

The Markets

Casualty rate cuts run freely into '80

BI Roundup

CHICAGO—Winter temperatures may be freezing pipes around the country, but the casualty marketplace is still in the middle of a hot summer, with price reductions flowing freely.

Though underwriting losses are beginning to pile up, a *Business Insurance* survey of brokers and casualty insurance underwriters reveals a trend to lower rates will continue until the winter of 1980-1981.

Rate decreases in the casualty market this year reached as high as 75%, with extremes peaking in excess insurance and umbrella policies, noted Jim Butler, senior vp of Rollins Burdick Hunter of Illinois.

Buyers generally found premiums reduced 20% to 25% on the average, "and coupled with double-digit inflation, the cost decrease has been significant," he explained.

Mr. Butler doesn't predict huge rate reductions in 1980 compared with 1979 pricing, but rate increases look out of the

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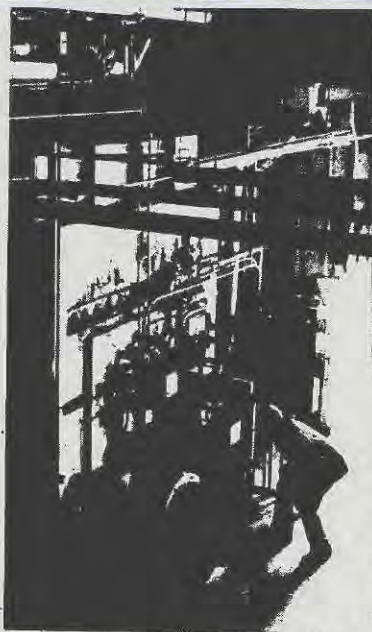


Photo: Factory Mutual
Competition for boiler and machinery risks hasn't been as fierce as for fire and extended coverage, says Allendale.

Low property rate could last until '81

BI Roundup

CHICAGO—Mother Nature would have to go on a rampage to topple the competitive commercial property insurance market that is dispensing individual rate reductions of 10% to 20% and more.

A few brokers and insurers suggest property insurance rates may have hit rock bottom this year, but most of the 18 property insurance experts interviewed around the country by *Business Insurance* see continued rate reductions for commercial property risks, perhaps into 1981.

"Companies are as aggressive as I've ever seen," said George Corde, senior vp of broker Frank B. Hall & Co. Insurers' competitive posture and higher self-insured retentions are driving rates down 15% to 20%, he said.

The large rate reductions appear on individual policies, based on an underwriter's judgment. Manual rates haven't been slashed to this extent and some underwriters will admit

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business insurance

Week of December 24, 1979

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

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Federalize workers comp for chronic illness: DOL

By JERRY GEISEL

WASHINGTON—Charging states don't pay occupational disease claims, the Department of Labor is suggesting it and the Social Security Administration take over the job, *Business Insurance* learned.

The Social Security Disability Insurance program could be revamped to pay more benefits to more workers with occupational diseases in addition to what SSDI now pays, the Labor Department says in a draft report obtained this month by *BI*.

A trust fund to be financed by special assessments against employers and manufacturers of products linked to specific diseases would be used to pay supplemental benefits, the report says. The Labor Department would administer the trust fund.

The supplemental benefit would pay the difference between the amount provided by the SSDI program and the two-thirds of the worker's former wage.

If adopted, these programs would federalize the compensation of workers who develop occupational diseases, taking the growing

problem out of the hands of state workers compensation programs.

The Labor Department report, which could be revised before it is published for public release next month, was requested by Congress last year. Congress asked the department to measure the severity of the occupational disease problem in the U.S. and to suggest alternatives for improving the compensation system.

The problem of how to compensate occupational disease victims is also worrying the business community, which is facing the financial nightmare of having to cope with a growing torrent of litigation from workers who say they were disabled by long-term exposures in the workplace.

The nation's asbestos manufacturers, for example, already are on the firing line for billions of dollars being sought by former workers who say exposure to the product caused cancer (*BI*, June 11).

The Labor Department report reveals occupational disease may be a far bigger problem than previously believed. More than two million workers currently are severely or partially disabled. In 1978

alone, lost income for disabling occupational diseases amounted to a whopping \$11.4 billion.

Among the occupational diseases cited in the report are lung ailments including asbestos-related cancer, brown lung disease and silicosis.

Despite the enormous scope of the problem, current compensation programs appear to be inadequate to meet the swelling needs of occupational disease victims, according to the report.

Only about 5% of severely disabled occupational disease victims receive workers compensation benefits, partly because of "defensive litigation strategy adopted by some insurers," the report said.

Occupational disease victims who try to collect workers compensation benefits are frustrated by long waiting periods. On the average, a disabled worker with an occupational disease waits a year before receiving the first compensation payment. By contrast, work injury cases are settled in an average of two months.

Workers who become totally disabled for life from an occupational disease can expect to recoup only a fraction of their lost earning potential from workers compensation. A disabled worker with an occupational disease collects, on the average, about \$9,700 in workers compensation benefits compared with expected future earnings of \$77,000, the report said.

With the slow, cumbersome workers compensation system un-

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War risk surcharge for Persian Gulf won't assure cover

By ELLIS SIMON

NEW YORK—Even though they are paying drastically higher war risk insurance rates, ships en route to the highly volatile Persian Gulf would have to turn back if the situation worsens or risk an uninsured loss.

Insurers give shippers the nod to approach Iranian and other Persian Gulf ports considering the political climate at the time the policy is issued. If the hazard of loss increases because of new developments and a ship steams into port anyway, insurers could deny claims for losses, charging imprudent operation of the ship.

Certain insurers have been issuing this warning to brokers to pass on to policyholders, says John Buzbee, senior vp at Marsh & McLennan. "Most would know better than to go in if it got worse," Mr. Buzbee noted.

U.S.-flag ships are steering clear of Iran, but few are stopping at other Persian Gulf ports, said George Benjamin, senior vp and director at Johnson & Higgins.

But the cost of war risk insurance for ships traveling in the Persian Gulf, priced high because of underwriters' fear of warlike conditions in the area, hasn't slowed non-U.S. vessels, say brokers and insurers. The higher cost of the insurance also isn't expected to sig-

nificantly increase the cost of goods, notably oil, shipped out of the area.

War risk premium surcharges were doubled and quadrupled for the area after Iranian students seized the U.S. embassy in Tehran and its personnel. London and U.S. underwriters set the war risk surcharge at 5 cents per \$100 value on all ships serving non-Iranian ports in the Persian Gulf and at 10 cents per \$100 on vessels calling on Iranian ports, up from the 2.5-cent war risk surcharge imposed on Persian Gulf movements last August (*BI*, Sept. 3).

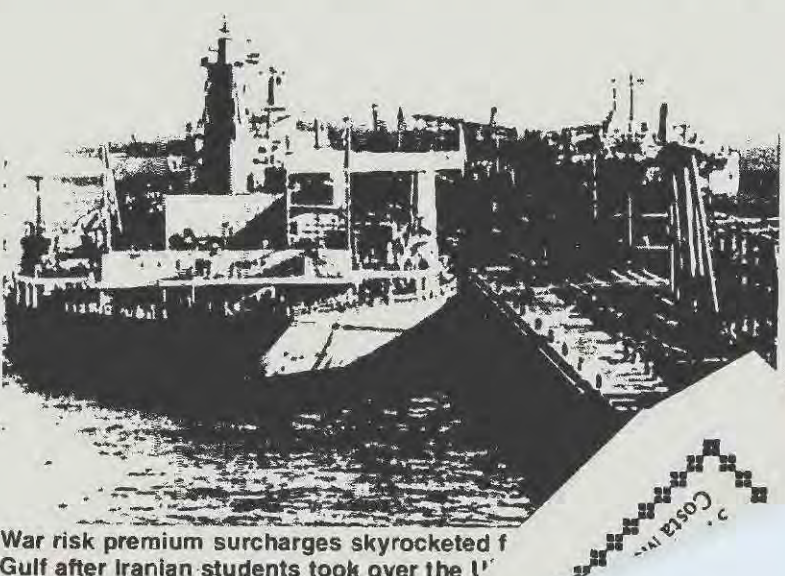
If U.S. ships wanted to stop at Iranian ports, they would have to negotiate the war risk surcharge 48 hours before their scheduled arrival. The rate would be in effect for seven days.

The war risk surcharge covers only physical damage to the ship. Separate coverage for blocking and trapping is available in the London market for rates ranging from 25 cents to 50 cents per \$100.

Normal blanket war risk coverage, excluding 11 trouble spots mostly in the Middle East, is available for an annual rate of 2.5 cents per \$100.

Cargo war risk rates on goods moving to and from the Arabian ports in the Gulf, such as Jeddah and Kuwait, remain unchanged at

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War risk premium surcharges skyrocketed f
Gulf after Iranian students took over the U

M&M stalks Bowring
page 2

M&M drops pooling plans, proposes Bowring purchase

By LEN STRAZEWSKI
and JOHN MILLER

LONDON—Marsh & McLennan Cos. Inc., the largest U.S. commercial insurance broker, has turned its back on year-old discussions for a profit-pooling agreement with Lloyd's of London broker C.T. Bowring and announced plans to buy the British broker's parent firm outright with stocks and cash.

Brokers' plans to strengthen U.S./U.K. broker relations are designed to speed buyer access to the London market while protecting U.S. brokers from losing U.S. premiums now going directly to Lloyd's.

The new M&M plan, however, flies in the face of a Lloyd's rule that forbids more than 20% foreign ownership of any Lloyd's broker and public opposition from the Bowring group, which originally proposed the pooling alternative, industry sources say.

"It has become progressively apparent that Marsh & McLennan is unwilling to implement a pooling arrangement as originally envi-

sioned," said the Bowring Group in a formal statement released after a hurried board meeting here.

"Alternative methods have been examined but we feel any structure acceptable to Marsh & McLennan will not be in the best interest of our own stockholders," the statement said.

The soft tone of the statement belies reports from informed U.S. and London sources that Bowring directors were outraged by M&M's "unilateral" merger offer and surprised that the long-standing pooling plan was rejected without notice.

Bowring, informed sources say, was open to pooling insurance profits only because the arrangement as proposed allowed Bowring to share administration of the group even though the British broker's profits would contribute only about a quarter of the pooled revenues. The Bowring Group's non-insurance interests, about 40% of the total operation, would have remained untouched.

Insurance sources in London

were surprised by the M&M announcement and noted that the Committee of Lloyd's shows no signs of making an exception to its foreign ownership rule. U.S. sources, however, say the Committee of Lloyd's has been impressed with the smooth and successful integration of U.S. broker Frank B. Hall & Co. and London broker Leslie & Godwin—a Lloyd's link that left 75% of the Lloyd's broking business with a holding company to meet the ownership rule.

The Committee of Lloyd's could be "more receptive than a year ago, though not completely satisfied,"

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errors & omissions

- The Williams-Javits bill (S. 420) to establish federal standards for workers compensation benefits will not mandate rates as was stated in a Dec. 10 article on the contract stampers' attitudes toward the bill.

- Keith Glasser, a staff member of the Senate nuclear regulatory subcommittee, was misidentified as Barry Glaser in a story in the Dec. 10 issue about the nuclear industry's fight against liability limits.

- Gerald West is senior staff assistant to the vp of insurance at the Overseas Private Investment Corp. in Washington. He was misidentified in a Nov. 26 article on how U.S. companies in Iran were underinsured against expropriation.

Contest deadline extended

Persons who wish to nominate a candidate for Risk Manager of the Year but who have gotten caught up in the last-minute holiday rush have been given a present from *Business Insurance*: more time.

The Dec. 31 deadline for nominations has been extended to Jan. 21. Nominating forms may still be obtained from the editorial headquarters of *Business Insurance* by calling 312-649-5278 or writing to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

The award will be announced in *Business Insurance* April 1, 1980.

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Pilot to blame for DC10 crash, Mexican government says

LOS ANGELES—Pilot error is to blame for the Oct. 31 Western Airlines DC 10 crash that killed 75 in Mexico City, says the Mexican government in a final report which concludes that pilot Charles Gilbert tried to land without a clear view of the runway.

The government report said that after the plane dropped to an altitude of 800 feet, it ran into a fog blanket covering the runway, according to an unconfirmed UPI story. The crew failed to call out the altitude, as required by standard airline procedure, says the report. Pilot Gilbert should have aborted the landing at 600 feet because the crew could not see the runway, it sums up.

"Administrative findings cannot be used in a court of law, though they often are dress rehearsals for trial," observed Los Angeles attorney Paul Engstrom. "I'd be surprised if this report had any effect on wrongful death claims settlements," he added.

House OKs PBGC premium hike

WASHINGTON—A House panel has approved legislation (H.R. 3904) that will boost over a five-year period premiums multiemployer pension plans pay for termination insurance to \$2.60 per participant annually. The current premium is \$1 per participant.

In addition, participants of terminated multiemployer pension plans will be guaranteed 100% of the first \$5 per month per year in vested benefits and 80% of the next \$15 per month per year in vested benefits.

Currently, the federal Pension Benefit Guarantee Corp. has discriminate authority to pay monthly benefits of \$1,150.09 to participants of a folded multiemployer pension plan.

The legislation, approved by a House Labor and Education subcommittee, is designed to give the PBGC more assets and reduce its liability to multiemployer pension plan participants.

PSA may appeal verdict

LOS ANGELES—Pacific Southwest Airlines is "seriously considering appeal" of a \$3 million jury award to the widow and six children of a San Diego real estate developer killed in last year's aircraft collision over San Diego, PSA attorney Robert Kern says.

The family of Lee H. Johnson sought \$24 million in the lawsuit, contending the successful businessman had earned an average of \$380,000 annually during the five years before his death at age 36.

Eighty-four of the wrongful death claims stemming from the Sept. 25 tragedy have been settled, Mr. Kern says. Three other trial verdicts besides the Johnson case have resulted in awards of \$200,000, \$210,000 and \$125,000.

Rail claims reach \$2.6 million

TORONTO—Claims filed by Mississauga residents evacuated from their homes after a Canadian Pacific Ltd. train derailment last month reached \$2.6 million as of Dec. 14.

The railroad opened a claims office on Nov. 19, eight days after the derailment, although the company doesn't admit liability for the accident.

About 13,000 claims averaging a little less than \$200 have been processed, with an average of three persons covered per claim, a railroad spokesman said.

In order to receive compensation, a claimant must sign the following waiver: "I release all claims against Canadian Pacific Ltd. in any way connected with the derailment of CP train 54 at Mississauga at approximately midnight between Nov. 10 and Nov. 11, 1979."

Awards may include interest

CHICAGO—Juries awarding damages in the May 25 crash of a DC10 jetliner may require defendants American Airlines and McDonnell Douglas Corp. to pay interest retroactive to the date of the crash, two federal judges here have ruled.

The ruling stems from a motion by Chicago aviation litigation specialist John J. Kennelly. The motion asserted that survivors of victims of the crash here that killed 273 persons should be paid at least 10% interest from the date of the crash.

The judges did not set forth how much interest American and McDonnell Douglas would be assessed, but Mr. Kennelly said the current rate will likely be used in each case.

Attorneys for American and McDonnell Douglas said some type of appeal is being considered.

Concert suits seek \$2.5 million

CINCINNATI—Three lawsuits seeking a total of \$2.5 million have been filed in the aftermath of the deaths of 11 persons before a Dec. 3 concert by The Who, a British rock group.

Named as defendants are the band and its members; Electric Factory Concerts, promoters of the event; Riverfront Coliseum, and the city of Cincinnati.

Fireman's Fund insures the promoter and the concert hall. The Who is insured by Lloyd's of London and Cincinnati is self-insured.

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Satellite loss could hurl category into red

By ELLIS SIMON

NEW YORK—The anticipated record \$77 million insurance claim for an RCA communications satellite lost in space would hurl the satellite risk class into a money loser for underwriters.

Up to now, satellite risks have been marginally profitable for insurers.

RCA and Department of Defense satellite tracking equipment will search for several weeks before giving up hope on regaining contact with Satcom III, built to be used by the cable-TV industry. The craft has not been heard from since Dec. 10 and prospects of finding it are considered slim.

Lloyd's of London and other London insurers underwrote 81% of the \$77 million manuscripted policy for the craft launched Dec. 6, said David M. Whatmough, director of general insurance at RCA. Lexington Insurance Co., a member of American International Group, and Skandia Group picked up the balance. The risk, brokered by Marsh & McLennan in the U.S. and C.T. Bowring Group in London, is believed to be heavily reinsured with U.S. and foreign markets.

If the spacecraft is not found intact, underwriters would probably "look very carefully" at future satellite risks, said Richard Nausch, president of Nausch, Hogan & Murray, a New York brokerage firm that places satellite risks. The loss of Satcom III would produce the biggest satellite claim ever filed.

The satellite class has produced a worldwide premium volume of about \$60 million with losses until now totaling about \$45 million, he said.

A \$77 million loss if Satcom III is not found would throw the class

well into the red, but insurers would be able to withstand a loss of that magnitude, Mr. Nausch added.

The policy covering Satcom III includes \$20 million for the spacecraft, about \$27 million for business interruption and about \$30 million on the launch.

First-year premium was \$5.35 million. Additional payments were to be made at the beginning of the second and third policy years, he added. The undisclosed additional premiums due on the three-year policy would probably be subtracted from the recovery on the loss.

Under RCA's coverage on Satcom III, a total loss would result anytime during the coverage period if the satellite were to fail completely or explode, Mr. Whatmough explained. Partial losses on the satellite life coverage occur when one or more, but not all, of the satellite's communications channels malfunction.

Satcom III was equipped with 24 communications channels which were completely leased for the satellite's expected lifespan of about nine years. A full year's lease cost \$1.2 million.

Two Satcom satellites were successfully placed into orbit in 1975 and 1976. Radio contact with Satcom III was lost after RCA technicians fired a small engine to put the 1-ton craft into a permanent orbit at 22,000 miles above Earth.

If the satellite exploded, it would probably be impossible for scientists to determine why, Mr. Whatmough said.

RCA's Astro Electronics division built the spacecraft. Although subcontractors probably provided some of the satellite's components, Mr. Whatmough said he could not conceive of a product liability suit being filed against a subcontractor.

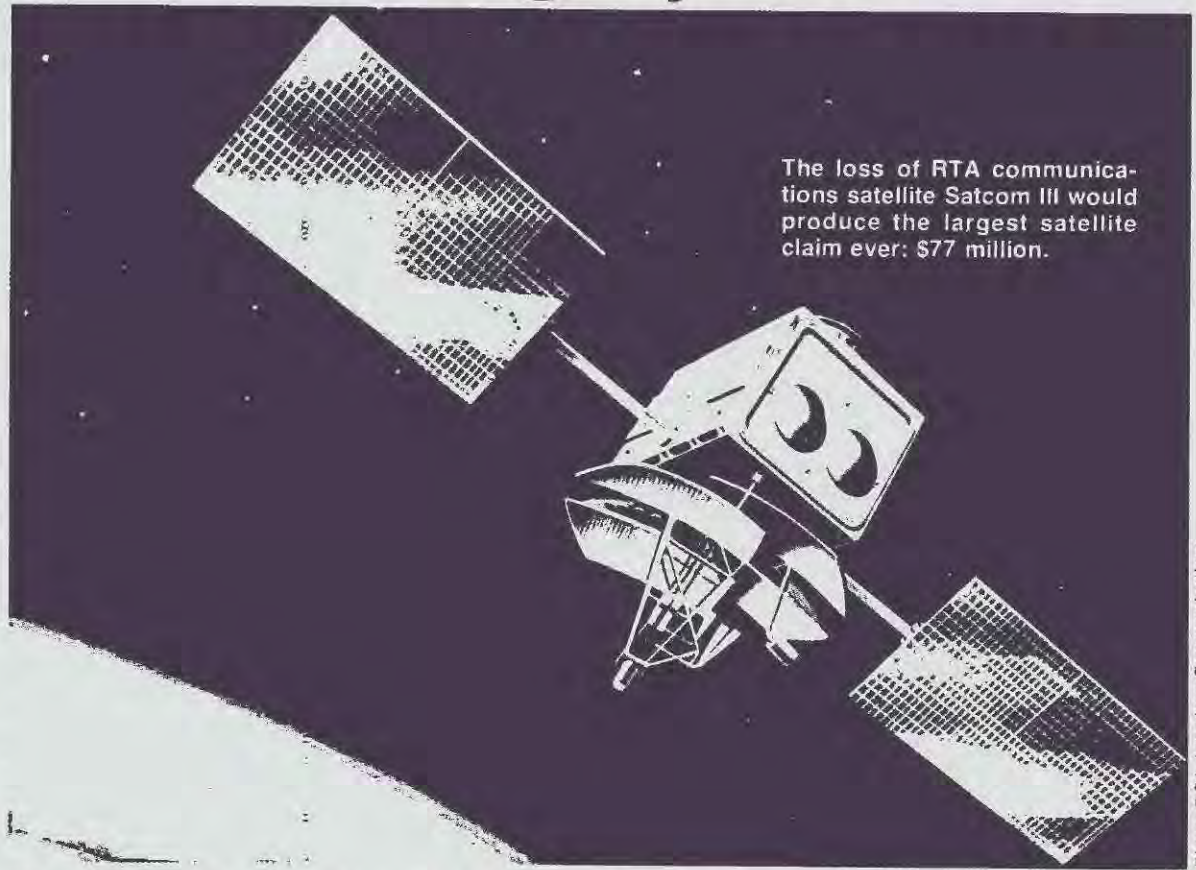


Photo: RCA American Communications

"These things are checked and rechecked and subject to strict quality control," he added.

The next craft in the Satcom program is scheduled to be launched in June 1981, but RCA management could move that up if necessary to serve needs of subscribers to Satcom III, Mr. Whatmough said.

The company is considering other ways of providing service to Satcom III subscribers, he added. In addition to cable TV transmissions, urgent computer data processing for other business needs

were to be beamed by the satellite.

To prove the satellite was lost in space, RCA would have to demonstrate it couldn't communicate with it, Mr. Nausch said. This would have to be corroborated by independent means used by the insurers.

The largest previous satellite loss was the European Orbiting Test Satellite that exploded upon launch from Cape Canaveral in September 1977. That cost insurers \$29.5 million (BI, May 15, 1978).

Satcom III was originally scheduled to be carried into orbit on the

space shuttle, but it used a conventional single payload launch since the space shuttle program has been delayed because of problems with the craft.

With multiple launch capability, the manned space shuttle would reduce launch costs for owners of commercial satellites. But it would have required higher total insurance capacity as a result of greater combined payload values on board.

Meanwhile, conventional launch costs will escalate with fuel costs rising and inflation.

the benefit beat

UAW wins push for pension increases

More than 11,000 United Auto Workers members in six states won more periodic pension increases, higher life insurance and disability payments and broadened coverage for reconstructive surgery in a new three-year contract with Toledo-based Dana Corp.

Pensions will be periodically increased in each year of the pact for future and current retirees in both the regular and "30 and out" retirement programs. Minimum pension benefits per month per year of service for current retirees are \$9.95 at the beginning of the contract, increasing to \$13.90 by May 1, 1982. Women workers who previously lost pension credits because of pregnancy disability can now regain up to four months credit for each pregnancy.

The maximum life insurance benefit was raised to \$27,000 from \$20,500; the maximum accidental death and dismemberment benefit was raised to \$13,500 from \$10,250, and maximum weekly disability benefit was raised to \$270 from \$195. Starting July 1, 1980, dependent life insurance will be available, providing \$5,000 of coverage for an employee's spouse and \$2,000 for each dependent child. The employee will pay the premiums.

Effective April 1, 1980, health insurance coverage will cover reconstructive surgery to correct deformities resulting from diseases or medically necessary surgery, including breast reconstruction following a mastectomy. Vision coverage will be extended to retirees effective Jan. 1, 1981, and will cover eye exams, corrective lenses and frames. Dental coverage improvements include an increase in the annual maximum payment to \$1,000 from \$750, effective Jan. 1, 1980, and an increase in the lifetime maximum payment for orthodontia to \$800 from \$650.

Major insurers for the UAW members are Blue Cross & Blue Shield, John Hancock, Metropolitan Life and Aetna.

Dental insurance

The benefit package for Chicago city employees has been sweetened in 1980 with the addition of dental insurance, supplementary life insurance, a deferred compensation plan and the opportunity to join a health maintenance organization.

Beginning in April, the city will pick up the tab for preventive dental care for all full-time employees with at least a year

of service. Corrective procedures will be 50% reimbursed, with a \$25 per year deductible and a \$1,000 per year maximum. The insurer for the program, which will cover only individuals and not families, has not been determined. Also effective in April is a voluntary deferred compensation plan enabling employees to defer paying federal and state income taxes on 25% of their gross wages, up to \$7,500 a year.

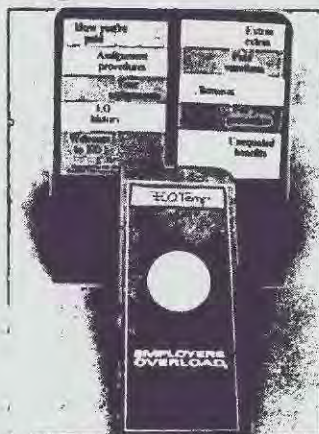
The city now provides a \$2,500 term life insurance policy plus additional \$1,000 accidental death coverage at no cost to the employee. Beginning Feb. 1, employees will be able to purchase additional life insurance up to the amount of his or her salary, at group rates. The city will also offer employees a chance to enroll in an HMO, with the city paying the premiums. Insurers for the city of Chicago are Blue Cross & Blue Shield and Banker's Life.

Communications package

Temporary employees working for Minneapolis-based Employers Overload Co. now have their benefit programs at their fingertips, thanks to a new indexed packet of materials outlining the benefits offered by the nationwide contractor of temporary help.

The folder and color-coded pamphlets on each individual benefit, which were developed in-house, cost the company about \$6,000 to \$7,000 for the first 20,000 printed, a company spokesman said, and took about six months to develop. The removable pamphlets allow each office of Employers Overload flexibility in its benefit communications, as some benefits vary from office to office.

Among benefits offered is a disability income policy written by Fireman's Fund and paid by Employers Overload. Under the policy, a temporary worker who works 80 hours a



month is covered by the policy for the next month. If the worker is hospitalized, the insurance will pay \$350 for each week of hospitalization after the first four days, up to a 26-week maximum.

Pioneer coverage

Employer groups in Union and Middlesex counties of New Jersey are eligible to purchase a new form of medical coverage that includes periodic physicals, most injections for illness, immunizations, well-child care and pelvic exams.

Blue Cross & Blue Shield of New Jersey, which offers the "pioneer" policy, has received inquiries from six or seven employer groups, although none has actually purchased the policy yet, a plan spokesman said.

The Pioneer package is available with 15 different combinations of coverages, and may include major medical. A typical premium cost could not be calculated because of the variety of plans and the use of experience-rated groups, the spokesman said.

Subscriber rate hike

Capital Area Community Health Plan, a prepaid health care service plan in the Albany area, has been granted a 8.75% subscriber rate increase by the insurance department. The new rate is effective immediately for new subscribers and Jan. 1 for present subscribers.

A significant change in the contract mix from original projections forced the rate increase. A contract mix of 50% single and 50% family with an average family size of 3.67 persons had been projected. The current mix is approaching 42% single and 58% family with an average family size of 3.75. The change will increase the average contract size to 2.60 persons per contract, from 2.35, reducing the per capita income.

Benefit Beat keeps risk managers and employee benefit managers abreast of changes in plans around the country as well as other important developments. We'd like to know if you've made any changes or know of any significant developments. Write Kathryn J. McIntyre, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611 or call (312) 649-5286.

UAW, GM to investigate wood dust cancer risk

DETROIT—The United Auto Workers and General Motors Corp. have launched a joint investigation to determine whether employees in auto industry wood model shops are being exposed to cancer-causing agents.

The National Institute of Occupational Safety and Health has been asked to look into the problem at GM and Chrysler facilities.

Announcement of the investigation followed disclosures last month that 40 cancer deaths and 25 other cases of cancer have occurred among wood and plastics design workers at the Big Three auto manufacturers and 29 independent job shops.

The problem was revealed in a recent series of articles by the De-

troit News. GM officials knew five years ago that wood dust could cause disease in wood shop workers but refused union demands for company-paid physical exams and chest x-rays, the newspaper reported.

Woodshop workers at the Big Three auto firms make full-scale auto mockups for design and engineering. It is feared that the wood dust, along with compounds used in making the models, may contain cancer-causing agents.

The News said it learned that 29 of the deaths involved employees of the Big Three firms. It said nine woodworkers of the 14 who contracted cancer at GM died, while four at Chrysler are also believed to have died from wood dust-induced

cancer.

At Ford Motor Co., 16 woodworkers died of cancer in the last 12 years. Those workers, however, are not covered under UAW contracts but are part of a separate union called the Pattern Makers of North America, which is also concerned about the alleged problem.

UAW and GM officials expressed mild skepticism about the extent of the problem, saying the Michigan Cancer Foundation found that the number of cancer cases reported among wood model shop workers is not significantly higher than the expected rate for the general population. But they still said they thought an investigation was a wise idea.

The pattern makers said they have been unsuccessfully attempting to negotiate company-paid lung exams with Ford and the other shops it represents for the last six years. GM management also declined to provide such exams, the News reported. ■

More than \$340 million

Computer lease losses may continue to mount

LONDON—Steadily declining residual values of computers insured under the controversial computer leasing policies could drive Lloyd's of London's losses even higher than the recently revised loss estimate of \$340 million.

Lloyd's will be assessing the losses of 67 participating syndicates "month to month" now, conceded a spokesman, to gauge the worst loss ever to hit the underwriters at Lloyd's.

Since Lloyd's heavy losses on the controversial computer leasing policies first surfaced earlier this year, Lloyd's has steadfastly maintained its losses would be no more than \$230 million. But the steadily

declining residual value of the leased computers, which Lloyd's has insured, recently drove the loss estimate to \$340 million.

No one knows if the residual values of the computers have hit bottom or if they will continue to slide, driving Lloyd's losses still higher.

The recent loss forecast by First National Bank of Boston, hired by Lloyd's to settle computer leasing claims, doesn't provide for any damages that might be assessed against Lloyd's in lawsuits filed by disgruntled policyholders.

A suit for nonpayment of \$27 million in computer lease losses, filed by Virginia-based Federal Leasing Corp., also asks \$500 million in punitive damages and \$100 million in compensatory damages. (BI, July 23).

Intel Corp. in San Francisco so far has been the largest claimant under the coverage, with estimated claims of approximately \$200 million.

The policies, written over a five-year period earlier this decade, ensured computer owners would receive a set amount of cash from their leasing contracts. But sudden cancellations of the contracts, when the costs of computers dropped and clients could find better deals, led to the huge losses (BI, May 28).

Although an official statement from Lloyd's maintains the ultimate resolution of the computer-leasing business will have no long-term effect on the capacity or "willingness of Lloyd's underwriters to preserve the innovative tradition," most observers agree that any Lloyd's market for computer leases dried up in 1977.

The Sasse Syndicate's losses for 1977 may rise to well more than the estimated \$10 million, perhaps as much as \$20 million as further computer leasing losses are calculated.

After a two-month delay, documents detailing the syndicate's losses are being studied by a management team appointed by Lloyd's to investigate Sasse's problems with U.S. fire risks and other underwriting activities, which have already cost it \$41 million. The syndicate's 1976 losses have been settled at \$31 million in a recently completed audit.

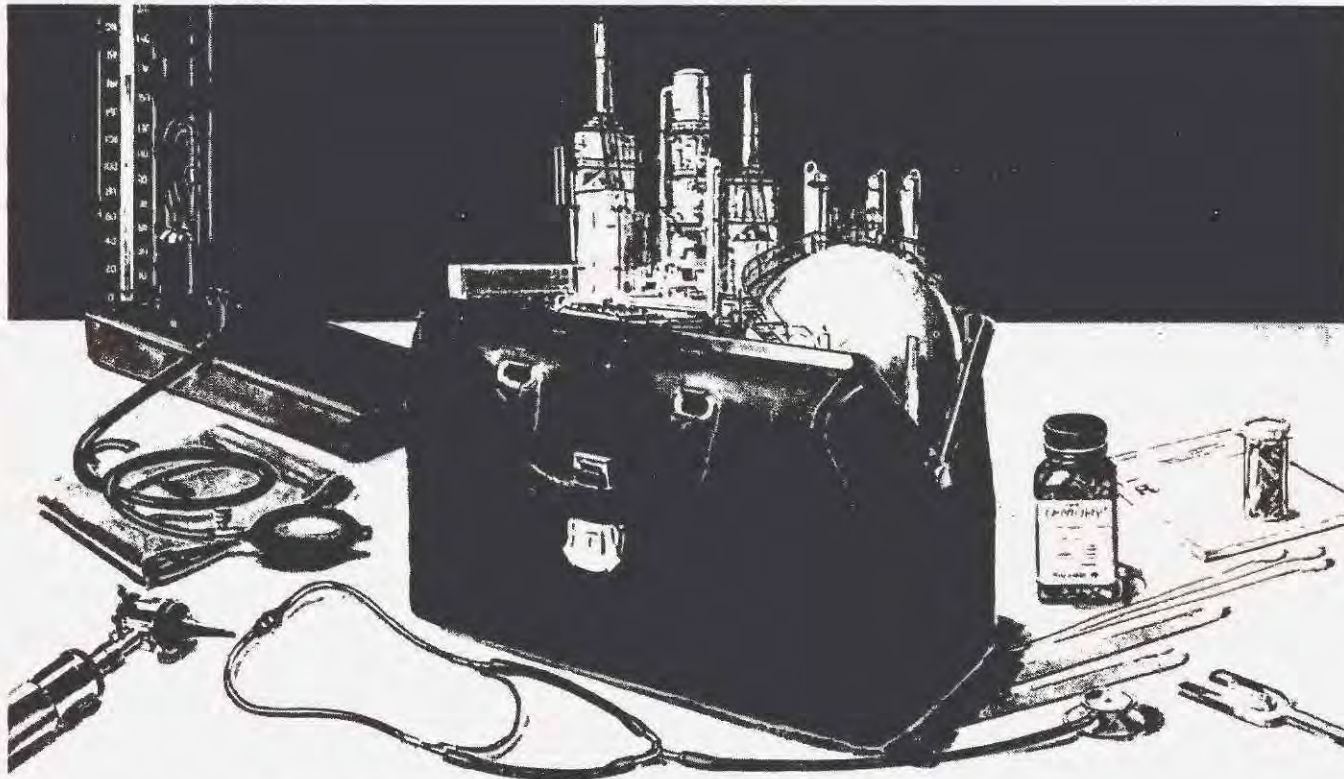
Alfred Chapman, former partner in charge of the London office of Price Waterhouse, an international accountancy firm, has been named chairman of Additional Underwriting Agencies No. 2. The agency was set up by Lloyd's after Stephen Merrett quit his control of the Sasse Syndicate in September, after nearly 18 months in charge (BI, Oct. 1).

Mr. Chapman will be assisted by a board of six directors, three from Lloyd's—W.F. Goodier, R.D. Hazell and R.H.M. Outhwaite—and three from the Sasse Syndicate—Robin Murray-Phillipson, D.N. Davies and Murray Gordon. They hope to determine the syndicate's losses in greater detail by early 1980.

Another management agency set up by Lloyd's, Additional Underwriting Agencies No. 1, is still looking into the affairs of Ashby and Co., a syndicate that fears it has exceeded its premium income facilities on non-marine business in 1978-79 (BI, Sept. 17).

Lloyd's is using management agencies for financially troubled syndicates to avoid having individual market leaders like Mr. Merrett take on the task. ■

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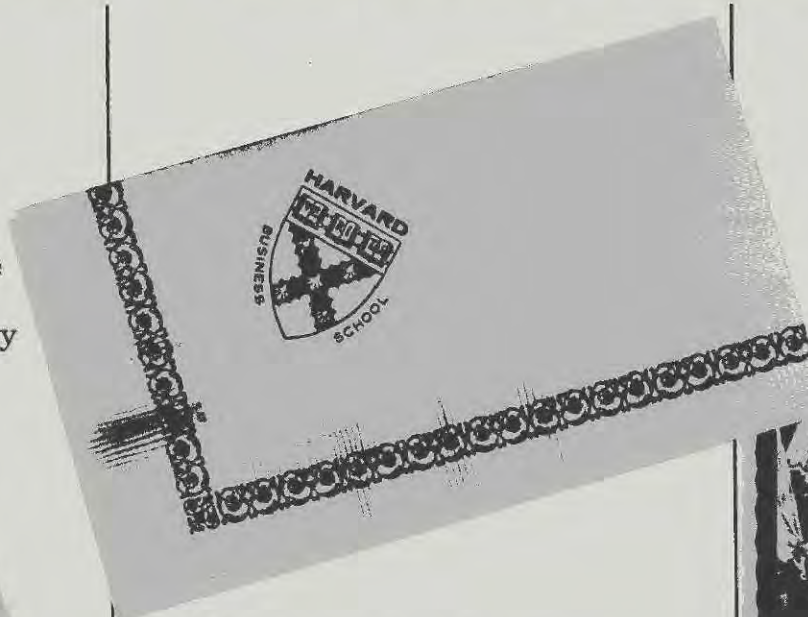
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editorial opinions

A novel approach

CHAIRMAN AL ULLMAN of the powerful House Ways and Means Committee takes a novel approach to the subject of health care cost control, avoiding the stigma of national health insurance and attempting to circumvent any punitive sanctions or costly mandates for employers that would virtually ensure massive business opposition to his proposal.

Instead, he takes the approach that employees who benefit from extravagant health insurance plans should be encouraged to become wiser consumers, to seek the best treatment value, to restrain their inclination to overuse health benefit and hospitalization programs.

We don't disagree with any of this reasoning. Indeed, most people covered by employer-paid benefit plans have come to think health care is virtually free for the asking. Employers have long recognized that labor's push for first-dollar benefits and the resultant shift in this direction for most benefit plans would be very expensive in the long run.

Thus, it is with some delight that we see Rep. Ullman focusing his attention on the need for more cost-sharing by employees. His proposal to put a lid on the amount of money an employer can contribute to health benefit plans for workers doesn't put the onus on employers. The employee is the key to compliance, since any contribution exceeding the established ceiling would be taxable as income for the employee. But employers wouldn't be limited in what they can pay, except by employee pressure to keep benefit plan costs low.

His proposal, Mr. Ullman contends, "encourages competition with the health industry to offer more economic policies." Sounds to us as if he means health insurers would be encouraged to engage in more price competition; but that's already a pretty competitive business, and health insurance premiums track health care costs very closely, because of the non-catastrophic, pass-through nature of claims payment.

"By modest estimates, the proposal will

reduce health care spending by more than \$3 billion a year in 1984," Mr. Ullman says. Some estimates of the unnecessary surgery performed each year and associated costs might make this prediction plausible, if it weren't for the fact that the doctors are often in control. Doctors are treated like gods, and when a person's doctor says surgery is needed for gall bladder, hysterectomy or spinal disc problems (the three most frequently misused procedures), the patient seldom has the knowledge or courage to resist. When a person's health is at stake, he or she will follow a doctor's order.

Beyond taxation of benefit contributions above the \$120 a month (family coverage) cap, Mr. Ullman would require employers to offer "a low-cost health plan with consumer cost-sharing" or an HMO, which he says have proven to be high-quality, comprehensive health care providers. His proposal actually goes further than the HMO Act in mandating an HMO option in all benefit plans.

Here's the hitch: Who says HMOs cost less than traditional benefit plans? The fact is, they're usually more expensive. So he's wrong there. And who says they've proven to be high-quality organizations providing high-quality care? Many have been underfunded, some have gone bankrupt, many have had too few doctors and employees to handle all the patients using the facility, many have incurred the wrath of patients unable to see the same doctor twice or obtain promised services.

Moreover, there aren't enough stable, well-managed HMOs around for all employers to offer them as a mandatory option. Mandatory second opinions on surgery would do far more good.

Mr. Ullman's bill probably won't go far. And it shouldn't. It's poorly drafted and would create as many problems as it would solve. But the basic concept is commendable. Labor unions won't like what he's saying, of course, but he at least exhibits some understanding of the root of the health care inflation problems.



Funny, they don't look hungry.

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.

Unfortunate action

To the editor: "California bars paid-loss retro for workers compensation risk" (Nov. 26).

It seems somewhat indicative of the role of many insurance regulators that California would find it necessary to bar the use of paid-loss retros in that state.

As long as the non-funded reserved portion of the incurred losses are collateralized by securities or irrevocable letters of credit, we are hard pressed to see how a state insurance department can profess legitimate concern over "minimum rate laws" and "earned premiums." Neither rates nor earned premiums are affected by paid-loss retros. Payments of portions of the premiums are merely deferred until open reserves are closed.

The mainstream of the insurance industry has traditionally been non-responsive to the needs of larger policyholders, causing risk managers to look to self-insurance. Recently this trend has been changing with the advent of the paid-loss retro, which is probably the most significant innovation offered by the casualty industry in the last decade. The cash flow and tax advantages of these plans provide a strong deterrent and viable alternative to the various forms of self-insurance.

This unfortunate action by the state of California unless reversed will only cause the mass exodus of large accounts from the traditional insurance markets to accelerate.

Michael Murphy, ARM
Managing partner, Risk Consultants Inc., Denver, Colo.

Unfair editorial

To the editor: Your Oct. 29 editorial, "Resting on their laurels," was misleading to your readership and particularly unfair to the vast majority of CPCUs who support and maintain their insurance expertise through continuing educational activities.

The opinion you expressed is provocative and based on "appearances." A specific proposal for monitoring continuing education was rejected by the CPCU board not because they were opposed to continuing education but because of a combination of problems: monitoring continuing education

compliance; the legality of imposing mandatory requirements after the fact, and inability to reconcile differing philosophies.

The Society of CPCU, an organization founded on educational achievement and dedicated to continuing educational growth, will certainly not rest on the accomplishments of the past. When the society moves on a specific program it will be with the total understanding and support of its entire membership.

Burt C. Proom, CPCU
President, The Society of Chartered Property & Casualty Underwriters, Malvern, Pa.

Blatant advertising

To the editor: As a friend, and as one who has enjoyed freedom of expression in your excellent publication, may I register this protest. On my return from vacation I came across "Deferred compensation gains popularity" (Nov. 12), an article that purportedly provides newsworthy and informative material. Instead, I found it a blatant piece of hucksterism—more appropriate to a paid advertisement!

George C. White
Consultant, Massapequa Park, N.Y.

Erroneous item

To the editor: The Nov. 26 benefit beat, "New health plan saves N.Y. state 12.8%," gives the erroneous impression that through remarketing, the NYS civil service department, which administers the statewide health insurance plan, has improved benefits while cutting costs.

A more investigative approach by your reporter would have revealed that the NYS civil service department has used an accumulated reserve of approximately \$60 million to reduce the premium cost to participating agencies for 1980.

The application of this \$60 million, many municipalities contend, presents a number of problems. The statewide plan apparently has not considered returning pro-rata shares of this fund to participating agencies who contributed to the fund through their premium payments but have since terminated or plan to terminate their participation in the plan on Jan. 1, 1980.

Continued on page 38

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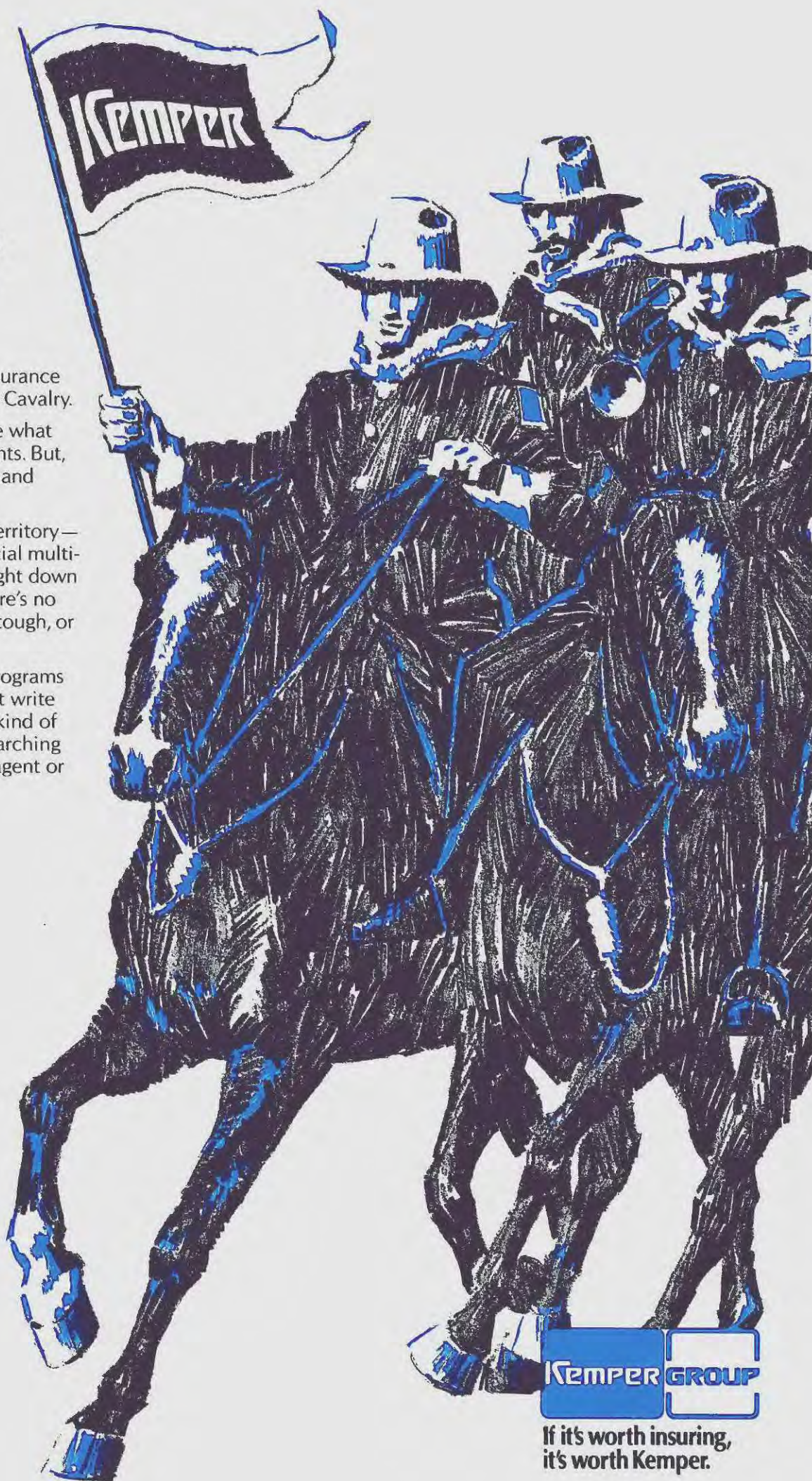
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Pa. widower to receive work comp benefits

By WILLIAM ECENBARGER

CLEARFIELD, Pa.—A coal company has agreed to pay survivors benefits to the family of a woman who sued to become a miner and then became the first known woman to die in an underground mine accident.

The Rushton Coal Co. agreed to pay the \$227 weekly benefits just before a workers compensation hearing was to begin earlier this month in this central Pennsylvania town, said Tim Creary, attorney for Alan McCusker of Coalport.

"We can't in my opinion say there is any precedent here for his case or for any future case," the lawyer said. "There was no hearing. The company agreed to pay

compensation to him and the decedent's son."

The law Mr. McCusker sought to fight remains on the books despite Rushton's willingness to pay him benefits.

Mr. McCusker, whose wife Marilyn was killed in a mining accident two months ago, had said he would challenge a state law that guarantees such benefits to widows—but not able-bodied widowers.

"It surprised the hell out of me," Mr. McCusker said. "I wasn't expecting any money out of this."

When Mrs. McCusker won her sex discrimination suit, her husband went on leave from his job as a carpenter to build the couple a new home.

Mr. McCusker's son is guaranteed \$130 a week until he is 18 or no longer a student. But how long Mr. McCusker will get benefits is unclear.

"Were he a widow, he would receive them for life or until he remarries," Mr. Creary said. "If there had been a hearing, we would have run through the specifics."

Mr. McCusker, meanwhile, has been besieged by filmmakers, producers and writers since his wife's case was nationally publicized. He said representatives of Warner Bros. were trying to negotiate a contract for a television movie.

Work on a documentary film already has begun and Mr. McCusker said he is considering the other offers.

Jurisdiction complicates DC10 claims

LONDON—U.K. aviation insurers fear an unusual tangle of claims from families of the 257 victims of the Air New Zealand DC10 crash Nov. 28.

Vacationers from the U.S., Japan, Britain and France were on board the scenic flight to Antarctica, as well as almost 200 travelers from New Zealand and Australia.

New Zealand has its own Accident Compensation Act, introduced in 1972 to compensate its citizens for accidents of all kinds, whether by road, rail or air. The act establishes strict liability that erodes normal legal rights in return for guaranteeing appropriate compensation.

Indemnity payments are made on an earnings-related scale fixed by the country's Accident Compensation Commission and may well fall short of the large claims that would normally be lodged by U.S. attorneys on behalf of next of kin.

Lawyers in Britain are trying to determine, however, whether Mount Erebus, where the plane crashed, is under the sovereignty of New Zealand or if there may be loopholes in the law through which massive lawsuits may emerge.

"It's going to be an unusual situation," one legal expert told *Business Insurance*, noting there was plenty of room for lawyers "to maneuver" since 21 U.S. passengers were among the dead. "There's simply no indication yet how large the claims can get."

The plane was on a domestic flight, due to fly over Antarctica and back to New Zealand without any touchdown, placing it clearly under New Zealand law. But almost a dozen nations have scientific interests in Antarctica under an international convention, leaving the way open for a fierce legal tussle over territorial responsibility.

Steelworkers seek cost-of-living pensions

By JOHN MAES

PITTSBURGH—Echoing the wishes of their brethren in the auto industry, the United Steelworkers of America say cost-of-living protection for retirees is the top bargaining item for contract negotiations beginning in February.

Another major concern of the union is obtaining adequate benefit and pension security for employees who may lose their jobs in 1980, as the industry threatens a rash of plant closings because of sagging profits and rising labor costs. Improvements in early retirement benefits and supplemental unemployment benefits are being sought to help protect workers who may be idled.

"We're concerned about protecting the people who would be affected by plant shutdowns," said Thomas F. Duzak, director of insurance and pension benefits for the USW. "That falls within the general category of increasing pension programs to achieve that goal."

Fla. regulators probe possible agent scandal

By ELLIS SIMON

MIAMI—As many as 200 policyholders and the excess and surplus lines brokers who handled their business could be on the hook for hundreds of thousands of dollars in premiums sent to a Miami-based agent who, investigators say, falsely claimed to represent a Lloyd's broker.

The Florida insurance department's fraud unit is winding up a criminal investigation into the activities of Alvin C. Terrill of Miami. Mr. Terrill misrepresented himself as having binding authority with F. Bolton International Ltd. and Lloyd's of London, says insurance department fraud unit chief Robert McKenna.

The investigation was begun after Lloyd's, Bolton and Lloyd's U.S. general counsel, LeBoeuf, Lamb, Leiby & MacRae, were told of Mr. Terrill's alleged activities by

Labor unions are becoming increasingly militant about cost-of-living adjustments for pensioners, saying retirees have received inadequate protection against inflation.

The 450,000-member union is also looking for improvements in health insurance and disability benefits, but those interests will take a back seat to the pension and wage issues.

Most steelworkers, especially those employed by the larger firms, are covered under the union's basic contract in which pensions and benefits are fully paid by the company. In some smaller plants, however, contracts are negotiated by individual locals and include employee contributions to pension plans along with insur-

ance copayments and deductibles, a USW spokesman said.

Labor unions are becoming increasingly militant about cost-of-living adjustments for pensioners, saying retirees have received inadequate protection against the ravages of inflation. Earlier this year, the United Auto Workers stressed inflation protection for its retirees as its number one contract demand and won a new schedule of pension improvements, although it was not tied to the cost-of-living index (BI, Oct. 1).

Observers say the steelworkers and the industry are likely to clash over the pension cost-of-living issue.

In its wage and policy statement, the USW says it is seeking inflation adjustments for pensioners "sufficient to preserve their purchasing power irrespective of the amount of inflation," but the industry, with its profits currently eroding, may be reluctant to accept an unfixed inflation factor.

In addition to the basic inflation improvement, the USW wants a

more "liberal" early retirement policy to create more openings for younger workers and to make it easier for an older worker to take retirement rather than seek another job if a plant shuts down.

The steelworkers also want to be able to transfer benefit rights from one company to another in the event of layoffs.

The union's current retirement plans include the "30 and out" system, similar to the UAW's, in which a worker can retire after 30 years with full pension plus supplemental benefits until age 62, when Social Security takes effect. The other, called the "70-80" system, allows a worker to retire at 55 with full benefits if age and years of service total 70. The worker may retire at any age if age and years add up to 80. Under this system, the worker is also paid full pension and a supplement to Social Security until age 62.

Improvements are also being demanded in SUB benefits, the other protective device for idled workers. The union will demand that eligibility for SUB programs be extended to a greater number of members, the duration of benefits be extended beyond the current two-year maximum and that waiting requirements and other limitations be eliminated.

To maintain the solvency of SUB funds, the union is also demanding that other benefits such as severance pay be paid by the company rather than from the SUB fund, ac-

cording to the wage and policy statement.

In insurance, workers want double indemnity pay for survivors when death is caused by an occupational injury or disease. They also want upgraded hospital coverage, especially outpatient coverage, inclusion of chiropractic services in insurance plans, and the elimination of major medical deductibles and copayments.

Reimbursement of 100% of dental care costs is also being sought as well as extension of dental coverage to those not now eligible. Also to be requested is the extension of employer-paid insurance coverage to striking or suspended workers and to those against whom discharge proceedings are pending, the USW said.

Separate contracts will be negotiated for the steel, aluminum, non-ferrous and metal container industries.

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other brokers and a concerned policyholder.

Lloyd's is denying coverage and LeBoeuf, Lamb has advised holders of the coverage notices that the policies issued by Mr. Terrill are bogus.

Mr. Terrill is believed to have been active in California, Florida, Georgia, Illinois, New York, New Jersey, Kansas and Arizona, but it is not known whether he actually wrote policies in all these states, attorneys at LeBoeuf, Lamb told *Business Insurance*.

He reportedly issued coverage notes for between 180 and 200 properties and on reinsurance for at least two performance bonds. Most of the property business was on substandard housing in the Harlem and South Bronx sections of New York.

This property business originated with one New York broker and flowed to Mr. Terrill through two intermediaries in Illinois, attorneys said.

LeBoeuf, Lamb would not identify the Illinois intermediaries because the firm is cooperating with authorities in the investigation.

No losses have been reported on the performance bonds, but one property, on which Mr. Terrill allegedly issued a coverage note on losses of more than \$100,000, has sustained a \$140,000 loss, according to LeBoeuf, Lamb.

The New York insurance department issued a letter to excess and surplus lines brokers Nov. 30, advising them of Mr. Terrill's alleged activities.

TSLA elects new officers

AUSTIN—The Texas Surplus Lines Assn. has elected the following new officers for the upcoming year: president, Don Litchfield of Southwest Surplus Agency; vp, Fred Steves of Myron F. Steves & Co., and secretary-treasurer, Lee Merwin of Ranger-Allied Underwriters.

New directors are Elton George, Elton George & Co.; George Hallmark; Alexander & Alexander of Texas Inc.; Myron Dobson, Surplus Insurance Brokers of North America; Ted Beck, Interstate National Corp. of Texas; and Charles Beber, Southern Surplus Agency.

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Benefit Communications

Investment in project pays off: Artist

By MARY ELLEN McKEE

CHICAGO—A polished, flexible audiovisual program to communicate employee benefit plans may cost as much as \$10,000 to produce with speed, says the president of a New York art studio.

"It doesn't even have to be a painful process," said Peter W. Iversen, president and chief executive officer of an art studio bearing his name. The whole process can move very quickly with slides, taping, mixing, pulsing and finishing touches completed in about 10 days, he added.

A well-designed audiovisual program also allows a company to efficiently revise the communication device if benefit changes are made years later, Mr. Iversen added. "By spending money upfront you save thousands of dollars years down the line."

Backing an audiovisual project with plentiful funds alone will not ensure the employee benefit communicator of a practical, cost effective and well-designed product, Mr. Iversen warned 100 employee benefit communication specialists attending the *Business Insurance Employee Benefit Communications Conference* in Chicago earlier this month. "The employee benefit communicator should maintain some control over the project from start to finish."

If the corporate art department can't handle the job, play on the vanity of the corporate art director

and ask his advice about whether he knows of an advertising manager or agency that could handle the job, Mr. Iversen advised. By using this tactic, the art director might be more inclined to accept a job the next time you need it done, he said.

Mr. Iversen warned that a one-man advertising agency or art studio is not usually the right place to take the company's audiovisual project. "He's working on several jobs at one time. If he gets tied up with one project, your project could slip to the wayside, keeping the entire project weeks to months behind schedule."

"Check out the credit rating of any company you plan to use," Mr. Iversen cautioned. "Make sure that the agency or printer is able to buy the supplies for your company project and determine if the company will remain solvent while working on your project," he said.

Before choosing an art studio and the printer, require a written proposal including cost estimates on the project, Mr. Iversen suggested. "Do not expect these firms to stay within the estimates they give you. But do not allow for discrepancies. Knowing who is responsible for each part of the project is an absolute, in order to avoid finger-pointing later. Everything must be discussed, decided and assigned ahead of time. Hagglng over costs while working on the project gets the time frame out of whack."

Keep eye on quality when checking price

CHICAGO—"You get what you pay for" when producing a 15-minute, 80-slide audiovisual program, says Peter W. Iversen.

Today, scripts cost from \$2,000 to \$2,500 to prepare. Story boards will run between \$500 and \$1,000. Preparing slides, including type, art and studio photographs, should run from \$3,500 to \$4,500.

A good New York photographer costs \$750 to \$1,000 a day. Photographers in the Midwest are less expensive, charging \$350 to \$500 a day for their services.

Voice-over work will cost \$300, music selections could run as much as \$200 and pulsing the audiovisual project will probably cost approximately \$100.

If a company decides to use a design studio person at the taping session or to coordinate the sound mixing for the communications device, the company will pay at least \$750.

Although Mr. Iversen admitted these costs are simply guides, he said he would question the quality of work a firm could produce if its prices dipped much lower than the ones he gave.

Choosing a script writer is a little less complicated than choosing the agency, Mr. Iversen said. A company can either choose a script writer from a roster compiled by most art studios and advertising agencies or it can hire a consultant to do the job, he said.

Mr. Iversen sees many advantages in hiring a consultant to write the benefit script. "The consultant knows the subject matter, the language, the legal ramifications, can anticipate problems and actually has benefit communication samples he/she can show you."

Next the company and the designer must decide if the style of the slides will be cartoon, people-oriented or "Hollywood."

"Popular music cannot be used without the written permission of the music publishing company,"

Continued on page 24

Strong images, script can hold interest

By MARY ELLEN McKEE

CHICAGO—Filming tips gleaned from the blockbuster movie "Saturday Night Fever" can make an audiovisual presentation a hit, two employees of the Pension Benefit Guarantee Corp. dramatically illustrated at the *Employee Benefits Communication Conference*.

But benefit communications efforts won't succeed on filming techniques alone. Legal mumbo-jumbo has to be kept out of the communications packages, including accompanying booklets, they say.

Visual images have to keep the employee interested in a presentation long enough to hear the benefits message, said Audrey Cramer, staff assistant of the Office of Program Operations for the PBGC.

There's no excuse for a boring audiovisual, Ms. Cramer told attendees of the *Business Insurance Employee Benefits Conference*.

To maximize the effect of audiovisuals, a few rules should be followed, Ms. Cramer said.

"First, the image on the screen should change every six seconds," Ms. Cramer pleaded. "Even if only one person is being used on the screen, you can use different depths and use angles from the front, behind, above and under," she explained.

To illustrate, Ms. Cramer compared the impact of a clip from a film prepared by the government and the famous dance sequence from the movie "Saturday Night Fever."

The government film describing the Freedom of Information Act showed an Army officer reading a script in a monotone and filmed from a front-only camera angle. "I'm sure very few people walked



A plain language booklet can be a good public relations tool, says Sarah Casseday, left. A good audiovisual trick is to steal ideas everywhere you can, says Audrey Cramer.



away from that film understanding anything about the Freedom of Information Act because of the way the message was showcased," Ms. Cramer said.

"The dance sequence from 'Saturday Night Fever' is a different story altogether," she said. The short film clip shows how to shoot one subject in different ways.

Ms. Cramer counted eight different angles constantly changing from eight cameras in the five-minute sequence. "There's no reason that the technique used in 'Saturday Night Fever' can't be transferred to the employee benefit communication device," Ms. Cramer said.

"The trick to coming up with a good communication device is to steal material and ideas everywhere you can. Take from advertisers, filmmakers and public relations specialists," Ms. Cramer urged.

When writing the script for an audiovisual program, specific infor-

mation is the least important aspect of the project, Ms. Cramer emphasized. Instead, the benefit communicator has to concentrate on developing something that will catch the interest and attention of the employee long enough to tell the benefit message and compel him to look at the benefit handbook later.

Employees retain 40% of what they read, 30% of what they see and 20% of what they hear, Ms. Cramer noted.

The rules followed by most newscasters can be good guidelines for the audiovisual scriptwriter to follow.

Sentences should be no longer than 11 words, Ms. Cramer cautioned. "People automatically stop listening if a sentence rambles."

Also, the benefit communicator should never use two negative concepts in one thought, Ms. Cramer suggested. For example, a script should never read: "An employee cannot fail to file an application for

benefits on time or he/she will not get immediate approval to receive benefits."

Instead, Ms. Cramer said the script should simply state: If an employee files the application to receive benefits on time, his/her benefits will be approved as soon as possible.

Active, not passive, tense should be used throughout the entire script, and the script should avoid referring to the old plan, Ms. Cramer said.

"Never let the lawyers put words into the audiovisual or the employee will become more confused after viewing the audiovisual," the PBGC staff assistant remarked. "A point can be made without legal terms."

Avoid relying heavily on numbers to communicate a benefit, Ms. Cramer emphasized. "Never involve your audience with adding, subtracting or dividing numbers, because it will go in one ear and out the other without coming close to

explaining the benefit."

If numbers must be used to illustrate a point, round them off and restrict the copy to one number for each sentence, Ms. Cramer suggested. Tell the employee he will receive one-half of his annual salary minus the Social Security payment after he retires, she said.

A plain language booklet to accompany an audiovisual program that is easy to read and easy to understand can be a very good public relations tool, said Sarah W. Casseday, public information specialist for the PBGC. "If more benefit communicators would start looking at the benefit handbook and audiovisual as a public relations device, they might generate much-needed employee interest in benefits," she added.

"It's simply a matter of good business to exercise good public relations, especially when a company offers liberal benefits and wants its employees to feel good about the company," Ms. Casseday explained. Unlike most corporate documents, the handbook and audiovisual will be seen by four audiences: the employee, management, the employee's family and prospective employees, Ms. Casseday explained.

As a public relations tool, the handbook should remain uncomplicated, no matter how complex the subject matter, she warned.

"The handbook should outline what benefits the employee gets, when he/she is eligible to receive them and how they go about getting the benefits in normal circumstances," Ms. Casseday advised.

The handbook should not include information on the exceptions, Ms. Casseday said. "If you

Continued on page 24



Photos: Dave Galanti



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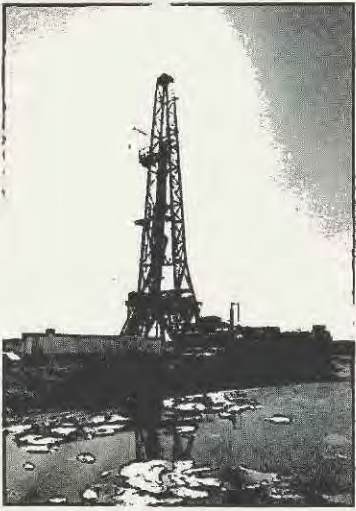
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Economy mandates cost efficient plans, communicators say

By MARY ELLEN McKEE

CHICAGO—Benefit communication budgets might not feel the squeeze of the recession in 1980, but benefit communicators will scramble to get the most out of benefit dollars, some benefit communicators predict.

In an informal *Business Insurance* survey of 10 benefit communication specialists, five revealed their 1980 budgets will jump 25% over this year, three expected budget hikes as high as 15% and only two said they would see budget in-

creases of less than 10%.

The function of employee benefit communication grows as dollars get tighter, said Darlene A. Larin, manager of group insurance and communications for Dart Industries Inc. of Los Angeles. "Since it's costing companies so much money to provide the benefits, it's only natural that they want to ensure the employee knows how the company is contributing to his lifestyle."

Despite the obvious gains from more generous budgeting, however, employee benefit communicators are going to have to justify their existence more than ever, all 10 benefit communicators interviewed agreed.

There will be more pressure on the benefit communicator to come up with something that works, said Shirley McLane, manager of compensation and benefits for Sealy Inc. of Chicago.

"You'll see companies pouring less money into a clever and expensive graphic for the handbook and more money into presenting an audiovisual with an accompanying booklet or plan outline or a tabletop explanation of benefits by supervisors or retirees," predicted Elaine Sadding, communications specialist for ARA Services Inc. of Philadelphia.

"Compared to five years ago, when you had to fight with management to consent to any kind of benefit communication, company executives are now demanding to see some tangible evidence that the benefit message is being driven home to employees," said John Webber, communications manager of Red Lobster Inns of America.

The vps of finance, industrial relations and personnel review every benefit communication vehicle completed by Mr. Webber's department. "At a viewing of an audiovisual recently, the vp of finance suggested that we prepare a questionnaire to find how much the employee knows about a benefit program after reading or viewing material from the communications department," Mr. Webber said.

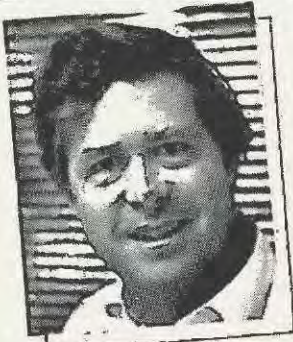
Now Mr. Webber circulates a questionnaire after distributing a handbook or showing an audiovisual program, summarizes the responses and forwards them to the president and vps of finance, industrial relations and personnel.

"I have no doubts that if a communication effort appears to have failed to communicate the benefit message, my department will be back to the drawing board by commands from the top," he said.

The employee benefits communications specialist for Kimberly-Clark Corp. of Neenah, Wis., has also noticed a growing interest from top management in the effectiveness of benefit communication devices. "The president of Kimberly-Clark reviews all material generated from my office and then follows up with a phone call a few weeks later for a report on how the device is received by the employees," Helen E. Wilson said.

A rapidly growing engineering firm in the Midwest prepared its first benefits handbook last year for a little more than \$10,000. The handbook, which was chock full of photographs, charts and illustrations, was generally well received by the employees. Top management in the company, however, wanted more to show for the money that had been spent.

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The assistant to the president at the Midwest firm also suggested the company hire one of the recent retirees to periodically visit the offices and explain benefits to new employees, answer any questions about benefits and distribute new material.

The plan was adopted in August this year and will cost the company close to \$12,000 annually.

"But the results we are seeing are well worth the extra money upfront," the benefits communication specialist admitted. "Our insurance agent is astounded at how well our employees understand their plan and he reports that the insurance carrier is impressed that claim forms from our company are always completely and accurately filled out."

The Prudential Insurance Co. is also putting more money upfront for definite results later. Barbra J. Quillan, the senior employee benefits consultant for the insurance company, is working on a videotape project for the agency force which should be completed next year.

Each regional office will have to purchase a videotape playback machine so they will be able to show the agency force the benefits communications program.

This will increase the company's employee benefit communications budget at least 20%, Ms. Quillan said.

"But it is the only way to adequately inform an insurance agency force that is scattered nationwide and generally transient, about benefits," Ms. Quillan explained.

"Each regional office can show the program when new employees join the force or veteran employees can view the program when they want to refresh their memories on one point," Ms. Quillan explained. ■

Exchange picks five fund directors

NEW YORK—Underwriting members of the New York Insurance Exchange have elected five directors for the exchange's security fund.

The newly-chosen directors are: Edmond F. Rondpierre, North Star Syndicate (General Reinsurance Corp.); Patrick J. Foley, AIG Multiline Syndicate Inc.; C. Convers Goddard, Chubb Syndicate Inc.; Frank E. Berglas, The First New York Syndicate Corp. (Burt & Scheld), and William J. Sheppard, Allianz Syndicate Inc.

The security fund, mandated by enabling legislation for the exchange to protect policyholders, presently consists of \$500,000 contributions from each of the syndicates. ■

Recruiting firms

Risk & Benefits Recruiters, a personnel recruiting company specializing in risk and employee benefits managers, has been opened here by Donald Delaney. Insurance Recruiters Inc. of Dallas, Mr. Delaney's former employer, continues to place risk management specialists. Jim Gilbert is handling the risk management activity for Insurance Recruiters.



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Financial Strategies

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Contracting firms usually obtain surety bonds—guarantees to clients of project completion—on a job-by-job basis. A different approach was developed by INA and the Limbach Company, a \$100-million Pittsburgh-based mechanical engineering firm.

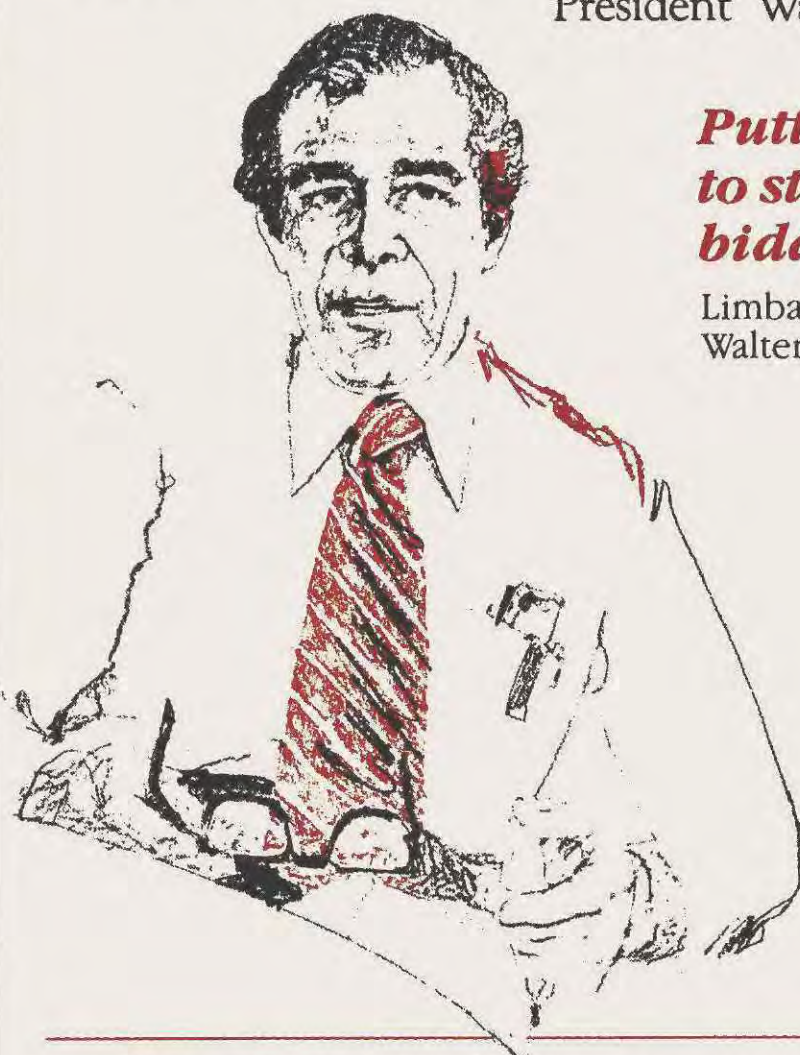
President Walter Limbach says, "The firm is largely decentralized, which means the regional offices should be able to run things without interruption, especially in the bidding stage. Our strategy is to negotiate with INA a surety bond budget for all projects to be sold during the year."

The result, for Limbach, is the ability to structure its annual business plan based on an exact, predetermined figure for surety support.

Blanket approval for Limbach's surety bonding is the result of a long-standing relationship with INA. The carrier takes part in the company's financial meetings and is fully informed about revenues, goals, and work-in-progress. This knowledge, plus INA's understanding of contracting has, according to Walter Limbach, "made them totally receptive to the overall bonding concept."

Putting a stop to stop-and-go bidding.

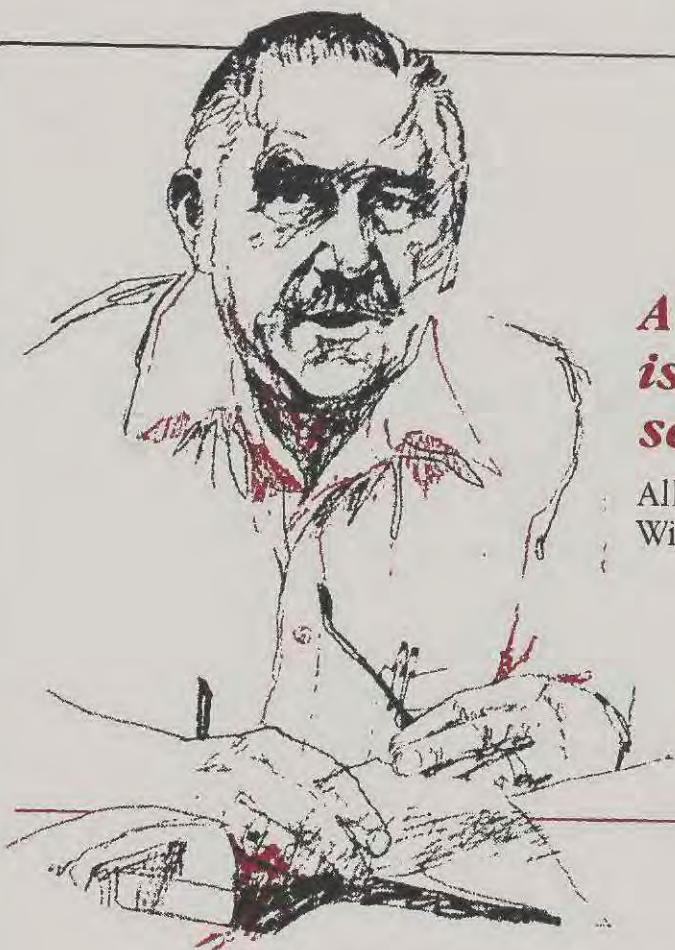
Limbach Company's
Walter Limbach



For property/casualty agencies, assuring prompt loss settlements is crucial. William Thompson, President of Allred-Thompson Agency in Wichita Falls, Texas, meets this goal with comprehensive "insurance to value" reports when first securing property coverages.

Along with INA representatives, Allred-Thompson does physical workups on each property: preparation of square-footage diagrams to be included in a master file of structural features. The strategy has two advantages.

The insured benefits because his agency can upgrade coverage—based on the initial



***A tape measure
is our best claims
settlement tool.***

Allred-Thompson Agency's
William Thompson

valuation – to reflect increasing replacement costs. Secondly, when a disaster strikes, settlement (at the upgraded levels) can be made almost immediately.

Thompson comments: "After a tornado leveled parts of Wichita Falls in early '79, many clients had no property left to inspect. But INA settled millions in claims on the spot, because we had documented reports on file." The rescue job hinged on advance planning by both agent and carrier.

Expenditures for hospitals in rural communities are rising no less sharply than for institutions serv-

ing large metropolitan areas. "Since 1965," says Donald W. Stubsten, Administrator of Ocean Beach Hospital in Ilwaco, Washington, "I've seen inflation drive the cost of a semi-private room from \$11 a day to over \$120." Faced with this problem, more and more small hospitals are now self insuring certain risks.

Participation in a hospital association program allows Stubsten to self fund staff liability exposures to a limit of \$100,000. Excess coverages are obtained commercially. The first year OBH took part in the program, the hospital's savings were 25% over conventional liability rates.

Translated to OBH's balance sheet, the net saving was \$1,800 – sizeable for a small, 25-bed hospital. There are also cash-flow advantages. Stubsten remits OBH's share of the reserve monthly, rather than paying a lump-sum premium.

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Ocean Beach Hospital's
Donald Stubsten



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Panel offers cues for audiovisual success

CHICAGO—How effective are today's employee benefit program audiovisual communications?

The reaction of about 70 participants in the annual *Business Insurance* employee benefit communications conference to four typical audiovisual presentations was mixed. Their comments came during a three-hour session on the final day of the conference led by Herb Zeltner, group vp of Crain Communications Inc.

The presentations ranged from highly factual, straightforward reports of benefit plan aspects to creative cartoon efforts. Although there was a great deal of disagreement as to each effort's success, the group outlined several common problems in these types of communications.

Two speakers assisted Mr. Zeltner in critiquing the audiovisual programs: Keith L. Reinhard, executive vp and director of creative services for Chicago-based Needham, Harper & Steers, and Curtis L. Snodgrass, vp of Towers, Perrin, Forster & Crosby. In addition, two registrants were asked to participate in the critique and help lead the discussion: John G. Willard, administrator of Rockwell International Corp. in Pittsburgh, and Patrice E. English, manager of communications for Heublein Inc. in Farmington, Conn.



Audiovisual presentations came in for some criticism from (left to right) Herbert Zeltner, Keith

Reinhard, John Willard, Patrice England and Curtis Snodgrass.

With the help of the audience, the panel of four judged the communications efforts of four corporations, making the following suggestions:

- Hit the hard issues. Don't let your effort be a "triumph of model-building" rather than a communication aid. Try to answer your viewers' questions.

- Make sure you target your efforts toward your intended audience. Know who that audience is

and aim it toward them, not yourself or other top-level management.

- Keep random distractions to a minimum, particularly if they have no bearing on the topic at hand. It is better to keep the presentation as short as possible.

- Make conversations believable. Don't put words in a character's mouth that he or she wouldn't say in normal conversation.

Let an announcer do this for you.

- If you compare two plans, make sure your treatment of each is balanced. Use about the same amount of time and depth of discussion for each.

- Keep the presentation's organization straightforward. Don't go back and forth from subject to subject, or your viewers will become confused.



- Don't portray a pie-in-the-sky attitude. "Gee, aren't we lucky?" lines turn off the viewer and the presentation loses credibility.

- Have your graphics back up the script. Say it, then reinforce it on the screen if at all possible.

- Don't be childish. Humor should be "in fun," not insulting.

- Choose characters your audience can identify with.

- Make sure the script is brief, but don't have content holes that can cause troubles under ERISA.

- Make sure the presentation is suitable for all your audience. A rock music introduction, for instance, may turn off older viewers.

- Closely watch for sexist influences in the presentation. Make sure all women aren't secretaries or all men breadwinners. Try to eliminate, not facilitate, stereotypes. ■

Investment pays off later, artist advises

Continued from page 15

Mr. Iversen noted. If the music publisher finds out that a musical piece was used without written permission, he/she can legally send the company a bill.

Ultimately, the production of an

audiovisual program poses some communication challenges in itself, Mr. Iversen said. Time frames have to be set, and all of the people working on the project must be coaxed into staying reasonably within the budget, he explained

In order to secure a quality production, stay on time and within the budget, a benefit communicator must follow some stringent guidelines, too, Mr. Iversen stressed. He suggested benefit communicators:

- Discuss with the designers the content and objectives of the audiovisual project. Also discuss deadlines for various stages of completion and the budget.

- Go over existing communication material, management philosophy and the makeup of the audience with the designers and the art board people.

- Leave plenty of lead time.
- Decide what degree of a finished product will have to be presented to company executives for

their approval.

- Before anything is delivered to the printer, the benefit manager should make sure the rough layouts have been completed, shown and approved by the company's management. And all proofs should be carefully read. The earlier you catch errors, the cheaper it will be in the long run, Mr. Iversen said.

A good indication that a benefit communicator is losing rein on a project is when too many costly revisions start crossing his/her desk, Mr. Iversen said. When this occurs, the chances are very great that the final product will be expensive, sloppily designed, non-professional and useless in less than two years, he said. ■

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Images hold interest

Continued from page 15

would like to explain what kind of coverage an employee receives in unusual circumstances to legally cover the company, simply refer the employee to the applicable page and paragraph in the summary plan description," she suggested.

"Too many employee benefit communicators mistake the benefit handbook for an official, legal document. It is not at all," she said. The handbook does not have to cover every little circumstance in order to meet the legal requirements in the Employee Retirement Income Security Act.

To clinch possible legal ramifications over the handbook and to soothe the nerves of corporate attorneys, Ms. Casseday suggested all handbooks include a disclaimer

saying the booklet was designed to help the employee understand his/her benefits, but that it is not a legal document and shouldn't be substituted for the legal summary plan description.

"Keep the graphic designs simple," Ms. Casseday warned. "Often the number of dollars allotted to a benefit communication project is eaten up with fancy and elaborate graphic designs."

"It is much more cost effective to keep the graphics simple and the price down so that the company can produce an audiovisual to accompany the handbook," Ms. Casseday said.

Ideally, the handbook should hold the audiovisual program together, said Ms. Cramer of the Office of Program Operations. ■

Test pinpoints benefit value

PHILADELPHIA—An increase in the value of a benefit to an employee does not mean a proportional increase in the employee's perception of the dollar cost of that benefit, according to a new test developed by Hay Huggins.

The Perceived Value Test, constructed during a two-year research project for the Department of Defense, measures employees' perceptions of their benefits and expresses them in dollars. By relating

perceived dollars to actual costs, the test can enable the employer to make its benefit program most cost efficient, Hay Huggins says.

If a benefit has a low perceived value, the employer can investigate possible shortcomings in communication before deciding to modify or discontinue the benefit. The test also can supply information on the relationship of pay to benefits in attracting employees. ■

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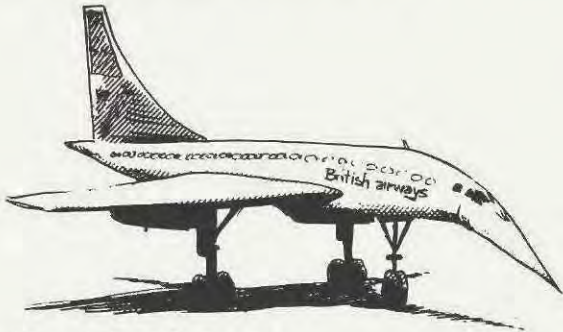
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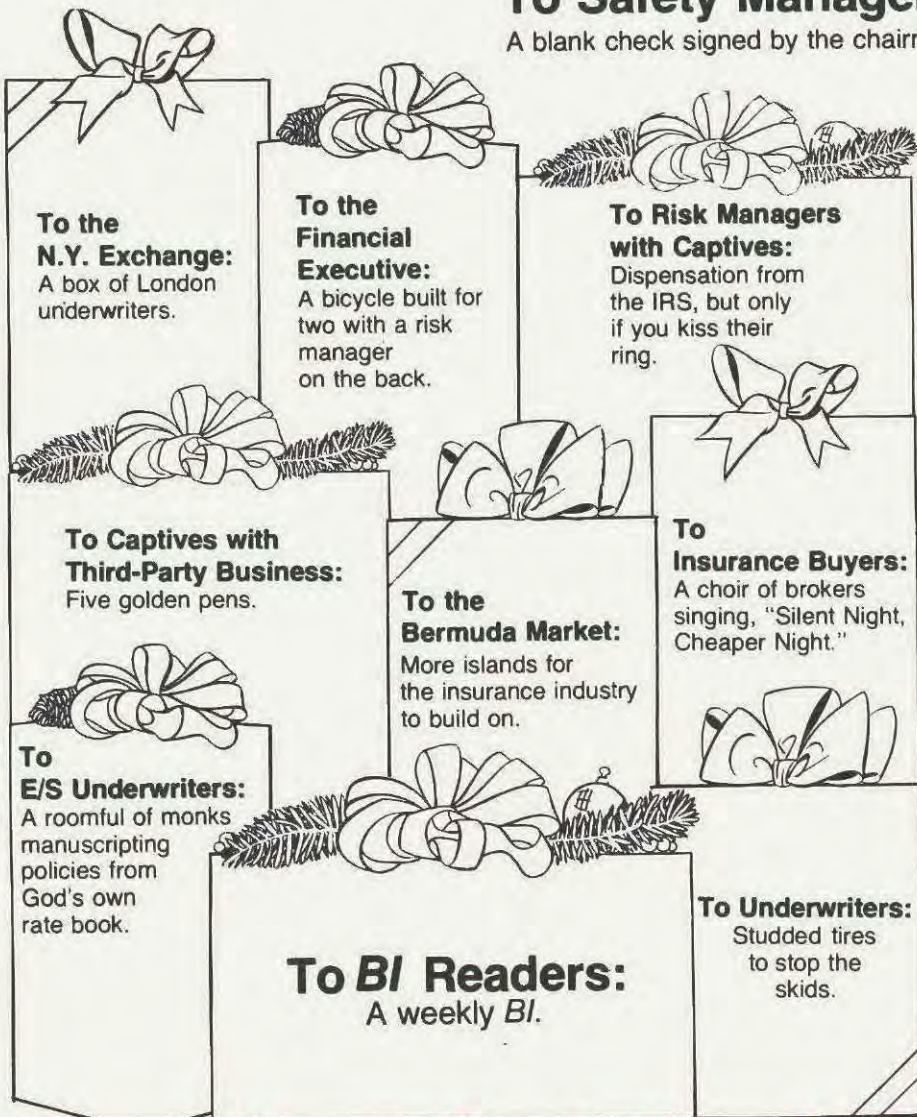
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To Health Insurers:
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To the N.Y. Exchange:
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To the Financial Executive:
A bicycle built for two with a risk manager on the back.

To Risk Managers with Captives:
Dispensation from the IRS, but only if you kiss their ring.

To Captives with Third-Party Business:
Five golden pens.

To the Bermuda Market:
More islands for the insurance industry to build on.

To Insurance Buyers:
A choir of brokers singing, "Silent Night, Cheaper Night."

To E/S Underwriters:
A roomful of monks manuscripting policies from God's own rate book.

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PERSPECTIVE

And that's the way it was in 1979

N.Y. exchange envies Lloyd's inside track...

The first group to get close to creating a U.S. version of Lloyd's of London organized its ranks this year: It elected a board of governors, found a home and chose a chief executive officer.

But no one has resolved how the exchange will operate alongside the New York Free Trade Zone. Will the exchange be able to compete with Lloyd's of London as long as the Free Trade Zone gets first crack at direct domestic risks? The answer may not ring clear until long after the exchange opens its doors, projected for this spring.

... Illinois, Florida train to join the markets race

CHICAGO—Industry backing remained very quiet about the development in Florida, but it continued to be a focus of attention for an Illinois Lloyd's.

While a consultant studies how Florida can get in on the exchange business, Illinois elected an interim board of governors for its exchange and began work on its bylaws. The Illinois exchange threatens to start underwriting business before the New York exchange and be more competitive with its more liberal regulations on writing direct domestic risks.



Firefighters douse the wreckage of American Flight 191.

The crash of an American Airlines DC10 in Chicago on May 25 killing 273 persons was the worst aviation disaster in U.S. history.

Although no jury verdicts have been handed down yet, insurers for American Airlines and McDonnell Douglas Corp., manufacturer of the DC10, have been settling cases out of court. The largest settlement to date: close to \$1 million.

But tremendous capacity in the aviation insurance market is holding hull and liability rates low.

DC 10 tragedy ignites a blaze of big lawsuits

By JOHN MAES

CHICAGO—The crash of an American Airlines DC10 here, the worst disaster in U.S. aviation history, threatens to embroil the airline, the manufacturer of the aircraft and component manufacturers in an unprecedented

litigation. McDonnell Douglas Corp., manufacturer of the jet, General Electric Corp., makers of the jet engine, and Rockwell International Corp., makers of the jet's fuselage, are all being

Business groups endorse model product liability bill

By JERRY GEISER

The highlights of the model product liability bill are:

• Wholesalers generally are not liable.

• Product alteration is a defense against liability.

The final version of the Commerce Department's model product liability bill designed for state adoption deleted one of the more controversial sections: making workers compensation the sole source of recovery for workplace accidents involving products.

The Commerce Department also proposed this year that manufacturers be allowed to pool product liability risks in federally chartered co-ops free of state regulation. The insurance industry is vigorously fighting the proposal, which has won the endorsement of other business groups and the Carter Administration. Legislation to permit the pools is pending in Congress.

agent/broker profiles

20 largest U.S. brokers average 19.6% growth

By SUSAN ALT

CHICAGO—The nation's 20 largest commercial insurance brokers grew 19.6% in 1978.

As brokers' growth slowed in 1978 and 1979, so did the big brokers' progress in solidifying links with London brokers. Creeping progress in the proposed profit combinations of three large U.S. brokers and London counterparts may be forcing a return to more traditional kinds of shared investments. Corroon & Black intends to increase its equity interest in J.H. Minet to 20% from 4.8% while M&M and A&A are still negotiating profit combinations.

Insurers won't certify pollution clean-up

By ELLIS SIMON

NEW YORK—Insurers won't certify that policyholders will cover cleanup costs of oil spills as required by the Outer Continental Shelf Act.

Coast Guard regulations require owners and operators of offshore rigs to be certified as of Sept. 17. If they aren't certified, their wells

based counsel to Lloyd's underwriters, revealed that the direct action provision of the law could subject insurers to unlimited liability. As a result, Lloyd's said it would

plus, Mr. Williams noted, All-American Marine Ship has also suspended writing the coverage. Lloyd's legal

ity non-operatives provided that the operators are indemnified, said Dee Swenson, insurance manager. However, Pogo needs to obtain

Outer Continental Shelf oil operators can't get insurance to certify them against pollution liability.

Because insurers interpret the Outer Continental Shelf Lands Act amendments to in effect make them guarantors against pollution damages caused by policyholders and subject to unlimited liability, they won't underwrite the risk.

Congress is being asked to clarify the law to remove any suggestion that insurers would be liable for more damages than the policy limits.

In the meantime, the Coast Guard isn't taking any action against oil drillers who are unable to meet the financial responsibility test because they can't buy insurance.

Tax court affirms IRS veto of captives in Carnation Co. test case; Ford settles

By KATHRYN J. MCINTYRE

court finalizing their settlement with the IRS in Ford's case.

insured only the risks of Ford's for

Carnation is considering an appeal of the judge's decision, which

Carnation's insurance of Carnation's products is 5% with Carnation's

The IRS victory in the first tax case involving captive insurance companies disappointed proponents of captives, but many tax experts complain it was a bad case for the taxpayer.

Carnation's promise to its fronting insurer to further capitalize its Bermuda captive voided any insurance arrangement, a tax

court judge ruled. Thus, no tax advantage was allowed.

The Ford settlement with the IRS was more encouraging to taxpayers. Ford was merely charged with earning as a commission 5% of the premiums paid by foreign affiliates to its captive, *Business Insurance* learned.

Record insurer losses in Pa. nuclear mishap

By STUART ENMIRCH

HARRISBURG—More than 7,000 residents who fled their rural

In little more than a week after the March 28 accident, ANI paid out more than \$500,000 in emergency claims, almost as much as

the past two decades. Even though residents are returning to their abandoned homes and the nuclear



Insurers have paid \$1.3 million to settle liability and wage-loss claims arising out of the accident at the Three Mile Island nuclear reactor plant and expect to pay \$200 million for property damage, but class-action suits demanding \$560 million in damages are pending.

Congress is also considering legislation to eliminate the \$560 million cap on the nuclear industry's liability for accidents. How the nuclear industry will fund increased liability is unknown, since American Nuclear Insurers, the pool of insurers underwriting \$160 million in insurance now, says it can't raise more capacity.

Also in the wake of the accident, nuclear plant owners are forming a new pool to insure the cost of replacement fuel needed when a nuclear plant is shut down.

General Public Utilities, owner of the Three Mile Island plant, estimates it's losing an uninsured \$500,000 to \$600,000 a day because it has to shop elsewhere for its fuel. It's trying to recoup that loss in increased charges.

U.S. insurers gauge computer lease risk that burned Lloyd's

By STUART ENMIRCH

NEW YORK—American underwriters are warily surveying the

the field, finding it, however, is but of a problem. Because of the time to

An estimated \$340 million in losses on computer leasing insurance policies created the worst disaster for Lloyd's of London.

Lloyd's coped with other major headaches this year. Estimated losses at the troubled Sasse Syndicate mounted and Lloyd's was forced to lend money to Sasse Syndicate members. And in the fall, it was learned that two syndicates managed by Ashby Underwriting Group may have overwritten their permitted underwriting limits.

Iran:

War exclusion imperils property loss recoveries

By JOHN MAES

CHICAGO—After months of

the

International

but all generally agree there will be higher rates and deductibles and some policy restrictions.

At what point was Iran at civil war? That's the question corporations and their insurers will fight out, most likely in the courts, if insurers deny claims for property destroyed during the uprisings. Control Data is already suing Affiliated FM because the insurer denied

such a claim.

The year's biggest international crisis has focused the need for political risk insurance. Few corporations with financial interest in Iran reported having any coverage, but added their losses are small.

Product Liability Score Card

By Jerry Geisel
Washington Editor

Status of Legislation

Defenses*

State	Tort reforms enacted	Bill pending	Cleared house	Cleared senate	Dead for 1979	S/R	State of the art	Failure to warn	Standards	Alteration	Remarks
Ala.	1979					X					Establishes a 10-year limitation on filing suits.
Alaska		X			X	P			P	P	Bill carries over to next year.
Ariz.	1978					X	X	X	X	X	Bill also prohibits asking for specific damages in a suit.
Ark.	1979										More extensive legislation expected next year.
Calif.		X	X	X	X	P	P			P	No action expected until 1980.
Colo.	1977					X	X		X		Second state to pass major reform legislation.
Conn.	1979					X				X	Closely resembles model Commerce bill.
Del.					X						Cloudy outlook in state.
Fla.	1978					X					Establishes a 12-year limitation on filing suits.
Ga.	1978					X				X	Establishes a 10-year limitation on filing suits.
Hawaii					X						No information available.
Idaho					X						Governor vetoed bill.
Ill.	1978					X					Bill establishes 10-and 12-year limitations on filing suits.
Ind.	1978					X	X	X	X	X	Establishes a 10-year limitation on filing suits.
Iowa		X			X	P	P	P	P	P	Bill carries over to 1980.
Kan.		X	X	X	X	P				P	Possible action next year.
Ky.	1978					X	X	X	X	X	One of the most comprehensive bills passed.
La.					X						Bill killed in senate committee.
Maine					X						No reform bills introduced.
Md.					X						Bill never made it out of committee.
Mass.					X						Study committee may probe p/l.
Mich.	1978										Award could be reduced if plaintiff were negligent.
Minn.	1978										Law prohibits asking for specific damages in a p/l suit.
Miss.					X						No action expected next year.
Mo.					X						Bill died in the house.
Mont.					X						Renewed effort to be made next year.
Neb.	1978					X	X	X		X	Establishes a 10-year limitation on filing suits.
Nev.					X						No legislation introduced.
N.H.	1978					X				X	Establishes a 12-year limitation on filing suits.
N.J.					X						Some support for an alteration bill.
N.M.					X						Bill died in committee.
N.Y.					X						Bill died in the assembly.
N.C.	1979					X		X		X	Establishes a 6-year limitation on filing suits.
N.D.	1979					X			X	X	Establishes 10-and 11-year limitations on filing suits.
Ohio		X		X	X	P	P	P	P	P	Bill carries over to next year.
Okla.		X			X	P					Bill carries over to next year.
Ore.	1977					X				X	Third state to pass p/l legislation, 8-year s/r.
Pa.		X				P	P	P	P	P	Possible house action this month.
R.I.	1978					X				X	Establishes a 10-year limitation on filing suits.
S.C.					X						No information available.
S.D.	1979, 1978					X				X	Establishes a 6-year limitation on filing suits.
Tenn.	1978					X	X	X	X	X	Establishes a 10-year limitation on filing suits.
Tex.					X						Bill died at last moment.
Utah	1977					X	X	X	X	X	First state to pass reform legislation.
Vt.					X						No information available.
Va.					X						No action expected in near future.
Wash.					X						Some interest in Commerce Dept. model bill.
W. Va.					X						No action expected next year.
Wis.											Special study committee looking at Commerce Dept. model bill.
Wyo.					X						No information available.

Business Insurance's Product Liability Score Card summarizes efforts to enact tort reform in state legislatures. The first section details the status of tort reform legislation in the state; the second section indicates what tort reform proposals are included in the legislation. When a bill is pending, the tort reforms alive are indicated: P.

*The tort reform elements charted are: a statute of repose, which limits suits to certain time periods after a product was first sold or manufactured; allowing a defense that a product met the state of the art at the time it was manufactured; elimination or restriction of a failure to warn claim; allowing a defense that a product met government standards, and allowing a defense if a

product were altered after it left the manufacturer.

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Advocates promote flexible model bill on periodic payouts

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Carroll added.

Allen J. Tishman, associate counsel for the American Insurance Assn., said insurers don't oppose the periodic payment concept but are uncomfortable with the unpredictability of a floating inflation margin.

Insurers would rather pay the entire amount, including inflation adjustments, to a trust or for an annuity and be able to close the books on the case, he said.

Nat P. Ozmon, a Chicago attorney representing a group of trial lawyers, said cutting off payments at the death of a plaintiff could be a detriment to the plaintiff's survivors, who may then find themselves short of necessary funds.

Mr. Carroll said a provision would be written into the draft stating the reversion factor can be omitted from a state bill. "They can do it the traditional way and let it be a windfall for the plaintiff," he said.

Although the model law would allow any plaintiff or defendant in

Wind damage

Wind, hail and tornadoes that struck portions of Alabama, Florida and Georgia Nov. 25 caused an estimated \$3 million in insured losses, according to the American Insurance Assn.

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FTC 'runs amok,' state regulator charges

LOS ANGELES—The Federal Trade Commission is scheming to discredit both the life insurance business and state regulators in order to muster support for FTC regulation of the insurance industry, charges California insurance commissioner Wesley T. Kinder.

Underhanded strategies used by the FTC to promote its own self-serving ends constitute a blatant misuse of federal power, declared Mr. Kinder at the opening session of the National Assn. of Insurance Commissioners meeting this month in Los Angeles.

The commissioner's attack is the latest round in an ongoing feud between defenders of state regulation and advocates of federal regulation of the insurance industry. Industry critics favor repeal of the

McCarran-Ferguson Act, which exempts insurance companies from federal antitrust laws.

Procedures surrounding the recent release of an FTC study that concluded consumers are not fully informed of the premium rate on whole life insurance policies is "a prime example of a federal agency running amok," Mr. Kinder said.

According to the California commissioner, the FTC asked state insurance departments to delay consideration of an NAIC model regulation or life insurance cost disclosure until the FTC study could be completed. Several states did so, believing the FTC wished to help the states' efforts.

Later, Mr. Kinder argues, the real FTC objective became clear. If the FTC were able to induce many



Kinder to lead NAIC

California commissioner Wesley J. Kinder was unanimously elected president of the NAIC. He had been vp and took over the duties of president when former Indiana commissioner Hudson resigned his post. William H. L. Woodyard III, Arkansas commissioner, was elected vp and chairman of the executive committee. Commissioner E. V. "Sonny" Omholt of Montana was re-elected secretary-treasurer. Edward Birrane of Maryland, Lyndon Olson Jr. of Texas and Bill Gunter of Florida were elected members-at-large of the executive committee.

states to refrain from adopting the model regulation, then under the McCarran Act cost disclosure would not be "regulated by the states." This dereliction of duty would "open the door for the issuance of an FTC trade regulation rule aimed at occupying the field," Mr. Kinder said.

The commissioner also lashed out at FTC efforts to "generate highly inflammable headlines" in the press. Although the insurance industry furnished much of the data for the FTC's recent cost disclosure study, Mr. Kinder says, "the FTC refused to provide an advance copy of its report to the in-

dustry." Advance copies were distributed to the press, however, with instructions not to share those copies with anyone.

Mr. Kinder emphasized he was not judging the merits of the controversial report, but the methods used by FTC staff to accomplish its objectives.

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State workers comp funds will hurt employees: AIA chief

LOS ANGELES—Monopolistic state funds created to reduce the cost of workers compensation insurance will instead curtail benefits and services to injured workers and their employers, charged an insurance association president.

T. Lawrence Jones, president of the American Insurance Assn., told the National Assn. of Insurance Commissioners subcommittee on workers compensation insurance that 80% of the net premium dollar paid for workers compensation coverage goes for payment of benefits and medical care for the injured employee.

"The only way that state funds can reduce costs is by eliminating

essential services to the detriment of employee and employer alike or by underestimating reserves necessary for payment of benefits and medical costs," he said.

State fund advocates contend workers compensation costs can be lowered by reducing alleged large profits to the insurance industry but, Mr. Jones countered, "Such profits do not exist."

The latest figures for workers compensation experience show an underwriting loss to private insurers of nearly \$660 million during 1978, Mr. Jones said. For 1974 to 1978, underwriting losses totaled \$2.6 billion for stock insurance companies alone, he said.

In addition to taking in premium and paying out benefits, state funds have to perform other services, Mr. Jones said, citing claims handling and providing safety and accident prevention programs and rehabilitation programs.

For each of these factors, private insurance industry experience is far superior to the record of monopolistic state funds, he said.

But New York state assemblyman Saul Weprin, who is backing a bill in the New York legislature to set up a monopolistic state workers compensation fund, countered that private insurers use too much of the premium dollar to pay overhead expenses.

around the states

Pa. senate approves bill to speed medical malpractice arbitration plan

HARRISBURG—The Pennsylvania senate has passed and sent to the house a bill that will streamline the medical malpractice arbitration boards and help cut the back-

log of cases.

The bill would cut the existing seven-member arbitration panels to three members and limit the objections parties to suits can file against potential panel members.

Arthur Frankston, administrator of the panel system, said he currently has to submit a list of five doctors, five attorneys and five lay persons for each panel (BI, Nov. 12). Each side in a malpractice suit can object to three members without cause and an unlimited number for cause.

The change, he said, "should get more panels formed and more cases settled."

Assault claim

HARTFORD—An employee may sue his supervisor but not his company if the supervisor assaults the employee on the job, the Connecticut supreme court has ruled.

The court dismissed a \$50,000 damage claim filed by machinist James Jett against the Farrell Corp., but said Mr. Jett can still pursue claims against his supervisor, Lester F. Dunlap. The two exchanged profanities after Mr. Dunlap accused Mr. Jett of being away from his machine too long on May 16, 1974.

The court said injuries caused by fights on the job should be covered by workers compensation, not

court awards, unless the employer orders the supervisor to assault a worker.

HMO hearing

ATLANTA—Georgia insurance commissioner Johnnie L. Caldwell has set a Jan. 8 hearing date for proposed rules on health maintenance organizations.

The proposed regulations would govern establishment of HMOs, change or termination of services, insurance, rates and forms, financial reporting and grievance procedures.

The hearing will begin at 10 a.m. in Room 238 of the state capitol in Atlanta.

Plain Talk

TOPEKA—Subscribers to contracts with Blue Cross & Blue Shield of Kansas will find their new policies written in plain English, effective Jan. 1, 1980.

The major purposes of the Plain Talk contract are to simplify the language, shorten the sentences and use less technical terms when possible, says Kansas insurance commissioner Fletcher Bell. About 612,000 subscribers will be affected by the changes.

Plain Talk policies will go into effect throughout 1980 for contracts beginning next year.

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Competitive property writers broaden forms

Continued from page 1

to only following manual rate reductions.

In addition to cutting rates for preferred customers or to snare new business, insurers are also issuing broader policies with fewer exclusions.

"Policy conditions will continue to improve on contracts," predicts Ed Sweeney, executive vp of Corroon & Black of New York. "We get great improvements on policy conditions from insurers and then they close up and give no more. But when you go back to renegotiate, they'll give a little more."

Catastrophic losses in weather related disasters could pull insurers off their competitive horse, but the glut of capacity unleashed by domestic and foreign reinsurers could take quite a beating before falling off, it's agreed.

Competition seems to be equally hot for highly protected risks and non-HPR risks.

Mr. Corde of Frank B. Hall says there is more flexibility in the non-HPR than HPR markets.

There's been more aggressive rate cutting for HPR risks, counters Mr. Sweeney of Corroon

& Black.

Allendale, the biggest underwriter of HPR risks, denies staying in the competition, says Joseph DeChristofaro, vp of staff marketing for Allendale.

Refusing to cut Factory Mutual preferred risk rates has cost Allendale a few customers, admits Mr. DeChristofaro. But with facing 1979 losses akin to 1978, Allendale is being cautious.

HPR risks

Boiler and machinery losses have been so bad, for example, that Allendale is organizing massive training programs for policyholders in general use and maintenance of boilers.

Arkwright-Boston Manufacturers Mutual Insurance Co., another large HPR underwriter, expects a loss ratio of 88% to 90% in 1979. That will create losses on a premium volume of \$168 million, which may be offset entirely by income tax carrybacks, said Robert L. Johnson, chairman.

HPR rates will probably have to increase to offset losses, predicted Lorne Palmeson, senior vp of

Marsh & McLennan.

Business interruption insurance policies are among the more competitive of property insurance products, says Larry Lassus, vp at broker Alexander & Alexander, because more companies are willing to write it.

Difference in conditions insurance policies can be purchased for a bargain, too, because of the expanded number of insurers writing the coverage, brokers say.

The fidelity bond and bankers blanket bond market, however, is one without big sales.

"It has become more difficult to make a profit on bankers blanket bond and there has been some tightening in that market," said a spokesman for Aetna Life & Casualty.

But in particular risks, "Today there are few things you can't place," says Mr. Lassus of A&A.

He cited dynamite factories, mattress factories, seat cleaning plants and saw mills as tough risks to underwrite.

Gordon M. Paine, vp of St. Paul Fire & Marine Insurance Co., agreed there's enough capacity in the market that anyone can get the

coverage they want if they are willing to pay the price.

Despite greatly reduced risks generally, property insurance is remaining profitable because as inflation drives up values, more insurance is purchased, increasing the premium volume, explained Robert J. Vairo, executive vp for U.S. Insurance Group, part of Crum & Forster.

Good results

St. Paul reports that even though being hit "fairly hard" by the hurricanes this year, its loss and expense ratio on property insurance through three-quarters of 1979 was 60%.

Aetna Life & Casualty expects a combined loss and expense ratio to be "in the 90%" on \$500 million in property insurance premiums.

But the moneymaker will eventually turn loser at rates 20% and more below last year, driving property insurance rates back up as early as the end of 1980. The insurers and brokers, however, concede it may be as late as 1981 or 1982 before rates go back up.

"The hole is being dug now, but

unless there is a major change in the interest rate or a major hurricane, rates won't go up before 1981," predicts Michael I.D. Morrison, president of American Home Assurance Co., a member of American International Group.

Insurers' year-end results will be mixed, says Sam Alcorn, senior vp of Los Angeles-based Bayly, Martin & Fay International. But investment income will more than offset any losses, he says.

"Loss ratios are deteriorating because of this fierce competition," says Jack Morrison, vp of Insurance Co. of North America.

INA would like to improve its underwriting income by charging higher rates in 1980, "but I don't think it is realistic to expect that," Mr. Morrison said.

Not all brokers, however, promise their clients the same rate reductions of 20% or more in 1980.

"Insurers will hold the line in 1980," predicts Jim Butler, senior vp of brokers Rollins Burdick Hunter of Illinois.

"I look for a continuation of competitive rates in 1980, although I don't expect them to drop as much as in 1979," said Mr. Alcorn. ■

High return on loss reserves propels casualty rate cuts

Continued from page 1

picture for a while yet. "The capacity and competition are there," he said, "at least until the last quarter of 1980 or early to mid-1981."

Big premium reductions may fade away in 1980 as some rates stabilize, agrees Marsh & McLennan vp Myra Tobin.

"The cycle has bottomed out. I don't think the carriers are willing to buy the business at discounted prices," she said. "One insurer who quoted on 14 M&M accounts didn't write one of them. Carriers, though, will remain competitive in 1980 to hold their books of business."

Some new insurers, she added, have cut prices because high return on invested loss reserves have allowed them to balance underwriting losses.

That technique, however, may be suicide, according to American In-

ternational Group, one of the largest casualty underwriters.

"It's important underwriting makes money," explained Joseph DeAlessandro, president of National Union Fire Insurance Co. of Pittsburgh, Pa., a member of AIG. "When you look to investment income to bail out poor underwriting, it's dangerous."

Insurer competition, usually a sign of cheap rates for buyers, can backlash, he noted.

Losing rates

"Insurers are quite aggressive now," he said. "There is an inordinate amount of competition. It is less than professional and produces less than adequate rates. There will be disasters for those woefully underpricing their business. You can't bank on investment income. You have to bank on the premium."

Though AIG is not writing to a losing ratio, he said, some insurers are and seem to be willing to continue to do so, maintaining the trend to soft casualty insurance rates. "As long as people are willing to write to a 110% underwriting ratio, it won't change," he said.

Tracking rate increases or decreases with growing losses is always difficult, because accurate, comprehensive statistics that reflect industrywide results are as elusive as a winter rose.

"For some months now," explained Victor T. Ehre, chairman of the Utica National Insurance Group, "we have seen irresponsible pricing by some of our competitors. If you listen to the senior executives of most of the property and liability insurance companies, they will staunchly say it is not us who is weakening the underwriting standards. And if they believe that, they simply don't know what is going on in their own organizations."

"At the present time, rates are increasing at an annual rate of less than 1% while losses are rising at an annual of 11% per case," he said in a recent speech.

Energy risks

Key specialty lines, including umbrella coverage and some product liability policies, were easier to place at lower rates in 1979, noted the brokers—but with certain exceptions.

"We're still in the phase of the market cycle where competition is dictating looser underwriting requirements," declared Sam Alcorn, senior vp/property and casualty at Bayly, Martin & Fay International in Los Angeles.

"We're seeing minimum renewal reductions of 40% in the energy related fields—especially in the oil drilling industry. One of our accounts had been paying \$120,000 in premium for excess coverage and just renewed for \$20,000," Mr. Alcorn said.

Generally there are tons of capacity, he emphasizes. "I don't see anyone going without coverage, except perhaps in some of the very sensitive liability areas. There may be some shortage of capacity in the pharmaceutical industries. Another tough one is feeders' lot in-

Foreign invasion

Higher rates will not come hand-in-hand with rationed capacity when more expensive property and casualty insurance markets finally arrive at the end of 1980 or 1981.

The reason, brokers say, is the arrival of insurers from Germany, Japan and other European countries and extra capacity added by captives and life insurance companies.

About a dozen foreign insurers have come onto the American scene in the last 18 months, explained Sam Alcorn, senior vp of Bayly, Martin & Fay. They are looking for a piece of the lucrative U.S. market that represents 50% of the property/casualty underwriting capacity worldwide.

"We're also seeing a movement of companies out of Bermuda into the U.S.," Mr. Alcorn said. Inso, Gulf Oil Co.'s insurance subsidiary, he noted, has been approved to sell surplus lines in more than 40 states.

Strong capacity in the market automatically moderates prices, he added, and ample capacity will also slow down the volatility of the traditional insurance cycle.

"One of the things that has happened in the past year is that reinsurers have become more aggressive and there have been some new reinsurance intermediaries added to the market," explained Jack Morrison, vp of INA, "including foreign insurers, captives and some of the 'small town' companies getting into reinsurance."

The emergence of life insurance companies as property/casualty reinsurers—including Prudential, Metropolitan and John Hancock—has also added significantly to capacity, industry sources say, as well as a few new markets like Northbrook Property & Casualty.

insurance to protect against contamination of stock—and further along the food chain—humans."

Drug companies can't buy as much protection as they'd like to, he says.

Offshore oil platforms also have values at risk that exceed the world capacity, Mr. Alcorn adds.

Umbrella policies were particularly vulnerable to rating slashes. INA, a large umbrella underwriter, reported slashes of 25% to 40% among its competitors.

Crum & Forster, also one of the largest umbrella underwriters, saw "very stiff competition," says executive vp Robert Vairo of the U.S. Insurance Group of Crum & Forster.

Horror story

The horror stories, he added, are policies that cost \$100,000 being written for \$30,000, "but there aren't many. Reductions are more like 15% to 20%."

Crum & Forster, analysts say, will probably end the year with nearly a 100% ratio, and collecting about \$1.6 billion in property/casualty premiums—12% more than last year.

The Crum & Forster combined loss and expense ratio is in line with other industry figures: Aetna Life & Casualty, another large insurer, is predicting a combined ratio between 98% and 99% on casualty insurance. The Insurance Services Office's actuarial staff is reporting an average 102.5% combined loss and expense ratio based on interviews with 18 insurers.

Product liability coverage has warmed considerably, underwriters say, but competition has not hit the peaks.

"Product liability rates have eased off tremendously. That doesn't mean there aren't some manufacturers that won't have a problem, but we think it's much, much improved," Mr. Vairo said.

Though one broker exclaimed that excess casualty insurance capacity "made everything possible," some risks have been getting cold-shoulder treatment from underwriters.

Professional liability rates were up a bit in 1979, brokers noted, but insurers, including INAX Underwriters Inc. and St. Paul Fire & Marine, getting into the competition may portend a warming trend. ■

Work comp rates rise despite the competition

CHICAGO—Competition among insurers for workers compensation business is increasing, but not enough to bring buyers lower rates. Rate increases, in fact, are the drawing card.

"Workers compensation has seen dramatic rate increases across the country," remarked Kenneth A. Heckner, senior vp of Johnson & Higgins brokerage, "though most of the underwriters have experienced a vast improvement in loss experience."

Medical costs, he explained, continue to increase, creating the need for higher rates.

Changing benefit levels likewise create a need for rate increases, a need state regulators are slow to answer, insurers say.

The insurers, however, disagree on which states are bad risks.

"In some states you can't get workers compensation rate changes when you need them," noted James L. Pickering, vp of casualty underwriting for Allianz. "Florida is a good example. Everyone is waiting now to see the im-

pact of recent legislation that prohibits disability payments without the loss of wages."

Illinois, he added, is another tough state because "virtually every case goes to an attorney. Wisconsin's good because there is very little litigation."

Recent rate increases in Illinois, however, have interested more insurers in continuing to write the business.

"Price adequacy has been restored in that state," declared Sam Alcorn, senior vp of Bayly, Martin & Fay International, a Los Angeles-based broker. "For a time, rates there were so deficient, many companies were unwilling to write workers compensation risks."

Mr. Alcorn also noted a return to dividend competition and increased efforts in safety and claims management by large insurers.

Rate increases for primary workers compensation coverage are likely to continue, but excess rates, threatened by self-insurance, should drop, say brokers. ■

people

Clorox promotes Roberts to risk manager

Glenn Roberts, 61, claims administrator at Clorox Co., Oakland, Calif., has been promoted to risk manager. He is replacing J. Peter Jensen, 43, who will leave Clorox Jan. 1 to manage the new risk management department at Wyatt Co.'s San Francisco office. Mr. Roberts, CPCU, ARM, has been with Clorox for a year and a half and before that was vp and manager of the bond department for Frank B. Hall of California, San Francisco. He has a bachelor of arts degree from the University of California.

Robert J. Winter has been appointed assistant insurance and risk manager at the University of Michigan. He replaces **Richard Horning**, who was promoted to assistant director of business affairs at the Flint, Mich., campus. Mr. Winter has been assistant business manager of physical properties in the plant operations department and had served as fund supervisor in the accounting department. He has a bachelor of science degree in business from the University of Minnesota. He will report to William Ryan, insurance and risk manager.

Kathryn Loggie, CPCU, ARM, has been named to the newly created position of insurance administrator at Witco Chemical Corp. in New York. She had been a corporate insurance assistant at American Electric Power Service Corp. in New York, where a replacement has not been named. Ms. Loggie, 26, attended Brooklyn College and earned an B.B.A. degree from The College of Insurance. She is attending New York Law School.

Martin C. Ricks has joined Times Mirror Co. in Los Angeles, as manager of employee benefits. He replaces **James Simpson**, who was promoted to director of human resources planning and development. Mr. Ricks will be responsible for supervising the retirement and group insurance activities of the corporate personnel department and will report to George C. Kuekes, corporate director of personnel. Before joining Times Mirror, Mr. Ricks served as pension manager at Monogram Industries Inc. in Santa Monica, Calif. He joined that firm in 1973 as assistant tax manager after being associated with Price Waterhouse. He has a

bachelor's degree from the University of Oklahoma and a J.D. degree from Creighton University. He is a member of the California Society of Certified Public Accountants, the Nebraska State Bar Assn. and the Western Pension Conference.

Littin Industries in Beverly Hills, Calif., has announced the promotion of **Justin Fiedler** to group insurance manager and **Judy Everett** to manager of property/casualty insurance. Mr. Fiedler, who has been with Littin since October 1977, was previously an insurance analyst in the group health insurance department. Ms. Everett, who has been with the company since 1967, was most recently supervisor of the property/casualty department. Replacements have not been named. Both report to Paul E. Pazurek, director of insurance and pensions.

Diana M. Terenzoni, 31, has been named to the newly created position of assistant director of insurance for Tishman Realty & Construction Co. Inc. in New York. Ms. Terenzoni, who will report to Lee A. Rosen, director of insurance, was previously a casualty analyst

with Celanese Corp. in New York. A replacement has not been named for her there. Ms. Terenzoni has a Bachelor of Arts degree from Pace University.

Simpson-Sears Ltd. in Toronto has named **Gordon Hird** risk and insurance manager. Mr. Hird was general manager of insurance for Robert Simpson Co. Ltd. and Simpson-Sears Ltd. since 1958. He has a bachelor of commerce degree from Queens University. Mr. Hird reports to Larry Gisthler, treasurer of Simpson-Sears, in his new position.

Elliott Seidman has been named to the newly created position of corporate risk manager at Uniform Rental Inc. of Brooklyn, N.Y. He will be responsible for the formulation, implementation and administration of corporate risk programs for Uniform Rental Inc., Triple 'A' Maintenance Corp. and Siro Secu-

rity Service Inc. Mr. Seidman was previously director of insurance and taxes for Dictaphone Corp. in Rye, N.Y. He has a bachelor's degree in finance from Pace College and a New York state broker's license.

Bell Canada in Montreal has named **Paul St. Denis** to the newly created position of assistant risk and insurance manager. He has had four years personal lines experience with broker Dale & Co., also in Montreal, and has taken courses in economics and business administration at Concordia University and Montreal Institute of Technology.

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ALL FEES EMPLOYER PAID

Few use MAPs to find product coverage

By MARY ANN MATLOCK

NEW YORK—The telephones at product liability insurance marketing assistance programs are still connected, but they aren't ringing in the current competitive insurance market.

Nationwide, only 30 requests for information have been received by MAPs during the first three quarters of 1979, according to James Olson, research associate at the National Assn. of Insurance Commissioners.

This is a sharp contrast to the 2,000 requests for information received by these programs in 1977 and 1978 combined, according to NAIC data.

"My suspicion is that the regular marketplace is serving its function and it's not necessary to go through MAPs for quotes," Mr. Olson said.

Soft market conditions have been labeled a factor in the suspending of operations at six marketing assistance programs and the stagnation of virtually all others.

Of the 25 MAPs organized by brokers and insurers during the critically tight market conditions in late 1976 to head off formation of residual markets, the following have suspended operations: Minnesota (September 1978), California (November 1979), Illinois (July 1979), Kansas (September 1979), Michigan (July 1979) and Washington (June 1979).

All the programs may be reactivated should the market again reach a critical state, but MAP administrators are divided over whether they will be needed again.

Administrators of these programs were usually either from the state independent insurance agents association or the state insurance department.

"We don't need (MAPs) anymore," said Jerry M. O'Kane, former administrator of Illinois MAP.

"The market has opened up considerably in the last two years. Agents and brokers have become familiar with excess/surplus lines to handle product liability problems that can't be so solved in the standard market." Eighty to 90 applicants were helped by the program since May 1977 out of 114 applicants who went through the program, Mr. O'Kane said. Machinery dealers often came to MAPs for assistance in obtaining insurance since a group program they had belonged to ran on hard times. It has since been reestablished, he said.

"In the future it should be an entirely solvable problem," Mr. O'Kane said, noting he doesn't think the program will have to be reactivated.

The Minnesota program, which started in August 1977, was suspended "primarily because the market situation lessened to the point where MAP was not necessary," said former MAP treasurer James P. Anderson.

"While in operation it was a great program. It avoided mandating something legislatively in the state," he said.

"The major impact of MAP has been to force the market to voluntarily be more receptive to product risks," said Joseph Mercellin, former chairman of the Michigan MAP, run through the Independent Insurance Agents of Detroit. "The authorities feel it was an ideal

way to deal with the problem at the time. It could occur again."

Michigan MAP processed 153 applications since June 1977 and placed about 70% through MAP, he said. Many auto companies, drug companies and used machinery dealers came to the program for assistance, Mr. Mercellin said.

The Kansas MAP processed 43 applications from April 1977 to Sept. 28, 1979, when it was put on standby. "We didn't dissolve it altogether. If the situation arises again a place for settlement will be available," said Rhonda Rostetter, policy examiner at the Kansas insurance department who was involved with the program.

For now, though, "It seems as though agents have been able to locate coverage on their own," Ms.

Rostetter said.

Former chairman of California MAP, Joseph D. Shakespeare, said, "It was successful and served its purpose." He added that if the market tightened again, MAP should be reactivated rather than trying other approaches.

During its 18 months of operations, California MAP placed 22 applications with participating insurers and 27 with outside insurers.

Because conditions in the product liability insurance market are unpredictable, the future of the 18 existing MAPs is unknown.

However, come January, two more programs, one in Nebraska and one in Louisiana, will be reviewed to determine their future.

Meanwhile, workers at programs in states such as Arizona, Maine, Massachusetts, Missouri, South

Dakota, South Carolina, Virginia, Tennessee and Wisconsin are adopting a wait-and-see attitude.

"I think the market will turn tight again and we'll have to turn to the program," said Lester Bushman, secretary/treasurer of Missouri MAP. Should that happen, he said, "We'll have the people in place ready to spring up."

"We're not in any hurry to phase it out," said Newton Black, the commissioner of insurance's representative to the Tennessee MAP. "If we phase it out we'll surely get something next week."

He admitted, though, that there is almost no demand for that program.

In Arkansas, where there has been no demand for assistance in obtaining product liability insur-

ance 12 to 18 months, the program may be restructured to tackle a workers compensation insurance problem there, said Marvin Maurris, chairman of the market committee.

In the only state that is experiencing MAP activity, Connecticut, the type of applicant has changed since the program's inception in January 1977.

"We haven't had any applications on normal business," said Robert Bordeaux, supervisor of MAP. The 10 applications filed since April have been for unusual businesses such as a manufacturer of a covered moped, a trampoline manufacturer and a couple installers of blown-in insulation.

In the past, he said, food products and machinery manufacturers often used the MAP program. ■

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ISLIC assets

International Surplus Lines Insurance Co. recorded an unaudited \$102 million in assets on a statutory basis as of Sept. 30, 1979. Stockholders' equity, on a statutory basis, was \$24 million. The Chicago-based excess and surplus lines insurer was founded in 1971.

Cut tax, up benefits: Social Security panel

By JERRY GEISEL

WASHINGTON—A blue ribbon panel's recommendation that general revenues be tapped to cover part of the cost of Social Security will only disguise rather than solve the public retirement program's funding problems, consultants and business groups say.

The Social Security Advisory Council, in its final report, said, "The time has come to finance some part of Social Security with non-payroll tax revenues."

Medicare, which consumes 1.05% of the 6.13% payroll tax that employers and employees pay, should be funded by general revenues generated by personal and corporate income taxes, the council said. The council meets every four years to analyze and recommend changes to the Social Security system.

By removing Medicare from the payroll tax, the Social Security tax could be pared to 5.6% until shortly after the turn of the century.

Paying for Medicare out of general revenues will lower the payroll tax, but it isn't going to reduce the burden of paying for Social Security-related costs, counters A.

Haeworth Robertson, vp at consultants William M. Mercer Inc.

Using general revenues "just spreads the cost around in a different way. All these programs have to be paid for. They just are shifting (the payments) to a different kind of tax. It's strong to say, but this would simply disguise the tax," Mr. Robertson said.

The council did not suggest where the additional general tax revenues will come from to pay for Medicare. Medicare costs are expected to soar as the pool of Americans over 65 expands, a major concern to business groups.

"When they say general revenues, they don't mean general revenues," says Mike Romig, director of employee benefits for the U.S. Chamber of Commerce. "They don't plan to raise general revenues. They plan to raise the national debt, which increases inflation."

The council, whose members are appointed by the secretary of the Department of Health, Education and Welfare, will give its report to

Congress. Lawmakers are expected to take a long, hard look at Social Security funding problems next year.

Many members of Congress have been under mounting pressure from the business community to delay the next major increase in Social Security taxes, which would raise the payroll tax to 6.65% of the first \$29,700 of earnings on Jan. 1, 1981. The current tax is 6.13% on the first \$22,900 of earnings.

Aside from using general revenues to absorb some Social Security costs—an idea Congress has resisted in the past—the council also recommended Social Security coverage become mandatory for all newly hired public employees.

Consultants generally approve of expanding the net of Social Security coverage to include public employees because "it is wrong to exclude small groups of people for any reason," says Mercer's Mr. Robertson. "That's not fair to the other people in the system."

The council also recommended:

- Boosting benefits for the highest paid workers so they get an impro-

ved return on their payroll taxes.

- Giving cost-of-living increases semi-annually instead of once a year.

- Allowing the Treasury Department to make general revenue payments to Social Security whenever payroll revenues slide because unemployment is more than 6%.

- Authorizing the Social Security Administration to borrow from the Treasury and combine the old age and disability funds.

The council also recommended that Social Security benefits should, in some cases, be subject to federal income taxes. These benefits are now tax-free.

Under the council's proposal, half of the benefits paid by the employer through the payroll tax would be taxed. However, most elderly persons would not be affected since their incomes would be too low to be taxed. If a couple's only income were from Social Security, its benefits would have to exceed \$14,800 before they would be taxed.

The council also advised that

persons divorced after 10 years of marriage divide the Social Security credits earned by the couple during their marriage.

As a result, a divorced woman who did not work while she was married would get half of her ex-husband's credits for the years they were married.

In addition, the council said Congress should consider raising the Social Security retirement age over 65 to cut costs, after the turn of the century.

Finally, the council urged rejection of the Carter Administration's recommendation to eliminate the \$255 lump sum death payment to survivors for funeral expenses.

The advisory council was chaired by Brookings Institution economist Henry J. Aaron. Other members included economists Gardner Ackley and Joseph Pechman; Morton Miller, vp at The Equitable Life Assurance Society; Bert Seidman, director of the department of Social Security at the AFL-CIO, and J.W. Van Gorkom, chairman of the board of Trans Union Corp.

Work comp . . .

Continued from page 1

able to meet the needs of occupational disease victims, the SSDI program should be considered an expanded vehicle to aid disabled workers, the report suggested.

But in exchange for receiving SSDI, disabled workers would have to give up the right to receive workers compensation benefits and to file product liability suits against product manufacturers, the report suggests.

If SSDI is expanded to provide compensation for more occupational disease victims, some of the barriers in the current SSDI program blocking injured workers from collecting benefits will have

to be dropped. Under current Social Security law, a disabled worker must have been employed for five years over a 10-year period to be eligible for benefits.

"The elimination of this provision would benefit those severely disabled workers who meet the general eligibility requirements under Social Security laws but are unable to work with regularity because of the progressive nature of their illness," the report says.

In addition, the current five-month waiting period for SSDI benefits would have to be eliminated with consideration given one-month waiting period.

Administering SSDI benefits for occupational disease victims would be left with the Social Security Administration.

Letters . . .

Continued from page 6

Since this is a one-year subsidy, which will not be repeated next year, it seems very likely that there will be drastic increases in rates for 1981. It also is highly debatable that the new benefits represent an improvement, since the deductible has been increased and the Blue Shield surgical schedule eliminated.

Ardis Anderson, President, New York State Assn. of Self-Insured Counties

Stock story

To the editor: We were pleased to read the article in the Dec. 10 edition of *Business Insurance* describing the amended Marsh & McLennan Cos. Stock Investment Plan. We believe that our stock investment plan, which was carefully designed to play its part in our comprehensive employee benefit program, will respond effectively to the desire of employees to own Marsh & McLennan stock.

I would like, however, to note one important error. Our stock investment plan is not an ESOP. It is, in fact, qualified as a profit-sharing plan under Section 401 (a) of the Internal Revenue Code.

Ian Smith President, William M. Mercer Inc., New York

Editor's note: The officials at Mercer and M&M in Chicago and New York interviewed for the story had referred to the plan as a stock ownership program.

War risk surcharge . . .

Continued from page 1

3.75 cents per \$100. But the November watch rate set by the War Risk Exchange on goods moving to and from Iran was 25 cents per \$100, said Gerard Lenze, cargo underwriting supervisor with Marine Office of America Corp.

If the Iranian situation worsened, for example, if civil war broke out between Ayatollah Khomeini and Ayatollah Shariat-Madari, the rate could go as high as \$1 per \$100 value, Mr. Lenze added.

Higher war risk surcharges have not stopped foreign flag vessels from visiting Persian Gulf ports, said Eugene Yourch, executive secretary of the Federation of American Controlled Shipping, a trade group of American owners of foreign-flag vessels.

In charter operations, shipowners typically pass on the surcharge to the charter, he said. On a \$20 million ship visiting a non-Iranian port, the surcharge would be \$10,000.

M&M stalks Bowring

Continued from page 2

say sources, and might consider relaxing its ruling after a review of its ruling powers is completed and four new members join the committee in 1980.

If Lloyd's does relax its ruling, Alexander & Alexander Inc., which has announced a similar pooling discussion with London brokers Sedgwick Forbes/Bland Payne, might reconsider its plans, says A&A president John A. Bogardus.

But pooling discussions "are proceeding, though slowly, and have not been changed in substance" by the M&M announcement, Mr. Bogardus told *Business Insurance*.

Corroon & Black Inc., another large U.S. broker that had been talking about sharing profits with Lloyd's broker J.H. Minet, announced more than a month ago it is seeking 20% ownership of Minet and consulting its profit pooling talks.

At the time of the Corroon & Black announcement, indications were that the London links talks would shift from pooling plans to more traditional stock mergers (*BI*, Nov. 26).

When spread over a cargo of crude oil valued at \$56 million or more, based on current \$40 per barrel spot market prices for 200,000 tons or 1.4 million barrels, the impact of that surcharge is minimal and is unlikely to be significantly felt by consumers.

The surcharge from a non-Iranian port works out to be less than 1 cent per barrel.

On oil shipments from Iran, subject to a hull war risk surcharge twice that for other Persian Gulf ports and a cargo rate 6.5 times greater than normal, the surcharge works out to less than 10.5 cents per barrel.

Arab shippers have objected to the higher war risk rates and Arab insurers have talked about forming a syndicate to write Persian Gulf war risk cover at lower rates. But John D. Lucey, executive vp at Frank B. Hall of New York, doubts this will happen.

It is unknown whether ship mortgage holders would accept Arab security, he added.

M&M then refused to comment on its own discussions, but informed sources said the M&M/Bowring plan had been on the verge of completion at least twice but was stalled by additional regulatory demands.

Gilbert Cooke, Bowring's managing director, told *BI* that problems have been arising "in all areas in our discussions with Marsh & McLennan both with respect to our insurance brokering activities as well as our financial and banking activities."

"There is no doubt that the U.S. has a different style toward some aspects of insurance business than we have in Britain," he continued.

Mr. Cooke suggested that some British and international insurance buyers may prefer to work with a British broker than with a U.S.-owned firm and so leave Bowring.

Other London sources indicated that Bowring key executives were concerned M&M would dominate Bowring, even if ownership were limited to 20%.

Marsh & McLennan Cos. Inc. would not explain how it planned to circumvent the Lloyd's ownership rule.

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Only through agents/brokers/insurance companies

HOW DO YOU KNOW IF YOU HAVE THE RIGHT FIDUCIARY LIABILITY POLICY?

The Insurance Buyer's ERISA quiz.

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| ☐ Does your policy provide coverage on a limited claims-reported basis rather than on a true claims-made basis? | ☐ Does your policy by definition exclude employee benefits liability losses? |
| ☐ Does your policy limit coverage to persons defined as fiduciaries? | ☐ Does your policy include outside persons as insured fiduciaries? |
| ☐ Does your policy limit coverage to wrongful acts of insureds only? | ☐ Does your policy contain a limited retroactive acts exclusion? |
| ☐ Does your policy provide defense costs within limits of liability? | ☐ Does your policy give the insurer the right to settle claims without your consent? |
| ☐ Does your policy limit loss to damages by definition, and exclude non-pecuniary claims? | ☐ Has your policy been purchased without the advice of competent legal counsel who has rendered an opinion in writing as to which contract he felt offered the broadest coverage? |

IF the answer to **any** of the above questions is "Yes," the chances are you have probably purchased the wrong policy. And the real problem is that you will probably never know until you have an uninsured loss.

HOW do you know you have the right fiduciary liability policy? There's only one way—to **compare**. Remember—**all policies are not created equal**. While all contracts may appear to be similar, there can be substantial differences in their terms and conditions—differences which can be very significant—and costly. And, unfortunately, it's impossible to compare policies without a thorough understanding of the law. (ERISA)

THE Professional Indemnity Agency, direct Lloyd's correspondents, is one of the very few insurance underwriters qualified to make sound recommendations. Fiduciary liability coverage is our business. We understand this is a difficult business—and we refuse to take the easy way out. Combining a Fiduciary Liability and a Directors and Officers Policy may serve the best interests of the insurance carrier and the broker, but it may **not** serve **your** best interest because it may not give your people the complete protection as provided by the P.I.A. form. The responsibilities of persons covered under each policy are quite different; in fact the law (ERISA) **mandates** this conflict. P.I.A. does not deal directly with insureds, but we will be happy to make our facilities available to your agent or broker.

BEFORE the enactment of ERISA, your sole responsibility was the guarding of corporate assets. But now, because of this law, (ERISA) you are faced with the tremendous additional responsibility of protecting the personal assets of your directors, officers and other employees. You've got to be **sure**. You've got to **compare**. You've got to talk to the experts... **NOW!**



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The American Worker.

Head of a family, heart of a nation.

We've been insuring America's most valuable resource, her workers, for almost 100 years now. But, only in the last few years has it become apparent how inflation can eat away at a family's hard-earned assets, including its life insurance. That's why we developed the Triple E Insurance Plan. With Triple E (the E's stand for Executive Estate Escalator), your benefit increases automatically each year by an amount equal to the cash value of your policy — at no extra cost to you.

Triple E has other advantages, too. You can borrow against it or convert it to a retirement plan.

To find out how our Triple E Insurance Plan can help you fight inflation, call or write us today.



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