

WEEK OF DECEMBER 28, 1981

business insurance

update:
Parliament requires divestment in Lloyd's bill

LONDON—Divestment of Lloyd's of London brokers from their underwriting agencies must be included in the Lloyd's self-regulation bill, the House of Commons committee considering the legislation concluded last week.

"Our view is that in the public interest the additional provisions (for divestment) *Continued on next page*

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First Interstate bringing claims processors to workers

By RHONDA L. RUNDLE

LOS ANGELES—First Interstate Bancorp. is banking on Blue Cross health claims processors, set up in nine banks across the Western states, to deliver computerized claims service to its employees.

The Health Claims Service Centers, staffed by Blue Cross of Southern California but located inside First Interstate banks, will be wholly dedicated to helping employees with their medical and dental claims.

After a comprehensive search for the optimal claims processing system, self-funded First Interstate opted in September for this novel approach brainstormed by Blue Cross. Since then, both client and provider have scrambled to ready the network for its Jan. 1 debut.

"Blue Cross took our specifications and saw what we really wanted was service," sums up Kathryn D. McKee, a First Interstate vp. The bid request specified five-day claims turnaround, on-line processing to assure easy claims status checks, financial reports and audit requirements.

"About \$18 million to \$20 million flow in and out of our *Continued on page 40*

Blue Cross computers inside First Interstate



Map: Toby Roberts

Judge hopes to combine Dalkon suits

By RHONDA L. RUNDLE

SAN FRANCISCO—A U.S. District Court order combining Dalkon Shield lawsuits nationwide could set a powerful precedent for other courts clogged with mass product liability or disaster litigation.

The 9th Circuit Court of Appeals will review an order issued Nov. 5 by U.S. District Court Judge Spencer Williams in San Francisco certifying a national class to press—once and for all—claims for punitive damages against A.H. Robins Co. Inc., manufacturer of the Dalkon Shield intrauterine device.

If Judge Williams' order is upheld, his subsequent ruling on punitive damages will bind each of the more than 1,400 Dalkon Shield cases pending nationwide. A fund to pay claimants would be established if the court assesses punitive damages against the IUD maker.

Following his ruling on punitive damages, each of the individual cases would be sent back to local courts to decide compensatory damages.

Injuries claimed by Dalkon Shield users include uterine perforation, infection, pregnancy, spontaneous abortion, fetal injuries and hysterectomies.

Unlike most class actions, which are sought by plaintiffs to reduce their personal share of litigation costs, the Dalkon Shield national class was proposed by Judge Williams. In a 50-page memorandum he explains his reasons for the action, including:

- Provision for equal access among plaintiffs to a recovery fund and prevention of a "windfall" punitive damage award to any one individual.

Continued on page 30

'Imaginative judicial management of massive litigation is essential to controlling and expediting cases,' Judge Williams says.

Defending asbestos suit pays off for Unarco

By STEPHEN TARNOFF

PORTLAND, Maine—A Chicago manufacturer has its first proof that vigorously defending product liability suits in court might be the way to reduce its losses from asbestos injuries.

A U.S. District Court jury last month absolved two asbestos manufacturers of liability in a suit brought by the estate of a former shipyard worker who died from an asbestos-related disease. While the jury found the defendants negligent, it also found the plaintiff was negligent in preventing his disease.

But the Dec. 5 verdict came after 12 other defendants named in the suit paid the plaintiff \$275,000 in out-of-court settlements.

One of the defendants, Johns-Manville Products Corp. of Denver, settled three days after the trial began, paying a reported \$75,000.

But for Unarco Industries Inc. of Chicago, one of the victorious defendants, the verdict reinforces its new policy of more aggressively defending asbestos cases rather than settling out of court.

"We are starting to defend cases as vigorously as we can," said William C. McLaughlin, corporate counsel for Unarco

Industries, which no longer manufactures asbestos. "This was one of the first."

Other companies named in the suit, which was brought in 1978 and amended in 1979, include: Celotex Corp., Keene Building Products, 48 Insulations Inc., GAF Corp., Armstrong-Cork Co., Eagle-Picher Industries Inc., Owens-Corning Fiberglass Corp., Pittsburgh Corning Corp., Amatec Corp., Fiberboard Corp., Owens Illinois Co. and HK Porter Co. Inc.

J.P. Stevens & Co. Inc. and Nicolet Inc. were originally named in the suit but were later dismissed, according to a company attorney.

A spokesman for Amatec said the company settled for "substantially under \$25,000," while a spokesman for Eagle-Picher said the company settled for less than \$10,000.

The verdict, which came after a five-week trial, found that both Unarco and co-defendant Raybestos-Manhattan Inc. of Trumbull, Conn., were negligent and provided the proximate cause of the death of worker Blaine L. Austin.

But it also found that Mr. Austin was more than 50% negligent due to his knowledge of the danger of asbestos and his failure to take adequate precautions.

Maine, a comparative negligence state, allows the jury to

apportion liability but precludes awards to plaintiffs if they are more than 50% negligent.

As a result, the defendants escaped liability. "The jury found that we were negligent, but that our negligence was slight" compared with the plaintiff's, said Peter Culley, a Unarco attorney with the Portland firm of Hewes, Culley, Feehen & Beals.

The suit was brought by Mr. Austin's widow, Margaret, who sought damages from 14 companies that furnished asbestos to the Bath Iron Works where Mr. Austin worked as a shipyard painter.

According to Mr. Culley, the defendants presented evidence at the trial showing that Bath Iron Works was aware of the risks of asbestos and the necessary precautions.

In addition, evidence showed that respirators were available to employees but that Mr. Blaine did not always wear one. He was also aware of a fellow worker who had developed an asbestos-related disease, he said.

Attorneys for the plaintiff, however, contended that little evidence was presented to show Mr. Austin's negligence. One of the attorneys, Thomas Henderson of the firm of Baskin &

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INSIDE:

No liability hangover for Michigan tavern owners
 Page 3

Commissioners leave "blanks battle" unresolved
 Page 2

NEWSPAPER

AMEX employees get vision care benefit

The American Stock Exchange has added a self-funded vision care plan to the benefits it offers its 700 employees and their families.

The new benefit, the result of negotiations with the Assn. for the Best Interest of AMEX Employees, an in-house bargaining unit, is administered by Vision Service Plan, an independent, non-profit vision care service company.

The benefit is expected to cost about \$60,000 during the first two years. Employees pay a \$10 per claim deductible, says Thomas Carley, the exchange's benefits supervisor.

The American Stock Exchange, Mr. Carley says, had considered participating in a vision care discount program or adding vision care to its major medical coverage. Self-funding, however, proved to

benefit beat

be the most economical, he says.

The Vision Service Plan provides for one comprehensive examination every 24 months for an employee and spouse and one examination every 12 months for unmarried dependent children until their 19th birthday, or until age 23 if they are full-time students.

The plan pays up to \$30 for examinations, \$16 for frames, \$12 for single-vision lenses, \$18 for bifocals, \$23 for trifocals and up to \$170 for medically required contact lenses. Patients choosing contact lenses for cosmetic purposes will be given a \$60 allowance.

The plan does not cover vision

training, non-prescription lenses or medical or surgical treatment of the eyes.

The plan fully pays the claims for examinations provided by a vision specialist registered with Vision Service Plan. It pays reasonable and customary charges—from a schedule of fees—for claims by non-panel vision specialists.

More state support?

A Louisiana state employees group, seeking relief from rising health insurance costs, is seeking legislation that would require the state to pay a higher percentage of its health insurance premiums.

The board of trustees of the State Employee Group Benefits Program, the administrator of employee benefits for the state's 92,000 public workers, has appointed an ad hoc committee to meet with the governor, hoping to gain support for proposed legislation that could have the state paying as much as 80% of state employee's health insurance premiums.

The faculty senate at Louisiana State University last month adopted a resolution calling for the state to pay 75% of the health insurance premiums.

Legislative action, however, may not come until April when the Legislature returns to session, says a spokesman with the State Employees Group Benefits Program. A similar effort last year failed.

"The cost of medical care has in-

creased by leaps and bounds," says Tommy Teague, staff attorney for the employee group. "There has been a great concern about insurance premiums."

The state currently pays 50% of premiums for a health and accident insurance plan that has a \$100,000 per-person major medical limit. The plan pays 80% of an employee's claims, except for alcohol treatment and nervous and mental rehabilitation claims, which are paid at a 50% level. Next year, the plan will pay 80% of those claims. Employees pay a \$100 deductible.

In January, employees will be hit with an average 18.9% rate increase. That increase is attributed to higher utilization of the health plan and continually rising health care costs (BI, Dec. 14).

In recent months, the State Employee Group Benefits Program has been paying claims in excess of \$7 million a month, says a plan spokesman.

Last year, state and employee contributions to the program totaled more than \$159 million. Claims amounted to more than \$151 million, about 95.2% of total revenue generated.

Currently, the state contributes \$68 million. Under the new rate schedule, it will pay \$90 million.

Pension costs

Pension plans offered by motor vehicle manufacturers were the most costly to provide last year, according to a benefits survey conducted by Johnson & Higgins, an insurance brokerage firm.

Motor vehicle manufacturers spent an average of \$3,200 per person on pension benefits—33.4% more than they spent in 1979.

Industrial manufacturers spent an average of \$1,329 per employee, 12.1% more they spent in 1979. Non-industrial companies spent an average of \$1,279 per employee, 7.4% less than what they spent during the previous year.

Utility companies spent \$2,421 per employee. Retailing firms had the lowest pension cost per employee—\$386.

The average per-person cost of pension benefits rose 10.1%, the smallest increase in four years.

J&H surveyed more than 600 corporations. More than 460 of them were Fortune 500 companies.

Terminates plan

Harper & Row Publishers Inc. has terminated its defined benefit pension plan and amended its profit-sharing plan.

The plan assets were used to buy more than 1 million shares of Harper & Row stock that were held by the Minneapolis Star & Tribune.

Harper & Row has replaced the pension plan with an Employee Stock Ownership Plan that will hold most of the purchased shares. The stock plan and the profit-sharing plan will receive the shares at market prices, not at the \$20-per-share rate that the company paid.

As a result of the changes, Harper & Row will not make any further pension or profit-sharing contributions for the five fiscal years ending in April 1986.

According to the Pension Benefit Guaranty Corp., the defined benefit pension plan had \$16.9 million in assets and \$7.3 million in liabilities upon termination. The balance, \$9.6 million, was used to buy the stock.

The profit-sharing plan used \$1.5 million of its \$3.5 million in assets to buy Harper & Row stock.

Made any benefit changes? Write James Lawson, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

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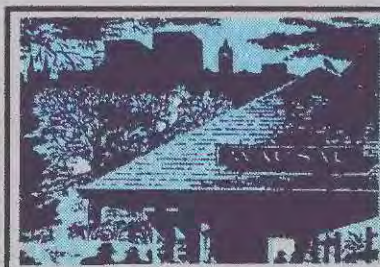
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work for a living. Wausau specializes in the coverages motor carriers need — we're looking for more good policyholders like the Convoy Company.



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editorial opinions

Hitting below the belt

TRIAL LAWYERS are notorious for taking potshots at their targets, but get this.

The Assn. of Trial Lawyers of America had planned to hold its 1982 annual meeting at the Kansas City Hyatt Regency Hotel, which is now the subject of lawsuits demanding in excess of \$3 billion as a result of the skywalk collapse last July.

The association rescheduled the meeting for Toronto because "we felt since several of our members are involved in lawsuits against the

Hyatt, it would be inappropriate for them to stay there," a spokesman told the American Bar Assn. Journal.

Fair enough.

But then he added that the trial lawyers also were concerned about their personal safety. "We're not saying the hotel isn't safe; we just don't know. If they took shortcuts with the walkways, who knows how many other corners they may have cut?"

That's a cheap shot.

The season's best?

WE'RE HAPPY to report that underwriters can have a sense of humor. To prove it to you, we reprint here the season's greetings message sent by Trenwick Ltd., a Bermuda-based reinsurance company infamous for being somewhat irreverent in the pin-striped world of reinsurance.

Wassail!

But what a year! The ratio tells...
Hell hath no fury like large hotels.

It was a year unphilanthropic,
With wind and water and toxic shock it
seems the world's just one deep pocket,
Where breathing in is catastrophic.

Around us seeking corporate mates,
Scores of riskless reprobates
Continue to consolidate, replicate, intimidate...
(Could some but soon disintegrate?)

"Rates too low!", the market groans,
"Getting paid's like blood from stones!"
Yet 'twas a year with much to like,
Unless you bound the baseball strike.

Some say '82 looks bleak,
Like stretching out a losing streak.
But from Bermuda we send you cheer,
For a Merry Christmas and Great New Year.

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letters

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HMOs may not cut costs

To the editor: It is naive to recommend an employer offer a health maintenance organization to employees to cut health insurance costs (BI, Dec. 14). Even if the cost of the HMO is less than the existing plan, the employer may not actually save money.

Most renewals are based on use experience, so the existing plan's claim dollars must be reduced more than the premium lost to the HMO in order for a savings to exist. This would be true regardless of current funding methods.

For example, if 100 employees joined the HMO at a cost of \$75,000 and contributions to the current plan were reduced by \$100,000, but claims to the existing plan were reduced by only \$70,000, the total effect is that the HMO costs the employer an additional \$5,000 because

the losses in the existing plan are larger than the HMO savings.

A true savings utilizing an HMO can exist only when the claim from those individuals joining the HMO reduce claims in the current plan by a dollar figure greater than the contributions paid to the HMO. This would be a rare event.

Therefore, comparing contributions to determine savings is almost as valuable tool for savings estimates as picking any number out of the air. Only after comparing the actual claim history of enrollees can it be determined if an employer wins or loses in the HMO gamble.

You would probably get better odds in Las Vegas.

Norman A. Tapper
Senior underwriter
American BBC Inc.
Carol Stream, Ill.

Alcohol treatment worth the effort

To the editor: I want to commend Business Insurance for its article "Alcohol: Companies are learning it pays to help workers beat the bottle" (BI, Nov. 16) and the related Perspective column by Thomas R. Bond. This is a subject in which we at Kemper are keenly and actively interested and which demands greater attention from others in the health and workers compensation insurance business.

In 1964, Kemper became one of the first companies to offer specific coverage for the treatment of alcoholism. In June 1973, we extended group health coverage for both outpatient and inpatient treatment in qualifying non-hospital alcoholism treatment centers.

On behalf of Kemper, I serve on the National Assn. of Insurance Commissioners' Task Force on Alcoholism, Drug Addiction & Insurance. As a member of the committee, I helped to draft its model legislation concerning alcoholism coverage in group health plans, cited in your article. While Kemper supports the committee's final recommendations, we also believe this coverage should not result in increased rates, since there is no formal evidence that insurers' cost increases when it is added.

In fact, successful treatment of alcoholism should reduce group health insurance payouts. The National Institute on Alcohol Abuse & Alcoholism estimates that 15% of

all claims made against insurance companies result from alcoholism and alcohol abuse. According to federal government figures, 40% of all fatal industrial accidents directly involve alcohol abuse.

Including alcoholism as a covered item in group health insurance products, then, is not only socially responsible, but makes good business sense.

You might be interested in knowing that Kemper has an Employee Assistance Program, one of the first in the country, and used as a model by some companies. Established in 1962 to work with employees with alcoholism, the program now assists them with the whole range of living problems, including drug addiction, alcoholism, interpersonal problems, chronic physical conditions and compulsive behavior like addiction to food or gambling. Since the program's inception, about 3,000 employees have received assistance.

We have also been active in supporting state legislation to raise the legal drinking age in those states where it was lowered. Finally, we recently published guidelines that we hope will be used by the states to formulate more effective drinking-while-driving laws and enforcement practices.

Dr. Gary Graham
Medical director
Kemper Group
Long Grove, Ill.

Punitive damages is form of blackmail

To the editor: Except for your position regarding punitive damages, I concur with your editorial favoring the proposed federal aviation disaster statute (BI, Dec. 7). I only hope it remains meaningful after the trial lawyers' lobby is through with it.

But why not outlaw punitive damages? They don't belong in a civil case. Why should the plaintiff get this bonanza after already receiving compensatory damages? Seeking punitive damages in a civil case is no more than a form of blackmail to scare defendants into

settling for an excessive figure.

"Punishment" belongs in the criminal courts and resulting monetary fines should go to the state. There are certainly enough laws on the books to enable the district attorney to successfully prosecute a case of "willful and deliberate disregard for safety." If punitive damages were outlawed from civil cases, the question of insurance coverage for them would be moot.

Lawrence J. Bell
Assistant vp/risk management
Revco D.S. Inc.
Twinsburg, Ohio

Small day-care centers get good coverage

To the editor: Thanks for the excellent article on the problems of insuring day-care centers (BI, Dec. 7). However, I must take issue with the comment that smaller day-care centers that depend on local insurance agents cannot find adequate coverage at a competitive premium.

We have been using the INA

day-care package policy for two years and have found it to provide excellent coverage at a very favorable premium. Thanks should go to INA for developing a policy that truly meets a need of the small day-care center.

A.P. Hurst Jr
A.P. Hurst & Co.
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Plans barred from collecting withdrawal claims

By JERRY GEISEL

U.S. District Court judges in both Minneapolis and San Diego have issued preliminary injunctions barring two multiemployer pension plans from demanding withdrawal liability payments from employers who left the plans.

In Minneapolis, Judge Miles Lord's order bars the Central States, Southeast and Southwest Areas Teamsters' pension fund from seeking immediate payment of a \$2.19 million withdrawal liability claim from Witte Transportation Co. The firm left the plan last year and is challenging the pension plan's claim.

However, Judge Lord also ordered Witte and the Teamsters' plan to submit their dispute to arbitration. Witte also must post a

\$100,000 bond as security in case the injunction is later found to be improper.

In San Diego, Judge Leland Nielsen issued a preliminary injunction barring the Operating Engineers Pension Trust in Pasadena from taking any action to force Woodward Sand Co., a family-owned sand delivery firm in Santee, Calif., to pay a \$264,524 withdrawal liability claim.

Judge Nielsen, however, required Woodward Sand to post a \$25,000 bond as security while it is battling the multiemployer plan in court.

Witte and Woodward Sand are among an estimated three dozen employers who have filed suits challenging a 1980 federal law that gives multiemployer plans the power to collect enormous pay-

ments for unfunded vested benefits from employers who leave the plans.

In passing the Multiemployer Pension Plan Amendments Act of 1980, Congress said that an employer that withdrew from a multiemployer plan would have to pay a share of the plan's unfunded vested benefits.

That was a dramatic change from the previous law that allowed an employer to drop out of a multiemployer plan and escape paying liabilities if the plan did not collapse within five years of the company's withdrawal.

Because employers' contributions haven't matched the benefits that were promised, many of the multiemployer plans are poorly funded—and an employer who leaves is hit with enormous withdrawal lia-

bility claims.

Besides employers who are challenging the constitutionality of the act in the courts, Sen. Orrin Hatch, R-Utah, has introduced legislation, S. 1748, that would again allow employers to leave multiemployer plans without paying any the plan's liabilities (*BI*, Nov. 2).

"Employers aren't giving the act a chance to work," contends Baruch Fellner, associate general counsel of the Pension Benefit Guaranty Corp., the federal agency that guarantees workers' vested pension benefits through an insurance program. Employers and multiemployer pension plans should try to iron out disputes through arbitration before court remedies are sought, Mr. Fellner added.

The Witte case, with the order to submit to arbitration, may provide

the first test on whether arbitration is the forum for multiemployer disputes.

Witte, which had about 300 employees, was a member of the Teamsters' plan until the company closed on June 15, 1980.

One year later, on June 15, Witte received a Central States withdrawal liability claim for \$2.19 million payable immediately or in monthly installments of \$37,000 beginning July 1 (*BI*, Oct. 5).

Witte told the court that if it failed to make a monthly withdrawal liability payment, Central States has the right, after giving the company 60-days notice, to require immediate payment of the remaining balance, plus interest.

"These provisions fail to provide the employer with a fair hearing on determinations by the plan sponsor... these provisions are violative of procedural due process as guaranteed under the Fifth Amendment to the United States Constitution," Witte said in its suit.

In issuing his injunction halting—at least for now—withdrawal liability payments, Judge Lord agreed that acceleration of withdrawal liability payments would involve "substantial economic burdens" for Witte.

The next step for Witte and the Teamsters' plan is to submit the withdrawal liability claim to arbitration. If the two parties can't agree on who should arbitrate the dispute, Judge Miles said the court would appoint an arbitrator.

Woodward Sand, the California sand distributor, withdrew from the Operating Engineers Trust on Aug. 15, 1980, after it failed to reach a new collective bargaining agreement with the operating engineers' union.

On Aug. 31, 1981, the multiemployer plan told Woodward Sand that it had to pay a withdrawal liability claim of \$264,524.24, about 31% of Woodward's net worth.

Woodward Sand filed suit in U.S. District Court for the Southern District of California. It told the court that the claim would "irreparably injure the business of and seriously jeopardize the survival of Woodward."

The company, which had just 12 employees in the multiemployer plan, said the retroactivity of the act deprives the firm of its property without due process of law.

President Carter signed the Multiemployer Amendments Act on Sept. 26, 1980, but the act applies to employers who left multiemployer plans after April 28, 1980.

Judge Nielsen said even if Woodward only had to make monthly withdrawal liability payments of \$4,346.99, as suggested by the plan, the family-owned company would incur "serious hardship."

On the other hand, the plan would not incur "substantial serious hardship" if Woodward didn't make scheduled payments while the firm is challenging the claim, Judge Nielsen said in approving the preliminary injunction barring the plan from demanding payment of the claim except through arbitration. ■

CPCU chapter sponsors review

BLOOMINGTON, Ill.—The Central Illinois Chapter of the Society of CPCU will hold a review day Jan. 9 for those taking the January CPCU examination. The review, for parts 1, 3, 5, 7 and 9 of the test, will be held at Illinois Wesleyan University's Sherff Hall.

The cost of the review is \$6.50. For more information write Harry Morris, One State Farm Plaza, Bloomington, Ill. 61701. Indicate the review session desired. ■

Q. Which insurance broker analyzes the effects of economic developments and new legislation before they have an effect on you?

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Clothing Contractors
Coal Mining Equipment
Coal Preparation Plants
Coins
Cold Storage Locker
Commercial Hulls
Computers
Concrete Plants
Conditional Sales
Floater
Contingent
Transportation
Contractor's Equipment
Costumes
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Crawlers
Cruisers
Customers' Goods
Dams
Deferred Payment
Merchandise
Dental Equipment
Difference in Conditions
Dogs
Dozers
Draglines
Dredges
Dry Cleaners
Drydocks
Equipment Dealers
Excess DIC
Exhibitions
Express Mail

Farm Equipment
Fine Art Exhibitions
Fine Arts
Fine Arts Dealers
Firearms
First Class Mail
Fishing Vessels
Flags
Flood Lights
Floor Plans
Foreign Insurance
Furniture Warehouseman
Furriers
Furrier's Customers
Furrier's Storage
Furs
Garment Contractors
Golf Carts
Golfer's Equipment
Ham Operators
Equipment
Harps
Heating and Air
Conditioning Install.
Horses & Wagons
Hull Builders Risk
Inboard-Outboard Boats
Inland Marine Floater
Installations
Installment Sales
Intermodal Containers
Jeweler's Block
Jewelry

Laundries
Leased Equipment
Legal Liabilities
Linen Supplies
Lithographs
Livestock
Mail
Manufacturers' Output
Marina Operators
Marine Lighthouses
Marine Supply Dealers
Miscellaneous Movable
Equipment
Miscellaneous
Structures
Mobile Home Dealers
Motor Boats
Motor Truck Cargo
Museums
Musical Instrument
Dealers
Musical Instruments
Navigational Aids
Negative Film
Negative Film Floater
Neon Signs
Ocean Cargo
Outboard Motors
Overseas Warehouses
Paintings
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Paraphernalia
Parcel Post

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Patterns
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Physicians & Surgeons
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Piers
Pile Drivers
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Number of new HMOs is decreasing: Study

By JERRY GEISEL

EXCELSIOR, Minn.—Despite a slowdown in the number of new health maintenance organizations, HMOs now operate in more states.

According to a survey released last week by InterStudy, an HMO research group, HMOs operate in 39 states, up from 37 states in 1980. HMOs opened for the first time in Kansas, Tennessee and Oklahoma in 1981. Idaho's lone HMO, Health Guard in Boise, folded this year.

However, while HMOs are tapping new geographic territories, the number of new HMOs is declining, a reflection of the cutback in federal loans and grants.

Between June 1980 and June 1981, just 20 new HMOs began op-

erations, bringing the total number of HMOs to 243. That's down from 27 new HMOs between 1979 and 1980 when there were 236 HMOs.

"Although private sector financial involvement in HMOs is on the upswing, the federal cutbacks are affecting new plan development," according to InterStudy.

California continues to have the most HMO plan, 33, and the highest HMO enrollment, 4.3 million. But California's domination of the HMO movement, which started there in the 1940s, is easing.

For example, of the 10.3 million people enrolled in HMOs, 42%, or 4.3 million, are in California-based HMOs. That's a decrease of 4% from 1979 when 46% of the national HMO enrollment of 6.94 million was in California HMOs.

Similarly, HMO domination by the very large plans also is on the decline. For example, this year, 61% of HMO members were enrolled in plans with more than 100,000 subscribers, a decrease from 1979 when 68% of the HMO population was enrolled in the very large plans.

Medium-size plans are the fastest growing HMOs. Enrollment in HMOs with 25,000 to 49,999 members climbed to 1.3 million from 907,000 during the last year, a 43.8% rise.

By contrast, enrollment in HMOs with fewer than 5,000 members, which have been most affected by the reduction in federal financial support, plunged to 102,330 from 125,193, an 18% drop. Enrollment in HMOs with 5,000 to 14,999 members also declined slightly to 733,525 from 744,979, a 1.5% decrease.

Enrollment in the nation's largest HMOs, those with more than 100,000 members, climbed to 6.2 million, up from 5.6 million in 1980, a 12% increase.

HMOs continue to be more successful than conventional indemnity plans in keeping their members out of high-cost hospitals. Between June 1980 and June 1981, the average plan used 467 hospital days per 1,000 members. During the same period, Blue Cross/Blue Shield plans reported a hospital utilization rate of 725 days per 1,000 people, according to the InterStudy survey.

After California, states with high HMO enrollments include: New York, 1.03 million people in 11 HMOs; Minnesota, 501,000 in 10 HMOs; Wisconsin, 453,000 in 17 HMOs; Washington, 413,000 in six HMOs; Oregon, 345,000 in seven HMOs; and Illinois, 301,000 in 13 HMOs.

The nation's biggest HMO, the 36-year-old Kaiser Foundation Health Plan in Oakland, which serves the Northern California area, gained 51,091 members during the last year. Membership climbed to 1.72 million from 1.67 million, a 3% increase.

The other giant Kaiser plan, Kaiser Foundation Health Plan in Los Angeles, which serves the Southern California area, saw its membership rise to 1.57 million, up only slightly from 1.56 million. Enrollment in the East Coast's largest HMO, Health Insurance Plan of Greater New York, increased to 825,000 from 774,475, a 6.5% rise.

As reported earlier, the average monthly premium charged by HMOs in 1981 was \$132.20, up from \$120.30 in 1980, a 9.9% increase (BI, Dec. 14).

Copies of the "National HMO Census—1981," are available from InterStudy, Box S, 5715 Christmas Lake Road, Excelsior, Minn. 55331. The cost is \$6.

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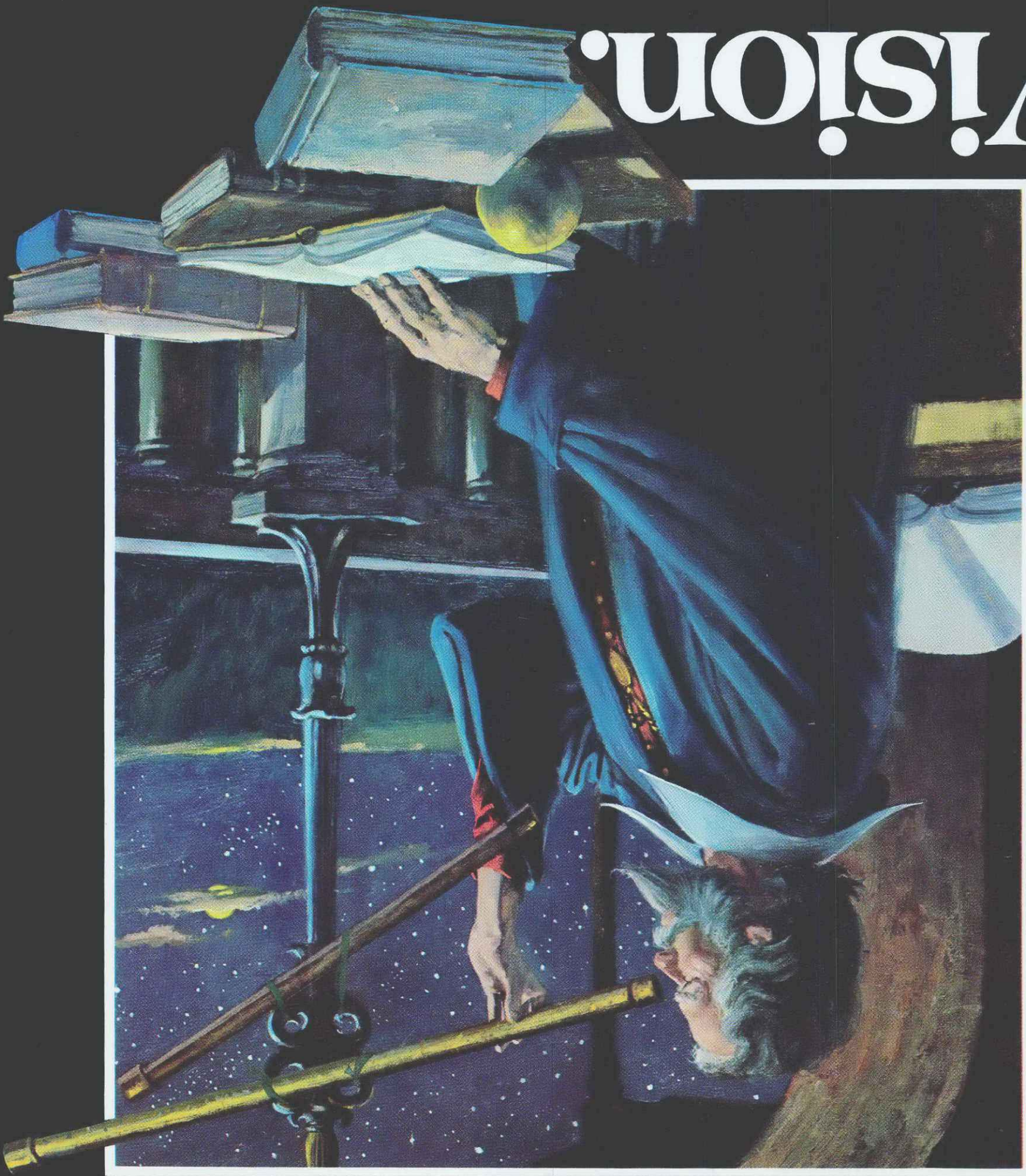


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JAN. 7-8. Protecting Computer-based Information and Preventing Computer Abuse symposium in San Francisco, sponsored by Bureau of National Affairs Education Systems; \$300; three or more from same company, \$250. Also Feb. 3-4 in Washington. Symposium Secretary, Suite S-802, 1231 25th St. N.W., Washington, D.C. 20037.

JAN. 7-8. Products Liability, Defense Techniques and Trial Tactics seminar in Houston, sponsored by the Defense Research Institute Inc.; members, \$210; non-members, \$235. Tony Karpowitz, Public Relations, Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

JAN. 11-12. Executive Compensation and Employee Benefits seminar in New York City, sponsored by Law & Business Inc., Legal Times of Washington, Harcourt Brace Jovanovich and Fordham University School of Law; \$350. Also Feb. 25-26 in Denver. Law & Business Inc., 757 Third Ave., New York, N.Y. 10017; 212-888-2652.

JAN. 15. Risk Management Information Systems seminar in Denver, sponsored by the Public Risk & Insurance Management Assn. and Warren, McVeigh & Griffin; PRIMA members, \$95; non-members, \$170. Also Feb. 5 in St. Louis. C.C. (Bud) Griffin, President, Warren, McVeigh & Griffin Inc., 1420 Bristol St. N., Newport Beach, Calif. 92660; 714-752-1058.

JAN. 18. Vermont, The Risk Retention Act and the Expanding Role of the Captive seminar in New York, sponsored by the American Risk Management Group; \$85. Also Jan. 20 in Cleveland and Jan. 22 in Chicago. Cathy Conrad, American Risk Management Group, 1 Executive Drive, Fort Lee, N.J. 07024; 201-592-7100.

JAN. 18-19. Mine Accident Liability seminar in Las Vegas, Nev., sponsored by The Energy Bureau Inc.; \$50. Robert W. Nash, Executive Director, The Energy Bureau Inc., 41 E. 42nd St., New York, N.Y. 10017; 212-687-3177.

JAN. 18-19. Preparation of Annual Disclosure Documents program in New York, sponsored by the Practising Law Institute; \$290. Also Jan. 28-29 in San Francisco. Practising Law Institute, Department UYC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 18-20. Physical Security workshop in Orlando, Fla., sponsored by the American Society for Industrial Security; members, \$295; non-members, \$375. ASIS, Education and Seminar Programs Department, Suite 651, 2000 K St. N.W., Washington, D.C. 20006; 202-331-7887.

JAN. 19-21. Financial Analysis for Risk Management Decisions seminar in Dallas, sponsored Cozzolino Associates Inc.; \$685. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

JAN. 25-27. Fundamentals of Property and Casualty Insurance seminar in Dallas, sponsored by the American Management Assn. AMA members, \$625; non-members, \$720. Also Feb. 1-2 in New York. American Management Assn., 135 W. 50th St., New York, New York 10020; 212-246-0800.

JAN. 25-28. Industrial Safety Awareness course in Los Angeles, sponsored by the University of Southern California; \$525. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 25-28. National Insurance and Protection Conference of Financial Institutions in New Orleans, sponsored by the American Bankers Assn.; financial institution employees, \$375; non-financial institution employees, \$475. Shelly Davis, Program Coordinator, American Bankers Assn., 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4048.

FEB. 1-2. Captives, Texas and the 1980s seminar in Austin, Texas, sponsored by Risk Alternatives Inc.; \$350. Risk Alternatives Inc., Box 1765, Austin, Texas 78767; 512-442-0954.

FEB. 1-2. Construction Insurance Costs conference in Dallas, sponsored by the International Risk Management Institute; \$395; for the half-day primer, \$95; for half-day session on cash flow, \$95. International Risk Management Institute, Suite 208, Building III, 10300 N. Central Expressway, Dallas, Texas 75231; 214-363-9656.

FEB. 1-2. Financial Costing of Risk Management seminar in Irving, Texas, sponsored by the Risk Management Institute, University of Dallas; \$395. Professor Bruce D. Evans or Julie Allan, University of Dallas, Risk Management Institute, University of Dallas Station, Irving, Texas 75061; 214-579-5360/5330/5299.

FEB. 3-4. Linking Up the Risk Manager seminar in Irving, Texas, sponsored by the Risk Management Institute, University of Dallas; \$295. Professor Bruce D. Evans or Julie Allan, University of Dallas, Risk Management Institute, University of Dallas Station, Irving, Texas 75061; 214-579-5360/5330/5299.

FEB. 8-9. Third Annual Petroleum Insurance conference in Houston, sponsored by the Professional Development Institute of North Texas State University; \$395. Joanne Paulman, Conference Center, Professional Development Institute, North Texas State University, Box 13288, Denton, Texas 76203; 817-788-2483.

FEB. 8-9. Practical Law and the Security Manager program in Arlington, Va., sponsored by the American Society for Industrial Security; ASIS members, \$240; non-members, \$325. ASIS, Education and Seminar Programs Department, 2000 K St. N.W., Suite 651, Washington, D.C. 20006.

FEB. 8-12. Recognition of Occupational Health Hazards seminar in Los Angeles, sponsored by the University of Southern California; \$415. Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 9-12. Hazardous Materials seminar in Nashville, Tenn., sponsored by the Hazardous Risk Advisory Committee in cooperation with agencies of the Nashville metropolitan government; \$100; after Jan. 8, \$125. Hazardous Risk Advisory Committee, Seminar Registration Desk, Metro Civil Defense, Floor 7N, Metro Courthouse, Nashville, Tenn. 37201; 615-259-6145.

CROSSWORD PUZZLE

ACROSS

1. Primary property coverage in which insurers accept stated percentage of risk, 2 words pl.
9. Auditor of accounts, abbr.
12. Person who runs a business, abbr.
13. E.g. Eskimo and pizza
14. A kind of session
15. The first one occurred in New Mexico on July 16, 1945, comp.
19. Am. dramatist, *The Man Who Came to Dinner*
20. Insurance payment
22. What one does with initial stated portion of insurance claim
23. Compass point
24. Musical compositions intended mainly for practice of technique
26. U.S. Attorney General, 1961-1964, initials
27. Island of immigration entry
29. Shortened version of girl's name
30. Realistic, practical
32. ___ and behold
33. You might have one of these in the fire
35. Type of excess insurance coverage, abbr.
36. Leader in underwriting management of excess and surplus lines
41. Cubic meter, abbr.
42. Capital of Tarn, France
43. ___id, Roman poet
44. Agreement between primary insurer and reinsurer
45. Section of playing field, abbr.
46. Cowboy
48. New England state, abbr.
49. One of President Reagan's principal advisers, first initial and last name
52. British scientific institution, abbr.
53. Vertical windows projecting from sloping roof
55. Baccala & Shoop's northwesternmost city
58. God of love

60. Duke or Day, 2 words
 61. ___ Paulo
 63. In a ___, jiffy
 65. Actor Colman
 66. Dutch airline, abbr.
 67. When an insurance company has not been licensed in a state, comp.
- DOWN**
2. Commercial casualty coverage insuring third parties against any risk
 3. Stare at
 4. Trolley
 5. Unit of mechanical energy, abbr.
 6. N ___, national insurance organization
 7. Insurance prefix
 8. Affirmative, Sp.
 9. What Baccala & Shoop is known as, 2 words
 10. Go separate ways
 11. Urban living spaces, abbr.
 15. Vaulted semicircular recess in building
 16. Midday rest
 17. For shame!
 18. Mail a letter a second time
 19. Exclamation of joy
 21. Stan the Man
 22. Plaza ___ Toros
 25. Free of wear or decay
 28. Place to store belongings during athletic participation, 2 words
 31. Affirmative, a la Gary Cooper
 34. Where Kings and Red Wings play, 2 words pl.
 36. Louisville Slugger
 37. Payments in accordance with insurance policies
 38. How excess coverage is structured, pl.
 39. Division of risks among insurance companies
 40. Commitment by insurer beyond normal capacity
 47. Salmon eggs and lobster coral
 50. Title prefixed to woman's name that does not indicate marital status
 51. Red or Dead
 53. Office furnishing
 54. Spoken
 56. Act for which injured party is entitled to compensation
 57. Gait between a walk and a run
 59. ___ culpa
 62. Attendant of sick, abbr.
 63. Chemical symbol for tin
 64. Money market instrument, abbr.

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Mauritius hopes to become captive domicile

PORT LOUIS, Mauritius—The independent island nation of Mauritius in the Indian Ocean hopes to attract captive insurance companies to its shores with a new law that creates special tax exemptions and benefits for service industries.

Under the Export Services Zone Act of 1981, passed in June, export services businesses will be subject to a 10% tax on their taxable income. Dividends paid to shareholders for five consecutive years during the first 10 years of operation shall be exempt from personal income taxes.

"Substantial benefits may arise from establishing insurance captives or using Mauritius as a base for exporting insurance services to Europe, British Commonwealth countries, Africa, the Middle East, India and China," says Bruce Eric Dizenfeld, a Los Angeles attorney working with Mauritius to promote commercial relations with American companies.

Regulations underlying the new law are in the drafting stage and will be ready sometime in 1982, says Mr. Dizenfeld. Once the regulations are finished it will be easier to see how the new act may benefit U.S. exporters of insurance services.

Mauritius, located 600 miles east of Madagascar, follows the British parliamentary form of government and is a member country of the British Commonwealth. Both English and French are spoken on the tiny island, as well as Arabic and various African dialects.

Cayman branch

The Isle of Man & General Life Assurance Co. Ltd. has established a branch in the Cayman Islands to reinsure captive programs and selected property/casualty risks.

The branch, which will be managed by Insurance Management Consultants (Cayman) Ltd., primarily wants to reinsure the activities of off-shore captives.

Graham Cork, assistant underwriter at IMC, says the branch is not looking for captives with a particular activity, but any captive with a "sound financial base."

The branch is particularly interested in reinsuring workers compensation exposures, he says.

Administrators

Reed, Roberts Associates has established a new West Coast division to provide services to captive and self-insured workers compensation programs.

Based in California, the division offers a "complete range" of captive and self-insurance administration programs to private and public sector employers.

Karin Van Leuven Gomez, formerly an executive vp and treasurer of Claims Administration Systems Inc., heads the company's new division as divisional vp.

Ms. Gomez's duties include market planning, program development, data processing and software services, recruiting, hiring and divisional administration.

Offices are located at 20620 S. Leapwood Ave., Suite G, Carson, Calif. 90749; 213-323-3241; and at 819 Mitten Road,

markets

Burlingame, Calif. 94010; 415-692-5221.

New company

Reed Stenhouse Inc. has established a new company, Reed Stenhouse Inc. of Minnesota, to serve clients in the Minneapolis-St. Paul area and the upper Midwest.

The firm is headed by Richard A. Glasgow, vp and manager. Mr. Glasgow formerly was an account executive with Protection Mutual Insurance in Minneapolis.

New owner

Fordingbridge International

Ltd., a reinsurance intermediary in Bermuda, has a new owner and a new name.

John K. McGarrity, formerly vp and director of Fordingbridge, and Hartford, Conn.-based stockbroker and insurance analyst Conning & Co. formed Amberco Ltd. as a holding company in Bermuda. Fordingbridge was then acquired by Amberco and its name changed to Amberco Brokers Ltd.

Mr. McGarrity is now president of Amberco Brokers Ltd.

Acquisitions

Mutual Security Life of Fort Wayne, Ind., has acquired a 52%

controlling interest in Great Fidelity Life Insurance Co. of Evansville, Ind., for \$1.5 million.

Dana Corp. in Toledo, Ohio, has agreed in principle to purchase two insurance agencies, Hylant-MacLean Inc. and Toledo Insurance Agency Inc. The acquisitions will be the first agencies owned by the highly diversified company, which also owns Cherokee Insurance Co. in Nashville, Tenn.

Coldwell Banker Insurance Services Inc. has acquired Oaks-mith-Carlson Inc., a marine insurance broker based in the Northwest. Coldwell Banker is a wholly-owned subsidiary of Coldwell, Banker & Co.

New offices

Swett & Crawford has opened a

new branch office in the Linden Building, 2 Capitol Ave., Hartford, Conn.; 203-246-5400.

Herbert Clough Inc. has relocated to 10 Stamford Forum, Box 10216, Stamford, Conn. 06904; 203-357-8883.

M.F. Bank & Co. has opened new offices at 3401 W. Flower Blvd., Phoenix, Ariz., and 625 Strander Blvd., Los Angeles, Calif.

HL Capital Management Corp. has relocated its office to Four Embarcadero Center, Suite 3560, San Francisco, Calif. 94111; 415-986-0715.

Aldrich & Cox Inc. has relocated to 1900 Ridge Road, Buffalo, N.Y. 14224.

Russell Miller Inc. has opened a New York office at 116 John St., New York, N.Y. 10038; 212-619-3670.



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Panel delays action on longshore reform

By JERRY GEISEL

WASHINGTON—The Senate Labor and Human Resources Committee has delayed until February consideration of legislation, S. 1182, that would overhaul the costly and controversial federal Longshoremen's and Harbor Workers' Compensation Act.

The measure, proposed by Sen. Don Nickles, R-Okla., and earlier approved by the Labor subcommittee on a 5-4 vote, would limit future benefit increases payable under the program to 3% a year.

Currently, benefits are boosted every October to match the increase in the national weekly average wage.

The measure also would limit jurisdiction of the act to the "water's edge." Such a provision would overturn recent court decisions that have extended longshore coverage to workers who strip cargo in dockside warehouses.

In addition, the bill would reverse a 1979 Supreme Court decision that widows are entitled to two-thirds of the deceased workers' weekly wages without an upper limit. Instead, the Senate legislation would limit survivors' benefits to 200% of the national average weekly wage, subject to a maxi-

washington

imum benefit of \$496.

Tax on sick pay

It is going to cost more next year to get sick.

Starting Jan. 1, the Social Security payroll tax of 6.7%, which until now has been withheld only from wages, also will apply to the first six months of sick pay.

Although employers and insurers lobbied against the tax on sick pay Congress decided that it had to tap a new source of revenue to pay for the cost of restoring the \$122 minimum monthly Social Security benefit.

The \$122 minimum benefit will go to 3 million Social Security recipients whose contributions to the Social Security program entitled them to much smaller benefits.

However, after Dec. 31, no new retirees will be eligible for the minimum benefit, except nuns and other members of religious orders who have taken vows of poverty.

In another Social Security development the administration announced the appointment of 15 members to a new, bipartisan com-

mission that will look for ways to improve the financial stability of the Social Security program.

President Reagan appointed five members to the commission: Allan Greenspan, the former chief economist in the Ford administration; Robert Beck, chairman of the board of Prudential Insurance Co. of America in Newark, N.J.; Mary Falvey Fuller, vp of finance at Shales Corp. in San Francisco; Alexander Trowbridge, president of the National Assn. of Manufacturers in Washington, D.C.; and Joe Waggoner Jr., a consultant with Bossier Bank & Trust Co. in Plain Dealing, La.

Those named by House Speaker Thomas P. O'Neill Jr., D-Mass., were former Social Security commissioner Robert Ball, former Democratic congresswoman Martha Keys and Rep. Claude Pepper, D-Fla., chairman of the House Select Committee on Aging.

House Minority Leader Robert Michel, R-Ill., named Rep. Bill Archer, R-Tex., and Rep. Barber Conable, R-N.Y., to the panel.

Senate Majority Leader Howard Baker, R-Tenn., named Sen. Ro-

bert Dole, R-Kan., chairman of the Senate Finance Committee; Sen. Daniel P. Moynihan, D-N.Y.; Sen. William Armstrong, R-Colo.; Sen. John Heinz, R-Pa.; and Lane Kirkland, president of the AFL-CIO.

The commission is supposed to "put aside partisan considerations and seek a solution the American people will find fiscally sound and equitable," President Reagan pointed out.

Suit settled

Trustees of a Texas pension plan have agreed to diversify the plan's investments to settle a U.S. Department of Labor lawsuit.

The department had sued four trustees of the First Federal Sav-

ings and Loan Assn. of Waco, Texas, Pension Plan because they put too much of the plan's assets into one investment.

According to the department trustees J. Harry Jeans, Gladys Kelly Fickel, Paul Marable and Abner McCall violated the Employee Retirement Income Security Act by investing more than 90% of the plan's assets in residential real estate mortgages in the Waco area.

ERISA requires employee benefit plans to diversify their investments to minimize the risk of large losses.

As part of the court settlement the trustees are required to reduce the plan's real estate investments in the Waco area to 30% of the plan's entire investment portfolio.

Brian Stockwell to head C&B's INSPACE unit

Brian Stockwell has been promoted to president of INSPACE, a Corroon & Black subsidiary. Corroon & Black/INSPACE was created in April 1980 to supply private industry and government with insurance services for launching communications satellites.

Mr. Stockwell was previously a vp at C&B, joining the company earlier this year. He was previously deputy assistant director for ARIANE, the European space agency launch project that is now in developmental stages. Mr. Stockwell is based in the Washington, D.C., office.

In addition, Brian G.R. Hughes has been promoted to executive vp of Corroon & Black/INSPACE. Mr. Hughes had been vp of finance and technology at C&B.

Other agent/broker changes:

John W. Pecan appointed senior vp of marketing at Fred S. James & Co. of Texas Inc. Mr. Pecan had been a vp at Fred S. James & Co. of Texas since 1978.

James J. Murphy appointed executive vp of Fred S. James & Co. of Virginia Inc. and manager of the Arlington, Va., office. Mr. Murphy has been with James since 1975.

Insurers

Gordon D. Jorgensen appointed vp for underwriting activities at Continental Western Insurance Co. in Des Moines, Iowa, a subsidiary of Armco Insurance Group. Mr. Jorgensen has been with Continental Western since 1959.

Bill D. Wymore named vp of the Syracuse, N.Y., region of Wausau Insurance Cos. Mr. Wymore had been assistant vp for casualty underwriting in the company's home office in Wausau, Wis.

O. Alex Kozij joined United Equitable Insurance Group in Chicago as vp for underwriting. Most recently, Mr. Kozij had been with Old Equity Mutual Life Insurance Co. as vp and chief administrative officer.

Jack Callaway named vp of the risk management services division at St. Paul Fire & Marine Insurance Co. Mr. Callaway had been general manager of the Little Rock, Ark., service center.

Other suppliers

Joseph A. Mota named vp and director of international services for Meidinger Inc., an employee benefits, compensation and communications consulting firm based in Louisville, Ky. Mr. Mota had been director of international employee relations for FMC Corp.

John A. Griffin promoted to vp of Risk Management Corp., a subsidiary of Utica National Insurance

comings & goings: industry

Group in New Hartford, N.Y. M. Griffin was previously the underwriting manager of the national accounts department at Utica.

Joseph A. LoCicero named director of multiemployer plan services and Gustavo J. Sanchez named director of savings plan administration services at Buck Consultants Inc. in New York, an employee benefit consulting firm.

M.F. Bank & Co., salvors and appraisers based in Minneapolis, has announced three promotions. Thomas F. Metz named vp of the Northeast region, Robert S. Treichler named vp of the Central region and Jerry J. Robinson named vp of the Southern region. All three are new positions.

Hayward M. Elliott appointed treasurer of Continental Risk Services Ltd. in Bermuda. He was formerly with J&H Ltd. in Bermuda.

Reinsurers

Constitution Reinsurance Corp. in New York has elected Burton Henry and Thomas B. Stolp senior vps. Mr. Henry remains treasurer with responsibility for Constitution's corporate financial operations. He is also vp/treasurer and director of Sirius Reinsurance Corp. and Nordic Union Reinsurance Corp. Mr. Stolp joined Constitution in 1971 and was most recently a vp.

Paul O. Dreuth appointed branch and branch manager of the Chicago office of RFC Intermediaries Inc. reinsurance intermediary. Mr. Dreuth had been an assistant vp.

Excess/surplus

Glenn G. Herbst has joined Pine Top Insurance Co., a subsidiary of The Greyhound Corp., as senior and chief financial officer. Mr. Herbst is responsible for the accounting, controlling, systems and data management and forecasting and actuarial divisions of Pine Top Insurance Co., Pine Top (Bermuda) Ltd. and Pine Top Life Insurance Co. Mr. Herbst was a senior vp of Scor Reinsurance Co. in Dallas.

Curtis M. Monson Jr. appointed vp of Swett & Crawford, a subsidiary of Continental Corp. Mr. Monson is manager of the New Orleans branch office. He joined Swett & Crawford in 1977.

Vincent Moscona promoted to vp of claims at American Excelsior Underwriters Inc. in New Orleans. Mr. Moscona had been claims manager.



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• Free information about "The Business Insurance Handbook" is available from Dow Jones-Irwin. The handbook is a **practical guide for business owners, agents and risk managers**—anyone responsible for protecting the assets of a business. The book's main theme is cost control. It contains advice from more than 40 leading authorities on insuring businesses and employees. For a brochure contact Order Department, Dow Jones-Irwin, 1818 Ridge Road, Homewood, Ill. 60430.

• NILS Publishing Co. has published "Captives: U.S. and Offshore Insurance Laws." The legal service covers **insurance laws and regulations governing the formation of captive insurance companies** for six separate jurisdictions: Bermuda, the Cayman Islands, Colorado, Tennessee, Vermont and Virginia. It also provides legal information for forming captives. The cost is \$75. To order write NILS Publishing Co., 20675 Bahama St., Chatsworth, Calif. 91311.

• The Pension Benefit Guaranty Corp. has published "Employer Liability: Single Employer Plans." The seven-page brochure is a **guide for employers and pension plan administrators who are terminating a pension plan.** The brochure explains how employer liability is determined, how and when employer liability must be paid and the procedures that are followed in assessing employer liability. Free copies are available from the PBGC, 2020 K St. N.W., Public Affairs Staff (160), Washington, D.C., 20006.

• RFC Intermediaries Inc. has a new brochure describing its **facilities for establishing and servicing facultative and treaty reinsurance agreements.** The brochure focuses on five distinct functions: packaging, connecting, formulating, documenting and supporting reinsurance agreements. Free copies are available through RFC Intermediaries offices nationwide or by writing on your letterhead to Corporate Communications, RFC Intermediaries Inc., Box 60892, Los Angeles, Calif. 90060.

• A new book entitled "Managing Health Promotion in the Workplace: Guidelines for Implementation and Evaluation" will be published next year by Mayfield Publishing Co. The book is an attempt to assemble comprehensive guidelines with alternative strategies businesses and other organizations can use to form **health promotion programs.** The book contains guidelines for implementation and evaluation written by a committee of eight professionals with backgrounds in health care, research and government. The project was jointly sponsored by the National Center for Health Education in San Francisco and the Federal Office of Health Information and Health Promotion. The book will be published April 1. To purchase, send \$19.95 plus \$1.50 for shipping and handling to Mayfield Publishing Co., Box P-1, 285 Hamilton Ave., Palo Alto, Calif. 94301.

• The American Bankers Assn. is offering newly revised issues of **two insurance management publications:** the "Digest of Bank Insurance" and the "Schedule of Bank Insurance." They are designed to help bankers determine the most effective level of insurance coverage for their banks and record their composite record of bonds and policies. The digest provides information on new developments in bankers blanket bond insurance and other coverages. The "Schedule of Bank Insurance," in loose-leaf form with space

to accommodate typewritten entry of data pertinent to each insurance contract, can provide a quick summary of a bank's insurance records, including costs. The digest costs \$45 for ABA members and \$56.25 for non-members. The schedule costs \$7 for members and \$8.75 for non-members. To order, request publication number 213900 for the digest and 214000 for the schedule. Write ABA Order Processing, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4118.

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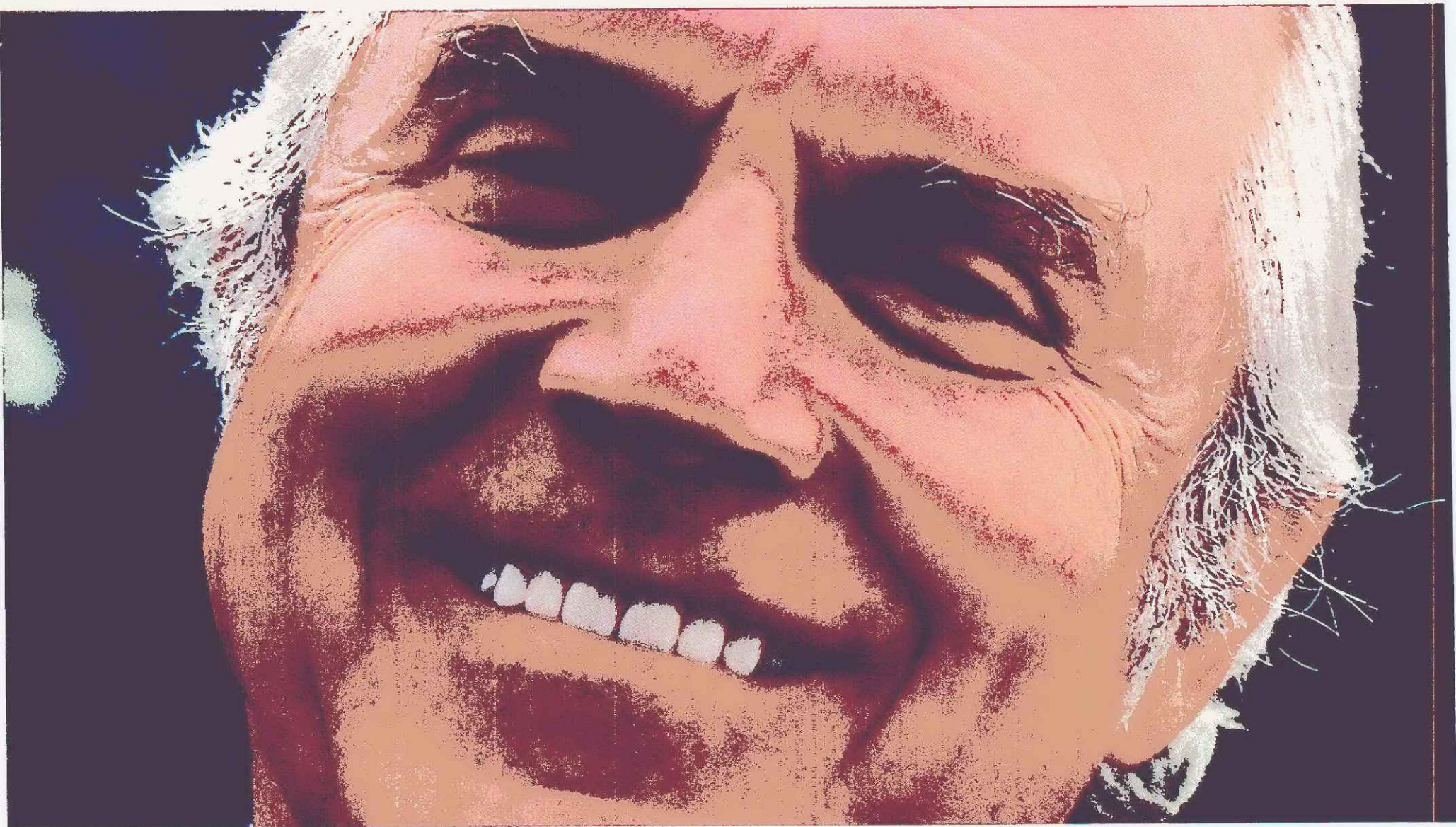
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**ANOTHER REASON WHY
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Canadian crisis

Explosion of suits against professionals necessitates changes in claims handling

By M.B. Lowthian

LAWYERS, DENTISTS, accountants, engineers and architects are experiencing most of the professional liability problems in Canada today. However, in the last couple of years, claims involving insurance agents, real estate appraisers, land surveyors, mortgage brokers, chiropractors and other professionals have also increased dramatically.

It used to be that the mere complexity of the matters handled by professionals created a reluctance by potential plaintiffs to make claims against them. That is certainly no longer the case. Young, ambitious attorneys are being called to the bar in ever-increasing numbers, hungry to accept cases, no matter how challenging.

Canada's proximity to the United States and the wealth of information about the U.S. experience has also started to affect us. There is a growing trend, at least detectable among the younger lawyers, to push for contingent fees. This is now permitted in at least one province in Canada. Class actions are now permissible in at least one province and will soon be in several others.

The only restraint on the claims explosion seems to be that a portion of legal costs, known in Canada as party and party costs, are assessed against the unsuccessful party. Even if a plaintiff wins, he has the balance to pay, known as solicitor and client costs. Frivolous cases can even result in punitive assessments against the loser. This is a restraint, but not nearly enough.

The media, especially the press, has done much to cultivate an attitude of consumerism in Canada by what it considers sensational cases that succeed against professionals. It is also apparent that cities and towns close to the U.S. border produce more claims per capita. Whether this is coincidental or related to the thirst for litigation that spills over from south of the border is hard to say.

Various professional associations have done much to combat the problem but, as their colleagues in the United States have seen, it is a continuing struggle with the numbers becoming ever more frightening. Compulsory insurance plans, while they protect the public, seem to encourage more claims from the public, the legal profession

and even legal aid.

Judges seem more likely to make a finding of negligence against a professional when it is commonly known that he is insured, particularly when he is one of a number of defendants and the others are poor. Economic conditions recently have certainly affected the number of claims. The public seems to look for any method of blaming its problems on the professional.

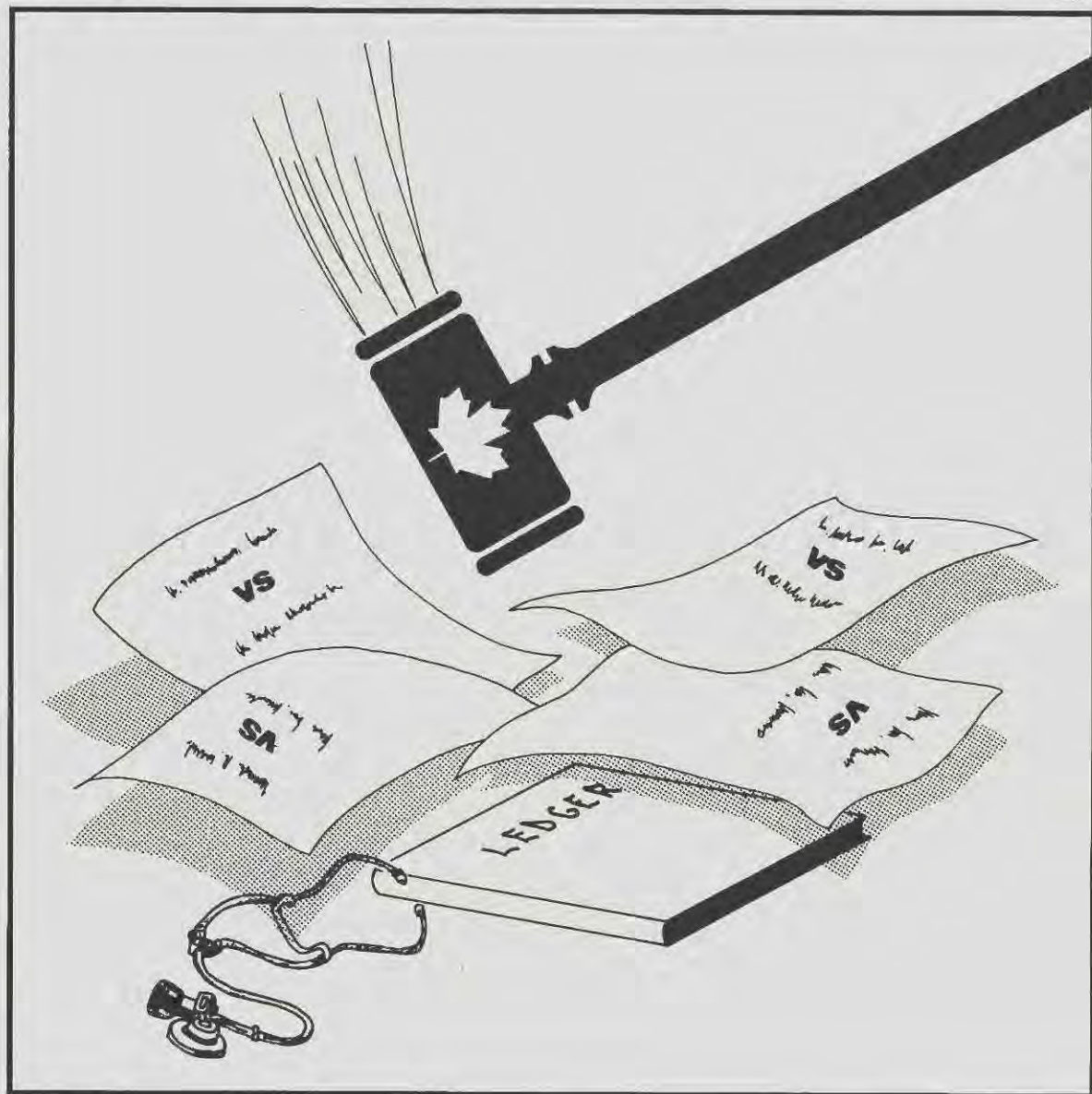
A recent decision in Ontario resulted in a jury trial being allowed in a professional malpractice case. In *Goodman et al vs. Siskind, Taggart & Cromarty*, in which the defendants were attorneys, the court held that the substantive right to a jury trial ought not to be taken away save for cogent reasons.

The judge could see no reason why evidence could not be introduced by experts as to the standard of care expected of an attorney. In fact, he

went so far as to suggest that this is one area where it might be preferable to have a jury because most judges have personal knowledge of such standards and should be protected from the risk of inadvertently using their knowledge rather than relying on evidence as introduced at the trial.

The judge went on to point out that the evidence that would be introduced during the trial to establish the damages suffered by the client did not appear to be more difficult than that which is introduced in many personal accident cases. In any event, he pointed out that if the evidence became too complicated during trial, the trial judge could dismiss the jury at any time and continue to try the case himself.

Until that decision was handed down, it was generally understood that malpractice claims, at least in Ontario, could not be tried by a jury. Since that case was reported, attorneys have asked for jury trials in such cases with reckless abandon. An appeal has been filed in the case, but until it is decided, plaintiffs are entitled to ask for jury trials in malpractice suits.



Insurers of professionals and their attorneys are understandably perturbed since it was traditionally felt that these cases should be tried by a judge alone. We can't help but wonder, however, how a jury could feel attempting to deal with some of our more complicated malpractice cases, whether against an attorney, an accountant or a medical practitioner.

Partially self-insured or completely self-insured plans for professionals in Canada are the newest wrinkle. An example is the plan formed by the Law Society of Upper Canada, which, established in 1792, is probably the oldest law society in the world. There are approximately 14,000 lawyers presently practicing in Ontario. Since the commencement of the program, the plan's adjusters have handled more than 8,000 claims for lawyers and have developed sufficient expertise that it only seeks counsel on 40% of all claims received.

The program was set up at a time when attorneys in Ontario were concerned about the difficulty and high cost of obtaining

insurance and about their public image. In the first year, the claims adjusters handled 238 claims for lawyers, whereas last year, it opened about 1,400 claims out of the 2,000 reports received. The adjusters are written into the insurance policy issued to each member under the notice section so that it is advised directly of any situation that may give rise to a claim. This enables the adjuster to deal expeditiously with matters that require urgent attention.

There are other self-funded plans for professional, like one for Ontario dentists on behalf of the Royal College of Dental Surgeons, for example. Although not producing the same volume of claims as the lawyers, this plan receives an average of 400 complaints a year.

Like the law society's program, many reports are put into a "John Doe" system after they are reviewed to keep handling costs to a minimum. These are notices that the adjuster believes have little chance of ever coming to court and nothing more needs to be done than preliminary discussion and subsequent advice to the

Continued on next page

M.B. Lowthian is a partner at F.C. Maltman & Co. Ltd., a Toronto insurance adjusting firm that specializes in professional liability.



perspective

The modern risk manager: More than an insurance buyer

By Susan J. Alt

BUYING INSURANCE IS only part of a risk manager's job. To make a major difference in corporate bottom-line results, a risk manager needs to be more than merely a competent insurance technician who processes insurance policy renewals and purchases.

The ideal job description for a risk manager would cover a wide range of activities, including:

- Continually identifying the company's exposures to accidental, legal and regulatory losses and estimating maximum foreseeable losses.
- Communicating to employees and managers the identified loss exposures and the potential cost of accidents and preventable losses.
- Reviewing major leases, contracts and corporate agreements for liabilities and responsibilities that should be avoided or provisions that should be renegotiated.
- Regularly visiting all plants, facilities and branch offices to discuss risk management with operating managers and

to learn about new or changing exposures.

- Establishing and maintaining property value records.
- Maintaining a five-year running record of all accidents and losses, insured and uninsured, including recoveries from others and reserves held by insurers.
- Evaluating historical loss frequency and severity along with loss trends and using these to prepare an annual forecast of losses.
- Planning and coordinating risk control and loss-prevention activities; developing policies and procedures related to risk control; providing assistance and guidance to company personnel; and monitoring activities in property protection and safety, personnel safety, data processing security, occupational health, emergency preparedness, fleet safety, property conservation and fire safety, product safety and environmental protection.
- Supervising safety and security training.
- Preparing and delivering an annual report on the activities, accomplishments and financial impact of risk management for the year, including a business plan and budget for the coming year.
- Attending staff meetings of the corporate financial officer to determine new exposures to loss that may result from company activities.
- Assisting in developing ways to keep operating during a disruptive emergency.
- Developing and administering a

program to finance accidental losses, using self-insurance and insurance.

That program should include preparation and review of company guidelines on risk retention; administration of internal self-insurance reserves; procurement and maintenance of necessary insurance; and selection and coordination of insurance companies, agents, brokers and suppliers of other services related to corporate insurance and self-insurance programs.

The program should also include coordination and processing of claims, including reporting claims to insurers and dealing with third-party claimants; reviewing and approving insurance premium billings and allocation of premium charged to operating units promptly and equitably; maintaining awareness of the legal, regulatory and competitive environment affecting the price and availability of insurance.

The risk manager should also coordinate the design, funding and administration of employee benefit and group insurance programs with the personnel/human resources department.

A risk manager seldom has total autonomy in spending millions of dollars for property and liability insurance. Recommended insurance programs or changes are usually reviewed by a senior officer. Sometimes, the board of directors decide whether to start a major self-insurance program or use a captive insurance subsidiary.

Risk managers, however, clearly have increasing discretionary authority to choose brokers and insurers and to make other decisions about insurance purchases, suppliers and service requirements.

While it's important for the board of directors or the chief executive officer to determine whether to buy liability insurance limits of \$10 million or \$100 million, the risk manager should have clear authority to decide what products and services provide the best value.

This means the risk manager should establish detailed professional criteria for the prerequisite qualifications, the quality of services and the standard of performance of insurance agents and brokers, as well as providers of other insurance-related products and services. Beyond having these measurements, however, decisions about insurance suppliers must be lifted out of the quagmire of political expediency in which they've historically wallowed.

To be able to get the best value for the insurance premium dollar, a risk manager must be able to choose the agent or broker and the insurance company that can deliver quality coverage and services at the most competitive price.

For a company's senior executives to use any other reasons than these for choosing insurance vendors is self-defeating. Insurance, like any other product requiring substantial money to be spent, must be professionally compared, purchased and monitored.

Susan J. Alt, ARM, CPCU, a former editor of *Business Insurance*, is a senior risk management consultant with The Wyatt Co. in Chicago.



Suits against professionals increasing rapidly in Canada

Continued from previous page

insured. The "John Does" are reviewed, usually every six months, to determine whether they need more attention. Most of them remain inactive.

Other programs involve accountants, real estate agents, land surveyors, chiropractors, insurance agents and engineers and architects across Canada.

The real remedy to the claims explosion is loss control. Many professional groups in Canada are very active in this area. Adjusters are able to produce statistics and to ensure that when they have something to say about loss control, it will be heard by the professionals. Fortunately, professional groups subscribe to more involvement by the adjuster than just on a case-by-case basis.

Traditionally most claims are dealt with in one of three ways: defense, compromise or payment in full. But experience with professional groups has allowed adjusters to pioneer another method, which is called repair.

A fundamental concept of indemnity, repair is an attempt to restore the claimant to the position in which he would have been if the professional's error had not occurred. There is no obligation on an underwriter to undertake this, but the process certainly saves money, a happy result for all concerned. Repair is often practiced in claims against attorneys, accountants, engineers, architects and real estate agents. It is also sometimes useful in claims against other professionals.

The repair route coincides closely with another that adjusters advocate and use to great advantage: a team approach. The team usually consists of the adjuster, legal counsel and other experts, each performing a valuable role. Money is spent up front, but in the long run the approach has proved the truth of the old saying, "An ounce of prevention is worth a pound of cure."

The loss-control battle is an ongoing one and so is the battle to convince some underwriters that it is necessary. Fortunately, most of the current programs are in place and succeeding.

History shows that hard times have a positive purging effect on a properly managed program. Organization and procedures are honed and the heat of the intensified action burns off fat and tones up attitudes, making for innovation, increased productivity and survival. It is a most interesting time.

legal briefs

Coverage is not terminable after claims have been filed

ONCE A CLAIM WAS filed under a group hospitalization and life insurance policy, an insurer was precluded from terminating dependent coverage, according to an appellate court in Louisiana.

George Peters Sr. was covered under a group medical policy issued to his company in 1976 by an insurance company. The insurance company reserved the right to terminate insurance for dependents "if less than 60% of the eligible employees have reported for insurance with respect to such dependents."

This condition was never complied with during the life of the policy and even though it was known to the insurance company.

Mr. Peters' wife was found to have cancer in 1977 and, after a prolonged period of treatment, died in November 1979. The insurer paid all claims for

medical expenses relative to her illness until July 15, 1978. Thereafter, the insurer notified the employer that it was terminating dependents' coverage because of non-compliance with the "60% of eligible employees" clause.

No premiums were paid after Sept. 15, 1978. The insurer refused all further claims for Mrs. Peters' treatment. Mr. Peters sued and recovered \$26,000 in medical benefits, a penalty of the same amount, \$7,500 in attorneys' fees and \$2,000 as a death benefit.

On appeal by the insurer, the court said that as the condition with regard to the eligible dependents had never complied with, it was not a valid basis for termination of the dependents coverage after the inception of Mrs. Peters' illness. Furthermore, the appellate court said that once liability was assumed, the insurance company had an obligation to continue payment of the benefits. The court upheld the punitive damage, as well, concluding that the insurance company had acted arbitrarily and in bad faith. *Peters vs. Life General Security Insurance Co.*, Court of Appeals of Louisiana, April 13, 1981 (BI/05/D.-\$5).

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

Cooperative care facility cuts hospital costs by 40%

Continued from page 3

Expenses for the care partner—food, lodging, linen—are included in the patient's costs. "These are relatively inexpensive items compared with the expense of a patient," says Dr. Grieco. By using cooperative care, however, a care partner can save bills for hotel, food and transportation to the hospital to visit a close relative.

"The greatest success is the patients' reactions. They feel responsible for their illness and they have an opportunity to ask questions," Mr. Stewart says.

Besides the direct costs savings, other benefits of cooperative care could include shorter hospital stays, a cutback in the rehospitalization rate for the same illness and less need for use of nursing or convalescent facilities before sending the patient home.

These aspects, as well as the cost-effectiveness, are being studied by Johns Hopkins University's Department of Health Education. About 600 patients randomly assigned to traditional and cooperative care units are to be studied.

To be eligible for cooperative care at the New York University Medical Center, a patient must be ambulatory or able to get around with the aid of a wheelchair or care partner.

About half the patients in the unit spend the latter part of their hospital stay there after undergoing surgery in the traditional wing. Others are directly admitted to the cooperative care unit for invasive procedures, like heart catheteriza-

tion, that require hospital supervision or for control of a disease such as diabetes or congestive heart failure, explains Dr. Grieco.

People whose medical condition is unstable or who cannot find a care partner are turned away from the unit. In some cases, a care partner is hired by the sick person to be trained in the hospital and continue care when the patient returns home. Also, friends or relatives may share the role of care partner, alternating day and night care.

Care partners are taught to change dressings, take temperatures and blood pressures, dispense drugs, monitor vital signs and see that the patient takes in adequate fluids.

Meals are served in a central dining room rather than delivered to the room on trays. This way, patients learn to choose foods that are appropriate to any dietary restrictions imposed by their illness.

The time spent in the cooperative care unit is a transition period for many. "You go in the hospital and you are helpless. You go home and you have to do it all," says Mr. Stewart. "Cooperative care is almost like an experiment for the patient to see how he will do when he gets home. A lot of questions are answered right away," he adds.

"Family members feel better equipped to deal with the patient at home, too, and will sometimes take them home rather than into a nursing facility," he says.

Cooperative care was 14 years in the planning at NYU before the separate facility opened.

"We've generated a lot of excitement and enthusiasm," said Dr. Grieco. "Most places wanted to wait and see if there were any hidden problems and if it was safe and effective. A number of places are following our lead in the world."

Other hospitals around the country, including Methodist Hospital in Indianapolis and the Kaiser-Permanente Medical Center system in California, are looking into cooperative care units. Rogue Valley in Oregon hopes to implement a program in four years.

In San Francisco, Planetree, a non-profit health education organization, is developing a model hospital unit using many of the cooperative care concepts, explains Director Patricia Phelan.

Planetree is negotiating with local hospitals to acquire space to experiment with its model, which gives patients access to records, uses a care partner and allows patients to cook their own meals.

The Planetree model cuts down on ancillary staff with only one primary care nurse doing all the basic care—drawing blood, taking temperature, changing sheets and educating the care partner. "We want nurses educated in stress reduction, pain control and massage as well," says Ms. Phelan.

As a first step, patients must understand their medical conditions and what their options are, says Ms. Phelan. To achieve that, Planetree recently opened an outpatient medical library for the public with up-to-date information on medical problems.

products & services

Aetna offering new life plan for firms with 1,000 workers

Companies with more than 1,000 employees now qualify for Benefits 360, a new group whole life insurance plan from Aetna Life Insurance & Annuity Co.

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cluding updates for the first year. After that, the update service can be renewed for an annual fee. A single checklist costs \$15.

For more information write International Risk Management Institute Inc., Suite 208, Bldg. III, 10300 N. Central Expressway, Dallas, Texas 75231; 214-363-9656.

Work comp analysis

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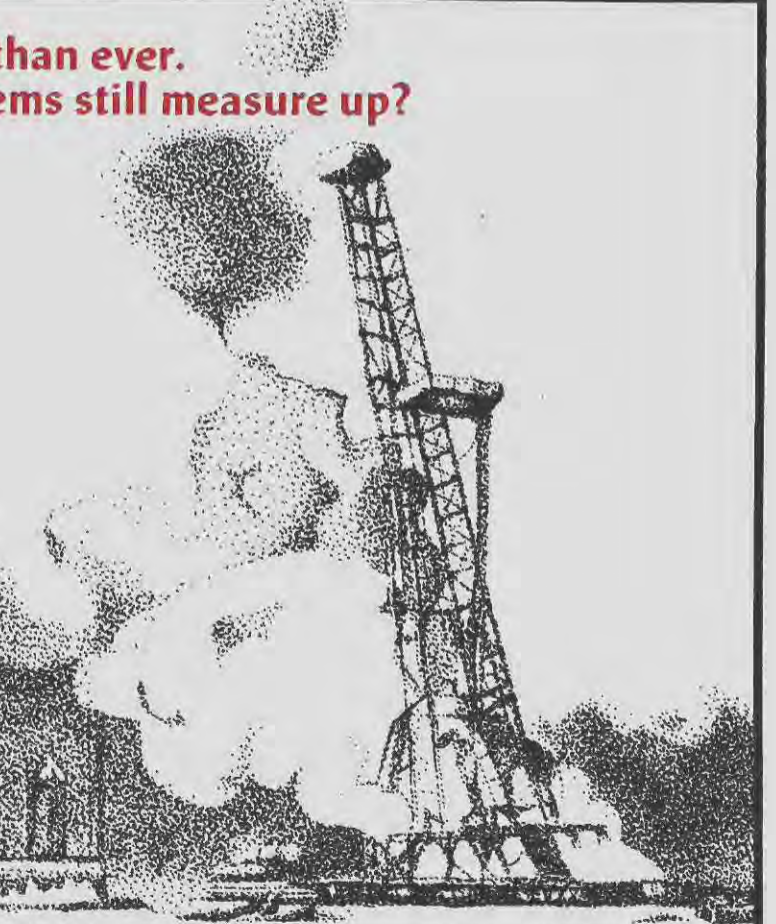
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Judge wants to combine Dalkon Shield suits

Continued from page 1

- Protection of defendant A.H. Robins from unlimited multiple punishment for the same act.
- Court relief from the burden of repetitive litigation that is costly,

time-consuming and counter to rights of plaintiffs to a speedy resolution of their claims.

"Imaginative judicial management of massive litigation is essential to controlling and expediting

cases so that individual plaintiffs will not be overwhelmed by litigation costs and litigation-wise corporation defendants," writes Judge Williams.

The class action device is a powerful tool to achieve judicial economy and fairness in massive tort litigation that threatens to leave large numbers of people without speedy redress and to expose defendants to continuing punishment for the same wrongful acts, the court reasons.

In the same order, Judge Williams proposes a separate class of California Dalkon Shield plaintiffs to decide issues of liability against A.H. Robins. Creation of this class has not raised the same hue and cry as the national class, however, because plaintiffs may opt to continue their individual claims.

Members of the California class, like all other Dalkon Shield plaintiffs around the country, would be barred from separately seeking punitive damages against the company if the national class concept survives its test in the appellate court.

"We would like to see this issue (punitive damages) settled once and for all," says Thomas W. Kemp, a San Francisco attorney representing A.H. Robins in the Dalkon Shield cases. Judge Williams created the class on his own initia-

tive, but A.H. Robins favors the idea, said Mr. Kemp.

"Some mechanism is needed to protect defendants from repetitious punitive damages suits. The judge here is courageous enough to say there's a problem and try to create a solution," added Mr. Kemp.

Plaintiff attorneys vigorously oppose formation of the national class, which would pre-empt their clients' ability to pursue punitive damages in other courts. They say Judge Williams may be stuck without counsel to represent the national class because that approach is not in the best interests of their clients.

"I think the judge is trying to do something noble, but he's running into practical problems. The laws governing fraud are applied differently state by state," observed Rodney A. Klein, a Sacramento attorney who represents more than 200 Dalkon Shield plaintiffs and is lead counsel for the state class action.

Most of the claims for punitive damages against A.H. Robins allege that the company committed fraud under various theories including failure to warn users when it had knowledge its IUD was dangerous and failure to adequately test the device.

Mr. Klein and other critics of the national class concept argue that Judge Williams lacks the jurisdictional authority to carve out the issue of punitive damages and hear it in his court. Plaintiffs prefer to have their rights litigated under laws in their own states, they emphasize.

They also attack a basic premise on which the court relies heavily for its authority. Judge Williams states that more than \$500 million in compensatory damages and \$2.3 billion in punitive damages pending against A.H. Robins could bankrupt the company.

"The potential for the constructive bankruptcy of A.H. Robins, a company whose net worth is \$280,394,000, raises the unconscionable possibility that large numbers of plaintiffs who are not first in line at the courthouse door will be deprived of a practical means of redress," says the court.

This threat of bankruptcy is used by Judge Williams to invoke a federal rule designed to equitably distribute a limited fund of moneys to all members of a class whose interests might be impaired by individual damage awards that deplete the fund.

Crime victims compensated

LONDON—Britain's Criminal Injuries Compensation Board, which provides injury awards for crime victims, has paid out more than 100 million pounds since the government-sponsored program was started 17 years ago.

The board has paid benefits in some 182,563 cases since its inception, according to a recent report.

Benefits paid by the board usually parallel the compensation levels that victims would receive through the courts. However, the board usually limits awards to a little more than 100,000 pounds.

In general, the system is intended to help people seriously injured in a crime who cannot collect money from at-large assailants. However, crime victims can sue the assailant if he or she can be located.

The biggest award announced this year was a 129,700-pound judgment to a 34-year-old police officer who was paralyzed for life when he fell from a roof while searching for a robbery suspect.

A 19-year-old girl received

This approach was tried and failed in the Agent Orange liability litigation pending in U.S. District Court in New York. The court ruled that the five manufacturers of the warfare herbicide suffered no threat of bankruptcy so the federal rule could not be applied.

Nor is there a credible threat of bankruptcy with A.H. Robins, declares Bradley Post, who represents about 30 Dalkon Shield plaintiffs and is lead counsel in the multiple district litigation pending before a federal court in Wichita, Kan.

About 5,000 cases have been filed against A.H. Robins over the 10-year course of Dalkon Shield litigation, says Mr. Post. More than 600 claims have been resolved for an average cost of \$20,000 to \$22,000 apiece. Multiplying that cost by about 1,400, the number of remaining claims, yields a fair estimate of A.H. Robins' outstanding liability—about \$30 million.

This is nowhere near the \$3 billion sought by plaintiffs in complaints and used by the San Francisco court to justify its creation of a national class, he says.

A.H. Robins has paid out \$76 million through insurance—less than one-third of the coverage available, continues Mr. Post. And although insurance does not cover punitive damages, to date there have been only two verdicts for punitive damages against the company. One totaling \$75,000 plus interest has been paid; the other for \$6.2 million is being appealed.

Plaintiff counsel also objects to the national class because of Judge Williams' own track record on Dalkon Shield litigation. He denied punitive damages altogether in the one case he has heard so far among more than 170 pending in his court.

"In over 10 years of Dalkon Shield litigation, there has never been an award of punitive damages in a California court," reports Mr. Post.

Judge Williams also states in his memorandum that California has the most liberal punitive damages law in the country, "but I take issue with that statement," says Mr. Post. "The laws in Kansas and Oregon, for example, recognize elements of damage that do not apply in California."

"Most of the plaintiffs nationwide were not injured in California, they have no contact with the state and they prefer to have their rights litigated under the laws in their own states," summed up Mr. Post.

102,000 pounds after being attacked by a stranger who left her permanently crippled after hitting her on the head with a brick.

But four-fifths of the awards are less than 1,000 pounds, according to the board's latest annual report, which says: "Awards are assessed on the basis of common-law damages, though the full value of Social Security benefits is deducted so as to avoid duplication of compensation from public funds."

Only 2% of the awards exceed 5,000 pounds.

The board awarded 21.4 million pounds in the 1980-81 accounting period, 15.7 million pounds in 1979-80 and 13.1 million pounds in 1978-79.

Recently, a 25-year-old woman received a 3,000-pound interim award for head injuries she suffered when attacked by the notorious "Yorkshire Ripper." Peter Sutcliffe is now serving a life sentence after he was convicted for 13 murders that occurred in northern England.



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Firm taking its time to offer flexible benefits

By STEVE SHERWOOD

MILWAUKEE, Wis.—Johnson Controls is approaching flexible benefits the way a climber assaults Mount Everest—one step at a time.

"What makes us unique is our gradual change to flexibility," says Dr. Frank Sterner, the company's vp for human resources management and strategic planning. Johnson Controls, besides producing in-

dustrial systems control products, manufactures a quarter of the nation's automobile batteries.

"Basically, we don't have a flexible benefits program yet," he says. "We have what we call our Personalized Benefits Protection Program."

This program, which has elements of flexibility, is the first step toward a broader plan that should be complete in two to four years. The program was begun Oct. 1 for the company's 7,500 U.S.-based employees. Johnson Controls has 19,000 employees worldwide.

The company decided several years ago to provide updated benefits to its employees and to give them enough choice in the selection to meet their individual needs, he says. While some flexibility was desired, however, it did not want full-

blown flexible benefits at once.

"Flexible benefits, if taken to the logical extreme, require complex systems and management capabilities," Dr. Sterner says. "We want to be sure we have the systems in place before attempting it."

Indeed, benefit experts say, flexible benefits usually require that the company either develop a computerized administration system or hire an outside administrator to keep track of employee benefit choices and annual changes.

Johnson Controls is in the process of upgrading its computer system to "leading-edge" capability, Dr. Sterner says. The computer is nearly ready for payroll administration and is expected to be prepared for benefit administration within two years.

But, just as important, is the need

to introduce the programs gradually to employees, he says. "With flexible benefits, employees are suddenly faced with a lot of choices. We are phasing it in so our people are not just thrown into the water. They learn a little bit at a time about their choices."

Under a flexible program workers are often given a package of benefits with basic and optional items.

Basics may include medical, life disability, vacation and retirement benefits, while options include dental insurance, day-care benefits, added vacation, a lower medical plan deductible, additional life insurance and retirement savings plans.

To date, Johnson Controls' choices come mainly in the area of health care. "They can choose the best medical plan (A) and the good dental plan (B), good medical (B) and the best dental (A) or the best medical and dental (both plan A)," Dr. Sterner says.

The company pays the full cost of the first two combinations. The third requires payment from employees. A fourth option is membership in a health maintenance organization.

Medical Plan A pays full hospitalization up to 70 days per illness and pays 80% of major medical expenses, minus an annual \$50 deductible, on the first \$1,000. Then it pays 100% to the lifetime maximum of \$100,000. Plan B covers 100% of hospitalization up to \$10,000, minus a \$25 deductible, and 80% of major medical up to \$150,000 per illness. This portion of the plan has a \$50-per-illness deductible.

Both dental plans have annual maximum benefits of \$1,000. Plan A pays preventive care charges in full, restoration charges at 70% to 100% and has no deductible. Plan B pays preventive care at 70% and restoration at 50% with an annual \$25 deductible.

Another flexible aspect of the company's benefit package, to be added Jan. 1, is an Individual Retirement Account option called the Personalized Retirement Plan. Through the plan, employees will be able to save and invest, by payroll deduction, up to \$2,000 a year for retirement.

Also the company already has a stock purchase plan and a savings and investment plan in place.

Other benefits offered by Johnson Controls include educational assistance, which pays 100% of tuition for job-related schooling, and life insurance with a value of up to 1½ times annual salary.

In March, the company will begin issuing personalized statements that spell out each employee's benefits and how much both the worker and the company spend on them.

The statements will be the last portion of the Personalized Benefits Protection Plan phase of Johnson Controls' program, Dr. Sterner says. The next phase will move closer to a fully flexible plan.

"We will begin looking at the option of trading vacation and holiday time for the better medical and dental plan combination or life insurance," he says. "We now anticipate we will eventually have a core of benefits up to a certain point and make the rest flexible."

Dr. Sterner names three reasons for the move toward flexible benefits. "We care about our people and want them to have enough choices to satisfy their varying needs; we recognize times are changing—more families have two incomes and there is a difference between what young and old employees want; and companies are not going to be able to pay for every benefit everyone wants in the future."

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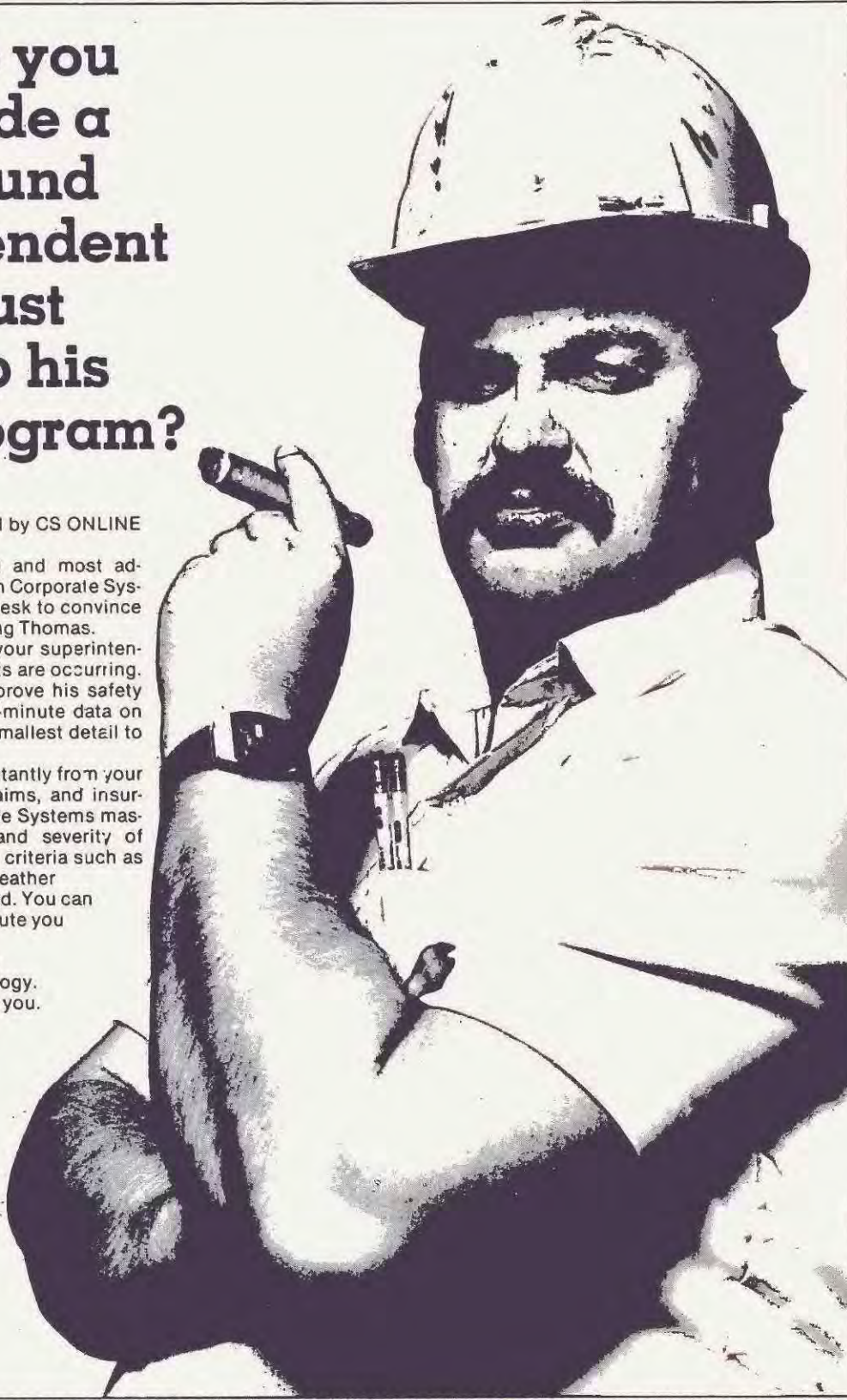
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NAIC studies investments' effect on ratemaking

By EILEEN NORRIS

NEW ORLEANS—Exactly how insurers' investment income should be figured into ratemaking to reflect true profit levels is being taken on by a task force of the National Assn. of Insurance Commissioners.

Two separate units of the NAIC's Profitability and Investment Income Task Force already have drafted the issues they want to explore, but a final model bill isn't

expected to be completed until October.

The NAIC, which held its winter meeting Dec. 14-18 in New Orleans, is composed of the insurance commissioners from all 50 states who propose model legislation in hope that states will adopt uniform insurance laws.

Key to the reports the task force is working on is the issue of insurance company solvency.

The basic criteria on which an insurance rate request must be evaluated is the expected profitability

resulting from the use of that rate as measured by the return on investment, says Michael Markman, Minnesota's insurance commissioner and chairman of one of the investment income task force committees.

"In measuring actual or expected profits," he added, "investment income must be explicitly accounted for (in the ratemaking process)."

The rate level, he said, should not attempt to guarantee an insurance company's solvency and the rate of return must be realistic. "Further consideration of solvency is inappropriate," says Mr. Markman in his report to the task force.

The problem with the existing rate regulations, he says, is that the existing laws either allow or mandate consideration of investment income, but no laws mandate how to arrive at the rate levels.

"Different methodologies clearly exist when investment income is considered in the ratemaking," his report states. "While it may be unwise to dictate methodology in a law and stifle innovation, it should be recommended that any approach should at a minimum specify a rate of return on investment and explicitly account for investment income," he adds.

Insurance industry trade groups have historically argued that investment income is taken into consideration when determining rates and that the current market tends to keep rates down.

The charge to the task force on profitability and investment income is to document historical and existing methods of considering investment income in ratemaking in property and casualty insurance.

The task force is also to evaluate the strengths and weaknesses of those methods and eventually suggest rate regulations that would better consider the relationship between return on net worth and profitability.

The investment income earned by insurance companies and its resulting impact on profitability is perhaps the most significant issue in today's insurance industry, said Robert Cone, a task force member and a research associate for the Virginia Department of Insurance.

"The availability of record high interest yields is the primary cause for its perceived importance," he says. "The problems of analyzing insurance company investment income and profitability are immense and conceptually difficult."

Although the rate of return on total assets is the conceptually cor-

rect method of measurement, the report states, implementation and allocation problems make it worthwhile to search for an alternative approach, he said. The justification for another approach is to recognize that the policyholder should be compensated for the time value of money, he says.

The factors that should be used in developing a proper regulatory framework, Mr. Cone says, include these assumptions:

- The need for price regulation should be based upon strong evidence that competition is not sufficient.

- Investment income should be considered when evaluating an insurance company's performance.

- Investment income should incorporate all relevant implicit and explicit components.

- Valuation of balance sheet and income statement items, where possible, should be based on market values.

- Financial evaluation should be based upon a rate or return on total assets methodology.

- The decision to regulate should be based upon the likelihood of developing sound policies given data and allocation problems.

- Ratemaking methods should be based upon future expectations. ■

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Shift to self-insurance poses danger to buyers: NAIC chief

NEW ORLEANS—The dramatic shift to self-insurance has resulted in regulatory inequities to the commercial insurer and some danger to the insurance buyer, says the outgoing president of the National Assn. of Insurance Commissioners.

While commercial insurers remain subject to regulatory structures, the tremendous amount of business handled by self-insurers escapes some of these controls, said William H. L. Woodyard III, who also is Arkansas insurance commissioner.

He stopped short of calling for regulations from the insurance commissioners gathered for the

NAIC winter meeting Dec. 14-18.

The National Assn. of Professional Insurance Agents, however, took up the call and asked the NAIC to form a task force to explore the possibility of regulating group self-insurance and self-insurance mechanisms. No action was taken on the recommendation.

PIA President Dow Reichley said self-insurance and pooling mechanisms for municipalities also should be subject to standards, formation guidelines and regulatory oversight.

He reminded the NAIC's commercial property and liability committee of the action by the San Jose, Calif., city council, which tapped nearly half of its \$8 million self-insured liability claims reserve when its 1982 general operating budget ran short (*BI*, Aug. 3).

The report by the NAIC advisory committee on government liability should be used as the foundation for the proposed task force to begin further study, Mr. Reichley said.

The advisory committee reported that the liability exposure of municipal entities has increased significantly in recent years, particularly in the area of civil rights. The committee found the municipal risk managers are experiencing greater difficulty in assessing the extent of their exposure.

All the members of the committee agreed that certain standards or guidelines of procedures and oversight should be met, but there is some disagreement over the nature and extent of those standards and the degree to which they should be enforced, according to the study.

Recommendations that the advisory group proposed to better regulate municipal self-insurance and pooling mechanisms include:

- Requiring annual financial examinations of each system's entire operation with certified audits.

- Prohibiting unwarranted invasion of financial reserves.

- Excluding the insurance mechanism from insolvency funds and, where limited taxing authority exists, establishing stabilization funds.

- Requiring that bylaws or plans

of operation be submitted to insurance departments before pooling entities are allowed to operate.

Although the PIA endorsed the municipal liability advisory committee report, Mr. Reichley said the association advocated strengthening some of the recommendations. He also said that the areas in the report go beyond the single issue of municipal liability.

"They are germane to the generic topic of group/self and self-insurance, both in the life/health and property/casualty industries," he said.

The challenge to regulators is to develop a responsible system of controls that will avoid overlaps and conflicts, said Mr. Woodyard.

The commissioners have to look beyond their "parochial interest" and instead work with other governmental bodies to forge a sound regulatory system. ■

Texas' Olson to lead NAIC

Texas Insurance Commissioner Lyndon Olson is the president of the National Assn. of Insurance Commissioners for 1982.

Roger Day of Utah will serve as vp.

Arkansas Commissioner William H. L. Woodyard III, outgoing NAIC president, was to have been succeeded by Commissioner John Lindsay of South Carolina, who was NAIC vp.

However, Mr. Lindsay resigned his commissioner's post to become president of a life insurance company.

Mr. Olson and Mr. Day were elected Dec. 16 at the NAIC annual meeting.



Mr. Olson

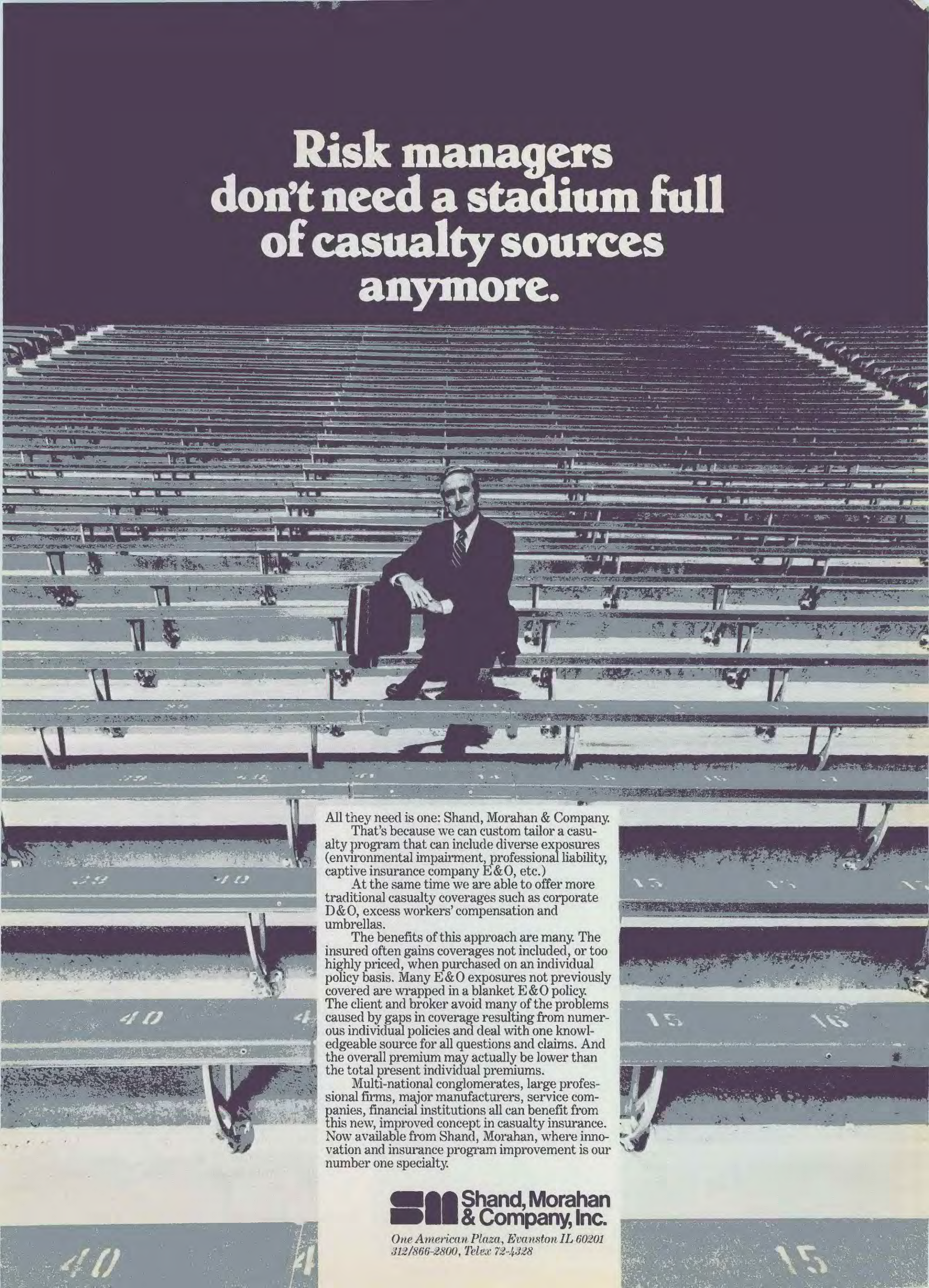


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Program cuts rates for tavern owners

Continued from page 3

For example, at a mandatory annual risk management seminar, the tavern owners have learned that providing bar stools with backs and arm rests is much safer than the conventional round stools—which were very easy for intoxicated customers to fall off of—and cut down on the number of personal injury suits.

In addition, the tavern owners are taught to retrain employees from being "bouncers" and become "crowd control engineers." The "engineers" are told to call law enforcement officials whenever trouble occurs instead of intervening.

"Whenever you try to toss someone out, you know there is going to be a claim," Mr. Wieland said.

The tavern owners now know what claims are all about and how to avoid them. "They've become professional business operators," according to Mr. Wieland.

NLBA got its start in 1978 after 1,200 members of the Michigan Licensed Beverage Dealers Assn. contributed \$100 each to begin a study of alternative insurance methods.

At the time, insurance premiums for Michigan bar owners were going up between 35% and 90% a year. At Mr. Wieland's Bay City bar, for example, the premium climbed to \$8,700 from \$1,200 during a five-year period. Other bar owners had their policies canceled arbitrarily.

As a first step to finding a solution to the bar owner's insurance problems, Mr. Wieland talked to other trade groups that recently established their own insurance companies. Later, the Michigan bar

owners hired RIMCO, a Dallas-based risk management consulting firm, to assist with feasibility studies.

The studies revealed sufficient interest and financial support to start a group-owned insurance company. The studies also indicated that insurers in some cases were panic-pricing their policies because paid claims only amounted to a fraction of what bar owners were paying in premiums.

The Cayman Islands was selected as NLBA's home because of the speed at which an insurance company can be set up there.

Originally, the 2,700-member Michigan Licensed Beverage Dealers Assn. was to own NLBA. That plan, however, was shelved because of the complex legal and tax problems of a non-profit association owning an insurance company, Mr. Wieland said.

Instead, it was decided that individual members of the trade group should own NLBA. However, NLBA is structured in such a way that the 26 individual owners are not liable for losses nor can they rake in underwriting profits. NLBA's profits are reflected in lower premiums or dividends to policyholders.

NLBA was started with about \$500,000 of capital and paid-in surplus. That figure has since risen to more than \$3 million, Mr. Wieland said.

Mr. Wieland said he is willing to help other state beverage dealer associations that may want to set up a similar insurance program for their members.

"The machinery for doing this is all in place," he said.

New general liability cover prompts mixed reaction

Continued from page 2

"The buyer should not be interested in claims-made if he's in chemicals, drugs or any industry that could have downstream problems with its products," he counsels in view of the narrow liability and the ease of cancellation insurers enjoy under this form.

"Claims-made is only good as long as you have the policy; there's no guarantee that it will be renewed."

Yet, the claims-made approach has its adherents, not all of whom are insurers.

"I think the ease of calculating true losses in a given year outweighs the big disadvantage of possible cancellations," explains Hugh Rosenbaum, vp of the Risk Management Group, based in Darien, Conn.

Not surprisingly, Mr. Rosenbaum, whose firm concentrates on captives and self-insurance, thinks that captives can provide a good fallback for buyers facing the prospect of cancellations.

Another advantage, he cites, is cash flow.

Since claims-made policies require fewer loss reserves up front, the premium starts out low, escalating as losses develop. This gives the buyer an opportunity to invest his money now and spend it on premiums later, he says.

Of course, "When you get to those future years, you can get hit with a large tab for insurance to be paid out of current earnings," Mr. Rosenbaum acknowledges, calling this a "built-in financial disturbance."

Manifestation, meanwhile, is an

altogether separate matter from claims-made, all those surveyed agree.

To some, it marks a breakthrough in the traditional definition of insurance: "It will settle the question of whether you can sell prospective insurance for events that happened 10 years ago," comments Paul Ingrey, senior vp of Prudential Reinsurance Co.

"It will broaden the terms of coverage for people who felt retroactive coverage, like MGM's, wasn't legitimate," Mr. Ingrey contends.

To others, however, manifestation is merely a means "to stop insurance companies from wrangling among themselves," as Mr. Rosenbaum puts it.

At any rate, Mr. Roberts predicts that underwriters will "impose this on the buyer."

"Otherwise, if there's a lot of 'occurrence' wording, there might not be insurance at a reasonable price," he says.

Deepening the controversy, Philip Ben-zvi, a senior vp with the Continental Insurance Co., calls manifestation "too vague."

"We think the claims-made approach will turn out to be the most practical—it's easier to define, control and settle," Mr. Ben-zvi remarks.

So far, though, no insurer has adopted either of the new policies, which will not even be ready for review before spring, Mr. McNamara says.

At that point, ISO plans to solicit reaction from a broad cross-section of risk managers, insurers, brokers and agents before drawing up final drafts.

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PLIA ready to reinsure pollution policies

Continued from page 2
are going to be your policies, not PLIA policies. You are going to sign them."

Mr. Kelly noted that the federal Environmental Protection Agency is considering postponing or canceling altogether regulations requiring "financial responsibility" of operators of toxic waste disposal or storage sites. PLIA organizers had hoped such regulations would require thousands of operators to purchase coverage.

Mr. Kelly said the regulations now may never take effect, "or at least as long as the Reagan administration is in Washington."

The aim of PLIA is to provide additional insurance coverage for accidental occurrence of gradual or non-sudden pollution; general liability policies generally now include coverage for sudden and accidental occurrences.

Comprehensive general liability policyholders that decide to sign up for PLIA-type coverage would likely do so through an amendment to their current policy deleting the sudden and accidental pollution language, according to Mr. Prudhomme, who heads PLIA's underwriting committee. Then a separate PLIA-backed policy would be written by the issuing insurer to include sudden, accidental and gradual pollution.

In practice, said Mr. Prudhomme, this will likely result in a slight reduction in the premium

paid for the CGL portion of coverage since it would no longer include any pollution element.

Mr. Prudhomme believes manufacturers that have a problem with disposal of byproducts from their manufacturing process will be the most likely buyers of the pollution coverage. He says courts have held that manufacturers still have a residual liability for toxic wastes even after they are delivered to a disposal site.

Crum and Forster's subsidiary, United States Fire Insurance Co. of Morristown, N.J., is a PLIA member.

With no dissent, PLIA members chose a 13-member board of directors chaired by James C. Morrow, an assistant vp of Liberty Mutual Insurance Co. of Boston. Mr. Morrow's company has pledged \$1 million to the pool. Other \$1 million participants are U.S. Fire and ERAS (International) Ltd., a London-based pollution reinsurance pool consisting mostly of European participants.

It was ERAS' participation that prompted questions from LeRoy J. Simon, a senior vp with Prudential Reinsurance Co., about a constitutional provision calling on PLIA members to guarantee the solvency of other member companies.

"This provision gives me a real problem," he said. "With Prudential Re, we put our \$168 million in surplus behind every agreement we make...so when I envision the

List of insurers in pool

Here is a list of the insurer members of the Pollution Liability Insurance Assn. Companies represented on the FLIA board of directors are listed in boldface.

The dollar amount in parentheses following a name represents the participation pledged by that company to the pool as of Dec. 17:

Aetna Insurance Co. (\$500,000), Northbrook Property & Casualty Insurance Co. (\$500,000), American Mutual Liability Insurance Co. (\$500,000), American Mutual Reinsurance Co. (\$200,000), American Universal Insurance Co. (\$100,000), Austin Mutual Insurance Co. (\$100,000).

Also, Bituminous Insurance Cos. (\$50,000), Celina Mutual Insurance Co. (\$50,000), Central Mutual Insurance Co. (\$100,000), Colorado Farm Bureau Mutual Insurance Co. (\$50,000), Delta Lloyd's Insurance Co. (\$50,000), Employers Casualty Co. (\$250,000), Employers Mutual Casualty Co. (\$100,000), Employers Reinsurance Corp. (\$50,000).

Also, ERAS (International) Ltd. (\$1 million); Han-

seco Insurance Co. (\$250,000), Harleysville Mutual Insurance Co. (\$50,000), Iowa National Mutual Insurance Co. (\$100,000), **Liberty Mutual Insurance Co. (\$1 million)**, Lincoln National Reinsurance Co. (\$100,000), **Lumbermens Mutual Casualty Co. (\$500,000).**

Also, Metropolitan Reinsurance Co. (\$500,000), **Michigan Mutual Insurance Co. (\$500,000)**, Monarch Insurance Co. of Ohio (\$50,000), **Nationwide Mutual Insurance Co. (\$250,000)**, Paxton National Insurance Co. (\$50,000), **Pennsylvania Manufacturers' Assn. Insurance Co. (\$250,000)**, Pennsylvania National Mutual Casualty Co. (\$50,000), **Prudential Reinsurance Co. (\$750,000).**

Also, Ranger Insurance Co. (\$100,000), The Reinsurance Corp. of New York (\$125,000), **Scor Reinsurance Co. (\$500,000)**, Selected Risks Insurance Co. (\$50,000), **Sentry Insurance, a Mutual Co. (\$750,000)**, United Fire & Casualty Co. (\$100,000), **United States Fire Insurance Co. (\$1 million)** and West Bend Mutual Insurance Co. (\$50,000).

possibility of guaranteeing the security of anyone and everyone I'm in with, I say, 'I can't do that.' If you look at the list, there are a couple of organizations that could be folded very easily."

Mr. Kelly argued that the constitution would prohibit any participating company being asked to pay any more than the limit of its own commitment.

Mr. Morrow, responding to Mr. Simon, argued that PLIA organiz-

ers thoroughly checked the reinsurance commitments of ERAS before accepting that pool's \$1 million participation. He also discouraged a suggestion by one insurer that the solvency provision be different for direct insurers and reinsurers.

Other insurers supported the insolvency provision as written and argued that it was important to adopt the constitution at the Dec. 17 meeting to meet the PLIA target of opening up shop during January.

"My personal feeling is that whether direct or reinsurance, you're taking a risk as with any business venture," argued Laurence P. O'Connor, vp of underwriting at Northbrook Property & Casualty Insurance Co., another pool participant. He argued against a reinsurance/direct company split in constitutional language.

Mr. Simon then suggested that PLIA directors take up the question at another meeting. ■

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,112
Government, Associations, Unions, Educational Institutions	952
Commercial Consumers Sub-total	22,034
Insurance Agents & Brokers	9,486
Insurance Cos.	4,486
Financial Institutions	292
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,135
Others allied to the field	752
TOTAL	39,185

*Source: Business/Occupational breakdown of qualified circulation, May 4, 1981 issue, as submitted to BPA for June 1981, BPA Publisher's Statement.

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Defending an asbestos lawsuit pays off

Continued from page 1
Sears in Pittsburgh, said it was likely the jury blamed Mr. Austin's for Bath's errors.

He said there was little evidence showing Mr. Austin knew of the relationship between exposure to asbestos and mesothelioma, the asbestos-related lung disease Mr. Austin suffered from.

"It left us totally surprised," Mr. Henderson said of the verdict, contending that no one really argued that the plaintiff significantly contributed to his injury.

"The finding was a real shocker," added G. William Higbee, another plaintiff's attorney with the firm of McTeague, Higbee & Libner in Brunswick, Maine.

There was no evidence presented that the plaintiff knew about the danger of asbestos or that his failure to wear a respirator could harm him, Mr. Higbee said.

Mr. Culley said the case could be significant for 145 other asbestos cases brought in Maine, most of which involve workers at government shipyards or shipyards under government contract. "This was considered to be one of the strongest if not the strongest case," he said.

Raybestos General Counsel Robert Sims said that the case may

'Blanks battle' unresolved by NAIC

Continued from page 2
sider portions of the new blank form later.

"No one wanted to adopt or reject the proposal," said William H.L. Woodyard III, Arkansas insurance commissioner and former National Assn. of Insurance Commissioners president.

"The majority are in favor of rethinking or reconsidering portions of the subcommittee's proposal because it's an important project that has been going on for some time," he said.

Superintendent Lewis of New York said the proposal was deferred for the purposes of examining it and added that he had a responsibility not to allow that proposed blank form to be adopted in his home state.

"There are areas of the blank proposal that should be adopted, but New York will still require additional information of insurance companies, regardless of what the NAIC eventually decides to do," he said.

Illinois Insurance Commissioner Philip R. O'Connor, one of the backers of the move to simplify the reporting form, said the action taken by the NAIC membership was equal to rejecting the proposal. He maintains that adoption of the new blank form would have served to modernize insurance financial reporting.

"The blank was not discussed on its merits," said Mr. O'Connor.

"It was a mistake to reject that document," he added.

It sticks states with the old form, which asks for insurance companies to divulge "superfluous" information that is readily within any commissioner's reach if he or she desires to get access to it.

Most insurance companies want to reduce the amount of information made public and don't want to release the market value of the securities they hold.

They fear some readers of the document would panic if they saw the low market value of the securities, which the insurers say they will hold to maturity anyway. ■

cause plaintiffs' lawyers to make sure they have a good case based on real merit before suing.

And manufacturers may be more apt to defend rather than settle cases because of the company's victory, he said.

Mr. Henderson, however, said the case "will have little or no impact" and that the result was "an aberration under certain facts and circumstances of the case." Mr. Higbee said "it is too early to tell," what the impact will be.

By winning the suit, Raybestos saved the difference between a proposed settlement of more than \$50,000 minus legal fees, Mr. Sims said.

Unarco saved the difference between the proposed settlement of \$150,000 to \$180,000 minus legal fees, said Mr. McLaughlin, the

company's corporate counsel.

He added the company defended the suit because "it had a good case to try" and that he hopes other companies will be encouraged by its example.

Unarco's insurers include Bituminous Casualty Corp. and Zurich American Insurance Co. of Illinois in Schaumburg, Ill., with excess coverage by The Home Insurance Co., Commercial Union and CNA, according to Mr. McLaughlin.

James Green, an attorney for Johns-Manville, said the company erred in not defending the suit. "In light of the verdict, it (settling out of court) clearly was the wrong decision," he said.

He considered it "remote" that the verdict could have been for the plaintiff if the company defended.

Attorneys for the plaintiff have

filed a motion for a new trial, contending among other things that the verdict on comparative negligence was against the clear weight of the evidence. A hearing on the motion will come next month.

Both Mr. Higbee and Mr. Henderson said that if the motion is denied they would probably appeal.

An attorney for the federal government, meanwhile, said the jury verdict in favor of Unarco and Raybestos denied the government the opportunity to litigate the issues as to its liability in asbestos cases.

Peter Nowinski, lead counsel on asbestos litigation for the federal government, said the government had been looking for a vehicle with which to determine if it had a duty to asbestos manufacturers and, if so, whether the duty was breached.

The government thought it would get its chance when it was brought in as a third party six months ago by the defendants. However, because Unarco and Raybestos won, the government will not be pursued in this case.

Whether Johns-Manville, which also brought the government into the case as a third party, will sue the government for all or a share of the settlement money it paid to the plaintiff is uncertain at this point, according Mr. Greene.

The attorneys for Mr. Austin said they represent other asbestos plaintiffs in Maine and those representing Unarco and Raybestos said the two companies have been named in the majority of the suits.

"They (plaintiffs) don't miss us very much," Mr. Culley said. "I'm afraid we will be back in court." ■

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6. Employee Benefits Board Survey	FEB 8	Jan 27
7. RISK MANAGEMENT SERVICES	FEB 15	Feb 2
8.	FEB 22	Feb 9
9.	MAR 1	Feb 16
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Firm brings claims processors to workers

Continued from page 1

health care benefits fund every year and we needed some analytic tools to see exactly where those dollars are going," stressed Ms. McKee. She expects Blue Cross statistical reports to help with benefits plan design and health care cost-containment efforts.

First Interstate Bancorp. is the nation's largest multistate bank holding company. Its 877 domestic offices are divided into 21 autonomous units. Besides banks, the holding company owns asset management, data processing and venture capital affiliates.

Although federal law prohibits branch banking across state lines, a computer network linking offices enables customers of First Interstate in California to conduct certain transactions through First Interstate of Arizona or through other banks tied into the system.

"To survive in the banking industry, a company has to be very sophisticated in the use of on-line computers," notes Ms. McKee. "Now we're looking at human resource applications."

Blue Cross is leasing 300 to 500 square feet from First Interstate to house each of its claims-processing branches. Three staffers will work in eight of the nine centers. Six will process claims in the largest center, north of Los Angeles in Pasadena.

The health claims service centers are located with the benefits officers for the largest First Interstate affiliates. The Pasadena center will service all California and overseas personnel. Other centers are in Portland, Ore.; Seattle; Reno, Nev.; Phoenix, Ariz.; Denver; Albuquerque, N.M.; Great Falls, Mont.; and Salt Lake City.

A great many of First Interstate's 27,000 employees who participate in its medical and dental plan will make personal visits to the service centers to file a claim or pop a question. Those who cannot will use WATS telephone lines or inter-office mail to communicate.

"Blue Cross Project Director Mike Monti and I have been meeting every Wednesday since September to keep everything moving on schedule," says Ms. McKee. The offices are ready, Blue Cross personnel have been relocated and telephone lines for the computer are in place.

Nearly two years ago, Ms. McKee and representatives from some of the major affiliates met with consultants from Johnson & Higgins to discuss what the company wanted

in the way of service from a claims processor. First Interstate was using two different providers at the time—Occidental Life Insurance Co. and Galbraith & Green.

"It was unwieldy to have two," recalls Ms. McKee. "So we decided to put together a request for a proposal and put the job out to bid."

It took about three months to pull together because First Interstate wanted every division in the company that would work with the system to have input into its design. "We wanted these people to 'own' the decision as much as we would," stressed Ms. McKee.

So the First Interstate auditors were involved to propose computer security controls to guard against fraud. Financial and accounting people made suggestions regarding financial and accounting controls. And most importantly, benefits officers were asked their views on the ideal claims-processing system.

"Although the benefits programs are designed by us in the corporate office, the benefits officers out in the affiliates do the day-to-day administration of them," explains Ms. McKee. "We only get involved when there's a problem to be resolved."

To get the discussion rolling, Ms. McKee drafted a memo sent to all the benefits officers that described the corporate perception of the optimum claims-processing system. "It was a thought piece—sort of a straw man," she says.

The responses from the affiliates were closely aligned with the corporate proposal and were included with the request for a proposal so that bidders could see what users perceived to be important.

The bid specifications were shipped out to 11 or 12 insurance companies and claims administrators in June. Johnson & Higgins screened the entries and narrowed the field to four contenders including Occidental, Galbraith & Green, Blue Shield of California and Blue Cross of Southern California.

But from the beginning, First Interstate and J&H were intrigued by the Blue Cross proposal.

"We would talk to J&H over the phone while the bids were coming in and they would say, 'Oh, we got this really interesting proposal from Blue Cross—they are talking about regional processing centers out in your affiliates!'" recalled Ms. McKee.

The four finalists were invited to make presentations with instructions from J&H to limit

their team to four people.

"One thing we try to do is structure the most meaningful interview process possible," explains Chris Wadley, J&H senior vp in Los Angeles. "There's a risk of information overload. We certainly wanted each company to send us their best players, but we wanted them to focus on people who would actually be involved."

Besides four representatives from each bidding company, four people from J&H and nine or 10 from First Interstate sat in on the presentations. First Interstate was following through on its plan to involve all system users, which accounts for the large size of its team.

After three days of presentations, First Interstate caucused and took a straw vote. It was nearly unanimous.

"The group decided that Blue Cross had an exciting approach that satisfied our needs for direct claims processing and the ability to have on-line inquiries," says Ms. McKee. "Employees could go to the centers and get immediate response to their questions."

"When we called them on a Friday afternoon to say we wanted them back the following Monday, a big shout went up over the phone," remembers Ms. McKee.

"The Blue Cross proposal was so unique that everybody felt they needed another cut at it," says Mr. Wadley. "We wanted them to demonstrate that they could do what they were proposing."

During the Monday callback

meeting, First Interstate and Blue Cross staffers met in small groups to hammer away at specifics of the proposal. A key consideration was the accounting and auditing interface, says Mr. Wadley.

The price was competitive—less than \$4 per employee per month, adds Ms. McKee.

Blue Cross has a 12-month renewable administrative services only contract.

Although the technology has existed for a few years to make a system like this feasible, this is the first time any company will use regional claims processing centers, says Mr. Monti from Blue Cross.

The centers will work first and foremost for First Interstate. But when there is a lull, processors will retrieve other files on their terminals hooked up with the central computer in Woodland Hills, Calif. The portion of time available to service other claims depends on the volume of First Interstate work in different locations.

There were two hurdles to clear to make this project possible, says Mr. Monti. A selling point of the idea for First Interstate was the proposal to use experienced Blue Cross claims processors. "But would staff be willing to relocate?" wondered Mr. Monti.

Because First Interstate wanted the system running within 90 days after the contract was signed, meeting deadlines was the second challenge. "Would we be able to get support from senior management to cut through divisional lines and

get authority to make things happen quickly?" asked Mr. Monti.

More than 80 Blue Cross staffers volunteered to fill about 30 openings in the regional processing centers. Although Blue Cross paid their moving costs, it is unusual for employees who are not executives to relocate.

And everything is moving on schedule because Blue Cross top management responded to the need to streamline management decision making. "This project has been a classic example of matrix management," says Mr. Monti.

Since the First Interstate contract was sealed, Blue Cross has made presentations to two other potential clients who are interested in regional processing centers. Neither has made a decision, reports William A. Giamarino, Blue Cross account executive.

Blue Cross has been moving computer terminals into position, and Interstate has been busy educating benefits officers throughout its affiliates about the new system.

At the end of November, Ms. McKee and the corporate benefit manager made whirlwind tours throughout the West to train the benefits officers on how to get the message across to employees. During the first three weeks in December, employee orientation began.

Posters are up reminding employees that as of Dec. 21, health care claims should be sent directly to their service centers. That day Blue Cross claims processors reported to work at their new locations.

Contractor's risk manager begins by reading fine print

Continued from page 3

the company's interests are covered and check the wording of subrogation clauses."

Employers Casualty Co. of Dallas insures the contractor for comprehensive general liability. The policy has primary limits of \$500,000 and there is umbrella coverage with other insurers.

A workers compensation insurance policy with Texas Employers Insurance Assn. covers the risk of injury to Zachry's 12,000 employees. Mr. Ornelas describes as the policy as "loss-sensitive."

"We pay a standard premium of about \$2 million annually, plus losses above that," Mr. Ornelas says, adding the policy is neither a guaranteed-cost nor a paid-loss retrospectively rated plan, but has elements of both. Exposures here, from a personal injury standpoint, are high, he says.

"There is a lot of heavy equipment involved in transport, hoisting and lifting, so there is the potential for serious injury constantly," he says. But safety is a function of H.B. Zachry's personnel department, not the risk management department.

On the property exposure side, the company self-funds heavy equipment losses up to about \$50,000, then covers the \$40 million to \$50 million insured value of its bulldozers, earth movers, haul trucks, heavy cranes and other machinery through the Chubb Group of Insurance Cos., a subsidiary of Chubb Corp., headquartered in New York.

Although not presently involved in operations overseas, H.B. Zachry's risk management department is continually assessing the risk of potential overseas contracting jobs.

"We review all the exposures on a per-project basis in light of avail-

able private insurance markets and government-sponsored programs," he says. "In the past, the company has purchased coverage from the Overseas Private Investment Corp. and the Export-Import Bank of America (in conjunction with the Foreign Credit Insurance Assn. in Houston), both in Washington, D.C."

OPIC was created under the Foreign Assistance Act of 1969 and is a government-owned insurance and bonding corporation with a \$7.5 billion underwriting capacity, an OPIC spokesman says. It insures U.S. investments in about 100 nations against expropriation and nationalization, currency inconvertibility and physical damage from war, insurrection and civil strife. For all coverages, companies pay premiums of about 1.5% of their investments' insured values.

OPIC also issues loan guarantees up to \$100 million, the spokesman says.

"Let's suppose you're doing a job for a foreign government and it calls for a 5% bank guarantee rather than a typical 50% performance bond," Mr. Ornelas says. If the company completes the work but the government claims it is incomplete and draws on the bank guarantee, the government would have both the company's work and its money.

"OPIC coverage guards against this," he says. "We don't always use

it or Ex-Im (Export-Import Bank) if alternatives better suit our needs. They are simply another tool in the assessment of risk."

Such assessment at H.B. Zachry has been a formal process only since July 1980 when the risk management department was formed. That department's full-time staff now consists of Mr. Ornelas, a five-year employee who attained his Associate of Risk Management designation in one year, and Socrates Ramirez, insurance administrator, who has been with the company 29 years.

"We're an infant department, just developing," Mr. Ornelas says. "Before Socrates and I were doing it, somebody was managing risk, but not in an identified, systematic way. It was done as needs arose."

He hopes in the next two to three years to involve his department in risk management for the company's non-construction subsidiary operations, like Capital Aggregates, a San Antonio cement manufacturer.

Right now contract reviews of construction risks are enough to keep the two-man department busy and Mr. Ornelas says he believes it is making a difference.

"We feel our efforts, either by changing clauses in contracts or buying sufficient insurance coverage, reduce the chance of catastrophic loss."

ASIS offers exam preparation

WASHINGTON—The American Society for Industrial Security will hold a new program to assist those preparing for the Certified Protection Professional examination.

The program will provide a basic overview of the concepts in the eight mandatory subjects covered by the exam and will also touch on

eight of the optional topics.

The program will be held Feb. 19-20 in Dallas. The cost is \$260 for ASIS members and \$320 for non-members.

For more information contact Debra A. Moss, ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

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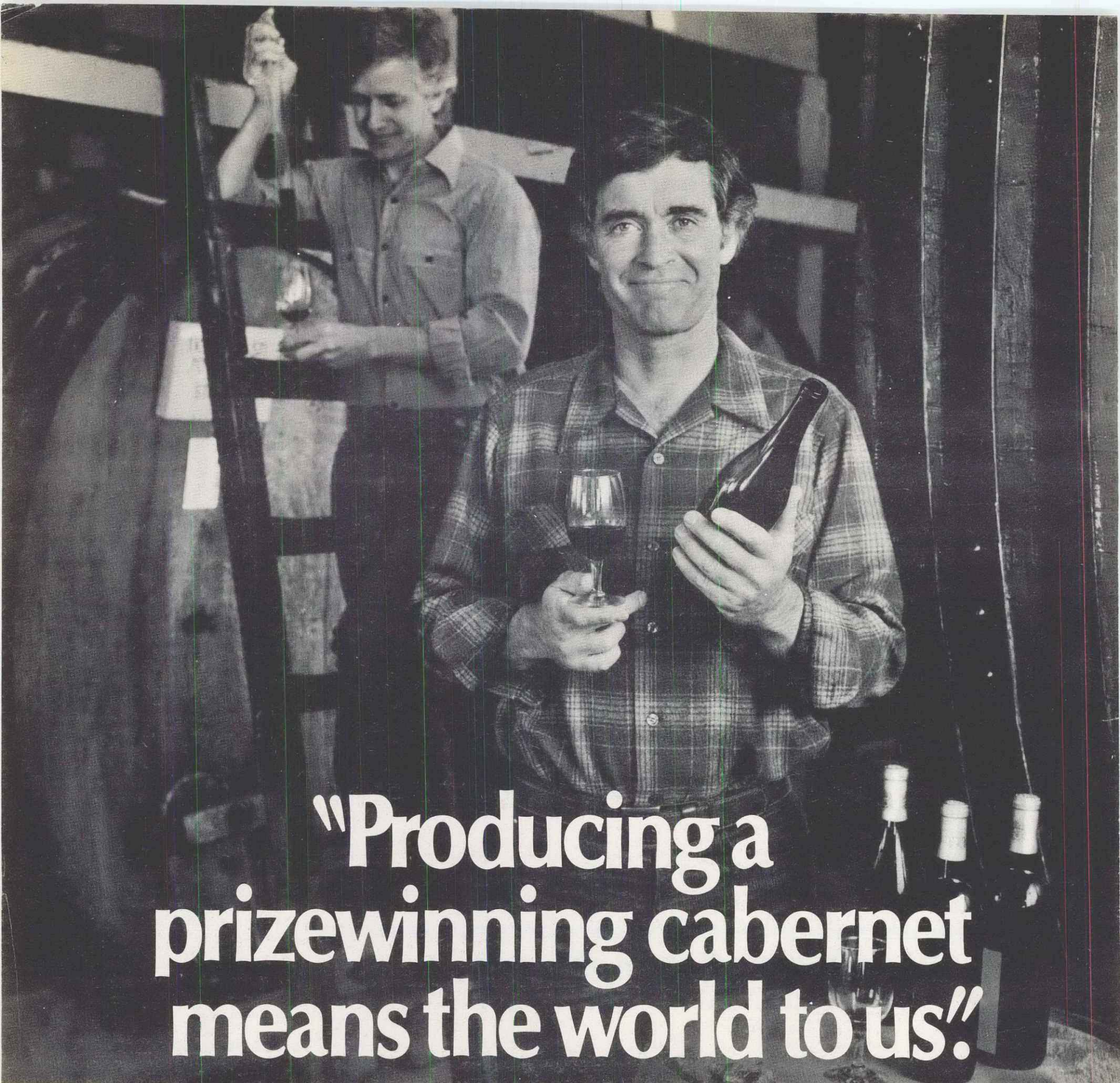
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