

business insurance

update:

Lloyd's alternative sidesteps 20% rule

LONDON—U.S. brokers merging with U.K. counterparts will not have to divest most of their Lloyd's broking interests as expected, according to a new ruling by Lloyd's officials.

The new plan, in anticipation of Lloyd's restructuring according to Fisher Report recommendations,

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\$10,000 REWARD

By STACY SHAPIRO

NEW YORK—Risk managers: How good is your filing system?

Could your file clerk produce a certificate of insurance filed with you 40 years ago? If it's a certificate from Baldwin-Hill Co. or Baldwin-Ehret-Hill filed between 1935 and 1962, it could be worth \$10,000.

That's what Keene Corp. is offering for information leading to the discovery of liability insurance policies in the name of those companies.

Keene is now defending 6,000 asbestosis liability claims involving Baldwin-Hill and Baldwin-Ehret-Hill products. Through an acquisition, Keene inherited the claims but not proof of all insurance written for the products.

"We've paid out about a couple of million so far in asbestos claims," said Charles A. Foster, director-risk management for Keene Corp. "There are a number of years for which we can't find insurance policies." They range from 1935-1962.

Keene thinks Baldwin-Hill and Baldwin-Ehret-Hill had policies during that period ranging from \$100,000 to perhaps \$1 million in limits. Keene has found some policies but it's looking for proof that more existed and who the underwriters were. A certificate of insurance would be proof because the underwriter of the insurance is named on it.

The reward offer could send risk managers scurrying to dusty boxes of documents stored in corporate caverns. The offer was first advertised in the December issue of Risk Management, the monthly magazine published by the Risk & Insurance Management Society.

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Coverage continuity beckons D&O buyer

By RHONDA L. RUNDLE

LOS ANGELES—Several new markets entering the directors and officers liability arena are luring buyers away from established markets through use of innovative underwriting and price competition.

Some of the newcomers are fashioning broader policy forms and unconventional underwriting criteria they say improve coverage and meet buyer demand. Their critics charge these practices show poor underwriting judgment that could sink insurers in a sea of claims.

The central controversy concerns the continuity of coverage aspect of policies underwritten by three aggressive new D&O markets: First State Insurance Co. of Boston, a subsidiary of The Hartford Insurance Group; the Federal Insurance Co. of Short Hills, N.J., a member of Chubb & Son Inc., and Midland Insurance Co. through Capacity Managers International in New York.

Continuity of coverage is granted by these markets on a case-by-case basis to a buyer who is switching D&O insurers. In lieu of asking the policyholder to identify circumstances within the company that could give rise to a claim, the underwriter accepts and reviews the statement made to the previous insurer.

Conventional D&O underwriters evaluating a new risk require the corporate buyer to repeat the disclo-

sure process, identifying potential claims that could be excluded from coverage.

This ticklish application procedure discourages risk managers from changing D&O insurers because each switch may mean new disclosures, new exclusions and a break in continuity of coverage.

Some new D&O markets such as Shand, Morahan & Co. Inc. of Evanston, Ill., are steering clear of continuity. Roughly speaking, however, the controversy pits the established markets against their new competitors.

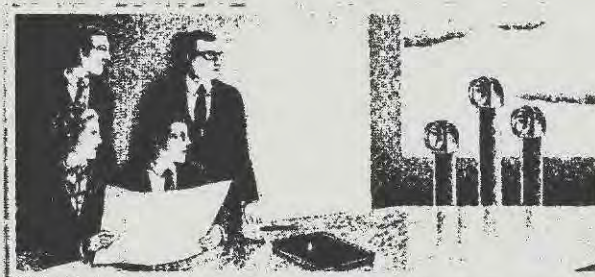
The president of National Union Fire Insurance Co., the top U.S. D&O writer, strongly opposes continuity.

"Offering continuity by way of accepting a six- or nine-year-old application is like walking into a dark room and having no idea what's in there. You're clearly not underwriting," Joe DeAlessandro said.

The warranty questions are there to identify activities that might give rise to a claim insurers should know about, he stresses. "Reinsurers would have to take a dim view of this (continuity)."

"The D&O fraternity is very concerned about the practice," observed John Van Cleve, president of INAX Inc., another established D&O market. "We've considered it and have decided against it. Theoretically, the step opens the insurer to many more

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INA draws this view of D&O liability

Cardmaker's record is good tidings

Only workers comp registers 'bad news'

By KATHRYN J. MCINTYRE

CLEVELAND—The word at American Greetings Corp. here is sweetness from Strawberry Shortcake, homespun humility from Holly Hobbie, zaniness from Ziggy and "cut the workers compensation losses" from management.

The three characters that adorn American Greetings products behave themselves, giving the nation's No. 2 greeting card company an enviable liability loss record. The worst year ever saw a mere \$30,000 in liability losses.

Eleven plants that turn out greeting cards, wrapping paper, ribbons, candles and other notions are so well engineered by the Factory Mutual System to stop fire that the company's worst property loss involving a plant was \$70,000 on a construction project. Strong winds and a wind tunnel created by a half-finished building blew down a 70-foot wall at the Cleveland plant.

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When your product is as innocent as little Strawberry Shortcake, your RM duties can be minimal, finds American Greetings' Paul Ozan.

Executive's legal expertise complements his risk duties

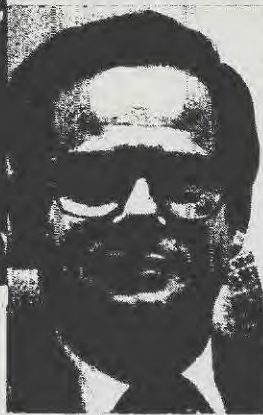
CLEVELAND—Paul H. Ozan spends 15% of his time managing the risks of American Greetings Corp. here with the help of a secretary and the part-time help of the corporate receptionist on claims.

The other 85% of his time is relegated to legal duties as assistant general counsel and assistant secretary of the company.

"Conceptually, we could use a full-time risk manager, but we don't have enough insurance problems," Mr. Ozan said. "It's not that I'm that good; it's easy to keep it part-time because of the nature of our business." The nature is highly risk-controlled (see accompanying story).

He also credits outside consultants with helping keep a lid on the time needed for risk management. They include: the 20-year veteran engineers from Arkwright-Boston and the company construction engineers who make fire safety recommendations.

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Paul Ozan

Photo: Kathryn J. McIntyre

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Tax breaks to play role in national health policy
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Hypertension screening saves lives and money
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update:

Option sidesteps 20% limit

Continued from previous page presents an alternative to the traditional 20% limitation on foreign ownership of Lloyd's brokers.

"For now, the 20% rule stays as it is," explained a Lloyd's spokesman. "But if companies are willing to accept the authority of the Committee of Lloyd's in the regulation of underwriting and broking activities, directors, employment of auditors and the suspension or expulsion of member firms, we will grant an exemption."

The ruling, in effect, asks U.S. or foreign investors to accept in advance the authority Lloyd's is seeking with a bill now in Parliament. According to a Lloyd's spokesman, the new ruling retroactively allows Marsh & McLennan, recently merged with C.T. Bowring, to retain its Lloyd's holdings.

Frank B. Hall, which merged with Lloyd's broker Leslie & Goodwin more than a year ago, could reacquire what it divested to meet the earlier rules, but Hall officials were not available for comment.

Early retirement to cost more

CHICAGO—The estimated cost of Sears, Roebuck & Co.'s early retirement program has risen 40% over initial projections because of a higher-than-anticipated acceptance by eligible executives.

Of the 2,400 eligible executives, 1,480 accepted the early retirement plan under which they can retire and receive half pay for the next three years or until they reach 65.

The firm had expected to make one charge of \$45 million against third-quarter earnings, but the additional costs will require another charge on earnings from the fourth quarter, the company said.

Originally, Sears said the program would contribute to a annual savings of \$125 million.

Court to rule on reinsurance

LONDON—The U.K. High Court will decide whether the American Foreign Insurance Assn. should be held to its reinsurance agreement with Great Atlantic Insurance Co. of Delaware for millions of dollars in marine losses suffered by Great Atlantic.

Attorneys for Great Atlantic and London sources said AFIA has contended its member company The Home Insurance Co. is not liable for the reinsurance on 17,500 policies because it never gave authorization to be bound by the agreement.

The Great Atlantic attorney would not comment on how the insurer would be affected if the court rules in AFIA's favor, saying it would be "mere speculation."

City, mass murderer sued

CHICAGO—The city of Chicago is completely self-insured for liability in a \$22 million damage suit against the city and convicted mass-murderer John Wayne Gacy, filed by a mother of one of his 33 victims.

The suit, filed by Rosemarie Szyg, charges the Chicago Police Department failed to protect her son John, 19, and should pay \$11 million in damages. Mr. Gacy also should pay \$11 million in damages, she said.

The suit says Chicago police were negligent in allowing Mr. Gacy, who had been arrested numerous times in Chicago, to go unwatched and eventually kill her son.

Doctors vote against PSROs

SAN FRANCISCO—The American Medical Assn. supports the elimination of professional standards review organizations.

The AMA's House of Delegates voted 104-100 to encourage abolition of PSROs after a lengthy debate at the 1980 interim meeting here, reports the American Medical News.

Members say they are displeased with the recent makeup of the review boards.

The AMA says the PSRO program should be assessed by the Reagan administration and possibly an improved peer review program established.

Disasters cost \$185 million

LONDON—Within a day of each other, two offshore disasters brought British insurers an estimated \$185 million in combined losses, *Business Insurance* learned.

On Dec. 11, an Egyptian drilling rig worth \$25 million sank while in tow off Port Said. The next day the tanker Taurus carrying liquefied natural gas, ran aground off the coast of Japan. The loss on the Taurus was estimated at \$160 million, but a salvage effort is underway to try to reduce the loss for the owner, the Energy Transportation Corp. of New York.

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Trapp lodge burns

All that remains of the main building at the popular Trapp family cross-country ski lodge in Stowe, Vt., is the fireplace chimney in the background. The 25-room building was destroyed by a fire Dec. 21 that killed one person and injured seven. The lodge,

owned by the Von Trapp family made famous by the "Sound of Music," was insured for property damage and liability by a package policy from St Paul Cos. Larry Avar, St. Paul's general manager in Springfield, Mass., said the burnt structure was insured for under \$1 million, its value. He would not disclose the liability limits.

1981: Cabinet members to sculpt health policy with tax code

By JERRY GEISEL



Stockman



Schweiker

WASHINGTON—The Internal Revenue Service tax code will be among the tools two key members of President-elect Reagan's Cabinet will use to sculpt a new national health policy.

Rep. David Stockman (R-Mich.), the 34-year-old "wunderkind" who has been catapulted from Congress to director of the Office of Management and Budget, is the leading advocate of using tax incentives to inject more competition into the health care delivery system.

Sen. Richard Schweiker (R-Pa.), Mr. Reagan's choice to direct the sprawling Department of Health and Human Services, advocates tax-free rebates for employees who opt for low-cost group health insurance plans.

Sen. Schweiker, 54, who ran in the No. 2 spot in Mr. Reagan's unsuccessful bid for the Republican presidential nomination in 1976, also is a keen student of Social Security financing problems and a long-time backer of health maintenance organizations.

Normally, the Office of Management and Budget director, who must continually check the pulse of the federal government's \$640 billion budget, wouldn't have the time or interest to get involved in health issues.

But experts believe Rep. Stockman will be different. In his two terms in Congress, Rep. Stockman, a one-time student at Harvard University's divinity school, displayed an extraordinary interest in health issues.

He vehemently fought the Carter administration's proposed cost controls for hospitals. Later, he and Rep. Richard Gephardt (R-Mo.) introduced the National Health Care Reform Act of 1980 to overhaul the nation's health care system through radical new use of tax incentives (*BI*, June 9).

Tax laws would be changed to reward employees who enroll in less expensive plans with less reimbursement. "We feel that as a matter of good tax policy, we shouldn't encourage the unchecked growth of employer health benefit exclusions," Rep. Stockman said last summer in an interview.

Employers could continue to contribute any amount they want to an employee's health benefit, but any amount over a set contribution limit would be taxable to the employee.

Employees opting for low-cost plans with high deductibles and coinsurance could receive as much as \$500 cash rebates, under the Gephardt-Stockman proposal.

Rep. Stockman believes tax-free health insurance benefits have fueled the tremendous inflation in medical and hospital costs.

Continued on page 4

DOL calls benefits ashore

WAYNE, N.J.—Another major U.S. corporation will have to pull ashore its benefit program reinsured through its Bermuda captive insurance company.

The U.S. Department of Labor says that by March 31, American Cyanamid Co. must stop using its Bermuda captive, General Insurance Co. Ltd. (GEICO), to reinsure group health and long-term disability plans insured through Prudential.

The Labor Department previously ordered U.S. Industries Inc. of New York and Sambo's Restaurants Inc. of Santa Barbara, Calif., to quit using Bermuda captives to reinsure group life and health plans also insured at that time with Prudential (*BI*, Nov. 3).

Last year, the Labor Department said a U.S. insurance subsidiary could underwrite group benefit

programs for its parent company's employees if the business didn't account for more than 50% of the subsidiary's total business (*BI*, Aug. 20, 1979).

But that rule, which increased the limits from 5%, only applies to domestic insurer subsidiaries. The Labor Department prohibits the direct insurance of benefit programs with offshore insurers.

The exemption also does not permit insurance subsidiaries to reinsure benefit plans underwritten by licensed insurance. Reinsurance arrangements would be judged case by case, the department said.

American Cyanamid last January requested an individual exemption to continue to use its captive. But the Labor Department rejected American Cyanamid's plea,

as it did U.S. Industries' request. Sambo's apparently never reported its arrangement.

The department says it opposes offshore captives because they are difficult to regulate and not as safe as domestic insurers.

"We are disappointed at the Labor Department decision," said G.W. Coulthart, corporate director of employee benefits at American Cyanamid. He said the giant chemical company will consider other benefit funding methods.

In 1980, GEICO reported premiums of about \$30 million, with about 90% related to parent company risks. Its group health and disability business was about \$10 million.

The plans cover about 25,000 employees. GEICO assumed 90% of the risk and Prudential covered the remaining 10%. ■

Business picks up in New York

Renewals boost exchange business

By ELLIS SIMON

NEW YORK—The New York Insurance Exchange at year-end 1980 is playing a cameo role in the world reinsurance market, but it has yet to live up to its advance billing as the "American Lloyd's."

Exchange syndicates are writing more insurance now than in the first months after it opened in late March, when it wasn't uncommon for a day to go by with no business written.

"You even have to wait in line to see underwriters," said Marsh & McLennan vp John Belcher, alluding to the image of brokers queuing up at underwriting booths at Lloyd's of London.

The flurry of recent activity is attributed to a common Jan. 1 renewal date on reinsurance contracts. The reinsurance business bound for Jan. 1, 1981, is pegged at several million dollars in premiums by NYIE treasurer Truman Dodson V, but he couldn't be specific.

Still, the premium volume for the first year of the exchange probably will be half of the \$50 million projected on opening day by exchange president Donald E. Reutershan. Mr. Dodson says business written in the first eight months annualizes at \$21 million in premiums.

Both supporters and critics of the exchange blame the current glut of insurance market capacity and stiff competition for the slow growth of the exchange.

Carefully selecting risks to underwrite will pay off later, say exchange supporters who expect bad loss experience on some of the "distress" business rejected by the exchange. Slow growth even helped, they say, allowing the exchange to work out bugs without creating chaos.

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Photo: NYIE

The Jan. 1 renewal date on reinsurance contracts has helped business pick up on the New York Insurance Exchange.

Free Trade Zone volume doubles

NEW YORK—The volume of commercial insurance being purchased through the New York Free Trade Zone has doubled.

Insurers underwrote twice as much premium in the zone's second year as they did in the first, New York Insurance Department figures reveal.

American International Group, which promoted the Free Trade Zone in the state legislature, continues to underwrite the most business, but its share of this market for large and unusual risks has fallen by a third.

The Free Trade Zone permits specially licensed New York insurance companies to write large premium and exotic and unusual risks without prior regulatory approval on rate and form.

While the Free Trade Zone's growth pleases state insurance officials, most companies licensed in the zone have yet to use it.

Critics say most insurers are not interested in using the zone and that its main purpose is to block buyer access to the New York Insurance Exchange. Some brokers, such as Marsh & McLennan, have urged that the Free Trade Zone be dismantled.

Supporters of the Free Trade Zone say it offers commercial buyers the freedom they want to negotiate rates and policy forms without regulatory interference and delays.

Free Trade Zone volume for Oct. 1, 1979, through Sept. 30, 1980, was \$21.3 million, 102.5% more than the \$10.5 million written in the zone in its first year from Sept. 1, 1978, through Sept. 30, 1979.

During the second year, large premium or Class I risks accounted for \$15.5 million of the total, or 71.4%. Exotic and unusual or Class II risks totaled \$6.1 million.

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Hypertension screening aims to cut costs and save lives

By BARBARA ROUSSEAU

SPRINGFIELD, Mass.—Massachusetts Mutual Life Insurance Co. has found that spending more on its employees can really cost less.

For the past four years, the company has sponsored annual screenings to detect high blood pressure in the 2,800 employees in the home office. However, the Massachusetts Mutual plan doesn't stop there.

If hypertension is detected in an employee, the company pays for all medical expenses related to the disease, allows the employee to see his or her own physician for treatment and even ensures complete confidentiality.

The company boasts the highest rate of voluntary participation in any hypertension program of this kind in the nation—98% each year since the program began.

The number of identified hypertensives is in line with national statistics (of one out of seven persons), but 77% of these individuals are now complying with doctors' orders and 82% of them have controlled blood pressure.

Employees in the program are covered after retirement, too. Employees who drop out of the program can rejoin at any time.

The Massachusetts Mutual hypertension plan is designed to save money as well as lives, says Charles B. McManus, who handles special projects for the company and is the force behind the program. High blood pressure often leads to strokes or heart attacks, both involving large insurance claims to cover medical expenses and, in the case of strokes, long-term disability payments.

The hypertension program is designed to control these costs.

"Our people, when they go out on disability, probably get 60% as much income as they get while they're working," Mr. McManus said.

The company pays an average of \$15,000 a year for each employee who suffers a stroke or otherwise becomes disabled because of high blood pressure, Mr. McManus said. If four employees are disabled, that's already \$60,000 a year, he points out.

But the hypertension program to prevent strokes costs less than \$40,000 a year. That includes nurses' wages for the screenings, the employees' doctor and pharmacy bills, forms and promotional materials and travel costs to attend national conferences to inform others about the program.

"If done properly, in the first year of this program you're going to put out a little money," Mr. McManus explained. "The second year, your savings in claims would just about equal your expenses. The third year, you should recoup what you spent the first year. From there on out, it's pure cost containment."

Exactly how much money Massachusetts Mutual has saved has not been determined, but initial statistics based on three-year results indicate a decrease in the number of deaths among hypertensives, a drop in the number of days hypertensive employees were hospitalized, a substantial increase in the number of hypertensives complying with doctors' orders and a drop in absenteeism.

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Photo: Mary Cairns

The hypertension screening program is designed to control the incidence and the costs of strokes or heart attacks.

Insurers bid for pipeline liability plan

By EILEEN NORRIS

NEW YORK—The country's 12-largest property/casualty insurers are bidding for more than \$25.5 million in liability coverage for the U.S. eastern leg of an Alaska pipeline.

Specifications on the insurance package have been sent to the "12 largest insurance companies" by E.G. Bowman Co. It is the minority-owned broker named by the Northern Border Pipeline Co. in Omaha, Neb., to design and implement the plan.

The companies, which Bowman declined to name, are to submit their quotations by late January.

Harry Ennezor, executive vp at Bowman, said one insurer will be selected by Feb. 1 to cover both liability and workers compensation risks. A separate company will be chosen for the excess coverage, he said.

Under the proposal, which is a comprehensive wrap-up of more than \$25 million, the maximum coverage for employee liability would be \$500,000 per occurrence, with comprehensive general liability set at \$1 million. Excess coverage has been set at \$14 million and all-risk property insurance at \$10 million per occurrence.

Those figures could change, but it's not likely, said John Empson, vp of administration at Northern Plains Natural Gas Co., the managing partner of the Northern Border Pipeline.

The total value of the package won't be known until the insurers return their quotes on the project, Mr. Empson said.

The company that wins the bid will have to be "sophisticated," Mr. Ennezor said. Because the 823 miles of underground pipeline will span from Montana to Iowa, the coverage will be anything but traditional.

"The premium costs will be the same for every carrier," he said. "What we're looking for is an insurer who will provide us with an engineering service and a top-rate first-aid system."

"It's the difference between flying a burned employee to a hospital by a helicopter or telling him to get there himself. We want the best," Mr. Ennezor added.

The pipeline—which will stretch through Montana, North Dakota, South Dakota, Minnesota and Iowa—will be built in nine segments, with an estimated 500 workers at each site. During peak employment time, about 7,000 employees will be insured under the project, he said.

Northern Border is building the section of the pipeline for the Alaska Natural Gas Transportation System. Construction is expected to begin next spring.

Bowman has formed an affiliation with Alexander & Alexander Inc. of Omaha to carve out the insurance program. Northern Border Pipeline Co. is a partnership formed by five energy companies to build the pipeline.

The partners are subsidiaries of the following firms: InterNorth Inc. of Omaha; Northwest Energy Co. of Salt Lake City; Panhandle Eastern Pipe Line Co. of Houston; Trans-Canada PipeLines Ltd. of Toronto, Canada, and United Gas Pipe Line Co. in Houston.

DOL chief may move slowly

WASHINGTON—Raymond J. Donovan, the wealthy New Jersey businessman tapped to be President-elect Reagan's secretary of labor, will speak softly and tread quietly until he adapts to the inner workings of the massive bureaucracy on Constitution Avenue, observers say.

"As a senior business executive, Mr. Donovan is not going to be quick on the trigger," predicted Dallas Salisbury, executive director of the Employee Benefit Research Institute.

"He is going to say very little until he sizes up the situation and has a good overview of how the various programs operate."

The proposed Cabinet member, however, has a mandate for change.

Among the major issues Mr. Donovan will face is overhauling the oft-criticized Occupational Safety and Health Administration.

As a candidate, Mr. Reagan pledged to reduce OSHA's punitive powers and to encourage the safety agency to work with business in improving job safety.

Mr. Donovan says he determined to carry out

Mr. Reagan's goals for reducing government over-regulation.

Mr. Donovan also recently told reporters he hopes he can forge closer ties between labor and management. "It needn't be a constant adversary relationship," he said.

Mr. Donovan, a conservative Republican, believes government should "play the least role possible in every portion of our lives" because government doesn't "do things well," he said.

Mr. Donovan, 50, is executive vp of Schiavone Construction Co., a unionized company in Secaucus, N.J. He along with partner Ronald Schiavone started the company and helped make it one of the nation's major heavy construction firms.

He has been described as an "extremely gifted businessman." As a member of a management bargaining team, he is familiar with the Employee Retirement Income Security Act and some of the problems the pension reform law has presented employers.

Tax code to be used in new health policy

Continued from page 2

With employees having little incentive to control costs, the demand for health services has soared, placing mounting inflationary pressures on the health care delivery system, Rep. Stockman says.

As OMB director, Rep. Stockman will continue to preach his version of the health care delivery system reform proposal, predicts Michael Bromberg, executive director of the Federation of American Hospitals.

But instead of preaching before a largely indifferent Congress, Rep. Stockman, known as a verbal wizard, now will be whispering in the ear of the president of the United States.

Some experts say a cap on tax-free health benefits, such as Rep. Stockman has proposed, could add \$2 billion annually to federal revenues.

With Reagan administration officials advocating slashes in income taxes, Rep. Stockman's idea to bring new revenue into the federal coffers through curbs on tax-free health benefits will carry a lot of weight, one hospital industry lobbyist says.

Although HHS secretary designate Sen. Schweiker lacks the verbal brilliance credited to Rep. Stockman, he is recognized as a dogged worker who has surrounded himself with a talented staff.

Like Rep. Stockman, Sen. Schweiker wants to inject more competition into the health care system and now will be in a more favorable position to lay out a blueprint.

He introduced and pushed for legislation to require employers to offer their employees a choice of at least three competing health insurance plans. He says if insurers are forced to compete, lower premiums and better benefits will result.

To encourage cost-sharing, Sen. Schweiker wants one of the three employer health insurance plans to allow employees to pay the first 25% of their hospital bills out of their own pocket, up to 20% of family income.

The employee would receive a tax-free rebate equal to the difference between the premium for the high coinsurance plan and the other plans the employer offers.

Along with Sen. Edward Kennedy (D-Mass.), Sen. Schweiker was one of the leading Senate backers of HMOs. He played a leading role in passage of the 1973 HMO Act, which established new federal loans and grants to get more HMOs off the ground.

As HHS secretary, Sen. Schweiker probably will call for a cutback in grants to HMOs, says Mr. Bromberg of the FAH. But he is bound to push for expansion of loan programs to get fledgling HMOs off the ground.

During his two terms in the Senate, Sen. Schweiker paid very careful attention to the financing problems of the Social Security System, notes Dallas Salisbury, executive director of the Employee Benefit Research Institute.

With a Reagan task force already working to find new ways to keep the 45-year-old system fiscally sound, Sen. Schweiker will be another strong voice calling for changes in the program, experts say.

Disability payouts 'too generous'

WASHINGTON—A majority of Americans believe "too generous" disability benefits discourage workers from returning to work after they have recovered from an illness or injury, according to a Gallup survey conducted for the Health Insurance Institute here.

About 58% of those surveyed this fall believe it is common for persons who have recovered from an injury or illness to not return to work because of generous disability benefits.

Only 6% considered the problem rare. In addition, 67% said false claims are a problem.

Seventy-one percent favored having the government limit the amount of disability income people can receive, 20% were opposed and 9% did not know.

CHANGES ARE YOUR CLIENTS AREN'T INSURED FOR POLLUTION LIABILITY

Most companies today don't have adequate insurance protection for pollution. The reason is simple. Until now, most liability policies limited coverage to sudden and accidental pollution occurrences. Like pipeline ruptures, chemical explosions or the blow-out of wells. However, damage occurring over a gradual period of time, such as a slow oil or chemical leak, is not normally covered under most standard liability forms.

At Wohlreich & Anderson, we know that new technology means new risks. That's why we have introduced Environmental Impairment Liability Insurance. It's designed to protect companies from all types of pollution liability.

Environmental Impairment can be tailored to your insured's specific needs. It covers gradual pollution of water, air and property... and clean-up costs as well. It can even cover sudden and accidental occurrences if not already included in your client's present policy. A special engineering service is also provided which can be of valuable assistance in identifying possible pollution exposures.

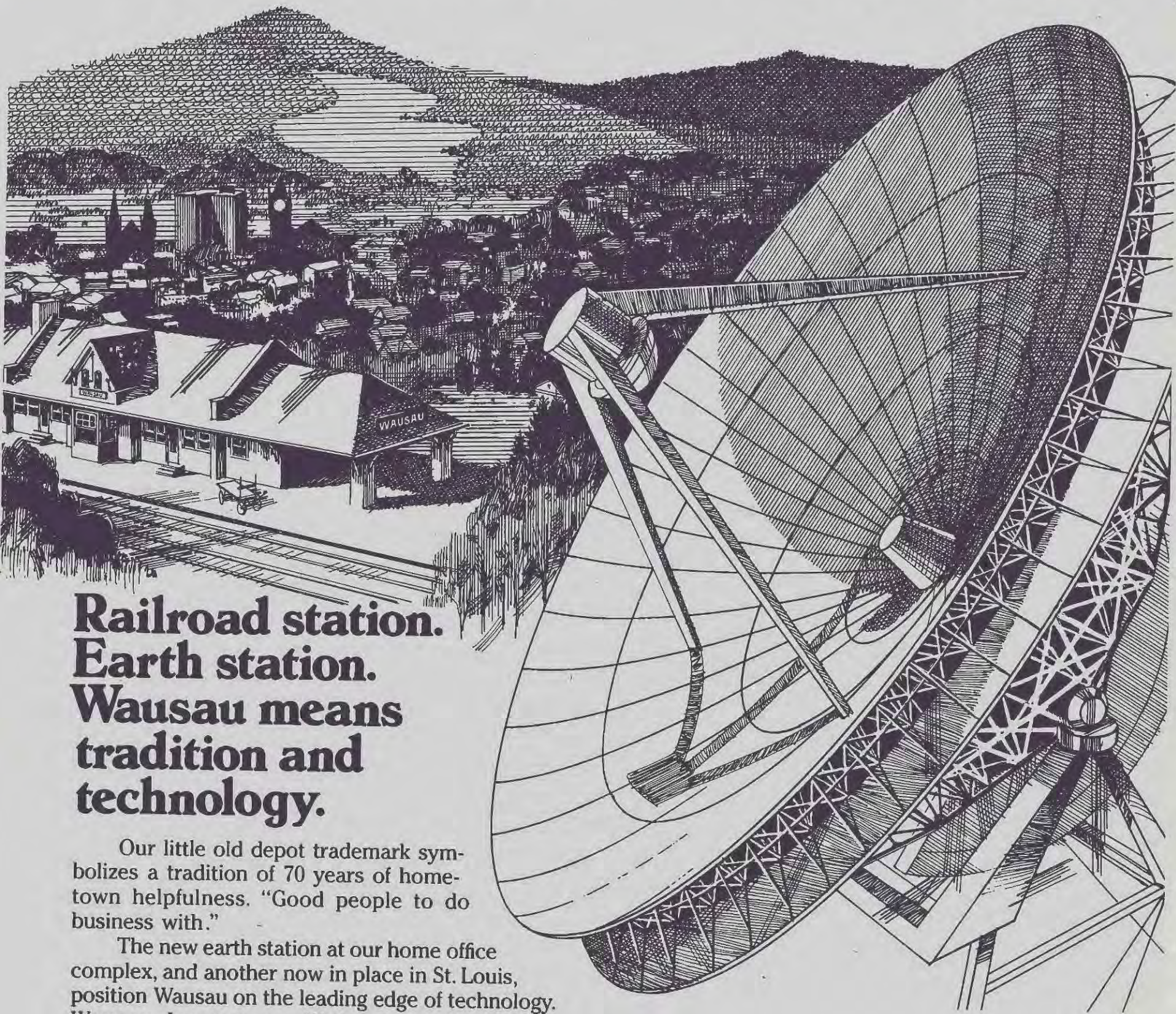
For more information, please contact your nearest Wohlreich & Anderson branch office, or send in the coupon below.



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Railroad station. Earth station. Wausau means tradition and technology.

Our little old depot trademark symbolizes a tradition of 70 years of hometown helpfulness. "Good people to do business with."

The new earth station at our home office complex, and another now in place in St. Louis, position Wausau on the leading edge of technology. Wausau Insurance will be one of the first companies in the Midwest to use satellite transmission when the business communication system becomes operational next Spring. Eventually, a network of earth stations across the country will be linked to the system.

Wausau works. Both in the traditional ways that have earned our reputation as one of America's leading business insurers — and in new, innovative ways that *keep* us out front.

Satellite communications will give our service teams important new capa-

bilities in providing up to date information that's useful to policyholders. Future applications involve telephone communications, data processing, facsimile transmission, even teleconferences that will permit face to face discussions among people thousands of miles apart.

Our goal is to make technology serve our own people and our policyholders, cost-efficiently, in ways not possible in the past. But, in doing so, never to forget the Wausau way of doing business that thousands of policyholders seem to like, and we don't want to lose.



editorial opinions

Resolved in 1981 . . .

WE'VE WRITTEN our New Year's resolutions and we liked the task so much we kept on going with some plans for you.

So as the clock chimes the final notes of 1980, kiss your companion, pour another glass of champagne and repeat after us:

We (risk managers, benefit managers, safety managers, chief financial officers, magazine editors) do hereby resolve to:

- "Shop early." Decide what you want and what ideas to research as soon as you can to avoid mistakes, last-minute rushes to fill holes and half-baked schemes.

- "Communicate fully." Talk to your colleagues and suppliers and find out how their expertise can expand, improve and build your plans. Talk to line employees and fit their concerns into your plans.

- "Act aggressively." Take your plans to top management with proof of your past successes and press for the money and human resources you need to get the job done.

- "Improve expertise." Get the kind of continuing education you need in seminars, insurance education and financial education courses to do a better job in your profession.

- "Give up smoking." Make changes that will improve safety and well-being of employees and customers for fewer claims, lower costs and happier workers and customers.

Simple resolutions are the most difficult to keep. But you can do it.

Happy New Year.

. . . keep tabs on policies

THE DEVELOPMENT of risk management shouldn't mean the demise of a good insurance clerk. There's a lot to be said for keeping track of insurance policies and being able to put your finger on insurance documents when you need them.

Insurance coverage years from now for an accident occurring today depends upon your dedication to keeping track of insurance policies. Your department should have a documented system for filing policies and an easy reference to it for your successors.

We're reminded of the importance of this basic risk management department duty by the story on page one of this issue about Keene Corp.'s problem with finding insurance policies from years ago for an acquired company.

This fascinating story of a \$10,000 reward for information leading to the discovery of Baldwin-Hill Corp. insurers raises another issue, too.

It occurs to us that the reward will put a risk manager and his company in an awkward position with what to do with the money.

Granted, any risk manager worth his or her salt could find good risk management use for \$10,000 at any company or institution. A new safety program? A safety bonus prize? A raise for a deserving staffer?

Forget it. You should be fighting for those worthwhile causes for your annual budget.

We suggest that if you are a lucky bounty hunter, you contribute that \$10,000 to a risk management education institution.

If you don't have an alma mater, just look through some recent issues of *Business Insurance* and read the profiles we're running on institutions that teach risk management/insurance courses. Any one of them and its students would be delighted with \$10,000 for a special risk management project.

You could even present the project assignment. Designing a policy information system, perhaps?

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Is Mendocino Plan too good to be true?

To the editor: Your article "Health care plan teaches valuable lesson in saving" (*BI*, Dec. 8) about the so-called Mendocino Plan makes it seem too good to be true. And usually when something seems too good to be true, it is.

The Mendocino Plan puts the responsibility for excessive health care utilization squarely on the consumer of health care when, in fact, most excessive utilization is generated by the provider of health care. Once a patient has seen a physician, it is usually that physician who then generates all costs thereafter and who admits and discharges the patient from the hospital.

The Mendocino Plan does nothing to alter the behavior of the provider except perhaps to place some consumer pressure on the physician not to order totally unnecessary tests. However, once a patient has hit the \$500 threshold per year, then neither the patient nor the provider has any incentive to control costs.

Indeed, once the threshold has been reached, the patient will insist on the most extravagant care, especially if he has been below the threshold in previous years and feels this is his year to "cash in."

A lesson in saving			
Year	Medical claims	Employee's trust	BC/BS
1st	\$200	+\$300	0
2nd	0	+\$500	0
3rd	\$2,000	-\$500	\$1,500
			\$800

If employee leaves district after these three years, he would take this amount in savings with him.

Mendocino Plan

Health maintenance organizations do an excellent job of modifying provider behavior and through health education, attempt to modify consumer behavior through early diagnosis and treatment.

This would seem to be a more complete approach than is embodied in the Mendocino Plan.

At any rate, it is good to see such an innovative concept as the Mendocino Plan being implemented. We need a lot more approaches like this one to control health care costs in our pluralistic society.

Michael E. Herber

Executive director
Physicians Health Service,
Trumbull, Conn

Savings explained

A.E. Lut

Jacksonville, Fla

To the editor: In Carol Blitzer's report on another experiment to control medical costs in "Health plan teaches valuable lesson in saving" (*BI*, Dec. 8), it is difficult to determine where the Mendocino County School District is saving money.

First, 113 employees times \$500 produces a fund of \$56,500. Did the premiums for the \$500 deductible plan from the Blues go down that much?

That seems unlikely. In the first year, 60 employees did not use any of the \$500, creating a lasting liability of \$30,000 in addition to medical expenses incurred against the plan.

Second, the outlay into the fund for two years equals \$113,000 against an estimated savings of \$80,000 in what might have been rate increases. Does this not represent a \$33,000 additional cost to the school board? The offsetting \$7,000 still leaves \$26,000 of added expense under the label of medical costs.

■ First, the 113 employees were the number in the first year of the plan three years ago. In that year, the total cost of the plan was \$203,000 just \$3,000 more than it was the year before—and that includes the \$56,500 to fund the \$500/employee deductible plan.

Second, says District School Superintendent Louis Delsol, the new program has isolated the Mendocino County School District's claims experience and it's been good news.

They've found they have overpaid by \$20,000 to \$30,000 for the plan based on claims experience. The overpayment is being held in reserve to offset any cost overrun in future years. There have been no rate increases in three years and a vision plan has been added for free.

"I guarantee I have more dollars than I did before," Mr. Delsol says.

Star motivation system

To the editor: As it is only nine years since I wrote "Management Introduction to Total Loss Control" (now in its 12th edition) including the 30 areas of a total loss-control program, I am more than delighted to see *Business Insurance* give such prominence to the Five-Star program used by my friend Bob Wright of Gulf Canada ("Programs star in loss control," *BI*, Dec. 1).

We have used loss-control safety performance measurement to evaluate programs and award

bronze, silver and gold safety performance citations and also have used it for our Sword of Honor program.

There can be no better way to motivate management, as Rolls Royce, Caterpillar Tractor Co., IBM and scores of multinationals will agree.

James Tye

Director general
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Pension panel to form final proposals

By JERRY GEISEL

WASHINGTON — The President's Commission on Pension Policy next month will hammer out its final recommendations on solutions to pension and retirement problems at a special three-

day meeting.

The meeting, Jan. 23-25 in Williamsburg, Va., will be open to the public.

The commission was set up by President Carter in October 1978 to make a two-year, \$2 million study of the nation's retirement income policies.

Questions the commission will address include:

- Should all private employers be required to offer pension plans?
- Should vesting requirements be reduced, and if so, by how much?
- How should integration for-

washington

mulas, which allow employers to reduce pension benefits by the amount of Social Security retirees receive, be changed?

There is controversy over how much influence the final report, to be published in February, will have with the Reagan administration.

Experts point out that recommendations made by a similar pension commission appointed by President Kennedy in the early

1960s were largely incorporated in the Employee Retirement Income Security Act of 1974.

For more information on the Williamsburg meeting, contact Leigh McDermott of the President's Commission on Pension Policy, 736 Jackson Place, Washington, D.C. 20006; 202-395-5132.

Panel chairman

President Carter has named Phyllis Spielman, a top Minnesota pension official, new chairman of the Pension Benefit Guaranty Corp.'s advisory committee on policies and procedures.

Ms. Spielman, administrator of the Pension Protection Division of the Minnesota Department of Labor and Industry, assisted in drafting Minnesota's pension law.

She will serve as advisory committee chairman until Feb. 19, 1982. The position had been vacant.

Also named to the committee was San Francisco attorney Deene Goodlaw Solomon of Hekler, Ehrman, White & McAuliffe.

Ms. Solomon, a Phi Beta Kappa graduate of Stanford University, has written numerous articles on pensions and tax issues. She is co-author of the "Attorney's Guide to Pension and Profit-Sharing Plans." Her term expires Feb. 19, 1983.

Robert Tilove, senior vp at benefit consulting firm Martin E. Segal Co. of New York, was reappointed to a two-year term. Mr. Tilove is well-known in the benefit community for his expertise in multiemployer pension plans.

Ms. Solomon will represent the interests of the general public. Mr. Tilove represents employee organizations.

Faster vesting

Full and immediate vesting in all defined benefit plans could cost employers an additional \$1.5 billion a year without significantly raising retirement income for workers, says a new study by the Employee Benefit Research Institute.

"The evidence indicates that faster vesting will increase coverage and participation, but will lead to minor increases in retirement benefits," said EBRI executive director Dallas Salisbury.

Under a model plan developed by EBRI utilizing three-year vesting, the value of vested benefits accumulated by 85% of participants who leave before 10 years of service would be less than \$2,000.

Most defined benefit plans now offer first and full vesting after an employee completes 10 years of service.

Copies of the "Analysis of Alternative Vesting Requirements for Private Pensions" are available for \$10 from the Employee Benefit Research Institute, 1920 N. St. N.W., Suite 520, Washington, D.C. 20036; 202-659-0670.

FICA offsets

Workers who collect Social Security will be able to earn more next year without losing any Social Security payments.

A worker younger than 65 will be able to earn \$4,080 in 1981 without any reduction in Social Security. This is an increase from \$3,700 this year. For those 65 or older the ceiling increases to \$5,500 from \$5,000.

Benefits are reduced \$1 for each \$2 earned in excess of the ceilings. There is no earnings offset for persons 72 or older. In 1982, the

ceiling on earned income will be removed for those 70 or older.

Earned income includes salary wages, tips and net income for the self-employed. Interest, dividends and pension payments are not considered.

FICA financing

The outgoing chairman of the House Ways and Means Committee doubts if the next session of Congress will tackle Social Security's long-term financial problems.

Rep. Al Ullman (D-Ore.) who was narrowly defeated in his bid for re-election, says the new Congress only will take action to ensure the system remains solvent over the next three or four years.

Social Security taxes are more onerous to most workers than income taxes, Rep. Ullman said. Congress will have to find a new way to finance the public retirement program, he said. Benefits now are funded by a payroll tax paid equally by employers and employees.

Rep. Ullman had proposed a new tax on products, the so-called value-added tax, to pump \$40 billion in revenues into Social Security trust funds. But he couldn't find any backers.

Deduction allowed

Congress has given final approval to legislation (H.R. 4155) allowing companies with foreign operations to deduct as a business expense the costs of foreign pension benefits even if plans don't meet ERISA standards.

The measure overturns the position of the Internal Revenue Service that if a foreign branch of a U.S. corporation has a benefit plan for nonresident alien employees that does not meet all federal requirements for qualification, no tax deductions are allowed until benefits are paid to retirees.

The proposal, expected to be signed by President Carter, would allow deductions for amounts paid to a pension trust or added to reserves for pension benefits, said Sen. Robert Dole (R-Kan.).

New liabilities

Local governments may be on the line for new liabilities.

The Supreme Court last week agreed to decide whether local governments can be sued for punitive damages. The case involves a 1975 concert that the city of Newport, R.I., threatened to cancel when the promoter proposed substituting a rock band for a jazz singer.

The concert went on after the promoter obtained a court order, but less than half of the available tickets were sold. The promoter, Fact Concerts, then sued the city, charging it interfered with its First Amendment guarantee of freedom of expression.

A jury awarded the promoter \$275,000 in punitive damages, which was later reduced to \$150,000. A federal court upheld the award and Newport then sought Supreme Court review.

Pension pamphlet

The Labor Department has a new pamphlet to help small pension plan sponsors understand how to file reports required under the pension reform law.

Free copies of "A Guide to Filing Under the ERISA Triennial Reporting System for Employee Benefit Plans" are available from the U.S. Department of Labor, Room 4659, 200 Constitution Ave., Washington, D.C. 20016.

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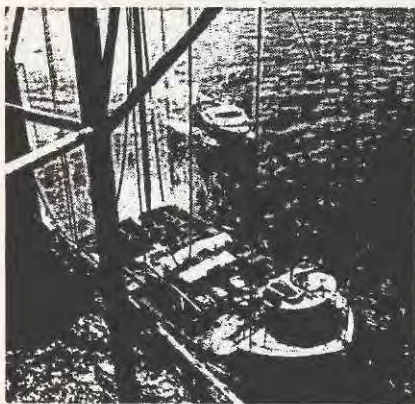
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We are a correspondent of Lloyd's of London



Lloyd's investors prepare to form own association

By JOHN H. MILLER

london line

LONDON—The way is open for the formation of an External Members Assn. for Lloyd's investors, as predicted at the November meeting where members approved a draft Parliamentary bill to change Lloyd's structure.

The association hopes to cover most of the 15,000 nonworking members of Lloyd's who invest their money in the marketplace and their trust in its underwriters. Computer leasing and Sasse Syndicate losses led some members to demand greater contact with the market.

"One of our main tasks will be to define procedures for electing six external members to the new Council of Lloyd's when it is formed by the end of next year," said David Watkins Cronin, a U.K. design consultant.

"We have no intention of interfering with market processes, but feel there can be useful contacts between all sides with the greater exchange of information about its affairs."

He already has been approached by some of the 1,200 U.S. members of Lloyd's interested in joining the new association. It is currently being administered from his home at High Wood, 28 Peaks Hill, Purley, Surrey County, near London.

Fraud prevention

The United Nations Intergovernmental Maritime Consultative Organization has taken another step in its war against major insurance fraud by appointing a top U.K. police official to head its criminal bureau.

Eric Ellen, former Port of London security expert, will take control of the bureau shortly and will meet with commodity dealers, insurers and shipping executives to discuss fraud-prevention measures.

"We must not be complacent about marine frauds even though they are on the decrease in some parts of the world because of the successful efforts in exposing them which have been undertaken in many quarters," he warned corporate executives.

As chief constable of the Port of London, he toured the world in the past two years in an attempt to reduce the prevalence of shipping frauds. At one time such frauds cost marine insurers an estimated \$100 million a year.

An IMCO committee is also preparing international recommendations to prevent fraudulent acts of ship crews or unlawful seizure of cargo at sea.

Governments will be asked to tighten up their own laws to stop frauds and insurers and shipping experts will be invited to help the new campaign.

Oil rig capacity

Poor results may cut short the U.K. market's capacity for covering oil rig risks, warns Peter Wingett, a leading member of the London Master Drilling Rig Contract committee who has been studying the situation.

Some platforms in the North Sea are now worth well more than \$1.25 billion, and U.K. insurers increased their pool's limits to \$750 million six months ago.

But, Mr. Wingett predicts, "It's possible that with 1979 results showing up poorly and 1980 look-

ing even worse on the general marine book of business, losses on rig cover can lead to a sharp setback in capacity in the coming months."

He believes that in many cases, underwriters are protected against heavy account losses only because they can invest their reserves at high interest rates. But those interest rates already show signs of dropping in the U.K. financial market.

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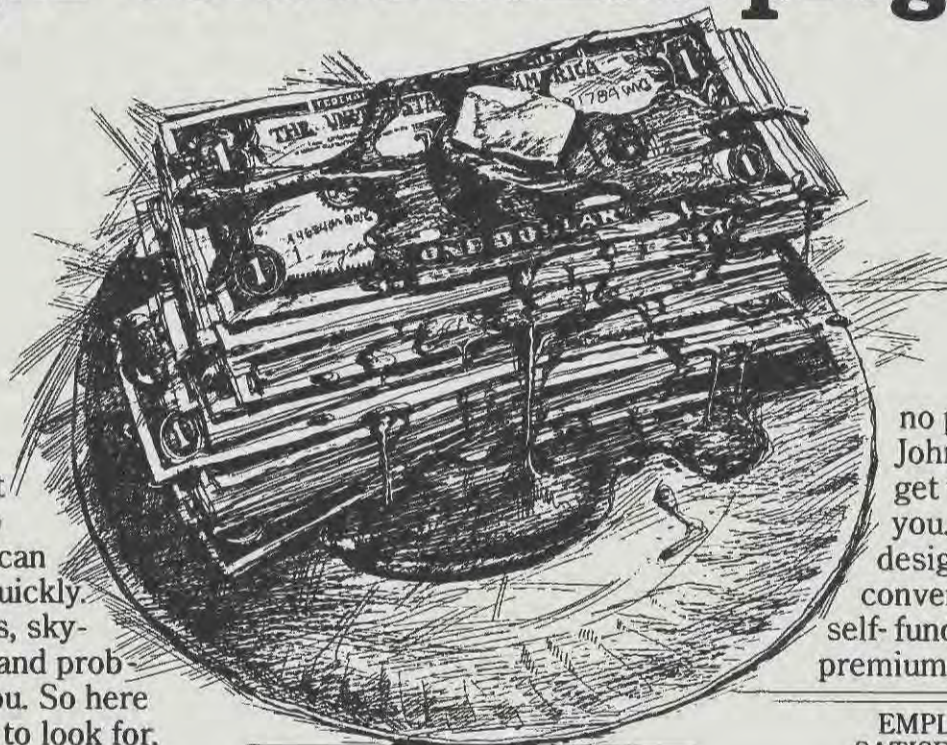
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Seminars teach specifics of risk

By SHARON WATSON

DALLAS—A first glance would give the impression that students at the University of Dallas, a progressive Catholic university in Irving, Tex., are removed from the real world.

The campus sits atop a hill, acres away from the hubbub of the rapidly growing business community between downtown Dallas and Dallas/Fort Worth airport. The dome of Texas Stadium is clearly visible, just a punt and a pass away, yet traffic is leisurely.

In this tranquil atmosphere, however, students come from around the world to get firsthand management education and attend risk management seminars.

Education at the master's level and continuing education in current insurance and risk manage-

ment issues are primary interests of Bruce Evans. The former insurance industry executive now directs the risk management portion of the graduate management program.

The Graduate School of Management has 1,500 enrollees, 80% of them holding full-time jobs in the "real world." Although not all of these students are preparing to advance in the insurance field, most get a hefty sampling of insurance issues.

"The approach is to teach students how to manage," Professor Evans said. "We then offer professional seminars—taught by professionals, not academicians—to provide specifics."

The seminars are offered through the university's Risk Management Institute and cover a variety of topics. This January's seminar is on "Financial Costing of Risk Management."

"Real world experience is what we are after," the scholarly Professor Evans said. He actively recruits industries to submit problems for graduate students to study and solve.

The Graduate School of Management provides three practical project courses in operations, in marketing and one called Capstone, an extensive project involving all phases of student training, including risk management.

"The Capstone (finishing touch) course has become a logical focal point for students to apply all their business knowledge gained from the classroom and personal experience," Professor Evans said. "We ruled out, alternately, a case study final."

"Case studies are always artificial, typically leaving out meaningful material. They are also one-way, since cases do not allow for answers to interactive questions from the student."

A recently completed Capstone report illustrates how this course works for students and small businesses.

Superior Foods Inc. of Dallas presented Professor Evans with a problem: how to assess the company's compliance with the provisions of the Foreign Corrupt Practices Act. The class project was to develop an internal control system that Superior Foods could adopt.

Students were briefed on the company's operations, its management organization and the problem before meeting Dede Meenach, chief executive officer for Superior, and other company officials. "Each student sensed the opportunity to become personally

insurance education



"The Capstone course has become a logical focal point for students to apply all their business knowledge," says Bruce Evans.

involved and committed," Professor Evans said.

The class then divided into study teams, with Professor Evans as adviser. The class proposed that Superior create a FCPA compliance plan that would:

- Be comprehensive, including all departments, materials and personnel.
- Be achieved within the project's budget of \$2,000.
- Include analysis of the company's self-insurance arrangement.
- Provide a risk management assessment of the company's participation in a captive insurer.
- Include special studies on utilization of Superior's trucking fleet.
- Be presented in a usable format and provide a working basis for more detailed development by Superior's management.

The students included an organizational chart of team members and responsibilities and a timetable of major checkpoints. Class members divided into four teams to study trucking, risk management, FCPA compliance and budgeting. Their investigation included a check of inventory procedures, accounting record control, security precautions, production cycle times and administrative procedures.

The class used this research to work up a set of recommendations. The final report was edited and presented to Superior. Most of the class's recommendations are to be implemented by March 31.

Far from being the end of a course, the Capstone experience provided students with training

that helped them get jobs. Student Carol Harris is now with Greyhound's Pine Top Insurance operation. Mark Ferraro has since been employed as risk manager for the Boy Scouts of America.

The Superior case study is just one "real world" problem studied by UD's graduate students. Other "clients" have included chemical, publishing and electronics companies, most of them the basic small firms of \$10 million to \$100 million in sales that would find it difficult to budget the expense of a private consultant.

Guiding the practicum is Professor Evans, who also initiated the follow-up seminars through the Risk Management Institute. Before joining the UD faculty in 1969, he was vp of reinsurance for Transport Insurance Group of Dallas.

He previously served with North American Reinsurance, Hamilton Reinsurance Pools, National Casualty Co. and Insurance Co. of North America and is a consultant to numerous companies on reinsurance and risk management.

He sees UD's graduate program growing to include more emphasis on risk management.

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Hypertension tests

Continued from page 3

Based on established data, the company could expect 12 deaths over three years among hypertensives. However, there were only four deaths and only one of those was cardiovascular in nature. Predictions were that seven of the possible 12 deaths would be cardiovascular. The company interprets this to mean the program has saved six lives.

Before the plan was implemented, hypertensives were absent one day a year more than employees without hypertension problems. Now they are absent only one-half day more.

Compliance with doctors' orders has risen from 40% to 77%.

Hospitalization of hypertensives has been trimmed to 39 days per 100 persons per year from 43 days.

The program has had such success in employee participation and compliance that about 500 companies have requested the Massachusetts Mutual "cookbook" for starting a program.

Company literature refers to only 96% participation to allow for individuals not classified as full-time permanent employees, but the figure is actually closer to 98%, Mr. McManus says. "Of the people we schedule for screenings, 98% have their blood pressure taken."

Mr. McManus and Sylvia Oakley, who also works on special projects, schedule employees in groups of 10 according to work location so employees who work together can go to the screening together. This subjects somewhat reluctant employees to peer pressure to participate in the program, Mr. McManus said.

To ensure employees arrive at a specific time rather than during the last few minutes of an allotted time segment, a videotape on the program is scheduled before the actual screening. "Less than 2% of our people arrive late for the videotape," Mr. McManus said.

After the videotape and other business, employees are directed to another room to fill out demographic forms and have their blood pressure checked.

Employees who appear to be hypertensive are asked to return for a second reading. If the second reading still indicates hypertension, employees are instructed to consult their own physician for treatment after receiving an information packet at home. Each is assigned a randomly selected number to ensure confidentiality.

Employees receive little company mail at home, Mr. McManus says. Therefore, when a large manila envelope containing the necessary hypertension information arrives, family members are likely to ask about the contents. Once they find out, they usually urge the employee to see a doctor.

"Once it (the packet) hits home, we have effectively solicited the support of the family," Mr. McManus said.

Employees are also asked to sign a compliance agreement, which is "just one more little control," Mr. McManus says.

Monitoring compliance is part of Ms. Oakley's job. By checking physician follow-up forms and the amount of medication prescribed, she determines whether each hypertensive employee is following doctor's orders.

If an employee is not, she notifies the company's confidential claims department, which matches the case number with an employee name and then sends him a reminder to see his physician or take his medication.

His interest in starting a hypertension program stemmed from an article in *Business Insurance* on a

similar program operated by Cornell University, he said. After reading the article, he contacted university personnel and began adapting the Cornell program to Massachusetts Mutual's needs.

In the beginning, many thought the Massachusetts Mutual program would never succeed for two reasons: First, there was no union to protect employees should management decide to misuse medical information, and second, the plan allowed hypertensive employees to be treated by private physicians.

However, company chairman James R. Martin had faith and that made all the difference, Mr. McManus said.

"Nobody's ever going to make one of these programs work unless whoever has the final ultimate power is solidly behind him," he said.



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School safety saves tax dollars.

-The Pennsylvania School Board Association's Richard Phelps

School district business managers, working from revenues that have not kept pace with inflation, have consistently sought innovative ways to secure affordable insurance.

The Pennsylvania School Board Association, for example, realized the value of risk consolidation and established a statewide insurance trust of its nearly 600 member districts in 1971. The trust's property-casualty program has

had remarkable success stabilizing and controlling premium costs by operating a safety group designed by MarketDyne, an INA subsidiary.

"When we compared insurance programs, we discovered that MarketDyne offered two advantages," explains Richard Phelps, assistant director of the P.S.B.A. Insurance Trust.

The primary benefit, according to Phelps, is the expertise of the program's loss control engineers who monitor school facilities, identify potential hazards, and recommend corrective steps. "Students are our most valuable asset," he observes, "and MarketDyne's approach helps guarantee their safety."

The second advantage is financial. Districts can receive a return on premiums in years when loss control has proven particularly effective. "At the end of the last policy year," Phelps comments, "we had the opportunity to refund dividends totaling more than \$1.3 million to participating school districts."

"My prime marketing responsibility," notes Kay Singleton of Alexander & Alexander, "is to develop all-inclusive programs that give cost-effective asset protection according to a client's specific needs." On many occasions, INA helps turn Mrs. Singleton's strategic goals into practical reality.

A recent case cited by Mrs. Singleton, asst. v.p. and manager of A&A's Marine and Aviation Department in Kansas City, involved a \$150 million pharmaceutical firm. "We knew that its many overseas plants had autonomy in insurance purchases and often bought marine

Concentration was the key to cost reduction.

-Alexander & Alexander's Kay Singleton



coverage at unfavorable rates. But through INA, we created a single worldwide all-risks package."

Net result, with a greater volume of shipping now concentrated under the uniform policy, is a 40% premium reduction for the manufacturer.

"This was a situation," continues Mrs. Singleton, "where A&A, along with INA, studied literally every aspect of the company's risk exposure: from warehousing to inland marine, from dockside loss control to packaging." The back-up provided by INA gave A&A full confidence in recommending the new program. Mrs. Singleton adds this note: "You get an idea of INA's expertise when you see how they pinpoint redundant costs, like freight forwarders' insurance, that can be eliminated from the total package."

Despite the growing use of self-insurance, many companies find that first-dollar commercial coverage remains a more viable option.

"The nature of our operations leaves us exposed to potentially catastrophic losses," comments Martin Lehrer, executive vice president of Pacific Architects and Engineers, Inc. "Posting self-insurance reserves for such contingencies would simply tie up too much of our working capital."

In addition to designing overseas installations for the U.S. government, PA&E operates essential support services for these and other facilities. Administration of on-site medical clinics and power plants, as well as of communications systems and motor pools, are typical of the company's responsibilities.

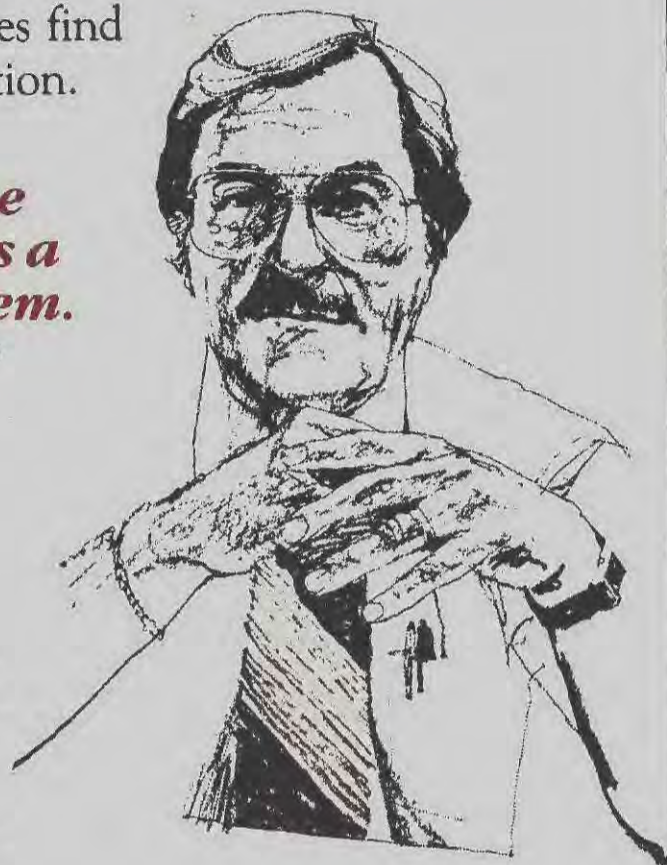
Says Lehrer: "Among our many contract obligations in Saudi Arabia, for example, we operate a school bus fleet for the children of U.S. personnel."

Risks of this nature call for extensive umbrella liability coverage. A primary layer of insurance, written by INA, is mandated by the government; but, for its own protection, PA&E secures large amounts of excess coverage.

This total program is economically feasible because the firm negotiates reimbursement of the excess premiums against its cost-based contracts. Result: PA&E not only avoids retention of substantial liability reserves, but also recovers the price of excess protection as a reimbursable expense. "The savings achieved through this arrangement," notes Lehrer, "allow us to maintain a competitive bidding posture."

***Catastrophe
coverage as a
cost-plus item.***

-Pacific Architects
& Engineers'
Martin Lehrer



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The Professionals

Jerry Geisel doesn't let any grass grow under his feet.

Jerry Geisel is Washington Editor of Business Insurance. He has a way of mowing down myths and getting to the truth.

Take the now famous lawn mower story.

The one about the man who tried to use a lawn mower as a hedge clipper, lost some fingers, sued the lawn mower manufacturer and was awarded a huge sum of money by a jury.

Jerry investigated, and found the incident never happened.

His front page story in Business Insurance was read into the Congressional Record and was reprinted in newspapers around the country. As a result, insurance trade associations changed some of their literature and, advertising claims by some insurers were modified to provide more credible information about the troublesome tort situation.

Jerry has also given readers of Business Insurance the first summary of product liability and tort reform actions and proposals on a state by state basis. This chart has been widely reprinted and circulated.

Yet Jerry, like all of our editors and reporters, does not speculate. His stories cover a wide spectrum of insurance, risk management and employee benefits and his incisive, in-depth reports have been the subject of discussion, earnest analysis and action by influential corporate and government officials.

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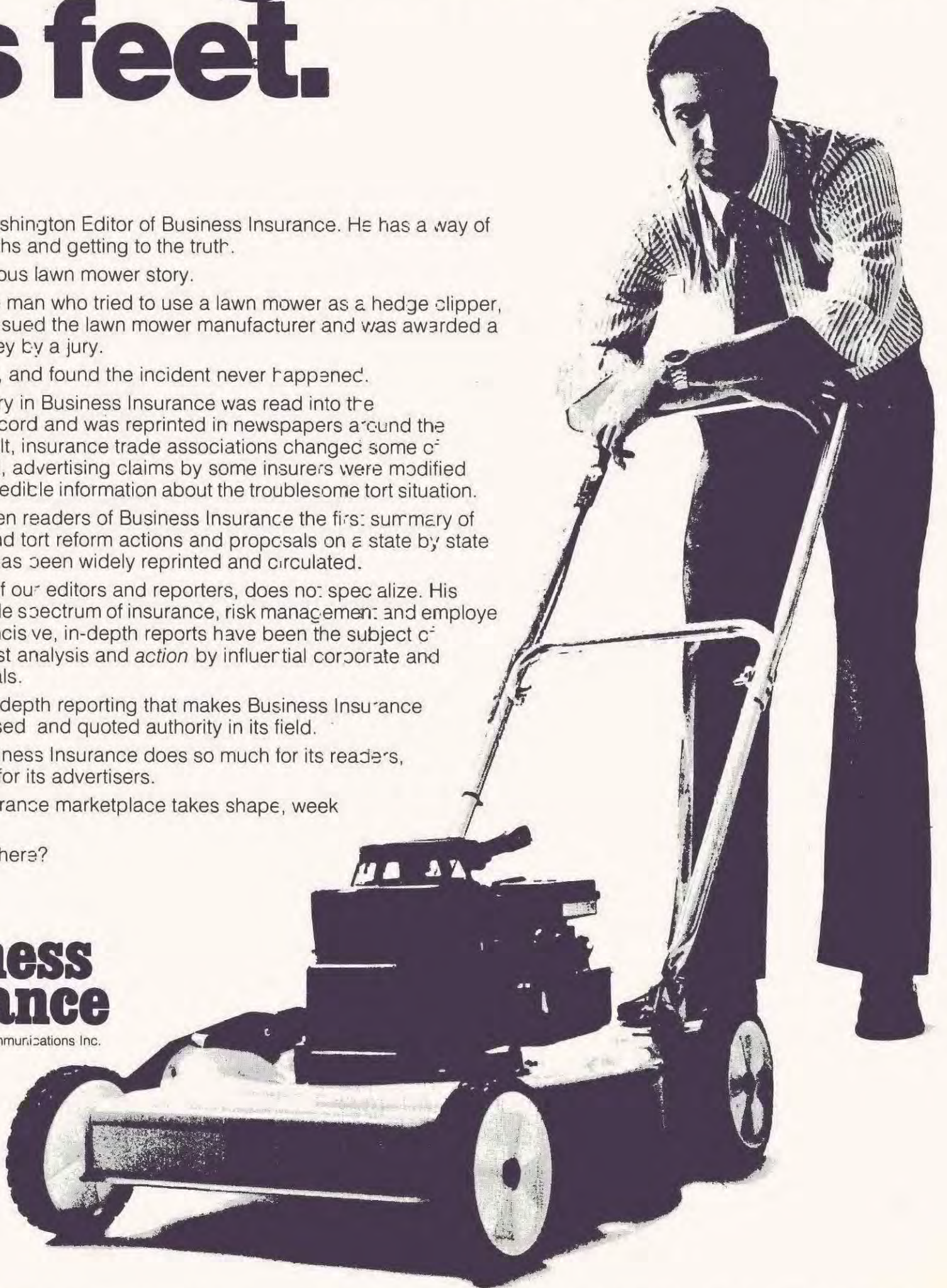
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Canadian D&O

Law decides the coverage guidelines

By Robert W. F. Stephenson

THERE ARE four categories of directors and officers insurance in Canada with which we are concerned:

First, insurance may be purchased by the corporation to cover costs it incurs in indemnifying its officers and directors. This coverage is purchased by the corporation for its own benefit and requires no statutory authority. The extent of coverage depends upon the areas for which the corporation is permitted to indemnify officers and directors.

Second, insurance may be purchased by the corporation for the personal benefit of officers and directors. This insurance does not cover matters for which officers and directors are indemnified by the corporation and it is preferable to see a statutory basis for its purchase for the benefit of officers and directors. It is arguable that one person may provide the consideration necessary to form a contract for the benefit of another, but the better position is that consideration should flow from the person who may be seeking to enforce the contract.

Third, there is insurance to cover liability of a director or officer for which he or she may not be indemnified or for which the corporation may not purchase insurance.

Finally, and this is obviously not an area of "insurance" at all, there are areas uninsurable either by reason of general insurance principles or the usual wording of policies.

Provisions differ regarding the first area, but generally corporations can not indemnify directors or officers for a breach of their fiduciary duties and, as in the Canada Business Corporations Act, cannot indemnify a director or officer in the case of a derivative action other than for costs, and only then with court approval.

Regarding the second area, the major exclusion in the statute is that liability arising from a breach of fiduciary duty may not be insured. However, corporations do appear to be able to purchase insurance for officers and directors liabilities for which they are not permitted to indemnify those persons.

The extent to which this can be done in Ontario is doubtful, but under the Canada Business Corporations Act, insurance may be purchased to protect officers and directors against amounts paid to settle a derivative action or to satisfy a judgment for breach of the duty to exercise skill, care and



Photo: Mary Cairns
Map: Toby Roberts

diligence.

Insurance also may be purchased to protect directors and officers against the costs of an unsuccessful defense when court approval to indemnify them is not given. It may be that even under the Ontario Business Corporations Act, insurance may be purchased broader than its right to indemnify an officer or director.

One author, Frank Iacobucci, presently dean of the law faculty at the University of Toronto, has pointed out that under section 147(2) of the act, a corporation may not indemnify a director for a fine imposed under any statute, such as the Labor Relations Act, but under section 147(3) the corporation could insure the director against such a liability. This is assuming the director did not also violate the duty of care and fiduciary duty in section 144 of the act.

Any coverage for remaining areas of liability must be purchased and maintained by the officer or director personally. Normally, this would include liability for breach of fiduciary duties. Under the Ontario Business Corporations Act, it would also include liability for breach of the duty to exercise care, diligence and skill and all liabilities for wages and violations of securities provisions. It is the exposure under the various securities acts that may cause the most concern to an officer or director in the large, publicly financed corporation.

As such, a liability would be generally enforced either administratively or by way of a third-party action directly. Liability from misrepresentation in a

prospectus, if made because the directors did not exercise care, diligence and skill of a reasonable, prudent person, could be indemnified under the federal but not the Ontario act. If the misrepresentation arose because the directors' actions were fraudulent, the liability would be a breach of fiduciary duty and not indemnifiable. The director would have to purchase insurance on his or her own.

To say, however, it would be the responsibility of the officers and directors to provide their own insurance for all liability for which the corporation could neither indemnify nor insure them is incomplete. A number of areas of liability are uninsurable, either as a result of insurance law or the policy wording. You cannot insure against criminal responsibility. Moreover, the definition of loss often contains a provision that loss "shall not include fines or penalties imposed by law."

The basis of this exclusion appears to rest with the general acknowledgement that, as a matter of public policy, it is impossible to insure against the consequences of one's criminal or quasi-criminal acts. This exclusion could, however, limit the coverage available to the corporation. For example, under the Canada Business Corporations Act, the corporation would be entitled to indemnify the officer or director when he or she has unintentionally committed a wrong punishable by fine. If the corporation indemnifies, the corporation may not be en-

titled to a reimbursement from the insurer.

The insurer also shall not be liable for claims "brought about or contributed to by the dishonesty of the officers or directors." Similarly, liability for securities transactions are excluded by "liability to account to the company for any direct benefit or advantage received or receivable by the officer or director as a result of any transaction relating to the capital securities of the company within the meaning of section 113 of the Securities Act 1966 of the Province of Ontario."

If a director breached fiduciary duty and caused harm to the corporation, the most likely course would be that the corporation would bring an action against that director.

One claim for insurance is that it protects the officer from the large legal costs in defending against a frivolous lawsuit. Unmerited "nuisance" actions appear to be less common in Canada than in the United States. This may be because Canadian courts award costs against persons who commence frivolous actions, and American lawyers' practice of working on a contingency fee basis also may contribute.

Keeping in mind, however, that policies also reimburse the corporation, purchase of a policy may very well be advisable. And it is advantageous to be able to settle derivative actions, which could not be done if the officers or directors were required to personally foot the settlement figure. ■

Robert W. F. Stephenson is a lawyer with the Toronto firm of McCarthy & McCarthy. He specializes in directors and officers liability.

perspective

Following safety tips can cut premium

By Robert A. Wilson

A LARGE NUMBER of plant owners and building engineers are frequently called upon by insurers to improve plant safety and equipment maintenance. Plant owners are asked to implement a safety program or replace older equipment. It seems the insurers' requests never end.

This may be because many of the insurance company's loss control engineers want to reduce the probability of losses as much as possible without fully recognizing what costs you may face. You, on the other hand, simply may not want to make changes, particularly if they are costly.

Reasonable compromises can be achieved. In the process, you also may be in a position to negotiate reductions in your premiums for the current as well as future years.

Here are a few of the major loss-control recommendations an insurer may request, action on your part and the benefits you should receive:

In fire control, provide an adequate number of fire extinguishers, generally a 2½-gallon class A fire extinguisher for each 3,000 square feet of plant area. This will result in a 5% reduction in your building and contents rates. We believe this is a reasonable recommendation, but rarely is it ever mandatory.

Install approved, self-closing fire doors where new and effective fire walls can be created. If a proper fire division exists, the principal advantage is to substantially reduce the probability of a total loss by confining the fire to a limited area. This is normally a good investment, but it is usually not a mandatory recommendation of the insurer unless you have an extremely hazardous activity that must be isolated from your other operations.

In many cases, the expenditure for

an effective sprinkler system can be amortized in three to six years by reduced insurance costs. This will depend on building construction, property values and the type of manufacturing process conducted at the plant.

You are no doubt aware of the significant increase in product liability rates since 1977, as well as the difficulty in obtaining adequate coverage. You have probably been presented with more recommendations in this area in the past few years than you were in the preceding 20. The recommendations basically depend on the type of product you make or class of operation. Some of the more typical are:

- Obtain Underwriters Laboratory approval.
- Obtain approval of the appropriate governmental agency; for example, that which is required under the Consumer Safety Act.
- Maintain adequate records of purchases from your suppliers and subcontractors.
- Maintain adequate records of warranties included with the sale of the product.
- Identify each batch of goods for possible recall.

A product liability claim may occur years after the product was sold, therefore, your records must be in order so you can determine whether the item in question was actually your product and can supply any other pertinent data that may be required.

An entire article could be prepared on the workers compensation recommendations we have seen over the years. One of the more frequent steps you can take is to provide protective devices for all plant employees and visitors. These usually include safety glasses, earplugs, safety shoes and hard hats. The major benefit is the reduction in such employee injuries as metal chips in the eye, hearing impairment and injury from falling objects. In addition to the ultimate reduction in your workers compensation premium, it will be easier to comply with the requirements of the Occupational Safety and Health Act.

Proper use of personal protective devices is essential in most plants, al-

though employees may be opposed to using them.

Based on the assumption that you have an acceptable spray booth, here are some recommendations:

- Protect the sprinkler head by covering it with tissue paper and change the paper weekly.
- Provide proper face masks for all spray booth operators.
- Properly ventilate the booth.
- Replace all ordinary light fixtures within 20 feet of the booth with explosion-proof fixtures.

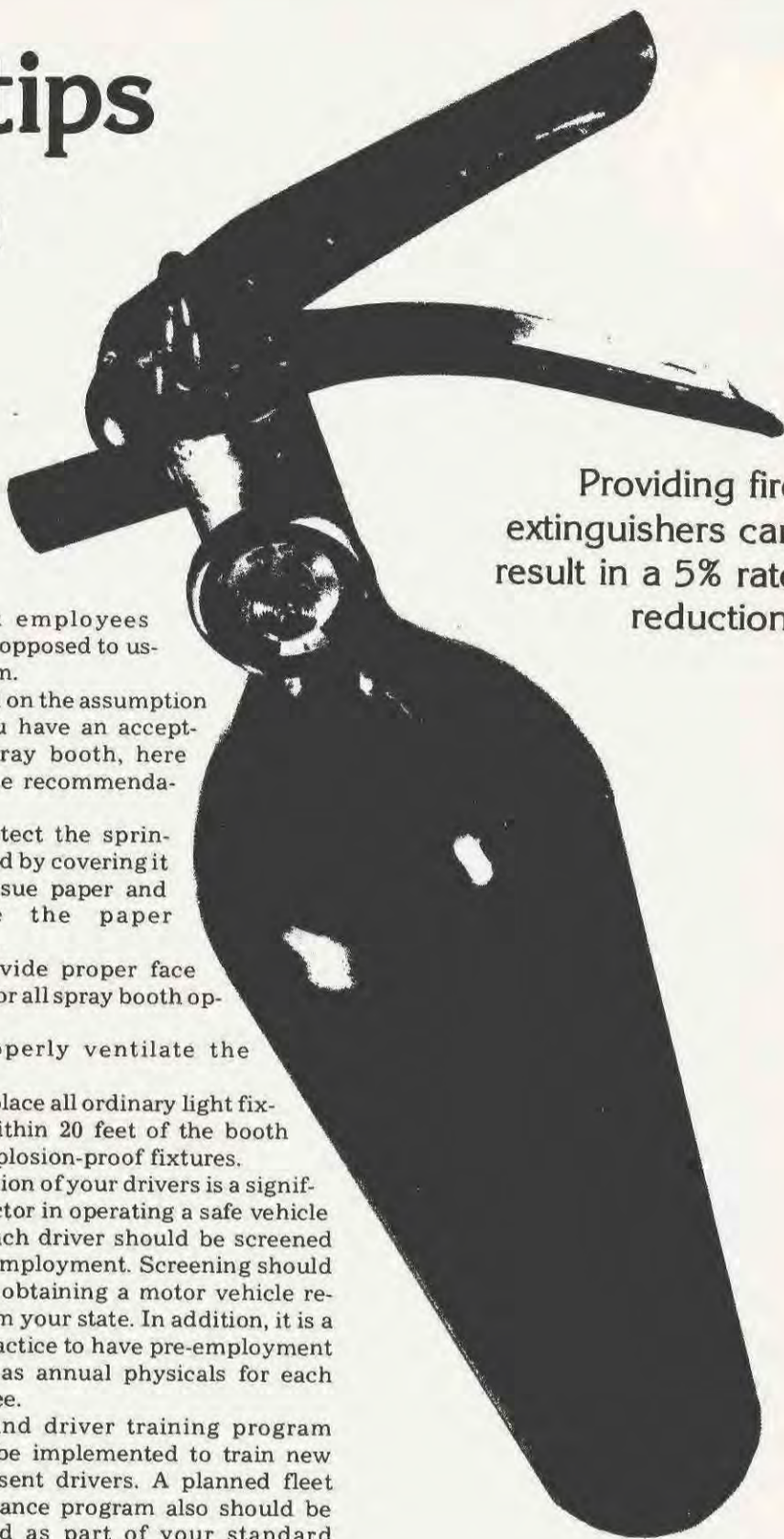
Selection of your drivers is a significant factor in operating a safe vehicle fleet. Each driver should be screened before employment. Screening should include obtaining a motor vehicle report from your state. In addition, it is a good practice to have pre-employment as well as annual physicals for each employee.

A sound driver training program should be implemented to train new and present drivers. A planned fleet maintenance program also should be included as part of your standard operating procedures.

If your company is large enough, you should consider developing a safety manual. This should be prepared in cooperation with the insurer, loss-control engineer, your broker and, if possible, an independent consultant.

The manual should outline management's attitude and approach to compliance with any insurance company recommendations and, if possi-

Providing fire extinguishers can result in a 5% rate reduction.



Robert A. Wilson, CPCU and ARM, is president of Corporate Risk Management Inc., a Hinsdale, Ill., consulting firm.

Oversight costs celebrities qualification

A QUALIFIED plan can be disqualified if an eligible employee is left out—even when the omission is inadvertent. The appeals court taught two celebrated taxpayers this lesson.

Celebrities Allen Ludden and Betty White were officers, shareholders and highly compensated employees of their own television production company, Albets Enterprises Inc. Their closely held corporation established a qualified profit-sharing plan covering all employees who worked for one year. The plan, by its terms, met all tax law requirements and received a favor-

benefit tax slants

able determination letter from the IRS in 1968.

The plan went smoothly for several years. The company worked on a variety of projects and employees were hired and then terminated at the completion of each project. No employees stayed for more than one year, so no employee other than Mr. Ludden and Ms. White was eligible to participate in the plan.

Mr. Ludden and Ms. White worked

on the creative aspect of the television production company and other show business affairs. They left the administration of the plan to the company's accountant.

In 1972, Albets paid Mr. Ludden a salary of \$135,000 and Ms. White \$78,000. Albets also had a secretary, who received \$7,275 for her services. The secretary had completed one year of service and became eligible to participate in the plan. Somehow, nobody

realized the secretary had passed the one-year mark. Albets contributed \$53,250 to the plan, which allocated \$33,750 to Mr. Ludden and \$19,500 to Ms. White. Nothing was allocated to the secretary.

Doing an audit, the IRS remembered what everyone else forgot: The secretary was eligible to participate. IRS disqualified the plan for the year in question, saying that, in operation, the plan was discriminatory in favor of employees who were officers, shareholders or highly compensated (*Ludden, Ct. of App., 9th Cir., 2/4/80*).

speaking out

Call this liability theory a 'rip-off'

By Peter Downes

IT WAS Francis, Lord Verulam, a.k.a. William Shakespeare, who, when he was lord chancellor of England, once remarked in passing that the causes of causes are infinite. His point was that for all practical purposes, those arguing cases before him should stick to proximate causes, since otherwise everything would ultimately be laid at the door of Adam and Eve for eating that rotten apple.

There is now a suggestion that although this may have been considered good law back in the days of Good Queen Bess, it is time for a change. New theories of liability, they are called, which is just a fancy name for rip-off. Actually, nobody has quoted Francis Bacon in this context, but Harry M. Philo, president of the Assn. of Trial Lawyers of America, reminded me of what he said.

What Mr. Philo actually said was that trial lawyers may begin suing insurers for providing liability coverage to companies producing unsafe goods. For myself, I took this to imply that the proximate cause of a person's injury might be an unsafe product, but now it also would be alleged that the availability of insurance permitted the production of the unsafe product which caused the injury.

Of course, this would be in keeping



Peter Downes is manager of insurance for American Trading & Production Corp. in Baltimore. His columns of satire appear regularly in Business Insurance.

with the kind of case being heard in court nowadays. One has heard, for instance, of a young man suing his parents because they brought him up badly. If his grandparents were still alive, then using Mr. Philo's thesis, they could have been liable for failing to teach their children how to bring up their children properly.

The possibilities seem endless. For example, the child of a divorced couple might sue his parents for having spoiled his life, the priest who married them because he knew or should have known the marriage would never work, the priest's seminary for not doing a proper teaching job and his malpractice insurers be-

cause they also knew or should have known the priest was doing a rotten job.

No underwriter can be expected to know very much about most of the products he may insure. Consequently, he or she will be obliged to seek expert help in order to exert the leverage Mr. Philo talks about.

To be perfectly fair, underwriters have been known to do this kind of thing in the past. Marine underwriters in the 19th century decided that far too many ships were sinking and taking their underwriting profits with them, so they established Lloyd's Register. They then demanded each ship requiring insurance must be surveyed and comply with certain standards. One also might mention fire insurers that demand certain standards

tinct notion that if he meant what he said, Mr. Philo has produced one of the finest pieces of fuzzy thinking I have ever heard. To start with, I have yet to hear of an underwriter who, in the regular course of business, would knowingly insure a company manufacturing an unsafe product as opposed to an inherently dangerous product. On the contrary, one of my problems as risk manager is persuading boneheaded underwriters that, some products are inherently safe. But I suspect Mr. Philo is not really concerned with this. It is his expression "should have known" that will produce the action because this can be alleged of just about anybody about anything.

before providing insurance on preferred terms.

This is all very well as far as ships and buildings are concerned, because there is a finite number of ways of constructing either. Indeed, one might isolate any single product and treat it in a like manner, but to consider treating all products this way would be absurd. On the face of it, one would require as many experts as there are products.

So what is at the bottom of the proposal? As I see it, simply money. One can imagine, for example, a series of claims arising from a defective product with the only money available being that of an insurer. If the policy limit is small, there may not be enough money to indemnify each claimant.

Quite clearly, a lawyer operating on a contingency fee basis cannot take on such cases. In the first place, he has to consider the cases that may be lost as well as those that may be won. Lawyers are not charitable institutions—they are in the business to make a buck. It follows that such lawyers must obtain a monetary return that will keep them in the style of living to which they have become accustomed, and small cases just will not provide it.

However, if such a case has a six-figure potential, where may the money come from? Well, insurers are obvious targets. All one has to do is to think up some more or less plausible reason for involving them, imply further there are moral and ethical reasons for doing so and the financial prospects will look quite promising.

But this too is absurd. Who would write insurance on these terms? ■

Mr. Philo contends insurers should be liable for insuring manufacturers they know, or should know, are making shoddy merchandise.

Indeed, Mr. Philo's main contention is that insurers should be held responsible for providing liability coverage to manufacturers the insurer knows, or should know, are producing shoddy merchandise. The aim in bringing those suits is not to produce even higher product liability insurance rates, Mr. Philo says—which of course it will and which the public will be obliged to pay by way of higher prices—but to force insurers to use their leverage to require companies to invest in safety.

All things considered, I have the dis-

Lock constitutes 'the safe,' court rules

THE TENNESSEE Supreme Court ruled the locking mechanism of a floor safe, the only part that could be removed from a policyholder's premises, was "the safe" within the coverage of an insurance policy's safe burglary endorsement.

Burglars entered the premises of Overton Square Inc. by knocking a hole in the masonry wall and removed \$17,000 from a floor safe and the removable "door" that housed the combination lock mechanism.

The vault of the safe was imbedded in concrete in the floor. The door was not hinged to the vault but had to be removed entirely to gain entrance to the safe. There were no visible marks of force on the portion imbedded in the floor.

The policy covered safe burglaries only when visible marks of entry are left on the exterior door if entry was

through the door; where visible marks are left on the top, bottom or walls if entry was not through the door, or if the safe itself were removed from the premises. The insurer denied coverage and was upheld by the lower court.

The appellate court reversed, concluding that with a floor safe of this type, unless removal of the locking mechanism would invoke coverage, the policy would provide no coverage and the policyholder would be paying premiums for nothing.

Thus, the court held the "depository" set in concrete was a vault, the entrance to which was guarded by the locking mechanism or door, which in this instance constituted the "safe." Coverage was allowed. *Overton Square Inc. vs. The Home Insurance Co.*, Tennessee Supreme Court, Feb. 18, 1980, rehearing denied April 18, 1980 (BI/02/D.-\$4).

legal briefs

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Engaged in aviation

A Texas appellate court held that a policyholder was "engaged in aviation" and the parachute he used was a

"device for aerial navigation" within the exclusions in a group life policy.

Don Prince was accidentally killed while sport parachuting in a device known as a para-plane. This square, wing-type device was highly maneuverable.

Mr. Prince was covered under a group life insurance policy issued by World Service Life Insurance Co. The policy excluded coverage for a policyholder riding as a passenger in "any... device for aerial navigation" other than a previously tried, tested and approved aircraft. Mr. Prince's beneficiary filed a death benefit claim which was denied. She sued and lost in the trial court.

The appellate court agreed Mr. Prince was "engaged in aviation" as he voluntarily went aloft in an airplane. That participation continued, the court said, until he returned to earth. The court was satisfied that a para-plane was a device for aerial navigation in that it permitted Mr. Prince to direct his course through the air. *Cabell vs. World Service Life Insurance Co.*, Civil

Appeals Court of Texas, April 15, 1980 (BI/03/N.-\$4).

Illegitimate child

An illegitimate child may recover benefits from a father's death under the Workers Compensation Act, an Alabama appellate court ruled.

Kenneth Foy, a 6-year-old, sought to recover benefits as the illegitimate child of Samuel Davis Jr. Mr. Davis was killed in a workplace accident. He was separated from his wife and had two legitimate children.

Kenneth had received some of his support from Mr. Davis. Under Alabama law, a child born after its father's death and all other children entitled by law to an inheritance were entitled to benefits.

The appellate court said that under a 1972 U.S. Supreme Court decision in *Weber vs. Aetna Casualty & Surety Co.*, it was required that "child" or "children" as used in the Alabama act include an illegitimate child or children in order to be constitutional. Kenneth was allowed to share death benefits. *Foy vs. Vann*, Alabama Court of Civil Appeals, Oct. 31, 1979, rehearing denied Nov. 28, 1979 (BI/02/J.-\$5). ■

N.J. risk managers favor rate, form deregulation

By ELLIS SIMON

TRENTON—Deregulation of rate and form requirements for large commercial risks would eliminate obstacles in working with admitted insurers, say New Jersey risk managers.

Deregulation "would be very advantageous to large organizations," said Joseph Franklin, risk and insurance manager for First National Bank of Newark. Large risks need policies that are tailored to their needs and elimination of filing requirements would make it easier to do business with admitted insurers, he says.

A state insurance department study calls for eliminating all regulation on risks generating \$10,000 or more in annual premium. It would require the department to act within 30 days on all commercial rate and form filings for smaller risks.

The proposal was unveiled at a National Assn. of Insurance Commissioners regional meeting in October (BI, Nov. 10). It also seeks

premium tax reductions on commercial lines for insurers with N.J. home or regional offices.

Risk managers can now negotiate rates and policy form with admitted insurers, but the insurers are required to make policy filings before they underwrite the risk, Mr. Franklin explains. This delays coverage, forcing buyers to go to Lloyd's of London and other surplus markets.

It often takes six months for a commercial lines filing to be approved by the insurance department, adds Jerome B. Gordon, special assistant to insurance commissioner James Sheeran.

Another local risk manager told *Business Insurance* many New Jersey buyers buy coverage in the excess/surplus market without shopping the admitted insurers first. Brokers file affidavits saying the coverage was unavailable from licensed insurers after the E/S policy is ready.

"Ninety-nine out of 100 times, the insurance department ap-

proves them," he said.

Under the deregulation proposal, there would be no barriers to large commercial buyers using either the admitted or nonadmitted market, Mr. Gordon says.

New Jersey is considering total deregulation of these risks because Free Trade Zone and captive insurance laws in other states have not given buyers the needed flexibility and efficiency for large commercial risks, he explains.

An industry advisory committee, which developed the deregulation proposal, will lead the fight for its adoption next year by the New Jersey legislature, Mr. Gordon says. The committee is cochaired by John Graham, president of Milburn Management Co., an insurance agency, and H. James Griffith, president of the New Jersey Surplus Lines Assn.

The committee and aides to New Jersey Gov. Brendan Byrne are studying the pros and cons of including the measure in the governor's 1981 legislative program, Mr. Gordon said.

Broker handles underwriting

SHAND, MORAHAN & Co. Inc. of Evanston, Ill., has agreed to act as underwriting manager for Potomac Insurance Co. for various classes of professional liability, errors and omissions, financial institution coverage, directors and officers liability, umbrella liability and other specialty classes.

Potomac is a member of the General Accident Group of Cos. in Philadelphia.

Inspection services

National Technical Services Inc.

markets

has been formed through a merger of National Elevator Services Inc. and National Inspection & Audit Services Inc. Another division, National Appraisal & Loss Control, will be added in January.

National Elevator Services provides elevator inspections and National Inspection & Audit provides inspections and premium audits. National Appraisal & Loss Control will handle professional property

appraisals and loss-control studies.

National Technical provides services to businesses, property owners and insurers.

Developing business

The Atlantic Cos. in New York has realigned its structure to strengthen its field force and concentrate business development efforts in five areas.

Atlantic will continue to write commercial multiperil and monoline coverage while strengthening ocean marine, inland marine and personal lines business for association and franchise business.

New offices

Landmark Insurance Co. has moved to 99 John St., New York, N.Y. 10038; 212-770-7391.

Mund, McLaurin & Co. has moved to Walnut Creek Plaza, 1990 N. California Blvd., Walnut Creek, Calif. 94596.

A. S. Hansen has moved to 1110 Vermont Ave. N.W., Suite 416, Washington, D.C. 20005; 202-452-0555.

comings & goings: buyers

General Mills promotes Weddle

JOHN R. WEDDLE JR., 32, has been promoted from manager of domestic insurance to risk manager at General Mills Inc. in Minneapolis. Mr. Weddle, who is filling a position vacant for the past year, was risk manager for Northrup King Co. in Minneapolis before joining General Mills in 1977. He has a bachelor of arts degree from Carleton College in Northfield, Minn., and a master of science degree from Southern Illinois University. Mr. Weddle reports to Michael J. Dempsey, director of risk management.

Sperry Corp. in New York has named **Bernard E. Coughlin** director of international employee benefits to replace **Paul Porch**, who left the company. Mr. Coughlin, who reports to vp of insurance Thomas Hirschberg, previously was a senior international consultant with A.S. Hansen Inc. He has a bachelor's degree from Providence College in Rhode Island.

Charles H. Beard, director of risk management for El Paso Natural Gas Co., has assumed the additional responsibilities of director of risk management for El Paso Co. in El Paso, Tex. In this position, previously held by **Howard Tyrell**, who left the company, Mr. Beard will report to Michael Bracy, senior vp and treasurer at El Paso Co. For all other matters he continues to report to Harald Lines, vp and assistant treasurer of the gas company. Mr. Beard, who

became director of risk management in 1979, joined El Paso Products Co. in 1957 as assistant manager in the corporate insurance department, left the company for a stint at Beunit Corp. and rejoined in 1977 as corporate claims administrator.

Interpace Corp. in Parsippany, N.J., has named **Lawrence M. Tuzzo** manager of employee benefits to replace **Mal Clough**, who left the company as reported. Mr. Tuzzo, who reports to Charles G. Conrad, director of compensation and benefits, previously was assistant director of employee benefits at Princeton University. That position is still vacant. Mr. Tuzzo has a bachelor of science degree in management from St. Peter's College.

Irving Trust Co. of New York has promoted **Burton J. Carbino Jr.** to senior vp risk management from vp risk management, while upgrading corporate risk management to division status from department status. In another move at Irving, **Leo Bressman** has joined the risk management staff as assistant vp in charge of EDP risk management, replacing **Steven J. Ross** who left to become a consultant with Plagman Group Inc.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Mary Ann Matlock, Business Insurance, 708 Third Ave., N.Y., 10017 or call 212-986-5050.

comings & goings: industry

Fremont appoints Champion manager

SAN DIEGO—William Champion was promoted to loss-control manager at Fremont Indemnity Co.'s division here. Mr. Champion had served as the San Diego office's loss-control supervisor for three years.

Other insurer changes:
John L. Pickens, vp of loss control for The Hartford Insurance Group, retired after 34 years with the Connecticut firm. He was responsible for a staff of 520 engineers, industrial hygienists and other loss-control professionals in 100 field offices. **Lynn B. Anderson** named assistant secretary in the special risk health department of The Hartford.



Pickens

Donald P. Quirin to assistant secretary-casualty facultative; **Robert M. Thompson** to assistant secretary-property facultative, and **William J. Gelert** to assistant secretary-casualty facultative.

Agents/brokers

William D. Baker reappointed managing vp of the Minneapolis office of Alexander & Alexander. He was managing vp of the office from 1971 to 1976, when he elected to concentrate his efforts in specialized production areas.

Philip J. Moore promoted to account executive with Bache Ter Bush & Powell Inc. in Schenectady, N.Y.

Other suppliers

Ronald E. Nigg joined New York-based United States P & I Agency Inc. as executive adjuster in charge of oil pollution services.

Excess/surplus

Diana Robbins and **Ted Blundell** joined J.D. Tuley & Associates Inc. of Houston as assistant vps.

Kevin Lawler named assistant vp and New York branch manager for surplus lines broker George F. Brown & Sons Inc.

Robert S. Stein, assistant vp for Comstock Insurance Co., promoted to casualty underwriting manager in Los Angeles.

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NYIE . . .

Continued from page 3

Critics of the exchange counter that the exchange isn't needed in the current market of overcapacity.

The exchange was conceived as a U.S. market for recapturing some of the \$2 billion in premiums that have been going off to Lloyd's for the insurance of tough and unusual risks.

"Exchange promoters are partly to blame for the high expectations," said Gerard F. Curtis, senior vp of Alexander & Alexander.

"We knew we'd be in a depressed market, but felt if we didn't set high objectives we may not have gotten the exchange legislation passed or the cooperation from the industry."

Exchange underwriters have used only a small portion of their capacity. With 21 syndicates and a surplus of over \$88 million at the end of November, the current premium-to-surplus ratio is around 0.25-to-1. Reinsurers optimally operate at a 3-to-1 ratio.

Exchange premium volume as of December 12 was \$21,094,341, of which \$9,136,269 was facultative reinsurance, \$10,161,798 was proportional treaty reinsurance, \$1,660,621 was non-proportional treaty reinsurance and \$125,653 was direct business.

Other recently formed reinsurers, somewhat older than the exchange, have better leveraged their capital, according to figures obtained from the Society of Insurance Accountants and Best's Reports.

Southwest International Re, which began operations in May 1979 and has a \$10 million surplus, currently is underwriting at a 0.84-to-1 premium-to-surplus ratio, for example.

"If (the exchange) had cranked up at another time, it would have had more success," said James D. Koehnen, chief executive officer of American Reinsurance Corp.

Mr. Koehnen, whose firm is staying out of the exchange, does not predict the exchange will fail, but thinks it will develop slower than many people originally thought. "There may be a need for it down the road, but not today."

Insurance analyst J. Allerton Cushman of Morgan Stanley concurs. "The modest amount of volume (on the exchange) and demise of REX (Reinsurance Exchange Inc.) tell you there is so much capacity elsewhere that there hasn't been an urgent need for (the exchange's) capacity."

"People outside the exchange feel it has not lived up to its expectations, but people on the exchange think it is living up to its expectations quite nicely," said Lionel Goetz, president of Pan Atlantic Group and chairman of the exchange underwriting members association.

"The (volume) projection made by Don Reutershan was based on a number used to calculate the exchange's operating budget," Mr. Goetz contended. "When you're starting a new market, you don't try to hit your projection, you try to adjust the projection to market conditions."

"If you don't adjust your volume goals, you're saying, 'I'll write business just to meet goals' and you'll buy bad business and losses."

Until insurance supply and demand become more balanced, the exchange will not write large volume, Mr. Goetz says.

"One or two years is nothing for us to wait. We didn't go in for a two-year run for our money. We know markets will turn around because total U.S. premiums will grow from \$90 billion to \$135 bil-

lion by 1985. To write an additional \$45 billion at a 3-to-1 premium-to-surplus ratio calls for new capital of \$15 billion (for all existing insurance companies). I don't see it (the additional capital) will be sitting ready and waiting," he said.

Business written on the exchange has been good so far. About a half-dozen minor claims totaling less than \$250,000 have been filed.

Exchange underwriters have been selective in the risks they have written. Maiden Lane's James Zagorski says his syndicate is taking a piece of about 20% of the casualty risks it is asked to consider and 30% of the property risks. Other syndicates are running about the same acceptance ratios.

Brokers say they now can better use the exchange than they could when it first began operations.

During those days, not all syndicates were active, recalls Ian Heap, president of C&F Managers Inc., which manages the Crum & For-

ster Syndicate. "A broker could get equivalent capacity (elsewhere) with just a few phone calls."

"At the beginning, it was tough to get more than a couple of million dollars capacity on a risk," said Mr. Belcher of M&M. "I've gotten up to \$15 million and others probably have gotten more."

Development of "back room" or processing facilities will also attract more use of the exchange, says C&F's Mr. Heap. "I told brokers from day one that in starting a new market we wouldn't want to do too much business until the back room is in place."

The exchange's computer system currently handles invoicing of premiums and cash collections, Mr. Dodson notes. A loss-handling program is being put into the system now and by January loss experience data and annual statement information will be computerized.

Legislation to permit the ex-

change to write U.S. surplus lines risks outside New York also could boost the exchange's prospects for growth next year, giving corporate risk managers in all but New York State easier access to the market.

The exchange can only write direct risks that have been rejected by the New York Free Trade Zone, a facility permitting specially licensed New York insurers to write large and unusual risks without prior approval on rate and form. But only risks located all or partly in New York can be submitted to Free Trade Zone underwriters.

Allowing the exchange to write insurance for non-New York risks on a surplus lines basis would be a boon for the exchange, A&A's Mr. Curtis contends.

Johnson & Higgins senior vp and director Kenneth L. Hecken says J&H has placed a small number of direct risks on the insurance exchange by going through the Free Trade Zone rejection process. "We're coping" with the rejection

process, he says. "We'd prefer not to do it, but it works."

It would be 1982 before the exchange could gain approval as a surplus lines insurer in the other 49 states, Mr. Belcher says. Then "the brokers will have to go out and sell the exchange. We and the other major brokers can use our muscle to get business in from around the country."

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Free Trade Zone Premium Growth

Insurer	1979-80*	1978-79**	% change
American International Group	\$12,580,340	\$ 9,059,016	38.9%
AIU	321,752	408,083	-21.2%
American Home	3,753,793	3,009,636	24.7%
Birmingham Fire	429,005	359,390	19.4%
Commerce & Industry	1,072,512	899,400	19.2%
Insurance Co. of Pa.	1,072,512	899,400	19.2%
Landmark	1,855,217	101,388	1729.8%
National Union Fire	4,075,549	3,417,719	19.2%
Agway	1,779,531	1,106,729	60.8%
American Reinsurance	117,621	0	
American Excess	110,000	0	
Baloise of America	10,342	0	
Colonial	41,970	0	
General Reinsurance	1,698,113	0	
Greater N.Y. Mutual	550,618	233,315	136.0%
International (C&F)	109,037	0	
US Fire (C&F)	2,067,939	0	
Marine Indemnity	10,342	0	
Prudential Re	43,410	68,194	-29.0%
Royal Exchange	164,200	0	
Royal Insurance	811,519	0	
Sun Insurance of N.Y.	519,036	0	
South British	473,533	0	
INA	0	29,885	-100.0%
Home Insurance Co.	246,148	0	
Total	21,333,699	10,533,139	102.5%

* Sept. 1, 1978—Sept. 30, 1979
** Oct. 1, 1979—Sept. 30, 1980

	1979-80	1978-79	% change
Class I¹			
Fourth Quarter	\$ 2,041,969	\$ 432,072	372.6%
First Quarter	12,009,426	1,939,279	519.3%
Second Quarter	350,584	1,016,933	-65.5%
Third Quarter	1,106,454	6,976,647	-84.1%
Total Class I	15,508,433	10,364,931	49.6%
Class II²			
Fourth Quarter	1,315,864	0	
First Quarter	459,411	48,748	842.4%
Second Quarter	2,525,739	23,344	10719.6%
Third Quarter	1,809,211	66,231	2631.7%
Total Class II	6,110,225	138,323	4317.4%

¹Class I risks: generate \$100,000 or more in premium for one kind of insurance or \$200,000 or more in premium for two or more kinds of insurance.
²Class II risks: unusual and exotic risks for which few or no rate and policy form filings have been submitted to the New York Insurance Department.

Premiums double

Continued from page 3

The first year, virtually all Free Trade Zone business was considered Class I. Only \$138,323, 1.3% out of the \$10.5 million written premium, was Class II.

AIG wrote \$126 million in Free Trade Zone premium for 1979-80, a 38.9% gain over the \$9.1 million it wrote during the first year. However, AIG's share of Free Trade Zone writing dropped to 59% from 86.3%.

All AIG companies licensed in the zone reported sizable increases in Free Trade Zone activity, except for American International Underwriters, which posted a 21.2% drop to \$321,752 from \$408,083.

Landmark Insurance Co., an AIG specialty company that writes only exotic classes in the Free Trade Zone, posted the biggest increase among all insurers active in the Free Trade Zone the past two years.

Its volume increased 18-fold to \$1.8 million from \$101,388.

Crum & Forster, which did no Free Trade Zone business during 1978-79, now is the second biggest insurer in the zone. For 1979-80 its U.S. Fire Insurance Co. wrote \$2.1 million in premium, and its International Insurance Co. wrote \$109,037.

"Our involvement in the Free Trade Zone is a logical extension of our plans to participate in any and all U.S. markets," said Robert Sullivan, Crum & Forster vp-governmental affairs.

C&F has used the Free Trade Zone to write architects and engineers liability policies and large risks for which it had no New York filings, he adds.

"We've learned the Free Trade Zone allows you to write a risk with a deviation not in your rating plan, as long as you document that deviation in your files," he added.

C&F intends to centralize Free Trade Zone activities in its New York regional offices and is instructing upstate New York branch offices to direct inquiries about the Free Trade Zone to the city, Mr. Sullivan says.

Other insurers participating in the Free Trade Zone for the first time during 1979-80 are American Reinsurance Corp., American Excess Insurance Corp., Baloise Fire

Insurance Co. Ltd., Colonial Insurance Co., General Reinsurance Corp., Marine Indemnity Insurance Co., Royal Exchange Assurance of America Inc., Royal Insurance Co., Sun Insurance Co. of New York, South British Insurance Co. Ltd. and The Home Insurance Co.

Of the four non-AIG insurers that wrote Free Trade Zone premium during the 1978-79 period, two reported increased volume and two showed drops.

Greater New York Mutual Insurance Co.'s Free Trade Zone premium rose to \$550,618 in 1979-80 from \$233,315, a 136% gain. Agway Insurance Co. volume rose 60.8% to \$1.8 million from \$1.1 million.

Prudential Reinsurance Co. showed a 29% drop in Free Trade Zone premium to \$43,410 from \$68,194 and Insurance Co. of North America, which wrote \$29,885 during the 1978-79 period, wrote no Free Trade Zone business this year.

During 1979-80, 23 of the 92 insurers used their Free Trade Zone licenses, says insurance department examiner Maurice Cohen, who keeps Free Trade Zone statistics.

Although Mr. Cohen says the Free Trade Zone's growth during the past year is encouraging, he says competitive markets and insurance companies' lack of understanding of how to use the Free Trade Zone hinders its development.

"A lot of insurance companies joined the Free Trade Zone just to get it started," Mr. Cohen said.

Some brokers who tried to use the Free Trade Zone say they have been turned away.

Walter S. Groden, president of David C. White Agency Inc. of Lynbrook, N.Y., says one Free Trade Zone company told him it would not accept his business because he did not have an existing account.

Many Free Trade Zone companies do not have the personnel or facilities to write this type of business, says Gerard F. Curtis, senior vp of Alexander & Alexander. AIG is the only company with a Free Trade Zone production unit, he maintains, noting that others "forgot about their licenses."

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HOLIDAY ANNOUNCEMENT

Due to the upcoming Holidays, Business Insurance Classified Advertising closing for the December 29th issue will be Thursday, December 18th. The January 5th classified section will close Tuesday, December 23rd. All copy must be in the Chicago office no later than noon on closing date. No verbal copy will be accepted. Please call Barbara Tosheff at (312) 649-5340 for more classified information.

Coverage continuity beckons buyers

Continued from page 1

claims. Asking the prior knowledge question puts the burden on the policyholder to prove it did not know of circumstances that reasonably could give rise to a claim. Without it, the insurer must respond to every claim, Mr. Van Gilder said.

First State Insurance Co., which entered the D&O field only a few months ago, has been writing a lot of policies and winning away preferred accounts, industry sources say. Brokers are reportedly approaching First State with their better risks.

Richard E. Willey, vice chairman of First State Insurance Co., declined to discuss the company's new venture, policy limits or other aspects of its D&O underwriting.

Many criteria

In a prepared statement, he said: "First State has granted continuity to a few accounts on an exception basis when it is thoroughly satisfied with underwriting information."

Another new market that offers continuity of coverage is the Midland Insurance Co. through its affiliate, Capacity Managers International in New York.

"It's to the advantage of the established writers to discredit the concept of continuity," pointed out John Sheeran, CMI vp. Mr. Sheeran joined the firm in March to orchestrate its entry into the errors and omissions field, including both primary and excess D&O. His background includes seven years as D&O underwriting manager at National Union.

Many other important underwriting criteria can be used to evaluate a risk without asking the buyer: "Do you know of any situation that might give rise to a claim?" Mr. Sheeran said.

He investigates a company's financial strength; litigation history; operations, mergers and acquisitions and length of time in

business. He asks the prospective policyholder for a Securities and Exchange Commission 10-K statement and uses an application that asks if the company has ever had a D&O claim.

Small to medium-sized companies sought by CMI are not as prone to D&O lawsuits, Mr. Sheeran notes. "The larger the risk, the more difficult it is to offer continuity."

Since the Midland market opened in mid-1980, it has written slightly more than \$1 million in gross premium, Mr. Sheeran says. With policy limits up to \$5 million, the company will consider any risk except commercial banks or very large companies with assets of more than about \$350 million.

"We're attempting a far greater flexibility than the first-generation markets," Mr. Sheeran said.

A new approach to deductibles and exclusions is an example. Instead of excluding a particular type of exposure within a policy, "we try to come up with a secondary retention, higher than the policy deductible, to knock out that higher frequency of claims," he said.

A collective marketing group may have an inherent antitrust exposure, for example. Mr. Sheeran explains that this exposure might be given a separate secondary deductible within a policy offered through CMI.

Large-scale entry

Chubb & Son Inc. is planning a large-scale entry into D&O in 1981 and will offer continuity as well as other underwriting innovations to buyers, reports Terry Van Gilder, assistant national manager of the crime insurance department who will manage the business (see accompanying story).

"We will accept a statement of prior knowledge made to another carrier," Mr. Van Gilder said. "It's not that critical to ask the question. We can look up litigation,

Chubb gears up for big D&O entry

SHORT HILLS, N.J.—Chubb & Sons Inc. is gearing up for a full-blown entry into the primary directors and officers liability market in January.

"We intend to handle D&O more like a standard line than an exotic animal," said Terry Van Gilder, assistant national manager of Chubb's crime insurance department, which will manage the business.

Several Chubb companies, including Federal Insurance Co., will bear the risk on an admitted basis—not surplus lines, Mr. Van Gilder said. A new policy form has been designed that is simple, streamlined and in plain language, he notes.

In the past, D&O has been a rather "stodgy, staid market," he said. "One of the most frequent complaints we hear is that coverage is rigid—if a risk doesn't fit the bill, it doesn't get insurance."

Chubb will use local agents to market D&O. Considerable autonomy will be given to underwriters in 46 cities who work in the 65-person crime insurance department, Mr. Van Gilder said. Limits of up to \$20 million will be offered.

The product will not be targeted to specific types of businesses or size of firm, Mr. Van Gilder said. He anticipates the branch

structure will attract local small and medium-sized risks. A number of Fortune 100 risks that are policyholders in other lines also have asked Chubb to write their D&O, he added.

Continuity and severability of coverage will both be available through Chubb, Mr. Van Gilder said. Continuity means the insurer takes over a risk previously underwritten by another insurer without asking the policyholder to warrant that it doesn't know of any circumstances that could generate a claim.

Severability of coverage specifies that if a claim is submitted for which there was prior knowledge, coverage will be voided only for those directors and officers who had knowledge. The others will be protected.

Policies may include both continuity and severability of coverage, Mr. Van Gilder says. The insurer uses the warranty statement made to the preceding insurer to determine whether coverage will be voided for directors and officers who had prior knowledge of a claim.

Chubb started writing D&O excess coverage midway through 1980, Mr. Van Gilder notes. Some primary policies also have been written.

measure corporate performance and learn everything we need to know through other means."

Mr. Van Gilder says this concept has been used successfully by Chubb in the fiduciary liability field, where it is called retroactive extension. "We have the ability to determine which managements are acting competently, and that's the key to D&O," Mr. Van Gilder said.

Any significant corporation has thousands of situations that could get it into trouble, he adds. The important question is: "How well is management running the business?"

Shand, Morahan has been writ-

ing D&O as a combined coverage with errors and omissions for insurance companies for 2½ years. Within the past 12 months, however, it has begun writing D&O as a separate cover for other types of risks.

"Our thrust is toward financial institutions, banks, mutual funds and insurance companies," noted Mac Calhoun, executive vp. "But we're accepting all kinds of risks for consideration. The facility can offer limits up to \$25 million."

"We are not as restrictive toward small firms and those that have

been in business for a short time as some of the older markets," Mr. Calhoun said. The form also clearly spells out that the policyholder is permitted to select defense counsel.

Mr. Calhoun says Shand, Morahan requires its own D&O application form. Known circumstances that could lead to a claim are excluded in a warranty statement. "Continuity is not prudent underwriting," he said.

"We are shooting for a 10% market share for D&O over the next two years," he added.

Looking for coverage

Reward: \$10,000 for proof

Continued from page 1

In 1935, Baldwin-Hill began manufacturing mineral wood insulation used in housing, industrial shipyards and construction industries. It contained asbestos, Mr. Foster said.

Baldwin-Hill later merged with Ehret Magnesia Manufacturing Co. and became Baldwin-Ehret-Hill Inc. of Valley Forge, Pa. Keene bought the merged companies in 1968 and continued to manufacture insulation products containing asbestos until 1972. "If we had not bought Baldwin-Ehret-Hill, we wouldn't be in this predicament," said Mr. Foster.

At present, Keene Corp. has found \$200 million in liability insurance policies, Mr. Foster says. Among the insurers of Keene

Corp. and the acquired companies at different times are Liberty Mutual Insurance Co., Aetna Life & Casualty Insurance Co., The Hartford Insurance Group and Insurance Co. of North America.

Keene is currently suing INA to discover the liability of INA and others for the claims, including the question of gaps in coverage.

Keene is offering the \$10,000 reward for new information about liability insurance for any of these companies that is legally admissible as evidence of insurance coverage.

"If you have a valid liability certificate of insurance issued by Baldwin-Hill's insurance company, it's worth up to \$10,000. Other evidence of coverage also acceptable," Keene's ad states.

If you have any information, contact: Charles A. Foster, director-risk management, Keene Corp., 200 Park Ave., New York, N.Y. 10166; 212-557-1900. Offer is valid until July 1, 1981.

Court rules on plan payouts

NEW YORK—Recent court cases indicate employees who must leave a company because of permanent disability may receive qualified profit-sharing or pension plan payouts tax free, notes Richard Reichler, compensation specialist for the international accounting firm Ernst & Whinney.

Companies should make sure their plans contain separate, operative provisions for benefits payable on termination of employment because of disability.

Information given to employees should make it clear a plan distribution following a disability may be nontaxable under the rules relating to disabilities rather than taxable under the rules applicable to distributions upon termination of employment or retirement.

Many employers do not adequately inform participants of the many complex rules that apply to plan payouts, but merely distribute IRS Form 1099R, Mr. Reichler said.



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Workers comp registers 'bad news'

Continued from page 1

Workers compensation is the only bad news, and compared to the record at other businesses, even that might not sound so bad. But Paul Ozan, assistant general counsel/assistant secretary who is in charge of risk management, says \$1 million a year in workers compensation losses "is just too much money." Up from about \$850,000 in 1977, workers compensation costs eat up half of the company's annual \$2.1 million cost of insurance and losses.

Mr. Ozan, who also is national president of the Risk & Insurance Management Society, is declaring an attack on workers compensation losses.

The cost of workers compensation claims is especially important now that American Greetings is funding its losses under a paid-loss retro with Liberty Mutual, its long-standing liability insurer. Every paid claim is a few more dollars out of operating funds for the company, which is striving to hold on to as much cash as possible with the prime rate soaring.

Operations in California, which prohibits the use of paid-loss retros, are covered under a separate conventional retro plan.

Already the new paid-loss retro program, which wraps together workers compensation, general liability and auto liability, is saving the company 15% off last year's combined liability costs, thanks to its cash-flow advantages. The \$1 million coverage per accident includes a \$100,000 loss limitation per claim and a 150% maximum on the standard premium.

The savings could be more, depending upon how quickly claims are made and paid. Mr. Ozan wants to increase the savings by lopping 20% to 30% off the cost of 1,500 to 2,000 workers compensation claims a year from 9,000 full-time and 4,000 part-time workers.

The plan is to cut the number of back injury claims.

Mechanical dangers

"We've been more conscious of mechanical dangers," he said. "The guards are in place on the huge cutters. Safety features are built in. Claims have never been serious—not that every claim isn't serious to the person—but we've never had a major amputation and the only death claim was under a travel/accident policy."

But back injury claims, from heaving the boxes of candles and cards in the plants and stocking retail displays, are straining the workers compensation budget. "There hasn't been enough education of people on the physical aspects," Mr. Ozan confessed.

That's changing, with the all-out support of top management. Safety issues were elevated to top management concern this year when the plant managers, brought together just three times a year, heard a safety presentation for the first time from Liberty Mutual personnel flown in from Boston.

Previously, safety concerns were discussed only by personnel staff at each major plant and the field representatives of Liberty Mutual.

The plant managers were told the dollars and cents cost of their losses compared with each plant's experience. With a 13% return on sales, American Greetings has to sell \$8 million in products to cover its \$1 million workers compensation losses. "It's going to filter down now," Mr. Ozan said.

Literature from Liberty Mutual on proper lifting techniques is being distributed. "We might do some contests to make them even more aware."

The company is initially reserved for two workers compensation claims of \$60,000 each in the first quarter of 1980, Mr. Ozan says, the largest he's ever seen.

"Things have to get worse before they get better. The cost just wasn't there before. But even with inflation and benefit increases, I told management this morning that these are just too many dollars."

General liability losses at American Greetings are a nicer tale. Mr. Ozan had nightmarish visions of a batch of glue going bad and making envelope-lickers sick. But the chemists have assured him that the worst that could go wrong with a batch of glue is that it would smell bad and not stick.

Paper cup handles that ripped off, spilling the contents on lovely cocktail dresses and black tie attire, used to generate a few claims. But paper cups with handles are no longer made.

The relatively new candle line has generated a few claims for property damage from people who complain that the candle burned down and scorched a table. "Now who wouldn't put a plate under a candle?" Mr. Ozan asked.

Mr. Ozan dispenses of these small claims with \$25 to \$100 checks and a box of American Greetings products.

Judging claims

The lawyer in Mr. Ozan cautions that not everyone would want to handle liability claims in this manner. He feels free to judge the seriousness of claims with his legal expertise and to dispense with the minor ones because American Greetings would pay for them anyway under the paid-loss retro plan.

American Greetings' \$500,000 casualty insurance costs are mostly attributable to miscellaneous losses and losses involving the 1,100 salesmen's cars on the road, not product liability claims.

But the company's biggest personal injury claim came after a young boy went through a plate-glass window in a store leased by American Greetings. It was settled for about \$12,000.

There's never been a need to tap the umbrella policy with limits in excess of \$10 million, which picks up above the \$1 million general liability coverage under the retro.

The biggest risk management fear at American Greetings is that one of its plants would go up in flames, especially in October when the Christmas greetings and wrappings are finished but not shipped.

The fear is allayed by the extensive fire engineering that has gone into each giant plant in Kentucky, Tennessee and Arkansas. One of the five Arkansas plants takes up 2.5 million square feet on one floor, the size of aircraft manufacturing facilities.

HPR engineering

Arkwright-Boston, which insures all of American Greetings' property against fire and business interruption under a \$400 million blanket policy, is responsible for the highly protected risk engineering in all the plants.

With only one plant older than 25 years, the most modern fire engineering has gone into each. Factory Mutual helped design every plant. American Greetings has been in constant construction since 1960, building new plants and adding onto existing ones.

"If Factory Mutual recommends it and our consultant Crain Langner agrees, we'll do it."

The biggest argument FM has gotten about a fire safety recommendation is a decision by Ameri-

can Greetings to delay installation of another water tank for the next phase of construction. Most of the plants are double and triple watered.

No matter where a plant is built, the fire engineering is done in Cleveland by American Greetings, Arkwright-Boston and Factory Mutual people who as individuals have 20 years of experience with American Greetings.

The largest fire loss at a plant belonging to the 75-year-old company, which has grown to \$500 million in sales and is moving up on Hallmark, was a \$50,000 loss 15 years ago. That was for space rented in a Chicago warehouse.

American Greetings' maximum possible loss, excluding business interruption, is \$175 million to \$200 million. But realistically, the most a fire would ever take would be two rooms—the second being lost by human error, not fire protection design, Mr. Ozan says. That would be about 120,000 square feet and a \$40 million to \$50 million loss.

The property program with Arkwright-Boston includes a tiny deductible of \$25,000 on fire losses. "I'm a believer in retentions and I'm accounting trained," Mr. Ozan said. "If I can't get the credits for retentions, I won't do it."

The business interruption and all-risk coverages, also with Arkwright-Boston, each include a \$100,000 deductible. The three coverages cost American Greetings about \$500,000 a year.

Because the all-risk policy with its \$400 million limit is separate from the fire and business interruption policy, theoretically there is \$800 million of property insurance on American Greetings installations. But in reality, the all-

risk policy serves to close any gaps in the fire and business interruption policies.

Mr. Ozan notes that it is advantageous to buy the all-risk coverage from the same underwriter of the fire and business interruption risks because in the case of a giant loss, underwriters won't argue over whose policy covers the loss.

American Greetings has been with Arkwright-Boston since 1948. "We look at it periodically, but no one has been able to touch them," Mr. Ozan noted.

Mr. Ozan says the company's loss experience has been so good that Arkwright-Boston couldn't cut rates any lower than they are now (an obviously enviable figure he refuses to disclose). To make the coverage a better value, the huge over-the-road trucks that do produce some losses are insured for property losses under the all-risk policy.

'Sleep insurance'

American Greetings also buys what Mr. Ozan calls "sleep insurance," including directors and officers liability and fiduciary liability insurance. These policies are purchased through brokers, including Johnson & Higgins and Alexander & Alexander, a departure from Mr. Ozan's tendency to use direct writers for major exposures.

Ocean marine coverage is purchased through a local agent who handled the personal insurance needs of company executives and came in with a good package, Mr. Ozan noted. Before the company started importing ceramics, the ocean marine policy was small.

"Village Insurance got lucky," he said. "Now our imports are up to \$20 million a year." It's a good

risk, too; American Greetings has filed one ocean marine claim, and that was a small one several years ago when the policy was with Insurance Co. of North America; Royal Insurance Co. now underwrites the policy.

Mr. Ozan has a new risk management challenge: deciding how to best insure the risks of four companies bought this year in England. It's American Greetings' first expansion overseas, and Mr. Ozan is still studying whether to pull together a worldwide program or allow the companies to maintain their existing insurance.

Two British brokers, Baird Dawes and Fenchurch, now place the insurance for the newly acquired companies.

"I made sure they were all covered and renewed existing insurance for a year. I'm trying to wrap around the all-risk and umbrella insurance and, hopefully, a fidelity policy," Mr. Ozan said.

He will travel to England in June to see the installations.

Meanwhile, he is frustrated by not knowing exactly what is there. "You really have to see it to make better judgments," he said, stressing the importance of annual personal visits by risk managers to plants.

When a risk manager knows a location, he can better analyze and better understand the recommendations of safety engineers, Mr. Ozan notes. "I'm not an engineer but I can get an attitude of a plant by walking around."

"Personal appearances do a lot. It's the home office following up to see what's happening."

For risk management inspections, a business or greeting card will not adequately substitute for a personal visit.

Legal expertise aids exec

Continued from page 1

Cleveland-based consulting firm Crain Langner & Co. is also a crucial part of the risk management program at American Greetings, which uses direct writers for its major exposures. "They are the ones I rely on to tell me what I'm getting. I can't tell if I'm in the ballpark or not," he admitted.

Crain Langner staff members are "pure" consultants, Mr. Ozan stresses. They don't place insurance, so they have no vested interests in insurance purchased.

Mr. Ozan also credits the Risk & Insurance Management Society with building his risk management expertise.

Not only does participation at the annual conference and on executive committees provide an opportunity to learn, he notes, but "you also build up friendships and friends talk to each other. You do business with the same people." Discussions among friends can clue a risk manager in on what a seller is willing to provide, he says.

Mr. Ozan got into risk management one year after joining American Greetings' legal department in 1959. American Greetings was his first and only job after he graduated from Ohio State University with a law degree in 1958. He also holds a bachelor of science in accounting from Ohio State.

"My boss walked into my office and said, 'You got it,' when another guy left. It had gone to legal in '53 or '54 because the president thought contracts when he thought insurance."

"I was scared to death. I had never had an insurance course. But we had Crain Langner. And two of us from American Greetings went to the Kemper insurance

school in Chicago."

As the demands of the job grew, with the company growing from \$30 million in sales in 1959 to more than \$500 million this year, Mr. Ozan delegated insurance duties. Employee benefits, once under him, were moved to the personnel department. Now he's available as a consultant on benefit legal questions. The company self-insures most benefit plans and taps an administrative services only contract, although it still buys life and long-term disability insurance.

Workers compensation claims are handled by personnel staff at each plant, but the claims of the 150 traveling salesmen go through Mr. Ozan. He's working on a plan to delegate those also, because the clerical needs are too great and he doesn't want to expand his staff.

The legal department previously reported to the president, putting risk management one step away from the president, through the general counsel/secretary. A restructuring 10 years ago put the legal department under finance, but Mr. Ozan's office is just steps away from the president's. "It makes my job easier," he said.

Putting risk management in the legal department has its advantages, Mr. Ozan agrees. "I'm in a unique position. I countersign leases. I can't have a hidden location. Nothing gets done legally without me or my boss knowing it."

"I can sympathize with guys who don't know about plants," Mr. Ozan says when he hears about a colleague who didn't know his company just bought a plant somewhere. His advice to them: "Build a rapport with the corporate lawyer. Drop by his office every couple weeks." The legal

and finance departments are the two control centers in a corporation, Mr. Ozan notes.

Mr. Ozan reviews each lease signed by the company for legal and risk management exposures. American Greetings now has almost 200 leases for its owned and subleased stores, mainly in malls.

The task of reading the fine print is so detailed that Mr. Ozan gives special dispensation to keep all the light fixtures in his office when the corporate policy was to reduce lighting because of the energy crisis.

The most important aspect of reviewing a lease is finding the mutual waiver of subrogation clause, Mr. Ozan notes. "That's the No. 1 thing, or you can end up insuring the whole mall."

Without that clause, a leasee becomes responsible for any damage to the mall that begins with an incident in its shop, he explained. "If you start a fire and you burn down the mall, when the landlord files for insurance his insurer will subrogate against you." No one would have enough insurance.

Mall fires aren't unheard of. American Greetings has had two store fires in the last four years. "One was of fairly decent size—totaled the store for \$140,000." The loss in the owned store in an older, unsprinklered mall in Burton, Mich., was covered under American Greeting's policy with Arkwright-Boston. It was the largest ever for American Greetings.

"But we have no control over the stores' fire prevention," Mr. Ozan noted. He prefers remembering the \$70,000 wall collapse as the company's biggest loss.

—Kathryn J. McIntyre



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