

business insurance

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$25 a year

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update:

Insco describes reinsurance contract

HAMILTON, Bermuda—Insco Ltd. here is "not currently involved in nor expects to be involved in any loss situation" with Old Republic Insurance Co., says Insco president Leslie Dew.

Insco has been identified as a reinsurer of Old Republic, the only major commercial underwriter of black lung

Continued on next page

Liability limits may not cover MGM fire claims

By RHONDA L. RUNDLE

LAS VEGAS—Property insurance topping \$200 million will cover physical damage to the fire-ravaged MGM Grand Hotel, but liability limits of \$30 million could leave the hotel-casino company short of full protection.

The first class action negligence lawsuit against MGM Grand Hotel was filed Nov. 24 in Los Angeles Superior Court three days after a fire in the 26-floor hotel killed 84. The suit seeks \$175 million in damages on behalf of an estimated 375 Mexicans who were staying at the hotel.

The MGM Grand Hotel was negligently planned and built, causing an unreasonable risk to guests, the lawsuit claims. It also alleges that the hotel solicited foreign-speaking customers but failed to provide them with multilingual signs and special fire drills.

An accident of this magnitude inevitably leads to wrongful death and other negligence claims against the business involved, say industry sources who are reluctant to predict the eventual financial impact of such suits on MGM Hotels.

It is generally believed, however, that \$30 million limits are very low to protect against this kind of exposure. MGM Grand Hotels, in fact, is seeking to substantially increase the liability limits, sources say.

The property loss to the hotel and casino is estimated at \$50 million, according to Mutual Marine & Fire Inland Insurance

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Construction workers aid a guest of the MGM Grand Hotel in Las Vegas.

Liability insurance

\$30 million

\$1 million/INA (\$5,000 deductible)
\$9 million/Protective National Insurance Co. of Omaha
\$10 million/American Excess Ins. Co.
\$10 million/Fremont Indemnity Co.

Property insurance

\$215-250 million

\$2.5 million/Mutual Fire & Marine Inland Insurance Co. (\$2,500 deductible)
\$7.5 million/Puritan Insurance Co.; Pine Top Insurance Co.
\$15 million/Lexington
\$25 million/Mission Group for \$22.5m; Northbrook for \$2.5m
\$125 million/Kemper HPR
\$40 million/INA
\$35 million/Unconfirmed

5 insurers bag Big Mac risks

By KATHRYN J. MCINTYRE

CHICAGO—A McDonald's Corp.-sponsored insurance program that once covered more than 90% of the 4,850 company-owned and franchised restaurants in the U.S. is now splintered among no fewer than five insurers.

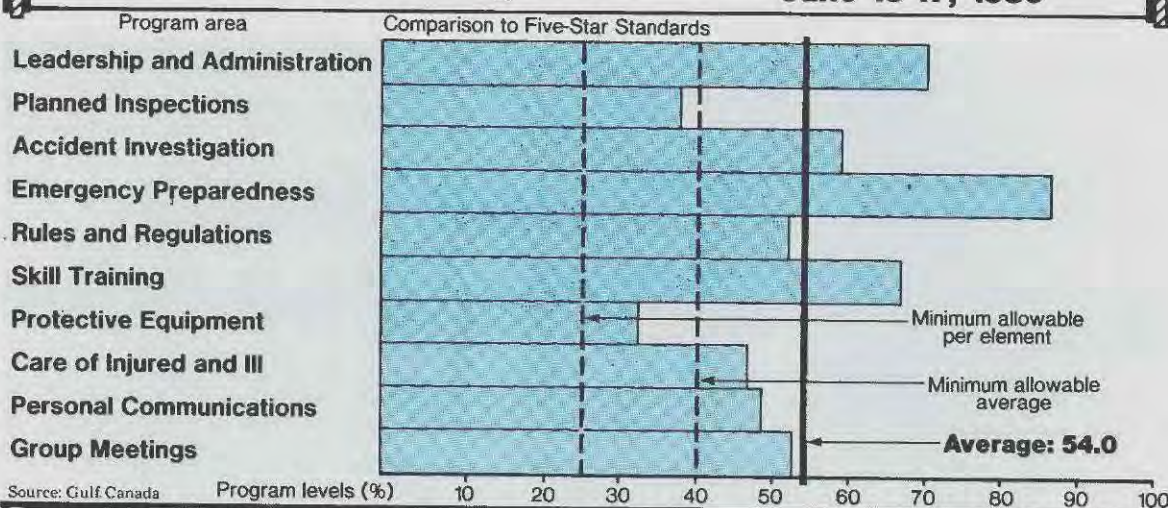
Hot competition among brokers for the franchisees' property/casualty package policy business on 3,600 restaurants splintered a program whose combined premium for package policies and workers compensation insurance exceeded \$25 million in 1979.

Some franchisees now are savoring juicy premium savings of a third off last year's bill for their 1980-81 package policies that typically range in cost from

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How safe are you?

Rimbey Pipeline Evaluation
June 16-17, 1980



A five-star safety rating audit showed that this Gulf Canada Ltd. plant had safety leadership and emergency preparedness that compared favorably to international standards. It earned one star.

Programs star in loss control

By LEN STRAZEWSKI

TORONTO—How good is your loss-control management?

The staff of the Rimbey Pipeline plant operated by Gulf Canada Ltd. can answer the question. They have an effective loss management policy that compares favorably to an international standard (see chart).

Disaster planning, including emergency plans for fire, oil spills and pipeline rupture, fares even better.

The facility earns one star in an international safety rating system recognized officially in 12 countries but little-known in the United States where it was forged.

The Occupational Safety and Health Administration, the National Safety Council and the National Council on Compensation Insurance won't comment on the technique that rates a company according to how well its personnel implements its safety program instead of how much safety equipment it has or loss history.

However, some U.S. firms are beginning to use the Five-Star

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analyze real risks
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Court confirms
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from growing losses
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Insko describes contract

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risks in the U.S. (BI, Nov. 17).

"Old Republic's reinsured loss reserves of \$263 million already are offset by escrow deposits of \$304.8 million being irrevocable letters of credit totaling \$129.1 million and \$175.7 million in cash," Mr. Dew stated in a written statement to *Business Insurance*. "The issuing bankers and Old Republic's independent auditors, Coopers & Lybrand, have identified and verified the letters of credit and deposits," he added. These funds and letters of credit were not mentioned by the Kentucky Insurance Department in the Nov. 17 *BI* article about a regular examination of Old Republic by the Kentucky Insurance Department, he noted.

"Insko reinsurance cannot attach before exhaustion of at least this \$304.8 million plus a further \$25,000 retention for each black lung claimant," Mr. Dew explained.

"Insko and Old Republic reviewed these reinsurance contracts when this article (*BI*, Nov. 17) was brought to their attention," Mr. Dew noted.

An attorney for Old Republic also called *Business Insurance* about the Nov. 17 article, stating that the article incorrectly implied Old Republic is insolvent. Old Republic has not accepted offers by *Business Insurance* to clarify its position.

Lloyd's to pay NBC claim

NEW YORK—Lloyd's of London and its reinsurers have agreed to pay National Broadcasting Co.'s claim for cancellation of coverage of the 1980 Summer Olympics in Moscow.

NBC was insured for 90% of the \$87 million it spent on rights and construction costs to cover the games. The premium for coverage against cancellation was \$4 million to \$5 million, industry sources have said.

NBC canceled coverage of the Moscow games after the U.S. team withdrew from the competition to protest the Soviet Union's invasion of Afghanistan.

Exchange group withdraws

NEW YORK—Fiduciary & General Syndicate Corp., a subsidiary of Indianapolis-based Fiduciary & General Corp., withdrew from the New York Insurance Exchange Nov. 17, the first underwriting member to do so.

Staffing problems and the need for the syndicate's capital in other areas of F&G's business prompted the withdrawal, said chairman Russell Tolley. Mr. Tolley said his firm intends to rejoin.

KCC New York Syndicate Corp., managed by KCC Syndicate Managers Inc., joined the exchange Nov. 5, keeping underwriting membership at 20.

Italy to cover quake losses

LONDON—London insurers probably will be spared major claims from the Italian earthquake this week that killed at least 2,400 persons and caused extensive damage.

London sources said most of the damage occurred in undeveloped areas of southern Italy, mostly involving small villages where residents will seek government assistance.

DES firm found not negligent

DETROIT—A U.S. District Court jury here has found Eli Lilly & Co. not negligent in manufacturing DES, a synthetic hormone used for a quarter-century to help prevent miscarriages.

The jury deliberated 10 hours before finding the pharmaceutical firm blameless in a suit filed four years ago by a Detroit-area woman, Karen Kelly, 27.

The woman said she developed adenosis, a noncancerous condition, as a result of her mother's use of DES in 1953 (*BI* Nov. 17).

GOP leader indicted

BROOKLYN—Joseph M. Margiotta, Nassau County Republican Committee chairman, was indicted last week on six counts of extortion and mail fraud in connection with kickbacks on county insurance commissions.

The indictment charges Mr. Margiotta used his position to secure Richard B. Williams & Sons Inc. as broker of record for Nassau County and the town of Hempstead with the understanding that the agency would give part of its commission to party officials.

Indicted with Mr. Margiotta was Michael D'Auria, former chairman of the town of Oyster Bay Republican Committee, on two counts of perjury.

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Senate passes bill to set up superfund

By JERRY GEISEL

WASHINGTON—The U.S. House could decide this week to make chemical companies and their customers pick up the tab for cleaning up toxic wastes sites and chemical spills.

The Senate last week voted 78-9 to approve a stripped-down, compromise measure to establish a \$1.6 billion "superfund" over the next five years. Industry would be assessed for the funds to cover the cost of cleaning up abandoned hazardous wastes sites.

Other superfund proposals have run as high as \$4.2 billion.

The measure goes back to the House this week. The House already approved another version of the superfund bill, but Senate backers hope the House will accept its bill to avoid ironing out differences in conference.

Most observers doubt a conference committee could complete action on the measure before Congress adjourns Dec. 5.

Senate backer Robert T. Stafford (R-Vt.) described the bill (S. 1480) as "the major preventive health bill to come before Congress in the last four years."

However, liability provisions in the Senate bill were drastically reduced from what environmental-

ists originally had sought.

Superfund proponents wanted victims of chemical spills or toxic wastes dumps to collect damages from the fund, which would have pressed claims against companies. That provision was stricken from the Senate-passed bill.

The current Senate bill tags the bulk of the funds to clean up abandoned hazardous wastes sites, such as the Love Canal area in New York State, and toxic wastes spills.

EPA admits to confusion

WASHINGTON—The Environmental Protection Agency is showing a bit of grace to handlers of hazardous wastes that have yet to register their operations with the government.

The EPA, which itself missed a Nov. 19 deadline for releasing final regulations governing the treatment and disposal of the wastes, conceded its interim rules might have been unclearly written or misinterpreted.

At issue is the "interim status" designation most treatment centers need to continue operation. Under the original regulations, issued in May, any treatment center had to meet an Aug. 18 deadline for notifying the EPA it was operating and in the process of complying with the standards.

The EPA said it would allow companies to keep operating under their interim status if "ambiguities in EPA's regulations" kept them from notifying the agency of their operations.

Companies wishing further information about the interim status regulations can contact John Skinner of the Environmental Protection Agency at 202-755-9107.

Veterans class suit prohibited

By ELLIS SIMON

NEW YORK—A U.S. Court of Appeals ruling here forces Vietnam veterans exposed to Agent Orange to sue manufacturers under state laws as individuals, instead of as a class.

Many of the plaintiffs, who say exposure to the defoliant chemical created an increased risk of cancer and genetic damage, may not be able to recover damages from manufacturers because applicable statutes of limitations have expired.

In a 2-1 decision, the appeals courts ruled the plaintiffs, who have filed 800 suits around the country, did not have grounds for an action under federal common law. The suits were consolidated for consideration of this approach.

Had the court ruled in favor of the plaintiffs, it would have gone against "40 years of federal court precedents," notes plaintiffs attorney.

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Form coalitions on costs: Kahn

By EILEEN NORRIS

CHICAGO—The Reagan presidency will pop the lid off government regulation, creating insurer competition that buyers can use, says the former chairman of the Council on Wage and Price Stability.

To meet that open market, local businesses should form coalitions to win more bargaining power with insurers, Alfred Kahn told a Nov. 20 symposium on "Health Care in the '80s and Beyond," sponsored by Blue Cross & Blue Shield.

"We don't have the luxury of standing still anymore," Mr. Kahn said. "I don't know how quickly competition can come, but employers who have a stake in health care should offer their employees a choice of medical plans."

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Offer a choice of medical plans, Alfred Kahn advises employers.

N.Y. rule drops E/S requirements

BY ELLIS SIMON

NEW YORK—Requirements that could limit local buyer use of nonadmitted insurance markets have been removed from the controversial New York regulation governing excess/surplus lines.

Regulation 41 was signed by Insurance Superintendent Albert B. Lewis Nov. 14 and released Nov. 25.

Insurers, retail brokers and excess/surplus brokers criticized proposed Regulation 41 during a crowded hearing last August (*BI*, Aug. 18). The Risk & Insurance Management Society objected in a telegram sent that month to Gov.

Hugh Carey (*BI*, Sept. 1).

Opponents said the regulation would make it more difficult for New York policyholders to use nonadmitted markets.

The new regulation does not require brokers to state whether they shopped risks in the Free Trade Zone or advised policyholders about the Free Trade Zone option.

The Free Trade Zone is a provision in New York insurance law that permits specially licensed insurers to write high premiums and exotic risks without prior rate and form approval.

Changes in the final version of

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errors & omissions

• Saratoga County was omitted from a map in the Nov. 24 issue of *Business Insurance* showing counties in New York State that have withdrawn from the state employees health plan since December 1976. Saratoga County has self-insured its health benefits since last Jan. 1.

• The National Assn. of Professional Surplus Lines Offices did not change its name, as reported in the Nov. 24 issue. The membership overwhelmingly voted down the name change.

LIABILITY: Firms in multiemployer plans get more than they expected

BY JERRY GEISEL

WASHINGTON—Employers in multiemployer pension plans are now on the line for much more than their employees' vested benefits.

President Carter signed the Multiemployer Pension Plan Amendments Act of 1980 more than two months ago, but employers only now are grasping how the complex law completely rewrites the multiemployer liability rules.

"If you are in a multiemployer

plan or are considering joining one, be aware that your liability can extend well beyond the terms of your bargaining agreement," warned pension expert Robert Ridley of Forster, Gemmill & Farmer in Los Angeles.

"There are a whole bunch of traps for the unwary."

And, Mr. Ridley warns, the plan trustees—who represent employers and unions—can decide how an employer's liability for the plan's unfunded vested benefits will be determined.

The method chosen will dramatically affect every employer in the plan, he says. He advises employers to get involved with the plans now to have a say in this decision.

Pension experts warned that as many as 10% of the nation's 2,000 multiemployer pension plans were in danger of collapse.

The new law, passed after more than two years of congressional debate, was designed to rescue financially ailing multiemployer pension plans.

The plans, which are concentrated in the shipping, construction, mining and trucking industries, cover more than eight million workers, or about 25% of the work force in defined benefit plans.

The law passed by Congress reduced the benefits the federal Pension Benefit Guaranty Corp. would have to give workers in plans that terminate with insufficient assets to pay vested benefits. But employers now are on the firing line for awesome liabilities they never bargained for.

An employer in a multiemployer plan can:

- Be liable for tens of thousands of dollars in payments to a plan even if none of its employees vests.
- Be forced to make costly "withdrawal" liability payments if it shuts down a single division or factory.
- Be liable to make payments to the plan over the next 20 years if its union decides to move its represented members out of the plan.

Before the amendments, with-
Continued on page 8

Syndicates play role of captive: Exchange leader

CHICAGO—Corporations can own a new breed of onshore "captives," a panelist told the Society of Chartered Property & Casualty Underwriters here.

But call them insurance syndicates, says Don Kramer, chairman of Kramer Management Consultants in New York and owning member of the new KCC New York Syndicate Corp. on the New York Insurance Exchange.

An insurance syndicate on the New York Insurance Exchange or the Illinois Insurance Exchange can pool its risks with those of the other syndicates. The syndicate also can underwrite third-party risks, have access to U.S. reinsurers and remain legitimate in the eyes of the Internal Revenue Service.

Why go to Bermuda when you can do all that here? Mr. Kramer asks.

"It mystifies me that investors

haven't knocked down the door of the exchanges," he said.

But it doesn't necessarily mystify the investors, whose biggest problem is the Internal Revenue Service. The IRS has not ruled yet whether insurance syndicates can be considered insurance companies and until it does, investors could be taking a dive by pouring money into the exchanges.

"The IRS hasn't learned yet to allow an American to do in the U.S. what he can do in the foreign markets," Mr. Kramer said.

Rufus Williams III, vp/casualty manager for Johnson & Higgins in
Continued on page 8



Kramer

Official may seek bill on job safety 'crimes'

KEW GARDENS, N.Y.—Rebuffed by the state's highest court, Queens County District Attorney John Santucci may seek legislation to make executives criminally accountable for factory safety.

The New York Court of Appeals Nov. 20 quashed indictments against four Warner-Lambert Co. executives, a day shy of the fourth anniversary of a blast at a company plant in Long Island City that killed six workers.

The executives were charged with manslaughter and criminally negligent homicide Aug. 1, 1977. The indictments were dismissed by the Queens County Supreme Court Feb. 15, 1978, and reinstated by an intermediate appellate court July 9, 1979 (BI, Mar. 6, 1978, July 23, 1979).

The appeals court ruling is expected to make it more difficult, especially in New York, for corporate executives to be held criminally responsible for industrial deaths unless they are directly to blame.

"Seeking remedial legislative action to make the penal law more relevant in the workplace is one option that will be studied," Mr. Santucci said.

"I believe the safety of people at work is not merely a responsibility under civil law and agency regulation, but also a responsibility that in appropriate circumstances should be covered by criminal law as well."

Mr. Santucci also was considering an appeal to the U.S. Supreme Court, but legal experts point out it is unlikely that court would hear the case because no constitutional issues are involved.

Indictments against Warner-Lambert and its executives charged the company officials failed to address problems of dust buildup in the plant and the risk of using magnesium stearate and liquid nitrogen in conjunction with equipment that was not designed for making chewing gum.

In dismissing the indictments, the lower court noted Warner-Lambert was taking steps to correct the problem at the time, following recommendations made by its insurer, Arkwright-Boston Manufacturers Mutual Insurance Co.

In reinstating the indictment, the intermediate appellate court said steps taken by Warner-Lambert to comply with the insurer's recommendations aggravated the problem (BI, July 23, 1979).

The appeals court ruled that although the executives knew there was an explosion risk associated with dust, they were not aware of the "actual immediate triggering cause." The court said it was "neither foreseen nor foreseeable."

A Warner-Lambert spokesman said the firm was pleased with the decision and "gratified that its position has been vindicated."

insurance education

At U of I, students analyze real risks



The University of Illinois ranks third in the number of insurance majors it had in 1976, according to a study done by the Huebner Foundation.

By STACY SHAPIRO

EDITOR'S NOTE: This is the first of a series of profiles on universities known for their insurance education programs. Other articles also will look at specialized insurance studies.)

CHAMPAIGN, Ill.—Fraternities, sororities and even bars and restaurants are going through risk analyses as the frenzied final exam week nears on the University of Illinois campus.

Students majoring in insurance and risk management have chosen businesses near the campus as topics for risk analysis term papers, says assistant professor Sandra Gustavson. It's all part of the university's concentration in insurance and risk management offered through the finance and business departments.

Most of the 500 students majoring in finance at the university take insurance courses, but only about 75 concentrate in insurance or risk management.

According to the most recent study on insurance education by the S.S. Huebner Foundation for Insurance Education at the University of Pennsylvania, U of I ranked third among universities for the number of insurance majors it had in 1976. It had 136 that year, the study shows.

Professor Gustavson's class has grown since she started teaching risk management five years ago. Now 30 to 35 undergraduate and graduate students traipse through the towns of Champaign and Urbana searching for businesses that haven't had risk analyses done by students.

"Some businesses are very reluctant to cooperate. They have problems and don't want them to show up on the front page of the Daily Illini (the student newspaper)," Professor Gustavson said. "You'd be surprised at the number of businesses that said no." Some of them include residences that are approved by the university for student housing, she said.

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Risk management 'father' sees need for education



Photo: Stacy Shapiro

"There are more jobs available than qualified people," says Robert Mehr.

The principal goal of education is to create men who are capable of doing new things, not simply repeating what other generations have done. Education in risk management offers this opportunity because the field, though making advances in the past 20 years, still has new frontiers to conquer.—Robert I. Mehr and Bob A. Hedges, "Risk Management—Concepts and Applications."

CHAMPAIGN, Ill.—Upstairs in one of the austere buildings on the University of Illinois campus is the office of Robert I. Mehr, the father of modern risk management.

Professor Mehr is responsible for bringing the company insurance clerk out from under piles of policies and making him a risk manager in charge of loss

prevention and control. But the complete evolution of the risk manager from clerk to executive hasn't happened yet, he says.

"In the past, companies have used risk managers as clerks, putting all their responsibility to the insurance clerk who transferred to the insurance broker," he says. "Habits are habit-forming and hard to break."

A risk manager should now learn to ask the right questions and become a necessary part of the corporate structure, he believes. Many, however, haven't reached that level of education yet, he says.

"There's a big academic problem in the risk and loss field. There are more jobs available than qualified people," he said.

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Utility plugs dental plan into pact offer

NEGOTIATORS FOR the United Steelworkers are studying a contract offer by Northern Indiana Public Service Co. that would provide a new dental plan and increase other benefits for 4,200 striking employees.

The dental plan would begin Jan. 1, 1982. No deductible would be included and each person would be covered for up to \$500 per year.

Also under the proposal, the first \$1,000 of hospital costs would be 100% paid, the second \$1,000 would be 90% paid and 100% of remaining costs would be paid up to \$250,000. Under the current contract, the second \$1,000 of costs is only 80% paid, additional costs up to \$10,000 are 100% paid and the remainder up to a \$50,000 maximum are 80% paid.

benefit beat

Company-paid life insurance benefits of \$2,000 would be provided after three months; currently, NIPSCO provides \$1,000 of coverage after six months. After 25 years of services, a worker would receive \$14,000 in company-paid coverage, up from \$12,000.

Retirees would be eligible to receive \$10,000 of free life coverage, up from \$4,000. Also for retirees, the minimum pension would increase to \$250 a month and benefits would be increased 5% each year of the three-year contract.

Continental underwrites health and life benefits for union workers at NIPSCO.

The cost of the contract is not yet

determined, a company spokesman said.

Dental care

The 5,500 employees of the University of Southern California in Los Angeles and their dependents are now covered for dental care under a plan begun this month.

The program, underwritten by California Dental Service, covers treatments according to a "Table of Coefficients" schedule that reflects the average fees charged by dentists at the time the contract takes effect.

Each person is covered up to a maximum of \$1,000 a year for all

dental services.

The plan includes a \$25 deductible per person each year starting Jan. 1. The deductible was waived for November and December because the program was started so late in the year, said Eleanor Berkebile, benefits coordinator for the university.

The university pays a premium of \$5.47 per month per employee, which covers the cost of individual coverage. An employee pays \$4.28 a month for one dependent and \$11.10 for family coverage.

Lower contribution

Patrol officers and sergeants belonging to the Anaheim Police Assn. will be contributing less to their pension benefits under a new three-year contract.

The 275 members now contribute 9% of their annual salaries toward their retirement benefits, but that figure will drop to 3% by 1982. The city will pick up the 6%.

Policemen also will be able to receive cash at the end of each year for unused sick leave beyond 175 hours a year.

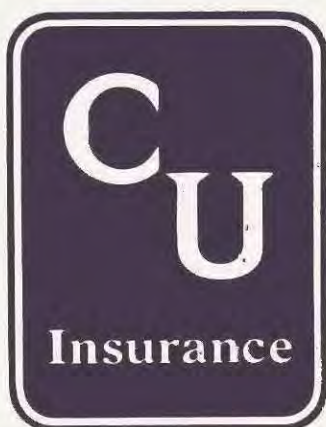
The contract package is expected to cost Anaheim at least \$1 million a year.

Benefit beat keeps insurance and employee benefit managers up-to-date on what other companies are doing and informed of current developments in the employee benefit field. We'd like to know if you've made any changes. Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

CU Claims. Difference #2.

Getting tough with fraud.

At Commercial Union, we've taken a stand on the issue of Insurance Fraud. A tough stand. And we've done it through our "Get Tough" Claims Policy, which is simply this: CU will promptly and courteously pay every dime we legitimately owe on claims, but we'll vigorously resist all others. Especially fraudulent ones.



Each year in this country, over \$60 billion dollars is paid out by insurance companies to settle claims. It is estimated that up to 30% of all claim payments—about \$18 billion dollars—are the result of fraudulent claims. That's money we *all* end up paying in higher insurance premiums. That's a waste that CU has been actively fighting for the past several years.

Our "Get Tough" Claims Policy is a case in point. It's led to the development of Special Investigative Units that investigate suspicious claims. CU investigators use ingenious fraud profiles that

quickly alert them to potentially fraudulent claims of all kinds.

We've achieved impressive results. So much so that we're forming new Investigative Units all over the country. To save all of us the needless expense of insurance fraud.

Our "Get Tough" Claims Policy is working—one more way Claims make the difference at Commercial Union.

Commercial Union

One Beacon Street, Boston, Mass. 02108

Fight costs with coalition

Continued from page 2

Sen. David Durenberger (R-Minn.) shared the sentiment. Less government intervention in regulating health care standards is certain under a Reagan administration, he says.

"Competition can do a lot for the quality of medicine," Sen. Durenberger said. "There's a great opportunity to redirect health care from the government to the people."

The senator used the podium to promote the Health Incentives Reform Act, which he introduced in the Senate last July.

The bill, which he says has a good chance of passing under Mr. Reagan, would grant financial incentives to employers with more than 100 workers that offer three health care plans to employees.

The bill (SB 1968) also would penalize employers that do not meet the requirements by making employers' contributions to health insurance taxable for employees. Employees and labor unions would then pressure companies into offering competitive health plans, sponsors say.

Legislators expect reform on several levels. It's no secret Mr. Reagan plans to scrutinize the need for many government regulatory agencies, but his national campaign chairman says there will be "no meat-ax solution taken."

Sen. Paul Laxalt (R-Nev.), still reveling in the party's win, said the Reagan administration intends to take the straitjacket off the private sector and redirect energies toward balancing the economy.

"We'll not cut out Social Security, or Medicaid, or Medicare," he said. "Look for fiscal responsibility in the new administration."

"We will be addressing ourselves to the federal government spending too much money. Every agency will be looked at," Sen. Laxalt said.

National health insurance is one of the most obvious candidates for rejection by the Reagan administration, Sen. Laxalt concedes, but coverage for catastrophic illness could be mandated by law.

Another pro-competition speaker, Sen. Robert Dole (R-Kan.), addressed the meeting from Washington via telephone.

The burden to provide health care in the future will be on the employer and not on the federal government, he said. "I see more coinsurance, more employee deductibles and more competition in the future," Sen. Dole said.

Business leaders also should take a firm stand in seeking out the best insurers they can find to cover their risks, he said.

WAUSAU WORKS.SM



The shaping of a successful insurance partnership.

In a studio on New York City's Madison Avenue a unique process combines sophisticated photography techniques with computer expertise to create precise portrait sculptures, automatically. But sculpturing is just the beginning of what our policyholder, Solid Photography, Inc., of Melville, New York, is all about.

"Research & Development is the most productive form of all investments," says company President Paul DiMatteo. "When our technology matures, it will be the seeing eyes for robots and have the capability to provide inspection of everything from teacups to airplanes. We believe that we are the leading company in the world in this area," Mr. DiMatteo adds.

Pioneering is something Wausau Insurance understands, too. We wrote the very first constitutionally approved worker's compensation policy, back in 1911.

When Solid Photography became our policyholder a few years ago, we already had 17 years of experience with Mr. DiMatteo through another company. He says, "I've always been pleased with Wausau's attention and I think their proposals are very competitive."

Today, Wausau provides eleven lines of business insurance to Solid Photography — an energetic, willing partner at controlling losses. Mike Giordano, Insurance Manager for Solid Photography, reports, "The safety consultant for Wausau makes recommendations on a regular basis.

That one-to-one relationship is important to me."

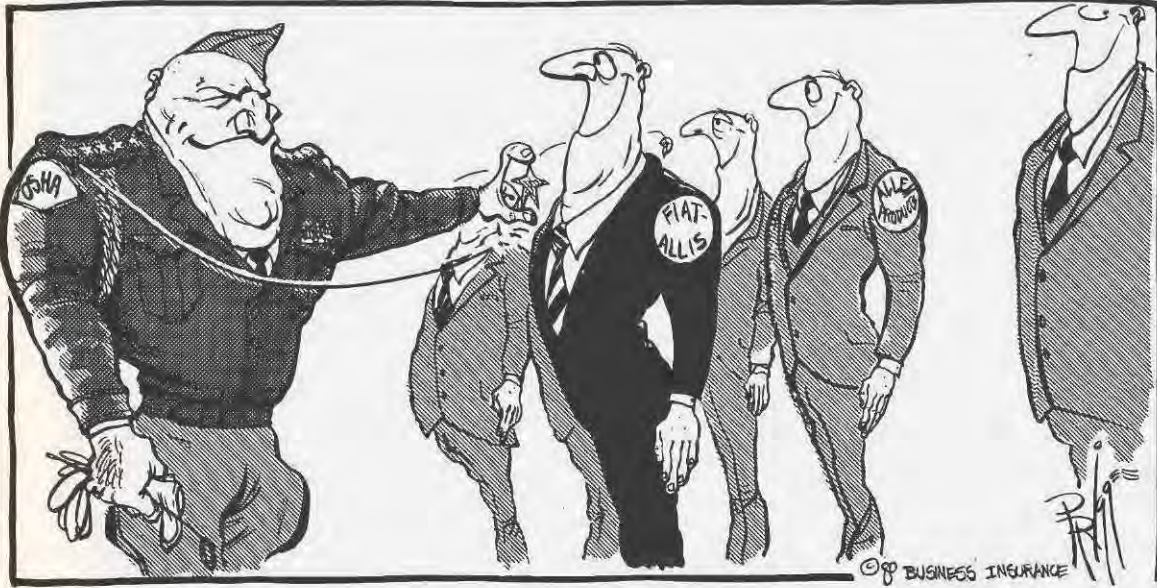
Solid Photography, Inc. and Wausau are working together to make business insurance work for a living.



WAUSAU INSURANCE COMPANIES

Employers Insurance of Wausau

editorial opinions



Rewarding safety

A five-star idea

REPUBLICANS coming to power with talk about reforming the Occupational Safety and Health Administration—including Ronald Reagan and Sen. Orrin Hatch (R-Utah)—should carefully study the Five-Star International Safety Rating Program described in this issue.

The program offers OSHA a way to help businesses improve their safety records without beating them over the head. And it's framed in such a positive attitude that businessmen are less likely to object to inspections.

The safety program focuses on safety management procedures, rating them with stars based on their quality. Five stars is the best.

A common-sense analysis of human nature tells us plant managers will respond better to earning stars for good performance than failing grades from an OSHA inspection. The five-star rating program gives them something to strive for compared with the negative connotations associated with an OSHA inspection that points out faults.

OSHA inspections still suffer from the image of an inspector measuring the height of a fire extinguisher platform from the floor. Even in cases of serious violations, an OSHA fine of a few thousand dollars does little to scare management or encourage solutions to future safety problems.

But five-star audits are welcomed, say safety managers using the program. Local

managers work to improve their programs in anticipation of an audit, striving to capture another star. Their enthusiasm is fueled by the heartfelt preaching of their corporate loss-control managers who take to the program like a religion.

We're convinced the difference in reception is that five-star offers a positive rating technique that tells management what it is doing right instead of harping on what is wrong and rewards with high star ratings instead of punishing with bad reports or fines.

The five-star program pays for time and financial investment in safety with a reason to be proud and an understanding of how the firm's safety programs compare with those of its counterparts.

Advocacy rather than opposition can generate more enthusiasm like that expressed by Bob Wright of Gulf Canada and Timothy Sterling of Fiat-Allis. They want to make changes for safety; they don't need their arms twisted.

Before Mr. Reagan suggests limiting OSHA's powers, he should consider advocating a change in its approach.

Sen. Hatch, incoming chairman of the Senate Labor and Human Resources Committee, which has jurisdiction over OSHA, says he wants to see OSHA become less punitive and more helpful to business. We think five-star is a start. Sen. Hatch should appoint a task force to study the five-star program for adoption by OSHA.

letters

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

Reinsurer not so aloof

To the editor: In reading your Nov. 10 spotlight report on tracking down reinsurance, I noted the comments that reinsurers remain aloof from most corporate risk managers and that many major reinsurance organizations have no desire to meet with the risk manager in negotiating facultative risks.

I am sure you are well aware that we at Gen Re do not share this philosophy, especially in the area of our captive and self-insured accounts. One of our major goals is to strive to meet the risk manager on all accounts we handle on this basis so that we can better understand his insurance needs and risk exposures. We feel he should be the individual who is best qualified to clarify the risk's exposure characteristics and explain his coverage desires.

By meeting directly, we feel that we can structure a more flexible

and stable reinsurance program that will ultimately develop into a long-term relationship for the risk manager and the reinsurance organization. If the risk manager is supported by a direct retail broker, we have no objection to that broker also playing a part in our meeting. However, our ultimate goal is to directly confront the risk manager himself.

I do wish to emphasize that this approach is directed mainly to those risk managers who have captive and self-insured programs. We do not encourage risk managers whose accounts are placed in the normal primary insurance marketplace to attempt to circumvent their primary carriers or retail brokers and contact the reinsurance market directly.

G. Roger Greiner
Assistant vp

General Reinsurance Corp.
Greenwich, Conn.

Giving wrong impression

To the editor: As a university risk management and insurance educator, I was pleased to see the section on "Insurance education" (BI, Nov. 17). The article, however, may give your readers the wrong impression concerning undergraduate risk management and insurance education at the University of Minnesota. You listed all the schools offering "degrees in insurance" which should be interpreted as "degrees with an insurance major." The University of Minnesota is listed as offering M.B.A. and Ph.D. degrees in insurance but no undergraduate degree. Technically, this is correct because all undergraduates in our college major either in accounting or business administration. We have no majors in marketing, finance, insurance or any of the subfields of business ad-

ministration.

Students can, however, take several courses in risk management and insurance and consider themselves majors. A recent survey of our undergraduate students showed that about 20 students placed themselves in this category. Interest in insurance courses and possible interest in a risk management and insurance career are much stronger than this number suggests. In 1975-76, for example, the Huebner Foundation study you quoted reports that about 900 undergraduate students took our basic course in risk management and insurance.

C. Arthur Williams Jr.
Professor of economics and insurance
University of Minnesota
Minneapolis, Minn.

Where's justice in benefits?

To the editor: I would like to add my "freedom of speech" rights to the story "Pension rights" (BI, Nov. 3) and to others it might concern.

I am a divorced wife of a World War II veteran who is receiving a disability pension. I'm the one that bore and cared for his children during the time he was in the Navy fighting a war, suffered mental anguish right along with him. After being married for 36 years, he divorced me for another. Why should another receive pension benefits or any veteran benefits when I was the one involved?

He is of the same opinion in

these respects as I am, but the Veterans Administration says there's nothing they can do in case he should die except recognize the present wife as spouse and give her all the benefits.

Can't something be done to protect those involved instead of some young thing getting the benefits? The states should pass a law protecting those that went through the trials and tribulations of caring for babies and suffered the mental anguish of not knowing whether or not we would see our loved one again. Where's justice?

Dorothy Maples
Auburn, Wash.

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Published by Crain Communications Inc., Chicago, HERBERT ZELTNER, group vp; ALFRED MALECKI, J.J. GRAMHAM, S.E. COHEN, LOUIS F. DE MARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKINSON, ARTHUR E. MERTZ, vice presidents; JAMES M. FRANKLIN, vp-finance and administration; MERRILEE P. CRAIN, assistant secretary.

Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 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). \$1 a copy. \$25 a year in U.S. Canada and all other foreign add \$10 for surface mail. Europe and Middle East only add \$32 for air delivery. First-class mail to Canada only, add \$36. WILLIAM STRONG, vp-circulation. PAMELA JANOUSEK, circulation manager; ROGER D. GREGORIO, fulfillment director. Circulation Dept.—Chicago, (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.



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Law makes employers liable for more

Continued from page 3

drawing employers were liable only if the entire multiemployer plan terminated within five years after they withdrew. Withdrawing employers now must make direct payments for up to 20 years after withdrawal instead of just posting bond or escrow for five years against the possibility of future plan termination.

The new rules also remove the liability limit of 30% of the company's net worth. This is the limit the Employee Retirement Income Security Act places on companies' own pension plans. Multiemployer plan withdrawal liability now could theoretically exceed a company's assets.

Before the passage of the new law, many employers didn't take an active role or interest in multiemployer plans because their liability was limited to the benefit contribution agreed to at the bargaining table, experts say.

"You may have agreed to pay \$3.50 an hour in pension contributions during a three-year collective bargaining contract," Mr. Ridley said. "Now that is all finished."

"When an employer joins a multiemployer plan, he agrees to share a portion of the unfunded vested liability, which is a lot more than the \$3.50 an hour called for in the bargaining agreement."

The law offers several complex formulas to determine the liability of an employer that withdraws. The plan trustees, who represent

employers and unions, determine the appropriate formula.

But under one formula, the employer's liability would be equal to its share of total contributions to the plan.

For example, if 20 employers each contributed \$100,000 to a multiemployer plan, a withdrawing employer would be 5% responsible for the plan's unfunded vested liability even if none of its own employees has vested benefits. And if the plan's unfunded vested liabilities total in the millions of dollars, as many do, a withdrawing employer's liability could be enormous.

Pension experts say employers should take these steps to counter their new liabilities:

- Understand the law. "By understanding the ramifications of

the legislation, they can avoid being hit with costs they never expected," said Joseph Locicero, a benefit consultant with George B. Buck in New York.

- Find out what a plan's unfunded liability is before you join a plan.

- Take a more active role in the collective bargaining process. "You are going to need a more hard-nosed position at the bargaining table on the part of the employer representative or increases in benefits and getting into multiemployer plans in the first place," Mr. Ridley said.

- Find out how the plan's assets are being invested. If the assets are earning a low rate of return, the unfunded vested benefits will be higher, adding new liabilities to a withdrawing employer.

Buck staff members believe employers also should require the plan's board of trustees to provide an annual report on the plan's finances to the employers prepared by an independent actuarial firm.

Under the new laws, liability can be triggered by more than an employer's decision to withdraw from a plan. For example, an employer may decide to shut down an unprofitable division. If the closing of the division and the resulting layoff of employees reduce by at least 70% an employer's contribution to the plan, withdrawal liability is triggered.

If partial withdrawal occurs, the employer's liability is identical to total withdrawal from the plan, but is prorated.

With the possibility of withdrawal liability being triggered by

a decline in employment, employers now have new variables to juggle when they consider the economics of closing a plant.

"A year ago, you could shut down a plant ... and not worry about withdrawal liability," said Buck's Mr. Locicero. "Now there is a much more complicated business decision because of withdrawal liability."

Most experts agree that without the new law, an insurance program guaranteeing benefits to workers in multiemployer plans would have collapsed as employers skipped out of the plans to escape liabilities.

But while the new law may have saved most existing plans, the tough withdrawal liability provisions will inhibit future growth of the plans, one consultant says. ■

Kramer's advice

Continued from page 3

Chicago, agrees syndicates as captives just can't work under the present IRS code. "An underwriting loss is then paid as a profit and you get reverse cash flow," he said.

The problem at the Illinois Insurance Exchange is finding investors for the exchange.

"Our hope was that there would be a perceived need for insurance capitalization. It isn't here at this moment," said Richard E. Friedman, partner at Epton, Mullin, Segal & Druth Ltd. and member of the exchange's interim board.

He and interim board director Jim Skelton pitched the advantages of the Illinois Insurance Exchange to the CPCUs. It will be virtually self-regulated and able to write a broad range of risks, they said.

So far, the Illinois Insurance Exchange has attracted five syndicates, two that are being considered by the board and three that have applied for admissions. The exchange also has eight admitted brokers, Mr. Skelton said.

"We will not start the exchange until we have 10 syndicates," Mr. Skelton says.

The NYIE and IIE suffer because there is overcapacity in the industry at the moment, Mr. Williams says. With the soft dollar, tax treatment, uncertain regulatory climate, double-digit inflation and high interest rates, companies don't want to invest in new ventures at the moment.

The NYIE also has internal problems that prevent it from taking off. "The NYIE has a problem. It's closed the door on direct business," Mr. Kramer said. "Major brokers can't bring direct business to the New York Insurance Exchange, so why be in the exchange?"

"The exchange has cut itself off of \$96 billion and now has only \$9 billion from the reinsurance market," he said. —Stacy Shapiro

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Panel seeks end to arbitration office

ANNAPOLIS—A legislative committee here has recommended abolishing Maryland's state Medical Malpractice Arbitration Office.

"The health claims panel simply hasn't done what we wanted it to do," said J. Joseph Curran Jr. (D-Baltimore), chairman of the Maryland Senate Judicial Proceedings Committee.

"It's understaffed, it's underfunded, and since it wasn't doing its job, the committee said let's be done with it and go back to the old system."

The malpractice office was created by the state legislature in 1976 after Maryland doctors complained of a medical malpractice crisis.

The office receives all malpractice claims and appoints three-member panels to hear them. A

around the states

suit cannot be filed until the arbitration panels have ruled on the complaint.

State legislators say the arbitration panels force injured plaintiffs to wait even longer to recover damages.

Of the 630 cases filed with the malpractice office since 1976, only 75 had been arbitrated by the panels, Sen. Curran said. Panels are made up of a doctor, lawyer and layman selected from lists maintained by the malpractice office.

But Walter Tabler, director of the malpractice office, said the agency had not been given enough time to prove itself. Legal disputes

kept it from beginning work until October 1976.

The office is now making up for lost time and is "doing or exceeding what was intended. It would be a terrible mistake to abolish the office at this stage," Mr. Tabler said.

Medical malpractice arbitration panels have come under mounting criticism in other states, too. For example, last year a Dade County, Fla., judge ruled the state's four-year-old statute establishing arbitration panels to hear malpractice cases was unconstitutional.

Coke oven suits

PITTSBURGH—Widows of

coke oven workers are suing the manufacturers of coke ovens over their husbands' deaths after the Pennsylvania Superior Court decided the discovery rule should apply to the statute of limitations for such suits.

The decision means the two-year statute of limitations becomes effective when the victims or their survivors discover the cause of injury.

In 1976, the federal government formally recognized a link between lung cancer and the gases of coke ovens used in making steel. The workers had died many years before.

In a suit filed by 20 widows against Koppers Corp. of Pittsburgh, Allied Chemical Corp. of Morristown, N.J., and Salem Corp. of Carnegie, Pa., the companies ar-

gued that the statute of limitations had expired long ago.

Other coke oven lawsuits involved Bethlehem Steel Corp. in Johnstown, Pa.; U.S. Steel Corp. in Clairton, Pa.; and Lorrain, Ohio, and Republic Steel Corp. in Warren, Ohio.

Negligence liability

ANNAPOLIS—Local housing authorities can be held liable for negligence, the Maryland Court of Appeals has ruled.

In a unanimous opinion, the state's highest court allowed a father to sue the Montgomery County Housing Opportunities Commission for injuries his infant son received when he fell from a housing project's metal railing that gave way after the boy put his weight on it.

The county housing commission was responsible for the Pomander Courts housing project in Wheaton where the accident occurred, and it used the doctrine of sovereign immunity to argue it could not be sued.

The doctrine protects governments from some negligence lawsuits when the entities are carrying out their governmental functions.

The court held that because the state law that created local housing authorities requires them to carry liability insurance, there "is a strong indication of legislative intent that sovereign immunity is waived to the extent of the insurance."

The court noted that the only way to waive the traditional immunity is for the legislature to give specific "authority to sue the agency" and to give the agency the power to raise money to satisfy claims.

Both these conditions have been met in the state law creating the housing authorities, the court said in its decision.

New publication outlines plans

WASHINGTON—A new quarterly publication here provides detailed data on retirement benefits offered to white-collar personnel of large corporations.

The Industry Retirement Practices Series names companies grouped by industry and details all their plans. More than 400 plans are included for 1981.

Industry studies may be purchased separately or in groups, at the selection of the purchaser. All prepaid orders before Jan. 16 receive a 15% introductory discount.

A descriptive brochure is available from ERISA Benefit Funds Inc., 515 National Press Building, Washington, D.C. 20045; 202-638-1984.

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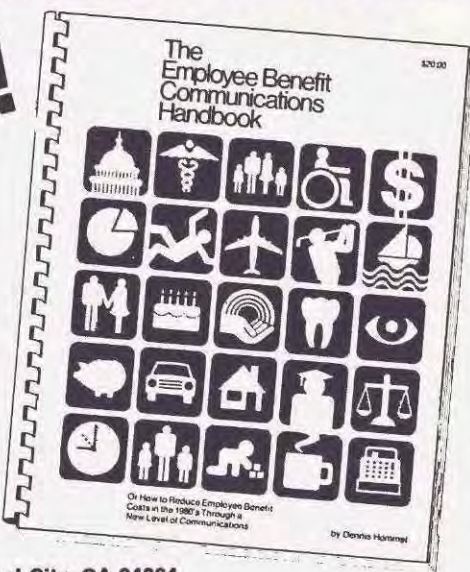
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UPG Publications Division, Dept. B12, Box 700, Redwood City, CA 94064.

Worker deaths increase 7.8%

By JERRY GEISEL

WASHINGTON—The U.S. workplace is becoming more dangerous, statistics show.

Last year, the number of work-related deaths increased to 4,950 from 4,590 in 1978, a 7.8% increase, according to a Bureau of Labor Statistics survey.

The survey, which covered companies with more than 10 employees, found in 1979 that the fatality rate was 0.86 per 10,000 workers compared with 0.82 in 1978.

Key findings include:

- Car and truck accidents were involved in 28% of job-related deaths.
- More than 60% of the deaths

washington

caused by fires occurred in the manufacturing industry.

• More job-related deaths, 1,100, occurred in the manufacturing industry than in any other industry division.

• Bucking a national trend, the number of job-related deaths in the financial, insurance and real estate industrial classification dropped to 85, down from the 200 fatalities in 1978, BLS said.

Medical devices

Manufacturers of medical devices such as pacemakers, X-ray machines and contact lenses soon may have to notify the government of any deaths, injuries or other safety problems associated with their products.

Proposed rules by the Food and Drug Administration would require manufacturers to:

- Telephone the FDA within 72 hours of receiving a report of a death possibly caused by one of its products.
- Submit a written report on a death or injury within seven working days.

"The reports will help us remove hazardous products from the marketplace quicker and will reduce unnecessary suffering and medical costs that could result from unsafe or ineffective medical devices," FDA Commissioner Jere E. Goyan said.

Medical device manufacturers already are required to maintain complaint files. Reporting of deaths and injuries is now voluntary.

The proposed mandatory system would provide the FDA with more timely, accurate and complete reports, the agency says.

For more information, contact Bill Rados at the Food and Drug Administration, 301-443-3285.

OSHA standard

The Occupational Safety and Health Administration has a new booklet explaining how employers can comply with the safety agency's acrylonitrile standard.

The booklet describes record-keeping requirements, monitoring procedures, respiratory protection and health effects of long- and short-term exposure.

Acrylonitrile, also known as vinyl cyanide, can cause cancer to workers exposed to it. It is used in the manufacture of synthetic rubbers and plastics.

The OSHA standard limits worker exposure to two parts acrylonitrile per one million parts of air over an eight-hour workday.

The booklet "Acrylonitrile Standard: Management's Role" is available free from the OSHA Publications Office, Room S-1212, U.S. Department of Labor, 200 Constitution Ave. N.W., Washington, D.C. 20210; 202-523-6138.

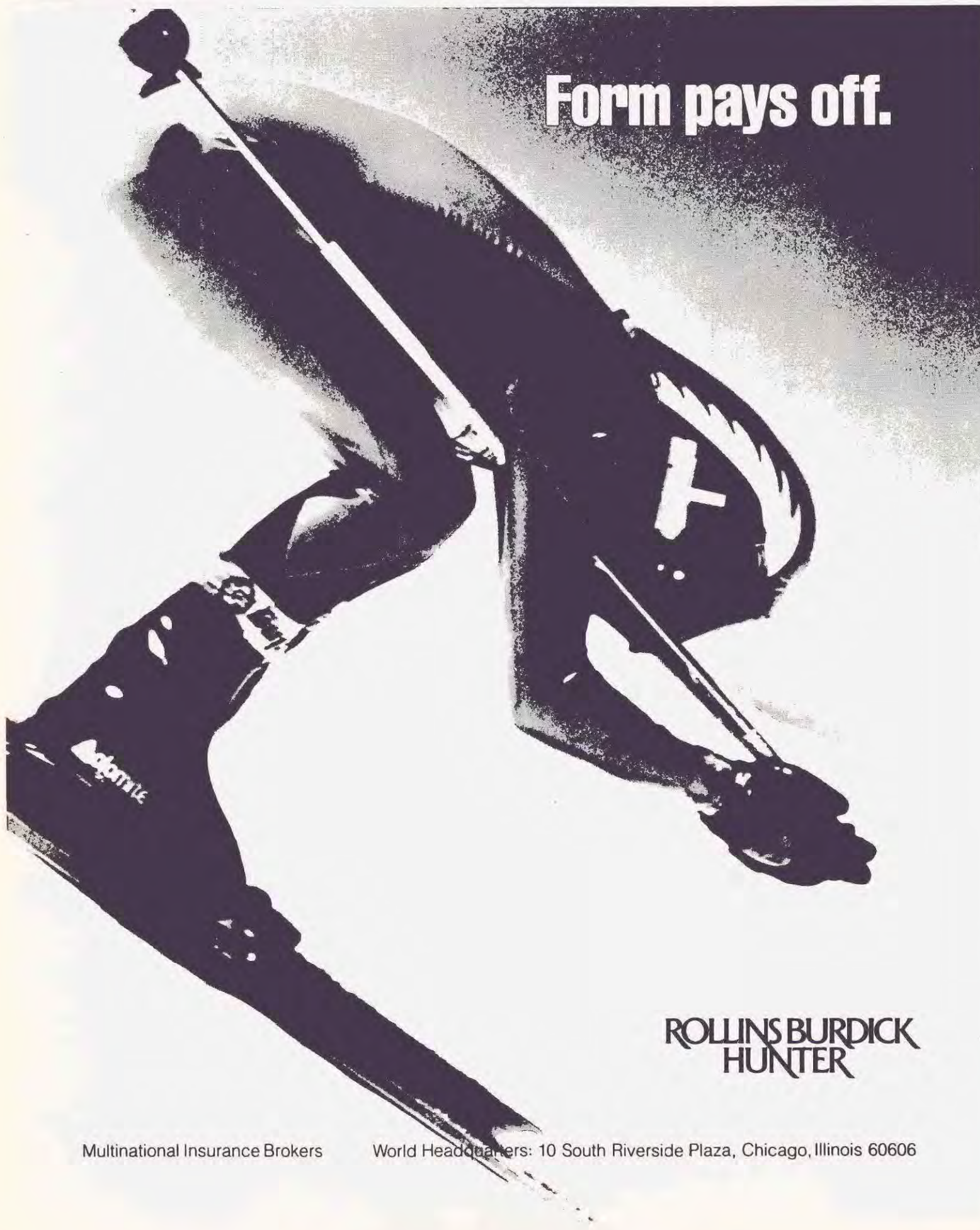
Special meeting

The Labor Department will hold a meeting Dec. 4 to discuss its proposed individual benefit reporting requirements for multiemployer pension plans.

Under the proposed regulations, employees must receive individual reports summarizing their benefits within six months of the close of the plan year.

The meeting will begin at 10 a.m. in the Labor Department Auditorium, 200 Constitution Ave. N.W., Washington, D.C.

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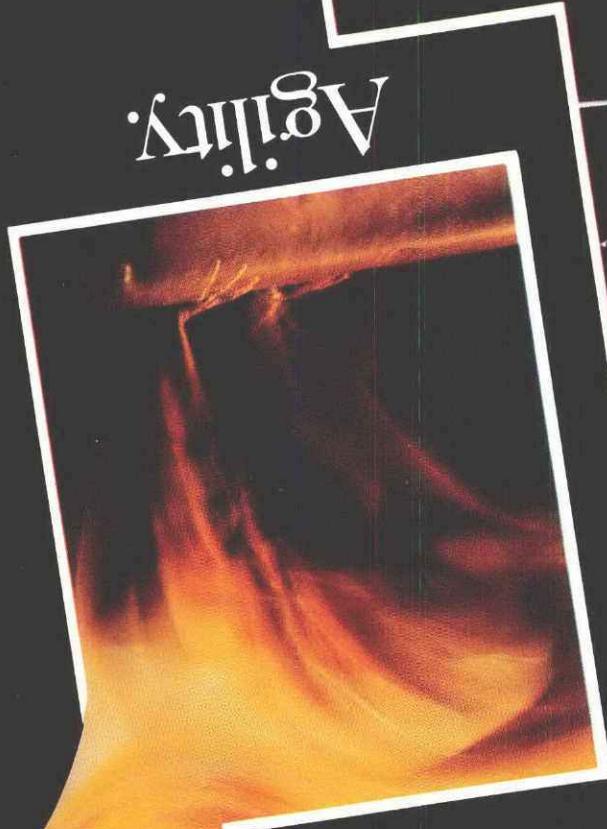
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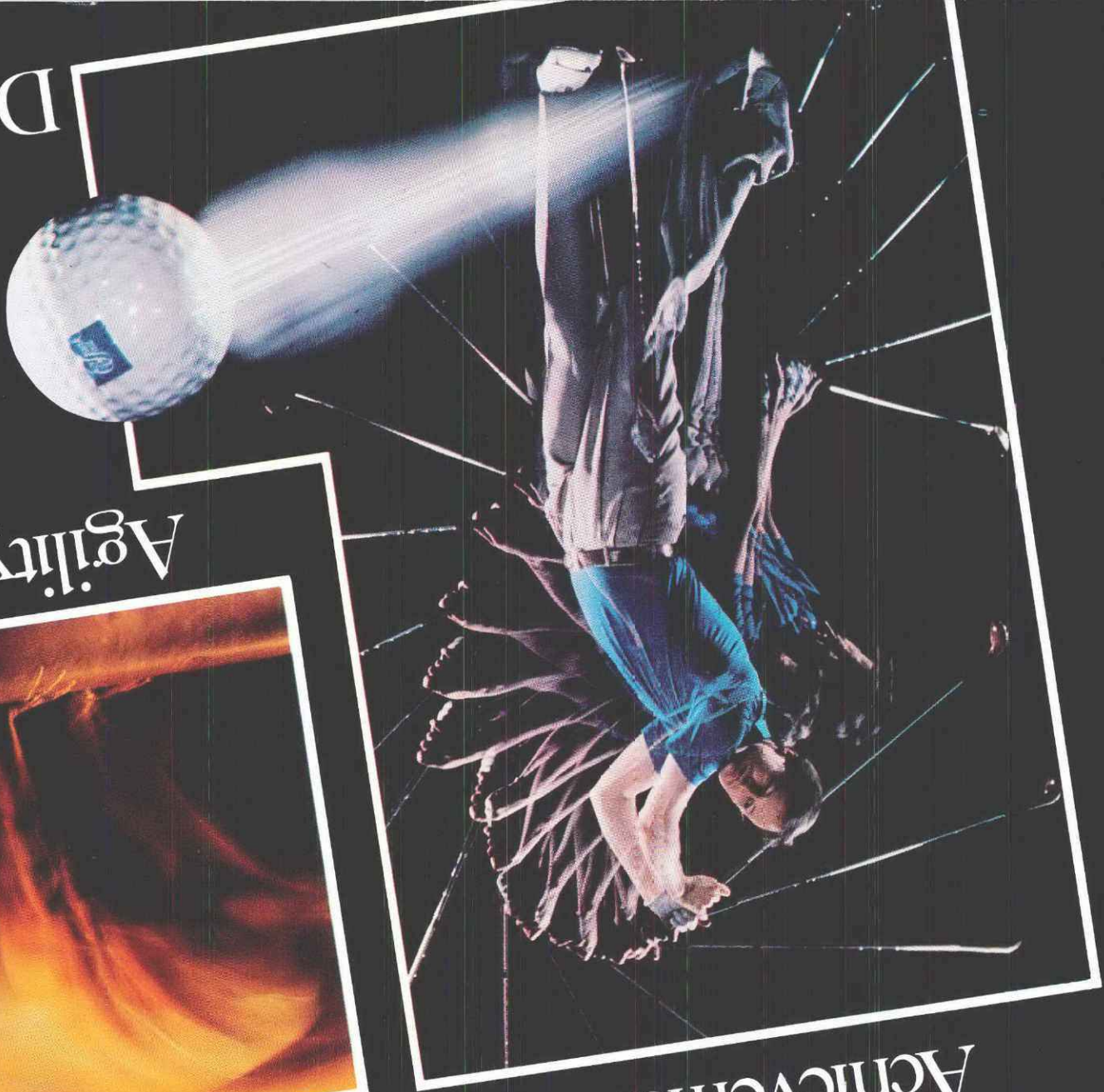
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Mich. comp pool cuts costs 20%

LANSING—Group self-insuring of workers compensation risks may be new to some states, but it's successfully old hat for one Michigan group.

The Michigan Hospital Assn. workers compensation pool began in January 1976, two years after a law change allowed it, said Kathleen A. Dickenson, manager of the MHA group fund.

Since that time, savings to the 113 hospital members have averaged about 20%, Ms. Dickenson said. She warns other employers, however, the savings were slow in coming.

"We were overly optimistic our first year and funded the program too low," she said. "It takes a couple years for the loss control to

take effect."

The program members didn't have premium refunds until 1978. "We didn't lose any members, but we did have to gear up our public relations with the members," she said.

The loss ratio for MHA was 75% in 1976, 59% in 1977, 34% in 1978 and 26% in 1979, Ms. Dickenson said.

This August, however, the Michigan Hospital Association workers compensation program received a refund of \$1.5 million from reserves for the 1978-79 contract year. The money was returned to all the members whose individual loss fund charges exceeded claims during the year.

MHA's success has been enhanced by meeting informally with administrators of other workers compensation pools.

"We don't allow the carriers at the meetings," she said. "And we've found that it's kept excess insurance companies here competitive."

Having the informal group also has helped group self-insurance administrators deal with the Michigan Workers Compensation Bureau.

"It allows us to address the bureau on a united basis," Ms. Dickenson said. "The extra leverage is helpful in negotiations, too."

How can John Hancock's IGP give multinationals the best service in the world? Ask Mike Allan.

Mike Allan is John Hancock's International Group Program Director of Sales and Service for North American multinationals.

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these teams are staffed with some of the best people in the business.

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Not necessarily. Basically, the size of our staff is geared to the volume of our business. But being bigger does allow us to offer certain advantages.

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• Wells Fargo Alarm Service has published **A Guidebook on Security** designed as an educational tool especially for the insurance industry. Free copies are available from Ed Earnest, Wells Fargo Alarm Service, 104 Witmer Rd., Horsham, Pa. 19044; 215-674-3500.

• Two publications that explain the requirements of the OSHA multipiece rim wheel standard have been issued by the Department of Labor's Occupational Safety and Health Administration. **Multipiece Rim Wheel Standard: Management's Role** is an 11-page booklet on possible hazards associated with handling multipiece rim wheels. **Is Servicing Tires Hazardous to Your Health?** is an employee guide on safety measures employers must provide for handling multipiece rim wheels. Free copies are available from OSHA Publications, Room S-1212, Frances Perkins Building, Third Street and Constitution Ave. N.W., Washington, D.C. 20210; 202-523-6138.

• **Purpose & Performance**, published by the Institute of Risk Management Consultants, describes the purpose and record of the institute. For a free copy, write R. Maynard Toelle, Executive Secretary, 703 Thunderbird Ave., Sun City Center, Fla. 33570.

• **The Employee Benefits Book Catalog** lists publications issued by the International Foundation of Employee Benefit Plans. For a copy, contact Publications Department, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.



"Our team approach to service assures every IGP client that we'll be where we're needed when we're needed."

Utility dishes up cafeteria plan

MINNEAPOLIS—Northern States Power Co. here will be dishing up a new cafeteria benefits program to its 3,200 non-unionized employees starting Jan. 1.

The company will serve a core of medical, disability, vacation and pension benefits to all, but employees will be given a pool of "flexdollars" with which they will select their own side orders.

The utility had a "compound reason" for initiating the program, says Tom Grass, NSP's administrator of flexible benefits. "The company was interested in providing a whole benefit package that could be improved for each employee," he said. "But the fact that it may slow costs certainly was not overlooked."

The core package includes medical coverage with a \$400 deductible for an individual and \$800 for a family; a disability plan with 50% pay replacement; vacation time varying with length of service, with a minimum of two weeks, and a pension plan.

NSP self-insures its medical and disability plans.

Employees will allocate their flexdollars to an array of plan improvements: medical coverage with no deductible or deductibles of \$50 for an individual and \$100 for a family, \$100/\$200 or \$200/\$400, or a choice of four HMOs; an additional 10% or 20% of disability pay; an additional five days of vacation, and a retirement savings plan that includes either company contributions or personal contributions of up to 10% of pay.

The flexdollars are calculated according to age, pay, family status and length of service.

The utility began considering a cafeteria plan three years ago after employees were surveyed on what benefit improvements they wanted. Last spring, the company tested various options on a sample group. Dental insurance was dropped because fewer than half the people chose it.

Consultant Hewitt Associates helped design the program.

Employee response has been "tremendous," Mr. Grass says, with about 85% of them electing a benefit package different than what they had. But the change took some explaining.

NSP sent newsletters to its workers about the options last summer and Mr. Grass later met with all employees in groups to explain the program. Employees also were told how to "buy back" their original benefit packages.

"It really helped to show employees that the plan was to their advantage and that they could get back to what their plan was," Mr. Grass said.



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datebook

JAN. 11-13. Health and Pension Benefits Conference in Washington, D.C., cosponsored by the Risk & Insurance Management Society and U.S. Administrators Inc., \$250. Reg Beane, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-557-3221.

JAN. 12-13. Toxic Waste Disposal: A Rational Approach Conference in New York, sponsored by Interforum Group Inc., \$525. Also Jan. 26-27 in Denver. Mary Lou Smith, Interforum Group Inc., 68 William St., New York, N.Y. 10005; 212-269-2240.

JAN. 15-17. Medical Malpractice Litigation Seminar in New York, sponsored by the Practising Law Institute, \$350. Nancy B. Hinman, PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 22-24. Product Liability of Manufacturers: Prevention and Defense Seminar in Los Angeles, sponsored by the Practising Law Institute, \$325. Nancy B. Hinman, PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 26-28. Top Secret '81/Monaco, computer security and privacy symposium in Monte Carlo, sponsored by Cii Honeywell Bull; \$696. Security Symposium Registrar, Top Secret '81/Monaco, Honeywell Information Systems, M/S T-99-4, P.O. Box 600, Phoenix, Ariz. 85005.

JAN. 26-29. Financial Costing of Risk Management Seminar in Dallas, sponsored by the University of Dallas and Risk Management Institute, \$365 for members, \$395 for nonmembers. Professor Bruce D. Evans or Julie Allan, Risk Management Institute, University of Dallas Station, Irving, Tex. 75061; 214-579-5360.

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comings & goings: buyers

Lighting company promotes Fabel

MERRITT W. FABEL has been named manager of the insurance department at Long Island Lighting Co. in Mineola, N.Y., to replace **John J. Reilly**, who retired after almost 42 years of service. Mr. Fabel, who previously was an associate in the insurance department, will be responsible for property/casualty in-



Fabel

urance, design and negotiation with insurers for benefits, and pension investment monitoring and reporting. He has CPCU and ARM designations.

Pittston Petroleum Inc. in New York has named **Daniel G. Roger**, insurance and risk coordinator to replace **Tom Bucher**, who left the company. Mr. Rogers, who will be responsible for risk management and insurance programs, was previously assistant manager of corporate/risk insurance at Inmorr Corp. That position was eliminated. Mr. Rogers has an undergraduate degree from Georgetown University, an M.B.A. from the College of Insurance and an ARM designation. He reports to treasurer David F. Walton.

Mohawk Data Sciences Corp. in Parsippany, N.J., has named **Mr. Clough** to the newly created position of director of benefits and planning services. Mr. Clough will be responsible for domestic and international benefit planning administration as well as headquarters' personnel services. Reporting to him will be **Tim Farrell**, manager of benefits, and **Phil Caudura**, manager of headquarters' personnel and services. Mr. Clough, who has a bachelor's degree in business management from Fordham University, previously worked as a manager of employee benefits at Interspace Corp., also in Parsippany. An announcement on his replacement at Interspace is expected in a few weeks.

Air Products & Chemicals Inc. in Allentown, Pa., has named **James W. Fisher**, 38, to the newly created position of director of compensation and benefits. Mr. Fisher, who previously was responsible for salary administration and executive compensation at the automotive assembly division of Ford Motor Co. in Dearborn, Mich., will report to James O. Boyce, vp of employee relations. He has a bachelor's degree in economics from Princeton University and an M.B.A. from Harvard Business School.

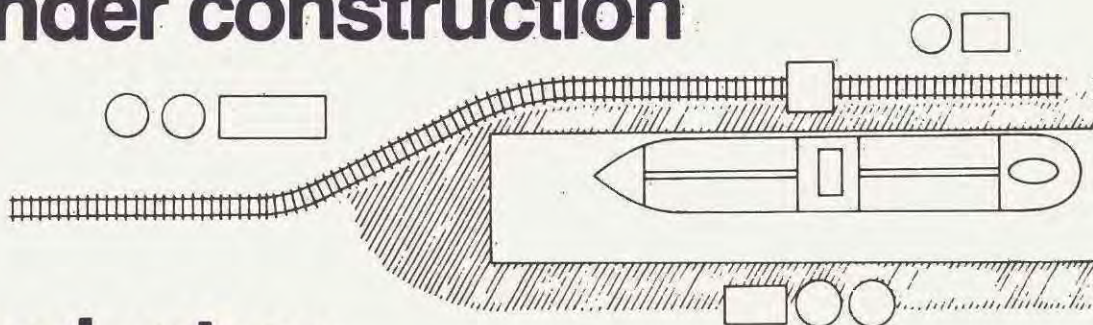


Fisher

Harry L. Parker has been named second vp and director of personnel at North American Co. for Life & Health Insurance, based in Chicago. Mr. Parker, who previously was director of compensation and benefits at Howmet Turbine Components Corp. in Muskegon, Mich., will be responsible for employee benefits. Before working at Howmet, he held positions at Liggett Group and Campbell-Ewald during his 22 years in personnel administration. Mr. Parker is a 1958 graduate of Indiana University with a bachelor's degree in business. He belongs to the American Society of Personnel Administration, the American Compensation Assn. and American Management Assns.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to **Mary Ann Matlock**, Business Insurance, 708 Third Ave., N.Y., N.Y., 10017.

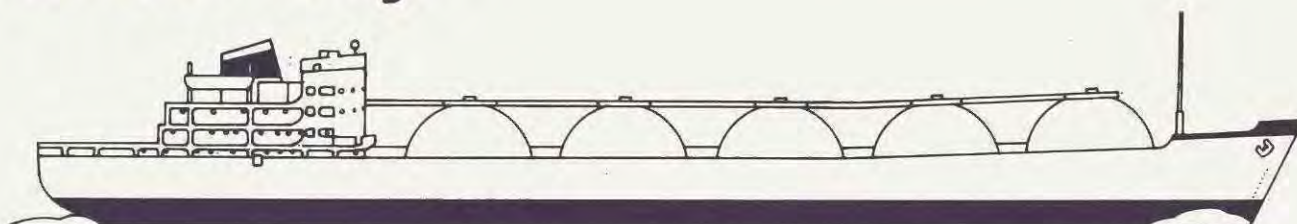
Under construction



Under tow



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something for more than two decades, you know where to look, who to call and how to draw the form. That's why we've been able to provide coverage when others couldn't.

It's required expansion into San Antonio, Denver, Tulsa and New Orleans. We also act as Correspondent for Underwriters at Lloyd's, London.

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why we're constantly researching the market. To keep abreast of developments and future trends in shipping, finance and insurance. It's the only way to offer water-tight coverage and maintain flexibility in our programs.

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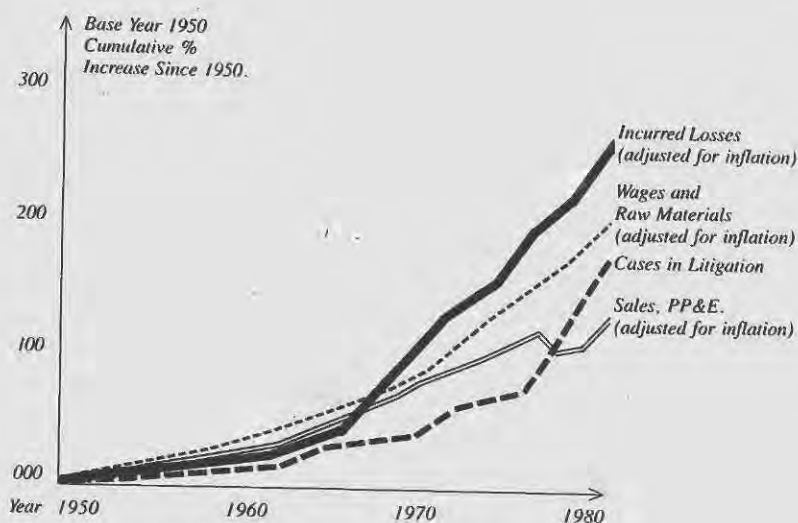
A word from BRI Coverage Corp., The Independent Insurance Broker, on understanding risk today:

Risk

Risk used to be sort of an educated guessing game. You relied on insurance to provide "adequate protection", paid a premium, and that was it.

Today, risk has to be calculated. To the letter. Reliance on insurance just won't suffice anymore. Because claims that were unheard of years ago are being brought forth every day and won. The number and variety of these claims are greater, and of course, the cost and settlement involved has also escalated geometrically.

No one can afford to be casual about risk anymore. The outrageous costs have shed a new light on risk. Particularly in the way that it's being handled. Management has begun to see risk for what it is — an important cost affecting the profitability of the company.



The acceleration in the growth of incurred losses is directly related to increases in exposure (sales, PP & E), cost of doing business (wages and raw materials), and a changing social climate (increase in the use of litigation). A change in any one of these factors will have a dramatic impact upon incurred losses.

— Sales and value of PP & E —
Growth in Sales and in valuation of PP and E represent changes in business activity which increase its risk of loss.

— Cases in Litigation —
Today's social environment has increased the likelihood that consumers, stockholders, government, competitors, suppliers etc. will bring legal action against a company. Changes in the number of cases in litigation (frequency) will impact risk of severe loss.

----- Wages and Raw Materials —
The cost of doing business has increased substantially. This also has the effect of increasing the value of claims incurred.

■ Incurred Losses. The continued increase of the three variables, Wages and Raw Materials, Cases in Litigation and Sales, PP&E., result in the increase of Incurred Losses sustained by the company.



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action line

Health film available

An article in the Nov. 3 issue of *Business Insurance* mentions a documentary film produced by Tylie Jones Communications entitled "MediSense."

We are interested in previewing this film, but no address is given for a distributor.

Grace Harris Bazmore
Customer service representative
Health Alliance Plan
Detroit, Mich.

"MediSense," the 20-minute film outlining ways employees can help cut health costs, can be previewed, rented or leased/purchased by contacting Tylie Jones Communications, 10718 Riverside Drive, North Hollywood, Calif. 91602; 213-980-7300.

A screening of the film to evaluate it for purchase or rental costs \$25, but the film must be returned within three working days of receipt.

Rental for three days and postage is \$100, with a \$20 charge for added days. The fee to lease or purchase the documentary is \$400 for 16mm print or \$325 for each videocassette, including postage.

Health perks

Can you provide any information regarding permitted "health care perks" for proper deduction as an expense of a partnership, rather than necessarily being passed through to the accounts of the partners for deduction in excess of 3% of gross adjusted income of each individual?

This might be for annual physicals as well as for medical expenses not reimbursed by a Blue Cross & Blue Shield major medical plan.

D.S.H. Anderson
Partner
The Anderson Co.
Greenwich, Conn.

The executive medical reimbursement plan used to be very popular among employers as a health perk for their executives. The employer picked up the bill for a deduction on its taxes and the employee didn't have to pay tax on the extra income.

That is no longer true, says Frederick I. Schick, director of the benefit consulting services of Hay Associates in Chicago. The Internal Revenue Code no longer permits this tax arrangement.

"Any benefits payable would be taxed as personal rates to the recipient, so the receiver's taxed, not the partnership," Mr. Schick said.

But it's still a nice perk for the executive, he says. For example, a company pays \$2,000 in medical bills and adds the \$2,000 onto the employee's W-2 as taxable income. If the executive is in the 50% income bracket, he only pays \$1,000 in taxes instead of the original \$2,000 in bills, he notes. ■

Police, firemen file comp suit

OMAHA—Police and firefighters here have filed a class-action lawsuit charging the city of Omaha forces workers injured for more than one year to take a disability pension.

The suit, filed Oct. 23, asks that the city pay workers compensation benefits for longer than one year. It also asks the court to award present and past participants in the police and fire pension fund the amount "overcharged over the years." ■

Risk Management

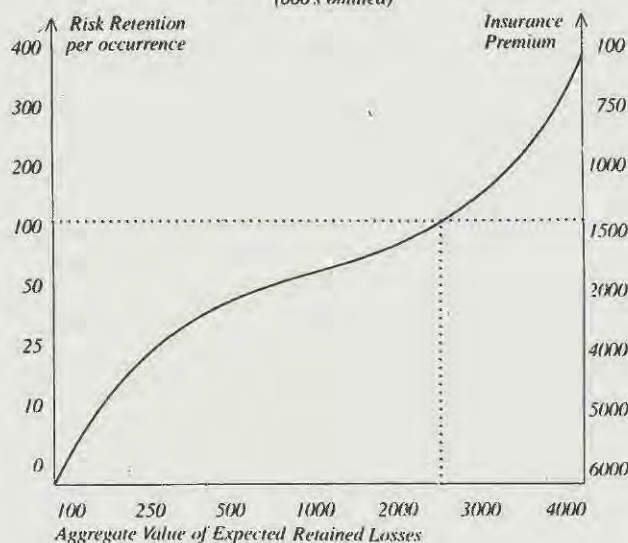
In the past, the term "risk management" was nonexistent, because insurance was an administrative function. A policy was written and the premium came out of a book. Basically, a company had only three options to save money: to change brokers, to change insurers or to change both. That was about all "managing risk" entailed.

The dramatic rise in the cost of insurance has necessitated a more sophisticated and disciplined approach to the management of risk.

Risk must now be identified in advance. In order to protect yourself, you can't afford to speculate — you have to be aware of every possible exposure.

Once identified and quantified you can see how much risk can be sustained and how much should be transferred. For every exposure, management has three options: to consider the risk as insignificant and not insure it, to transfer the risk entirely, or to strike a balance between self-assumption and transfer. The balance between not insuring, self insurance and full-insurance is one answer to cost-effective risk management. It opens up a new set of variables in the economics of risk management.

Premium/Expense Reduction at Selected Risk Retention (000's omitted)

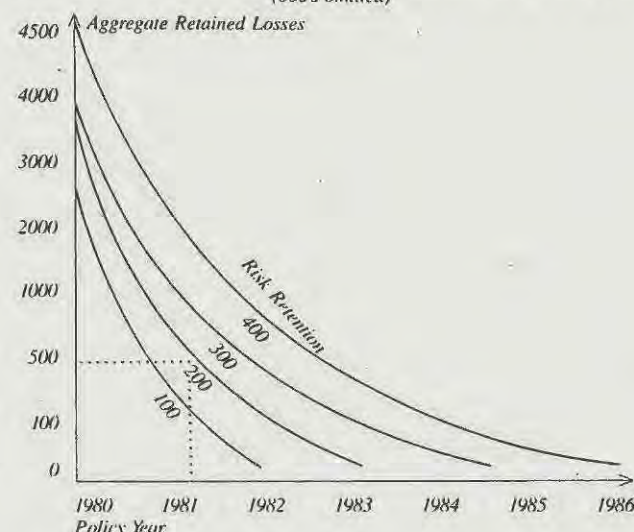


Selected Retention	Aggregate Retained Losses	+	Insurance Premium	=	Cost
0	0		6000		6000
100	2500		1400		3900
200	3200		1090		4200
300	3800		750		4550
400	4500		100		4600

A major objective of Risk Management is the decision concerning the balance between risk assumption and risk transfer. Striking the optimum balance is essential. At a risk retention of \$100,000 per occurrence, the chart shows aggregate retained losses of \$2,500,000, and a premium for insurance above the retention of \$1,400,000. The total cost of \$3,900,000 is substantially less than the \$6,000,000 premium for insuring (transferring) the entire exposure.

Selection of the proper risk retention must also include consideration of the amount of funds freed for investment. These funds produce income which offset out-of-pocket costs.

Funds Available for Investment at Selected Risk Retention over period of time. (000's omitted)



Claims retained by the company through the mechanism of the risk retention are settled over time. This produces a significant cash flow advantage. These funds earn investment income which further reduce Risk Management costs.

The above chart illustrates the aggregate amount of loss retained by the company at different retention levels per occurrence, and the time-frame over which payment takes place. For example, a retention of \$200,000 per occurrence results in an aggregate retained losses of \$3,200,000. Since this sum would be paid out over five years, the company retains the residual balance for investment. At the end of 1981, two (2) years from the beginning of the program, the company still would be holding \$500,000 for investment. Over the five-year time-frame, the total of earned investment income is \$550,000.

Buchanan to head Far East operation

NEW YORK—John G. Buchanan appointed assistant vp responsible for The Continental Insurance Co.'s Far East operations at the Hong Kong regional office. **Peter J. Ilias**, regional manager for

Europe and the Mideast in the London office, assumes overall responsibility as assistant vp for Continental's operations there.

Other insurer changes:

Donald Spickard, surety vp at SAFECO since 1967, has announced his retirement effective Dec. 31. **Donald Stay**, current president of SAFECO Credit Co., will replace Mr. Spickard.

Alfred K. Kenyon, elected vp of the Kemper Group in Long Grove, Ill.

William E. Lewis appointed

comings & goings: industry

boiler and machinery senior underwriting specialist in the Cleveland regional office of Royal Insurance. Also at Royal, **Gary R. Garcia** named commercial lines underwriting manager for the Richmond, Va., branch office.

Karen Hilb promoted to workers compensation claims manager in the Los Angeles home office of Mission Insurance Cos.

Samuel W. Scales promoted to assistant vp for all of The Continental Insurance Cos. Central and South American activities.

Kenneth S. Hall joined American Municipal Bond Assurance Corp. as vp of new issue insurance. He will be responsible for developing the new issue insurance line within AMBAC through a nationwide marketing program to mu-

nicipal bond dealers and issuer communities.

Reinsurers

Michael D. Covney named secretary at North American Reinsurance Corp. in New York, responsible for managing the firm's actuarial research. **Robert C. Van Tassel** promoted to secretary, serving as director of the automatic facultative underwriting within the firm's casualty facultative group.



Covney

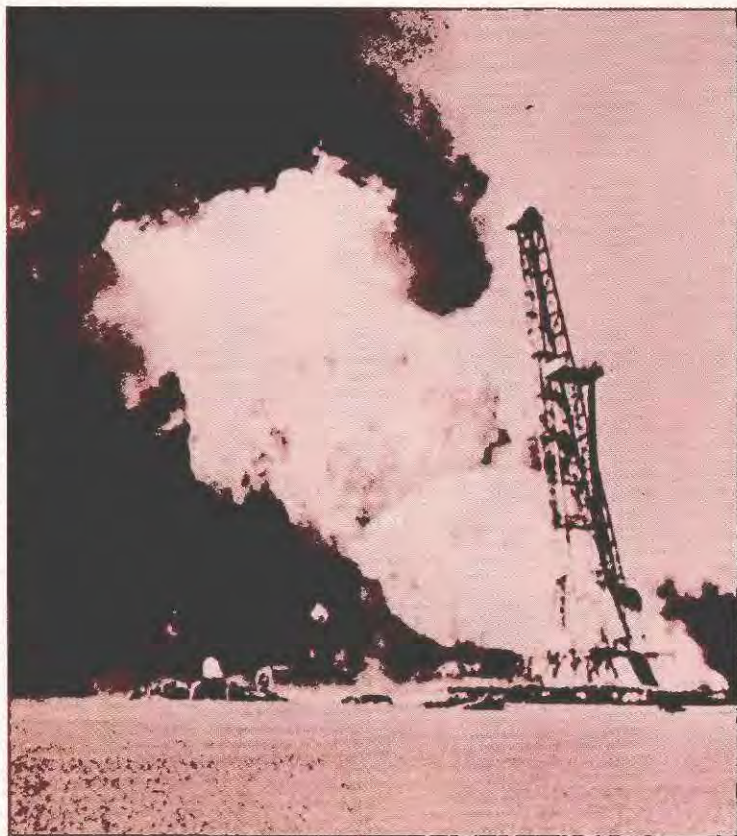
Other suppliers

Paul W. Barnett joined Toral-Vahey & Associates Inc. as group products sales manager in the Santa Ana, Calif., office.

Paul Glickman named marketing manager of A.I. Credit Corp. with responsibility for the New York and New England territories.

Marvin J. Paull joined A.S. Hansen Inc. in the Los Angeles office as a senior consultant in benefits.

Disasters are expensive!



Photograph courtesy of Boots & Coots, Inc.

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February 9 & 10, 1981

Galleria Plaza Hotel
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Today, more than ever before, the oil and gas industry is vulnerable to catastrophes that can destroy otherwise successful companies. In today's economic, political and social climate, simply to survive a disaster requires an in-depth knowledge of insurance coverage and risk management techniques.

The time to learn how to protect your company is now... tomorrow may be too late.

Realizing the magnitude of the problems, which are unmatched in history, the Professional Development Institute of North Texas, State University and RIMCO Risk Management, Inc., have mobilized the second annual Petroleum Insurance Conference. At it, you can get straight answers to the life and death questions that threaten your company.

Who should attend

Owners, operators, producers, insurance agents and underwriters, contractors, pipeliners, truckers, refiners, jobbers—even the owner of a single workover unit—will find information at the conference which can protect their company and save premiums.

Topics targeted to your needs

This year's program will emphasize the ins and outs of insurance programs and pricing. General sessions will cover industry-wide problems and trends. Special small breakout sessions will zero in on specific concerns of owners, operators, service contractors, pipeliners, refiners, and distributors.

Facts, not theories

The conference advisory committee has chosen speakers based on their expertise, experience, and ability to communicate. Each speaker will emphasize the practical aspects of insurance and risk management so that you

can gain new insights into the nature and availability of alternatives, discuss parameters, and explore innovative solutions to your specific problems.

Program

1st Day

General Sessions
Petroleum risk management
Pitfalls in ambiguous policies
Breakout Sessions
Control of well
Insuring loss of income
Handling property claims
Care, custody and control

2nd Day

General Sessions
Evolving insurance placement problems and opportunities
Certificates of insurance
Breakout Sessions
Insurance and the drilling funds
Builder's risk
Contracts: risk transfer and insurance

Save Money by Team Attendance

Send two or more persons from your company and you'll receive a 10 percent discount on enrollment fees. In addition, attendees are able to compare notes and pool their thinking during and after meetings, working together to utilize their newly acquired skills. The results? A work team with the ability and knowledge to maximize protection while minimizing costs.

Conference Workbook

As a registrant, you will receive a workbook containing the outlines and discussion material that will be covered in the proceedings. This book, combined with your notes, will provide a handy reference manual for long-lasting, practical benefits.

Registration fee—\$395

Registration will be limited, so complete and return the attached registration form today.

Hotel arrangements are the responsibility of the registrant. The Galleria Plaza will be holding a block of rooms for conference attendees until January 19.

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Registration Fee—\$395
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Yes! I am interested in the Petroleum Insurance Conference for the oil industry on February 9th and 10th at the Galleria Plaza Hotel in Houston, Texas.

☐ My check for _____ is enclosed. Please register me as attending.
☐ Please send further details.

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markets

Actuary firm incorporates benefit unit

MILLIMAN & ROBERTSON Inc., a nationwide firm of consulting actuaries, has incorporated a new affiliate, M&R Benfo Inc.

The new company, headquartered in Seattle, will offer a wide range of employee benefit administration and communications services. These services had been offered by a division of M&R Services Inc., another Milliman & Robertson affiliate.

M&R Benfo specializes in producing personalized benefit statements and is preparing to market a new simplified system that produces a standard statement for smaller clients.

Captive subsidiary

Heddington Insurance (U.K.) Ltd. in London will begin writing nonmarine insurance and reinsurance business beginning Jan. 1.

Heddington (U.K.) is a wholly owned subsidiary of Heddington Insurance Ltd., which was incorporated in Bermuda in 1970 and is a wholly owned subsidiary of Texaco Panama Inc. The company principally insures its parent and other Texaco affiliates for property/casualty risks. It also reinsures third parties for similar risks.

Acquisitions

Tokio Marine & Fire Insurance Co. Ltd. signed a memorandum of intent to purchase the stock of **Houston General Insurance Group**, part of **The Equitable Life Assurance Society**. The acquisition will be made from Equitable's affiliate, Equitable General.

New name

Improved Risk Mutuals of White Plains, N.Y., changed its name to IRM Insurance, effective Dec. 1. The change reflects inclusion of four stock companies among its 18 members.

IRM insures large property risks.

Risk Management Economics.

As risk management cash outlays have increased, so has the intensity with which management has attacked the problem.

Which is where the economics enter in. The balance between risk retention and the transfer of risk to outside sources is essential to a cost-effective risk management program. Equally important are the tax implications and investment returns. In effect, the economics of successful risk management are dependent upon the methods of funding or non-funding you choose — the goal is to find the optimum position for your own circumstances.

Risk management has changed the meaning and economics of insurance. Those who truly manage risk use insurance as a tool, not as solution in itself. The proper application is entirely different — so are the results.

BRI Coverage Corp., recognized as one of the most imaginative brokers in the industry, knows this is the case. Rather than restructure its present services and organization, BRI formed Risk Management Economics. Risk Management Economics consists of a select group of highly skilled financial experts. Experts who work in close cooperation to refine and re-define the role of risk man-

agement in your company's insurance program. In so doing, it is now possible to achieve maximum control of cash flow, tight supervision of claims and other risk expenses.

All this really means is that the system can work on your behalf. If you agree with the concepts, then you'll probably also agree with our approach. Find out firsthand. Call Risk Management Economics at (212) 233-7171.

Risk
Management
Economics.

Selection for Optimum Risk Retention (000's omitted)

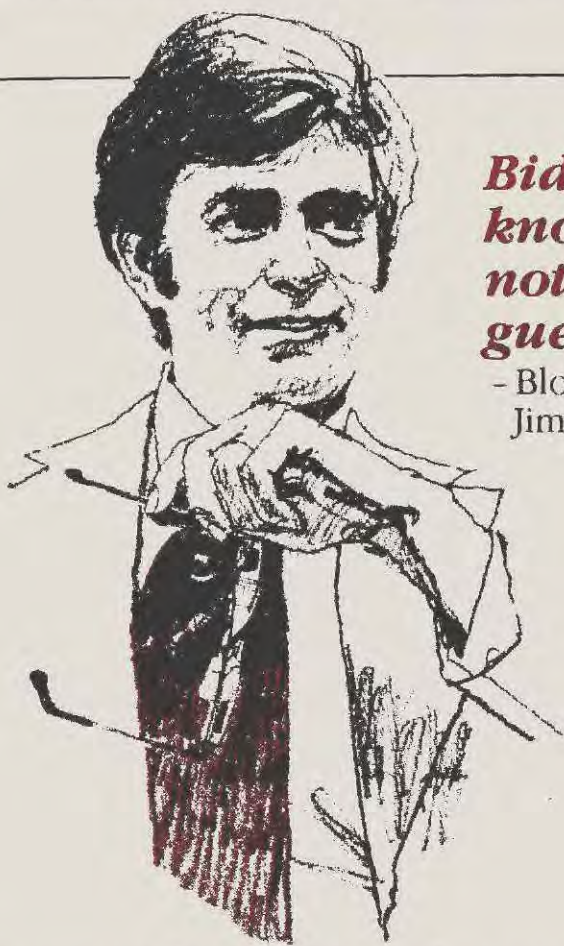
Selected Retention	Aggregate Retained Losses	Insurance Premium	Gross Cost	Estimated Accumulated Investment Income	Net Cost
0	0	6000	6000	0	6000
A 100	2500	1400	3900	150	3750
B 200	3200	1000	4200	550	3650
300	3800	750	4550	725	3825
400	4500	100	4600	850	3750

At a \$100,000 retention, the aggregate of retained losses is expected to be \$2,500,000. The insurance premium for coverage above the retention is \$1,400,000. This produces a total cost of \$3,900,000 (Section A), which is less expensive than the other alternatives. However, when the impact of investment income is added to the decision-making process, the best choice becomes the \$200,000 risk retention. The apparent total cost of \$4,200,000 is offset by investment income. Consequently the \$200,000 alternative becomes the best economic choice.

Naturally, tax implications, payment streams of premiums, and the financial position of the company must also be considered before a final decision is reached.

Financial Strategies In Business Insurance

An INA Series



Bidding from knowledge, not guesswork.

- Blount International's
Jim McLain

For a construction firm, one of the most difficult tasks in bidding on overseas work involves factoring in correct insurance costs. Unfamiliar with local conditions, a bidder may overestimate and lose the contract. Too low an estimate can result in a successful bid with heavy downside risk. The answer: a working

partnership with an insurer whose international expertise guarantees an accurate premium quotation.

Blount International, Ltd., a leading engineering and construction firm, recognized the value of such a relationship when it first moved into the overseas market in 1975.

"The lead project was a major housing facility in Tabuk, Saudi Arabia," recalls Jim McLain, Blount's Manager of International Business Development. "Our insurance needs were highly complex—including a workers' compensation

program for employees from over a half-dozen different countries."

Blount turned to INA International. Their familiarity with local procedures and costs provided insight, according to McLain, "that couldn't have been duplicated in-house." The result was a successful bid, comprehensive from the insurance standpoint, yet competitive in price.

Award of the Tabuk contract has led to a series of other overseas projects. And INA continues to play a vital role for Blount—especially in the crucial early stages of bidding. In McLain's view, "Rapidly changing conditions in so many countries make this close cooperation essential."

Non-profit organizations are constantly seeking ways to limit unnecessary cash outlays. Failure to do so can result in cutbacks of essential humanitarian services.

The Salvation Army realized that unrecovered vehicle and property losses caused by third-parties were creating a serious financial drain. In 1976, officers of the Army's Western Territory moved to solve the problem by enlisting Recovery Services International (RSI), an INA subsidiary, to handle subrogation on all such cases.

Taking losses off the books.

- The Salvation Army's
Jean Faulkner



"In the past, recovery was too time consuming for us to pursue internally," says Jean Faulkner, Insurance Coordinator for the territory. "With RSI, however, we've recovered 60% of our losses where others were liable—without diverting any of our officers from social service functions."

Ms. Faulkner and her staff review each case and determine which losses are potentially recoverable. These files are then turned over to RSI. Most cases are resolved without court action; if a trial becomes necessary, however, attorneys retained by RSI handle litigation.

"An important plus from our standpoint," comments Ms. Faulkner, "is that we don't owe any fees to RSI unless there's a recovery."

Recouped losses over the past four years are well into six-figures. These funds are remitted on a monthly basis, thus enhancing the Army's cash-flow position. Ms. Faulkner notes, "The money RSI has returned to us is put right back to work—helping those who depend on our services."

Businesses that face a high frequency of third-party liability claims often find first-dollar insurance coverage prohibitively expensive.

In such cases, notes Hilliard Feldman, president of Schiff Terhune International, Inc., a broker has to design highly individualized protection programs. "One approach," says Feldman, "is to 'unbundle' the conventional liability premium and determine which elements of coverage the client should retain, and which should be bought separately." Astute balancing of these elements can improve cash flow.

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they happen?***

- Schiff Terhune's
Hilliard Feldman



Schiff Terhune recently employed this technique for a company planning to open a facility in which an extremely large number of people might be exposed to risk. The broker recommended retention of a deductible to pay all predictable liability losses up to a specified per loss and aggregate amount. Coverage written by INA was then put in place to pay those claims which, in either frequency or severity, would exceed these aggregate limits. According to Feldman, "INA's premium for the excess exposures was sufficiently cost-effective to make the deductible program economically sound."

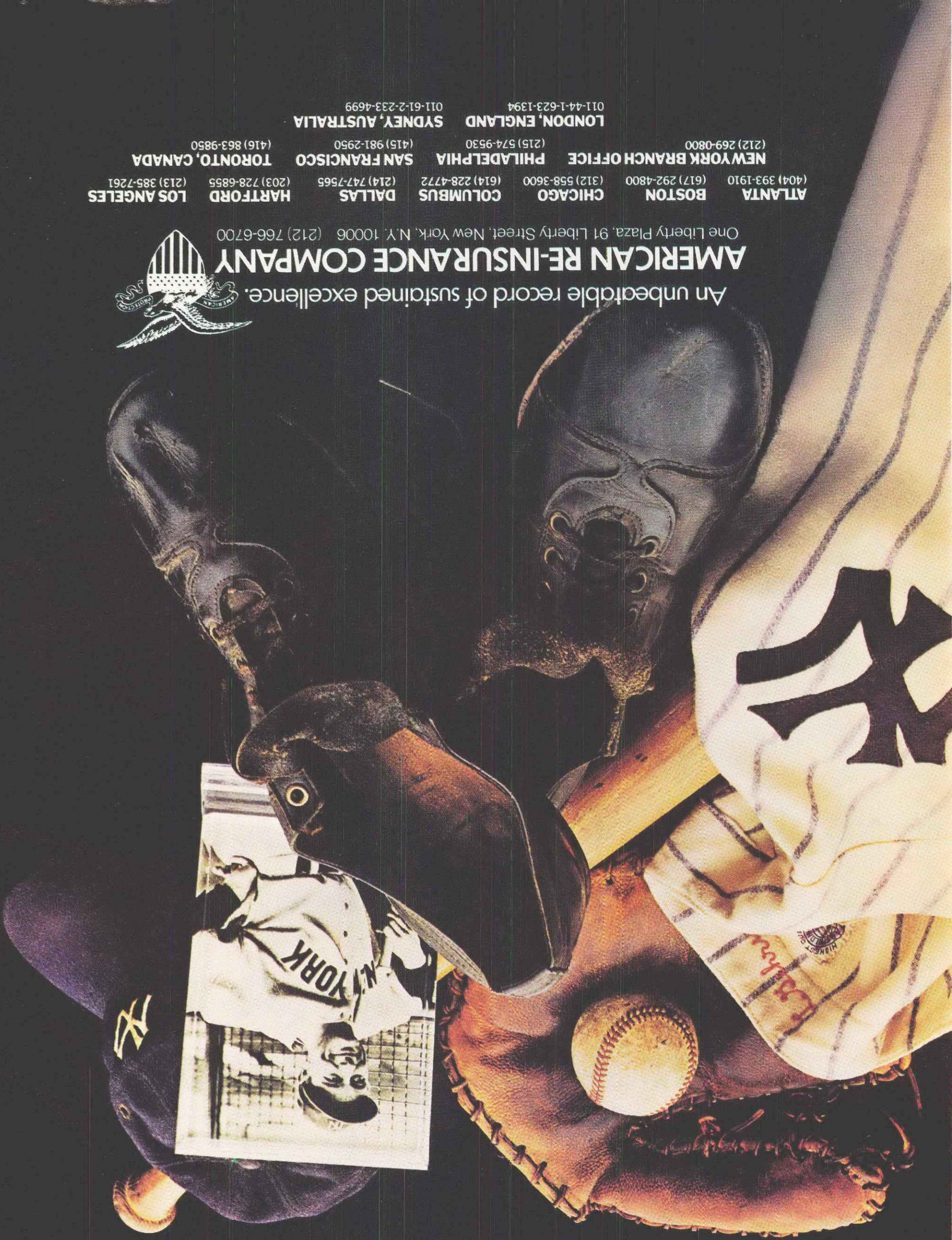
Another benefit: assuming a portion of the primary coverage layer allowed the client to make use of a "pay-as-you-go" claims handling arrangement with ESIS, an INA Corporation subsidiary. "By not having to prepay an annual fixed claim expense," observes Feldman, "our client has further enhanced its cash-flow position."

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perspective

Direct mail

To communicate benefits

By Robert J. Ellis

DO YOU HAVE an important change in a benefit plan to communicate to employees? Or a new benefit plan to explain? Do you need to promote employee participation in an employee stock ownership or savings plan?

Benefit managers faced with such communications needs usually are told by their in-house communications people that the medium of choice for such messages is an audiovisual presentation. That's good advice, except in cases where a limited budget or tight schedule makes an audiovisual presentation impossible. Then direct mail is an alternative worth considering.

Direct mail has long been used successfully by major companies to sell products and promote services to consumers. Now some employers are using direct mail to communicate benefit information to employees. Direct mail offers several advantages over other communications media: it's personal, flexible and cost-efficient.

Let's briefly examine how each of these advantages can be used in benefit communications.

Direct mail is sent to the employee's home—and a major segment of the benefit information audience is at home: spouses and dependents. By comparison, when an audiovisual presentation is used to communicate benefit information, usually only the employees see the presentation. Direct mail reaches the entire audience and remains accessible for further reference.

Another important point: When information from the employer is sent directly to an employee's home, the employee assumes the message must be important. Therefore, he or she is likely to give it more careful scrutiny than he or she would give to the usual direct mail received.

Direct mail can be used in many ways to accomplish many tasks. For example, if a pension plan has been changed to a final average formula, a direct mail piece is an ideal way to briefly explain the changes. It will not eliminate the need for a new summary plan description booklet, but employees are more likely to read a simple two-page mail piece than a 40-page booklet.

Or if you are improving medical plan coverages, you can quickly inform employees by producing a brief folder outlining the changes and mailing it. Again, this outline cannot replace the need for a revised summary plan description. But what it will do, however, is deliver the information in a timely manner and generate positive feelings about the improve-

Continued on next page



Robert J. Ellis is manager of communications consulting for the Chicago office of The Wyatt Co.



Direct mail offers personal, flexible, cost-efficient communication that reaches the entire audience and remains accessible for reference.

PIM loan aids pension fund, employees

By Kenneth P. Shapiro

TWO OF INFLATION'S hardest-hit victims are pension funds and employees as home buyers. Pension funds pay fixed benefits that are eroded by inflation, and pension fund managers therefore make "inflation plus" a goal of their investment program. Home buyers pay high mortgage rates that anticipate inflation. Given the chance, however, home buyers would rather pay for inflation with cheap dollars when it occurs than with valuable dollars in advance.

A solution for both the pension fund and the home buyer is for one to lend



Kenneth P. Shapiro is vp for Hay/Huggins & Co. and a partner of Hay Associates in Philadelphia.

management

STARTING WITH this issue, *Business Insurance* begins a management column for risk and benefit managers.

Its purpose is to help managers solve everyday business problems such as planning, hiring, firing and organization. In addition, the column will provide a forum to discuss these issues and problems.

We encourage you to send letters and questions dealing with management issues that are on your mind to Kenneth P. Shapiro, Hay/Huggins, 229 S. 18th St., Philadelphia, Pa. 19103.

the money to the other under an arrangement that takes inflation into account as it comes. This can be done through the partially indexed mortgage loan, a device developed by Philadelphia pension attorney Lawrence J. Kramer.

It is a single loan with two interest rates and two prepayment schedules. For the purpose of analysis, however, the loan may be thought of as two loans, one conventional and one in-

dexed.

The conventional portion of a PIM loan bears interest at prevailing rates and is amortized as if it were a conventional loan. The indexed loan is the key. The interest rate on the indexed loan for each year is 4% plus the inflation rate for the year just ended.

Initial payments on the indexed loans, because they are based upon 4% interest, are about half the pay-

ments necessary under conventional loans available today. Assuming a 12% interest rate for conventional loans and a half conventional-half indexed PIM loan, the initial monthly payment is approximately equal to the monthly payment of a conventional mortgage at 8.6%.

Payments on the indexed loan do increase annually and, based upon a 7% annual inflation rate, will reach the level of the conventional loan in about 10 years.

The PIM loan is a good deal for the pension fund as lender because the fund will receive an "inflation plus" investment. It is also a good deal for employees who can borrow to buy a house for smaller initial monthly payments.

As a bonus, a significant program of PIM loans also will meet the goals of social investing by encouraging housing construction and allowing pension money to be invested in the community where employees live.

Flammability suit confirms execs' fears

By MARGARET LeROUX

GREENSBORO, N.C.—The U.S. Supreme Court has confirmed what risk managers for textile manufacturers have suspected: weaving fabrics to federal standards for flammability won't hold up as a defense against a product liability suit.

The Supreme Court refused earlier this month to review a \$1.75 million award against Riegel Textile Co. in Greenville, S.C., in a 1969 Minnesota lawsuit brought on behalf of a young girl severely burned when her pajamas caught fire (*BI*, Nov. 10). The pajamas, which met federal flammability standards at the time, caught fire as the girl reached across the open flame of burners on a stove.

The Supreme Court's refusal to even consider the case confirms the suspicions of many risk managers at textile firms who have doubted that meeting federal standards would help in a product liability case. Their firms have set their own flammability standards

higher, modified products and even dropped some products to control their product liability exposures.

The textile firms still have to contend with lawsuits involving products made before these measures were taken, leaving some very concerned about the Riegel decision, which also involved an older product.

The judgment against Riegel includes \$1 million in punitive damages, which legal experts say should not have been allowed because the firm met manufacturing standards at the time.

"The Riegel case could set a dangerous precedent," said the in-house counsel for one South Carolina textile manufacturer. "Fabric companies have been comfortable that if they meet federal standards, they're immune from punitive damages."

Risk managers for some textile companies contend upgraded flammability standards set by the federal government in 1972 have

practically erased their liability, but others disagree.

"Whether you meet federal standards doesn't mean a hoot," said Edward Lloyd, insurance manager at Dan River Inc. in Greenville, S.C.

"The federal standards on flammability aren't especially tough," said Peter Phillipps, corporate counsel for Levi Strauss & Co. "Most textile companies go beyond federal standards in building extra margins of safety."

At Dan River, that meant stopping the manufacture of materials frequently involved in flammability cases that lead to product liability lawsuits.

"We've stopped making fabrics such as flannel and terry cloth," Mr. Lloyd said. "They may be cheap to produce, but they're not worth million-dollar lawsuits."

Cone Mills got out of cotton production because of product liability risks, says risk manager Bill Ellmore.

For Springs Mills, another South Carolina textile manufacturer, "We haven't dropped a product, but we've modified some," said a company spokesman.

"Children's sleepwear we now make is 100% polyester with no chemical additives," he added. "Other materials for commercial use (where flammability standards are not as strict as those for children's sleepwear) are blends."

Many flammability cases in litigation stem from incidents that occurred in the late 1960s or early 1970s before federal flammability standards on children's sleepwear were strengthened.



Photo: Burlington Industries

Textile manufacturers will be liable for product liability lawsuits even if their products comply with federal flammability standards.

Such was the case for Riegel and its product, flannelette, used in making children's pajamas. Although Riegel met federal standards existing at the time, the Minnesota Supreme Court upheld a lower court's award in the 1969 lawsuit, saying the federal standards weren't stringent enough. The U.S. Supreme Court refused to change the award, comment or rule on the case.

The Springs Mills spokesman takes some comfort in the court's inaction. "There is a difference in refusing to disturb an award and ruling on a case. Since the Supreme Court issued no ruling in the Riegel case, things are still fuzzy in terms of precedent being set."

Still, the attorney who sees a dangerous precedent complains that letting the punitive damages award stand suggests "wanton conduct and reckless disregard, and at the time Riegel was doing the same as every other fabric manufacturer: everything they could do to avoid the risk of flammability."

A tough defense—even when denied the muscle of compliance with federal standards—is critical to beating these cases, risk managers say.

"We all have flammability cases... it's a matter of how vigorously you defend them," noted Mr. Lloyd of Dan River.

Basic to Dan River's management of its product liability risks is a "vigorous defense," Mr. Lloyd

said. "We're extremely careful in selection of our attorneys, and we keep track of all our old product liability policies. We're digging out policies as old as 1969 that we're just now getting litigation on."

Flammability cases are "expensive and difficult," said Burlington Industries risk manager George Bigenwald. "We treat each case separately, on its own merits."

Defense of product liability cases is coordinated by Burlington's legal department with Liberty Mutual Insurance Co., which insured the company's product liability up until last year. Burlington moved all of its liability lines to Kemper Insurance Co. in 1979.

Burlington has a "relatively small problem with flammability compared to other textile manufacturers," Mr. Bigenwald pointed out.

While Riegel collects \$300,000 from Employers Insurance Co. of Wausau under a primary policy and \$450,000 from Commercial Union under an umbrella policy—and fights with Commercial Union for coverage of the \$1 million punitive damages award—the rest of the commercial insurance market appears unaffected by the \$1.7 million award.

Underwriters contend they can't increase product liability insurance rates in this competitive market. And risk managers at textile firms scoff at the suggestion that competition has lowered product liability insurance rates in the first place.

U.S. won't challenge warning

WASHINGTON—Tampon manufacturers have the go-ahead to jointly distribute to retailers warnings regarding toxic shock syndrome after the Justice Department announced it has no intention of challenging such an action under antitrust laws.

The language of the warning has been formulated jointly by Johnson & Johnson Products Inc., International Playtex Inc., Campana

Corp. and Kimberly-Clark Co., as well as the Food and Drug Administration. Johnson & Johnson, Playtex and Campana are coordinating their distribution of the warnings, which will be placed on shelves beside tampons.

Johnson & Johnson had requested an opinion from the Justice Department on whether it would challenge the combined action.

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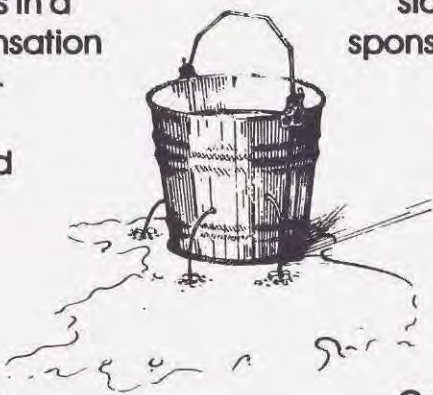
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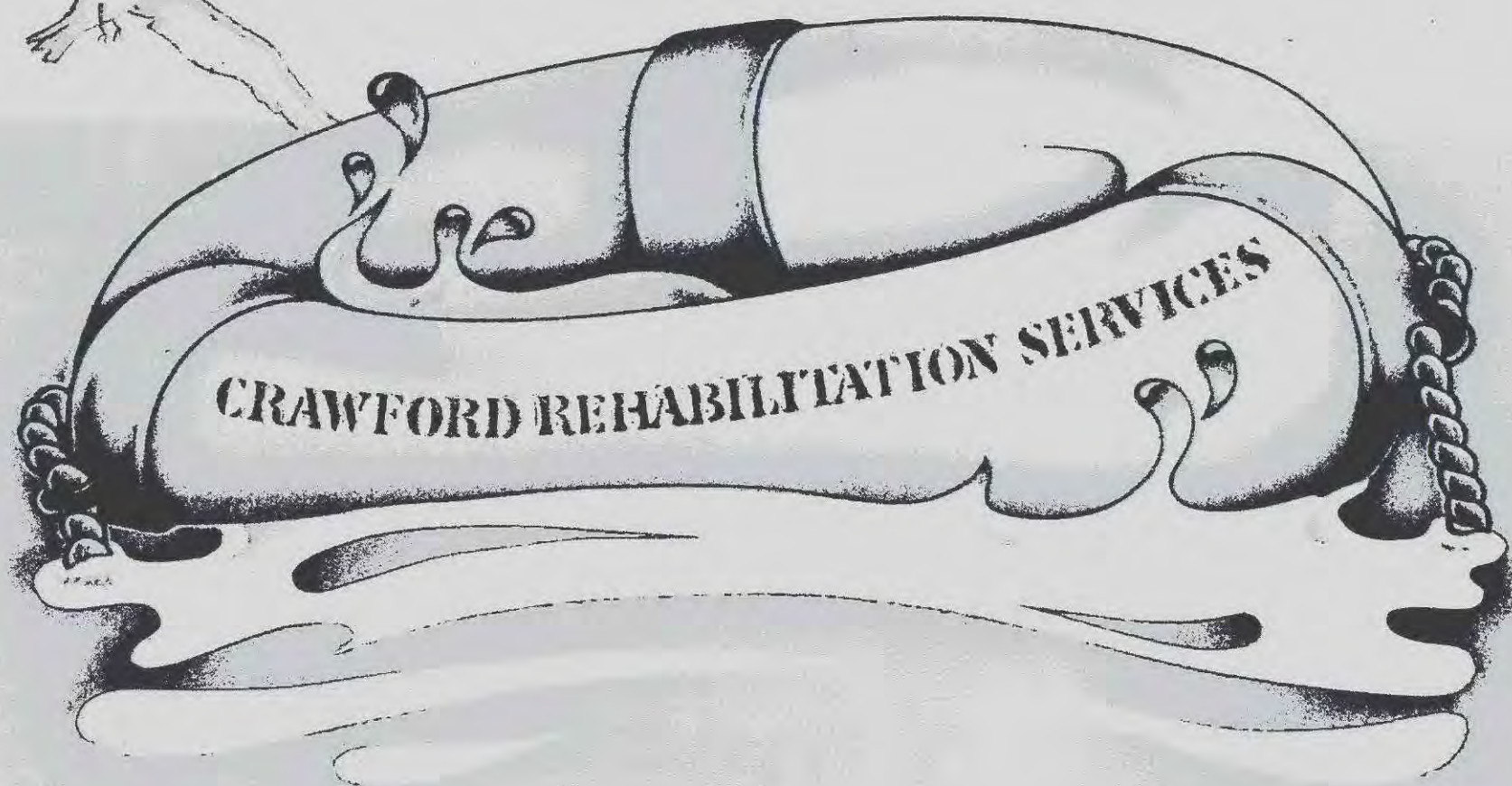


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For complete details, please write:

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Diamond 'fingerprints' thwart thieves

GEMPRINT LTD., a Chicago-based company, is making life harder for diamond thieves with a laser-photographic instrument that takes "fingerprints" of diamonds.

The process records on film a unique light pattern reflected from a diamond's crown and pavilion facets when laser light strikes it. The photographs of the pattern can be used by law enforcement agencies, insurance agencies or individuals to provide reliable identification of diamonds, the com-

products & services

pany says.

The American Assn. of Insurance Services has endorsed Gemprint and approved a 10% premium credit on Gemprinted diamonds. Gemprint has been accepted as evidence in court and was responsible for the recovery of more than \$700,000 of diamonds in a 1979 fraud case, Gemprint says.

For more information, contact Craig Carnevale, Gemprint Ltd., 29 E. Madison St., Chicago, Ill. 60602; 800-621-2002. In Illinois call collect at 312-263-6322.

Condo D&O

A condominium directors and

officers liability policy has been introduced by Hull & Co. Inc. of Santa Ana, Calif.

The policy is designed to protect the officers of a condominium association against legal action that might be taken by the group.

Limits are set at \$1 million, but can be higher. Premiums are based on the number of condominium units involved.

For more information, contact William W. Duncan, Hull & Co. Inc., 1441 E. 17th St., Santa Ana, Calif. 92701; 714-547-0793 or 213-624-8622.

Claim service

The Medical Insurance Claim Service of Evanston, Ill., is trying to lighten the paperwork load of processing insurance claims. The service is available to all major corporations within the Chicago area.

The service promises complete

and accurate preparation of all medical insurance claims, both outpatient diagnostic and inpatient hospital.

The fee will be quoted on a large involved claim, but most claims will be processed at a monthly service rate of \$5 to \$50 per insurance form.

For further information, write Kathryn Pannier or Leddy L. Dimitrov, Medical Insurance Claim Service, 1609 Sherman, Room 312, Evanston, Ill. 60201, or call Ms. Pannier at 312-328-1142 or Ms. Dimitrov at 312-465-8324.

Climbing deterrent

LadderGate®, a climbing deterrent device, is available from Direct Safety Co. in Shawnee Mission, Kan.

The 8- by 3-foot shield of ½-inch-thick aluminum installs easily on most permanent ladders without welding or cutting, the company says. LadderGate® is best suited for ladders in critical areas such as chemical tanks, water towers, high



LadderGate® is best suited for ladders in critical areas.

voltage electrical installations and others.

Angled sides enclose the fixed ladder, making it impossible to reach around, while the 8-foot length prevents bypassing.

For further information, contact Direct Safety Co., P.O. Box 2994, Shawnee Mission, Kan. 66201; 913-432-0255.

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worldwide

Nonlife outpaces life in premium volume

NEW YORK—Nonlife insurance premium volume was higher during 1978 than life premium volume in 16 of 18 nations surveyed in a study by the North American Reinsurance Corp.

Of the nations surveyed, only Finland and Japan show a higher share of life insurance business in their total insurance premium picture.

In four nations—Spain, Morocco, Italy and Brazil—nonlife premiums were 80% or more of the total while in Australia, France and Belgium, nonlife business totaled at least 70% of all premiums, North American Re said.

In Mexico, the United States, Norway, Australia and Canada, nonlife was 60% or more of total business and at least half of the total in West Germany, Denmark and Switzerland.

The report said the high shares of nonlife business were mostly in countries where the insurance markets are not fully developed but the economy has a high rate of inflation.

Record losses

OTTAWA—Underwriting losses in the Canadian property/casualty insurance industry could reach a record \$500 million this year, according to industry predictions here.

The total, which reached \$197.5 million for the first half of the year, is expected to hit at least \$300 million for the entire year and could easily exceed that, predicted Daniel Damov, president of Travelers Canada.

Canadian insurers probably will raise rates if the trend continues, he predicted.

Malpractice payouts

OTTAWA—Malpractice claimants in Canada collected more than \$5 million in damage awards last year, says the Canadian Medical Protective Assn. In 1978, the total in damage awards was \$1.2 million, or about 20% of the 1979 figure.

The 1979 awards included 92 lawsuits that were settled and 17 that went to court.

The association, which covers 33,000 Canadian doctors, provides legal and financial assistance to members involved in malpractice threats or actions.

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Five-star program rates firms' loss management

Continued from page 1
International Safety Rating Program.

Proponents say the plan, marketed by the International Loss Control Institute in Loganville, Ga., and broker Fred S. James is controversial because it is better than most regulations.

Skeptics say the technique, which emphasizes personal leadership and management but deemphasizes accident frequency and severity as a measure of safety, is just another fancy label for good safety management.

"I tell plant managers not to worry about our governmental safety regulations," explained Robert Wright, loss management manager of Gulf Canada. "If they can earn a two-star rating, they've got all the regulations covered and more."

Mr. Wright, president of the Canadian National Assn. of Professional Safety Engineers, is part of a growing movement in Canadian companies to use the five-star safety rating program.

Imperial Oil (Exxon), Shell Oil of Canada, Esso Resources and Texaco of Canada also are using the system. The Industrial Accident Protection Assn., a Canadian service group comparable to the National Safety Council, is promoting the technique to Ontario firms.

In the United States, several major corporations have started using the five-star technique on a pilot basis: Allen Products in Allentown, Pa.; Cargill Corp. in Minneapolis; Owens-Corning and Texas Instruments in Dallas; the Delco Marine Division of General Motors in Detroit, and Flat-Allis, Deerfield, Ill.

Good recognized

Five-star safety rating expands a system used by the National Occupational Safety Assn. of South Africa. Frank Bird, executive director of the International Loss Control Institute and former director of engineering services for INA and adjunct professor at Georgia State University, changed the rating into a loss-control system. ILCI began promoting it in 1977.

"It's not a paper war and it's not like an insurance company audit," Mr. Wright said. "The program acknowledges what you do well."

Unlike insurer inspections, a five-star audit examines management systems and demands documentation that local management regularly inspects the workplace. Insurers care only about the physi-

cal plant, Mr. Wright says.

"For years, insurance underwriters have been ordering inspections of various oil refineries," Mr. Wright said. "After two or three days of audit, the insurers discuss their findings with the local management."

"But their suggestions are viewed with disdain."

Eager to prepare

Some plant managers and safety directors consider insurer inspections an insult to their integrity. Most of the suggestions made by broker or insurer engineers are never budgeted. Many are not practical suggestions that immedi-

ately reduce accident frequency and severity, Mr. Wright says.

Insurer audits and a five-star review are as different "as chalk is to cheese," Mr. Wright said. "Plant managers are eager to prepare for an audit for five-star because they know they will get credit for what they do well."

Ten of Gulf Canada's 37 operating units have or are preparing for a rating audit: four pipelines, one oil refinery, two supply and distribution terminals and three tanker ships.

The spirit of competition has helped the Gulf Canada program grow. Plant managers want to look good and seek the recognition.

Continued on facing page

Official sanction doubtful

Five-star safety rating is not likely to win the imprimatur of the Occupational Safety and Health Administration or any other official U.S. organization, says International Loss Control Institute vp Raymond Kuhlman.

"Five-star is entirely oriented around administrative controls, unlike most safety regulations," he explained. "Until everyone has had more time to see how well the system works, a 'no comment' by officials is probably appropriate."

An OSHA spokesman said the federal regulators were aware of the technique but had no comment about its potential for federal sponsorship. The ILCI is marketing the method and audit materials "to make money, you know," said the spokesman.

The National Safety Council also had no comment, but said it considers ILCI a competitor in the promotion of safety management seminars and technique.

"In most countries, five-star is sold by a kind of franchise," Mr. Kuhlman explained. "In the United Kingdom, however, the Royal Society for the Prevention of Accidents markets the technique."

The presidents of national safety groups in 12 countries, including Canada, the United Kingdom, South Africa, Argentina, Chile, the Netherlands, Australia and New Zealand, however, have formed an international committee to study and promote the technique, Mr. Kuhlman noted.

THE COST TRAP IN HEALTH CARE COVERAGE.

Only looking at a small piece of the problem can lead to a big mistake.

ILCI markets loss control data

The International Loss Control Institute was founded in 1974 at the request of Georgia State University.

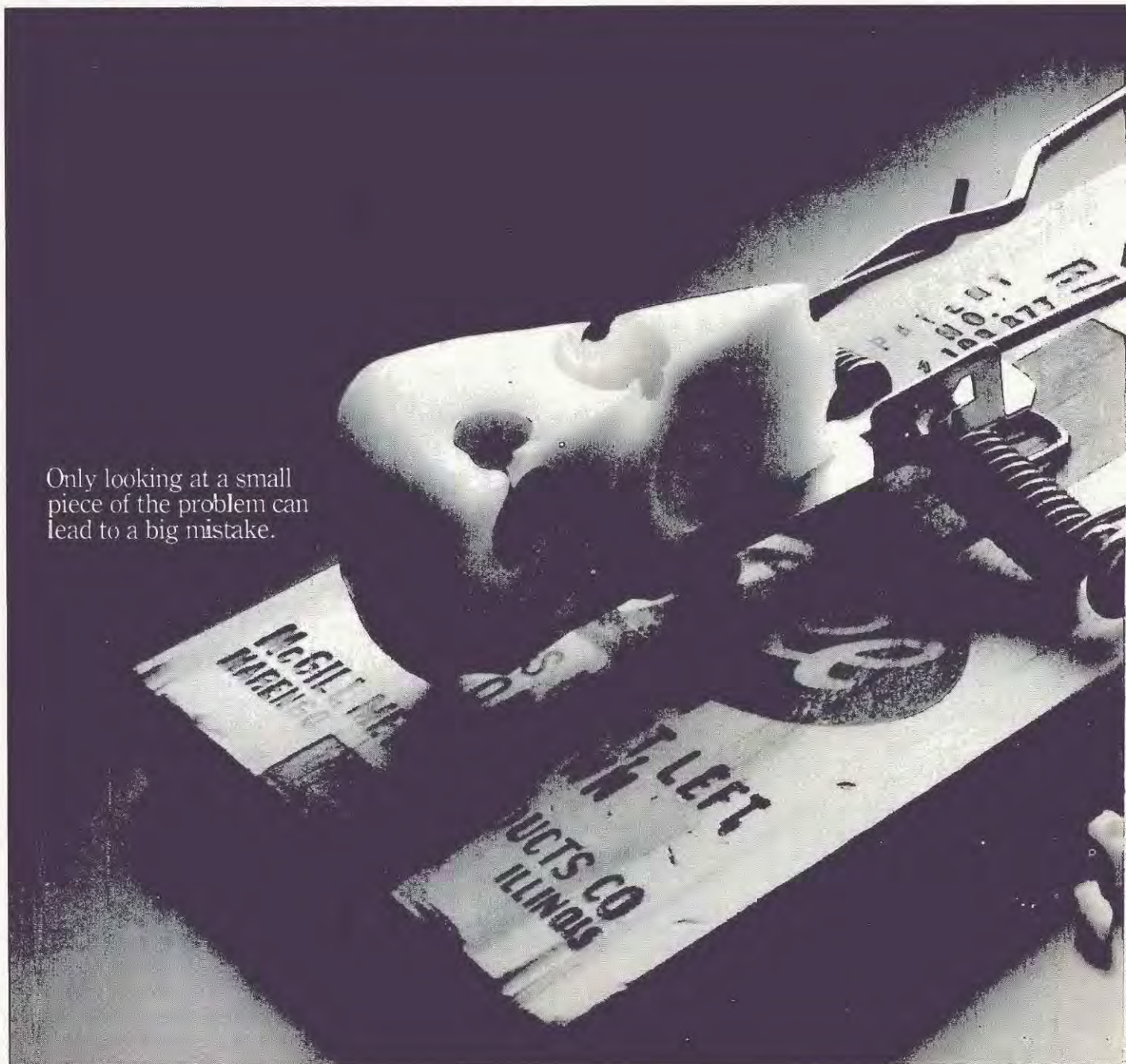
A private corporation, ILCI is not funded by the university but markets seminars and loss-control educational products for profit, says vp Raymond Kuhlman.

As an educational and consultancy group, ILCI is a competitor of the National Safety Council.

A self-audit kit costs about \$400 and a certification audit can cost up to \$1,000 per day.

For more information on ILCI's five-star safety rating program, write: International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249.

Under an exclusive agreement with ILCI, insurance brokerage Fred S. James Cos. Inc. also markets five-star self-audit kits and can conduct audits.



Continued from facing page

They prepare for the audit, sometimes as much as a year early, using a manual that explains how they are audited.

The self-review reveals as much as the formal inspection, Mr. Wright notes. As managers prepare, they must completely review the methods by which they maintain a safe workplace, starting with the plant loss-control management policy.

The manager of the Point Tupper refinery in Nova Scotia, the first Gulf refinery to try the technique, was pleased to discover he had a loss management policy. But he was displeased that the document never left his office, and, therefore, would earn him no points in the formal audit.

"No one had seen it," Mr. Wright explained. "It was just a piece of paper. But then they made the policy open to everyone and documented that the complete staff, including line supervisors, had seen

it and understood it."

Reviewing the 21 points in the star award criteria sometimes turns safety programs upside down.

Managers must add accident reporting and follow-up investigations that exceed Canada's occupational safety laws. Supervisors must document regular meetings with workers on safety, including employee quizzes. Workers are taught off-the-job safety and asked to pass tips along to the family.

Changes needed

Usually the changes cost little more than what is already budgeted for safety, Mr. Wright says. But sometimes the new reporting techniques reveal where changes need to be made.

A Quebec plant cost Gulf Canada \$600,000 in "changes that needed to be made anyway," he said. A training program for all personnel was the most expensive



The potential for improvements is immense, says Robert Wright.

item.

Point Tupper finally earned a two-star rating, a cut above the Rimbey pipeline. But even a one-star rating is encouraging. Follow-

Photo: Len Strazewski

ing the Rimbey review, the firm decided to register six more pipelines with ILCI for future audits.

"The one-star rating indicates that the important parts of Rimbey's loss management program are in place and functioning to some degree," Mr. Rimbey's audit read. Future audit results at the two- and three-star levels will depend on how effectively the program elements are now put into practice.

"During the audit, the plant manager indicated he was uncomfortable with the shortcomings he was beginning to see in his operation," the audit said. "It is natural to feel this way on the first audit. However, if a realistic work plan is established to implement the more critical areas for improvement, the next audit should result in increased confidence."

In three months of work at Gulf Canada, the five-star program is netting some safety improvement and accident reduction, Mr. Wright

said. The potential for future improvements is immense, he adds.

Financial losses for Gulf are "unacceptably high," ranging from \$2.8 million in 1976 to \$15.8 million in 1978. Assessments under the government-run workers compensation program increased fourfold since 1973 (see related story).

If the Gulf program succeeds as well as a South African mine industry program, Mr. Wright may have firm accident reduction data to report next year.

Following an audit program shared with ILCI, the South African National Occupational Safety Assn. has awarded three five-stars, seven four-stars, eight three-stars and 13 two-stars to mining companies.

Improved safety

The average improvement in the fatal accident rate from 1978 to 1979 for three-, four- and five-star firms was 21%, according to a report on the industry's program presented at the recent U.S. National Safety Council meeting. All other firms improved an average of 14%.

The injury rate improved 15% from 1978 to 1979 for the three-, four- and five-star companies and 9% for other firms in the program.

The South African study also indicated significant improvements in productivity as measured by higher production output, higher tonnages milled and decreases in overtime.

Whether savings on workers compensation insurance costs can be added to the list of benefits of five-star depends on the country.

In Canada, the workers compensation assessments are doled out industrywide by the government. But similar safety improvements can mean cheaper insurance rates for individual U.S. companies. Programs similar to the five-star rating have been tried by some brokers and insurers with varying results.

Attitude Helpers, for example, a consulting division of Minneapolis brokers Brandow, Howard, Kohler

Continued on next page

Everybody wants to control health care coverage costs. But sometimes executives can make a costly error.

THE PROBLEM.

You see, the cost of health care protection has two basic parts. The cost of benefits, and retention costs, (everything from administrative costs to risk charges).

Some purchasers are caught in a trap by concentrating only on retention costs, which generally are only between 5 and 10% of the total health care coverage bill.

They forget that the really big savings come from holding down benefit costs, which usually make up 90 to 95% of what you spend for health care protection.

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And Blue Cross and Blue Shield Plans are the only ones whose operations are broad enough to deal with the problem effectively.

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No lower rates yet

Better safety records won't improve Gulf Canada's workers compensation budget immediately because Canadian workers compensation is funded by assessment, said loss-control manager Robert Wright.

For an improvement in the workers compensation assessment for oil refineries, for example, refineries as a class would have to demonstrate fewer and less-expensive claims.

"However, if five-star had general recognition and was used by everyone, I'm sure we could lower assessments by half in just a few years," Mr. Wright predicted.

"In the United States, if a firm is experience-rated, I don't see why you couldn't cut your rate in half in one year," he said.

Because the Canadian government manages workers compensation risks, insurance brokers don't actively promote personnel safety programs.

"We work mostly from the fire protection side," explained Fred Schultz, loss-control engineer with Reed Stenhouse Ltd., Canada's largest brokerage. "But if workers compensation went back to the marketplace, I'm sure we'd get into personnel safety."

"Any tool for safety is a good one," he added. "There's all kinds of schemes, but this five-star program would touch a lot of things we'd want to look at. It appears pretty flexible."

Criteria for award of stars

	★ One star	★★ Two stars	★★★ Three stars	★★★★ Four stars	★★★★★ Five stars
1. Leadership & admin.	★	★	★	★	★
2. Management training			★	★	★
3. Planned inspections	★	★	★	★	★
4. Task analysis/procedures				★	★
5. Incident investigation	★	★	★	★	★
6. Planned task observations					
7. Emergency preparedness				★	★
8. Rules & regulations	★	★	★	★	★
9. Incident analysis					
10. Skill training	★	★	★	★	★
11. Protective equipment	★	★	★	★	★
12. Care of injured & ill	★	★	★	★	★
13. Program audit system					
14. Purchasing & eng. controls					
15. Personal communications			★	★	★
16. Group meetings				★	★
17. General promotion					
18. Hiring & placement			★	★	★
19. Records & reports					
20. Off-the-job safety					
21. Reference library					
No. of specified elements	7	7	10	13	13
Total required to be rated	10	12	15	18	21
Minimum average score	40%	50%	60%	75%	90%
Minimum on any element	25%	30%	40%	50%	75%
Incident rate	5%	4%	3%	2%	1%

The five-star audit examines safety management systems and demands documentation that local management regularly inspects the workplace. Each star rating requires a minimum score on a set number of the 21 review topics and a minimum average score.

Programs get stars

Continued from previous page
& Rosenbloom, markets a "certified program" that rates loss-control management on a 1 to 10 scale.

Only a few years old, the technique has salvaged several firms with workers compensation insurance problems. Several insurers were so impressed they offered a rate reduction to firms they had formerly rejected (BI, Jan. 28).

"Part of the problem in the United States is that safety problems are only viewed as insurance cost problems," noted Attitude Helpers founder Amos Rosenbloom. "Lots of people are looking for a quick fix, using a cash-flow plan to reduce costs. If you look to captives and self-insurance exclusively, you are missing the complete solution."

Timothy Sterling, risk manager of Fiat-Allis, a construction machinery manufacturer in Deerfield, Ill., agrees. Mr. Sterling, a loss-control management advocate, turned to the formal five-star approach last year.

Costs improved

Though the 33 locations of Fiat-Allis are still preparing for audits, a philosophy of loss-control management enhanced by five-star already is improving safety and risk-funding costs.

"We began self-insuring workers compensation in January 1978 and saved \$600,000," Mr. Sterling explained. "But I told our management that self-insurance was just the tip of the iceberg. Our real savings would begin when we started to control loss."

Workers compensation costs will be reduced 40% from last year,

but layoffs and a core of experienced workers still on the job affect the results, Mr. Sterling notes.

The workers compensation program, a \$250,000 self-insured retention with excess coverage of \$5 million per occurrence provided by Zurich-American and an additional \$5 million layer provided by Aetna Life & Casualty, costs Fiat-Allis about \$1.2 million annually.

"I think we are holding our own against inflation now," Mr. Sterling said. "The frequency and severity rates seem to be coming down, too" (see chart below).

Before Fiat-Allis began a self-review of its loss management, it had problems, Mr. Sterling said. A carryover of bad experience from its insured days was emphasized by a "poor workers comp climate" in Illinois, he said.

"In Illinois, one occurrence can affect workers comp costs by as much as 20%," he explained. "Every measure seems to be a measure of failure."

Fiat-Allis began with a safety audit by Marsh & McLennan Protection Services that helped define strengths and weaknesses. But Fred S. James & Co. won the company's casualty insurance accounts partly because it offered the five-star system.

James was just beginning to study the five-star program, but suggested the method for Fiat-Allis. In January 1980, Mr. Sterling introduced a five-year program to establish five-star rating for all plants and 5,500 employees.

When insurers finally start to raise rates, Mr. Sterling expects good loss-control management and the five-star system will start to pay off in dollars.

"In these soft markets, most underwriters seem less concerned with a risk's experience than with the premium they can earn," he noted. "But when markets get tight, underwriters will start looking around for good accounts. Five-star will put us in a better position to communicate our loss control to underwriters," he explained.

The safety system also may help property insurance rates. Fiat-Allis is insured with the Factory Mutual System and "FM has been emphasizing the human element in its safety programs. Five-star certainly deals with that."

The Fiat-Allis risk manager isn't proposing five-star for an official U.S. standard, but he is ready to recommend better loss-control management.

"You've got the spirit of the law, if not the letter of the law," Mr. Sterling said. "The philosophy of five-star is beautiful, and I really believe this stuff: Fact-finding, not fault-finding."

IN MEMORIAM

Marie R. Stahl
June 30, 1921 - November 15, 1980

Robert A. Stahl
James A. Bradley
Warren S. Stanley

West

Fiat-Allis work comp experience (through Nov. 1)

Year	Accidents	Million manhours	Rate/200,000 manhours
1977	403	4.08	19.8
1978	441	4.4	20.1
1979	469	3.9	24.1
1980	219	2.8	15.6

Manhours recorded from Fiat-Allis Springfield, Illinois plant. Accident data includes some accidents from other locations.

Average cost per claim

Year	Cost	Inflation-adjusted cost
1977	\$1447	\$1881
1978	2091	2509
1979	1779	1956
1980	2098	

Inflation-adjusted averages calculated at a rate of 10% per year.

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McDonald's

Continued from page 1

\$2,000 to \$11,000 per restaurant.

Splintering could occur on the corporate-sponsored workers compensation program when it renews Feb. 1, sources say.

Brokers and insurers who scrambled this fall to capture shares of the package policy business, estimated at \$12 million to \$15 million, suggest the business split as follows:

- Frank B. Hall & Co., formerly the McDonald's sanctioned broker for the business, retained almost 2,200 franchise-owned restaurants around the country. That figure is based on Hall's claim that it is serving 45% of all U.S. McDonald's restaurants, reported as more than 4,850 in McDonald's 1979 annual report. Fireman's Fund is the underwriter for the Hall program.

- Marsh & McLennan, named this summer by McDonald's as its domestic property/casualty broker, is serving about 1,800 McDonald's restaurants. This estimated 37% of all McDonald's U.S. restaurants includes about 1,300 company-owned restaurants transferred to M&M by McDonald's and 500 franchisee-owned stores renewed under the existing package program with American International Group. M&M contends it is serving "a whole lot more" franchised restaurants than the BI estimate of 500 based on others' reports but would not say how many.

- Financial Guardian, with St. Paul Insurance Cos. as underwriter, reports picking up 500 franchised restaurants or about 10% of all McDonald's U.S. restaurants. St. Paul has issued policies to about 150 franchisees concentrated in the Midwest, although some are in other parts of the country. The premium volume is estimated at \$1.5 million annually.

- Corroon & Black, with Employers of Wausau as underwriter, reports signing up 250 restaurants in New England owned by 200 franchisees, for 5% of all restaurants. The premium volume is estimated at \$700,000.

- An independent insurance agent in Louisiana brought Commercial Union 20 franchisees who own 124 restaurants.

McDonald's risk manager Jerry Lane could not be reached for comment on these figures.

M&M president Robert Clements would only say, "If those figures are right, this is the first program with more than 100% participation. We have a whole lot more than the 500 franchised restaurants."

A dramatic increase in the number of franchise-owned restaurants since 1979 could give M&M more franchisee clients than it appears.

The first crack in the McDonald's-sponsored program for franchisees appeared this summer when Hall said it would try to renew business Oct. 1 with franchisees that McDonald's announced it wanted to switch to M&M (BI, Aug. 4). Technically, the client in sponsored programs such as this is the individual policyholder or franchisee and not the corporation that picked the broker to handle the program.

The refusal by a broker or agent to walk away from a franchisee program when dismissed by the sponsor occurs more frequently in group life/health plans. Sponsors can ask brokers for signed contracts promising they will give up their rights to market the insurance if the sponsor requests.

Agents and brokers wanting to compete for McDonald's franchised restaurants found in the past the program too tough to beat, especially since the franchisees' contract with McDonald's requires

them to purchase very broad insurance coverage.

Financial Guardian, which specializes in brokering insurance for fast food establishments, has been working on cracking the McDonald's program since last spring. Based on the interest of a regional group of McDonald's franchisees who had seen their premiums and deductibles increase in one year, Financial Guardian and St. Paul developed a policy that would meet McDonald's broad insurance requirements on such items as building values, coinsurance and loss valuation standards, according to St. Paul marketing officer John Hartman.

Their strategy was to satisfy a local group of franchisees and then try to sell the plan to the corporation.

McDonald's change to M&M from Hall "gave us a place to get in but not a chance at the whole program," noted Mr. Hartman.

Franchisees who for years have routinely renewed their insurance under the corporate-sponsored plan were more open to bids from other brokers this year because of the change in their traditional program and quotes from both Hall and M&M, sources say.

"With two groups telling them different things, it was an opportunity for someone else to come in and offer something else," noted Mr. Hartman.

Financial Guardian president Donald R. Weber suggests the franchisees were receptive to competitive quotes in a reaction against the corporate office "like the reaction against the federal government controlling everything. The franchisees had a chance to make their own decisions and they found it felt good."

The splintered program also suggests that "either M&M and McDonald's were not ready (for the switch) or the local franchisees

were looking for a better price," Mr. Weber added.

Franchisees buying policies from St. Paul through Financial Guardian are paying 15% to 40% less than they did last year with many policies about a third less expensive, Mr. Weber noted. Restaurants paying \$4,000 last year are now paying \$3,000.

John McCaffrey, executive vp of Frank B. Hall, admitted Hall adjusted premiums for franchisees this year, but added, "We didn't cut the heart of the program. We're in this for continuity."

Responding to reports that Hall rerated all the stores based on loss history organized by zip code, Mr. McCaffrey said, "We didn't pick them apart. We offered everyone a fair price for renewal. We refined our program, but we were pretty consistent with what we have done in the past."

M&M's marketing effort may have been hampered by higher rates forced by some bad experi-

ence under the AIG program, according to some sources. Others said M&M's bids were "very competitive."

Mr. Clements of M&M, however, suggested there are advantages to staying with the corporate-sponsored program. "The value of a sponsor to a group is the commitment inherent in the sponsorship and the implicit commitment of the broker and underwriter associated with the sponsor. The value of that commitment must be measured by the franchisees."

"Those associated with the sponsor have to examine their responsibility if their services are terminated by the sponsor."

Mr. McCaffrey at Hall contends "we're serving our clients and doing a good job—apparently they think so." The established team of about a dozen supervisors in the field serving the McDonald's franchisees "are the reason we did as well as we did. The client knows them and trusts them," he said. ■

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MGM fire

Continued from page 1

Co., the primary insurer on the first \$2.5 million exposure above a \$2,500 deductible on the heavily layered risk. Although the casino is a total loss, most damage to the hotel structure is from heavy smoke.

The 2,076-room hotel-casino was completed in 1973 at a cost of \$117 million. A 780-room addition under construction was not damaged. Company officials have said the structure will not reopen until July 1.

A business interruption insurance claim for those seven months probably will pierce MGM's approximately \$35 million loss of earnings limit, which is included in the property coverage.

Some of the hotel's tenant shops also had business interruption insurance, said a spokesman at Fireman's Fund Insurance Co.

Despite the catastrophic loss and reports from Clark County fire department officials that the hotel violated some fire codes, including having holes in fire walls, underwriters told *Business Insurance* that the hotel was a good risk.

"I would go on it again," said Ole Johnson, senior vp at Sayre & Toso, a member company of the Mission Insurance Group and the largest U.S. surplus lines broker. Sayre & Toso placed \$25 million of the property risk on the MGM Hotel, including \$22.5 million with its subsidiary risk-taking companies.

The Mission Group's exposure was heavily reinsured through hundreds of insurance company pools in Europe, London, Scandinavia and South America, Mr. Johnson confirmed. Sayre & Toso also placed \$2.5 million of the risk with Northbrook Insurance Co., a

subsidiary of Allstate Insurance Cos.

Kemper HPR, which insured a \$125 million chunk of the property coverage over \$50 million in lower layers, considered the MGM hotel a "superior risk" although it was not highly protected, said Ed Watts, Los Angeles area manager. Kemper HPR had inspected the facility and knew where it was sprinklered, he added.

"Hotels of this size are a good class of business and the MGM Grand had an excellent loss record," reported Henry Assad, president of Global Surplus Insurance Services in Los Angeles, a unit of Frank B. Hall. Global Surplus placed \$29 million of liability coverage above the primary layer underwritten by the Insurance Co. of North America.

The Las Vegas MGM Grand Hotel was a prize account lured away from Marsh & McLennan by Bayly, Martin & Fay just last May, *Business Insurance* learned. The Travelers Insurance Co. and INA vied for the primary liability coverage—a contest eventually won by INA, which also insures the Reno MGM Grand Hotel.

Las Vegas Fire Chief Roy Parrish reported that the source of the fire was an electrical malfunction in the walls near the casino. The fire may have been smoldering there for up to eight hours before bursting through and flashing into open flames, he said.

There has been considerable speculation among fire officials that automatic smoke alarms or automatic sprinklers might have stopped the fire before it broke out. An amplifier system connected to manual alarms apparently burned out before anyone was aware of the fire.

Most of the 84 fire victims died of smoke inhalation on the upper

floors of the hotel. More than 500 other persons were injured.

Following is a profile of the MGM Grand Hotel's property and casualty coverages:

\$30 million liability layers:

- The Insurance Co. of North America underwrote a \$1 million primary layer of liability over a \$5,000 deductible.

- Global Surplus Insurance Services in Los Angeles placed the excess with three companies: \$9 million with Protective National Insurance Co. of Omaha; \$10 million with American Excess Insurance Co., a subsidiary of American Re-Insurance Co.; and \$10 million with Fremont Indemnity Co. in Los Angeles.

\$215 million—\$250 million property layers:

- The Mutual Fire & Marine Insurance Co. in Philadelphia underwrote the primary \$2.5 million layer of property coverage over a \$2,500 deductible. The property coverage includes physical loss, contents and business interruption with sublimits of an estimated \$35 million.

- The second layer of \$7.5 million was placed by surplus lines brokers Baccala & Shoop in Los Angeles with Puritan Insurance Co. and Pine Top Insurance Co.

- A \$15 million layer above \$10 million was underwritten by Lexington Insurance Co. (a subsidiary of AIG) and heavily reinsured among 10 companies with Lexington retaining about \$4.5 million.

- The next layer of \$25 million was placed by Sayre & Toso with other Mission Insurance Group insurance subsidiaries and reinsured with 150 to 200 insurance company pools throughout Europe, Scandinavia, South America and London. Northbrook Insurance Co., a subsidiary of Allstate

Insurance Co., insured \$2.5 million of this layer.

- Kemper HPR underwrote \$125 million of the excess property coverage above \$40 million.

- INA insured another \$40 million layer above that, bringing the known maximum limits to \$215 million.

There may be as much as an-

other \$35 million in high excess coverage, according to industry sources. It is highly unlikely losses would pierce those layers, however.

General Reinsurance Corp. reports that according to available information, its net loss to insurers on the MGM Grand Hotel fire is between \$4-\$5 million.

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Vets' suit

Continued from page 2

ney L. Stephen Platt of Sullivan & Associates Ltd. of Chicago.

Mr. Platt called the ruling a "landmark loss," adding it probably would be appealed to the full 11-member court and ultimately to the U.S. Supreme Court.

If upheld, the decision will force plaintiffs to seek damages individually from the five Agent Orange defendants: Dow Chemical Co., Monsanto Corp., Thompson-Hayward Chemical Co., Hercules Inc. and Diamond Shamrock Corp., Mr. Platt said.

The cases would have to be brought in state courts where the plaintiffs reside. Plaintiffs sought to have the cases tried under federal law because they were exposed to Agent Orange while in the armed forces.

The cost of defending Agent Orange claims will be much higher with individual suits, Mr. Platt said. About 7,500 suits are still to be filed, he added. The government says 40,000 Vietnam veterans

were exposed to Agent Orange.

But all could not file suits under state laws because interpretations vary on when the statute of limitations begins, notes Leonard Rivkin of Rivkin, Leff & Sherman, a Garden City, N.Y., law firm representing Dow Chemical.

Some states, including New York, maintain the injury occurs and the statute of limitations begins when a person is exposed to a harmful substance, he explained. Others say injury occurs when the harmful effects are discovered or manifest themselves.

Since most plaintiffs were exposed to Agent Orange during the middle and late 1960s, the statutes of limitations has run out in states using the exposure theory, Mr. Rivkin contends.

Mr. Platt maintains the statute of limitations for those exposed to Agent Orange should run from January 1979, when the first Agent Orange suit was filed. Plaintiffs attorneys expect to test their theory in local courts. Numerous individual cases will be filed by January, Mr. Platt says.

U.S. exchanges.

Insurers currently operating under Regulation 41 would have six months to meet the requirements.

The regulation retains a three-year wait before a surplus lines insurer can be used by a New York broker. The current waiting period is one year.

The provision does not affect insurers approved under current regulations, and the superintendent of insurance can waive the requirement.

Licensed New York insurers also will have to retain copies of affidavits of rejection submitted to them by excess/surplus brokers who are placing risks the licensed insurers rejected. The proposed regulation originally required licensed insurers to log the rejections themselves.

These legal complications are the only obstacles blocking plaintiffs who are suing Agent Orange manufacturers, Mr. Platt says. The medical and scientific evidence against Agent Orange will win the cases, he contends.

Children of Vietnam veterans who suffer physical effects from their parents' contact with Agent Orange could sue manufacturers under the exposure theory. Statutes of limitations for them begin when they are 18 or 21 years old, depending on the state, Mr. Rivkin pointed out.

Veterans could sue the federal government under federal law because the federal courts recognize the manifestation theory, he adds. However, Agent Orange plaintiffs have not used this course yet.

Reg. 41

Continued from page 2

Regulation 41 eliminate proposed mandatory errors and omissions coverage and performance bond requirements for excess/surplus brokers.

Surplus lines insurers would have to post only a \$750,000 security trust deposit to protect all U.S. policyholders. As originally proposed, the fund only covered New York buyers.

The trust deposit for foreign insurers would rise to \$1.5 million, from the current \$300,000.

A \$50 million deposit for underwriting associations, such as Lloyd's of London, is still required but does not apply to the New York Insurance Exchange or other

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Term papers help teach risk analysis

Continued from page 3

Each risk analysis paper must include descriptions of the business's operation, location, size and number of buildings, power sources, property and customers.

The student then must identify the sources of risk, catastrophe areas and loss effects using approaches discussed in class. He or she then must determine the loss frequencies the business can expect to occur.

As a result of these analyses, one fraternity has elected a fire officer. He now stages fire drills in the middle of the night to see if his brothers know where to go and can get out quickly enough.

The bars on campus have been most cooperative, however, Professor Gustavson says. Her students noticed that bartenders like to give away free drinks and sometimes serve students under age. The bars are overcrowded, too, but the owners realize this and are trying to alleviate the problem.

Professor Gustavson's former students have found these analysis papers to be invaluable when entering the corporate world, though not exactly in risk management.

"It's exactly what we do at the corporate level," said Marta Dea-

son, special representative for John Hancock Life Insurance Co. and a 1980 class member. "I was just so far ahead of everyone else."

But when Ms. Deason went to look for a job in risk management, she found salaries weren't competitive with the other fields open to her. She eventually chose John Hancock's 27-month marketing management program where she spends most of her time in estate planning.

Another problem she found when job hunting was that corporations do not interview on campus for risk managers. "Employers should go and recruit these students that have a handle on (risk management)," she said.

Professor Gustavson agrees. "None of the companies comes here to interview students for risk management at all. We do get a lot of insurance companies looking for underwriters, actuaries, claims people and always looking for people to sell."

The lack of good starting salaries and interest in recruiting students has prohibited her students from entering the risk management field. But some are with insurance companies such as Crum & For-

'None of the companies interview students for risk management,' says Professor Gustavson.



ster, Millers Mutual and Great West Life in Dallas.

The risk analysis paper is just part of the overall risk management course offered at the university by Professor Gustavson. She prepares her students for the project by looking at the various problems risk managers have in the corporate world and relating them to her students.

"I like to get the theoretical aspects, but I also like to get into discussions and discuss applicability," she said.

Upper-level students must take four insurance courses for an insurance concentration. Professor Gustavson also teaches life insurance, estate planning and employee benefit plans, a popular course for actuarial students and business majors in personnel relations.

Her benefit students are working on a benefit plan for the hypothetical SQ3R Corp.

"The SQ3R Corp. is interested in installing an employee benefit plan. At the present time, no benefits other than a two-week vacation per employee per year are provided in addition to salary," says the term paper outline.

"SQ3R is an actuarial consulting firm located in Chicago. Employees can be classified as clerical workers or actuarial personnel,

and the ranks of the actuaries are directly related to the number of exams they have passed.

"All benefits should meet minimum IRS standards for qualification."

The students then are given outlines of the SQ3R income and financial statements and are asked to fit the most comprehensive benefit plan within the company's budget.

Professor Gustavson was an actuarial student herself at the University of Illinois, where she also did her doctoral dissertation on whether stock options are feasible investments for pension plans.

The introductory insurance course is taught to undergraduates by Emerson Cammack, associate dean and professor of commerce and business administration at the university and coauthor of "Principles of Insurance."

"It's a broad overview of everything," Professor Gustavson said of the course. "Cammack sees lots of beginning people and has more than 150 students per semester. We consider him one of our drawing cards" for insurance majors.

Paul Kohlenbrener, international specialist at broker Alexander & Alexander and a member of the class of 1978, became interested in insurance when he took

Professor Cammack's course.

But while he enjoyed the introductory course, he doesn't think he learned that much about insurance at the university. "It gave me as much as a philosophy student would have going into insurance. You really don't know that much until you get out there and start working."

The University of Illinois is home of the most renowned scholar in the risk management field, Professor Robert I. Mehr.

Professor Mehr, who is semi-retired, spends most of his teaching hours with the university's four graduate and four doctoral students in insurance. The rest of his time is spent writing books on insurance and risk management, such as those required for the Insurance Institute of America courses and for college classes around the country (see related story on page 3).

Insurance and risk management students are required to take four finance courses on insurance, one accounting course and two math courses.

Students may graduate with either a bachelor of arts degree from the School of Liberal Arts and Sciences or a bachelor of science degree from the Department of Commerce and Business Administration. The insurance and risk management concentration is the same in both schools.

Tuition for undergraduates is \$493 per semester for in-state students and \$1,174 for out-of-state students. Graduate degrees are \$515 per semester for resident students and \$1,243 for out-of-state students. Most graduate students teach courses to cover tuition. ■

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Prof says education needed

Continued from page 3

"A risk manager needs some skills and some education to ask the right questions and evaluate the answers.

Professor Mehr helped the Insurance Institute of America organize courses for risk managers. His books are now required reading for the various risk management courses offered through IIA, but he says reading isn't enough.

Risk managers need to go to seminars, he says. They need to go back to school and learn those skills that could prevent catastrophic losses. "A risk manager (must) educate himself and know how to educate and communicate to others."

"There's a difference in lessons to be learned and lessons learned."

Professor Mehr has devoted his academic life to upgrading and opening frontiers for risk managers. A professor at the university since 1947, Professor Mehr used to teach theories and principles of risk management, but found this was not sufficient to train future risk managers. Today's risk managers need managerial skills, he says, and he spends most of his time teaching just that.

"You have to know your (the risk manager's) business plus the insurance business. But there's little insurance in the risk management courses. Mostly it's loss control, dealing with risks, learning new devices in the funding area."

"We're interested in loss funding and loss control and what questions to ask," the professor said.

Professor Mehr has set aside the traditional education he received at the Wharton School of Business at the University of Pennsylvania where insurance was law. His teacher there, Professor S.S. Huebner, believed everything had to be insured, but that just isn't so, says Professor Mehr.

Professor Mehr, who was the first doctorate student to graduate under Professor Huebner, favored a teacher who "taught the importance of thinking."

Think is what a risk manager must do, Professor Mehr says. "Risk managers must show that they're innovative, that they can solve problems. You can't be an insurance man one day and a risk manager the next."

"Think beyond what you read."

By teaching a risk manager the skill of questioning, you will eliminate many a loss, he says. "Look up the experts and see what they say," Professor Mehr advised risk managers stuck on a problem. "If

you can't find the answer, do your own research.

"It's not black and white in risk management. It's gray. There's pre-loss and post-loss, and the more gray the issue, the more you have to deal with."

If he had the choice of hiring a student who asked the right questions or a student who had the answers, he'd hire the student who asked the questions, he said.

In his classroom, Professor Mehr presents a gray risk, the Beverly Hills Supper Club in Covington, Ky., which burned in 1977, killing 167 people. "It was poorly constructed in terms of fire prevention," said the professor, not knowing that the MGM Grand Hotel was burning as he spoke.

He asks his students to examine the questions that a risk manager should have asked. What was the nature of the ceiling? Why wasn't the staff prepared for the fire? Why was the place overcrowded? Were there inadequate exits? Why was there a combustible finish and no sprinkler system? Is the contractor liable? Is the architect liable?

"Direction is important. Some people reach the top of the ladder only to find it is leaning against the wrong wall," he said.

But Professor Mehr is on the right wall. He's already received awards for his insurance books. He is called the "grandfather" in South America, where he founded its life insurance industry. He now is working on a study of insurance rate regulations, talks to the Risk Insurance & Management Society about another risk management book and teaches.

Some of his former students include members of the board of trustees of the university and insurance executives and brokers at major companies. ■

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The Home is smarting from growing losses

BY MARY ANN MATLOCK

AT A TIME when all insurers are being stung by competitive pressures, New York-based The Home Insurance Co. seems to be smarting more than others.

The insurer, which responds to most inquiries from analysts and reporters with a firm "no comment," is operating with combined ratios and underwriting losses substantially higher than those of many of its competitors.

The Home, however, isn't in financial trouble. High investment income and a profitable parent company cover the losses. The Home's underwriting results clearly show an insurer that continues to underprice its product to secure cash flow from premium dollars, analysts say.

An analysis of data filed with the New York State Insurance Department by The Home for the first nine months of this year shows a 105.3% combined ratio, which is some 2.9 points above the industry screen of 102.4% compiled by Oppenheimer & Co.

The Home Insurance Co. senior vp Joseph Kaminski confirmed the insurer's combined ratio and explained the results. The Home itself would not release figures.

"We are running higher than the industry screen for two reasons," he said. "One, if you look at product lines suffering the most right now, they are not the personal lines where we have a small book. Also, if you look at the competition most like us (The Travelers, The Hartford, INA, Continental, etc.), you'll see that we're right in line."

During the same period, department filings show net premium written at The Home jumped 10.6% compared with the industry average increase of 7%.

But investment income is the area of greatest difference. Net investment income earned increased 19.6% during the first nine months of this year for the industry screen. The Home posted a 47.1% increase.

These statistics, combined with The Home's high underwriting loss of \$64 million, label the insurer as one of the leading ratecutters, sources say.

Underwriting losses posted by other ma-

jor insurers for the third quarter ranged from \$30.5 million at INA to \$73 million at The Travelers, according to a *Business Insurance* sampling published Nov. 17.

"Several companies have told us The Home is one of the industry's biggest rate violators," said an investment analyst. "The word among the analytical community is that The Home is being totally irrational with rates." These remarks are not uncommon.

The Home says it is not irrational with rates but is competitive, and explained why investment income jumped more than the industry average for the first nine months.

"Our posture is we don't want to lose our market share. We will stay competitive but hope the whole industry will start raising rates," Mr. Kaminski said.

He defended The Home's underwriting reports by pointing out that growth of net premium written is lower at The Home than the industry average. Its growth for the first nine months this year has been about 3.5% and the industry average at the end of six months was about 7.7%, Mr. Kaminski said.

He said the firm is not underwriting only to obtain additional investment income. He attributed the skyrocketing investment income to a cash infusion of about \$100 million by the parent company last year.

The parent company donated more than \$100 million in cash last year and a subsidiary worth about \$115 million. "They did it to increase our surplus and make us more competitive," Mr. Kaminski explained.

Insurance department filings show The Home's underwriting stance has deteriorated over the last year, analysts say.

Net underwriting losses in the first nine months hit \$64 million, a 127% increase over the \$28.2 million lost during the same period in 1979.

Investment income, while increasing at a rapid rate during the first nine months, did

not keep pace with the increase in underwriting losses. Net investment gain jumped 66% to \$147.2 million from \$88.6 million.

The insurer's net income increased 46% to \$71.6 million from \$49 million in the first nine months.

The increase in net underwriting losses over net income also was reflected in the firm's surplus. In September 1979, the surplus hit \$595.7 million. This September the fund was \$437.5 million.

The Home affirms that investment and net income is lagging behind losses.

"It's not a good sign," Mr. Kaminski said. "Yes, it's a problem. If it continues, it may be a major problem. But we hope it turns around."

The Home could face more losses if Eli Lilly & Co., whose liability The Home and Lloyd's of London insured until 1969, is found liable for DES injury claims. (BI, Nov. 24).

Overall, The Home's combined ratio for the first nine months of 1979 was 101.1%, slightly higher than the industry screen of 99.6%. For the same period this year, The Home's combined ratio of 105.3% is again higher than the industry screen of 102.4%.

The company's filed reports show a steady decline in underwriting profitability throughout the year.

In the first-quarter statement, net underwriting losses of \$11.9 million were reported against a net investment gain of \$57.8 million. Net income was \$41.2 million.

In the June 30 filing, The Home listed six-month net underwriting losses of \$29.3 million and a net investment gain of \$108.9 million. Net income was \$66.8 million.

A statistical analysis of this and other filed data found The Home consistently had combined ratios higher than the industry screens.

In the first quarter, The Home's combined ratio was 102.2% compared with the industry screen figure of 100.3%. At the close of the first six months, The Home's combined ratio climbed to 103.9%, increasingly higher than the industry screen figure of 101.8%.

At the close of the third quarter, as noted above, The Home's combined ratio was 105.3%, 2.9 points above the industry screen.

This was the greatest difference in combined ratios between The Home and the industry this year. The first-quarter difference was 1.9 points and second quarter was 2.1 points.

The Home Insurance Co., domiciled in New Hampshire, is by far the largest underwriter of The Home Group Inc., which is owned by City Investing Co.

According to The Home Group Inc.'s 1979 annual report, that year marked the turning point in underwriting operations.

For the four years ending Dec. 31, 1978, net income continued to rise from \$42.5 million in 1975 to \$99.7 million in 1978. However, at the close of 1979, net income dropped to \$94.3 million.

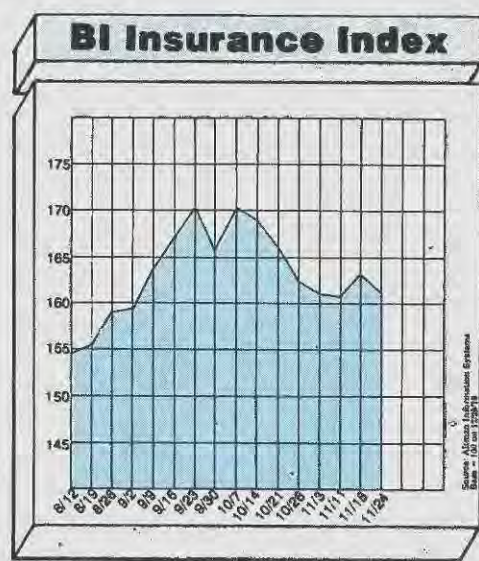
In 1979, losses and claims and loss expenses were at a five-year high. Losses and claims were listed at \$1.1 billion and loss expenses at \$138 million. Income from operations, therefore, was lower in 1979—\$95.5 million—than in 1977—\$104.1 million.

While this portion of City Investing Co. declined in profitability since 1979, the parent itself posted gains.

Its 1979 annual report showed net income skyrocketed from 1975 through 1979. In 1975 net income was \$27.6 million, but in 1979 it hit a five-year high of \$132.6 million.

About 80% of The Home's business is in commercial lines and the remainder in personal lines.

For 1979, The Home's written premiums (this includes The Home Insurance Co. and its wholly owned subsidiaries) included about \$109 million from its 20.9% participation in AFIA, an association of nine insurers engaged in insuring foreign risks through about 250 branches in 80 foreign countries.



Insurance industry stocks slumped once again last week after a brief rally, with the *Business Insurance* index dipping 2 points to 161.3 from 163.3. The base of 100 was at year-end 1978. Forty-one stocks declined, 19 rose and 12 did not change. Dropping the most were: The Travelers Corp., 12.6%; SAFECO Corp., 7.6%; Crum & Forster, 7.2%; Chubb Corp., 6.9%, and Connecticut General Insurance Corp., 6.8%. Largest increases were: Zenith National Insurance Corp., 9.6%; Integrated Resources, 8.3%; Crown Life Insurance Co., 6.3%; American Financial Corp. of Ohio, 4.5%, and Avemco Corp., 2.7%. The 1.2% index drop was less than Dow Jones Industrial average's 1.9% decline but more than other indicators.

British Issues

		1 Week			
11/24		Price	P/E	Div.	Yield High-Low
Companies		pence		pence	% pence pence
Comm Union	144	7.6	14.63	10.1	147-144
Eagle Star	250XD	8.6	14.28	5.7	262-250
Genl Accident	328XD	8.4	18.24	5.6	336-328
Gdn Royal Exch	322	8.5	20.71	6.4	326-322
Phoenix	260	8.1	20.00	7.7	264-260
Royal	413XD	9.2	32.17	7.8	427-413
Sun Alliance	744XD	10.0	42.14	5.7	764-744
XD: Ex-dividend					
		1 Week			
Brokers		Price	P/E	Div.	Yield High-Low
CE Heath	175	9.7	13.80	7.9	185-175
Hogg Robinson	119	8.8	8.14	6.8	122-119
Alex Howden	98	8.2	10.00	10.2	100-98
JM Minet	96	11.6	6.45	6.7	100-96
Sedg Grp	126	11.5	7.14	5.7	127-126
Stenhouse Hldg	84	7.7	6.46	7.7	87-84
Stew Wrightson	213	8.9	17.14	8.0	215-213
Willis Faber	280	12.4	16.14	5.8	282-279

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

NOV. 24, 1980										11/19/80 THRU 11/24/80										NOV. 24, 1980										11/19/80 THRU 11/24/80									
Price % Chg. P/E \$ Div. % Yld. High Low Vol (000)										Price % Chg. P/E \$ Div. % Yld. High Low Vol (000)										Price % Chg. P/E \$ Div. % Yld. High Low Vol (000)										Price % Chg. P/E \$ Div. % Yld. High Low Vol (000)									
Insurance Cos.																																							
Aetna Life & Cas Co										NYSE	34.25	-4.9	5.1	2.12	6.2	35.75	34.25	429.0	Seibels Bruce Group Inc										OTC	22.25	-0.6	4.9	0.80	3.6	22.75	22.25	39.7		
American Bankers Ins Co Fla										OTC	6.75	-1.8	13.2	0.44	6.5	6.88	6.75	33.2	Statesman Group Inc										OTC	6.13	2.1	4.6	0.15	2.4	6.13	6.00	7.2		
American Flnl Corp Ohio										OTC	23.00	4.5	4.3	0.50	2.2	23.63	23.00	84.6	Tokio Marine & Fire Ins Co										OTC	149.50	-1.1	16.5	1.03	0.7	151.00	149.00	2.5		
American Gen Ins Co										NYSE	36.12	0.3	5.7	1.00	2.8	36.25	36.00	59.8	Travelers Corp										NYSE	37.87	-12.7	4.3	2.48	6.5	41.50	37.88	168.0		
American Indty Flnl Corp										OTC	15.12	-2.4	5.0	1.12	7.4	15.25	15.13	22.6	United Fire & Cas Co										OTC	28.50	-3.4	7.9	0.90	3.2	29.00	28.50	3.6		
American Intl Group Inc										OTC	71.50	-2.1	10.1	0.50	0.7	74.00	71.50	240.1	United States Fid & Gty Co										NYSE	40.38	-5.0	4.5	2.80	6.9	41.25	40.38	87.2		
American Natl Ins Co										OTC	13.13	-2.8	5.5	0.68	5.2	13.50	13.13	58.0	United Svcs Life Ins Co										OTC	16.63	0.8	6.0	0.96	5.8	16.63	16.50	16.8		
American Sts Life Ins Co										OTC	19.00	-2.6	7.9	0.64	3.4	19.50	19.00	1.2	Uslife Corp										NYSE	19.75	-3.1	4.9	0.72	3.6	20.50	19.75	103.2		
Aneco Reins Ltd										OTC	5.25	0.0	0.0	0.00	0.0	5.50	5.25	41.7	Washington Natl Ins Corp										NYSE	37.00	-4.5	7.6	1.50	4.1	38.88	37.00	32.3		
Appalachian Natl Corp										OTC	2.12	0.0	6.1	0.05	2.4	2.13	2.13	0.4	Zenith Natl Ins Corp										OTC	17.00	9.7	9.0	0.50	2.9	17.00	15.25	18.1		
Avenco Corp										AMEX	9.25	2.8	8.0	0.50	5.4	9.25	8.88	7.4	INSURANCE COMPANIES										AVERAGE				7.1		3.8				
Banks Iowa Inc										OTC	26.50	0.0	4.2	1.32	5.0	26.50	26.50	2.6	Agents/Brokers																				
Bitco Corp										OTC	37.00	-1.3	5.9	1.68	4.5	38.00	37.00	6.3	Alexander & Alexander Svcs										OTC	29.25	-2.5	9.6	1.64	5.6	30.00	29.25	273.1		
Carolina Cas Ins Co										OTC	10.25	-4.7	3.7	0.32	3.1	10.75	10.25	3.7	Baldwin & Lyons Inc										OTC	30.00	0.0	5.6	0.80	2.7	30.00	30.00	1.0		
Central Natl Flnl Corp										OTC	11.25	2.3	4.4	0.50	4.4	11.25	11.00	1.1	Corroon & Black Corp										NYSE	24.50	2.1	9.9	1.72	7.0	24.50	24.13	25.7		
Chubb Corp										OTC	35.13	-7.0	4.4	2.40	6.8	37.25	35.13	80.3	Crump & H Cos Inc										OTC	13.50	-1.8	11.7	0.36	2.7	13.75	13.50	10.1		
Combined Intl Corp										NYSE	17.50	0.0	5.1	1.60	9.1	17.88	17.50	186.3	Hall Frank B & Co Inc										NYSE	23.62	-0.5	8.1	1.54	6.5	24.00	23.50	16.5		
Connecticut Gen Ins Corp										NYSE	44.12	-6.9	6.0	1.52	3.4	45.63	44.13	105.2	Integrated Res Inc										AMEX	22.75	8.3	11.4	0.00	0.0	23.38*	20.75	201.6		
Continental Corp										NYSE	24.75	1.0	5.3	2.20	8.9	24.75	24.25	107.7	Juman Fred S & Co Inc										NYSE	23.00	-3.2	8.7	1.60	7.0	23.63	23.00	59.3		
Crawford & Co										OTC	19.50	0.0	15.3	0.48	2.5	19.50	19.50	1.5	March & McLenahan Cos Inc										NYSE	31.00	-1.8	9.8	2.00	6.5	31.00	30.63	234.5		
Crown Life Ins Co										OTC	92.50	6.3	67.0	2.40	2.6	93.00	85.00	3.2	Pennacorp Flncl Inc										NYSE	7.00	-1.2	5.1	0.16	2.3	7.38	7.00	313.0		
Crum & Forster										NYSE	25.50	-7.3	4.8	1.44	5.6	26.00	25.50	243.6	Reed Stenhouse Cos Ltd										OTC	11.50	2.2	9.7	0.56	4.9	12.00*	11.38	8.9		
Employers Cas Co										OTC	41.00	2.5	6.7	1.20	2.9	41.00*	40.00	0.7	Rollins Burdick Hunter Co										OTC	21.75	-4.4	9.9	1.24	5.7	22.50	21.75	17.4		
Equifax Inc										NYSE	23.50	-1.1	7.7	2.40	10.2	23.88*	23.50	14.7	AGENTS/BROKERS										AVERAGE				8.6		4.9				
Farmers Group Inc										OTC	28.25	0.0	8.9	1.00	3.5	28.38	28.13	206.6	Conglomerates/Holding Cos.																				
First Colony Life Ins Co										OTC	34.00	-1.4	12.5	0.80	2.4	35.25*	34.00	11.2	American Express(Pireman's Fd)										NYSE	34.00	-5.2	6.6	2.00	5.9	36.00	34.00	386.8		
Foremost Corp Amer										OTC	20.38	0.0	7.3	0.60	2.9	20.38	20.38	23.4	Anderson Clayton(Ranger/PanAm)										NYSE	22.75	-1.1	6.0	1.20	5.3	23.00	22.75	23.1		
General Reins Corp Del										OTC	49.75	0.0	7.2	1.40	2.8	49.75	49.75	125.2	City Investing Co. (Home Ins.)										NYSE	24.12	-3.0	5.4	1.50	6.2	25.13	24.13	345.5		
Great West Life Assurn Co										OTC	200.00	0.0	9.9	8.00	4.0	200.00	200.00	0.0	CNA Flnl Corp (CNA)										NYSE	17.75	-4.1	4.9	0.00	0.0	18.50	17.75	19.9		
Hanover Ins Co										OTC	45.25	-3.2	4.2	0.72	1.6	46.50	45.25	12.8	Control Data (Comm. Credit)										NYSE	72.75	-3.6	9.4	0.60	0.8	74.30	72.50	306.6		
Hartford Steam Boiler Insptn										OTC	36.00	-1.4	7.5	2.40	6.7	36.50	36.00	2.2	INA Corp (Ins. Co. of NA)										NYSE	38.00	-2.9	5.5	2.20	5.8	39.13	38.00	226.6		
Integon Corp										NYSE	36.50	2.5	13.0	0.52	1.4	36.63*	36.00	250.5	ITT (Hartford Group)										NYSE	31.00	-2.7	5.9	2.60	8.4	32.25	31.00	621.1		
Jefferson Natl Life Ins Co										OTC	43.50	-2.5	16.0	0.64	1.5	46.00	43.50	11.3	Reliance Group Inc										NYSE	70.25	0.7	2.7	3.00	4.3	70.25	69.50	28.1		
Kemper Corp										OTC	31.00	-1.6	4.5	1.40	4.5	31.63	31.00	103.2	Sears Roebuck & Co. (Allstate)										NYSE	15.38	-4.7	8.4	1.36	8.8	16.13	15.38	1,385.5		
Lincoln Natl Corp Ind										NYSE	38.13	-3.5	5.3	3.00	7.9	39.88	38.13	50.7	S & H Co. (Bayly Martin & Pay)										NYSE	23.13	15.6	11.4	1.00	4.3	23.13*	22.50	459.9		
Mgic Invst Corp										NYSE	28.38	-5.8	8.0	1.12	3.9	29.38	28.25	509.1	Teledyne Inc (Argonaut)										NYSE	228.50	12.7	10.2	0.00	0.0	228.50*	205.00	257.4		
Mission Ins Group Inc										NYSE	35.00	-2.8	7.2	0.80	2.3	36.00	35.00	34.1	Transamerica Corp (Occidental)										NYSE	18.38	-1.3	5.1	1.28	7.0	19.25	18.38	616.6		
Nationwide Corp Ohio										OTC	19.75	0.0	5.0	0.66	3.3	19.75	19.75	7.1	CONGLOMERATES/HOLDING COS.										AVERAGE				6.4		2.8				
Nn Corp										OTC	58.50	0.9	12.1	2.00	3.4	58.75*	58.50	94.7																					
Northwestern Natl Life Ins										OTC	25.63	-2.8	5.5	1.25	4.9	26.25	25.63	42.7																					
Ohio Cas Corp										OTC	32.88	-3.3	5.3	1.76	5.4	33.88	32.88	48.1																					
Old Rep Intl Corp										OTC	14.75	-6.3	3.7	0.92	6.2	15.75	14.75	68.0																					
Pinehurst Corp										OTC	6.00	2.1	11.1	0.00	0.0	6.00	6.00	30.6																					
Preferred Risk Life Ins Co										OTC	18.50	-1.3	6.7	0.64	3.5	18.75	18.50	9.2																					
Provident Life & Acc Ins Co										OTC	41.50	0.0	5.4	1.88	4.5	41.50	41.50	60.7																					
Republic Natl Life Ins Co										OTC	23.62	-0.5	13.1	0.70	3.0	23.75	23.63	94.5																					
Ryan Ins Group Inc										OTC	29.50	0.9	8.8	0.12	0.4	29.50*	29.50	2.5																					
St Paul Cos Inc										OTC	35.25	-5.1	4.8	2.32	6.6	37.13	35.25	159.6																					
Safeco Corp										OTC	33.25	-7.6	5.1	2.00	6.0	35.63	33.25	89.4																					
Sri Corp										OTC	27.50	1.9	5.1	1.20	4.4	27.50*	27.00	18.8																					

System design: Altman Information Systems



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This burglary is about to be held up by The Hartford.

A small jewelry store suffered one burglary after another, until a loss prevention team from The Hartford surveyed the scene of the crime. And called not for more alarms and barriers, but better ones.

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