WEEK OF DECEMBER 7, 1981

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update:

CTA balloons budget for claims administration

CHICAGO—The financially crippled Chicago Transit Authority plans to spend five times what it paid this year for a new claims administrator to crack down on phony workers compensation claims.

The CTA may pick one or two local claims administrators for what could be a $1 million contract the first year, said Sal

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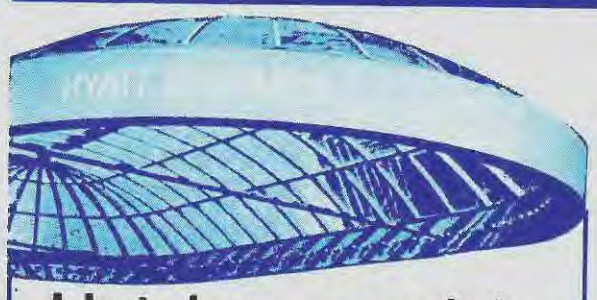

Hotel owners join forces with Hyatt to clarify coverage

By RHONDA L. RUNDLE

KANSAS CITY, Mo.—The owners of the Kansas City Hyatt Regency Hotel are joining forces with manager Hyatt Corp. against their insurers and their mutual broker for a court ruling on which insurers will pay the damages to victims of the collapse of two lobby skywalks last July.

In their recent petition, granted by the court, the Crown Center Redevelopment Corp. and its parent, Hallmark Cards Inc., raise most of the same issues raised by Hyatt in its original lawsuit filed Oct. 9 with the Kansas City court (*BI*, Oct. 19).

But the hotel owners, more than manager Hyatt, point an accusatory finger at broker Marsh & McLennan, saying M&M's negligence is largely to blame for creating the coverage confusion focusing primarily on whether Hallmark and Crown Center are named on Hyatt's policies as the hotel owners had requested.

Judge Timothy D. O'Leary of the Jackson County Circuit Court in Kansas City, who will decide the coverage questions, last week granted the hotel owners' request to unite with Hyatt as co-plaintiffs squaring off against 25 insurers and Marsh & McLennan. Two different offices of M&M, Chicago and Kansas City, were brokers for Hyatt and Hallmark, respectively.

Neither Hallmark nor Crown Center was originally a party to Hyatt's petition asking the court to answer questions about the hotel's insurance. Their new role may strengthen Hyatt's efforts to limit litigation over insurance matters related to the skywalks collapse to the Kansas City court.

Hyatt has obtained a preliminary injunction from Judge O'Leary blocking further action on a lawsuit filed on the coverage question by one of its insurers in Cook County Circuit Court in Illinois. Judge O'Leary is expected to decide Dec. 15 whether to issue the permanent injunction requested (*BI*, Nov. 23).

Five of the 12 claims for relief in the hotel owners' 64-page petition are against their broker, Marsh & McLennan in Kansas City, and are based on breach of contract and negligence. A sixth claim is against Marsh & McLennan in Chicago for its role as Hyatt's broker.

Crown Center and Hallmark have faced "vexatious uncertainty" as to their insurance coverage due to the negligence of their broker Marsh & McLennan, their suit says. Crown Center and Hallmark have had to hire attorneys and insurance experts to advise them and to bring this lawsuit to vindicate

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Air industry wants to put crash suits in fed's hands

By BILL DENSMORE

After years of negotiations, U.S. aircraft manufacturers and some airlines are rallying behind a proposal for sweeping changes in the way the courts handle lawsuits that follow air crash disasters, industry sources say.

They are proposing a federal "no-fault" liability statute, administered in part by the U.S. secretary of transportation, aimed at eliminating costly and unpredictable legal conflicts that arise when state laws are applied to commercial air crash suits, the sources add.

Other goals are to stabilize litigation and claims costs of major crashes and calm insurance industry fears of a bad string of jumbo-jet disasters resulting in claims approaching the billion-dollar mark.

"It should reduce litigation," says Audly Toller Jr., assistant treasurer of Delta Air Lines Inc. in Atlanta and a member of an industry panel drafting the proposal. "It definitely will reduce claims handling expenses and legal fees."

The proposed law, spearheaded by a lawyer and insurance manager for General Electric Co., which makes jetliner engines, could be considered Dec. 11 at a hearing planned by Rep. George E. Danielson, D-Calif., on air crash tort liability law, the congressman says. The proposal is expected to be introduced in Congress early next year.

GE officials briefed overseas and U.S. underwriters on their proposal at separate meetings Nov. 19 in New York and a week earlier in London, airline industry sources said.

Supporters say the plan already has the backing of the nation's three major commercial aircraft manufacturers—Lockheed Aircraft Corp. of Burbank, Calif., McDonnell Douglas Corp. of St. Louis and The Boeing Co. of Seattle—and has picked up support from several major airlines Among the airlines that have helped draw up the proposal are American Airlines of Grand Prarie, Texas, United Airlines of Chicago, Delta, Trans World Airlines of New York, Braniff Airways of Dallas and Pan American World Airways of New York.

The proposal would apply to all commercial airline crashes, but it was not clarified if it would pertain to crashes only involving a certain

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Illustration: Amy Palmer

Firms face $18.8 million tort award after refusing to settle out of court

By JERRY GEISEL

PHILADELPHIA—Clark Equipment Co. and an industrial distributor, which could have settled a product liability case out of court for $2 million to $3 million, now find themselves liable for the biggest personal injury award in Pennsylvania history.

Clark, a multinational company based in Buchanan, Mich., and Industrial Lift Truck Co., a distributor of Clark equipment here, both are liable for an $18.8 million award handed down by a Court of Common Pleas jury to a maintenance worker whose legs were severed in a 1977 forklift accident.

The initial award was $15 million, but under a 2½-year-old procedural rule designed to clear up the backlog of personal injury cases in Pennsylvania courts, juries can tack penalties onto awards when defendants either don't offer or make inadequate pretrial settlement proposals in bodily injury or death cases.

Juries can add up to 10% of the award for each year since the suit was filed as a delay-in-settling penalty. In this case, the award was $15 million with a $3.8 million delay-of-settlement penalty.

The Court of Common Pleas jury, which handed down the award last month after a 16-day trial, did not apportion damages between Clark and Industrial Lift. Industrial Lift is expected to file suit asking Clark to indemnify the company for any damages the company may have to pay.

Under Pennsylvania law, all parties involved in the distribution of a product can be held liable in a product liability case. However, in this case, the jury absolved the company that leased the forklift to the injured man's employer.

The manufacturer should have enough insurance to cover the award, according to attorneys and insurance industry sources.

Clark has a $3 million primary general liability policy underwritten by Liberty Mutual Insurance Co. over a $500,000 self-insured retention.

Above the primary policy, Clark has a $5 million layer underwritten by The Home Insurance Co. and a $10 million policy purchased from Northbrook Excess & Surplus Insurance Co, the Northbrook, Ill., insurer confirmed.

Clark would not comment on its insurance arrangements or the accident be-

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$28 million in insured damage expected in Massachusetts fire
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Phony comp claims crackdown

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Bianchi, the transit system's risk manager.

The contracts, however, would stipulate "positive results" within the first year or the CTA would have the right to cancel, he added.

Gallagher & Bassett, a subsidiary of broker Arthur J. Gallagher of Rolling Meadows, Ill., lost the three-year contract it had with the CTA, which is self-insured for workers compensation and general liability risks, with no excess insurance (*BI*, June 8).

The claims administrator was paid $230,000 to handle the CTA's workers compensation claims in 1980, only about one-fifth of the $1 million the CTA may spend for its new contracts, he said.

There were shortcomings in the way Gallagher administered the CTA's claims, said Mr. Bianchi. Gallagher declined to comment.

But, he said the CTA's contract with Gallagher also didn't require the services needed to effectively administer claims. He said the new administrator will handle claims investigations, rehabilitation, loss control and management information systems for the CTA.

The CTA paid out $11 million in work comp claims last year, and claims this year are expected to be about $9 million.

MGM covered for Wood's death

Photo: Wide World

Miss Wood's death may cost MGM's insurers $8 million to $12 million.

LONDON—Whether Metro-Goldwyn-Mayer Inc. decides to recast or scrap a motion picutre left unfinished by Natalie Wood's death, its extra costs or losses are probably insured.

Miss Wood, 43, drowned Nov. 29, just two weeks before shooting would have been completed on the film "Brainstorm."

MGM has a film producer's indemnity policy through Stewart Wrightson Holdings Inc.'s film pool. According to London sources, it also has more insurance placed in the United States, including a policy with Pacific Indemnity Co., a subsidiary of Chubb Corp. Chubb would not confirm.

Losses are expected to be between $8 million to $12 million because Miss Wood's death came at a crucial point in filming.

"I would have said $8 million is more likely," said a Lloyd's of London underwriter who participates in Stewart Wrightson's film pool. "They had two weeks left to shoot and she was in most of that." If MGM decides to reshoot the film, insurers in the pool and U.S. insurers will pay for the expenses incurred. If MGM decides to scrap the film, insurers will pay for the full cost of producing the film. This has been reported at $12 million.

Between 1.5% and 2% of a film's budget is usually set aside for insurance premiums, including the film producer's indemnity policy. The Stewart Wrightson film pool, which includes the Excess Insurance Co., Lloyd's and other London insurers, usually sets policy limits of $5 million per movie.

"The amount of the MGM claim could exceed the policy limits," said a Stewart Wrightson broker working on the pool. However, he would not specify the policy limit on "Brainstorm." MGM may have policies in the United States to pay the uncovered portion, he said.

DC-9 reinsured in London

LONDON—The Inex-Adria DC-9 80 jetliner that crashed in a mountainous region near Ajaccio, Yugoslavia, last week was heavily reinsured in the London market, sources say.

The 3-month-old hull was insured for $22 million by Dunav Insurance Co. of Yugoslavia. Inex-Adria also has liability coverage for up to $100 million per occurrence with Dunav.

Some 84.45% of the hull and liability package has been reinsured in the London market through reinsurance borkers C.T. Bowring & Co. Ltd.

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Photo: Wide World

The huge fire turned a section of Lynn, Mass., into a scene resembling post-World War II Europe.

Property insurers may pay $28 million for fire in Lynn

BI Roundup

LYNN, Mass.—Property insurers may be stung with an estimated $28 million in claims following a raging fire that turned a five-block area into a ghostly scene reminiscent of post-World War II Berlin.

Business Insurance has identified six insurance companies with an estimated $18.5 million in property coverage on buildings or businesses lost in the Nov. 28 fire.

Officials at the city's Community Development Department say property damage may top $47 million, of which they believe some $28 million may be insured. A total of 17 buildings, housing 37 businesses, were destroyed.

The staff of the Community Development Department is trying to identify the insurers, and level of coverage, for each building and business that was destroyed.

This action is a prelude to a request for emergency assistance from the Federal Emergency Management Agency in Washington. All insurance coverage must be documented before such a request may be granted.

An aide for Sen. Edward M. Kennedy, D-Mass., indicated the senator will ask for emergency funding.

The fire, which fire department personnel say may have been the work of an arsonist, broke out during the early morning hours in an empty warehouse.

The burned-out section of Lynn had been extensively renovated and housed small manufacturers, commercial businesses and apartment complexes.

Of the insurers that *Business Insurance* has identified, Employers Insurance of Wausau appears to have the largest exposure with $13 million in combined property coverage.

Employers of Wausau, according to the Crowninshield Corp. of Teabody, Mass., is the insurer of two public housing complexes that the latter manages.

Robert Adams, Crowninshield's chief financial officer, says Employers of Wausau, located in Wausau, Wis., wrote a $9 million policy on Harbor Loft 1 and a $4 million policy on Harbor Loft 2, the two rental

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Architect of ill-fated building fears coverage is too small

By STEVE SHERWOOD

AINSWORTH, Neb.—With professional liability insurance of only $100,000 and seven people seriously hurt in the floor collapse of a building he designed, architect Charles Beardslee says his one-man firm may be ruined.

"My feeling is that it will probably put me under," says the Norfolk, Neb., architect. "Work has shut off like a water faucet" since the incident, he adds.

Mr. Beardslee designed the Zion Lutheran Church Fellowship Hall in Ainsworth, where the floor collapsed into the basement 10 feet below during the church's annual turkey dinner for 160 people on Oct. 21.

"The floor fell into the basement, forming a V for people to slide down on top of each other," said Pastor George Williams,

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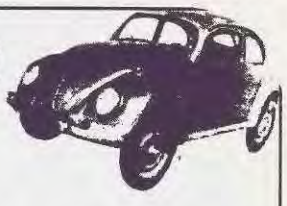
errors & omissions

• Contrary to reports that the brokerage has been gradually reducing staff members (*BI*, Nov. 23), Johnson & Higgins says it has been gradually increasing its staff at a rate of 80 persons per quarter (see story, page 3).

VW workers get benefit hikes



By JAMES LAWSON

NEW STANTON, Pa.—Volkswagen of America in Pennsylvania is granting its Westmoreland assembly plant workers hefty employee benefit increases to match the benefit packages Detroit automakers are trying to slim down.

The new 16-month contract, which United Automobile Workers Local 2055 says gives some 4,600 Volkswagen workers the same level of benefits as General Motors workers, includes improvements in health, vision, dental, life and disability coverages.

It also provides financial protection for surviving family members of deceased workers, pregnancy benefits for women and voluntary dependent group life insurance for employees who wish to pay for additional coverage for their spouse and children.

"The key motive of this contract," Karl Mantyla, a UAW spokesman in Detroit says, "was to bring the Westmoreland assembly plant

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States looking to cut comp costs

By EILEEN NORRIS

The approaching new year signals a surge of fresh crusades from states desperate to cut the fat out of employers' workers compensation costs.

Some states are considering setting up state monopolies to take over their entire workers compensation insurance market.

Others are pushing for competitive rating laws among private workers compensation insurers.

But all the efforts seem to be based on a common goal: To save money for employers who are fed up with sky-high workers compensation costs.

In Pennsylvania, a state representative is proposing legislation that would force workers compensation insurers out of the state.

Under the plan, a state fund would be established to have sole authority over writing all the workers compensation insurance in Pennsylvania.

In Maine, a subcommittee on business legislation that had been looking at a law that would allow competitive rating for workers compensation insurance is broadening its scope.

Now, the committee is looking at alternate systems, including a state monopoly to write workers compensation insurance.

Many states are envious of the "Ohio Plan," a 60-year-old monopolistic state fund that recently squashed a hard fought campaign by private insurers that wanted to get into the state to sell workers compensation insurance.

The Ohio Bureau for Workers Compensation has had calls from almost a dozen states asking for more information on its exclusive state fund, according to a spokesman for the bureau.

The reason? The state has managed to keep its benefits for injured workers high while maintaining a relatively low workers compensation insurance rate for employers.

In a Nov. 3 referendum, voters overwhelmingly rejected the notion of allowing private insurers to sell workers compensation insurance.

And Ohio fever is spreading—even to states like Pennsylvania, which already has a competitive state fund—one that competes with commercial insurers for workers compensation business.

Pennsylvania Gov. Dick Thornburgh recently appointed a committee to look into the trend by some employers to saddle Pennsylvania's State Workmen's Insurance Fund with expensive risks.

Because SWIF is mandated by

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Preserve data bases: Alliance

CHICAGO—Competitive rating for workers compensation insurance could increase rates if the data base insurers report to isn't maintained, an insurance trade group predicts.

"Higher, rather than lower, workers compensation rates may emerge if uniform rating and statistical plans are abandoned," says Dr. Rodger S. Lawson, an assistant vp at the Alliance of American Insurers, which prepared the study.

A rating system change would destroy the centrally administered experience rating plan, increase the total cost of producing rates and increase regulatory costs associated with a new system, adds Dr. Lawson.

The AAI is urging legislators and regulators to consider broadening the role of the data base rather than weakening its current system.

The group has been vocal over what it says is a lack of consideration given to the impact of proposed changes on the workers compensation data base.

The National Council on Compensation Insurance serves as the data base in more than 30 states. Most of the remaining states have

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Robert Hatcher Jr., the new chief at J&H, is breaking tradition

By LISA BERGSON

NEW YORK—Robert Hatcher Jr., the new chief executive of Johnson & Higgins, exudes tradition, from the sportsman's classic paintings of wild ducks in his office to the pinstriped suit he wears.

This is in keeping with the conservatism that characterizes J&H, the nation's largest privately owned and the fourth-largest insurance brokerage, where things have always been done a certain way.

But the heir to the helm of this tradition-bound firm may rock the boat yet. Already, Mr. Hatcher, also still president, has departed from J&H's longstanding aversion to outside acquisitions, medium-sized clients and fee compensation for certain services, like consulting.

While such innovations are not new for the industry—indeed, some competitors suggest that the firm is just playing catch-up—they signal significantly greater flexibility at J&H.

Mr. Hatcher

"To stay competitive is to become flexible so that we can grasp an opportunity quickly whether it be in the international field, the consulting field or the broking field," Mr. Hatcher says.

His approach comes not a moment too soon. J&H's ranking in the *Business Insurance* Top 20 list of national brokers by gross revenues has been falling back for the past decade, going from second to third place and now to fourth.

"I wouldn't be a bit surprised if there were a slowing in our growth rate this year," Mr. Hatcher says. He doubts the company will meet its stated goal of 10% annual growth, which it barely achieved last year.

In 1980, J&H's gross revenues rose to $288.8 million from $262 million in 1979. In large part, the company's troubles derive from a market that, for brokers, could best be described as abysmal. The tremendous capacity for insurance makes its placement so easy that the well-honed skills of an experienced broker are hardly needed.

In addition, low rates for new business and for renewals cut broker profits. Yet, little can be done to stem rising overhead costs, particularly in a field where technical expertise is at a premium.

Faced with such endemic problems, the other top brokers—all of which are publicly held—have chosen to expand aggressively, gob-

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Little people create big risks for nation's day-care centers

By MARGARET LeROUX

At day-care centers throughout the United States, the atmosphere is one of fun and games. But, the risks the centers face are anything but child's play.

Besides general liability and property risks, day-care centers have a host of other liability exposures including automobile, malpractice and even product liability.

The insurance programs of day-care centers are an important issue today as corporations begin to extend reimbursement for day care as an employee benefit, boosting growth of the business.

Large day-care chains, however, find it easier to secure adequate insurance at reasonable prices than small independent centers.

It's the little people the centers care for, children of the increasing numbers of two-career families, who are and create the biggest risks facing the industry.

"Anytime you're dealing with children, you have a big potential for liability," said Thomas Scott, a broker with Insurance Management Corp. in Kansas City. "Children are the most precious possession people have."

Insurance Management Corp. brokers insurance for two of the largest day-care business chains: Kindercare, headquartered in Birmingham, Ala., and National Childcare Centers in Houston.

Large day-care chains have extensive insurance programs that include excess umbrella coverage with multimillion-dollar limits.

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Photo: Lloyd M. Quinn

Kids are the centers' biggest risks.

Health plan pays multiple benefits

UKIAH, Calif.—It's hard to believe that a health care plan can help make employees both healthy and wealthy, hold the line on benefit costs and help build next year's salary increases.

But that's exactly what's happening in Mendocino County, Calif., since a innovative health care plan was introduced by the county's Office of Education three years ago (*BI*, Dec. 8, 1980).

The plan must also be keeping the office and related school districts' health insurer, Blue Shield of California, happy, too. Blue Shield has not raised the program's per employee rates since 1978 and this year the program may even get a premium dividend.

The Mendocino education office and several small California school districts that participate in the county plan pay $106 per employee. Blue Shield receives $64 and Mendicino Plan members use its $42 portion to help fund the distinctive $500 per employee deductible—an incentive not to file frivolous claims.

The county office, which administers the plan for school districts, sets aside $500 for each participating employee per year for medical expenses. Blue Shield picks up any medical expense exceeding $500.

If the employee does not use all or a part of the $500 during the year, what's left over is held on deposit and returned to the employee when he or she quits. An employee who does not file a claim in three years would get back $1,500 if he or she leaves the plan.

About 500 employees are now enrolled in the program—up from 113 nearly three years ago.

In 1979, the first year of the program, the county

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Surcharge plan stalls injured athlete fund

By BILL DENSMORE

KANSAS CITY, Mo.—The notion of passing the cost of football injuries to sports spectators is stalling support for a "sports rehabilitation fund."

Football helmet manufacturers, trying to solve their product liability problems and guarantee long-term aid to seriously injured football players, have proposed a new no-fault medical benefit pool for injured players (*BI*, Nov. 23). One suggestion for funding the pool is a surcharge on sporting event ticket sales.

Representatives of high school and college athletic associations, who met with the helmet manufacturers Dec. 2, say they can't back a plan for a "sports rehabilitation foundation" until they find out if their members support financing the fund with a surcharge on tickets to sporting events.

"The concept appears to be something you can get behind," says Dick Schindler of the National Federation of State High School Assns. "The implementation is the problem."

Mr. Schindler said a council representing the federation's 15,000 member schools would consider the injury foundation idea at a meeting Jan. 5 in Phoeniz, Ariz. He said each state high school athletic association is autonomous and thus would be free to accept or reject the ticket-surcharge idea.

"I'm going to have to take a real noncommittal stance," says Dennis L. Poppe, sports medicine liaison for the National Collegiate Athletic Assn., who was among 29 people at the meeting here. "We're not negative, but we're not positive either. We're monitoring."

Mr. Poppe cited the "complications of adding a ticket surcharge" as a problem for the 800 institutions within the NCAA. "The schools have their own self-determination.

"Our interest is in helping parents and athletes with medical costs in the care of the quadraplegic or the catastrophically injured," he added.

Despite the wait-and-see attitude of the college and high school athletic officials, supporters of the plan said they would press ahead with drawing up bylaws for a foundation and would explore sources of start-up money other than a ticket surcharge.

"We have to seek the endorsement of various sports organizations and then go out and raise funds," said Frank W. Gordon, president of Riddell Inc. of Elk Grove Village, Ill., the nation's largest football helmet manufacturer. "We clearly need some outside help."

Mr. Gordon, along with National Football

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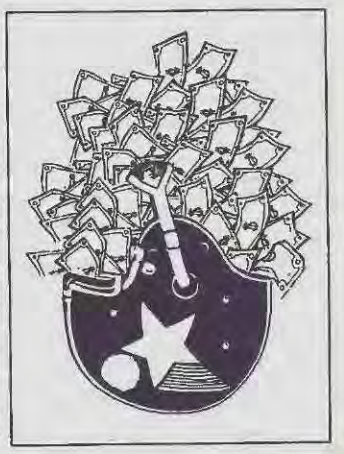

Internal disputes threatening Lloyd's bill

By STACY SHAPIRO

LONDON—Internal disputes within the Lloyd's of London community have caused one committee member to resign and may affect the self-regulation bill now before Parliament.

Robert Kiln, chairman of R.J. Kiln Underwriters, will resign from the 16-member Lloyd's Committee Jan. 1 for personal and professional reasons.

"My reasons are partly personal. But one doesn't take a decision of this magnitude lightly unless there's a divergence on matters of policy and procedure with fellow colleagues," Mr. Kiln said, adding that he may discuss his worries after he leaves his post.

"I am, however, still a member of the committee until January and have quite a lot of work to complete this year," he said.

Mr. Kiln announced his resignation last month just before the committee for 1982 re-elected Peter Green as chairman for his third term. Murray Lawrence, a non-marine underwriter and underwriting agent of C.T. Bowring (Underwriting Management) was elected deputy chairman.

Lloyd's will hold an election Jan. 13 to fill Mr. Kiln's place on the committee, a Lloyd's spokesman said. Ian Posgate, who was defeated in a bid for a place on the 1982 committee, will probably run for the open seat, sources say.

As the committee works out one problem, however, it faces another.

A new set of petitioners, led by Alexander Howden Group Ltd., plan to challenge in Parliament the divestment clause in the Lloyd's bill that separates brokers from their underwriting agents.

However, the challengers do not want to present their case or testify against the clause before the end of the year, said Ronald Commery, a Howden director and the leader of the petitioners.

Mr. Commery said some had hoped their petition would be heard this month, "but our lawyers can't make it."

"We feel we deserve to be heard properly," he said. "Our witnesses are of high standing—senior partners, underwriters—and December is the worst month for them because it's the busiest."

Lloyd's, however, strongly opposes any further delays and thinks the petitioners may be dragging their feet, Mr. Commery said.

"We're ready to present our case," he said. "We prefer to wait, however." But, it appears the petition may be heard Dec. 14.

The argument against separating brokers and their underwriting agents has never been officially heard, he said, which is why Howden is lodging the petition.

"Neither the Cromer Committee nor the Henry Fisher working party was qualified to reach a conclusion on the divestment issue," he said, "and Parliament has not heard the case against divestment.

"All the people involved in the petition feel the divestment issue transcends their own material interest. It involves a principle within the whole market."

The divestment clause was included in the self-regulation bill upon demands by other petitioners, backed by Mr. Posgate, Howden's underwriting director. The divestment clause was then overwhelmingly approved by Lloyd's 19,000 members last summer (*BI*, July 27).

The petitioners who originally demanded the divestment clause will work together with Lloyd's to fight the new opposition to the self-regulation bill, said Peter Miller, managing director of Thos. R. Miller & Sons Ltd.

"Lloyd's is taking a leading role in defending the clause," said Mr. Miller, who is also a member of the newly elected Lloyd's Committee. "But we will expect total support from the past petitioners." ■

7,000-member Connecticut HMO closes

STAMFORD, Conn.—Failure to obtain loans that would have allowed expansion of facilities is being blamed for the closing of a 2-year-old Stamford-based health maintenance organization that had 7,000 members.

"We are going to come very close to paying all our bills," said Richard H. Walker, president of the defunct Southern Connecticut Community Health Plan, which closed its doors Nov. 30. Mr. Walker added that the HMO would have to default on a $1.9 million federal start-up loan.

The HMO, begun July 1, 1979, operated out of a building too small to provide anything but primary care with no room for offices of specialists, Mr. Walker said. Consequently, he said, it had to contract with private specialists on a purchase-of-services basis, which raised its operating expenses.

When the HMO was established, he said, directors anticipated receiving a $2.5 million grant to buy or build a larger facility, he said. But the loan never was received and, as Mr. Walker put it, "each additional member we signed up pushed us farther down the drain."

Mr. Walker, a lawyer with experience in publishing management, said he was recruited to head the Stamford HMO and an affiliate in White Plains, N.Y., by the overlapping boards of the organizations. The White Plains HMO is seeking to contract its services to an outside health insurer because the 18,000-membership organization "is very tight and we're undercapitalized."

Mr. Walker declined to blame the closing of the Stamford HMO on the general problems affecting the HMO industry. He said the industry's chronic problems of too few members and overutilization of services were overshadowed by the failure to have an adequate building with room for specialists.

Most of the Stamford HMO's members are reverting back to company-backed medical insurance programs, he said, although all were offered the option of joining neighboring HMOs in Bridgeport and New Haven, Conn., or the White Plains affiliate. He said they also were offered the choice of signing up for a private health insurance plan without a physical.

About 600 members, representing about 125 families, were non-group members, he added.

Benefits for the five members of the plan still receiving hospital care at the Nov. 30 closing will be covered by the insolvency provision of the HMO's $35,000 stop-loss reinsurance policy underwritten by Mutual of Omaha, he added. ■

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editorial opinions

Clearing the legal debris

A FEDERAL STATUTE governing the disposition of damage claims following commercial aviation disasters makes sense to us—and we hope it will to Congress.

Varying state laws on the right to file damage claims and varying procedures for receiving payments after an air disaster thwart speedy justice to plaintiffs and defendants alike. Deliberations on legal questions that could have been resolved by a federal law have so stymied the progress of litigation stemming from the 1979 Chicago DC-10 disaster that only one case has been heard by a jury. More than 100 plaintiffs are still waiting for their day in court—and so are American Airlines and McDonnell Douglas.

True, the defendants have offered to settle these cases, but the plaintiffs have every right to ask a judge and jury to determine the proper compensation when a settlement can't be reached. And the plaintiffs—and defendants—have a right to a speedy trial.

Interestingly, the proposed federal statute, as reported this week by Associate Editor Bill Densmore (see story, page 1), also would encourage quick claims payment. It would codify an aviation insurance industry practice of quickly establishing a fund—without admitting fault—to settle damage claims as quickly as possible. Insurers should not object to this standard practice becoming law.

The proposed federal statute includes, however, what might be fatal flaws.

Empowering federal judges to alter after the fact the amount of compensation a client has agreed to pay his or her attorney sounds like too much discretionary authority for judges that could never be uniformly applied. We especially don't like the thought of judges changing a lawyer's income after the award, even though we often think personal injury lawyers earn too much for their services.

Instead of allowing judges to change the rules after the award, the proponents of this federal statute should consider some up-front regulations, such as limiting contingent fees in aviation disaster cases.

The other potentially fatal flaw is outlawing punitive damages. As with attorneys' fees, we see some injustices in exorbitant punitive damage awards. But we shouldn't outlaw punitive damages because they have been abused. The federal law should instead state clearly under what circumstances punitive damages are justified, such as for willful and deliberate disregard for the safety of passengers in the design, manufacture, maintenance or operation of an aircraft.

Despite our specific concerns, we heartily endorse the goal of bringing uniform and predictable application of the law to aviation disaster claims no matter where in the United States the tragedy occurs.

As congressmen consider this proposal, we hope they realize that a uniform federal product liability statute is needed for the same reasons. Whether the injury or death is caused by an aviation disaster or a product, the law governing the damage awards should be consistent across the land.

Et tu Fido?

"PET HEALTH insurance will mean that people will finally be able to afford the sophisticated veterinary medicine we were taught to practice," one veterinarian told a reporter for The Wall Street Journal recently.

The article, about efforts by some veterinarians to market pet health insurance, suggested that pet owners will be able to spend what's needed to keep their beloved animals alive regardless of the cost, thanks to pet health insurance.

It reminded us again how little people understand the economics of insurance—and why it's so difficult to control the rising cost of human health care.

But then, pets will prefer outpatient treatment.

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letters

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

A case of prejudicial reporting?

To the editor: The article "Sen. Hatch wants to gut multiemployer pension law" by Jerry Geisel (BI, Nov. 2) clearly indicates a prejudiced reporting viewpoint and a lack of understanding of the depth and intensity of the problem which his bill is designed to remedy.

With respect to the prejudice, here are a few excerpts from the article (the emphasis is mine):

- "Most employers participating in multiemployer plans *no longer would be responsible* for paying the plans' massive unfunded liabilities. . ."
- "Sen. Hatch. . .has introduced a bill, S. 1748, that would gut (the act). . ."
- "Mr. Hatch's bill would *turn the clock back* on multiemployer pension plans. . .."
- "Because *employers' contributions failed to match the benefits promised*. . ."

In response:

- Most employers will continue to be responsible for unfunded plan liabilities, but it is their contention that the responsibility should be only to the extent of the rate of contribution for which they bargained. This is a very key point.

For example, employers who have negotiated with the Teamsters for years have bargained for pension contribution rates and not pension benefits. Prior to ERISA, if you were to ask any trucking industry owner or executive whether he had a defined benefit or a defined contribution plan with respect to his employees' Teamsters pension fund, he would have replied "defined contribution." Until the passage of ERISA, it really didn't make a whole lot of difference. The unfunded liabilities, like in most pension plans, would be paid from future contributions.

Now under the Multiemployer Amendments Act to ERISA, he faces potential liabilities that in many instances are multiples of his net worth. Your article cites two such examples in Johnson Motor Lines and Transport Motor Express.

- Even the accounting profession is struggling with the question of how to treat pension liabilities on financial statements. Can you imagine what the results will be if companies with multiemployer pension plans have to start recording those unfunded liabilities? Who would invest in, lend to or buy that kind of a balance sheet?
- The clock *should* "be turned back" to restore the "defined contribution" status to those plans where contributions were bargained for rather than benefits.
- The use of the work "gut" in your article infers that only a shell of the law would be left with nothing worthwhile left inside. In my part of the country when we gut something, it is to remove those parts that would otherwise spoil the whole animal. I think that is what Sen. Hatch has in mind.

The article appearing in the Nov. 9 issue is a much fairer presentation. It was received after the preceding points were written.

W.D. Wertz
Secretary/treasurer
Clairmont Transfer Co.
Excanaba, Mich.

■ *Mr. Geisel replies: "With respect to statements you cite as prejudicial, you do not question the accuracy of the statements. You concede the 'clock should be turned back' to restore the limited liability system that existed prior to the passage of the 1980 law.*

"I did not suggest, however, whether the changes Sen. Hatch seeks are good or bad. That is something for the reader to decide, based on the coverage provided by Business Insurance on multiemployer pension developments."

Sounds good, but is it really legal?

To the editor: "Captives could aid insurers' cash flow" (*BI*, Oct. 19) quotes Jim Billett as saying the "captive could ask the commercial insured to secure the transaction (liquidity stop-loss coverage) with a portion of its portfolio."

It is my understanding that it would be in violation of state insurance laws for an insurance company to pledge as collateral any portion of its stock or bond portfolio. By and large, pledging of collateral is solely limited to real estate.

Edward F. Bader
Arthur Andersen & Co.
Hartford, Conn.

■ *Insurance regulators tell us that it is not in violation of any state insurance laws for insurers to pledge as collateral any portion of their stock or bond portfolio, but indeed those collateralized assets then very well may not be recognized as admitted assets. If the collateralized assets are not recognized as admitted assets, the purpose of the transaction is defeated.*

Mr. Billett responds that rather than pledging assets to collateralize a liquidity stop-loss coverage, a more feasible means might be for the reinsurer to insist the ceding company reinsure its normal business at rates sufficient to collateralize the liquidity stop-loss transaction.

Professor's plan not good for nation

To the editor: Professor John Burton, who proposes a Workers Disease Protection Act (*BI*, Oct. 26), must be a member of the so-called "Eastern establishment," which is intent upon destroying America's middle class.

Many academicians like the professor are the best weapons for socialism. His plan would merely increase the already overabundance of non-productive, fat cat bureaucrats while pulling a noose a little tighter around the neck of free enterprise. We're up to our ears in socialism now. Let's not go so far we drown in it.

Margaret Littrell
Dolliff Inc./Insurance
Minneapolis, Minn.

British benefits may not be enough

To the editor: Stacy Shapiro's rather frivolous analysis of the perks available to senior British employees (*BI*, Oct. 12) still overlooks the basic issue: How much salary, after taxation and after bearing in mind the cost of living in Great Britain, does the senior employee take home compared with his American counterpart?

Penal taxation and the high cost of living in Great Britain may well account for my address.

David Nicholls
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Florida exchange to do things differently: Chief

By STACY SHAPIRO

london line

LONDON—Florida's Insurance Exchange of the Americas will have enlisted 26 syndicates by May, exchange President Alan Teale told the Insurance Institute of London recently.

Five of the syndicates will come from Latin American nations, 11 will be U.S.-operated and the remainder will come from around the world, he said.

Mr. Teale, the former director general of the British Insurance Brokers Assn., said the exchange plans to open before the end of 1982. But he said the exchange plans to offer only limited reinsurance facilities next year.

"This exchange will have a cautious buildup," Mr. Teale said. "There is upheaval presently in the excess/surplus lines industry and there will be substantial changes in the excess/surplus lines world."

Reinsurers are being more careful than before because of the soft world market, Mr. Teale said. But a new cycle will hold some surprises because of the influx of U.S. reinsurers that will not react as other companies have in the past, he said.

"The U.S. is not going to give up as much business as it used to at the end of this cycle," he said.

The Florida exchange, however, will have to make itself different from the newly opened Illinois Insurance Exchange and the New York Insurance Exchange, Mr. Teale told the group.

"We have to create an entirely different approach in Florida than in any other state," he said. "Florida is far bigger than this country. It's an agency system and you won't find many insurance companies in this state.

"The insurance industry in Florida has no center. It has no focal point. The answer is the Florida Insurance Exchange," he said.

The Florida exchange will not have big insurers like American International Group or Insurance Co. of North America on its roster as the New York exchange does. Instead, the exchange will use smaller firms, Mr. Teale said.

The exchange will start off writing reinsurance business with 40% coming from Latin America, 40% coming from the United States and 20% coming from the rest of the world, Mr. Teale said.

Then, he said, the direct business will come, and not just from within the United States. "We know where to tap it," he said. "But we'd like to start off with an opening book of reinsurance."

The flavor of the exchange, like Lloyd's of London where Mr. Teale worked for many years, will be international, he said.

"Imitation is the highest form of compliment and Lloyd's should be pleased with the exchange," said a member of the audience.

Oil field risks

A storm that packs record waves and winds will expose the dangers of "blind underwriting" in the $60 billion North Sea oil field, says a prominent underwriter.

Insurers underwriting North Sea oil field risks must be sure of whom their reinsurers are in case a severe storm strikes, says Geoffrey Merriman, chairman of the Institute of London underwriters.

"There is a tremendous amount at risk, ignoring all the tankers, supply vessels and supporting craft in the area," Mr. Merriman told the Insurance Council of Australia and Melbourne recently.

"The watchword is caution. I cannot stress too strongly the dangers of blind underwriting in this most critical area, which is constantly in a state of flux," Mr. Merriman said.

If a giant storm hit the North Sea fields, particularly the Brent field that contains $40 billion in rigs, insurers and reinsurers around the world would be hurting.

And the insurers' knowledge of who would have to pay the claims may be limited, Mr. Merriman explained.

"By reinsurance, either propositional or catastrophe, the risks may be spread and respread all over the world, so that very few underwriters indeed would be able to quantify their exact commitments at any one time in any one area," he said.

It will take a storm packing gigantic winds and waves to pull down the North Sea oil rigs, said one insurance manager for a major oil company. The rigs are designed to withstand the rough weather of the area, he said.

But accidents do occur, such as when a rig broke loose last month and floated toward a Danish oil field. The rig was brought under control and will be anchored again (*BI*, Nov. 30).

Broker registration

British insurance brokers, including Lloyd's of London brokers, must now register with the government's Insurance Broker Registration Council to undertake brokerage activity.

"That's the law," said a poster hanging outside a trailer parked in London's financial district last week.

Nearly 1,500 companies and 13,000 individual brokers had registered under the Insurance Brokers (Registration) Act of 1977 as of the Dec. 1 deadline.

Under the act, brokers must prove that they have the high integrity and expertise required to insure risks. A broker's place of business also must be registered to be consider an insurance brokerage company.

Each brokerage must prove it has adequate capitalization, operate on sound financial standards and have individual accounts for premiums and business expenses.

An annual audit must also be conducted, and the council must approve each audit.

This is the first time British insurance brokers have been regulated, said Ian Findlay, chairman of the British Insurance Brokers Assn. and a former Lloyd's chairman. Only registered insurance brokers will be admitted to the BIBA, he said.

Those who do not register with the council must call themselves something other than an "insurance broker." Many who do not register may dub themselves "insurance consultants."

Winchester Bowring

Marsh & McLennan Cos. Inc. has purchased the rest of the shares of Winchester Bowring Ltd., a reinsurance brokerage.

M&M acquired the 76% of the Winchester Bowring shares when it acquired C.T. Bowring Ltd.

Now the reinsurance brokerage, worth about $10 million, is a wholly owned subsidiary of Marsh & McLennan. ■

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comings & goings: buyers

R. Jay Palmer promoted at Pacesetter Financial

R. Jay Palmer, 38, has been promoted to corporate audit and risk manager at Pacesetter Financial Corp. in Grand Rapids, Mich. He was formerly risk manager. In his new position, Mr. Palmer will be responsible for internal audit and risk management functions for the company and its 10 affiliate banks. He has been with Pacesetter since January 1980. He was previously with Gerber Products Co., where he had auditing and risk management responsibilities. A graduate of the Indiana University School of Business, Mr. Palmer was one of the founders of the West Michigan Chapter of the Risk & Insurance Management Society. He is a past president of the organization. He will report to Secretary/Treasurer Russ Kempker. He replaces Peter J. Reed, who is leaving the company.

* * *

Mike Patterson, 34, is the first corporate risk manager at Certified Grocers of California Ltd. in Commerce, Calif. Certified Grocers is a $2 billion non-profit cooperative of independently owned grocer companies. Mr. Patterson was formerly director of risk management at Hacienda La Puente Unified School District in Le Puente, Calif. He holds a law degree from Southwestern University and a bachelor's degree in government from the University of Southern California in Los Angeles.

* * *

Jeff Gelburd has joined Dentsply International Inc. in York, Pa., as insurance administrator. Mr. Gelburd, 25, is responsible for benefits planning and administration of the firm's self-insured vehicle program. He also is responsible for allocating costs of the company's property/casualty insurance programs. He has a bachelor's degree in history from York College in York, Pa. He previously was employed as a claims administrator by Reliance Insurance Co. in Harrisburg, Pa. Mr. Gelburd, who is a member of the Risk & Insurance Management Society's Central Penn Chapter, reports to Roy Wainwright, corporate insurance manager.

•

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Stephen Tarnoff, Associate Editor, Business Insurance, 740 N. Rush, Chicago, Ill. 60611, or call 312-649-5482. We'd also like to receive pictures.

Institutes to open Columbus office

MALVERN, Pa.—The American Institute for Property & Liability Underwriters and the Insurance Institute of America plan to open a regional office in Columbus, Ohio, announced Dr. Edwin S. Overman, president of the institutes.

"We are excited about the opportunity to have first-hand experience in administering an adult insurance education program in a major insurance center like Columbus," Dr. Overman said.

In addition, David B. Grant, CPCU, ARM, has joined the institutes as regional director in Columbus. He was vp of educational services at the Independent Insurance Agents Assn. of Ohio Inc.

"Dave's background in education, his insurance work experience, his educational role with the agents' association and his CPCU/IIA background provide an ideal foundation for his new role," said Dr. Evan E. Clingham, the dean of field services for the institutes.

The institutes are non-profit organizations that serve as adult education and certification arms of the property/casualty insurance industry. They have developed and administer nine job-related educational programs throughout the United States.

Successful completion of these programs leads to the CPCU designation or to designations for agents, claims adjusters, underwriters or those specializing in other segments of the insurance industry. ■

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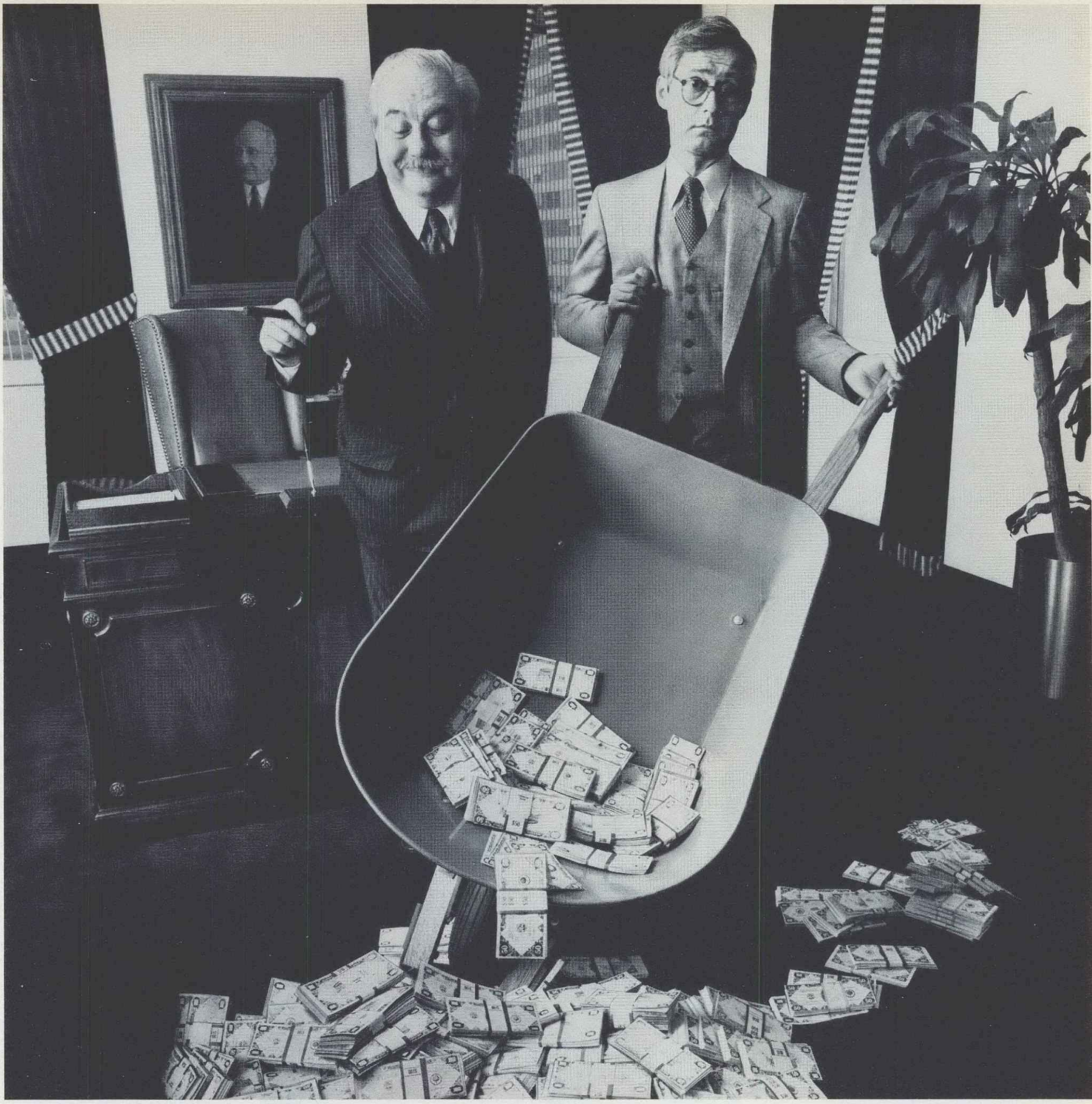

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Holding the line

In the Mercer survey, some 74% of 508 employers said they do not anticipate making voluntary increases in pension benefits in the next year or so. When asked to explain why not, they listed the following reasons:

Cost/can't afford/too costly/cost prohibitive	26%
No definite plans/we don't plan ahead/no plans at present	6%
Major emphasis on profit sharing/ESOP	5%
Plan liberal as is/plan adequate at this time	4%
No need/not necessary	4%
Just getting involved/just implemented	3%
Corporate profits/company profits/stock bonus	3%
Few retirees/young company	2%
Other	8%
No answer	39%

Voluntary pension increases not very likely in future: Study

NEW YORK—Voluntary increases in pension benefits may be scarce during the next couple years, according to a survey by consultants William M. Mercer Inc.

About 50% of responding employers said their companies increased pension benefits for retirees during the last two years, but it looks like such ad hoc increases may tail off in the future.

About 74% of these employers doubted that they would voluntarily increase pension benefits during the next two years.

Prohibitive costs and an increased emphasis on profit-sharing plans were among the reasons cited for keeping the lid on pension benefit increases.

These findings are drawn from a survey of 4,000 chief executives at the nation's largest industrial and service companies by Mercer, a national benefits consulting firm based in New York. Some 550 of the 4,000 executives responded to the survey, entitled "Employer Attitudes: Implications of an Aging Work Force."

About two-thirds of employers favor reducing Social Security benefits for workers who retire before 65, while 34% oppose such a cut in retirement benefits.

However, if Social Security benefits were cut for workers retiring before 65, most companies would not try to make up the difference in benefits. Some 82% of the executives say that if Social Security benefits were cut back, they would continue to keep their pension plan's early retirement benefits at the level they now are.

A slim majority of employers favor raising the age at which a worker can retire and collect a full Social Security benefit, while 42% percent oppose raising the Social Security retirement age, even if such a move would reduce Social Security's financial burden.

If the Social Security retirement age were raised, 37% of employers say they would raise the retirement age in their corporate pension plans; another 42% say they would amend their plans to provide benefits for workers between age 65 and the new higher retirement age.

About 45% of the employers believe the average age at which an employee retires will increase during the next five years.

However, despite the raising of the mandatory retirement age to 70 from 65 in 1978, 68% of the executives say the average retirement age at their companies has stayed the same during the last three years, while 14% say the average retirement age actually has dropped.

Other survey findings include:

- A whopping 82% of employers oppose a government mandate to link pension benefit hikes to increases in the Consumer Price Index.
- Eighty-six percent of employers say their corporate pension plans do not allow their employees to receive a pension while working after the normal retirement age.
- Fifty-one percent of employers favor abolishing the mandatory retirement age by the end of the 1980s, while 49% favor its retention.
- Nine out of 10 employers say older workers perform as well on the job as younger workers.
- Seventy percent of employers do not have formal pre-retirement education programs. Employers with pre-retirement education programs frequently provide Social Security, leisure time and financial counseling.
- Nearly all employers agree that as the proportion of older workers increases, more legislation will be enacted to protect the interests of those workers.

●

Free copies of "Employer Attitudes: Implications of an Aging Work Force" are available from William M. Mercer Inc., 1211 Avenue of the Americas, New York, N.Y., 10036.

Illinois releases insurance data

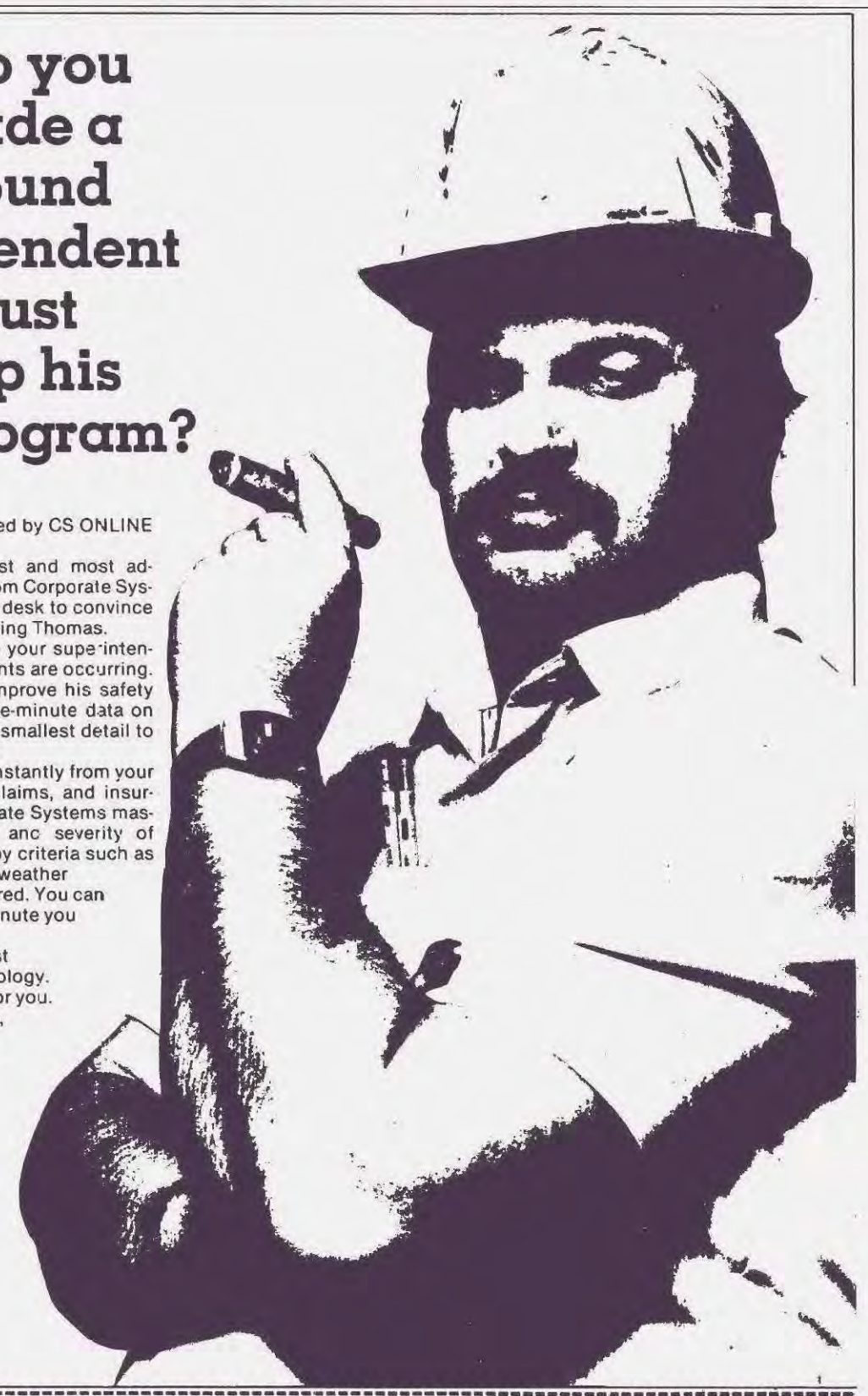
SPRINGFIELD, Ill.—Computerized non-confidential data is now available from the state Insurance Department, according to Director Philip R. O'Connor.

Release of the information by the department was authorized by legisation passed by the General Assemby earlier this year.

Information is available about insurance agents and brokers, consumer complaints against insurers, insurance companies, public pensions and ZIP Code reporting. The data is available on magnetic tape, microfiche, hard copy lists and gummed labels for a fee.

Customized reports on non-confidential information is also available upon request. For information on customized reports contact James Weistart, Electronic Data Processing Service, Department of Insurance, 320 W. Washington St., Springfield, Ill., 62767; 217-782-3047. ■

How do you persuade a 275-pound superintendent he must beef up his safety program?



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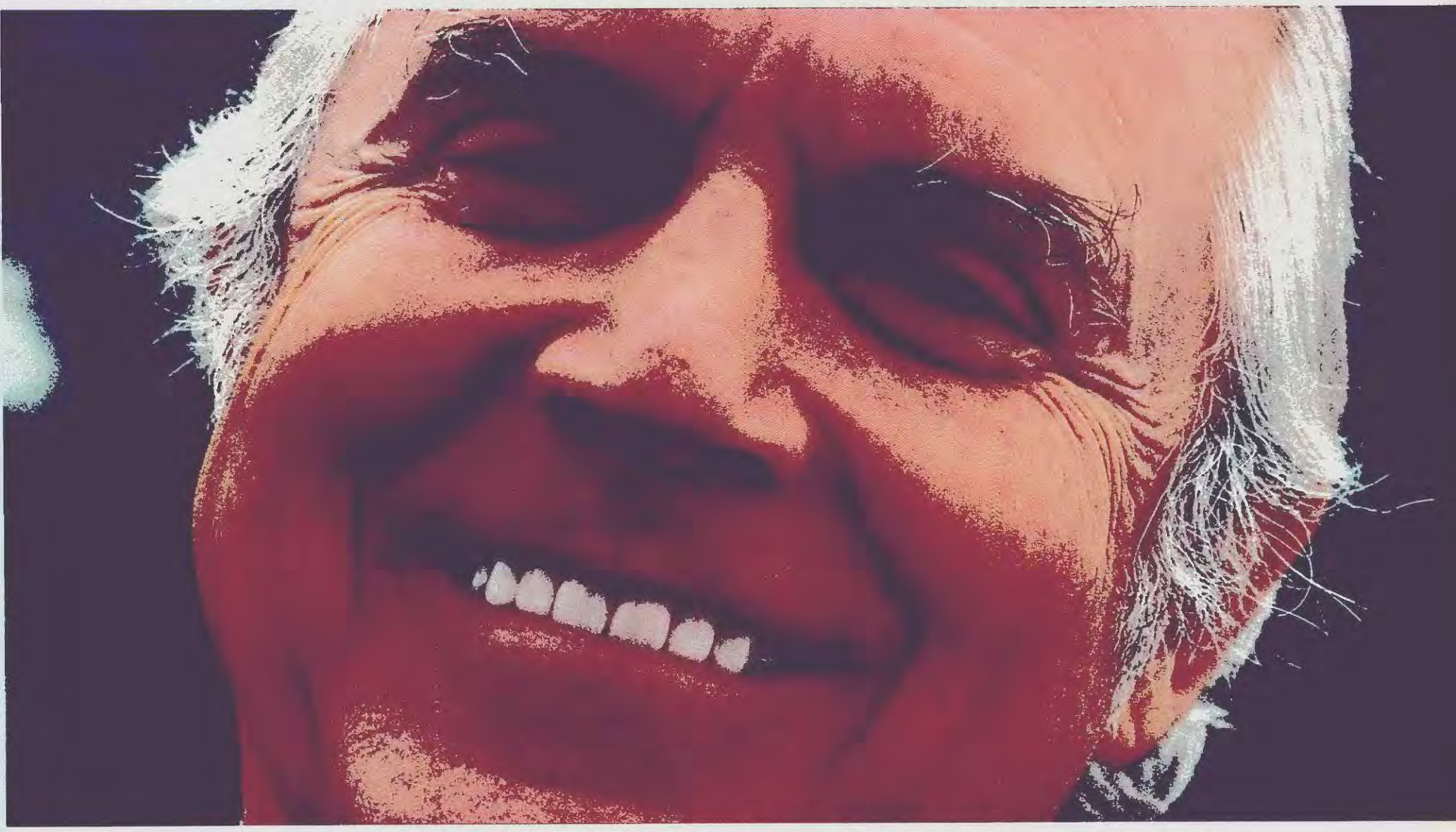

ANOTHER REASON WHY THE TRAVELERS IS A LEADER IN INSURING SMILES.

Medical malpractice claims rise in Britain

By STACY SHAPIRO

LONDON—The explosion of medical malpractice suits is spreading to the British Isles.

"We don't have a litigation-minded society as you do in America. But in the past two years, cases that proved medical negligence have increased," a spokeswoman for the British Medical Assn. said.

Medical malpractice awards can now range as high as 300,000 pounds to 400,000 pounds (about $700,000). Recent judgments have been even higher.

"The awards, however, don't compare with those in the United States," she said. But the awards in Britain are on the increase, she agreed.

More people are suing for medical negligence in British courts because they can get free legal services from the British Legal Aid system. And contingent fees, which give the attorney a portion of the award, are not allowed in Britain.

Between March and October, Legal Aid pursued 793 medical malpractice claims, according to the British Law Society. Legal Aid filed only 599 medical malpractice claims during the same period of 1980.

Despite the increased threat of medical malpractice suits, Britain's largest medical employer still self-funds the risk.

In fact, the National Health Service—Britain's gigantic nationalized health industry—does not insure any of its hospital exposures—from property to medical malpractice.

"The National Health Service is a big industry, owning vast amounts of property, and it's the largest workforce in the country," said Neville Jackson, regional information officer for the Yorkshire region of the National Health Service. "It's calculated that paying premiums yearly would far exceed claims in any one year."

A recent medical malpractice settlement in Yorkshire was paid out-of-pocket by the NHS, through its Leeds Health Authority, Mr. Jackson said.

Mr. and Mrs. Gerald Rawnsley won a "five-figure" sum in an out-of-court settlement when a maternity hospital lab technician made an incorrect diagnosis from an amniocentesis test.

The lab technician told Mrs. Rawnsley, 43, that the test showed her unborn child did not have Down's syndrome. Mrs. Rawnsley gave birth to a girl who had Down's syndrome. She died 13 months after birth.

"We admitted to a human error," said Mr. Jackson. "There was a mistake made by the laboratory technician in preparing or interpreting a sample, and the mother didn't know her child had Down's syndrome.

"We have not admitted to liability," he said. "We only agreed to pay damages in an out-of-court settlement."

According to the Department of Health & Social Security—which oversees the NHS—3.44 million pounds was paid in 1980-81 for 2,825 claims, compared with 2.191 million pounds in 1979-80 for 2,566 claims.

But these figures include not only medical malpractice claims but other forms of compensation, according to a department spokesman. The department does not compile the number of medical malpactice claims.

"This covers the overall compensation payments arising from NHS legal obligations," he said. Personal injury, damage to property, third-property liability or unfair dismissal claims are included.

But while the NHS covers errors by its technicians, nurses and other hospital employees, it does not cover doctors' medical negligence.

"The majority of cases are brought against doctors and doctors have insurance," said Mr. Jackson. "They are not directly indemnified by the National Health Service. Doctors operate on their own clinical judgment."

Most of Britain's doctors and dentists insure through one of three indemnity group plans, which provide indemnity for alleged malpractice, legal advice and counseling, legal representation if a case comes to trial and payment for defense costs.

The Medical Defense Union in London covers more than 100,000 doctors and dentists for a nominal sum.

"In California, an anesthesiologist would pay about $50,000 for his insurance, but here he only pays 120 pounds ($228)," said Dr. Frederick Shelley, an MDU official.

With medical malpractice litigation increasing, however, plus the rising cost of living, subscriptions may rise 10 to 20 pounds per year.

"But then everyone—the gas, water and electric boards—are raising their rates every quarter. So we raise our subscriptions every so often," Dr. Shelley said.

The MDU, which is not considered an insurance company by British regulators, can refuse to admit doctors who have bad records, he said.

The British Medical Assn. suggests that all doctors insure with the MDU, the Medical Protection Society or the Medical & Defense Assn. of Scotland. ■

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Pregnancy act helps boost costs: Study

BROOKFIELD, Wis.—Short-term disability costs have increased because of the Pregnancy Disability Act of 1979, two Massachusetts university researchers say.

Carol C. McDonough, chairman of the economics department at the University of Lowell in Lowell, Mass., and Linda H. Kistler, acting dean of the university's College of Management Science, reported their findings in the December edition of Employee Benefits Journal.

They say pregnancy disability costs also have risen because few companies offered such coverage before 1978.

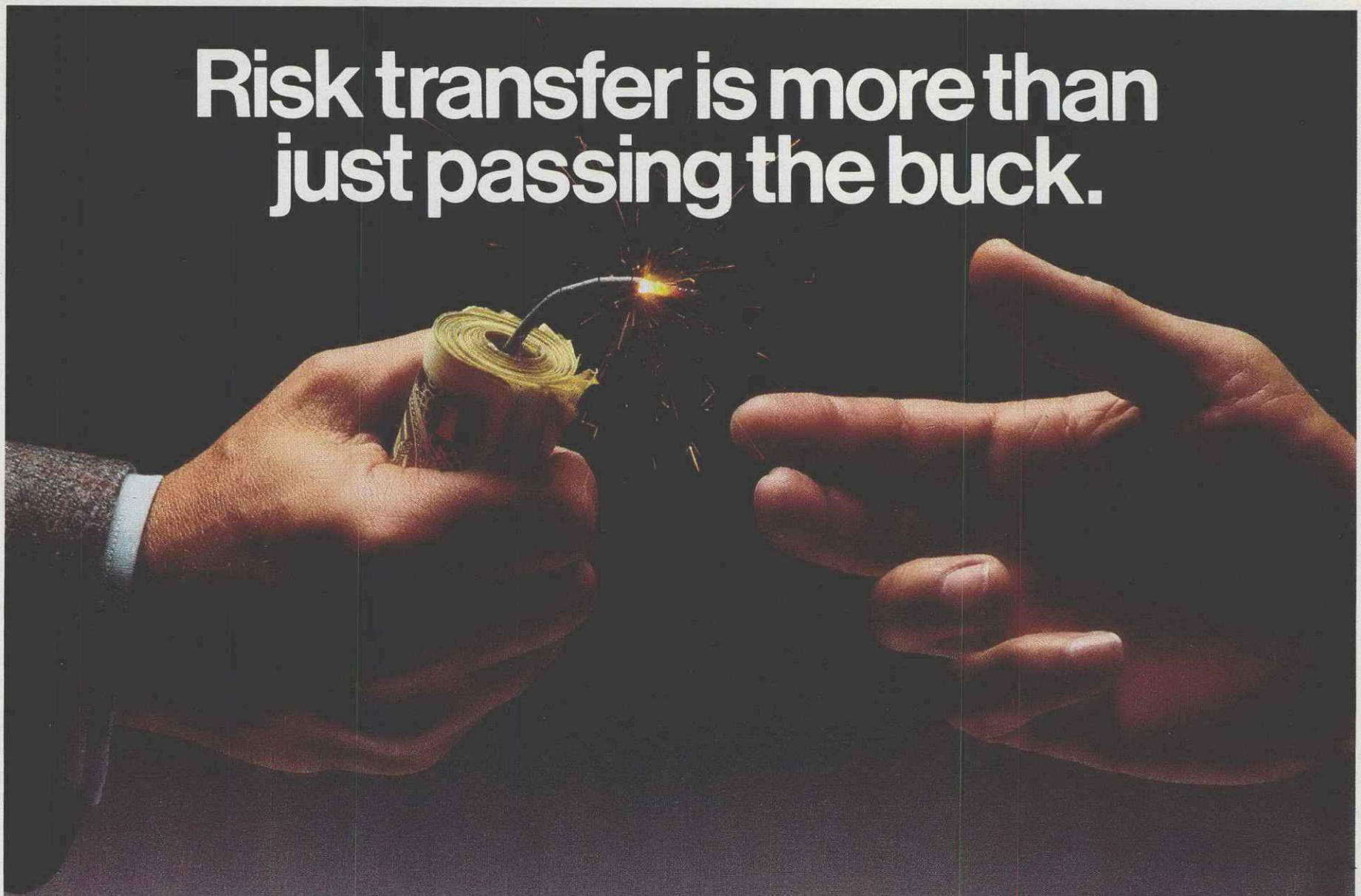
"The cost of pregnancy disability insurance varies greatly between insurance companies," the authors say.

"In some cases, the cost variances are related to differing actuarial assumptions on which premium costs are based."

The authors' research revealed that the average length of a pregnancy leave is 13 weeks so a company should set its pregnancy disability coverage at 13 weeks to cut costs. Some companies now provide pregnancy disability coverage of up to one year.

●

Free copies of the full research report are available from the International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005.



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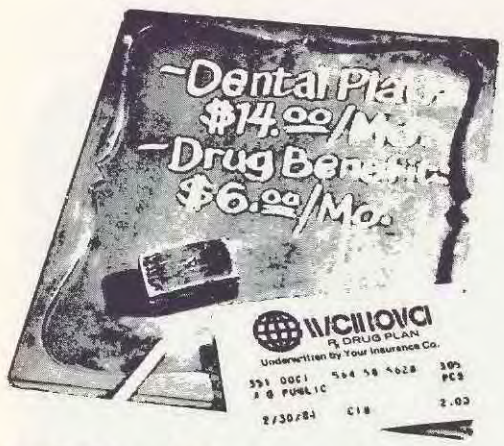

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Money market fund gets its money back

WASHINGTON—The first money market fund to be defrauded through an electronic heist by one of its employees has gotten its money back—with interest.

First Variable Rate Fund for Government Inc., the largest money market fund in the Washington area, says the $1.55 million that allegedly was embezzled last May by a former employee and deposited in a Swiss bank account has been returned by Swiss banking officials.

First Variable, which has more than $1 billion in assets, says Union Bank of Switzerland late last month wired the fund $1.56 million. The fund received $1.56 million instead of $1.55 million because the Swiss account drew interest during the legal proceedings that preceded the money's return.

First Variable said it did not file an insurance claim because its management firm covered the loss during the legal proceedings.

However, First Variable earlier reported that it has about $1.5 million of fidelity insurance from Federal Insurance Co. of Short Hills, N.J., to protect it against employee fraud (*BI*, June 15).

According to First Variable, Vera Campos, an employee whose duties permitted her to monitor transactions and prepare customer statements, in May transferred $1.55 million without authorization to the Virginia bank account of her boyfriend, Andre Prestes. Ms. Campos then quit her job.

At the time of the transfer, Mr. Prestes was a small shareholder in the First Variable fund.

Mr. Prestes then transferred the money to the Swiss Bank Corp. and then to the Union Bank of Switzerland, according to a complaint First Variable filed in U.S. district courts in Alexandria, Va., and New York.

First Variable officials discovered what happened during an audit in June and got a court order to have the Swiss bank account frozen.

Swiss banking officials authorized Union Bank to return the money after five months of legal proceedings.

Ms. Campos and Mr. Prestes, were last reported to be in Brazil. ■

Chamber unit studying work comp

WASHINGTON, D.C.—The U.S. Chamber of Commerce should not advocate an occupational disease program at the federal level, a policy-making committee of the Chamber recommends.

But, it should support the concept of tax deductions for self-insured reserves for workers compensation risks for individual employers, says the Chamber's newly formed council studying workers compensation.

The council was started with the intent of advising the Chamber's employee benefits committee on ways to better meet employers' needs involving compensation for work-related disabilities or injuries.

The 16-member council is comprised of representatives from companies and associations around the country that represent the business community's interest in workers compensation problems.

One important objective of the committee, says Eric J. Oxfeld, associate director of employee benefits for the U.S Chamber of Commerce, is to promote alternatives to the present costly workers compensation system on the state level rather than the federal level, he said.

"It's important that we not take positions on issues that are for the states to decide individually," said Mr. Oxfeld. Workers compensation laws vary dramatically in each of the 50 states.

The council held its first meeting on Nov. 18 and won't meet again for several months.

Subjects under review include looking at the relationship between workers compensation and product liability and the existing federal legislation for black lung disease claims.

For more information about the council on workers compensation, contact the U.S. Chamber of Commerce, 1615 H Street N.W., Washington, D.C., 20062. ■

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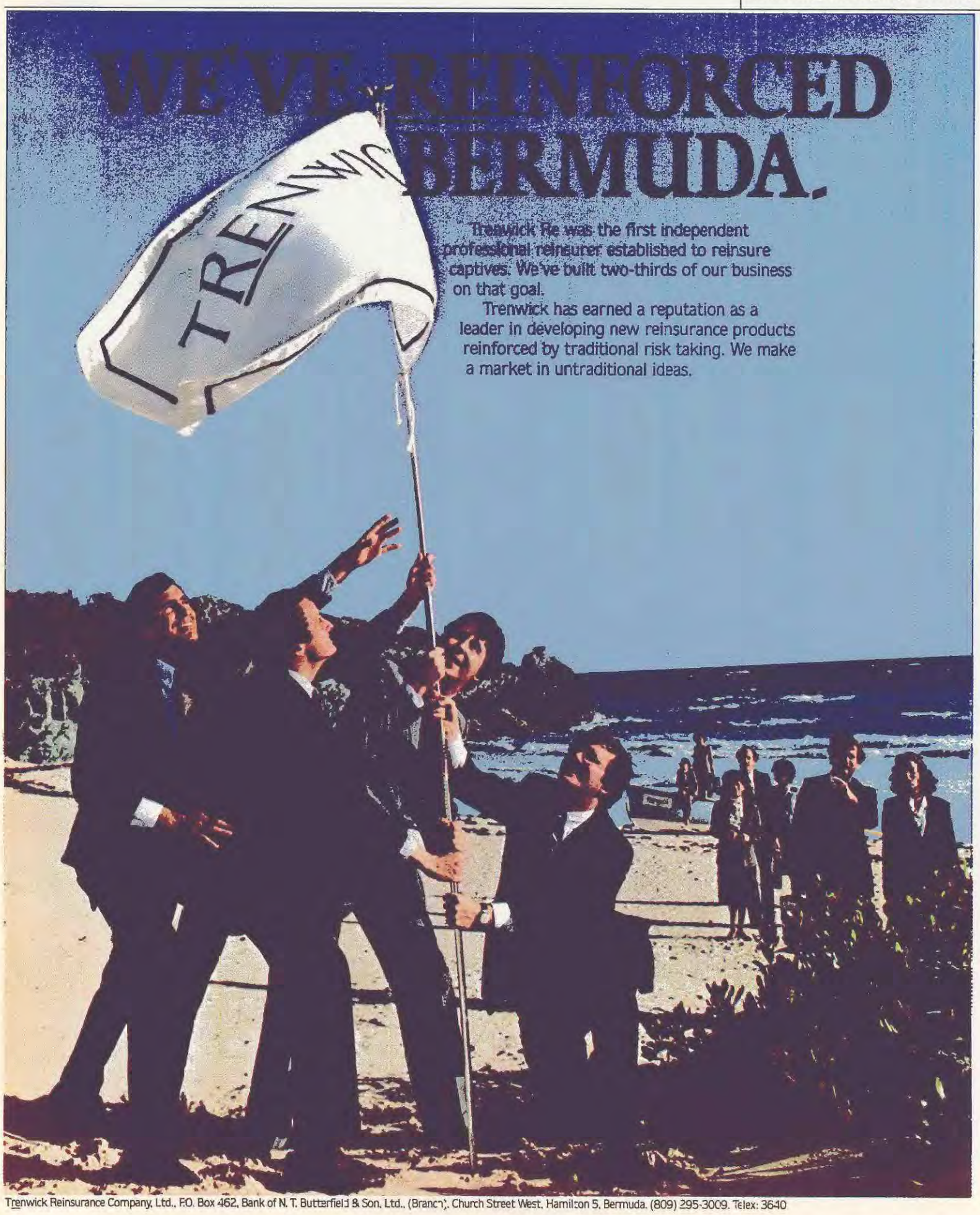

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datebook

DEC. 14-16. 1981 EDP Conference in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; members, $360; non-members, $435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

DEC. 14-16. Product Liability of Manufacturers program in New York, sponsored by the Practising Law Institute; $325. Also **Jan. 21-23** in Los Angeles. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

DEC. 16-17. New York Self-Insurers Assn. annual meeting, sponsored by the New York Self-Insurers Assn.; members, $125; non-members, $175. Mary Ann DeSanto, 420 Lexington Ave., Room 2910, New York, N.Y. 10017; 212-867-9200.

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

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

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

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

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

JAN. 18-21. Financial Analysis for Risk Management Decisions seminar in Dallas, sponsored by Cozzolino Associates Inc.; $685. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

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

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

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

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

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

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

FEB. 8-9. Practical Law and the Security Manager program in Arlington, Va., sponsored by the American Society for Industrial Security; ASIS members, $240; non-members, $325. ASIS, Education and Seminar Programs Department, 2000 K St. N.W, Suite 651, Washington, D.C. 20006; 202-331-7887.

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

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

FEB. 16-17. Occupational Noise seminar in San Francisco, sponsored by the University of Southern California; $195. Office of Extension and In-service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 17-19. Product Safety Management course in Washington, sponsored by Technology Management Inc.; $590. Richard White, George Washington University, Continuing Engineering Education, Washington, D.C. 20052; 202-676-6106/800-424-9773. ■

Mental benefits cuts opposed

WASHINGTON—Several psychiatric groups have filed suit in U.S. District Court to prevent a cutback next year in mental health benefits in the nation's largest group health insurance plan.

The groups, including the American Psychiatric Assn., are seeking a court order to block a cut in psychiatric benefits for government employees enrolled in the federal Blue Cross/Blue Shield health insurance plan.

Currently, the BC/BS plan, which covers 1.8 million workers, covers 365 days of inpatient mental health care and 70% of the cost of unlimited outpatient visits a year.

Next year, the APA says the government, which pays 60% of an employee's health insurance premium, wants to limit covered inpatient hospital days to 60 and outpatient visits to 50 per year, with the cost of the visits split equally between the employee and the plan.

The APA contends that the proposed cutback violates a 1959 federal law that mandates protection for federal employees against catastrophic mental health costs.

"We believe that if the proposed cutbacks take effect, many federal subscribers will be forced to make expenditures for mental health coverage which will leave them on the brink of bankruptcy," said Dr. Melvin Sabshin, the APA's medical director.

The federal government says benefit cutbacks are necessary because of soaring costs.

ENTRY® computer services news

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MCAUTO boosts claim staff output over 30% at Arkansas Blue Cross-Blue Shield.

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This insurance company was facing the industry's classic problem. As Executive Vice-President Robert Shoptaw explains it: "With so much manual involvement, we weren't meeting the service needs of our customers."

Using five different manual and batch computer systems, the company's 130 claims examiners and data entry clerks were processing an average of 84,000 Blue Cross, Blue Shield, and Major Medical claims each month.

"We found ourselves in a continuous struggle to meet our standard of paying 90% of the claims received within 45 days," says Mr. Shoptaw. "If claims volumes fluctuated or new benefit types had to be accommodated, we faced one crisis after another."

Enter MCAUTO, and the Group Claims Processing System (GCPS-Blue).

"Now with GCPS-Blue, *we're paying 93% of the claims we receive in 14 days and 98% in 30 days,*" reports Mr. Shoptaw. "We've also experienced a significant improvement in our claims payment error rate."

We asked Mr. Shoptaw to explain how the system works.

"A claims examiner at a video display terminal lets the *computer* perform all the work. In four or five seconds, the computer flashes the claimant's title for eligibility, screens the medical charges for fairness, calculates base benefits and Major Medical benefits, and writes a check to the insured. GCPS-Blue allows the examiner to override the system for coordination of benefits with other carriers or for a staff review of medical procedures."

Summing up, Mr. Shoptaw states: "GCPS-Blue has been an economical answer to the problem of rising labor costs. Sixty percent of our corporate budget relates to people costs. It's obvious from a cost-benefit standpoint that we need fewer people getting more work done through automation. We already have long-range plans to place on-line terminals in hospitals and large clinics to transmit claims data directly to the computer."

To find out more about how MCAUTO GCPS-Blue can bring better productivity and improved service to *your* claims handling, call us at (314) 232-8021. Or mail the coupon.

"For us, GCPS-Blue means increased productivity and improved service," states Executive Vice-President Robert Shoptaw.

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A&A, NTVL discussing possible merger

markets

Alexander & Alexander Services Inc. and Nahm Turner Vaughan & Landrum Inc. of Louisville, Ky., are holding discussions which could lead to a merger by Jan. 1, according to both brokerages.

NTVL, with revenues of about $6.2 million in 1980, is a member of the Assurex International group of regional independent brokers and is the largest independent broker in the Louisville area. It has branch offices in Lexington and Frankfort, Ky.

"We need the financial strength and expertise that Alexander & Alexander can bring to us if we want to sustain our growth rate," explained NTVL President and Treasurer Baylor Landrum.

NTVL had been growing more than 15% a year until 1980 when it showed only a 13% gain over the previous year. The brokerage anticipates about a 10% growth rate this year.

"We believe that with a lot of strain, we could remain private. But it didn't seem worth it to us or our employees who own part of the firm through our Employee Stock Ownership Plan," Mr. Landrum said. About half of the brokerage is owned by the ESOP.

"A private buy-out to perpetuate the agency would be an uncalled-for financial burden," he said.

As NTVL gains national services, A&A would gain a regional brokerage and consulting strength through the acquisition of NTVL subsidiaries Self-Insured Services Co. and Benefit Actuaries & Consulting Co., Mr. Landrum added.

A&A confirmed the merger talks but said that a Jan. 1 agreement was possible but not likely.

Joint venture

The Continental Corp. and Reed Stenhouse Cos. Ltd., the Canadian brokerage, have formed Continental Life Insurance Co. to underwrite pension, investment and life plans in the United Kingdom.

Headquartered in Croydon, a London suburb, the new company will operate solely in the United Kingdom.

Company officials say the venture extends Continental's presence in the United Kingdom and is expected to generate more life premiums. Presently, 8% of Continental's premiums are from life and health underwritings.

Continental has numerous U.K. subsidiaries, owns 25% of Phoenix Assurance Co. Ltd. and has a 20% stake in Stenhouse Holdings, Reed Stenhouse's parent company.

Continental Life Insurance Co. will operate with initial paid-up capital of 5 million pounds, equally subscribed by Continental and Reed Stenhouse. The new firm will underwrite tax-exempt personal and executive pension plans and a number of other corporate investment plans, to be marketed through Reed Stenhouse's United Kingdom brokerage office network.

New company

Rainey-Mapes International in Arlington, Texas, is a new excess/surplus lines broker specializing in trucking, oil/petrochemical, property, aviation and marine risks.

The new firm, which also offers general excess and surplus lines coverages, was formed by Colin Rainey and Robert Mapes.

Mr. Rainey, the firm's president, has been a Lloyd's of London broker for 15 years with a background in casualty, aviation, marine, transportation and oil and gas insurance accounts.

Mr. Mapes, who serves as executive vp, has more than 20 years experience in underwriting, reinsurance and risk placements. He has special expertise in major fixed property, inland marine and marine accounts.

The firm is at 424 Lamar Blvd. E., Suite 110, Arlington, Texas 76012; 817-261-9696.

New E/S broker

Crump London of Ohio Inc., an excess/surplus brokerage firm, has been formed through the reorganization of the jointly owned Crump-Kientz Co.

The new firm, located in Columbus, Ohio, has severed ties with Kientz & Co., one of its former joint owners, and will be more closely aligned with Crump London Underwriters Inc. of Memphis, Tenn., owned by E.H. Crump Cos. Inc.

This move will allow the reorganized firm to broaden its ability to handle risks generated by Crump London Underwriters' offices in 19 other states.

New partnership

Towers, Perrin, Forster & Crosby, international management consultants, and Palmer Trahair Owen & Whittle, an Australian actuarial consulting firm, have formed a new Australian compensation and human resource management services firm.

The new firm, PTOW/TPF&C, will begin operations on Jan. 1 and will be headquartered in Sydney. The firm was created to "better serve our clients in the U.S. and other major industrialized nations who have operations in Australia," explains Robert C. Phillips, TPF&C's managing director for international operations.

Acquisitions

American Coverage Corp. of Great Neck, N.Y., has acquired **Foster Kohen Co. Inc.**, also of Great Neck.

M.J. Lieberman & Co. of Livingston, N.J., has acquired the **Rudy. R. Cutler Agency Inc.** of Maplewood, N.J.

New offices

San Francisco-based **Russell Miller Inc.** has opened a New York City office at 116 John St.

Hartford Insurance Group has opened a service office at 2626-B West Freeway, Suite 201, Fort Worth, Texas.

Frontier Adjusters Inc. has opened new offices at Box 770309, Houston, Texas 77215; 713-629-1532; and Box 4305, San Pedro, Calif. 90731; 213-519-8842.

E.T. Danahy Co. Inc. of Buffalo, N.Y., has opened a new office at 4995 Harlem Road, Amherst, N.Y. 14226; 716-856-1607.

Fireman's Fund Insurance Cos. will move a major portion of its San Francisco staff—some 1,000 employees—to Marin County, Calif., by late 1982. About 500 employees, including corporate headquarters and a branch office at One Market Plaza, will remain in San Francisco. ■

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comings & goings: industry

Reliance Group promotes R. Steinberg

Robert M. Steinberg has been elected president and chief operating officer of Reliance Group Inc.

Mr. Steinberg, 39, was previously executive vp and a director of Reliance. He joined Reliance in 1965 and was promoted to executive vp in 1975. He succeeds Saul P. Steinberg, who remains chairman.

New York-based Reliance Group Inc. is an insurance holding company and parent of Reliance Insurance Co. in Philadelphia.

Other insurer changes:

Gordon D. Jorgensen appointed vp for Continental Western Insurance Co. Mr. Jorgensen is responsible for the underwriting department at Continental Western, where he has worked for 22 years.

Roland C. Baker named to the newly created position of president and chief operating officer of Montgomery Ward Insurance Group. He will supervise commercial lines, life and health lines and group and credit insurance. He was formerly senior vp and chief financial officer of Colonial Penn Insurance Group.

Mr. Baker

Nationwide Insurance named **William J. Birkhimer** and **James W. Pruden** vps. Mr. Birkhimer is also associate general counsel. Mr. Pruden is in charge of municipal securities. They will be based in Columbus, Ohio.

Reinsurers

Robert W. Bailey and **Walter D. Hastings Jr.** named vps at General Reinsurance Corp. Mr. Bailey works in the Greenwich, Conn., home office. Mr. Hastings is based in the Hartford, Conn., office.

James W. Rider named division manager at North American Reinsurance Corp. in New York. He will manage the property and engineering risk departments of the company's facultative group. He was formerly an assistant vp.

Excess/surplus

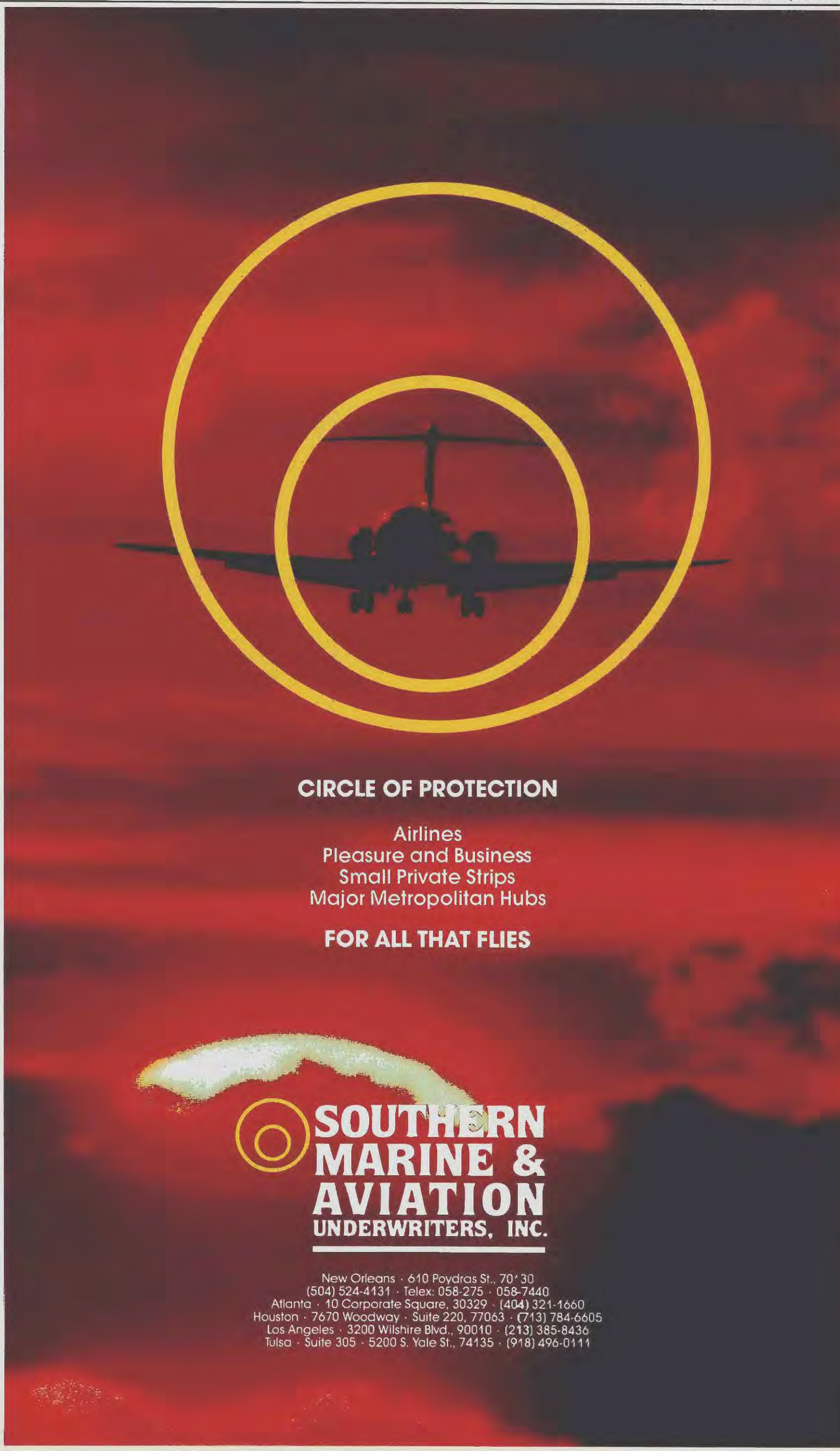
Benjamin D.W. Wilcox appointed senior vp/energy of The Blades Group. Mr. Wilcox will head the oil and gas division of Houston-based Blades. In addition, **L. Nelson Hellums** named vp/energy.

Other suppliers

Toplis & Harding Inc., adjusters and surveyors, promoted **G.P. Storey** to vp in the Los Angeles office; **J. Wedekind** to vp in the New Orleans office and **E.A. Hamlet** to vp in the New York office. **R.J. Young** was named executive vp in the San Francisco office.

Ross L. Coffey named vp and consultant at Herget & Co. Inc., an actuarial and benefit consulting firm based in Baltimore. He was employed with William M. Mercer Inc.

Ross L. Oliver named managing director of Claims Administration Systems Inc. Mr. Oliver was previously risk manager for Orange County Cities Risk Management Authority, where he will continue to serve as adviser on a part-time basis. ■



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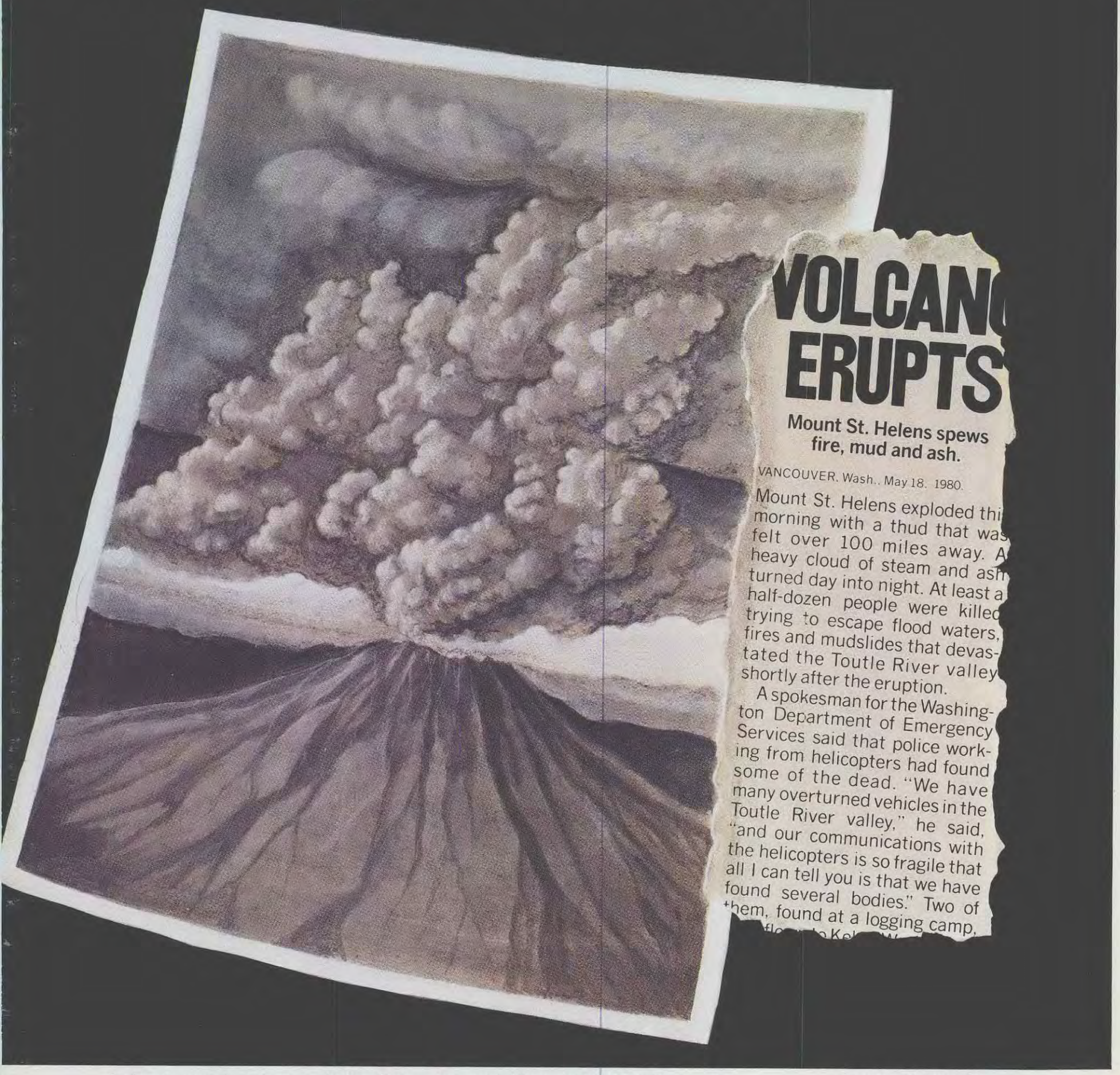

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perspective

Pooling your risks

Group comp funds offer big savings to small firms

By Peter C. Grieves

THROUGH THE YEARS, many large employers have had the opportunity to reduce their workers compensation costs by utilizing self-insurance laws that exist in nearly every state. However, smaller employers have been required to use standard insurance policies.

Group self-insurance funds now offer smaller employees the opportunity to enjoy some of the cost-saving benefits of self-insurance.

A self-insurance fund is a pooling concept. A group of smaller employers is allowed to establish a claims fund, purchase reinsurance and hire a service company for the purpose of operating a self-insurance fund that will pay all the claims in exactly the same way as an individual self-insured or an insurance company does.

The self-insurance fund alternative for workers compensation liabilities is becoming much more common. The state of Florida blazed the way many years ago and is considered one of the veterans in operating this type of program.

The U.S. Chamber of Commerce report, "Analysis of Workers' Compensation Laws," reported seven states allowed group self-insurance workers compensation funds in 1980. Their 1981 report showed 20 states that allowed the group funds.

Since the passage of Public Act 45 of 1974, Michigan has allowed self-insurance funds. The funds are normally organized as a part of a trade association's services to its membership. They do save money. However, because of their fairly recent development, almost no reference material is available for an association that wants to start this type of program.

However, the Michigan Assn. of Timbermen, in its seventh year of operating a self-insurance fund, has prepared a manual and a series of seminars to present some basic infomation on the dos and don'ts of operating such a fund.

The growth of self-insurance funds in Michigan has been slow but steady since 1974. Five funds were established during the first five years.

However, the success of these programs has resulted in an increased interest and there are now 21 self-insurance workers compensation funds in Michigan. The total premium written by these funds exceeds $120,000,000.

New funds are often initiated by a service company offering an association a proposed plan for a self-insurance pool. Many fine programs have been developed this way.

However, there are distinct advantages in having the association initiate the establishment of their own program. This becomes possible as more information is made available to associations on organizing the funds. Associations can now do more independent planning and avoid getting locked into various approaches being promoted by a service company.

Steps a group should take when setting up a fund include:

- Spending time with established group funds. An association starting a self-insuring fund today has the distinct advantage of reviewing existing self-insurance funds and adopting the features that best satisfy their members. In Michigan, the administrators of all group self-insurance funds meet on a regular basis to exchange notes on the best management practices for operating group funds.

Associations wishing to start a group fund should not overlook the lessons that can be learned from existing programs. Most self-insurance funds will provide information and tips on starting new funds.

Do not overlook or avoid borrowing on their experience.

- Surveying the association membership. A questionnaire needs to be prepared that includes an explanation of how a self-insurance fund works. This questionnaire should identify whether the association has enough members to generate $700,000 to $1 million in premium, the minimum amount required to start a fund.
- Selecting a qualified service company. Other associations should be contacted to determine their experience with licensed service companies. Qualified service companies should then be interviewed.

The service company that offers the best package of qualified staff, reinsurance packages and reporting procedures can then be selected. Be sure to check the references of a service company with their existing clients.

- Selecting trustees. The trustees establish the basic policies for operating a self-insurance fund and this role is especially critical in the formative years. It is important to select trustees that can meet every four to six weeks. The trustees should represent members in the self-insurance fund. One fund's bylaws allow for automatic cancellation of a trustee's position if they miss two consecutive meetings without a legitimate excuse.
- Defining the group carefully. In Michigan and other states where a self-insurance fund for workers compensation is restricted to employers in the "same industry," this is an especially important point. The purposes of the incorporation and the bylaws of the fund must define all potential members that the association believes qualifies for its group fund.

In future years, this may become a much-debated issue as the state regulator denies membership to applicants because they don't believe they qualify under the "same unit" or "same industry" rule.

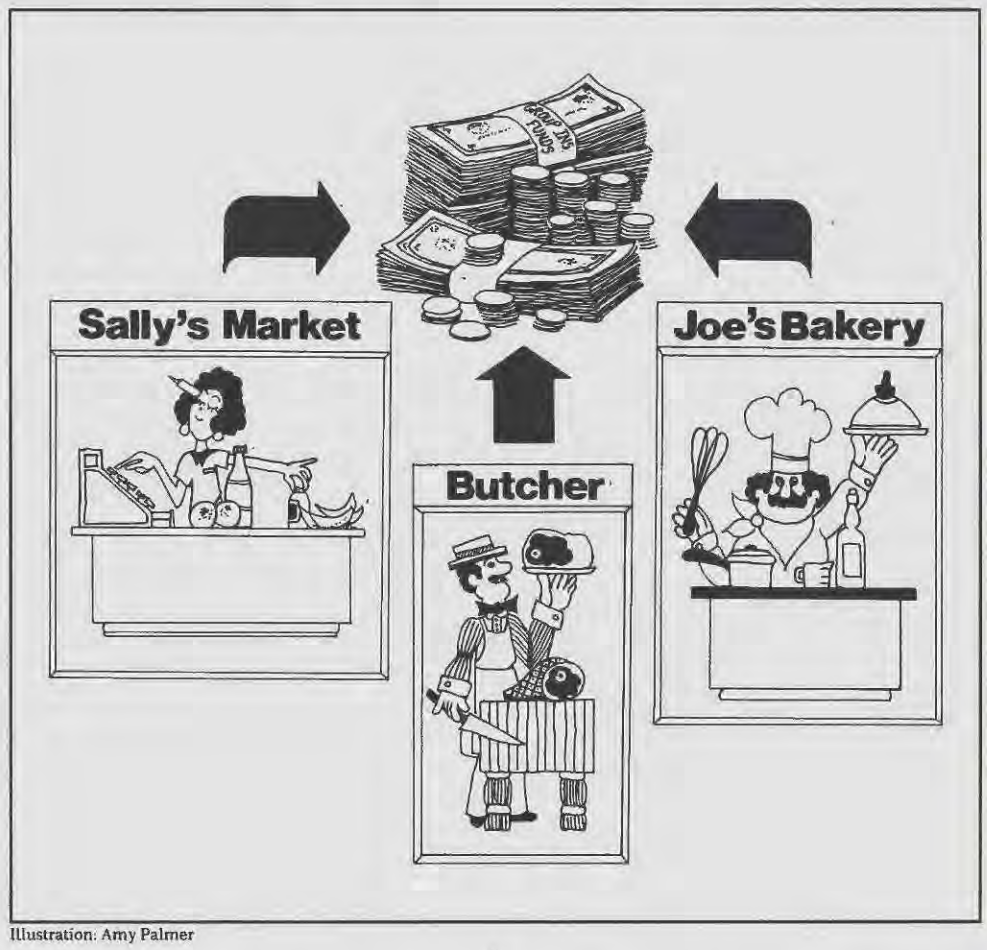


Illustration: Amy Palmer

It is important to have this type of potential conflict resolved at the time the association prepares its original application for a self-insurance fund.

- Selecting a competent administrator. The administrator should serve at the pleasure of the board of trustees and be responsible for administering their policies. This job will quickly become a full-time responsibility if the self-insuring fund enjoys typical growth and development.

The administator's role in the first two years will involve developing policy recommendations, selling the program to potential members, supervising the work of the service company and their payroll audit, developing a good working relationship with the regulator and other organizational work that will be present with all new self-insurance funds.

A self-insurance fund can get itself into trouble by attempting to operate with a volunteer administrator. This may not be obvious in the first one or two years. However, very large sums of money are expended in the operation of a self-insuring fund for the payment of claims, establishment of reserves, acquisition of reinsurance and the hiring of a service company. A qualified administrator can obtain enough improvement in each of these areas to produce handsome returns to the association.

- Reviewing all options. One of the basic decisions that a self-insurance fund must make is the amount of work that it will assume from its service company. An association will be in a position to identify specific work that it wants if it reviews all available options in existing funds.
- Considering an associaton-operated safety program. The operation of the safety program by association employees is a logical decision for many associations.

Most industries have unique industrial processes and procedures. It is important to have safety inspectors that understand the business of its members. The correct number of members per inspector will depend on the characteristics of each association. It costs between $30,000 and $40,000 annually to place an inspector on the road depending upon group size and distance.

Self-insurance funds provide an excellent cost-saving benefit to an association's members. A group fund for workers compensation allows the association to have control of claims administration, expenditure of all fund assets and direct participation in establishing policies for the fund.

These and other factors allow the small businessmen to participate in the cost efficiencies of the self-insuring fund that is not possible with most insurance company coverage programs.

If a fund is operated properly, cost savings of 35% to 45% are not uncommon. The annual refunding of a fund's surplus can be a highlight for any association's annual meeting. It will help build the spirit of an organization and can become a key element of the financial health of a trade association.

The self-insurance fund for workers compensation has been a primary benefit offered to members of the Michigan Assn. of Timbermen. In the first seven years, moe than $16 million has been collected by the fund. To date, the fund's surplus has exceeded $8 million. ■

Peter C. Grieves is administrator of The Michigan Assn. of Timbermen in Newberry, Mich.

perspective

Improvements in attitudes of employees not spreading to many middle managers

By Kenneth P. Shapiro

management

HERE'S SOME GOOD news and some bad news.

First the good: Research shows great improvements in work attitudes among the rank-and-file employees. However, the bad news is that managers' attitudes toward work are deteriorating.

Workers today are immersed in the "psychology of entitlement." They expect and demand good pay, good benefits and a good job. This has caused companies to pay special attention to changing the composition of their workforce—thus putting additional stress on the managers.

Data have traditionally shown that managers have a better attitude toward work and their company than hourly or clerical employees. What is beginning to happen, however, is a closing of the gap that separates middle managers and their subordinates. Managers see other employee groups making significant gains—gains that these very managers help employees achieve. Thus, for the first time in many years, survey results indicate a clear and consistent pattern of middle-management discontent.

"Managers seem to be caught in the middle of a no-win situation," states Dr. Michael Cooper, vp of Research for Management, a division of Hay Associates. "If they are unable to respond to the increasing demands of the workforce, they will have failed in one of their primary roles as managers. If they do respond to these demands successfully, they will soon realize that their success also means that other employees have new prerogatives—prerogatives that once were the managers' alone.

"The irony is that the successful manager, by lessening the discontent of his subordinates, may be left to contend with his own feelings of increased discontent. So both success and failure may have similar effect on managers' own job satisfaction. Whether the reason is frustration at their failure to respond to employees' needs or the erosion of their power caused by their success at responding to these needs, managers' job satisfaction has declined across the board."

As if internal pressure on the manager weren't enough, there is increasing pressure from external forces, particularly the federal government. Benefit and risk managers are most familiar with the Employee Retirement Income Security Act. But government pressure on managers also exists from agencies like the Occupational Safety and Health Administration and the Equal Employment Opportunity Commission. Thus, managers must not only negotiate with organized labor, but with government as well.

The most dramatic data to emerge from surveys, however, deals with communications issues. Both hourly and clerical employees show marked improvements on the queston of how well the company lets them know what's going on. Conversely, managers' ratings on this subject have deteriorated substantially.

The new attentiveness companies have shown lower-echelon workers has not been transferred to middle managers. These managers now feel *less* informed than in years past and even less informed than hourly or clerical workers.

According to Dr. Cooper, "The importance of managers' growing discontent with company communications must not be underestimated. If not specifically understood and addressed in each company, this discontent might lead to the steady alienation of managers over time.

"In contrast to hourly employees, managers have always thought of themselves as being a vital part of the corporation. They have always had more information about the company than any other employee group. Having timely and priority information was a vital part of the managers' job; from it managers derived much power, control and respect. Now, it appears that even this basis for power is being eroded."

The challenge is then to convert "middle-management frustration into positive energy." We'll discuss a way to accomplish that in next month's column. ■

Kenneth P. Shapiro is a vp at Hay Huggins & Co. in Philadelphia. His column on management appears monthly in Business Insurance.

Cash-option saving plans: Shelter is worth a lot more than IRA deduction

By Joseph S. Robinson
Attorney-at-law

benefit tax slants

AT BEST, a tax deduction is worth only half of its face value to an executive in the 50% bracket—even less to a middle-management employee in a lower tax bracket. By contrast, a tax shelter is more potent than traditional tax deductions.

Why? Because a full 100% of each dollar earned is protected against tax erosion and eventually winds up in the pocket of the employee.

Thus, you do not need a calculator to realize the big difference between what a tax shelter is worth to an employee as opposed to a tax deduction.

So, if you're looking for a relatively new kind of unpublicized tax shelter (on the books since 1978) in the form of a retirement program, one that does not cost the company a red cent and at the same time insulates a portion of compensation from tax, you would do well to look into Section 401K of the Internal Revenue Code.

Under this provision, a company can set up an arrangement that allows employees to take a portion of their paycheck and have it deposited in a company-sponsored cash-option savings plan. The result: The employee defers tax on the savings that is set aside and, when he retires, can draw down his accumulated savings in a lump sum.

By doing this, a worker can take advantage of the 10-year averaging rule as he would under a regular pension or profit-sharing plan.

In effect, he gets a better tax break than an Individual Retirement Account would provide.

Take this example: Suppose Mr. Parker earns $40,000 a year and defers 10% to his company plan. His withholding and Social Security taxes would be based upon the reduced amount. Other factors of the tax-option savings plan as compared with an IRA include:

- Tax-exempt contributions to an IRA cannot exceed $2,000 per working individual. The contribution through the cash-option approach can easily range to as high as $10,000 for a top company official. What's more, everyone participating in a cash-option plan can set up an IRA as well.
- The cash-option saver can do things that an IRA holder cannot. If the IRA holder withdraws some money before reaching the age of 59½, he must pay a penalty of 10% and is taxed on the full amount withdrawn, at his regular rate. The cash-option saver can withdraw sums for a number of reasons without penalty—to cover medical expenses, to finance the purchase of a house, to meet tuition payments or to finance emergencies. That saver would, of course, be subject to current taxes on the withdrawn sum.

Keep in mind that employers must offer cash-option plans on a non-discriminatory basis. Code Section 401K has a special test that is quite strict and is in addition to the requirements called for in qualified pension and profit-sharing plans.

Group life assignments

If a husband takes out a life insurance policy on his life payable to his wife (or vice versa), the proceeds will be part of his estate if he owns the policy. Consequently, it has been a standard estate planning procedure for the husband to assign the policy to the wife or have her be the owner. Upon death of the husband, the proceeds received by the wife would escape estate taxes.

However, the new tax law provides an unlimited marital deduction. After 1981, no estate tax will be due even if the husband owns the policy. While the proceeds will be included in his estate, there will be no estate tax on the proceeds paid to the wife, thanks to the marital deduction.

Therefore, where an employee's fringe benefits included group life insurance payable to the spouse, it is no longer necessary to assign the policy to the spouse in order to remove the proceeds from the employee's estate.

Dependent care assistance

Companies can provide tax-free child care to their employees by arranging for such care or paying others to look after the children of employees.

Such a plan must be in writing and cannot unfairly benefit the top management of the company.

The new law excludes from an employee's gross income certain amounts paid by the employer for dependent care assistance. (These payments are also exluded from wages for FICA, FUTA and withholding purposes.)

The maximum amount of the exclusion is the lesser of the earned income of the employee or the employee's spouse, as usually reported.

Social Security tax

The Social Security wage limit will be $32,400 next year. This means that the top tax in 1982 will be $2,171 for employers and employees, an increase of $196 over 1981. For self-employed people, the tax will be $3,029.

New withholding rules

Employees who file false W-4 forms can face stiff penalties: a civil fine of $500 per false statement and a criminal fine of $1,000 for intentionally supplying false information or failing to give the information requested on a W-4 form, in addition to a possible jail sentence. ■

Kwasha Lipton offers slide show on IRAs

Kwasha Lipton, an employee benefit consulting firm in Englewood Cliffs, N.J., has produced an audiovisual program that explains the status of Individual Retirement Accounts under the Economic Recovery Tax Act of 1981.

The 16-minute slide show and cassette tape explains IRAs and their advantages to employees. A questionnaire is available to gauge employee interest. Results of the questionnaires and a full report will be provided by Kwasha Lipton at cost. The total cost depends on the number of employees who participate in the survey.

The leasing fee for the slide show is $2,500 for a 10-year term. For more information contact Catherine Gambino, Marketing and Public Relations Manager, Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632; 201-567-0001.

Comp dividends

Connecticut manufacturers are eligible for dividends on workers compensation insurance premiums in a program started by The Travelers Insurance Co.

The program pools workers compensation premiums of small to medium-sized manufacturers with proven safety records. The credit experience modification or an individual company's loss ratio is used to determine the safety rating.

The program was designed especially for employers with premiums of $10,000 to $100,000. Dividends range from 15% to 50%, depending on loss experience, according to Travelers Vp Ralph H. Lundberg.

Bad faith award upheld in California

SAN FRANCISCO—A California appellate court has upheld a recent $1 million punitive damage award against Prudential Insurance Co. of America for exercising bad faith by refusing to pay a plaintiff's claim.

The award is believed to be the largest insurance company bad-faith claim to be affirmed on appeal in California.

The case, Pistorius vs. The Prudential Insurance Co. of America, involved an injured man who received disability payments under a policy with Prudential beginning in 1970.

The insurance company cut off payments in March 1973, however, without requesting or requiring the plaintiff to be further examined by a doctor to assess his medical condition, the court said.

When the plaintiff protested, Prudential employees were abusive and threatened to seek recovery of the money already paid to the plaintiff, according to the ruling.

The plaintiff then notified the state Insurance Board, which recommended that the plaintiff undergo an independent medical examination.

Despite a conclusion that the injured man could not perform any work and a recommendation by a Prudential claims examiner that benefits be continued to the plaintiff, the insurer again refused.

The plaintiff also reportedly received a letter from a claims examiner that inaccurately reported the doctor's opinion and said that payments would be withheld.

Only after the plaintiff hired an attorney and sued the defendants were the payments reinstated, according to the court. ■

products & services

The program is available only in Connecticut. Depending on results there, the program may expand to other states.

For more information on the Connecticut Manufacturers Retention Program, contact a Travelers agent.

Physicians' coverage

Horan, Goldman & Co. of Pennsylvania Inc., managing general agency, is writing medical professional liability insurance for all classes of Pennsylvania physicians.

The policy is written on a claims-made form. Prior act coverage can be written if there is a record of previous insurance.

Primary limits range from $100,000 per person to $300,000 aggregate. Excess limits range from $1 million per person to $3 million aggregate and is written through Pennsylvania's medical catastrophe fund.

For more information contact Mary Marines, Vp, Horan, Goldman, Box 440, Bryn Mawr, Pa. 19010; 215-527-4400.

Valve tags

Seton Name Plate Corp. has developed new color-coded plastic valve tags.

The valve tags conform to ANSI/OSHA color specifications in yellow, green, blue, red and orange. Each tag is 2½ by 2 inches wide and made of heat and chemical resistant plastic.

Tags can be ordered blank or numbered 1 to 99. Prices range from $1.11 each for 25 to 99 tags and 96 cents each for 100 to 249 tags.

For samples, details and information contact Seton Name Plate Corp., 981 Boulevard, New Haven, Conn. 06505; 203-772-2520.

Hospital liability

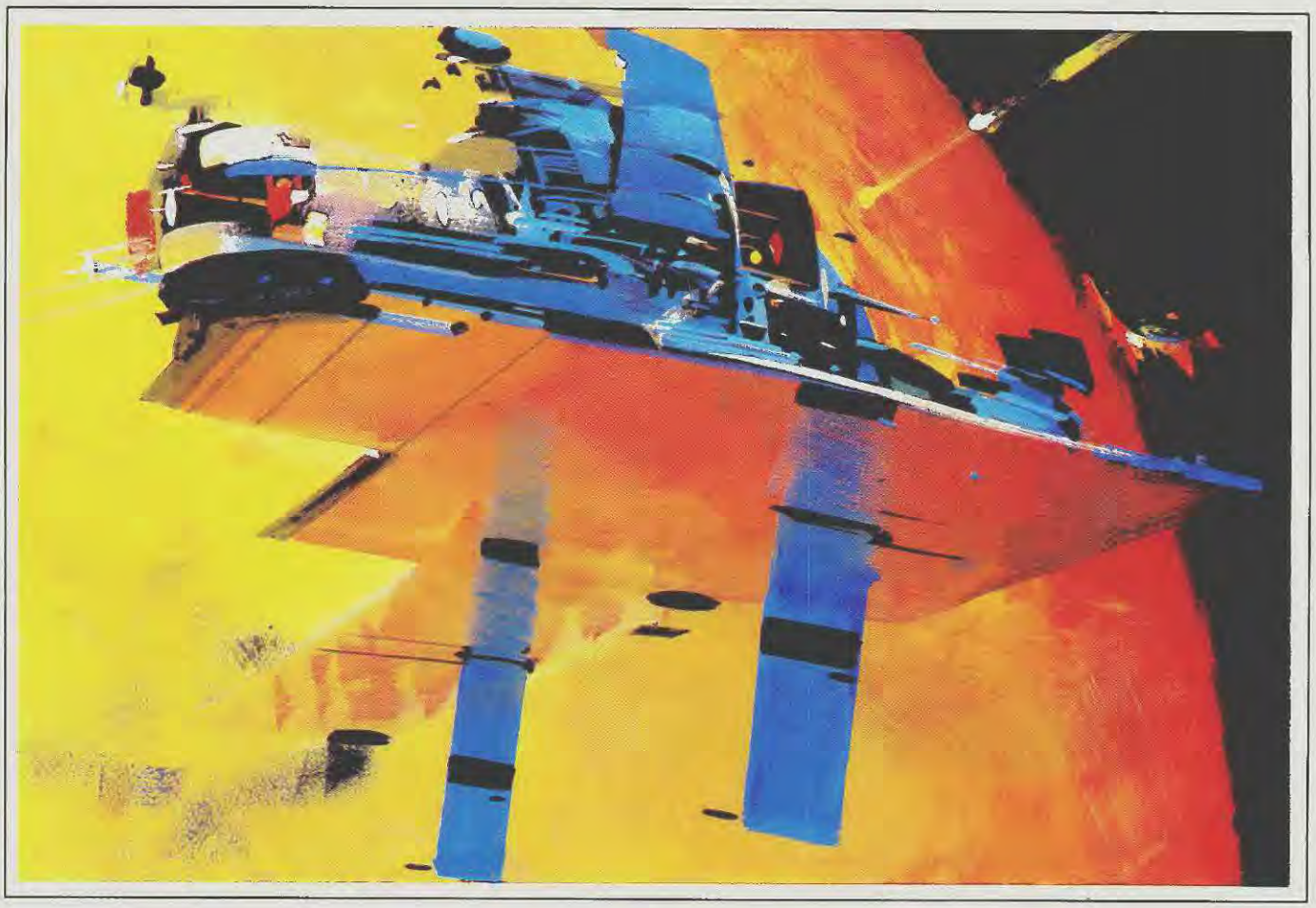
Victor O. Schinnerer & Co. Inc. is offering a special liability policy for hospitals.

This policy provides professional and comprehensive general liability coverage in one occurrence form. The combined single limit is $250,000 per claim, with a $1 million aggregate. This policy has deductible and coinsurance options, along with risk control services. These services include assessment of existing procedures, designing and using integrated risk control systems, coordination of claims management services and use of Schinnerer's computerized Hospital Incident Reporting System. The cost of using that system is included in the premium.

The program is underwritten by Ideal Mutual Insurance Co. Any licensed producer can place coverage in the program.

For more information contact the nearest Schinnerer office: 55 E. Jackson Blvd., Chicago, Ill. 60604, 312-939-1202; 5028 Wisconsin Ave. N.W., Washington, D.C. 20016, 202-686-2850; 40 Wall St., New York, N.Y. 10005, 212-344-1000; and 595 Market St., San Francisco, Calif. 94105, 415-495-3444. ■

Meeting the challenge.



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Labor Department names new pension administrator

washington

By JERRY GEISEL

WASHINGTON—The Labor Department has a new pension administrator.

Jeffrey M. Clayton, 34, has been appointed new administrator of the Office of Pension Welfare Benefit Programs. In his new post Mr. Clayton oversees the regulation of the nation's 500,000 private pension plans.

Before joining the administration, Mr. Clayton was an attorney with Moyle & Draper, a Salt Lake City law firm, specializing in labor law. He is a graduate of the University of Utah Law School.

He replaces Ian Lanoff, a Carter administration appointee, who left the government post this month to join a Washington law firm.

Pension liability

The Reagan administration wants to increase employers' liabilities for their pension promises.

The administration now says it favors a provision in legislation, S. 1541, introduced by Sen. Don Nickles, R-Okla., that would require employers that terminate their pension plans to fund all of the plan's unfunded vested benefits over a 15-year period.

William Niskanen, head of the administration's Pension Policy Working Group, part of the Cabinet Council on Economic Affairs, said legislation is needed to close a loophole in the pension reform law that threatens the viability of the federal insurance program that protects the vested benefits of employees.

Under the Employee Retirement Income Security Act, the Pension Benefit Guaranty Corp., a federal agency, has the right to collect 30% of a company's net worth to guarantee the vested benefits of retirees if the company terminates its pension plan with insufficient assets to pay promised benefits.

But according to Mr. Niskanen, some companies whose pension liabilities exceed 30% of net worth might dump their plans on PBGC since they would find it cheaper to pay a withdrawal liability penalty than fund the plans.

"The PBGC has identified 30 major firms with unfunded pension benefits each of $10 million or more that are under financial pressure and for which payments of 30% of net worth could prove an attractive alternative to the continued funding of their plans," Mr. Niskanen told the Senate Labor subcommittee.

"If all these firms were to terminate their plans, the PBGC would suffer an estimated $3.8 billion in losses," he added. "Even if only a small percentage of these terminations occur, the PBGC would suffer a serious strain on its resources, and a substantial premium increase would become necessary."

By making employers fully responsible for their pension promises, the financial soundness of the PBGC's insurance program would be improved and companies with pension plans would have greater protection from pension insurance premium increases, Mr. Niskanen said.

Employers with pension plans now pay $2.60 per plan participant each year to the PBGC for termination insurance.

OSHA inspections

The Occupational Safety and Health Administration has lowered the cutoff point it uses when reviewing an individual company's injury rate to determine whether to inspect the firm.

Effective immediately, OSHA will conduct routine safety inspections at companies whose injury rates exceed 5.2 workdays per 100 workers, a decrease from the old cutoff rate of 5.7. workdays per 100 workers.

The lower cutoff point for inspections is the result of a decrease in the average injury rate among manufacturers to 5.2 in 1980 from 5.7 in 1979.

Under OSHA's new targeting system for its programmed safety inspections for manufacturing firms, the agency visits firms in high-hazard industries and inspects only those whose individual injury experience is higher than the national lost workday injury rate for manufacturing.

"Our new targeting system is designed to be responsive to changes in occupational injury and illness experience," said OSHA chief Thorne Auchter. "Thus we want to begin using the new figure immediately in comparing individual firm experience with national average rates."

FIA administrator

The Senate has confirmed Jeffrey S. Bragg as administrator of the Federal Insurance Administration.

Mr. Bragg, who has previously worked for Nationwide Life Insurance Co. and Blue Cross/Blue Shield of Ohio, has been a consultant with the FIA since September.

The agency runs several government insurance programs.

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Housewife's work valued at $21,000

LONDON—A housewife's work is valued at $400 a week for her duties as cook, waitress, dishwasher, cleaner, laundress, driver, babysitter, seamstress, accountant, supervisor and nurse.

Or at least that's what Legal & General Group Ltd. discovered in a survey for the commercial value of a housewife's duties for a new policy.

Using employment agency figures, Legal & General figured that a housewife's work is worth more than $21,000 per year. And her death would be a financial burden.

But now British employers can offer widowers insurance policy that would help pay for a babysitter, a maid and other "domestic labor-saving machines."

With a maximum limit of 50,000 pounds, the new "Coping and Caring" policy insures employees for the loss of a wife or husband when the children are under 16. The employer pays a small percentage of the employer's payroll for the benefit.

The coverage pays for the cost of chores, including babysitting at $2.50 per hour, nurse duty at more than $4 per hour, dishwashing at more than $3, caretaking and gardening at $4.50 and driving at $2.50. ■

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

Fighting for profit-sharing

By DONNA LEIGH YANISH

Something is missing and agents and brokers aren't happy about it.

As insurers forsake underwriting profit for premium volume and investment income, contingency commissions and profit-sharing have disappeared from agents and brokers' pockets.

Agents are complaining to their insurers, associations are researching the problem and possible solutions and agents and brokers are peppering insurance company executives with questions during panel sessions.

At first glance, the problem is simple. Insurers are fiercely competing for premiums to invest at the current high interest rates. Competition means slashed prices as insurers can afford to take underwriting losses and make up the deficit with investment income.

"The insurance companies aren't (losing) out (with today's high loss ratios) because they're making it on investments," says Gerard B. Kelly, vp of the Impact Group in the New York office of Alexander & Alexander Services Inc.

"Investment income is so great they can live with combined ratios of about 115%, because they're earning 15%" he explained. "But that income isn't being passed on to the brokers."

When insurers slash premium prices, agents' and brokers' commissions skid. And when commissions fall, contingency commissions or profit-sharing plans, follow right behind.

"When prices are being cut the way they are today, it's almost impossible to write a really good, profitable book of business, assuming you have a large enough book and a big enough spread," contends Thomas J. Dietz, treasurer of the Independent Insurance Agents of America in New York.

"Agents' income is severely affected" by rising loss ratios, adds Richard Kasyjanski, director of research for the Independent Insurance Agents of America.

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Insurers redesign bonus plans
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Know your cash supply
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Where has the bonus gone?

Continued from previous page

The erosion is affecting not only income from new business, but because business that agents wrote last year is being underwritten at a lower rate this year, they're losing on renewel commissions, too.

"The presssure is on the agents," agrees H.C. Howard, Jr., president of Associated Insurance Services in North Fort Myers, Fla. "Many agents have survived for years on contingency commissions," he added.

Although each insurer adds its own particulars to its contingency commission agreement, the formula is basically the same throughout the industry.

The insurer's overhead expenses and incurred (or paid) losses are subtracted from the agent's net written premiums (or in some cases earned premiums). The result is the underwriting profit produced by the agency.

Illustration: Milt Priggee

Bonus adjustment

The insurance company gives the agency a predetermined percentage of that profit. Often the bonus is adjusted for growth and profitability.

Underwriting profit earned by the insurers is the basis for contingency commission agreements and that's one of the key problems causing alarm in the industry. If insurers are underwriting at combined ratios of about 115%, there isn't going to be any profit on which to base contingency commissions.

Agents and brokers lose out because competition is pushing premiums down and loss ratios up, one industry source notes, and "the companies are laughing all the way to the bank."

Including a growth percentage in contingency commission calculations hits agents in today's market hard, too. Growth calculations compare this year's premium volume to a running three-year average, explains Robert R. Treweek of Canon-Treweek Inc., an agency in Gainesville, Fla., and the president of the Independent Insurance Agents of America.

Competition in the late 1970s was not nearly as fierce as it has been in the early 1980s, he says. "Therefore (an agent's) ability to grow is severely restricted," Mr. Treweek contends.

Plans to improve contingency commission schedules are scattered and disorganized among agents and brokers. Each agency's formula with a given insurer may be negotiated, so producers say they are able to cut special deals with insurers.

Presumably, the more business an agency gives the insurer, the more clout it has to cut its own deal.

"There's a reluctance on the part of those people who've cut a deal to tell others about it," believes Timothy Cunningham, president of James H. Cunningham Insurance Agency in Oak Park, Ill., and president of the Chicago Board of Underwriters, a local group of independent agents and brokers.

Larger brokers don't like to talk about the deals they are able to negotiate for themselves because they think they are giving away trade or competitive secrets.

Liberal terms

Some of New York-based Rollins Burdick Hunter's offices have been successful at negotiating terms more liberal than today's average terms, similar to those that were common several years ago, says William C. Snyder, executive vp. But the broker wouldn't identify those branches or disclose what deals the offices were able to negotiate.

Alexander & Alexander is working with its insurers to search for an answer to the problem of declining contingency commissions, according to Mr. Kelly.

"The problem is self-evident;" insurers are aware of agents' and brokers' plight, he said.

The brokerage is talking with its insurers by itself, rather than as a part of a concerted effort. While Alexander & Alexander recognizes that falling contingency commissions is an industry concern, it feels it's in the brokerage's best interest to act alone, Mr. Kelly says.

Not even all of the major brokers are tackling the problem. While Chicago-based Fred S. James & Co.'s contingency commissions "have been down," it "hasn't done anything to increase them," according to Executive Vp Reynolds Blossom.

The company is "sitting back and letting whatever happens happen, while hoping loss ratios will improve," he says.

Why can't producers work together for new profit-sharing formulas?

Antitrust laws are preventing, at least in part, some joint effort by agents and brokers in dealing with insurers to increase agents' and brokers' income, they say.

They don't want to threaten the limited protection against antitrust violations granted by the McCarran Ferguson Act, which provides the insurance industry a limited immunity from antitrust laws by allowing insurers to share data to establish bureau rates.

"There's no way agents and companies can act in concert" to negotiate contingency commissions. "That would be price fixing," says Mr. Treweek.

The IIAA's agency contracts committee, however, is investigating contingency commission agreements (see related story) in an informal manner.

The IIAA shot down the task force approach, notes committee Chairman Josiah H. Welch, president of Chase & Lunt Inc. in Newburyport, Mass.

Members of the committee are meeting with insurers on an informal, individual basis to investigate

Mr. Kasyjanski

Northbrook joins profit-sharing parade

NORTHBROOK, Ill.—A relatively new insurer has joined the elite club that recognizes the need to increase agents' profit-sharing commissions in light of the depressed market conditions.

Northbrook Property & Casualty Insurance Co., a subsidiary of Allstate Insurance Cos., has amended its profit-sharing agreement to reward profitable agencies with an income bonus, according to President Robert A. Leibold.

The 2-year-old insurance company taps about 500 agents throughout the country.

"In these times of reduced income for our agencies, we believe strongly that we should do something to improve the opportunity for their earning additional dollars through bonus commissions," Mr. Leibold says.

"The changes we have made will contribute to that."

Unlike other revised programs that have recently added to profit-sharing agreements, the Northbrook plan is limited to bonus calculations for two years: 1981 and 1982.

Insurance Co. of the West in San Diego, Calif., and Celina Group in Celina, Ohio, two other insurers that have recently increased their profit-sharing commissions, have extended their programs indefinitely.

Participation in the Northbrook bonus commission system requires agents to provide the insurer with $200,000 in annual written premiums.

The new program continues that requirement, but the insurer makes an exception for agents in their first year with the company, who are required to place $50,000 with Northbrook. Second-year agents who have placed a minimum of $100,000 in annual written premiums are also eligible.

To increase agents' commissions, Northbrook amended its primary participation percentages, amounts chosen by Northbrook based on a sliding scale of annual written premium and underwriting profit. The participation percentages are then used to calculate the agents' bonus (see chart) and provide for a 1% to 1½% higher cash payout at each level.

This is how it works:

Using the revised table for participation percentage, agents determine their appropriate percentage by matching their annual written premiums and percentage of profit, which the insurer defines as "the percentage resulting from the divison of underwriting profit by earned premium."

They next determine a growth bonus percentage. This is taken from another table that uses percent of growth (written premiums for the current year over the previous year) and the previous year's premium to determine the growth bonus percentage.

Then agents determine their retention percentage using a table with plan retention and prior year's premium as the determinants.

Next, agents add their participation percentage, growth bonus percentage and retention percentage. That sum is multiplied by the underwriting profit, which the insurer defines as the excess of earned premiums on included lines of insurance over outgo (including incurred losses, specifically defined insurance company expenses and commissions earned by the agent, excluding bonus commissions).

Agent and brokers determine their bonus commission by dividing the result of that multiplication by three.

Excluded lines include retroactive penalty insurance, excess or umbrella insurance, association or mass-marketed coverage, surety bonds and boiler and machinery insurance.

Northbrook has further sweetened the profit-sharing pie for its agents by granting double production credit for all premiums written in the final four months of 1981, Mr. Leibold says, noting that "this will have two benefits.

"First, more agencies will qualify for bonus consideration based on minimum premium requirements under the plan. Second, agencies will receive a larger bonus for growth."

That increases the growth bonus percentage in the profit-sharing equation.

The double production credit is key to agents' bonus, Mr. Leibold says. The bonus is actually an incentive program. The actual dollar increase is minimal (as in Situation A) unless the agents can pour on the extra steam in the last four months of 1981 (Situation B). ■

Northbrook's bonus commission plan

	Situation A		Situation B	
	1st 8 months	Last 4 months	1st 8 months	Last 4 months
Written premium	$120,000	$60,000	$120,000	$200,000
Earned premium	$220,000		$245,000	
Percentage of profit	20%		20%	
Percent of growth	20%		20%	
Retention	90%		90%	
	Current plan	**Improved plan**	**Current plan**	**Improved plan**
Applicable written premium	$180,000	$240,000	$320,000	$520,000
Bonus commission agreement eligibility	Yes	Yes	Yes	Yes
Participation bonus	13%	14%	15.5%	20%
Growth bonus	2%	2%	2%	2%
Retention bonus	1%	1%	1%	1%
Bonus dollars	$ 2,347	$ 2,493	$ 3,022	$ 3,757
Additional bonus dollars under improved plan		$ 146		$ 735

Mr. Kelly

what the various insurers will consider as alternatives to present profit-sharing agreements, Mr. Welch says.

The IIAA committee plans to suggest equitable features for agents' compensation agreements, though, Mr. Treweek adds.

While agents and brokers emphasize they aren't endorsing any approach yet, many have come up with possible or partial solutions to the problem:

- Pay contingency commissions up front, rather than once or twice a year. With the current infrequent payments, agents sometimes have to wait six- to eight months before reaping the benefits of their sales.

Agents' belief

Many agents feel payments are not really "contingency commissions," says Russelll R. Miller of Russell Miller Inc., a San Francisco consultant. If the purpose of the fee is to get the agent or broker to sell a particular line of insurance, the long delay defeats that purpose; the incentives lose their impact several months down the road.

- Pay part of the contingency commission up front. Giving agents all their contingency commissions immediately may eliminate the incentive to stay with an insurer.

To avoid agents switching between insurers, the underwriters can pay part of the fee up front and the balance at the end of the period.

- Compensate agents and brokers for providing services like claims drafts and picture taking.
- Eliminate or raise loss ratios except perhaps for some lines). If insurers are operating at combined ratios around 105%, agents' ratios the actual losses) should be raised to about 80%, one industry source suggested.
- Extend the cash-flow float to allow agents longer periods of time to invest premiums held in trust.
- Share the action. Some industry sources suggest allowing agents and brokers to share directly in the insurers' investment income, such as in programs currently used by several insurers.

Others sources disagree, saying producers shouldn't share directly in investment income because they don't control how it's invested.

- Eliminate the calculation of three-year average (growth factor). Contingency commissions would then be based on 1981 results rather than comparing these hard times with less-competitive years.

Growth factor

That growth factor, however, won't always be a thorn in an agent's side.

"If the bloodletting stops in 1982, the growth factor can be material," Mr. Treweek notes.

- Reward producers for account growth and profitability separately, rather than combining the two percentages.

Battles over contingency commissions are particularly poignant now as the future of the insurance delivery system is undergoing constant debate.

As insurers and producers discuss compensation, they are also discussing survival, sources say.

Potential solutions are often part of a dialogue focusing on the particularly struggling U.S. agency system.

The industry is discussing the basics, like the interrelationships of agents and insurers, collection periods and competition, Mr. Miller says.

While agents and brokers aren't applauding the insurance companies for taking rapid, giganitic steps toward solving the problem of declining contingency commissions, many say the insurers are sympathetic.

"None of the companies want underwriting losses," Mr. Kasyjanski contends. They have to compete, however, for premium dollars. That means cutting rates that then shoot up loss ratios.

Mr. Kasyjanski also acknowledges some insurer's programs for allowing agents to share in investment income. While he disagrees with their methods, he credits them for trying.

Mr. Welch

Insurance "companies are aware of some of the problems," Mr. Treweek agrees.

They're responding by taking some corrective actions like extending float time or eliminating the growth factor, at least for 1981, he notes.

Insurers may be taking action, but many insurers, however, refuse to talk about their contingency commission agreements.

They say they're studying the problems and talking with their agents, but refuse to deal with specifics.

"We're continuously studying our profit-sharing agreement and looking for possible enhancements," says Raymond F. Davis, manager for agency development at Aetna Life & Casualty Co. in Hartford, Conn.

Mr. Davis did offer some specifics of what Aetna is exploring as possible changes in compensation for Aetna's agents. He emphasizes, however, that the insurer hasn't made a decision on what steps to take.

Today's needs

"Agents say (contingency commission agreements) were fine 10 years ago," so changes in the agreements should reflect today's environment, he says.

That could mean changes in the expense factor and requirements for growth and profitability, Mr. Davis explains. Aetna is also looking to see if there are other factors it can bring into the formula that would enhance contingency commissions, he adds.

"We're also looking at other means (for increasing agents' income) aside from contingency commissions and profit-sharing agreements," he notes.

The insurer and its agents can save money by implementing means of improving efficency of both the agencies and Aetna operations, Mr. Davis contends. Installing computers and reducing duplication are, for example, two ideas for reducing expenses and therefore, increasing agents' income, he says.

Opposition to plan

Some insurers agree with those IIAA officials who say insurers shouldn't directly include investment income in their agents' contingency commission plans.

"Investment income is already accounted for in every (agent's) contingency bonus arrangement," contends Jack B. Riffle, president, chief executive officer and a director of the Utica Group of insurers.

If an insurer didn't make investment income, the insurance company must reach a loss ratio low enough to generate income necessary to pay losses, expenses, dividends, build a surplus and all the other things necessary to run the business, he says.

Now bring in investment income.

"That means that the tolerable, the permissible loss ratio is raised up a couple of notches because the (insurance) company has that income to take care of some of those other things," Mr. Riffle says.

Therefore, "the only reasonable way, in my view, for an (insurance) company to explicitly recognize investment income on a bonus contract would be to say, 'Hey, we'll raise the permissible loss ratio, because we can live with a higher loss ratio'" due to investment income.

Mr. Riffle also says that if insurers include investment income in their agents' contingency commission agreements, agents may suffer when interest rates fall.

"I'm not sure that if I were an agent, I would want my bonus plan over an extended four- or five-year period of time, to hang on the investment results of some of the guys running our portfolios."

If the industry developed true profit-sharing agreements, agents would share both profit and losses, says Charles E. Nail, Jr., chairman and chief executive officer of Lumbermen's Mutual Insurance Co. in Lakewood, Ohio. Current contingency commissions are sales bonuses, not profit-sharing agreements, he contends. ■

Illustration: Milt Priggee

Profit-sharing agreements require scrutiny

As insurers' underwriting profits decline, taking agency contingency commissions with them, it can pay to put your profit-sharing agreements under a microscope.

The Independent Insurance Agents of America says agents should know how to get their fair share under the current system.

"The method of determining the agent's share is simple," according to a special IIAA task force. "From the agent's net written premiums (or in some cases earned premiums) is subtracted the company's overhead expenses and incurred (or paid) losses. This leaves an amount which is equal to the underwriting profit produced by that agency, and the agency is then given a predetermined percentage of that amount, or an increased commission percentage based on the calculated profitability."

So if an agent or broker sells $100,000 in premium for an insurer and the cost of losses and expense is $90,000, the insurer had made a $10,000 underwriting profit. From that $10,000, an agent or broker draws a share or contingency commission.

This basic calculation, however, is molded to the insurer's own specifications. Agents should put the nooks and crannies of that mold under their microscopes, the task force says.

IIAA's task force suggests that producers:

- Note the use of "earned" rather than "written" in volume requirements. "Mixing written commissions to earned premiums, for example, or any other mix of earned income figures vs. written outgo (losses) figures in the same agreement will only work to the detriment of the agent."
- Agree to only the minimum volume requirements, even if the agency's volume is much higher than that, unless there's some other concession given.
- "The basis used for income should be the same basis as for other items used throughout the agreement, preferably net written premiums. Income is usually defined in these agreements as net written primiums less policyholder dividends.
- "The task force feels that it is unfair for incurred but not reported loss reserves to be charged as outgo, since they cannot be reconciled, and will be fully reflected as losses within a short period of time anyway.

"Agents who are being charged IBNR (losses) should be sure that they are given credit for last year's IBNR (results) before being charged an IBNR percentage for the current year."

- Look for a stop-loss limitation. Make sure, however, that it doesn't decrease the participation percentage or increase the insurer expenses so much that it defeats the purpose of the limitation.
- Profit-sharing commissions should not be deducted from income (as sales commissions are) "since they are actually a share of last year's profit, and not a part of this year's expenses."
- Do not take the insurer's word for its overhead expenses. Compare the charge with the figure in the insurer's stockholder's report, with the Best's aggregate and average figures for insurance companies expenses or with the state insurance department report filed regularly by the insurance company.
- If you are engaging in operations that save an insurer money, your agency should be charged less for that insurer's overhead.
- "A deduction for an (insurance) company profit factor is considered by the task force to be unfair. There is no real reason why the (insurance) company should get its share first from a profitable agent."
- Both agents and insurers should sign the agreement and all amendments or addenda to the agreement.

Celina program criticized by agents, consumers

CELINA, Ohio—One insurer's plan to share investment income with qualifying agents and brokers hasn't been welcomed with open arms by the agents it was intended to please and now it is being lambasted by consumer groups, too.

Celina Group has set up a program for qualifying agents to share 2% of the group's 1981 investment income. But it's difficult to say whether or not the plan will ever get off the ground.

Under the plan if the insurance group shows a combined underwriting profit, 2% of the company's investment income will be distributed to the qualifying agents. An agent's share of the investment revenue participation plan is based on the relationship of his or her written premiums to the total written premiums of all qualifying agents. Agency loss ratios can't exceed 54%.

"We can't fault them; they're doing something" to combat the falling contingency commissions in the industry, says Richard Kasyjanski, director of research for the Independent Insurance Agents of America.

But Celina's program requires such a low loss ratio that many agents can't qualify, he says.

The plan also hinges on the ability of the insurance group, made up of four insurance companies, to make an underwriting profit this year.

The chances of that, however, "are still up in the air," says Robert Brosky, group vp.

While Celina Group is currently writing to a combined ratio of 102.8%, historically the group's last quarter is "extremely profitable," he says.

"Agents also have to do a hell of a job" to have loss ratios less than 55%, Mr. Kasyjanski says. Today's lower premiums, being offered by insurers competing for premium volume, are forcing loss ratios up, he explains.

Even "business the agent wrote last year is being written at a lower premium this year," Mr. Kasyjanski notes. Renewal business as well as new accounts are raising loss ratios. Last year's business renewed at lower premiums than last year's, added to new business at low premiums, increases the chance of agents' posting loss ratios above 54%.

Celina's program met loud disapproval from some individual members of the IIAA. Josiah E. Welch, chairman of the IIAA's agency contracts committee and president of Chase & Lunt Inc. in Newburyport, Mass., "views it with alarm."

Any approach that includes agents in investment income is "dangerous," he says. "What if the market goes down?"

Sharing investment income is not the best way to reward agents' efforts, Mr. Kasyjanski agrees. Agents don't have anything to do with investment income, he says. Although they supply the funds for the insurers to invest, the agents don't control how those investments are made, he explains.

The insurers should reward the agents for bringing the money in rather than for what's done with the money once it's in the insurer's coffers, Mr. Kasyjanski suggests.

Not all of Celina's sweetened-earnings plan stems from the insurer's investment income. Agencies that belong to the insurer's "President Club"—producers that provide $300,000 in property/casualty insurance premiums to Celina—receive a 1% increase in their percentage on the insurer's contingency commission schedule.

Agencies that use Celina Group as their principal insurer also receive a 1% increase in their percentage.

Both percentage increases apply to contingency commissions before calculating the extra income from the program that includes investment income.

While agents have mixed feelings about Celina Group's plan, the National Insurance Consumer Organization abhors the program. NICO President Robert Hunter sent a letter to all state insurance commissioners to "prohibit this unfair scheme" as well as similar programs.

"That money (investment income) belongs to the consumer," Mr. Hunter contends. The funds are reserves, held in trust for the consumers, and shouldn't be tampered with, he says.

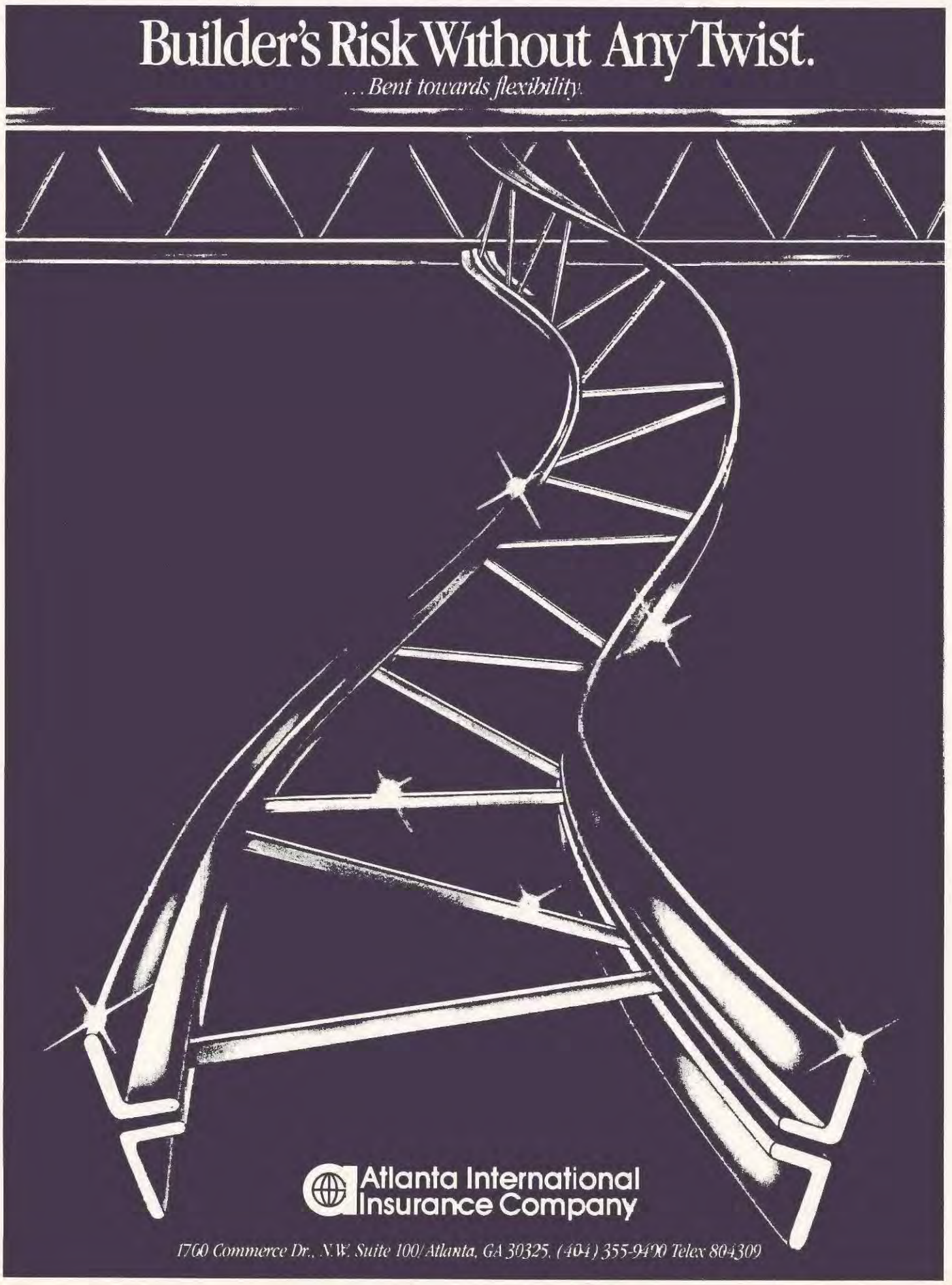
As an alternative to programs that share investment income with agents, Mr. Hunter suggests a consumer participation plan that reduces rates for policyholders.

"People think sharing investment income is a novel idea, but it's not," says Celina Group President Donald W. Montgomery.

Meanwhile, Celina has introduced a plan for its agents to insure their bonus commissions earned during the first three quarters of 1981. Underwritten by the American Druggists' Insurance Co., the coverage guarantees the agents' bonus check even if their clients have a disastrous loss before the end of the year.

The cost of the insurance equals 11% of the amount to be insured. The maximum amount that can be covered is $100,000, while the maximum percentage of net earned premium to be insured is 7½% and the minimum premium is $300.

About 100 agents have purchased the insurance from Celina. That's about one-third of the agents that usually qualify for a bonus check. Celina contracts with about 1,000 independent agents throughout the country. ■



Producers respond to new profit plan

SAN DIEGO, Calif.—About half of Insurance Co. of the West's 600 producers have signed up for its program to share the insurer's investment income, according to President Karl Koch.

The investment income bonus program applies an investment income factor to a producer's earned premium in the profit-sharing calculation (*BI*, Sept. 7).

While the program demands a $50,000 minimum premium commitment in eligible lines, which is double the commitment needed for the insurer's regular performance bonus, producers aren't penalized for signing up and not meeting the $50,000 mark.

Without a penalty, there's no reason why producers should have reservations about the program, Mr. Koch contends. "It's like handing dollar bills out on the street, not everyone will take them unless you stay out there long enough."

ICW first extended the offer to its producers early last summer.

The insurer received an "inquiry (about the program) from one of the largest agency companies in the country," Mr. Koch said. "We hoped it would be picked up by the large national carriers." ■

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Table 1

Chart figures are kept small to simplify illustrations.

Sample Agency Annual Report, 1980

Balance Sheet

	Dec. 31, 1979	Dec. 31, 1980
Assets:		
Cash	$ 5	$ 3
Accounts receivable	10	20
Inventory	15	20
Current assets	30	43
Gross plant & equipment	$110	$140
Less reserve for depreciation	40	46
Net plant & equipment	70	94
Total Assets	**$100**	**$137**
Liabilities:		
Taxes payable	$ 5	$ 4
Accounts payable	5	15
Short-term note	10	0
Current liabilities	20	19
Long-term debt	40	75
Net Worth:		
Capital stock	10	10
Retained earnings	30	33
Total Liabilities & Net Worth	**$100**	**$137**

Profit and Loss Statement

Commissions & fees	$100
Accrued direct expenses	60
Other accrued expenses	25
Depreciation	6
Profit before taxes	9
Estimated taxes	4
Net Profit	$ 5

Statement of Retained Earnings

Retained earnings December 31, 1979	$ 30
Net profit for 1980	5
Total	35
Less cash dividends paid 1980	2
Retained Earnings December 31, 1980	**$ 33**

Agents/brokers need to know cash level: Financial consultant

You may know your firm's balance sheet and profit/loss statement inside and out, but do you really know how much cash you have on hand?

Most small business executives don't know how much cash their companies have on hand because they don't keep a cash statement and recognize its relationship to other financial records, contends Louis R. Mobley, president of Mobley & Associates of Ellicott City, Md., a financial consulting firm.

That ignorance can be dangerous. You can't buy the necessary goods for your agency or brokerage with figures designated "commissions and fees" on financial statements, he notes.

You need cash—legal tender—in hand.

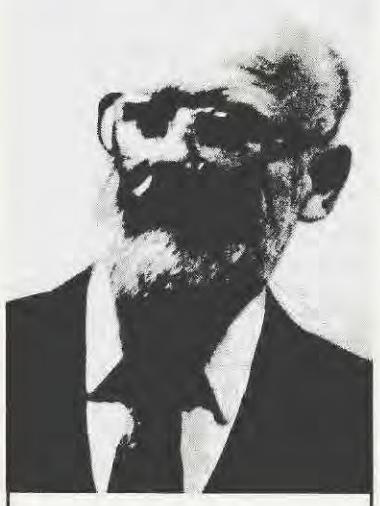
Although every figure on the profit/loss statement has a cash dimension, they don't immediately equal cash, Mr. Mobley explains. Commissions and fees are promises for cash at some future date. When commissions and fees are finally paid, the profit/loss statement becomes more than paper. You can start paying bills and banking profit.

"It is impossible to do an adequate job of cash management unless you understand the relationship of non-cash items to cash," Mr. Mobley contends.

To relate promises for payment to actual cash on hand, and therefore develop cash statements, Mr. Mobley relates items on the profit/loss statement to corresponding items on the balance sheet.

For example, a manager trying to determine cash on hand can look to the accounts receiveable columns on the balance sheet.

Using the beginning figure of $10



Louis Mobley's system can be adapted to fit agents, brokers.

and the final figure of $20, the manager notes: Managers can deduce cash on hand if they understand traditional financial statements.

Accounts receivable 12/31/79	$ 10
Commissions & fees in 1980	+100
	110
Accounts receivable 12/31/80	−20
Collections (cash) =	$ 90

Incorporating the relationships between financial statements, Mr. Mobley developed what he calls the "Mobley Matrix."

This format brings all three statements—the balance sheet, profit/loss statement and the cash statement—into their logical relationship with one another, he says (see tables).

Although Mr. Mobley didn't develop his system for insurance agencies, it can easily be adapted to fit any business, he says. Table 2 shows the Mobley Matrix as it relates to the financial data for the sample insurance agency in Table 1.

Continued on page 28H

Superswift has the inside track on aviation policy issues.

Superswift is the Policy Issue Department at Aviation Office of America, a major aviation insurance market. He can run your policy applications through faster than ever. Because now he has a new computer system to help him process applications and policies. Greater speed at Superswift's end means you can impress your clients with better service, too. Superswift also makes sure the rest of the AOA crew are on their toes. Which means from same-day quotes to prompt claims handling, you'll discover the benefits of dealing with a totally efficient aviation insurance market.

Thanks to Superswift and the rest of the AOA Superheroes, we offer you broad aviation insurance capabilities. Our service is quicker and more efficient than ever because we now have six branch offices across the country—all staffed with experienced underwriters who know the industry well and work directly with you and your clients. We provide very competitive quotes. Our Claims Control Center handles claims promptly and equitably. We offer innovative plain-language policies. Our Special Risk Department is staffed with top-flight underwriters who will tailor coverage to your clients' own unique needs. And with a growth profile unprecedented in the aviation insurance field, our stability is second to none. Join up with the Aviation Superheroes of AOA, and see how quickly you become a Superhero to your clients.

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Table 2

Chart figures are kept small to simplify illustrations.

Sample Agency Mobley Financial Matrix, 1980

Balance Sheet Dec. 31, 1979		Profit and Loss Statement, 1980		Cash Statement 1980		Balance Sheet Dec. 31, 1980	
Assets:		Commissions & fees	$100	Change in cash	$ 2	**Assets:**	
Cash	$ 5	Accrued direct expenses	60	Collections	90	Cash	$ 3
Accounts receivable	10			Production costs	65	Accounts receivable	20
Inventory	15	Depreciation	6	Investment	30	Inventory	20
Gross plant & equip.	$ 110					Gross plant & equip.	$ 140
Less deprec. reserve	−40					Less deprec. reserve	−46
Net plant & equip.	$ 70					Net plant & equip.	$ 94
Total	**$100**					**Total**	**$137**
Liabilities & Net Worth:		Estimated taxes	$ 4	Taxes paid	$ 5	**Liabilities & Net Worth:**	
Taxes payable	$ 5	Other accrued expenses	25	Disbursements	15	Taxes payable	$ 4
Accounts payable	5			Note-paid	10	Accounts payable	15
Short-term note	10			Long-term borrowed	35	Short-term note	0
Long-term debt	40			Cash dividends paid	2	Long-term debt	75
Capital stock	10					Capital stock	10
Retained earnings	30	Net profit	5			Retained earnings	33
Total	**$100**					**Total**	**$137**

Agents need to know cash situation

Continued from page 00F

Because the cash statement fits into the horizontal equation, a manager can deduce his or her cash statement.

Management can verify those cash figures by working with the monthly bank statement, which is an accurate record of the business' cash transactions, Mr. Mobley says. The sum of the cash accounts on the statement correspond to the accounts on the balance sheet and the profit/loss statement.

"Once you gain insight into relationships of financial statements, you can focus on individual items," Mr. Mobley says. "Given adequate sales (volume) you can make any cash or non-cash item whatever you want it to be."

For example, note the accounts payable line across the matrix. If a manager knows what the figures are, he can have cash on hand by controlling the outlays, Mr. Mobley says.

Managers who track and control financing using the maxtrix turn away from short-term profit orientation, which focuses on the bottom line of the profit/loss statement, Mr. Mobley says. Bottom-line management has to make a profit, he notes.

For top-line management, however, "sales and revenue are more important than profit," Mr. Mobley contends. As business depends on customers, sales figures indicate how the company is meeting those customers' needs, he explains. "In the long run, top-line management is more important than bottom-line management."

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M&M buys tax breaks from others

NEW YORK—Marsh & McLennan Cos. Inc., parent of the nation's largest brokerage firm, recently consumated two tax-benefit purchases of $131.5 million of heavy equipment.

Although the company has no need for heavy equipment, the purchases, allowed under the new tax law, will help M&M make use of other companies' excess tax credits.

Under one of the agreements, M&M paid Occidental Petroleum Corp. an undisclosed amount of cash plus a non-recourse note for $97.5 million worth of capital equipment used in the oil-processing field.

M&M then leased the equipment back to Occidental, retaining the tax benefits, according to William Duggan Jr., vp for accounting and tax for Marsh & McLennan. Payments arranged through the notes are equal.

The equipment-for-credits swap will increase Marsh & McLennan's earnings per share by three to five cents in 1981 and by about 50 cents over 15 years—the longest of several terms in the agreement, Mr. Duggan says.

Similarly, the brokerage paid between $5 million and $9 million plus notes for tax benefits connected to about $34 million of capital equipment from Boston Edison, Mr. Duggan says.

Both the Occidental and Boston Edison transactions were intended to qualify under the leasing provision of the Economic Recovery Tax Act of 1981.

According to that provision, a capital-intensive firm can sell tax benefits after it "uses up" all the tax credits it can apply to its own earnings.

The act gave companies 90 days after Aug. 13 to arrange tax benefit sales on any equipment put into place from the beginning of the year through Aug. 13, Mr. Duggan explains.

Companies can still take advantage of the leasing provision, however. The act allows for companies to sell tax benefits for up to 90 days after putting new equipment into place, he explains.

Marsh & McLennan wants to purchase up to $300 million in capital equipment leases this year, says Mr. Duggan.

However, "competition is fierce," he says.

While most of the leases were available during the initial 90 days following the effective date of the new tax law, a big construction project, like an oil refinery, could put $500 million in tax benefits on the market, Mr. Duggan remarks. ■

Accounting system used by brokerages now under review

By DONNA LEIGH YANISH

NEW YORK—Agents and brokers may soon be rewriting their internal accounting manuals to conform with generally accepted accounting practices.

The American Institute of Certified Public Accountants is reviewing the way the insurance sales force balances its books with a professional task force that includes representatives from each of the Big Eight accounting firms and financial executives from Fred S. James & Co. Inc., Corroon & Black Corp. and Marsh & McLennan Inc.

Although up until now the group has focused on research and fact finding, the AICPA's task force has come to a fork in the road and may soon be changing direction, according to its chairman, Wayne Kauth, a partner at Ernst & Whinney in Chicago.

The group is examining financial statements from the publicly held brokerages for insight into broker accounting, a procedure that differs from usual standards, and may want to make those procedures come into line with the rest of business.

"There are very few rules regarding the brokerage industry," says task force member Jerry M. Miller, audit partner of Peat, Marwick, Mitchell & Co. in Los Angeles.

"This is the first attempt to codify accounting procedures in your industry," he told a group at the recent annual meeting of the National Assn. of Professional Surplus Lines Offices.

The task force was formed "to survey the accounting rules in your industry, survey rules that could be applied and opine on them," Mr. Miller explained.

"We came together to review current (accounting) practices and to see if there are any problems," not necessarily to discuss issues the group already considers problems, adds Dominic D'Adamo, vp and deputy controller for Marsh & McLennan, one of the brokerage represenatives on the task force. "It's still premature to see if there will be any results" from the group's investigation, however.

"We're a long way from conclusions," agrees member Robert H. Kaiser, vp of finance and treasurer at Corroon and Black. "I'm not sure anything has to be done to change accounting procedures".

It is "reasonable to reconsider the accounting policies of any industry," Mr. Kaiser admits, "particularly those that don't have generally accepted accounting practices."

Members of the task force are currently conducting research into specific ways in which agent/broker accounting differs from usual methods.

The way agents and brokers recognize commissions and expenses is the most controversial issue the group will tackle, Mr. Miller contends.

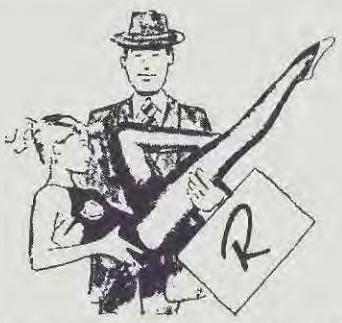
It's a cardinal rule in accounting that a company should match its revenues and expenses in the same accounting year. But brokers record expenses, which are mostly compensation costs, as incurred, and record revenues near the inception date of the policy. That date may be when the premium is billed or paid, or the policy effective date, Mr. Miller says.

"Virtually no one defers revenues over the risk period or anticipates revenues when expenses are incurred," he notes.

The theory behind this accounting practice is that personnel costs are reported through time because the brokerage receives the benefit through time. And, the theory goes, an insurance brokerage primarily markets insurance so once the policy is sold and commission received, the broker is through working.

"But that's not how it works," Mr. Miller says. Agents and brokers "provide continuing services."

Continued on next page



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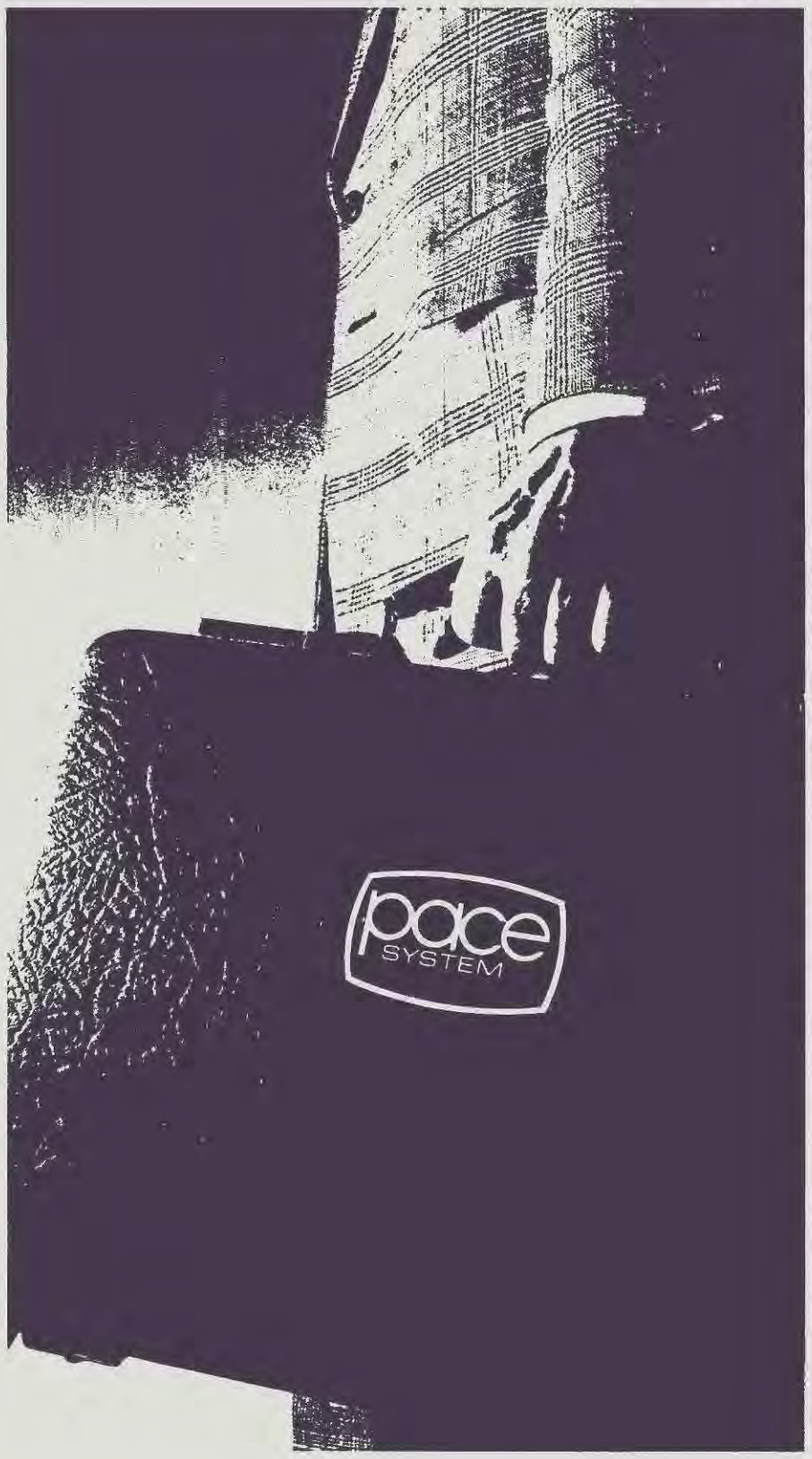

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Brokers' accounting procedures under review

Continued from previous page
Long after the policy is issued, brokers provide claims adjustment and payment, safety services, risk services and counseling on coverage. And payment practices for the brokers is changing, Mr. Miller says.

"The trend is toward fees in lieu of commissions," he says, based on the task force's preliminary investigation. For example, Mr. Miller says, a long-term client once paid a straight commission that was recognized at the date of invoice. Now the client wants to negotiate the commission. The negotiated commission is still recognized at the date of invoice, but then the client further negotiates additional safety services, for which the broker charges extra.

The broker recognizes that fee when it is paid.

The same services are delivered, but the revenues are recorded differently in the fee system.

All the alternative accounting methods try to bring revenue and expenses together in the same accounting period, Mr. Miller says.

It may be appropriate to recognize commissions during the policy term, rather than the current practice of recognizing them up front, he suggests. Or, brokers could leave commissions alone and change the practice for recognizing expenses.

If brokers are going to recognize revenue up front, they should be consistant as to which date near the policy's inception the revenue is recognized, says Mr. Kauth.

Agents and brokers should also analyze their procedures to see where expenses from marketing efforts are actually being incurred, he adds.

"Although efforts are going on continually throughout the year, there are peaks and valleys." The questions are "how do you identify them and can they be deferred" to another accounting period?

"Every member of the committee agrees that there is some amount of mismatching" of revenues and expenses, Mr. Kauth says. "But, agents and brokers are reluctant to do cost studies to determine how much."

The large brokerages may have "prima donnas" in their branch offices that bring in a lot of revenues, Mr. Kauth says. The home office may not want to have an accountant following them around to determine when they incur expenses and earn revenues, he adds.

"The home office can only hope that at least each office records revenue and expenses consistently within its own operation. The home offices aren't about to make all the offices report the same.

"The brokers do have some monitoring devices to make sure (the reporting practices) don't get out of hand," he adds. "They can detect flagrant abuses, but beyond that, they don't really have anything" to verify when branch offices incur expenses and earn revenues.

If, in the future, the accounting authorities institute a change, all major brokerages but one would have to change their reporting procedures, Mr. Kaiser says.

Small agents and brokers, however, would more likely feel an accounting change on reporting revenues and expenses far more than their larger counterparts, Mr. Miller believes. "The big brokers are a mature industry," Mr. Miller notes. "Revenues and expenses don't continually bounce through drastic peaks and valleys."

Even if a broker has to recognize revenues in a later year, the backup from years past will fill the gap, he says.

Agencies and brokerages with growing or declining revenues would also feel more of an impact from a forced change, Mr. Miller contends. They don't have an even flow of revenues and expenses to fill gaps from having to report those items in different years than they had in the past. Smaller agencies are more likely to be in a growing or declining mode, he adds.

AICPA's task force has also put broker's balance sheet presentation of the premium trust fund under their microscope. Most brokers show the premium trust fund balance as an asset and the amount due insurers as a liability, Mr. Miller explains.

Marsh & McLennan is the exception. All M&M shows is the liability to insurers net of the balance of the premium trust fund, which makes its balance sheet appear much smaller than it would if it used the asset/liability method, he says.

Either method is all right, task force members say. Standardization is the key. If all brokers reported premium trust fund in the same way, readers would have an easier time comparing the financial statements.

"In general, however," Mr. Kauth notes, "nothing should be netted on the balance sheet."

With this item, as with all others discussed by the task force, Marsh & McLennan is "keeping an open mind," Mr. D'Adamo says. "It's premature to take a stand until we see the results of the task force's efforts."

Examining purchase accounting, the task force is thinking about some changes that could be helpful to tax reports of brokers buying other agencies, Mr. Miller says. Under general accounting practices, a buyer pays a sum of money for the acquisition and forgets about the accouting history of the purchased firm, he explains.

Agencies, however, have very few fixed assets. The task force is exploring the propriety of assigning value to intangables like customer lists, business being sold when the lion's portion of the work has been done and the expertise of the personnel.

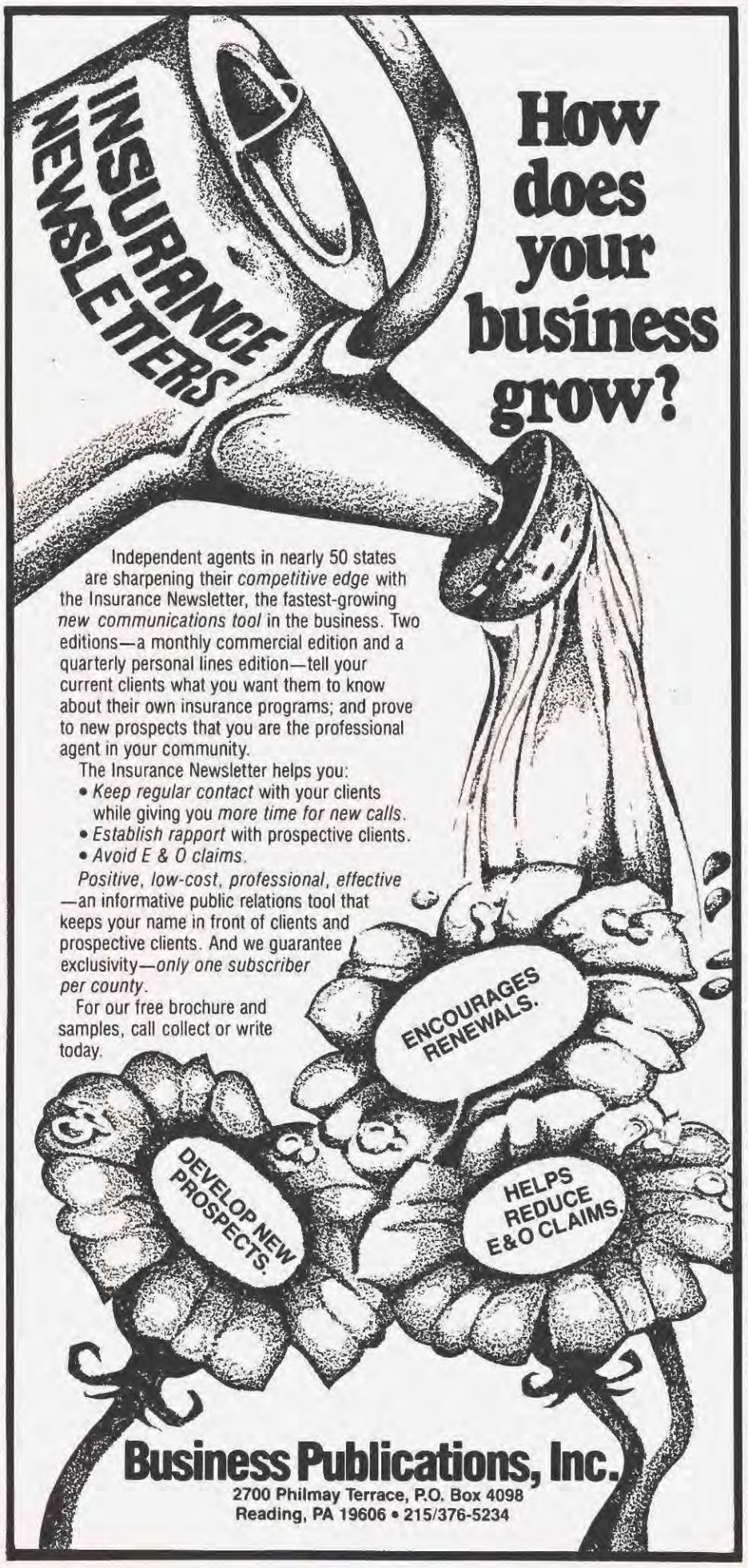
Including these and other items in the purchase price, rather than chalking them up to "good will" could be helpful for tax purposes, because good will isn't tax-deductible.

The task force won't, however, deal with all tax implications as the group specializes in financial, rather than tax, accounting, Mr. Miller said.

Other accounting practices have been thrown on the task force's table, and may be explored in the future. Those items include accounting for special types of brokerages like reinsurance intermediaries and brokerages with substantial foreign affilations.

Ultimately, the group will publish an issues paper on its findings. Then its suggestions will go through several levels of committees and can either be sent along with or without amendments, or returned back to the task force.

The end result depends on the Financial Accounting Standards Board, which could transform any recommendations into generally accepted accounting practices, according to Brian Zell, manager of the auditing standards division of the AICPA. ■



A&A establishing new money fund through subsidiary

NEW YORK—Alexander & Alexander Services Inc. is taking another step in its path towards diversified financial services sales with a new money market fund, Alpha Cash Management.

Although the investment plan is now being sold through direct-mail marketing from A&A's Atlanta security advisory subsidiary, Montag & Caldwell Inc., it may someday be marketed through A&A offices if licensing requirements can be met.

The fund was seeded with a $10 million investment by A&A.

"The Alpha cash management fund will be especially attractive to corporations as a means of investing their cash flows and adding to profits," says Montag & Caldwell President Solon P. Patterson.

"The fund's objective is to produce high current income while preserving capital and maintaining liquidity. Income will be accrued daily and either distributed in cash or reinvested monthly as additional shares at net value."

As a corporate tool, the fund could be tapped by smaller agents and brokers for use in investing

Ms. Smith

premiums held in trust for insurers.

"The fund should also be attractive for personal investment by individuals as well for retirement plans such as Individual Retirement Accounts and Keough plans," he says.

Buyers have a choice of two investment portfolios, a money market investment plan or a program of investment in government securities, adds Montag & Caldwell Secretary/Treasurer Myrtis Smith.

Firms or individuals must invest a minimum of $1,000 in the new fund and employers may offer investment in the fund to workers on a $50 per paycheck payroll deduction or automatic savings withdrawl plan.

The money market portfolio is based on certificates of deposit and other bank notes that mature in 12 months or less, according to Ms. Smith. At current market rates, it will earn about 13½% interest,

The government securities plan invests exclusively in government-issued or guaranteed securities that earn 1% to 2% less than the money market fund.

Participants in either fund may use check-writing privileges, collect monthly dividends, redeem shares by telephone or transfer cash from one fund to another by telephone, notes Ms. Smith.

Investors pay no sales charges for buying or redeeming shares.

"This represents another step in our often-stated plan to develop in the financial services areas that are compatible with our insurance broking experience," notes Tinsley H. Irvin, executive vp and chief operating officer of A&A.

A&A acquired Montag & Caldwell in 1980, marking its entry into the investment counseling field. Founded in 1945, Montag & Caldwell manages funds for institutional and individual investors throughout the United States. Clients include pension, profit-sharing and thrift plans, endowment funds and trust accounts. ■

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• **"Loss Prevention and Fire Protection for Oil Refineries"** is the subject of the Society of Fire Protection Engineers' Technology Report TR-81-8. Among the fire-prevention and loss-control methods discussed are fire water systems, fixed water spray systems, monitors and hose reels, drainage, portable fire extinguishers, control buildings, storage tank fire protection, fire trucks, utilities and training. The society has also published **"Gaseous Fire Protection Extinguising Agents for Offshore Platforms,"** TR-81-5. The report discusses the need for fixed fire protection systems for protection of offshore platforms, focusing on the three major gaseous agents now utilized: carbon dioxde, Halon 1211 (BCF) and Halon 1301 (BTM). Both TR81-8 and TR 81-5 cost $3.25 each. Write Society of Fire Protection Engineers, 60 Batterymarch St., Boston, Mass. 02110; 617-482-0686.

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• A free brochure, **"Captive Insurance Companies in the Cayman Islands,"** offers a brief understanding of captive insurance companies and the advantage that the Caymans offer the captive insurer. For a copy write Coopers & Lybrand, Box 219, Grand Cayman, British West Indies.

• Insurance Education Specialists has published a **"Handbook of Insurance Terms and Concepts."** The handbook covers more than 1,100 basic terms and concepts used by anyone who purchases insurance for business or personal use. The book explains the terms and concepts in an easy-to-understand manner. It is also cross-referenced. The book costs $6.95, plus $2.75 for shipping. Bulk rates are available. Write Insurance Education Specialists, 43 Norfolk Ave., Clarendon Hills, Ill. 60514.

• The 1982 edition of **"Best's Safety Directory"** is now available. The new edition offers insight on virtually every area of occupational health and safety. The directory has been expanded to more than 1,700 pages in 14 chapters. The directory is arranged so that all material on one given topic is stated in one section to make it easier for the user it find needed information. The directory also summarizes Occupational Safety and Health Administration general industry, construction and maritime standards and contains indexes of distributors, companies, advertisers and catalogs. The two-volume directory costs $40, or $36 for more than one edition. For more information contact A.M. Best Co., Amberst Road, Oldwick, N.J. 08858; 201-439-2200.

• A booklet, **"The Supervisor's Role in Hazard Control,"** is now available from M&M Protection Consultants, a subsidiary of Marsh & McLennan Inc. Written by safety professionals, the booklet explains how supervisors can more effectively control hazards in the workplace. Copies cost $1 each, with bulk order rates available. Contact Nancy Jackes, M&M Protection Consultants, 222 South Riverside Plaza, Chicago, Ill. 60606.

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Insurer mergers breed efficiency: Panel

By STEVE SHERWOOD

SAN ANTONIO, Texas—Mergers like the prosposed marriage of INA Corp. and Connecticut General Corp. are not only inevitable but desirable, says an insurance industry spokesman.

"I see only efficiency coming from the constellation systems of brokers and underwriters they create," says Harold H. Hines Jr., president of Ryan Insurance Group Inc. in Chicago.

Through mergers, insurers' assets can be deployed more efficiently and effectively, he says. "This is desirable. I feel it will contribute to a better insurance situation."

The combination of life, employee benefits and property/casualty underwriting ability under one efficient head enhances, rather than diminishes, capacity, he says.

Further, the joining of financial and insurance companies is also a potentially positive influence and could give the insurance industry the ability to provide a broader base of services, Mr. Hines says.

"It is not uncommon in other countries to see banks and insurers melded. Positive effects include the availability of expertise in financial areas that before were unavailable in the industry."

Ronald L. Pollard, risk manager for the city of San Antonio, says mergers between insurers and financial services-oriented companies can benefit the insurance buyers due to expanded financial services, adding that "as risk managers we're always looking for better ways to handle financial risk."

> 'Risk managers are always looking for a better way to handle their risks,' says San Antonio's Ronald Pollard

But big mergers involving insurers generally have a negative effect on agents, says Richard D. Teubner of Tulsa's Rich & Cartmill Inc. and vp of the Independent Insurance Agents of America.

"Mergers in the past were prefaced with comments that they would allow for expanded capabilities of the companies," Mr. Teubner says. "But this never happens. It cuts down on the number of places you can go for coverage. I have as yet to see any real benefit to agents."

The three men spoke last month to the Alamo Chapter of the Society of Chartered Property & Casualty Underwriters.

Discussion centered on the present and future state of the insurance industry and included discussion of the degree to which rates will harden in the near future; who is responsible for low pricing of insurance; and the role of loss pevention in the industry.

Other panel members included Harold Duble, exective vp of Highlands Insurance Co. of Houston and Theodore J. Rupley, vp of underwriting for Allstate Insurance Co. in Northbrook, Ill.

Insurance rates will increase when investment income declines, but this will be more subtle than in past market cycles, said Mr. Hines.

"I do not believe increases in rates will be as volatile as they were in 1966 and 1967," he said. "The reason is that more captial is committed to the insurance business than ever before. Lloyd's of London capital has doubled in the few years since the 1970s crisis and this lingers in the insurance industry for an aid in writing."

Lloyd's capital puts it in a position to be highly competitive when rates begin to firm, he says. "The capital base of the U.S. commercial property and casualty industry is about $25 billion and the captive insurance company base is $5 billion. That is a lot of capital. There will be a hardening (of prices), but it will be more subtle than before."

No one is responsible for the current unstable condition of insurance rates, the panel members agree. It is a product of the free market.

"In the underwriting end we like to point the finger and say, 'If you were responsible you wouldn't sell insurance at those prices,'" Mr. Duble said. But the reason insurers sell at low prices is because investment income allows them to. It is merely the system working the way it should, he said.

"I don't believe it is the fault of insurance companies or agents," said Mr. Teubner. "It is a condition of the times."

Mr. Pollard said risk managers are always pleased when they can get the same benefits for less cost, but in the long run they too are concerned about the effects low prices have on the overall market.

"There is no one responsible for this," Mr. Hines said.

"It is the market economy at work and it's marvelous. There is a question as to whether the volatility in pricing will continue. I hope so because the opposite is planned economy and the Chinese and Soviets have shown us how well that works."

Loss prevention is an unexplored area, said Mr. Duble. "In workers compensation, we could reduce the amount spent on losses enormously by flooding the work area with loss prevention techniques. But the problem is selling them to buyers. If they are not behind it, loss prevention will deteriorate."

Mr. Hines said human error is the primary area on which the industry's loss prevention efforts should be focused. "We know 95% of accidents are caused by human error and only 5% of the loss prevention is given to that subject matter."

Loss prevention, however, is effective only up to a point, he said. "If you took out all the risk, we would have nothing done. I do not think we would have economic progress without risk and with risk there will be losses." ■

Howden plans expansion

CARACAS, Venezuela—Alexander Howden Group Ltd., a British brokerage firm, is planning to expand its reinsurance activities in Latin America.

Howden, which is currently being acquired by Alexander & Alexander Services Inc., hopes to buy a 20% interest in C.A. Cover, a Venezuelan brokerage firm with which it has maintained ties for more than six years.

Howden already has interests in several Latin American nations that it shares with Cover.

Bob Naudi, who has been chief executive of Howden's international production and market division, will become Cover's chief executive in March.

"The deal should fit in well with Alexander & Alexander since it will add potential for treaty and excess of loss reinsurance brokering to its present interests in that part of the world," Mr. Naudi said. ■

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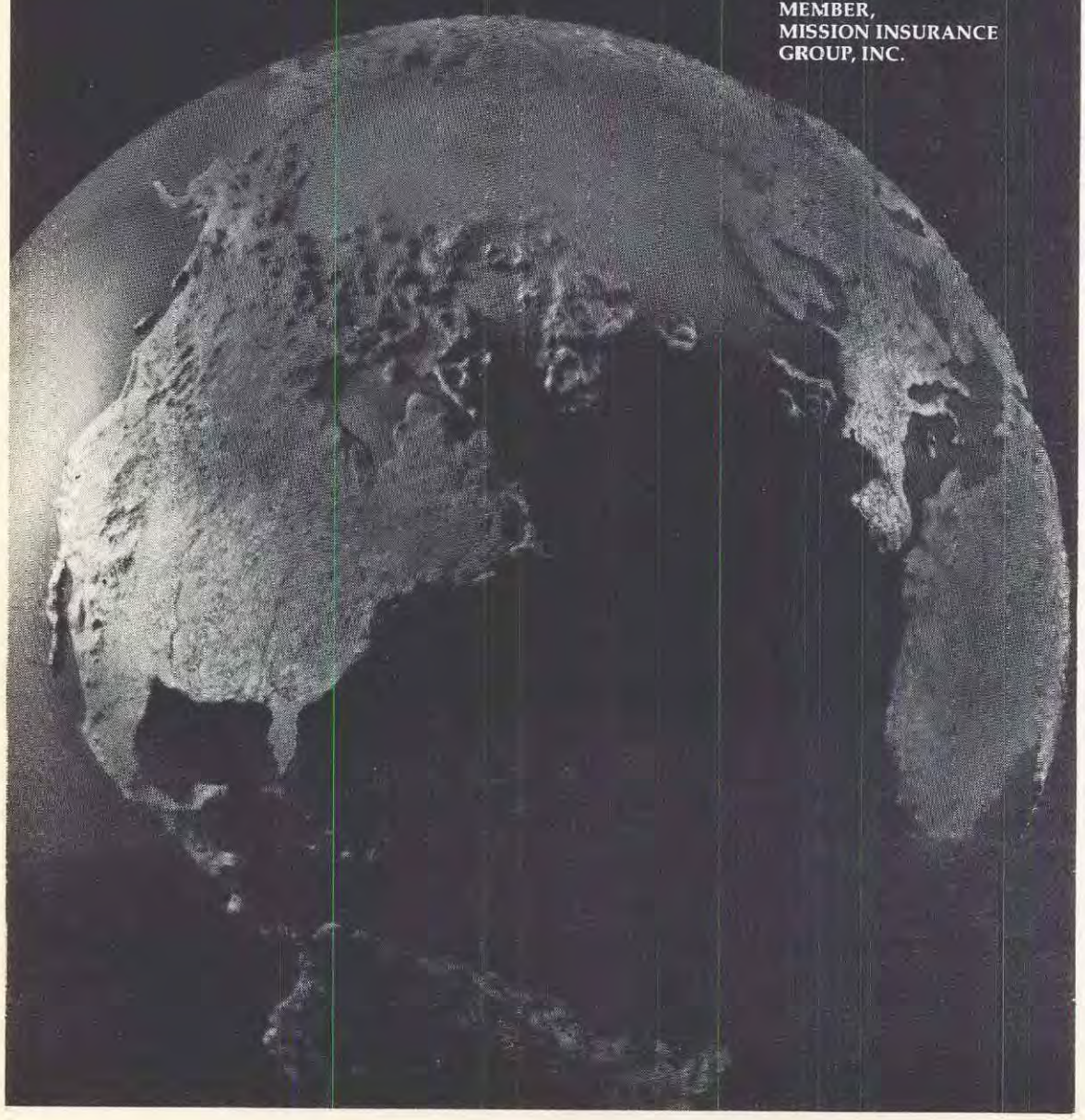

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Tobacco firms share asbestosis liability: Attorney

By STEVE SHERWOOD

KANSAS CITY, Mo.—Many insurers and asbestos manufacturers would love to see the lawsuits filed against them go up in smoke.

In a limited sense, that is what some suits may do, said one attorney versed in asbestos litigation. Smoking greatly contributes to the severity of an asbestosis victim's condition and may provide defendant companies with an effective defense, he says.

"One of the biggest problems in the defense of asbestos cases is determining whether a disability is more smoking-related than asbestos-related," said Edward J. McCambridge, who has defended Pittsburgh-based asbestos manufacturer E.K. Porter Co.

"Many people who come in with asbestosis claims have upper lung cancers commonly associated with smoking and it turns out that they are three-pack-a-day smokers," he said.

Smoking is an emotional issue and touches just about everyone, including jury members, he said.

Although he knows of no cases actually won on the merits of the smoking defense, Mr. McCambridge said, "We believe it is a strong defense and has helped cut down on damages in some cases."

He spoke to legislators attending

> 'If we have a responsibility, so should the smoking industry.'

the Conference of Insurance Legislators' annual meeting last month in Kansas City. He reviewed different defense techniques and urged lawmakers to allow the formation of defense groups in their states to help firms save money when defending asbestosis suits.

Tobacco smoking is often a large contributor to damages blamed on asbestos exposure, Mr. McCambridge said.

"Those who have been exposed to asbestos for long periods have a five times greater chance of lung cancer than normal and smokers have a 12 times greater chance than normal. Together, a smoker who has had long-term exposure to asbstos has about a 60 times greater chance of contracting cancer," he explained.

Some asbestos manufacturers believe that the smoking industry should be taken to task for its contribution to the asbestosis problem.

"What the asbestos industry is saying is that if we have a responsibility, so should the smoking industry which helped make the condition so much worse," Mr. McCambridge said. Although it is difficult to distinguish just how much damage was done by smoking and how much done be asbestos, pulmonary physicians may be able to quantify it, he indicated.

"There is a difference between lung problems associated with smoking and those associated with asbestos," he said. "As I understand it, smoking is an obstructive disease that clots the lung passages and interrupts the exchange of air. Asbestosis is a restrictive disease that inhibits full inflation of the lungs."

Two asbestosis cases filed in California against Johns-Manville Corp., one in U.S. District Court for Northern California and one in the state Superior Court of Los Angeles County, name the tobacco industry as a third-party defendant, he said. They are significant because if the jury finds the asbestos industry responsible, then turns around and finds the tobacco industry responsible as well, the tobacco industry may have to pay a proportional share of the damages.

Mr. McCambridge said important steps that must be conisdered, in addition to the smoking defense, when defending an asbestosis suit include:

- Obtaining a victim's medical history to determine whether other factors might have caused or contributed to his condition.
- Checking his union record to see if the labor organization warned him of the hazards associated with asbestos and whether he disregarded the warnings.
- Taking depositions to determine what products he was exposed to during his career and how often.
- Making sure diagnosis of the disease was correct. This includes screening those who have had tuberculosis or other diseases that resemble asbestosis.

About 25,000 lawsuits involving asbestosis have been filed to date in the United States, Mr. McCambridge said. There is potential for more since an estimated 4.5 million shipyard workers alone have been significantly exposed to asbestos. An estimated 5.6 million people will die of asbestosis in the future, he said.

The average award per case in 1976-77 was $170,000, although this has gone down a bit in the last couple of years, he said.

To reduce litigation costs, Mr. McCambridge urged COIL members to support legislation in their states that would allow defendants in cases involving asbestos and other toxic substance to pool their legal resources.

"In many cases there may be one plaintiff but 30 defendant companies," he said. By forming defense groups, one company's attorney can do one part of the basic work while the others handle other aspects, saving a great deal in legal fees and time.

"Most courts are allowing the formation of defense groups to expedite litigation and I believe that if this were codified throughout the country, it would be to the advantage of both defendants and claimants," Mr. McCambridge said. "They could get in and out of court more quickly."

Defense groups will become even more important because of recent suits that have leaned toward the exposure theory rather than the manifestation theory, he said. The exposure theory holds that insurers of an asbestos manufacturer during the time a worker was exposed to asbestos are liable, while the manifestation theory holds insurers covering the manufacturer at the time the injury appears liable.

A recent appellate decision in the Keene Corp. vs. INA case expanded insurer liability further (*BI*, Oct. 12), but all the coverage theories guarantee there will be numerous defendants in toxic substance suits. And these suits lend themselves well to defense groups.

"We are now on the tip of the iceberg of toxic litigation," Mr. McCambridge said. "We will see a multitude of cases involving benzine, plasticizers, polyvinyl chloride and others now determined to cause cancer.

"What happens in asbestos cases in the near future will determine what happens in these similar cases for the next 50 years." ■

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Florida legislator sheds light on fading law

By STEVE SHERWOOD

KANSAS CITY, Mo.—The sun is setting on Florida's insurance code, but not before the insurance industry and other special interest groups have had their say, members of the Conference of Insurance Legislators learned here.

As the deadline for the code's renewal draws near, Florida legislators, regulators and special interest groups are readying proposals for which sections should be kept and which discarded.

No-fault auto insurance, insurance excess profits laws and regulations governing self-insurance in Florida are all up for review, renewal or oblivion under the state's legislative sunset system.

Other hot topics will include unfair trade practices rules and ideas about catastrophic health insurance.

About 1,004 separate sections of the insurance code, excluding the recently passed Florida Wage Loss Law, will be under scrutiny, Rep. Tom Gustafson, chairman of the Florida House Insurance Committe, says.

This includes the sunset law itself. If not renewed, it too will pass out of existence.

"The sunset process is simple," says Rep. Gustafson. "As of 1982, we won't have an insurance code unless it is enacted by consent of the Legislature and not vetoed by governor."

Florida's Regulatory Reform Act of 1976 set the potential for the code's demise. The law requires the Legislature to fully review and act upon the state's insurance code every 10 years beginning in 1982. The object of the review is to determine whether regulations are still necessary and to make sure regulations do not adversely affect the marketplace.

"All the sacred cows are available to be talked about," he told legislators from 30 states attending COIL's annual meeting here last month.

"Often you get a good idea for a reform in the House but can't do anything because the Senate blocks it. Sunset changes all that."

The Florida insurance code governs an industry that generates $107 million in premium taxes each year, has total assets of $11 billion, a $500 million annual payroll and 47,000 employees, he said.

Rep. Gustafson's committees started early to get special interest groups working on their proposed changes, he noted. "We've been trying to establish a means to fairly debate the current code and come to a consensus on the best way to approach the problem."

The Florida Insurance Department submitted its proposed changes April 1 and then insurance industry and other interested groups followed with their own proposals on June 15.

In July, the insurance department filed its rebuttal and the committee started its workshop sessions, he said.

Rep. Gustafson hopes a final proposed bill will be be ready for presentation to the Legislature within the first two weeks of the 1982 session.

"I hope through a three-week period we will be able to pick among the reasonable alternatives and have it out by mid-March to give us time to fix it up."

A coalition of 20 insurers and the Florida Assn. of Insurance Agents called the Last Manifesto began reviewing the code in December of 1979, a spokesman said.

"The industry recommends retaining about 80% of the code. Changes recommended for the remaining 20% are mostly technical," he explained.

Public discussions will likely focus on only about 5% of the code, he said.

The Last Manifesto's top priority is the preservation of no-fault auto insurance. "Florida's present no-fault law makes auto insurance more affordable," the spokesman explained.

"The law not only helps keep premiums under control, but helps keep down the cost of products that consumers buy from businesses which pay their own auto insurance premiums."

The insurance industry also recommends changes that would eliminate a temporary auto and workers compensation insurance excess profits law and cut down on "frivolous" lawsuits.

Agents and insurers would like to have court costs for lawsuits aimed at determining which insurance coverage applies to a particular loss charged to the loser in the suit, the Last Manifesto spokesman said.

Rep. Gustafson told COIL members that encouraging and developing communication with known experts and special interest groups is essential to the success of any sunset process.

The sunset law has forced all those involved to work together well in advance of the 1982 deadline, he said. Sunset itself may make possible reforms that otherwise might not come about.

"Unless you hold a gun to everyone's head, you don't get the job done," he said. ■

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High comp awards spur mergers in Australia

worldwide

LONDON—Combined ratios of 130% and escalating workers compensation awards are causing some insurance companies in Australia to shut their doors.

But they're reopening those doors with new names. To survive down under without going under, some insurance companies are merging.

The latest of the Australian insurance companies to merge are Prudential Cornhill Ltd. and Phoenix Assurance Co. of Australia.

Both of the companies have compiled huge 1980 underwriting losses, similar to those of their competitors, says Gordon Wood, overseas general manager for Prudential Assurance Co. Ltd. in London.

"There have been very severe results in Australia which have been the worst anywhere in the world," said Mr. Wood.

"One of the problems is keeping one's expenses down, depending on the size of the operation," he explained.

Fierce competition and high interest rates have caused insurance companies to lower their premiums below profit standards, Mr. Wood said.

"It's meant cutting rates," he explained. "The market of 14 million people is not big enough to take on 250 insurance companies with profit returns."

Last year, Prudential in Australia had an underwriting loss of 2.2 million pounds.

Adding to the insurers' troubles, an Australian court ruling has set a new precedent for workers compensation awards, Mr. Wood commented.

"The court adopted a different criterion," he said. The court ruled that insurers must take inflation and interest rates into account from the time of the accident when paying damages.

But with the merger, Prudential will be able to keep costs down and not pull out of Australia altogether, he said.

"Had we decided to take the option of pulling out, we wouldn't have merged with Phoenix," said Mr. Wood.

"The Australian market still has potential and may improve."

This is the second merger for Prudential in Australia.

Only two years ago, Prudential merged with Cornhill Ltd. to form Prudential Cornhill Ltd. Prudential owned two-thirds of that company, with Cornhill owning the other third.

The new company, if approved by Australian authorities, will be called Phoenix Prudential Insurance Co. of Australia.

Soviet shipping

MOSCOW—Marine insurers in Western Europe are studying a proposal to send goods from Japan to Europe by rail through the Soviet Union, instead of using the regular sea routes.

A report prepared for the International Union of Marine Insurers says that "on the whole, this mode of transport is considered a relatively safe one.

"The freight rates are lower than by sea and the volume of cargo can be increased."

But the report recommends that delicate materials be shipped by sea because the goods would not have to be handled as often.

Also, Soviet authorities sometimes open freight containers for investigation. Claims have arisen when goods were badly repacked after such an inspection, the report says.

Other specific problems reported to the insurers include frost damage due to intense winter cold and damage caused by vibration or leaking containers.

The report says that there have been difficulties in collecting claims for damaged shipments from Soviet carriers.

Experts say that by using the Trans Siberian Railway, the shipping time from Japan to Europe can be cut to 50 days, a big savings over ocean shipments.

However, the travel time through Siberia could be multiplied by a factor of three during the bitter Arctic winters. Thus, goods would be transported by ship during these times. ■

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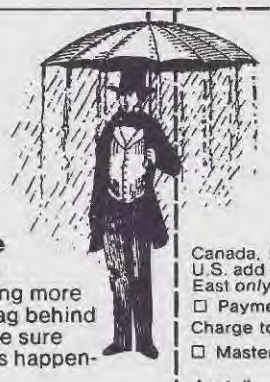

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Victoria Parliament takes up safety act

MELBOURNE, Australia—The Parliament of the province of Victoria is again considering the Industrial Safety, Health and Welfare Act of 1981.

The bill, which was introduced in the spring session, would centralize the current abilities of several agencies to regulate workplace safety. Observers say that if the legislation passes, it would have far-reaching effects on commerce and industry in the province.

The bill would provide for:

- Regulating the handling and storage of materials in workplaces.
- Requiring the appointment of safety supervisors and the election of safety representatives and committees. Their powers and duties could also be prescribed.
- Requiring first-aid facilities in workplace. Medical training, equipment and the duties of medical personnel would also be open to regulation.
- Requiring employee medical examinations.
- Requiring competency certification for different classes of workers.

In addition, all employees would be required by the legislation to work in a safe manner to ensure the safety of their fellow workers and to cooperate with all safety requirements. ■

riskWatch

Eddie continues carrying the torch for improved safety

By LEN STRAZEWSKI

War isn't healthy for people and other living things.

That slogan, a popular poster during the hip 1960s and early 1970s, was referring to the Vietnam War. But it could be referring to just about any of the little wars we fight every day.

The government is fighting a war on inflation and rising costs. Private industry is fighting the war on overregulation and underproductivity. Women are fighting the war on sexism. Macy's wars with Gimbel's.

No one thinks these wars are dangerous—except Eddie the Torch.

Mr. Strazewski

The Torch got his nickname in three ways. He fell in love easily and frequently and oftened carried the torch for months. He liked to wear loud orange shirts and smoke smelly cigars at parties. And as a somewhat reckless youth, he also liked to build homemade incendiary devices in the privacy of his own dormitory room, using books and plans he borrowed from the Reserve Officers Training Corps library.

In time, Eddie matured, leaving behind his youthful follies but not his torch.

When he graduated, he found a job in his natural field of interest. He became a safety inspector for a large national retail chain, making sure stores wouldn't blow up and employees wouldn't kill themselves.

A natural job. After four years of hair-raising collegiate adventures with firebombs, shotguns and other "toys," Eddie knew all there was to know about arson, accidents and survival. For two years, he taught safety rather than taunting it, traveling around the country to various stores and warehouses.

He didn't like what he saw. Managers ignored safety instructions for various reasons. They were overinventoried and didn't have the space to stack stored products correctly. They were taking inventory so they didn't have time to teach temporary help proper lifting techniques. They were losing business to the department store down the street so they didn't have time to discuss blocked exits, fire doors and the greasy rags in the backroom. They didn't like anyone, OSHA or their own inspectors, telling them what to do.

The Torch complained to his boss. He was reassigned to judging the annual safety poster contest. He quit and enlisted in the Army, where at least people are supposed to work together.

The Rangers were supposed to be the best outfit in the Army so Eddie tried out. He was doing fine until the Ranger swimming test, which was held in a river in December. The water temperature was just above freezing. The Torch got frostbite and when he got out of the hospital, he was told that his swimming was fine, but he wasn't tough enough for the Rangers.

So the Army made him an officer and put him in charge of training raw recruits. He was doing fine until just recently.

"We had several squads—male and female recruits—out running obstacle courses. We had been at it all day and everybody was pretty beat, but my captain got it in his head that he could prove male soldiers were clearly better than female soldiers. He started running contests of men vs. women—over and over again," the Torch related during one of his commando-like visits to Chicago.

"I didn't think it was such a hot idea because everybody was pretty tired."

The Torch complained and was told that good junior officers kept their mouths shut. The next time the Torch spoke it was to the medics who airlifted two female recruits with fractured hips.

"Who's a better soldier wasn't the point. It was just stupid to run contests on particularly dangerous ground with trainees who were dog-tired. The captain had no understanding of even the most rudimentary rules of safety. He had some other goal in mind.

"It was just like some of the companies I've seen. All they care about is production and efficiency. They want to win division awards so they work people overtime, use swing shifts, skimp on maintenance, ignore safety training. It's just stupid," he said.

So, of course, the Torch complained to the base commander. The captain was transferred and Eddie isn't popular among the officers.

But then, the Torch isn't really the military type. When his commitment is over, he probably will quit the Army and find a job.

I hope he goes back to being a safety manager. I like the torch he's carrying now.

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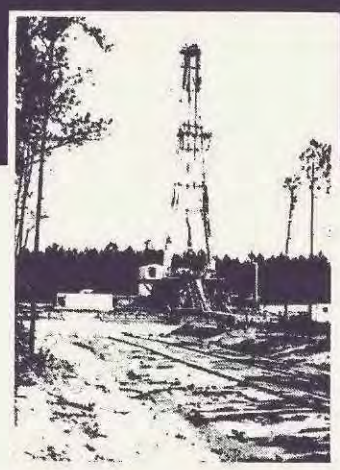

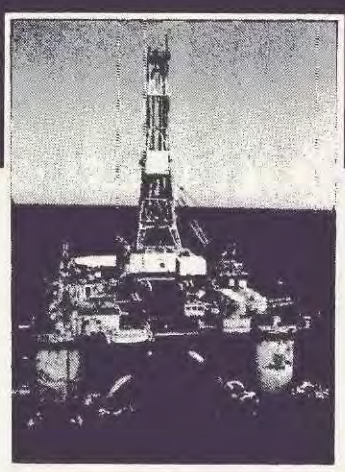

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Cash option plans compete with IRAs

Crain News Service

CHICAGO—A number of companies are considering a new form of deferred compensation plan that may be competitive with company-run Individual Retirement Account programs.

Interest in IRAs has been prompted by the passage of the Economic Recovery Tax Act, which allows tax deductions for contributions of up to $2,000 to an IRA or a company pension plan.

Some companies are planning to replace their current employee thrift plans with cash option plans, which have the same tax deduction advantage as an IRA but allow greater flexibility for withdrawals.

Among the companies establishing cash option plans or considering them are Girard Bank of Philadelphia, Bethlehem Steel, Wheeling-Pittsburgh Steel Co., Caron International in Rochelle, Ill., and American Bank and Trust Co. in Reading, Pa.

The Internal Revenue Service has ruled favorably on the new plans, which grew out of the discovery of a loophole in the Internal Revenue Act of 1978.

This ruling permits employers to set up savings plans allowing employees to defer taxes on some portion of their pay.

Because contributions can be made to the new plans on a pre-tax basis, they are similar to Individual Retirement Accounts, which under the new tax act can be set up by an employee even if he is covered by a company pension plan.

However, the withdrawal of money from the new savings plans would be more flexible. With IRAs, there is a 10% penalty for withdrawal of money before the age of 59½.

With cash option programs, employees would be able to withdraw the money without penalties not only at retirement, but for a disability, separation from service, or "upon a finding of hardship," according to regulations issued by the Internal Revenue Service.

"A distribution will be on account of hardship if the distribution is necessary in light of immediate and heavy financial needs of the employee," the regulations specify.

The regulations also indicate that the distribution cannot exceed the amount required to meet the immediate financial needs and the money should not be reasonably available from other resources.

The determination of the existence of financial hardship will be based on standards set forth in the company's plan and subject to an audit by the IRS.

Unlike IRAs, though, the employer must set up a qualified plan or convert one of its other profit-sharing, pension or thrift plans for an employee to be eligible for the tax-deferred advantages.

Employees cannot participate individually through financial institutions as they can to set up an IRA.

The maximum contributions on the new cash option plans would be 15% of an employee's income, the same as for profit-sharing plans, and the programs would be carried out through salary reduction programs by the companies setting up the plans.

For instance, if an employee earning $10,000 were permitted to defer 10% under a cash option plan his employer has set up, his W-2 form at the end of the year would show $9,000 instead of $10,000. Social Security and federal, state and local taxes would only be paid on the reduced amount.

Since this type of program would be more appealing to individuals in high income tax brackets, the IRS also has specified in their regulations that companies with such plans would have to show each year that the plans are being offered and used on a nondiscriminatory basis. A set of formulas have been estabished by the IRS to show compliance.

One firm already marketing this type of program is Johnson Cos. in Newtown, Pa.

Some of the firm's clients that are seriously looking into cash option programs include C.F. Martin Co. of Nazareth, Pa., American Bank & Trust Co., Caron International and Pittsburgh Wheeling Steel Co.

Others such as Sperry Corp. in New York, Citibank, N.A., in New York, and J.C. Penney Co. Inc. in New York have expressed strong interest on the cash option programs, but have been waiting for the IRS regulations to be issued.

Ted Benna, executive vp of Johnson Cos., says he discovered this tax shelter in Section 401K of the Internal Revenue Act of 1978 about a year-and-a-half ago.

Unsure of whether others would agree with his findings, Mr. Benna sounded out the idea with a major Philadelphia law firm and then consulted with the IRS and others in Washington.

The meetings were very encouraging and Johnson Cos. set up a plan for its own employees.

This plan was to serve as a prototype for the consulting firm which was interested in marketing its services in this area to private industry.

Named "CASH-OP," the plan was set up and received IRS approval in May. With 100 employees involved at Johnson Cos., the plan now has about $250,000 in assets.

Through a special arrangement with Johnson Cos., Girard Bank of Philadelphia expects soon to begin marketing its administrative and management expertise to firms looking to set up cash option programs, according to Joseph O'Connell, vp of the pension division.

The bank has converted its own thrift plan and expects many of its clients to be interested.

"I can't imagine that where there is a thrift plan they wouldn't look into it," Mr. O'Connell said.

Thrift plans are often the most convenient to convert to the new cash option plans because the employees already have established a pattern of putting aside a portion of their income and by converting to a cash option plan the taxes on this same money could be deferred, according to Mr. O'Connell.

Other companies might want to set up a cash option program in addition to a profit-sharing or pension plan.

The advantage of converting an established plan is that the same team of money managers and administrative machinery already in existence could be utilized, according to Mr. O'Connell. ■

Pension alternatives suggested

TORONTO—New trends in lifestyles call for greater flexibility in ideas about work and retirement.

One of those new ideas in pension reform is earlier vesting with maximum portability, according to a recent article in William M. Mercer Ltd.'s Bulletin.

"We need to define the role of Social Security and pension plans and the responsibilities of the individual, the employer and the government," the article says.

The Canadian government's Task Force on Retirement Income Policy pointed out that many of the problems of private pension plans are inherent in the nature of defined benefit plans. It proposed the gradual elimination of such plans in favor of defined contribution plans.

But Mercer says such plans are not the ultimate answer "since they rarely meet the objectives of the employees or the employer." It explains that the pensions are not closely related to earnings shortly before retirement and the employee has to bear most of the cost of the investment.

Mercer notes that the Ontario Royal Commission on Pension believes that in the long run more emphasis must be placed on the pension rights of women as workers and less on benefits arising from dependency. But it says that established dependencies must be continued to be recognized. ■

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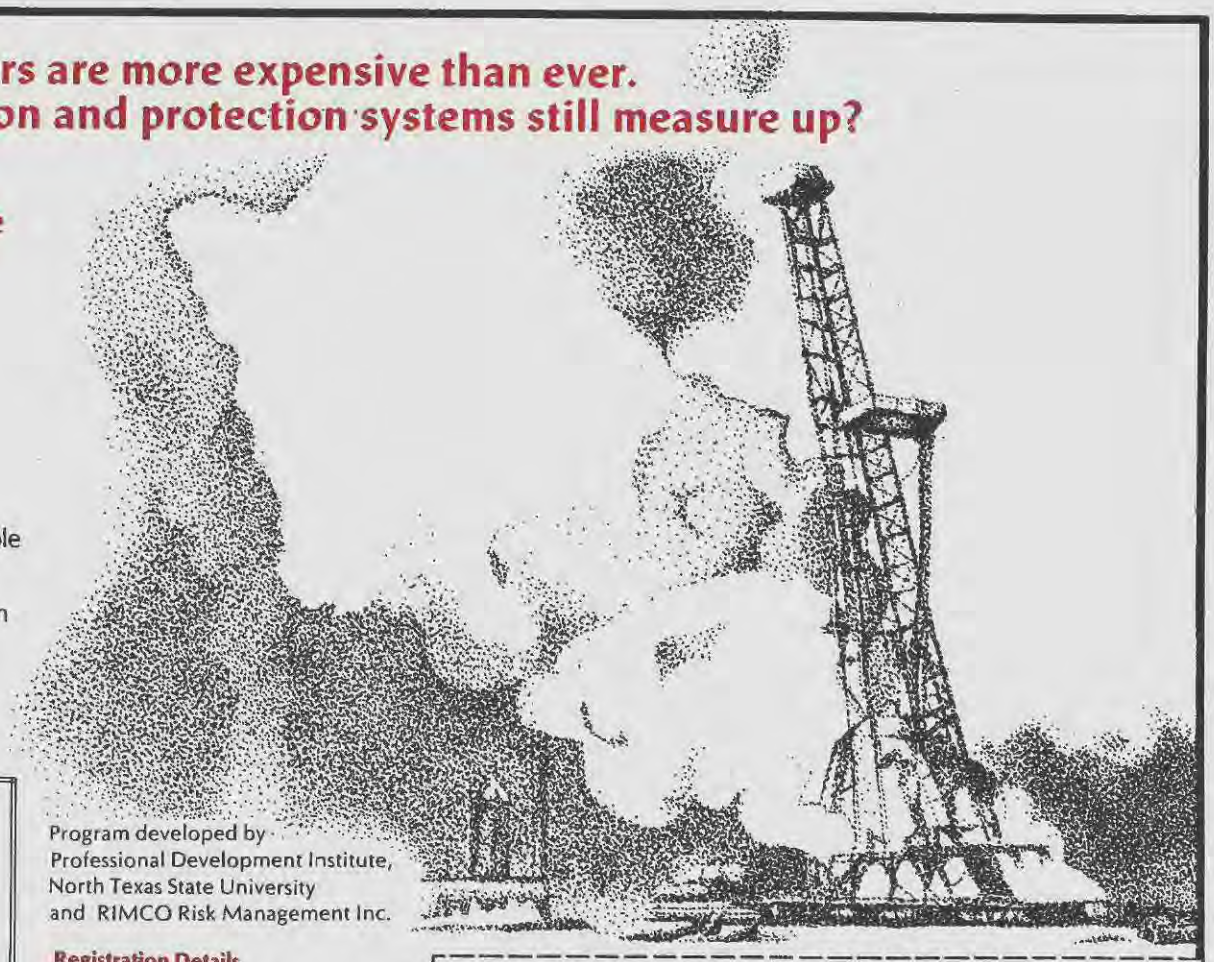

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Day-care centers' risks aren't child's play

Continued from page 3

Kindercare, which cares for 53,000 children in 726 centers throughout the United States and Canada, has a $40 million excess umbrella over a $1 million primary liability policy underwritten by Aetna Insurance Co., a subsidiary of Connecticut General.

Kindercare's primary policy includes a special product liability endorsement for Kindercare's line of toys and T-shirts that are featured in the day-care centers.

The key to control of Kindercare's liability program, according to Mr. Scott, is a student accident program that pays claims within 48 hours after they're filed.

"It solves a world of problems," he said.

Underwritten by All-American Insurance Co., the program pays hospitalization costs for children injured while they are at a Kindercare center or traveling in a Kindercare van.

IMC administers the claims and keeps track of Kindercare's losses.

Another loss-control feature helping to control the cost of Kindercare's liability insurance is the design and construction of the centers. "They're built for children," Mr. Scott explained.

"Equipment is scaled to a child's size so it's less likely to cause an accident."

Safety programs are an important feature of loss control at another chain of day-care centers, Palo Preschools, headquartered in Scottsdale, Ariz. There are 28 of the centers in Arizona, California, Colorado and Hawaii that care for more than 3,100 children.

"Our safety awareness program rewards the centers that have no accidents for one year with a monetary amount," said Buffy Owens, executive vp.

"The directors and teachers can decide how they want to use the money for the children."

Palo Alto Preschools' primary liability insurance is with USF&G, to a limit of $500,000 per occurrence.

A $20 million excess umbrella policy is underwritten by Fremont Indemnity Insurance Co. The center's insurance is handled by brokers Cash, Sullivan & Cross in Phoenix.

Large corporate providers of day care have access to insurance markets that aren't available to the majority of smaller day-care centers that are locally owned and operated and depend on local insurance agents.

The premiums for liability insurance that are paid by small, neighborhood day-care centers are "ludicrously high," contends IMC's Mr. Scott.

> 'It's difficult to say what's a good rate, for day-care centers,' Mr. Donnelly says.

Although there are two association-sponsored student-accident programs, group insurance for day-care centers' liability is virtually non-existent.

About 35 centers that are members of the National Assn. for the Education of Young Children are insured in a group plan underwritten by National Union Fire Insurance Co. through the Forrest Jones Agency in Kansas City, Mo.

Three different limits of liability insurance are available with premiums based on the average number of children in the center. Limits of $300,000 are available for about 36 per child; $500,000 for $7.50 per child; and $1 million for $9 per child.

The coverage includes liability for non-owned automobiles used to transport the children, and "has very few restrictions," according to Betty Davis, supervisor of the property/casualty department at Forrest Jones.

A new package policy for small day-care centers is being marketed by INA in all states except Texas, Mississippi and Hawaii.

Described as a "multiple peril version of our school insurance program," the INA package policy provides $1 million in primary liability insurance and up to $11 million in excess liability insurance for "about 500 to 600 day-care centers," said Robert L. Donnelly, product manager in INA's commercial property department.

"We estimate that's about 7% of the market," he explained.

The package includes coverage for teachers' liability, incidental medical malpractice and business interruption on a valued basis instead of the traditional earnings basis.

A medical payments coverage that pays up to $5,000 per accident regardless of liability is also available from INA, rated on a per-child basis.

INA's Mr. Donnelly described the premiums for the day-care center liability package policy as "adequate for the exposure. . .not excessive."

"It's difficult to say what's a good rate for day-care centers," he continued, noting the day-care industry is still in its infancy.

"No one insurance company has enough breadth of market; even the ISO (Insurance Service Office) experience for day-care centers isn't actuarially sound enough to say," he added.

The growing appeal of day care as an employee benefit will give the industry a boost and may attract other insurance markets to underwrite day-care centers, said James B. Rafferty, secretary for general liability underwriting at Hartford Insurance Co.

Hartford underwrites a few day-care centers, "but they're handled as other general liability risks," Mr. Rafferty said.

He agrees, however, that the day-care industry will grow, demanding more insurance protection.

"Day care will be the employee benefit of the future," Mr. Rafferty predicted, "as popular as dental insurance is now." ■

Photo: Lloyd M. Quinn

Caring for children, even infants, poses tremendous risks for the operators of day-care centers.

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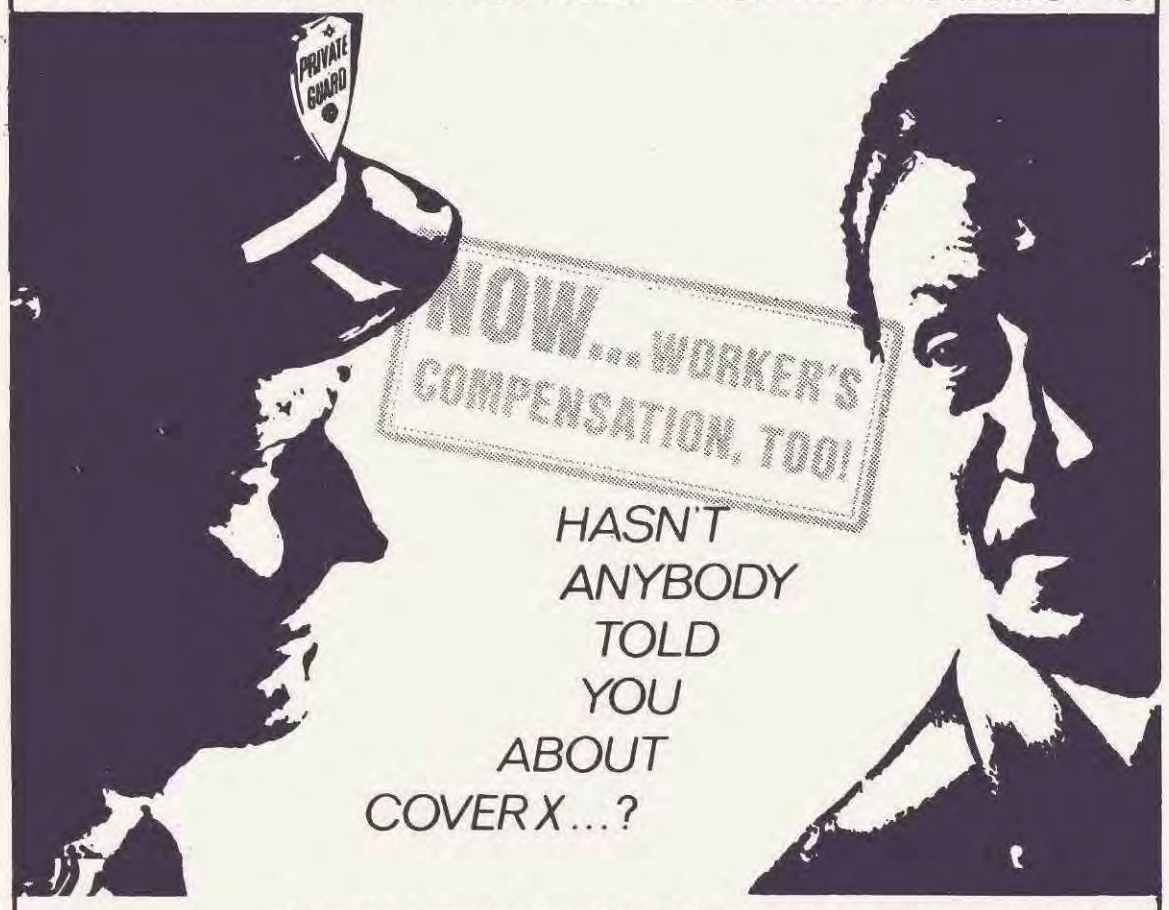

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States seeking to reduce work comp costs

Continued from page 3
law to provide workers compensation coverage to any employer who asks for it, the fund has ended up with a lot of expensive occupational disease risks from employers who use the fund for poor risks.

The governor's committee recommended that the state's licensed workers compensation insurers form a pool to share those high risks. (*BI*, Sept. 14).

But now state Rep. Roland Greenfield, D-Philadelphia, is considering proposing legislation that would abolish SWIF in favor of a new monopolistic state fund that would exclusively write all risks.

An aide admits it's going to be an uphill battle—forcing private workers compensation insurers out of a state they've been allowed to do business in for many years.

"We're pointing to Ohio as an exclusive state that worked and keeps the premium down for workers compensation insurance," said the spokesman, who adds that private insurance companies make a profit of about 15 cents to 25 cents off of every workers compensation dollar in the state.

In Maine, the Democratic speaker of the House has formed a panel of employers and insurance company and union representatives to consider setting up a state fund that would compete with private insurers.

Rep. John Martin sponsored a similar bill last year, but it failed by a very slim margin.

Of the 50 states, only Ohio, Nevada, North Dakota, Washington, West Virginia and Wyoming have exclusive state funds. Twelve other states have competitive state funds.

Other states are looking at open rating for workers compensation insurance, but only Minnesota and Oregon have been successful in passing legislation.

Under competitive rating, an insurer can use a rate and file it later with the state, rather than receiving prior approval.

Proponents of competitive rating say it forces insurers to compete for risks rather than group together and file one rate for all. Healthy competition would likely force insurance rates to drop, say backers.

In Arizona and Illinois, attempts to pass bills that would open up the market to competition have been rekindled from last year.

A committee appointed by the Arizona's governor to study workers compensation has proposed legislation favoring a competitive rating law for the state.

The Arizona committee found that the pricing being used in workers compensation "compounds consumer uncertainty and promotes suspect sales practices."

The 23-member commission, chaired by Arizona Director of Insurance J. Michael Low, found that the level of competition "was not up front with the quotation of an understandable price. . .and that the plain fact of the matter is that this kind of competition doesn't permit a consumer to make the most informed decision based upon a clear understanding of the price of the product."

He said the commission proposal not only embraces competitive rating, but also requires all insurers to participate in a uniform statistical plan and a uniform classification system (see related story).

A bill is slated to be introduced during the second week of January, says Mr. Low, who adds that if the bill were passed, a competitive rating system would start up in January 1983.

In Illinois, an open-rating bill that was stalled in committee last session is to be revived in January by its sponsor.

The director of Illinois' Insurance Department is pulling hard for the law, as are some labor groups and employers.

Michigan also has several workers compensation reform bills pending (*BI*, Oct. 19).

Republicans and Democrats both want a competitive ratemaking process, but the Democrats also want a 20% decrease in workers compensation rates effective Jan 1.

Another group of Democratic legislators in Michigan would like to imitate the Ohio Plan and freeze private workers compensation insurers out of the market with an exclusive state fund. ■

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Preserve data base: Insurers

Continued from page 3
independent rating bureaus.

Some of the competitive rating laws proposed stipulate that insurers continue reporting their loss experience and other statistics to the central data base, in most cases the NCCI.

But, the Alliance fears that the incentive to accurately report information will be lost if the rating bureau loses its power to file rate increases and decreases on behalf of the insurers, who would be actively competing for business against one another.

Minnesota and Oregon have passed competitive rating laws for workers compensation insurance with hopes that competition will drive rates down.

Other states are considering switching from the current prior approval system for ratemaking to one in which insurance companies would use the rates and file at a later date with the department of insurance.

The Alliance offered to take on the study more than a year ago to explore the trade-offs the group thought were likely to result from changes in the rating system.

It is incumbent upon those proposing reform to demonstrate the benefits of modifying the ratemaking system, says Alliance President Paul S. Wise.

"Unless we're convinced that there are substantial benefits accruing to policyholders and employees, we will not support changes in the requirements that would jeopardize the integrity of the workers compensation data base," he said.

Failure to settle could cost two companies $18.8 million

Continued from page 1
cause the case still is in litigation, a spokesman said.

Industrial Lift, which also would not comment on the case, said it is "sufficiently" insured for the award.

The case centers on an April 1977 accident at National Rolling Mills Inc., a steel fabricating company in Malvern, Pa., a Philadelphia suburb.

Fifty-six-year-old William Foley, a company maintenance worker, was walking near an outside loading dock when he was struck by an enormous Clark forklift that has a 30,000-pound cargo carrying capacity. Mr. Foley lost both his legs as a result of the accident.

According to a suit filed for Mr. Foley by Joseph Coffey, a Philadelphia plaintiff's attorney, the Clark forklift was defectively designed because the driver's vision was obscured.

It was difficult for the driver to see someone who was walking at a 45-degree angle toward the forklift, as Mr. Foley was, Mr. Coffey explained.

The forklift was additionally defective because it was not equipped with flashing warning lights or a warning bell that rings when the forklift is moving, Mr. Coffey asserted.

Adding flashing lights would have cost $100 and a warning bell would have added another $45 to the $50,000 machine, Mr. Coffey said.

Mr. Coffey said Clark believes the addition of warning equipment is something the user should decide since individual workplace conditions vary.

But such a policy is wrong, Mr. Coffey said. "The manufacturer is in the best position to know his products and how they will be used."

Mr. Coffey said he would have been willing to settle the case for between $2 million and $3 million. "The biggest mistake the defendant made was not settling the case," he said.

Mr. Coffey defended the award, which is the highest single personal injury award in Pennsylvania history.

"This is the only method that can be utilized to ensure safer products.

"Any manufacturer that gets hit in the pocket like this will make a safer product," the plaintiff's attorney said.

Mr. Coffey wouldn't discuss whether he accepted the case on a contingent fee basis or what his fee is.

Clark is expected to appeal the award. ■

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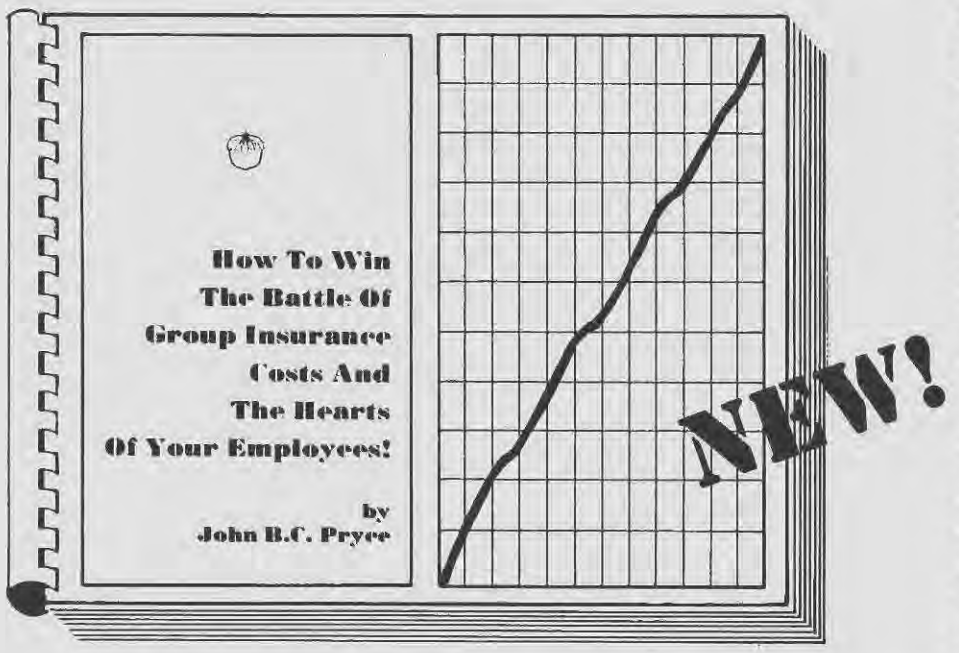

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Mendocino Plan sees results

Continued from page 3
office paid $203,000 for the 113, including the $56,500 needed to fund the $500/employee deductible. Since then, costs have grown only as the number of covered employees has grown.

The employee account is also growing and raking in investment income—interest that helps fund annual salary increases for the office of education.

Interest on money on deposit for related school districts is returned to the districts for use by local school boards for unforeseen expenses or salary packages for employees.

After two full years, there's almost $100,000 in the employee deductible account, says Ed Nickerman, the county's assistant superintendent of education. About half of the fund is used for short-term investments.

Earning a monthly peak of 14%, last year, the investments made $10,000.

"We should do even better this year," adds Mr. Nickerman. "We were able to get 16% interest rates."

At the close of a fiscal year, the education office interest is included in the office surplus and included in employee salary negotiations.

The county contract provides automatic 5% raises, but the annual surplus has doubled that percentage increase for the last couple of years, according to Mr. Nickerman.

The office and districts' employees are making the program work, he adds. "We've finally beaten the 'us versus them' attitude. We got everybody together on this."

About 30% of the program's covered employees "never touch a dime" of the $500, he says. Some 24% have health care bills topping $500 each year, while the remainder spend between $1 and $500 on health care, he says.

And the plan has deterred employees from making fraudulent medical claims.

"We know we've been able to cut minor medical abuse by about 37% and the major medical abuse by about 17%," Mr. Nickerman says.

Last year, the insurer added vision care, worth about $10,000 in premium, to the plan. This year, under a new experience-rated Blue Shield policy, the plan could save even more.

From the premium base, the program is billed for claims costs, plus 12.44% administrative costs. Any remainder is returned at the end of the year.

For example, if the plan pays $200,000 in premium and files for $100,000 in claims, it would receive about $87,000 back from Blue Shield. It will never pay more than the quoted premium.

Though it appears the county has found a benefits road paved with gold, the plan has some potential problems that are becoming more likely each year.

Inflation is the first obvious concern. Health care costs continue to rise at more than 20% a year so employees could be using up their deductible faster than ever before to pay minor bills.

"We know all about inflation and increasing costs. But we just haven't seen it affecting our program yet. Our utilization rate has stayed about the same since we started," Mr. Nickerman says.

Employees who know they are about to leave their jobs could also suddenly decide to run up a lot of medical bills, adds Mr. Nickerman. If people raid the program when they know they're leaving the district, it would increase health claim costs.

"Also, some people tend to go nuts with claims after they know they've blown the $500 deductible," he says.

To offset this worry, the program is considering establishing a secondary installment plan. Once the original $500 is spent, a new incentive—$200—would be offered to keep the employee's medical bills from reaching $1,000.

The "secondary incentive" concept is borrowed from California's Private Medi-Cal proposal which Mr. Nickerman is helping formulate (see related story). But so far, turnover hasn't been an issue since only five people have left the plan in the last two years.

For high-turnover fields, such as the electronics industry in Northern California, Mr. Nickerman suggests the plan could still work if limits were placed on the system. For example, an employee would not be allowed to join the savings/deductible medical plan until he had been on the job for one year. A more traditional health insurance policy could be purchased for new employees.

"That's what some of the lumber industries did. People want to get into this," he says.

The Mendocino Plan is being adopted by school districts, cities and private companies all over the country, Mr. Nickerman says. More than 3,000 brochures about the plan were mailed out this year, he says.

Mendocino County had to limit inclusion in its plan after it picked up all the county's small local school districts because it would have become too large to administer, Mr. Nickerman reports. But he adds that no organization is too small to use the plan.

"We started with just over 100 and it worked fine. I know one company that has 25 employees and it works beautifully for them," he explains.

The state of California has implemented the program for about 1,200 employees on a test basis, and the state of Florida is testing it in one county, Mr. Nickerman says. ■

Mendocino Plan for Medi-Cal plan?

In the wake of the success of the Mendocino County Office of Education, signatures are being collected for a California ballot initiative to replace Medi-Cal, the state's health insurance program, with private insurance modeled after the Mendocino Plan.

The initiative, called the Efficient Health Care Act, directs the state to buy $500 deductible health insurance for each Medi-Cal recipient.

The state would pay up to $500 to recipients who do not file claims over the deductible. A second $200 incentive would be established for people who exceed the first $500.

The proposal would put a $4 billion limit on health care expenditures by the state. In contrast, current spending for Medi-Cal now tops $5 billion, or about $1,800 per person.

Sources working to promote the program say the initiative may make it on the California ballot next year. ■

Architect afraid cover too small

Continued from page 2
whose wife was among the 96 injured. Broken legs and compression spinal fractures were among the most serious injuries.

The building was just five months old.

No lawsuits are known of yet, but Mr. Beardslee admits, "I imagine there will be some." And he expects the church to file a claim for its property damage, which hasn't been estimated yet. The value of the entire church is $240,000.

Mr. Beardslee's architectural errors and omissions insurance is underwritten with a $100,000 limit by the Allstate subsidiary Northbrook Excess & Surplus Insurance Co. of Northbrook, Ill., he says. The policy, purchased through Northbrook's managing general agent, Shand Morahan & Co. of Evanston, Ill., has a $6,000 deductible.

RayDec Construction Co. of Hartington, Neb., built the fellowship hall. The general contractor's primary liability coverage of undisclosed limits is underwritten by Iowa National Mutual Insurance Co. of Cedar Rapids, Iowa. An excess policy bringing coverage to $5 million is underwritten by Mission Insurance Co. of Los Angeles, says Clarence Hoesing, RayDec president.

"If need be, we're covered." says Mr. Hoesing, "but we and our insurance company believe we are blameless."

Two engineers' studies following the collapse indicate it was caused by an error in design, he says.

Jerry Cox, a partner in the Omaha adjusting firm Cox-Pierce & Associates, which investigated the collapse for Iowa National on behalf of RayDec, says, "It was obvious, to us anyway, that the liability lies with the architect."

Indications are that support columns under the cement slab floor were not strong enough, he says. "The slab weighed about 320,000 pounds and was supported by three 3-inch steel columns under a steel girder that supports a span of 30 feet." During the turkey dinner, the weight of 160 people was added to the mass being supported by the columns.

A structural engineer hired by Zion Lutheran, Max Burroughs of Kearney, Neb., declined detailed comment on his findings, but allowed, "The load on the 3-inch columns was too large."

The church is insured by the Continental Insurance Co. of New York, but the coverage is insufficient, says Pastor Williams. "When you have 96 people hurt, it is never enough."

Tom Riley, supervising adjuster for Continental, agrees the church's insurance won't cover all the damages, but Continental will start paying medical bills because the people were injured on church premises.

However, Mr. Riley contends, "We don't see that the church is liable," suggesting Continental will try to recover losses from the architect's insurer.

The church's liability insurance will pay for medical care up to $5,000 per claim to an aggregate of $50,000, he says.

"We don't know what Allstate (Northbrook) is going to do," Mr. Riley adds. "They haven't tried to settle as far as we know. We want to get this taken care of quickly because people are faced with medical bills."

Northbrook spokesmen refer inquiries to Shand Morahan, which declines to comment on Mr. Beardslee's policy.

Pension asset rule changed

WASHINGTON—Employers that want to hang on to excess pension assets when they terminate their pension plans must have a provision in their plan making it clear the extra assets revert to the employer, the Pension Benefit Guarantee Corp. said in a final rule.

Previously, an employer could keep the excess pension assets even if the company plan lacked such a provision.

The final rule was published in the Oct. 9 issue of the Federal Register. ■

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Photo: Wide World

Firefighters from many communities battled the huge blaze in Lynn, Mass., into the night.

Property insurers stung by fire

Continued from page 2

units.

The management firm released a preliminary damage estimate of $10 million.

Neither building was destroyed in the fire. According to the Massachusetts Housing Finance Administration, a private agency that makes low interest loans to public housing projects and financed both buildings, Harbor Loft 2 sustained the most damage of the two.

The coverage was placed by the Boston office of brokers Corroon and Black.

Both Employers of Wausau and the broker confirmed the coverage, but would not comment on the actual amount of insurance or reinsurance agreements.

Other insurers include:

- Lexington Insurance Co.— A $2.9 million builder's risk cover on the Marshall's Wharf Building, a structure undergoing renovation.

The Lynn Community Development and Industrial Corp., a city agency that owned the building, confirms that Lexington is the insurer.

Lexington, a surplus lines subsidiary of the American International Group Inc. in New York, would not comment.

It is not known how much of its exposure the company has reinsured. Lexington generally cedes a large portion of its business to reinsurers.

- Massachusetts Property Insurance Underwriting Assn.—A $1.5 million content cover on a number of businesses as the sole insurer, confirms General Manager John K. Golenbeski.

MPIUA operates the Massachusetts FAIR Plan, an assigned risk pool of property insurers with some 300 members.

Member companies pool all losses which exceed paid premiums, Mr. Golenbeski says. The organization's largest loss was "several thousand dollars," he adds.

- Fireman's Fund Insurance Cos. of San Francisco—$750,000 combined property coverage on three buildings. While the company has not made a final determination of loss, a Fireman's Fund spokesman says the company expects its loss will be limited to $500,000.
- Mission Insurance Group of Los Angeles—$300,000 in property coverage including sprinkler damage, written through the admitted market. A company spokesman said approximately $150,000 has been ceded to reinsurers.
- The Travelers Insurance Cos. of Hartford, Conn.—$75,000 in content insurance on two separate exposures. The company shares a $100,000 cover on one business with three other companies, a company spokesman says, leaving its exposure at $25,000. The Travelers also has a $50,000 content cover on a second business, the Colonial Bag Co., which was lost in the fire.

Lynn, a medium-sized community on Massachusetts Bay about 10 miles north of Boston, hasn't seen such a fire since an 1889 blaze wiped out the heart of its business community.

City firefighters were assisted by 84 individual fire departments, which came from as far away as New Hampshire, Rhode Island and Worcester, Mass. ■

—Reported by John W. Milligan, Lisa Bergson and James Lawson of the New York Bureau.

N.J. considers deregulation bill

TRENTON, N.J.—Insurance Commissioner James Sheeran has urged members of the state Assembly to approve legislation that would exempt some commercial insurance coverage from regulation.

The bill, S.B. 3198, would exempt commercial coverages with an annual premium of more than $10,000 for single lines of insurance and $25,000 for multiple lines. Coverages designated as special risks by the commissioner would also be exempt from regulation.

Mr. Sheeran called the proposal "a novel departure from traditional insurance regulation."

The legislation, which also is supported by Gov. Brendan T. Byrne, was unanimously passed by the state Senate in June.

If enacted, the bill is expected to promote competition in the commercial insurance marketplace and also allow the Insurance Department to devote more time to the regulation of personal insurance lines. ■

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Hotel owners join Hyatt in coverage suit

Continued from page 1
their rights, they add.

The hotel owners seek damages from their broker corresponding to "reasonable expenditures for attorneys' fees and other professional services" required to establish that they are fully insured under Hyatt's primary and excess liability policies as they had requested.

Marsh & McLennan declined to comment on the lawsuit. A spokesperson for the largest international broker, based in New York, told *Business Insurance* it is company policy not to discuss matters in litigation.

Only the Hyatt's primary and first layer excess policies clearly spell out that the hotel owners are additional insureds, according to court documents. But the suit says other excess insurance policies down the line adopt the definitions, terms and conditions of the underlying coverage.

Hallmark and Crown Center, therefore, contend that they are insured on this full $201 million line of coverage beginning with a $1 million primary policy underwritten by Occidental Fire & Casualty Co. of North Carolina and followed by a $25 million excess policy provided by Northbrook Excess & Surplus Insurance Co. of Northbrook, Ill.

Occidental, Northbrook and many of the excess insurers agree that their policies apply to the interests of Hyatt, Hallmark and Crown Center, court documents say. But four of the Hyatt's excess insurers are refusing to indemnify Hallmark or Crown Center because the companies had not been added to their policies by specific endorsement.

The hotel owners have received denials of coverage from Columbia Casualty Co. in Chicago; Centaur Insurance Co. in Chicago; Insco Ltd. in Hamilton, Bermuda, and Pine Top Insurance Co. in Phoenix, Ariz., the court papers say.

Crown Center and Hallmark say that on or before May 27, 1981, they asked Marsh & McLennan, through Hyatt, to amend each of the policies to add Hallmark as an additional insured. In or about June they received certificates of insurance from M&M showing this had been done.

But if they were not named as additional insureds, both Hyatt and Hallmark/Crown Center will try to hold their broker responsible. The policyholders ask the court to require Marsh & McLennan to pay defense costs, claims and other losses they might sustain as a result of such a coverage deficiency.

And, besides Hyatt's insurance through the Occidental line and Crown Center/Hallmark's insurance provided through a $101 million line starting with Commercial Union Insurance Co., the hotel owners claim to be covered under a third line acquired by hotel builders Eldridge & Son Construction Co. The Home Insurance Co. underwrote the builder's $500,000 primary policy and Mission Insurance provided $10 million excess coverage.

Crown Center and Hallmark have written to Home and Mission to request written confirmation that coverage under their policies extends to the hotel owners, but they have not received a response from primary insurer Home Insurance Co., the suit says.

Excess insurer Mission Insurance Co., through its managing agent Sayre & Toso, is declining to take a position on idemnification until it determines how the primary insurer will respond.

Compensatory and punitive damages now sought by the heirs and victims of the skywalks tragedy exceed $3.6 billion. Crown Center and Hallmark have been defending themselves in about 130 personal injury actions.

"Crown Center and Hallmark have incurred, and are continuing to incur, substantial defense costs, including attorneys' fees, that no insurance company has paid," says their petition.

In addition to the issue of whether the hotel owners are named as insureds on Hyatt's and Eldridge's policies, Hallmark and Crown Center are joining Hyatt to ask the court to resolve other coverage questions, including:

- In what order will insurers pay liabilities? Hyatt's first layer excess insurer, Northbrook, has filed a separate declaratory judgment petition in Illinois to carve out an answer to the question of whether the Occidental/Northbrook or the Commercial Union line of coverage is primary.
- Are insurers liable for compensatory damages and not punitive damages? None of the defendant insurance companies has acknowledged coverage of punitive damage liability, say the hotel owners.
- Are insurers Commercial Union, Occidental and Northbrook liable to defend all suits against the hotel including those that seek punitive damages?

Northbrook also has advised its policyholders that defense costs are included in policy limits, thus reducing the amount available for settlement of claims.

Court documents also describe conduct by insurance broker Marsh & McLennan that the hotel owners call dual agency and a conflict of interest.

To identify its insurance needs for the Kansas City Hyatt Regency Hotel, Crown Center retained Marsh & McLennan in Kansas City in 1980 as its broker. The broker was asked to prepare specifications describing insurance it advised the hotel owner to purchase.

After the specifications were approved, Marsh & McLennan in Kansas City was authorized to collect bids. A clause within Hyatt's management contract with Crown Center specified that the hotel owner would obtain a bid from Hyatt on behalf of Crown Center before purchasing any insurance.

But unknown to Crown Center, the only bid obtained by its broker, Marsh & McLennan in Kansas City, was the bid submitted by Hyatt's broker, which was Marsh & McLennan in Chicago, court documents say. Relying upon its broker's advice, Crown Center says it accepted the Hyatt bid.

In June 1980, Marsh & McLennan, acting as agent for Hyatt and broker for Crown Center, asked all issuers of the Hyatt insurance policies to add Crown Center as an additional named insured on each policy.

Those issuers agreed that the change would be made by writing amendments into Hyatt's underlying primary policy and first layer excess policy. Other excess policies were represented by Marsh & McLennan to Hallmark as following the form of the underlying contracts.

In November 1980, Hyatt decided to seek an increase in its limits of liability insurance and asked Marsh & McLennan to negotiate with various insurers for new or amended policies for the period between December 1980 and December 1981 or later. This additional coverage, which could have been $150 million since original specifications called for not less than $50 million, is now part of the contested coverage.

Marsh & McLennan told Crown Center it would be included as an insured under the resulting policies as it had been under earlier policies, but with higher limits. "Crown Center believed and relied upon those representations," it says in its petition." ■

Ticket surcharge stalling support for injury fund

Continued from page 3
League Players Assn. representative John D. Macik and a second helmet company official, were given the responsibility for lining up support for the foundation.

The meeting at the National Federation of State High School Assns. headquarters in Kansas City was closed to members of the press, but many participants discussed details later.

Helmet makers warned after the meeting that the survival of football may be at stake if they continue to be hit with what they feel are unjustified multimillion-dollar damage awards sought by injured players.

The latest award came Nov. 5 when an Indiana state court jury granted $5.8 million to a 21-year-old former high school football player left paralyzed below the arms by a neck injury sustained when he tackled an opponent in a 1973 scrimmage.

The jury found that Rawlings Sporting Goods Co. of St. Louis, which manufactured the helmet the youth was wearing, failed to warn that its product could not protect against neck injuries when used by a player to butt or spear an opponent.

Besides Riddell and Rawlings, there are four other manufacturers of football helmets in the United States.

"There is a meeting going on right now with Lloyd's of London about whether one of those companies is going to have any (liability) insurance at all," warns Richard A. Black, a Phoenix, Ariz., attorney who defends helmet makers in injury suits.

"And there are about 65 injury cases waiting to be tried," Mr. Black said.

He estimates that helmet manufacturers have until about January 1983 to find a way to curb high damage awards. Otherwise, most will get out of the business.

"One company has a $1 million deductible policy right now and that's the best they can get," says Mr. Black, who was also at the meeting.

"Another company has a $300,000 deductible. When you've got a $1 million deductible per case, you're not really insured, are you?"

The sports rehabilitation foundation, as envisioned by Mr. Gordon, Mr. Macik and Mr. Black, would be a $20 million, "no-fault" insurance pool to provide continuing support payments to permanently disabled athletes. In lieu of suing helmet makers or sports officials to obtain compensation, an injured player would obtain support payments and help with medical expenses from the foundation. ■

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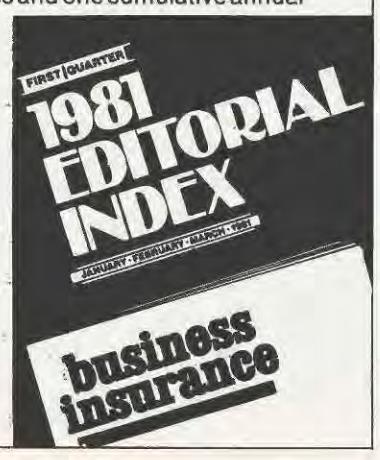

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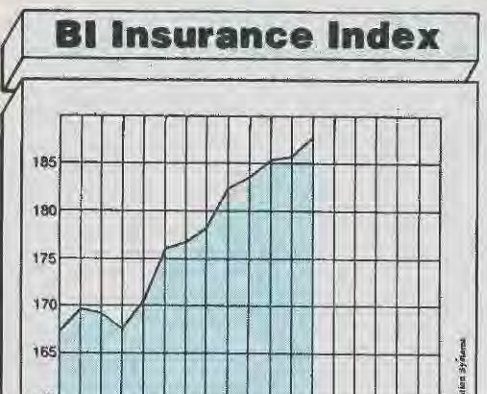

Insurance industry stocks had another good week, boosting the *Business Insurance* stock index 2.6 points to 187.9 from 185.3. Forty-three issues advanced, 21 declined and nine were unchanged. The largest gains were posted by MGIC Investment Corp, 11.7%; Armco Inc., 11.6%; CNA Financial Corp., 11.1%; Northwestern National Life Insurance Co., 8.8%; and Provident Accident & Life Insurance Co., 7.6%. Leading the declining stocks were Crown Life Insurance Co., 6.3%; Aneco Reinsurance Ltd., 4.5%; USLife Corp., 4.3%; Tokio Fire & Marine Insurance Co., 3.3%; and American Indemnity Financial Corp., 3.3%. The 1.4% increase in the *BI* index was less than the rise in the other market averages.

British Issues

12/1 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	135	8.9	16.07	11.9	136—	131
Eagle Star	328	10.5	21.43	6.5	336—	322
Genl Accident	340	7.9	21.07	6.2	344—	338
Gdn Royal Exch	310	8.2	23.21	7.5	318—	310
Phoenix	258	8.4	22.43	8.7	264—	258
Royal	355	9.7	35.00	9.9	360—	353
Sun Alliance	860	8.6	53.57	6.2	900—	860
Brokers						
CE Heath	288	9.6	15.71	5.4	310—	288
Hogg Robinson	110	8.8	8.57	7.8	110—	108
Alex Howden	135	10.4	10.71	7.9	143—	135
JH Minet	138	11.5	6.80	4.9	142—	138
Sedg Grp	141	10.2	7.50	5.3	145—	141
Stenhouse Hldg	92	8.4	6.64	7.2	94—	91
Stew Wrightson	221	11.0	17.14	7.7	223—	220
Willis Faber	370	12.7	17.85	4.8	387—	370

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

Changes in store at J&H as Hatcher takes helm

Continued from page 3

bling up independent agencies around the world, and to diversify into related fields.

For example, Alexander & Alexander, the second-largest broker after Marsh & McLennan, merged with 185 agencies in the past 12 years, while J&H acquired 25 in the past 136 years.

An important move for each of the two-largest brokers and third-ranking Frank B. Hall & Co. has been their respective mergers with British brokerage firms. True to form, J&H avers that its exclusive relationship with Lloyd's broker Willis Faber is perfectly adequate.

Also, A&A has broken ground in such non-brokerage terrain as property tax consulting, money funds and investment counseling. For its part, M&M has two subsidiaries, Putnam and Eberstadt, offering investment services.

Unlike its competitors, J&H has no plans to veer from the realm of insurance. "It might be quite something if only a year or two from now we turned out to be the last remaining pure broker," Mr. Hatcher remarks with visible pride.

As such, J&H is bent on enhancing its brokerage capabilities by the expansion of excess and surplus lines as well as programs for medium-sized companies, the development of insurance company and executive compensation consulting, the adoption of computer software and hardware, the acquisition of agencies, the addition of new offices and intensive hiring efforts.

Although some changes are still under consideration, others are in the works, such as new special risk products tied to product recall and satellite proliferation. Deep-sea farming and robotics may be next.

And Mr. Hatcher hints that next year J&H may go "hell for leather" back into personal lines—a market the company abandoned five years ago that now is enjoying a renaissance among rival brokers.

Also, in the short term, J&H plans to stress its association business, an area the firm pioneered. While this lucrative segment, which takes in captives and other forms of group self-insurance, is growing at a 50% annual rate for J&H, he believes it won't become a significant profit-center.

Most clients, he finds, eventually become self-sufficient in handling their association business so "you suffer attrition." Indeed, by 1984, he expects broker opportunities in this sector to dry up.

Meanwhile, to diversify locales and product lines, J&H will open more offices this year than it has in any other 12-month span. The firm has started new offices in Stamford, Conn., Louisville, Ky., Parsippany, N.J., and Washington, D.C. Other areas targeted for growth include the Midwest and Florida.

At the same time, J&H has begun to feel a personnel pinch that threatens to undermine its plans. "It's highly possible that we have outgrown our staff," muses Mr. Hatcher, referring to the shortage of skilled labor in-house. He estimates that the firm will need 1,500 more "seasoned" professionals over the next five years to achieve his goals. In 1980, *Business Insurance* estimates they had 5,450 employees.

For once, J&H has started to look outside, embarking on an acquisition program designed to pluck expertise from smaller agencies and firms around the country. Likely prospects include benefits specialists, with one candidate expected to add 100 people to J&H's benefit staff.

Another advantage in acquiring established agencies is access to a ready-made clientele. In the past, J&H catered primarily to corporate customers well up in the Fortune 1,000, but no more. The big multinational companies have come to represent a mature base that is becoming increasingly skilled at handling its own insurance.

Instead, "We want more medium-sized accounts and we're going after them," asserts Mr. Hatcher, pointing to firms that generate annual commissions between $15,000 and $75,000. In fact, the chief executive anticipates that 60% to 70% of J&H's business will come from these accounts in five years.

At its headquarters in New York, the firm just started a separate department, catering to medium-sized companies, according to John Keyser, a director in the property department. With 30 employees, the new commercial insurance department aims to meet the "special problems" of the insurance-buying financial officer, as opposed to the full-time risk manager.

Still, Mr. Hatcher will not foresake all company conventions. For instance, he eschews the growing tendency among brokers to administer as well as design, sell and consult on benefit plans. On one hand, by running the plan the broker tightens his bond with the client. On the other, as Kenneth Keene, a director in J&H's employee benefit department sees it, "It's both an opportunity and a risk." With inbred caution, he explains, "If you screw up a client's clerical operations, he'll throw you out altogether."

In another instance, when it comes to overseas operations, which account for 20% of J&H's revenues, Mr. Hatcher swears by the firm's historic correspondent relationships with independent overseas brokers.

He refuses, then, to even consider the acquisitive policies adopted by many rival brokers, seeking equity ownership in foreign firms as a way of gaining greater control and profit-sharing.

"We don't do that now and maybe never," says Mr. Hatcher, his Southern accent turning the last word to "nevah." "We are the client of our correspondent overseas, and when we ring their bell, they jump."

Even if J&H wanted to, critics question whether it has the wherewithal to finance a push overseas, let alone bankroll its new endeavors. But Mr. Hatcher's response is typically assured: "We've made it and tucked it away a little at a time." ■

BI ticker

Financial Briefs

Merrett Holdings

Merrett Holdings, the holding company for Merrett Syndicates Inc., Lloyd's of London's largest independent underwriting management agency, has broken time-old traditions in the market and gone public.

Merrett is offering 1.5 million ordinary shares to some of its 520 Lloyd's names and selected British institutions.

"The directors consider that it is now appropriate, in order to facilitate future expansion, to take steps to broaden the shareholder base of Holdings," said Stephen Merrett, chairman of Merrett Holdings.

"This is a stage toward a sensible evolution of our company and our group," he said. "If you'd asked me five years ago if I expected to get to this stage, the answer would have been no."

By selling 7.5% of its issued-share capital at 105 pence per share, the company will be in a better position to make future acquisitions, Mr. Merrett said. It will also be easier to purchase underwriting agencies that may go on sale if Lloyd's brokers are required to divest their agencies, as contained in the pending Lloyd's self-regulation bill.

"If an acquisition presented itself with a share exchange, then that would now be possible," he said. "One of the objectives of this move is to give us a better negotiating base when opportunities arise."

Half of the shares have been offered to Merrett's existing Lloyd's names and 130 have shown interest. The other half has been offered to a dozen British pension funds, trusts, banks and similar institutions.

Merrett's U.S. names, however, will not be able to purchase the shares, said Mr. Merrett.

"Offering shares to U.S. names is complicated by Securities and Exchange Commission regulations and it is not presently possible to offer shares to them. That I regret. However, I'd be sad if in the future we couldn't work something out."

Merrett Holdings forecasts that 1981 pretax profits will be lower than last year's. In its brochure to prospective shareholders, it predicts 1981 profits of 2.8 million pounds compared with 3.7 million pounds in 1980. Mr. Merrett attributes the decrease to a move to a new building. ■

BI Industry Stock Report

DEC. 1, 1981 — 11/24/81 THRU 12/1/81

Insurance Cos.		Price	% Chg.	P/E	$ Div	% Yld	High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	46.63	4.8	7.8	2.32	5.0	47.13*	45.50	628.7
American Bankers Ins Group	OTC	7.75	0.0	8.2	0.48	6.2	7.88	7.75	97.4
American Gen Ins Co	NYSE	43.88	0.3	6.4	2.00	4.6	44.00	43.75	16.8
American Indty Finl Corp	OTC	14.75	-3.3	6.2	1.12	7.6	15.00	14.75	6.5
American Intl Group Inc	OTC	65.75	1.5	11.4	0.40	0.6	65.75*	65.00	136.7
American Natl Ins Co	OTC	14.13	5.6	6.0	0.76	5.4	14.13	13.25	119.3
American Sts Life Ins Co	OTC	16.75	1.5	5.3	0.72	4.3	16.75	16.50	1.7
Aneco Reins Ltd	OTC	2.63	-4.5	0.0	0.00	0.0	2.75	2.63	19.9
Appalachian Natl Corp	OTC	2.31	0.0	0.0	0.00	0.0	2.31	2.31	0.0
Avemco Corp	AMEX	10.50	2.4	7.2	0.50	4.8	10.50	10.25	8.1
Banks Iowa Inc	OTC	45.00	3.4	6.6	1.44	3.2	45.00	44.50	7.0
Bitco Corp	OTC	41.00	1.9	4.8	2.16	5.3	41.00	40.50	1.5
Carolina Cas Ins Co	OTC	6.88	1.9	6.9	0.32	4.7	6.88	6.75	7.4
Central Natl Finl Corp	OTC	32.25	0.0	10.5	0.65	2.0	32.25	32.25	0.9
Chubb Corp	OTC	51.38	-0.7	6.3	2.68	5.2	52.00	51.38	172.5
Combined Intl Corp	NYSE	22.88	-3.2	5.9	1.80	7.9	23.25	22.63	92.0
Connecticut Gen Ins Corp	NYSE	53.88	-0.7	6.9	1.76	3.3	55.13	53.88	185.5
Continental Corp	NYSE	27.75	3.7	8.7	2.40	8.6	27.88	26.75	156.7
Crawford & Co	OTC	16.25	3.2	12.6	0.52	3.2	16.25	16.00	2.9
Crown Life Ins Co	OTC	75.00	-6.2	8.2	2.80	3.7	90.00	75.00*	0.5
Crum & Forster	NYSE	34.88	6.5	5.7	1.64	4.7	35.88	33.88	381.8
Employers Cas Co	OTC	33.50	-1.5	5.3	1.20	3.6	34.00	33.50	1.2
Equifax Inc	NYSE	23.00	0.5	5.2	2.40	10.4	23.25	23.00	16.0
Excelsior Ins Co	OTC	16.75	0.0	14.4	0.70	4.2	16.75	16.75	0.0
Farmers Group Inc	OTC	31.75	0.0	9.3	1.12	3.5	33.00	31.75	228.0
First Colony Life Ins Co	OTC	58.00	0.9	16.5	1.00	1.7	58.00	58.00	21.9
Foremost Corp Amer	OTC	31.25	5.0	8.8	0.80	2.6	31.25	31.00	42.3
Great West Life Assurn Co	OTC	235.00	-2.1	8.7	10.00	4.3	240.00	235.00	0.0
Hanover Ins Co	OTC	35.50	0.0	4.3	0.72	2.0	35.50	35.50	13.4
Hartford Steam Boiler Insptn	OTC	44.50	-1.1	7.8	2.60	5.8	45.00	44.50	12.0
Jefferson Natl Life Ins Co	OTC	34.00	0.7	19.5	0.64	1.9	34.00	33.75	4.9
Kemper Corp	OTC	34.38	1.1	5.4	1.60	4.7	34.50	34.00	17.7
Lincoln Natl Corp Ind	NYSE	44.00	4.8	6.8	3.00	6.8	44.00	42.75	76.0
Mgic Invt Corp	NYSE	44.00	11.7	10.9	1.28	2.9	44.00*	39.75	630.5
Mission Ins Group Inc	NYSE	37.00	-0.3	6.5	1.00	2.7	37.13	36.75	50.8
Nationwide Corp Ohio	OTC	25.00	1.5	7.7	0.70	2.8	25.00*	24.63	7.0
Northwestern Natl Life Ins	OTC	24.75	8.8	5.3	1.36	5.5	24.75	22.88	55.3
Ohio Cas Corp	OTC	46.38	0.8	7.1	2.04	4.4	46.75	46.38	76.9
Old Rep Intl Corp	OTC	19.88	-0.6	4.8	0.92	4.6	20.00	19.88	50.4
Preferred Risk Life Ins Co	OTC	21.00	0.0	5.6	0.80	3.8	21.25	21.00	4.1
Provident Life & Acc Ins Co	OTC	56.50	7.6	7.4	2.20	3.9	56.50*	53.50	37.9
Ryan Ins Group Inc	OTC	17.75	-2.7	7.7	0.12	0.7	18.25	17.75*	11.9
St Paul Cos Inc	OTC	52.13	0.7	8.4	2.32	4.5	52.50	51.75	217.1
Safeco Corp	OTC	39.25	1.3	7.5	2.20	5.6	39.38	39.13	93.3
Sri Corp	OTC	23.50	1.1	4.7	1.00	4.3	23.75	23.50	33.1
Seibels Bruce Group Inc	OTC	26.75	2.4	15.0	0.80	3.0	26.75	26.63	5.1
Statesman Group Inc	OTC	6.75	1.9	5.9	0.15	2.2	6.75	6.63	11.4

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		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Tokio Marine & Fire Ins Co	OTC	121.38	-3.3	9.7	1.00	0.8	125.75	121.38	2.7
Travelers Corp	NYSE	48.75	4.3	5.8	2.88	5.9	49.00	46.75	214.5
United Fire & Cas Co	OTC	35.50	2.9	8.1	1.10	3.1	35.50	34.50	2.5
United States Fid & Gty Co	NYSE	44.63	4.4	7.3	3.20	7.2	45.50	43.25	74.8
United Svcs Life Ins Co	OTC	15.63	-0.8	6.1	1.00	6.4	15.88	15.63	8.0
Uslife Corp	NYSE	22.25	-4.3	5.3	0.80	3.6	23.50	22.25	177.7
Washington Natl Corp	NYSE	19.13	2.7	5.8	1.08	5.6	19.63	19.13	62.2
Zenith Natl Ins Corp	OTC	16.25	4.8	8.5	0.60	3.7	16.25	15.50	12.0
INSURANCE COMPANIES	AVERAGE			6.4		4.0			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	28.25	-1.7	9.9	1.84	6.5	28.50	28.25	149.1
Baldwin & Lyons Inc	OTC	31.00	-1.6	5.4	0.80	2.6	31.50	31.00	2.3
Corroon & Black Corp	NYSE	20.38	0.6	12.1	1.76	8.6	20.38	20.25	42.5
Crump E H Cos Inc	OTC	11.50	-1.1	13.5	0.40	3.5	11.75	11.50	21.5
Hall Frank B & Co Inc	NYSE	29.25	2.2	11.0	1.66	5.7	29.88	28.63	82.0
Integrated Res Inc	AMEX	16.00	-0.8	6.5	0.00	0.0	16.13	15.75	10.8
James Fred S & Co Inc	NYSE	25.63	3.5	12.0	1.60	6.2	25.63	25.13	51.9
Marsh & Mclennan Cos Inc	NYSE	35.50	0.7	11.4	2.00	5.6	36.25	35.13	97.4
Penncorp Fincl Inc	NYSE	6.25	4.2	9.1	0.16	2.6	6.25	5.88	117.8
Pinehurst Corp	OTC	8.50	0.0	0.0	0.00	0.0	8.50	8.50	0.3
Poe & Assoc Inc	OTC	10.00	0.0	11.2	0.80	8.0	10.25	10.00	0.3
Reed Stenhouse Cos Ltd	OTC	12.25	6.5	9.7	0.60	4.9	12.25	11.38	113.1
Rollins Burdick Hunter Co	OTC	22.25	-1.1	12.7	1.32	5.9	22.38	22.25	16.0
AGENTS/BROKERS	AVERAGE			9.9		5.0			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	46.88	0.8	8.4	2.20	4.7	47.25	46.75	728.6
Anderson Clayton(Ranger/PanAm)	NYSE	26.13	2.0	5.4	1.20	4.6	26.25	25.75	27.1
Armco Inc	NYSE	30.00	11.6	3.4	1.80	6.0	30.00	27.25	304.1
City Investing Co. (Home Ins.)	NYSE	24.00	3.2	6.9	1.60	6.7	24.13	23.75	184.1
CNA Finl Corp (CNA)	NYSE	15.00	11.1	6.3	0.00	0.0	15.00	14.25	27.5
Control Data (Comml. Credit)	NYSE	37.75	-1.6	8.9	0.50	1.3	38.50	37.75	605.7
General Re Corp	NYSE	85.88	-1.3	11.0	1.76	2.0	87.25*	85.88	103.6
Gulf Utd Corp	NYSE	20.00	-1.2	6.9	1.32	6.6	20.25	20.00	208.8
INA Corp (Ins. Co. of NA)	NYSE	48.00	1.3	6.7	2.40	5.0	48.25	47.63	522.0
ITT (Hartford Group)	NYSE	30.25	3.9	8.0	2.68	8.9	30.25	29.88	901.1
Optimum Hldg Corp	OTC	11.25	2.3	14.4	0.00	0.0	11.25	11.00	3.7
Reliance Group Inc	NYSE	99.88	1.9	10.8	3.00	3.0	100.00*	99.00	259.6
Sears Roebuck & Co. (Allstate)	NYSE	17.13	3.0	8.6	1.36	7.9	17.25	16.88	927.9
Baldwin Utd Corp	NYSE	53.75	0.5	9.2	1.60	3.0	53.75	51.50*	59.8
Teledyne Inc (Argonaut)	NYSE	144.75	-0.4	7.5	0.00	0.0	145.00	139.75	266.0
Transamerica Corp (Occidental)	NYSE	23.75	1.1	6.9	1.40	5.9	24.13	23.75	160.0
CONGLOMERATES/HOLDING COS.	AVERAGE			7.8		3.2			

*Record high/low since Jan. 1, 1981. System design: Altman Infomation Systems

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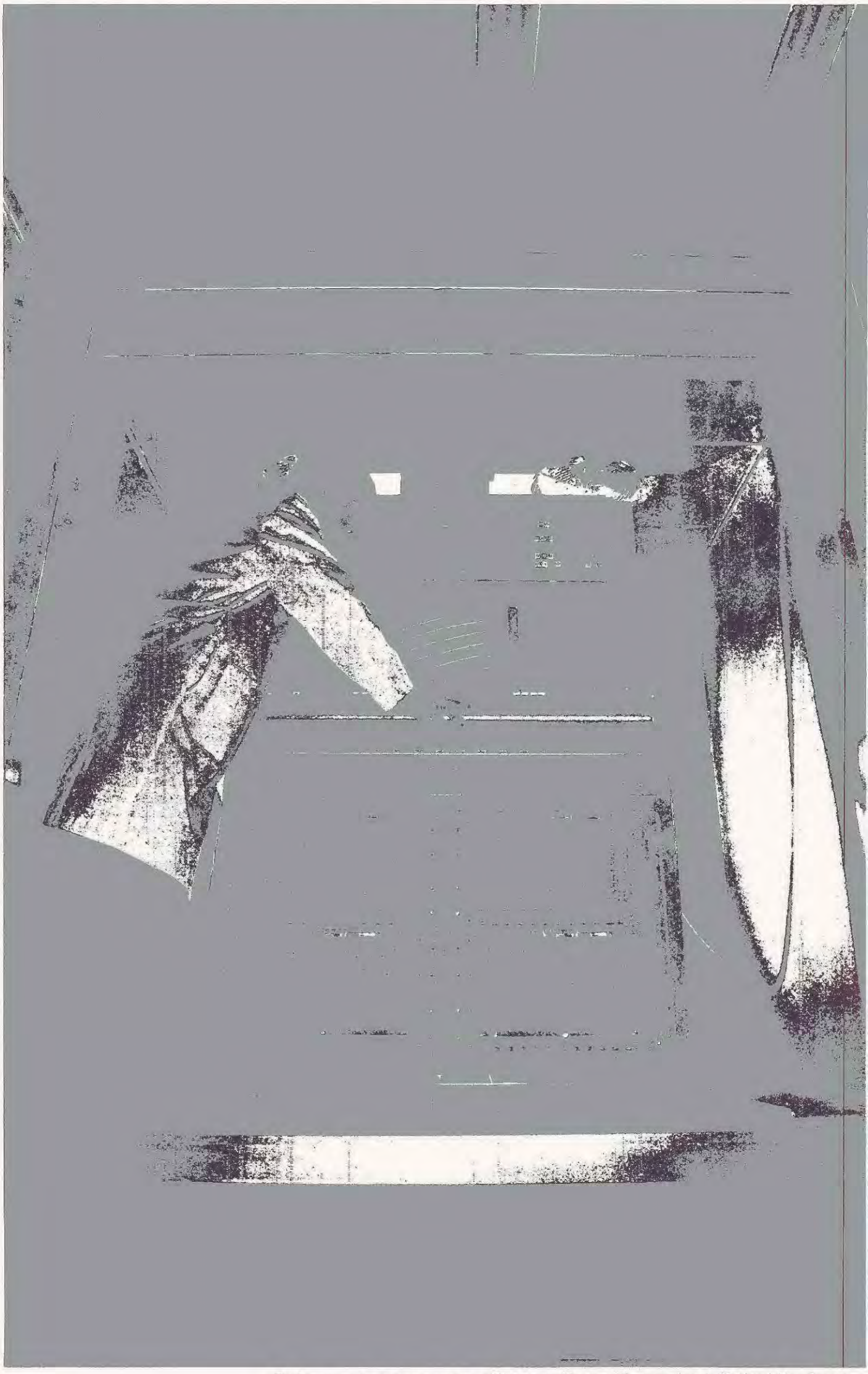

Quality inspector testing a system at Diagnostic/Retrieval Systems, Inc., in Oakland, New Jersey.

Alexander & Alexander

From the client's point of view.