

International Insurance

Whether or not you're a risk manager or benefits manager for a multinational corporation, you have to be more today than a casual observer of the international insurance scene. Your corporate risks may be only domestic, but they could end up under the nose of Robin Jackson or Peter Wilson in London, who, incidentally, don't like the smell of price competition. Your risks surely are reinsured by your insurer, and Lloyd's is a likely place since more than half of its business is in reinsurance. Developments abound in the benefits arena, with Brazil legalizing private pension plans and workers in the Middle East looking for better benefits. We've looked around the world at these issues and more in our special international section beginning on **page 17**.

Benefits float offshore

Insurance companies are launching new programs in Bermuda especially for funding the employee benefit plans of third country nationals. **Page 17**.

Buyers shop locally now

Reversing a growing trend of the last decade, U.S. firms operating overseas are starting to shop locally for some of their insurance needs. A report on the new development begins on **page 17**. An editorial comment appears on **page 12**.



'Chic' risk lures brokers

Top U.S. and London brokers are teamed up and squaring off for the insurance services account on the largest construction project and biggest risk management challenge ever encountered: the construction of two new cities in Saudi Arabia. **Page 17**.

Managing from afar

Risk managers and benefits managers identify the international insurance problems they see looming ahead. **Page 28**. They stay on top of these developments with annual trips abroad. **Page 29**.

Is it war in Iran?

Property insurance policy exclusions for war-related losses could bar some recoveries. **Page 41**.

Europe shuns product liability

The Common Market is stalling adoption of a uniform product liability law. **Page 63**. But Europe's product problems don't seem so bad. **Page 65**.

Directory briefs services

Providers of risk management and employee benefit plan services describe their wares on **pages 66-72**.

A&P rings up savings in Belgian risk market

By REBECCA A. FANNIN

MONTVALE, N.J.—A&P's insurance director is saving this financially troubled supermarket chain millions of dollars by placing its casualty insurance in Belgium.

Shunned by most major insurers in the U.S. and driven away by exorbitant premiums in London, Richard V. Porrett, A&P's director of insurance, said he turned to the more competitive and responsive Belgium market with his company's casualty risks. While there, he also lined up a novel fire insurance program.

Mr. Porrett bursts with enthusiasm while relating how he orchestrated negotiations between brokers and underwriters to place insurance coverage in Belgium that U.S. domestic underwriters would only write for several million dollars more. Mr. Porrett declined to be more specific.

This development represents a continuation of Mr. Porrett's grad-

ual shift of A&P's insurance account to the Belgian markets using Belgian brokers. More than two years ago he placed the supermarket chain's cargo coverage with overseas underwriters (*BI*, July 26, 1976), beginning what turned out to be a sequence of similar changes. During 1977, he revamped A&P's property and casualty programs, placing excess workers compensation coverage in the Belgian markets (*BI*, May 2, 1977).

A&P's casualty insurance program, which had been satisfactorily underwritten by Ideal Mutual for two years, ran into trouble last summer when A&P suffered a spate of severe trucking accidents.

Ideal Mutual acted as a fronting company for A&P, retaining a portion of the risk above the company's \$200,000 retention. Domestic insurers underwrote the higher layers. Because of A&P's poor loss experience, however, ex-

Continued on page 88

business insurance

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N.Y. senate rejects rules for insurance exchange

By ELLIS SIMON

ALBANY—The N.Y. state senate has passed a resolution rejecting the proposed constitution and bylaws of the insurance exchange.

Passage of the resolution could send the insurance exchange packing to another state to set up operations, with Illinois the most often mentioned new home for the central market facility.

The resolution by the rules committee of the Republican-controlled senate, introduced on the recommendation of the insurance committee, marks the first

significant—if not fatal—setback in New York's attempt to establish a market to compete with Lloyd's of London.

The resolution itself doesn't doom the exchange, since state Sen. John Dunne, chairman of the insurance committee, will also introduce legislation providing for a mechanism by which a revised constitution can be submitted. The governor also reportedly is harboring a contingency plan.

But industry observers said the defeat could delay opening of the exchange until after Oct. 1, the date planners said was the latest they

could begin operations if they hope to participate in 1980 reinsurance contracts.

The move to reject the exchange constitution was led by Sen. Dunne, a major supporter of the legislation that allowed for creation of the exchange. The senator had asked insurance superintendent Albert B. Lewis in late January to withdraw the constitution after Sen. Dunne raised objections to several provisions. Mr. Lewis and the Committee of 13 drafting the document refused to do so.

Sen. Dunne's main objections *Continued on page 91*



A&P property will be protected under a unique fire insurance policy negotiated in Belgium along with a multimillion dollar savings on casualty insurance.

Blues expand cost-cutting efforts despite lawsuits

By JOHN MAES

CHICAGO—Blue Cross and Blue Shield plans intend to expand their practice of denying claims for procedures they deem medically unnecessary despite legal challenges in Illinois to the ex-

isting practice.

Blue Cross/Blue Shield Assns. is recommending that member plans stop paying for routinely administered hospital admission tests for non-surgical patients. Instead, Blue Cross wants each pre-admission test to have been specif-

ically ordered by a doctor to qualify for reimbursement.

The association is also phasing out coverage under Blue Cross/Blue Shield plans for 26 laboratory procedures including various types of blood tests and skin and hormonal tests considered outmoded, unnecessary and of no medical value.

In curtailing payment for the series of hospital tests called the "admissions battery," Blue Cross/Blue Shield hopes to "encourage medical professionals to think about the costs of procedures routinely performed," said association president Walter J. McNerney. The admissions tests under

scrutiny include blood hemoglobin, urine analysis, blood screening, chest X-rays and electrocardiograms, all previously routinely paid for by the plans. The plans intend to require justification from a doctor for the tests before paying the bills.

Blue Cross/Blue Shield plans could save as much as \$200 million a year, which will hold down premium rates, said Mr. McNerney. It may be a year, however, before all 130 plans covering 112 million persons adopt the recommendation.

Plan officials say the recommendation is intended only to help cut costs, not to reduce the range of

coverage or services. "We are making no attempt to hold payment for any tests that any physician thinks he needs for a patient," said Lawrence Morris, senior vp for Blue Cross/Blue Shield Assns.

Business interest groups, insurance companies and the medical profession applaud the association's efforts to hold back rising medical costs.

The recommendations were announced in the wake of publicity in Illinois over two class action suits filed in Chicago local courts that challenge Blue Cross/Blue Shield's refusal to pay hospital bills for procedures deemed medi-

Continued on page 88

The people column
page 94

Chemical workers negotiate new work safety procedures

By REBECCA A. FANNIN

BOUND BROOK, N.J.—Workers at American Cyanamid Co. are on the offensive over safety in the workplace.

Their union, International Chemical Workers, made safety a more important issue than wages or benefits in a recent contract negotiation with American Cyanamid. The company as a result has agreed to provide workers with better information about hazardous chemicals they handle.

The union's demands were prompted by discovery of several bladder cancer cases among workers who handled betanaphthalamine, a chemical used to make dyes. Additionally, nine workers at American Cyanamid each have filed \$500,000 suits against E.I. DuPont de Nemours & Co. for producing and distributing the chemical they allege causes bladder cancer.

(DuPont is self-insured for any liability that could result from these suits, according to Edward W. Schall, manager of special litigation at DuPont. Of the nine suits, three have been thrown out in New Jersey federal court because the statute of limitations has run out, he said. Two others will be tried only partially, for cancer phobia rather than physical ailments. Four of the suits remain in full. The wives of the workers are still free to sue in all nine cases.)

While the new union contract with American Cyanamid increased workers' wages by 54 cents the first year and 42 cents the second year and expanded credits for past service applied to the pension plan, wages and benefits took a backseat to safety issues.

To keep workers posted on chemical hazards they face, American Cyanamid agreed to provide workers with periodic physicals and to report in writing any abnormal findings. Industrial hygiene tests of vapors, dust and noise will

American Cyanamid will now: label chemicals with generic names for easy identification, provide written results of physical exams and post results of industrial hygiene tests.

be posted in the factories.

Additionally, American Cyanamid agreed to provide workers with a generic listing of all chemicals used in its products and raw materials, and the safety and health requirements for each. The lists are generic so that chemicals can be easily identified. A booklet of container labels on each product will be posted in the workplace.

To discuss specific health issues, the company will provide a representative to meet with the union's safety committee and industrial hygienist.

American Cyanamid was already following a number of these procedures, according to a company spokesman. The only procedures the company wasn't previously following were generic labeling, results of physicals in writing and posting of industrial hygiene tests. The test results before were only available upon request.

Safety experts said similar provisions to ensure workers of their safety is not a new concept. "Many of these procedures are Occupational Safety and Health Act requirements," said Baruch Fellner, OSHA's counsel for regional litigation.

But the standards are different for different chemicals, according to a National Safety Council spokesman in the industrial division.

The agreement about the safety issue "amounts to a reassurance that the company shares with the employe the responsibility for a safe workplace," said an American

Cyanamid spokesman. "We've felt we've done an excellent job of alerting them of hazards day-to-day. Nevertheless, they are concerned."

American Cyanamid discontinued use of beta-naphthalamine in 1956, when it was recognized as a potentially dangerous material. DuPont had clearly labeled the product as a potential cause of bladder cancer before the product was discontinued, but American Cyanamid had followed safety precautions considered necessary at that time, a spokesman said.

American Cyanamid said only the seven bladder cancer cases reported from handling betanaphthalamine were paid out over a 30-year time span.

The discovery of betanaphthalamine as a cancer-causing substance is just one of many hazardous chemicals that have returned years later to haunt the chemical industry as a safety concern and a large liability exposure.

The problem has been especially severe in central New Jersey, home of a highly concentration of chemical plants and the highest incidence of bladder cancer cases among white males in the nation.

Because of the cancer problem in New Jersey, the state's department of health has created a cancer research division. Any cases of bladder cancer are to be reported to the division, which then follows up the reports with interviews to determine work history. The division expects to come up with 1,000 cases of bladder cancer.

First self-funded MET wins federal status; another falters

By MARY ELLEN MCKEE

LOS ANGELES—A California district court has ruled that a self-funded multiple employer trust qualifies as a bona fide employe benefit plan under the pension reform law. Meanwhile, a Michigan trust is struggling to overcome financial difficulties.

The California decision marks a departure from the recent decisions handed down by other district courts in Arizona, Kansas and Oregon where judges sided with the insurance departments that the trusts were unlicensed insurers subject to state law.

"Since this is the first time that an employer approach has been tested to a conclusion in a federal district court, the U.S. Labor Department will either have to recognize the need to regulate this area in accordance with ERISA or continue to ignore the situation," says Claude Dorais, a Los Angeles attorney who helped prepare the case on behalf of the multiple employer trust. "Frankly, I wouldn't have thought the Labor Department could have gone this long without taking a definitive stand on the regulation of multiple employer

trusts."

Insurance & Prepaid Benefits Trust (IBT) requested an opinion on its status from the Labor Department over a year ago, but hasn't received any response, according to the Los Angeles attorney. "Plan participants, administrators of plans, trustees and participating employers nationwide have been living in doubt about their status for approximately four years, Mr. Dorais complained. "These employe benefit plans want to know what they are, what they can do and what they have to do."

"The court in making this decision, will help to resolve this problem specifically for IBT and may force the Labor Department to start making some definitive responses to opinion requests of other multiple employer plans," he continued. Up to this point the Labor group has waffled on the issue, Mr. Dorais and other multiple employer trust observers would agree.

IBT, which offers life, accidental death and dismemberment and long term disability insurance as well as well-baby care, annual

checkups, inoculations and immunizations, normal maternity benefits and administration of employer self-funded plans, is administered by Insurance Benefits Inc. of Tustin, Calif.

Insurance & Prepaid Benefits Trust blends prepaid and indemnity mechanics and consequently provides a novel approach to a multiple employer trust, says Steven Barnett, vp of marketing. A participant buys two kinds of plans when he signs up with IBT.

First of all, IBT has a prepaid program in which IBT contracts with a panel of doctors, hospitals, dentists, optometrists and attorneys to provide participants with benefits, Mr. Barnett explained. Then a directory is published and circulated among plan participants so they know what facilities they can go to for benefits under the prepaid plan.

Secondly, the plan incorporates a traditional insurance program under which a participant can choose his hospital or doctor. He will then be reimbursed for the expenses incurred, Mr. Barnett said.

When one buys the options, Mr. Barnett emphasized, one buys

Continued on page 89

for your information

Wage board exempts big policies from special insurer controls

WASHINGTON, D.C.—Commercial insurance policies with premiums in excess of \$100,000 have been excluded from the Carter Administration's wage and price guidelines, but medical and dental insurers have been asked to decrease by 15% their projected increases.

The guideline, especially developed for the insurance industry because of its unique pricing methods, also excludes life insurance, ocean marine and inland marine insurance.

The council said the 15% cutback is being applied to medical and dental insurance because its premiums have been rising more rapidly than other types of insurance.

The Administration's drive for hospital cost containment legislation and limiting rises in physician's fees will help relieve cost pressure on insurance underwriters, the council added.

Ford loses suit against insurers

LOS ANGELES—Ford Motor Co. plans to appeal a Los Angeles superior court judge's ruling that the automaker cannot expect its insurers to cover punitive damages awarded in court cases against it. Judge Robert I. Weil ruled Feb. 9 in a case brought by Ford last summer against 50 of its insurance companies (BI, July 24, 1978).

Judge Weil said he was bound by a 2nd district court of appeals decision issued in January that said it would block public policy to allow a defendant being punished by punitive damages to shift those damages to an insurance company.

Ford has been hard hit by large verdicts in California. Last February, a \$125 million punitive damage award was assessed against it by a Santa Ana superior court jury. The award, later reduced to \$6.6 million, was made in a case in which a jury said Ford knowingly fitted Pinto cars with poorly designed gas tanks that ruptured upon light impact.

A few months later, a Los Angeles superior court jury ordered Ford to pay \$11.5 million, including \$4 million in punitive damages, to a man who suffered permanent brain damage when the brakes failed on a Lincoln Continental. These verdicts are on appeal.

Ford also faces criminal charges in Indiana for the gas tank design of its 1973 Pinto.

Ky. fire victims may settle suits

CINCINNATI—A \$3 million out-of-court settlement was proposed by both sides in litigation involving relatives of the 165 victims of the tragic 1977 fire at the Beverly Hills supper club and the owners of the club.

The proposed settlement must be approved by two U.S. district court judges who are supervising the litigation.

The owners of the club, the 4-R Corp., reportedly have about \$1.3 million of liability coverage. The \$100,000 to \$300,000 layer is supplied by CNA Insurance and the \$300,000 to \$1 million layer is written by American States Insurance Co. of Indianapolis.

Safety board rules on '78 crash

LOS ANGELES—The National Transportation Safety Board has determined the "sequential failure" of two tires on the left main landing gear during a critical phase of takeoff caused a Continental Airlines DC-10 jetliner to crash here March 1, 1978.

Five persons died of the 200 passengers and crew members aboard the plane which was bound for Honolulu from Los Angeles International Airport.

Only two lawsuits, both filed in Los Angeles, have been brought against the airline. Forty-four of the 100 claims filed have already been settled, said Robert Alpert, vp in charge of administrative claims for U.S. Aviation Underwriters Inc. The firm handles liability and hull coverage for the airline.

Negotiated settlements in four of the five death claims have also been reached, said Mr. Alpert, who wouldn't discuss the specifics.

The aircraft, with an insured value of \$33 million, was declared a total loss.

Labor delays retirement rules

WASHINGTON—The Labor Department now says it will be at least March before final guidelines are published on how much companies can reduce benefits for workers over age 65.

The Labor Department needs the four-month delay in issuing final guidelines to review the hundreds of comments it received from employes suggesting changes in the initial guidelines, a spokeswoman said.

The initial guidelines published in September 1978 called for limited cutbacks in life insurance, medical benefits, and long term disability coverages for workers staying on the job past age 65 (BI, Oct. 2, 1978).

The Labor Department is reportedly considering several changes in its initial guidelines, the most significant revision expected to be in the area of long term disability coverage. The department also is expected to decide whether employers will have to give credit in pension plans for pay increases earned after age 65.

index

Editorial opinions 10

Perspectives 51

Legal briefs 73

Benefit tax slants 76

Dates for buyers 77

RiskWatch 78

Info for buyers 80

Around the states 82

London line 84

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Work comp bill sparks benefit debate

By JERRY GEISEL

WASHINGTON—New legislation calling on state workers compensation programs to meet minimum federal standards is reopening a six-year-old controversy over whether the states have made sufficient progress in raising workers compensation benefits.

On one side of the controversy is a powerful coalition of insurance and business trade groups arguing that state benefit increases have been dramatic and that further increases would exacerbate growing workers compensation affordability problems.

On the other side, the AFL-CIO maintains that state benefit levels are woefully inadequate and that there is an urgent need for minimum federal standards.

Sen. Harrison Williams (D-N.J.) along with his fellow colleague on the Senate Human Resources and Labor Committee Sen. Jacob Javits (R-N.Y.), agree with the AFL-CIO and are again proposing minimum federal standards in their latest comprehensive bill (S. 420).

During the three previous sessions of Congress, Sen. Williams and Sen. Javits also introduced minimum standards bills. However, none of those bills ever made it to the Senate or House floors. Last year's bill (S. 3060) never was even voted on in committee due to its late introduction.

But this year's early introduction of the bill insures sufficient time for hearings and a committee vote.

Sen. Williams vows that the minimum federal standards bill "will be one of the top priority labor bills considered in the 96th Congress."

Business lobbyists believe a serious effort will be made to pass the bill, but they doubt if passage efforts will succeed. "There is very little support for the bill," says Robert Collyer, executive assistant of UBA Inc., a research and educational organization specializing in workers compensation. "There are few voices in the wilderness for it," he added.

"Industry is really gearing up to fight this bill," says Mike Romig, director of employee benefits for the U.S. Chamber of Commerce. "There is a conservative mood in Congress that is not going to look favorably at usurpation of state law."

Under the legislation, states would have up to two years after the bill's enactment to upgrade their workers compensation bene-

fits to comply with the proposed federal guidelines.

Even if a state were not in full compliance, an injured worker's claim still would be handled at the state level. However, after the worker received his or her final award, the worker would file a

Continued on page 90

Computer net to speed reinsurance bids

By REBECCA A. FANNIN

OLDWICK, N.J.—Here in the pine barrens of New Jersey, a project is afoot that may make it simpler and cheaper for insurers and reinsurers to find willing bidders with whom they can lay off their underwritten risks.

No longer will an infinite number of phone calls go through an endless stream of message-taking secretaries before facultative reinsurance business is ceded or assumed. Slow mail deliveries and expensive business trips may also become bygones.

A computer-driven communications network called Risk Exchange Inc. promises to bring the insurance industry into the electronics era by mid-1979.

Corporate risk managers may benefit, too. Those operating captive insurance companies may subscribe to the system and enjoy improved access to facultative reinsurance markets. Other risk managers will benefit indirectly from what is hoped will be a more efficient, less costly and quicker

method of handling reinsurance.

In the system, ceding reinsurers will sit before a computer terminal screen, typing all the necessary information into the system and transmitting the message to potential assuming reinsurers, who will answer via the computer.

REX, as the system is commonly known, initially signed up 11 backers willing to commit funds to the project, but its ultimate success depends chiefly on the number of subscribers who can be convinced of REX's value. A couple of factors could slow the progress of REX, in the works for about 10 years already. A very limited number of IBM computer terminals will be available when the project lifts off the ground this summer, and the cost may be viewed by some potential users as substantial: subscribers will pay \$800 to \$1000 monthly for IBM rentals and phone lines, plus a service fee of about 3% of written premiums.

REX's organizers, though, argue that the long-term costs will be much lower than the old labor in-

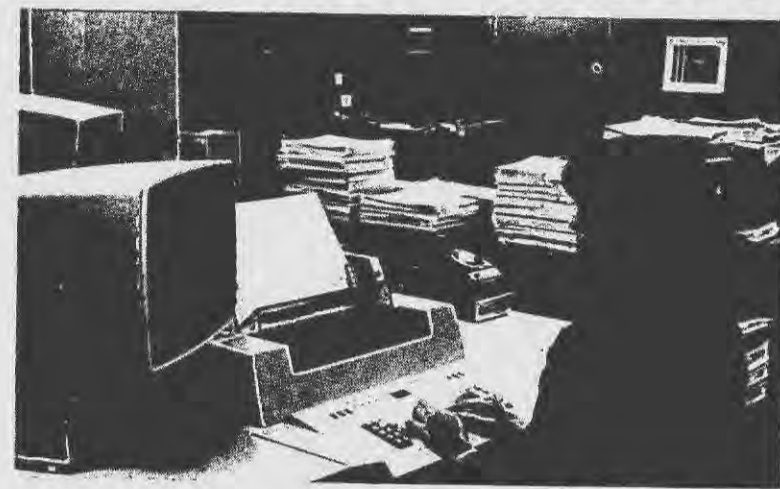


Photo: Rebecca A. Fannin

A REX employe demonstrates the computer driven communication system developed for facultative reinsurance transactions.

tensive methods of handling facultative business.

REX supporters are hoping for 80 to 90 subscribers by the end of this year, but that may be wishful thinking. Many insurers and reinsurers worry that the computers

will be so impersonal that effective underwriting will be virtually impossible.

REX has been compared to Lloyd's of London underwriting, where brokers take a "slip" around

Continued on page 90

the benefit beat

Paper workers log higher vision, medical levels

Boise Cascade Corp., Louisiana Pacific and Longview Fiber Co., three major pulp and paper companies, improved employe benefits in new contracts with the Assn. of Western Pulp and Paper Workers.

Employe benefits provision in the agreements are extremely similar, a spokesman said. At Longview, coverage under the vision plan was increased for ophthalmology and optometry to \$1,000 from \$750 and frames were added at \$18. The plan continued its coverage of eye examinations, which like all benefits is paid at the rate of 80% of reasonable/costly care.

Longview boosted major medical coverage to \$2,000 from \$1,000 for the second year. And for all the contract years, including the third, the company agreed to pick up the increased cost of maintaining benefits under the plan which is entirely underwritten by Aetna Life & Casualty.

Calif. legal plan

Prudential Insurance Co. of America will begin marketing a group legal insurance program in California in April.

The program, to be marketed by insurance brokers to corporations as an employe benefit, will combine an indemnity program and a telephone screening services which uses Group Legal Services, a six-year-old telephone group legal service of two attorneys, Blair Melvin and Stuart Baron, both of Los Angeles. Group Legal Services has a closed panel of attorneys and about 20,000 clients from approximately 460 groups, all of whom are on an employe-pay basis.

Prudential will use an open panel for the indemnity portion of the program and Group Legal's closed panel for the telephone service, said Arthur W. Bricson, vp and associate actuary.

Premiums, which have not yet been finalized, will range from \$80 to \$120 a year for a family, he said, and will depend on the composition of the covered group.

Prudential, which has been monitoring Group Legal Services for some time, has discovered that about 80% of the calls can be completely serviced over the phone, with a lawyer perhaps making additional phone calls or writing a letter. "We will use the phone service as a screening device," he explained, "with the indemnity portion of the program for the more difficult case."

California was selected as the state to launch the program because it is far ahead of other states in the acceptance of group legal practice, he said. The premiums will cover both the telephone service and the indemnity portion.

Railway clerk benefits

The Brotherhood of Railroad and Airline Clerks have

gained substantial benefit improvements in a 39-month contract with the nation's major railroads. New benefits include full payment for second opinion surgery, pre-admission testing, ambulatory surgical centers and alcoholism treatment. A benefit for alcoholism treatment provides \$50 per day for 31 days, with a lifetime maximum of \$3,000.

Improvements to existing benefits include a \$1,000 payment for surgical expenses, up from \$650. Maximum anaesthesia benefit was increased to \$250 from \$162.50. For hospital miscellaneous expenses, the benefit was increased to full payment up to \$2,000 and 80% coverage excess of that amount. Previous coverage was \$1,000 with 80% payment above \$31,000.

The new contract, effective Jan. 1, provides full payment for hospital outpatient charges, up from \$100 coverage and 80% thereafter. Ambulance expenses are also paid in full, an increase from \$25 previously. Major medical coverage was increased to full payment. Previously, it provided full coverage for amounts below \$2,000 and 80% payment for higher amounts.

Physician's fees are covered by the new plan up to \$10 per day, up from \$6 per day. Payments for home visits were increased to \$12, up from \$7.50. An early retirement provision extends benefits for workers age 61 to age 65. Changes in the dental plan include payment of \$750, an increase from \$500.

W. Va.'s first HMO

West Virginia residents are getting their first chance to enroll in a health maintenance organization.

Country Roads Health Plan Inc., licensed to serve five Southern counties in the state, charges monthly fees of \$40 for individuals and \$96 for families for almost all types of medical coverage. United Mine Workers are also eligible for the plan and pay \$118 monthly for the regular plan benefits plus eye care and prescription drugs, which their contract covers.

Gov. Jay Rockefeller predicted the health care plan could reduce hospital costs for participants by as much as 30% to 60%.

Country Roads was set up with \$700,000 in federal funds. A \$2 million loan was also applied for to finance early operations. Approximately 24 primary care doctors have signed up to service the HMO.

Cost control effort

Cost control efforts at Blue Cross and Blue Shield of New Jersey have resulted in millions of dollars in savings and greater use of preadmission hospital testing among persons covered under its group insurance plans for three quarters of

1978. Company figures show Blue Cross saved \$4.09 million for the first nine months of 1978 from benefit coordination preventing payments that might otherwise be made when a person is covered under another health insurance plan. That figure was up from \$3.48 million dollar from the savings through similar procedures in three quarters of 1977.

Blue Shield, saved \$486,049 from benefit coordination over the first nine months of 1978, up from a \$369,900 saving in a similar period in 1977.

Other savings in the 1978 period included \$337,545 from auditing claims to insure compliance with government and Blue Cross regulations, \$2.1 million from medical review of claim eligibility and \$178,148 from checking against overpayment of claims. The company also reported that 32.8% usage of pre-admission tests in hospital cases from January through September of 1978 represented an increase from 31.9% for a similar period in 1977.

Lower HMO rates

NorthCare, an Evanston-prepaid health plan HMO, is cutting its monthly premiums for subscribers over 65 and paying 80% of the cost of their prescriptions up to \$500 a year.

The move, which affects 800 of the 16,000 members of the HMO, will reduce the monthly premiums to \$17.85 from \$18.85.

Changes in the plan reflect the health care plan's discovery that its older members, all of whom are covered by Medicare program, required less costly medical services than originally projected.

Second opinion plan

The Hartford County (Conn.) Medical Assn. has begun a formal program of encouraging its members to furnish patients with second surgical opinions. Members have been asked to recommend other physicians that their patients could visit for another opinion or to refer patients to the association for assistance. In addition, doctors have been asked to provide doctors giving second opinions with medical records and test results on the patients involved. The association has no plans to study the impact of its program, noted executive director Joseph L. Gordon. The program will formalize what has traditionally taken place, he said.

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

Employers resist new pension reform law revisions

By JERRY GEISEL

WASHINGTON—Legislation to overhaul the pension reform law was hit with a barrage of criticism by government officials and employer groups at a recent congressional hearing.

Government officials and business leaders particularly lashed out at a key provision in the legislation (S. 209) that calls for creation of a single federal agency to administer ERISA, scrapping the current tripartite system of administration.

"We would prefer that the unfinished business of issuing regulations, interpretations and exemptions be completed before making dramatic regulatory shifts," Ernest Griffes, director of employe benefits at Levi Strauss & Co. told the Senate Human Re-

sources Committee for the U.S. Chamber of Commerce.

The bill's provisions providing tax credits to small businesses that start new qualified pension plans and a section addressing preemption of state law also aroused anxiety.

As a result of these and other criticisms, observers believe the ERISA Improvements Act of 1979, sponsored by ERISA authors Sen. Harrison Williams (D.-N.J.) and Sen. Jacob Javits (R.-N.Y.), will have to be revised if it is to make progress in Congress this year. A similar bill introduced last year failed to make it out of committee.

Highlights of the bill include:

- Establishing a new federal agency, the Employee Benefits Commission, to take over the present ERISA-related responsibilities of the Labor Department, the In-

ternal Revenue Service and the Pension Benefit Guaranty Corp.

- Giving tax credits, stretched out over a five-year period to companies with fewer than 100 employes and whose annual profits are under \$50,000 for starting new pension plans.

- Allowing employes to obtain tax deductions for contributions into a pension plan.

- Dropping the summary annual report.

- Saving from ERISA preemption Hawaii's prepaid health care law or any other state law that is the same as Hawaii's health care law.

Administration officials said it would be premature to establish a single agency to administer ERISA. Time is needed to see if a recently implemented reorganiza-

tion plan that streamlines ERISA regulation by clearly dividing responsibility between the IRS and Labor really works.

Furthermore, a single new ERISA agency might create more problems than it would solve. Reducing the role of the IRS in determining eligibility for tax benefits could impair equity in the tax system, noted assistant secretary of the Treasury Donald C. Lubick.

A bill provision giving tax credits to small employers starting new pension plans might invite abuse, Mr. Lubick also warned. For example, an employer might terminate an existing plan one year and then establish the same program as a "new plan" the next year in order to receive the tax credits. Such folding and resurrecting of the same pension plan could result in a considerable loss of revenue to

Treasury, Mr. Lubick said.

Business organizations representing large employers charged that giving tax credits to small employers would be unfair to big and small companies that already have pension plans and thus would not get any tax breaks.

"Employers who have not established plans should be 'rewarded' at the expense of others (including competitors) who have been more responsible," argued IBM senior counsel Robert Stone speaking on behalf of ERIC, a benefits lobbying group representing most of the nation's top 100 corporations.

However, permitting tax deductions for employe contributions to corporate pension plans got strong backing. Under the proposal, an employe could deduct the lesser of 10% of his annual income or \$1,000 from his taxes for pension plan contributions.

"We believe this provision would provide a needed incentive to greater personal retirement planning and increased contribution on the part of participant to his or her retirement security," asserted Steven Schanes, president of Schanes Associates and representing the National Employee Benefits Institute.

Significantly, the Treasury Department softened its old hard-line position against employe tax deductions for pension plan contributions. Instead of coming flat out against tax deductions, Treasury official Mr. Lubick indicated a willingness to work with Sen. Javits and Sen. Williams to reach a mutually acceptable compromise.

Business and employe interest groups, though, did clash sharply on whether mandatory dissemination of summary annual reports to pension plan participants should be eliminated.

"The summary annual report must be retained . . . if participants are to be in a position to determine whether their money is being invested solely in their interests," said Karen Ferguson, director of the Ralph-Nader backed Pension Rights Center.

But Mr. Schanes of the National Employee Benefits Institute saluted the proposed elimination of the summary annual report. The elimination is long overdue, he said, since the report has been a "substantial administrative and financial burden" to plan sponsors without being very helpful to participants.

Sen. Javits and Sen. Williams, attempt to balance the competing interests on whether ERISA prevents states from enforcing benefit requirements seemed doomed to revision at the hearings.

Some members of Congress believe states have the right to pass laws requiring specific benefits, but others contend that ERISA preempts the states from imposing benefits requirements.

The new bill would preclude states from passing specific benefit requirements, but would save from ERISA preemption Hawaii's prepaid health care law or any similar state law.

ERIC's Mr. Stone warned that exempting Hawaii's health care law or substantially identical laws would narrow the scope of ERISA preemption and open the door to multiple and potentially conflicting state laws.

Mr. Stone noted that Sen. Williams said ERISA's preemption provisions were to eliminate the "threat of conflicting or inconsistent state and local regulation."

Sen. Williams responded that the preemption language in his and Sen. Javits' new bill is a "gray area" that may need to be revised.

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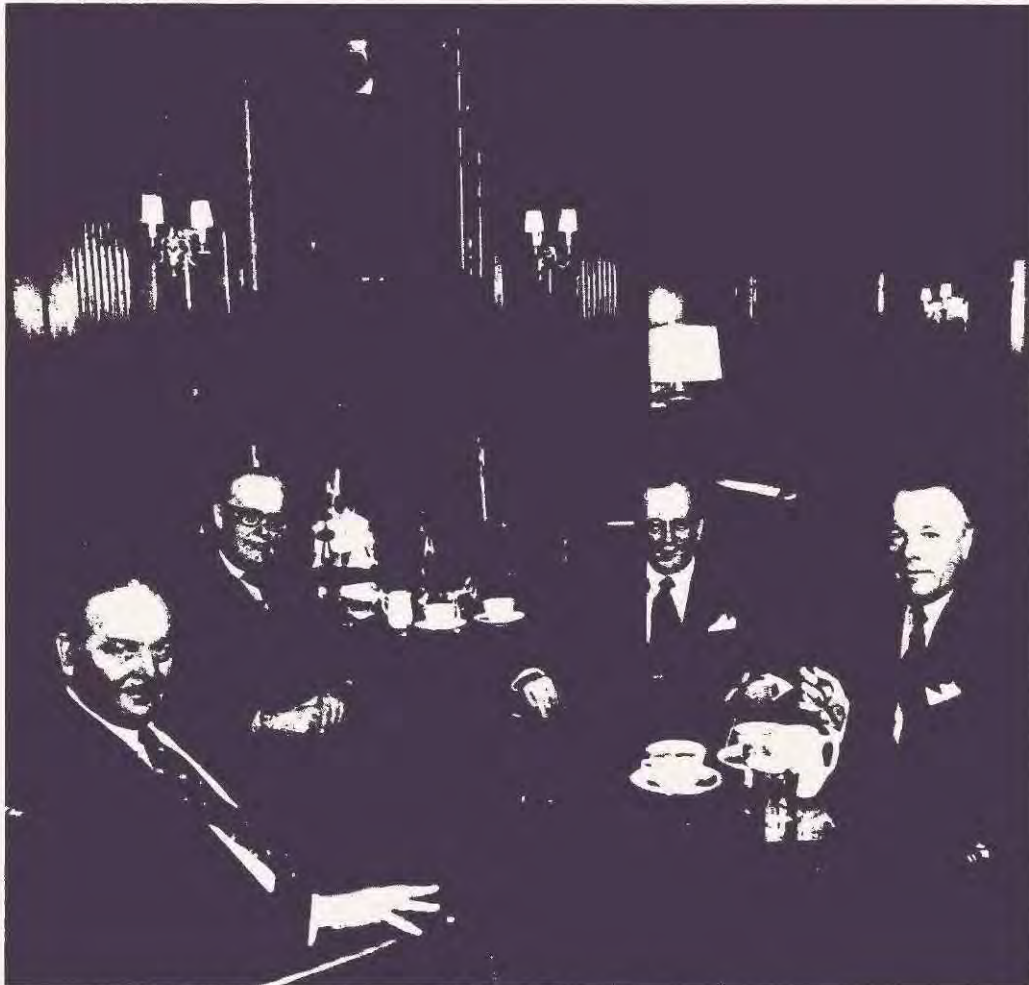
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Representatives of Willis Faber & Dumas and Johnson & Higgins meet frequently. Here the senior officers of both firms discuss recent developments. Seated (l. to r.) A. Ronald Taylor, Chairman WF&D; David V. Palmer, Deputy Chairman WF&D; Robert V. Hatcher, President J&H; Richard I. Parnell, Chairman J&H.

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Tom Wagner—Safety Administrator

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S. Calif. rate slashing may cut into market bottom

By JOANNE GAMLIN

LOS ANGELES—Premium rates on excess casualty insurance in Southern California are all headed in one direction—straight down—and nobody here knows where the bottom lies.

The competitive market is not confined to Southern California, say Los Angeles insurance sources, but here excess casualty insurance risks that a few years ago were judged to be substandard and were socked with horrendous premium rate hikes are now being offered hefty 40% to 50% premium reductions on their excess casualty umbrellas. Even routine risks are benefiting from premium rate reductions of 10% to 25%, say observers, who peg the beginning of such rate cuts at anywhere from two to nine months ago.

Meanwhile, premium rates in the property insurance market are reaching such low levels that "some companies are practically giving the clients the premiums," say the insurance industry observers. Frank Raab, president of Allianz Insurance Co. in Los Angeles, says property insurance premiums are now too low and is surprised that property insurers were profitable in 1978.

Industry experts are hotly debating whether the slashing of excess casualty premiums portends a reincarnation of the widespread rate chopping and the folding or merger of a few insurance companies that occurred in 1973 through 1975.

"It is a very chaotic market," said John Bernick, regional vp for Employers of Waussau in Los Angeles, noting that his company has no

price reduction approach. "We lost a couple of very good accounts which we should not have lost, but the pricing was so thin we felt we could not have gone any further," he said.

In the facultative reinsurance market, virtually everything Employers has done in the past "has to be remarketed or we are in trouble," said Mr. Bernick. Prices in this market are constantly fluctuating, he explained.

Brokers, insurance company executives and excess/surplus lines brokers tell tales of what six months ago would have been regarded as insanity in the insurance industry.

Insurance broker William N. Spargur, one of the principles in the six-month-old agency Virgil & Spargur of Glendale, Calif., had a

potential client with a \$5 million casualty umbrella up for renewal, he recalled. He thought he had a winning bid at \$3,600, but he lost the account to another broker who bid \$3,200, he lamented.

Meanwhile, an excess umbrella on a chemical risk that a Southern California company offered to write for \$50,000 was written for \$16,000, according to a company official. A \$1 million umbrella for which the same insurance company quoted a price of \$35,000 was ultimately written for \$11,957.

Despite these examples of rate chopping taking place in Southern California and reportedly to a lesser degree in other parts of the country, David Hoskins, a principal with the excess/surplus lines broker H&W Insurance Services in Encino, Calif., doesn't think a loose, "no bottom price" market

cycle is beginning. He maintains there are too many constraints on the underwriter's desk for that sort of cycle to occur again so soon. "Most everyone feels that by the end of 1980 the combined loss ratio for the insurance industry will be 102% or reasonably profitable," he said.

Yet another excess/surplus lines broker characterized the current situation, which he dates from last July, as being far worse than during the 1973-1975 period. "You never know what low is any more," he complained. "The so-called super stock insurance companies, such as Aetna, Travelers, CNA and Mission Insurance, have invaded the excess area and they are slicing prices to get business. As a result, the specialty companies that in the past provided most excess coverage now being claimed by the big companies are being hurt," he explained.

"We used to be the conduit for the placement for specialty class business," he lamented.

Joe Fox, group vp for Swett & Crawford Group in Los Angeles, also thinks what is occurring today will be a replay of what took place in 1973 through 1975. All the symptoms are there, he said.

From the insurance buyers' point of view, of course, the situation could not be better. One broker who realizes this is John Nourse of Tolman & Wiker Insurance in Ventura, Calif. Many of the prices that the insurance industry is crying the blues about, he said, "are what the premiums should have been if they had been subject to normal increases in the past few years."

Former exec gets 8 months in fund fraud

MILWAUKEE—A former insurance administrator and campaign chairman for Wisconsin Democratic Rep. Les Aspin has been convicted of illegally diverting \$27,000 in campaign funds to his own use.

He was sentenced to serve eight months in a work-release program.

Robert E. Sura, 35, was convicted in federal court in Milwaukee Jan. 8 after pleading guilty to a two-count indictment charging he filed false statements with the federal elections commission concerning Rep. Aspin's campaign funds. He could have received a maximum of 10 years in prison and a fine of up to \$10,000.

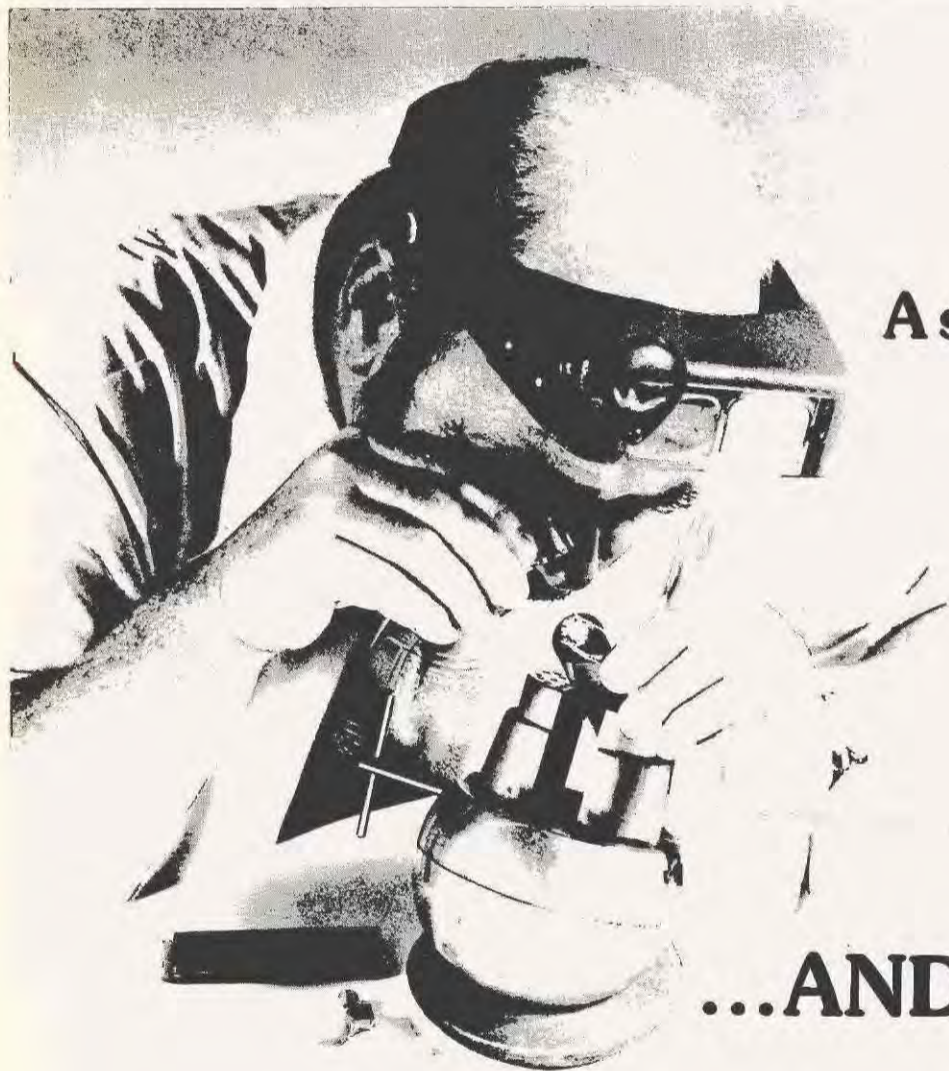
Sura had worked as insurance administrator for Western Publishing Co. in Racine, Wis., until May 1978 when he resigned. After that he worked for broker Frank B. Hall & Co. in Milwaukee. Both firms declined to provide details of Mr. Sura's employment.

Between 1974 and 1978, Mr. Sura served as campaign committee chairman of the Friends of Les Aspin committee and for two years prior to that was its treasurer.

According to assistant U.S. attorney Joan Kessler, financial records prepared by Sura did not reflect the true amount of money deducted for expenses and services rendered.

Last December, Sura and his wife Brigitta filed a bankruptcy petition in federal court listing debts of \$96,517 and assets of \$84,002. Sura also claimed a property exemption of \$27,032 in the petition.

A spokesperson for the Friends of Les Aspin said the committee has since filed suit against Sura to recover the stolen money; about \$5,000 has already been repaid. ■



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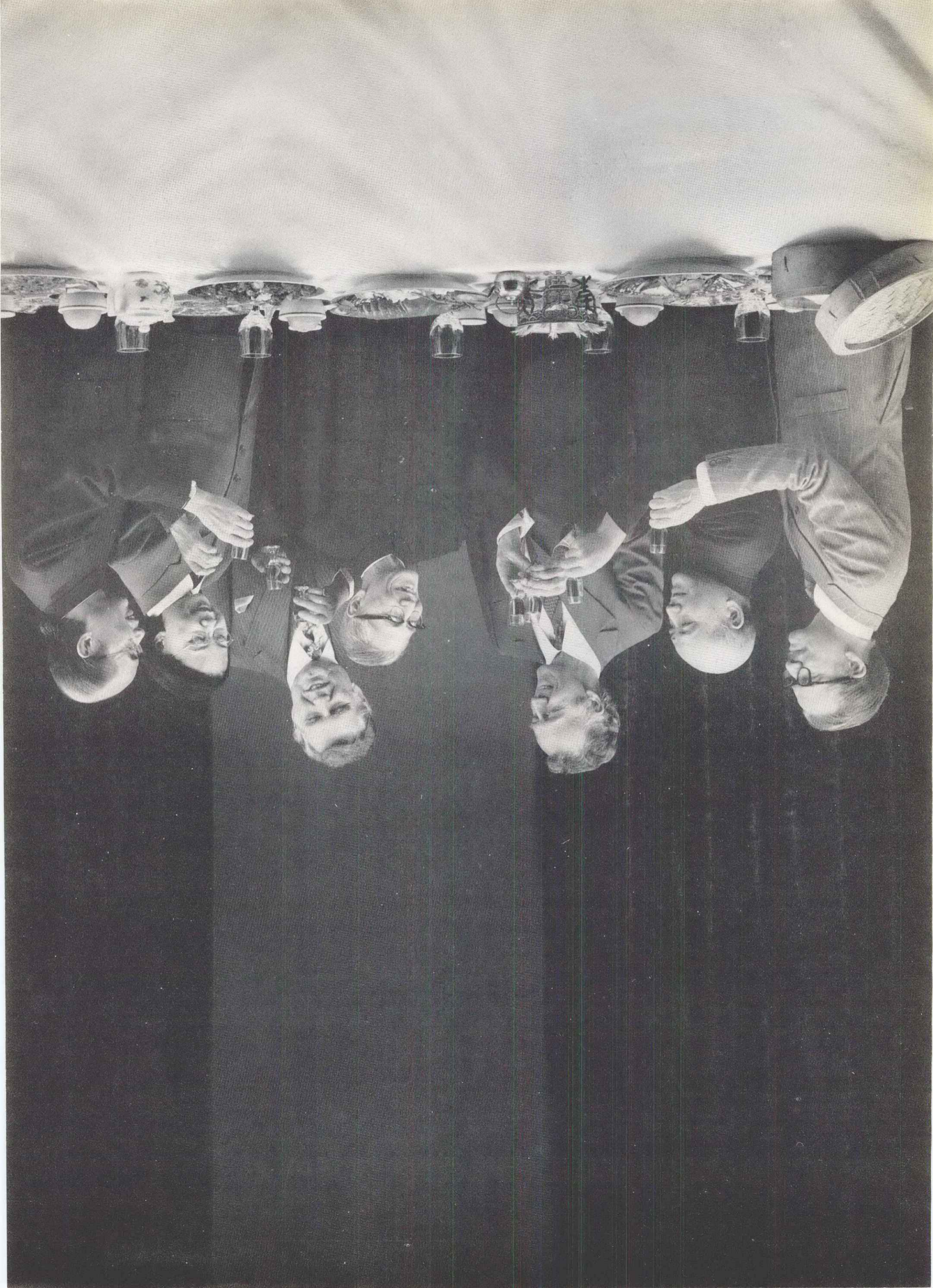
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editorial opinions

Overseeing vs. dictating

IN THE EARLY 1970s, there was a lot of discussion among brokers and risk managers at every gathering of the growing trend toward complete centralization of worldwide risk management and insurance programs. The logic behind constructing a single, giant international program covering risks everywhere under one or a few policies was clear: cost savings, ease of administration, optimum use of insurance and self-insurance.

But at the same time, overseas operating managers grew restive, irritated by insurance instructions and manuals sent from their U.S. home offices. Clearly, managers abroad have felt they knew what was best for their operations and could adequately handle the insurance requirements of foreign plants.

Political feelings began running high as well, coinciding with government recognition in many expansionary countries that insurance dollars were being lost to massive worldwide programs insured with U.S. insurance companies and administered from abroad. The upshot: increasingly protectionistic legislation designed to keep insurance dollars at home.

■ Many large international companies now are talking about being "good corporate citizens" of the countries within which they operate plants and facilities. A combination of all these factors is pushing risk managers to adopt this attitude as well, loosening the risk management and insurance reins, allowing slightly more autonomy in insurance purchasing, and creating the relationship of benevolent supervisor—replacing the earlier high-handed dictator role—between the corporate risk manager in the U.S. overseeing worldwide risks and the overseas functionaries who implement the programs.

About five years ago, we met with several insurance managers from Europe and Great Britain who scoffed at the term "risk manager" as an uppity sort of description for a job they felt was no different from their own. Further discussion then and at subsequent meetings with insurance managers from overseas operations of U.S.-based corporations led to the conclusion that U.S. risk managers indeed seemed to act pretty arrogant when ordering that certain procedures be followed.

Resentment worsened in succeeding years, though protectionist moves by foreign countries trying to hang onto insurance jobs and dollars may have helped begin to tilt the scales toward equilibrium once more. Despite all the grumbling U.S. risk managers do about the laws in Mexico, Germany, France, Saudi Arabia and elsewhere, it's almost as if some U.S. corporations "asked for it" when they blithely decided during the 1960s and 1970s to centralize those insurance programs, exporting jobs and dollars out of the countries where they were residing.

The gradual swing back to slightly more decentralized insurance programs, whether in the name of complying with laws, to show good business sense or to be good corporate citizens, will surely help win friends overseas.

Play is work?

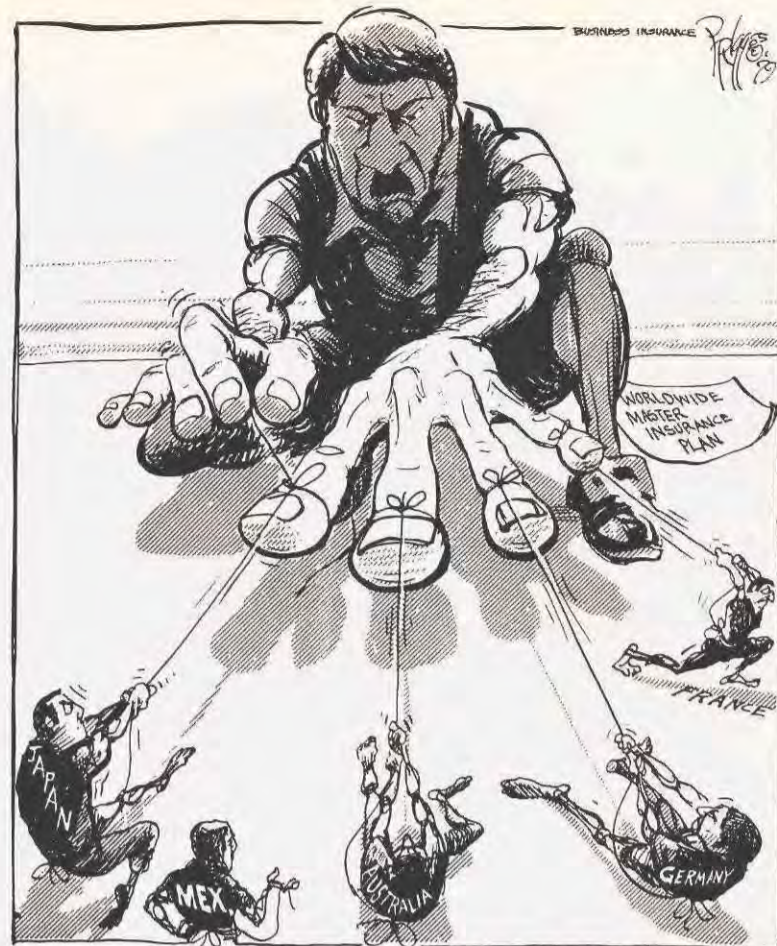
PING-PONG IS WORK? It was an "incidental" part of Richard McNamara's job at the Public Works Department, said Connecticut's state supreme court, awarding work comp benefits for a recreation injury. McNamara fell and severely injured his ankle while playing ping-pong before reporting to work.

Does that mean eating breakfast, shopping during lunch hour or taking the bus home constitute work, too?

Great idea

NEW YORK'S FREE TRADE ZONE for insurance has started something big. It may take a while before it's wildly successful, but the Federal Reserve Board has nonetheless begun looking into the possibility of establishing a similar free trade zone in New York City for international banking.

Encouraging insurance business to flow to New York by allowing deregulation of insurance for certain large risks and specialty risks is an idea we think will go far in the next decade. We're not surprised—in fact, it's exciting—to see the concept being picked up by another financially-oriented industry. Wouldn't be surprised to see the insurance free zone idea picked up by other states, too.



"Ok!! Ok!! You can manage yourself."

letters

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

Services

To the editor: Overall, I think Rebecca Fannin did a terrific job with her article "Insurers target self-insurers..." (BI, Jan. 8). But there are two points in the story that could mislead readers about risk management services offered by Fireman's Fund.

The statement, "Two years from now it plans to handle a minimum of \$250 million in annual premiums," must be a typographical error. The figure is more like \$25 million.

The term "passe" in conjunction with conventional insured methods was, I assure you, Ms. Fannin's choice of words and not mine. Two forces propelled Fireman's Fund into the risk management services area. The first was competition with other insurance companies for large commercial risks. The second was a desire on the part of large risks to find alternatives to conventional insurance programs. The alternatives I named included self-insurance, large SIRs, captive insurance companies and cash flow programs.

James B. Runyan
Director, Risk Management Ser-

vices, Fireman's Fund Insurance Cos., San Francisco

Underwriting agencies

To the editor: We have had some questions regarding the information you listed on the chart on pages 50 and 51 of the Jan. 8 issue of BI by Joseph A. Destein.

The information on Prudential Reinsurance Co.'s management underwriting facility (MUF) focuses on the subject of "Fees: Fixed," stating that fees for MUF are 14% of the gross premium (for treaty) and 6.5% of the net premium (for facultative, and I might add, direct excess). These amounts were the total deduction from the original gross premiums, and specifically in the case of treaty, that 14% includes all ceding commissions and brokerage allowances as well as Prudential Re internal expenses. For facultative the 6.5% of net premium is to cover our internal expenses only.

It seems that some readers felt that the amounts shown in that box were fees in addition to commissions and brokerage and internal expenses. Perhaps that is the

Continued on page 12

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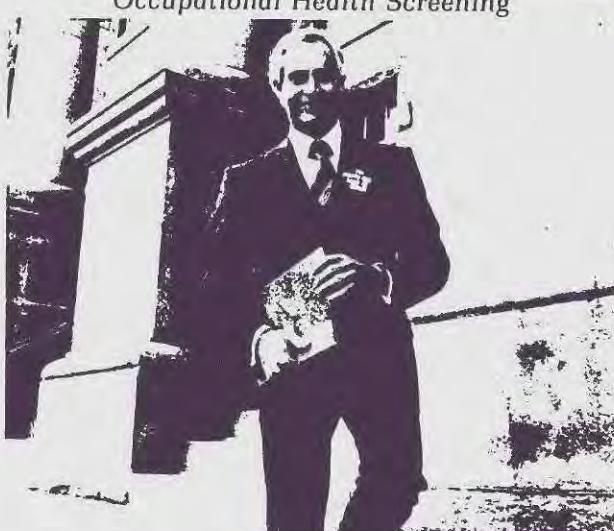
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Letters column . . .

Continued from page 10
case with the fees described under some of the other facilities listed by Mr. Destein, but I assure you that the management underwriting facility is being operated "at cost," subject only to profit commission to Prudential Re after the other participants have earned at least 7.5% profit.

Ross C. Cowan, CPCU
Vp, Facultative Prudential Reinsurance Co., Newark, N.Y.

Exchange debate

To the editor: From Ellis Simon's report in the issue of Dec. 25, 1978, on the hearings before the New York State Insurance Department, it would appear there had been no objections to the constitution of the New York Insurance Exchange.

I was a witness at the hearing on Dec. 18, 1978, and called attention to several problems requiring review and revision.

The exchange is authorized to write all types of insurance outside the United States. This does not mean that it will also be admitted to do business in each country where a foreign risk might be located. It must apply for admission, which may be a cumbersome procedure, particularly where the underwriters are not a single company or corporation but syndicates which are individually liable under the policies. The question of who will supervise the syndicates domestically as to their continued financial stability is also still open.

The exchange is furthermore authorized to write direct insurance after a risk has been declined by underwriters in the so-called free trade zone and the rejection is certified by a committee. At this time, there is no organization of the companies licensed to write business in the Free Zone and, therefore, no committee that can certify to the rejection.

Obligations under policies which these syndicates have underwritten are imposed on the general and limited partners of the syndicates. From an answer to a question at the hearing, it must be assumed that all general partners of syndicates will be incorporated in order to avoid the broad liability an individual would have.

Article IX, Section 1 of the draft constitution states that all policies "shall be issued in the name of the exchange," but a few lines farther down, it is stated that "the exchange shall in no event be a party to an exchange contract or have any liability thereunder." When I called counsel's attention to this contradiction, he answered that it would have to be rectified.

Basically, the idea of an insurance exchange is a good one, but the realization requires much more careful consideration than has been given to the matter so far.

Henry Salfeld
Consultant, Frenkel & Co. Inc.,
New York

BI sponsors a conference on work comp

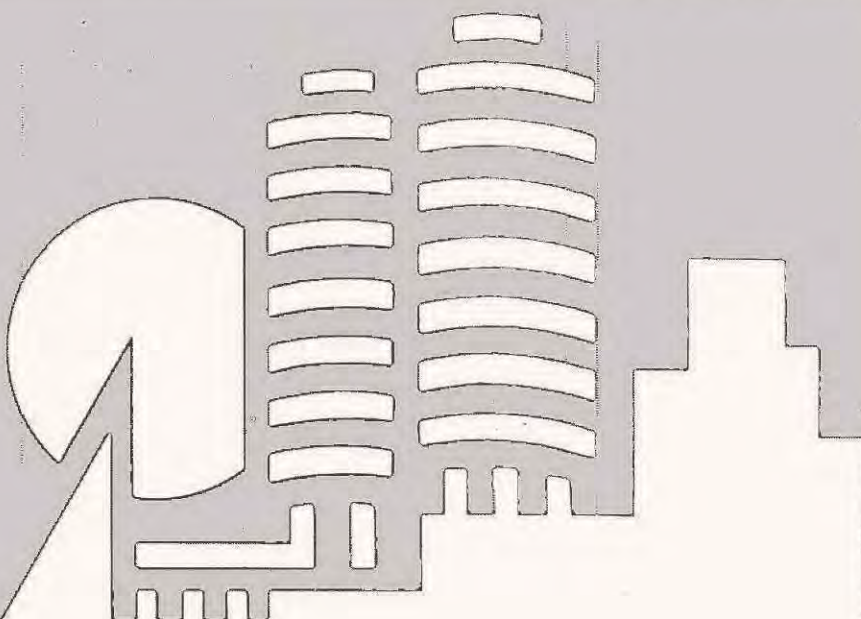
CHICAGO—The second annual National Conference on Workers Compensation will be held here June 11 through 13 at the Hyatt Regency O'Hare, announced *Business Insurance*, sponsor of the meeting.

This symposium is intended as a forum for the discussion of problems and issues in workers compensation for corporate financial executives, insurance buyers, benefit managers, claims specialists and risk managers, as well as insurers, brokers and consultants advising others and administering programs.

The first conference was held in July 1978, drawing 158 corporate executives and experts on workers compensation from around the country. Thirty-four speakers, with audience participation, tackled subjects ranging from safety and self-insurance to federal regulation and rehabilitation.

The registration fee is \$385 for the first person from a company and 10% less for additional persons from the same company.

For registration information, write or call Taylor Lucas at Crain Education Division, 740 N. Rush St., Chicago, Ill. 60611; phone (312) 649-5245.



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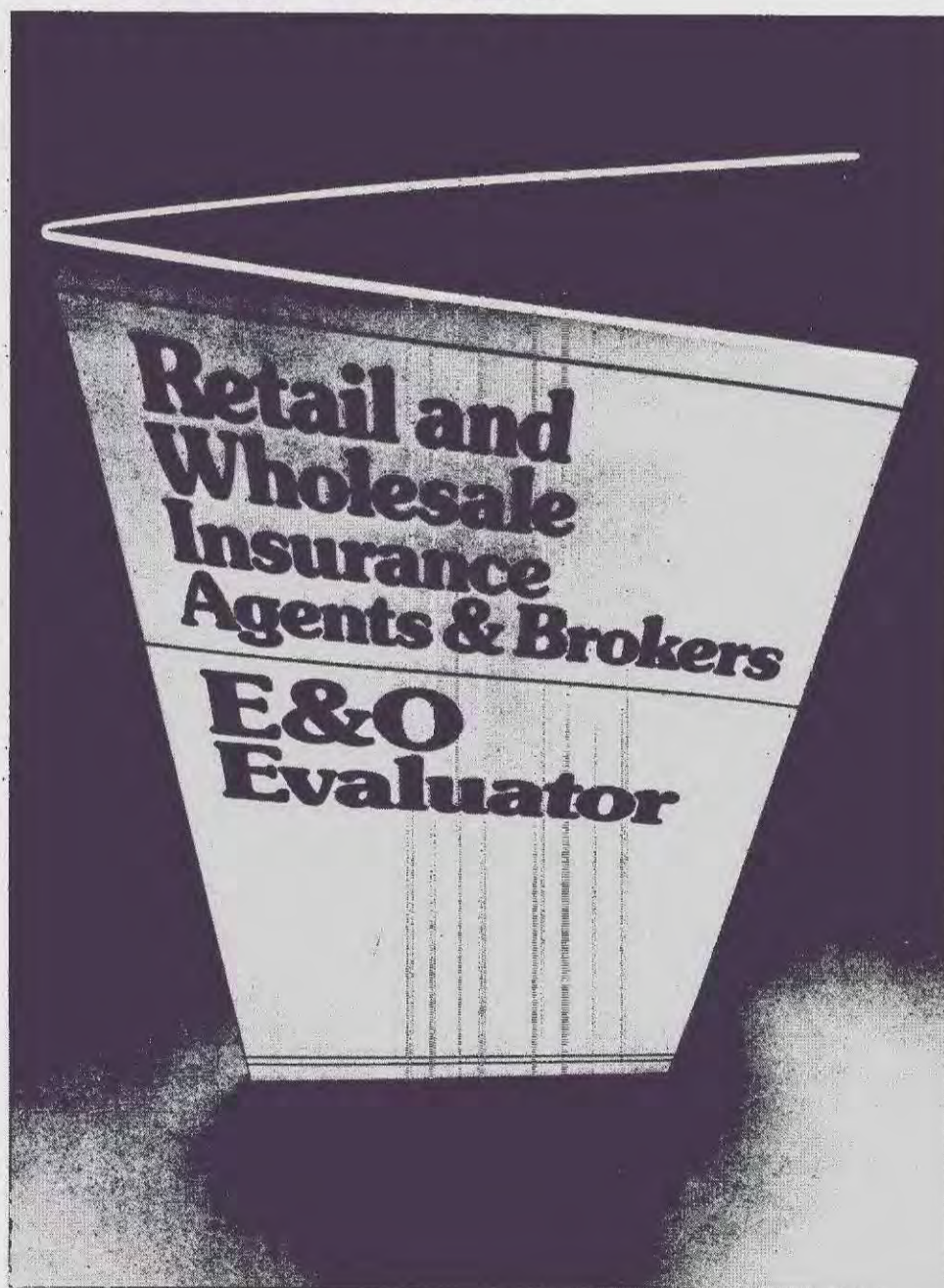
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Courts threaten work comp offset of pension benefit

By ELLIS SIMON

NEWARK—A Supreme Court showdown could develop as the result of two federal district court decisions prohibiting employers from offsetting pension benefits for retirees by the amounts of workers compensation payments.

The two class action cases, one here and another in Detroit, are on appeal to different federal circuit courts. Should the two appellate courts issue contradictory rulings, an appeal to the Supreme Court would be inevitable.

However, the issue could become moot if Congress should enact a provision in the 1979 ERISA Improvements Act that would specifically disallow the workers compensation benefit offset.

In the most recent case decided, *Buczynski v. General Motors*, federal judge Frederick B. Lacey in Newark ruled in favor of the retiree plaintiff in August 1978, reaffirming his opinion in December.

In deciding that a pension plan provision offsetting pension benefits by any workers compensation

payments constituted unlawful forfeiture of benefits under ERISA, Judge Lacey cited a similar ruling by the eastern district of Michigan in the case of *Utility Workers Union of America v. Consumers Power Co.*

In addition, Mr. Lacey found that ERISA didn't preempt a New Jersey law specifically prohibiting an offset of pension benefits by workers compensation payments. The ruling on the preemption issue is believed to be one of the first of its kind, said Laurence Reich of Carpenter, Bennett & Morrissey,

attorney for GM.

In the GM case, the pension plan provided for the offset of pension benefits when a retiree files a compensation claim more than two years after retirement. At Consumers Power Co., the offset affected all retirees receiving workers compensation benefits.

The *Consumers Power* case has been briefed before the 6th Circuit Court in Cleveland, but no hearing date has been set, said Arunas Udrys, staff attorney with the utility. The Utility Workers Union

asked that the date for presentation of oral arguments be deferred, so a long delay is expected, Mr. Udrys said.

General Motors attorneys have asked for a delay of Mr. Lacey's order implementing the decision pending an appeal to the 3rd Circuit Court. Their motion and one by plaintiffs attorneys' Weiner, Staubach, Elderson and Hopmayer seeking payment of attorneys fees, are to be decided in mid-February.

Attorneys for the plaintiffs and GM disagree on the impact the ruling could have. According to plaintiff's attorney Marc Gettis, losing the suit could cost GM between \$15 million and \$20 million. GM's attorneys have said actual damages would run about \$130,000.

However, Mr. Gettis noted that although the case was brought by former GM employees in New Jersey, the pension provision is applied nationally. The offset provision eliminates any incentive for retirees to seek workers compensation payments since their income would not change as the result of having won an award, he added.

The implications of a landmark ruling on the offset of workers compensation benefits would be widespread, said Mr. Reich. Numerous employers have such provisions in their pension plan, including the entire steel industry which is presently involved in litigation over the issue, he added.

However, benefit consultants said the cost impact upon employers would be minimal. Richard Sears, partner at Kwasha Lipton, recalled a non-ferrous mining company once agreed during labor negotiations to drop the workers compensation offset. The cost of the concession to labor was considered to be negligible and the union granted another minor concession in exchange, he said.

The workers compensation offset provision in the Javits-Williams 1979 ERISA Improvement Act (S. 209), drew little comment at recent hearings held in Washington on the bill. Sources in Washington say the bill faces an uphill battle. ■

Margaret Spencer used to have more than groceries to total up.

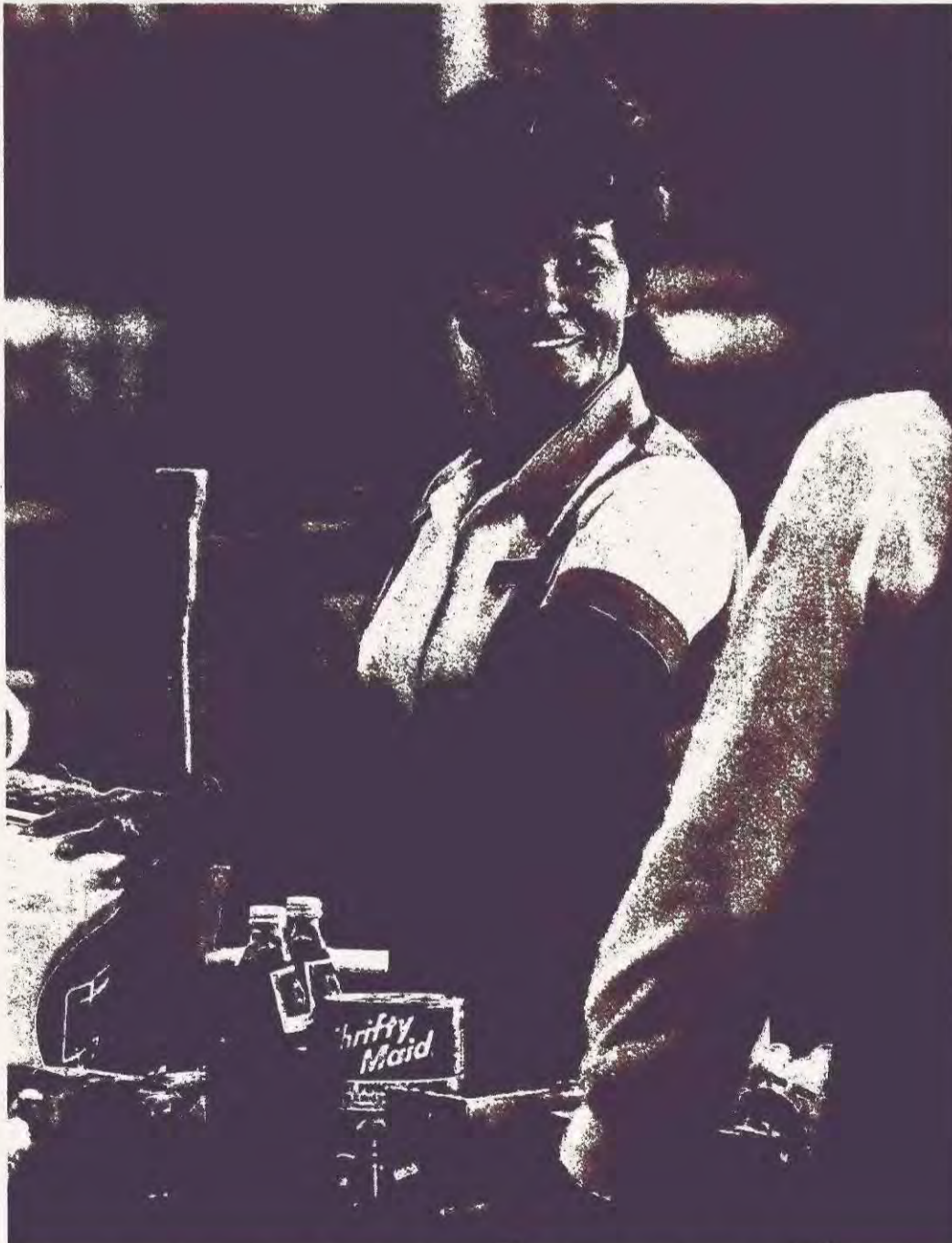
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Tenerife plaintiff loses any award

NEW YORK—A plaintiff requesting \$5 million for the death of a passenger in history's worst airline crash recently was awarded no damages in New York's U.S. District Court.

Other settlements resulting from the crash of Pan American Airways and KLM jets in the Canary Islands have averaged \$100,000.

Pan-Am and KLM have agreed not to contest liability in the air crash at Tenerife. Trials focus only on the amount of the award.

In the latest case, the jury awarded nothing to a son whose father was killed in the crash. Defense attorneys argued that the father, Beau L. Moss, did not provide for the child, did not live with the child and hadn't seen his son in three or four years.

The plaintiff was represented by Aaron J. Broder, Bailey & Broder, a partner with F. Lee Bailey. Mr. Broder wasn't available for comment.

A majority of cases have been settled, most of the out-of-court. All 248 claims against KLM have been settled. Of 396 claims against Pan Am, only 66 remain unsettled.

The payments are being shared by the parties involved. KLM is paying the largest percentage at 40%, Pan Am's share is 30%, Spanish air control authorities pay 20% and Boeing Co. pays 10%. ■



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International Insurance

Cities sprout in Arab sands; brokers sow insurance plans

By REBECCA A. FANNIN

NEW YORK—Four teams of brokers are competing for an account considered the biggest risk management challenge in the world and the largest chunk of business any broker has ever landed.

The stakes are high. The five-year risk management and broking services contract will generate more than \$30 million in revenues for the selected broker. And the broker will service the largest construction project in the world.

Faced with such a demanding account, top U.S. and Lloyd's brokers united to bid for the insurance broking services on construction that is transforming a portion of Saudi Arabian desert into two major industrial centers each about the size of Cincinnati.

The two Arabian cities are on opposite sides of the peninsula, with Yanbu on the Red Sea and Jubail on the Persian Gulf. The cities have been compared to two competing ports, like New York and New Orleans, and two competing

industrial cities, like Pittsburgh and Birmingham. Jubail's population will ultimately reach 340,000 and Yanbu's will be 150,000.

Construction is well underway on aluminum, steel, and petrochemical plants that form the nuclei of the cities. The brokers are competing to service the construction of public facilities: \$35 billion and 10 years worth of construction of schools, hospitals, roads and water and power facilities. The contract will first be made for five years.

"Whoever wins this account will be thrown in the light like no other broker," said Douglas G. Olson, an associate professor of risk management at the Wharton School in Philadelphia. "It is a prestigious worldwide account. The broker will establish an important foothold in the Middle East."

Mr. Olson worked with McGill & Associates on a 300-page risk management report for the Saudis, that recommended loss prevention practices and insurance coverages. The consultants reportedly have recommended Alexander & Alexander Services for the job, but this could not be confirmed.

The broker will be chosen in March by the Royal Commission, an independent, ad-hoc committee established by the King of Saudi Arabia for construction of the two

cities, Jubail and Yanbu.

Late last fall, the Royal Commission invited 10 prominent, international brokers to submit bids: Willis Faber & Dumas, Marsh & McLennan Inc., Fred S. James & Co., Sedgwick Forbes, Frank B. Hall & Co., C. T. Bowering, Alexander & Alexander, Corroon & Black, Johnson & Higgins and Bland Payne.

They were called together in Saudi Arabia to discuss specifications and bids, each broker sending key staff members. The brokers worked around-the-clock for about a month, to complete their proposals, which were sent to the consultant and the Royal Commission in December.

In an attempt to educate local companies about modern risk management, the Saudis required each competing broker to unite with an Arab insurance broker. Interestingly, several of the competing brokers teamed up, too.

Marsh & McLennan joined with Red Sea Insurance and Lloyd's broker, C. T. Bowering, which M&M has worked closely with for several years. Alexander & Alexander teamed up with United Commercial Agencies, one of the two largest insurance brokers in Saudi Arabia, and with Lloyd's broker, Bland Payne. Corroon & Black joined with Willis Faber Du-



Photo: Engineering News-Record

The sign marks the spot of Arab desert to be transformed into a thriving industrial center.

mas, a Lloyd's broker, and with the other leading Arabian insurance broker, Arab Commercial Enterprises.

Frank B. Hall was the only broker to submit a proposal without a Lloyd's broker. Hall's Arabian broker partner could not be identified.

Only these four teams submitted bids, with Johnson & Higgins, Fred S. James & Co. and Sedgwick Forbes withdrawing from the competition.

Sedgwick Forbes had invited American International Group to provide them with risk management back-up on their proposals, according to Joseph C. Smetana, president of AIG Risk Management. But the Lloyd's broker later decided to withdraw from the bidding, ending AIG's involvement.

Continued on page 20

Construction of the Jubail Industrial complex will reach onto the peninsula in the Persian Gulf.

Artwork: Engineering News-Record

Insurers buoy offshore benefit programs

By ELLIS SIMON

NEW YORK—Funding employee benefits through offshore facilities is downplayed by consultants, but American life insurance companies are talking it up.

Located in Bermuda, the insurers' offshore facilities are primarily used to fund pensions for third country nationals (TCNs), those who work outside their homelands for multinational firms. In some cases, the programs are used to fund pensions for certain local nationals or for financing benefits other than pensions.

Until recently, only four American insurers—The Travelers, John Hancock Mutual, Aetna Life & Casualty and AIG's American International Life Assurance—had such operations in Bermuda. However, this year INA is joining the club, providing a facility that, at first, will be geared toward group insurance benefits other than pensions.

In addition, some of the established Bermuda operators are introducing new products aimed at expanding the market for their services. AIG's Bermuda facility recently introduced an individual expatriate pension plan for one and two life groups and is offering health insurance trusts for the first time.

Despite this optimism, some benefit consultants question the importance of the offshore facilities. "The field seems oversaturated and I don't think the growth will be what the insurance companies anticipate," said Laurence M. Maloney, vp with William M. Mercer International.

Unless a company employs at

least 100 TCNs or its annual cost of providing benefits for TCNs runs at least \$75,000 to \$100,000, employers should not normally fund these benefits because the exposure is small and the costs can be paid out of pocket, said Wolfgang Glage, a vp in the international consulting division of Towers, Perrin, Forster & Crosby Inc.

However, companies that do not fund their TCN pension benefits do not get tax credits, noted Mr. Maloney. Tax advantages and the lack of pension regulations make Bermuda an attractive locale for

funding TCN benefits.

"When a plan for TCNs is set up domestically, benefits paid to the TCNs are subject to a 30% U.S. withholding tax," said James LaJoie, director of pensions for American International Life Assurance Co.

In Bermuda, there are no taxes on benefits paid, interest earned or contributions to the plan, he explained. The recipient is taxed only in accordance with the laws of the country he retires to and if he chooses Bermuda, he pays no

taxes at all, Mr. LaJoie said.

In addition, Bermuda does not specifically regulate the funding of pension plans for TCNs, a spokesman for The Travelers Corp. said. Their basic pension rights are the same as for other employees—to the extent that they are part of an employment agreement—he said.

Using an offshore facility to fund TCN benefits allows employers to provide for people in several countries through a single plan, said Michael Allan, director of sales and services for John Hancock Mutual's international group pro-

gram. Administration becomes easier and the single plan is therefore less expensive, he added.

Most of John Hancock's customers use the Bermuda facility strictly for TCNs, but a few use it to provide benefits for select local nationals in countries where they do not have a pension plan, Mr. Allan noted.

Funding TCN benefits does not become cost effective unless at least 25 lives are involved, Mr. Allan counseled. But, many employers believe TCN benefits should be

Continued on following page

U.S. firms overseas shop locally again

By MARY ELLEN MCKEE

CHICAGO—Many multinational corporations are now mixing locally purchased insurance into their worldwide insurance programs, increasing the responsibilities of the corporate risk manager.

Buying insurance locally for foreign subsidiaries deviates from the risk management theory generally held over the last decade by U.S.-based companies with overseas operations. Then corporations kept a tight rein on every aspect of the worldwide insurance program, routinely covering foreign risks with non-admitted insurance.

This change in approach is, in part, the result of growing sophistication among foreign brokers and underwriters, says Hilliard Feldman, president of Schiff Terhune International. They are looking more closely at who is insuring American-affiliated operations Mr.



Multinational corporations do not dismiss the centralization concept in worldwide insurance when placing risks in local markets, they simply apply the concept to administering the program.

—Hilliard Feldman

Feldman explained. In response, American companies are placing basic coverage in local markets in order to keep a clean profile by complying with international insurance codes. It also improves corporate relations with foreign subsidiaries asking for more management independence, observers note.

This does not mean, Mr. Feldman emphasized, that corporations have totally abandoned the centralization concept—they have merely toned it down to be good citizens and have applied the centralization concept in another way.

Mr. Feldman used an American-affiliated manufacturing plant in Brazil to explain his point. If that

company were to buy its fire coverage outside of Brazil, it would be very noticeable to local authorities. But strike, riot and civil commotion coverage is less noticeable and can therefore be easily placed outside of the country without repercussions from local authorities.

"American corporations and brokers are still aware of the continued increase of a need for head office control to standardize coverage and, at the same time, utilize the inherent economies of wholesale versus retail of worldwide insurance buying under one program," says Peter B. Bickett, senior vp and director—international department of Johnson & Higgins.

There is also an increasing awareness of the importance of providing proper and first class local service to operations overseas, Mr. Bickett pointed out. International brokers and underwriters

Continued on page 26

Benefits offshore . . .

Continued from preceding page funded for anyway, he added.

AIG and INA are pursuing this small group business. AIG's new individual expatriate pension program will cover single-member groups. Newcomer INA began operations offering its group insurance package of benefits other than pensions to 10-lives groups and is preparing a program that will cover as few as three lives.

There is tremendous potential for TCN business, believes David Bullard, corporate underwriting officer for INA International. It re-

International

fects a growing awareness on the part of multinational firms to provide for these people, he said. And because TCNs are normally subjected to extensive physical exams by their employers, they tend to be pretty healthy and good risks, Mr. Bullard added. William Abruscato, formerly with AIG's TCN operation, will manage INA's program.

AIG has been in Bermuda the longest; its TCN operation began

in 1951. John Hancock and Travelers entered the market around 1972. Officials at Aetna Life & Casualty declined to discuss their Bermuda operation.

Assets managed

While the pension assets managed by these facilities are small when compared with those handled by the nation's largest insurers, they are nonetheless sizeable. AIG currently manages between \$20 million and \$25 million, according to Mr. LaJoie. Travelers handles about \$10 million in assets for its 25-plus Bermuda clients. John Hancock's Mr. Allan would not reveal the number of clients or

assets managed by its Bermuda operation, which uses a trust of Maritime Life Insurance Co., John Hancock's Canadian affiliate.

Bermuda and other offshore locales are not the only places a multinational employe can go to establish a tax-exempt trust fund for TCNs. Pepsico International uses a trust based in the United Kingdom and managed by organ Guaranty to handle benefits for its 120-plus TCNs. However, British citizens cannot be covered under the plan and Pepsico is considering Bermuda as a new situs, said Alan Elsworth, manager of benefits administration.

Not all multinational companies go to the trouble of funding for

TCN benefits. Many use book reserves, which note the liabilities on corporate ledgers. However, the Internal Revenue Service has challenged U.S. parent firms whose subsidiaries book reserves for pension plans, sources say.

In addition, the U.S. pension reform law is hazy on the TCN subject. It may be that if a company uses book reserves, the plan is a U.S. plan and therefore subject to ERISA regulations, said James Bolland, a partner with Kwasha Lipton.

He suggested multinationals use a captive insurance subsidiary to fund TCN benefits. A parent company could argue pension funds for TCNs represent non-parent company business for the captive, establishing it as a bona fide insurer for U.S. tax purposes, he noted.

INA's Mr. Abruscato said his operation will act as a fronting company and reinsure TCN funds into a client's captive.

However, Mercer's Mr. Maloney said only the largest multinational employers could effectively use their captives to fund TCN benefits.

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Broker ties U.S. returns into growth

TORONTO, Ontario—Reed Stenhouse Cos. Ltd., Canada's largest insurance broker, will reinvest its U.S. earnings into further expansion in major U.S. cities, the firm's annual report says.

This commitment, following acquisitions in 1978 in New York, Denver and Palo Alto, Calif., and the opening of a new Anchorage, Alaska office, indicates a continued acquisition drive in 1979.

"Currently our most significant expansion is taking place in the United States," noted chief executive officer James D. Whitehall. "Expansion in the U.S. is logical for it represents an extremely large insurance brokerage market and possesses a stable economy and sound political process. In addition, a major presence there contributes to the development of international business," he said.

"We are thus in an excellent position as approximately one-half of worldwide insurance volume is currently developed outside North America."

Reed Stenhouse, has developed 21 offices in the U.S. since 1974, ranks among the top 10 U.S. brokers and owns an underwriting agency that manages six Lloyd's syndicates. The broker has 153 offices in 29 countries, over 5,100 employes and capabilities in reinsurance, employe benefits and risk management services.

Though U.S. offices may prove an international business springboard, the firm still looks to its wholly owned London market facilities as its prime international connection.

"While we expect to participate in the operations of the proposed New York Insurance Exchange, we anticipate that London will certainly remain the hub of the insurance world," said Mr. Whitehall in the annual report.

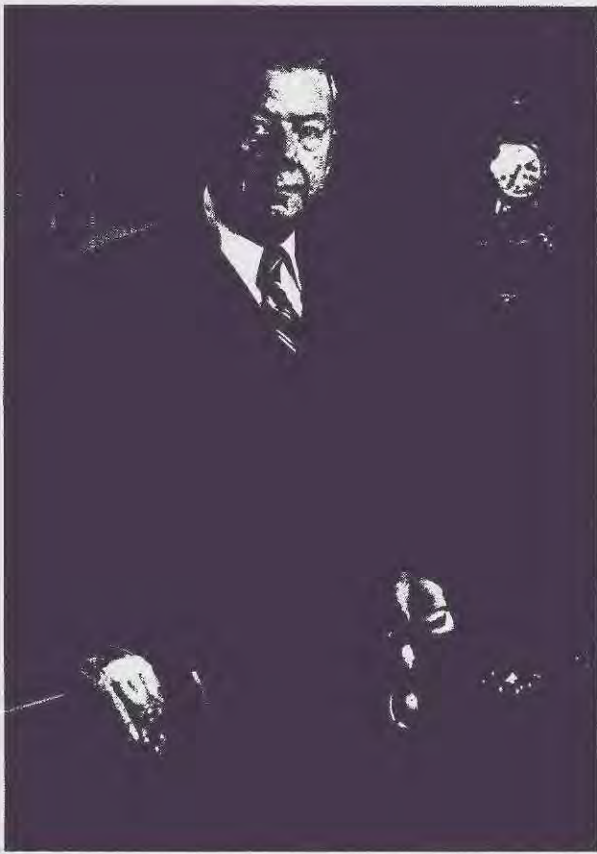
The firm's U.S. operation is headed by an executive and administrative branch in New York with regional headquarters in Chicago, St. Louis, Houston and San Francisco.

Premium volume for the international corporation reached \$1.3 billion in 1978, up from \$70 million ten years ago.

Revenues for 1978 increased almost 20% over 1977, up to \$153 million from over \$127 million last year.

What The Free-Trade Zone Means To Your Operations Abroad.

Harold Christensen, AFIA President



New York's insurance "free-trade zone" is being ushered in with a good deal of fanfare and rising expectations. It offers risk managers and brokers the opportunity to employ their skills and talent in obtaining the most desirable coverage on our own shores with fewer legalistic restraints.

Subject to the terms of the law, licensed insurance companies now will be able to write primary policies on large corporate risks without the need for prior New York State approvals and a host of esoteric risks will now be able to be covered here.

For those companies with large-scale operations abroad however, the new free-trade zone will have little impact on their overseas risks. They have long been accustomed to dealing with the major international insurance organizations in New York and other parts of the country where an international free-trade zone environment has existed for as long as AFIA has been in operation — over sixty years.

But for those risk managers and brokers who have not been as involved in overseas risks as some of the multinational companies have, the new free-trade zone

may, on the surface, seem to simplify their efforts. In point of fact, the opposite may be true. Licensed companies may well write overseas exposures without having the necessary overseas facilities and insureds may be lulled into endorsing their domestic policies for risks abroad, not realizing the potential harm.

It is necessary here or abroad to know the market and the services provided. And because of different regulations, laws, and customs, it is even more important overseas than domestically to have an underwriter who is trained and knowledgeable about the countries abroad with claims service and staff spread throughout the world.

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We welcome the new free-trade zone in New York. It is a step toward lessening the restraints of government on our industry. And it is a step we heartily applaud.



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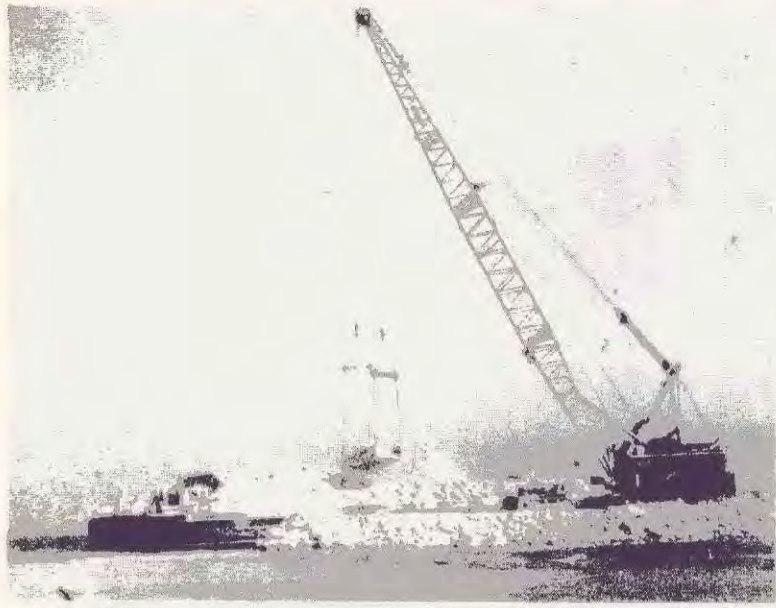


Photo: Engineering News-Record

Stone for breakwater to create the Jubail harbor is barged 75 miles to the construction site.

Cities in the sand . . .

International

Continued from page 17
Mr. Smetana said.

Some brokers were hesitant to bid because the services must be provided on a fixed fee and cost-plus basis rather than on commissions, reliable sources said. "We seriously discussed the specifications for the contract and decided not to bid because we couldn't guarantee what our long-term cost would be," said a source at one of non-bidders.

Johnson & Higgins maintains a commission-only stance in the marketplace.

Corroon & Black's union with Willis Faber on the bid has been described as odd in light of the Lloyd's broker's long-term relationship with J&H. But Willis Faber reportedly joined with Corroon & Black because together they have an inside connection to those

building the cities.

Willis Faber is broker for Bechtel Corp., the large construction firm managing the construction of Jubail, the city to have the larger population. Corroon & Black, meanwhile, is tied to the Saudis as broker for Arabian-American Oil Co. (ARAMCO).

Inside connections

A&A's team is also on an inside track. A&A services casualty insurance for Saudi Arabian Parsons Ltd., managing services contractor for the smaller city, Yanbu. In addition its team member Bland Payne has an indirect business relationship with Saudi Arabian Be-

chtel, which is owned equally by Bechtel Corp. in the U.S. and Arabian businessman Suleiman Olayan. Bland Payne and Mr. Olayan each own 30% of Arab Commercial Enterprises (ACE). But, Arab Commercial Enterprises is Corroon & Black's partner in the bidding.

In addition, Frank B. Hall has links with Parson's, the managing services contractor for Yanbu, as its property insurance broker.

Only the M&M team lacks prior connections and prime contenders to nab the account reportedly are those brokers with the most ties to the project.

Competition is keen between the Corroon & Black and A&A teams. The Corroon & Black team bid \$27 million to provide risk management and broking services and A&A offered the second lowest bid at \$35 million. Running a distant third is M&M's \$90 million bid. Hall's bid is \$135 million, according to a reliable source of the Royal Commission.

Extensive risks

Following the 60-page specifications, the brokers submitted proposals for an owner-controlled insurance program including various risk financing alternatives. Insurance is to be purchased by the Royal Commission for the contractors. The risk management consultants have recommended \$50 million limits for both general liability and builder's risk coverages.

Details of the broker's proposals could not be learned. Brokers are secretive because of the high stakes and because the Royal Commission has not relished publicity about the risk management and insurance program on the construction project.

The program calls for a broad loss prevention program, including training Saudis in risk management practices. Claims information systems will be developed to analyze the data. It's been estimated the selected broker will send from 12 to 20 risk management professionals to provide these services.

Managing the risks on the large construction sites is complex for a number of reasons. More than a hundred contractors will be involved in building and designing the cities. Because they will come from a wide variety of backgrounds, construction practices may be different. Communication will also be a problem among the contractors and workers.

The large number of construction workers, 12,000 at Jubail alone, amounts to a tremendous occupational and nonoccupational disability exposure. Mr. Olson noted. Additionally, he said, varying employe benefits in the workers' countries will call for a multitude of different employe benefit packages.

Arabian controls

Because of the concentration of property values on the sites, the property exposure is large. Importing materials to the Saudi sites is another exposure; the country has none of the necessary construction supplies.

Strict Arabian controls over the broker's personnel may cause headaches for the brokers. The brokers must commit their most skilled workers to the project, while also attending to other demanding accounts. The brokers cannot leave the country or even travel without the government's permission. Saudi Arabia also demands that no personnel changes be made unless it gives permission.

When completed, the cities of Jubail and Yanbu will help to broaden the country's economic base and capitalize on its supply of energy.



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See our ad on page 6

Firms overseas . . .

Continued from page 17
are responding to this need quite remarkably, he added. Therefore, many multinational corporations are affirming local placements, but not to the exclusion of worldwide insurance management.

Johnson & Higgins has come to the conclusion, Mr. Bickett elaborated, that getting to know and understand the local national underwriters by meeting them personally, involving them in the management of a worldwide program and gradually giving them some business is vital to the future effectiveness of international insurance.

And the insurance laws of most of the European countries, said Peter Godfrey, international insurance vp of Reed Shaw Stenhouse, are not as restrictive as once thought. "You can often buy

International

higher limits cheaper and get adequate coverage as well except in highly underdeveloped countries," Mr. Godfrey noted. "Consequently there is no reason that a corporation with operations in France, Germany, Italy or Japan couldn't effectively use those markets to some degree.

Trends surface

Mr. Godfrey also sees a very distinct trend on the part of American companies to rely more heavily on local personnel to fill senior staff positions. "Corporations are using local people to fill top management positions and the exporting of American technical expertise has slowed down considerably in the past five years," Mr. Godfrey explained. "It's only logical that the attitude toward multinational insurance would change in the same direction."

In this scheme, Mr. Godfrey noted, the risk management process takes on a new dimension. Risk managers and brokers alike have to make sure the local brokering and underwriting talent in each country is doing an equally good job, Mr. Godfrey continued. The risk manager who has delegated responsibilities worldwide now has to make sure that basic things are done—renewals, updating paperwork and proper business interruption insurance. At this point, Mr. Godfrey said, a company has to centralize the minimum standards authority to ensure that both U.S. and foreign brokers and insurance managers operate under the same set of instructions and yet be given autonomy on how and what to buy.

The trick to this approach in worldwide insurance management, according to Mr. Godfrey, is to find a balance between the need to centralize some aspects of a multinational insurance program and the proper use of local markets. "Often risk managers tend to put their head in the sand because some of the programs in foreign countries are very good and others fall a little short," Mr. Godfrey noted. "Where there is no control or understanding of the overall program there is no economy."

Although foreign markets have reached a high level of sophistication, cargo, crime and marine markets aren't very well developed outside the United States and justify coverage on a centralized basis to avoid potential overlaps in coverage. With business interruption insurance, Mr. Godfrey noted, risk managers also have to make sure that there are no overlaps in coverage between countries.

New sales pitch

Hugh Rosenbaum of consultants Risk Planning Group Inc. added, "There is a tendency among foreign insurance people to insure everything short of the kitchen sink without any consideration to self-insurance." Risk managers also have to pay close attention to those risks which can be assumed by the company, Mr. Rosenbaum advised, and then convince the foreign broker of the savings in self-insuring some risks. "Self-insurance is still a hard concept to sell overseas," Mr. Rosenbaum observed.

Charles Tagman of the George Betterley Consulting Group thinks decentralization of a multinational insurance program will also accentuate the advisory capacity of the corporate insurance department, with the risk manager shaping the

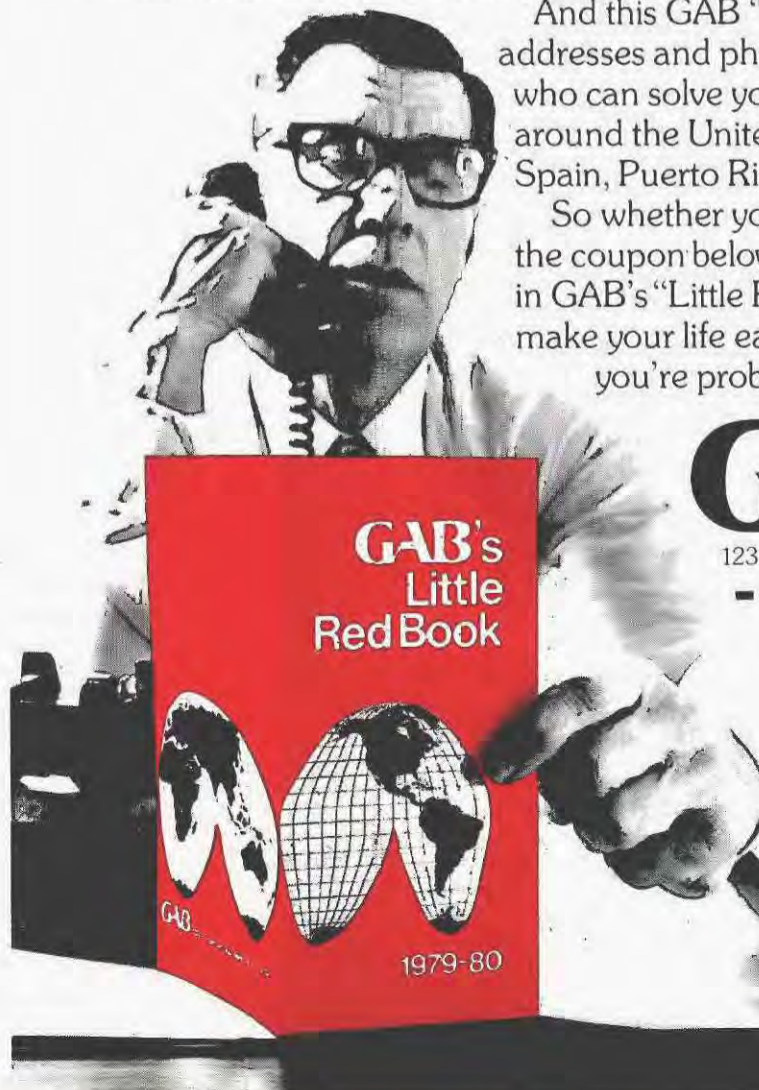
Continued on page 26

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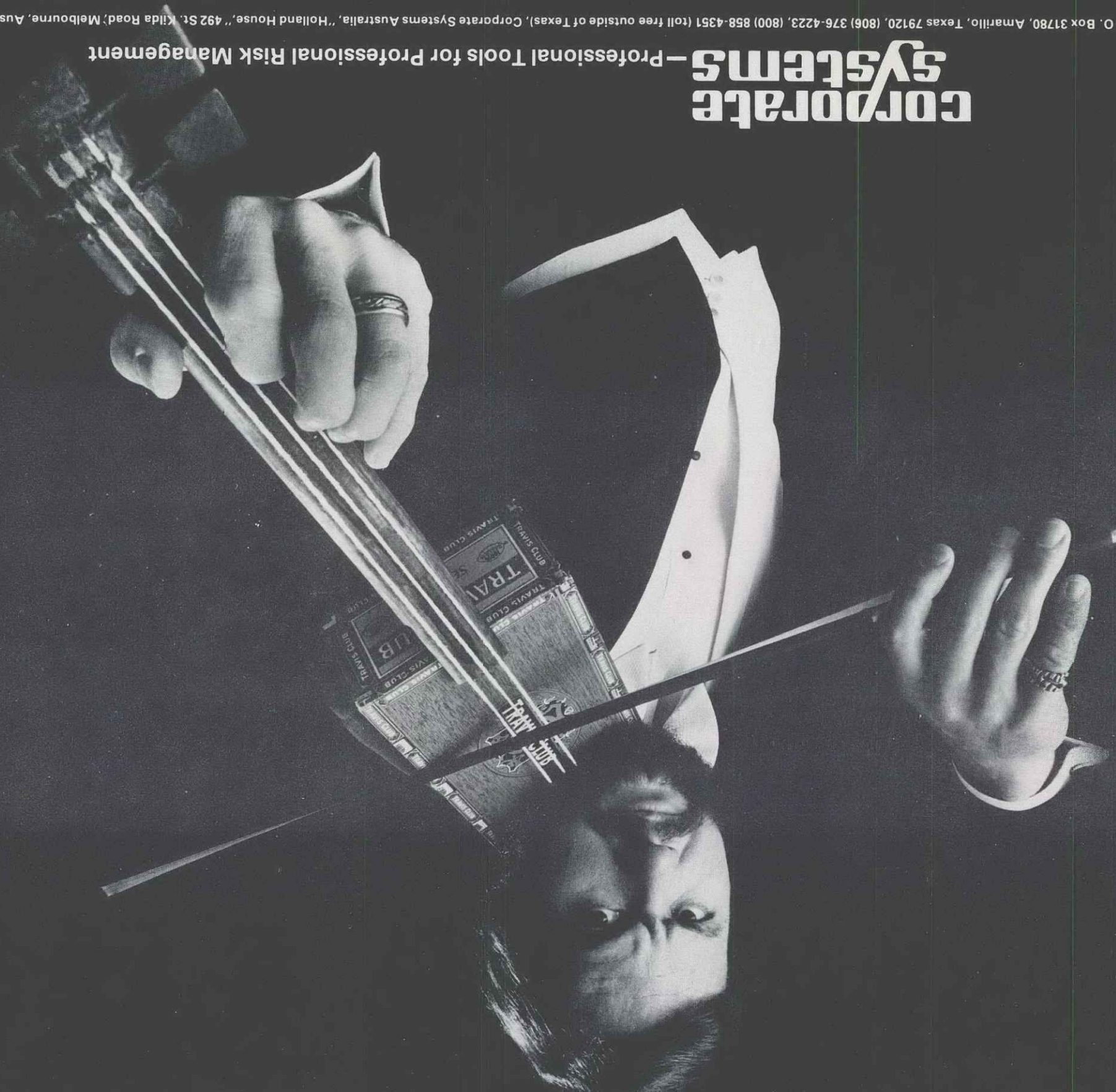
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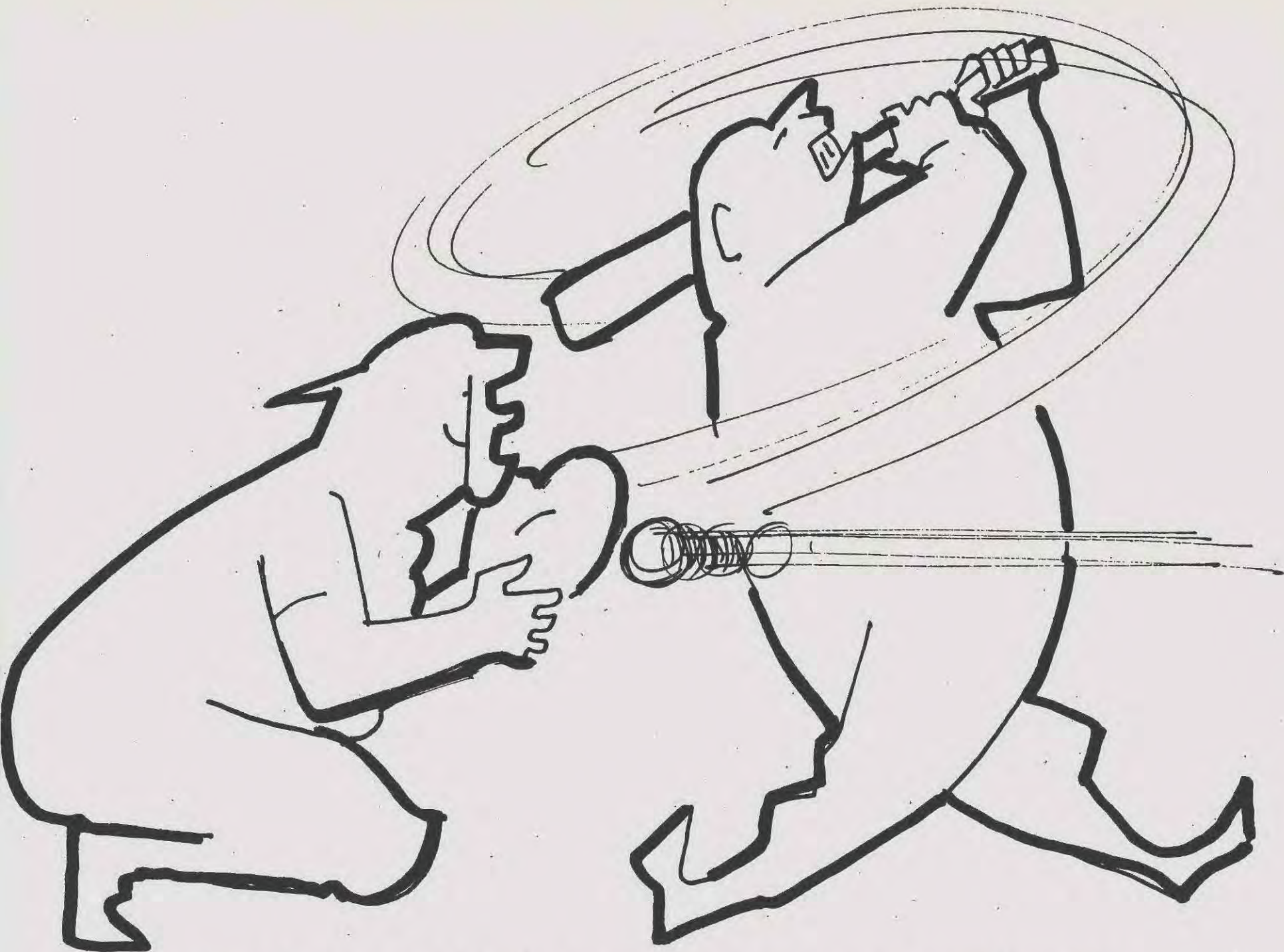
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Some different approaches to lumber exposures.

Firms overseas . . .

Continued from page 22
advisory directives to the foreign operations.

Cost is quickly becoming a secondary reason for placing risks locally in many cases, Mr. Tagman added. Liability insurance in some countries, for example, is more expensive when placed locally than it would if the same risk were placed in a centralized insurance program. But a growing number of foreign operations of American companies are bringing in up to 60% of the total profits and assets for a company, Mr. Tagman noted, citing recent annual reports.

"When foreign operations generate more than half of the company's earnings, it automatically follows that foreign operations would want to become part of the local financial community and, in turn, demand a certain amount

International

of autonomy from the home base," the insurance consultant observed. "They won't want the U.S. company lingering on their back as long as the corporate guidelines permit."

Overseas battles

This is where the role of risk manager takes another turn, Mr. Tagman observed, because in the move to more autonomy he has to allow local management to develop their own criteria for buying insurance coverage and constantly has to evaluate the people who provide the local insurance service.

The risk manager and the broker also have to fight the same battles overseas that were won in the United States as autonomy of local operations increases—unbundling of services, ability to write insurance policies which extend beyond a country's borders, and use of higher deductibles, according to the consultant.

Two risk managers of multinational corporations who have recently made a shift from a strictly centralized insurance program to a more liberal use of local markets confirm that the role of risk manager expands in the transition.

"The switch from a centralized international insurance program is the result of a new corporate morality that we won't violate international law which, in most countries bans the non-admitted insurers," said Alan Pearce, risk manager for Foremost-McKesson, with operations in 20 countries abroad. Since the change is politically motivated and in the fledgling stages, Mr. Pearce insists that the risk manager should be involved in the negotiation process overseas for each foreign operation.

The shift can prove to be cost effective for the company with a cost conscious, communications-oriented risk manager, especially since rates are lower and limits higher in some cases and by dealing with a foreign broker, one eliminates the commission that normally would be funneled to the American broker handling the foreign end of an insurance program.

Jack Mantor, corporate risk and claims manager for Syntex Corp., operating in 40 countries overseas, agrees.

Spread of talent

The trick for this corporate insurance manager was to develop an effective communication network. "It takes a certain flair for salesmanship to give a good corporate risk manager the talent to spread across the world," Mr. Mantor noted. The risk manager is the one person, who can bring local foreign talent and overall standardization together.

International brokers working with Mr. Mantor are also expected to send in insurance summaries regularly and copies of all the policies on an operation in each country. "This way I can actually look at the policies and check to see if Syntex has overlapping coverage," Mr. Mantor added. "Because the insurance laws are constantly changing and could antiquate the kind of coverage we have on some operations, local brokers are instructed to inform me of even the minor changes in the law."

Basic coverage is tied up in the local markets now, Mr. Mantor said. But Syntex has superimposed difference in conditions policies for liability and property risks where the company needs to broaden the coverage of certain perils.

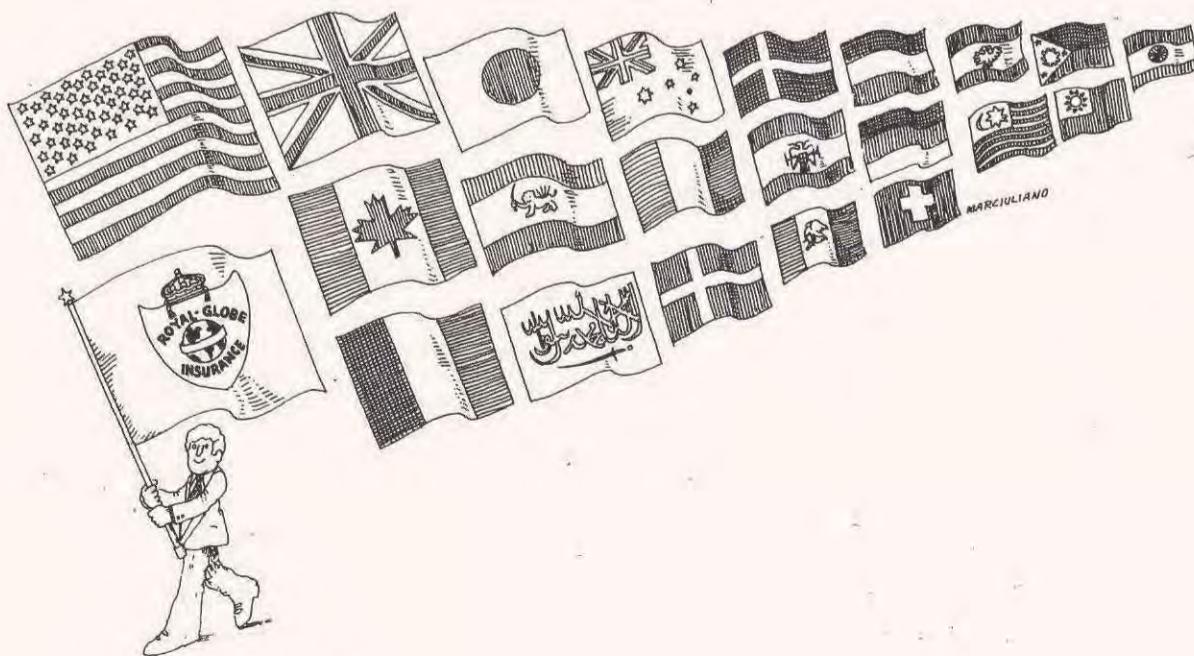
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Insurance execs unravel worldwide problems . . .

CHICAGO—Adequate benefits for third country nationals, rising insurance costs and political upheavals are emerging as the toughest international insurance problems corporate risk and benefit managers will face in the future.

Assuring that adequate health care is available to employees overseas, selling foreign subsidiaries on centralized risk management and risk retention and keeping up with various regulations in foreign countries are among today's pressing international problems the managers cite.

Some of the problems may seem to defy solutions, but for the most part international risk and benefits managers are preparing and applying remedies for their international headaches. *Business Insurance* found interviewing 25 experts in international insurance.

Providing an acceptable benefit plan to third country nationals—those who work for multinational corporations in countries other than their homeland—nags at the conscience of the corporate benefits manager.

Bechtel Corp. will be forced to improve benefits for TCNs in the face of competition for projects and employees, predicts Thomas Wulf, manager of international compensation.

Insurer programs to relieve the problem seem scarce, complains General Motors international section specialist David Stinson. He is generally dissatisfied with the TCN plans marketed by insurers. "If it takes self-insurance to solve the problem, then that's what we'll do," he said.

Sharon Collins, manager of compensation and employee benefits administration at Control Data Corp., is confounded trying to fill the needs of the nomadic third country nationals. "What type of program should you design for this person who may never go back to the home country?" she asked. So far, she's tried to relieve problems by preparing individual benefit plans for the roving TCNs.

Rising insurance costs are problems feared by both benefits and risk managers. An AT&T benefits manager is stumped for a solution. Risk manager Peter Downes at American Trading & Production Corp. considers protection and indemnity costs for his specialized shipbuilding concern out of control. "The tail is something else," he complained. "They'll end up asking double their original price." American Trading will take a few hundred thousand dollars for a deductible to hold down costs, as a company big enough should do, he suggested.

Political upheavals in foreign countries, such as Iran and Italy, cause international insurance experts to worry about tomorrow as well as today. Maintaining a "viable work force in Iran" is of utmost concern right now to Richard Wilson, personnel manager for the Bell Helicopter division of Textron Inc. Honeywell's director of corporate insurance and risk management, Allen D. Brosius, considers terrorist attacks like those staged by the Red Brigade in Italy his biggest problem. He's recommending that armed guards be posted at foreign subsidiaries in areas subject to terrorist attacks.

Benefit managers concerned today about the quality of health care available to employees in remote overseas areas will readily import the professionals when there's no alternative. That's what Bechtel Corp. did in Indonesia, noted Mr. Wulf.

Control Data's risk management director finds centralizing the risk program around the world is the

toughest problem. "You have to sell it to the subsidiaries and the solution is getting out there and selling, whether by phone or face-to-face," says Robert E. Abrahamson. Other experts complain self-insurance or risk assumption are difficult to sell abroad.

Francis X. McCahill, director of insurance and safety at Bristol-

International

Meyers Co., complains that insurance as U.S. risk managers know it is scarce in foreign countries. Insurance plans often lack deductibles, and rules, regulations and tariffs vary, he said.

Many risk and benefits managers, as well as insurers and brokers who advise them, say it's difficult to keep track of varying regulations governing insurance practices overseas.

Those tuned into product liability litigation trends are concerned about what they see as increasing litigation and liability in Europe.

Others whose focus is on pension funding fear foreign subsidiaries are inadequately funding their benefit programs.

This story is based on reporting by Rebecca A. Fannin, John Maes, Mary Ellen McKee and Ellis Simon. It was written by Kathryn McIntyre.

One strike:



... They pick up on their annual journeys abroad

CHICAGO—How do risk and benefits managers for multinational corporations keep abreast of the needs and problems of foreign subsidiaries?

Annual trips to large overseas operations and a visit to every location at least every two years to meet with local management is essential, say the majority of man-

agers.

"You can't run an international operation from a desk in New York," asserts Alan Elsworth, manager of benefit administration for PepsiCo International. "You get a lot more done in the way of getting information by sitting down with people in their own environment."

International

Mr. Elsworth tries to visit most foreign subsidiaries every year and ideally all locations every two years to talk with the local finance or personnel manager about plan administration, changes needed

and funding problems.

Jack Mantor of Syntex Corp. keeps the same timetable for his risk management-oriented excursions to foreign lands. "You owe it to your company to know as much about the problems, insurance and risk management philosophy of the people servicing the business in France, Japan or England," he

maintains.

During his overseas visits, he meets with local management and the local broker to go over corporate risk management programs. Together, they scrutinize the particular foreign operation's program to determine if it provides adequate coverage and if the price is right. He's already briefed himself at home on the program so he isn't going in cold to the meeting.

Richard Wilson, personnel manager for the Bell Helicopter division of Textron Inc., considers it "very important" to visit the company's installations in Venezuela and Iran twice a year. He wants to be sure overseas management is adhering to benefit policies and personnel procedures, he explained.

Foremost-McKesson Inc. risk manager Alan Pearce cites insurance renewal negotiations and the decision to purchase new coverages as the best time to travel to foreign operations. Face-to-face meetings with local underwriters produce the best coverage at the lowest price, he believes.

Good corporate relations and a better image for the risk and benefits managers are other advantages to regular trips abroad, say the managers. "To get the kind of relationship I want with local managers I must get out and meet them," maintains Control Data director of corporate employee benefits Don Shoen. He makes at least two or three trips annually to foreign operations.

"Sometimes we bring people in one part of the world together in a single location," he noted. "We discuss the whole gamut of benefit issues—plan design, comparisons with other companies, whether the plan meets employee needs, funding techniques, costs and communications."

Other managers note the visit is an opportunity to sell their insuring philosophy and themselves.

Most managers who visit foreign operations meet with other managers. But David Stinson in the international group at General Motors makes it a point to meet with the rank and file during his annual trips abroad. "We ask some very specific questions and we expect some very specific answers. That's the best way to determine what their needs are," he believes.

Assistant treasurer of Gulf Oil, William McGuinness, doesn't personally visit foreign operations that often, but members of his staff are out once every month, discussing loss prevention and safety matters with local managers. Underwriters, brokers and insurance coverages aren't discussed as much.

Allen D. Brosius, director of corporate insurance and risk management at Honeywell, is one of the few other risk or benefits managers interviewed who doesn't regularly visit foreign operations. "It's not necessary for our company since each subsidiary has responsibility for loss prevention and insurance," he explained.

But, Honeywell's broker Alexander & Alexander and its insurer INA survey foreign operations and make recommendations for the risk management program, he noted. And the financial executives of foreign subsidiaries visit the Honeywell headquarters annually, supplementing the risk management information transmitted during the year via manuals, wire communications, memos and phone calls.

This story is based on reporting by Rebecca A. Fannin, John Maes, Mary Ellen McKee and Ellis Simon. It was written by Kathryn McIntyre.

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Italian terrorists scare U.S. risk managers here

International

NEW YORK—Despite insurers' claims that terrorist attacks in Italy are isolated events, a risk manager who recently suffered a loss there said of all the countries where the company operates, Italy is the "worst."

"It's my feeling that quite a few losses occur in Italy that aren't reported in the U.S.," said Allen D. Brosius, director of corporate insurance and risk management at Honeywell Inc.

Honeywell suffered a \$700,000 loss at one of its warehouses on the day the funeral was held for former prime minister Aldo Moro, who was killed by terrorists last May.

Probably because of the increased tension the day of the fu-

neral, Mr. Brosius said, Red Brigades set fire to the building. They tied up three maintenance workers at the warehouse, poured gasoline on the building's contents, set them ablaze and destroying most of them. The maintenance workers were rescued unhurt. Honeywell was fully insured for the loss by the Insurance Co. of North America.

Coverage of property losses however, can be denied if the loss is considered caused by terrorism rather than vandalism, one large Italian insurer contended. "It's always a squabble to distinguish between the two acts," said the insurer.

The Minneapolis-based corporation has suffered other smaller losses to its computers housed in government buildings that have been firebombed. "We decided that there was nothing we could do to prevent these computer losses in buildings that don't belong to us," Mr. Brosius said. "But in our facilities, I have recommended that we use armed guards to keep the terrorists away." Terrorists avoid facilities with well-trained or armed guards, he said. But Honeywell's Italian subsidiary hasn't hired guards yet because of the substantial personnel cost.

Terrorist acts have recently subsided in the country because some of the Red Brigades ring leaders have been caught, Mr. Brosius added.

U.S. and Italian insurers contend the Italian situation hasn't been troublesome for them. But the insurers did not have loss data on the country.

"None of our accounts have suffered losses in Italy due to terrorists," said a source at American Foreign Insurance Assn. (AFIA). The terrorism is isolated, the source said, adding that "one incident wouldn't change the entire fire rating schedule in Italy." A large Italian insurer agreed that the Italian political troubles have "never flared up into something substantial."

The situation today is much more stable than two years ago, the Italian insurer said. Kneecapping—shooting at a person's knees—rather than firebombing is more popular today.

U.K. brokers still negotiating merger

LONDON—Sedgwick Forbes, the Lloyd's broker planning to link-up with Alexander & Alexander, is still working out the financial details of its own projected U.K. merger with Bland Payne Holdings.

When Bland Payne and Sedgwick Forbes join they will make one of London's biggest broking groups. Since all of Bland Payne's stock is held by the U.K.'s Midland Bank Corp., there will be a rearrangement of stockholdings at a price now being negotiated by the London interests involved. This does not affect the proposed link with Alexander & Alexander. But at the same time, the U.S. Securities and Exchange Commission, together with U.K. authorities, may look at the deal.

The new Hart-Scott-Rodino Act in the U.S. may be involved if the SEC has to look at the deal, London sources believe. But Sedgwick Forbes chairman Peter T. Wright in London considers the merger too small to attract attention.

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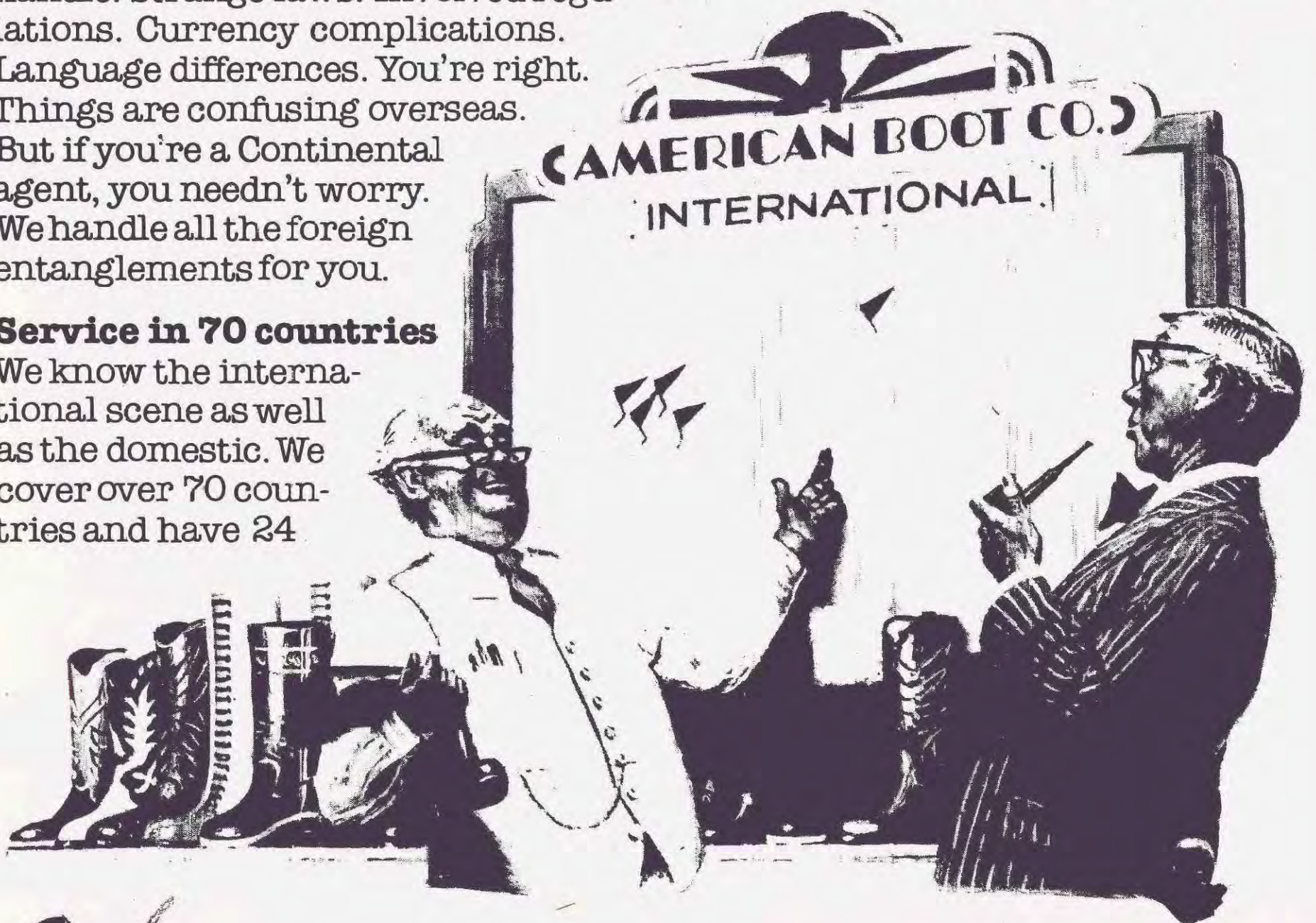
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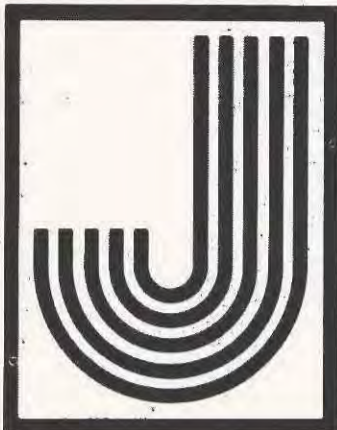
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Mandatory health plans fail in Australian test

International

NEW YORK—Australia has abandoned its three-year experiment in mandatory health insurance coverage for its 14 million citizens.

Benefit levels provided by Medibank, the government insurer created to cover persons who chose not to enroll with private health insurers, were reduced to 40% of expenses from 85% last November and a 2½% income tax on Medibank beneficiaries was eliminated, reported American Medical News.

At the same time, the government repealed compulsory health insurance, which was purchased either in the private sector or from Medibank, said the American Med-

ical Assn's publication. Persons previously covered by private programs can remain with them, drop them and accept the government's 40% benefit level, or purchase insurance to provide for an intermediate benefit level.

Only retired persons and welfare recipients will continue to receive medical benefits over the 40% level. Retirees receive 85% coverage and welfare recipients get 75% reimbursement.

Only about half of Australia's population participated in Medibank since middle and upper income earners could purchase private insurance for less than the levies of the Medibank tax.

Rising costs for health services would have warranted an increase in the Medibank tax rate if the program had continued. That would have resulted in an inflationary chain reaction since it would have raised the consumer price index, resulting in raises for union members whose wages are tied to the CPI. By reducing benefit levels, Australia can fund its medical insurance program out of general revenues and effect a temporary reduction in the consumer price index.

However, about half of the nation's population suddenly is uninsured for 60% of its medical expense exposure.

For the most part, U.S. benefit managers and benefit consultants interviewed do not yet know how the changes will affect their employees and clients with Australian operations. One benefits manager said her firm would be unaffected since its employees are covered through private insurance.

Don Shovein, director of corporate employe benefits for Control Data Corp., was preparing to leave for Australia when *Business Insurance* spoke with him. Although he said his primary purpose was to discuss pension matters with local managers there, he intends to come home well versed in the implications of the new medical insurance law.

Iron Curtain needs brokers

BUDAPEST—International brokers are valuable to Eastern European state-controlled insurance companies, maintains Brian Pearce, of the U.K. marine division of C.T. Bowring group.

Insurance brokers are not permitted to operate in the risk structure of this bloc of countries, which includes Russia, Hungary, Bulgaria, Poland, Rumania, Czechoslovakia and East Germany. But, said Mr. Pearce at a seminar on Eastern European trade relations with the West, reinsurance brokers have to be used if the state-controlled companies want to place risks outside their own area.

In addition, international brokers offer Lloyd's and other major Western insurance market's specialized knowledge. This could help the Eastern European countries in the placement of extended reinsurance for such risks as nuclear power, where they may need extra capacity.

"State insurance companies in this bloc are a relatively young industry in many cases though they don't lack their own expertise," Mr. Pearce observed. "I find it encouraging that a dialogue should exist between the two markets."

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Drug firms choke on German insurance mandate

By JERRY GEISEL

BONN—A year-old West German law establishing strict liability and insurance purchase requirements for drug manufacturers has increased the cost of doing business here, drug companies say.

The imposition of strict liability

is not believed to have resulted in any additional claims against manufacturers, but requiring the purchase of 200 million Deutsche marks (\$106 million) of insurance coverage has increased insurance costs.

"We're paying about ½ of 1% of sales for insurance," said Joseph R. Gullo, director of insurance at

International

Richardson-Merrell Inc. "That's a pretty steep price."

Under the law effective Jan. 1, 1978, the maximum payment to an individual injured by a drug is 500,000 marks (\$265,000), while the

maximum payment per drug is 200 million marks (\$106 million). To be sure companies can pay claims, the law mandates both insured limits and that coverage be purchased from insurers licensed and admitted to do business in West Germany.

Drug companies can line up their own insurer for the first 10

million marks of coverage so long as the insurance company is licensed and admitted to do business in West Germany. "The price for the first 10 million marks is more or less freely negotiable with whatever carrier a drug manufacturer wishes to talk to," says Patrick Thomas, manager of the international department of Jauch & Huebner G.m.b.H. Inc. "It is no problem in approaching half a dozen carriers to get alternative quotations."

However, the next 190 million marks (\$100 million) of coverage is provided by a special pharmaceutical pool known as the "Pharma Pool." The rates are based on the type of drug a company sells. The highest rate is for drugs sold by prescription; the lowest rate is for pharmaceuticals that are freely available, such as cough drops.

The rate for prescription drugs is 45 marks (79 cents) per 1,000 marks (\$530) of sales; for non-prescription drugs sold only in a pharmacy, the rate is 4 marks (\$2.12) per 1,000 marks of sales, while the rate for drugs that are freely available is 2 marks per 1,000 marks of sales.

In addition, some companies such as Richardson-Merrell have opted for a retrospective rating plan. Under the retro plan, a company pays 80% of its standard premium for Pharma pool coverage. However, the drug company is charged an additional premium for claims exceeding the deposit premium, up to 120% of the deposit premium.

German liability observers do not expect any changes in Pharma pool rates in the next two years so that sufficient reserves can be established to meet potential claims.

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Insurer calls for controls on Greek ships

ATHENS—Tighter controls on Greek shipping standards are being urged by Nicholas Adamantiadis, a leading Greek underwriter, to avoid unduly heavy premiums on its fleet.

Shipping minister of Greece, Emmanuel Kefaloyannis, has set up an inquiry into a series of casualties last year to vessels registered under the Greek flag or to Greek ships flying flags of convenience.

These ships now total more than 4,800 and represent one of the world's largest merchant fleets, but on the average they are reportedly more than 12-years old.

Mr. Adamantiadis considers unjust additional premiums leveled by U.K. insurers last year on cargoes carried in Greek ships 15-years-old or older, placing the Greek merchant fleet at a disadvantage to other maritime nations' fleets.

But the Greek government should have foreseen the result of an unchecked growth in the Greek flag fleet and introduced more rigid standards, he asserts. "Much more still needs to be done to guarantee overall standards in our general shipping policy so as to avoid exceptionally high premiums. The Greek fleet for the main part is in good health and shipowners should seek ways of removing those operators responsible for drawing unwelcome attention to it," he said.

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In addition, an amazing number of companies have begun on-the-job fitness programs. These programs range from exercises employees are encouraged to perform at their desk, to workouts at nearby YMCAs, to medically supervised fitness activities at extensive company facilities (like those provided for their employees by Xerox and Kimberly-Clark).

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Regulations still brewing

New law may perk pension plan demand in Brazil

By ELLIS SIMON

NEW YORK—Now that Brazil has legalized private pension, insurers are developing products to tap what could become a marketing bonanza.

But the Brazilian government could yet regulate insurers out of the business. And observers disagree on the pension plan market potential among both Brazilian and multinational employers.

Regulations promulgated under the Brazilian pension law are unclear on what the role of insurance companies should be in the private pension system. The law prohibits insurers from managing "closed entity" pension plans that would be available to all employees of one

company. But it is unclear on whether insurers can write "open entity" plans available only to a select group of workers.

The regulations are incomplete on the open entity plans, which work much like individual retirement accounts, said David Healy, an international actuary with Towers, Perrin, Forster & Crosby Inc.

Still insurers consider the open entity plans the "big thing to come," he added.

The picture is clouded by a lame duck federal administration whose term ends in March. The ministry of industry and commerce has yet to issue final rules that would clarify the situation and is uncertain

International

whether the rules will be issued by March, said James LaJcie, director of pensions for American International Life Assurance Co., a member of the AIG group.

"No one is sure what the new government will do," said Michael Allan, director of sales and service for the international group program at John Hancock Mutual Life Insurance Co. John Hancock's Brazilian affiliate Sul America had a pension product ready to go, but the regulators told them not to submit it until the new government comes into power, Mr. Allen said. "Until the local situation on regula-

tions is totally clarified, I don't think we'll be successful in marketing a pension product and I doubt we'll aggressively market it until then," he said.

At present, insurers can't write pension programs because of the confusion, Mr. LaJoie of American International Life said.

Some insurers fear that this situation will be formally perpetuated by the new government. "In Mexico, the insurance industry is kept out of the pension business by law. It could go that way in Brazil," said George Carrick, second vp-international benefits at The Travelers Corp.

Even if the government allows insurers to market pension pro-

grams, John Hancock's Mr. Allen considers the market potential limited because Brazilian social security already provides a good replacement level for most workers with only 5% of the workforce earnings enough to warrant supplemental provisions. Laurence M. Maloney, a vp with William M. Mercer International, agrees, adding that the high inflation rate in Brazil acts as a disincentive for savings.

But, AIG's Mr. LaJoie notes Brazilians have expressed interest in pension plans despite the inflationary pressures. AIG is taking a "wait and see" approach, said Mr. LaJoie, noting that it is difficult to predict what employers will do.

"The potential is there, but the question mark is when," said Travelers' Mr. Carrick. "Many people are anticipating great activity since there has been a tremendous amount of economic growth in Brazil."

The Brazilian government could use the pension law to take the pressure off the social security system, suggested Mr. Healy of TPF&C. Social security provides a good benefit now, but increases have been decoupled from increases in the minimum wage, he said. Benefit levels are now raised by government decree, noted Mr. Allen.

Mr. Healy sees employers who fail to offer pension plans at a potential disadvantage in the job market since the Brazilian government and government-controlled enterprises already provide generous pensions for their people. "Multinational companies are going to have to study this seriously. If any plans are implemented, 1980 would be the earliest," he said.

Brazil hopes private pension plans will develop new capital sources for its industries. The law requires that at least 20% of pension funds be invested in Brazilian securities, Mr. Healy noted.

A benefit administrator for a major pharmaceutical manufacturer said corporate international benefits specialists see this as the government's prime motive behind the legislation. Consultants and insurance companies pushing private pension plans in Brazil are "only in it for themselves," she charged. Most multinational employers will probably "go slow" on starting a private pension there, she predicted.

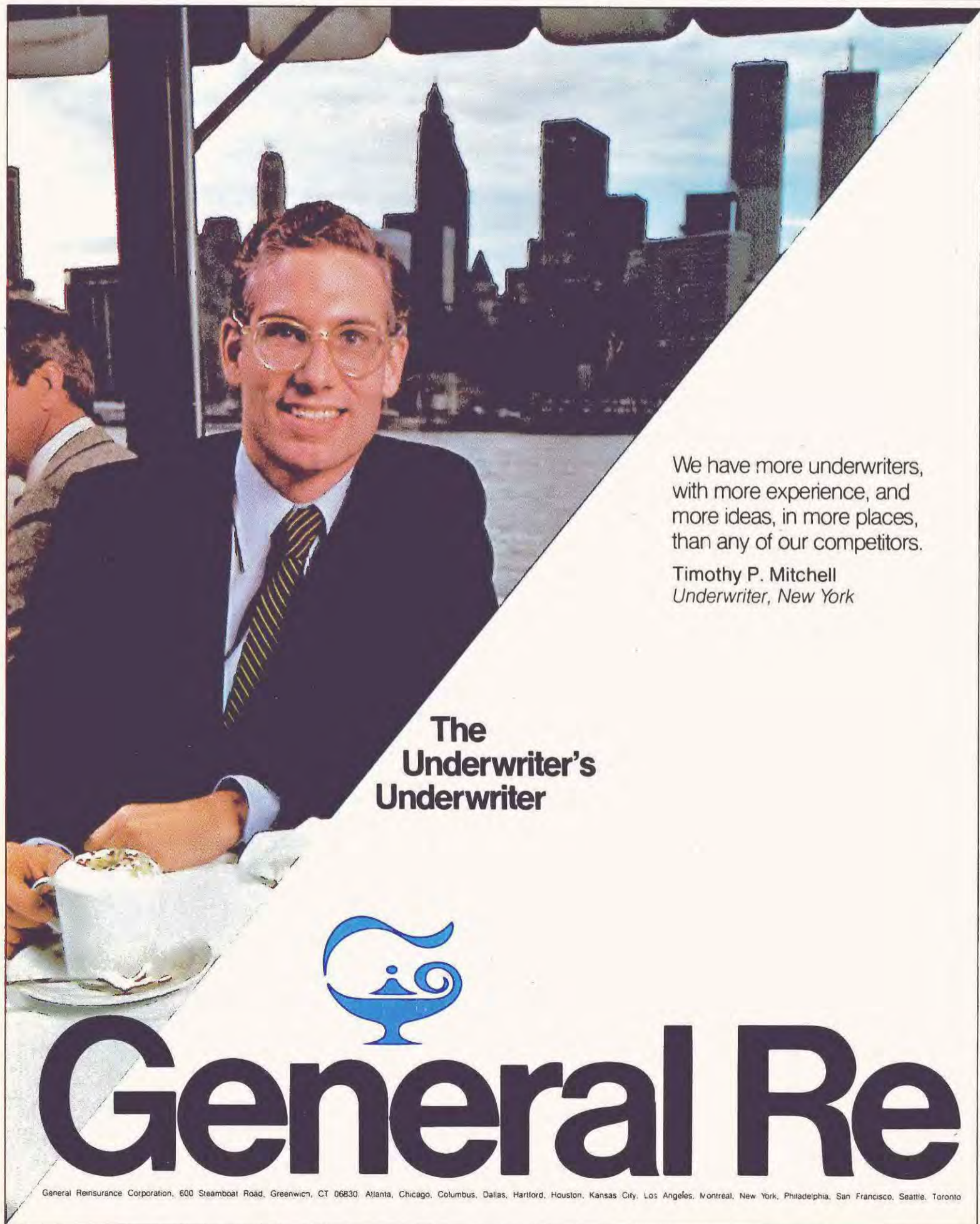
Competitive pressures will dictate what employers will do, suggested Alan Elsworth, manager of benefit administration for Pepsico International. Pepsico is considering a pension plan for its Brazilian employees, but "it is not an active consideration at this time," he said.

Mercer's Mr. Maloney said Philips N.V., a Dutch firm, is the only multinational corporation he knows of that provides a pension plan in Brazil.

At present there are only six actuaries in the entire country of Brazil and they are busy conducting seminars explaining the pension system to employers and their workers, said James Bolland, a partner with Kwasha Lipton. But they are proposing a high final salary plan that would ignore Brazil's termination indemnification program and lead to gross overprovision, Mr. Bolland complained. American companies should be careful that their subsidiaries avoid this pitfall, he advised. ■

Hull opens new office


Hull & Co., a San Francisco-based national excess and surplus lines broker, will open an office in St. Petersburg, Fla., supervised by E.L. DeYoung.



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Iran:

War exclusion imperils property loss recoveries

By JOHN MAES

CHICAGO—After months of almost daily rioting and destruction in Iran, the true extent of insurance losses is still as much in question as who will eventually hold the reins of power in the strife-torn nation.

Many property damage claims will probably be denied because they fall into the category of non-insured war risks excluded from many policies, according to insurers and reinsurers involved in the Iranian market. In addition, higher property insurance rates are likely in Iran and companies hoping to set up operations in the country can expect difficulty in obtaining first-time coverage.

With property damage figures and the death toll continually climbing, insurers and reinsurers say it may be some time before total losses are known.

"It's too early in the day to tell what the extent of the damages will be," said a spokesman for Lloyd's of London. "There's not as much information coming out of Iran as we would like."

Apparently, however, U.S. companies will be spared the brunt of the insurance burden. Local Iranian firms and Swiss, German and British reinsurance interests handle most of the country's risk.

The American underwriter AFIA and the Factory Mutual system reinsure only a small amount of risk in Iran. New York-based Continental Corp. and American International Group are minority partners in Iranian-owned insurance companies. All report losses thus far have been small.

Even at Lloyd's, whose syndicates underwrite marine and oil field risks and some reinsurance in Iran, no substantial claims have been filed. "That means either that much of the property that has been damaged is not insured or the situation is not as serious as the reports



Photo: Wide World

One anti-government demonstration in Iran turns into rioting against banks, including burning bank furniture in a street blaze.

have suggested," the spokesman said. "But there could be several claims in the pipeline."

"There has been a remarkable absence of insured losses thus far," said Ken Nottingham, a regional vp for AIG. "Most of the damages have been to restaurants, cinemas and small outlets in Tehran that are either not insured or insured by local national firms," said Mr. Nottingham, who recently returned from a trip to the Iranian trouble spots.

He expects widespread claim denial because much of the property damage in Tehran is the result of rebellion and insurrection which exceed the limits of many property insurance policies. "Many will be clearly not insured," he said.

A claim has been denied, for example, on a warehouse insured by AIG's Iranian partner firm. The warehouse was set afire during rioting in early November, shortly after unrest broke out in the country. The claim was denied because "the events that caused it are a non-

insured peril," said Mr. Nottingham.

On the other hand, the Lloyd's spokesman said he doubts the insurrection category would apply to many claims because Iran's current prime minister Shapour Bakhtiar was appointed by the exiled Shah Reza Pahlavi. In addition, "one could conclude" that since the Lloyd's rating committee has not yet called a session to discuss the Iranian situation, it does not view it as war, he said.

Despite the anti-American sentiment of rioting Iranian crowds, most of the American multinational firms there have not suffered damage at the hands of demonstrators.

One exception is Control Data Corp. which sustained a \$1 million loss last Nov. 5 when anti-Shah protestors firebombed a government building housing a Control Data computer being leased by the Iranian government. The computer and its spare parts were destroyed in the explosion and fire which gutted the building, said Robert E. Abrahamson, corporate risk manager.

Control Data officials are hope-

International

ful the claim will not be excluded by the war risk clause because the loss occurred two days before martial law was declared. But the insurer, the Factory Mutual System, hasn't said whether it will honor the claim, said Mr. Abrahamson.

Pepsico International has also suffered riot-related damages to its three Iranian plants and some of its delivery trucks. But the operation is a Pepsico franchise, wholly owned by Iranian business interests and insurance is strictly the responsibility of the franchisee, a Pepsico spokesman said.

Mr. Nottingham of AIG predicts marine insurance losses will surface because a strike by customs workers has closed down Iranian ports, preventing delivery of some cargo shipments and diversion of others to other countries.

Substantial claims for non-delivery could result if the diverted shipments are stolen. "Otherwise, it's difficult to say what would be covered until it could be determined what the proximate cause of the loss was," he said.

Among the non-deliverable cargoes are huge quantities of fuel oil that still lie in the bellies of tanker ships in Iranian ports. That situation plus a strike by oil field workers has halted fuel oil deliveries and crippled the nation's industry.

Insurers offered differing views of what the chaos in Iran will mean,

but all generally agree there will be higher rates and deductibles and some policy restrictions once stability is restored to the country and business and industry are resumed.

Mr. Nottingham expects property insurance rates will jump an average of 25% to 30% on renewal. Cargo and marine rates will jump too, although he could not predict by how much. "There will be much more restrictive conditions on coverage," he also predicted.

Others said they think rate hikes might not be drastic if the country's problems are settled peacefully.

But it will probably be difficult for first-time risks to obtain coverage, the Lloyd's spokesman predicted. "But companies would want to let the disturbance settle down before they invest capital in that area."

A Continental Corp. spokesman was even less optimistic, predicting that new religious fervor will increase anti-American, anti-capitalist sentiment that will eventually force closure of most business, thus diminishing the insurance market.

"This whole Islamic religious revival is that they have a particularly orthodox way of looking at things and their troubles are attributed to American influence," he said. "So the American business presence is going to be, under the best of circumstances, a lot less obvious than it has been the last four or five years."

Yanks earn U.S. brand employe benefit plans

By JOHN MAES

CHICAGO—U.S. firms in the forefront of industrial development in the Middle East say they provide expatriate and third country national employes with benefit plans competitive with their U.S. programs.

But their approach varies on benefits for national employes. Some leave their benefit administration to the co-owners in the host country or to government agencies. Others say they provide benefit packages for national employes that are equal to or competitive with government social programs.

American employes relocating in the Middle East usually take their full benefit plans with them as well as receive financial incentives and bonuses provided as inducement for them to take overseas assignments.

But while relocating with benefits, some companies say their employes have encountered difficulties realizing them, such as having to travel long distances to a clinic or hospital or finding inadequate care. "One of the biggest problems is actually delivering the care," said Thomas Wulf, international benefits manager for Bechtel

Corp., a San Francisco-based construction contracting firm.

"When an American goes abroad and takes his family with him, there are certain things they expect and we have to do what we can to provide them," said Mr. Wulf. The company employs 2,000 people overseas, most of them in Saudi Arabia, Kuwait, the United Arab Emirates and until recently, in Iran.

The company's American and Canadian expatriates are considered part of Bechtel's international staff. When bound for the Middle East, they take with them a compensation package including tax subsidies, hardship allowances and the full range of benefits, said Mr. Wulf.

The employes and their dependents can get medical care from local doctors and expatriate physicians brought to the host country to look after Bechtel workers. "We have a standard package for American and Canadians and we try and transport that package overseas," said Mr. Wulf.

For third country nationals, many of whom work for Bechtel only for the life of a specific project,

Continued on following page

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Continued from preceding page
 ect, "we try and get as close as we can to what they had in their home country," he said. Life insurance, health insurance and workers compensation are usually included in such packages.

For local nationals, Bechtel complies with the law of the host nation. In Saudi Arabia, for example, workers have free medical insurance under a government mandate.

The company is studying the possibility of enhancing pay and benefits for Saudi workers in an

International

effort to cultivate more career employees, rather than losing employees to another company once the Bechtel job is complete.

The Bell Helicopter division of Textron Inc. also operates in the Mid-East with maintenance facilities in Iran. But it's reducing its workforce in the face of nationwide turmoil.

Both Bechtel and Bell Helicopter have hired expatriate and local

doctors to periodically visit Mid-East work sites to provide adequate care.

American Telephone & Telegraph Co., which suspended its Iranian operations Dec. 28, was considering employment of a full time doctor based at the American hospital in Tehran to look after the company's American employees. "That was about our most profound problem," said a benefits manager for AT&T. "There might be high quality care in Tehran and nowhere else so we thought of staffing the American hospital there with our own physician."

Other health care, such as dental treatment, presented additional

problems, he said. "It was catch-as-catch-can—a lot harder to find facilities available than an employe would on the European continent."

Bell Helicopter's American expatriates and third country nationals receive various allowances for housing, transportation, dependents and for living in remote, or hardship locations, said Richard Wilson, personnel manager. Those workers also are entitled to Textron's stock savings plan, medical insurance, workers compensation and life coverage.

Iranians hired by Bell Helicopter through a local contracting agency are not entitled to the same benefits. Their benefits "are better than

what the average Iranian gets," Mr. Wilson said, although he was unsure of the specifics. One Iranian worker who suffered a superficial gunshot wound in a fracas at a Bell Helicopter facility in Esfahan received treatment from a company nurse, Mr. Wilson noted.

General Motors, whose assembly plant in Iran has been inoperative since the civil unrest began, also provides its American expatriates with full coverage in its pension, savings stock purchase and medical plans. Third country nationals get benefits equivalent to the norm in their homeland. But "we're in the process of converting that situation to benefits identical with U.S. expatriates," said David Stinson, director of staff operations for the international personnel group.

General Motors' Iranian partner, which owns 55% of the Iranian operation, administers benefits to local workers, he said.

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Swiss worry their edge may be cut

ZURICH—Experts at the massive Swiss Reinsurance group, which with a premium income of \$4 billion rivals Lloyd's and many other world insurance centers, are expressing fears over EEC solvency requirements.

The sharp fight for business by many insurance companies in Western Europe's European Economic Community is the problem. Profit margins are "undeniably shrinking" in many European countries and some companies may run into difficulties matching the solvency margin rules that are spreading.

"The situation with which reinsurers have been familiar for some years is still hard to understand," according to Swiss Re's analysis of the future situation. "This is the position where there is ample capacity, even at depressed premium rates, and now many direct insurers as well are complaining about ruinous competition."

Insurers in many parts of Europe may have to add capital to their businesses if their underwriting reserves, depleted by a fall in business on top of loss-making ratings, are to meet solvency levels.

Product liability moves in Europe are likely to increase demand for reinsurance, but if there is an "exaggerated claims consciousness" by the public, then the price of goods will rise and hinder Europe's ability to compete in other world markets, Swiss Re warns.

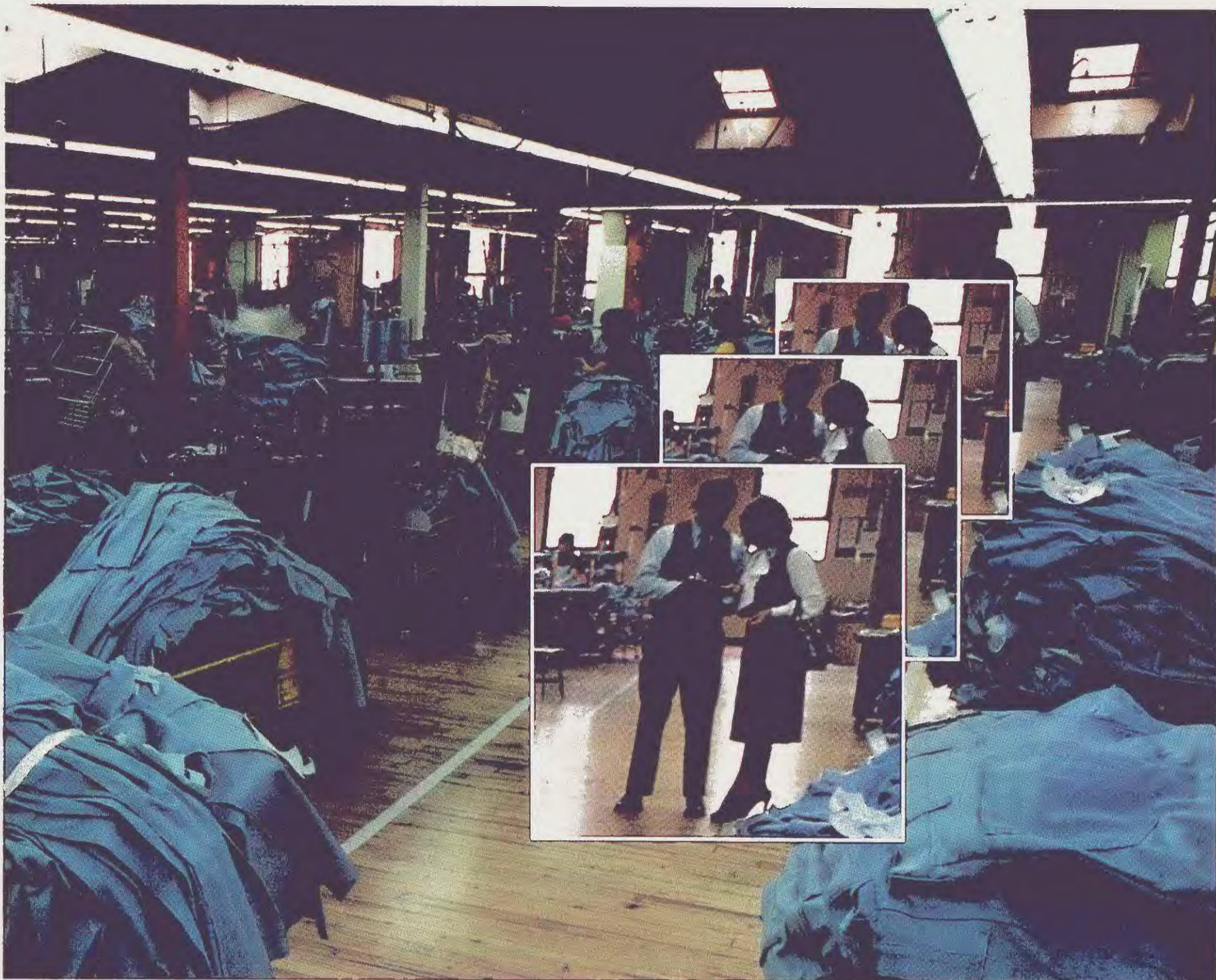
It welcomed satisfactory results from European and Japanese markets in its 1977-78 review of reinsurance business, but found unfavorable reinsurance returns from the U.S. and Third World.

Workers compensation and liability returns from the U.S. were unfavorable. But the company sees signs that the U.S. public is less disposed toward paying increased premiums "to finance the inexplicably high awards and lawyers' fees which by European standards are exorbitant," it says.

FM awards arson grant

NORWOOD, Mass.—The Factory Mutual System has awarded a \$10,000 grant to the International Assn. of Arson Investigators to help pay for reprinting and updating a hand book for arson investigators.

Last year, Factory Mutual awarded more than \$71,000 to cities all over the country to combat the growing problem.



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U.S. insurance buys currency risk abroad

By JOANNE GAMLIN

LOS ANGELES—Worldwide, non-admitted insurance policies create foreign currency problems for international manufacturer's warn many international insurance experts.

The policies are usually written in the corporation's U.S. home office and in the U.S. dollar which, as everyone knows, has been one of the sickest currencies of any major nation during the last two years.

Since the currency exchange risk is greatest for worldwide non-admitted policies, usually written for property, marine/cargo or travel/accident, at least one international expert asserts that non-admitted worldwide program for manufacturing companies are totally inappropriate.

Sandy Clark, vp of Alexander &

Alexander in San Francisco argues, "the only solution is to have the insurance written in the currency in which the loss occurs." For primary coverage, only local coverage should be used, he said. Worldwide policies under this scheme would be relegated to filling in the coverage gaps on an excess level. "Anytime you tie corporate insurance recoveries to a currency which is not the currency in which the loss occurred, you have problems," Mr. Clark said.

At least one spokesman for an international underwriter agreed. William F. Crowley, vp of AFIA Worldwide Insurance in New York, explained, "In the event of a loss overseas under a non-admitted policy written in the U.S. currency, the loss is adjusted in the currency of the country involved

International

since values are recorded on the local books of the account. Usually the rate of exchange in effect on the date of the loss is applied to the local currency adjusted loss for conversion into U.S. dollars at the time of settlement. The exchange risk under these circumstances is for the insured's account."

Mr. Clark of A&A explained that if an underwriter writes a policy on Jan. 1 for \$100,000 in dollars or \$1 million in Japanese yen and nine months later there is a loss, the underwriter will pay the insured whatever the loss is up to the limit of the policy. "If there is a total loss and the yen has appreciated 40% to the dollar, the insured has a 40% loss because his original exchange

rate was different from the one done at the time of the settlement of the loss," he said.

"The only way apples will be apples is if the underwriter guarantees the exchange rate. But there is not an underwriter in the world who is willing to do that," he observed. Thus, it is the insured manufacturer, and not the underwriter, who bears the brunt of exchange problems.

Mr. Clark stressed that his opposition to worldwide, non-admitted policies is confined to manufacturing concerns. When the insured is a contractor or a servicing organization entering a foreign land to execute a deal in a mutually agreed upon currency, the exchange risk does not exist, he said.

Exchange risks arise, however, in business interruption policies

when inter-company sales contribute to dollar profits, Mr. Clark said. In this situation, the corporation's exposure is partially in dollars while the subsidiary's exposure is entirely in the local currency. "It is a very major problem which is often ignored by risk managers who are accustomed to the strength of the dollar," he observed.

A multinational company on the West Coast has had claims problems with its worldwide, non-admitted marine/cargo coverage. All of the company's claims are in U.S. dollars while the currencies in the countries being covered by the coverage rise or fall in relationship to the dollar, a spokesman said.

As a result, "we file a claim in dollars and it is settled in dollars," he said, so there is a gain or loss depending on what the foreign currency does.

Marine/cargo coverage presents the biggest currency exchange headache for the firm because it has the highest frequency of claims, the spokesman observed. The similar worldwide property policy has fewer claims and therefore fewer problems.

Worldwide, non-admitted travel/accident insurance has caused currency exchange problems for another West Coast corporation. Employees based in Europe have grown alarmed over the value of their travel/accident benefits in relation to what they were in the days when the dollar was strong. Travel/accident benefits of \$100,000 for air travel disasters and \$50,000 for other modes of travel have been in effect for the company for years. But now the company is debating upgrading these benefits.

Basically two options are being considered, said a spokesman: To relate the benefit to a multiple of the salary, with a difference in benefits for air disasters and for accidents involving other modes of transportation; or to move to a uniform benefit for all forms of travel.

Although it is the insured that bears the exchange risk in worldwide non-admitted policies, international underwriters encounter currency conversion and tax problems when paying losses in local currencies, said John Johnston, an underwriter with AIU.

"Our rates are based on having paid X number of dollars on losses, the number being the known rate of exchange," he said. "But inflation and monetary values can either rise or decline tremendously." The Deutsche mark, for example, has risen between 30% and 40% in the last two years, he noted. So a \$20,000 payment on a loss in Deutsche marks a year ago would cost \$28,000 today.

Troublesome situations confronting brokers, he went on, include getting money out of a foreign country. For a Philippine risk, 18 months can elapse from the expiration of a policy until the broker receives his commission, he said. In Chile and Peru, money cannot be paid to an American broker at all. Instead, it must be placed in a trust fund where the broker can use it for a Peruvian or Chilean holiday.

Although it is not designed to insure against devaluation of a foreign currency, convertibility coverage from the Overseas Private Investment Corp. (OPIC) in Washington does assure that such eligible remittances as earnings, capital, principal and interest, can continue to be transferred into U.S. dollars "to the extent transferable under exchange regulations in effect at the time the insurance is issued."

The insurance comes into force by either the action of exchange control authorities denying access to foreign exchange on the basis of new regulations or the failure of authorities to act within a specified period on an application for foreign exchange.



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Predicts Lloyd's underwriter

Review could send up aviation rates in 1979

By JOHN H. MILLER

International

LONDON—Though most major U.S. airlines managed to get three-year renewals at favorable rates and on a non-cancellable basis through 1978, underwriters are now taking stock in their position.

They will be looking closely at general aviation lines and a sharp price increase in helicopter risk cover seems certain. Large corporations that use their own aircraft for selective travel needs for their executives may find rates also slightly harder.

This is the view of Lloyd's underwriter Richard Maylam, who argues that the time has come to review the absence of deductibles on many lines of aviation risks.

"It's common practice for aircraft used for industrial air purposes in the U.S. to have deductibles eliminated altogether and the practice is beginning to spread into other areas," he says. "But it certainly shows up the weakness of our market when deductibles can be eliminated altogether on certain forms of aviation insurance. I think the time is coming when deductibles will have to be restored, as otherwise the rates are quite uneconomic," he observed.

Helicopter cover is far too cheap, he argues. Rates will go up in some quarters in this line from 4% for a \$1 million helicopter 12 months ago to 10%, he predicts. "They're rising dramatically already," he claims, pointing to casualty records for such types of aircraft.

Reinsurance capacity for aviation lines is now shrinking, Mr. Maylam suggests. He contends direct insurers are using such facilities without full regard for the consequences.

"There's absolutely nothing wrong in laying off facultative reinsurance," he says. "It's part and parcel of reinsurance practice, but its use on a wide scale has been one of the major causes of our problems."

"Because of low premium levels, many direct insurers have maintained their lines and reduced their net and automatic reinsurance exposure by laying off substantial facultative reinsurance," he said.

"They make useful over-riding commissions, but underwriters who practice this form of reinsurance frequently are fast becoming brokers and not underwriters. This can't be good for an underwriting market."

Extensive use of facultative reinsurance can lead to problems for underwriters. Some of this business has been placed with reinsurance groups in financial difficulty, according to Mr. Maylam. "I believe we shall see more difficulties in collecting claims from certain reinsurers in the future," he warns.

But some reinsurers are now starting to support the market in getting better rates. "For instance, a large number of treaty facilities came up for renewal Jan. 1 and I'm finding that professional reinsurers are stopping long term policies," he said. "They're saying that no cessions of original policy periods should be longer than 12 months, or with 'odd time' included should not run more than 18 months."

Crowded flying space is hiking the peril of collisions between aircraft, even though pilot safety and training programs are lessening other risks, Mr. Maylam warns.

"Much more has to be done to make air space safer and it has got to be done quickly before more lives and aircraft are lost."

Some insurers have already pulled out of aviation insurance because they are not making any underwriting profit on it at all Mr. Maylam said. It will be the "survival of the fittest," in which those with selective underwriting practices and minimal expenses will survive he predicted. ■

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Lloyd's insures growth against treasure hunts

LONDON—Lloyd's is selling a new line of insurance for a risk it also has under its own feet while expanding office space.

The policy covers delays in the completion of new offices or buildings while archaeologists dig around. Lloyd's is selling and buying the policy against delays in the completion of its own new office blocks.

Historic treasures from the Roman occupation of Britain 2,000 years ago may be hidden beneath the area around Lloyd's in the heart of the business center of London. The market place where those Roman-British citizens strolled and conducted their business is but a stone's throw from the mod-

International

ern underwriting room where international risks are covered by Lloyd's.

One of Lloyd's underwriters, Robert Kiln, wants to see more of these sites excavated and their history recorded before they are destroyed by new developments.

The new \$90 million building which Lloyd's plans to construct to expand underwriting capacity in the next 10 years lies next to the Roman "forum" where the business of the day was carried out 2,000 years ago. Mr. Kiln, a keen archaeologist, has helped to organize research on the site. Traces of Roman occupation, such as pottery and other household antiquities, have already been found.

With Mr. Kiln in the forefront, Lloyd's developed the new insurance policy against delays in the completion of new office blocks while archaeologists dig beneath the surface. Potential exposure can run as high as \$5 million a year, though so far they have not been called upon to pay any high claims.

The coverage is in demand in several parts of Britain and inquiries have come from Scandinavia and the Netherlands where developments are taking place on sites that were famous in Viking or Roman times.

Risk premiums are usually between 1% and 5% of the sum insured. This normally represents up to one year's loss of any business rentals and extra expense that may develop from "digging" ordered by the U.K. Government or local authorities when, or if, any historic remains are discovered beneath the ground.

After consulting maps and other documents, the underwriters base premiums on the likelihood historic relics will be found.

Mr. Kiln predicts demand for the insurance might develop in the U.S. to protect against discovery or disturbing Indian or Colonial sites and evidence in the U.S. Certainly concern in the U.S. over destruction of what is left of the nation's past heritage has grown very considerably in recent years. ■

Broker analyzes Lloyd's profits

EDINBURGH—In this Scottish capital city, where U.S. marine insurers will travel in September for the annual conference of the International Union of Marine Insurance, analysis continues over Lloyd's ability to earn profits.

Insurance broker William J. Reid told experts in his presidential address to the Edinburgh Insurance Society that Lloyd's has suffered losses only three times in the past 27 years of its reported operations. But U.K. insurance companies have lost money, as far as the "majors" are concerned, on underwriting ratios 18 times in the past 21 years.

"Though different considerations apply, it is perfectly obvious that Lloyd's does make more underwriting profit than the insurance companies," Mr. Reid asserted.

The reason, he believes, is Lloyd's keeps expenses down by using only Lloyd's brokers, whereas the composite U.K. companies have 200 or 300 offices scattered round the country. This must add considerably to their expenditure, whereas Lloyd's relies on its professional brokers for risk marketing and claims' servicing. ■

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Broker links could upset risk plans

By REBECCA A. FANNIN

NEW YORK—Control Data Corp. may shift its international casualty insurance from one Lloyd's broker to another because of the link-ups between U.S. and London brokers.

Lloyd's broker Bland Payne services Control Data's overseas casualty insurance. Its domestic casualty account is handled by Marsh & McLennan.

But whether Control Data will continue to use Bland Payne is questionable since Bland Payne has linked up with Alexander & Alexander Services Inc. and M&M has joined with Lloyd's broker C.T. Bowring.

"M&M may request that we make C.T. Bowring the broker of record because of its formalized link with the Lloyd's broker," said Robert E. Abrahamson, Control Data's manager of risk management and corporate insurance. "Or

International

it could happen that we would split off from M&M overseas because of our good relationship with Bland Payne," he speculated. "We will probably continue with Bland Payne while we evaluate the M&M/C.T. Bowring link," Mr. Abrahamson said.

"It would be much easier to just continue with Bland Payne but we will consider whether we should make a move," added the risk manager with substantial overseas operations.

Other risk managers contacted, however, said that accounts probably won't move because of the new formalized relationships between U.S. and London brokers. "It's not too likely that an American broker would insist that the risk manager use its Lloyd's counterpart," said Peter Downes, manager of insurance at American Trading & Production Corp. in Baltimore. "Nothing is changed really with the link-ups.

The ties between the brokers could mean that a risk manager who has negotiated directly with a Lloyd's broker may no longer need to visit London. The U.S. broker would instead act as the only intermediary because of its close relationship with the Lloyd's broker.

But risk managers discount this possibility. "These link-ups won't affect my visits with my London broker," said Francis X. McCahill, director of insurance and safety at Bristol-Myers Co. Mr. McCahill visits his London broker without his U.S. broker about half the time.

Risk managers and insurers agree that the link-ups won't have much impact because ties between the brokers have existed for a long time. The ties are just a formalization of what's been in practice, said several sources.

The links "only make formal something that has always informally existed," said Edwin A. Manton, a former executive vp at AIG and now a consultant to the insurer. "I just fail to get excited about these developments," he explained.

Russians force safety

Seaports are checked so carefully by underwriters in Russia that they often make personal visits to ensure port officials are doing their work properly, the state-controlled insurance organization Ingosstrakh told the International Union of Marine Insurance.

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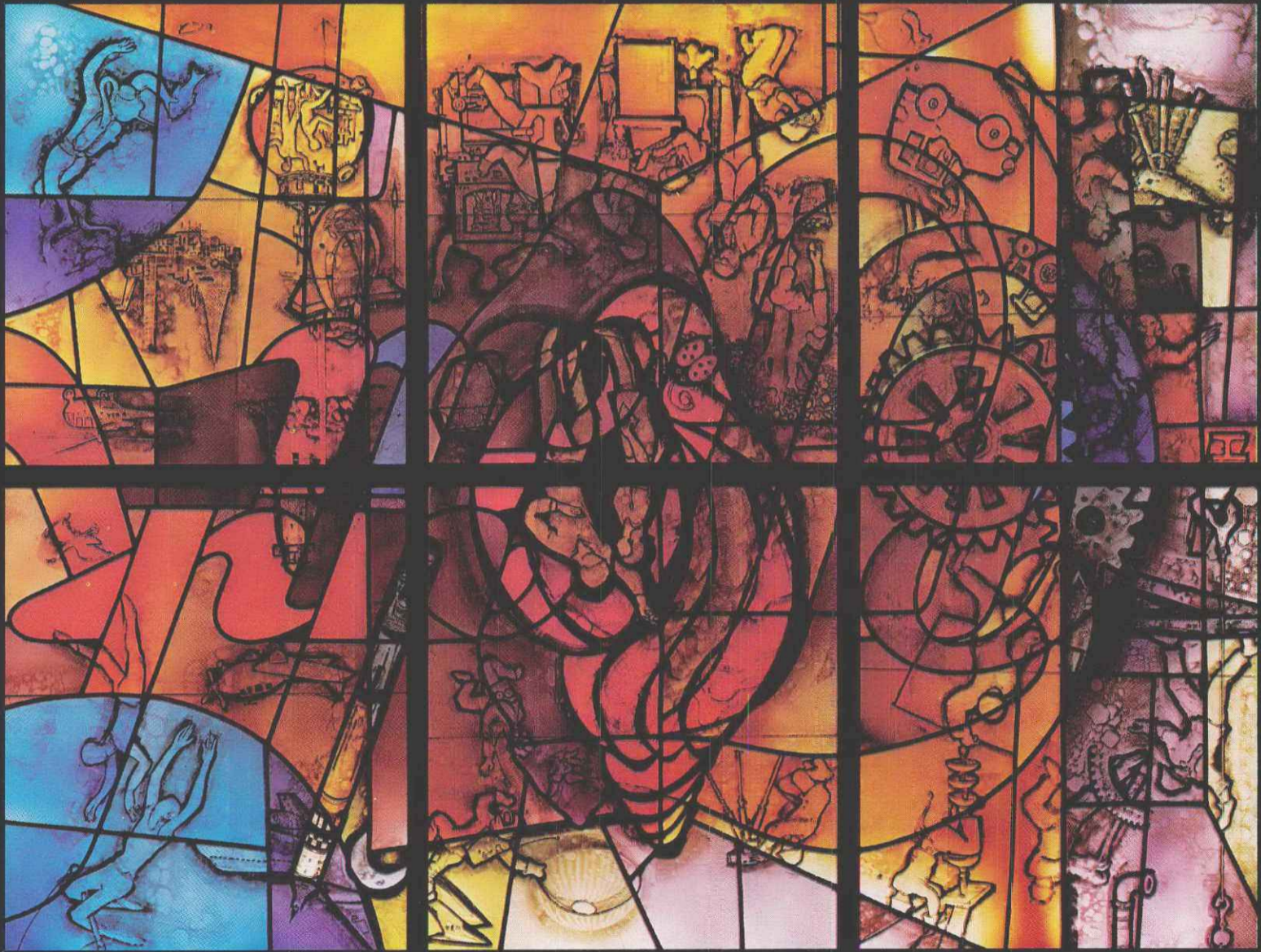
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PERSPECTIVE

Economic changes in Mid-Belt Africa speed growth of group benefit plans

By Matthew Simunovich

THE EMERGING NATIONS of Middle Belt Africa—Senegal, Sierra Leone, Liberia, Ivory Coast, Nigeria and Cameroon in the West, and Uganda and Kenya in the East—have experienced rapid political and societal change in the past few decades. The impact of change has caused a degree of future uncertainty and the insurance business is straining its ability to respond to evolving security needs of the individual in the new independent nations.

The changes in the economies of the Middle Belt can, to some extent, be compared to the early development of present-day industrialized nations, but the acceleration of change and the compressed time period make the African countries unique.

In the early years of industrialization, a labor surplus market and deeply rooted traditional security institutions relieved employers of the economic and moral obligation to provide health and old age maintenance for their workers. Putting aside a portion of his small earnings for tomorrow or for this date of retirement some decades in the future was beyond the average worker's understanding.

The continuing exodus from rural farming areas to the urban centers has far outpaced the ability of the infant industrial sectors to absorb a generally illiterate populace. This movement is evident in all eight countries, perhaps most vividly in Lagos, Nigeria, whose metropolitan area is estimated to have a population of close to 10 million people. The social, health and crime problems caused by a large concentration of generally uneducated, unskilled and unemployed people living in squalid shanty towns are massive. Under the pressures of urbanization, the old systems—cultural and ethnic traditions and the extended family—are giving way slowly to the more modern insurance techniques of risk bearing.

Social insurance laws

Today, nearly all the Middle Belt Africa

Matthew Simunovich is regional manager in the Africa group management division of American International Group Inc.



Map: Toby Roberts

Economic changes in the developing nations of Middle Belt Africa are spurring demand among workers for employer sponsored group benefit plans, especially in more sophisticated Kenya.

countries have social insurance laws. Changing social attitudes toward security brought about government-promulgated laws in the early and mid-1960s which established social insurance systems and were intended to provide basic medical care for all citizens.

But employer and worker indifference,

vaguely worded laws, and the inability of governments to develop adequate enforcement machinery greatly diluted the effectiveness of these systems. Poorly staffed, overcrowded and ill-equipped health care facilities became the exclusive province of the unemployed poor and the lowest strata of those employed.

Although the effectiveness of these social insurance systems is questionable, there is no doubt that they have contributed to the popularization of insurance as viable protection against the economic consequences of death, disability and longevity.

Multinational employers

International organizations imported "back-home" worker maintenance and security values. Large organizations literally built their own cities, complete with company-owned stores, hospitals and clinics for basic medical care and provided funds for worker old age security. The Lamco, Borg mines and Firestone public operations in Liberia and the operations of nearly all the major international oil companies in Nigeria exemplified these imported worker maintenance and security values and extended them far beyond the initial scope of the local work injury or labor laws.

Insurance programs

During the 1960s, the multinational insurers introduced a concept unknown in Africa: agency systems that employed hundreds of independently contracted, commissioned insurance agents. American Life Insurance Co. (ALICO) and its associate companies in Nigeria and Uganda have done much to educate the African public in the values of insurance. Through their widespread network of agents, the companies handled well over 25,000 new individual life and personal accident insurance applications in 1978. Through employer sponsored benefit programs, however, they provide the benefits of insurance to an even greater number of workers and their families.

American Life Insurance Co. introduced group management to Middle Belt Africa when it established its first group department, specializing in employee benefits, in Monrovia, Liberia, in 1973. Liberia, the first African republic, has been independent since 1847 but has a relatively poor economy.

Nevertheless, the growth of the limited group insurance programs staffed and headed by a local employe benefits specialist.

Continued on page 54

Cut captive apron strings only for profits

By Harry New

CONSIDERABLE NEW CAPITAL will be required to match expanding premiums which in the American professional reinsurance market along are expected to grow from a present figure of \$6 billion to \$12 billion by 1985. The advent of captive insurance companies into the open reinsurance market has accordingly been warmly welcomed as providing some of that capital.

It is essential, however, that those captives envisaging placing their capital and surplus at risk in the writing of unrelated business base their decision on sound commercial reasoning. They shouldn't base the decision on the premise that accepting premium from unrelated sources to the extent say, of 25% of their total premium income will enhance their image in the eyes of the IRS and so put beyond doubt the validity of the parent declaring premiums paid to a wholly owned subsidiary as a tax deductible expense.

This is essential. The new capital would be susceptible to being hurriedly withdrawn from the open market should the motivating aim not be achieved, leading to considerable disorder generally. The captives themselves

could prove to be two-way losers in that they may well suffer an underwriting loss on their unrelated business if their entry into the market has not been planned and negotiated with the utmost professionalism. Any consequent precipitate withdrawal of their capital will reduce market capacity to an extent that could seriously effect the availability and cost of reinsurance they need to protect their business from related sources.

Considerations cited

The motivating factor, therefore, must be profitability. The corporate owner of a captive insurance company embarking on a commercial venture in a field vastly different from his principal activities for other reasons will hardly be considered by stockholders to be acting in their best interests.

Important points to be considered before a commitment is made include:

- What shall be the ratio of total premium written to capital and surplus?
- What shall be the ratio of unrelated business to related business?
- How shall the written premium be divided by class?
- How shall the premium be split as to types of cover?
- Who will write the outside business for us? Our own underwriter? A recognized lead underwriter? An underwriting

'It is essential that those captives envisaging placing their capital and surplus at risk in the writing of unrelated business base their decision on sound commercial reasoning. . . . The motivating factor must be profitability.'

—Harry New

agent?

- To what extent will our decision on underwriting management be influenced by cost?

The answer to the first question may well lie somewhere between the average ratio of 2.1:1, which applied in the U.S. professional reinsurance market in 1976, and the 5:1 ratio indicated as being the maximum permissible under the draft regulations which will eventually be incorporated in the Bermuda Insurance Act of 1978.

Given the degree of control that can be exercised over related business, assume a "combined" ratio of 3:1 would be accepted. If one were then to take a figure of \$2 million as representing minimum acceptable security, then the Bermuda captive could be

writing a total premium income of \$6 million. Considering next a figure of \$3 million—representing a ratio of 1.5:1—as being the net premium income from the parent of the average captive—then sufficient capacity will be left to write an equivalent amount of premium income from unrelated sources.

IRS factor unknown

This 50% of the total income is appreciably higher than the 25% which has been advanced by some as being sufficient to put the bona fides of the captive beyond doubt in the eyes of the IRS.

Additional grounds for rejection of the

Continued on page 54

Harry New is president of Atlas Management Ltd. in Hamilton, Bermuda. Atlas manages nine captives for corporate clients.

PERSPECTIVE

Study refutes doomsayers' pension analysis

By Kenneth K. Keene, F.S.A.

THE PENSION COST burden on corporate America has received considerably negative attention. And, right on cue, certain officials are theorizing that the private pension system should be absorbed into Social Security. Whether this stems from a desire to prop up the ailing Social Security system with fresh dollars, or from a true belief that the private system is kaput, is open to conjecture. As it turns out, much ado is being made about nothing, as the bard would put it.

According to a study of funding costs and liabilities of large corporate pension plans recently published by Johnson & Higgins, private plans are, in the aggregate, soundly financed and adequately funded to provide promised benefits on an ongoing basis. Out of 11 exhibits reported in the study, two are excerpted here. Exhibit 1 shows the average pension cost per employee. Exhibit 2 focuses on pension cost as a percent of pretax profits. The comparison is made with pretax profits because pension costs are deducti-

Kenneth Keene is a senior vp of New York-based Johnson & Higgins. He regularly writes about retirement programs and benefit management.

ble. The exhibits should put to rest the idea that pensions in most companies are in and of themselves voracious profit eaters.

The J&H study is based on data taken from fiscal 1977 annual reports to stockholders of 430 of the Fortune 500 industrials and 144 of the Fortune 50 largest non-industrial retailing, commercial banking, transportation and utility companies. The 574 companies spent \$15.6 billion on pensions in 1977. They employed about 17.4 million people.

Costs up 8.4%

For Fortune 500 companies in the survey, the average pension cost per employee was \$830 in 1977, an 8.4% increase over 1976. The average increase for non-industrial groups was 10.6% with an average pension cost per employee of \$1,008 in 1977.

Exhibit 1 also presents the micro view by zeroing in on the industries that make up the Fortune 500. For instance, only one industry—mining and crude oil—had a 1977 decrease in pension cost per employee, a drop of 3.3%. Interestingly, this industry also had the highest average cost per employee—\$1,643. The exhibit shows that other industries which had an average pension cost per employee of more than \$1,000

were: metal manufacturing (\$1,552); petroleum refining (\$1,257); aerospace (\$1,271), and chemicals (\$1,051). For non-industrials, utilities ranked first, with an average pension cost per employee of \$1,743, which was higher than any of the industry groups, followed by transportation companies (\$1,186). (Note that pension cost per employee was only \$240 in 1977 for the retailing companies; this reflects the fact that many of these employees are part-time or seasonal.) In all, 32% of the companies had a pension cost of more than \$1,000 per employee.

But there were also several companies whose average pension cost was more than \$2,000. And one company—Wheeling Pittsburgh Steel—had a whopping \$3,349 average! Of the Fortune 500 group, 5% or 20 companies had an average pension cost of more than \$2,000. Seventeen companies, or 12% of the non-industrials reached that figure. For an industry breakdown, see Chart A.

Industries compared

The above list brings out some distinct characteristics of these industries. For instance, the mining and crude oil production industry, which headed the \$2,000 plus group, is a very profitable one operating in a healthy economic climate. Not so the second industry listed above—metal manufacturing—which has been beset by poor economic conditions and a shrinking work force. Of all the industries surveyed, this one did not fare well in the study.

For the Fortune 500 group, pension cost as a percent of pretax profits averaged 12.4% in

1977. Non-industrials fared even better, with pension cost averaging 9.4% of pretax profits. In the aggregate, then, the cost burden on these large companies seems to be no big problem.

The J&H study also analyzed the status of pension liabilities of these large companies. In addition, from a special survey which we sponsored, it is of interest to look at a random sample of 203 companies at all size levels. The results are evident in Chart B.

In short when it comes down to the bottom line, the J&H studies conclude that:

- Pension costs, in general, are not an overwhelming problem for their corporate sponsors.
- The majority of pension plans are adequately funded to provide promised benefits on an ongoing basis.



Ken Keene

Exhibit 1

Pension cost/employee, 1977

	Nos. of cos.	Aver. cost change/employee, 1977-1976	Aver. cost/employee
By Fortune 500 rank			
Fortune 1-100	89	9.2%	\$1,194
Fortune 101-200	83	7.1%	830
Fortune 201-300	86	7.3%	734
Fortune 301-400	82	10.9%	790
Fortune 401-500	83	6.6%	602
By industry			
Mining, crude oil production	7	-3.3%	\$1,643
Food	48	9.8%	587
Tobacco	5	6.0%	712
Textiles, vinyl flooring	15	4.3%	322
Apparel	10	8.3%	226
Furniture	2	18.8%	146
Paper, fiber & wood products	28	14.5%	759
Publishing, printing	9	7.4%	859
Chemicals	36	11.0%	1,051
Petroleum refining	27	5.7%	1,257
Rubber, plastic products	8	13.0%	881
Leather	1	6.0%	336
Glass, concrete, abrasives, gypsum	11	10.8%	830
Metal manufacturing	31	5.6%	1,552
Metal products	16	8.0%	808
Electronics, appliances	33	8.9%	599
Transportation equipment	6	8.3%	665
Measuring, scientific, photo equipment	14	11.5%	729
Motor vehicles	18	10.0%	924
Aerospace	10	5.3%	1,271
Pharmaceuticals	15	9.0%	597
Soaps, cosmetics	8	4.4%	510
Office equipment & computers	10	10.0%	790
Industrial & farm equipment	41	8.9%	767
Musical instruments, toys, sporting goods	4	8.0%	453
Broadcasting, motion pictures	1	42.2%	519
Beverages	9	17.7%	678
By Fortune 50 largest non-industrials			
Commercial banking	38	7.1%	\$ 954
Retailing	36	9.5%	240
Transportation	35	14.3%	1,186
Utilities	32	10.3%	1,743

Chart A

Average pension costs/employee over \$2,000

Industry	No. of Cos. (%)
Mining & crude oil production	3 of 7 (43%)
Metal mfg.	8 of 31 (26%)
Utilities	8 of 32 (25%)
Transportation	8 of 35 (23%)
Petroleum refining	3 of 27 (11%)
Aerospace	1 of 10 (10%)
Office equipment	1 of 10 (10%)
Electronics, appliances	2 of 33 (6%)
Chemicals	2 of 36 (6%)
Commercial banks	1 of 38 (3%)

Chart B

Unfunded vested liability

% of total vested unfunded liability	No. of employees				All 203 cos. in sample
	up to 2,000	2,000 to 10,000	more than 10,000		
None	63%	41%	33%	44%	
1%—25%	22	37	41	35	
26%—50%	13	14	21	17	
51% and up	2	8	5	4	

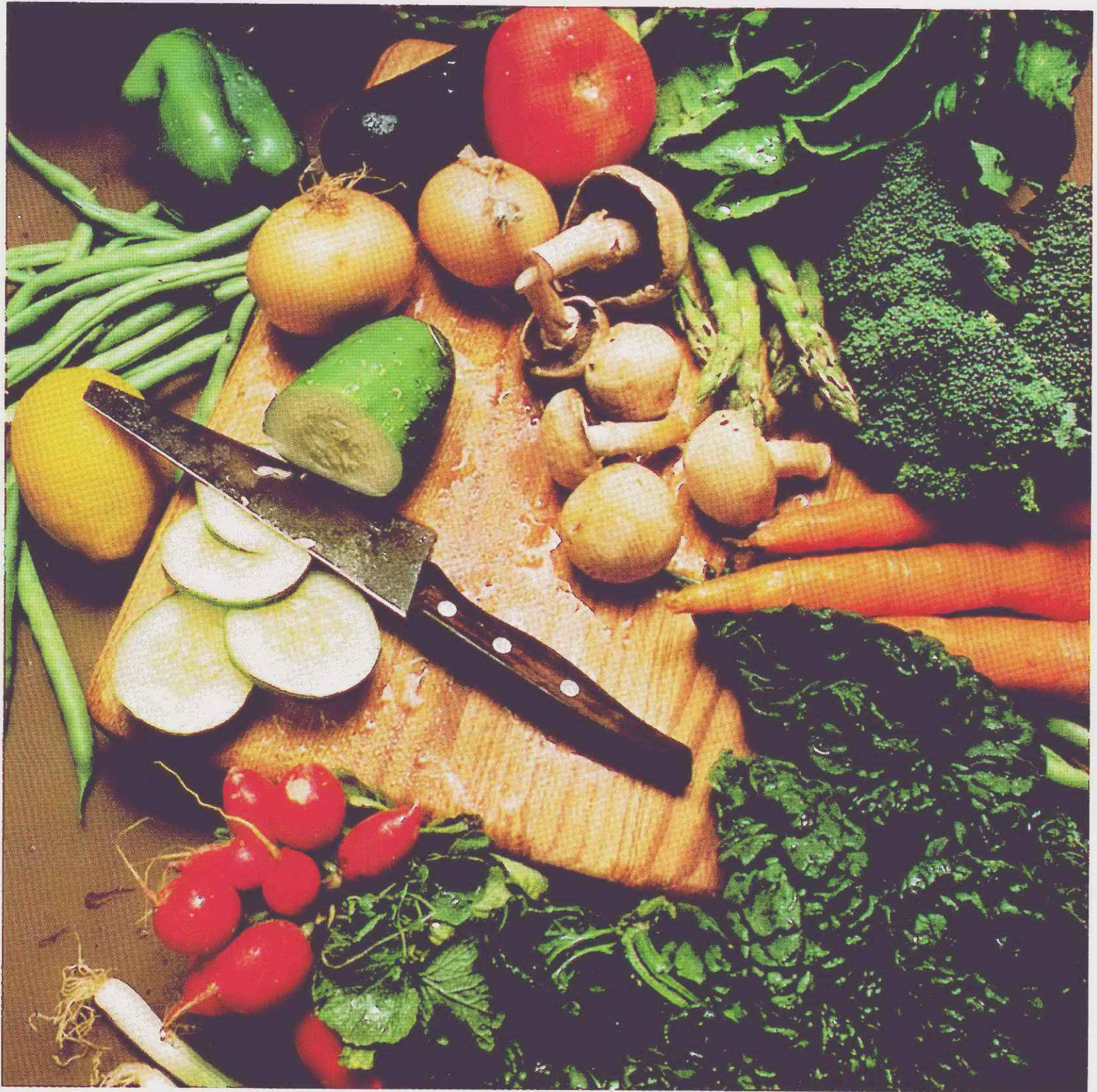
Exhibit 2

1977 Pension cost

as % of pretax profits

	Nos. of Cos.	Aver. Pen. Cost	Up to 10%-20% 30%-40% 50% least					NA	
			10%	20%	30%	40%	50%		
BY Fortune 500 rank									
Fortune 1-100	89	11.8%	33%	24%	16%	8%	4%	13%	2%
Fortune 101-200	86	14.0%	38%	31%	19%	5%	2%	3%	1%
Fortune 201-300	86	13.6%	36%	28%	16%	6%	2%	6%	6%
Fortune 301-400	84	15.0%	33%	40%	13%	2%		5%	6%
Fortune 401-500	85	11.8%	39%	40%	13%	1%		6%	1%
By Fortune 50 largest non-industrials									
Commercial banking	39	8.7%	51%	28%	10%	5%	3%		3%
Retailing	36	14.3%	39%	33%		3%	8%	8%	8%
Transportation	37	32.4%	24%	19%	8%	11%	8%	27%	3%
Utilities	32	5.3%	78%	22%					

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PERSPECTIVE

Self-insurance proponents cloak its pitfalls

By Robert W. Keys

Speaking Out

OVER THE PAST FEW YEARS, journals and organizations like the American Management Assn. and universities such as N.Y.U. have published a plethora of articles and have blanketed the country with seminars extolling the virtues of self-insurance.

The AMA and university seminars are run by representatives from each of the large brokerage houses. As these "houses" have a vested interest in risks that self-insure, their presentations can hardly be deemed to be unbiased.

What I see and have heard at seminars amounts to a deliberate attempt to mislead and obfuscate the issues. Yes, I've heard speakers say that self-insurance is not for everyone. Articles and speeches usually include this caveat, but it quickly drowns in a wash of euphoric blessings.

No one can argue that self-insurance doesn't release cash. It does. But the misleading manner in which the numbers are presented to unwary buyers disturbs me.

We've seen dozens of proposals which show a line of insurance premiums for five or six successive years and underneath each of these is shown the paid loss by year, plus expenses. This is followed by a three-liner entry, usually called "current retention" (the difference between the fully insured and annual self-insurance cost), "earnings

Robert W. Keys is assistant vp of Liberty Mutual Insurance Co. in Boston and manages research and marketing for the underwriter. He is often stirred to respond to comments about self-insurance, because he believes there are two sides to the story.

on current retention" (usually 8% to 10% of the difference) and then "total retention," which is the sum of the last two lines.

This "total retention" is then summed for the five or six years to show an outlandish figure which completely ignores tax provisions not only of the payouts but also of the invested income. It also incorrectly and misleadingly assumes that \$1 in 1978 is equivalent to \$1 today.

There is also the matter of the liquidation rate of loss. We know that the lower the initial figures and the longer it takes to pay 100% of the loss, the better your self-insurance proposal will look. Brokers invariably assume that 30% of incurred is paid the first year, 30% in the second, and so forth for five years.

I know this comes from "insurance company figures on file with the various state insurance departments" as is often so predominantly stated, but with a modicum of fairness it might be stated that these represent an amalgam of claims, including longshoremen's, catastrophes, spinal injury and disease claims, with no limitation on the incurred amount. Are those proposing self-insurance seriously implying that their customer's losses will include all of these (with no limit) in the next five years?

Then there's the matter of aggregate excess insurance, with self-insurance's Bernard Daenzer stating at a CPCU seminar in Florida back in January 1977 that, "Because of market conditions, the aggregate may have to be picked so high above normal annual regular losses that the protection becomes worthless, or the cost of the aggregate may become prohibitive in the total



'No one can argue that self-insurance doesn't release cash. It does. But the misleading manner in which the numbers are presented to unwary buyers disturbs me.'

—Robert Keys
Liberty Mutual

insurance budget. *Clearly it would be better to take a chance on accumulation of losses.* (Italics are mine.)

Mr. Daenzer, and all who parrot this unfortunate remark, are giving professional advice which may undermine the survival of the customer's entity. On an accumulation of loss, such as from non-traumatic hearing loss and disease, this advice could ultimately bankrupt an employer. Certainly it's a remote possibility, but these accumulations do occur.

I have no hesitation in mentioning, though I'm certain that others do, that these excess insurers underwrite rather consistently to a zero loss ratio and should the customer pierce the retention level, he may find that insurance is unavailable or, if available, at a tripled or quadrupled price.

Then there's the advice I've heard given

out about "going in-house" on loss control. Some top people have stated that loss control is the key to success in self-insurance. Surely, except for the appeal to an "empire builder," you can't trade a 60-year background of loss control with hundreds of professionals and testing labs for an in-house program consisting of the risk manager and an assistant.

I've seen the proposals from the very largest "houses" with their "bottom line" teams of statisticians and computer experts.

However neat and statistically sound the figures, the real bottom line should read as follows: The future cannot be boxed and tied by a legion of actuaries and insurance professionals. The one element that created the insurance concept 300 years ago argues against the self-insurer today and will for another 300 years. That element is uncertainty.

Captives . . .

Continued from page 51

25% figure as not being sufficient may be found in an analogy between dilution of premium income source and dilution of capital ownership.

Under the provisions of U.S. regulations concerning foreign subsidiaries it is provided, in general terms, that such subsidiaries will not be considered controlled foreign corporations, whose income is includible in the U.S. parent company's taxable income whether it is distributed or not, if 50% of the voting power of its capital be owned by unrelated entities.

Would it be unreasonable, therefore, to infer that dilution of premium income by any figure appreciably less than that imposed on capital may prove to be unacceptable?

In any event, it is quite conceivable that any premium remitted by the owner to a controlled foreign corporation will not be considered a tax deductible expense whatever ratio such remittances to the subsidiary bears to its premium income from all sources.

The decision, therefore, must be made for the right reasons by top management fully aware of the risks. This aspect cannot be over-emphasized. The seriousness of com-

mitment on the part of management to the project will greatly influence the type and quality of business a captive will be offered.

The depth of such seriousness will be indicated to the market in the initial strength of the subsidiary's balance sheet, three possibly five-year forecasts of revenue, expenses, cash flow, investment policy and policy regarding dividends to be paid by the subsidiary to parent.

Regarding classes of business to be written, clearly the newcomer would like to write primarily clean-cut, short tail business. Equally clearly, however, the market has a commitment to its present supporters in this regard.

Accordingly, while rejecting certain undesirable risks—e.g. nuclear incident, oil rigs, professional and hazardous product liability risks—it may well be commercially unavoidable to write some of them, but this should be done on a minimal "accommodation" line basis so that the entire portfolio is not thrown out of balance.

Other factors influencing the final decision will be the class of related business written, the size of the line which is to be written, the actual dollar size of the premium income to be written and geography. Should risks be U.S. only? International including U.S.? International excluding U.S.?

Types of cover will be very much dictated by the fact that few of the companies for which these notes are intended will be writ-

ing a premium volume sufficiently large in actual dollar terms to warrant the expense of setting up an underwriting team. Accordingly, the business will be written on a contractual basis by an otherwise unrelated underwriter.

This could be as a quota-share reinsurer of the lead underwriter. This does not, of itself, guarantee an underwriting profit. But it should induce a certain prudence in the underwriter if he is retaining a net line for his own account which is at least equivalent in size to the individual lines ceded. His remuneration will be on both a straight commission basis to adequately cover his expenses plus a contingent commission based on the underwriting results he produces. He will also have the benefit of investment of the flow of cash for the agreed period before he must pass on premium to his reinsurers.

Alternatively, the business may be written by an underwriting manager writing on behalf of a group of pool of companies. Although under this approach the underwriter is not retaining any of the risk for his own net account, there are, nonetheless, very fine managers who have produced good results for their companies over the years. Remuneration again will be by both straight and contingent commission with possibly more emphasis on the former. This is because commission is his sole source of income whereas the lead underwriter should

be considering his main source of income to be his underwriting profit—which itself should be favorably influenced by the fact of his being able, thanks to the support of his treaty reinsurers, to offer a substantial underwriting capacity to his producers. Cash flow again will play a role.

Contingency commission in both cases, in any event, should be calculated on underwriting profit less an allowance for reinsurers own expenses.

Given two proposals of substantially similar attraction from a pure underwriting point of view, the a decisive factor will be "cash flow". Are premiums to be remitted to you on a written or an earned basis? How frequently are accounts to be presented? How soon after accounts are presented is settlement to be made?

Some people may consider that excess of loss covers in the upper layers is the field most appropriate for captives rather than in the lower, "working" layers. While this may be so, it has to be borne in mind that the "risk" factor is catered for by adjustment of the rate of premium dependent on the proximity of the risk element.

Finally, one other area in which proximity is an important consideration is the nearness of the reinsurer to the primary underwriter. Every underwriter and broker handling the business before it gets to you from him reduces your premium dollar by the total of their commissions.

Africa . . .

Continued from page 51

ist has been exceptional. A substantial portion of the non-agricultural work force is presently covered under some form of employer sponsored insured benefit program. Insured group products in Liberia have been expanded so that today the typical programs include life, accident, medical and pension insurance benefits.

In Kenya, which has a larger economic base and a more sophisticated industrial society, insured employe benefits are beginning to take hold. Group insurance operations are just starting and ALICO is the only group insurance writer offering the full package of insured employe benefits.

If one can compare the success of these plans in relatively poor Liberia, whose actual population is less than two million, to

the degree of potential in the currently stronger economies of countries such as Kenya and Nigeria with a combined population closer to 100 million, the future growth of insured employe benefits in Middle Belt Africa seems assured.

Under group benefit systems, employer premium costs for life and medical care benefits for workers are usually treated as general business expenses for tax purposes. Tax deductibility of employer contributions toward employe retirement plans varies from country. In Nigeria, for example, employer and premium costs for retirement plans are tax deductible up to 25% of the worker's basic annual earnings. The individual may also deduct premiums for life insurance on himself and his wife and for pension benefits up to a yearly maximum determined by specific formula.

In Liberia and Sierra Leone, there is no specific limit and tax deductibility is sub-

ject to approval by the tax authorities. In Kenya, by contrast, employer pension plan contributions are not tax deductible and are considered taxable additions to employe wages.

In the Francophone countries (Ivory Coast, Senegal and Cameroon), corporate private pension plans are unknown and only government mandated contributions for social insurances are tax deductible.

Sierra Leone is the only country in the group without a social insurance law. The work injury law sets percent of earning payment levels for temporary and permanent disability and requires employers to provide basic medical, dental and surgical care for work related injury. The whole cost of benefits is for the employers' account either through direct provision of benefits or insurance premiums. Common practice is to provide basic medical care, for doctors' visits and treatment through a contractual arrangement with a private doctor or clinic.

Growth of insured employe benefits is slow to gain ground in Sierra Leone because of indifference, a poor economy, and a non-assertive work force as yet unaware of the values of insurance. However, the insured employe benefit climate is changing with the advent of medical and pension plans supplementing basic life insurance.

Insured employe plans in Nigeria are limited to life and pension insurance. There is a great need for medical insurance, but no insurer is willing to enter this field, foreseeing overutilization, abuse and collusion problems leading to near impossibility of any semblance of claims control.

The rise of unions and industry and employe associations, the generally favorable tax treatment of employer premium costs, the high graduated tax rate on personal income and the gaining acceptance of insurance contribute to growth of corporate employe benefits in Middle Belt Africa.

U.S. risk managers skirt Mexican insurance laws

By MARGARET LeROUX

SAN FRANCISCO—Buying insurance for foreign subsidiaries can be more risky than living with their exposures.

That's sometimes the case when a U.S. company decides to supplement a foreign subsidiary's property insurance with a difference in conditions (DIC) policy underwritten by a non-admitted insurer.

As close as across the southern border of the U.S., the Mexican government can impose prison sentences on personnel of U.S. subsidiaries, shutdown operations and fine the U.S. parent company if the firm is discovered using non-admitted insurance.

According to several risk managers, brokers and underwriters who have either arranged, written or purchased insurance considered illegal in Mexico and other countries, the practice is common, "but no one who's got the coverage will admit it." At least one risk manager, however, maintains he acts within the law.

"The Mexican government terribly restricts your insurance program there," said the risk manager for an East Coast-based corporation with manufacturing plants throughout the world.

Particularly restrictive are conditions for obtaining earthquake coverage: compulsory coinsurance participation of 25% plus an additional 2% deductible on the balance of the risk. This means buyers are bearing 27% of the loss.

In September 1978, the National Banking and Insurance Commission, which supervises all insurance underwriting in Mexico, approved an earthquake business interruption policy for continuing expenses and salaries. But its restrictions include limiting coverage to 75% of the annual exposure for both items. Also included in restrictions are a 30-day deductible with periods of indemnity varying from one month to 12 and requiring a business interruption policy for fire as a minimum peril. The rating structure was increased to 670% of the annual earthquake property damage rate from the former rate of 233% for a one-year policy over the one-month deductible.

Faced with such a prohibitive insurance environment, it's not at all uncommon for buyers to turn to the market outside Mexico, a spokesman for AFIA said. "Many of them buy whatever is available in Mexico so their basic coverage is legal in that country. They then have a DIC policy written in the U.S. to go over it."

That DIC policy is illegal in Mex-

Non-life lines rise in Mexico

MEXICO CITY—Premium income for non-life business in Mexico is now well over \$500 million a year and is rising more than 24% annually.

Even though Mexico's insurance business has expanded substantially in the past 10 years, there is still tremendous room for the future spread of risks, Kurt Vogt, vp of the Mexican Assn. of Insurance Institutions, said.

Mexico has the largest growth in population of any Latin American country, said Mr. Vogt, executive vp of Grupo Nacional Provincial, one of the country's best insurers.

Non-life insurance is now growing faster than life insurance, which had annual premiums of \$200 million and was growing by 18% annually.

ico. The penalties for purchasing non-admitted insurance include prison sentences of up to nine years and fines up to \$4,000.

The leading general insurance companies licensed to do business in Mexico include Seguros La Provincial, S.A.; Seguros La Comercial, S.A.; Seguros Americ Banamex, S.A.; La Libertad, Cia, General de Seguros, S.A.; La Interamericana, S.A., Cia de Seguros; Seguros Azteca, S.A., and Seguros de Mexico Bancomer, S.A.

These companies maintain underwriting relationships with insurers in the U.S.; La Provincial with AFIA; La Interamericana with AIU, and La Comercial with Continental and Factory Mutual.

"The DIC policy we write would be illegal in Mexico," the AFIA spokesman admitted, "but it's

International

been my experience that most U.S. companies that can't get the coverage they want from admitted markets in foreign countries buy such a policy as supplement."

Rates for the DIC coverage are "comparable to what's charged in California for earthquake coverage," he added.

Although other countries don't have the strict tariff and manual rates for earthquake coverage that California does, "you learn to have a feel for what the going rate is," his counterpart at AFIA said. "We don't think in terms of what rates to charge (in countries with severe earthquake exposure) but what have we got here—what can we lose?"

A corporation can also supplement its earthquake business interruption coverage by buying a DIC policy from its captive insurer, according to a spokesman for a major brokerage firm. "It all depends on the corporate tax structure. But if you have a loss in Mexico that your non-admitted DIC policy would cover, you couldn't get the money into the country to pay it. If the loss were paid in the U.S., then it would be taxable there."

Obtaining loss adjustment service becomes an exercise in intrigue for companies with non-admitted insurance. One underwriter of international property insurance told of a client who hired an adjuster disguised as a tourist, complete with cameras, to perform his job under the unsuspecting

eyes of local authorities.

"But you have to consider the jeopardy you're putting yourself, the company and the adjuster in," he added.

"I simply refuse to play the DIC game so many people play," the insurance director for a Connecticut-based corporation with worldwide operations exclaimed when asked about the problem. "Someday, someone's going to get hit really hard in that game."

"Insurance is fun to fool around with, but not in Mexico," he continued. "For a few lousy thousand bucks, I'm going to risk my company's reputation?"

The insurance director said although his corporate policy written by AFIA provides worldwide coverage, "I've included an endorsement: 'Void where prohibited.' We want to stay clean." ■

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A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS



Photos: Len Strazewski

Local agents ace Music City

By LEN STRAZEWSKI

NASHVILLE—Beneath the glitz and glamor of the music scene here there's a little insurance poker game going on. Five major agencies play all the time and a handful of tough, aggressive and competitive small agencies sit in occasionally.

The top five agencies—Corroon & Black, Martin Hayes & Co., Alexander & Alexander (McKee, Geny & Thornton), Crump-Nashville and Cooper, Love & Jackson—don't even object to the poker metaphor for their business competition.

"You probably should have a few more regular players from among our local agents, like Gail Bromfield Co. and The Moskowitz Agency," noted Corroon & Black senior vp Don King, "but it is true that we are in a very competitive market and there are no sacred accounts in Nashville."

Called "the marshmallow" by some of its competitors, Corroon & Black is the only agency in town acting like the traditional picture of a national insurance broker, with a young, aggressive sales force out drumming up new business with cold calls and a promotion plan that includes drive-time radio spots.

Growth, however, has been more external than internal over the past several years. The C&B Nashville office of today is the result of seven different mergers in the past 10 years, culminating in the Syner-Pro agency group being purchased largely by the national corporation in 1976. Hence, the nickname.

"From now on we project our growth to be internal," remarked Don King, "with our new business

coming from accounts that we have solicited rather than from mergers and from companies moving to Nashville."

Personal contact used to be the key to production in Nashville, "but now we've reached the point where it depends on whether or not the agent can do the job for the right price."

C&B is the only agency in town that really believes that.

"People here still know each other and still tend to do business with the people that they know," counters Bob Colman, marketing vp of Martin Hayes & Co., the second largest agency in Nashville and the largest independent at over \$2.5 million in gross revenues.

"For a man coming to town trying to start selling on his own, it would be virtually impossible to do any business right away. If he was exceptionally good he might make it on his own eventually," he said.

Personal contact is this agency's strongest sales tool and "if we never made a cold call again we would still have enough business," said Mr. Colman. "We try to do a lot with a little and don't have a fleet of salesmen out on the street making cold calls."

Though Martin Hayes & Co. likes to be known as the "quiet ones" because it doesn't advertise or promote heavily and depends for business on referrals and its reputation as a leading surety bond agent, the firm often appears in the local press news section.

Hayes president Ira Heckman is a fiesty local spokesman for a Nashville transportation interest group supporting a crosstown interstate highway loop that would like more directly an industrial

area southeast of downtown with the more residential west end.

Mr. Heckman has also spoken out on matters of local competition. In a controversy over the metropolitan and board of education property coverage last February, Mr. Heckman pulled his firm out of the bidding competition when the account was awarded to Security Insurance Agency, Inc. whose principal Fred Viehmann had served as a consultant to the metro government and helped prepare the insurance specifications.

The city is not Martin Hayes's only marketplace. So the loss of the city business (which the Hayes

had managed and distributed among several agencies under a city ordinance) probably hurt not at all. The independent agency's accounts range throughout the state of Tennessee.

"Tennessee is really more like three different states," remarked Mr. Colman. "Nashville, at the center of the state, is more liberal than the rest of the state. The West is much more conservative and the East is conservative and heavily industrial."

Hayes, according to Mr. Colman, does not pull much new business from Nashville proper.

INSIDE

Agencies bid for experience

Top agent/brokers predict a bidding war for experienced producers and industry specialists. **Page 56C.**

Brokers back L.A. college

West coast brokers unite to support a new College of Insurance division. **Page 56E.**

Agents battle contract cuts

Across the country, agents are sparring with insurers over terms in contracts. **Page 56F.**

6 steps to a better agency

Safeco agency management expert John Stanford discusses his six-step system for reorganizing agencies. **Page 56L.**

The firm's real strength is in its range and diversification, handling growing amounts of the surety bonding for new construction in Tennessee and the rest of the South and following up with property coverage later.

Open and tough competition is what everyone talks about. Still, Martin Hayes & Co. has a certain "understanding" with the local Alexander & Alexander office, ranked third by local estimates.

"Well we don't undermine each other's accounts and if we can't do something for a client, we might send them over there," remarked *Continued on page 56B*



John Stanford

Music City . . .

Continued from page 56A

Mr. Colman. "They tend to do the same thing. It's nice to have an above-board relationship with the competition."

A&A, the parent of McKee, Geny & Thornton, sits in the middle seat in the Nashville poker game and has a kind of split-personality identity. Though the national identification is becoming more important and a major selling factor, the strong local roots of the agency A&A purchased in 1971 commands the firm's local business which comes in at over \$2.3 million, according to local estimates.

"Being part of A&A is very important to us and with our national connections we are able to advise our clients of the business climate in places they may be thinking of expanding to, but maintaining our local identity was an essential thing to do," said managing vp Tom Fortier.

"People here still tend to do business with who they grew up with, who they went to school with and who they belong to the Kiwanis or Rotary with. We could never bring in a producer from out of town and expect him to do well right away. All of our producers are from right here in Nashville," he said.

As a transplanted New Yorker who came to town 16 years ago as an engineering specialist, Mr. Fortier knows the local establishment as one who had to work his way into it. Now he serves on local and industry committees to maintain the agency presence.

Soft markets

The poker game analogy "is very realistic and a very adequate preception," he said. "We have four or five really aggressive competitors and the market is so soft now that we have to be more careful by covering all our bases, submitting accounts to more companies and by not taking anything for granted.

"Because of the market smaller agents are able to do things that they wouldn't normally have been able to do with large accounts, and now they give us some very good competition," said Mr. Fortier.

New business for the firm is primarily the result of personal and social contacts. For example, one of A&A's largest and most famous accounts, Opryland and the Opryland Hotel, is the result of personal selling by agency principal Willie Geny in the early 1960s when the theme park was conceived. Opryland is the closest Nashville comes to a safe account untouchable by other agents, though not for lack of trying. C&B and Martin Hayes have managed to win small amounts of the park's property coverage.

The music industry and NLT Corp., owner, of Opryland, hold many of the purse strings in town, dominate the tourist industry, and bolster Nashville's reputation, but tourism and music account for only a tiny part of the insurance business.

The modern fire-resistant recording studios on Music Row, filled with millions of dollars of sophisticated recording and sound equipment, look like truly beautiful risks. They are, but larger studios, like RCA's are branches of New York corporations with insurance control maintained by the corporate home offices.

Big risks

The biggest and most desirable accounts in town are the several universities—most notably Vanderbilt University and Tennessee State University—Genesco Corp. and the healthcare organizations including Hospital Corp of America and Hospital Affiliates.

A/B/T

markets

In addition, Nashville is very close to the geographical center of the United States and deep within a hilly farming community, making it the perfect home for the desirable long-haul trucking industry.

The music industry has generated people and many professional entertainers have made their home in Music City. A&A, for example, handles Tanya Tucker Enterprises and Crystal Gayle.

The personal lines and employee benefit business is booming in Nashville as a result.

Just as local reputation and national connections are important factors in competing for the desirable accounts, so is political power an important tool.

Crump-Nashville comes to the game with the strongest history of political pull in Tennessee, though that may have hurt its Nashville business as much as it helped, according to president Oran Ward. Founded by E.H. "Old Boss" Crump, who reigned over the strongest political machine in the state as mayor of Memphis in the 1940s, Crump-Nashville has had a reputation to live down and live up to.

"Old Boss Crump has been dead for quite a while and I can't say that any remaining influence has been helpful to us," said Mr. Ward. "In fact, his name has probably hurt us because many factions here in Nashville were decidedly anti-Crump and still are."

Located outside Nashville's main business district, as is Hayes and C&B, Crump-Nashville is ranked fourth in volume at about \$1.5 million in revenues, but first in number of full and part-time sales staff making production calls, according to local estimates.

"This is not a price-oriented market," noted Mr. Ward, "but is a market based on influence-peddling. You have to do your politicking first. In order to attract some of the major business you have to sell the ability of your agency as opposed to what the account is getting now. And you have to have a gimmick for that account," said Mr. Ward.

Find a chink

"Everything depends on whether you have the right price and whether you can find a chink in the other guy's armor," remarked Mr. Ward. "What you have is a very small circle of friends. This is a very personal business."

Cooper, Love & Jackson is ranked a disputed fifth in local volume estimates, but as "someone we see coming out the door as we go in," according to a major agent, CL&J deserves a regular seat at the poker table.

Specializing in more of the smaller and medium-sized risks than its competitors, CL&J occasionally picks up business that has been hurt by the competition between the larger agents.

"There's all shades of competition, from what you might call fair competition to cutthroat," said Clifford Love Jr., principal. "And sometimes we see cases in which somebody has cut corners. We have gotten a fair amount of business from people who feel they have been taken."

Those are the five major players, but the giants aren't so secure that they couldn't be toppled.

Smaller agents, many whom have only one or two producers, regularly compete with the big agents, for big risks as often as not, especially when the firm has developed a specialty.



Nashville: More than country music

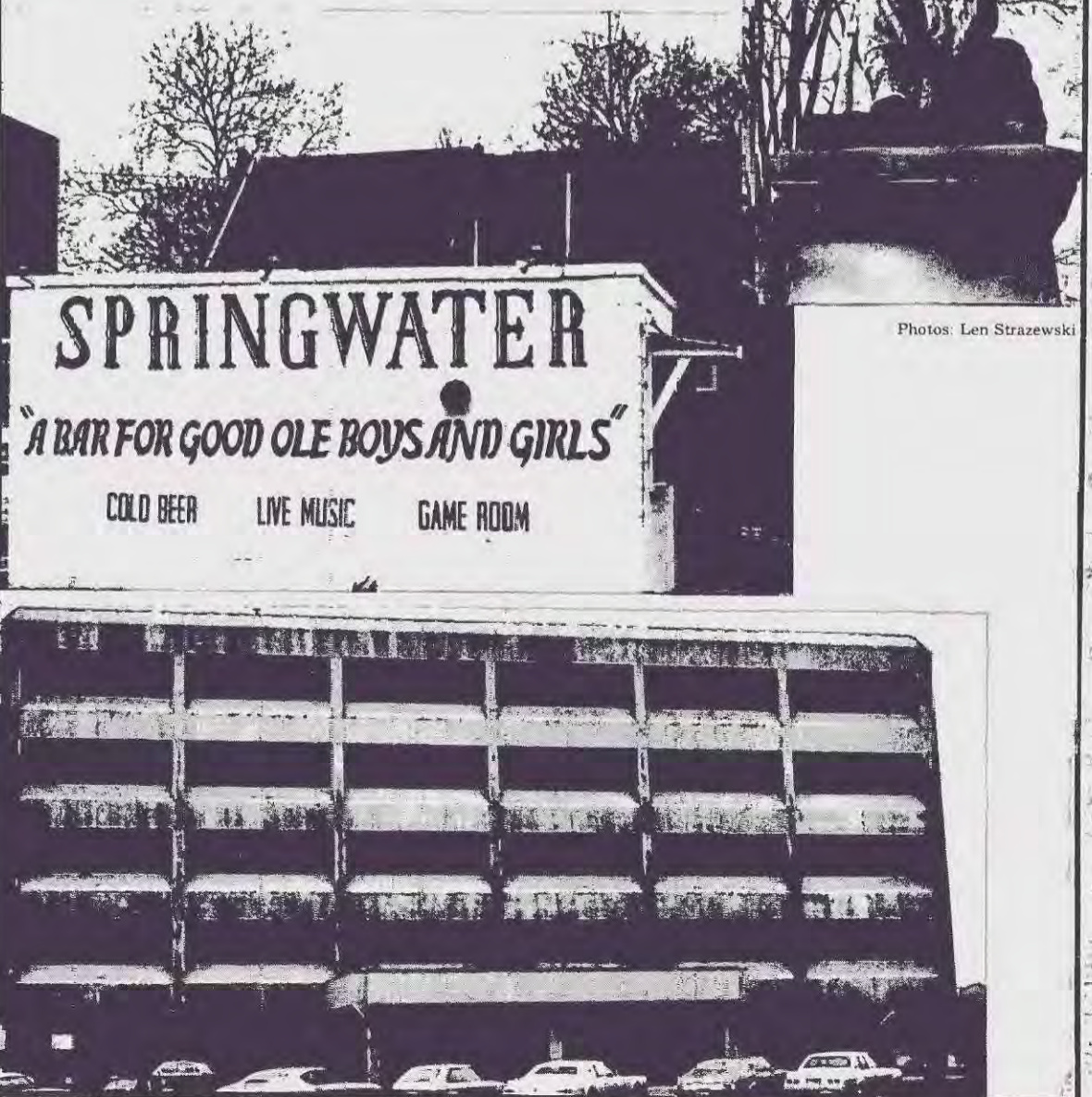
Nashville, Tenn. greets visitors with a sign saying "Welcome to Music City," and that's exactly what you find there from the Grand Ol' Opry at the Opryland theme park to tiny bars "for good ol' boys and girls" like the Springwater off West End Ave.

Many entertainers, from hard-core country to middle-of-the-roaders make their home here, using the recording studios along Music Row. All the biggest music publishers have headquarters or branch offices in town.

But Nashville is more than music. While entertainment and tourism pumps lots of dollars into the local economy, light industry, warehousing, insurance and transportation make the 775,000 metropolitan area a "little pocket of prosperity."

The National Life Tower, headquarters of NLT Corp. dominates the skyline and much of the economy, housing financial offices of the Opryland owners and the insurance company. Several property and casualty insurance companies are based here or maintain large branches in town, some in the new Insurance Exchange building in the industrial Metrocenter.

At the exact center of Tennessee and very near the center of the United States, Nashville is also the home of 70 freight lines and is within 60 minutes by jet from 60% of the U.S. population. Ranked in the top 20 "most attractive cities to live in" by MBA magazine and the University of Nebraska, Music City is growing in population and has a median age of 29.6.



Photos: Len Strazewski

Production demands ignite personnel battles

CHICAGO—Three axioms are at work in the brokerage field: experienced producers are worth their weight in gold. There aren't enough of them to go around. And when the supply goes down, the price goes up.

That's the consensus of agents, brokers and executive search firms who talked about the industry's personnel needs with *Business Insurance*.

"A bidding war for experienced producers is quite possible," remarked Emmett & Chandler president Larry Lawrence. "There's a shift in the attention of brokers over the last couple of years reverting back to getting good producers."

"Over the last several years most brokers spent their energies putting together qualified marketers," he explained. "Now we are looking to fight inflation with production."

The problem is a simple one. Where are the new producers going to come from? The top and the bottom, says Mr. Lawrence.

"There's more competition between brokers now for young talent and brokers are doing more recruiting and training on their own than they ever did before," he said, "and there's a lot of support here on the West Coast for a division of the College of Insurance."

Experience is still the main concern, however, and Mr. Lawrence expects a new crop of experienced producers to come down from management posts.

"Historically the top level of successful producers make management ranks and get taken out of the producer ranks," he explained. "I wouldn't be surprised if these producer-turned managers start rethinking their roles and the brokers turn to professional administrators, perhaps from outside the industry, to put producers back on the streets."

In keeping with the growing shortages of qualified workers, brokers Alexander & Alexander, Johnson & Higgins and Corroon & Black have recently hired directors of "human resources" to plan needs, recruit, train and manage personnel.

Thomas L. Davis, new A&A personnel vp has some special problems to handle as a result of A&A's very aggressive acquisition and expansion programs.

"We're subject to the same demographics as the rest of the industry. The demand for experienced people is greater than the supply. As a result of our expansion program we have a tremendous need for managers," he said.

"Since we get most of the managers from within, one effect must be to develop people with technical expertise to be managers, using both outside resources and management training tools in-house."

Though mergers and acquisitions are traditional ways to acquire experienced personnel, producers coming from another firm may not be around long enough to fill long-term company goals.

"The population of producers is aging," noted Mr. Davis. "A good producer 50 to 55 years of age may be producing for 10 to 15 more years," he said.

To replace these producers A&A must bring people up through the business once they have "a floor of knowledge," he said.

A&A has increased the hiring of entry-level professionals and management personnel. The firm's Houston office, for example, makes a point of hiring a couple of people each year to start at the ground floor and work through the whole operation, according to Mr. Davis.

Donald J. Smith was hired just a

year ago as Johnson & Higgins human resources vp with a mandate to identify the broker's current personnel assets and project future personnel needs.

Account executives are the main need, he notes, but the future looks bright according to the five-year projection he is currently working on.

"We have a good reputation in the industry and excellent word-of-mouth recruiting. As a result we get lots of unsolicited job applications."

J&H also advertises for applicants in consumer business publications and has consistently sponsored more students at the College of Insurance in New York than any other major broker.

The reason for J&H's stable personnel situation is the firm's low

A/BT

attrition, according to vp Seth Faison who has watched J&H grow over several years.

"When our competitors went public we received a lot of applications from people who wanted to work for a private firm," he said. "So we always have a file."

But producers and account executives and senior staff in general are always in demand and "as long as we're going to need them, we'll just find them where we can get them," said Mr. Faison.

Philip Cochran, director and senior vp of human resources of Corroon & Black corporation, conducted a 10-year projection study that led to the hiring of a human

resource director.

"There's always a crying need for good producers, but also we project a need for more highly trained people in both marketing and production," he said. "We need more MBAs with a finance background to perform quantitative analysis and to help in the managing of sophisticated risk management programs."

C&B's stated growth goals have made personnel a major issue on the minds of the corporate directors. Mr. Cochran and the new director of human resources James T. McArdle will function as consultants to the relatively autonomous C&B branches as their needs change.

"Our long term goal that we established in 1977 is a 15% growth rate over the next 10 years," said

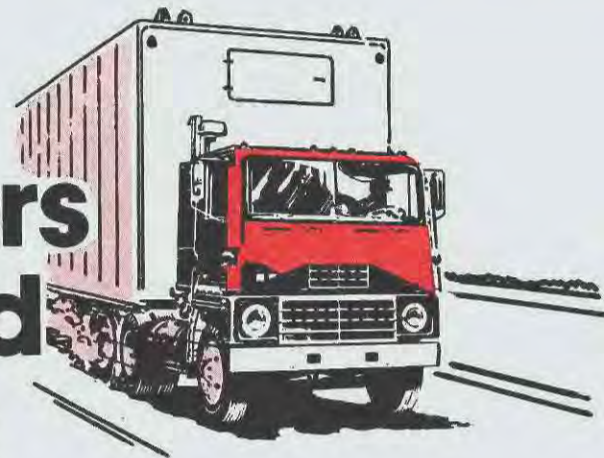
Continued on following page



Thomas Davis, Alexander & Alexander personnel vp, faces special planning problems due to acquisitions.

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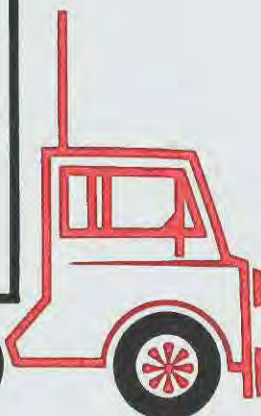


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Personnel war . . .

Continued from preceding page
Mr. Cochran. "That means that we will need twice as many employees in the next five years and four times as many in 10 years."

C&B currently employs 2,000 persons.

Producers, of course, are not the whole of the agency/brokerage business. Agents/brokers are reporting needs for inside technicians, office staff, various industry specialists and persons with risk management training.

Filling all those openings is giving executive recruiters or "headhunters" a field day.

"There's been lots of gloom and doom about a depression, but it sure hasn't arrived in the insurance business," remarked Richard Gay president of Insurance Personnel Resources. "We are aggressively

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going after producers who can handle new business development and people with a good track record.

"But also on the inside we need female technical marketing assistants and workers in client services," he said.

A few years ago "technical staff" meant "female technical staff" and office girls could be hired away from insurers for a song. But most brokers are reporting that, as one major broker put it, "the companies are getting wise." In addition, many women are no longer satisfied with the salary and responsibility of technicians.

Many brokers have expressed

desires for more female producers and account executives, but the "female technician" role is heavily ingrained in the industry.

"Though I haven't seen any major increase in demand for inside help, female technicians are always the toughest to get," noted Diane Bonanno, president of Insurance Careers, Inc. a Florida search firm.

"The gals can get a lot more done inside and you can pay her less. It is as simple as that," she said.

Though insurers are beginning to offer better salaries and future job potential, many women are still ripe for hiring away by agents and brokers.

"There's still lots of gals who want to get out of the companies" said Ms. Bonanno, "but though they have good training, girls who come from the insurance companies are not sales-oriented."

The need for professional management has not yet hit the insur-

Five year needs

Agents, brokers and professional executive searchers contacted by *Business Insurance* say start recruiting now:

- Young producers "willing to grow with the company"
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ance industry, she says.

"Managers I can't do anything with," she said. "The insurance industry is just not paying the money for management. I had an administrator with us for five months and I couldn't place him. Finally I told him to stay where he is."

With the growing trend to risk management services provided by the major brokers headhunters are

seeing increased demands for actuaries, employee benefit specialists and persons with risk management training and experience.

"There's definitely a trend to more interest in acquiring risk management trained account executives and it's been building in momentum for the last three years," noted Donald Delany of Insurance Recruiters, Inc.

Mr. Delany says large brokers have decided that they want employees with "hands-on" experience to function as both account execs and consultants.

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Photo Mary Cairns

Philip Cochran, Corroon & Black senior vp, will assist regional offices with personnel plans.

To fill those requests, headhunters, according to Delany, have taken to advertising in trade publications, talking directly to risk managers and making regular and repetitive recruiting calls "until people really feel pestered," he said.

Experience has been the main requirement for all positions, but that may not be the case soon as the industry runs out of enough experienced people to meet demands.

So, West Coast brokers report much support for the Los Angeles branch of College of Insurance, the New York main College of Insurance says interest and support from major brokers is on the rise, and college risk management programs are likewise beginning to see signs of broker recruitment.—LS

PIA doubles aid to summer class

VAN NUYS, Calif.—The Professional Insurance Agents (PIA) of California and Nevada have increased support of the Mills College summer session insurance school by offering four full scholarships.

The state group funded four half-tuition scholarships to the program last year, but is providing a full \$2,700 for 1979.

The course, according to Norman Yates, west coast representative to the PIA national education committee, is designed for the insurance newcomers and is sponsored by the parent association.

The Oakland, Calif. program is an outgrowth of the national organization's Oberlin College insurance school and has been in operation for 3 years.

Local brokers support L.A. college premiere

LOS ANGELES, Calif.—Caused by a dearth of qualified and experienced insurance personnel on the West Coast and supported mostly by local brokers, a new College of Insurance is rising in California.

Chartered as a branch division of the New York College of Insurance, the Los Angeles campus will hold its first class in July, according to president Les Leonard. Faculty are being hired now and a board of governors is being put together.

"We have had suggestions to open branches in Dallas and Chicago also," noted Mr. Leonard, "but it just seemed that the timing was perfect now to open an L.A. division."

What made the timing so perfect was strong fundraising support from the area with three-year commitments being made by Marsh & McLennan, Alexander & Alexander, Johnson & Higgins, Frank B. Hall and "many local brokers," according to Richard De Rosa, fundraising chairman and president of Mission Equity in Los Angeles.

"There is really no reason why we should receive little support from insurance companies, however most of the companies who support us in New York only have small branches on the West Coast," explained Mr. Leonard, "but some local companies and Allstate have shown interest."

Work study will be the strong suit of the West Coast college, as it is in New York and the first classes will be part of a nine-month professional training sequence though a full-time graduate and undergraduate day and evening program like that available at the New York branch is being talked about.

"What we are asking for now is a commitment both for funding and students over a three-year period to give the college a sound financial base," said Mr. De Rosa, "but we will be making a continuous effort in fundraising. We are also seeking to raise money for a small library for the insurance industry with access for everyone in the field."

Need is the reason the West Coast branch is coming into being, according to Mr. De Rosa. "The plain truth is that as an industry we have literally struck out in the past in selling our business to young people."

He told the San Francisco Commonwealth Club that "despite the dynamics of size, growth and societal significance and potential for individual opportunity and achievement—the insurance industry is facing the most serious challenges in its history: a critical need for new people, for new talent and the fresh energies, ideas and enthusiasm that such talent invariably contributes to any enterprise."

"It's as simple as this," explained Mr. Leonard. "They just don't have as many good, experienced people available. We are not getting the quality and numbers that we should have gotten over the years."

"The biggest problem is making the industry attractive," he said. "Most young people have the idea that they will be out peddling policies or working as a clerk."

Over the last four years the College of Insurance in New York has grown to over 5,000 students in all divisions with consistent support from the brokerage community, most notably J&H which sponsored 98 evening students and 24 day students in fall, 1978.

Reinsurance and excess/surplus lines companies have also added

A/BT

firm support, but insurers, with long-standing internal training programs have lagged behind historically sponsoring only a small percentage of employees.

In 1978, however, 60 of the 350 students enrolled in the daytime work study program were sponsored by agents or brokers and 16 different agents and brokers (ranging from giant to small family-owned firms) are listed as sponsors. The rest are sponsored by other insurance facilities and insurers.

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Battle lines drawn

Agents take aim at insurer contracts

CHICAGO—Agent/company contract negotiations have the look of border skirmishes before a war. Across the United States individual agents and their associations are battling with insurers over the terms of basic contracts as well as profit sharing agreements.

- In California Professional Insurance Agents (PIA) are dueling with Safeco over profit sharing agreements.

- In New York Independent Insurance Agents Association (IIAA) opposes Aetna Casualty and Surety, Inc. personal lines sales requirements.

- In South Carolina agents are lining up against Aetna Casualty & Surety's account reporting and billing requirements that may

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cause contract cancellation for some 30 agents.

- In Indiana agents have established what they think is a fail-safe alarm system to inform and warn association members of contract charges.

Even if war isn't imminent the issue of contracts is on every mind of every agent.

"There's no question that there is a problem," said Charles Liddle III of the Austin & Co. agency in New York. "There are very few companies who consult with agents."

Mr. Liddle, a former chairman of

the IIAA national contract committee and who helped draft the association's contract guidelines, also noted that "if companies really wanted to cut back they can. And they do."

"Insurers say that they try not to negotiate individual contracts with agents but they do. Bigger and better agents protest contract cutbacks and wind up keeping their old agreements while smaller agents who are less valuable to a company get a new, less lucrative contract."

A company with 14 to 16 separate agent contract types is not unusual, according to Mr. Liddle. And new contracts that bury the fact that the agent is getting less is

also not uncommon.

"Most agents don't really recognize the details of their company contracts," he said. "and one common technique is to increase their expense factor in the profit sharing formula and so lower the profit figure."

IIAA general counsel Jeffrey Yates describes the basic company-agent agreement as "a one sided agreement presented by the companies."

"This is certainly a national concern for agents," he said. "In both the basic agent agreements and profit sharing agreements there is a need for agent input. Both agents and companies have suffered from a lack of input."

Increasing expenses through in-

flation and increased services are the reasons usually cited by companies for contract changes, but many agents see the companies as villains, and note that new contracts that are unopposed in a limited area are often introduced nationally.

Commercial lines agents report problems with commission levels, volume minimums and life production for profit sharing and underwriting considerations given to agents with large life production.

Companies cited for questionable new contracts by both the PIA and the IIAA include Safeco, Aetna, INA and Hartford.

But agents also note that contracts that conform closely to association guidelines have been presented by Harleysville, Industrial Indemnity and the Minute Man Companies. Travelers, a company involved in a contract dispute with agents eight years ago, has also been cited for having a fair contract.

Central to a "fair" contract, according to both PIA and IIAA guidelines is a non-termination agreement for the basic contract (usually for five years) if certain volume, profitability and business mix are maintained, or "either party" termination. The Harleysville Mutual Insurance Co. contract introduced this year features the non-termination agreement and also provides that commissions on any single line may not be amended more than once in any 12-month period and then only after 90 days notice.

The new contract took its changes from the PIA model agency agreement.

The Minute Man contract, which was endorsed by the company's agents advisory council specifies that commission structures may not change unless by mutual written consent except where required by statute or regulation. Either party must give 180 days notice of intent not to renew, though the company may cancel for voluntary loss ratio exceeding 70% for any calendar year.

The contract, however, is only available to selected agents and agents must agree to give the company "a fair share of commercial business."

So there is a bright side, according to Mr. Yates.

"There seems to be more potential for negotiation with companies than in previous years," he noted. "The indications that I get from agents around the country is that the companies are willing to negotiate, especially in profit sharing agreements. They are willing to work together to develop fair minimum volume requirements."

"More agents must take an interest and let the companies know that they want improvements," he said.

Many agents are apparently satisfied with their contracts because the cry for contract reform has not yet reached mandate level, but is being led by the associations, "though members are certainly concerned," according to Mr. Liddle.

"The more we scream and yell and the more we educate our agents, the more we can show the companies that they can't get away with unilateral contracts. And I really think that company officers are willing to help make a change," he said.

New college sponsors

Three insurance brokers have announced sponsorship of College of Insurance in New York City. Alper Services, Inc. in Peoria, Ill., Dixon Insurance, Fargo, N.D., and Schoeter, White & Johnson, Inc. in Oakland, Calif. have decided to support COL services. In addition, one Lloyd's of London broker, Lumsden, Buckley & Houston Ltd. has signed on.

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Agent alarm rings out hot contract changes

INDIANAPOLIS, Ind.—If an insurance carrier springs a new contract on an Indiana agent without warning he may set off an alarm.

Bells won't be ringing but word processing machines may be banging out letters at the Independent Insurance Agents of Indiana (IIAAI) headquarters to warn member agents that an unevaluated contract is on its way.

Called the Agents Alarm System, the warning procedure is designed as a positive technique for getting insurers to consult with agents before introducing a new contract, according to William R. Harris, IIAAI chairman of the agents/company relations committee and partner in the Quigley Insurance Agency.

"The first step in the system is to get the companies to discuss with us what they are going to do," he said. "If they don't we are asking agents to notify us of the change at once."

"Then we will evaluate the contract to see if it is a significant enough change for us to send out an alert."

If the change is judged as significant one button is pushed on the association's preprogrammed word processing equipment and a "red alert bulletin" is sent to the principals of that company's agencies along with a don't-sign-anything-until-you-hear-from-us warning. The letters are sent special delivery.

Following the letters, the association telephones the 10 largest agents working with the company involved to inform them of the change and "get the big agents to support the little agents," according to Mr. Harris.

The "red alert" letters and calls take no more than three days. All member agents are later informed of the contract changes through a regular newsletter, and follow-up letters are sent to agents involved to explain how the association can be of help.

"IIAAI is not acting as a bargaining agent or union negotiator," said Mr. Harris, "but our role is to assist the agent and help with evaluating and analyzing company contracts."

"We try to educate the agent as to the meaning of the contract change and coordinate any meetings between the company and agents."

When the contract is evaluated a yellow alert bulletin goes out to the agents involved explaining the contract and the IIAAI evaluation. A green bulletin later goes out to the complete membership.

During the series of alerts and in the case that a company goes to the association first, the IIAAI meets with the company and the principals of the company's agents leading to a final evaluation by all concerned, according to Mr. Harris.

"We have never yet activated the red alert system," remarked Mr. Harris, "and we hope we never have to. There are not many companies really out to thwart us."

The first yellow alert letter was issued shortly after the new year responding to a Travelers change in commission allowances for private automobile business.

The bulletin, printed on stationary carrying the yellow Agents Alarm System letterhead, noted that Travelers had contacted the association directly and explained the changes.

"The problem is that most agents don't understand what is in a contract when they have to sign it. We want to minimize the number of contracts signed before the agent understands them. Mainly its just a

A/BT

lack of communication," Mr. Harris told *BI*.

The IIAAI is planning to explain the system to company officials to try and get their support for the program.

"If it is used correctly the agents alarm system can be both beneficial to the company and agents," said Mr. Harris.

The system, which will link 127 agents in Indiana is expected to cost \$300 to \$500 using the association's existing automated equipment. ■

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AFCO

Top producers: Finding diamonds in the rough

By HERBERT M. & JEANNE GREENBERG

THERE WAS A TIME not very long ago when a successful broker could remain successful and even expand through the simple expediency of providing good service to insurance customers requesting that service.

Unfortunately, many brokers continue functioning precisely the same way today, ignoring the armies actively working not only to take their potential accounts, but also to take away many existing accounts. Everyone in the industry recognizes the heavy impact of the direct writer and the ever in-

Jeanne Greenberg, executive vp of Personality Dynamics and a New Jersey broadcaster, has conducted several job-matching studies for both government and private industry. Herbert M. Greenberg, president of Personality Dynamics, holds a doctorate of psychology. He has overseen the evaluation of more than 350,000 job applicants.



ABT perspective

creasing threat of the big life insurance companies entering the field with their army of salespeople and big advertising budgets.

The individual broker cannot possibly compete head to head either with numbers of personnel or with advertising budgets, and yet if the independent broker is to survive, it obviously must compete.

How?

We suggest the key to developing and maintaining a competitive edge is the people working in the brokerage. There are few other situations in which having the right person in the right job can make more of a difference.

Our recent study of nearly 400,000 individuals, more than 25,000 of whom were applicants or employees in the insurance industry, proved that four out of five people are in the wrong job, either one totally wrong for them or at best clearly not the most appropriate to permit their maximum contribution.

Potentially good producers are working as underwriters, potentially fine managers are attempting to acquire new business and potentially outstanding claims people may be close to being fired because they are performing marginally in secretarial positions. The result is job dissatisfaction, absenteeism, poor productivity and certainly poor service to the customer. The bottom line inevitably is reduced ability of the broker to compete.

There are three basic causes of misemployment:

lack of guidance in the schools, limited education about real job requirements and—the area that industry can do most about—inappropriate hiring criteria used by employers.

Our studies have proven that age, sex, race and even experience and education have absolutely no effect on an individual's performance in a sales, supervisory, administrative or management position. Our exploration into the question of what makes a successful salesperson revealed three important personality qualities that are absolutely essential.

The first of these qualities is empathy—the ability to accurately perceive the feelings and reactions of another person. Empathy involves the intellectual rather than the emotional recognition of the clues and cues provided by others. Recognizing these clues and cues provides the empathetic individual with vital information permitting him or her to more effectively relate to another person.

Where empathy is an intellectual understanding of others' reactions, sympathy, often confused with empathy, is an emotional over-identification with another. Such over-identification creates a loss of objectivity and so inhibits and even blocks the ability to deal effectively with another. The individual with empathy is able to accurately and objectively perceive the other person's feelings without necessarily agreeing with those feelings.

This invaluable, indispensable ability to get powerful feedback enables the empathetic person to appropriately adjust his or her behavior in order to deal effectively with others. Empathy permits the persuader to really understand the needs of the individual or group he or she is attempting to persuade and to meet those needs through the concept or idea he or she is selling.

Yet, we have discovered that many individuals possessing empathy nevertheless fail to sell effectively because the individual does not have the motivation to utilize empathy as a tool of persuasion. We term this motivation ego-drive, the inner need to persuade another individual as a means of gaining personal gratification. The ego-driven individual wants and needs this victory of successful persuasion as a powerful enhancement of his or her ego. One's self-esteem is enhanced by such victory and diminished by a failure to persuade. However, this lessening of self-esteem does not discourage this person, but rather stimulates him or her to greater efforts at the next opportunity. Ego-drive is not ambition, aggression, energy or even the willingness to work hard. An individual with ego-drive

"We wrote \$6 million of life insurance in only 10% of our time; no miracle, just INA's consistent and expert field support."

Independent agent Ed Hopkins speaks his mind.

"Last year was our finest ever in life insurance production—pretty remarkable when you consider that we have primarily been a property/casualty agency with tremendous demands on our time in those areas.

"If you go back in history about 20 years, you'll see how we built this kind of success with INA Life.

"INA Life approached me in 1958 with an offer that was hard to refuse. Their field reps, even their executives, would prospect this area with me to develop the life market. And they'd put their skills and experience to work in closing the sales. From the start, we directed our marketing effort to substantial prospects where the premium income justified our effort.

"It was a new experience at first. But I had this feeling, and so did INA Life, that it would ultimately pay off. We set aside three or four days a month to selling life, and on those days—without fail—the INA Life people would be in DuBois. They'd consult with prospects in my office or make calls with me. It worked; there's a sincerity and integrity about the whole approach that's made it the most efficient

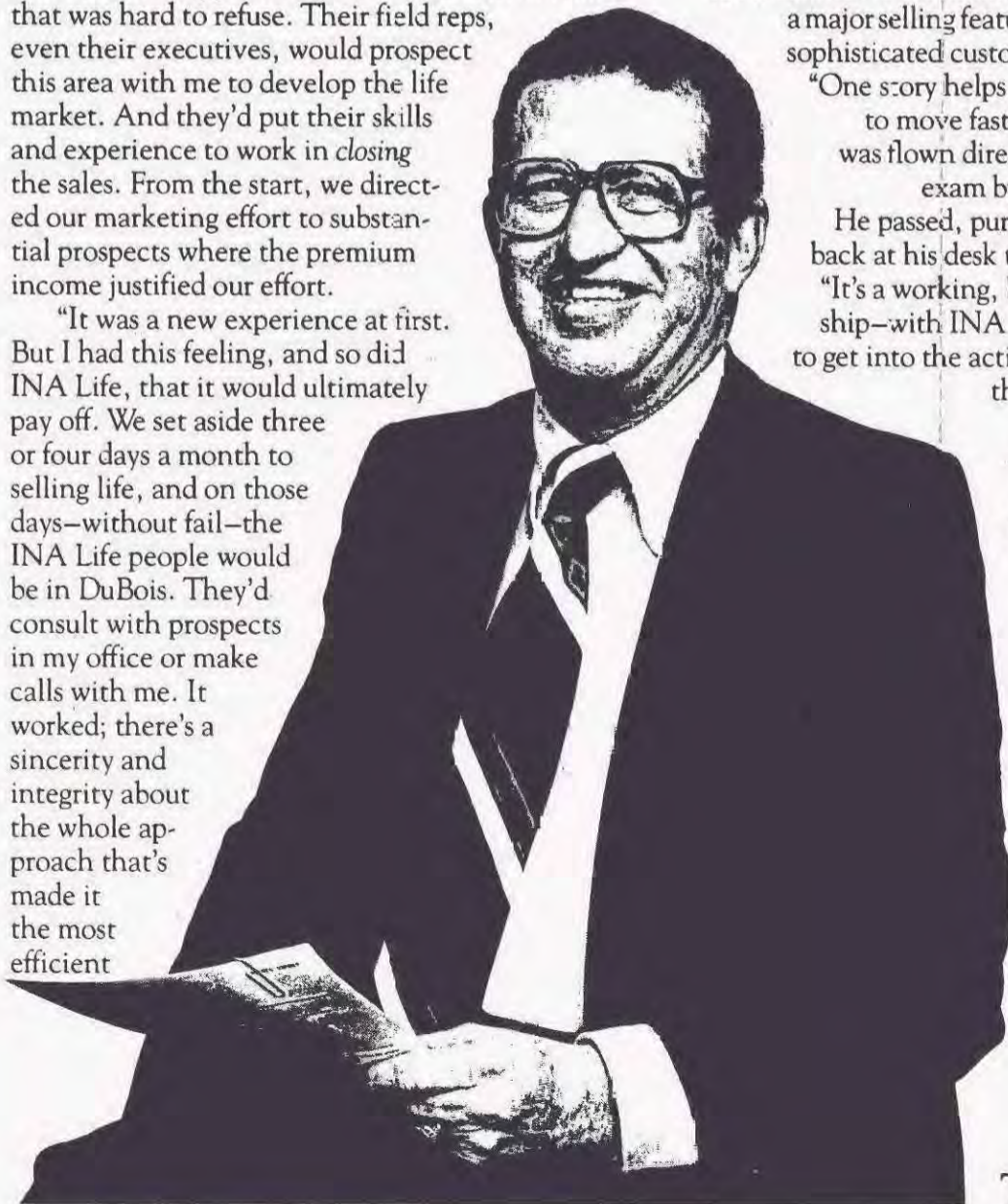
way of closing life sales.

"I can truthfully say that INA Life has never let me down on any aspect of service. Their people are like family; they are fast and responsible with paperwork so our desks are clear for P & C business. They're on top of policy reviews, renewal and option features and policy innovations. I can't say enough about their expertise in linking life insurance to estate and pension planning. That's a major selling feature with today's financially sophisticated customers.

"One story helps sum it all up. When I had to move fast on a large case, my client was flown directly to Philadelphia for an exam by INA's Medical Director. He passed, purchased the policy and was back at his desk the same day.

"It's a working, bread-and-butter relationship—with INA Life people always willing to get into the action with me. And frankly, that's created a major profit center in our agency..."

Ed Hopkins, co-owner, Swift-Kennedy Agency, DuBois, Penn., is one of the hundreds of leading independent agents across the country who benefit from working with INA. If you'd like to learn more about representing INA, write to the Office of the President, Insurance Company of North America, 1600 Arch Street, Philadelphia, PA. 19101.



INA
The Professionals

needs successful persuasion as an enhancement of self, but also must possess the ego strength not to be overly diminished by the rejection that all salespeople have to face. The degree of ego strength of self-acceptance is a key determinant of job success. This is particularly critical in sales situations where the self is constantly on the line. Individuals with a healthy, intact ego basically like and accept the way they are. This permits their personality dynamics and drives to operate freely and fully, allowing them to function at or near the top of their capacity.

The individual possessing empathy and ego-drive might be compared to a sophisticated guided missile. The ego-drive might be compared to a sophisticated guided missile. The ego-drive provides him or her with a motivational force, the need to persuade, while empathy allows the salesperson to home in on the target, to deal with evasions and objections, and close the sale. Ego strength allows the persuader to accept the rejection inherent in the persuasive process and not be destroyed by those rejections.

The possession of these three qualities does not assure success in every persuasively oriented job role. Other qualities must come into play. In many brokerage

firms, for example, the acquirer of new business must also service that business, including in some instances dealing with claims. In those situations, detail ability, ability to follow through, ability to negotiate and many other attributes determine success or failure just as much as the basic empathy, ego-drive and ego strength.

The key is not the matching of the individual to the needs of a glibly defined job—sales manager, claims adjuster—but to the actual requirements of the job in the particular brokerage firm or company. Scientific job matching takes out much of the guesswork and error involved in selection can be eliminated. The results of our study show that when people are properly matched to sales positions on the basis of their basic personality dynamics and not selected by using superficial, invalid criteria, job satisfaction, high productivity and reduced turnover are the

result.

In this study, based on a large sample of the nearly 400,000 people we have evaluated with our personality dynamics inventory (PDI) test, performance and retention comparisons were made within each industry between individuals recommended for hire based on their appropriate dynamics as measured by the PDI and those hired against our recommendations—based on traditional hiring criteria but lacking the basic dynamics for the position. The chart shows the results.

Many personality dynamics enter into a decision as to whether or not a person can sell within a particular firm. But at least much of the guesswork can be eliminated.

Based on our 18 years of experience, we are convinced that brokers who to put their effort into "job matching"—fitting personality dynamics to job functions—are the brokers who will compete successfully.

1973 Performance of insurance casualty salesmen

MS&RC Recommendations		Quartile of Sales Force*					Quit or Fired
Sales Personal	Total No.	1st	2nd	3rd	4th		
Performance after 6 months	Recommended	87	8	35	28	12	4
	Not Recommended	94	2	16	24	29	23
Performance after 14 months	Recommended	87	19	42	14	5	7
	Not Recommended	94	1	8	20	34	31

*Number of employes in the four categories of sales performance, with the first quartile the top salespeople and the fourth quartile the poorest performers.

Oil broker hits gusher in job hunt

LOS ANGELES—People who know Emmett & Chandler vp Elton Kunkle think he's a pretty nice guy. But few know he was a major insurance industry commodity last year.

Just one example of the heavy competition for insurance specialists, Mr. Kunkle stopped counting job offers after the first 15 when he announced his departure from Industrial Risk Insurers (IRI).

"I think the final total was somewhere around 22 job offers but I stopped keeping track. It was just getting out of hand," he said.

An oil industry specialist, Mr. Kunkle had worked with the Oil Insurance Assn. before it became part of IRI and he had dealt with all the major brokers on the West Coast.

His job offers came from all the major brokers on the West Coast, "all the alphabet brokers and many of the smaller local brokers," he said, noting that offers involved relocation possibilities in Phoenix, Las Vegas, Portland and several other cities.

Finally he chose Emmett & Chandler here, not because it was the best financial offer, but because it allowed more job freedom. Emmett & Chandler was also a sentimental favorite.

"Emmett & Chandler was the first office I did business with when I came to the West Coast in 1955," said Mr. Kunkle. "I know all the people here and feel very comfortable."

A petroleum engineer and CPCU, Mr. Kunkle said he had looked forward to generalizing his insurance career.

"With the large houses I would be stuck in the specialist area again. Here I am doing the whole spectrum of the business. The first piece of business I picked up when I joined the firm had to do with casualty. Since then I have made production calls, done engineering consulting and continued consulting in the oil industry.

Viewed from the eye of the personnel hurricane, brokers "have a lot of empty desks simply because the talent isn't available," according to Mr. Kunkle.

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Beating the skimpy agency contract blues

By **LEN STRAZEWSKI**

During a recent visit to the Southern states a small agent and I chatted about his problems with agency contracts and profit sharing agreements. Because like him I was a Woody Guthrie fan, he agreed to let me listen at the crack of his office door during a contract negotiation.

"I'll show you how to handle them big-time company men," he told me.

"Well how you doin' there, Big Company Man?" said my small agent friend, coming from around his desk to shake the hand of the regional vp in charge of skimpy contracts. "How's the wife and kids?"

"Real fine, Small Agent. Hope y'all had a nice holiday. Speaking of holidays, I got your new contract complete with profit sharing addendum right here in my briefcase."

Small Agent put his arm around Big Company Man the way friendly Southerners do. The way Chi-

cago politicians do, too.

"Right glad to hear that, BCM," he said, "Because I'm real anxious to see what's in it. You know I don't understand them complicated formulas and minimums and combinations of personal and commercial lines . . ."

BCM was opening his briefcase.

"... though my agent association keeps telling me that I should learn more about all that stuff and not sign anything until they have had a chance to analyze it . . ."

BCM took out a hefty wad of papers and an antique fountain pen. He was smiling.



"... and my brother Small Agent over in Crashville is real anxious to hear about this-here new contract you got 'cause he's giving you boys almost a third of his business . . ."

BCM uncapped the pen.

"... he says that if your new contract doesn't look right he's just gonna have to give some of that business to that other company with a new contract that follows association guidelines. . ."

BCM stopped smiling but held the point of the pen over the proverbial dotted line. But Small Agent was still talking his blues.

"... and my cousin Big Agent over in Rivertown says he'd really like to hear about this new contract 'cause he claims that he's got a policy turnaround 'bout as slow as a mud-turtle in the sun, and his brother-in-law, Bigger Agent, is having the same problem and is looking at some new companies."

BCM slowly moved his pen from the line and leaned toward the list of requirements for the company profit sharing program. He started to tap the

paper. "... 'course that has nothing to do with the way we do our business, does it, Big Company Man, ol' pal."

"That's right, Small Agent, ol' pal," BCM replied, twitching. "I really just wanted to stop by and point out how this-here new contract has all sorts of typographical errors here in the formula and has got to get sent up North for some revision. I'll be back to show you the fixed-up contract in a week or so."

He shuffled the paper back into the briefcase and recapped his pen.

"Now y'all say hello to your brother in Crashville and your cousin over in Rivertown, y'hear, and maybe tell them I'll be a little late with their new contracts."

"Sure will," said Small Agent, and through the crack in the door I caught his wink.

As Big Company Man left Small Agent said with a grin: "Take it easy, boys. But take it." ■

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Agents plan future shock study group

TALLAHASSEE, Fla.—Where will your agency be after Armageddon?

Don't laugh. That's just one future possibility the Florida Assn. of Insurance Agents Delphi panel is researching in addition to what will happen to the insurance industry if inflation accelerates, foreign entanglements continue to grow or the political climate of the United States changes.

The panel of 40 insurance experts, ranging from regulators to outside observers, is part of the association's all-inclusive Last Manifesto project established last year to cope with both national and local agency problems.

Though agent competition with direct writers was at the heart of the Last Manifesto document, the project also calls for legislation, public image, cost control, education and risk management task forces.

"We decided to adopt a new kind of planning technique," said an association spokesman, "to raise some of the questions that do not come easily to mind."

"For example, we would like to know the impact of technology and computer capability. We would like to know about the small business of the future."

Though no one can predict the future perfectly, the project goal is to get a feeling and reasonably speculate on the role and needs of the independent agent of the future, up to and past the year 2000.

A preliminary report will be presented at the FAIA convention in June 1979 with an in-depth report no more than two months later. ■

6 steps to efficiency

Wasted time costs producer profits: Safeco vp

SEATTLE, Wash.—If what you want is to reorganize your agency, don't wait.

Putting off plans for making an agency work better is one of the biggest problems agency management expert John Stanford, Safeco vp, sees at his education seminars.

"Over the last 10 years I have seen, taught and talked to many agents very conscious of the need to do better, but back in the office they postpone doing anything. It's hard to get started on something new when the day-to-day activities of your office take so much time," he said.

Mr. Stanford recommends scheduling quarterly meetings on management activity both as action sessions for the principal, and as a way of introducing change to the staff.

"Even if you just want to smooth out paper flow you must convince your people first," he says.

Mr. Stanford has codified a six-step plan for reviewing the efficiency of an agency, but even before diving into a major overhaul, there's a couple of business plans to be settled first.

"Attitude is very important. You have to decide what kind of agency you want to build," he says in a new Independent Insurance Agents Assn. management series cassette tape.

"Age is an important factor in attitude. There's a lot of younger principals who through their schooling are trying to install things like accounting control, automation, profiles of their customers and demographics of their market area. Then there are older principals who just don't want to bother with all that," he says.

Once you decide on an attitude, whether young and dynamic or older and consistent, goals are the next issue needing attention.

"By goals I mean what you are trying to accomplish in the long run. This is different from objectives that are really short term. You should outline what you want to do in areas other than production."

The Stanford system goes this way:

- Plan for growth.
- Review daily management responsibilities of all managers in your office.
- Examine the functions of all personnel.
- Review the efficiency and effectiveness of your internal processing.
- Review financial management—accounts receivable to savings accounts.
- Look at your agency's relationship with its customers.

"Planning for growth means working on your production function, beginning with the standard marketing plan but taking it one step further," says Mr. Stanford. "Analyze your sources of business. Does it come from referrals, walk-ins, a sales program?"

Ask some questions, recommends Mr. Stanford.

"Who are your sources of business? How much from each? What are the levels of your accounts receivable? How many markets? How much volume? How many companies can you justify?"

It is possible, he believes, to increase volume but lose accounts. Without looking at how many accounts you have, as well as volume, you could overlook an important factor," he says.

Mr. Stanford contends that a number of agents have forgotten how or don't know how to sell, losing many potential new accounts along the way.

"Creating a sales atmosphere is

A/B/T systems

very important and should be part of a growth plan. One agent I know redesigned his sales office just to create a better sales atmosphere. He established an office that had nothing to do with servicing an account—none of the papers that clutter up a desk and cause distractions. When a producer needed to talk to a potential client he took them into that sales office."

Daily management responsibilities can be streamlined, Mr. Stanford suggests, by eliminating busywork and interruptions that need not be handled by the principal or

by top management. Opening mail or talking directly to clients about non-urgent points of information should probably be delegated to a member of the office staff.

With the role of principal established and clarified, the functions of all personnel should contribute to overall goals.

"Get your staff to write their own job descriptions while you also do theirs. You may be surprised that their jobs have changed since the last time you thought about them and some tasks they now consider important parts of their jobs may not be important to the agency," he says.

Personnel trends are causing rethinking of many traditional agency office roles. Office girls

don't want to be just office girls any longer.

"Office staff must shrink in the future simply because there are less people studying traditional office skills. We must put values on functions that justify higher pay scales to attract personnel to perform some of the traditional office tasks—people who otherwise might want to become underwriters or be in other more valued roles."

Internal processing is one of the most talked about problems in the insurance agency business, according to Mr. Stanford.

"What you have to ask here is where did the present systems come from and usually the answer

is from the person who started the agency," he says. "As we introduce automation and accounting, one of the big problems we encounter is the likes of the individual and the way he does things as compared to the new techniques."

An agent redesigning an office system must be careful not to fall into the common trap of just duplicating by a machine what an employee does or introducing a new technique without convincing the staff, according to Mr. Stanford.

If an employee thinks up a new method and installs it himself the technique is probably going to work, he says.

Financial management and using cash available for investment is

Continued on following page



Interlandi

"I don't care, those former underwriters still act a little devilish if you ask me!"

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Wasted time . . .

Continued from preceding page another commonly discussed agency technique, but overall financial management involves much more.

"We have to increase our awareness of looking at your business as a business, not just a place to sell insurance," noted Mr. Stanford.

Income and expenses are the two areas of focus for an analysis of an agency's financial management and among expenses you should take care to understand how much profits are earmarked for office costs, production costs, management costs, and profits paid to the agency owner "as the owner" not as an employe or producer.

"What we are talking about is profitability," remarked Mr. Stanford. "We have to know what we are spending our money for."

If office costs go over 35-40% of

profits and production costs go over about the same percentage, your costs may be out of line, according to Mr. Stanford.

Money paid for management is usually between 5 and 7% and an agency owner usually draws 15-20%, says Mr. Stanford.

Balance sheet analysis of cash flow and accounts receivable is likewise important and boils down to "how stern do you want to get" on late charges, collection, estimated billing and the timing of when your bills go out and when you have a renewal policy.

"We are seeing agents and companies both tightening up on the whole cash flow," he said, with late charges being assigned long before the account is the traditional 30 days overdue in payment.

Investment activity of cash wait-

ing for payment to companies is almost automatic among large agencies, but smaller agencies are more reluctant to break into their "reserve," according to Mr. Stanford.

"Many smaller agencies simply refuse to take the money out of their checking accounts, though there's no reason why those funds couldn't wait in an interest-bearing savings account," he says.

Finally, take a look at your relationship with your clients suggests Mr. Stanford, and see if account development has been your policy.

"It has become almost automatic in commercial lines sales for an agent to want to write the commercial risk and that company's additional needs including employee benefits, health, whatever. If you handle personal lines you should also move in that direction. We see too many one policy accounts," he concluded.

But no system works waiting to be applied, Mr. Stanford affirms.

Lone wolf drives past bigger, slower brokers

NASHVILLE, Tenn.—When agents here talk about stiff competition, Fred Viehmann's name comes up. Principal and main producer of the Security Insurance Inc. agency, he has personally captured some plum accounts from bigger firms. As a result, he's a controversial character.

He is also a believer in "small is beautiful."

"Competing with big nationals is much easier than competing with a small, good local agent," he believes. "We can handle accounts much faster, probably in one-third the time that the nationals do."

Aiming at selected medium and "somewhat larger" risks, Mr. Viehmann does 90% of the produc-

A/B/T local leader

tion himself and specializes in the personal contact service that is the insurance business standard in Nashville.

"Being a lone independent, I can thoroughly select and qualify a certain account. And if I want to sell a policy for a \$1 commission, I can," he said.

But the key advantage to being small and independent is the personal contact and advice he can provide. "Most principals of companies here in Nashville want to talk one-to-one with the man at the top, not some salesman. And we pride ourselves on the fact that a client rarely makes a major business decision without seeking our advice.

"I drive a very fast car and when my clients call, I'll be there," he said.

Mr. Viehmann's red Porsche attests to his word, along with the success of his agency that generates about \$1 million in revenues.

"When we have a new account we virtually drop everything and make a thorough survey of the risk and then try to match the account with our carriers. Often we just submit to one carrier because we know that the risk is its style."

"This isn't the impersonal way that I imagine New York agencies function. When you do business in Nashville it is not just a one-time matter," he said.

Mr. Viehmann's agent competition describes him as "aggressive and entrepreneurial," and point out that his style has landed him in court several times.

They also point out that he is the epitome of the cliché "Germanic thoroughness," and Mr. Viehmann, a former Luftwaffe pilot and Allied prisoner of war during World War II who settled in Tennessee 23 years ago, would probably agree.

Thoroughness, from his impeccably clean office to his pride in "always returning a call the same day I get it," has been his developed trademark.

But major agents are still smarting from Mr. Viehmann's successful bid for the Nashville metropolitan and Board of Education property account that changed to a large-deductible self-insurance plan last year.

"It's true that I was the only insurance member of the special committee that the mayor appointed to review this proposal," responded Mr. Viehmann, "and therefore I fairly dominated the committee. That made it easier to come up with the correct proposal, since I had been working with the data for months."

To eliminate the obvious charges of conflict of interest which he said he expected, Security Insurance took only a token \$1 commission from the account that he placed with CNA, no profit sharing (because metropolitan accounts are not applicable to the CNA profit-sharing requirements) and no cash-flow float on premiums paid because CNA directly bills the city.

The reason for performing what essentially is a free service is simple, according to Mr. Viehmann.

"This city has provided a wonderful social and economic atmosphere for myself and my family. It is a little pocket of prosperity. I felt it was a kind of civic duty to give back to the city that has been good to me," he said. ■

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London leaders thumb noses at rate cutting rush

LONDON—Too much, too soon, underwriters here say of the price cutting amid growing competition for corporate property and casualty accounts.

At the heart of the problem, worries Robin Jackson of the powerful Merrett Dixey Syndicate at Lloyd's, are U.S. brokers creating a merry-go-round atmosphere as they vie for commercial clients by playing up rate cuts and price deals.

Mr. Jackson and his London underwriting cohort Peter S. Wilson of H.S. Weavers (Underwriting) Agencies Ltd. indicate they can't justify significant rate cuts right now, though they show some flexibility and willingness to negotiate, to a point.

There's a parallel to be drawn between the insurance business and the ad agency business, says Mr. Jackson, pointing out the similarity between U.S. insurance brokers scrambling for accounts by pitching price and advertising agencies constantly fighting for new accounts with creative ideas. Brokers, like ad agencies, view the competitive process as a sort of game to be played with a "win some, lose some" attitude, he frets.

Mr. Wilson and Mr. Jackson both talk of taking a "firmer stance" in the face of rate competition, holding fast to quotes they feel certain will produce profits and not a string of losses.

Mr. Wilson indicated he may even be inclined to boost deductibles by as much as 25% and raise premiums at the same time, quite



Robin Jackson, left, of the Merrett Dixey Syndicate at Lloyd's and his cohort Peter Wilson of H.S. Weavers, right, indicate they can't justify big rate cuts now, but they show some willingness to negotiate—to a point.



ignoring rate competition, because of continuing risks with long tail liability losses. Though he recognizes that competitive fires are burning, "in certain areas of the non-marine business," he thinks U.S. insurance buyers will have to present pretty "innocuous" risks to achieve lower prices.

"There is a need to continue to ensure that premium increases keep pace with the rate of inflation," says Mr. Wilson, echoing a philosophy heard in most London underwriting circles. "I would have hoped that all buyers are looking for insurance markets that can offer continuity of coverage and sound claims servicing. These markets will only be available if the risk carriers can maintain prices which reflect their exposures."

Mr. Wilson's tune is not new. These same concerns were articulated—indeed, trumpeted—at the start of the last competitive cycle

several years ago. But the talking did little to deter those looking for cheaper prices and better underwriting deals. Nor did it deter many underwriters from lowering their rates in response to market forces. The London markets stood ready to lose business then, as now, and they did.

Mr. Jackson, whose syndicate has \$100 million in capacity ready

International

and waiting for non-marine insurance buyers throughout this year, grumbles that "underwriters are talking themselves into a softer market" where he personally sees no justification for lower rates.

"At the very best—and it is still far too early to say this with complete conviction—we have managed to correct what were obviously inadequate rates," he reasons.

There are a handful of brokers and buyers who've wised up, he concedes, but ever so few. "One or two brokers or buyers are beginning to realize there is no point in

shopping for rate reductions every year, and no point in buying the cheapest coverage all the time. Others will have to learn—and some are already doing so—that we're not going to go through a period of underwriting losses again if we can possibly help it," Mr. Jackson asserts.

There are buyers who will continue to shop for price, says Mr. Jackson, acknowledging that some of them "undoubtedly will change insurance carriers." But he's encouraged that London has been able to hold onto a lot of business that it could have been in a position to lose within the last several months, even though London's prices were expensive.

He lashes out at brokers, pointing to them as the causes of much of the market's instability and accusing them of being "more interested in getting business than providing responsible insurance attitudes." Brokers seem to have forgotten the lean days of 1974 and 1975, he says ominously, when they had "great difficulties in the U.S. market and came running back to London, where they naturally had to accept our stronger terms."

Insurers in Western Europe, particularly France and Germany, are increasingly competitive on U.S. liability lines, notes Mr. Jackson, citing their relative inexperience in the liability business—apart from the last two or three years—as a possible future problem.

"But if they think it's easy to make money out of U.S. liability business, they're wrong," he claims. He would, instead, advocate re-rating, "hopefully getting rate hikes rather than just maintaining rate structures. We've lost some business through this attitude when renewals came up at the end of 1978, but we want to write the right lines. And fortunately, other underwriters are supporting us."

Railroad, pharmaceutical and chemical accounts are among those recently lost to competition, Mr. Jackson said, and new underwriters now accepting this class of business have made the market too competitive for his liking. "It would seem to me that a lot of the people writing the heavy classes of U.S. casualty business today were not writing it as recently as five years ago. So we have a number of inexperienced, naive underwriters providing a significant market capacity today. This makes it very difficult for those of us who stayed with the tougher classes for a number of years to attempt to make the book profitable."

Mr. Jackson is especially worried that rates won't continue to escalate enough in product liability and workers compensation "where I believe we have not yet seen the worst." Another competitive line, he says, is directors and officers liability, "where for some reason I am unable to comprehend, certain people are being overly competitive."

Jackson's leisure study reinforces policy fears

By JOHN H. MILLER

LONDON—Even when Robin Jackson relaxes with a good book during a few free minutes, he seldom escapes the realities of his underwriting business.

The executive of Merrett Dixey Syndicates, a powerful force in the Lloyd's market for the past three years, often decides the fate of property and liability risks of U.S. corporations when they're presented in London. And the way he keeps up with his business is by reading those good books, the latest of which happens to be "The Politics of Cancer" by Samuel S. Epstein M.D., published in San Francisco by the Sierra Club.

It's not a tome you'd expect to see on a Lloyd's leader's desk, but it proved to be an eye opener for Mr. Jackson. He candidly says it reinforced with remarkable clarity his strong views of the grave perils of product liability and workers compensation risks posed by dangerous products and substances in the workplace and in the marketplace.

He has long been fearful of injuries and damage that don't surface for many years and that might emerge and hit the insurance market over a decade or two or three after the risk was underwritten.

Dr. Epstein's book suggests that the visible costs of cancer have risen to about \$25 billion a year, but that its hidden costs amount to tens of billions of dollars more.

"I don't think the insurance market even now contemplates just how serious some of these future claims can be in light of modern science," Mr. Jackson confides. "It's getting so serious that there's no telling just where some of the higher personal liability claims can come from. It's like Ralph Nader all over again. But this time we're

working in a little-charted field of insurance liability."

The effects of newly developed products on the public and on the environment have yet to be determined, he worries. "It's only quite recently that the dangers of asbestos and other substances which have been in use in Britain and other countries for many years came fully to light. Now their long term impact as causes of cancer are being acknowledged and so further protective steps are being taken to control their usage."

But, Mr. Jackson wonders, what about the substances that nobody really knows about yet?

"As manufacturers move into new fields of product technology, so we in the insurance markets move into new areas of liability coverage that we really can't fully understand yet. It's got to the point where a number of us in the underwriting market in London are starting to question whether we'll be able to provide coverage for certain products against cancer or similar diseases," he warned.

It's not that London is close to panic, he asserts, but rather that insurers are very concerned about the unpredictable future.

Dr. Epstein's book, for example, discusses the introduction of a wide range of synthetic carcinogens into the environment and the workplace as a result of petrochemical industrial growth. Subsequent health problems are inescapable, Dr. Epstein's book contends. Even worse, Mr. Jackson fears, are the problems that have arisen in Niagara Falls, N.Y., as the result of chemical dumping years ago (BI, Dec. 25, 1978).

"We can insure almost anything if the facts are at our disposal," says Robin Jackson. "But there are many products whose future effects are still not yet evaluated." ■

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Without U.S. backup teams

Business at Lloyd's tips to reinsurance

By JOHN MILLER

LONDON—It's now estimated that more than half of Lloyd's business is in reinsurance, moving the market into a new dimension that was never expected several years ago.

And Lloyd's handles its reinsurance business differently than U.S. underwriters.

The impact on the insurance buyer is hard to predict, since much of the business comes from newly emerging countries, particularly in the Third World, which are running their own insurance companies for local economy and pride.

In the case of marine risks, where national aspirations keep

portfolios under internal control, Lloyd's expertise is being used in much the same way as before.

A typical example is Nigeria, which now insists that much of its trade be covered in the cargo insurance market through its own state company. But it still needs reinsurance and traditionally comes to London, with which it has historic links. The rate marine reinsurers quote is pretty much the same as would have been quoted for direct risks in the London market.

The scene is changing sharply, however, when it comes to non-marine cover for liability risks such as those emanating from the U.S.

Reinsurance business is still wel-

International

come and helps to swell the growth of premium income that is insatiable to any insurance industry.

But the ability of U.S. reinsurers to put in their own "audit teams," particularly on excess-of-loss business, is in sharp contrast to the current position of Lloyd's, which lacks an equivalent facility for close analysis of risk perspectives for international reinsurance needs.

Commenting on the U.S. approach to reinsurance, Robert J. "Bob" Kiln, one of Lloyd's leading underwriters, agreed: "Certainly the larger U.S. reinsurance compa-

nies, particularly those dealing direct with clients rather than through brokers in this field of longer-tail claims, have developed very close links between their own staffs and the claims' staff of the direct writing company. They give advice to the direct insured on how to handle the claims, both those on the books and future ones."

So is the traditional system at Lloyd's at a disadvantage compared with U.S. reinsurance methods?

"No," asserted Mr. Kiln. "We counter that by the fact that the broker provides the service for us in some respects, either through himself or some adviser such as a loss assessor. I agree we haven't actually got our own syndicate staff

physically present in the U.S. Traditionally we write through the reinsurance broker, so we have not got the direct contact with the reassured that a large number of U.S. reinsurers have."

But, stressed Mr. Kiln, the "trust that develops" through a long connection between a Lloyd's underwriter and a first-class U.S. company usually makes such a process unnecessary for much of the London market. "We rely very much on the ability of the direct writing company to be fully conversant and fully professional in the way it handles its own claims," he explained.

"My own view is that if you are dealing with property reinsurance on a treaty basis, there is no need for the professional reinsurer, whether a U.S. company or a Lloyd's syndicate, to have this type of very close contact on a day-by-day or month-by-month basis with the direct writing company. It might even be resented.

"On excess-of-loss reinsurance on property, where you are dealing basically with a catastrophe kind of situation, we do have a very close tie-up with the assured through our brokers. So I don't think there's any problem there either at Lloyd's," he continued.

"The only type of business where one can argue the need for closer liaison is perhaps when dealing with a new or small company which may not have the in-house expertise to handle specific types of claims, particularly in long-tail business."

As an underwriter of long experience, Mr. Kiln firmly believes Lloyd's has done as much pioneering work in analyzing the potential excess-of-loss exposures of individual direct writing companies as any U.S. reinsurer.

"The idea of Lloyd's syndicates operating without proper analysis is a thing of the past," he maintained.

But not everyone at Lloyd's shares Mr. Kiln's view, as the director of North American operations for one large U.K. broking group indicated. "The biggest single difference for the London market is its inability to audit claims like the U.S. reinsurer does by sending people in to inspect claims files," he said.

"So far it has not been possible for Lloyd's to get together to do this. Direct insurance can be described as a fairly cut and dried operation where quoted terms are either accepted or not as the case may be, and London is still competitive in that activity.

"But reinsurance will in the future provide a much bigger side where people are broking for U.S. insurance companies and want to spread their excess of loss cover," he suggested.

"The large U.S. reinsurance companies have a full department which is capable of descending on any insurance company which wants their services and can then do an audit and say, 'Losses must be reserved at such and such a figure.' This is a very professional attitude which helps the U.S. reinsurance market to get its rates correct.

"But Lloyd's is unavoidably incapable of that approach."

Are there any moves for even part of the Lloyd's market to take positive steps to compete with U.S. practice in this field?

"We've talked in London about doing it, but so far there has been no specific move," the broker declared.

Apparently Lloyd's is now sharing more risks with the U.S. market than it did 15 or 20 years ago and is relying on the U.S. market for some of its reinsurance rates.

Insurance buyers aren't directly affected by U.S. and Lloyd's attitudes. But in the long run, rates reflect reinsurance returns. ■



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Europeans stall adoption of product liability law

By JERRY GEISEL

International

BRUSSELS—The drive for a uniform product liability law among the nine members of the European Economic Community has stumbled badly; it's unlikely any proposal will be enacted before the mid-1980s.

The European Parliament postponed debate on the proposed directive after the plan was negatively reported out of one committee and soundly criticized in two others. Observers now believe the directive must be revamped before it can make any headway.

Nationalism is a major factor fueling the opposition to the directive. The British in particular are concerned that the directive will preempt the British Parliament from acting independently to refine its product liability law and introduce a system of no-fault compensation, said Frank A. Orban III, international counsel at Armstrong Cork Co. in Lancaster, Pa.

European trade groups strongly oppose the directive, too. Societe Belge des Automobiles Citroen S.A., for example, is worried the wording in the directive is so vague that it is unclear if a plaintiff's contributory negligence is a defense against liability.

Business groups also are distressed that compliance with the state-of-the-art would not be a defense and they consider the 10-year statute of repose long.

Consumer groups have joined the attack on the directive. They are opposed to the directive's elimination of awards for pain and suffering and are against a rigid time limit on filing a suit, Mr. Orban noted. And they oppose the limitation on the total damage awards.

The EEC directive unveiled in 1976 is an attempt to end the jumble of varying product liability laws in the EEC that distort competition by placing a greater burden of liability on manufacturers in some countries than in others. In France, for example, product liability laws allow consumers more opportunities to sue manufacturers under the theory of negligence.

If a revised directive is issued, the EEC economic and social committee and the European Parliament probably will review it and issue reports on the proposal. After they issue their opinions, the nine-member Council of Ministers will vote on the revised directive.

If the Council of Ministers approves it, EEC countries will have up to 18 months to pass legislation closely corresponding to the directive's principles.

The EEC directive as now written is in some instances tougher on manufacturers than the theory of liability that guides U.S. courts. In the U.S., it is up to the plaintiff to prove a product was defective at the time it left the control of the manufacturer. But under the EEC directive, the manufacturer will have to prove the product was not defective when it left his hands. That is a tremendous shift in the burden of proof from the plaintiff to the manufacturer and goes far beyond state product liability laws in the U.S., observes Mr. Orban.

In addition the EEC directive makes manufacturers responsible for "developmental risks," ones resulting from a defect which was unforeseeable and unavoidable "in light of the scientific and technological development" at the time the product was first put into use.

The directive limits to \$27 million the amount of damages that can be awarded against one company for personal injuries caused

by one product defect. Liability for property damage is limited to \$18,000 for each claimant and the liability limit on movable property is \$60,000 on an individual claim rather than on a cumulative basis.

Damages for pain and suffering are prohibited, a provision that both consumer groups and the British are opposed to. Like the model product liability bill unveiled by the U.S. Commerce Department, wholesalers and retailers would be excluded from liability for damages caused by products they handled.

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Capacity seasaw unleashes rate competition at Lloyd's

By JOHN H. MILLER

LONDON—International capacity at Lloyd's is likely to swing heavily from one side to another in the next 12 months, unleashing fierce competition over rates.

That Lloyd's has hiked its membership by 20% to 17,000 this year does not necessarily mean it will proportionately increase its underwriting.

Capacity is now estimated at \$5 billion a year. But rules require members to deposit a certain cash percentage of the amount they will eventually cover and not all of them are taking up the full capacity available to them for 1979. Of

course in broad terms, Lloyd's will naturally be able to meet all demands upon it.

Basically, U.K. members of Lloyd's have to give their syndicates cash deposits on Jan. 1. of 10% of the amount they are willing to underwrite during the year. This ranges from \$10,000 as a stake for \$100,000 worth of incoming business up to \$30,000 for \$300,000 worth, with provisions for extra facilities up to \$700,000 in exceptional cases. These cash deposits are on top of the original "show of wealth" which Lloyd's members must possess before being allowed to join.

The same principles apply to

International

U.S. and other overseas members, and all parties give their chosen syndicate a supplementary deposit of between \$10,000 and \$20,000 as an initial contribution, dependent on whether they are U.K. or overseas names.

Membership last year included 799 U.S. nationals, of whom 712 were men and 87 women. It appears there may well be 1,000 U.S. participants active at Lloyd's in 1979.

Members usually take the advice

of their syndicate's managements on how deeply they should plunge into underwriting commitments. Some underwriters are advising caution moving into large new portfolios until the international scene reflects the likely profitability, or the risk of losing money, in any particular line of business.

John O. Prentice, deputy chairman of Willis Faber Dumas, said, "Every underwriter I speak to has greater capacity available either through existing members or new ones, but does not expect to draw fully on this potential backing for his activities."

Willis Faber, which handles premium income of more than \$1.5 billion a year and is one of the market's biggest brokers, is obviously very perceptive about trends. It believes that the major syndicates are very resistant to efforts to cut rates and are able to maintain their stance in this respect, but the so-called "bottom half" of the market is still very soft.

The "bottom half" covers smaller syndicates, some of whom are still willing to take on business in order to keep themselves active.

But in general terms, it's going to be hard to get extremely cheap rates at Lloyd's this year.

Non-marine underwriters expect the usual problems with liability business from the U.S., but Mr. Prentice considers the outstanding scene the marine market, where he foresees a big shake-up soon. "The great excess of worldwide capacity for marine cover has been driving rates down for the last four or five years," he said. "The same applies to the aviation market, and in both these fields the chickens will come home to roost soon. It doesn't apply so much in the U.S., but a lot of people in other corners of the globe will find their cut-rate policies are going to cost them a lot of money. Then we will start to see some of the new competitors to the London market disappearing into the background."

On the non-marine side, the top underwriters at Lloyd's are holding rate levels firm. Their strength often triumphs over competition from other centers. This was evident recently when one of the biggest reinsurance companies in the U.S. sought additional protection in London to cover its facultative arrangements with direct U.S. insurers. It was satisfied with the terms London offered and accepted them.

Viewing future capacity needs, Lloyd's chairman Ian Findlay said, "It's still essential for Lloyd's to expand its membership if it is to provide the capacity needed to underwrite the immense values predicted for the future. There will be a continuing need for Lloyd's to provide reinsurance cover for developing countries who wish to have their own insurance organizations. Ideally, there should be a balance at Lloyd's between direct writing and reinsurance cover." ■

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Lloyd's eyes marine line

LONDON—Marine insurers expect another year of intense competition in spite of mounting casualties from all quarters.

Gordon Hutton, the new chairman of Lloyd's Underwriters' Assn. representing its marine market, considers the extended use of large scale deductibles by shipowners and the growing use of captives strong threats to future developments.

"If primary insurance is taken away from the market and we are left with only high-risk catastrophe cover, our functions will suffer," he predicts. Likewise, B. Keith Williams, chairman of the Institute of London Underwriters, points to the need to keep balanced portfolios.

The trend has been apparent in the shipping industry for some time. But now many leading participants in the U.K. market are trying to ward off future expansion on these lines by reminding captives and mutual pools that they rely on the commercial market for reinsurance protection.

Some are prepared to accept that retention of deductibles can make shipowners more safety-conscious in the first place, which goes a long way to reducing claims.

But the fear that shifting premium income to captives or mutual pools can affect expense ratios is becoming the greatest worry to marine insurers.

Whether they can persuade insurance buyers to reverse the trend is uncertain. But many underwriters are trying to spread the message that at least there must be discipline within their own ranks to preserve rating levels. ■

Europeans steer clear of product liability storm

By JERRY GEISEL
and MARY ELLEN McKEE

International

BRUSSELS—Even if the European Economic Community adopts its long delayed directive imposing strict liability on manufacturers, European experts doubt if product liability litigation will develop in Europe as it has in the U.S.

Product liability observers are finding, however, that U.S. courts are using long arm statutes to pull foreign manufacturing companies before U.S. courts for product liability suits.

Several factors in Europe will hold down the size and frequency of product liability awards there, notes European product liability observer Frank A. Orban III, international counsel at Armstrong Cork Co. of Lancaster, Pa. In Europe, contingency fee arrangements generally are prohibited, which holds down the number of suits. And judges, not juries, hear cases and decide the amount, if any, of damages to be awarded. Insurers say juries tend to be more sympathetic to an injured plaintiff and award more.

Injured European consumers and workers are covered by well developed national health insurance and workers compensation plans, Mr. Orban noted. As a result, there is no need to sue to cover the cost of medical and hospital bills.

The European's way of looking at a defective product is quite different from that in the United States, Mr. Orban continued. A term used in Germany for a defective product sums up the European attitude. Germans call a defective product an "ausreiser" or renegade, which in effect means it is a product that went berserk.

European courts also impose manufacturing standards in determining liability that fall far below those imposed by U.S. courts. And European lawyers are not as well versed in technical manufacturing details as lawyers found in American law firms, Mr. Orban said. In Europe, it is also difficult for a plaintiff attorney to gain access to extensive safety and accident information crucial to developing product liability cases. European governments and companies are much more secretive, Mr. Orban says.

European lawyers view compensation as the sole reason for filing a product liability suit. In the U.S., product liability litigation is seen as a means of encouraging corporations to implement risk prevention programs to prevent future accidents, rather than just compensating the accident victim. And European consumers have not caught on to the compensation for non-economic loss, Mr. Orban observed. Punitive damages generally don't exist and pain and suffering awards are rare in Europe, and then small.

Mr. Orban sees U.S. courts pulling foreign manufacturing companies into American courts for defective products sold in the U.S. as the "sleeping tiger" of the product liability situation in Europe.

A recent case involved two American men who bought a chain for a hoist in Arkansas and were seriously injured when the chain snapped.

The chain was traced to an Italian manufacturer and eventually the Americans tried to sue the Italian company.

The question that arose from the case was: Does an American court have the authority to reach out under the long arm statutes and make

a European company stand trial in the United States?

The appellate court in Arkansas said yes and many other courts have made a similar ruling, Mr. Orban noted. As long as a party had minimal business contacts with the U.S., a call to the American courts was permissible. U.S. courts believe, Mr. Orban said, the Italian manufacturer knew the chances that the product would eventually reach the U.S. were high, thus giving the foreign manufacturer minimal business contacts or potential minimum business contacts with the U.S. ■

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International

and South Africa as well as correspondent facilities in other regions, Aetna/Generali offers a centrally controlled network of local insurance facilities with full local service plus international pooling through the Generali World-wide Group (GWG) plan.

Aetna/Generali also offers facilities to offshore plans through Aetna's recently established subsidiary in Bermuda and Generali's international portfolio. Aetna/Generali maintains joint regional marketing offices in New York City and London.

Contact C.C. Baldwin, director, international marketing, Aetna Life & Casualty, 151 Farmington Ave., Hartford, Conn. 06156, phone (203) 273-6776, telex 99241, or Aetna/Generali International Office, 44 Wall St., New York, N.Y. 10005, phone (212) 269-6400, telex WU 640436.

AFIA

AFIA writes all forms of overseas property, casualty, marine, accident and health and surety insurance as well life insurance in some countries. AFIA reinsurance operates in all classes except life. Branches or agencies of AFIA are located in 80 foreign countries with regional control offices at various locations around the world. The North American Operational Control Center and AFIA Reinsurance are headquartered in New York City.

AFIA president is Harold Christensen, AFIA World Headquarters, 1700 Valley Road, Wayne, N.J. 07470, phone (201) 696-0200. AFIA Reinsurance director is Lance LaBianca, 110 William St., New York, N.Y. 10038, phone (212) 732-9070. William Crowley is in charge of North American production and underwriting, 110 William St., New York, N.Y. 10038, phone (212) 964-4990.

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Alexander & Alexander, international insurance brokers, provides risk management counseling and insurance related services including risk surveys, risk analysis, loss control engineering, cost studies, claim and loss assistance, safety procedures and programs and marine average adjusting.

A&A's foreign credit division analyzes and places political risk insurance and offers risk analysis for contingencies related to overseas investment. Its international employe benefit services division provides counseling and insurance services.

Contact Peter F. Reid, A&A international division headquarters, 1185 Ave. of the Americas, New York, N.Y. 10036, phone (212) 575-8000, telex 66-6566 (international only) or 12-5687. The coordinating office for Europe, Middle East and Africa is A&A, Aldwych House, Aldwych, London WC 2B 4HH, United Kingdom. William E. Bray, managing director, phone 01-831-6516, telex 22247 ALEX UK G, cable ALEX ALEX.

Andrew Edwards

Andrew Edwards & Co. Inc., international reinsurance intermediaries and consultants, places reinsurance throughout the world through its network of correspondents. Contact Andrew J. Barile, president, Andrew Edwards & Co. Inc., 99 John St., New York, N.Y. 10038.

Arkwright-Boston

Arkwright-Boston Insurance offers services to multinational companies with both coverage and engineering geared to HPR properties. The coverage offered includes fire and EC, boiler and machinery, DIC, GAP, inland marine and ocean cargo. This service is provided through Factory Mutual International, a jointly owned affiliate based in London with major offices in Paris, Frankfurt, Brussels and Melbourne. Factory Mutual International provides the legal means to insure properties according to HPR standards.

For more information, contact the nearest Arkwright-Boston office in Atlanta, Boston, Cleveland, New York or San Francisco. Or contact the international division, 225 Wyman St., Waltham, Mass. phone (617) 890-9300.

International Agents Assn.

The Assn. of International Insurance Agents is a group of 35 executives from insurance agencies performing risk evaluation, claims adjusting services and insurance placement assistance overseas. Services are available to any client of any member. Agencies represented include: Fry-Zelnicker-Luker Insurance Agency Inc. (Alabama), Olliver/Pilcher & Associates (Arizona), Rebsamen Insurance (Arkansas), Robson, Cavnac & Fletcher (California), Cal-Surance Associates Inc. (California), Crestwood-Livermore Agency (California), Putnam, Knudsen & Weaver Inc. (California), Warren & Sommer Inc. (Colorado), Longmont Realty & Insurance Co. (Colorado), Gallagher-Cole Associates (Florida), Oberdorfer Insurance Associates Inc. (Georgia), Diversified Insurance Brokers (Idaho), Alper Services Inc. (Illinois), Insurance & Risk Management (Indiana), Insurance Management Associates Inc. (Kansas), Nahr, Turner, Vaughan & Landrum Inc. (Kentucky), Hartwig, Moss Insurance Agency Inc. (Louisiana), Consolidated Insurance Center Inc. (Maryland), J. Herbert Sullivan Insurance Agency Inc. (Massachusetts), Brandow, Howard, Kohler & Ro-



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For further information, contact the International Administrative Office of the AIIA, 368 Cedar Lane, Teaneck, N.J. 07666, phone (201) 892-1700.

Assurex

Assurex International is a worldwide corporation of insurance brokers and agents with over 70 offices in major cities in the United States, Canada, Mexico and 16 countries in Europe, South America and the Pacific. It provides risk management, insurance and related financial services to clients.

For information on the international insurance services available through the partner firms, contact Robert P. Ashlock, executive vp, Assurex International, 6600 Busch Blvd., Suite 208, Columbus, Ohio 43229, phone (614) 888-4869, or call your local Assurex partner.

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George Betterley Consulting Group has been consulting multinational companies on risk management for over 40 years. This firm offers analysis of risks, loss prevention and loss funding procedures, including utilization of captive insurance companies. Evaluation of local country insurance programs and services are also available. Operational audits include organizational structure and administrative systems.

Contact George M. Betterley, George Betterley Consulting Group, 200 Clarendon St., Boston, Mass. 02116, phone (617) 267-4300.

Betterley Risk Consultants

The staff of D.A. Betterley Risk Consultants Inc., a management consulting firm established in 1932, provides assistance to management in the identification, control and evaluation of funding for property and liability risks. Services include feasibility studies, evaluation of risk management systems and funding strategies, design of loss control and reporting mechanisms and implementation assistance for corporate, institutional and governmental organizations in North America, Europe and South America.

Contact Delbert A. Betterley, president, D.A. Betterley Risk Consultants Inc., One Worcester Plaza, 446 Main St., Worcester, Mass. 01608, phone (617) 754-1704.

Billig & Associates

Billig & Associates, mass marketing specialists, offers services in all English speaking countries. Contact Thomas C. Billig, 318 W. Franklin Ave., Minneapolis, Minn. 55404, phone (612) 874-8402.

CNA

CNA Insurance has working cooperative agreements with the Winterthur Insurance Group, Switzerland; the Norwich Insurance Group, Great Britain, and the Chiyoda Insurance Group, Japan. The firm provides life and non-life insurance and services in over 70 countries.

Contact Richard P. Hoskin, manager of Multinational Insurance Services, National Accounts Marketing Division, CNA Insurance, CNA Plaza, Chicago, Ill. 60685, phone (312) 822-5337.

CU Risk Management

Commercial Union Risk Management Ltd. is a subsidiary of Commercial Union Assurance formed to provide worldwide risk management services. It uses specialists with skills in technical subjects such as chemical and civil engineering, industrial hygiene, environmental science, crime prevention, computer security, industrial security, accounting and asset appraisal.

Contact the London or Boston offices of CU. In London, phone Pat McNally at 01-283-7500; in Boston phone Dick Lapham at (617) 725-6028.

Blades Group

The Blades Group, headquartered in Houston, is a mini-conglomerate of insurance related companies. The parent company, J.H. Blades & Co. Inc., acts as insurance managers and underwriters for American insurers and as correspondent underwriters at Lloyd's and other foreign insurance companies.

The group handles all classes of insurance and reinsurance, specializing in package policies and insurance for financial institutions and the oil and gas industry. In addition, the group consults on captive insurance programs and provides excess insurance over self-insured and captive insurance programs.

The group's international business is concentrated in Bermuda. J.H. Blades & Co. (International) Ltd. acts as reinsurance intermediaries and managing general agents. It owns J.H. Blades & Co. Pte. Ltd. in Singapore, which is available to accounts in the Far East. The group also has a 50% interest in a London based broker, St. John's Insurance Co. Ltd., a Bermuda-based member of the group, writes insurance and reinsurance on an international basis. It operates Blades management division, which provides management, underwriting and claims services for Bermuda insurance companies.

Contact J.H. Blades & Co. Inc., P.O. Box 22003, Houston, Tex. 77027, phone (713) 526-6551, telex 775426 (BLADES HOU), or in Bermuda, P.O. Box 691, Hamilton 5, Bermuda, phone (809-29) 5-0169, telex 3280 (BLACO BA).

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For more information, contact Stephen L. Wyss, Carbonel & Associates Inc., 888 Seventh Ave., New York, N.Y. 10019.

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For further information, contact Martin Farrell, assistant vp and regional manager for North America, The Continental Insurance Cos. 80 Maiden Lane, 19th Floor, New York, N.Y. 10038, phone (212) 374-2300.

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Corroon & Black Corp., international insurance brokers, provides risk management, insurance and reinsurance services on a worldwide basis through its own domestic offices, whose personnel are experienced in international insurance; Glanvill Enthoven & Co. Ltd., a London-based international broker in which Corroon & Black has a substantial equity and which has 33 offices in the United Kingdom and abroad, and through correspondent offices in various countries. Through its affiliate Corroon & Black-Cockburn Ltd. in Bermuda, complete offshore captive management services are provided, including involvement in unrelated risks and broking services with the Bermuda market.

Contact Crawford Black, senior vp, Corroon & Black Corp., 150 William St., New York, N.Y. 10038, phone (212) 732-4900, telex 12-8283, or Hunter Armistead, senior vp, Corroon & Black

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Dale & Co. Ltd. is a 100-year-old Canadian broker with offices in Canada's principal cities. The firm functions as a Lloyd's broker. Dale provides property engineering services, with a staff of professional engineers and regional engineering offices in Toronto, Montreal and Vancouver. Dale operates its own ocean marine pools. Its aviation department uses all North American and British markets.

Contact the executive office, P.O. Box 18, Toronto Dominion Centre, Toronto, Ontario, Canada M5K 1B2, phone (416) 366-4645.

De Lima Internacional S.A.

With 18 offices in eight countries and corre-

spondents throughout the hemisphere, De Lima Internacional is the largest and fastest growing Latin American insurance broker. It concentrates its activities in northern South America, Central America and the Caribbean. Its principal clients are U.S. and European multinational companies. All of its offices have bi-lingual or tri-lingual management and it has qualified loss prevention engineers and employ benefit consultants on its staff. It operates in the following countries, the numbers following each country indicating the number of cities where offices are located: Colombia (8), Ecuador (4), Honduras (2), USA, Guatemala, El Salvador, Nicaragua and the Dominican Republic.

Inquiries can be directed in the U.S. to W.J. Manson at P.O. Box 363, Rumson, N.J. 07760, phone (201) 747-1540 or in Colombia to Ernesto De Lima, Apartado Aereo 165, Cali, phone 894-111.

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Contact Ms. Meegan, Dietz International, 116

John St., New York, N.Y. 10038, phone (212) 233-4228 or (800) 621-7725 Ex. A022.

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Contact Ted E. Davidson or Thomas W. Corbett, vp, Robert F. Driver Co. Inc., Suite 418, 1600 Dove St., Newport Beach, Calif. 92660, phone (714) 955-0270.

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FM Insurance Co. Ltd., known as Factory Mutual International, is the international arm of the Factory Mutual System, insuring over 1,100 industrial locations in more than 50 countries. The company offers property and business interruption insurance and comprehensive engineering services, primarily to foreign subsidiaries of North American policyholders.

Contact John J. Carey, managing director, Kingsgate House, 66-74 Victoria St., London, SW1E 6SQ, phone 01-828-7799, telex 99 919468. Other offices are located in: Australia, Fawcner Centre, 12th Floor, 499 St. Kilda Road, Melbourne, Victoria 3004, phone 267-4066, telex 31346; Belgium, 150 Chaussee de la Hulpe, Brussels B1170, phone 660-4930, telex 25194; France, 21-23 Rue Vernet, 75008 Paris, phone 723-7822, telex 611687; Germany, 6000 Frankfurt, Eschersheimer Landstrasse 53, phone 611-59-03-59, telex 416931.

FM Research Corp.

Factory Mutual Research Corp.'s basic and applied research departments apply science and technology for the conservation of life and property. The approvals division evaluates industrial fire protection and other loss prevention equipment.

For the research division services, contact Joseph L. Buckley, manager contract services, 1151 Boston Providence Turnpike, Norwood, Mass., phone (617) 762-4300. For approval services, contact Philip E. Johnson, manager approvals division, at the same address. Services are available on a contract basis worldwide. Offices of Factory Mutual International, an affiliate, are in London, Brussels, Frankfurt, Netherlands, Melbourne and Paris.

First Risk Management

First Risk Management Co. and First Risk Management (P.R.) Inc. provide insurance and risk management advisory services for American firms with international operations and to foreign firms with international exposures. International experience spans 20 years and projects during that time have involved 29 countries. First Insurance Management has a service office in Copenhagen and an office in San Juan, Puerto Rico.

Contact Leonard J. Silver, president, 835 Glenside Ave., Wyncote, Pa. 19095, phone (215) 927-3404, cable RISKCONTROL Wyncote, Pa.

Frank B. Hall Overseas Inc.

Frank B. Hall & Co. Overseas Inc., a subsidiary of Frank B. Hall & Co. Inc., is a multinational broker with 55 Hall offices in 21 overseas countries. Associate brokerage relationships have been established over the years to render service in those areas where there isn't a Hall office. The recent affiliation with Leslie & Godwin in England has strengthened the network of locations and personnel.

Hall offices are located in the following countries: Argentina, Australia, Bermuda, Brazil, Canada, England, France, Germany, Greece, Hong Kong, Iran, Ireland, Italy, Mexico, New Zealand, Panama, Philippines, Saudi Arabia, South Africa, Spain and Venezuela.

Contact Francis A. LeFurgy, executive vp, Frank B. Hall Overseas Inc., 549 Pleasantville Road, Briarcliff Manor, N.Y. 10510, phone (914) 769-9200, telex 137404 996505, cable HALLCOY-BRFF.

John Hancock

John Hancock Mutual Life Insurance Co.'s international group program (IGP) is an international employee benefits facility for multinational corporations. It comprises 25 major life insurance companies, covering more than 40 countries, organized and managed by John Hancock of Boston. IGP aims to reduce employee benefit costs through international pooling and administrative cost controls for the parent, without sacrificing the quality of local service to the subsidiaries.

Contact Derek Chilvers, John Hancock Place, Boston, Mass. 02117, phone (617) 421-2168. In Brussels, contact Jozef De Mey, John Hancock International Services S.A., Rue Montoyer, 31-Box 4, 1040 Brussels, Belgium, phone 513-89-15.

Hewitt Associates

Hewitt Associates provides consulting services worldwide on compensation, employee benefits, communication and related personnel matters. The firm's international consulting service will assist North American multinational organizations in developing and implementing total compensation programs for employees located outside the U.S., including U.S. expatriate, local national and third country national employees. It also consults on managing the actuarial and other financial aspects of employee benefits and compensation overseas and on communicating with employees located outside the U.S. A subsidiary of Hewitt Associates, Management Compensation Services Inc. (MCS), specializes in compensation surveys and analysis.

Contact William R. Pulliam, partner, international services, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015, phone (312) 295-5000.

Industrial Risk Insurers

Industrial Risk Insurers (IRI) specializes in fire insurance and advisory fire protection engineering services for industrial, oil and petrochemical risks. Over 500 subsidiary locations of North American policyholders in more than 50 countries are now insured by IRI. Regional offices are located in Hartford, Chicago and San Francisco with 29 field offices located in large cities throughout the U.S. IRI is affiliated with Canadian Industrial Risk Insurers (CIRI) and also provides services to American Nuclear Insurers (ANI).

Contact R.B. McClelland, vp, 85 Woodland St., Hartford, Conn. 06102, phone (203) 525-2601, telex 9-9349. In Canada, contact Ronald Berler, general manager, 180 Dundas St. West, Suite 2405, Toronto, Ontario M5G 1Z8, phone (416) 595-0155. In Europe, contact R.E. Sells, Avenue Montjoie 142, Boite 9, 1180 Brussels, Belgium, phone (02) 347-0972, telex 25374.

Insurance Buyers' Council

Insurance Buyers' Council Inc. is an independent risk management and insurance consulting firm in business for over 30 years and providing services on a fee basis. The staff includes six Chartered Property Casualty Underwriters, four Associates in Risk Management and a Fire Protection Engineer. The staff of twelve consultants provides services in risk management, property and casualty insurance, self-insurance and captive insurance studies and surveys and investigation of the coverages and exposures of the client's entire field of employee benefit programs. Preparation of competitive quotations and the subsequent analysis of them is also available.

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Contact Philip L. Richey, vp, INA International Corp., P.O. Box 7728, Philadelphia, Pa. 19101, phone (215) 241-4182, telex 834442, cable NORAMA Philadelphia.

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Insurope, a multinational network of leading insurance companies operating in 25 countries, provides coordination of benefit plans for multinational corporations and their foreign subsidiaries. This coordination is free of charge and offers information about local benefit practices, local implementation with central control, regular reporting and overall cost reduction through multinational pooling. Insurope companies are also represented in the U.S.

Contact the Insurope Secretariat, 45 Boulevard Bischoffsheim B7, 1000 Brussels, Belgium, phone 02-217-81-63, telex 24659.

ICC of RIMS

The international cooperation committee of the Risk & Insurance Management Society has a principal responsibility liaison with counterpart organizations overseas. Also, the committee is available to assist those interested in developing a risk/insurance management association in a particular country.

The new membership roster of ICC includes: R.E. Abrahamson of Control Data in Minneapolis as chairman, N. Chanzis of American Standard in New York, H. Hines of Texas Instruments in Dallas, H. Koller of NCR in Dayton, R. Mateos of Mexicana Airlines in Mexico City, W. Mather of Gillette in Boston, E. Russell of Alcan in Montreal, R. Soper of Levi Strauss in San Francisco and R. Spencer of Fuqua Industries in Atlanta.

Inquiries to the committee should be first directed to Risk & Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017.

ISC

The International Service Corp. is a wholly owned subsidiary of INA Corp., headquartered in Philadelphia, Pa. ISC was formed to render selected risk management services including all insurance related services worldwide. ISC services include, but are not limited to: claim management services; recovery and salvage services; marine technical services; loss prevention services; loss control services, including rehabilitation; computerized loss analysis services; education/training programs in loss control, and techniques and rehabilitation.

ISC covers the world by maintaining regional head offices in Brussels, London, Tokyo, Singapore, Sydney and Coral Gables, Fla. ISC also maintains 30 branch offices abroad from where the services of about 350 independent representatives are coordinated.

Insurance companies, self-insurers and brokers are invited to contact ISC as follows: In the U.S. and Canada, ISC World Head Office, John H. Wansink, 1600 Arch St., Philadelphia, Pa. 19101; phone (215) 241-4629, telex 83 4442, cable Norama; in the United Kingdom, ISC Regional Head Office—U.K., Peter Kay, INA House, 8-11 Lime St., London EC 3M 7NA England, phone 01-626-9321, telex 886860; in Europe/Middle East/Africa, ISC Regional H.O. Europe, Gary L. Spurgin, regional director, 9-11 Rue Belliard, Brussels 1040, Belgium, phone 5136870, telex 23637; in Japan and Korea, ISC H.O. Tokyo, K. Osumi, Sumitomo Seimei Yaesu Building, 2-1, Yaesu 2-chome chuo-ku, P.O. Box 961, Central Tokyo, Japan, phone 273-1071, telex 25962; in Southeast Asia, ISC in Singapore, P.H. Lim, ISC, 15th Floor, Clifford Centre, Room 1501, Raffles Place, P.O. Box 237, Singapore, B.C., phone 433838, telex 24236; in Australia and New Zealand, ISC in Sydney, R.M. Cross, ISC, 80 Alfred St., Milson's Point (Postcode 2061), ISC P.O. Box 38, Sydney, Australia, phone 929-4460, telex 24789; in the Latin America Regional Office, ISC—LARO, Alberto Pochet, ISC, The Penthouse-Douglas Centre, 2600 Douglas Road, P.O. Box 341396, Coral Gables, Fla. 33134, phone (305) 442-4660, telex 514756.

Fred S. James

Fred S. James & Co., international insurance brokers, is presently serving clients worldwide through a network of owned and correspondent offices located in over 40 countries. Minet James International Ltd., jointly owned by London-based Minet Holdings Ltd. and Fred S. James, employs over 600 professionals outside of the U.S., Canada and the U.K.

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Fred S. James's international staff operations are in New York, Chicago, Los Angeles and Atlanta. Multinational services include captive insurance management and reinsurance service operations.

Contact Jonathan M. Chettle, vp, 55 Water St., New York, N.Y. 10041, phone (212) 747-6600, telex W.U.I. 667668.

JLS

The JLS Group Inc. specializes in political risk insurance services, including the risks of confiscation, nationalization, expropriation and contract frustration indemnities. Additionally, services for captive insurance companies are performed, including feasibility studies. JLS also offers multinational corporations risk management and insurance brokerage services on a coordinated, worldwide ba-

International

sis, including employe benefits, actuarial and pension services.


Contact Harvey Malleme, vp, The JLS Group Inc., 437 Madison Ave., New York, N.Y. 10022, phone (212) 759-1600, telex 426233 (JLSCO).

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Contact Johnson & Higgins, 95 Wall St., New York, N.Y. 10005, phone (212) 482-2000, telex 127873, cable KERODEN.

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Kemper International Insurance Co. underwrites worldwide outside the U.S. and Canada. It is the overseas company of the Kemper Group's new national international department which specializes in the worldwide insurance coverages for large risks. All property and casualty lines are offered, with special emphasis on engineering related lines, such as HPR or boiler and machinery, and large casualty insurance risks. Kemper International offers loss control services in Western Europe through KEMCI S.A.

Contact David B. Mathis, president, Kemper International Insurance Co., Long Grove, Ill. 60049, phone (312) 540-2630, telex: 28-2501. In Europe, Kemper S.A., Quai de l'Ourthe 44/021, B-4020, Liege, Belgium, phone (041) 42-76-40.

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telex 41709; also, Kemper S.A., Rue de la Loi 227, B-1040, Brussels, Belgium, phone (02) 230-33-05, telex 63830. KEMCI S.A., Quai de l'Ourthe 44/021, B-4020, Liege, Belgium, phone (041) 42-76-40, telex 41709. In Australia, Kemper Insurance Co. Ltd., P.O. Box 499, 53 Walker St., North Sydney 2060 NSW, Australia, phone 92-5100, telex 20555. In Bermuda, Seven Continents Insurance Co. Ltd. and Kemper Management Co. Ltd., P.O. Box 1234, Church St., Hamilton 5 Bermuda, phone (809) 292-5105, telex 3570. In Brazil, Grupo Kemper de Seguros, Caixa Postal 530, 20000 Rio de Janeiro, R.J.—Brazil, phone 231-98-20, cable INLOYD, Attn: R.H. Jordan.

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Ch. Le Jeune Ltd., insurance brokers headquartered in Antwerp, Belgium, operates a branch office in Brussels and several offices in Central Africa and maintains a network of correspondents in major European business centers. With 130 years of experience in insurance brokerage, the company has diversified from its original specialization in marine risks in

order to provide a full range of protection and counseling service.

The main areas of activity include all forms of corporate property, casualty and marine insurance together with all aspects of employee benefit plans. The company is especially interested in serving the needs of American, British, Canadian and other multinational corporations operating in Belgium. The firm's Belgium staff numbers 50.

Depending on individual needs, the services the company provides include reviewing and reporting on existing coverages, surveying and valuing clients' premises and plants, advising on loss prevention and control, establishing employee benefit programs tailored to suit local customs and legal requirements, drafting policy wordings offering the widest coverage, issuing regular summaries of cover in English and assisting the settlement of claims. Contact Eric Le Jeune, director, Ch. Le Jeune Ltd., Arenbergstraat 17, B-2000, Antwerp, Belgium, phone (031) 33 19 70, telex 33 039 lejeun b, cable CHARLEJEUNE ANTWERP.

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Lachance, Bertrand, Beniot & Lavingne Ltd., insurance brokers, provides multiple line facilities for property, casualty and inland marine insurance needs. Business is placed in U.S., Canadian and British markets including Lloyd's network of corresponding brokers in U.S., Canada, U.K. and France.

Contact Robert Lachance, president, Suite

303, 7000 Park Ave., Montreal, Quebec, phone (514) 279-7281.

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For further information about Marsh & McLennan's multinational capabilities, contact Richard J. Holt, vp, manager of Multinational Insurance Services, 1221 Ave. of the Americas, New York, N.Y. 10020 phone (212) 997-7803.

William M. Mercer

William M. Mercer International, a Marsh & McLennan Co., provides actuarial and employee benefit consulting services outside North America. International employee benefits consultants are located in the head office research center and worldwide coordinating office in New York and also in Chicago and Los Angeles.

William M. Mercer International has offices located overseas in the United Kingdom, Belgium, Spain, France, Germany, Switzerland, Puerto Rico, Hong Kong, Japan, Taiwan and Australia. In other parts of the world there are wholly owned Marsh & McLennan companies, joint ventures and correspondent relationships in about 40 countries.

Contact William M. Mercer International, 1211 Avenue of the Americas, New York, N.Y. 10036, phone (212) 997-7171.

Murphy Associates

Robert Murphy Associates, a human resources consulting firm, offers services to insurance clients seeking middle or senior management staff. In addition to the U.S., the firm operates in Puerto Rico, Canada, the Middle East, South America, Australia, New Zealand and England, France, Belgium and West Germany.

Contact Thomas Cook, vp, 230 Park Ave., New York, N.Y. 10017, phone (212) 661-0460.

National Associates

National Associates Inc. of Texas, an independent consulting firm, provides employers in the Southwest with counseling, planning and guidance in the development of employee benefit packages. Employing the skills of actuarial science, data management and effective communication systems, National Associates is the architect of benefit design.

Contact Thomas F. Kistner, National Associates Inc. of Texas, 3212 Smith St., Suite 208, Houston, Tex. 77006, phone (713) 526-3125.

NIARS Corp.

NIARS Corp. offers the official NAIC model laws, regulations and guidelines service and the National Insurance Advertising Regulation service in all English speaking countries.

Contact Del Sachwitz or James F. Billig, NIARS Corp., 318 West Franklin Ave., Minneapolis, Minn. 55404, phone (612) 874-1800.

Philadelphia Manufacturers

Philadelphia Manufacturers Mutual Insurance Co. offers coverage for multinational firms throughout the world through FM International Ltd. The policies offer the same comprehensive coverage offered in North America.

Contact William F. Moore Jr., vp, Philadelphia Manufacturers, P.O. Box 824, Valley Forge, Pa. 19482, phone (215) 687-8150.

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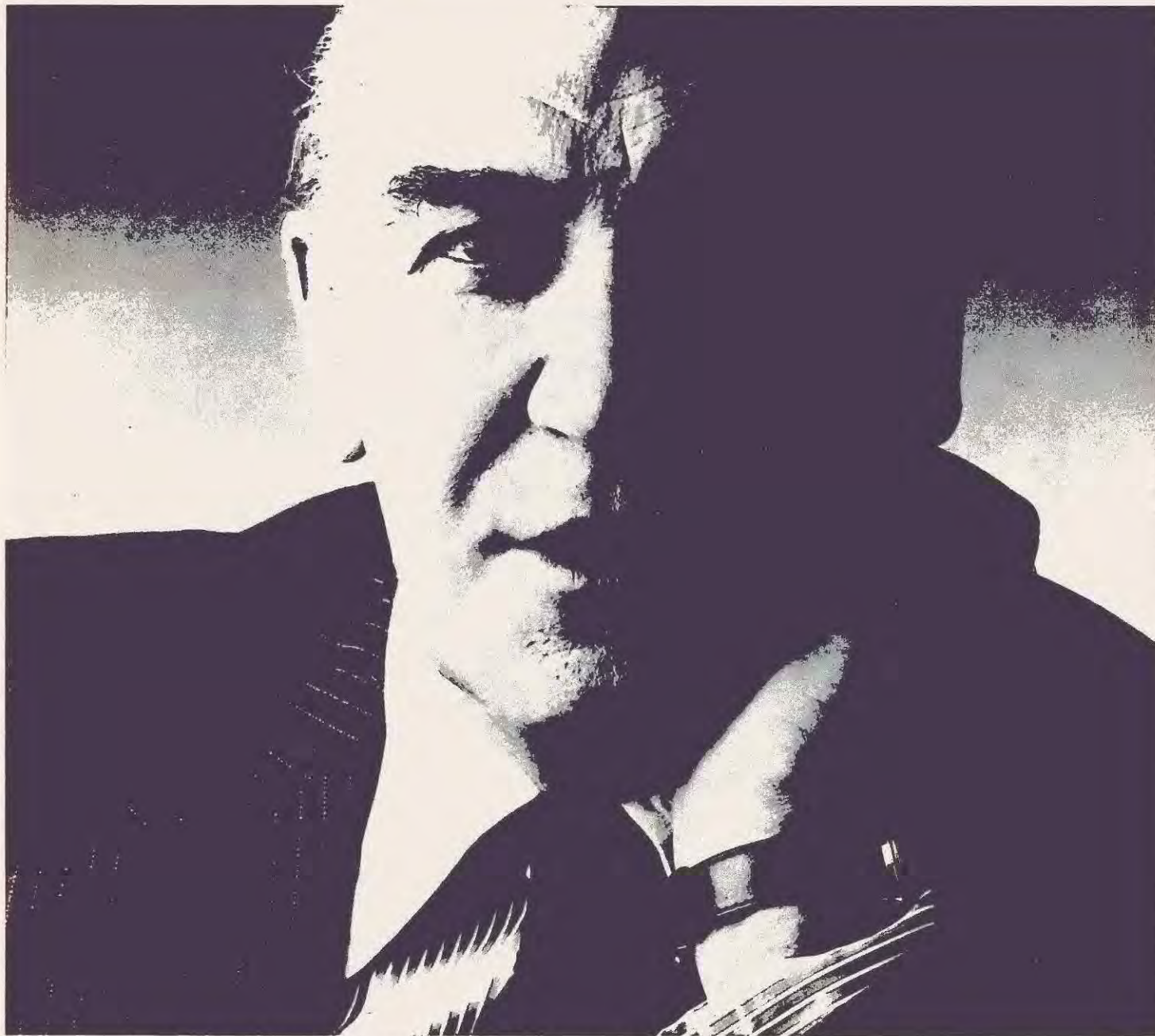
Contact Garland R. Vance, assistant vp, Pinkerton's Inc., 100 Church St., New York, N.Y. 10007, phone (212) 285-4856. In Canada, Pinkerton's offers security and investigative services through Pinkerton's of Canada Ltd. and Pinkerton's du Quebec Limitee. Contact W.M. Aird, managing director, Pinkerton's of Canada Ltd., 15 Toronto St. Toronto, Ontario, Canada M5C 2E3, phone (416) 362-6811.

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Protection Mutual Insurance Co. one of the companies comprising Factory Mutual International in London, England, believes U.S. policyholders require the same underwriting and engineering approach for their overseas properties that are used in the U.S. This is done using Factory Mutual standard HPR fire and supplemental perils forms adding difference in conditions and boiler and machinery consistent with the practice of insurance and loss prevention engineering in each foreign country. To supplement the overall international insurance program, GAP contracts are negotiated as necessary.

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Contact William R. Linhares, assistant vp manager international operations, Protection Mutual Insurance Co. 300 S. Northwest Highway, Park Ridge, Ill. 60068, phone (312) 825-4474.



William Bray, managing director Europe, tells how A&A works from a client's point of view:

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Contact John N. Cahalin, international benefits manager, Prudential Plaza, Newark, N.J. 07101, phone (201) 877-6030, telex 138942.

Public Adjustment Bureau

Public Adjustment Bureau Inc. provides international insurance adjusters and loss consultants representing first party claimants including time element, crime, inland and ocean marine, fidelity as well as all forms of property damage.

Contact Frank A. Weg, Public Adjustment Bureau Inc., 116 John St., New York, N.Y. 10038, phone (212) 267-6070.

Reed Stenhouse

Canadian-based Reed Stenhouse Cos. Ltd. offers insurance and reinsurance brokerage and risk management services through 152 offices in 29 countries worldwide. Related services include loss prevention engineering, average adjusting, claims settlement, computerized risk analysis and employe benefits.

Reed Risk Management Inc., a subsidiary in the U.S., offers a worldwide financial risk analysis service. Sten-Re Ltd., headquartered in London, provides reinsurance facilities. The company is represented at Lloyd's by its subsidiaries Wright Deen & Co. Ltd. and Sir William Garthwaite (Insurance) Ltd.

Contact J.W. Whittall, president, P.O. Box 250, Toronto-Dominion Centre, Toronto, Ontario M5K 1J6, phone (416) 868-5780, telex 06-219-611. Canadian operations are conducted by Reed Shaw Stenhouse Ltd. Contact C.G.E. Gyles, president, same address and telex as above, phone (416) 868-5677. In the U.S., Reed Shaw Stenhouse Inc. is headquartered in New York. Contact A.F. Salvatore, president, 1270 Avenue of the Americas, New York, N.Y. 10020, phone (212) 397-0828, telex 12-5074. Operations outside the Western Hemisphere are headed by H. Houghton, managing director and chief executive, A.R. Stenhouse Reed Shaw & Partners Ltd., Two South Place, London, EC2P 2DX, England, phone (01) 628-6011, telex 8813371.

RIMCO

RIMCO Inc. is an international risk management consulting firm offering advisory services in the area of insurance and risk management. In addition to its home office in Dallas, Tex., RIMCO also has an affiliate, RIMCO Interamericana, which is active in Latin America.

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Contact William S. McIntyre, president, RIMCO Inc., Suite 350, 10300 North Central Expressway, Dallas, Tex. 75231, phone (214) 363-2451 or (800) 527-6806, telex 73-0849.

Risk Planning Group

Risk Planning Group Inc. is an international research and consulting firm which assists organizations in risk management, insurance and loss control problems. The main office is in Darien, Conn., with an affiliate office in France and associate consultant relationships in Belgium, England, South Africa, the Philippines and Australia.

Services offered to international clients include overall reviews of risk management, insurance and loss control programs, self-insurance studies and captive insurance feasibility studies. Also offered are administrative studies of the risk management function, including job descriptions, training, risk/insurance management manuals and communications; loss qualification and loss and risk forecasting; risk and insurance management studies for companies which are merging or acquiring other companies; workshops and seminars on risk management topics, and risk management and insurance counseling for associations and groups.

Contact H. Felix Kroman, president, Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820, phone (203) 655-9791, telex 996358; or Jean-Paul Decottignies, director, Risk Factoring, S.a.r.l., 120 Avenue Charles DeGaulle, 92200 Neuilly-Sur-Seine, France, phone 747-11-55.

Rollins Burdick Hunter

Rollins Burdick Hunter International Inc. offers complete multinational broking, captive and risk management facilities to its North American clients through its international corporate headquarters in Chicago and international risk specialists located in its principal offices throughout the U.S. In partnership with C.E. Heath, branch offices are maintained in Tokyo, Yokohama, Seoul, Bogota, Rio de Janeiro and Sao Paulo. In a separate partnership arrangement with C.E. Heath & Co. Ltd. and Hudig-Langeveldt, branch offices of HLR Holdings Ltd. are located in Kuala Lumpur, Singapore, Bangkok and Hong Kong. HLR Holdings Ltd. also has several reinsurance and underwriting agencies in Southeast Asia and an equity interest in a Philippine broking company.

RBH has correspondent relationships with C.E. Heath and Hudig-Langeveldt subsidiaries in all major countries of the world.

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International

protection and safety engineering, statistical services, feasibility studies and account management.

Contact Henry G. Jackson, president, Rollins Burdick Hunter International Inc., 10 South Riverside Plaza, Chicago, Ill. 60606, phone (312) 454-1400.

Royal-Globe

Royal-Globe Insurance Cos. is part of an international insurance group headquartered in London which offers worldwide coverage in more than 70 countries, writes policies in 17 major languages and collects premiums and pays losses in 121 currencies.

This group, known internationally as Royal Insurance, has premium income of over \$2 billion and offers local service on a worldwide basis through 750 offices.

Contact John D. Omerod, assistant secretary, or Camillo C. Molano, manager, international department, 150 William St., New York, N.Y. 10038, phone (212) 732-8400, telex TWX 710-5813885 (Royalglobe NYK), cable ROYAL NEW YORK.

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Services directory . . .

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Continued from preceding page and have been in business since 1895. With offices throughout the U.S. and England, they service any occurrence worldwide. They specialize in representing the policyholder in property, inland and ocean marine, fidelity and time element claims.

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ServiceMaster Industries Inc. provides disaster restoration services, including post-fire and water damage cleanup, smoke removal and large loss cleanup, on a worldwide basis. It also offers loss control consultation in property/casualty areas.

Contact Daniel A. DeBoc, ServiceMaster, 2300 Warrenville Road, Downers Grove, Ill. 60515, phone (312) 964-1300, telex Servmastr-Dove 270069; also, Brian A. Smith, ServiceMaster Ltd., 50 Commercial Sq., Freemans Common, Leicester LE2, 7SF, England, phone 44-533-548620, telex SERMAS G 341987; Bruno Schneble, ServiceMaster Operations AG, Ackersteinstrasse 119, Fostfach CH 8037, Zurich Switzerland, phone 01-565677, telex SMZ CH 59701; K. Deguchi, ServiceMaster Business Division, Duskin Co., Ltd., Sekaicho Bldg., 6-24 Nakatsu, Cyodo-Ku, 1-chome, Osaka 531 Japan, phone 06-372-8771, telex 5233361.

Swett & Crawford

Swett & Crawford Group provides insur-

ance marketing and underwriting services worldwide. The group operates exclusively through agents and brokers and assists in placing unusual or complex commercial accounts. Its principal activities include casualty property, directors and officers, marine and aviation insurance and reinsurance. Key subsidiary companies include Swett & Crawford, Harbor Insurance Co. and Surplus Line Adjusting Co.

Specialized international coverages through Swett & Crawford include excess liability on pipeline transmission, oil and gas, offshore drilling, Commercial property coverages available include electrical generating risks, underground light hydrocarbon and natural gas storage facilities and course of construction. A newly expanded political risk coverage program is also available.

The group maintains 15 regional and branch offices in the U.S. along with offices in Canada and London. Swett & Crawford also owns 20% of the Lloyd's broker Harris & Dixer.

For further information, contact Roy B. Oddy, group vp, 2001 Bryan Tower, Dallas, Tex. 75201, phone (214) 742-3131, telex 75-2285.

The Travelers

The Travelers Insurance Co.'s international department offers a full range of insurance programs to multinational corporations. Coord-

inated coverages for both property/casualty and employe benefits are provided. Property/casualty insurance is arranged to satisfy local legal requirements and can be consolidated into one worldwide master policy that acts as an excess and DIC cover.

For employe benefits, programs are designed to provide coverage based on local conditions and experience rating is available through The Travelers MIA Network, which operates in most of the free world countries. Pension plans for third country nationals are arranged by The Travelers Corp. of Bermuda Ltd. Funding is on deposit administration basis. Guaranteed monthly benefits are available through terminal funding contracts. The Travelers operates a liaison office in Brussels to assist clients abroad.

Contact Richard M. Murray, vp, The Travelers international department, One Tower Square, Hartford, Conn. 06115, phone (203) 277-3287, telex 99-4467, cable TRAVINCO. Also, Michael G. Sandmann, regional vp, The Travelers Corp., Rue De la Loi 83-85, Brussels, Belgium, phone 230 11 25, telex 84625349.

Winterthur Insurance

Winterthur Swiss Insurance Co. in Winterthur, Switzerland, offers international insurance protection for property/casualty and employe benefit plans through its own network in all Western European countries and Canada. Outside these areas, coverage can be arranged through associated companies.

Contact marketing and servicing unit, c/o CNA Insurance, CNA Plaza, NAMD, Chicago, Ill. 60685, phone (312) 822-4512. For European services, contact, international division, Winterthur Insurance, General Guisanstr. 40, CH-8401, Winterthur, Switzerland, phone (052) 85-11-11, telex 76785.

U.K. underwriter urges cohorts to participate in N.Y. exchange

LONDON—Leading U.K. insurance companies are watching establishment of the New York Insurance Exchange with growing interest.

U.K. insurers should become actively involved in the exchange, suggested Peter R. Dugdale, managing director of the Guardian Royal Exchange group, which to

date has only marginal links in the U.S.

"I would like to think that U.K. companies who already have offices in the U.S. will favorably consider taking up shares in the N.Y. Exchange," he told a conference organized by stockbrokers Laing & Cruick Shank. "Those who are only involved in a modest way in

the U.S. might consider participation in conjunction with a U.S. partner."

His own company, which has more than \$1 billion of premium income derived mainly from the U.K., Australia, Canada and Germany, is keeping an open mind on the issue, he said. "I don't suppose we will be the first company to go in from the U.K., but we are closely in touch with developments. It is far too soon yet to take any action, but we will be reviewing the matter at the right time," he disclosed.

His group's current links with the U.S. are largely through Albany Insurance Co. of New York, Atlas Assurance Co. and Royal Exchange Assurance of America.

Mr. Dugdale said that U.K. companies once held a dominant position in the U.S., he noted, but now only three—Royal, Commercial Union and General Accident—are active in a large way.

The N.Y. exchange could be exciting for a U.K. company because in recent years many U.K. companies have lost part of their world wide accounts through erosion, Mr. Dugdale stressed. There has been complete nationalization in India, Burma and Ceylon, not to mention Andean Pact legislation in South America, expulsion from Mexico, and an enforced minority position in Nigeria, Ghana, and other parts of Africa. A "new window on the world" is not likely to be lightly passed up, he suggested.

"I don't see the N.Y. exchange being a base from which U.K. companies can compete on more equal terms with Lloyd's than they do now, but it will not be a threat to their portfolios," he said. "Lloyd's has a splendid public relations department which successfully gives the impression of a monopoly in areas where some of us know that none exists. It is the concentration of capacity, particularly alternative capacity, that has given the area around Lloyd's its strength."

Derek J. Martin of the North American division of brokers Willis Faber, told the conference that a successful N.Y. exchange might provide a platform for a new reinsurance thrust by London brokers into the U.S. Most U.S. insurance groups have reinsurance programs in London, and a combined U.S. and London brokerage presence in the N.Y. exchange could be very effective.

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Legal briefs

Worker refuses surgery; wins work comp claim

The Supreme Court of Illinois held that where a workers compensation claimant was not acting in bad faith but sincerely feared additional surgery for his hernia condition, he would be entitled to total permanent disability benefits despite his refusal to undergo surgery.

Rufus Alexander was injured in the course of his employment as a janitor with Keystone Steel Co. While carrying boxes up steps, he noticed a pain in his back, down his legs and in his groin. Mr. Alexander's back was operated on.

Subsequently, Mr. Alexander consulted another physician because of severe pain. Further surgery for hernia was recommended; however, Mr. Alexander refused. Keystone terminated Mr. Alexander's employment in 1974 for refusing to undergo corrective hernia surgery. An arbitrator awarded Mr. Alexander compensation for complete disability.

The employer appealed, charging that Mr. Alexander was not entitled to permanent disability benefits because he refused to submit to the hernia operation. The court noted that the law gives the Workmen's Compensation Commission the discretion to reduce or suspend compensation where a claimant has refused treatment.

Also, the court said the claimant's refusal should be in good faith. "If a claimant's response to an offer of treatment is within the bounds of reason," the court said, "his freedom of choice should be preserved even when an operation might mitigate the employer's damages." From the testimony of several physicians, the court was satisfied that Mr. Alexander's refusal here should not deprive him of the benefits. *Keystone Steel & Wire Co. v. Industrial Com'n.*, Supreme Court of Illinois, Oct. 6, 1978 (BI/01/M.\$4)

Incontestability clause

A Delaware federal court held two insurers' defenses that the insured never became eligible for insurance and that the group life policies were rendered void by the insured's alleged breach of duty to inform the insurers of his cancerous condition were barred under incontestability provisions of the group life policies.

Walter B. Suskind was the sole proprietor of an insurance agency in Delaware. In April 1973 Suskind learned he had cancer, which caused his death a year later. During May 1973 Mr. Suskind applied for and received two group life insurance policies—one each from American Republic Insurance Co. (American) and North American Life & Casualty Co. (North American). The North American policy, with a face amount of \$50,000, had a two year incontestability clause with regard to its validity; the American policy, with a face amount of \$25,000, had a one year limit.

Each policy also had a similar time limit with regard to incontestability relating to insurability based on any statement made by the insured. Mr. Suskind did not inform either insurer that he had cancer nor did either insurer require any statement or evidence from him concerning his insurability. The effective dates of both policies were in June 1973. Neither insurer took action to contest its pol-

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

icy until March 1976 when Mrs. Suskind sued to recover the proceeds as the named beneficiary. The insurers raised defenses of fraud and ineligibility.

The court said that the key to successfully negotiating the maze of conflicting decisions with regard to incontestability clauses

Continued on page 74

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Legal briefs . . .

Continued from preceding page
 was to realize that the conflict in the cases was the result of differing views as to the meaning of an incontestability provision in the context of a group insurance policy. The court concluded that the provisions under consideration here prohibited contests as to the validity of the individual insurance under a group policy as well as the validity of the group policy itself when the period specified had expired. *Suskind v. American Republic Ins. Co.*, U.S. District Court for the District of Delaware, Oct. 2, 1978 (BI/02/M.-\$4).

Coordinating benefits

A Texas appellate court ruled that where an employee had previously recovered benefits from her employer's workers compensation carrier, she could not thereafter receive benefits under the group health policy providing coverage for non-occupational injury or disease.

Janie P. Bocanegra sued Aetna Life Insurance Co. (Aetna) seeking to recover on a group health insurance policy that provided coverage for her medical expenses incurred in a non-occupational injury or disease while she was an employee of the Clegg Co. Prior to filing this suit, Ms. Bocanegra had filed a workers compensation claim for the same injury. She believed from information received from her doctor that her pain was the result of a work related injury. Fireman's Fund Insurance Co. (Fireman's), the workers compensation carrier for the Clegg Co., disputed liability but entered into a compromise settlement of \$12,000 solely for lost

wages and future impaired earning capacity. The trial court awarded Ms. Bocanegra \$4,500 from Aetna for medical expenses.

On this appeal, Aetna argued that by virtue of the employee's workers compensation claim she was precluded from making a claim against Aetna. The court agreed, emphasizing that Ms. Bocanegra took one position with the workers compensation claim that her injury was work related and here took the opposite view that her medical expenses were the result of non-occupational injury or disease. "The remedies in the two causes of action," the court said, "are repugnant and inconsistent." *Aetna Life Ins. Co. v. Bocanegra*, Court of Civil Appeals of Texas, Sept. 13, 1978 (BI/03/M.-\$4).

Storekeepers liability

An insured under a storekeepers liability policy sued his insurer to recover a sum paid in settlement of an action against him plus the cost of defense and attorneys fees. The Supreme Court of Oregon ruled that if a complaint against an insured was ambiguous and yet may be reasonably interpreted to include an incident within the coverage of the policy, there was a duty to defend.

The storekeepers liability policy issued by the St. Paul Cos. provided coverage for bodily injury or property damage caused by an occurrence and arising out of the maintenance or use of the insured's premises and all operations necessary or incident thereto. Occurrence was defined as an accident "neither expected nor intended from the standpoint of the

insured."

The insured was sued by a customer for an alleged unlawful repossession of a grandfather clock. When tendered the defense of this suit, St. Paul refused, claiming the suit was based on "international, willful and malicious conduct of the plaintiff." The trial court ruled for the storekeeper.

The appellate court affirmed, stating that there were no allegations in the customer's suit from which it must be concluded that the insured intentionally inflicted physical injury or emotional harm on the customer. "The insurer owes a duty to defend," the court said, "if the claimant can recover against the insured under the allegations of the complaint upon any basis which the insurer affords coverage." *Nielsen v. St. Paul Cos.*, Supreme Court of Oregon, Sept. 12, 1978 (BI/04/M.-\$4).

Murder not compensable

This was a case of first impression in New Mexico raising a question of whether the murder of an employe by a person who was not a co-employe and acting out of personal reasons was compensable within the workers compensation law. The court held that it was not.

Alicia Gutierrez filed a claim to recover benefits after her teacher-husband was murdered by another teacher's husband at a time when Mr. Gutierrez was in school but was not at work. An illicit love affair between two teachers motivated the murder. The trial court denied benefits.

At issue was whether the accidental injury arose out of and in the course of employment and whether the accident was reasonably incidental to Mr. Gutierrez's employment. The court believed that since Mr. Gutierrez was not fulfilling his duties as a substitute teacher and as he was doing nothing incidental to his work, that the injury was not in the course of his employment.

Nor did the injury "arise out of" the employment, the court said, because it was not caused by a risk to which Mr. Gutierrez was subjected by his employment. "The employment," the court said, "must contribute something to the hazard." Furthermore, the court noted that Mr. Gutierrez's assailant plead guilty to murder reinforcing the personal nature of the incident. *Gutierrez v. Artesia Public Schools*, Court of Appeals of New Mexico, Aug. 15, 1978 (BI/05/M.-\$4).

(Copies of the entire decision may be obtained by sending a check for \$4 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.)

More pension plans fall to federal care

WASHINGTON—The number of terminated defined benefit pension plans for which the Pension Benefit Guaranty Corp. (PBGC) is trustee jumped to 280 during the last three months of 1978, up from 261 plans in the prior three-month period.

The addition of 19 new plans brings the number of vested participants in PBGC trustee plans to more than 29,000 and the amount of total unfunded liabilities to be insured by PBGC to about \$143 million.

As trustee of these defined benefit pension plans, PBGC assumes control of the plans' remaining assets and responsibility for making benefit payments on a monthly basis to current and future plan retirees. PBGC guarantees through an insurance plan the benefits of participants whose pension plans terminate with insufficient assets.

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Troubled transit system buys a safety overhaul

CHICAGO—A safety assurance group, training programs and some internal reorganization is needed to improve the poor safety record of the Chicago mass transit system, a consultant says.

A two-year study by Booz, Allen & Hamilton, which cost the Chicago Transit Authority \$375,000, was begun after train collisions in January 1976 and February 1977 injured more than 200 persons. Nine other transit systems in the nation suffered only one death (in New York) and 22 injuries during the two year period 1976 and 1977.

The formation of the safety assurance group is the top priority recommendation in the Booz, Allen & Hamilton study for Chicago's mass transit administrators.

Formation of the group, would centralize and formalize CTA's safety functions—equipment maintenance, system reliability, dependability coordination and quality control—and provide the operations manager with a technical staff to monitor the overall performance of the operations unit.

The safety group, according to the study, should be responsible for the operation of an extensive data system containing information on the reliability and maintainability of equipment, availability and dependability factors, current operational standards, procedures and schedules.

Any data system used by CTA should also be a real time "on-line" system to improve the communication between the road crew and the central office, according to the safety report.

The consultant expects the data system to provide more information for decision making, reduce the storage costs for rail system information, assure consistency of all operations and reduce CTA's dependency on outside expertise.

The data system also would reduce operation costs and problems because it would identify unreliable equipment and recurring failures and tabulate maintenance performance against standards.

With a staff of three to get the system started, growing to six in two years, the cost to establish the information base is estimated at \$500,000.

In transit operations, training and safety functions should be closely coordinated, the study notes. With this in mind, Booz, Allen & Hamilton suggests the CTA should develop a refresher course in signals for motormen and transportation operating personnel and an extensive training course on all control center procedures.

CTA should consider organizing shifts to more closely coordinate the safety department and the operations training group with the maintenance and engineering departments, according to the report. These shifts, the study says, will coordinate the efforts of the operations training and the safety departments on safety training issues.

The consulting firm also recommends that CTA create a full time position to organize information that exists on the role of human factors in the overall safety function, to review all equipment specifications, to periodically assess the extent human factors affect CTA operations and to develop criteria for equipment design.

The consultant's study also recommends that the CTA:

- Improve the in-house accident investigation and analysis program.

CTA's rapid transit control center.

- Upgrade signal and communications systems—both of which have been started.

- Develop an automated system for operating personnel records with information on training history, violations, check rides, meritorious service, defect reporting, accidents and work experience.

- Issue a safety policy statement which would clearly establish purpose, responsibility and priorities in the safety program with the full endorsement of top management.

Depending on the availability of funds, CTA officials hope to implement most of the Booz, Allen & Hamilton recommendations within two years. ■

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Tax-free education benefits train, hold younger workers

By JOSEPH S. ROBINSON
Attorney-at-Law

No longer will employes have to cope with a string of complex and ambiguous rules to determine whether they'll be taxed on the value of education benefits provided by their employers.

Generally, employes won't have to tack on the value of such benefits in income so long as the benefits are furnished under an educational assistance program of the employer. However, in order to qualify, such a program must be a separately written company sponsored plan set up for the exclusive benefit of employes. In other words, a plan may not discriminate in favor of officers, shareholders or highly compensated employes.

Excludable educational assistance is not restricted to the outlay for tuition and fees at an educational institution. It also includes books, supplies or equipment paid for by the employer. It should be pointed out that while excludable educational assistance is no longer limited to job-related courses or courses that are part of a degree program, the program doesn't apply to courses involving sports, games or hobbies.

It's premature to tell how business is going to react to employe education plans contemplated by the new tax law, but they are being talked up as a potentially significant employe benefit. These programs may be a good way of retaining young people by preparing them for better jobs and might even be a good way to enhance affirmative action programs.

The underlying purpose of the new rules is to do away with the heretofore troublesome law—the often subjective business of determining whether the education outlays were aimed at improving skills required in the job or developing skills to keep the job.

Death benefit

Normally, when a widow receives a continuation of payments to which her husband was entitled during his lifetime, such benefits are included in her deceased husband's estate (I.R.C. Sec. 2039). But circumstances can dictate an exception to the rule. Here's an example:

The Board of Directors of a corporation adopted a resolution that the corporation would pay a substantial death benefit to the wife of the founder and chief executive if she survived him. The executive did not participate in the discussions or vote. He held only a small minority stock interest. A private IRS ruling holds that the present value of the benefit is not includable in the taxable estate of the executive (Letter Ruling No. 7827010).

Qualified pension plans

The tax law charges companies which maintain qualified pension plans to be vigilant regarding both legal and factual changes that may have an effect on their plans. A failure to make a necessary change in 1978, for example, may result in an IRS determination in a later year that the plan became nonqualified

as of 1978.

Keep in mind that when IRS notifies an employer that his plan is qualified, the letter states the conditions upon which qualification is granted. The IRS is always free to prospectively alter its decision with respect to the status of a plan. IRS has announced that it will not revoke a plan's qualified status retroactively, except in the following circumstances:

(a) There has been no material misstatement or omission of material facts.

(b) The facts subsequently developed are not materially different from the facts on which the determination letter was based.

(c) There has been no change in applicable law.

(d) The employer acted in good faith in reliance on the determination letter (Rev. Proc. 72-6).

Tax burdens

The Tax Foundation (a research organization) has released some interesting statistics regarding the tax burden borne by upper income persons. The figures were taken from returns filed for 1976 with the IRS.

The richest 25% of taxpayers (those with an adjusted gross income over \$17,000) footed almost 75% of the tax bill. The richest 10% (adjusted gross income over \$25,000) sprang for roughly half of the total. The poorest 10% of all taxpayers paid less than 1/10 of 1% of the total tax tab.

Whether because of better times or merely because of inflation, membership in the over \$1 million income club increased to 1,370 for 1976 from 883 for 1971.

Directors' fees

Many highly placed executives are asked to serve as directors of other companies. Some channel their fees into a Keogh Plan as a tax shelter. The Treasury has approved this procedure under the theory that those director's fees are earnings derived from self-employment (See Rev. Rul. 72-86).

But is this tax break available to a person who doubles as a director and an employe of a company and is covered by its retirement plan for employes? A recent private ruling approved a Keogh Plan set up by an individual who serves as the president and director of a bank (Letter Ruling 7839059).

INA expands foreign network

PHILADELPHIA—The INA Corp. has formed two new international insurance subsidiaries in Brazil and Australia.

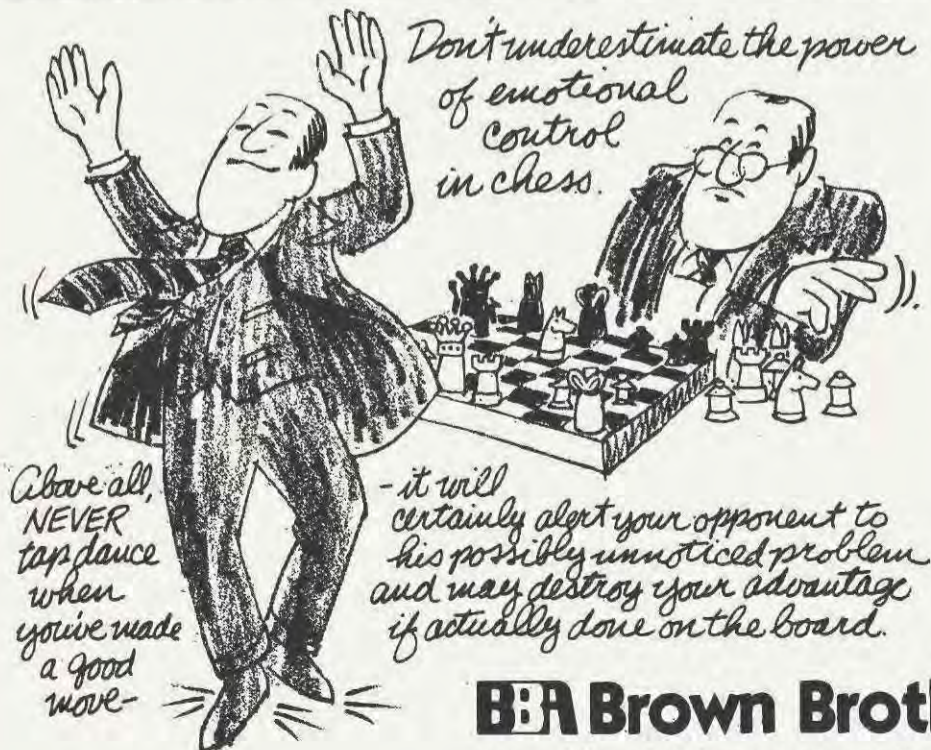
The Brazilian company, to be headquartered in Sao Paulo, will be directed by Friedrich R. Schendel. Wayne A. Harvey has been named manager of company officers in Rio de Janeiro.

The Australian firm will be located in Sydney and George H. Dixon has been named its managing director.

Company officials say the Brazilian company will handle property/casualty underwriting while the Australian operation will handle reinsurance as well as property/casualty. Both replace branch officers previously serving the two areas.

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dates for buyers

FEB. 27. A symposium on **foreign insurance** sponsored by the Northern California chapter of the Society of Chartered Property & Casualty Underwriters will be held in the Giannini Auditorium at the Bank of America Building in San Francisco. Speakers at the three hour seminar followed by dinner include Alvin F. Johnson, a partner of Dinner Levison Co., a representative from AFIA and a risk manager for a multi-national corporation. Ginny Talucci, risk manager for The Gap, will moderate the program. Cost is \$35. Contact Marilyn Turner, The Dinner Levison Co., 220 Bush St., San Francisco, Ca. 94104; 415-391-5422.

FEB. 27. The Independent Insurance Agents Assn. of California and the Insurance Educational Assn. will sponsor a seminar on **municipal risk management** to be held at the Hilton Inn in San Francisco. The seminar will examine markets, SIR's, JPA's, the impact of Proposition 13, self-funding, workers compensation and the protection of E&O exposures. The seminar will be repeated **Feb. 28** at the Travel Lodge International at the Los Angeles airport. Cost is \$50. Contact the Insurance Educational Assn., 300 Montgomery St., San Francisco, Calif. 94104; phone 415-986-6356.

FEB. 27-MAR. 2. The U.S. Environmental Protection Agency, the California Dept. of Health Services and the California Chemical Waste Processors Assn. are sponsoring in San Diego the second national conference on the **management of hazardous materials**. Contact O. James Pardaw, Executive Director, P.O. Box 214878, Sacramento, Calif. 95812.

MAR. 1-2. The Province of Manitoba is sponsoring a series of five **health and safety seminars** targeting the construction industry. The programs are designed to help participants develop a sound approach to accident prevention. Cost is \$15 per person for the two-day seminar and \$10 per person for the one-day seminar. Contact the Province of Manitoba, Dept. of Labor, Workplace Safety and Health Division, 204-301 Weston St., Winnipeg, Man. R3E 3H4.

MAR. 5-7. The National Loss Control Service Corp. is offering a three-day course covering the **fundamentals of fire protection**. The course will provide fire protection knowledge to assist personnel in dealing effectively with inherent fire hazards commonly encountered in business and industry. Cost is \$250. Contact G. N. Crawford, NATLSCO, D-5, Long Grove, Ill. 60049.

MAR. 7-8. International Risk Management Consultants will present a two-day advanced seminar in Dallas on the **reduction of construction industry cost**. The seminar is designed to give participants an opportunity to fine-tune their insurance program and take an in-depth look at insurance costs and coverage techniques. The program will be repeated in Los Angeles, **March 15-16**; Chicago, **April 5-6**, and Washington D.C., **April 19-20**. Cost is \$395 for individuals; \$345 for each person of a three-person team. Contact RCA Communications Inc., 10300 N. Central Expressway, Suite 350, Dallas, Tex. 75231; phone 214-363-9656.

MAR. 12-16. The American Society for Industrial Security will present an **assets protection course** at the Davidson conference center at the University of Southern California. The course will review the funda-

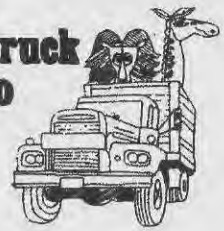
mentals of loss prevention and will provide principles, practical plans and techniques for cost effective security and asset protection. Cost is \$475 for members and \$525 for non-members. Contact The American Society for Industrial Security, 2000 K St., N.W., Suite 651, Washington, D.C. 20006; phone 202-331-7887.

MAR. 12-13. The third annual **claims conference** will be held in New York. Seminars and panel discussions on fraud investigations, rehabilitation, residual disability claims, punitive damages and the courtrooms, no-fault, medical and disability insurance and professional management of claims are scheduled. Contact Neal Jones, Beneficial National Life Inc. *Continued on following page*

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Continued from preceding page
 Insurance Co., 2 Park Ave., New York, N.Y. 10016; phone 212-889-4141.

MAR. 11-13. The Society of Chartered Property Casualty Underwriters is sponsoring a two-day seminar on the **New York Insurance Exchange** and the **New York Free Trade Zone**. Cost is \$100. Contact Society of CPCU, Providence Rd., CB#9, Malvern, Pa., 19355.

MAR. 14. The anatomy of a **boiler and machinery** claim and marketing problems and solutions will be discussed at an educational seminar in Chicago at the Illinois Athletic Club. Cost is \$12. Contact Claudia McCullough, Kemper Insurance, Long Grove, Ill. 60049, phone 312-621-8551.

MAR. 15-16. The Wharton School of the University of Pennsylvania will sponsor a seminar on **scientific methods for risk management decisions**. The seminar is designed to give risk managers a practical method for determining aggregate retention and per occur-

rence deductible levels for every exposure situation. The seminar will also present the concepts of "risk aversion level" and "risk adjusted level." Cost is \$475. Contact The Business Risk Education Center, Rm 415 Vance Hall/CS, University of Pennsylvania, Philadelphia, Pa. 19104.

MAR. 19-22. Investigation of Internal Theft and Fraud is the title of a three-day workshop sponsored by Indiana University to be held in Indianapolis. It's just one of many programs planned this year by the university's center for public safety training. Cost is \$200. Contact Indiana University, Center for Public Safety Training, ISTA Building, Suite 400, 150 W. Market St., Indianapolis, Ind. 46204.

MAR. 20-22. The third international **captive insurance** company conference sponsored by Risk Planning Group Inc. will be held at the Princess and Bermudian Hotels in Hamilton, Bermuda. The program will review important events in the captive insurance

company industry during the past year, the growth and development of captives and IRS tax rulings. Funding employee benefits through captives and developing "outside business" for captives will also be examined. Contact Micki Briskin, Conference Coordinator, Risk Planning Group Inc., 722 Post Rd., Darien, Conn. 06820; phone 203-655-9791.

MAR. 22. The Society of Chartered Property & Casualty Underwriters is sponsoring a one-day workshop on **excess and surplus lines** to be held in Louisville, Ky. at the Executive Motor West. Cost is \$60 for members; \$70 for non-members. Contact the Society of CPCU, Providence Rd., CB #9, Malvern, Pa. 19355.

MAR. 22-23. Risk Management for Hospitals and Health Care Institutions is the title of a two-day seminar sponsored by the Practising Law Institute to be held in New York. The program will explore risk management in areas such as safety engineering, safety inspection and equipment safety. Cost is \$200. Contact the Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; phone 212-765-5700.

riskWatch

By TOM WALSH

Iowa Sen. Jepsen closed his eyes to faults in his blindness policy

U.S. Senator Roger Jepsen, who political analysts said didn't stand a chance of unseating Iowa Democrat Dick Clark, takes his place on the Senate floor after a brief and dubious career as the chief architect of an insurance scheme offering coverage for a virtually nonexistent risk.

Until a few months before his surprise election, Mr. Jepsen was the president—and only salaried officer—of the National Eye Care Assn., founded by him in 1976 with two other Iowa investors. The venture's major product was insurance—group coverage providing a \$75,000 payment for total accidental blindness not caused by disease or military service. Mr. Jepsen planned to market the policies through optometrists offices, and arrangements were made for the coverage to be written by Forum Insurance Co., a subsidiary of Montgomery Ward & Co. Inc.

Mr. Jepsen and his associates had big plans, including visions of one day owning their own insurance company and projections of annual gross profits approaching \$10 million after 10 years of operation. It would be a grand empire built on low annual premiums of \$10 for individual coverage or \$19 for families. Mostly, it would be an empire built on a low loss ratio: The chances of total accidental blindness are pretty remote.

"It's a fraud, an absolute and total fraud," said Dr. Frederick C. Blodi, president of the American Academy of Ophthalmologists. "It's like buying an insurance policy against being eaten by a shark; not maimed, you understand, but eaten whole. The chances of total accidental blindness are very, very remote. Oh, sometimes you might see a farmer who was blinded by working with anhydrous ammonia, but today, even cases like that are very rare."

Forum Insurance Co. president Howard Lamb says medical experts like Dr. Blodi "could be right," but points to that fact that his actuaries considered the probability of risk significant enough for Forum to arrange with Connecticut General for reinsurance of Mr. Jepsen's policies.

During his term as Iowa's lieutenant governor, Mr. Jepsen undoubtedly became familiar with Iowa's conservative regulatory policies. To win regulatory approval for his accidental blindness policy, Mr. Jepsen took it to Illinois, where rate structures are scrutinized, but not probability-of-risk. Had he taken the policy to Des Moines, the Iowa Insurance Department would have required such a policy to return 60% to 70% of premiums after a few years of operation, a test Mr. Jepsen's policy was not likely to pass.

Once approved in Illinois, a loophole in Iowa law allowed the coverage to be sold in Mr. Jepsen's home state.

Mr. Lamb says he was "never very comfortable" with Mr. Jepsen's plan to market the policies through optometrists' offices. He also said he couldn't recall Mr. Jepsen ever mentioning to Forum an April 1976 consultant's report that warned Mr. Jepsen his marketing plan would fail without the endorsement of the American Optometric Assn., an endorsement wooed but never won.

Forum bailed out of the arrangement in November 1977, "because it was a deal we never should have entered into," Mr. Lamb said. "We had a number of balls in the air at the time, and we just didn't have the time to properly meet our commitment with Jepsen."

When Forum backed out, Jepsen sent out a proxy statement, telling stockholders the National Eye Care Assn. was getting out of the insurance business. Instead, it would sell low-cost eyeglasses. A year later, when Mr. Jepsen found himself a U.S. Senator, his floundering business venture ceased operations entirely.

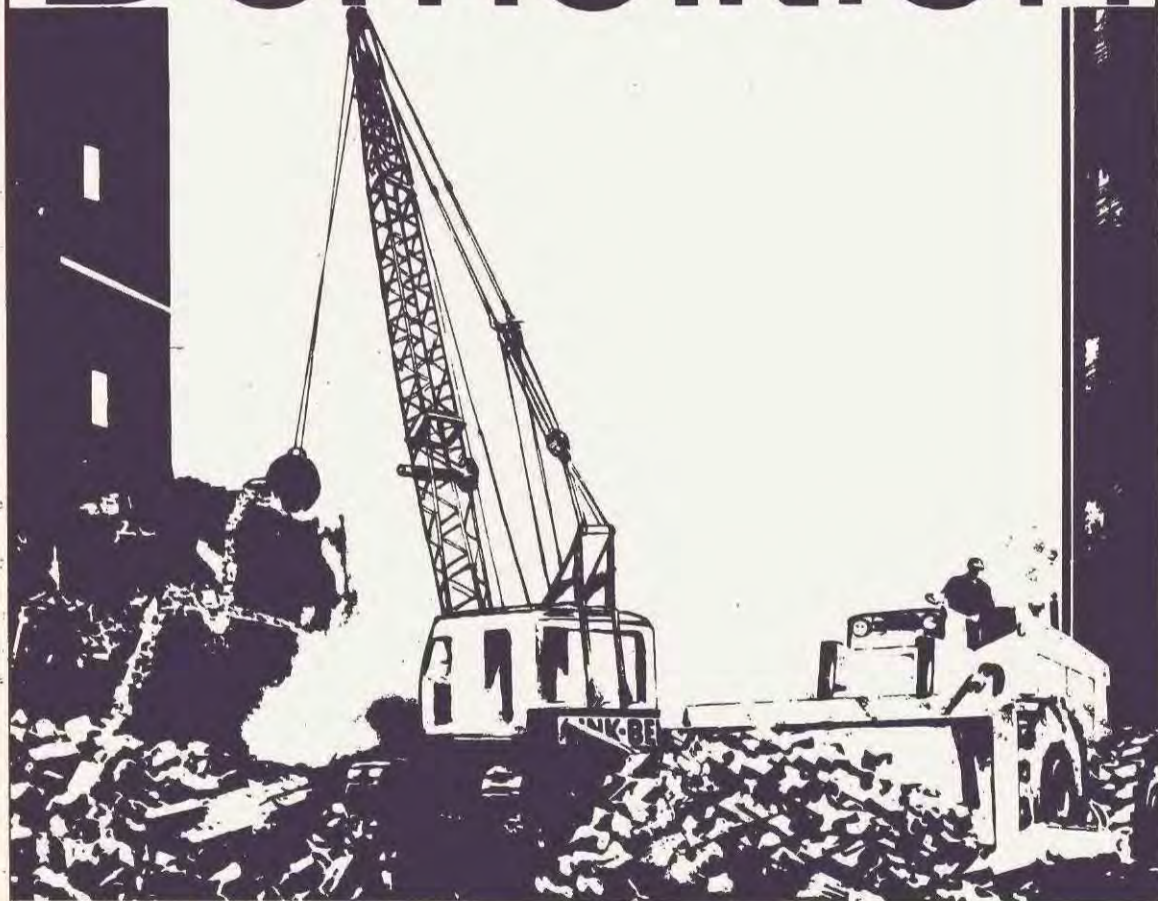
The big losers in all this, it seems, were the investors—the folks who bought stock at \$2 a share after Mr. Jepsen bought 22,000 shares of his own at \$1 each. One investor who dropped \$4,000 on the deal—a former president of the optometric association that wouldn't endorse the accidental blindness policy—is now calling for Mr. Jepsen to refund any premiums paid on the few policies actually sold.

Mr. Jepsen won't discuss his business affairs with the press, but he did tell The Des Moines Register he considers his business a "viable concern." As the only salaried officer of the firm, however, he's bound to have some problems; Senate rules preclude him from playing any major role in the company's management.



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Tom Walsh, a former Washington Editor of Business Insurance, is retired and living in Hills, Iowa.

Government, not unions hikes health bills: Exec

By JOHN MAES

CHICAGO—Government regulation of the health care industry has been more the "culprit" in rising health care costs than the answer to the dilemma. Moreover, increased intervention will create more problems than it will solve, an industry expert said here recently.

Government policies such as tax subsidies and Medicare and Medicaid programs, while politically popular, have done more to escalate costs of health care than have labor union demands, medical technology and overall inflation, said Robert B. Helms, director of the Center for Health Policy Research of the American Enterprise Institute.

Government policies, he said, "have had the unanticipated effects of distorting incentives in medical care markets," he said at the annual employe relations conference of the American Paper Institute held here last month.

Tax laws that allow companies to deduct benefit costs while not treating benefits as a worker's taxable income are also "major culprits" in rising costs. "For fiscal year 1979, medical deductions were estimated to reduce tax revenues by approximately \$3 billion, while the tax loss from the exclusion of health insurance in taxable income is estimated to be approximately \$8.3 billion," he said.

Mr. Helms doesn't advocate wholesale tax increases, but said there should be "marginal changes" in tax laws to make up some of the current deficit. "If we want to be serious about controlling health care costs, we need to look at it," he said.

Paper industry pays lower benefit costs

CHICAGO—Employe benefits in the pulp and paper industry amounted to 36.6% of the industry's total 1977 payroll, slightly lower than the benefit cost of 37% for all industry, according to a statistical report.

The report, compiled by the American Paper Institute, showed that in 1977, workers' benefits cost employers \$2.43 per hour or \$5,266 per year for each employe in the industry. The cost was nearly 4% higher than in 1975.

Pensions and health insurance were the most expensive benefits in 1977, making up 5.7% and 5.5% respectively, of total payrolls. In the 1975 comparison year, health insurance costs were 4.4% of payroll and pensions cost 3.5%.

Legally required payments including Social Security, workers compensation and unemployment compensation rose slightly from 8.4% in 1975 to a 1977 total of 8.6%. For all industry, Social Security cost employers 5.5% of total payroll in 1977.

The report also said that between 1973 and 1977, benefit costs increased 25.3% and rose 109% in a 20-year period from 1957 to 1977. During that 20-year span, the cost jumped 83.8% in all U.S. manufacturing firms.

A comparison of six industries showed three paying higher percentages of their payroll for benefits than the pulp and paper sector with two paying a lower percentage.

Suggesting the nation should shy away from national health insurance laws, Mr. Helms advocated increased emphasis on private marketing devices in health care to stimulate market competition and lower prices. Health maintenance organizations—independent practice associations and doctors' group medical practices—could offer quality prepaid care, he noted.

"We shouldn't give up market principles in determining the future of health policies," he warned.

Overall, government should try to exert a minimum of influence on the health care industry because studies have shown regulation is not always in the best interest of the consumer, he maintained. ■

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Costs seem too high

La. actuary will dissect state malpractice rates

By JOANNE GAMLIN

NEW ORLEANS—The cost of medical malpractice insurance in Louisiana is being scrutinized by actuary Richard Camus.

"The experience of medical malpractice in New York and California have fouled things up," he said, explaining that the medical malpractice situation in Louisiana is not clear at present.

Mr. Camus, whose actuarial firm bears his name, is in the initial stages of studying the insurance rating system in Louisiana at the request of the state insurance commissioner.

Although he has not yet launched it, Mr. Camus also has been asked by the insurance rating commission, a separate body, to study fire and extended coverage insurance in the state.

In his medical malpractice study, the actuary will focus on the high cost of coverage in the state. He said the commissioner's office wants more detail on how the premium refund system operates. "If doctors are being charged on their own experience, through premiums minus refunds, there may not be a problem. But we're not really sure that this is the case," Mr. Camus said. The contracts that dictate this arrangement have not yet been examined by his office.

Thus far, his initial work seems to indicate that malpractice premiums are too high, he told *Business Insurance*.

Indeed, Louisiana has three factors that should work to moderate medical malpractice costs, he said. One of these is a law that sets a \$100,000 limit on losses, mandating that the state compensation pool cover losses over that figure up to a limit of \$500,000. And the state imposes a three-year limitation on malpractice claims and has established an arbitration board to weed out nuisance claims.

Mr. Camus noted that a study he did two years ago showed that the bad experience in medical malpractice emanated from only two states, California and New York. "But even with that, I personally felt that we were looking at a hump, which would come down, rather than a trend from which you could extrapolate a curve," he explained. For the country as a whole, the worst of the malpractice crisis is past, he believes.

The study on fire and extended coverage was requested by the insurance rating commission after the Property Insurance Assn. of

Lloyd's publishes liability journal

LONDON—Lloyd's of London Press Ltd. is publishing a magazine exclusively covering international product liability problems for those who manufacture and sell to the consumer markets. The magazine, entitled *Product Liability International*, will be published monthly with an initial worldwide circulation of 5,000.

The magazine will inform manufacturers and advisors on world developments and will provide a forum for international comment. Technical developments in the field, product safety techniques, risk management and insurance, European and North American updates and reports on legal decisions are just some of the topics that will comprise the editorial content in each issue.

Louisiana sought various rate adjustments averaging an over-all decrease of 12.9% for the state. Rates in the New Orleans area are rising 2.3% and in those parts of the state away from New Orleans they are dropping 16.8%, said Hargis P. Walker, administrator of Louisiana insurance rating commission.

The commission wants Mr. Camus to study the increase in the New Orleans area and wants more recent experience to be used by the actuary, Mr. Walker said. Mr. Camus will launch the fire and extended coverage study later this year.

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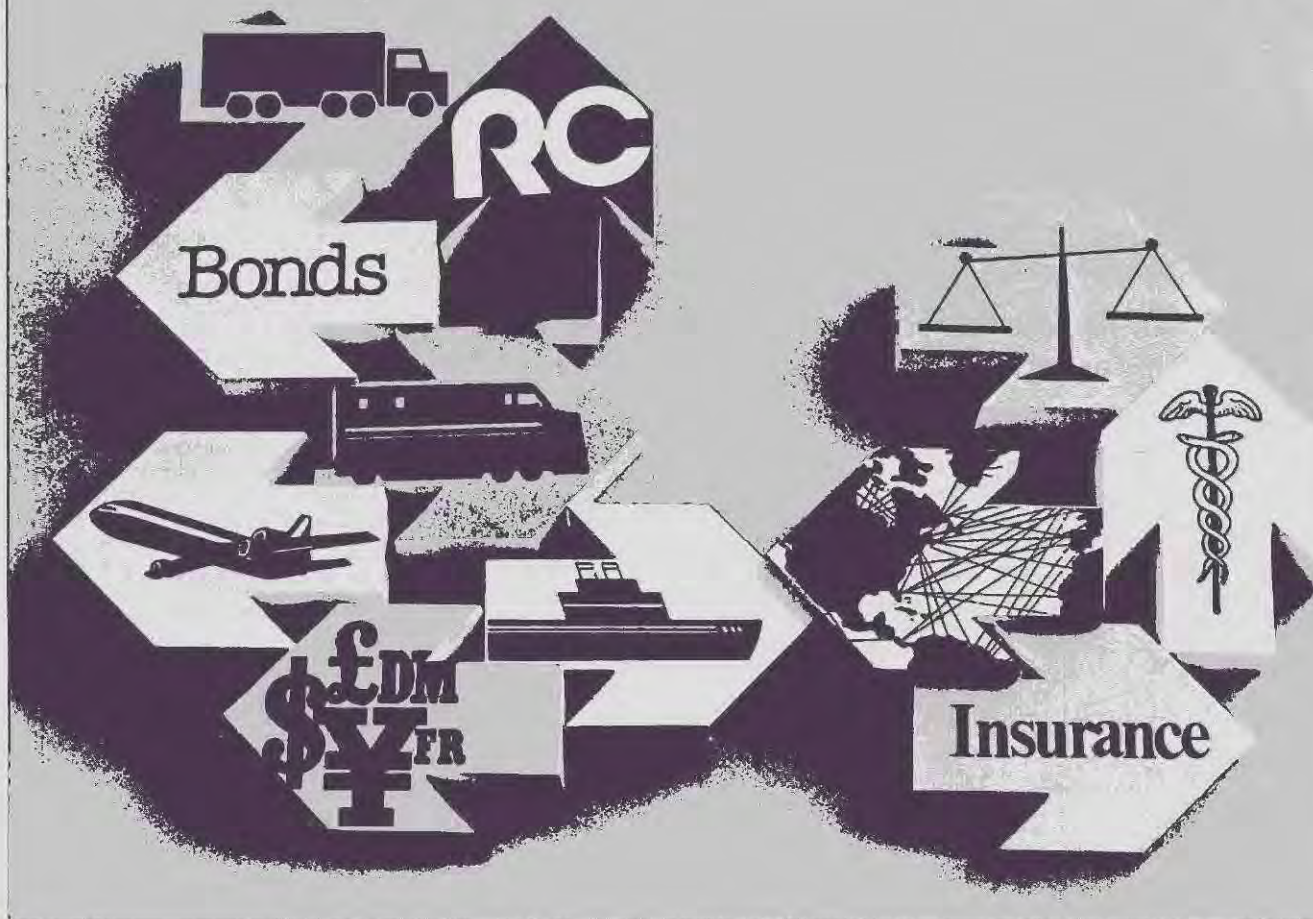
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around the states

City and state exempt from liability claims: Ky.

FRANKFORT—The Kentucky supreme court said the city of Southgate and the commonwealth cannot be held in the 1977 Beverly Hills Supper Club fire.

The high court upheld Campbell circuit court's dismissal of damage suits against the city and the state. The court said there is no basis for liability in either case, making question of sovereign immunity irrelevant.

The numerous damage suits against the city charged it did not enforce a law or laws designed for the safety of the public and that its taxpayers must therefore bear a loss caused by someone else's failure to comply with the law, the court noted.

"A government ought to be free to enact laws for the public protection without thereby exposing its taxpayers to liability for failures of omission in its attempt to enforce them," the court said. "It is better to have such laws, even haphazardly enforced, than not to have them at all."

Public liability

BOSTON—The Massachusetts legislature has enacted legislation that holds the state, districts and local governments liable for the negligent or wrongful acts of their employes.

Following the lead of the federal government and 45 other states, the 1978 Legislature voted extensive revisions of Chapter 512 of the Acts of 1978—the tort liability law, the Massachusetts Advocate reported.

Texas work comp

AUSTIN—The Texas insurance board has ordered workers compensation rate reductions averaging 5.3%.

The cuts, the first in nine years, took effect Feb. 1 and will save Texas businessmen an estimated \$60 million over the next year. Individual firms' actual workers compensation premiums will vary according to a number of factors, such as size of their work force, wages paid and accident experience.

Some industries will receive reductions greater than the statewide average, notably 7.6%, for contractors and 8.8% for oil companies. Manufacturing firms will average a 4% decrease in premiums and the "all other" category that includes commercial establishments will experience an average reduction of 4.3%.

Tavern liability

MADISON—The 2nd District Court of Appeals suggested that the Wisconsin supreme court consider making tavern owners liable for negligence when they actively promote drinking of alcoholic beverages.

In a decision written by Judge William Moser, the court said it would accept an argument that promotion of a "Liquidation Night" encouraged drinking and thus made the owners liable for damages from an accident involving patrons of the tavern.

The tavern, the Top Deck in Kenosha County, regularly advertised Friday as "Liquidation Night," when persons paid a \$2 cover charge and then could get beer and mixed drinks for 10 cents and 25 cents, respectively.

However, the appeals court was precluded from imposing liability by a 1971 decision of the state supreme court that refused to change the common law exemption from liability for tavern owners sued for accidents involving patrons after they leave the taverns.

N.D. work comp

BISMARCK—Workers compensation benefits for widows and permanently disabled persons would be increased under several bills before the North Dakota legislature.

Rep. Royden Rued plans to propose legislation making interest money from the Workmen's Compensation Bureau's \$45 million reserve fund available for supplementary benefit payments. Sen. Harvey Tallackson has introduced a bill in the Senate to appropriate \$3 million from the general fund for supplemental payments.

Del. work comp

DOVER—Delaware insurance commissioner David H. Elliot has approved a 16.8% hike in workers compensation insurance rates in the state.

The rate will apply on policies written or renewed after Feb. 1 and retroactively to policies expiring on and after Nov. 1, 1978.

Insurers had requested a 25.6% rate hike last September, but Mr. Elliot rejected the request as too high. In disapproving the original filing and in approving the new higher rates, Mr. Elliot conceded that higher workers compensation benefits legislated in Delaware demanded higher insurance rates.

N.Y. pregnancy law

ALBANY—The New York supreme court has refused to consider an appeal by employers of a lower court ruling that pregnancy is covered by the state's temporary disability law.

The court upheld a state appellate court decision of two years ago that said denial of benefits to women temporarily disabled by pregnancy violates the state's human right's act.

The court also declined to consider an employer claim that state law is preempted by the new federal law requiring employers to treat pregnancy and childbirth, but not necessarily abortions, the same as other disabilities.

Ill. responds too

CHICAGO—The Illinois appellate court ruled that a pregnant woman is entitled to a leave of absence if her employer offers such compensation to other disabled workers.

The ruling was made in a suit brought by four women against Illinois Bell Telephone Co. claiming they were denied benefits during pregnancy leaves.

Illinois Bell's policy of denying disability to women on pregnancy leave while paying the benefits to workers disabled by other conditions constitutes sex discrimination, the court said.

Punitive damages

LANSING—Michigan insurance commissioner Thomas C. Jones has issued a draft bulletin prohibiting the exclusion of punitive and exemplary damages in liability policies filed in his state.

"The theory that insurance coverage for punitive damages defeats the purpose of deterrence or punishment is not convincing," Mr. Jones wrote in the proposed regulation. In addition, there are instances when policyholders would expect and deserve insurance against punitive damages, he said.

Open files

HARRISBURG—A new Pennsylvania law requires employers to make individual personnel files available for inspection upon request of employees.

Information pertaining to wages, commendations, discipline, sick leave and performance evaluations must be made available on the business premises at a mutually convenient time.

Public hospitals liability

LANSING—Michigan citizens can sue city-owned general hospitals, the Michigan supreme court ruled last month, abolishing public general hospitals' immunity from suits.

Public hospitals' immunity had been based on common law doctrine that says governments can be sued only with their consent and on a 1964 state law that granted immunity to all government agencies "engaged in the exercise and discharge of a government function."

The Michigan supreme court decided that publicly owned hospitals are not performing a unique government function and therefore can't be immune to suits.

The case involved a suit against Highland Park General Hospital brought by parents of a boy treated in the emergency room.

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Lloyd's grants Sasse names free loans

By JOHN MILLER

LONDON—Lloyd's has agreed to grant members of the troubled F.H. Sasse syndicate interest free loans until the extent of the syndicate's liability on \$10 million of U.S. fire claims is known.

Large demands of up to \$200,000 may be made of some of Sasse's names. The syndicate ran into reinsurance trouble on \$10 million of U.S. fire claims with the Brazilian reinsurer Instituto de Resseguros

do Brazil (IRB).

The interest free loans granted by Lloyd's don't relieve Sasse names of liability, but the loans will save them from cashing in their own resources prematurely in case they recover some of the money the syndicate claims is owed it by IRB. A trial in British court over the dispute is not expected before the fall.

Sasse cannot take on new business or renew expiring lines, but continuing claims arising from the

ordinary course of its business prior to its suspension are still being paid.

Since last May, the syndicate has operated under the management of Merrett Dixey under an arrangement with Lloyd's. It is likely to be at least another year before the full extent of its finances is known. The "run off" of claims from its 1977 account include a large number that are not involved in legal disputes but will take until the end of this year to settle in line with Lloyd's three year accounting system.

Residual liabilities it might be exposed to will then be reinsured as usual, but it is likely to be April 1980 before the final auditing is completed. By then some of its outstanding disputes with IRB may have been settled in the U.K. courts.

Quite separate problems exist over \$5 million of Canadian fire losses and police are being asked to check whether there were incorrect returns submitted to Lloyd's for its audit years 1974 and 1975.

Oil platform loss

Experts are still trying to decide whether the \$22 million oil platform which sank Jan. 11 in the North Sea while on its way to Brazil can be salvaged.

Constructed in Northern Scotland by J. Ray McDermott & Co. of New Orleans, the platform was being carried on a special barge by a McDermott subsidiary, Oceanic Contractors of Brussels, when it capsized during bad weather. This was almost at the start of its 6,000 mile voyage to Bra-

zil, where it was urgently needed for the development of the offshore Namorado field.

Insurance on the 547-foot-high structure, now lying in about 200 feet of water, was carried 75% in the London market with the remaining 25% reinsured in the U.S.

But its loss will hit the Brazilian oil industry severely, since the Namorado field was due to begin operations the end of this year. U.K. energy minister Dickson Mabon has called for a special report on the accident since even if it is recovered it will delay the Brazilian project substantially.

Winter tows are not uncommon in the oil industry if structures are urgently needed. Careful preparations by naval surveyors and other experts are always made before they are undertaken.

The McDermott group will be able to recover the insured value of the 6,000 ton platform if it turns out to be a total loss, sources in London said. But they couldn't comment on any arrangements the U.S. group might have had with Brazil in the event of non-delivery causing consequential losses to local oil production.

The platform had been built for Petrobras, the Brazilian state oil company. There are fears in the U.K. that the chance to build future oil rigs for Brazil may be jeopardized by the disaster. It was the first major platform built for delivery outside the U.K.'s own offshore fields and was hoped to be followed by large export orders.

Lab safety

Safety procedures in public laboratories are to be checked by the U.K. government after a smallpox scare at Birmingham, (Warwick County) University, where a woman medical research assistant died.

University authorities are being prosecuted in criminal court for failing to ensure the health of their employees, and trade union leaders from her workers' association have claimed there was a grave absence of protective equipment for people like this assistant who are engaged in virus research.

The World Health Organization, which was financing the smallpox research, is criticized for failing to tell the authorities that the Birmingham laboratory was unsafe. A register of all British laboratories handling dangerous viruses is likely to be set up to enable regular inspections to be carried out.

Security tax

Security levies on passengers arriving at Britain's 28 principal airports will rise to \$1.70 per person April 1. The levy applies to all aircraft over 10,000 kilograms, so that helicopters servicing offshore oil rigs will be exempted. The Aviation Security Fund, financed by levies on domestic and international travelers, will reach \$50 million this year.

Auto emissions

Scientists in the U.K. believe that levels of lead emission from autos which can affect young children are between two and three times more dangerous than has so far been suspected. Research into the problem was carried out in 1975, when tests were made by the government's atomic research unit at Harwell, but the experts there now admit their chemical calculations have to be revised in the light of further analysis. Several U.K.

surveys have suggested that excessive lead fumes can make young children too excitable.

Food poisoning

Food poisoning cases have doubled in the U.K. in the past four years, causing environmental officers to demand more extensive checks on eating houses and more hygienic farming methods.

The environmental officers partly blame the spread of intensive farming methods for the increase in food poisoning cases. The U.K. Environmental Health Officers' Assn. executive staff suggests infected feed could be eliminated by a food protein processing order and prevent some of the suspected cases of food poisoning.

But the government is now allowing sale of canned salmon from Alaska. It had been removed from food stores following the death of two people last August from a rare botulism disease they contracted after eating a can of salmon. (BI. Sept. 4).

The cause of the disease was traced to a tiny hole in a single can of salmon which was found at their home in Birmingham, Warwickshire County. The safety checks through which the consignment at their local store passed before it went on sale have been investigated.

A test case over the salmon may be brought by relatives of the dead couple, but liability has so far been denied by both suppliers and importers of the products.

Job safety

Safety experts engaged by the U.K. government estimate that workplace accidents are costing the nation \$3.5 billion a year in social losses.

In response, the government has inaugurated a five-year plan to examine 200 projects in the hope of reducing the toll of plant casualties and occupational diseases.

The term effects of man-made mineral fibers on health will be given special attention and proposals to lessen their risk will be examined by the health and safety commission.

John Locke, the commission's director-general, warns: "There are certainly doubts about their effects. The danger is that irreversible but possibly still latent damage to health may have occurred by the time we have found out all the facts. But excessively stringent standards over their use may impose too great a burden on industry if these restrictions later prove to be unnecessary."

Research programs are being started to detect early signs of exposure to toxic substances in industrial centers.

Deaths from workplace accidents in Britain have fallen to 621 last year from 874 in 1973, but the total number of working days lost through accidents and ill health is greater than the amount lost in strikes and other industrial disputes throughout the country.

Underwriting cycles

Estimates that U.S. underwriting profits are probably reaching their peak are made by London stockbrokers Rowe and Pitman, who believe the next downturn should not be as great as in the last cycle beginning in 1972.

"The industry has become more conservative in its thinking in the past two years and competition has returned for the traditional reason that underwriting is once again very profitable," it reports in a survey of North American attitudes.

But the industry is "caught in a rate trap at the top of the cycle," the stockbrokers believe. The testing point will come toward the end of this year when rate increases to match inflation will be needed. ■

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Users of Blues to help make policy decisions

NEW YORK—Subscribers to Blue Shield of Central New York can now help run the organization, invited for the first time to participate in decision making on an equal basis with health care providers.

New bylaws allow consumers, including corporations purchasing group plans, to share equal status with doctors as members of the board of directors. Consumers also gained the right to nominate and vote for board directors, to be represented on committees and to attend the annual meeting.

Blue Shield hopes to improve cost control efforts through the increased consumer participation. Its the first in the state to broaden consumer power in its administration and it's possible other Blue Shield plans in the nation will follow its lead, president John Clancy said.

Recently a Congressional report criticized Blue Cross and Blue Shield plans across the nation for being mostly dominated by doctors.

Blue Shield is advertising in three Central New York newspapers to spur attendance at the annual meeting, Mr. Clancy said.

Greater consumer representation could mean that Blue Shield may develop alternative delivery systems or change the level of ben-

Amvac fined for handling of pesticide

LOS ANGELES—Amvac Chemical Corp. has been fined \$5,520 by Cal OSHA for illegally exposing its workers to the cancer-causing pesticide DBCP after the chemical was reportedly spilled within the plant.

A Cal OSHA official said that Amvac has been cited for: not reporting that it was handling the carcinogenic material; not reporting the spill immediately, and not protecting the workers by issuing protective clothing and respirators when they handled the DBCP or cleaned up the spill.

Amvac is appealing the fine, but company officials refused to talk.

Cal OSHA could move to shut the plant down, but an agency official said it won't unless Amvac were to maintain an unsafe plant.

The chemical DBCP can cause both cancer and sterility, the official said. Cal OSHA issued an alert on the chemical a year ago. And DBCP is viewed as so dangerous that federal and state worker safety standards require that no more than one-part-per-billion be present in the work environment.

The Environmental Protection Agency withdrew DBCP registration, blocking its use in the U.S., after the discovery in 1977 that a number of DBCP production workers in the Occidental Chemical Co. plant in Lathrop, Calif., and the Dow Chemical Co. plant in Arkansas were either sterile or had such low sperm counts they were no longer fertile. Federal OSHA ordered all production halted and set the strict safety standard.

Amvac Chemical is the only company known to be currently registered by the EPA to import and distribute DBCP in the U.S. Its use in California has been prohibited by the state food and agriculture department, but the EPA recently moved to permit its use on crops in other states.

efits offered, Mr. Clancy said.

"We at Blue Shield have a strong foundation for responding to the complexities and diversities for delivering and financing health care," said Robert E. Westlake, chairman of the board of directors. "In this age of cost consciousness, consumer interaction with providers is vital and these revisions recognize that fact."

The bylaw revisions came after two years of study by the Blue Shield bylaws committee. The Blue Shield board unanimously approved the changes at a special board meeting in November.

Blue Shield of Central New York serves about 500,000 subscribers in 10 counties.

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Fire in high-rise medical office raises issue in doctors' policy

By ROBIN SUHRBIER

MINNEAPOLIS—Fire in a major medical office building Jan. 14 left in its path 200 doctors looking for temporary office space, nearly a million dollars in physical damage to the building, and as yet untold dollar loss of doctors' records and office equipment. Moreover, insurers now wonder how they can fill a void in comprehensive coverages for doctors.

Coverage for the physical damage to the Metropolitan Medical Office Building, owned by Kraus-Anderson Inc., comes under a broad form property policy underwritten by Fireman's Fund In-

surance Co. Kraus-Anderson properties are listed individually on the policy schedule with the dollar limit for the medical building set at \$5 million. Loss of rents coverage, likewise underwritten by Fireman's Fund, is limited to six months or 50% of the contribution.

The major underwriter of the physicians and surgeons equipment floater, St. Paul Fire & Marine Insurance Co., reported, thus far, 40 claims from doctors with offices in the medical building. According to the insurer, a reserve of approximately \$775,000 has been set up to cover claims. In addition St. Paul has had three non-medical claims, including one for \$50,000

worth of blood plasma stored in the basement of the building at the time of the fire. Blood plasma is covered under a fire and extended damage policy.

According to Wylie Hatcher, claims manager, and Rube Patrikus, claims supervisor, both of St. Paul's Minneapolis service center, the surgeons and physicians equipment floater covers furniture, instruments, books, tables and other physical property within the confines of a doctor's office. The policy does not specifically cover accounts receivable, valuable papers including patients' records or loss of earnings unless designated under a separate rider.

And very few doctors, according to Mr. Patrikus, include these in their coverage. John Lynch, manager of the Minneapolis office, contends that the fire points to the need to put together a comprehensive insurance package for doctors covering the physical property as well as accounts receivable, valuable papers and loss of earnings.

Ninety per cent of the building's tenants were expected to return to their offices by late January. Those whose offices were in the heavily damaged portion of the building

will not be able to return for several months. The doctors' losses vary widely; for a few the fire meant almost complete loss of patient records and accounts receivable records.

One psychiatrist, whose office was on the 8th floor and suffered only minor damage, said he was going to invest in fireproof files. But several others whose offices were almost totally destroyed lost a good percentage of their records, even those in fireproof files, because of explosions near the files or extremely intense heat.

Some doctors in the heavily damaged areas had duplicate patient records at a second office or in hospital files, because billing was done by an outside service.

While the cleanup goes on and the fire department tries to determine what caused the fire, Kraus-Anderson is working to determine the exact dollar loss. According to Don Smith, manager of the Kraus-Anderson Insurance Agency, "as of now the dollar loss to the building has been difficult to determine because the building needs to be cleared out and then an exact determination of what was damaged can be done."

He explained that Kraus-Anderson's first concern was getting its tenants relocated, helping them to retrieve undamaged property from their offices and setting up temporary phone lines so patients could reach either a central information point or their doctors' new offices. A majority of the physicians found temporary office

space directly across the street in the Metropolitan Medical Center.

Exact cause and origin of the fire, which heavily damaged several lower floors of the fire resistive building, have not been determined. An arson investigation is being conducted.

Fire Marshall Leo Derus, head of the fire prevention bureau, is in constant communications with Kraus-Anderson on the restoration of the building. "One of our primary concerns once the fire was put out," he explained, "was to get heat into the building to protect the structure and contents from the extreme cold which could cause further extensive damage." He described the building, constructed prior to the state uniform building code, as a "perfectly good, sound structure which met current building codes."

Should the dollar loss to the building equal 50% of the structure value then rebuilding would be treated as new construction and the state uniform building code would have to be met, requiring installation of sprinklers, smoke detectors, fire alarms and standpipes.

Mr. Derus advises certain changes to be made even if the loss is less than 50%. There is a general consensus among those involved that more attention needs to be paid to protecting property, especially records, even in a fire resistive building. Kraus-Anderson is considering adding sprinklers, alarms and other fire protection devices to the entire building. ■

Trucker report pinpoints poor safety performers

By ELLIS SIMON

NEW YORK—Insurers claim their experience generally supports the findings of a Harvard University professor that owner-operators and truck drivers working for non-ICC regulated motor carriers generally have poorer safety records.

In addition, some insurers fear that deregulation of the trucking industry could lead to an influx of owner-operators and other independents unable to obtain insurance in sufficient amounts because they could not demonstrate good track records.

Some 12,000 intercity truck drivers participated in the study conducted by Harvard business professor Daryl Wyckoff. Professor Wyckoff found that drivers not operating under the auspices of ICC regulation drove faster, had more moving violations and reportable accidents, and exceeded the 10-hour driving time limitation more often than drivers for ICC-regulated companies.

"The survey findings are absolutely correct," said an executive at one large insurance company. "The unregulated and independent operators definitely do not adhere to the same safety standards as regulated drivers."

Regulated carriers have had a damn good safety record," said Mike McCrary, chairman of Transport Insurance Co. "They don't have to forsake safety to make a quick profit."

The small operator is usually underfinanced and probably has to "wink" at some of the regulations to get by, he added.

However, Michael Milchem, vp-underwriting at Northland Insurance Co., disputed these contentions. It would be wrong to assume all owner-operators are less desirable than employee-drivers, he said.

Although the owner-operator usually works under more difficult

conditions, there is a school of thought that says "he's the guy with the wife and kids and the mortgage on the truck" so he has to be more careful.

Mr. Milchem's firm insures a large number of owner-operators and he said they are treated just like other risks. Underwriting judgments are based on the operator's track record and experience and, where possible to ascertain, the type of cargo to be hauled, he explained.

Dan Kocka, assistant vp-underwriting at Transit Casualty Co., agreed that generalizations can not be made among drivers, noting that there are both good and bad records among owner-operators, non-regulated carriers and ICC-regulated freight lines.

But, he added, employee drivers, because of controls exercised by their companies, tend to have better records than in situations where less stringent controls are applied.

Among regulated carriers, loss experiences vary dramatically, one insurance executive said. But, he added, ICC-regulated truckers employing owner-operators tend to pay more for insurance than firms employing their own drivers and providing their own tractors.

A great number of owner-operators contract out to ICC mo-

tor carriers which, in turn, furnish liability, workers compensation and cargo insurance. The owner-operator only has to provide physical damage coverage for his tractor-trailer rig.

Professor Wyckoff's findings dispute figures published by the Bureau of Motor Carrier Safety on reportable accidents. The difference in findings reflect the fact that all accidents with over \$200 damage are reported by regulated carriers to the bureau while unregulated drivers report only major incidents, he said.

The professor's study also pointed to the role of regulation in maintaining safety in the trucking industry. Its sponsors included the American Trucking Assn., Assn. of American Railroads and the International Brotherhood of Teamsters, all proponents of continued regulation by the ICC.

Congress is expected to consider legislation to deregulate the trucking industry.

Deregulation would result in "chaos," said one trucking insurance executive, who said his firm would write only those operators meeting its underwriting standards. Many operators will be unable to obtain insurance because deregulation would result in inadequate supervisory personnel in safety areas, he added.

However, Mr. Milchem of Northland noted that there has already been a great influx of new operators due to the ability of private carriers to contract for return trip cargoes and truck insurance markets are presently competitive enough to absorb new entries. ■

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HOUSTON—A 157% increase in workers compensation rates over the last 10 years tasted sour to Texas citrus and vegetable growers and shippers.

But that bad taste may be sweetened by premium savings that are expected to accrue with a new insurance company formed by the growers and shippers. The Citrus & Vegetable Insurance Exchange, owned by members of the Texas Citrus and Vegetable Growers and Shippers Assn., will blossom this spring.

"We expect annual premium savings of at least 15% over the first few years," says William Chanslor, president of a Houston-based insurance management company bearing his name that is organizing and managing the exchange.

Aggressive loss control and claims adjusting services the Exchange will offer policyholders should produce the savings at a time when workers compensation rates are expected to continue a relentless climb for other businesses in the state, Mr. Chanslor explained. The exchange will hire its own loss control and claims adjusting experts. "By having our own staff, we can handle claims faster and implement more effective loss control programs," he said.

Mr. Chanslor began exploring the possibility of setting up an insurance company about a year and a half ago after the Texas citrus and vegetable growers and shippers told him they thought their insurers were paying too much money to settle workers compensation claims. "They were concerned that the insurance companies were rolling over and playing dead whenever someone filed a work comp claim and were not fighting unjustified claims," he recalled.

"We are going to have tighter control over claims and we are going to give policyholders input into the settlement of large claims," Mr. Chanslor said.

By the end of the exchange's first year Mr. Chanslor expects an annual premium flow of about \$420,000. Premium flow is expected to rise sharply later as more of the 300 members of the association opt for coverage. Premium flow could hit the \$1.2 million mark by the time the exchange celebrates its fourth anniversary.

Premiums paid into the company by the first 40 participating members will range from \$500 to \$27,000. Manual rates will be charged at the outset, but participating companies will be individually rated as their loss experience unfolds.

Group offers ERISA guide

BROOKFIELD, Wis.—A book of opinions, interpretations and rules and regulations on ERISA legislation has been published by the International Foundation of Employee Benefit Plans.

The 350-page book, entitled *The Annotated Fiduciary: Materials on Fiduciary Responsibility and Prohibited Transactions under ERISA*, is intended as a reference book for understanding and interpreting ERISA legislation.

The book may be ordered from the International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis., 53005. Prices are \$25 per copy for foundation members and \$35 for non-members.

The exchange will assume the first \$25,000 of loss on a per occurrence basis. Specific excess insurance purchased from Fremont Indemnity Co. will cover any single loss between \$25,000 and \$1,025,000. The exchange's aggregate stop loss policy, also supplied by Fremont, is now being negotiated.

Initially, the exchange only will write workers compensation policies. But as capacity expands, the exchange may expand to write other liability lines for citrus and vegetable growers and shippers, Mr. Chanslor said.

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A&P rings up savings . . .

Continued from page 1

cess insurers over Mutual requested a several million dollar increase in premiums in 1979 and another smaller increase for 1980.

Faced with that prospect, Mr. Porrett instructed his casualty insurance broker, Fred S. James & Co., either to line up other underwriters following Ideal Mutual's lead or to replace Ideal Mutual. Nine of the 11 domestic underwriters James contacted declined to quote, prompting A&P to look overseas for the needed excess insurers.

"We wanted to keep Ideal Mutual because we had built a solid relationship with them," Mr. Porrett explained. "We had a good insurance program with excellent

cash flow, limited reserves and a good price with them."

In the quest for other underwriters in Belgium, Mr. Porrett went overseas with Richard Payne of James, John Quinn of Ideal Mutual and Forrest Mirix of Crawford & Co., A&P's claims handling company.

In Belgium foreign reinsurers previously untapped by U.S. insurers were lined up within one week at a savings of several million dollars.

Like two conflicting parties making concessions to one another, underwriters and brokers alike agreed to adjust their prices downward after intense negotiation, which Mr. Porrett conducted. The parties met several times dur-

ing the week, often staying up until three in the morning, Mr. Porrett said.

The insurance director attributed the successful placement in part to Ideal Mutual's reputation as a lead underwriter. "John Quinn (of Ideal Mutual) is superb when it comes to negotiating. He's very practical and sensible," says Mr. Porrett.

The flexibility of the Belgian market in comparison to U.S. markets was also a plus. A&P worked with Belgian broker Henrijean & Cie to place the coverage. "Henrijean has excellent rapport with the underwriters, has enormous integrity and always thinks of the client first," Mr. Porrett said.

Belgian reception

Dealing with the Belgian brokers is a much more personal experience, Mr. Porrett said. "They invite you to their homes to meet their families right away."

The Belgian market was also more receptive of several loss pre-

vention practices A&P has recently instituted. "In the U.S., they focused on the fact that we had bad losses, but in Belgium they focused more on the fact that we had taken remedies to reduce losses," he noted.

The insurance department's efforts to upgrade A&P's loss prevention plan included issuing a safety and claims manual to every store. The well written and graphically pleasing manual was compiled by Mr. Porrett with the aid of two additional staff members, David Grubb, manager of national safety and Harris Galary, safety specialist.

The safety manual not only was well received by store managers but also helped reduce accidents, Mr. Porrett said. Workers compensation cases declined 14% in 1978 compared with 1977, he noted. The number of compensation cases involving lost time decreased by 24%, while 23% less customer accidents were reported, Mr. Porrett added.

While in Belgium, A&P also

placed a novel fire policy for its stores which previously did not carry property insurance, Mr. Porrett noted. The concept applied is normally used for hull and liability insurance for airlines.

New fire policy

The fire policy is a minimum/maximum plan that guarantees a fixed cost for the insured, Mr. Porrett explained. A&P assumes a \$1 million deductible and purchases insurance up to an estimated \$2 million above the deductible. If A&P suffers no losses above \$1 million, its minimum premium is \$100,000. If it suffers a loss over the maximum premium of \$2 million, it need only pay the \$2 million. It means that A&P could suffer a \$10 million loss and only pay a premium of \$2 million, Mr. Porrett explained.

The fire insurance policy was placed by A&P's property brokers, Marsh & McLennan, through Pacific Employers Group in Belgium. ■

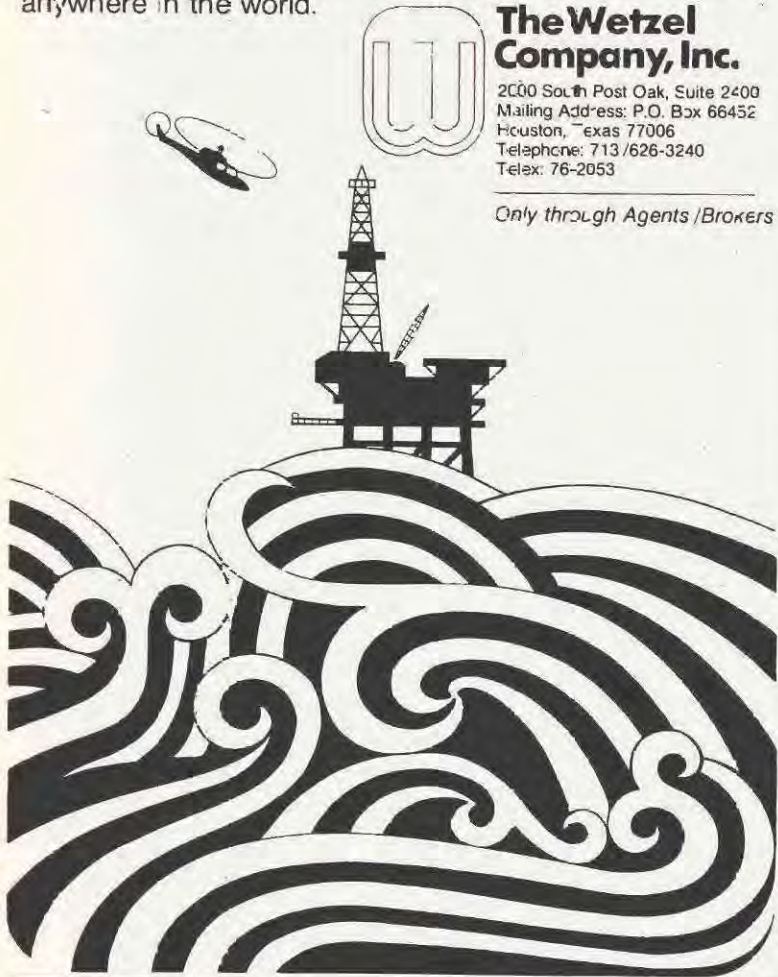
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Blues cost-cuts . . .

Continued from page 1

cally unnecessary. Group plans and individually purchased plans are involved.

Attorneys for plaintiffs in both actions said the suits could lay the groundwork for similar challenges in other states. "It could set the pace for the same question coming up in other states even though what happened in Illinois will not be binding on them," said Ellis B. Levin, attorney in one of the suits. "I've gotten calls not only from Illinois but from all over the country."

Illinois is currently in the vanguard of such challenges due to a 1977 appeals court ruling that the association had no authority to deny claims on lack of medical necessity because there was no "express language" allowing for it in contracts with the persons and employers involved, said Mr. Levin. The decision resulted from lawsuits filed several years ago by federal employees whose claims for inpatient care and oral surgery were turned down.

The firm tried to add a rider to its policies expanding the medical necessity clause, but the measure was annulled last September by the Illinois insurance department.

The class action filed by Mr. Levin seeks payment of the denied claims and asks the court to prohibit further claim denials based

on a medical necessity test by the defendant, Health Services Corp., Blue Cross/Blue Shield's major Illinois operation. The suit contends the denials impede the doctor-patient relationship and the doctor's ability to diagnose a condition and prescribe treatment.

Class action suits

The second class action suit was filed Feb. 2 on behalf of six persons against Health Care Service Corp., said Phillip Snelling, attorney for the Legal Assistance Foundation of Chicago which filed the suit. The action charges that more than 15,000 hospital patients had to pay their own bills since 1976 due to claim denials by Blue Cross under the medical necessity clause, said Mr. Snelling.

The language in the insurance policy purchased by those involved gives Blue Cross too much leeway for denying claims the attorney said. A clearer definition of "medical necessity" is needed, he suggested.

Blue Cross/Blue Shield plans of Illinois paid out \$700 million for some 5 million claims in 1978, a spokesman for the Illinois plan said. About 6,000 claims were denied in the state in 1977, the latest figure available, mostly for inpatient diagnostic testing that could have been performed on a less expensive out-patient basis or for hospital stays deemed longer than necessary, he said.

"These two things are a factor in a lot of denials," said the spokesman.

"Safe ground"

Pointing out that the firm's 1977 medical necessity measures as well as the new recommendations are backed by the medical community, "we're on pretty safe ground," said Mike Pipito, senior director of provider and professional relations for the associations.

The original medical necessity project started in 1977 listing 42 surgical and diagnostic procedures to be eliminated from payment that were considered to be of doubtful medical value and were costing Blue Cross/Blue Shield subscribers more than \$24 million a year.

The 1977 recommendations were made after consulting the American College of Physicians, the American College of Surgeons, the American College of Radiology and other medical specialty groups. The American Medical Assn., also consulted about the plan, supported it in 1977 and

backs the new efforts, a spokesman said.

Phasing out coverage for the 26 laboratory procedures will guard against overlap and tests whose results can be determined another way, an AMA spokesman said.

Encouraging specific admissions tests only on doctor orders is important, he said, because "the entire battery of tests can be wasteful. The physician doesn't require every patient he or she admits to the hospital to have the same tests. If there is a chronic illness for which a patient must come back to the hospital, there's no need for the same tests to be performed every time they're admitted."

Cost shifting feared

The Health Insurance Assn. of America representing 313 health insurers exclusive of Blue Cross supports the Blue Cross initiative. "We're in complete agreement with the cost-cutting effort—the question is how to get there," said HIA vp Louis Orsini.

Curbs on the hospital admissions battery of tests could lead to claim denials that might produce the undesired result of shifting the cost of medical care back to the consumer, he said.

Employers supportive

Some of the nation's large health insurers, including Connecticut General Life Insurance Co., the Travelers Insurance Co. and Aetna Life & Casualty Co. say any effort to hold health care costs in check is good. But they add, reviewing claims for medical need is nothing new. "We're not going to pay just anything with the sky being the limit," said a spokesman for Connecticut General.

The Washington Business Group on Health, which analyzes and researches health issues for large corporations, also supports the Blue Cross step. But there will be little progress toward true cost control in health care unless providers, interest groups, and insurance companies, "talk among ourselves about it," said Andrew Weinberg, assistant to the director for the business group.

It may be some time before the effectiveness of the measures is known, noted consultant Steven Schanes.

Blue Cross officials say the plan will take a year to implement and it must first be adopted by the 130 member plans, noted the president of Schanes Associates, which advises the National Employee Benefits Institute.

"But it is a good idea that the hospitals are going to say that the doctor has to examine more carefully what might otherwise be done routinely," he said. ■

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MET wins its case . . .

Continued from page 2
 them for exactly the same price and is allowed to switch from panel to non-panel facilities without giving notice to IBT. "This kind of plan benefits three groups: the provider of the medical care, the members who purchase the plans and finally the trust fund itself," Mr. Barnett said.

"Since the name of the medical provider is given to our trust participants, he generally gets a larger volume of business than he would otherwise. There is also less paperwork involved for the medical care provider and a guarantee from the trust that he will receive reimbursement for his services on a timely basis," according to the IBT marketing vp.

The trust member, on the other hand, receives a wide range of medical providers to choose from, more comprehensive health coverage and vision, legal coverage and second surgical opinion coverage without the extra cost, he said. The plan benefits from this type of approach, Mr. Barnett explained, by directing members to a chosen group of medical care providers but still leaving room for the member to choose a doctor. "Claims are controlled this way and the trust can offer a stable and reasonable price for the plan."

After analyzing IBT, judge Robert M. Takasugi of the California district court concluded;

- IBT was established and is maintained by an employer as the term is defined under ERISA and can provide its participants and their beneficiaries with the types of benefits mandated under ERISA.

- IBT is an "employee welfare benefit plan" and a "welfare plan" in accordance with ERISA.

- Despite the fact that the plan is actuarially sound, it does not interfere with the determination that it is an employee benefit plan under ERISA.

- Even though the plan solicits qualified entities to participate in the plan and pays reasonable compensation for solicitation services, it is still subject to ERISA regulations.

"It's too early to tell what long term effects this decision will have on multiple employer trusts nationwide," mused Mr. Dorais, the Los Angeles attorney. "One thing is absolutely certain, though, it will make the Labor Department take a second and more serious look at multiple employer trusts and maybe settle some doubts for administrators of these plans and the members."

The question was presented to the court as a result of a dispute between IBT and Security Health Plan, a health care provider.

Meanwhile, Associated Health Plans Inc., a multiple employer trust of Michigan, was placed in receivership of the state's insurance department when the insurance department discovered that the trust's reserves were inadequate. Approximately 1,200 employers representing 9,000 employees are insured with the plan.

Associated Health Plans which has been under the scrutiny of the department since June 1978, was charging lower premiums and offering higher benefit levels than any commercial insurers and the Blue Cross & Blue Shield plan, said Dave Jordon, a member of the insurance commissioner's staff. The insurance commissioner was worried that Associated's rates weren't high enough to honor claims in the long run, according to Mr. Jordon.

Receivership transfers to the commissioner the responsibility for accumulating the assets of the

plan, collecting financial information, figuring the debts and figuring equitable settlements.

Associated is not the only multiple employer trust that the department is eyeing closely, Mr. Jordon said. "Other multiple employer trusts have run into the same problem, although this is the first time in Michigan's history that the responsibility of rejuvenating a similar plan goes on the commissioner's shoulders," Mr. Jordon added.

"When the commissioner feels that the plan is in a financial position where the consumer is properly protected, Associated Health Plans will be able to operate in the state without insurance department control," Mr. Jordon said.

Trust observers say that placing a multiple employer trust in receivership is a regulatory device. ■

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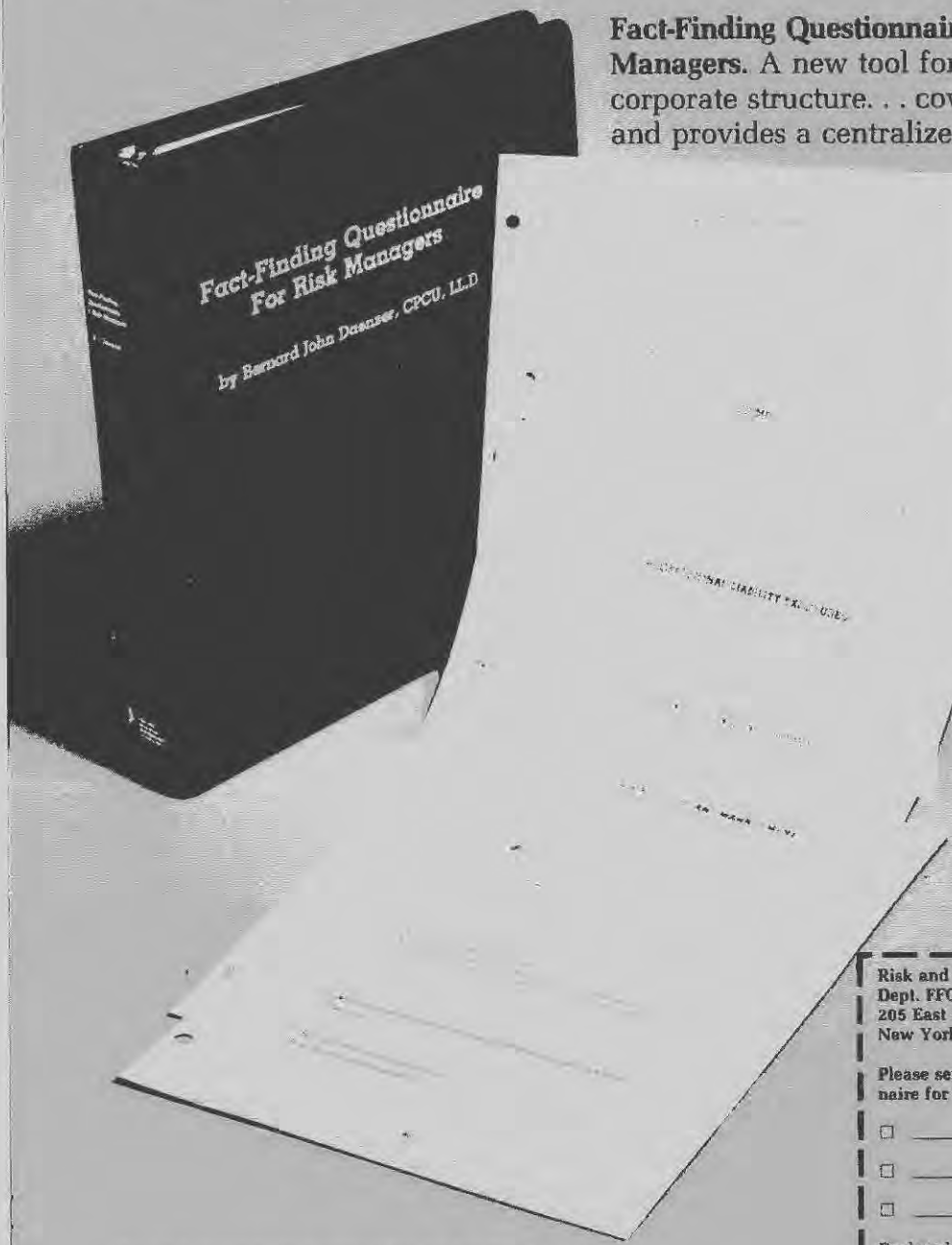
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Computer net . . .

Continued from page 3

the underwriting, floor seeking subscriptions. The trading floor at REX, however, consists of the main computer system in Oldwick, N.J., linked to computer terminals in underwriting offices throughout the nation.

The comparison with Lloyd's ends there, said Henry T. Kramer, REX's founding father, who came out of retirement to create the computer communications network. Mr. Kramer is a former president of North American Reinsurance Corp.

"Lloyd's is a place to go to get cover, while REX is a communication systems used to get cover," Mr. Kramer emphasized.

Creation of the REX system, which Mr. Kramer said will be operating mid-1979, comes at a time when innovation is at a pre-

mium in the insurance industry. Indeed, the nicknames and acronyms for the insurance exchange and Free Trade Zone, have been confused with the REX name. Initially REX will be open to U.S. companies, but later will be expanded for international business.

Unlike the insurance exchange and the Free Trade Zone, which have dominated the news in recent months, REX has been in the works since the late 1960s. "It's been the best-kept secret in the insurance and reinsurance industries," Mr. Kramer said.

An old idea

REX was conceived as a type of American Lloyd's, he explained. Producers and underwriters were concerned in the late 1960s about impaired capacity and looked to a system like Lloyd's as a way to draw upon capacity previously untapped by them individually, he said.

But "serious regulatory and legal obstacles" prevented the creation of such an insurance exchange then. "So we thought it might be possible to accomplish the same purpose with electronic communications," Mr. Kramer said.

While the recently legislated insurance exchange evolved as a broker-oriented plan, the REX system is geared for insurers, allowing for direct dealing between insurers and reinsurers.

REX began in 1974 as the American Reinsurance Exchange, backed by an informal group of sponsors. They organized a company in January 1976 with 12 shareholders, 11 of them insurers or reinsurers. Approximately \$5

million was committed to research and development of the project.

The 11 insurers include Aetna Insurance Co., Allstate Insurance Co., American International Group, CNA, Crum & Forster, Employers of Wausau, Employers Reinsurance Corp., North American Reinsurance Corp., Prudential Reinsurance Co., Sentry Insurance and St. Paul Fire & Marine Insurance Co. A.M. Best is also a shareholder. (REX's offices are located at Best's headquarters.)

Although REX was viewed as the answer to capacity problems, the emphasis of REX has now shifted because there's renewed underwriting competition, Mr. Kramer said. Reducing the cost of expensive-to-place facultative reinsurance is now a major goal, he said.

"The cost of placing facultative reinsurance is much higher than most people think because its cost is merged into the total insurer's operations," Mr. Kramer noted. The "personnel intensive" nature of facultative reinsurance marketing and underwriting makes it expensive to transact, he explained.

But with REX, reinsurance transactions can be conducted with only one underwriter or typist trained to use the computer.

REX will reduce the cost by allowing ceding reinsurers to communicate with as many potential assuming reinsurers as desired, using a single typed computer message to achieve economies of scale. And a ceding reinsurer will be able to obtain an answer from an assuming reinsurer within two days.

Maybe too impersonal

Facultative reinsurers can save five expense ratio points on their business by subscribing to the system, Mr. Kramer maintains.

Subscription fees are not yet es-

tablished. But the cost will be about \$800 to \$1,000 monthly for rental of computer terminals and long-distance wires, plus a service fee of 3% of written premium. The 3% could be spent between the ceding and assuming reinsurers on a piece of business.

"It costs less than hiring one good clerk," he claimed.

Sentry Insurance, for example, is backing the system because it hasn't maintained enough staff to write facultative reinsurance, but REX will solve the labor problem, said Paul Walther, vp of reinsurance at Sentry.

REX's success depends upon the number of subscribers to the system, since business can only be transacted among subscribers. But only six or seven terminals will be available from International Business Machines Corp. each month, Mr. Kramer said, so it "may be years before REX will reach its full potential."

Potential REX users question whether they'll want to subscribe, concerned that the computer will make the business too impersonal and thus hinder effective communication.

"It's a tough thing. You can't substitute face-to-face discussion with an underwriter. We've invested a lot of money into building a staff for facultative reinsurance," said James Inzerillo, president of Munich-American Reinsurance, whose book of business is 30% to 35% facultative.

"But REX will find its niche in time," he believes.

"Reinsurance is a people business and we'd be losing the personal contact with clients by using REX. You get a feel for the risk when you talk to the underwriter personally," said a Buffalo Reinsurance official.

"Sometimes you may start out not liking a risk and later change

your mind because you begin to feel more comfortable about the risk after you've talked with the underwriter," said another reinsurer.

Mr. Kramer explained, however, that REX can eliminate differences of opinion that might arise after terms of the transaction have been agreed to orally. He also noted that the REX computer forms are easy to use and that the computer is programmed to handle a variety of communications, including even negotiations to obtain a lower commission.

No lunch dates

"About the only thing you can't do with REX is ask it out to lunch, Mr. Kramer contends.

Questions have also been raised about the system's security. Several sources noted it's conceivable underwriters could steal business from one another and offer to write the risk at a lower price.

Mr. Kramer responds to that argument by noting the computer system is programmed with security devices "that you wouldn't believe." "If anyone wanted to commit a fraud, they would be better off doing it outside the system," Mr. Kramer added.

One safeguard built into REX allows only underwriters involved in the risk to learn anything about the policy. Total layers insured are not available to any one reinsurer. Only figures for those layers in which the reinsurer participates can be obtained.

Rex is programmed with several accounting functions that are sent to subscribers. The REX system zero balances all transactions daily and sends subscribers a print-out of all transactions conducted each month, complete with cash transactions and cash balances due.

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Work comp bill . . .

Continued from page 3

claim with the Labor Department's Benefit Review Board for supplemental compensation to make up for the difference between the state benefit and the federal standard.

Under the proposal, injured workers would be entitled to two-thirds of their average weekly wage. For low-income employees, the benefit level would be no less than 100% of the statewide average weekly wage two years after the bill's enactment and no less than 150% of the state average weekly wage five years after enactment.

No inflation index

The bill only covers death and temporary total disability benefits. Possible standards for partial disability would be studied by a Labor Department task force. The task force's recommendations would be due three years after the bill is enacted.

The legislation requires that state workers compensation plans pay for all medical expenses result-

ing from work-related injury or disease. "This provision eliminates those unreasonable limitations which currently apply to medical payments, and which sometimes require medical costs to be paid . . . out of workers' savings," Sen. Williams said.

In a significant departure from last year's bill, Sen. Williams and Sen. Javits have removed a provision that called for indexing benefits to the rate of inflation.

Indexing of benefits to keep up with inflation came under fire last year from American Insurance Assn. counsel Robert Flockhart who noted that indexing of benefits could easily result in an annual level which would exceed the expected wage the injured worker would have made.

Although it had been speculated that Sen. Williams and Sen. Javits would propose that workers compensation be made the sole source of recovery for workplace accidents, the new bill doesn't go that far. Instead, the bill calls for a product liability award to be reduced by the amount an injured worker re-

Calif. awards soar: Study

SAN FRANCISCO—The size of verdicts awarded by California juries to personal injury victims soared dramatically last year, according to statistics compiled by the Insurance Information Institute (III).

An analysis by the insurance industry public relations and educational organization, of 128 California product liability verdicts in 1978 showed the average award was \$559,470. In 1977, the III found that the average award was \$229,621 for the 139 verdicts in-

cluded in the sample.

The figures on the jury verdicts were supplied by two California legal reporting services, said an III spokeswoman. They do not necessarily represent all verdicts rendered in the state, she said.

Much of the increase in the size of the average jury verdicts in product liability cases between the 1977 and 1978 is the result of three multimillion dollar judgments rendered against Ford Motor Co. last year. The highest award against Ford was \$11.5 million.

ceives in workers compensation benefits.

When hearings on the legislation begin in late March or early April, the key issue will be how much progress the states have made since 1972 when a national commission urged that the states modernize their workers compensation laws by adopting 19 "essential" recommendations.

No perfect state

Sen. Williams notes that not a single state has implemented all 19 recommendations. In 20 states, a worker who is permanently and totally disabled can receive benefits as low as \$25 a week, he added.

In several other states, a permanently and totally disabled worker can only receive benefits for a fixed time period, in some cases less than seven years. "This means that a worker who is permanently and totally disabled at age 20 may receive no workers

compensation benefits beyond his 27th birthday," Sen. Williams said.

But the Alliance of American Insurers, an industry trade group, contends that the states have made significant progress in the last six years in raising benefits.

"Benefit increases have been dramatic, far outpacing increases in national average weekly wages or increases in the Consumer Price Index," Alliance vp Andre Maisonpierre said recently. Higher benefits coupled with increases in workers compensation rates would present some businesses with severe insurance price problems, he added.

In addition, before consideration can be given to the establishment of minimum standards, something must be done to clean up the fraud and abuse in the current system, says Phil Pulizzi, director of legislative affairs for the National Assn. of Manufacturers. "This bill does nothing to curb fraud and abuse," he said.

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Insurance exchange . . .

Continued from page 1
 were to provisions barring foreigners from serving on the exchange's board of governors, provisions for self-policing of exchange members he called inadequate access of insureds to the exchange guarantee fund and the limited period of time syndicates had to form and join the exchange prior to start-up.

Compromise fails

A compromise between Mr. Lewis and the senate majority leaders had apparently been worked out, but it fell apart when Mr. Lewis angrily objected to an announcement of the compromise by Sen. Dunne. "I have made no agreement with Sen. Dunne," he shouted to a Dunne aide in the Senate lobby. Shortly afterwards, Sen. Dunne withdrew his statement.

Instead, the senate majority pushed through another resolution which satisfied most of Mr. Dunne's concerns.

The resolution calls for allowing one-third of the members of the board of governors to be non-U.S. citizens, requires that the exchange comply with section 47 of the state insurance law—which states that no more than 10% of a company's surplus should be committed to one risk—and lengthens the time period to 70 days from 45 for filing and processing applications for membership in the exchange.

At a senate insurance committee hearing here, Sen. Dunne maintained his objections were public policy questions and not insurance issues. "There is no provision in state law for exclusion of foreign directors on the board of not-for-profit corporations such as the exchange," he said.

The 45-day period in which syndicates could be organized was criticized by the senator as being too short and lending itself to development of a "closed club." This could result in antitrust violations, he said.

Another try

A bill to allow resubmission of the constitution and bylaws is expected to be introduced this week when the legislature returns from a holiday recess. The bill was not introduced last week with other resolutions because it also requires the approval of the state assembly, which had already adjourned.

Sen. Dunne's resolution to the rules committee was fully supported by Senator Warren Anderson, majority leader and chairman of the rules committee. "This resolution will probably save the governor and the superintendent of insurance from embarrassing themselves," said John F. Haggerty, counsel to the senate majority and Sen. Anderson.

"We're going to force them back to the drawing board," he said. "We want the exchange in place, but we want it correctly in place. We want this exchange to be an exchange and not a pet project of certain interests."

Party line vote

The vote against the proposed constitution and bylaws of the exchange was along party lines, with 35 Republicans siding with Sen. Dunne against 23 Democrats supporting the governor.

Both Sen. Haggerty and Sen. Dunne said the insurance department failed to offer substantial arguments against the senator's criticisms. "Their reply to us has been a simple declination and our reply is a simple rejection," Mr. Haggerty said. Sen. Anderson, told *Business In-*

urance he did not consider the dispute between Sen. Dunne and the Committee of 13 to be unresolvable. Without Sen. Anderson's support, the resolution to reject the constitution would not have had much support.

"We're deeply committed to seeing it in place, but the Senate wants to make sure it has no reservations," Sen. Anderson said. The majority leader had tried to arrange a meeting with Gov. Carey, Mr. Lewis and Sen. Dunne to work out a satisfactory compromise.

Mr. Haggerty also rejected the argument that the insurance exchange would move to another state as a result of rejection by the senate. Illinois had been most mentioned as a possible relocation site because of its favorable insurance laws and regulatory climate. "If Chicago establishes an ex-

change under the constitution in its present form and we establish an exchange under the constitution that we require, Chicago would be noncompetitive," he said.

However, Marsh & McLennan chairman L. Patton Kline told Crain's Chicago Business if the Senate defeats the constitution, "I'll be one of the first on a plane to Chicago to help ask the city fathers if they want it there."

Illinois willing

Earlier, Mr. Kline said Chicago and New Jersey had indicated interest in the exchange. But, he added, there is "too much momentum in New York and it makes too much sense to have it in New York than to see it killed."

"If it becomes a fight, there is no question people in the industry will look elsewhere," said Michael Curan, former deputy superintendent of insurance who handled in-

urance exchange matters for the department.

Illinois insurance department officials have indicated their willingness to have the insurance exchange located in that state. "We have the most hospitable climate in the country," said Philip O'Connor, assistant to director Richard L. Mathias.

An operation similar to New York's free trade zone already exists informally in the Chicago area and no state legislation would be needed to set up the exchange, Mr. O'Connor said.

In addition, the Illinois department hopes to offer to the state legislature proposals that could ease the regulatory climate there, Mr. O'Connor said. These would not be contingent upon what happens in New York, he said.

N.J. interest?

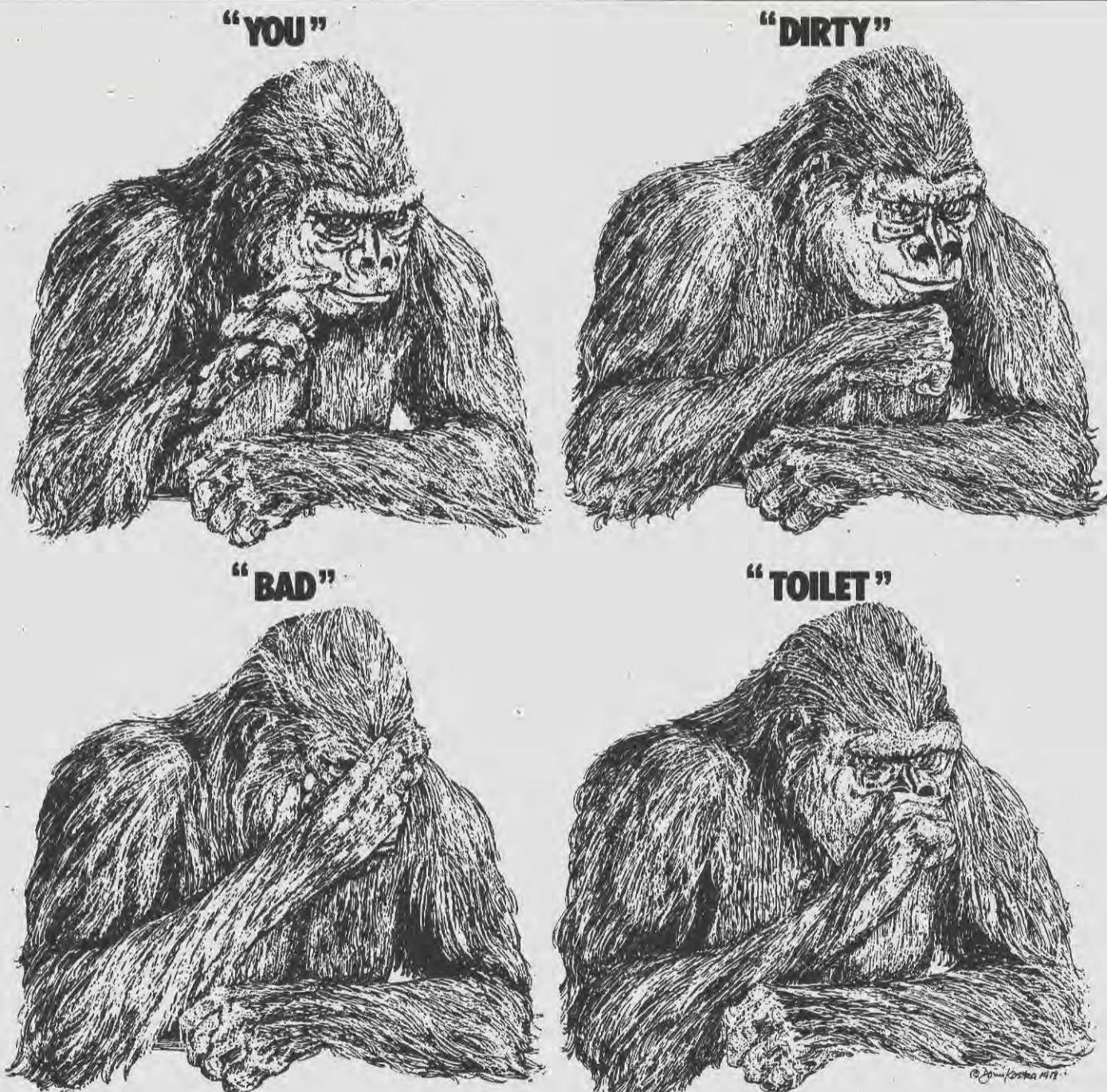
Illinois legislator Bernard E. Epton is planning to introduce a bill

in the house to allow an insurance exchange to operate in Illinois. "This bill is being introduced independently of what happens in New York," Mr. Epton emphasized. "I simply thought it would be an excellent venture for the insurance industry in Illinois."

If the bill passes, the rules will be drawn subject to the approval of the director of insurance, the reverse of the approach in N.Y., Mr. Epton noted.

A spokesman for the New Jersey insurance department said there had been no departmental discussion to date about locating the insurance exchange there, but informed sources said legislative leaders had been considering a proposal.

"It's something (the exchange) New York needs so desperately. It could change the whole image of New York as a place to do business," said Mr. Curan. "It's distressing that it has come to this."



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Rising pension costs to stabilize, study forecasts

By JOHN MAES

CHICAGO—Pension costs increased again in 1977 and continue to take a sizeable chunk from the pretax profits of the Fortune 500 companies, but a post-ERISA leveling off is becoming apparent, according to a Johnson & Higgins study.

While much is said about the problems of unfunded vested liability, three-quarters of all Fortune 500 firms reported those liabilities amount to less than 10% of their net worth, indicating plans are in good health, the consultants said.

The study found pension costs rose 13.5% in 1977 but the increase was less than in 1976 when pension costs rose 16.9%. But the 1976 jump was described as the "watershed year" when companies had to spend more to improve benefit plans in compliance with the 1974 ERISA legislation.

The cost increase, "might have decelerated even more, except for cost pressures in the opposite direction," said the report, referring to general inflationary trends.

The study shows companies paid approximately \$13.2 billion toward pension fund maintenance in 1977 with industrial firms paying all but \$2.4 billion of that total.

On an industry-by-industry basis, the measuring, scientific and photo equipment group showed the highest increase in pension fund costs, 21.7% for 1977 when compared with 1976. The broadcasting, motion picture production and distribution field was next highest with a 21.5% hike followed by electronics and appliances, 20.5% and glass, concrete, abrasives and gypsum, 18.8%.

The paper, fiber and wood products group showed a 17.9% jump for the two years. Retailers had the highest pension cost increase among non-industrial groups, 20.6%, while the furniture industry group had the lowest increase, 1.4% among industrials.

Nearly half of the 500 industrial and commercial firms surveyed said pension costs were less than 5% of total wages and salaries while another 48% reported pension costs took up between 5% and 9.9% of annual payrolls in 1977. Only 6% of the firms paid 10% to 14.9% for pensions in 1977, a drop from 12% in 1976.

Pretax profits were up 8.5% in 1977, but in the same year pension costs ate up 12.4% of that income, a slight increase over 1976 when such costs represented 11.8%, the report said.

Hardest hit in that category was the metals industry which paid 198.4%, or nearly two years worth of its pretax profits in 1977 pension costs. Actual pension costs were up only 6.2%, but pretax profits in that industry plummeted nearly 70%.

However, five industries needed no more than one month's pretax profits to pay pension costs. Among those were broadcasting, motion picture production, pharmaceuticals, tobacco and cosmetics.

Pension costs increased 8.4% on a per-employee basis for 1977 even though there were 3.2% more employees with the Fortune 500 firms. The jump in this category was significantly less than in 1976 when per-employee pension costs were 19.1% higher than when compared with 1975.

Only one industry, mining and crude oil, experienced a drop (3.3%) in per-employee costs in 1977 but it averaged \$1,643 in costs per-worker, the highest of any industry, the Johnson & Higgins figures show.

The broadcasting and motion picture group had the largest jump in per-employee pension costs, 42.2%. The furniture industry, with an 18.8% increase was second in the category, followed by the paper and wood products industry at

14.5% and the transportation companies with a 14.3% increase. Industries which experienced an increased of \$1,000 or more for pension costs per-worker included: metal manufacturing (\$1,552), petroleum refining (\$1,257), aerospace (\$1,271) and chemical (\$1,051).

Highest increases among non-industrials were utilities, at \$1,743, and transportation companies, which paid \$1,186 more in pension costs per-employee in 1977 than in

1976, according to the study.

Other statistics showed 27% of the Fortune 500 had no unfunded vested liability in 1977, while in only 5% of the firms did the figure exceed 30% of the company's net worth. Of the companies in the 30% category for 1977, nine were industrial and one was a non-industrial.

There was no appreciable difference in the rate of unfunded vested liabilities as a percent of net worth between 1976 and 1977, the consultants said.

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INA and Bermuda firm offer retro casualty plan

NEW YORK—Aneco Reinsurance Co. Ltd. of Bermuda and Insurance Co. of North America (INA) plan to offer an alternative insurance program to corporations called a "retrospectively rated casualty insurance program."

The new program "is designed to insure that the premiums paid by the insured are tax deductible," said Edward J. Mallozzi, president of Atrien Consulting Corp. Ltd. The new program "is the closest thing we know" to a vehicle that answers the objections to tax deductibility of premiums paid to captives which were contained in the tax court ruling on the Carna-

New insurance on mortgages

SAN FRANCISCO—Hull & Co. (California) Inc. is offering a new risk mortgage impairment insurance program covering lending institutions for losses of the loan security.

Coverage is also available for errors and omissions arising from the insurer's purchase and maintenance of life and disability insurance and omissions in their dealings with the Veteran's Administration or federal housing agencies.

The primary program includes limits up to \$1 million with excess limits of \$4 million. The policy also calls for reinstatement of limits for any loss or occurrence under most sections of the policy. Coverage is available on an annual or three-year basis with extended cancellation terms, the company announced.

tion case, he said (BI, Jan. 8).

Mr. Mallozzi is a principal shareholder in Aneco Re, a new public held reinsurance company. Atrien Consulting Corp. Ltd. is the new name of an entity formerly known as A.E.C. Professional Services Ltd. A.E.C. was a wholly owned subsidiary of Andrew Edwards & Co., New York, (BI, Nov. 13, 1978).

Atrien Consulting, however, is totally separate from Andrew Edwards, according to Robert A. Mulderig, who is an investor in Aneco Re. Aneco Re will deal with Andrew Edwards in the same way that it deals with other reinsurance brokers.

According to the press release on the agreement between Aneco and INA, corporate insureds who participate in the retrospectively rated casualty insurance program will be reinsured by a newly organized Bermuda subsidiary of Aneco. The subsidiary has an initial capitalization of \$1 million.

"The participating U.S. corporations will purchase redeemable, non-voting preferred shares from the subsidiary in the amount related to the premium volume expected to be paid by such corporations under the program," the release said.

The redemption of these shares is expected to give the potential corporate insureds the benefit of the investment income earned by the subsidiary on both the preferred share capital and the retained premium, the release said.

Aneco Re's new subsidiary will work with risk managers of companies participating in the new program through INA's worldwide facilities, Mr. Mallozzi said.

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Broker purchases M&M's Fairfax

NEW YORK—Agreement has been reached clearing the way for Crum & Forster Insurance Co. to acquire Fairfax Underwriters Services Inc. from Marsh & McLennan for an undisclosed amount.

M&M is allowing the acquisition

of its wholly owned subsidiary to provide the Kansas City-based Fairfax with an opportunity to expand its business into aviation and excess and surplus lines coverage, according to an M&M spokesman.

The transaction has already been set "in principle" but is subject to formal approval by directors of Marsh & McLennan and the Crum & Forster executive committee. ■



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people

Eugene Johnson joins Dart, ending his career as a broker

Eugene F. Johnson, 48, has been named director of corporate insurance for Dart Industries Inc., Los Angeles, replacing **John Oddy**, who resigned. Mr. Johnson has been an account executive for Clifton & Co. Insurance brokers, in the Los Angeles office, for the last 3½ years. Before that he was with Rollins Burdick Hunter in Chicago. In his new position, he reports to William A. Miller, director of insurance. Mr. Johnson has a BA in economics degree from Drury College, Springfield Mo., a CPCU and an associate in risk management designation. Clifton & Co. has been Dart Industries' broker for a number of years.

James A. McCullough, manager of insurance for the Union Oil Co. of California, received the past president's award from the Southern California chapter of RIMS.

G. Carlton Revels, 38, has joined Triangle Pacific Corp. in Dallas as risk manager, a newly created position. Mr. Revels reports to M. Joseph McHugh, vp of finance and treasurer, who was responsible for insurance. Previously, Mr. Revels was insurance manager for four years at Dibrell Brothers Inc. in Danville, Va. He consolidated the company's property and casualty insurance during his employment there. His replacement is **John O. Hunnicutt III**, 33, who previously was an insurance supervisor for Travelers Insurance Co. for seven years. Mr. Hunnicutt reports to R.H. Thomas, vp of finance.

Michael C. McNerney has been promoted to general manager of the insurance department at Mobil Oil Corp. He reports to assistant treasurer W.F. Brann. Previously, Mr. McNerney was in general administration. Mr. McNerney replaces **Allan G. Fletcher** who as



Fish

Beck

reported joined Alexander & Alexander Services Inc. after working at Mobil for 18 years.

William V. Fish, 35, has been promoted at the Marmon Group in Chicago to director of risk management, replacing Sheldon Staubitz, who left the company. Mr. Fish, who is responsible for the member company's corporate insurance programs and safety activities, reports to vp Allen Palles. Mr. Fish was promoted from tax manager, a position he held for four years.

Arlington B. Beck was named to the newly created post of corporate risk manager for Winnebago Industries Inc. in Forest City, Iowa. He will be responsible for managing corporate property and casualty risks through coordination of safety, loss prevention, claims control and insurance programs. Mr. Beck was formerly corporate risk manager for Cleveland-based Dana Corp.'s Weatherhead division, where he spent 25 years.

John E. Houghton, 53, has been appointed safety specialist in the risk management branch of the Navy Resale System Office in Brooklyn. He reports to risk manager H. Miller. The safety position had been open for two years. Mr. Houghton is responsible for administering the Navy Exchanges and Commissary Stores Safety Programs and their compliance with OSHA. He previously was a safety manager for five years in private industry in New York.

Timothy P. Sterling, 30, has been promoted to property and casualty risk manager at Fiat-Allis Construction Machinery Inc. in Deerfield, Ill. He joined Fiat-Allis in April 1975 as supervisor of property and casualty insurance. He is responsible for negotiating and administering both insurance and self-insurance for risks in the U.S., Canada, Singapore, Korea, Australia, England, Belgium and France. Mr. Sterling reports to Steve Sinclair, corporate treasurer.

John Hughes, 40, has been named to the new position of workers compensation administrator at Wilson Freight Co. in Cincinnati. Mr. Hughes previously was with the bureau of insurance and risk management for the state of Ohio's department of administrative services. He held that job for seven years. Wilson Freight created the workers compensation post because the company is acquiring Strickland Transportation Co. in Memphis, enlarging the job. Previously, the personnel department handled that function.

Two new staff members have joined the insurance department of Chicago-based United Airlines. **Roger C. Tragesser**, 40, has been selected as corporate insurance claims manager, replacing **Robert**

Fredrickson, who retired. His responsibilities encompass passenger injury and property damage claims as well as workers compensation in all states but California. Mr. Tragesser previously was corporate counsel for Pay Less Drug Stores in Portland. In California, **Richard A. Milan**, 40, has been appointed workers compensation claims manager, a new position created because United began administering its self-insured workers compensation claims in the state. Mr. Milan, who has 14 years of workers compensation experience, most recently was with the Hartford Insurance Co. in San Francisco.

Barbara C. Ernst, 23, has been promoted to senior compensation and benefits analyst for the Wickes Corp. in San Diego. She reports to John C. Golish, director of compensation and benefits. Ms. Ernst joined the company as a compensation and benefits analyst in July 1977 after working in the operations department of the Bank of America in San Diego and in the office of the Tax Collector for San Diego. Wickes hasn't decided whether to fill her former position.

Inmont Corp. has promoted **Thomas R. Keenan** to manager of benefits administration from benefits administrator. To replace him, **Linda Riegelhaupt**, 26, has been promoted to benefits administrator from claim approver. Mr. Keenan replaces **Carl Pauzner**, who moved to the labor relations department. Mr. Keenan joined Inmont in 1962 and has held a variety of supervisory jobs in benefits and payroll. Mrs. Riegelhaupt joined the company in 1976. She previously was a claims examiner for Massachusetts Mutual Life Insurance Co. for two years.

Timothy P. Sterling, 30, has been promoted to property and casualty risk manager at Fiat-Allis Construction Machinery Inc., Deerfield, Ill. He reports to treasurer Steve Sinclair. His responsibilities include negotiating and administering insurance and self-insurance programs in the U.S. and several foreign countries. Mr. Sterling joined the company in 1975 as supervisor of property and casualty insurance.

Dominick Zullo, 31, has been named manager of corporate insurance for Aerojet General Corp. in El Monte, Calif., reporting to Edward Riordan, director of risk management. Mr. Zullo, a graduate of the College of Insurance in New York, formerly worked in the insurance department of ITT-Rayonier Inc. in New York.

Janet B. Puthoff was named risk manager for the Palo Alto Unified School District effective Jan. 2. The position is newly created. Ms. Puthoff has a background in administering human relations and is knowledgeable in the fields of employe discipline and vandalism.

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- Does your policy contain a limited retroactive acts exclusion?
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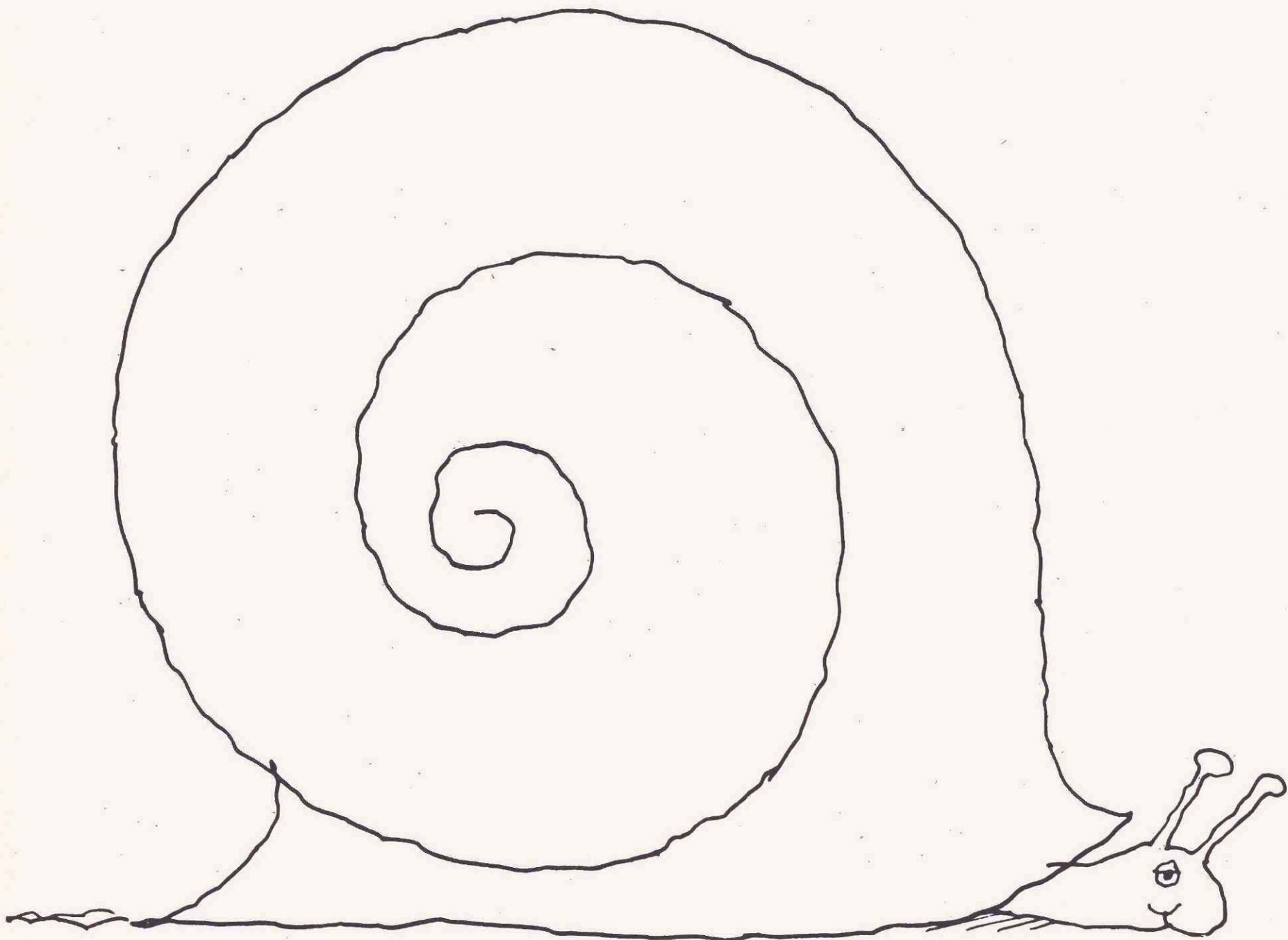
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