to Chicago casualty manager; **Sylvia Wilson** promoted to Chicago programs manager; and **Elizabeth Peterson** named Detroit property manager.

**Claudia Jursenas** promoted to Chicago manager of North American Managers. **John Holler** appointed Midwest regional manager for American International Adjustment Co. **Lowell M. Turner** named AIG's Indianapolis representative.

**Raymond D. Calgi** appointed president for Armco Financial Services-Latin America, a new position. Mr. Calgi will be located in the Coral Gables, Fla. office, supervising and developing Armco's

financial services businesses throughout Latin America.

**J. William Lee** named vp of underwriting for the Reliance Insurance Co.

**Roger A. Quigley** assumed responsibility for U.S. Insurance Group's casualty underwriting department. Mr. Quigley previously was vp of excess/special risk underwriting for USIG.

INA Underwriters Insurance Co. and the subsidiary, Pacific Employers Insurance Co., elected **Jon M. Livers** executive vp.

**Thomas A. Friedberg** joined The Reliance Cos. as senior vp in charge of Reliance Risk Management Inc., Reliance Special Risk Inc., reinsurance and the specialty companies, including the life companies, Reliance Standard Life Insurance Co. and United Pacific Life Insurance Co.

### Excess/surplus

American Excess Underwriters Inc. announced three promotions: **Paul Cooksey** named president, **Jerry Fox** named vp of underwriting and **Tom Ryan** named vp of finance.

**John T. Bogart** named senior vp of Falcon Insurance Co., the surplus lines subsidiary of Commercial Union.

Talbot, Bird & Co. Inc., an underwriting management company, elected **Joseph F. O'Doherty** a vp.

### Other suppliers

**Barry Clipsham** joined Professional Insurance Consultants Inc. as manager of the special risk/ocean marine department. Mr. Clipsham previously was a Lloyd's ocean marine underwriter.

**Stephen M. Solomon** named president of Seitlin Planning Corp., a Miami firm specializing in estate planning and employee benefits.

**Alan Cantor**, formerly of Marsh & McLennan, joined Warren,

McVeigh & Griffin of Newport Beach, Calif. as a senior consultant, a new position.

INSCO Insurance Services appointed **G.K. "Skip" Soder** as manager of its San Francisco branch.

**Thomas M. Maloof** appointed senior consultant at A.S. Hansen Inc. in its international office in New York City.

### Reinsurers

**Anson W. Clough** joined North American Reinsurance Corp. as vp of the treaty division.

National Reinsurance Corp. has promoted **Carl Zuanelli** to vp and casualty facultative manager.

**Glenn Bailey** has joined Booth, Potter, Sea & Co. as vp with the facultative department.



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# agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

## Personal lines

You may not see matchbook ads soon, but brokers are increasingly interested in personal coverages.



Illustration: Milt Priggee

## M&M aims new plan at the elite

NEW YORK—Marsh & McLennan officials haven't decided whether there's a big market for its carriage-trade personal lines program with Chubb & Son.

However, M&M's John Murphy says the program already has been successful for the nation's largest broker. The joint M&M-Chubb office in Roseland, N.J., has been able to consolidate much of Marsh's carriage-trade coverages and reduce the opportunity for embarrassing errors.

The program is one of Marsh & McLennan's answers to the problem of handling personal lines. It wanted to consolidate the business rather than sell personal lines as a loss leader or accommodation.

The program is aimed at sophisticated personal lines buyers who are willing to pay for risk management services similar to those offered commercial clients.

"If we were going to offer personal lines coverages, we had to move them to the front lines where we could do a competent job for all," Mr. Murphy says.

To do that, M&M decided it had to streamline the policy distribution system, improve service and create career paths that would put qualified people in personal lines slots.

Most importantly, however, M&M officials felt they had to limit the number of insurers they would use.

"We felt at that time that if we could find one company that saw the need for more innovative products, we could work together to decide what was offered. Our goals couldn't be achieved by working with 200 insurers," he says. "With that in mind, we talked to the executives at Chubb and established

Continued on page 24B

## Nationals choose different paths

By DAVE GALANTI

CHICAGO—The personal lines departments in the commercial insurance brokerage powerhouses pale when compared with the personal lines efficiencies of a State Farm agent or even many independent agents.

This may be changing, however, as big brokers re-evaluate their roles in selling personal lines coverages.

Some brokers, like many offices of Johnson & Higgins, almost shun personal lines business. Others continue to offer only "accommodation" business for executives of their large commercial clients.

A third group, though, appears to be aggressively entering the personal lines market—at least in restricted areas. Marsh & McLennan, for instance, is working with Chubb & Son,

Inc. to streamline its complicated, carriage-trade personal lines coverages through a joint office and may actively market the plan (see accompanying story).

It's an age-old question: Can a commercially oriented broker professionally recommend and service personal lines at a profit? Few are organized to handle the large numbers of policies and amounts of data on a low cost-per-policy basis.

Some brokers, like Frank B. Hall & Co., have devised ways to segregate certain personal lines business, such as offering employees of designated corporations a chance to buy personal lines coverages through payroll deductions. Others plug into association groups to sell coverages.

The majority of national houses, however, are still pondering just what their corporate

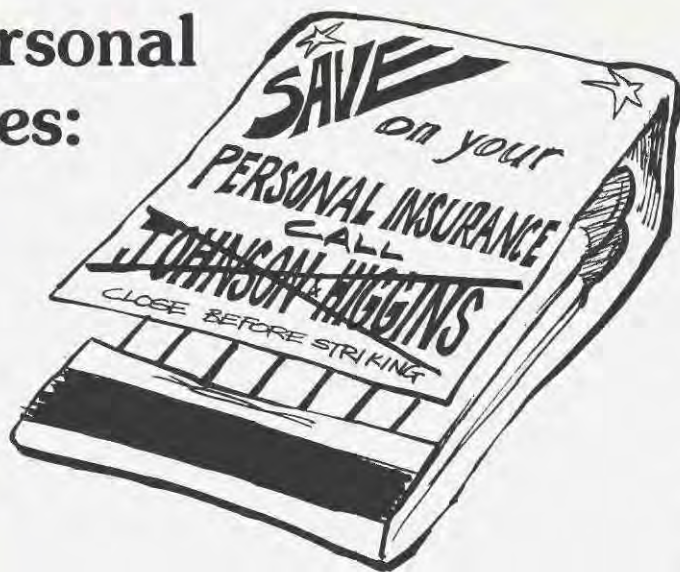
personal lines thrust will be. Reed Stenhouse, for example, still decides how much personal lines to write on an office-to-office basis. However, its New York corporate office is working to give a broker-wide flair to those goals.

"Some offices feel we shouldn't be involved in personal lines at all. Others have been fortunate in personal lines," says Financial Vp Phillip Goodman. "Right now, we are wrestling with the problem at a corporate level. We want to see if we can be competitive in price and still provide the needed services—today and five years from now."

The answer may depend on future computer purchases, Mr. Goodman adds. "In the short run, our small commercial needs may push personal lines to the back burner. But we just don't know yet."

Continued on page 24B

## Personal lines:



Continued from page 24A

Reed executives also are examining what other Reed companies have done worldwide. In Australia, for example, the broker has simplified personal lines through the use of computers and other means to the point where it is very good business, he says.

Alexander & Alexander also sells personal lines on an office-by-office basis. A&A, however, is looking for ways to consolidate the business into manageable hunks. On the horizon is a program that will offer employees of A&A clients supplemental life insurance and savings plans.

Under the plan, a supplemental personal lines program would be designed based on the A&A client's benefit package. Then employees would be offered the extra insurance through payroll deduction.

"Take an example," says Tom Burbank, vp-national life for A&A.

"Suppose an employee works at a firm that offers a benefit plan where the life insurance drops to zero after retirement at age 65.

"What we might sell in that case is a payroll deduction plan where we would offer current life insurance at competitive rates that could be converted to paid-off life insurance at retirement. Maybe we would attach a savings plan to the package. The benefit to the employee is that the package would be portable—he or she would be able to leave the company and still be billed at the new location. The benefits wouldn't end."

This idea isn't a new one, Mr. Burbank says. However, A&A only recently found the insurers with competitive products to make it feasible. It had to offer a better deal than competitors and it needed insurers that would service accounts nationwide to handle em-

ployees who moved.

Someday, the package might be expanded to cover disability income insurance. However, A&A is having trouble finding the products it needs, Mr. Burbank says.

Another big-broker approach is to offer a wide-range of personal lines coverages to corporate client employees through a separate office. Frank B. Hall of Georgia in Atlanta, for instance, acquires and sells insurance to employees of Delta Air Lines (A/BT, May 4).

In the Atlanta setup, a 30-employee office works exclusively on payroll deduction personal lines coverages. The Hall office is tied to all Delta offices nationwide by telephone, and employees are encouraged to use the service during the working day.

The primary insurer is The Travelers Insurance Co., and Hall prices the insurance as any other broker or agent normally would. The firm takes a standard commission from each policy.

But not every brokerage office wants to sell personal lines at all. For example, while Johnson & Higgins executives say there is no corporate policy on personal lines, several profit centers have opted to sell off their entire personal-lines books to smaller agencies.

In New York, for example, J&H even eliminated many non-group coverages for its executives, says vp Seth Faison.

"We're set up differently than some brokers. We've concentrated on medium-to-large commercial accounts and aren't the giant conglomeration of smaller agencies that some brokers are," he says. "Therefore, we haven't had as

# Brokers' solutions vary

much personal lines business.

"In New York, we handled personal lines as more or less of an accommodation," he adds. "After you have been in New York for a decade, you find you're insuring the grandson of a former treasurer of a former company. It's no longer valid accommodation business.

"We had to decide whether we should take up valuable floor space with personal lines business. When the space crunch comes, that may be one thing you can eliminate. In New York, we decided it wasn't as profitable as the floor space demanded. We aren't snooty about doing small business, but it's just too costly to do in New York."

Personal lines also doesn't have much of a booming future at Ryan Services Corp., says president Harold H. Hines.

"The handling of paper for the run-of-the-mill personal lines business is just not supported by the kind of organization most large brokers have," Mr. Ryan says. "I wouldn't want to set up that kind of system because the market is already effectively served.

"Payroll deduction isn't, in my opinion, a growth area for anybody because employers are concerned that unions will come to demand it. Brokers can do it well and give very good service. But I think it demands a lot of a risk manager to

undertake it as a corporate service. Accommodation business grows with corporate business, but it isn't booming."

Neither is Mr. Hines bullish on so-called carriage-trade business.

"Advertising for carriage trade business will generate business that needs enormous amounts of personal service. This type of service doesn't lead to careful attention to profit margins," says Mr. Hines. "In addition, this type of personal service wants to do business with friends and that's where the independent agent plays a role. It will be hard to move those accounts."

Fred S. James & Co. is more optimistic about personal lines.

"We actively look for it," says executive vp Timothy Mahone. "We claim to be a full-service broker and to be that you have to offer personal lines. We think it a cost of doing business.

"We try to do a good job of it. Our clients want more service than a direct writer can give them and that's what we try to provide. As you can be profitable with it."

James is against consolidation of personal lines into one office, adds executive vp Charles Keller.

"What we have to sell is the personal touch," Mr. Keller says. "We can keep that touch only by keeping control of the business in the various offices. We're happy with that approach."

## M&M, Chubb offer customized policies

Continued from page 24A

the program." The joint office isn't set up to offer homeowners a HO-5 policy. Difficult personal lines projects get the combined M&M risk management techniques and Chubb's experience.

"We can never compete with the direct writers on coverages and we don't intend to," Mr. Murphy says. "But we can serve people who are concerned about their coverages and need counseling. Premium size isn't as important as the client's perspective—we could be looking at a home worth \$100,000 or \$3 million. Anybody can deliver a HO-5 policy; we're looking for the person who wants more."

"We've always written a large share of personal lines business with Marsh," says Dick Stewart, senior vp and director of Chubb & Son. "We also always have written a great number of policies for the type of people we are talking about—clients with complicated exposures such as jewelry or fine arts."

The Roseland office is designed like an "L," says Mr. Stewart, with M&M employees sitting in one wing, Chubb staff on the other. Primary underwriting authority remains with Chubb, and the insurer provides claims work out of its individual U.S. branch offices.

M&M employees do much of the up-front work, such as inputting policy or application data into a computer. Once that work is performed, it is sent around the corner to the Chubb employees for underwriting, Mr. Stewart says.

M&M's Mr. Murphy says about 65% to 75% of its eligible personal lines business is now under the plan. The centralization assures M&M that those coverages, often written for important commercial clients, are not shoved under the table.

"We have to be in the position of controlling these coverages ourselves," he says. "We no longer want to run the risk of being only

one producer in an insurer's office where 40 others are competing with us. If we are going to market products to our commercial clients or to the person who sees insurance as a financial service, we can't turn around and tell them that their policies are in a computer in Fort Wayne and we can't get them out."

Mr. Murphy says M&M is trying to soothe the effects of the program on its other insurers by offering them a quarter-share of the program's reinsurance.

"We want to be fair, but we just can't work with 120 primary insurers and still be competitive," Mr. Murphy says.

Many times, an insurance program is established to fill a certain need. In this case, Mr. Murphy and Mr. Stewart aren't sure a big market exists outside of Marsh's present clients. They hope so, however.

"We're working on a marketing plan right now," says M&M's Mr. Murphy. "The first phase of this program was to become confident in the products we deliver. The second will be how to market it."

"I think you can safely say that major brokers don't do much marketing of personal lines. We think we can do it."

The program has given Chubb an increased share of Marsh business, but it is too early to tell whether the insurer will gain substantial new business beyond that.

"The factual answer is that we don't know if there is a large new market for this type of coverage yet," Mr. Stewart says. "So far, we're working to take the program Marsh offices countrywide."

"However, we both think there are people out there with substantial things to insure who want careful coverage and to be treated honorably. They don't want to get banged around by their insurance company. We think there are enough out there to keep the program alive. In any case, we're going to find out."

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## IIR, ACORD unite to standardize links

WHITE PLAINS, N.Y.—The Insurance Institute for Research and ACORD Corp. have joined forces to help bring ACORD's work on paper forms to agency minicomputer screens.

A joint standards committee of the two organizations has been formed to continue working toward an effective, widespread link between agency and insurer computers, says John W. Folk, IIR's president.

"As we researched what needed to be done in automation, we found it is extremely difficult to create an interface system between insurers and agents when the size and the manufacturers of those computers vary so greatly," Mr. Folk says.

### A/BT

"For instance, there are more than 50 different vendors on the agency side of things. With the insurance companies, there is primarily one (IBM), but the company computers are much larger than the agency ones.

"Therefore, we concluded there were two things we could do. One was to build a translator facility, which used to be called the 'black box,' to separate all the different signals and pass them along. The other was to help vendors make changes in their systems that could avoid the use of that translator," he says.

The latter probably will be adopted, Mr. Folk says.

"Once they are established, more and more vendors will agree to use the standards," he says. "By the end of the decade, there may be little use for the black box as the computers grow more and more alike. In any industry of this sort, at first vendors experiment with many different plans, then narrow their lines as the best ideas win out over the poor ones.

"It's somewhat like the history of the telephone. At one time there were 50,000 telephone companies in the United States. Today there is primarily the Bell System."

The communication standards were the first to be established by the joint committee, Mr. Folk says.

The vendors will be asked to build these standards into their systems.

The committee will also work on a data dictionary to standardize common terms, then start on transaction standards that will turn ACORD paper forms into electronic forms.

He says the data dictionary is expected to be completed by October and the transaction standards will be completed by early next year. After that, the committee will turn its attention to working on new forms and maintaining the old ones.

"We feel that there will always be the need for a group to standardize forms and terms, even after our initial work is completed," Mr. Folk says. "So this will be an ongoing project. We'll maintain the standards, and when someone has a new project or new form to complete, they can come and work with us to make sure it is compatible with the industry's computer systems."

Eventually, the committee might lead to the merger of ACORD and IIR, he adds.

## IIAA offers tape course

Agents interested in the pros and cons of commercial lines mass marketing may be able to answer some of their questions via a new tape offered by the Independent Insurance Agents of America.

The tape, "Commercial Mass Merchandising, Past and Present," was developed because the agency association officials felt that the concept of mass marketing commercial lines of insurance has often been confused with personal lines mass marketing.

The tapes, which cost \$9.95 each, are available from the IIAA, 85 John St., New York, N.Y. 10038 or call 800-221-7917.

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# RECRUITING PRODUCERS

Independent agencies have for years sought efficient ways to hire new producers. Recently, agency associations and franchise groups have entered the battle, serving as central recruiting clearinghouses to reduce the chance of costly hiring errors. As-

sociations in Connecticut, Florida and Wisconsin are going after college graduates or mature career changers to staff new producer positions. The ISU franchise organization has begun a program to interest college sophomores in insurance sales.

## FLORIDA: Upstarts aid FAIA agencies

TALLAHASSEE, Fla.—In the upcoming year, a lot of insurance agencies and insurers are going to look closely at 14 Florida "upstarts."

These 14 college graduates are in a pilot training program sponsored by The Last Manifesto and the Florida Assn. of Insurance Agents. The sponsors hope to show once and for all whether an agency association or other industry group can serve as a recruiting clearinghouse for new agency producers.

Their goal is to find an efficient way for small, independent agents to recruit badly needed personnel, says Steven C. Goodfellow, the FAIA's director of management programs.

In addition, the FAIA hopes the pilot program will yield some yardsticks to measure the potential success of applicants so one- and two-producer agencies can minimize the chance of making hiring mistakes.

"The project started last summer when I traveled around Florida speaking to our association members," Mr. Goodfellow says. "They told me they were having a difficult time finding new personnel. We got the general feedback that each individual agency can't travel around the state or advertise in every newspaper to find producers. The expense would be enormous.

"At the same time, (FAIA Executive Vp) Tom Johnson and (FAIA General Counsel) Frederick Karl were finding that insurers were also concerned about the situation," Mr. Goodfellow adds. "They were worried about agency perpetuation especially because there are a lot of agents nearing retirement with nothing to do with their agencies except close or sell out. The companies felt it would help if those small agencies got an influx of new blood."

The FAIA outlined a pilot project last November to see if it is possible to recruit good new talent and place them in large and small agencies.

That project was approved in February by the governing committee of The Last Manifesto, a group of 20 insurers and the FAIA that focuses on problems of interest to both insurance companies and agents. The organization agreed to fund nearly 80% of Mr. Goodfellow's time to arrange the program, plus travel, organization and tabulation fees.

As a result, Mr. Goodfellow says he is practically a full-time recruiter, sales manager, training coordinator and mother to the 14 finalists, who were selected out of an ini-

tial pool of 218 candidates.

"We started on college campuses," he says. "I sat in hotel rooms after running ads in local newspapers asking people to call our direct line if they were interested in an insurance career. We used professional business groups to provide us a forum to overcome the inertia of many young people to become insurance producers."

After a candidate showed an interest in the program, he or she was interviewed several times, given a personality test and asked to meet with the agents participating in the pilot program. The agents foot the bill for the participants' salaries and progress.

Fourteen men accepted offers to participate in the program; three women declined.

After being shown off at the FAIA's convention in June, the 14 "upstarts" began work in early July. Each is under the guidance not only of agency principals, but also the FAIA and Mr. Goodfellow, who has provided each agency with different development programs suited to individual goals. Most common, he says, is a program that starts in personal lines and finishes with small commercial lines in about a year.

Of the 14, three have sales experience and two have experience with property/casualty insurers. Five have insurance degrees, while

the other four have neither sales nor insurance backgrounds.

They all are aggressive, and they are being encouraged to become even more so. The 14 upstarts are pitted against each other in a 46-week competition measuring their success in achieving their individual goals. They also will be pitted against a group of 14 "seniors," agency veterans with one or more years of experience who will report their sales figures during the 46-week competition but receive no guidance from the FAIA.

"The upstarts will be competing on how far they go toward earning commissions that equal or better their first year's salary or draw," Mr. Goodfellow says. "In all, we think the 14 will bring in \$1.5 million in premium in the first year.

"We have gone to great effort to make sure those goals are fair," he says, admitting there is variance in the amount of compensation each of the upstarts is scheduled to receive. "We took a look at the agency, the market, premium levels in the area and the person's experience before coming up with the goals."

The 14 upstarts and the 14 seniors will report the following achievements weekly to the FAIA:

Continued on page 24C



Steven Goodfellow hopes to prove associations can recruit new producers.

## Football player turns upstart

TALLAHASSEE, Fla.—Keith Jones used to be a football player for Florida State University. Now he's an upstart for The Last Manifesto.

Although his father is the owner of an insurance agency, Mr. Jones didn't automatically head towards an insurance career.

"My father owns an agency, but if anything that should have driven me away from the business," Mr. Jones says. "People were always complaining or calling my dad at home. But insurance did kind of fascinate me.

"Then I went to Florida State on a football scholarship. FSU also happens to have a good insurance program and that solidified things. I decided to go into insurance."

However, Mr. Jones says he didn't want to work for the family agency because he was interested in commercial rather than personal lines sales. When the school's Insurance Day arrived last year, he talked to a couple of agencies, five or six insurers and an adjusting bureau. Nothing came of it, until he heard about the Florida Assn. of Insurance Agents-Last Manifesto pilot program.

After interviews, personality testing and talks with three agencies,

he was hired by John E. Hunt & Associates in Tallahassee.

"If I would have gone home, I would have been stymied," he says. "The agency is primarily personal lines, and my dad works differently than I want to. I also wanted to stay in Tallahassee."

Mr. Jones says he has three goals for the future: to keep learning (he is enrolled in Chartered Property & Casualty Underwriter and Accredited Advisor in Insurance courses), devote time to production rather than paperwork and let hard work keep him and his family a step ahead of inflation.

Someday, Mr. Jones says, he will obtain some of the control of his father's agency.

"When that time comes, I would like to be active in it," he says. "But at the same time, I don't want to be tied to it. I think I am going to enjoy what I'm doing here."

For now, he's working on his training and discovering the ins and outs of working with a new agency.

"My goals are not specific," Mr. Jones says. "I don't have a goal to make so many dollars in so many years. If I work hard, the money will come. My biggest job today is to meet people and get business." ■

## WISCONSIN: IIAW recruit plan born



IIAW hopes to recruit mature career-changers for agency producer posts and other insurance positions, says executive director Paul Mast.

MADISON, Wis.—Like many agency observers, Paul Mast is concerned that the average principal spends only 7% of his time selling. He's also concerned that the average producer doesn't do much better at 17%.

The executive director of the Independent Insurance Agents of Wisconsin says he realizes neither he nor his association will change the sales habits of principals or established producers. But he and John A. Popp, the group's education and training coordinator, hope they can create a new wave of young producers who will spend more time on sales.

So, like organizations in other states, the Wisconsin group has established a recruiting and training program for new producers and other agency personnel.

we want to select the persons, place them and then motivate them to sell," Mr. Mast says. "It was a program we really started about eight to 10 years ago. But it just hasn't gotten off the ground as well as we would have liked."

The resolve and resources to launch the program now exist. The association wants to help its members avoid mistakes when hiring new people, he says.

"We don't want to tell people to hire producers, then give them a manual and send them out on their own without much supervision. That way, if they make it, it will be in spite of the training, not because of it. What we want to do is put the recruiting and education problems into one program."

No potential producers have been recruited yet, Mr. Popp says. The association has just finished

ing new producers that will go to all its members. The guide outlines the program and then details what producers should learn week by week for one year. Tips on interviewing are also included.

The week-by-week program lists the supplies and materials that agencies will need to help their new producers complete the weekly goals. Still, the plan can be adapted by agencies to meet their individual needs, Mr. Popp says.

"We want to work with the agencies if they already have a good training program themselves or in conjunction with an insurance company," he says. "We'll take our program and dovetail it into theirs.

"No matter what the course, however, in one year the agencies should benefit from a new multiple

# Connecticut:

## Veteran program assists 225 firms

WETHERSFIELD, Conn.—The Independent Insurance Agents of Connecticut knows how to recruit and train producers.

Although many state agency associations are just starting their recruiting programs, the Connecticut group has been providing that service for seven years.

Nearly 250 new producers have graduated from its 13-day orientation school. Graduates have worked for more than 225 different agencies in the state.

The main goal of the project is perpetuation of agencies, says Warren C. Ruppap, agency development director for the IIAA. Mr. Ruppap wants to see a continual stream of new blood flowing into Connecticut agencies.

"In the past two years, we have seen more new agencies and faces want to participate in the program than ever before," he says. "Many joined the association because of the program. It is definitely growing, and some of the larger agencies have used it more than once."

The association sees its role as a liaison between agencies and potential producers, Mr. Ruppap says. Like its Florida counterpart (see story, page 24E), it wants to reduce the risk that its agency members will hire the wrong person.

"Seventy-five percent of our membership is the one- and two-producer shop," he says. "These are really the ones I want to help. They probably have never hired someone before, and it's a big gamble for them. That's why we screen and test as much as possible."

Most of the 250 graduates either have been first hired by an agency and sent through the program or have been referred to the association for help by insurance industry employees. Last year, a new emphasis on campus recruiters netted the program three recent college graduates.

Mr. Ruppap admits that's not many, but he hopes for better luck as the program progresses. He will continue to tell the prospects that 70% of the program's 250 graduates were still in the agency business as of last November.

The program often begins with the agent who wants to hire a new producer, he says.

"That agent will probably call us, then we go out to talk about what his goals are for the agency: whether perpetuation is a problem, or he just wants more free time or to increase sales.

"Then we do a four-page agency profile that gets into what type of person the principal would like to hire. Maybe the principal wants to hire a young woman or a 40-year-old man with technical expertise. It all depends, but the profile gets them thinking."

Principals are urged to look at their own employees first. There may be a bright person already on staff who could be trained. If not, the principal goes to the association, which begins recruiting. The association screens candidates and refers them to likely employers.

"I play the matchmaker role in a lot of cases," Mr. Ruppap says. "We test and screen potential producers and then refer good candidates to good agencies."

The program has found more agencies seeking employees than good potential producers to send them, he says. A large pool of applicants might discourage those waiting, but that won't be the problem soon, he says.

"Our 13-day basic course is held every other month and is limited to 12 people per session," Mr. Ruppap

says. "Right now, we're averaging about eight people per session. There are only so many people interested in agency sales that would do a good job."

Eleven of the 13 days are spent teaching insurance products, one day is used for sales training and another is spent taking the Connecticut agent's examination. Mr. Ruppap says he believes his candidates can be productive to agencies at that point.

"The agency then has to acquaint the new producer with the office structure and the like, but we think the person is ready to start doing the job," he says. "The

rest of the education is pretty much left to the agency, but we do offer a system of guidelines as to what to do with the person from there. Among other things, we may recommend the new producer take designation courses or go to a company school."

As in other states, the IIAA recommends that principals spend at least one hour per day with new trainees to teach, help and ensure that they stay in the profession. Most of the 30% of the graduates who are no longer with agencies quit because of bad management, program officials say.

"It's a big investment for any

*Continued on page 24L*



The upstarts' graduation picture

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# Florida agencies hire 14 FAIA upstarts

Continued from page 24E

- The number of contacts made, both on the phone and in person.
- The number of expiration dates obtained.
- The number of insurance proposals made.
- The number of sales made.
- The dollar value of those sales for which the agency has received payment.
- The dollar value of the commissions on those sales.

The figures will be further broken down into the amounts of each category that come from current policyholders compared with new prospects.

Agencies participating in the program had to sign a contract stipulating that principals would spend at least one hour a day with the producers and send them to FAIA education sessions when required, Mr. Goodfellow says. Agencies chosen ranged from \$500,000 to \$55 million in annual premium volume.

The results, it's hoped, will indicate whether such a program can succeed, Mr. Goodfellow says. "With 14 people we don't expect to get sound statistics about such a program," Mr. Goodfellow says. "Still, it will give us indications. We will start to see whether an outside force can have an influence over the choice and development of young producers. We will start to see whether this type of program can work for independent agents.

"We can also begin to determine whether agents do better in, say, southern Florida more than in northern Florida, or whether it is possible to start untried people directly in commercial lines with any degree of success."

The upstarts will get together four times a year to share problems and solutions, Mr. Goodfellow says. They will also be urged to ignore some of the habits of their older producer peers, who have come under criticism for not being sales-minded enough.

"We want the upstarts to stay away from the

bad habits of their predecessors," Mr. Goodfellow says. "We have already run into conflicts at a sales meeting where each producer reported how many cold calls he made. In the first year, we require our people to complete about 750 hours of study plus make 20 new phone calls a day. That's more than many producers are used to making.

"Fortunately, the reaction of the upstarts seems to be to wonder how the old guys make a living," he adds. "They don't want to earn \$18,000 and play golf. They want to earn \$180,000 and play golf. The infection, if it spreads, will hopefully go in the other direction —toward the older producers. We tell them not to do as the boss does."

Mr. Goodfellow would not say how much the program costs. However, he says such programs could eventually cost agencies 10% to 20% of the commission income that the new producers bring in during their first year.

# IIAW plan to recruit nears start

Continued from page 24E

lines/personal lines producer."

Although some of the details have not been finalized, ideally the IIAW will recruit a group of potential producers, then test their personalities against those established for agency sales. An orientation would follow to teach the newcomers the basics of the industry. Then the training and hiring processes would begin.

Psychological testing is a big part of the recruitment process, Mr. Mast says.

"Experts say that 80% of the people in the U.S. are mis-employed," he says. "I wouldn't disagree with that and it's scary. The sooner you sort out whether you are right for insurance sales the better, and these tests can give a good indication of that."

"In addition, once the in-agency training period begins, we will use a four-week review period to see if the new people are making it," Mr. Popp says. "Agencies tend to carry new people too long. With the direct writers, if in three months you aren't working out, you're out. We don't want our agencies to make a \$30,000 mistake."

The basic orientation session will probably last one or two days on a weekend, Mr. Popp says. Initial training would be through a correspondence course so people could retain current jobs while waiting to be hired by an agency. The program will not emphasize college graduates, he adds.

"The university system is statewide and we have contacts there," he says. "But we don't want to rely on it. The insurance industry hasn't historically been attractive to those students. And it is hard for our independents to pay as much at graduation as graduates can get elsewhere.

"Recent graduates also aren't thinking of careers," he adds. "They're not looking 10 years down the road. They're looking for the highest salary available. So we'll be looking for maturity and a history of success in a candidate's present position. Some say 27 is a good age, but some 23-year-olds are pretty mature already. We hope we can romance those people with the idea of a career path program or the possibility for more independence."

Mr. Popp says he hopes he can monitor each newcomer's progress so he can tally successes and adapt the training as it goes on. He also hopes the smaller agencies will participate.

"We're hoping to benefit the smaller agency. The large agencies, because they have the money, are probably already doing the right things in this area. The small agents don't have the money, don't know what to do and don't know how to evaluate prospects."

Mr. Popp says a few large agencies and a few small agencies have already indicated an interest in the program, which he hopes to have operating by fall. There are five or six prospects already wanted by individual agencies who will be the first through the training aspects of the program, he adds. Recruiting of candidates probably won't start until 1982.

"We have to sell the program," Mr. Mast says. "But once it is established, we can expect to have good commitment from the agencies. Many of these guys are operating in the dark when it comes to new producers. We intend to supply some light."

# System..

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# ISU:

## Franchisor gets interns a look at agency jobs

SAN FRANCISCO—ISU Cos. isn't waiting to recruit college graduates; it's grabbing them at the undergraduate level.

The agency franchise organization is using some of its fees to begin a college internship program for college sophomores and juniors, says Mary Taylor who is coordinating the project. Thirteen sophomores are participating in the first year of the program at 13 California agencies that are part of the ISU organization.

"The program has both long-term and short-term goals," Ms.

Taylor says. "In the short run, it's designed to give sophomores a shot at looking at the independent agency business. For the long term, however, we hope it will be one solution to bringing new talent into the business permanently."

Interns are led through a 10-week program. The first week is spent in training under the guidance of ISU at its San Francisco offices. Then the interns return to their individual agencies to perform a variety of tasks, she says.

The 13 were culled from an initial applicant pool of 56 sophomores, she adds.

"We began searching through business school or insurance school contacts at the universities," Ms. Taylor says. "They did some screening for us and recommended people who might be good for the program. Then those recommended met with our territorial consultants, who screened them further. I sorted out the final group and placed them with agencies."

Most of the applicants either had a relative in the insurance business or were looking for "something that the whole world wasn't into," Ms. Taylor says. ISU sought students seeking business or insurance degrees because the organization felt that indicated the student wanted a business career.

ISU picked up the recruiting costs, but the individual agencies are responsible for salaries and transportation to and from the training session. Ms. Taylor says she recommended pay of \$200 to \$250 a week to be competitive with other jobs and insure that principals would try to get their money's worth out of the students.

"We wanted to get these students committed to the insurance agency for the long haul," Mr. Taylor says. "It would be hard for them to do that if they were doing inconsequential work. We wanted to make sure there was enough agency commitment to ensure real progress this summer."

At Ellingson & Jones, one of the ISU agencies participating in the program, intern Bob Luttrell has worked with the agency's computer system and is preparing to go out in the field to pave the way for homeowner policy sales.

"Some of the work on the computer, like entering our commercial fleet data, has been cumbersome and mundane, but he's taken to it well," says Ellingson & Jones General Manager Kenneth Brenk.

For the next two months, however, he will go out into the field to calculate replacement costs for homes in the Napa Valley near where the recent fires destroyed many homes.

"The homes destroyed there were in general not insured to their value, and we've been advertising a program where we will evaluate nearby homes," Mr. Brenk says. "Bob will do that, thereby planting the seed that may result in us insuring the home."

Mr. Brenk says he couldn't be happier with the program. He has already offered part-time employment and a job next summer to his intern.

"It's been fantastic," he says. "We've been able to get things done that we wanted to for 12 months but haven't been able to assign a person to do it. He's also got the personality for sales and is looking forward to getting out into the field."



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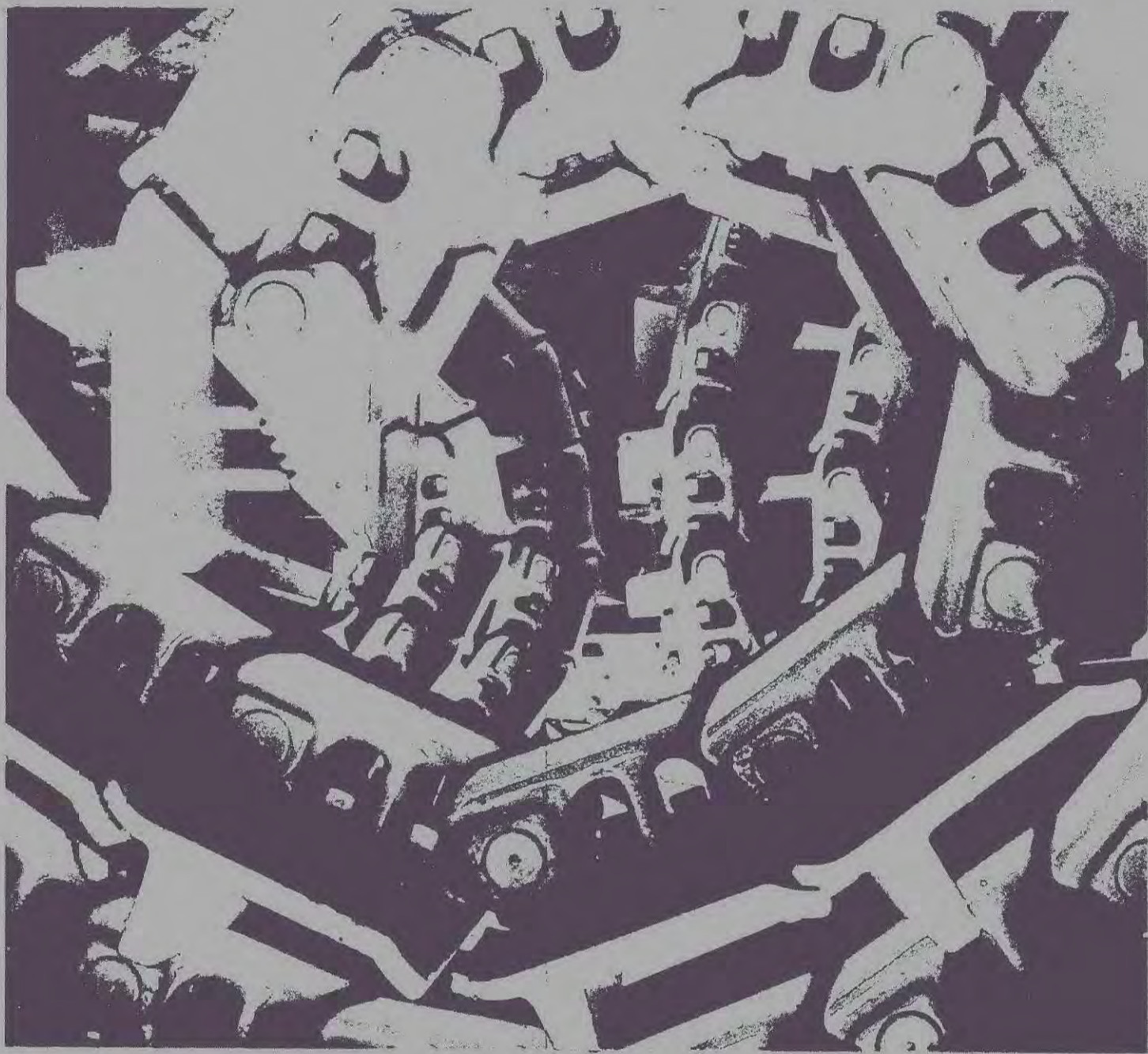
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# Seek agency results through and for people

By VINNIE MANAKTALA

Leadership has been described as "getting results through people." We believe that getting organizational results through people, while helping get results for the people at the same time, is not only possible but must be done if both the people and the organization are to succeed.

Peter Drucker has described management and leadership as "the lifting of men's vision to higher sights, the raising of men's performance to a higher standard and the building of a man's personality beyond his own imagined limitations."

The role of management in any organization can frequently be complex, difficult, and frustrating. Yet effective management responds to the challenge and is rewarded by continuing organizational success. Unfortunately, we sometimes overemphasize the structure,

Vinnie Manaktala is president of Personal Development Services, an Indianapolis consulting firm.

organizational planning and daily detail of management. Far too often we neglect the inescapable truth that management is, above all else, the art of leading and motivating people. It is these areas of management concern that offers the highest returns.

If you are to make maximum use of the untapped potential of your people, you must motivate, not manipulate. You must base your relationship on a fair exchange. Compensation, both tangible and intangible, must be fair. It must be proportional to employee performance, and this demands as equitable a means of em-



ployee assessment as you can realistically develop. It is not idealism but good business to share the success of your organization with those who make it successful.

The emphasis must be on leading, not dictating; on persuading and communicating, not coercion; on principles, not rules. Trust and delegation must be mastered. Organizational goals are a must, simply because goals are easier to manage than people. To obtain maximum benefits from goal-setting and from the creativity of your people, they should have reasonable participation in helping to set the organization's goals.

You cannot "rescue" or do for your employees what they can do for themselves. You can "help" them grow by setting the example and showing them how.

This is not soft-minded management; it is strong-minded management based on establishing specific, measurable goals and then tracking results. It is a folly to think that emphasis on people and emphasis on organizational success are somehow in conflict. People who achieve make up organizations that achieve. There is a mutual attraction that benefits both.

Many consider the following list to constitute the most serious and common management problems. They have referred to them as the "Seven Deadly Sins of Management":

- **Lack of clearly defined goals.** Failure to adequately establish and communicate organizational goals and failure to consider the impact to personal goals.
- **Not realizing the importance of attitudes.** Mistaking "skill to work" for "will to work," "IQ" for "I will."
- **Unwillingness to delegate.** Delegation is essential to teamwork and growth.
- **Loss of hearing.** People want recognition. They want to be listened to.
- **Serenity management.** The misconception among agency managers that bliss is synonymous with growth. All growth in agencies or brokerages involves action and risk.
- **Poor time organization.** Not knowing what to do next.
- **Procrastination.** Knowing what has to be done but not doing it.

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Certainly, it is not always a simple or easy job. Equally certain is that management involves not only great challenges but also great satisfactions.

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## Attitudes to remember

For a successful management system, management must adhere to "essential attitudes," Mr. Manaktala says:

- Top management must be committed to the system and actively involved in explaining, coordinating and utilizing the system.
- Constant attention must be paid to details.
- Feedback sessions between superior and subordinate must be an integral part of the system.
- Reinforce identification with the goals program as "my goals program" rather than the "company's goals program."
- Problem areas must be anticipated and dealt with as they arise.
- Incentives, both tangible and psychological, must be available to achieve company goals.
- Constant encouragement should be provided to set personal goals. Goal-setting and achievement must be experienced at a personal level for the company goals to be meaningful.
- Remember that the MORE system is not a quick fix for all organizational problems. It may take two to five years to implement a successful system.
- During the initial period of implementing the system, productivity may drop a little as people feel some frustration and inertia toward new behaviors and methods. Be patient and strict.
- The basic elements of trust, mutual respect, team spirit and clear communication must be present to give the system a chance to work.

## Test your ability to manage

The checklist below will help you judge how effective your management practices are. Successful managers can check off most of the following attributes of a good system.

- 1. Purpose or mission.**
    - \_\_\_ Defined and written.
    - \_\_\_ Communicated to all employees.
    - \_\_\_ Displayed where employees are exposed to it regularly.
    - \_\_\_ All employees can recite it.
    - \_\_\_ Employees know what it means.
    - \_\_\_ Part of the orientation program.
  - 2. Long-range goals (1-5 years).**
    - \_\_\_ Defined and written for the overall organization.
    - \_\_\_ Defined and written for each department and division.
    - \_\_\_ Communicated to all employees.
    - \_\_\_ Employees know what they mean.
    - \_\_\_ Updated regularly at no longer than one-year intervals.
    - \_\_\_ Specific dates set for goal reviews.
    - \_\_\_ Continuous involvement by top management.
  - 3. Short-range goals (0-1 year).**
    - \_\_\_ Defined and written for the overall organization.
    - \_\_\_ Defined and written for each department, division or work group.
    - \_\_\_ Detailed plans for each significant goal.
    - \_\_\_ Meet the SCRAM criteria: are specific, consistent, realistic, actualizing and measurable.
    - \_\_\_ Communicated to all concerned.
    - \_\_\_ Updated on the following schedule:
      - 1 year goals—quarterly review.
      - 3 month goals—monthly review.
      - 1 month goals—weekly review.
      - 1 week goals—daily review.
    - \_\_\_ Specific dates set for goal reviews.
  - 4. Organizational structure.**
    - \_\_\_ Organization chart defined, functional.
    - \_\_\_ Balanced between flexibility and clear guidelines.
- Continued on page 24L*



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## Test your aptitude to manage agency

Continued from page 24K

- Employees understand the structure.
- Opportunities for delegation.
- Opportunities for social interaction.
- Managerial/supervisory authority and responsibility in balance.

### 5. Job descriptions.

- Chain of command clear.
- Orientation procedures outlined.
- Work relationship spelled out.
- Overall responsibilities defined.
- Specific duties or functions

listed.

- Expectations of behaviors, effort and results communicated.
- Skills required to do job listed.
- Development plan for progression outlined.
- Communication channels available.
- Job description updated every year.

### 6. Performance review.

- Specific schedule established.
- Performed at least every six months; probationary employees reviewed at three-month intervals at least.
- Separate performance review from goals review and salary review.
- Objective criterion established, both tangible and intangible.
- Both results and effort included in the evaluation.
- Achievement of goals carries at least 20% of total weight.
- Compensation related to total performance rating.

### 7. Mechanics of maintenance.

- Graphs displayed and updated regularly.
- Priorities set daily and regularly.
- Individual, uninterrupted productivity time meticulously planned, consistent with goals to be achieved.
- Records kept up to date.
- Supervisors accessible for information on goals achievement, setbacks, modifications and changes.
- Supervisors have goal planning sheets from each subordinate for quarterly goal review.
- Subordinates tell supervisors of next month's goals by the current month's end.
- Goals subject to negotiation.
- Strict accountability enforced by supervisors.
- Goals-planning sheets reviewed by individuals weekly.
- Continuous updating of the employee's skills. ■

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## Conn. firms find recruits

Continued from page 24F

agency, and especially for the small ones," Mr. Ruppap says. "We work with them for as long as they want. We have acted as liaison on occasion, sitting down with both principal and producer to work out problems."

Principals also pay most of the load for the program. If a principal finds his own prospect, he must pay the \$110 testing fee plus \$650 tuition for the orientation school. IIAC money is available to test some applicants who have not been referred to an agency. In rare instances, the association has picked up the entire tab for a trainee before referring him to a producer.

"Good people are hard to find, and we'll try to support the very good ones if we have to," Mr. Ruppap says.

"We have got to get people, especially in the colleges, to realize we're not bad guys," he says. "We have got a lot of bad image to conquer. We got three last year, but I would like to have 30." ■

# California city raids loss fund

*Continued from page 1*  
ing in our reserve," Mr. Stevens says. Potentially threatening are antitrust, discrimination and inverse condemnation losses that are not covered by the city's excess insurance.

Mr. Stevens is now shopping for an aggregate stop-loss insurance policy to go into effect Oct. 1, in concert with renewed excess liability coverage.

Several major brokerage firms are expected to quote the stop-loss coverage, as well as current brokers Alexander & Alexander and Hamilton Meridian Insurance Associates.

But the city of San Jose will be left with only \$4 million in reserves to pay losses occurring between July 1 and Oct. 1, according to Mr. Stevens. "If we had a very large loss during that period of time, it could exhaust our reserve and we would have to dip into the general fund."

"Many elected officials don't understand the concept of insurance reserves," says Bob Graham, assistant county administrator with risk management responsibilities for the Riverside County in Southern California.

But if a public agency pays as it goes, without establishing reserves, large losses come back to haunt them in tight budget years, he adds.

A substantial loss could mean a cutback in other public services or the need for a special tax assessment, according to Mr. Graham.

Mr. Stevens in San Jose says the city's reserves were barely adequate even before the \$3.8 million raid.

In February, reserves for open claims totaled some \$5.1 million and since then the city has been hit with a \$3 million antitrust lawsuit for which it does not have coverage.

Shortly before the matter came to a vote in late June, Mr. Stevens was asked to make a presentation before the city council. But he had very little warning and there was not enough time to arrange for the city's consultant to participate in making the case.

"I knew the council was interested in attaching the reserves in late May. But I held meetings with the director of the Office of Budget and Management and felt we received support there for the retention of reserves," Mr. Stevens says.

The judgment and claims fund established to pay general liability losses is budgeted annually out of tax revenues, Mr. Stevens says. It is not a segregated fund, but is a separate account within the general fund.

California law does not prohibit raiding of loss reserves by public entities.

In New York state, however, a law was passed two years ago to protect the integrity of funded reserves.

**The New York statute** amended the general municipal law governing self-insurance by municipal corporation, explains James O. Patterson, insurance and risk manager for Suffolk County, N.Y.

The law states that funded reserves can only be used to pay losses for which they were originally set aside.

Says Mr. Stevens as he looks at shrinking loss reserves in San Jose, "We could be lucky and escape uncathed, but you never know when that big claim will come." ■

# Risk Retention Act heading toward approval

*Continued from page 1*

Cheek, vp for federal affairs at Crum & Forster and a key negotiator bringing the manufacturers and insurers together.

The insurance industry's main objection to the bill was scuttled last year when Sen. Howard Cannon, D-Nev., amended the bill to eliminate federal regulation of risk retention pools. Insurers objected to any federal involvement in insurance, fearing it would be the first step to federal and not state regulation of the insurance business.

But the version appeasing the insurance industry that finally moved out of committees last year was lost in political maneuvering over an unrelated bill (BI, Oct. 6, 1980).

The pending legislation now includes more concessions to insurers but still satisfies manufacturers looking for alternative means of financing product liability losses.

This year, congressional panels added amendments to require risk retention groups

set up in Bermuda or the Cayman Islands to meet the insurance capitalization requirement of at least one state before they could operate in the United States.

Another amendment contains a provision barring new risk retention groups from being established offshore after Jan. 1, 1985.

Finally, another amendment subjects the risk retention groups to the anti-fraud provisions of federal securities laws.

Despite the amendments, the original purpose of the legislation remains intact: It offers business a unique way to pool product liability risks without violating state insurance laws.

Group-owned companies underwriting only owners' product liability risks that receive an insurance company charter in any state, Bermuda or Cayman (when one state's capitalization requirement is met) would be permitted to serve members in all states without satisfying most state insurance regulations.

The proposal would eliminate the need for

the groups to be licensed in each state or use a fronting insurer to avoid run ins with state regulators.

The proposal doesn't permit these groups to underwrite any risk other than product liability and completed operations insurance of member-owners. The groups may not write insurance for the public. Policyholders must either be owners of the pools or members of the association owning the pool.

It is unclear now how many risk retention groups would be formed if the legislation passes. C.L. Haslam, a former general counsel for the Commerce Department, estimated at least 30 groups would be established following enactment.

The proposal was originally drafted by the Commerce Department in response to the product liability crisis of the mid-1970s. Manufacturers complained about huge rate hikes, arguing that their individual loss experience wasn't bad enough to warrant the increase.



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# Court allows ERISA control of METs

Continued from page 1  
we didn't win hands down, but it was a tremendous victory."

Until this ruling, it appeared that regulation of self-funded METs, which for a time in the 1970s operated in a regulatory vacuum, would fall to state insurance departments instead of federal regulation under ERISA. Few METs or their administrators relished the thought of complying with state insurance laws.

IBT already has amended its structure to meet standards suggested by Judge Takasugi for METs to be recognized as an ERISA benefit plan, Mr. Wilkie said.

However, experts say the ruling won't attract renewed interest in self-funded METs among third-

party administrators who developed most of the plans in the past. They won't be willing to turn over control of the trusts to employers—one of the tests Judge Takasugi set for METs to qualify as ERISA plans.

But, employer groups that may have been interested in establishing an MET will be encouraged by the court's clarification of regulations.

## Effect of ruling

Now that Judge Takasugi ruled that IBT was not an ERISA benefit plan, the California Insurance Department could shut down IBT as an unauthorized insurer, but that is not considered likely.

California Insurance Department officials said they had not received a copy of the Los Angeles court decision and could not comment.

The issue of whether the federal government or the states have jurisdiction over METs, which provide comprehensive medical and hospital benefits, has been brewing since 1976. Then, many METs lost their insurer when the Illinois Department of Insurance forced Old Republic Life Insurance Co. out of the multiemployer trust business.

The METs reorganized themselves as self-funded plans and other self-funded METs sprang up.

The self-funded METs then filed with the federal government as employee benefit plans and argued that the Employee Retirement Income Security Act barred state regulation of them. The trusts usually are organized by third-party administrators.

The Labor Department, though, failed to set standards for the self-funded METs or to clarify their status for regulation. The trusts in some cases filed suit to block state regulation. As a result, the trusts often have operated in a regulatory void.

Several trusts went bankrupt. In California, for example, the Hospital Welfare Assn. Trust and the National Multiple Employers Foundation collapsed in 1977, leaving thousands of people with unpaid medical claims that reportedly exceeded \$7 million. (BI, May 16, 1977)

The failure of self-funded METs has been attributed to poor reserving practices, inadequate rates and using too many premium dollars to pay high commissions to agents soliciting members.

But the regulatory vacuum is being filled. In Kansas and Arizona, for example, courts ruled that two METs in their states were not employee benefit plans.

And beginning in mid-1979, the Labor Department began issuing advisory opinion letters saying that more than 30 METs were not employee benefit plans. Those letters gave state regulators powerful ammunition to close METs.

IBT was one of the METs that received an advisory opinion letter from the Labor Department informing it that it was not an employee benefit plan but a "funding vehicle" (BI, Aug. 6, 1979).

## Suit filed

Several weeks after receiving the letter, IBT filed suit in U.S. District Court against the Labor Department, asking the court to order the department to recognize IBT as an employee benefit plan under ERISA (BI, Aug. 20, 1979).

In a written analysis of Judge Takasugi's decision, IBT attorney Mr. Dorais noted that the fundamental issue before the court was whether participating employers can unite to provide benefits and if the resulting entity is an employee benefit plan as defined by ERISA.

## Clear-cut answer

"The court clearly answered that

question 'yes,'" Mr. Dorais explained.

But Judge Takasugi noted that IBT flunked a key test to determine if the trust qualified as an ERISA benefit plan. He said the plan had to be controlled by the employers involved in the trust, not by the third-party administrator, Insurance Benefits Inc., which Mr. Wilkie owns.

A clause in the agreement between the trust and its administrator gave the administrator the potential to control the trust by allowing the administrator to withhold certain records.

"Because actual control of the trust could have rested with (the administrator) IBI, this court must conclude that (the trust) IBT was not a plan 'established or maintained by an employer,'" Judge Takasugi said.

Mr. Wilkie said the offending clause in the agreement between the trust and the administrator was removed in December 1979.

Judge Takasugi's analysis of the MET was based on how it was structured on July 23, 1979, the date the Labor Department issued its advisory opinion letter saying that IBT was not a benefit plan under ERISA.

Other third-party administrators may not be willing to give up control over the METs to the participating employers after they spent thousands of dollars organizing and developing the METs.

## Importance of control

"Control is a pretty important

thing for administrators to have," said John Meyerholtz, associate general counsel for the American Council of Life Insurance in Washington, D.C.

"I don't think the realities of the marketplace would encourage entrepreneurs to go and set up METs if they did not have control," Mr. Meyerholtz added.

## Competitive bids

Unless they were guaranteed control, administrators could find themselves kicked out of plans they developed after another administrator came in with a lower bid to administer the plan.

Judge Takasugi also said IBT was not an ERISA benefit plan because it allowed participants to join who were not employers with employees, such as one-man businesses.

To be a participant in an ERISA plan, an employer must have employees. Mr. Wilkie said IBT's benefit committee last week amended the plan to require all future participants to be employers with employees.

IBT, which has grown to 5,400 participants today from 2,300 employers in 1977, has spent more than \$100,000 in legal fees to overturn the Department of Labor's advisory opinion letter.

The average monthly premium for individual health insurance coverage is \$38.50, while monthly premiums for family coverage ranges from \$79.50 for one dependent to \$109.69 for two or more dependents.

## Illinois pension plans are stronger

CHICAGO—The financial condition of Illinois' public pension system is improving steadily because assets have grown faster than liabilities, Insurance Director Philip R. O'Connor says.

According to the recently released 1981 Report of Examination of the Public Employees Pension Funds net aggregate assets of pub-

lic pension systems in the state have grown to \$9.3 billion in 1981 from \$3.3 billion in 1973, a 282% increase in assets. Accrued liabilities have increased only 172% over that period.

The 504 public funds in the state have 667,946 members. More than 149,000 of those are receiving pensions, according to Mr. O'Connor.

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## Court ban won't hurt cost control

Continued from page 3

Payments for diagnostic admissions, inpatient testing that could have been performed on an outpatient basis and certain inpatient surgical procedures also were denied.

Blue Cross did not appeal the ruling because the time and expense would not be worthwhile, said Lawrence Weier, corporate secretary and vp of communications for the Ohio plan. "It was felt that we could not win an appeal and it would be a waste of time and effort to pursue that."

In addition, the programs were having only minimal effect on cost control, he said. Reimbursement denials had averaged only about \$1,500 per hospital over the six months the programs were in effect, Mr. Weier said.

Plan officials started the programs to comply with state law that requires Blue Cross to demonstrate effort in health care cost control, Mr. Weier said. "We took that law as the direction we should be going and that's where we got into trouble," he said.

A spokeswoman for Bethesda Hospital said the institution has a "very good relationship" with Blue Cross but in this instance objected to the types of programs and the way they were set up.

But, she added, "We're always willing to negotiate cost control—we're very conscious of cost control here."

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# Florida regulator orders rate cut

*Continued from page 3*  
"He felt as a consequence of the presentation made during the hearing that the carriers' investment income was greater than the NCCI said it was," explained Gary Granoff, director of the Insurance Department's rating division.

Another department spokesman said, "It was a qualitative judgment. It was obvious from the hearing that not enough weight had been given to investment income."

The same is true of historical loss development patterns, they said. Such patterns compare losses year by year, showing increases and declines, and help ratemakers determine what future losses might be.

The loss development patterns for Florida show a steady decline from 1974 to 1978, even before wage-loss took effect, and warrant a corresponding premium decrease, Mr. Granoff said, adding that the patterns were not adequately figured into the proposed rate change.

Further, the NCCI's filing gave equal weight to pre- and post-wage-loss compensation data, he said. "The commissioner thought it should have reflected more of the newer data."

"This order reflects the reality of the workers compensation market in Florida today," Mr. Gunter said when he announced his rate order. "Some 20 companies have asked me to let them charge special lower rates, less than the benchmark. They would not request this if they thought they would lose money by doing so."

The author of a recent report on the Florida wage-loss system contends a 15.6% reduction in Florida's workers compensation rates is conservative. "We were looking for a 20% to 25% decrease, but will settle for 15%," said Mary Stiles, general counsel and lobbyist for Associated Industries of Florida, which analyzed the first-year results of the wage-loss system.

The findings, she said, suggest that previous rate reductions should have been doubled.

The 15.6% rate reduction "is a conservative decrease on the part of the commissioner, but I am ecstatic," she said.

Additional savings for employers will likely come next year in the form of refunds from compensation insurers' excess profits, the commissioner said. By then, Florida's excess profits law will apply to workers compensation insurers.

Passed in 1979 to take effect in August 1982, the law gives the state power to decide if insurers are earning excess profits and, if so, to make refunds to buyers.

A similar law relating to automobiles insurers' profits was found unconstitutional by the Florida Supreme Court in a 4-3 decision July 23. By upholding that law, the court, in effect, has cleared the way for the workers compensation profits law. An Insurance Department spokesman said profits for workers compensation insurers totalled \$100 million in both 1979 and 1980.

The department spokesman said the order for the rate decrease, the largest in Florida's history, was the result of the wage-loss law.

"I think it is clear from the hearing records that a lot of it was due to wage-loss savings," he said. "Losses have been dramatically decreasing since the law came in."

Under wage loss, an injured worker does not receive permanent partial disability benefits except for extreme impairment. Instead, benefits are paid only for proven lost wages after an acci-

dent.  
For example, if an injury forces a worker to return to a lower paying job instead of his original job, he would be compensated for the difference in salary. To qualify for further benefits, he must have a permanent impairment that results in the loss of at least 15% of his pre-injury wages.

This program combined with other reforms has brought an increase in the workers compensation weekly benefit from \$130 to \$228 since the wage-loss law was enacted.

When it passed the law, the Legislature mandated a 15% rate decrease. On Jan. 1, an 11.4% rate decrease was imposed. ■

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# States turn to new negligence rule

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<b>Commercial Consumers</b>	
<b>Administrative Management:</b> owners, presidents, vps, etc.	6,635
<b>Financial Management:</b> chief financial officers, vps of finance, secretaries, treasurers, etc.	9,335
<b>Insurance Management:</b> vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,112
<b>Government, Associations, Unions, Educational Institutions</b>	952
<b>Commercial Consumers Sub-total</b>	<b>22,034</b>
<b>Insurance Agents &amp; Brokers</b>	9,486
<b>Insurance Cos.</b>	4,486
<b>Financial Institutions</b>	292
<b>Actuaries, Attorneys, Adjusters, Appraisers &amp; Consultants</b>	2,135
<b>Others allied to the field</b>	752
<b>TOTAL</b>	<b>39,185</b>

\*Source: Business/Occupational breakdown of qualified circulation, May 4, 1981 issue, as submitted to BPA for June 1981, BPA Publisher's Statement.

Continued from page 3

But while comparative negligence is clearly the trend, it is opposed by many insurance companies, especially in its "pure" form.

According to Donald W. Cory, claims and legislative counsel for the National Association of Independent Insurers, comparative negligence is not favored by the majority of companies represented by NAI.

"We prefer contributory negligence," Mr. Cory explained. "We still favor that. But if a state is facing comparative negligence and it appears to us that it will be enacted, we would advocate the modified type as being more fair," he continued.

"Our companies have felt that from a practical standpoint contributory negligence saves money and philosophically one shouldn't be able to sue if guilty of negligence."

The Alliance of American Insur-

ers, meanwhile, favors the modified form of comparative negligence.

"We think contributory negligence is just not fair," said Doug Barnert, an alliance vp.

"It's not fair to bar a plaintiff if he is 5% or 10% negligent," Mr. Barnert said.

Some insurers and defense attorneys say comparative negligence will increase litigation and raise insurance rates. But there is little data yet to prove or disprove such theories.

"I don't have an answer to whether it is costing carriers more," said Lloyd F. Grinslade, regional liability manager for Underwriters Adjusting Co. and author of a recent article on the trend toward comparative negligence. "But it probably precipitates more lawsuits than under contributory negligence."

John Kircher, a professor at Marquette University Law School in Milwaukee, Wis. is also unaware

of any hard statistics on the effects of the switch to comparative negligence.

"I would surmise that if you go from a rule of contributory negligence to one like in California (a comparative state), it seems clear that more people should recover more damages than under the old rule," he said.

At the same time, he said it is logical to assume claims frequency will increase, too.

Victor Schwartz, a Washington attorney who has written a book about comparative negligence, said its effect "really depends on the jurisdiction."

In some jurisdictions, such as New York state, juries often applied comparative negligence even before it was adopted, Mr. Schwartz said.

Juries in some other states have been more strict.

"I don't think that the impact in New York was that great other than to make de jure that which

was de facto," Mr. Schwartz explained.

It is also unproven if comparative negligence affects the number of out-of-court settlements. Robert Horowitz, a Madison, Wis., attorney and the author of a recent article on the comparative negligence, said that the "pure" form encourages settlements.

Professor Kircher added that the comparative negligence theory could be an effective settlement tool as attorneys learn how juries apportion awards.

"There possibly won't be as many settlements initially as there was before, but once they get more experience with the system, you may find more cases being settled," he said.

On the other hand, it has been pointed out that with comparative negligence, some attorneys may be less willing to settle out of court if they think they can get an award from the court even if their clients are partly negligent.

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# Ruling limits workplace stress claims

Continued from page 2  
James vs. SAIF. SAIF is now a public corporation offering workers compensation insurance that was formerly the State Accident Insurance Fund.

In the James case, a 35-year-old woman sought occupational disease benefits because of a mental condition she said arose from her job.

A referee found her claim compensable, and the Workers Compensation Board affirmed the decision. SAIF appealed to the Court of Appeals and it, too, affirmed the earlier decisions.

On further appeal to the Supreme Court, the James case and five other similar claims were remanded back to the Workers Compensation Board, where they are awaiting rehearings based on the new standard.

"The court doesn't go so far as to say you cannot recover unless it is only on the job," said Daryl L. Nelson, SAIF's director of legal services. "I think the court will have to rule a few more times before we know exactly what it says.

"You have to show that those factors that affect your condition on the job are substantially different from those that are off the job.

"If you have difficulty with your co-worker and you also have difficulty with your neighbor at home, you would have to show the difficulty you have with your neighbor at work is not the same kind of difficulty you have with your neighbor at home. And, the one on the job must be the one causing your mental stress," Mr. Nelson said.

The practical effect of the change may well be to reduce the number of claims, given that many individuals have some percentage of difficulties in their personal life as well as in the workplace, he said.

But Sidney A. Galton, the attorney for Ms. James, said he doesn't believe the state Supreme Court ruling will change anything.

"It will be more difficult to establish psychiatric or psychological disease cases, if only in part because it's so muddled and in part because there has to be a factual finding," he said.

## Interns learning benefit industry

BROOKFIELD, Wis.—Eleven Chicago-area corporations, consulting firms and benefit associations have granted two-year summer internships in employee benefit management through a program sponsored by the International Foundation of Employee Benefit Plans.

The purpose of the program is to lure talented students directly to the employee benefits industry, according to Robert D. Cooper, the foundation's research director.

After selection and training, the interns work for two summers between their sophomore and senior years for organizations and companies dealing with employee benefits. Intern responsibilities include market research, conversion of retirement plans to computer systems, administration of employee savings and stock ownership plans and other benefit programs.

Companies and organizations participating in the program are: the Amalgamated Clothing & Textile Workers Union, Beatrice Foods Co., Coopers & Lybrand, Blomquist & Campbell Inc., Frank B. Hall Consulting Co., IC Industries Inc., Johnson & Higgins of Illinois Inc., Equitable Life Assurance Co. of America, Montgomery Ward, S. Hansen Inc. and Standard Oil Co. of Indiana.

"From now on, an occupational stress claim will have to be something a worker wouldn't be exposed to off the job," said Terri Maness, the case reviewer for the state Workers Compensation Board.

"It tightens up what will be compensable," she said, adding that a worker's job stress "will have to be something extraordinary to win an award."

The board is expected to rule on the six stress cases remanded by the Supreme Court within two months, she said.

She guessed that few, if any, will be found compensable under the court's redefinition of the law.

An attorney for many workers compensation insurers operating both inside and outside Oregon said he was pleased that the Su-

preme Court gave the arbitrators a standard to differentiate from a mental disability "generated by the job and those (disabilities) that are taken to the job."

"It's obvious now that a person cannot take a neurosis to the workplace and be compensated for it," said Robert E. Joseph, Jr., a Portland attorney who represents INA, Aetna Life & Casualty, Fireman's Fund and many other large insurers.

He predicted that stress claims will be rigorously investigated outside of the employee's workplace by insurers determined to contest claims. "The background on every claimant is significant, but if a claim has a mental stress dimension to it, they'll have to throw the investigation outside the job," he said.

## Loftiest of professions not immune from stress?

PORTLAND, Ore.—One stress claim pending with the state Workers Compensation Board is from a minister who says he is distressed over a liberal-conservative division in his congregation.

Unusual? Yes, but not for the reason you may think, says Oregon's Workers Compensation Commissioner Kendell Barnes.

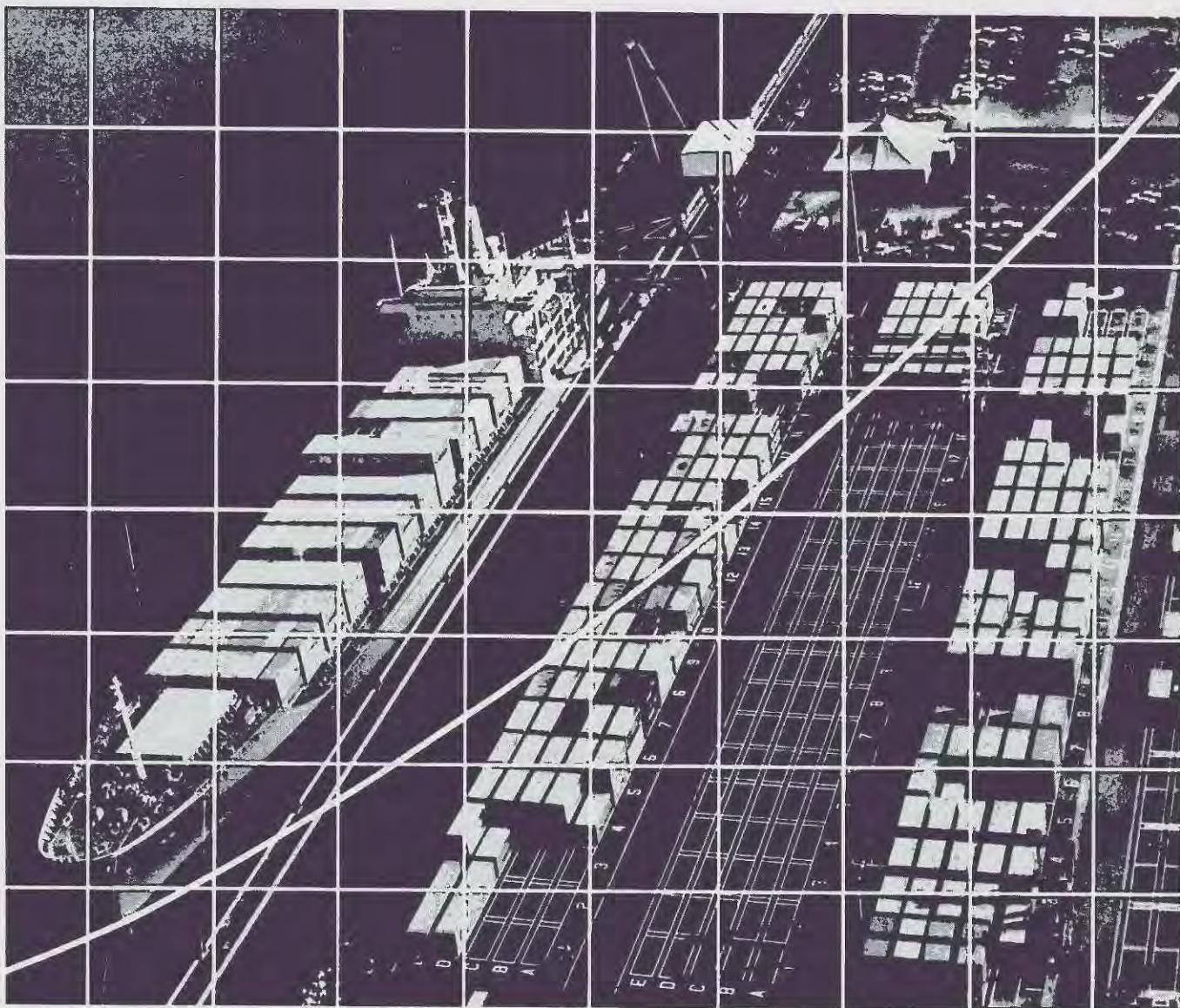
The minister's claim is the only one of its type pending that is not from a public sector employee, he says.

"For some reason, over 95% of our stress claims are from the state, county, or municipal employees," he said.

It may be, he says, that public employees are being spread too thin in the spirit of "trying to do more with less people," or it may be that public workers are more aware of their rights as claimants.

"It's interesting, but I'm not sure if I have the answer as to why," he mused.

Lord knows.



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# A&A, Sedgwick break off merger talks

Continued from page 3

"We've hoped all along we could get around the tax problem," said Frank Hitchman, Sedgwick's secretary, "but we haven't. It became clear that we weren't going to get the tax ruling we wanted."

The proposed holding company with dual residence and management teams in both countries had satisfied management concerns for autonomy in their respective countries but proved unworkable when the two companies started thrashing out the financial concerns last month.

A&A will have to pursue joint ventures or an acquisition instead of merger route if it is to develop an international brokerage business, stock analysts agree. A&A, however, says it hasn't decided what its next move will be.

"We have to re-evaluate our strategy, but we want to do something to strengthen our international operations," Mr. Bogardus told *Business Insurance*. "We want to do more to develop indigenous business abroad."

Acquisition of a London broker, however, is not a top priority, Mr. Bogardus said. "We don't have to have a Lloyd's broker." A&A is satisfied with the service of Sedgwick, the largest London broker, and the other Lloyd's brokers it uses, he said.

If other U.S. brokers are able to reduce the cost of transactions with the London market through their London holdings, A&A will have to reconsider its position, Mr. Bogardus said. "But that is sometime out in the future." For now, he doesn't think A&A is at a competitive disadvantage.

Mr. Wiczynski, A&A's acquisition wiz, was quick to squelch any rumors of a spat between the betrothed. "This has nothing to do

## Courtships began three years ago

By LEN STRAZEWSKI

The race among U.S. brokers to find a British brokerage partner began more than three years ago.

The first to cross the finish line was Frank B. Hall & Co., which in 1978 purchased most of Leslie & Godwin, a Lloyd's and retail insurance brokerage based in London.

Caught by a Lloyd's rule that limited foreign ownership of its brokers to 20%, Hall concocted its own deal. The U.S. brokerage purchased all of Leslie & Godwin and then divested itself of 75% of the Lloyd's business, coming out with slightly more than the maximum ownership allowed. The Committee of Lloyd's, however, agreed to the plan.

Although Leslie & Godwin was neither the largest nor the most famous of the Lloyd's college of brokers, the move triggered a great international romance. Like old bachelors and spinsters who decide against a lonely maturity, U.S. brokers raced to find partners in the United Kingdom.

The business reasoning seemed to make sense, too. Peter T. Pruitt, the Hall executive who worked to integrate the two operations, told *Business Insurance* then that Hall certainly was interested in profits from Lloyd's brokering but that Hall mostly perceived an edge on U.S. competition with more interna-

tional offices to serve more multinational clients and a chance to win indigenous business in Britain and Europe.

While Hall planned its purchase, Marsh & McLennan Inc., the largest U.S. broker, was negotiating with another Lloyd's brokerage, Bland Payne. The merger talks broke down, and in the summer of 1978 Lloyd's broker C.T. Bowring proposed another type of partnership: a revenue-pooling combination, the model for the A&A-Sedgwick negotiations.

Tax problems, the bane of the negotiations between Alexander & Alexander and Sedgwick, also killed the M&M-Bowring combination as originally conceived.

After two years of thrashing with the issue, M&M and Bowring redesigned their links into a traditional stock and cash purchase. Last year, M&M purchased Bowring and formed the world's largest insurance brokerage. The purchase was made simple by a new Lloyd's Committee ruling that allowed greater foreign ownership of Lloyd's brokerages if the outsider accepted the authority of the committee.

Alexander & Alexander plans, however, threatened to take "the world's largest" title away. One year after M&M's talks with Bland Payne collapsed, the British firm began discussing a merger with another of its British colleagues, Sedgwick Forbes. Combined, the two would be the largest Lloyd's brokerage and combined again with Alexander & Alex-

ander, the three would form a "megabroker" that analysts said would be the world's largest.

Two months ago, while negotiations were still underway, Sedgwick Chairman Neil Mills agreed that his firm was "the marrying kind" of brokerage that would prefer a working partnership with a U.S. brokerage rather than purchase a brokerage or be purchased.

Meanwhile, other U.S. brokers moved into action. Fred S. James divested a portion of equity in Lloyd's broker J.H. Minet and began negotiating with a smaller brokerage, Wigham Poland. Last year, it purchased a controlling interest in Wigham.

Corroon & Black jumped on the opening for a partnership with Minet, and after its plans for a revenue combination collapsed under the weight of tax problems, C&B settled for a Hall-like purchase of equity interest.

Johnson & Higgins, which shunned the combinations and purchases of a U.K. brokerage, responded to the pressure of competition by publicly avowing its commitment to Willis Faber, a long-time British partner, and in 1978 and 1979 expanded joint ventures with the firm as a sign of its close ties.

British brokers also joined the mating effort as Hogg Robinson Group Ltd. joined with Republic Steel in the United States to form a joint insurance venture that purchased Penn General Agencies earlier this summer.

with unhappiness between management. We are still as high on each other as we ever were.

"We have a substantial amount of business with Sedgwick and very, very substantial ties."

The ties include a joint venture in insurance broking in Canada, called Sedgwick Alexander in which Sedgwick holds 51%, and Sedgwick's 20% holding in Thomas A. Greene, A&A's developing rein-

insurance brokerage subsidiary.

Only solutions to the financial problems—such as a change in the tax laws of one country—could revive the merger between A&A and Sedgwick, Mr. Wiczynski said.

"There were so many troublesome tax laws," he said, describing just one:

British tax law deals with the current U.S. tax issue of double taxation on corporate profits—tax-

ing the corporation's profits and then the shareholder's dividends paid from those profits. A portion of dividends paid British shareholders are in effect not taxed twice under the ACT, or advanced credit taxation. The British stockholder can receive a dividend and claims on his tax return on the taxes the corporation paid prior to paying the dividend.

The proposed dual-residency holding company created a problem for British shareholders who wouldn't be able to claim a credit for the taxes paid in the U.S.

"We would have been in a difficult position to make the U.K. shareholders whole," Mr. Wiczynski said.

Indeed, British investment bankers told A&A that they couldn't recommend the deal to the shareholders as being in their best interest and so few would have approved of the merger.

Rather like the bride or groom left standing at the altar, A&A assumes there are other potential partners if it would want one, but "we haven't been looking because we've been spoken for," he says.

Analyst reaction to the news was mixed.

"There are deep sighs of relief on both sides of the Atlantic," said James B. Stradtner, general partner at Alex Brown Sons in Baltimore. "The deeper they got into this the more problems they saw with the two currencies and the two tax structures. They were looking at a company that would have to be managed for tax purposes."

"But it's too bad," he added. "It hurts A&A's image—not being the true multinational corporation."

"They have to become more in-

ternational," says Leonard Wilson, senior analyst at First Manhattan Co. in New York. "It doesn't have to happen tomorrow, but they need to structure something for the 1980s. They aren't at an immediate competitive disadvantage in the U.S., but in the longer term they could be. They have to look five to 10 years down the road. Thirty percent of their business is jumbo accounts and they want more. To do it they need to compete with Marsh & McLennan on an equal footing."

Analysts and Mr. Bogardus agreed A&A will need international business. The insurance business outside the United States is now growing larger and faster than domestic insurance business as developing countries expand their economies and need for insurance. The broker capable of serving that new business will be the better positioned broker.

Harvey Bundy III, formerly an analyst with William Blair & Co. in Chicago who watched the London brokerage links closely, sees the effect of the aborted merger on A&A a little differently.

"It precludes A&A from international growth but they have sufficient opportunities in the U.S.," said the now-senior vp of corporate development for Combined Insurance Cos. in Chicago. A&A has the advantage over M&M with medium sized accounts in the U.S., he said.

In London, the stock market showed some distress over the termination of the merger agreement. Sedgwick stock fell from 139 pence to below 130 pence the day of the announcement, but the shares bounced back to 135 pence by the close of the day.

## Congress approves pension tax write-offs

Continued from page 2

plans. Allowing the tax deductions will have sweeping implications for the nation's retirement income system, experts say.

More employers will set up supplemental retirement plans, such

as thrift plans, since employers now will have new incentives to share the cost, said Sylvester Schieber, research director for the employee Benefit Research Institute.

At the same time, pressures to increase Social Security benefits

may be reduced since employees will have a better opportunity to fund their own retirement benefits. And employees who change jobs frequently and never vest now can contribute to their retirement savings and receive a tax deduction.

The House and Senate bills provide slightly different tax breaks for employee pension contributions. These differences soon will be ironed out in a conference committee.

The House bill would allow an employee covered by a pension plan to deduct up to \$2,000 annually for voluntary contributions to the plan or an IRA. The Senate bill limits the maximum annual contribution to \$1,500.

Both measures also would raise to \$2,000 the maximum annual contribution to an IRA by a person not covered by a plan. The current maximum is \$1,500.

Both bills would go into effect Jan. 1.

The maximum deduction for contributions to Keogh plans, which are used by self-employed people, would rise to \$15,000 annually from the current \$7,500 under both the House and the Senate versions.

Tax deductions for employee pension contributions have been proposed often, but the legislation never made it through Congress because of powerful opposition from the Treasury Department.

But the Reagan administration dropped the Treasury's opposition this year. The administration said the advantages of boosting individual retirement savings far outweighs revenue losses.

Other nations, such as Canada, already permit tax breaks for retirement savings.

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# Crump's deal with Reliance follows acquisition strategy

By JAMES LAWSON

**E. H. CRUMP CO. INC.**, a Memphis-based broker, is trying to beat the soft insurance market by acquiring Sun Belt firms.

Determined to expand its marketplace and boost revenues, Crump last week acquired two large West Coast brokers from the Reliance Insurance Co. in exchange for 780,000 shares of its common stock.

Reliance, in a separate transaction, also acquired 640,000 shares from E.H. Crump Jr., Crump's chairman and chief executive officer, and members of his family. The total value of both transactions, based on current market prices, is \$21.6 million, company officials said.

Crump stock hovered around 15 1/4 on the over-the-counter market at the time of the agreement.

The transactions are expected to be consummated next January when Mr. Crump, who is retiring at age 78, will be succeeded by brokerage President Sidney Stewart. No other management changes are planned, officials from both companies say.

The arrangement gives Reliance, one of the nation's largest insurance companies, a 40% share in Crump. Officials from both companies say they will continue to operate independently.

Some industry observers, however, see the transactions as another example of growing vertical integration in the insurance industry, with the insurers and brokers financially linked.

Securities analysts say they believe the arrangement is a "growth move" for Crump and "purely an investment" for Reliance. The insurance company, one analyst suggests, eventually may sell its shares back to Crump management.

Officials of the 60-year-old Crump Co. Inc. have denied such a plan is in the works, but indicate that it could happen later.

"We have not been asked by Reliance to give them any premiums," Mr. Stewart says, explaining the companies' autonomy. "This transaction was done in line with the philosophy of agency perpetuation and also in line with the philosophy of autonomy. With the West Coast agencies, Reliance was writing less than 1% of their premium volume."

## BI ticker

Crump has been an investment target in recent months by domestic and foreign companies. Its stock has been acquired by the British insurance brokerage of Bain Dawes Ltd., the French insurance broker Comidus and two Charter Co. subsidiaries.

The European companies own a combined 6% of Crump's stock, but Bain Dawes has indicated it would like to acquire another 3% on the open market. The Charter subsidiaries have acquired 134,200 shares of Crump stock—nearly 4% of the brokerage firm's stock.

"We see this as an outstanding investment opportunity," a Reliance spokesman said, describing the arrangement with Crump. "This allows us to further diversify our investment portfolio. The opportunity for acquisition was there and we took it."

Reliance Insurance, the principal member of Reliance Cos. of Philadelphia, generated \$1 billion in consolidated revenues last year.

As part of the deal with Reliance, Crump acquired Kindler & Laucci Insurance Brokers of California and Labow, Haynes Co. Inc. in Washington state, which gives the Memphis-based firm offices in a new territory and a "major position on the West Coast, one of the two major growth areas of the country," Mr. Stewart says.

"We've always felt that (acquisition) was the way to grow ever since we became public in 1971," says Frank Pidgeon, Crump's executive vp. "We're always looking for good investment or merger opportunities."

The soft insurance market, Mr. Stewart explains, has prompted his brokerage to be more acquisition-minded.

"In the soft market, brokers will find their earnings down," he says. "The soft market environment is causing a lot of people to decide where they are going. With this new posture, we will be acquisition-minded whenever the opportunity is there," Mr. Stewart says.

"We would hope we could make some more acquisitions on the West Coast," he adds. "That's where the growth seems to be."

The acquisition of the two West Coast

firms coupled with the purchase of a Houston brokerage and an Arkansas agency earlier this year could push Crump into *Business Insurance's* ranking of the 10 largest brokerage firms next year. Crump was in the 13th spot at the end of 1980 (*BI*, June 29). The transactions, company officials say, are expected to boost commissions and fees by nearly 50%.

Combined revenues for the two newly acquired brokers were \$15 million last year, according to a Crump spokesman.

In 1980, Crump generated \$28.3 million—12% more than the previous year, mostly from the placement of commercial insurance.

However, Crump's second-quarter revenues fell to \$7.1 million from \$7.4 million in the corresponding quarter of last year. And the brokerage's net income plunged in the second quarter to \$384,000 from \$885,000 in the second quarter of 1980.

## Financial Briefs American Nuclear Insurers

American Nuclear Insurers has issued premium refunds totaling nearly \$1.7 million to operators of nuclear power plants and related facilities.

The refunds are part of the Industry Credit Rating Plan operated by the two nuclear insurance pools, ANI and Mutual Atomic Energy Liability Underwriters. Under this plan, about 70% of liability insurance premiums are placed in a reserve fund, which is used only to pay claims and claims expenses. After a 10-year period, the unused portion of the fund is returned to the policyholder.

The recently issued refunds are about 42% greater than last year's. They reflect the pools' liability experience from 1971 to 1980, including the 1979 accident at the Three Mile Island plant.

## Connecticut General

Connecticut General Corp. has declared a regular quarterly dividend of 44 cents per share. Payment will be made on Oct. 9 to shareholders of record on Sept. 11.

## USF&G Insurance

The board of directors of USF&G Insurance has approved the creation of a holding company. Under the proposal, USF&G will become a wholly owned subsidiary of a newly formed company, USF&G Corp. Each outstanding share of USF&G Insurance common stock would automatically become one share of USF&G Corp. under the plan.

A special meeting of stockholders has been called for Sept. 25 to vote on the proposal. The plan is expected to take effect Oct. 1.

"The holding company structure will give management greater flexibility in the planning and execution of the business," according to USF&G Chairman and President Jack Moseley.

## The Travelers Corp.

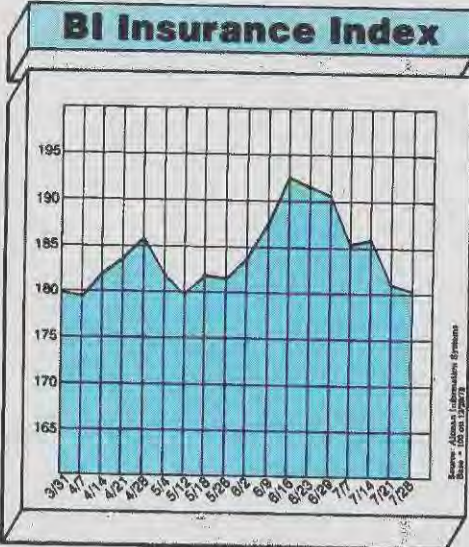
The Travelers Corp. has declared a quarterly dividend of 72 cents on its common stock and 50 cents on its preferred stock. Both dividends are payable Sept. 10 to shareholders of record July 30.

## Kemper Group

Kemper Corp. has declared a regular quarterly dividend of 40 cents per share payable Aug. 31 to shareholders of record Aug. 10. It is Kemper's 54th consecutive quarterly dividend.

## Continental Group

Continental Group had declared a regular quarterly dividend of 65 cents per share of its common stock.



Insurance industry stocks dipped once again last week as the Business Insurance Index dropped 0.8 points to 180.3 from 181.1. Forty stocks declined, 28 were up and four remained unchanged. Largest decreases were: Carolina Casualty Co., 13.8%; Ryan Insurance Group, 6.3%; U.S. Life Corp., 5.9%; Farmers Group Inc., 5.5%; and Marsh & McLennan Cos. Inc., 5.3%. Increasing were: Banks Iowa Inc., 11.1%; First Colony Life Insurance Co., 7.9%; Armco Inc. and American International Group, 6%; and United Services Life Insurance Co., 5.4%. The 0.4% index drop was less than that of the three major market indicators.

### British Issues

27 July Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low pence
Comm Union	181	12.1	15.45	8.5	182-176
Eagle Star	302	10.0	21.43	7.1	303-300
Genl Accident	346	8.3	19.29	5.6	346-328
Gdn Royal Exch	342	8.8	22.14	6.5	344-328
Phoenix	268	7.9	21.29	7.9	268-260
Royal	378	10.5	34.29	9.1	378-368
Sun Alliance	914	9.1	47.14	5.2	916-890

Brokers	Price	P/E	Div.	Yield	1 Week High-Low
CE Heath	291	11.4	15.00	5.1	295-285
Hogg Robinson	109	8.7	8.57	7.9	110-108
Alex Howden	126	8.2	10.00	7.9	127-123
JH Minet	139	13.9	6.50	4.7	139-132
Sedg Grp	140	12.2	7.14	5.1	141-138
Stenhouse Hldg	96	8.8	6.64	6.9	96-92
Stew Wrightson	211	11.1	17.14	8.1	213-205
Willis Faber	361	12.4	17.14	4.7	365-355

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

## BI Industry Stock Report

Insurance Cos.	JULY 28, 1981					7/22/81 THRU 7/28/81					Agents/Brokers	JULY 28, 1981					7/22/81 THRU 7/28/81						
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.		P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High
Aetna Life & Cas Co	NYSE	37.88	-0.7	6.3	2.32	6.1	38.00	37.25	258.7	Statesman Group Inc	OTC	6.88	-3.5	5.8	0.15	2.2	7.00	6.88	18.1				
American Bankers Ins Group	OTC	7.63	0.0	12.1	0.44	5.8	7.63	7.63	51.0	Tokio Marine & Fire Ins Co	OTC	151.38	-0.6	16.7	1.03	0.7	153.00	151.38	1.3				
American Gen Ins Co	NYSE	39.13	-4.6	6.1	2.00	5.1	40.75	39.13	53.5	Travelers Corp	NYSE	43.63	-3.6	5.1	2.88	6.6	44.50	43.63	501.1				
American Indty Finl Corp	OTC	16.63	-2.9	6.3	1.12	6.7	17.13	16.63	5.9	United Fire & Gas Co	OTC	37.00	-2.6	9.7	1.00	2.7	38.00	37.00	0.3				
American Intl Group Inc	OTC	57.25	6.0	10.9	0.40	0.7	57.25	53.50	275.2	United States Fid & Gty Co	NYSE	42.75	-4.2	6.3	3.20	7.5	43.50	42.13	63.7				
American Natl Ins Co	OTC	12.75	-4.7	5.7	0.68	5.3	13.38	12.75	46.5	United Svcs Life Ins Co	OTC	14.63	5.4	6.0	1.00	6.8	14.63	13.88	24.7				
American Svs Life Ins Co	OTC	20.50	2.5	6.8	0.72	3.0	20.50	20.00	2.2	Unifac Corp	NYSE	23.88	-5.9	5.9	0.70	3.2	25.38	23.88	173.1				
Aneco Reins Ltd	OTC	3.13	4.2	0.0	0.00	0.0	3.13	3.00	6.1	Washington Natl Corp	NYSE	31.25	0.4	9.3	1.08	3.5	32.63	31.25	84.6				
Appalachian Natl Corp	OTC	2.50	-2.5	7.1	0.00	0.0	2.50	2.50	1.3	Zenith Natl Ins Corp	OTC	17.00	1.5	9.4	0.60	3.5	17.00	16.50	15.1				
Avenco Corp	AMEX	10.38	1.2	8.6	0.50	4.8	10.38	10.13	3.7	INSURANCE COMPANIES	AVERAGE												
Banks Iowa Inc	OTC	35.00	11.1	5.6	1.44	4.1	35.00	32.00	12.2	Agents/Brokers													
Bitco Corp	OTC	40.50	-1.2	5.7	2.16	5.3	41.00	40.50	0.3	Alexander & Alexander Svcs	OTC	31.25	-2.3	10.8	1.84	5.9	31.75	31.25	312.8				
Carolina Cas Ins Co	OTC	6.25	-13.8	4.5	0.32	5.1	6.50	6.25	2.7	Baldwin & Lyons Inc	OTC	34.75	0.7	5.9	0.80	2.3	34.75	34.50	0.5				
Central Natl Finl Corp	OTC	9.75	-1.3	3.6	0.65	6.7	9.88	9.75	0.7	Corroon & Black Corp	NYSE	24.00	-0.5	12.6	1.76	7.3	24.00	24.00	74.5				
Chubb Corp	OTC	44.38	2.6	5.4	2.68	6.0	44.63	43.00	70.2	Crump E H Co Inc	OTC	14.50	0.9	16.3	0.40	2.8	15.13	14.13	86.5				
Combined Intl Corp	NYSE	21.38	3.6	6.1	1.60	7.5	21.50	20.63	41.8	Hall Frank B & Co Inc	NYSE	25.88	2.5	9.5	1.60	6.2	26.00	25.00	46.7				
Connecticut Gen Ins Corp	NYSE	47.88	0.8	6.3	1.76	3.7	48.25	47.50	89.0	Integrated Res Inc	AMEX	15.63	0.8	7.1	0.00	0.0	15.75	15.63	27.5				
Continental Corp	NYSE	26.63	-1.8	8.4	2.40	9.0	26.88	26.63	120.4	James Fred S & Co Inc	NYSE	23.88	-3.5	10.5	1.60	6.7	24.75	23.88	62.8				
Crawford & Co	OTC	16.25	-1.5	12.5	0.52	3.2	16.50	16.25	3.9	Marsh & McLennan Cos Inc	NYSE	35.50	-5.3	11.6	2.00	5.6	37.13	35.25	210.5				
Crown Life Ins Co	OTC	110.50	-1.3	9.3	2.80	2.5	112.00	110.50	0.4	PennCorp Finl Inc	NYSE	6.50	2.0	7.3	0.16	2.5	6.50	6.25	113.2				
Crum & Forster	NYSE	31.50	1.6	5.4	1.44	4.6	31.50	31.00	46.5	Poe & Assoc Inc	OTC	11.00	4.8	9.7	0.80	7.3	11.00	10.00	1.7				
Employers Cas Co	OTC	37.00	0.0	5.6	1.20	3.2	37.00	36.50	0.8	Reed Stenhouse Cos Ltd	OTC	10.88	-3.3	9.5	0.56	5.1	11.25	10.88	1.0				
Equifax Inc	NYSE	24.13	-1.0	7.1	2.40	9.9	25.00	24.13	9.0	Rollins Burdick Hunter Co	OTC	24.50	-1.0	13.6	1.24	5.1	24.75	24.50	18.0				
Excelsior Ins Co	OTC	16.25	0.0	33.2	0.70	4.3	16.25	16.25	13.5	AGENTS/BROKERS	AVERAGE												
Farmers Group Inc	OTC	30.00	-5.5	9.4	1.12	3.7	30.63	30.00	185.2	Conglomerates/Holding Cos.													
First Colony Life Ins Co	OTC	48.00	7.9	15.7	0.80	1.7	49.00	44.50	14.2	American Express(Fireman's Fd)	NYSE	45.13	2.0	8.2	2.00	4.4	45.50	43.38	841.3				
Foremost Corp Amer	OTC	29.00	-4.9	8.6	0.80	2.8	30.25	29.00	130.6	Anderson Clayton(Ranger/PanAm)	NYSE	24.25	-1.0	6.6	1.20	4.9	24.50	24.25	11.2				
Great West Life Assurn Co	OTC	251.00	0.0	10.2	10.00	4.0	251.00	251.00	0.0	Armco Inc	NYSE	32.86	6.0	7.6	1.80	5.5	33.00	31.75	203.9				
Hanover Ins Co	OTC	29.25	-4.9	3.9	0.72	2.5	30.50	29.25	15.1	Arco Inc	NYSE	25.63	2.0	7.4	1.60	6.2	26.25	24.75	380.3				
Hartford Steam Boiler Insprtn	OTC	46.00	-2.1	9.3	2.60	5.7	46.50	42.00	19.5	City Investing Co. (Home Ins.)	NYSE	15.75	-1.6	6.2	0.00	0.0	15.75	15.38	48.7				
Jefferson Natl Life Ins Co	OTC	36.00	1.4	32.4	0.64	1.8	36.00	35.50	1.1	CNA Finl Corp (CNA)	NYSE	68.36	-0.2	8.0	1.00	1.5	68.50	67.25	186.6				
Kemper Corp	OTC	34.75	-0.7	5.4	1.60	4.6	34.88	34.75	69.3	Control Data (Comm. Credit)	NYSE	74.50	-1.0	9.8	1.76	2.4	74.50	72.75	57.4				
Lincoln Natl Corp Ind	NYSE	41.38	-1.2	5.9	3.00	7.3	41.63	41.00	19.1	General Re Corp	NYSE	19.86	-2.5	7.2	1.28	6.4	20.13	19.50	119.3				
Nigle Inv Corp	NYSE	34.75	1.8	9.0	1.28	3.7	34.75	33.63	355.7	Gulf Utld Corp	NYSE	41.63	-1.5	5.8	2.40	5.8	42.00	41.25	388.7				
Mission Ins Group Inc	NYSE	44.88	3.5	8.4	1.00	2.2	44.88	43.25	13.8	ITT (Hertford Group)	NYSE	29.25	3.1	5.8	2.60	8.9	29.25	28.25	819.2				
Nationwide Corp Ohio	OTC	24.63	-0.5	7.0	0.70	2.8	24.75	24.63	8.3	Reliance Group Inc	NYSE	87.75	0.3	7.2	3.00	3.4	88.00	86.75	31				

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