

RIMS 25th Anniversary

Six past presidents of the Risk and Insurance Management Society gather on the steps of the Conrad Hilton in Chicago for the 25th Anniversary Conference of RIMS. The conference was attended by several hundred risk managers. The past presidents include, left to right, Joe Parrett, Carnation Co.; Grant Whitney, Belk Stores Inc.; Bill Mortimer, American Risk Management; Bob McGowan; Rand McNally & Co.; Walt Woodward, Boeing Co.; and current RIMS president, Dan Sullivan, Northern Electric Co.



Firms will self-insure 50% more in next 5 years: Risk managers

By ELISABETH M. WECHSLER

CHICAGO—In five years, property and casualty self-insurance will increase by 50% due to corporate economizing, predicts Time Inc. Employee benefits self-insurance is likely "to double" in this period, its marketing division found in a survey of more than 900 principal corporations.

The percentage of total insurable risk retained internally will increase to more than 10% for property, casualty and employee benefits, the survey found. Summary results were presented at the 25th Anniversary Risk and Insurance Management Society (RIMS) meeting here.

The survey, undertaken with the cooperation of RIMS, received a participation level of 50.9%. A six-page questionnaire was mailed to 1,786 member companies a year ago; 909 were completed and were processed by an independent research firm, according to the Time study.

Among respondent companies, the values of self-insured premiums currently average \$700,000 for property coverage, \$830,000 for liability coverage and \$1,150,000 for employee benefits. The summary emphasized that the esti-

mates were "conservative."

"Well over 50%" of those responding already have expanded deductibles and use safety and loss prevention programs for property coverage. Retro plans and stop loss incentives will play "a considerable role" in liability coverage and various coverage plans are expanding in the employee benefits field, the survey found.

Major changes in risk financing are expected to occur in the following areas within five years: Increased self-insurance, 45%; higher deductibles, 31%; captive companies, 13%; expanded cash flow programs, 7%; and miscellaneous answers, 32%. (Multiple answers were permitted.)

In companies where there is a full-time risk/insurance manager, the incidence and amount of self-insurance is "considerably higher." Full-time risk/insurance managers, who comprise 56% of the survey's respondents, work at companies with more than \$250 million in annual sales and at least 4,000 employees worldwide. This group noted it is "often involved with alternative funding programs" or expects to be in the future.

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Week of December 1, 1975

business insurance

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

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Ford Motor skirmish with IRS over captive is landmark case

By MARGARET LeROUX

DETROIT—A ruling expected in a U.S. tax court here could decide the life or death of captive insurance companies.

The court will decide on a petition filed by Ford Motor Co. as a result of a \$6.6 million assessment by the Internal Revenue Service on premiums paid by Ford's foreign subsidiaries into its Bermuda captive, Transcom Insurance Co. Ltd.

The case is generally regarded as a landmark for captives because it is the first time a company has taken the IRS to court over an assessment of premiums paid into a captive.

"For companies using captives to insure non-U.S. operations, the outcome of the Ford case is vital," one risk manager noted. "If the IRS position prevails, it would deny the corporate existence of subsidiary insurance companies," he said.

The IRS claims, under Section 316 of its manual supplement on captive insurance companies, "that the payments from foreign subsidiaries (to the captive) are receipts of dividends to the domestic corporation advanced to the offshore company."

The rationale of the IRS position is that by insuring a risk in a wholly owned captive, the economic loss still remains in the corporate family, Sidney R. Pine an expert on captive insurance companies told *Business Insurance*.

Mr. Pine will be handling the international insurance and law for Trubin, Sillcocks, Edelman & Knapp law firm as of Jan. 1.

Using a captive, the IRS has contended, is "merely a formalization of self-insurance," Mr. Pine said, adding that in the Ford case, premiums paid into the captive are being considered nondeductible for tax purposes. The IRS says the use of a captive doesn't involve any true transfer of risk.

"The government is contending that the premiums paid by Ford subsidiaries to Transcom should be treated as if they were taxable dividends to Ford USA," said Henry R. Nulte Jr., vp and general counsel for Ford.

"The government can only be making this argument in an effort to disregard totally the existing operations and reality of Transcom," Mr. Nulte continued. "Based on the government's convenient but wholly incorrect view of the facts, it proposes to tax Ford on dividends which were never received, paid or ever existed," he concluded.

Transcom was originally established by Ford as Trans-Global Insurance Co. Ltd. but in 1973 the name was changed to Transcom. The captive provides both property and casualty coverage and is also in the reinsurance market. Since 1973 Transcom has offered coverage to third parties (other than Ford subsidiaries).

Depending on how broad the U.S. tax court decision is, expected in March 1976, it will significantly affect the captives of other U.S. corporations.

"The court could rule on the foreign subsidiary section (of the IRS manual on captives) without deciding the question of whether premiums are deductible when paid by a U.S. company," Mr. Pine noted.

On the other hand, "If the court rules that payment of premiums into a captive is in fact, 'insurance', the decision would have a great bearing on the tax situation of many captives," the insurance expert added.

The IRS has yet to come out with a complete statement of its position on captives. But a position paper on its policies was known to have recently been requested by Treasury Department officials. However, a memorandum of law and a draft of a revenue ruling has circulated among

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Aims to wipe \$100 million in premiums from books

Commercial Union pulls back

By SUSAN ALT

CHICAGO—Commercial Union Assurance Cos. is terminating its relationships with major brokers and ultimately some large commercial clients, as part of a decision to wipe \$400 million in premium writings off the CU books within the next year, *Business Insurance* learned.

The first indications Chicago brokers had of CU's intentions came the week of Nov. 11 when the underwriter's regional and branch personnel let it be known that the insurer was aggressively

reviewing agency relationships with an eye to winnowing the ranks of producers generating less profitable business. By the week of Nov. 17 it was common knowledge here that CU's agency contracts with the local offices of the nation's biggest brokers were being cancelled. Affected by the CU cuts were regional agency contracts at Marsh & McLennan, Alexander & Alexander and Rollins Burdick Hunter.

In addition, Johnson & Higgins in Chicago was known to be terminating its relationship with Commercial Union, although that

firm did not have any agency contract. Corroon & Black's Chicago office negotiated with CU and prevented a cancellation of its agency contract, but has chosen to terminate its relationship with the insurer and not renew any business with the company.

Risk managers presently working with Commercial Union on large casualty programs declined to discuss the situation, although it's well known in the insurance community here that at least a dozen large corporations have already been told by their brokers that they'll have to seek new casualty markets hurriedly.

While Commercial Union denied it is "cancelling" any commercial accounts outright, broker notices of non-renewals by CU as of Jan. 1 have insurance managers and brokers scurrying to place their risks with other insurers.

Howard W. Ward, executive vp of finance for Commercial Union

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Spotlight on benefits:
coming December 15

CU cuts . . .

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 in Boston stated that no decision has been made by the company on any amount of premium business which must be removed from the books. When questioned about the \$100 million figure being cited frequently by brokers and underwriters, Mr. Ward said "We don't know what the final figure would be. I would not contemplate a reduction in premiums of that magnitude."

Mr. Ward confirmed, however, that the insurer is being somewhat "more aggressive" this year in reviewing agent relationships. "Producers that have had an extended period of unfavorable results" may be cut, he added.

Knowledgeable sources in Chicago said a number of CU branch offices are also seeing staff cuts. One insurer close to the situation said the Chicago branch of CU is "being decimated."

Mr. Ward acknowledged that the company is "reviewing a number of offices including Chicago" with cost-cutting in mind. But he declined any details on staff cuts

already underway.

Of the 6,000 to 7,000 agents which CU has around the country, Mr. Ward believes that the bulk of agents will be unaffected by the company's decision to withdraw from unprofitable lines. He insisted that national brokerage firms will not be affected "on a national basis, although a local office might be affected" by the cuts. In all, "maybe a very few hundred" agents might be eliminated, he told this magazine.

The magnitude of the Commercial Union cuts will certainly have a major impact on corporate insureds and the overall market, if indeed the company rids itself of \$100 million in premium business in the next year, insurance brokers asserted. This would be approximately double the amount of premium writings which CNA only a year ago set out to clear from its books.

Sources close to Commercial Union said the objective is to cut off 15% to 20% of CU's total book of U.S. business in order to preserve the company's surplus position. Surplus has been slowly deteriorating but remains relatively strong in the area of \$1 of surplus for every \$3 of premium for the

entire U.S. group. Last year, Commercial Union had \$673.1 million in direct premium writings, while registering a \$35 million underwriting loss. Policyholders' surplus declined by \$136.1 million during the year.

"The surplus is moving towards a 3.5-to-1 ratio, but the company is taking a conservative approach to maintain its posture," said an official of the insurance company who asked to remain anonymous. "The philosophy is that with the high loss ratios this year, coupled with the level of anticipated losses next year, by the reduction of premium writings, the company's surplus position will be preserved."

Several officials at the company told *BI* that the insurer's losses for the 10 months through October were up around \$80 million. But Mr. Ward at CU headquarters would cite only the nine month public figure showing a loss of less than \$60 million. He emphatically stated that "at this point our loss is nothing like" the \$80 million figure being discussed in Chicago.

Commercial Union ostensibly offered Chicago brokers who were threatened with agency contract cancellations substitute "limited contracts" in lieu of terminations.

"A lot of big corporate accounts are going to be affected by this," said one regional brokerage executive. "CU's move is to eliminate large agencies with emphasis on the national brokers," he complained. "So the big accounts which provide big dollars but narrower profit margins will be cut. This is despite the fact that we've made money for CU for the last three years on the commercial business we have with them. But many of the larger accounts are usually in the 105% to 115% loss area on casualty lines."

The broker went on to declare: "In my 25 years in the insurance business, I have never seen anything quite like the situation with insurers in the last three months. It is absolutely chaotic. The panic is unbelievable." ■

Ford Motor tangle . . .

Continued from page 1

The draft cases the IRS's original position on captives, according to a source who has seen the document. It is predicated on the assumption that the captive "does not underwrite any substantial risks outside the affiliated group."

No definition or other description of the word "substantial" is stated, but the inference is that premiums paid to the captive would be recognized as tax deductible if the captive has substantial outside insurance reinsurance.

The draft also attempts to support the IRS's "economic identity" theory, that a captive is wholly-owned and that any loss therefore remains with the corporate family. The economic identity theory is applied to domestic as well as foreign captives in the draft.

Though a spokesman for the Treasury Department said at press time that no position paper has yet been received from the IRS, it is believed that the draft was a first effort on the part of the IRS to comply with the Treasury's request for it.

The IRS will neither confirm nor deny the existence of the draft.

If the easing of the IRS position indicated in the draft is accurate, Mr. Pine observed, then premiums paid to a captive should be tax deductible if the captive has substantial outside or unrelated insurance.

The attorney offered the opinion that if a captive has at least 25% of its annual premiums from outside parties, this would be substantial and should come within the scope of the IRS position.

If the percentage of a company's outside risks is too small to be considered substantial, he suggested considering retaining all or a large part of such outside (or third party) risks and increasing the reinsurance of its parent company risks.

Considering the economic identity theory, Mr. Pine explained if there is a minority ownership of some economic consequence, then a loss to the captive is not exclusively within the corporate family.

"Premiums paid to such a captive should be tax deductible," he believes. As to what percentage of minority ownership of the captive will be sufficient to allow a deduction for premiums, Mr. Pine stated that his reaction is that 2% or 3% would not be enough. "A 10% ownership should be—by any standard—a substantial minority interest," he said. ■

Kidnap ransom paid by General Motors

DETROIT—Two men were arrested three days after the Nov. 10 kidnaping of Timothy Stempel, son of Robert C. Stempel, director of engineering for Chevrolet Division of General Motors Corp. The victim was released, with a pistol-whip scalp wound, after being held two days in a car trunk.

In a federal court complaint charging the two with extortion and robbery, FBI Special Agent Thomas Kelleher said ransom of \$150,000 had been paid.

He said GM's chief of security, John Ahern, stated the ransom had been provided by General Motors. He said loss of the money interfered with GM's interstate commerce.

The ransom had been packed in marked cloth bags, wrapped in brown paper and tied with red ribbon, the agent said.

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Vol. 9 No. 24—Business Insurance is published every other Monday at 740 Rush St., Chicago, IL 60611. Controlled circulation postage paid at Brookfield, Wisconsin. Copyright 1975 by Crain Communications Inc.

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Leatherby withdraws to California comp risks

By JOANNE GAMLIN

FULLERTON, CA.—Leatherby Insurance Co., at one time regarded as a rocketing star in the liability insurance arena, is in the midst of a dramatic retrenchment program aimed at transforming itself into a workers' compensation underwriter in California only.

Nearly all of its general and automobile liability writings, as well as all of its blossoming surety bond coverage business, is being terminated, according to William J. Risconsin, president and chief executive officer. Furthermore, in line with a trend throughout the industry, its writings in the longshoremen's and harbor workers' end of the workers' compensation business is being sharply reduced.

"Although we will concentrate on workers' compensation in California, we will write some related out-of-state business in workers' compensation, general liability and commercial fleet," he pointed out.

Reaction to the news of the retrenchment, which will see Leatherby writing in the future only half of what it wrote in 1974, was notable for its lack of emotion, however. Only one of five spokesmen at companies which had been insured by Leatherby appeared unsettled at the prospect of having to find a new underwriter. Probably the sanguine mood on the part of brokers as well as insureds was caused by the fact that none of those questioned viewed locating of a new underwriter as an insurmountable problem.

Typical of this no-fireworks attitude was Jim Morton, director of insurance for The Wickes Corp., San Diego. He said that the general and automobile liability coverage for the Wickes forest division was moved into his corporation's master policy after he received a non-renewable notice from Leatherby. Travelers Insurance Co. is the underwriter of the master policy. Mr. Morton said Travelers was brought in last May to replace Argonaut.

In similar vein, a spokesman for J. K. Gill Co. Ltd., Portland, which had had workers' compensation coverage out of Leatherby's Portland office, told BI that it had almost instantly obtained new coverage from Industrial Indemnity. "It was no shock," revealed the spokesman. "We understand the problems of the casualty insurance industry."

Agripac Inc., in Salem, Or., which has 3,500 employees, is now looking for another insurer, according to a spokesman. He called the Leatherby move "unexpected."

Stan Flowers, who runs a stevedoring type business in Oakland, Ca., likewise described himself as relieved when he heard from his broker, Underwriters Services, that a new carrier for his longshoremen's and harbor workers' compensation coverage would be found by Nov. 20.

He related that a friend in the same business had futilely approached 19 insurance agents for the same coverage and had been turned down every time. Some California insurance sources predict disaster for small stevedoring companies that are forced to self-insure their L&H workers' compensation, which at present carries no death benefit maximum.

Mr. Risconsin, it must be noted, pledged his company to "an orderly phasing out" of lines of coverage being brought to a close. However, this magazine learned that in Chicago, where Leatherby wrote approximately \$8-million worth of premium business, there were re-

ports of corporate accounts being cancelled in mid-term.

The only insured contacted who expressed real displeasure with the Leatherby contraction was Luther Johnson, corporate accounting manager, Maryatt Industries, Seattle.

He pointed out that he is confused about where he stands due to the fact that the bulk of his firm's 250-odd employees work in California. "But if you ask me how I feel about the coverage termination, I'll tell you that I am not happy about it," he declared.

"Because our loss experience has been good, we have received regular dividends. Now if we are forced to switch carriers, I figure that we will be compelled to pay out about 15% more to the new underwriter."

Behind the comprehensive cutbacks which will see the closing of all but three of Leatherby's 14 national offices lies the sort of surplus and reserve problems that are casting grave shadows on many casualty carriers, including some larger than Leatherby.

Leatherby's surplus now stands at a low of \$6.7 million. At the beginning of the year, it was three times as large or approximately \$19 million, Mr. Risconsin confirmed. Triggering the surplus slide, he indicated, is the fact that two months ago Leatherby moved to strengthen its loss and allocated loss expense reserves. To do this, it funneled \$13.2 million from its surplus into reserves.

A surplus of \$6.7 million means that, writing at a 4-to-1 ratio, the underwriter can expect to produce premiums amounting to \$25

million during the next 12 months, or less than half of what it wrote in 1974.

Total written premiums on all lines for that period totaled \$42,758,000 and earned premiums came to \$33.5 million, according to a spokesman for the Richmond Corp., the insurer's parent.

According to a California insurance source, almost half of that volume or about \$19 million was produced in the Golden State.

The Richmond Corp. spokesman noted that the underwriter's "pure" workers' compensation loss ratio for 1974 was 59%, which one insurance source termed "very good." Still, the company's "pure" incurred loss ratio for all lines as of June 30, 1975, was 88.7%; the combined loss/expense ratio for all lines as of the same date came

to 123%.

The parent company, a financial services organization with consolidated assets of more than \$1.3 billion, is thought to have made a "massive" capital infusion in Leatherby in 1971. But another round of financial generosity doesn't appear likely. The corporation reported operating income of \$5.3 million or 40 cents a share for the first nine months of this year, down dramatically from \$22.3 million or \$1.68 a share for the same period in 1974.

Once the retrenchment is completed, the underwriter, as befits its new image, will have offices only in Burlingame, Fullerton and Los Angeles, all in California. Claims services, nevertheless, will be maintained for a longer period in offices such as Portland which are otherwise being closed. ■



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Taxes on pension contributions upheld

WASHINGTON—A legal assault against taxation of federal employe pension contributions was snuffed out this month when the United States Supreme Court refused to hear the case.

The original suit was filed about three years ago by, ironically, an Internal Revenue Service (IRS) employe who resented paying income tax on pension contributions he was obligated to make.

A Supreme Court ruling that made federal employe pension contributions tax exempt presumably would have spilled over and included state and local government contributory pension plans and those contributory plans in private industry.

The federal government is re-

ported to have been strongly opposed to the suit. IRS officials told *Business Insurance* that they never estimated what the tax loss of such a move would be.

Guesses in the billions of dollars were being tossed about, however.

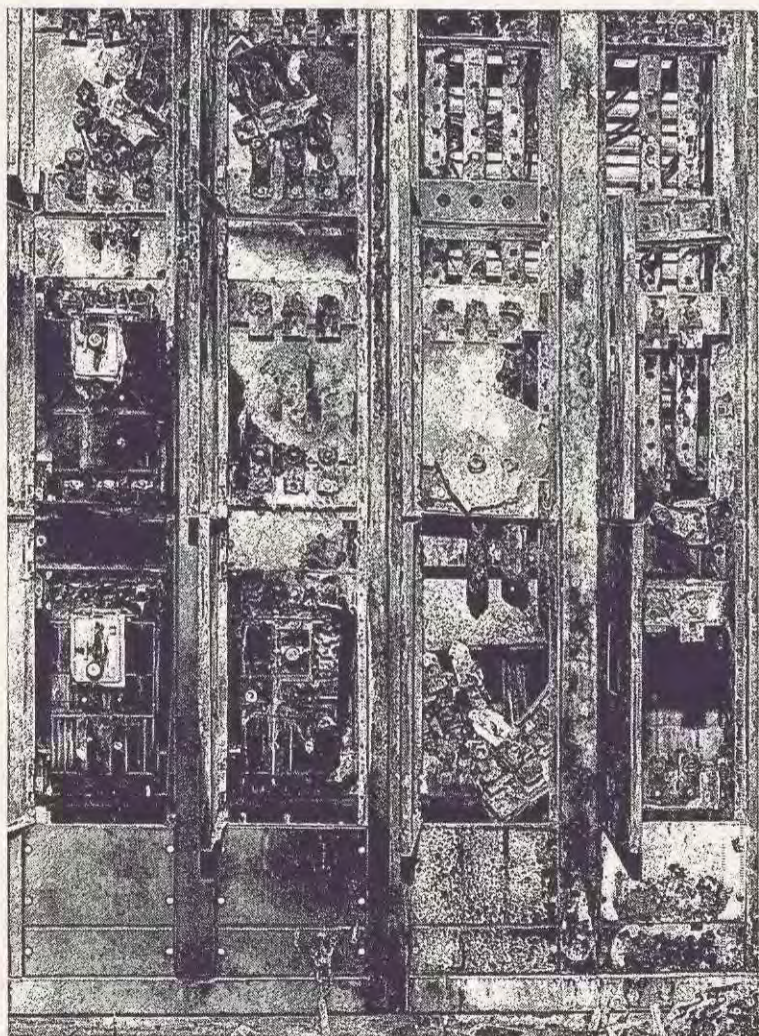
Some pension industry observers are concerned that contributory plans in the private sector are going to be less attractive because employes not covered by any pension plan can make tax exempt contributions to an Individual Retirement Account.

Legislation to exempt employe pension contributions in the private sector, at least, is still a possibility, although a slim one, according to John Martin, vp-financial services, Litton Industries Inc. in Beverly Hills, Ca.

"The big problem we've had is that the staffs of the (Congressional tax) committees are all opposed to contributory plans," he charged. "We were just told that a couple of times."

He added, however, that "we still hope there will be some action here."

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No-fault is anti-consumer says lawyer

CHICAGO—It would be "anti-consumer" to extend no-fault principles to injuries arising from product liability, medical malpractice and general liability situations, charged New York defense attorney Thomas A. Ford.

Besides denying appropriate benefits to injured plaintiffs, such a system would be costly, Mr. Ford wrote in the latest issue of the *American Bar Assn. Journal*.

"The possibility of tort actions impels responsible business and industry . . . to review their standards, methods, products and skills to improve safety," Mr. Ford stated, warning that marginal manufacturers might neglect product safety with the absence of restraints against irresponsible conduct.

He responded to statements by Jeffrey O'Connell, a professor at the University of Illinois, who supports the idea that no-fault should be extended to all kinds of injuries.

The physician or hospital would have to be willing to pay premiums necessary to insure all prospective patients against the risks of less-than-perfect results, Mr. Ford claimed.

"The cost of this system would easily mushroom and it is difficult to visualize most doctors or health care facilities being able to fund it," he said.

Mr. Ford believes that the insurance industry and state legislators are able and willing to seek solutions within the framework of the tort system, according to the Defense Research Institute Inc., Milwaukee, of which he is a past president.

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Sept. fire losses up

Fire losses in the U.S. in September totalled \$276 million, an increase of \$22 million over the 1974 total, according to the Insurance Services Office (ISO). Fires in the U.S. during the first nine months of this year resulted in losses of \$2.68 billion, the ISO said.

Legal opinion.

(Plaintiff attorney awards bouquet to insurance company.)



An attorney for the plaintiff is not likely to be a booster of *any* insurance company. But listen to a comment from one who has spent 20 years representing plaintiffs.

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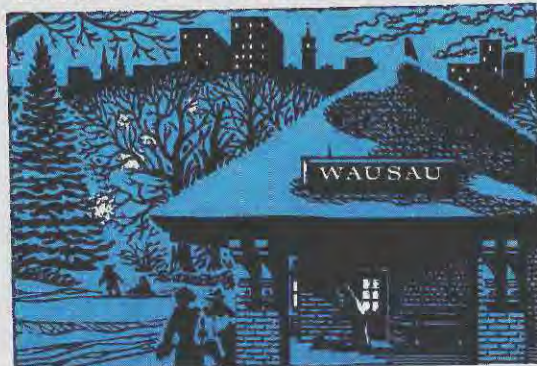
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As an adversary, it is natural for a plaintiff attorney to challenge an insurance company's position. But Employers Insurance operates on the principle of doing *what is fair for the claimant*. If it takes extra work, faster action, additional medical consultations, we do it.

Getting the job done to the satisfaction of the claimant *and* the policyholder is a reward in itself. Turning an adversary into an admirer is an added bonus.

COME TO THE SOURCE
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EMPLOYERS INSURANCE OF WAUSAU, Wausau, Wisconsin

Best Western drops insurer of chain, opts for program with captive broker

By MARIE KRAKOWIECKI

PHOENIX—Best Western Motels Inc. is withdrawing its promotion of Maryland Casualty Co. as insurer for its franchise motels' property, casualty and workers' compensation packages as of this month.

The pull-back effectively axes one of the first big national accounts ever designed for an association.

Instead, Best Western will offer its 1,300 members a program brokered by its own new captive agency, the B-W Insurance Agency, and written by 10 or more carriers.

The managing agent for the rejected Maryland program is R. N.

Crawford & Co., Chicago, a commercial special risk broker.

The program, which started about six years ago, was written on an overall dividend basis related to loss experience, and handled for various properties by local agencies.

The program was especially hard hit with losses last year and did not pay dividends. This apparently is at the heart of Best Western's disenchantment with it, along with complaints about Maryland's service.

Maryland Casualty would not comment on the matter.

Ronald Wallace, Maryland Casualty's director of special accounts, was unaware in late November

that Best Western was even considering the withdrawal of its support.

Figures on the amount of premium volume which could be lost were not available.

Penetration into the motel market by the program was not overwhelming: of the 1,300 establishments eligible to be insured by Maryland Casualty, just a little under 10% of them joined the program.

One insured, the Dodge House Motel and Restaurant in Dubuque, Iowa, said it paid an annual premium of about \$6,600 for the coverage, and was very dissatisfied with the company's service and with the fact it did not pay a dividend last year.

One problem with the program, a problem common to such class policies as automobile owners, is that even if an individual motel had no losses in a particular year, it would be lumped in the same class as motels that suffered big losses for bookkeeping purposes. In this case, it meant getting no dividend, even if there was not a claim made.

Ed Shelley, Best Western's senior vp, refused to reveal comparative premium figures of the Maryland Casualty program and the new program which the B-W Insurance Agency is brokering, but he said he expected lower premiums from the new plan in most cases.

A number of insurance carriers have already been selected for the new program, but he would not name them, saying it was "unimportant."

However, it was learned that a leading contender for the motel

business available since the Maryland Casualty program fell into disfavor with Best Western is Employers Insurance of Wausau, particularly in Iowa.

There were apparently 26 Iowa motel properties which did not intend to continue insuring with Maryland Casualty, according to an industry source.

When one of them, the Dodge House, was contacted, its manager said Employers of Wausau already put in a bid on the business.

One reason for Employers of Wausau's competitive edge is that it is the underwriter of a newly-created hotel/motel insurance program brokered through still another captive industry agency, the American Hotel & Motel Assn.'s General Agency Inc. (GAI).

The Wausau selective multi-peril package features a safety dividend approach, as did Maryland Casualty on the program which the Best Western chain is rejecting.

Best Western's Mr. Shelley said that the new program his association will be sponsoring for its members will not be a dividend program.

Overhaul of malpractice system urged

ATLANTA—The compensation system for victims of medical malpractice is in need of "a major overhaul," a spokesman for the American Insurance Assn. (AIA) told the Congress of Neurological Surgeons last month.

William L. Martin, vp and general counsel of the association said a major factor underlying the current malpractice problem is that there is today more malpractice in a legal sense. Meanwhile malpractice insurance has become highly unprofitable and threatens to get worse, he added.

The problem "... will demand substantive changes in our system of compensating victims of negligence in medical treatment," Mr. Martin stated.

The AIA executive noted he had little hope for a solution to the malpractice problem in the near future.

"The likelihood is that 1976 will see us still attempting to make the old system work," he said, "Rates will continue to increase substantially and coverage may be unavailable in some states."

He enumerated several studies and proposals being considered by states and medical groups that offer hope in solving the malpractice problem. They include: national health insurance, the channeling of liability through hospitals, a no-fault system, a plan similar to workers' compensation and arbitration by qualified panels.

He added, however, that flaws exist in each proposal, among them cost, constitutionality and workability.

Total premiums up

Anderson, Clayton & Co., based in Houston, reported that total premiums written for the account of the parent company and consolidated subsidiaries in its Ranger Insurance Co., a subsidiary, amounted to \$5,212,000 in fiscal 1975, up 23% from the previous year. For fiscal 1974, premiums of the parent company flowing into the insurance subsidiary were \$4,230,000. The premiums were for insured programs in property, casualty and internal employee benefits.

7000 hour veteran. At seventeen, Emily Howell was still an aspiring stewardess who had yet to take her first airplane ride. So she bought a round trip ticket from Denver to Durango to see what flying was like. "On the return flight, I was the only passenger and they let me ride up front for awhile. That's when I fell in love with flying. I knew right then I wanted to be a pilot." Within the year, Emily had earned her private ticket and today she's a 7,000 hour veteran. More significantly, she's the first gal ever hired by a scheduled U. S. airline as a flight crew member. When she's not flying for Frontier, she likes to fly her own Cessna 182 for fun. She insures it with USAIG. Why USAIG? "It just seemed natural," she says. "I knew they were real pros because a lot of my friends insured with them. When my agent recommended USAIG, I felt like he was recommending an old friend."

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AIU's boiler cover moving with a property approach, broker favor

By MARIE KRAKOWIECKI

NEW YORK—American International Underwriters is pushing a simplified international boiler machinery coverage it experimented with domestically for three years and is now selling under the name "Mark II."

Mark II bases direct damage premiums on simple fire rating data, as well as building and contents values, rather than on on-site inspections.

This is making the policy popular with brokers because they can get a premium quote back to a client within days. Consequently risk managers at multinational firms across the country are finding broker proposals on their

desks to buy Mark II for their small and medium-sized risks.

Business Insurance learned of at least nine big firms, including Reliance Electric Co. in Cleveland, which have bought the cover recently, and of activity by Marsh & McLennan, Alexander & Alexander, and Johnson & Higgins in brokering it.

Most of the risks covered are in the \$5 million limit range and under. Reliance, for instance, has a \$2.5 million policy with a \$10,000 deductible.

Although AIU prefers to write Mark II for risks in this lower range, there are at least three multinationals which succeeded in getting coverage of up to \$10 million.

The most recent was a major oil company, which contracted for the cover three months ago and has a binder from AIU saying it will provide the insurance, according to one broker.

Also holding coverage of up to \$10 million are a major laboratory that makes non-prescription drugs, and a food-processing subsidiary of a major conglomerate. Each apparently had the cover before it was called Mark II, but the firms refused comment on details.

Manager of the product is Ronald H. Randall, AIU vp. He is assisted by Eugene B. Hlubik and underwriter Trudy G. Nakutavicius.

AIU claims that the simplified form for the Mark II opens the

door to boiler machinery insurance on many international risks which up to now haven't been written because of the prohibitive expense of sending a qualified person to survey hazards and accumulate underwriting data.

That cost, the insurer says, is often greater than the annual premium of the resulting coverage, and sometimes greater than the annual premium for several years.

Mr. Hlubik remarked that an additional reason brokers found the Mark II attractive is that they see it as a means of recouping international boiler machinery business they lost last year to mutual property insurers like Factory Mutual.

He observed FM offers boiler and machinery cover as a "loss leader" in international packages, thus dramatically cutting into business of brokers who try to sell the coverage on its own. He named Marsh & McLennan as one of the

brokers who lost a lot of book last year on boiler and machinery coverage, and said M&M was especially interested in Mark II as a result.

His observations were denied on two counts, both by Factory Mutual and Marsh & McLennan.

"I can assure you that offering boiler/machinery insurance as a 'loss leader' would definitely be contrary to the company's policy," said Herbert Bernard, vp and international manager for FM.

He noted that when a package is put together, the relative price of boiler/machinery coverage might seem low, but that the coverage could stand alone, largely, because of the firm's extensive inspection operations abroad.

"I categorically deny that we lost business in that area. In fact we gained in our foreign writing last year for boiler/machinery coverage," said Marsh & McLennan's A. Henry Alberich, vp, national services, boiler/machinery department.

He said he didn't feel Mark II had grown that much yet to have a major worldwide application. But he added: "We are looking seriously at Mark II—we're very, very interested in looking at it."

With the exception of Reliance Electric, which bought the policy in April, brokered by Johnson & Higgins' Cleveland office (which called the product "marvelous"), few of the risk managers at firms which have Mark II would comment on it.

One reason for their reluctance to speak of it apparently derives from the fact that in certain countries, AIU is a non-admitted carrier. One risk manager for a Michigan food operation with risks in Mexico and Venezuela said he was afraid the Mark II form might be illegal there, because officially the foreign governments think his local risks are self-assumed by the company rather than insured stateside.

AIU's Mr. Randall countered that the Mark II, which is non-admitted cover in some countries, is on a fully legal document, and provides a way for an American firm to protect its assets here from a loss of its foreign subsidiaries.

Another international insurance expert noted that the policy was handled under the century-old "home-foreign department" approach, an industry-accepted way of writing insurance for a number of risks in foreign countries.

Mr. Hlubik noted that "90% of boiler/machinery insurance written for overseas risks carries low-level premiums. If we had a request to write for three or four locations overseas, there would be no way we could do it (profitably) unless we buried the cost in something else."

"But the Mark II changed the whole approach to boiler/machinery coverage by putting it on a property basis rather than a casualty basis."

Ms. Nakutavicius demonstrated how a premium quote could be rapidly figured out on the single-sheet policy application. After the underwriter filled in a form with a hypothetical \$5 million risk, she handed it to Mr. Randall.

Within three minutes (with an admittedly simple example) they came up with a quote of \$1,338 annual premium for direct damage cover with a \$5 million limit. ■

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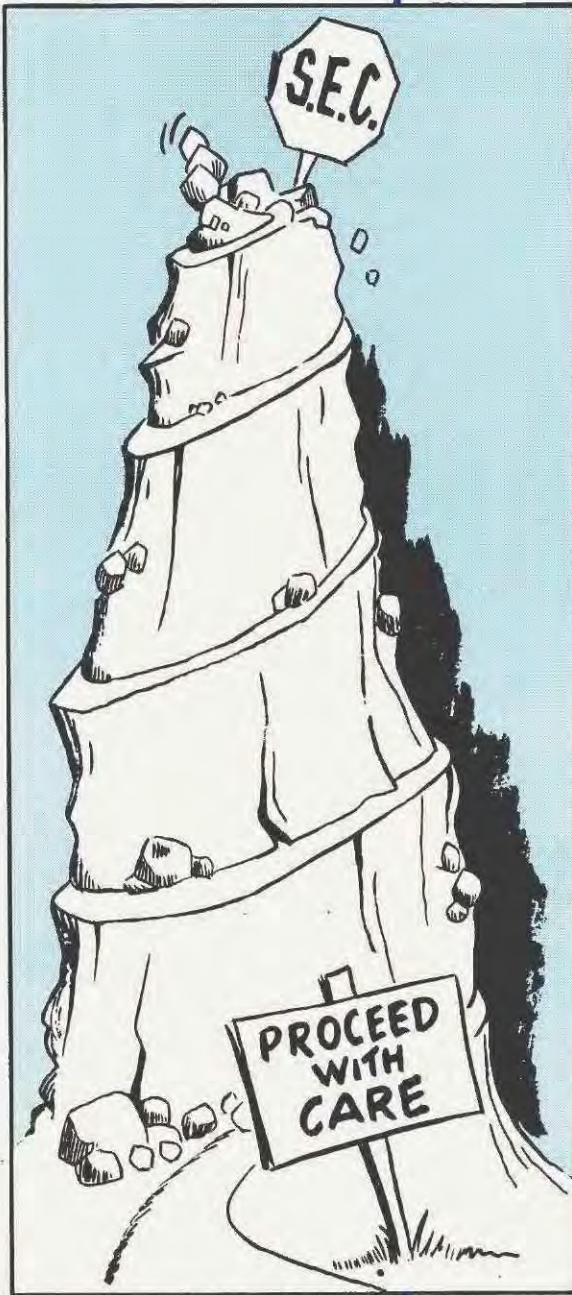
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Speir acquires agency

Speir Insurance Agency Inc., headquartered in Forest Park, Ga., purchased the Betty Greene Insurance Agency Inc., Macon, Ga. This represents the first in a series of statewide expansion plans outside the metropolitan Atlanta area for Speir, a spokesman explained.

Concorde hull value is set at \$50 million

LONDON—Hull value for the controversial new Concorde supersonic aircraft is being put at 25 million pounds, or just above \$50 million at current exchange rates. The value was set by the principal Lloyd's underwriters and will become effective when the aircraft goes into full passenger service next year.

This will make it among the world's most expensive air risks.

Its hull value for test flights prior to passenger operations has been fixed at 35 million pounds (over \$70 million) in view of the replacement cost involved if a prototype went wrong, but this stage is now ending.

Aviation insurers in the U.K. market who have led many world airline risks, believe there is a substantial future for supersonic business, so they have gone to great lengths to achieve the correct ratings.

Currently they face a special problem because of the lack of spread for this line of business, unlike the prospects for continuous new building programs which existed when the first "jumbo jets" came into existence several years ago.

Only 14 Concorde are currently projected in both British and French construction plans. There are also expensive items such as spare parts to be considered in the event one of the aircraft suffers a partial loss, since they might have to be specially built and supplied.

However, there is the important factor that the Concorde will carry only 128 passengers at peak capacity, compared with as many as 500 on a jumbo jet. So in the event of a crash, total passenger claims, which are becoming so high in many countries, could well be much less than those of more conventional aircraft.

Environmental worries over

C&F reports increase in net premiums

NEW YORK—Crum & Forster, an insurance holding company, is getting more premium dollars for the risks being assumed, B. P. Russell, chairman and chief executive officer said.

Disclosing the firm's third quarter financial results, which show net premiums written have increased 4.37% to \$633 million for the year to date, Mr. Russell said it reflected an underwriting and pricing program started in 1974 to improve property/liability profitability.

C&F's combined loss ratio (loss and expense ratios, including dividends to policyholders) was 106.37% for the period, against 104.72% for the same nine months of 1974. The company called these results "unsatisfactory."

The company reported net income of \$18.8 million for the nine months ended Sept. 30, 1975. ■

Attack early retirement

Mandatory early retirement plans were attacked by Rep. Frank Annunzio (D-IL) in a speech on the floor of the House of Representatives. Rep. Annunzio backed "graded retirement plans where persons who wish to work longer can continue to work on a part time basis."

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Urge benefit planning on all corporate levels

DEERFIELD, IL.—“While costs for benefit plans continue to increase, employe understanding and regard for their value and usefulness has not,” claims Hewitt Assoc., an employe benefits consulting firm based here.

Noting in an editorial to corporate clients that employe benefit costs are “currently at a level of 33% of direct compensation,” Hewitt emphasized the need for “more direct involvement on the part of chief executives and policy making executives in helping determine the future direction of their organization’s benefit program.”

“Now more than ever a multi-dimensional approach to planning is absolutely essential. When an organization considers its retirement plan, issues such as death and disability must be considered since most pension and all deferred profit sharing plans contain elements of each,” Hewitt argued.

“Moreover, as employes retire,

their medical coverage will be drastically reshaped by Medicare. In the future, it could be affected by national health insurance legislation,” the firm’s editorial continued.

Part of the problem may be the fact that “few benefit designers take into account employe attitudes and ideas concerning the kind of security benefits they want and need,” Hewitt stated.

The consulting firm believes most benefit planning today excludes “all but the innermost circle of managers. “Yet when employes are asked for their ideas on the makeup of the benefit program, it frequently has enlivened interest and strengthened the program.”

Employe involvement is usually beneficial from a motivation viewpoint, Hewitt explained. “Also the employer gets useful input in revising his benefit and compensation packages to make them responsive to the employe’s perceived needs,” and it suggests using employe group discussions, benefit questionnaires and behavioral research technology to measure employes’ consumer attitudes.

“Beyond getting employe input, there is an even more participative possibility: Giving employes an opportunity to elect individual benefits,” Hewitt emphasized, pointing to the practice of several major U.S. corporations.

Hewitt suggests that employes participating in compensation planning may “dovetail neatly with an employer’s strategy for

dealing with growing government-sponsored security benefits.

“If plan participants are given a chance to voice their desires, a clear message of non-duplication may be forthcoming (which could) provide the foundation for coordination or reduction or private plan expenditures,” Hewitt stated.

The editorial concluded by observing that employe benefit planning “as we have known it in the U.S. during the past quarter century, is obsolete . . . Standard approaches to retirement, death and disability benefits are no longer valid.”

It also noted that employers, once willing to accept cost inefficiency in health care benefit planning, can no longer do so. “That too will need great change to avoid the forming ice mass of national health insurance.” ■

Brokers shift affiliates in Mexico: Note client concern

NEW YORK—A recent shift in broker affiliates in Mexico involving Johnson & Higgins and Alexander & Alexander is giving their clients a collective headache, risk managers told *Business Insurance*.

J&H lost its Mexican affiliate, Phillips & Asociados some weeks ago, but in the interim set up a new relationship with Brockman & Schuch, until recently affiliated with A&A.

A spokesman for J&H said, “It’s a fact that we’ve made the change but there’s nothing more to say. We consider the change to be a private, internal affair.”

“We’ll have to completely re-survey the scene in Mexico as a result of the changes,” a client of A&A said. “I like our relationship with Brockman & Schuch but we’ve never worked with Johnson & Higgins before. They’re not familiar with the intricacies of our worldwide property program.”

A spokesman for A&A, however, said that Brockman & Schuch “will continue to service our clients for quite some time.”

J&H’s considerable volume of business was the reason Brockman & Schuch joined them as an affiliate, according to A&A.

A&A as yet hasn’t decided on a new affiliate, the spokesman continued. “We’ve looked at about 10 firms and are now in the process of deciding on one.”

A J&H client noted that “as far as we’re concerned, the local broker is not that important in the scheme of things; it’s who the international broker is that’s important to our program.”

“I’m not looking forward to the amount of paperwork this change is going to cause,” another A&A client grumbled.

A spokesman for another international brokerage firm with affiliates in Mexico said a problem may arise in that “people get used to dealing with a certain individual and when you ask them to change, it creates all sorts of disturbances.”

The change in affiliates could also affect joint venture relationships in Mexico, yet another source in international brokerage said. “If the operator insists on a certain broker, it may force the other parties in the venture to change their broker.”

“I wouldn’t want to be either Johnson & Higgins or Alexander & Alexander in Mexico at this time,” the broker added. ■

info for buyers

To receive literature listed in Info for Buyers write directly to the name and address accompanying each item, mentioning that you saw the offering in *Business Insurance*. Readers are welcome to submit items for possible inclusion in the column. All items that are free and have informational value to readers are eligible. The column will also consider items for which there is a modest handling charge. A sample of your literature should be sent to Info for Buyers, *Business Insurance*, 740 Rush St., Chicago, Il. 60611.

● **Fiduciary Liability Insurance for Taft-Hartley Funds: A Comparison of Coverages** has been researched and published by the International Foundation of Employe Benefit Plans. Among the questions answered and analyzed in the report; Who is insured? What acts are covered? What constitutes a wrongful act? Are prior acts covered? What acts are excluded? How much is the deductible? What are the limits of liability? What factors determine the premium? Also, the report compares policies offered by Aetna, CNA, Lloyd’s and Sequoia. For members of the foundation, cost is \$6.50, \$6 for orders of three copies or more. Cost to non-members is \$7.50, or \$7 for orders of three or more. The report may be obtained by writing to the International Foundation of Employe Benefit Plans, P.O. Box 69, Brookfield, Wi. 53005.

● **A Handbook of Occupational Safety and Health**, published by the National Safety Council, addresses the problems confronted by supervisors, owners and managers responsible for safety in a small company or plant. It is a compact introduction to the safety and health field for a person with little knowledge or experience in this area. The range of information includes guidance on filling out required government forms. Cost is \$6. Stock No. 129.03. There are 266 pages, with 90 figures and tables. Orders and quantity discount inquiries should be directed to the Membership Dept., National Safety Council, 425 N. Michigan Ave., Chicago, Il. 60611.

● A new booklet has been prepared which cuts through the tangle of insured funding. It tells what a new money rate is and explains its role in insured retirement programs. For a free copy, write to Art Ross, director, Retirement Income Needs, Dept. F, Unionmutual, 2211 Congress St., Portland, Me. 04102.

● The International Safety Academy, a division of ESIS Inc., an INA Corporation, is offering its 1976 **Schedule of Conferences** covering safety, environmental health, motor fleet management and loss control management. The conferences are oriented to the practical application of the techniques developed by ISA so that both newly appointed safety professionals and experienced managers can obtain immediate benefits from their participation. For a free copy, write to Frederick P. Smarro, director of marketing, International Safety Academy, P.O. Box 4365, 1021 Georgia Ave., Macon, Ga. 31201.

● The Alarm Lock Corp. has brochures of its products available. The firm specializes in deadbolt locking for emergency exit doors. For free copies, write to Abe Deutscher, Alarm Lock Corp., P.O. Box 333, 33 South Service Road, Jericho, N.Y. 11753

● Guardsmark Inc. publishes a unique booklet on **Kidnap/Extortion Threats** and security tips and procedures for the executive

concerned with lessening vulnerability to kidnapping and extortion. The book also suggests ways to handle the situation when it has occurred, and how to deal with the press. There is a special section for bankers. The brochure also presents some insurance questions which arise in kidnap-extortion cases. For a free copy, write to S. E. Smith, Guardsmark Inc., 22 S. Second St., Memphis, Tn. 38103.

● Gay & Taylor Inc., a multiple line claims adjusting company, has released a brochure describing services available, the company’s history, quality control system and administrative personnel. Also included is a complete directory of all locations including address, telephone and management information of the more than 100 Gay & Taylor offices. For a free copy write to James E. Gay III, vp, Gay & Taylor Inc., Box 1410, Winston-Salem, N.C. 27102.

● A handbook for employes, **The Employee and OSHA**, has been prepared by the U.S. department of Labor to answer the questions more often asked by workers. Information on job safety and health employe rights and responsibilities under the 1970 federal job safety and health law, and the legislation’s background is provided in the pocket-sized, 16-page booklet. Order from the Superintendent of Public Documents, Government Printing Office, Washington, D.C. 20402. Copies are 30 cents each, prepaid. Specify the title, plus March 1974, OSHA Publication 2099.

Explain reporting and disclosure rules

The Labor Department says it has explained in “simple nontechnical” language how the reporting and disclosure rules of the pension reform law are to work

It’s all in a just-released 16 page pamphlet called **Reporting and Disclosure: Employee Retirement Income Security Act of 1974**.

The Department said the pamphlet covers reports plan administrators must file with the U.S. government (not only the Labor Department, but the Internal Revenue Service and the Pension Benefit Guaranty Corp.), information administrators must disclose to participants and beneficiaries, exemptions and alternative methods, other reports, record keeping requirements, effective dates, and enforcement.

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It’s available free from all area offices of the Labor-Management Services Administration or from the Office of Procurement, Labor-Management Services Administration, U.S. Department of Labor, 3rd Street and Constitution Av., N.W., Room N-5432, Washington, D.C. 20216.

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• The **Little Red Book** is a revised and updated listing of all General Adjustment Bureau office locations, domestic and foreign. It lists all district, regional and branch offices, with complete addresses as well as day and night telephone numbers. The guide also lists and describes various GAB services. For a free copy write to Management Services, GAB, 123 William St., New York, N.Y. 10038

• A technical bulletin illustrated by photographs and engineering drawings describes the new UL listed **Grinnel Duraspeed Cleaning** sprinkler that is recessed and enclosed into a ceiling to provide an attractive, unobtrusive fire safety system. Included are typical application, details of its operation and specifications. Write Grinnell Fire Protection Systems Co. Inc., 10 Dorrance St., Providence, R.I. 02903.

• **Split-Dollar Life Insurance funded with the ICV 100**, published in November by Financial Assurance Inc. of Denver, describes a way of providing life insurance benefits to key personnel at small net cost to the company. Full immediate cash values are one advantage. Dun's Review called split-dollar life insurance "the hottest thing in executive insurance." For a free copy, write to Financial Assurance Inc., P.O. Box 2040, Denver, Colo. 80201.

• The **Fortune Market Survey** includes corporations' views on their employe retirement and other financial benefit programs. Copies of the study at \$5.75 a copy and \$4 each for 25 copies or more may be obtained from Fortune, Rm. 1828, Time & Life Building, Rockefeller Center, New York, N.Y. 10020.

• An illustrated, 240-page book published by the U.S. Printing Office presents papers from a symposium on **Fire Safety Research**. Topics include hazard analysis, flame chemistry, fire detection, flame spread, fire services, and many others. Cost is \$3.10. Use order number 95E-003-003-01356-1 and write to Public Documents Distribution Center, 5801 Tabor Ave., Philadelphia, Pa. 19120. Make check payable to Superintendent of Documents; do not send cash.

• **Insurance for Contractors**, a revised and expanded 143-page book by Walter T. Derk, is now available. Entirely new material includes sections devoted to: understanding risk management, workers' compensation reforms, building insurance overhead into contract cost and instructions on charging retro rating plans. Cost is \$5; discounts are available for orders of five or more. Write to Walter T. Derk, Fred S. James & Co., 230 W. Monroe St., Chicago, Ill. 60606.

• If you have ever asked, **What's a Sprinkler?**, order this brochure from Factory Mutual Engineering. A series of questions and answers, photographs and diagrams explain the history, structure and purpose of automatic fire sprinklers. Copies are ten cents each; write to the company at 1151 Bos-

ton-Providence Turnpike, Norwood, Ma. 02060.

• **FCIA Export Credit Insurance: the Competitive Edge**, released by Foreign Credit Insurance Assn., explains the types and benefits of insurance offered by the association, the commercial and political losses covered by FCIA and special programs available to suit individual U.S. exporter needs. For a free copy write to Public Affairs Office, Foreign Credit Insurance Assn., 1 World Trade Center 9th floor, New York, N.Y. 10048.

• **Firefighter's Protective Clothing & Equipment**, a 12-page brochure by Fyrepel Products Inc., is now available. Clothing, aluminized garments, approach suits, entry suits and proximity suits are described. For a free copy write to A. M. Larimer, sales manager, Fyrepel Products Inc., Box 503, Newark, Oh. 43055.

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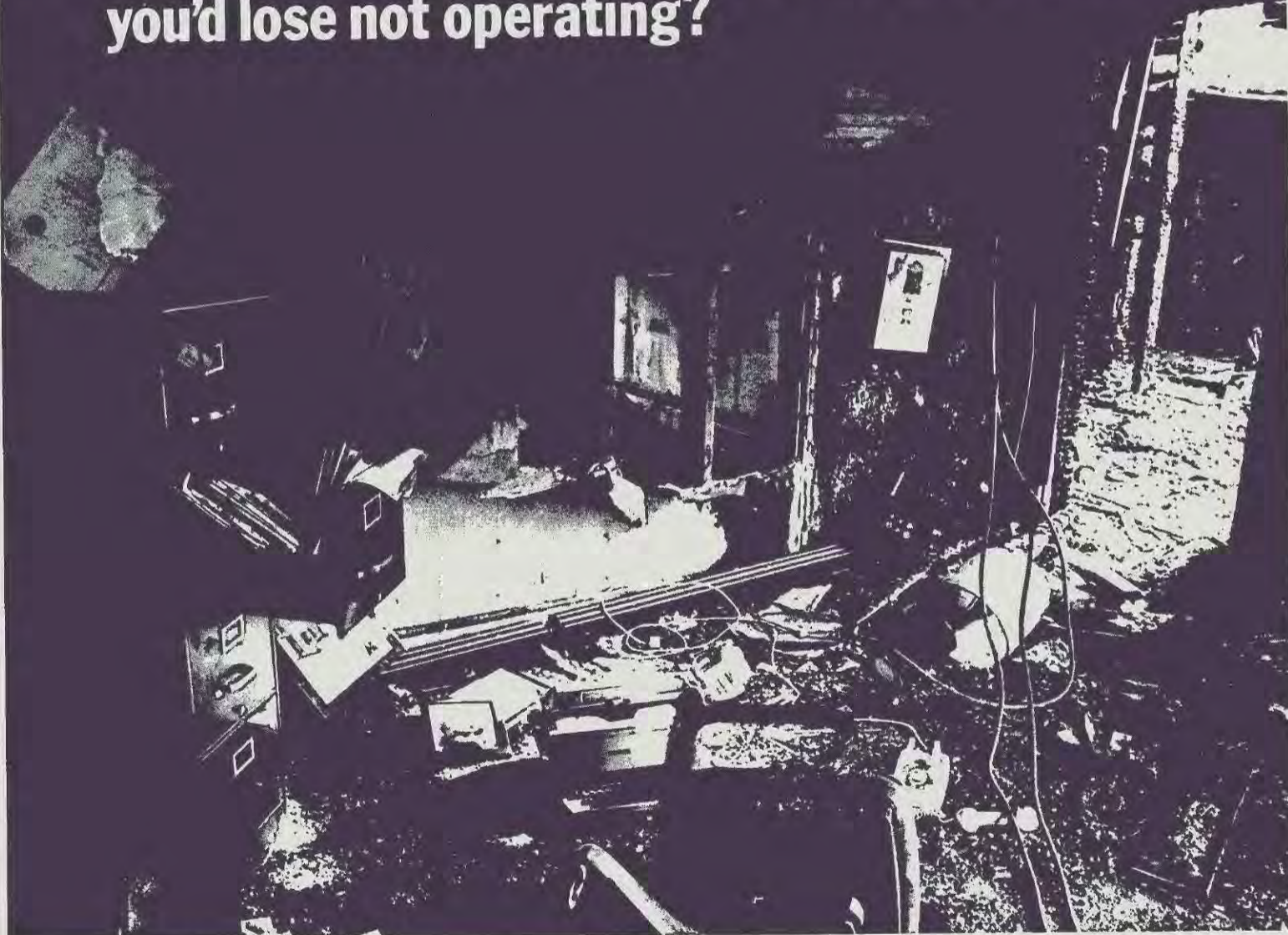
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editorial opinions

'Foul weather' report for the industry

ONE OF THE more thoughtful voices in the insurance industry, Bernard J. Daenzer, president of Wohlreich & Anderson, New York, has done some crystal ball gazing. What he sees is not very encouraging—for the industry itself or for those who depend upon the insurance mechanism for protection of assets.

Speaking before a Chartered Property and Casualty Underwriters international seminar in Mexico last month, Mr. Daenzer issued a "foul weather" report for the industry for the next three years or, possibly, for the next five. The year 1978, he said, may be a "good" year for the industry if changes are made very fast. However, historical experience seems to indicate a slow turnaround despite how fast decisions are made by the industry: "The years 1979 and 1980 will be a real test for the industry," he said, "as to whether or not there will be the inevitable return to foolishness."

If the three- to five-year outlook for the industry is bleak, then the shorter term view is grim.

During the next six months, said Mr. Daenzer, "a substantial number of companies in the United States will be asked by insurance departments to cease and desist doing business; others will be put on probation with close watch; still others will be asked to restrict their volume in 1976 and perhaps subsequent years until their ratios get in line."

As anyone who has huddled with those in the insurance industry in recent weeks knows, rumors are rife that many insurance companies in this country, and some large ones at that, have premium-to-surplus ratios that have grown perilously wide.

Unified defense needed on product liability

AS RECENT STORIES in this publication have pointed out, the products liability problem is indeed reaching crisis proportions. For years, liability-watchers and insurers have predicted this would happen, so it's not as if anyone is surprised that product liability problems are now literally forcing companies out of business.

That is not to play down the problem, however. The fact we've been warned this would happen doesn't make the financial impact of products liability lawsuits and judgments any easier to handle.

While the legal profession has been charged with creating many of the excesses in the tort liability system, we dare to counter with a suggestion that lawyers may also pose a solution—coupled with several other ingredients, however.

Several persons expert in handling product liability risks have discussed with us lately their ideas that corporations can't fight the products liability problem as long as they continue to do it in the most fragmented way, by attacking specific legal actions with specific individual defenses.

One way for companies to successfully pool their collective expertise would be to work through the associations they belong to, and provide for a coordinated product liability defense network. This isn't a new idea, certainly. The Defense Research Institute was set up by insurance companies with this same basic concept in mind.

But corporations which have to handle the risks still have

At the same time, the market for many risks has dried up or become much more costly than it ever has.

These are difficult times for both the industry and for those it serves. The average person on the street doesn't want to hear that his automobile insurance policy has gone up 30% or 40% or 50%. And the large commercial consumer of insurance certainly doesn't need to hear that renewing a comprehensive general liability policy is also going to increase his company's insurance costs dramatically.

We've always supported a system that allows—indeed, encourages—the consumer to shop around for a product. And the risk manager or large buyer of insurance that is not continually evaluating the performance of his underwriter, broker and the services they provide is just not doing the job for his company. Such evaluations, however, should be made thoughtfully and cautiously and in consideration of a number of other things as well as price.

With prices for the insurance product rising rather dramatically these days, it is easier than ever to go shopping for insurance—and it is easier than it ever was to give more weight to price than to any other factor in the selection process. It just shouldn't be so. Now, more than ever, it behooves the risk manager and the broker attempting to place a risk to be most cautious in seeking out carriers and selecting markets. The primary consideration should, as always, be the financial viability of that market. And the risk manager should look beyond the usual sources of insurance company quality ratings in making the determination that that market is financially sound.

a problem. And it seems to us that corporate insurance and risk managers could provide some impetus for just such an attack on product liability risks, under the aegis of any one of the many groups in which they participate.

The important part of this whole gambit would be that one lawyer or one law firm be contracted to work with all the members of the association on their product liability defenses, and coordinate a total programmed response for and with a company brought to court by a plaintiff.

The point we're trying to make is that an association could perform a worthwhile—indeed, invaluable—function by acting as central coordinator for companies in managing this particular risk. Some people have even suggested to us that the association (or associations) involved in this manner could arrange products liability insurance with a single insurer, and coordinate efforts of the insurer's legal defense staff with those of the association-retained attorney(s).

That may be carrying the idea a bit far. We can foresee major barriers to the "group" insurance effort which might militate against its ultimate success.

But we believe the suggestions that corporations—hopefully, spurred by their risk managers—get together and work on a coordinated defense posture merits consideration. It may provide the first step in a more coordinated effort, too, toward changes in the tort system which we believe necessary if a vital economy is to survive.

letters

Letters are welcome. Address letters to the Editor of Business Insurance, 708 Third Ave., New York, N.Y. 10017.

GAS Limited

To the Editor: The publication in your October 6, 1975 issue of the rebuttal comment by A. Gordon Hanau, to questions I had raised on the subject of GAS Limited, provides a good public airing of, obviously, differing points of view. You provide an important service to the industry by providing space for this type of exchange.

It was suggested by Mr. Hanau, in his comments, that I was resorting to "scare tactics" in raising questions about GAS Limited as a suitable insurance vehicle for the type coverage proposed and type risk to be insured. If I interpret that to mean potential participants should be concerned and adopt extreme caution in considering participation, then Mr. Hanau is right on the mark. The fact that your publication aired comments on this subject in full suggests that the issues were of merit and not simply motivated by a concern for self-preservation. Certainly, the amount of energy used in justifying GAS Limited, by the author of rebuttal comments, is evidence of his concern for self-preservation.

Any new insurance vehicle, particularly this type, should be fully explored. Since it comes with so many unique characteristics, any participant must ask a lot of questions not necessary in the purchase of insurance from the usual commercial markets. While the commercial markets are fickle, and that is a lamentable fact, they are not non-existent for the form of insurance which GAS Limited seeks to provide. But I am not writing to carry on the debate. If we were to do that, I am quite certain it would be critical that we separate the technical and market availability questions from the issues of security durability. The former engender technical issues and strong divergent points of view. The latter requires a crystal ball.

Only time is going to tell us if the questions have been answered, or whether the answers themselves have raised new questions. But let's quiet the "verbal sparks" for now. The issues will long be alive, and only time will provide us with more conclusive answers. Of one thing we can be sure, the insurance industry exists because of uncertainties and the need for protecting against the unexpected. One wonders if a proper foundation for an insurance vehicle is a predictable risk.

James H. Bryson

vp, Delaware Valley Underwriting Agency Inc., Wyncote, Pa.

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

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



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legal brief

Court upholds exclusion in policy rules manhole part of city street

IS A MANHOLE part of a street? Yes, according to the Supreme Court of Vermont, which ruled that an insurer did not have to defend a personal injury claim brought against the city of Burlington because an endorsement in a comprehensive general liability policy excluded occurrences "arising out of the ownership, maintenance, operation or use of . . . streets and sidewalks."

Edward Dugan was injured by a fall into a partially covered manhole located within a street right-of-way in Burlington. Dugan sued the city, which, in turn, requested its insurer, Glens Falls Insurance Co. (Glens Falls) to defend under the terms of a comprehensive general liability policy. When Glens Falls refused to defend, the city brought this action seeking to determine whether Glens Falls was required to cover and defend the city. The trial court ruled in favor of the city.

On appeal Glens Falls contended that a manhole (catch basin and grate) lying within a city street is part of that street and that Dugan's injury occurred within the policy's exclusionary clause. The appellate court agreed. The court acknowledged that this type of insurance contract was to provide protection against liability claims and "the terms of the policy must be given interpretation consistent with that purpose, with limitations and exclusions strictly construed."

But the court emphasized that to conclude, like the trial court, that a catch basin and drain are part of a city sewer system does not mean that the drain is not also part of the street. The court noted that drains and catch basins have been held to be parts of streets. Consequently, the court concluded that since the policy excluded occurrences arising out of ownership of streets, Glens Falls had no contractual duty to defend the city against Dugan's suit. *City of Burlington v. Glens Falls Insurance Co.*, Supreme Court of Vermont, June 3, 1975, Daley, J. 340 A.2d 89 (BI/02/0.-\$3)

School group insurance

Are diagnostic tests and procedures which are reasonably necessary to determine the nature and extent of accident related injuries and which ultimately reveal other conditions which pre-existed the accident, covered under a school group accident policy?

Yes, according to a Louisiana appellate court which not only held an insurer liable to maximum benefits but also assessed attorney's fees and a penalty against the insurer for delaying payment.

This action was brought by the father of Andrew Baque against the PanAmerican Life Insurance Co. seeking medical benefits of \$1932.65 under a school group accident policy issued to the Opelousa Catholic High School. On March 7, 1973, during the course of a varsity baseball practice at the school Andrew, while chasing a fly ball, ran into a metal post. Because of injuries to his chest and abdomen he was taken to a general surgeon and hospitalized.

There Andrew was also seen by a general practitioner and an internist. During the course of testing the doctors noted that Andrew had premature ventricular

contractions (PVC). They all thought those contractions were the result of the trauma. The final diagnosis was that Andrew

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

suffered a cardiac contusion "probably" from the baseball accident. Andrew was further referred to a heart specialist who after tests concluded that the PVCs were not related to the accident but were pre-existent and

of no clinical importance.

Pan-American tendered to the Baques only 50% of their total medical expenses arising out of the several consultations and hospitalizations. This suit was then brought and the Baques won in the trial court.

On appeal Pan-American's principal contention was that it was not responsible for the costs incurred that were related to the diagnosis and treatment of the PVCs because of an exclusionary clause in the policy for "pre-disposing or pre-existing conditions."

In rejecting Pan-America's contention the court of appeal pointed out that to adopt this theory "all x-rays, laboratory tests, consultations with specialists, etc., which are negative for accident related conditions, would be excluded. This is not a reasonable or logical interpretation of the 'treatment' the policy provides."

Consequently, the court concluded that the Baques were entitled to recover the maximum benefits under the policy. Also the court affirmed the imposition of a penalty on Pan-American for delay in payment and further assessed the insurer a \$1500 fee for the Baques' attorney. *Baque v. Pan-American Life Insurance Co.*, Third Circuit, May 5, 1975, rehearing denied June 18, 1975, Culpepper, J. 313 So.2d 293 (BI/01/D.-\$3)

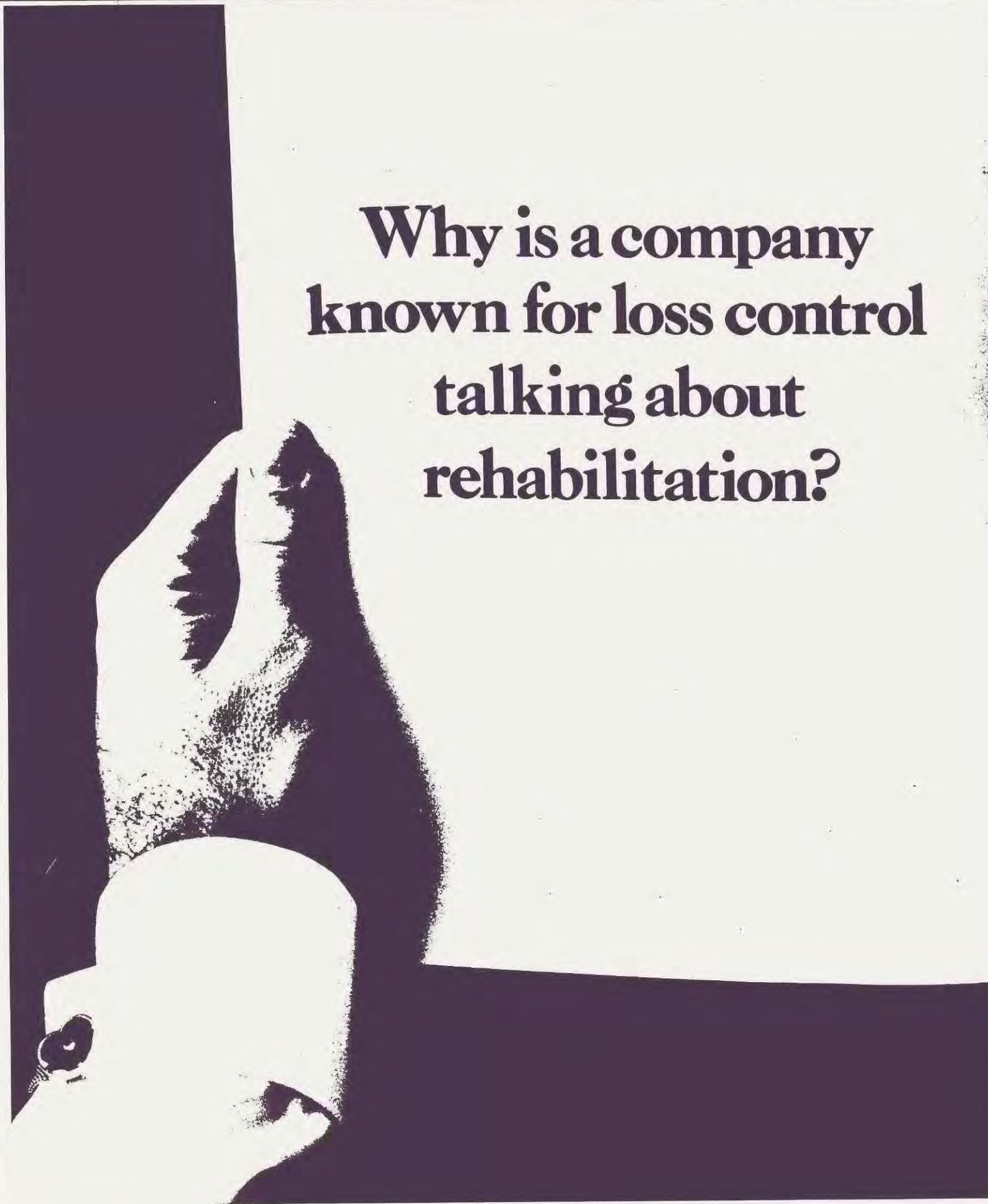
Group insurance

An employe should not be denied permanent disability cover-

age provided in his certificate of insurance under a group plan that was not provided for in the master policy, according to a federal appellate court. The court ruled that where there is an irreconcilable conflict between a master policy and the certificate which would affect the coverage of the insured employe, the certificate must control.

John A. Lee, as an employe of Kingsport Press Inc., became eligible for coverage under a group insurance policy. The policy had been issued by Life Insurance Co. of North America (American) to Arcata National Corp. which had purchased Arcata. Lee applied for and received a certificate for \$100,000 of coverage under the master policy. Under coverage "B" in the certificate, Lee was insured against total permanent disability. Lee's monthly premium was paid through payroll deduction.

In 1971 Lee was injured in an



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

automobile accident resulting in total and permanent disability. After being disabled for one year, Lee applied to American to recover his disability benefits. At that time American discovered for the first time that every certificate of insurance issued by it to Arcata employes erroneously contained coverage "B". The master policy did not include permanent disability in its coverage. Lee sued and recovered a judgment after American refused payment of his claim.

On this appeal, American claimed that it should be relieved of responsibility because of the clerical error. The master policy contained a provision that "clerical error by the organization" would not extend insurance. The court pointed out that the "organization" referred to in the policy was the employer, Arcata, and if there was error it was on the part of the agents of American rather than Arcata.

The court emphasized that the real issue here was which of the documents controlled, the master policy or the certificate. It concluded that, under the law of the state where this policy was issued (Tennessee), when the certificate is a part of the group policy contract and there is a conflict between the master policy and the certificate, the certificate will control as between the employe and the insurance company. *Life Insurance Co. of North America v. Lee*, United States Court of Appeals for the Circuit, July 15, 1975 (BI/03/0.-\$2) ■

(Copies of the entire decisions described in this column may be obtained by writing to Business Insurance, attn. Managing Editor, 740 N. Rush St., Chicago, Il. 60611. Please enclose a check made out to Cases Unlimited Inc., for each case, and specify the code number of the opinion, which is at the end of each brief.)

Bill on co-fiduciary liability clears hurdle

WASHINGTON—Legislation that could simplify the question of co-fiduciary liability under the pension reform law has been reported out of the House Education and Labor Committee.

The legislation would further amend the law by eliminating its controversial Section 460 ban on party-in-interest transactions between pension funds and related persons or firms.

The bill is H.R. 7597, sponsored by Reps. John H. Dent (D-Pa.) and John N. Erlenborn (D-Ill.), key House legislators on pension reform matters and senior members of the House Labor Standards Subcommittee.

The bill had been bottled up since June when it encountered

strongly worded opposition from the Ford Administration, particularly the Labor Department.

Key pension reform legislators in the Senate have also been cool to the changes suggested in the amendments.

In the House, the bill now awaits some action by Rep. Al Ullman (D-Or.), whose House Ways and Means Committee has power over some of the amendment proposals because of the way the pension reform law is split between the Labor Department and the Internal Revenue Service.

The bill would eliminate the law's Section 405 (a) language which now sets co-fiduciary lia-

bility rules.

Backers of the amendment argue that the law now makes all fiduciaries, even outside fiduciaries, potentially liable for the breach of another fiduciary in cases where the outside fiduciary had knowledge of what was happening.

Changing section 405 (a), proponents argue, would make it clear that only trustees and named fiduciaries of a plan have the responsibility for supervising the actions of other fiduciaries.

Under some legal definitions of the word "knowledge," it would not be "unreasonable" to interpret the present law as imposing a duty on a fiduciary to "inquire and reasonably supervise the conduct of another fiduciary, even if the first fiduciary holds no official position with the plan," the amendment's supporters said.

It prevents a fiduciary from acting in any limited capacity, the supporters argue. ■

Rates cut for unique gov't. bond program

WASHINGTON—There have been fewer than two defaults for every 100 persons covered under a special federal fidelity bonding program underway since 1966, the Labor Department said.

This is despite the fact the participants in the bonding program are ex-criminal offenders.

The bonds are purchased through a commercial bonding company, the government said, and the good experience has cut rates in half since the program began eight years ago. Rates are now 85 cents per \$500 of coverage, down from \$1.75 per \$500.

The government will pay for up to a \$10,000 bond for as long as 18 months. During 1975, about 1,200 persons a month were covered, and the program's total liability ranged as high as \$9.1 million in any one month.

Slightly more than half of the participants were minority group members. They held jobs from unskilled blue collar workers, to professional and supervisory positions, the department said. ■

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PERSPECTIVE

Mr. Valovic surveyed 55 risk managers, and received 35 responses describing computer applications in risk management. He also surveyed a number of consultants. Overall, his findings indicated considerable interest in the use of computers by risk managers. Any distortion of computer applications by risk managers or consultants is unintentional, Mr. Valovic stressed.



SURVEY SHOWS RISK MANAGERS MAKE MORE USE OF COMPUTERS

By STEFAN J. VALOVIC
Director of Insurance
Kaiser Aluminum & Chemical Corp.

TO COUNT BEANS is an oversimplification of a process that management must do in some form or another in order to operate a business. The beans, of course, refer to data concerning the business which when collected form a data bank. Means employed to count these beans or data may be either manual systems or electronic data processing systems. By analyzing the collected data when properly retrieved and displayed, management can review prior decisions and plan changes if necessary in its method of operation. By manipulating the data, management may improve its decision-making ability through analysis and use of quantitative techniques.

One of the purposes of this article is to summarize the various replies about specific computer applications received from risk managers and consultants. By identifying the companies that responded, it is hoped that risk managers interested in a particular application will contact the replying risk manager or consultant. Another purpose of this article is to make some comments on how to work with computer specialists.

It is not my intention to describe in detail how a particular computer application can be implemented. The "how to" approach I leave for another time or other more knowledgeable writers. Furthermore, I will not try to make a case for computer applications except to note the obvious: Once the number of events or specific data being collected becomes very sizeable or if the number and complexity of calculations involved in the data manipulation becomes unwieldy, the computer is essential.

Jack E. Brucher and John J. O'Connell made a comprehensive study in order "to gain insight into the current utilization of quantitative tools in risk management as it actually exists in large U.S. corporations" and "to measure the attitudes of risk managers concerning the present and future applicability of such techniques in corporate risk management." According to their article, contained in the May issue of Risk Management magazine, 94% of the responding risk managers are storing data but only 40% of these risk managers are storing their records on the computer. Brucher and O'Connell make the further point that the utilization of quantitative tech-

niques is going to be very difficult if the computer is not used for storing data. Hopefully, the very large percentage of risk managers who are collecting data but who are not storing the data in a computer will get some ideas and added motivation from the following specific computer applications. It should be noted that it is possible to use the computer for specific applications or programs without having to record on a computer all conceivable data that a risk manager may manually collect. This is not to say that a computerized total risk management information system is not desirable and important but rather that the computer is available for specific applications if the information is available.

Specific computer applications have been classified into two general categories, risk financing applications and risk control applications. Each application is described in a general way followed by a list of surveyed companies that are presently using the application and a list of companies that plan to use the application within the next few years. Computerized loss runs furnished by insurers have not been included in the following applications. A number of risk managers indicated extensive use of electronic data processing equipment in the operation of captive insurance companies and employee benefit areas. These computer applications are not included in the following categories.

RISK FINANCING APPLICATIONS

I. A system to prepare some or all insurable property values for reporting purposes to insurers.

Have Now

Aerojet Solid Propulsion Co.; Aluminum Co. of America; American Greetings Corp.; Burmah Oil and Gas Co.; Clorox Co.; Crown Zellerbach; Del Monte Corp.; Kaiser Aluminum & Chemical Corp.; Pacific Gas and Electric Co.; SCM Corp.; and 3M Co.

Near Future

Reynolds Metals Co.; Rockwell International Corp.; United States Gypsum Co.

II. A management information system to collect total costs of risk data, e.g., insured losses, self-insured losses, premiums, cost of consultants, administration costs, etc.

(As I interpreted the replies from risk managers, none of the respondents had a management information system to collect total costs of risk. My apology to any responding risk manager that does have such

a system if I misinterpreted the reply.)

III. A management information system to collect some costs of risk data, e.g., insured losses, self-insured losses, premiums, cost of consultants, administration costs or loss causes, etc.

Have Now

Aluminum Co. of America; Bank of America; Borg-Warner Corp.; Burmah Oil and Gas Co.; Del Monte Corp.; Ford Motor Co.; Fuqua Industries Inc.; Hanna Mining Co.; Ingram Corp.; Kaiser Aluminum & Chemical Corp.; and Standard Oil Co. of California

Near Future

Amfac Inc.

IV. A system to allocate costs of risk to operating units, i.e., profit or cost centers.

Have Now

Aluminum Co. of America; Del Monte Corp.; 3M Co.

Near Future

Amfac Inc.; Borg-Warner Corp.; Burmah Oil and Gas Co.; Crown Zellerbach; SCM Corp.; and United States Gypsum Co.

V. A system to collect underwriting data, e.g., exposure units such as number of employees, sales, etc.

VI. A system to forecast losses.

Have Now

Aluminum Co. of America (fire losses); Burmah Oil and Gas Co.; Kaiser Aluminum & Chemical Corp. (property and business interruption losses); and 3M Co. (property and business interruption).

Near Future

Crown Zellerbach

VII. A system to evaluate alternative risk/insurance proposals.

A. Captive insurance company—A computer model to evaluate the cost benefits of a captive insurance company.

Have Now

Alcan Aluminum Ltd. (broker and company developed model); Kaiser Aluminum & Chemical Corp. (company developed model).

B. Risk financing techniques.

Burmah Oil and Gas Co. (analyze long term impact of varying losses on alternative risk management programs)

RISK CONTROL APPLICATIONS

I. A system for preventative maintenance of production equipment and testing of fire protection equipment and systems.

Have Now

Aerojet Solid Propulsion Co.

Near Future

Pacific Gas and Electric Co.

II. A system to aid in loss prevention and engineering decisions.

Have Now

Aluminum Co. of America (automatic sprinkler system hydraulic calculations; water supply system analysis); Ford Motor Co. (keep track of insurer's and company-generated fire recommendations).

Near Future

Burmah Oil and Gas Co. (computerized decision tree analysis of loss prevention efforts).

III. A system to control theft losses.

Have Now

Deere & Co. (a system to daily report and record stolen equipment. Complete description of stolen equipment is furnished to dealers. Persons reporting information instrumental in the recovery of stolen equipment are eligible for a reward).

IV. A system to preserve personal safety records, e.g., audiometric examinations, radiological exposures, chemical contact screening, OSHA records, etc.

Have Now

Aerojet Solid Propulsion Co.

Near Future

Burmah Oil and Gas Co.; SCM Corp.

V. A system to record litigation activity.

Have Now

Ford Motor Co.; Standard Oil Co. of California.

A similar list of specific computer applications in the form of computer programs available from consultants follows and is based upon replies from 16 consultants (18 consultants were contacted). While most consultants had knowledge and experience in computer applications, only consultants who had computer programs available are listed. The listing is not intended to be all inclusive but representative of some of the services available from some consultants.

RISK FINANCING APPLICATIONS

I. A system to prepare some or all insurable property values for reporting purposes to insurers.

Anistics division of Alexander & Alexander Inc., New York; Armistead Miller Wallace Inc., national accounts div., Nashville, TN; C. T. Bowring & Co. (insurance) Ltd., London; Corporate Systems Corporation, Amarillo, TX; Marsh & McLennan Inc., New York.

II. A management information system to collect and manipulate total costs of risks.

Anistics division of Alexander & Alexander Inc., New York; Armistead Miller Wallace Inc., national accounts div., Nashville, TN; Corporate Systems Corp., Amarillo, TX.

III. A management information system to collect some costs of risk.

Willis, Faber & Dumas Ltd., London (marine cargo loss analysis)

IV. A system to allocate costs of risk to operating units.

Continued on following page

Computers . . .

Continued from preceding page

Anistics division of Alexander & Alexander Inc., New York; Corporate Systems Corp., Amarillo, Tx.; Marsh & McLennan Inc., New York.

V. A system to collect underwriting data. Anistics division of Alexander & Alexander Inc., New York; Armistead Miller Wallace Inc., national accounts div., Nashville, Tn.

VI. A system to forecast losses. Anistics division of Alexander & Alexander Inc., New York; Armistead Miller Wallace Inc., national accounts div., Nashville, Tn.; C. T. Bowring & Co. (Insurance) Ltd., London; Wyatt Co., Chicago, Ill. (predicting earthquake occurrence potential at specific location).*

VII. A system to evaluate alternative risk/insurance proposals.

Anistics division of Alexander & Alexander Inc., New York; Armistead Miller Wallace Inc., national accounts div., Nash-

ville, Tn.; C. T. Bowring & Co. (insurance) Ltd., London; Frank B. Hall & Co., national services division, Briarcliff Manor, N.Y.; Marsh & McLennan Inc., New York (comparison of insurance proposals, captive feasibility).

*Following two consulting firms did not participate in this survey but are footnoted because of their unique services.

Albert C. Martin & Associates, Los Angeles, Ca. (earthquake damage forecast); Seismic Engineering Associates, Ltd., Los Angeles, Ca. (earthquake damage forecast).

**"Earthquake—A Manageable Risk", W. G. Brockmeier and M. W. Cetera, Risk Management, February, 1975.

RISK CONTROL APPLICATIONS

I. A system to aid in loss prevention and engineering decisions.

C. T. Bowring & Co. (Insurance) Ltd., London (calculation of explosion potential, heat generation, etc., to allow for adequate safety precautions).

II. A system to preserve personnel safety records.

Armistead Miller Wallace Inc., national accounts div., Nashville, Tn.

A risk manager can work more effectively with the company's operations research or computer systems specialists by following some general guidelines:

1. Develop a data bank, manual or computerized, to include loss histories by cause, date of occurrence, total amount of loss, etc. Without this data, there is nothing for the specialist to manipulate. The specialist is usually too busy to initiate the development of your data bank.

2. Define the problem so that the specialist can develop a computer program, model or mathematical formula that approximates the reality.

3. With the specialist's help, identify the most sensitive elements or inputs.

4. Use best efforts to quantify the inputs, especially if those inputs are sensitive, i.e., will affect results substantially. Hunches, seat of the pants or ballpark estimates should be avoided.

5. Become familiar with and generally understand the various quantitative tech-

niques appropriate to or proposed for risk management problems. The risk manager doesn't have to become a computer expert and doesn't have to do the work of other supporting staff departments. However, the results or analysis should be reviewed and understood by the risk manager and evaluated in light of his or her experience.

6. Develop a rapport with the corporate operations research and computer specialists in order for the specialist to appreciate what the risk manager is trying to do.

There is considerable interest among risk managers in the use of the computer and quantitative techniques as tools to assist them in being more effective risk managers. Some risk managers are using these tools today and many have plans to use them in the near future. Risk management information systems and the techniques to manipulate the data can be developed within many corporations or can be purchased from consultants. It is hoped that this article will facilitate communication between risk managers in practical computer applications. ■

Accounting for reserves in a captive insurer

TAX IMPACT OF ACCOUNTING BOARD RULES

By GERALD I. LENROW
and RALPH MILO
Coopers & Lybrand, New York

THE FINANCIAL ACCOUNTING Standards Board (FASB) recently issued its statement establishing standards of financial accounting and reporting for loss contingencies (FASB #5). The tax impact of this statement as it pertains to captive insurance companies is as yet unknown, but many in the insurance industry envision the worst. The fear voiced is that the statement will have an untoward effect on the tax treatment that would normally flow from the formation of a captive. This discussion will not attempt to prophesize the ultimate impact of FASB #5 on the continued viability of captives, but rather to put the various elements of the issue in perspective.

A captive insurance company is generally defined as one that is owned or controlled by another (the parent) and which, for the most part, underwrites the risks of the parent and/or its subsidiaries. Captives may either be "offshore" (foreign) or "onshore" (domestic). The differing tax attributes of each are not within the scope of this discussion, nor do they have a bearing on the point under consideration. What is significant however, is that for the most part, the Internal Revenue Service (IRS) has concentrated its attack on off shore captives, although by no means has it approved of the on shore captive.

In order to appreciate the possible implications of FASB #5, a review of the general tax attributes which apply to a captive insurance company is necessary.

No deduction is permitted for a reserve established by a self-insurer. Rather, a deduction is allowed only when the loss is incurred. However, a deduction for insurance premiums incurred in the ordinary conduct of corporate business is deductible for federal income tax purposes.

Over the years, some large buyers of insurance, for economic reasons, adopted a self-insurance program. It later became apparent that the risks were too large, and thus the birth of the captive. By use of a captive, the risk could ultimately be shared via reinsurance, but at a somewhat lesser cost than if written directly with a commercial insurer.

The tax attributes of a captive are derived from the unique means by which an insurance company is taxed. For most taxpayers, income and expenses are reported in the year received or accrued, depending upon whether the company is a cash or accrual basis taxpayer. However, an insurance company reports income on an earned basis while its expenses are deducted when incurred. For the most part, premiums are included in income on a "pro rata" basis over the life of the policy. The "unearned" portion is held in reserve.

This method of reporting income will be allowed the captive, if it is recognized as

an insurance company by the Internal Revenue Service. In addition, an insurance company is permitted a current deduction for its exposure to the insured event. This is accomplished on an estimated basis by property and liability insurance companies on loss events that have occurred, and on an actuarial basis by life insurers.

Since its inception, the captive has been subject to close scrutiny and challenge by the IRS. The captive will not be recognized as a separate and distinct taxable entity unless it can be established that it is, in fact, a viable corporation. This will depend upon facts and circumstances, such as its function as a separate economic and legal entity, and its dominion over general policies and operations. The captive entity may be disregarded where the parent controls

a transaction to be ignored for tax purposes, the substance of the transaction must be shown to be predicated on a business purpose other than the reduction of taxes.

As stated in its introduction, FASB #5 is presented to "establish standards of financial accounting and reporting for loss contingencies." In so doing, it restricts the use of catastrophe reserves by insurance companies and reiterates the viability and applicability of ARB #51 and APB #18. It is the reference to these bulletins in a footnote which has generated the furor among risk managers.

FASB #5 does not contain a new pronouncement as to the financial reporting by captives. Rather, it states in footnote 7 that in transactions between a parent and an insurance company/subsidiary, ARB

"Since its inception, the captive has been subject to close scrutiny and challenge by the IRS. The captive will not be recognized as a separate and distinct taxable entity unless it can be established that it is, in fact, a viable corporation."

the day to day activities of the captive, where administrative functions are commingled, or where the entire arrangement appears to be merely a formalization of a self-insurance program.

This is not to say that related corporations may not transact business with one another as freely as with outsiders. However, parent-subsubsidiary transactions are always subject to scrutiny.

Some of the approaches used by the IRS to deny the existence of the captive are:

- Internal Revenue Code (IRC) section 162 does not allow the deductibility of self-insurance and this is in reality a self-insurance program.

- IRC section 269 states that where the principal purpose of acquiring a company (e.g. captive) is tax avoidance by obtaining a deduction not otherwise available, the deduction will not be allowed.

- IRC section 482 permits the service to restate income between a parent and a subsidiary to more equitably reflect income, if it deems that transactions between the two are not at arm's length.

To successfully rebut such a challenge, it is necessary to establish that the formation of the captive was not primarily tax motivated, and that business purposes predominated. Although the business reasons may take many forms, among the more customary are lower insurance costs and greater cash flow, direct access to reinsurance markets, control over some factors that cause fluctuations in financial income (i.e., premiums and claim payments) and settlement of third party claims without the intervention of the parent. Although an intent to minimize taxes will not cause

51, relating to consolidated financial statements, and APB 18, relating to use of the equity method, apply.

Although this footnote only reinforces pre-existing generally accepted accounting principles, for the first time the subsidiary/insurance company is specifically mentioned. Thus, there is no longer any doubt as to the financial treatment of a captive.

When a parent company owns more than 50% of a subsidiary, consolidated statements are generally appropriate for financial reporting purposes although there is no absolute rule as to when to use consolidated statements and when to use the equity method of reporting.

As stated in ARB 51, "the purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company."

It is this "single company" appearance which causes concern to the critics of FASB #5. The statement in footnote 7 requires adherence to ARB 51, paragraph 6. Paragraph 6 requires the elimination of intercompany balances and transactions, and profits and losses, so as to represent the financial position and operations as a single business enterprise.

After elimination of intercompany transactions, all that remains of the captive for financial statement purposes, is investment income and its related balance sheet items (other than intercompany receivables). Thus, loss reserves arising from the insuring of a parent's risk by its subsidiary will

be eliminated. After consolidation, the financial statement of a parent and captive would be virtually identical with that of a self-insurer.

Moreover, APB 18, paragraph 19(a), also requires elimination of intercompany profits and losses "as if a subsidiary, corporate joint venture or investee company were consolidated" for purposes of determining statement value when using the equity method. So that whichever method is utilized, i.e., consolidated or equity, a single statement presentation will apply giving the appearance that a self-insurance course of conduct was followed.

FASB #5 has affirmed the applicability of ARB 51 and APB 18 to captives. Thus, for financial purposes, transactions between a captive and parent will be eliminated. However, this should have no tax effect.

The service has challenged the existence of a captive as purely a tax avoidance vehicle, denying the existence of a business purpose. The consolidation requirements of FASB #5 for financial purposes will not alter the realities of the transaction. True, consolidated financial statements will create an appearance of "self-insurance." However, they will not violate the taxable identity of a truly viable company any more than any other accounting pronouncement.

For tax reporting purposes the parties must make an election to file a consolidated tax return. The requirement to make this election is paramount. Were this to be otherwise, an accounting bulletin would have the force and effect of overriding the provisions of the Internal Revenue Code. Clearly, ARB 51 and APB 18 have full force and effect to other parent and subsidiary situations where the filing of a consolidated tax return would only be permitted upon the perfection of a timely election. Were it to be otherwise, we would be constrained to believe that special rules have been created to apply solely to a parent and its captive subsidiary.

Certainly the IRS may point to FASB #5 as an example of a respected opinion as to the true relationship of a parent and a captive. But this is rebuttable. FASB #5 does not imply that the captive does not exist; rather it buttresses it as a separate taxable entity by affording it the treatment accorded in APB 18 and ARB 51.

The litmus test is simply whether the captive has been created for a valid business purpose, and transactions with its parent are conducted at arm's length. Where this prevails, the fact that a tax benefit may also accrue should not dissipate the business facts of life.

There are many business reasons why a captive is created. As always, all non-tax considerations should be documented, e.g., by managerial studies, board minutes, or business considerations. It would appear that where a taxpayer could thwart an IRS attack before FASB #5, it should be equally capable to do so now. ■



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Greyhound's Pine Top Insurance Co. is expanding into the London market

LONDON—The Greyhound Corp. is expanding its insurance interests by moving into the London market for reinsurance and other activities. They are believed likely to go into additional inter-

national fields as well if the opportunities are right.

This emerges from the news that Pine Top Insurance Co., a wholly owned subsidiary of the Greyhound Corp., has been granted government license to trade in the U.K. for non-life and reinsurance business.

Pine Top operates from Illinois as an integral part of the Greyhound group, and is now acting as a fully-fledged insurance company, rather than just a captive, according to London sources.

It has formed a limited company, with the required minimum £1,000,000 (approximately \$2 million) of capital, to get Department of Trade authority to operate in Britain, under its own name.

It will write its U.K. market account through C. E. Heath and Co. (Agencies) Ltd., a leading U.K. broker which has been writing successfully for Bellefonte Insurance Co., of Ohio, for more than four years, in the London market.

This new move by Greyhound Corp. is regarded as providing more reinsurance capacity in the U.K. for the increasing flow of U.S. business which is currently reaching London (*Business Insurance* Sept. 22). The full extent to which it will operate in the London market will become apparent under future trading conditions. Its U.S. representatives on the

board of the British company are G. H. Trautman (Greyhound Corp. chairman), R. M. Egner, R. C. Batastini, and W. C. Snyder.

Insurers in Iran, where there is a growing new insurance industry to match the country's expanding economy, have been pressed to adopt modern loss prevention techniques in order to reduce their risks.

This advice came from Norman G. Dunlop, who visited the country on behalf of the British Insurance Assn. to offer U.K. assistance toward educating its growing insurance market.

Mr. Dunlop, who is chief executive of Commercial Union, told an insurance seminar in Teheran, "It is important that you get your government and industrial corporations to raise the level of their involvement in loss prevention.

"It is a certainty that there will be an increasing demand for risk management methods in any country to avoid social and economic losses from catastrophes.

"Rehabilitation services are essential if seriously-injured people are to be able to play a useful role in society."

He pointed out that many insurance companies are now making substantial investments in the field of scientific research so as to identify risks and minimize their consequences.

Iran is endeavouring to place its insurance market on an international footing, and joint Iranian-foreign ventures are being created even though there are strict controls on overseas investment.

Threats by Britain's Labor government to ban the use of publicly-owned state hospitals for the private treatment of self-insured patients are being studied by medicare officials.

The biggest private medicare insurance group in the U.K., the British United Provident Assn., now has 860,000 subscribers who pay \$80 million in yearly premiums.

But because much of this covers their family dependants as well, it means that more than two million people are covered by this single insurance group. Another million or more are protected by other medicare agencies.

The government's Social Services Secretary Barbara Castle wants to close down a wide range of facilities, including hospital accommodations in special fee-paying units. These accommodations have been available ever since Britain's state-run health service was introduced for welfare purposes twenty-five years ago.

It has meant that top medical experts can get some of their money from fee-paying patients, and the rest from public patients, but political pressure from trade unions on the grounds of "wealth privilege" is forcing the Labor government to bring the scheme to an end.

So, the private medicare insurance groups, which are used by millions of corporate workers under fringe benefit arrangements with their companies, are planning to build their own hospitals.

John Dyter, managing director of Private Patients Plan, another medicare insurer with a large membership, explained:

"Many of our members are ordinary workers who prefer to have

their own health insurance and have their subscriptions deducted from their wages."

Because of the clash with the government, the largest group, British United Provident Assn., is planning to raise \$100 million to build new hospitals for its insured clients.

The association also intends to expand its consulting and research facilities.

Japan has formed its own international Risk Management Society on lines already accepted by risk managers in the U.S. and Britain.

It will have its headquarters in Osaka, with chapters planned for other parts of the country as well.

Its organizers have told AIRMIC (the Assn. of Insurance and Risk Managers in Industry and Commerce) in Britain: "We plan to introduce risk management concepts to industrial and commercial enterprises, institutions and municipalities.

"We will also be co-operating with universities in developing risk management education programs, and will serve as a liaison body between industry and commerce and the various local and central government bodies."

Another role the new Japanese risk management group hopes to play is to serve as a clearing house for information for foreign companies planning to start up business in Japan.

It will also service Japanese corporations who intend to establish overseas operations by putting them in touch with appropriate risk management organizations.

Reviewing prospects for North American business during his recent Canadian tour, Mr. Havelock Hudson, chairman of Lloyd's, said: "There is nothing gratifying in the difficulties now facing U.S. and Canadian companies. They have found themselves forced into a position where they've had to accept risks on loss-creative terms.

"Apart from the adverse financial position which then arises, the capacity of the companies to accept business is lowered, and brokers will then be faced with a shortage of market capacity.

"Lloyd's can be of great assistance in these circumstances, but there is a limit to our capacity,

and we cannot allow extra capacity by watering down our security requirements.

"We may well be able to help in providing a breathing-space, during which the insurance companies will recover. Subsequently equilibrium can be restored and the annually increasing values to be covered will be acceptable to the totality of the insurance market.

"There is more danger to the world's insurance carriers from over-capacity than from under-capacity. It should not be thought that Lloyd's, and the London underwriters, are to be regarded as a 'rubbish dump' for improperly rated business, which can no longer be placed in domestic markets."

It was the first time that a Lloyd's chairman has visited Canada during his year of office. Mr. Hudson visited Toronto and Montreal in the hope of attracting more business to the U.K. market.

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Exercise caution with overseas benefit plans

CHICAGO—A London-based employe benefits consultant advised U.S. managers to exercise control with their overseas benefit programs and to study any potential changes carefully before acting.

"Don't get bulldozed," said George Clare, of Marsh & McLennan Benefits International Ltd., London, referring to Britain's pension legislation. He spoke here to a number of local employe benefit managers about the current economic and legislative picture in the United Kingdom and in Europe as it affects employe benefits.

For those benefit managers who "don't have a good grasp" of the changes taking place, Mr. Clare recommended talking with their company managers of overseas operations.

"Tell them 'we're part of a bigger plan,'" he said. "Don't be pressured. Wait for the final facts coming out next year (concerning Britain's pension legislation). You'll still have two years to work out a lot of proposed plans," he added.

Mr. Clare made the following suggestions for cutting the cost of foreign benefit plans:

- Take a long, hard look at reserve benefits (such as pensions); small differences in actuarial methods can have quite a big effect.
- Encourage local managers to bring in a new carrier for group insurance benefits; too often, a relationship between a carrier and local management can result in a costly relaxation of rules concerning coverage of newcomers and payment of claims.
- To ensure better control over claims, buy an efficient administration outside your own company.
- Reduce your long term commitments, such as the loss of job benefits often perpetrated in Germany and the U.K.; they are expensive. Also, make certain informal agreements, such as the use of a company car, are stopped.
- Integrate the corporate pension plan with Social Security.
- Use cash flow techniques to save taxes on corporate contributions to the pension fund; you

Home boosts state's auto fleet cover

CONCORD, N.H.—The Home Insurance Co. boosted the premiums on New Hampshire's automobile liability insurance for the state's entire fleet from \$120,000 in July, 1974 to \$205,000.

The \$85,000 increase was made during renewal negotiations this year.

The single greatest factor responsible for the increase involved three fatalities potentially chargeable to the policy, according to Warren Rudman, the state attorney general.

"In addition to the escalating costs of the three fatalities there have been increased costs for less severe accidents due to inflated costs of auto repairs and medical bills," he said.

"Highway crashes involving the deaths and injury of human beings are always tragic, but in these days, they are also fast becoming prohibitively expensive," Mr. Rudman said. ■

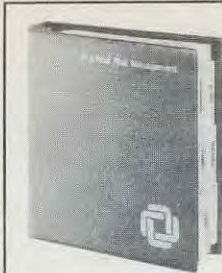
have quite a bit of flexibility in funding pension plans, he said. "There is a tax saving on the interest paid during the year by possibly deferring the contribution."

Dental plans "just don't exist in Britain," Mr. Clare noted, in response to a question. "There could be a market there, but you'd have to be really innova-

tive."

Marsh & McLennan believes the best way to finance top hat plans—a controversial form of supplementary benefits given to the top four or five people—is "through the pension plan with the home office's consent," he said.

Soon British law will require union or workforce representatives sitting on management boards, he explained, and "it'll be embarrassing to see the discretion (or some) of these supplementary benefits." Often they are determined by local managers for their own benefit as a form of deferred compensation. ■



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More to self-insure . . .

Continued from page 1

The median size of RIMS members' departments, as indicated in the survey, is now 1.77 employees, excluding secretarial and clerical personnel. A jump to 3.31 persons is predicted in five years "reflecting management's growing reliance on professional risk/insurance management," the summary stated.

The survey noted that risk/insurance managers generally share final decision-making power with others: 78% say three or more per-

sons are involved in the final choice of supplier, including the treasurer, 30%; president, 29%; vp-finance, 21%; other vps, 21%. Most RIMS members (92%) described their insurance departments as "centralized." Only 22% have a written long-range plan today, while 67% expect to have one in five years.

The work load for risk/insurance managers will increase in the health area by 40%; in pensions, 36%; in workers' compensation, 32%; in employe benefits, 22%; and in OSHA, 20%; the survey found.

More full-time risk/insurance managers say they will be concerned in the future with captive companies, group homeowners and auto liability, the survey found.

Involvement with work gener-

ated by governmental legislation is expected to increase even more over the next five years. For OSHA, a 15% increase is expected; for health and HMOs, a 14% increase; for the Consumer Product Safety Act, a 13% increase; and for workers' compensation, a 6% increase.

It is anticipated from the survey that corporations will begin providing low cost personal lines insurance for home, auto or liability needs. Because of this, an "unclear overlapping" of responsibility between personnel, legal and insurance departments will generate inter-department problems. Nevertheless, risk/insurance managers see a larger role for themselves.

"Constantly expanding" employe benefit plans will further involve the risk/insurance manager, the survey claims.

International activities will "require new competence" on the part of respondents, the survey found,

as the role of risk/insurance manager moves "to embrace areas outside the U.S."

Among all companies with international operations, 48% of the risk/insurance managers devote less than 10% of their respective working hours to international areas. The percentage is expected to increase "sharply" in the next five years, the survey reports.

Through risk/insurance managers indicate they would prefer more centralized control over international business, five years from now they still expect to be placing more business locally than through U.S. suppliers, the survey revealed.

Respondents plan to work on "consolidating more international coverage under blanket policies bought in the U.S." but they acknowledge more business will be handled locally than at world headquarters.

For international property cov-

erage, 68% is placed locally while 54% is placed from the U.S.; for liability, 71% is placed locally compared with 64% placed from the U.S.; and for employe benefits, 58% is placed locally while 37% is placed from the U.S., the survey revealed.

Respondents to the survey indicated they will rely on carriers for safety and loss prevention, claims adjusting, fire protection and OSHA services but indicate the trend for their use will be down five years from now.

The trend for utilization of consultants, however, is expected to be up in five years, primarily for pension planning, captive company management and risk management audits, the survey found.

The leading sources of additional underwriting capacity indicated by respondents were life insurance carriers, 32%, and captive companies, 21%.

Though agents and brokers presently purchase property insurance (according to 84% of the respondents) and liability coverage (according to 81% of the respondents), the survey noted they "will have more competition from direct carriers" in the future.

Direct carriers "and perhaps direct reinsurers" may upset the traditional broker-client relationship in some cases, the survey discovered.

Many respondents indicated they see their agents or brokers on a weekly basis. Some 63% meet with carriers and a broker less than monthly and 44% meet with carriers without a broker present.

In the future, 55% see no reason to change their present carrier-broker relationship, though 25% would prefer more meetings with carriers present and 14% would like more regularly scheduled review meetings with brokers and or carriers, the summary stated.

A committee of RIMS members contributed to the questionnaire's design and later critiqued the findings. It included: William B. Baxter, J. C. Penny Co. Inc.; Burton J. Carbino Jr., Irving Trust Co.; A. Hunter Long, Frank B. Hall & Co. Inc.; J. Robert James, Chemical Bank; and Richard van Wagoner Jr., Phelps Dodge Corp. ■

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NEW YORK—New York's superintendent of insurance once again refused a substantial rate increase requested by the state malpractice insurance pool.


In a decision released last month Superintendent of Insurance, Thomas A. Harnett, continued without change the rates set in June when the Medical Malpractice Insurance Assn. (MMIA) requested a rate increase.

The MMIA which insures more than 3,500 doctors and 85 hospitals in the state, sought an overall increase of 100% in the rates that had been charged by the Argonaut Insurance Co., the former major underwriter of malpractice insurance in the state.

The insurance department disapproved the filing and provided for a 20% increase in rates, the amount continued by the decision released in November. ■

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Centralized? Decentralized? Combination?

Multinationals need wide ranging market sources for foreign risks

HAMILTON, BERMUDA—A broker recommended that captives—owned or rented—be considered as an insurance device for multinational corporations along with centralized, decentralized or combination coverage plans.

"The use of any of these would be indicated from the usual reasons and the same amount of care required in their use by a multinational company as by one wholly in the U.S.," said Joseph M. Crahan, president of R. B. Jones of New York Inc.

He spoke at the Insurance Consultants' Society meeting here.

The "most common and oldest" method of insuring is the centralized purchase of worldwide or global admitted programs, Mr. Crahan explained. "This was usually purchased from a U.S.-based insurer (and) sometimes supplemented or replaced by underwriters at Lloyd's. Forms, limits, deductible, etc. are determined in the U.S. and the premium is paid in U.S. dollars," he said.

If local admitted insurance is required, the insurer arranges it and pays for it out of the total premium, Mr. Crahan said.

With a decentralized approach, local insurance is arranged and paid for locally by the firm's local management, "usually following the overall plan and program of the firm's risk manager but sometimes left entirely to the local manager's discretion as to who, what, where and how much," Mr. Crahan continued.

"This plan might have supplementary to it a difference in conditions policy purchased in the U.S. to bring coverage up to some agreed worldwide standard," he said.

A combination plan, including local insurance purchased and paid locally on forms and for limits available locally, should be considered. A difference in conditions policy might be added to level coverage to some standard and then a non-admitted worldwide policy would be purchased by the U.S. risk manager for use in those countries where desired, he explained.

Most multinational companies include their U.S. personnel in the firm's U.S. employe benefits program, Mr. Crahan said. "In some cases, the U.S. plan will wrap around a local plan but often management may decide to provide U.S. benefits on top of anything provided locally.

"While many countries have Social Security type plans which include workers' compensation, the management may wish to provide voluntary compensation to such people," Mr. Crahan pointed out.

Employe benefits for foreign nationals, those native to the country of operation, may be treated in a similar way as the plans suggested for property/casualty program, Mr. Crahan said. "Local customs, however, would dictate the type of plan rather than a U.S. standard," he emphasized.

Mr. Crahan believes a risk manager can do anything outside the U.S. that he can do in the U.S. "if he is innovative, plans carefully, is persistent and if he can get the facts."

He warned that risk management matters are "not going to receive priority treatment at the hands of foreign managers unless the line of communication is directly from management."

In order for risk management to function overseas, Mr. Crahan recommends a stated company policy. It "need not be specific beyond defining the duties of the risk manager and his responsibilities, but it should communicate to operating management that it has the responsibility of implementing the risk management program of the company," he noted.

"There should be a risk management manual," he said, which should include a brief description of insurance policies plus specifics as to deductibles, limits and the existence of global covers.

The manual should also include instructions as to loss reporting including specific local requirements such as reporting to governmental authorities if required. It should be written to be understood by local management, he emphasized.

Any charts or descriptions of insurance responsibilities in foreign countries "must be interpreted in light of the company's own legal, tax and accounting procedures and policies," Mr. Crahan said.

The multinational company "is most likely to have a great degree of company interdependence," he pointed out. "Products of one branch or subsidiary are often essential to the operations of another. The business interruptions problems may be severe because of greater difficulty in securing alternate supply," Mr. Crahan said.

One of the more subtle challenges a risk manager faces overseas is communication with foreign associates, even though they may be fluent in the English language. "He must be very wary and careful," Mr. Crahan warns, "for even though the language sounds the same, the words mean different things."

On the subject of insurance for expropriation risks, he suggests "if the risk of loss is slight, the premium should be slight."

Mr. Crahan advises risk managers to seek tax counseling for actions involving foreign subsidiaries because he believes they may present serious tax problems to his firm.

"An improperly structured insurance or self-insurance program (from a tax point of view) may in the event of loss, result in ordinary income consequences to the U.S. parent and may, if funds are transferred to the subsidiary, be considered either ordinary income or an increase in capital. The latter in some countries may be subject to special tax or in some cases temporary impounding," he said.

"In order to manage risks, they must first be discovered, then analyzed and then the classical decisions made—and they have been reduced to retained, avoided or transferred," according to Mr. Crahan.

Insurance companies which Mr. Crahan considers global are American International Group, Insurance Co. of North America, Continental Insurance Group, Commercial Union and Royal Globe Group.

Those which he considers growing but "not yet worldwide" are: Chubb & Son, Kemper Group, Factory Mutual System, Aetna Life & Casualty, Travelers and CNA Insurance.

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Garment Contractors
Horse & Wagon
Installment Sales
Installations
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Processing Floaters
Radio-TV (Towers and Broadcasting Equipment)
Rigging Liability
Rolling Stock (Railroad)
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Scientific Equipment
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Storage Risks
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Vending Machines
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HULL:
Boat Dealers
Charter Party Boats
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Risk control is implicit for Communist States

CHATHAM, MA.—A top executive of Commercial Union Assurance Co. Ltd. sees "considerable opportunity for the practice of risk management" in the Communist-bloc countries of eastern Europe.

Kenneth J. Duffy, managing director of CU's risk management services division in London, told members of the Institute of Risk Management Consultants meeting here that improved risk control by East European countries is implicit in their need to preserve foreign trade balances and raise their standards of living.

"Up to now the communist state insurance companies have looked outward primarily as respects marine insurances," he noted, while pointing to the "great interest in risk management" which he discerns from discussions in Eastern Europe.

Mr. Duffy also commented on the directive which becomes effective Jan. 1, 1976 and will unify insurance practices in the European Common Market countries. Under the Directive of Freedom of Establishment a company authorized to conduct business in any one of the member nations of the EEC can establish an operation in any other member nation, Mr. Duffy noted.

There are complex details regarding uniformity of business practices such as solvency margin requirements in the insurance industry included in this directive,

he said.

The next development affecting the insurance industry which is expected to follow in about two years, Mr. Duffy added, is a Directive of Freedom of Services which will mean that an insurer in any member nation of the EEC can undertake the coverage of risks in another member nation.

In his talk, Mr. Duffy also referred to an EEC directive now in draft form which would unify laws affecting product liability, and would impose "a greater liability than applied to producers at present in most member nations." *Business Insurance*, March 10.)

According to Mr. Duffy, "present indications are that the proposed change will stop short of imposing strict liability" on manufacturers of products, even though the concept of strict liability is being widely applied in the U.S. He emphasized that these products liability measures are not yet law.

HMO opens in Texas

Prudential Insurance Co. opened a \$2.7 million health care center in Houston and created a new subsidiary in Texas, Prudential Health Care Plan Inc., to form a Health Maintenance Organization (HMO). The center, staffed by 28 doctors, will seek federal qualification for financing.

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Lane joins McDonald's as first insurance manager

Jerry R. Lane joined McDonald's Corp., Oakbrook, Ill., on December 1 in the newly-created position of insurance manager. Mr. Lane, 35, was director of insurance for Chicago-based Darling & Co., where he established one of the first Colorado captive insurance companies as part of Darling's risk management program. Mr. Lane will report to the executive vp of finance at McDonald's, the parent corporation of the worldwide restaurant chain. He will be responsible for property, casualty and employe benefits in the U.S. and worldwide. Replacing Mr. Lane at Darling & Co. is Richard J. Peirson, who will have the title of insurance manager, responsible for property and casualty risks and insurance. Mr. Peirson formerly was risk and safety manager at Chicago-based Booth Fisheries.

Norman Hoffman, CPCU joined Kane Miller Corp., Tarrytown, N.Y., as corporate insurance director. He was formerly with the brokerage firm of Walter Kaye Associates for three years, and before that had been insurance director for National Industries, Louisville. Mr. Hoffman, who has written frequent articles on the subject of risk management and insurance, is responsible for property, casualty, employe benefits and safety planning at Kane Miller, a fast-growing food processor. He replaced Bill Cain who left the company for personal reasons.

Kal Besensky, manager of insurance for The Flying Tiger Line, Los Angeles, was named head of a new risk management and taxes department for Saudi Arabian Airlines. He expects to begin his new job in mid-December and will relocate to the Mid-

dle East in the meantime. "Technically, I will be an employe of Trans World Airlines because they have my management contract," he explained. It will be Mr. Besensky's assignment to build the new risk management department "from the ground up." The airline holds aviation coverage in the London market, he noted. No one has been named to replace Mr. Besensky at Flying Tiger.

CIT Financial Corp., New York, hired James M. Smiley, 33, as risk and insurance manager, effective December 1. He replaces Ralph J. DeStefano, who joined Schlumberger Ltd. (*Business Insurance*, November 17). Mr. Smiley previously was insurance manager at First National City Bank, New York. No one has been named to take his place there yet. At CIT, Mr. Smiley will be responsible for "all lines of risk."

Henry Andreucetti was named assistant corporate risk manager for Signal Cos., Los Angeles, on November 10. It is a newly-created position. Mr. Andreucetti, formerly corporate risk manager for Beverly Enterprises, Pasadena, reports to Ross L. Oliver, corporate risk manager. His responsibility is to assist with central risk and insurance management for all Signal Co. subsidiaries, including Mack Trucks, Allentown, Pa.; Garrett Corp., Los Angeles; and Dunham-Bush Manufacturing Co., West Hartford, Ct. Mr. Andreucetti is also involved in administering Signal's comprehensive self-insurance program. His former position at Beverly Enterprises was abolished as part of an overall austerity program (*BI*, November 17).

Ceco Corp., Chicago, named David R. Haight, 42, insurance manager to replace John A. Beckman, who left as reported (*BI*, August 25). Mr. Haight is responsible for property/casualty risks and employe benefits, including pensions. He reports to the vp treasurer at Ceco. Formerly director of insurance at Gould Inc., Chicago, Mr. Haight was replaced there by James R. Mascarella.

Gulf Oil Corp., Pittsburgh, gave William McGinnis, insurance manager, the additional responsibility of running the company's insurance department, as of November 1. He replaces Joseph Edwards, assistant treasurer, in this capacity. Mr. Edwards has assumed other responsibilities. Mr. McGinnis, formerly a financial vp and insurance manager at Exxon Corp., New York, reports to Gulf's treasurer. Since coming to Gulf about a year and a half ago, Mr. McGinnis has worked with the company's subsidiary insurance company, INSCO Ltd. His last job at Exxon was a special assignment and will not be filled.

Frederic N. Oakley, 59, was promoted to director of insurance for ITT Continental Baking Co., Rye, N.Y., from assistant director. He succeeds George L. Shelton, who left the company. Responsible for property/casualty insurance programs, Mr. Oakley reports to the vp and treasurer. No one has been named assistant director of insurance yet.

North American Philips Corp., New York, organized a new risk management department last month and named George E. Phillips, risk manager. Mr. Phillips was insurance manager at Magnavox Co., Ft. Wayne, Ind., a subsidiary of North American Philips. He will report to James Whelan, formerly treasurer at Magnavox, who was appointed a vp for the parent company currently with Mr. Phillips' promotion. Mr. Phillips' responsibilities include developing a risk management program for property, casualty, employe benefits, security, and loss prevention for North American Philips as well as subsidiary companies, a spokesman in the New York office disclosed. James F. Murray, corporate insurance manager for North American Philips, will continue in that role. Replacements for Mr. Phillips and Mr. Whelan at Magnavox are not anticipated, the spokesman said, because their appointments represent a consolidation in New York of financial management functions for North American Philips and its subsidiaries.

Eileen M. DeCoursey was appointed vp for the newly established corporate office for employe relations at Johns-Manville Corp., Denver. Ms. DeCoursey is responsible for coordinating corporate-wide personnel policies and is involved in employe benefits programs, as well. She reports to the executive vp-finance and administration. Before joining Johns-Manville, Ms. DeCoursey, 43, served as vp and executive assistant to the chairman of Squibb Corp., New York, where she was involved with employe benefits and other responsibilities. Robert E. Humes, 32, replaced Ms. DeCoursey at Squibb as executive assistant to the chairman.

Business Insurance wants to know of readers moving into new or different risk management, employe benefit or safety/loss positions. We are interested in administrative, staff and support positions as well as managerial level jobs. Please contact our Chicago office, 312-659-5279.

Unions trade salary increases for benefits

MIAMI—Eastern Airlines pilots and non-union workers have agreed to accept a company imposed wage freeze during 1976 in return for a profit-sharing plan and other concessions from the financially troubled carrier.

The profit-sharing plan would cover the five years 1976 through 1980 and would give employes a one third share of after-tax profits. The plan was not conceived as an IRS qualified plan and will be taxable income for the employes, Stephan Smiszko, vp finance and treasurer at Eastern said. He added that it has not been determined if the plan will give an immediate cash benefit or offer an investment option.

The profit-sharing will have no effect on Eastern's existing pension plans, Mr. Smiszko said.

The pilots represent 3,600 Eastern employes, who were due for 15% pay hike in two stages in 1976. The International Assn. of

Machinists, which covers 10,000 Eastern employes with four separate contracts has not reached a decision on the freeze proposal. The carrier has 32,000 employes; 19,000 are unionized.

Leaders of the Transport Workers Union, which represents flight attendants, are recommending to their membership that they ratify the pact.

Labor contracts covering machinists, IAM-represented ground flight instructors, and IAM-represented flight dispatchers come due at the end of this year.

"We are not very interested in any profit sharing," said Roy H. Anderson, general chairman of IAM's district 100. The main reason is that the line doesn't have any profits.

Saddled with about \$650 million in debt, Eastern had net loss of \$17.8 million in September and could lose between \$30 million and \$45 million for the year.

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dates for buyers

Dec. 9-10: The Greater Los Angeles chapter of the National Safety Council will sponsor a Key Man course in Los Angeles. The program is designed for foremen, supervisors and safety personnel. For further information contact Joseph M. Kaplan, executive vice president, Greater Los Angeles chapter, National Safety Council, 3388 West 8th St., Los Angeles, Ca. 90005; phone: 213/385-6461.

April 25-30: The 14th Annual Risk Management Conference, sponsored by the Risk and Insurance Management Society, will be held in Los Angeles. The conference will be one week in duration—divided into three basic segments: industry sessions, property/casualty, and employe benefits. For further information, write to RIMS, 205 East 42nd St., New York, N.Y. 10017.

Dec. 9, New York; Dec. 10, Chicago; Dec. 11, Los Angeles: A Coast-to-coast opportunity for ERISA: give and take with top officials from Labor, IRS and PBGC will be presented by the Assn. of Private Pension and Welfare Plans. The focus will be on funding, the PBGC, employe stock ownership trusts, reporting and disclosure and fiduciary responsibility and investments. Conferees are asked to send in questions to the association's Washington office prior to the meetings. Attendance fee is \$95 for APPWP members; \$125 for non-members. Write to the association at 1028 Connecticut Ave., NW, Suite 909, Washington, D.C. 20036.

Dec. 15-19: A basic safety management course will be held in INA Corp.'s International Safety Academy in Macon, Ga. Designed for the newly appointed safety person or others who wish to learn the basics of loss control, the course includes sessions on environmental health and OSHA. Tuition is \$360. Write to the academy at 1021 Georgia Ave., Macon, Ga. 31201, for more details.

Jan. 12-13: The Manufacturing Chemists Assn. will present a symposium in Philadelphia designed to help shippers in developing their knowledge of the safe handling of hazardous materials. (Also Houston, San Francisco and Chicago at later dates.) It will concentrate on the Department of Transportation's hazardous materials regulations and on making shippers more familiar with the techniques, alternatives and requirements necessary for compliance with them. The \$40 pre-registration fee includes two luncheons and copies of all papers presented. Further information is available from: William H. Butterbaugh, Manufacturing Chemists Assn., 1825 Connecticut Ave., N.W., Washington, D.C. 20009.

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For more information about these issues or to reserve your space, contact Don Walsh at (212) 986-5050, or write to one of the Business Insurance sales offices listed below.

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