

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Renewals are easy for this manager

By SUSAN ALT



An artisan carefully prepares a lucite model of a new glass container for a customer at an Anchor Hocking plant

LANCASTER, OHIO—Last year, while risk managers were bemoaning the lack of availability and escalating price of insurance, Dick Heydinger of Anchor Hocking Corp. was renewing all his major policies with no trouble at all.

In the process, he believes he saved the diversified glass and plastic manufacturer nearly a million dollars, partly in lowered premiums and partly through increased coverage without higher premiums.

And that's the message Mr. Heydinger's superiors will get from the risk management department's annual activities report which is being prepared for the treasurer.

Anchor Hocking, with \$500 million in sales annually, employs more than 20,000 people in 80 locations worldwide.

This is the first year Mr. Heydinger has prepared an annual report, although that's been a goal he's had for several years. At the beginning of the report, the 33-year-old risk manager has a cost benefit summary, with the \$270,000 spent in 1976 for risk department administration offset by a savings of \$999,439.

That overall figure admittedly includes some "ghost" figures resulting from expected premium increases avoided during the year, elimination of an expensive fire

protection system insurers had suggested for one operation and cash flow advantages. Nevertheless, Mr. Heydinger spiritedly defends his "total benefits" approach as accurately reflecting his department's hard work throughout the year.

Take, for example, the top cost reduction figure. "Reduction in Travelers' 1976 renewal" was listed as \$328,639 which represents, Mr. Heydinger says, "total savings from negotiations with Travelers compared with what Travelers had asked for in additional premiums, plus some actual experience adjustments."

Anchor Hocking uses Travelers for both its group plans—group life, health, accident and some disability insurance—and its casualty programs—workers' compensation, auto and general liability including products—paying annual premiums of between \$15 million and \$16 million.

The second largest saving was a \$210,000 reduction in state pre-

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Employe benefit trusts' growth alarms officials; more failures feared

By GREG DAVID

CHICAGO—The rapid growth of employe benefit trusts operating under the pension reform law has alarmed state insurance officials as well as trust administrators and agents.

Many worry that the recent bankruptcy of a large self-funded trust based in California—the National Multiple Employers Foundation—is just the beginning. They fear more trusts will become insolvent, leaving thousands with unpaid claims.

The trusts provide medical and death benefits. Originally designed to bring the advantages of group insurance to small employers, many trusts now accept groups of any size. Many insurance companies, acting on their own or on orders from state insurance departments, are refusing to insure such trusts. Thus, more and more trusts are opting for self-funding.

These trusts file as employe benefit plans under the Employee Retirement Income Security Act (ERISA) and argue that the law preempts any state regulation. But the U.S. Labor Department has only recently become interested in this area, leaving the trusts unregulated for all practical purposes.

The trusts fill an important need insurance companies seem reluctant to meet. Some trusts are fully insured with large insurance companies and backed by those companies' substantial reserves. Other self-funded trusts are backed by careful actuarial work and should be able to meet their obligations.

A Business Insurance investigation of these trusts has so far concentrated on several self-funded organizations in the West which have attracted the attention of state insurance officials. Several are presently engaged in litigation with state authorities and questions have been raised about the financial stability of others.

The trusts are:
• Common Market Employee Benefit Assn., a self-funded trust headquartered in Phoenix, Ariz., and operated by Frank Barry and Al Haney. The Arizona insurance department has gone to court in an effort to assert jurisdiction, charging the trust is a mass marketed insurance program and not an ERISA trust.

The state also charges Common Market is in hazardous financial condition, an allegation the asso-

ciation denies. The Common Market case could provide an important precedent on whether states may regulate these trusts.

• Employee Security Benefit Assn. (ESBA), Continental Employee Benefit Assn. and National Business Conference Employee Benefit Assn., trusts with identical benefit and rate packages that have been linked with a Bellevue, Wash., insurance company named Protective American Life Insurance Co. The insurance company says it only provides the trusts with certain services, but many

This is the first of two stories examining the rapid growth of employe benefit trusts. In the next issue, we'll discuss the problems of regulation and the Labor Department's role.

agents selling the trusts apparently believe Protective American is backing the trusts.

In addition a fourth trust, Protective Benefit Assn., has been linked with the life insurance company. Until Feb. 1, Protective Benefit had been administered by Frank Barry and Al Haney of Common Market.

• The National Multiple Employers Foundation, a large self-funded trust forced to file for bankruptcy Feb. 2 with thousands of unpaid claims. The trust was

administered by N. J. Dollwet, although investigators are probing the role of George E. Webb, the trust's founder. The foundation was reportedly receiving over \$1 million a month in medical and dental premiums.

Common Market

Common Market was founded in January 1975 and has grown quickly. According to Frederick C. Berry, deputy director of the Arizona department of insurance (no relation to Frank Barry of Common Market), the association has collected \$1 million in annual premiums in Arizona alone.

The state contends ERISA was meant to apply to self-funded welfare plans established by individual companies or by firms in a "common industry." Common Market, Arizona argues, is merely an underwriter that is mass marketing insurance and should be regulated under state laws.

Common Market, on the other hand, contends that the language of ERISA is broad enough to encompass associations open to a variety of groups. Don Kunz, attorney for Common Market, said he is disappointed in the insurance department's aggressive tactics in trying to shut down Common Market. Mr. Kunz won a federal court order prohibiting the department from interfering with

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The inside story

Municipal work comp

Local governments across the nation are following the Texas model and establishing funds to collectively self-insure workers' compensation. **Page 2.**

Chicago disaster

The Chicago Transit Authority has a \$2.5 million retention in its coverage for the rapid transit crash that killed 11 persons in Chicago's downtown area. **Page 3.**

Elsewhere:

- THOUSANDS OF Maryland attorneys are looking for a new source of legal malpractice insurance. **Page 4.**
- REQUIRING SMOKE detectors is a good idea. Editorial, **Page 20.**
- GM'S CHIEF of employe benefits offers some provocative ideas to control costs. **riskWatch, Page 25.**

Coming up: International Insurance

Our next issue spotlights trends and developments in international insurance. Feature editor Margaret LeRoux, our specialist on captives, spent 7 days in Bermuda preparing reports on that island's potential as a major insurance market. We'll also report on a new West German law that imposes strict liability and stiff insurance requirements on drug companies and how companies are coping with the risk of kidnap.

Northrop consolidation to save over \$1 million

By MARIE KRAKOWIECKI

LOS ANGELES—Northrop Corp. expects to save substantially more than \$1 million over the next two years by consolidating the insurance programs of its subsidiaries.

Johnson & Higgins won Northrop's liability account, with the exception of aviation and aviation products, while Alexander & Alexander won the entire international property account, marine cargo, and aviation coverages.

Northrop risk manager Alan Troop said he expects to realize a 20% savings in the firm's liability program as a result of J&H's new program, although he would not disclose a dollar amount. A&A's international property program will save approximately \$1

million over the next 24 months, he estimated.

In addition, Northrop has established a captive insurance company in Bermuda to reinsure U.S. workers' compensation risks. The captive is named the Tiger Insurance Co. after Northrop's most successful defense fighter plane, the F-5 Tiger. It is managed by Risk Management Inc.

According to public records in Bermuda, the Tiger Insurance Co. was registered in July. It was capitalized with only \$120,000—the minimum amount allowed by Bermuda law and usually discouraged by officials there who prefer to see captives established with more capital.

Mr. Troop said Northrop decided to consolidate its subsidiaries' cov-

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The people column
page 34

Texas leads the way

Municipalities uniting for self-insurance

By KATHRYN McINTYRE ROBERTS

CHICAGO—Municipal organizations in states across the country are establishing funds for their members to collectively self-insure for workers' compensation.

Saving money is the incentive for creating the programs. In some states members pay the standard commercial premiums into the fund but they may receive rebates at the end of the year. In others, the members pay reduced premiums into the fund and can expect dividends at the end of the year based on their loss experience.

In some states a search for better loss control services is a factor in the organization of a collective self-insurance fund for workers' compensation.

Although larger cities around the country have already successfully self-insured for workers' compensation, the emerging state-wide pools provide the money saving technique to municipalities too small to individually self-insure.

The Assn. of County Commissioners of Alabama established a self-insurers fund for workers' compensation for its members last October. The Alabama League of Municipalities formed a corporation three months ago to provide a collective self-insurance mechanism for its members.

The Michigan Municipal League,

the Main Municipal Assn. and the Kentucky Municipal League are in the process of organizing similar pools for their members.

In Oregon the major insurance problem for political subdivisions is general liability. A tight market and skyrocketing premiums for the insurance prompted the League of Oregon Cities to hire a consultant to study the situation and make recommendations. Self-insuring for workers' compensation is now also under consideration.

A model, or at the very least an inspiration, to these states is the Texas Municipal League's Workmen's Compensation Joint Insurance Fund. The fund is a unique study in municipalities collectively self-insuring for workers' compensation. It was the first broad-based program in the country. And the league got into it on the ground floor for providing workers' compensation to municipal employees without waiting for insurance companies to act.

Bill Martin, assistant director of the Texas Municipal League (TML), outlined the organization and operation of the fund for *Business Insurance*.

TML worked with its state legislature in drafting the 1973 law which requires political subdivisions to provide workers' compensation to their employees. Prior to 1973, municipalities were given

the option of providing the benefit and not all did so. By cooperating with the legislature, the league was able to include in the law a legal basis for municipalities to collectively self-insure the new benefit.

In October 1973, TML hired the Philadelphia consulting firm of Towers Perrin Forster & Crosby Inc. for \$20,000. The consultants worked with the TML sorting through the alternatives and ultimately drawing up the specifications for the fund.

When workers' compensation became mandatory for larger cities in Texas on July 1, 1974, the TML Workmen's Compensation Joint Insurance Fund had 130 cities enrolled. Another 100 cities joined the fund in the first year.

Now the fund has a membership of almost 300 with \$14.8 million in aggregate premium volume, a figure which represents what it would have cost the cities to obtain commercial coverage at standard rates. Implementation of the 1973 law was graduated by the size of city budgets, but all cities must provide workers' compensation by this July.

The fund charges its members 75% of the standard workers' compensation insurance premium, determined by insurance rating procedures. And at the end of the year dividends are paid the members based on each city's experience.

The fund has a service contract with the Texas Employer's Insurance Assn. Under a recently renegotiated contract, the fund pays the firm 9.5% of the aggregate premium volume to administer and service the program. The firm handles claims and provides safety engineering consultation and services.

"The high quality of service Texas Employer's provides is the real strength of our fund," said Mr. Martin.

The TML's fund is averaging a 50% loss ratio. The average loss ratio in the state is 62%. Mr. Mar-

tin said the improved loss ratio is saving the member municipalities another 11% of what they would otherwise pay for the insurance. That makes the savings to the cities 36% of what it would cost to commercially insure workers' compensation.

Reinsurance of the fund costs 2.7% of the aggregate premium volume. The fund has been reinsured against any one loss exceeding \$50,000 and an aggregate loss of more than 68% of the standard premium. However, effective July 1, the fund is increasing the catastrophe insurance to \$100,000 and the stop/loss to 70%. Mr. Martin said the fund was forced to increase the catastrophe risk "because there was no way to buy \$50,000 in today's market."

The TML's fund has already undergone an evaluation by the consultants. The \$10,000 evaluation, finished in November, resulted in some recommendations for better management reports. The consultants also recommended the league move into self-insuring general liability and fleet auto as soon as possible.

But the fund's trustees "want to ride the current success a little longer before we brave new worlds," according to Mr. Martin. He estimated it will be "a couple of years" before the trustees follow the consultants' advice.

The TML has been more than happy to help other state leagues organize self-insurance funds for their members. A thick packet of information, including the by-laws of the TML's fund, is sent to those who request it.

"We know they are piggy-backing on our experience. But that's okay. Someone had to blaze the way," said Mr. Martin.

The state leagues profiting from TML's experience are quick to admit it. Said O. H. Buddy Sharpless, administrator of the Alabama Assn. of County Commissioners' Self-Insurers Fund, "It would have been a lot more work without Texas as a model. We looked at their by-laws and contracts and modeled ours substantially on theirs."

After five months in operation, the fund now has 27 members out of 67 counties in the state and \$350,000 in premiums. Mr. Sharpless predicts there will be 40 members by the end of the year.



Workmen's Compensation Joint Insurance Fund

QUESTIONS AND ANSWERS

This Texas Municipal League brochure has been sent to other states

The county fund offers its members a 15% discount on the standard rates in Alabama, plus possible rebates at the end of the year based on the experience of the fund and the individual counties. Thus far, said Mr. Sharpless, losses have "barely scratched the surface of the claims fund."

The fund has a service contract with Risk Management Services of Alabama. The firm receives 27% of the premiums paid into the fund. Of that, 15% pays for reinsurance and the other 12% pays for handling claims and loss control consultation.

The Alabama League of Cities has taken a slightly different approach. Three months ago it created a separate corporation to provide the mechanism called Municipal Workmen's Compensation Management Co. Inc.

"It's growing by the day," said John Watkins, executive director of the Alabama League. It now has 35 members and \$300,000 in premiums. The potential membership is 356, the membership of the league. Mr. Watkins anticipates a majority of the league's members will participate in the fund.

The Municipal Workmen's Compensation Management Co. has its service contract with Risk Management Services of Alabama and has the same fee schedule as the County Commissioners' Fund.

Mr. Watkins said the TML's fund served as a model for the corporation. He noted, however, that the impetus in his league came from a number of mayors who are also businessmen. They had joined association pools to insure their businesses and promoted the idea for municipalities.

The Michigan Municipal League
Continued on page 6

GATX UNDERWRITERS, INC.

Directors and Officers Liability Insurance

Unhappily, Directors and Officers Liability Insurance has received adverse comment because of a few litigated situations on coverage. Regrettably, there is no standardization of policy form, application for insurance coverage, nor indemnity provision available to Directors and Officers.

Too little attention has been addressed to coverage at time of quotation and policy issue and too much attention has been focused on price. Therefore, many unfortunate decisions to accept limited insurance protection in exchange for what appeared to be a cheap price.

The principal problem areas include:

- No Prior Acts Coverage (no coverage applied to wrongful conduct which took place prior to the inception date of the policy, but which ripened into a claim during the policy period).
- Single policy format (some contracts have been issued attempting to insure both the corporate obligation and the directors' and officers' obligations in one policy contract which poses serious problems of enforceability of the insurance contract in many states).
- Bodily Injury and Property Damage Exclusions have been introduced.
- Not all Officer and Directorship positions have been automatically insured.
- Subsidiaries of the parent corporation frequently have not been properly insured.
- Newly acquired corporations have not been automatically insured.
- Mergers Exclusions have been introduced.
- Unconscionable deductibles have been required.

We encourage you to submit your clients to us for a much needed coverage analysis on their Directors and Officers insurance hazards. There is no obligation on your part or your clients to place insurance with us.

We do have the facility to write the most comprehensive Directors and Officers Insurance Policies of any organization in the world.

Thomas F. Sheehan

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Deadline is Feb. 28

NEW YORK—The deadline for entries in the fifth annual Business Insurance Employee Benefit Communication Contest is Monday, Feb. 28.

Entry forms, contest rules and other information is still available from Ronnie Drachman, Award Coordinator, 708 Third Ave., New York, N.Y. 10017. Ms. Drachman may be reached at (212) 986-5050.

The awards will be presented April 26 during the annual conference of the Risk & Insurance Management Society in New York.

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Subject:

MALPRACTICE LITIGATION

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CTA retention \$2.5 million for 'L' crash

By KATHRYN McINTYRE ROBERTS

CHICAGO—The Chicago Transit Authority (CTA), operator of the antiquated elevated train system which suffered a tragic accident that left 11 dead and about 210 injured, is self-insured to \$2.5 million.

Above that retention, the CTA has \$20 million in catastrophe insurance to cover losses from any one incident. Its 1977 budget includes \$11 million to pay damages throughout the year.

Losses in the worst accident in the CTA's history have not yet been determined. The accident occurred Feb. 4 during evening rush hour in the city's busy downtown "loop" area. The area is named for the elevated train system which circles it.

A west-bound train rammed into the rear of a northbound stationary train, driving the four front cars of the west-bound train off the tracks. Two cars crashed to the ground and two others were left dangling between the tracks and the street.

Tom Buck, manager of public affairs for the CTA, said the agency estimates there were 210 injuries in the crash likely to result in claims. Although no claims have been received yet, he said the CTA assured hospitals treating accident victims that they would be paid for their services.

The families of those killed have also been contacted by the CTA, Mr. Buck said.

The CTA has said that "human error" by the motorman operating

the moving train caused the accident. All mechanical equipment, including safety devices which warn there is a train ahead, checked out in proper working order. The motorman, under intensive care in the hospital, had not been thoroughly questioned.

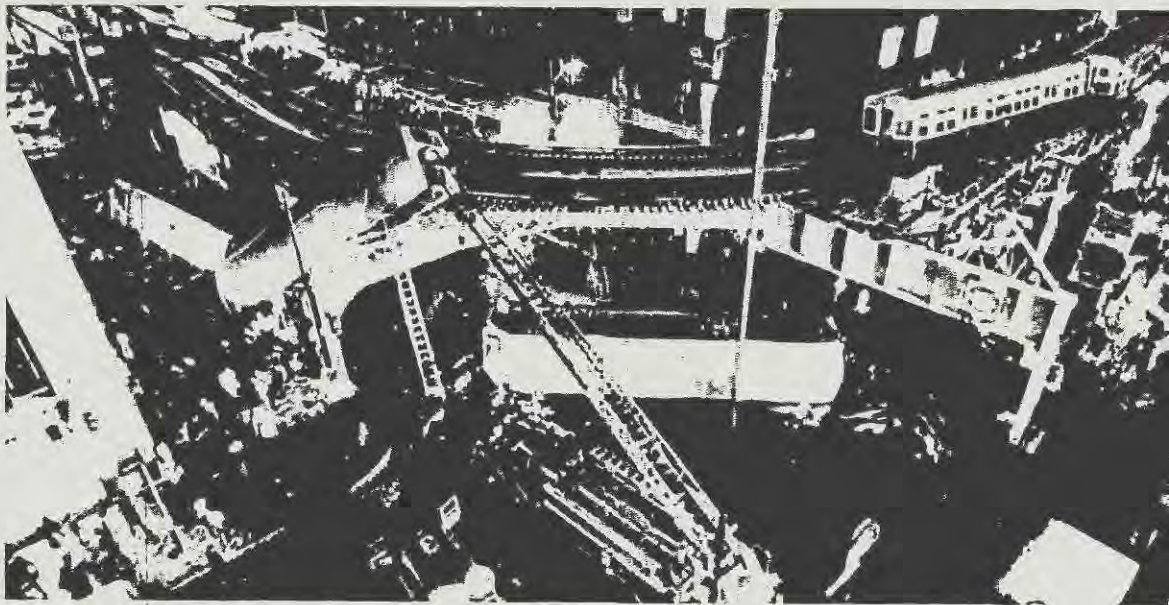
Although the CTA has never had losses in a single accident exceed its \$2.5 million retention, no one at the company is estimating what will happen as a result of this one.

Asked if the accident will affect the company's insurance, manager of insurance and pensions for the CTA, William Ashley, said, "Such a loss will have a terrific impact, but who knows what."

The broker for the CTA's insurance, Rollins Burdick Hunter & Co. in Chicago, would not comment on the accident's effect on the CTA's insurance or on municipal transit insurance in general.

The 1977 premium on the CTA's catastrophe insurance is \$171,701. The insurance is in three layers. The first layer is for \$2.5 million in excess of the CTA's \$2.5 million retention. It is underwritten 71.5% by Lloyd's, 20% by California Union Insurance Co. and 8.5% by Admiral Insurance Co.

The second layer covers losses between \$5 million and \$10 million. It is underwritten 71.5% by Lloyd's, 10% by Columbia Casualty, 10% by International Surplus, 5% by Northbrook Insurance Co. and 3.5% by Bellefonte Insurance Co.



The Chicago transit system is the most dangerous in the country, reported a Chicago newspaper

The third layer is for \$12.5 million in excess of \$10 million. It is underwritten 42% by Lloyd's, 21% by International Surplus, 20% by the Insurance Co. of the State of Pennsylvania, 9% by Midland Insurance Co. and 8% by Adriatic Insurance Co.

Just 13 months ago one person was killed and more than 500 were injured in a crash on another of the city's rapid transit lines. That accident occurred during morning rush hour when one train crashed into the rear of another train.

There were 553 claims filed as a result of that accident. The CTA

has paid approximately \$236,000 to settle 305 of those claims. Another 179 claims are pending judgment in court; 21 are neither in court nor settled. Forty persons declined any payment and eight claims were determined to be "phony," according to Mr. Buck. The claim from the one death in the accident is still pending in court.

CTA officials say they have not totaled the claims pending from the January 1976 accident because "we don't consider them meaningful figures since people sue for more than they should," said Mr. Buck.

So far the CTA is handling its own defense although the insurance companies have the right to step in when they want.

Chicago's rapid transit system is the deadliest in the country, according to a survey of other transit systems conducted by the Chicago Daily News. The newspaper investigated the number of deaths in accidents on the transit systems in New York, Boston, Philadelphia, San Francisco and Cleveland. It found that more persons have been killed in CTA train accidents in the last 50 years than on all the rest of the country's municipal transit systems combined.

the benefit beat

ABC improves life program to offer options

AMERICAN BROADCASTING COS. INC., New York, has improved its life insurance program for about 6,000 employees to provide a need-related program that allows the employee a degree of flexibility. Effective Feb. 1, the company's paid group life insurance benefit was increased to two times annual salary from 1½ salary up to \$25,000. In addition, the employee can choose an optional amount of insurance, either one or two times salary, at a cost of 40 cents per thousand. The total maximum insurance under both programs is \$400,000. A waiver of premium also will replace the total and permanent disability clause.

GENERAL MOTORS CORP. established a tax reduction act employee stock ownership plan (TRESOP) for 120,000 salaried employees who were not already covered by incentive or bonus plans, Kenneth Olthoff, assistant director of employee benefits said. The TRESOP, which became effective in September, is retroactive to January 1, 1975. GM purchased the stock to form the trust from the outside market. The Trust is valued at \$9.5 million. The TRESOP will provide covered employees with a benefit equal to approximately \$4.50 for each \$1,000 of income for 1975 for incomes up to \$35,000. GM's employee benefit plan committee studied whether the TRESOP should be established at least as early as 1975, when Gordon Binns Jr., GM assistant treasurer, told a seminar on ESOPs that such a plan was under consideration by the automaker. September 1976 was pegged as the start-up date because that was when 1975 taxes were due.

TWO HEALTH INSURERS are overpaying millions of dollars for government workers' medical expenses, contributing to the spiraling cost of the insurance, charged the General Accounting Office. The congressional watchdog blamed the problem on loose and haphazard cost controls by Blue Cross/Blue Shield and Aetna Life & Casualty Co. The government and federal employees each pay half of the estimated \$2.9 billion a year in health insurance premiums. Blue Cross said the report was exaggerated and misleading. Aetna said it welcomed the chance to study the report.

THE NEW UNITED AUTO WORKERS contract covering 5,000 employees at the Champion Spark Plug Co. generally follows the auto industry pattern. The new vision and hearing aid programs are modeled on the

Ford Motor Co. plan with the exception that the 20% co-payment has been abolished for the vision exam. Dental coverage was increased to 90% of the cost from 85% and the lifetime benefit was increased to \$650 from \$500. The average worker's life insurance was increased to \$3,500 from \$1,700. Pensions were increased to \$7.20 per month per year of service from \$6.30 per month and surviving spouse payments were raised to 60% from 55% of what the employee would have received.

WESTERN CONSUMERS INDUSTRIES in Paramount, Calif., has upgraded the limits on its life insurance program in order to facilitate reporting on the plan descriptions required under ERISA. According to Ed Meacham, assistant treasurer and director of employee benefits, the limits were boosted to \$100,000 a year per covered employee from a graded schedule with a maximum of \$58,000 per year per covered employee. The company's two-year self-insurance program for its health program is working well, Mr. Meacham said. The only exception to the self insurance is the major medical coverage which is insured with Republic National.

BLUE CROSS of Northeast Ohio has signed a contract for the first time to provide reimbursement for alcohol or drug abuse treatments at a private, for-profit center. The agreement is between Westinghouse Health Systems of Euclid, Ohio, and the Blue Cross plan for the Cleveland area. The 60,000 members of the UAW in the plan presently receive 35 annual visits for treatments on a usual and customary fee basis. The lifetime maximum is 140 visits. The Blue Cross plan is presently preparing a similar package to offer other groups at an additional cost.

MINNESOTA STATE employee union members will receive employer-paid dental insurance in July under a new two-year contract between the union and the state. In addition, the state will pay 50% of the cost of dental coverage for dependents in July 1978. State contributions toward dependent health coverage will increase \$15 to \$45 per month in the first year with the state assuming the total cost (expected to be \$60 per month) in the second year. A new \$500 death benefit for retirees, an annual health screening for employees and an increase in severance pay were also negotiated. Wage

increases averaged 4% and the total cost was put at 8.5% a year. The new coverages are out for bids. The contract, which covers 23,000 employees, is usually the pattern for all state employees.

THE NATION'S BILL for health care is expected to decline as a portion of gross national product, but prices of hospital care and physician services will continue to rise much faster than the over-all cost of living. These predictions came out of a Blue Cross Assn. conference held at Hilton Head, S.C. in mid-January. Zachary Y. Dyckman, senior staff economist for the Council on Wage and Price Stability, looks for total health care spending to dip below the 8.6% of GNP it now accounts for. He foresees that the change will result from more government control of hospital expansion and equipment purchases, as well as corporate efforts to slow health benefit cost hikes.

THE BUCKER CO. of Oakland, Calif., has adopted a dental plan underwritten by the Prudential Insurance Co., paying 70% of incurred charges if an employee or covered dependents undergo an exam and have performed the basic dental work recommended in that exam such as filling. In the second year, if the employee/dependents repeat the procedure, Bucker will pay 85% of the dental bill. In the third year, Bucker will pay the entire dental bill if the employee/dependents again have the exam and work completed in a single year. "The object of this basic service portion of the plan is to compel employees to have dental work performed regularly," explained Jack Miller, risk manager, noting that if the employee skips a year, he slips back to the 70% level. Other portions of the dental plan, called major services, covers the cost of operations that replace teeth, pays up to \$1,500 per person in any one calendar year. Bucker is a \$170 million oil drilling services/equipment concern which became a subsidiary of N. L. Industries, Inc., New York, in January.

Benefit beat is designed to keep employe benefit managers and others up-to-date on trends and developments in other companies. We'd like to know if you know of any significant moves our readers would find interesting. Please write Benefit Beat, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call (312) 649-3279.

McNeil-U.S. maternity agreement may become model for other firms

WASHINGTON—A recent agreement between McNeil Laboratories and the Labor Department that broadly liberalizes maternity leave for employes could serve as a model for companies that have contracts with the federal government.

Under the agreement, announced in February, female employes on maternity leave who return to work within 90 days of the conclusion of their pregnancy-related disability (childbirth, miscarriage or abortion, if required for a reasonable medical purpose) are automatically entitled to receive their prior pay and position without loss of seniority.

Employes returning to work after 90 days but less than a year

after the end of the disability must be rehired without loss of seniority.

While McNeil is not obligated to give the employes returning after 90 days their old salaries and jobs, the company agreed to place them in the next highest pay and status level available. As soon as vacancies occur, employes will be boosted to their old jobs and salaries.

Similarly, an employe on maternity leave who wishes to return to work prior to childbirth, miscarriage or abortion, can do so without loss of seniority. The woman, however, must have permission from her doctor and McNeil's medical department before

beginning work again while pregnant.

Employes returning to work prior to the termination of pregnancy also are entitled to their prior jobs and salaries once those positions become vacant.

Under the agreement, employes are eligible for maternity leave at the end of the seventh month of pregnancy. If an employe, however, gave birth, miscarried or aborted before then, she also would be eligible for maternity leave.

In addition, pregnant employes are eligible for maternity leave at any time (including before the seventh month) for any medical reason related to pregnancy and childbearing.

A pregnant employe now may work beyond the seventh month of pregnancy as long as her doctor agrees her health or the safety of her child would not be endangered.

The agreement, however, does not deal with the currently controversial area of monetary disability or sick leave benefits, said John Merrigan, counsel for McNeil.

"We were just trying to establish parity between pregnancy and other disabilities in terms of granting leave and rehiring," he said.

McNeil Laboratories is a subdivision of Johnson & Johnson. The firm, which has its manufacturing plant in Fort Washington, Pa., produces pharmaceutical specialties.

NAIL office

The National Assn. of Independent Insurers has opened an eastern office in Annapolis, Md.

Maryland attorneys lose insurer

By JERRY GEISEL

BALTIMORE—Thousands of Maryland attorneys will be looking for a new source of malpractice insurance next year. The state's largest supplier of malpractice insurance for lawyers is withdrawing from the market.

Affiliated FM, a wholly-owned subsidiary of Allendale Insurance Co. of Providence, R.I., informed state insurance officials earlier this month that it will issue no new policies or renewals after this calendar year.

Affiliated FM currently insures about 40% of Maryland's 8,000 lawyers.

"It (lawyers' malpractice insurance) was just a fringe operation," said a company spokesman. "It just didn't fit in with the rest of our operations."

Although company spokesmen declined to give a dollars and cents figure on the profitability of lawyers' malpractice insurance, one official said the policies were marginally profitable.

One Maryland broker said insurance companies will not enter the lawyers' malpractice market until the state legislature approves a pending bill that would place a five-year time limit on filing claims. Currently, there is no such time limit.

Another Maryland broker told *Business Insurance* that two insurance companies have considered taking over Affiliated FM's policyholders in Maryland, but he refused to identify them. "It is a deep, dark secret," he said.

If a replacement for Affiliated FM cannot be found, the state could order the Maryland Joint Underwriters Assn. to provide lawyers' malpractice insurance on a pool basis, though at sharply higher rates.

The problem Maryland attorneys will face in obtaining malpractice coverage is part of a nationwide trend that has seen insurers dropping out of the market and others substantially raising their rates.

New Security & Exchange Commission regulations make lawyers liable for advising their clients to take certain actions in business. Thus, lawyers now face a much greater risk of being sued by their clients.

William M. Hesson Jr., a Towson, Md., lawyer, said the malpractice premium for his six-man firm increased from \$300 to \$1,800 in the last three years. There were no malpractice suits filed against the firm during that time, he said.

"It is part of the consumer movement," said one Baltimore lawyer. "If a client feels his lawyer gave him bad advice, the client will sue. And more suits mean it is tougher to get coverage." ■

Agency merger

Robert L. Knox & Co., a general lines broker has been merged with the Fritz International Insurance Agency, a subsidiary of the Fritz Companies, to form the Robert L. Knox division of Fritz International Insurance Brokers. The Fritz Agency, specializing in ocean marine insurance, last year had premiums of \$3 million. Robert L. Knox had gross revenues of \$800,000 on \$7 million premiums. Terms of the cash agreement were not disclosed. Robert L. Knox is president and Anthony Farley general manager of the new subsidiary based in San Francisco. ■

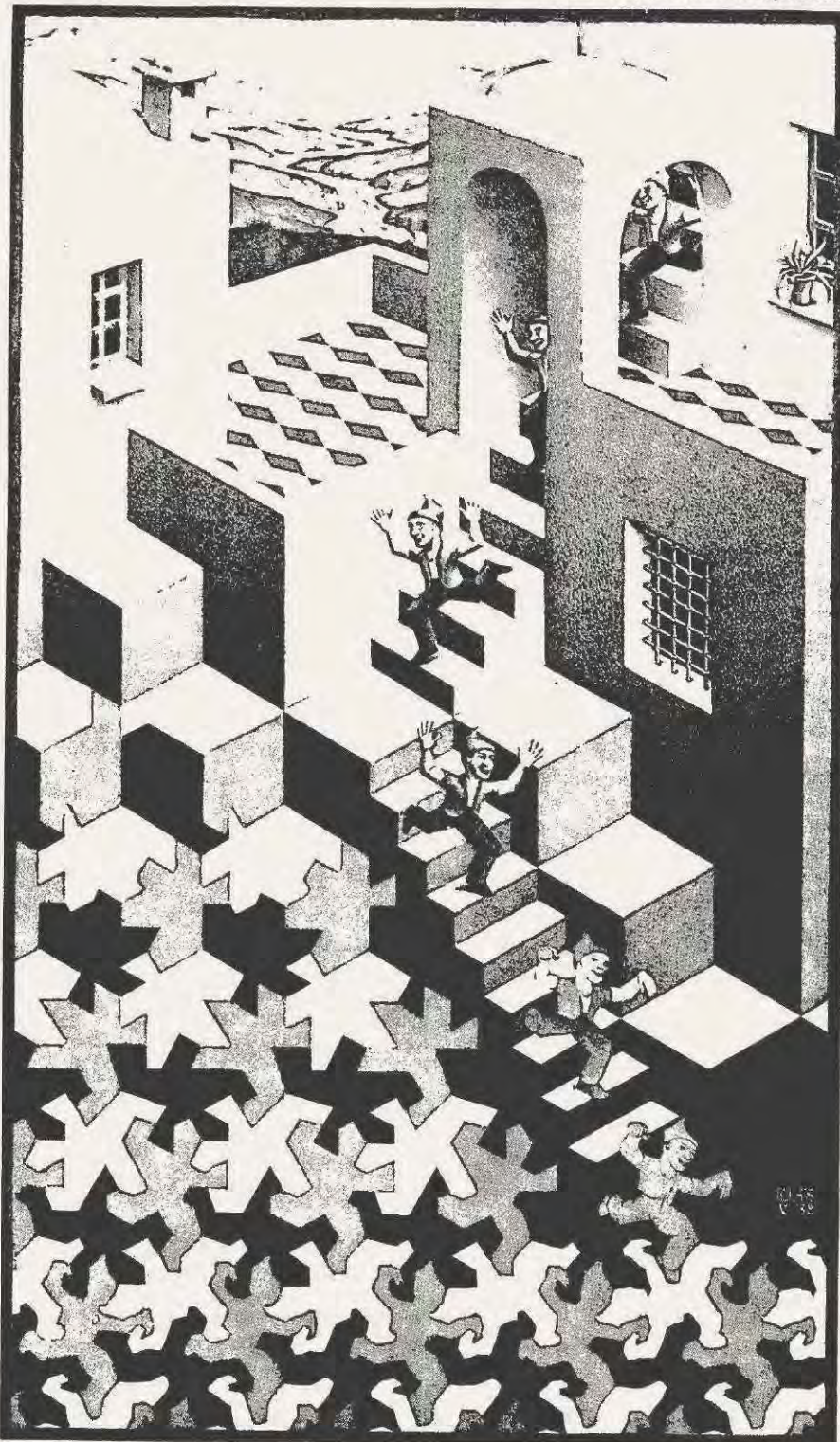
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Come to the source



Employers Insurance of Wausau
Wausau, Wisconsin

Municipal insurance . . .

Continued from page 2

is now enrolling members in its collective self-insurance fund for workers' compensation and hopes it will be in operation on July 1.

Eugene Berrodin, manager of personnel and educational services for the league, said the move was prompted by "difficulty in securing any bids, escalating costs and difficulty in obtaining satisfactory services."

The Michigan Municipal League hopes to involve several hundred of its 470 members. Mr. Berrodin said it's planned to charge the participants the standard Michigan premium and then rebate any unneeded funds every year.

He noted that although some cities in his state have self-insured individually, they are anxious to join the fund having found it hard to handle the paperwork.

Mr. Berrodin stressed the difficulty cities have obtaining loss control services from commercial insurers. He said one city manager in the state told him he sees his workers' compensation insurance agent once a year—when he's selling the insurance.

As elsewhere, Michigan found TML's groundwork beneficial. In addition, the league hired Yeager & Co. of Southfield, Mich. to assist them in creating the program. When the fund is operating, the firm will process claims and provide safety engineering services. The fee is to be negotiated and will depend on the size of the fund, said Mr. Berrodin.

The Maine Municipal Assn. has designed specifications for a self-insurance pool for workers compensation based on TML's pro-

gram, said Kent Hotham, assistant director of personnel services for the association.

Maine is prepared to launch its fund by the target date of April 1. Self-Insurers Management Corp. of Boston, Mass. is researching rates and securing excess insurance. The Management Corp. is doing the preliminary work at no charge with the agreement that if the association establishes a self-insurance program the firm will be hired on a two-year service contract at 12% of the aggregate premium volume.

Mr. Hotham said the Maine municipalities began to explore collectively self-insuring for workers' compensation a year and a half ago when their pooled policy was terminated by Argonaut Insurance Co. Since then the municipalities have secured workers' compensation insurance individually.

There are 471 members of the Maine Municipal Assn., but many are small cities with limited bud-

gets. Mr. Hotham said at this point he can't estimate what the response will be to the self-insurers fund.

The Kentucky Municipal League has been investigating self-insuring for workers' compensation since October 1976. Since mid-summer of 1976, rates for the insurance have jumped 42% in Kentucky, said Mike Amyx, executive director of the league.

In addition, the market is drying up. "We find many smaller communities are finding no local agents willing to sell it. So they have to go to the state's assigned risk pool which is 20% to 25% more than it would cost commercially," said Mr. Amyx.

A 12-member committee of city officials investigating collective self-insurance for the 420 incorporated cities in Kentucky has found TML "very helpful," he said. An administrator of the TML's fund spent a day with the

committee to discuss the program.

The Kentucky League is hoping to launch its program in late summer or early fall and anticipates it will be a joint venture with the state's 120 counties. The league has not hired a consultant yet, but Mr. Amyx said they will "very probably evaluate local and national consultants" for the job.

The League of Oregon Cities has hired the San Francisco consulting firm of Warren, McVeigh, Griffin & Huntington to study the state's problem of high costs and a tight market for liability insurance. The consulting firm was hired by the league in cooperation with the Assn. of Oregon Counties, the Oregon School Board Assn. and the Assembly of Community Colleges. The four organizations will share the \$18,000 bill for the study which should be completed by the end of April.

Noel Klein, staff associate with the league, said general liability insurance premiums in the state are up 300% to 500% and there are "only one or two companies writing new policies now."

About 700 political subdivisions could be involved if the consultants recommend a self-insurance pool.

Although the high cost of insurance against false arrest and errors and omissions, to name a couple, drove the state organization to hire a consultant, Mr. Klein said, "workers compensation has been a concern too." It will be considered for pooling now also. ■

Northrop . . .

Continued from page 1

erages for economics and for uniformity. The J&H liability program will become effective at the next renewal date, Sept. 1, while the A&A international property program has been in action since November 1976.

Northrop, which specializes in aircraft, communications, electronics and construction products includes the George A. Fuller Co., New York, and Page Communications Engineers Inc., Virginia, among its subsidiaries. Before the consolidation of insurance coverages for Northrop subsidiaries, broker Marsh & McLennan handled the Fuller coverages.

Page Communications Engineers was one of J&H's oldest international clients. Although J&H won the overall liability account for Northrop, including coverages for foreign liability and workers' compensation for Page, in a sense it lost one of its longest-standing clients; Page had arranged all its international insurance through J&H for the last 40 years, sources said.

Mr. Troop attributed the \$1 million in expected savings from the A&A international property program to A&A vp Edgar S. Clark, who designed the package.

Mr. Clark explained that A&A marketed the program for Northrop in London through wholesaler Bland Payne Ltd., working with Michael Butt of that organization. The package program includes all marine exposures and other risks outside the U.S. and Canada. ■

errors & omissions

• American Building Maintenance Industries, San Francisco, said it insures its workers' compensation risks in Texas through Texas General Indemnity Co. In a story appearing in the Dec. 27 issue, ABMI was incorrectly said to be self-insuring these risks in Texas.

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Colorado gives okay to 13 new captives

By MARGARET LeROUX

DENVER, COLO.—Six new captives have been licensed in Colorado to write malpractice coverage since last April, when the state first permitted the establishment of malpractice captives.

Seven more new captives were formed during the same period to underwrite liability coverage, including product liability. The 13 new companies bring the total number of captives licensed in Colorado to 21 since the passage of the Captive Insurance Company Act of 1973.

Malpractice captives were sanctioned by an amendment to this law by the state legislature.

"There's definitely a big interest in malpractice and product liability captives," J. Richard Barnes, Colorado's insurance commissioner, said in an interview.

There is no minimum capitalization requirement for captives in Colorado, however the commissioner noted, "I won't license any captive with less than \$1 million in capital and surplus."

"We require captives to set their capital and surplus sufficiently high so as not to run into trouble," commissioner Barnes said.

Capital and surplus for Colorado's 21 captives range from a low of \$1.2 million to a high of \$20 million, the commissioner said.

In comparison, Bermuda, where nearly 500 offshore captives are registered, has allowed 15 malpractice captives—hospital-owned only—since July 1975.

Bermuda has a special adhoc committee of the Department of Finance that screens malpractice and product liability captives. Only two of the latter have been rec-

ommended for licensing. The committee will not approve physician-owned malpractice captives; only as employees of hospital-owned captives can physicians be insured for malpractice in Bermuda.

Bermuda's minimum capitalization requirement for offshore insurance companies is \$120,000, although malpractice captives must have "considerably higher amounts of capital and surplus," a member of the adhoc committee told *Business Insurance*.

The following are the 13 captives licensed in Colorado since April 1975: Columbine Casualty Co., whose parent company is Tenneco; Parthenon, parent company, Hospital Corp. of America,

which owns and operates 76 hospitals in the U.S.; Westcap, a product liability captive owned by the National Welding Supply Assn.; Citivest, owned by City Investment Co., a subsidiary of the Home Insurance Co.; Atlantic Assurance & Guaranty Corp., owned by Philadelphia Gear Co., a custom gear manufacturer; and Regal Insurance, owned by Chatham Supermarkets.

The Sisters of the Holy Cross established a Colorado captive, Havicam, named for the founder of the order. Other malpractice captives were established by the Chesapeake Physicians Professional Assn.; Medenco Inc., which provides services to health care institutions and the Humana Corp.

CLC of America, a holding company with nine subsidiaries in merchandising and freight industries, established a liability captive and Royal Industries set up a product liability captive subsidiary in the automotive products field. ■

Solvency is key worry of state regulators

NEW YORK—Solvency and adequacy of insurance companies' capital was cited as the "most unsatisfactory" regulatory area in a survey of all state and territorial insurance departments conducted by financial investment firm Loeb, Rhoades & Co.

Twenty-five insurance jurisdictions responded, which represented 40% of the departments surveyed. In addition to the concern they expressed over solvency and capital adequacy, the regulators singled out these topics as subjects of major concern:

- Availability of essential insurance to the public during the current period of underwriting tightness.
- Personal and third party li-

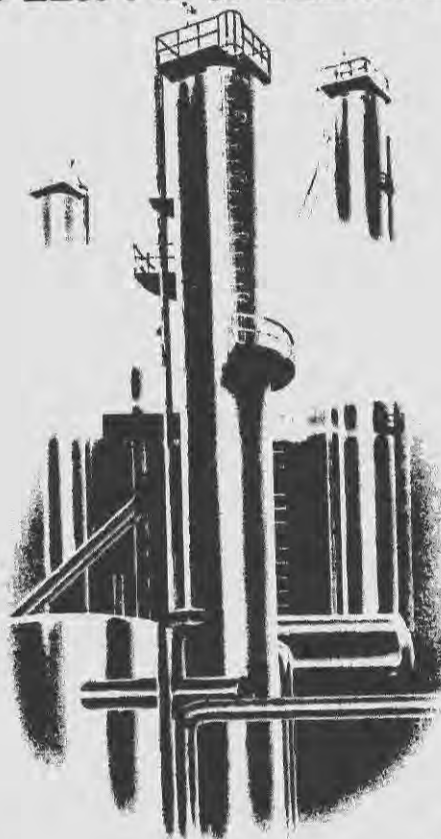
ability lines, which were termed "the most perplexing" during the respondents' current administration.

- Federal involvement in administration of the insurance industry, which the 64% of regulators opposed.

- Lack of improvement in the management quality in the insurance industry during the past five- and 10-year periods.

The departments which responded to the survey indicated by a 62% margin that they strongly opposed a "file and use" rating system (no prior approval), an approach which has been endorsed for several years by the Risk and Insurance Management Society. ■

Name a cloud that doesn't have a silver lining.



Vapor cloud. In fact, every vapor cloud carries within it the potential of an "explosive lining." Vapor cloud explosions, which occur primarily in the chemical and petrochemical industries, are increasing in frequency, severity and cost. As these plants get bigger, so does the loss potential.

For example, in a single incident in 1974 a huge cloud was formed in seconds, containing about 60 tons of cyclohexane vapor and mist. The explosion of this cloud was equivalent to that of 15 tons of TNT and resulted in 28 deaths, 100 injuries and \$70 million property damage.

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For several years, Industrial Risk Insurers has spearheaded an effort to learn more about the factors

which influence the probability that a vapor cloud will explode and the severity if it does explode.

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New inception time is set at 12:01 a.m.

NEW YORK—A revision in the time of inception and expiration of property insurance policies to 12:01 a.m., so that they correspond with casualty policies, was announced by the Insurance Services Office. This change is applicable to all policies written on or after Jan. 1, 1977 and to all policies effective on or after Mar. 1, 1977.

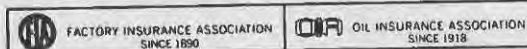
Historically, property and casualty policies had different inception and expiration times. As long as the two lines were written separately, there was no significant problem. However, with the advent of the package policy, which followed the property line, a conflict occurred whenever a package policy, effective at 12:00 noon, replaced a liability policy expiring at 12:01 a.m. the same day.

Insurance lines affected by the change are boiler and machinery, commercial multiple line, crime, farmowners-ranchowners, fire and allied lines, glass, homeowners and inland marine.

There are 22 states which currently have a statutory requirement of 12:00 noon as the inception time for fire insurance. ISO has asked the three major trade associations to assist them in seeking a change in that requirement to permit a 12:01 a.m. inception time.

During the transition period, an endorsement converting the policy to the new inception time will be available. ■

Industrial Risk Insurers



F.C. Powers, Director of Publications
Industrial Risk Insurers, 85 Woodland Street, Hartford, CT 06102

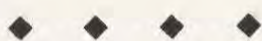
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Name _____

Business In

When revenue unexpectedly stops for a store or service establishment, a little-known form of business interruption insurance can pay out a fixed amount to compensate for each day lost.

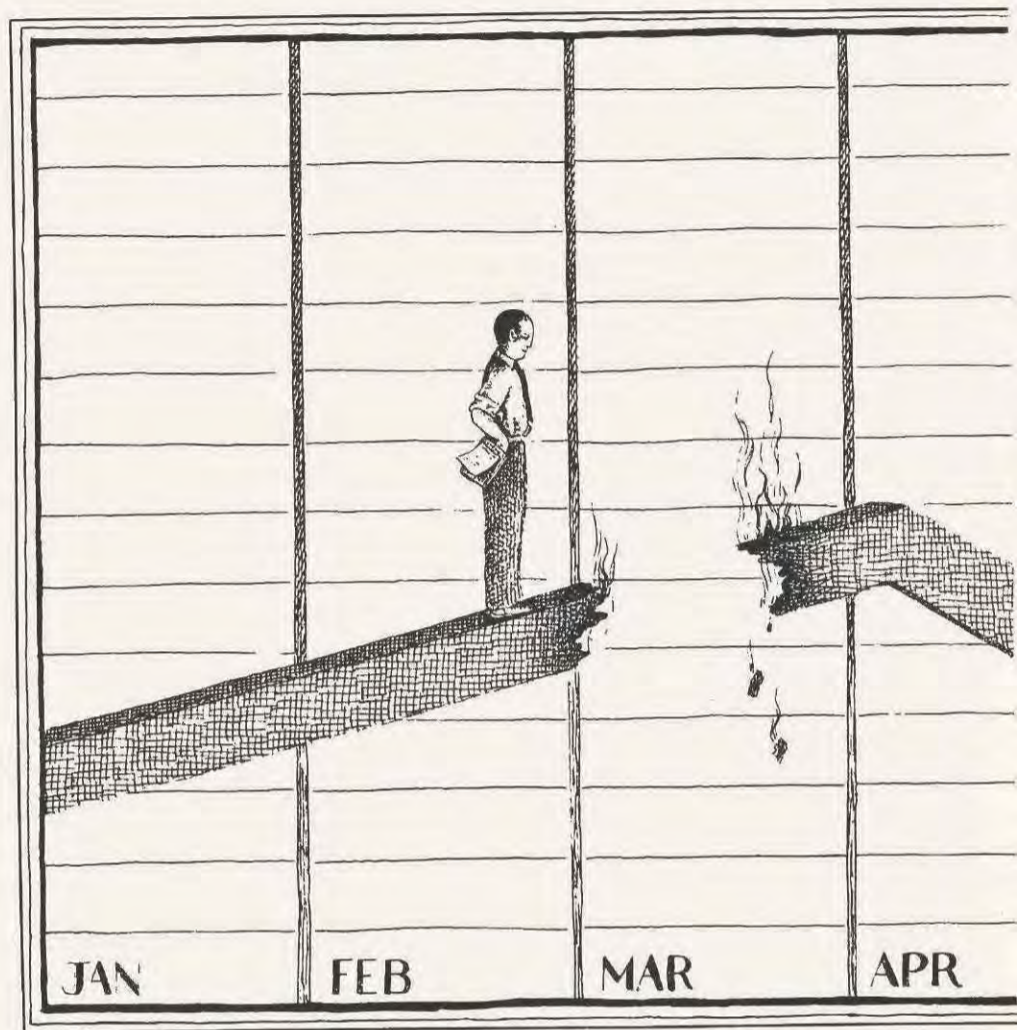
A brief review by INA of an insurance topic of interest to small business owners.



A business enterprise may unexpectedly come to a partial or complete halt for a number of reasons. A store may be burned out. A factory may be leveled by a tornado. A warehouse may be rendered inoperative by water damage from burst pipes.

While damage to property is usually protected in varying degrees by insurance, damage to earning capacity caused by inability to operate is considerably less likely to be covered. But business interruption insurance can be equally vital to the health and survival of an enterprise. During a shutdown caused by property damage resulting from an insured peril, such insurance can provide cash to replace lost operating revenue, assisting the owners in meeting normal expenses including payrolls. Not infrequently, it has made the difference between staying in business and staying closed—permanently.

The most widely used policy for this kind of insurance is the “gross earnings” form. When purchased in the proper amount, this form will provide revenue equivalent to the actual reduction



in gross earnings (minus non-continuing expenses) experienced during a period of business interruption. In settling losses under this form, gross earnings lost in each case must be ascertained as accurately as possible. This involves determining such factors as current earnings, operating expenses and cost of goods—sometimes a complicated procedure.

The major advantage of the gross earnings form is that it can compensate for losses actually incurred—provided that those losses can be established and that coverage is kept in close relationship with the current exposure to loss.

There is another form, however, which eliminates any need to determine the amount of the actual loss sustained.

Streamlined loss handling

It is known as the “valued business interruption insurance” form, or simply as the “valued” form.

Interruption



It provides for settlement of losses based on a prior agreed amount for each day, week or month during which a business is closed down. The amount of coverage is specified, as is the length of interruption covered. For example, a policy may specify \$1000 per week (for a complete shutdown) for up to six months. Partial losses are simply paid on a pro rata basis; in our example, a 60% shutdown would mean a \$600 a week payment. In settling partial losses, only the percentage reduction in operations and the length of time needed to repair the property must be determined.

Because of its simplicity, the valued form may be worth consideration by smaller businesses, including those where earnings or other factors cannot be readily determined, as well as by new enterprises generally. A certain amount of flexibility is possible with valued forms, since the amount of insurance provided can vary over specified time periods, reflecting different levels of

business volume.

But the gross earnings form may be preferable in situations where earnings fluctuate widely over the course of the year. In such cases, this method may come closer to providing coverage of the actual loss sustained. With either form, the financial risk of being overinsured or underinsured can be minimized by determining accurately the facts on which the coverage is based.

There are other aspects to interruption insurance, such as payroll coverage and tax considerations, which should be reviewed with qualified counselors before making a decision. Insurance agents and brokers are a valuable source of detailed information and guidance on business interruption coverage.

As an objective discussion of interruption insurance for small businesses, INA has prepared a booklet entitled, "Business Interruption Insurance: Some Professional Considerations." Copies may be requested by writing INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

* * *

The Insurance Company of North America was founded in Independence Hall, Philadelphia, in 1792. Today INA and its affiliated companies operate around the world with major interests in property and casualty insurance, marine and aviation insurance, life and group insurance, reinsurance and risk management services.

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INA

Insurance Professionals

Deductibles, co-insurance called key to cost control

HILTON HEAD ISLAND, S.C.—More effective use of deductibles and coinsurance for ambulatory health care services, coupled with variable-coverage insurance for hospitalization hold the most promise as cost-containment measures, according to Charles E. Phelps, senior staff economist for The Rand Corp. of Santa Monica, Calif.

Speaking at a Blue Cross Assn. conference here on health care economics, Mr. Phelps advised that if society is interested in controlling health care costs, health insurance policies must be structured "in ways to provide incentives to patients and doctors to counteract the side effects of health insurance." The chief effect is the increase in the amount of medical care demanded by the insured population.

Health insurance policies serve to reduce the financial risk to the consumer by lowering the price paid by recipients at the time treatment is received, Mr. Phelps maintained.

"In some cases, various forms of co-payments are retained—either

coinsurance or deductibles, and some form of maximum payment to be made under the insurance contract—and in other cases, money prices are completely eliminated, as in a full-coverage health plan of a prepaid group practice," Mr. Phelps said.

It is Mr. Phelps' thesis that private and public health insurance mechanisms might increase both the per-unit resource cost of medical care and also increase the total amount of care consumed. He contended it has been "well established that health insurance increases the amount of medical care demanded by the insured population, (although) informed persons differ substantially on what they consider the true extent of the increase.

Coupled with the evidence that demand for hospital care is not extremely sensitive to changes in the out-of-pocket costs, the conclusion may "readily be drawn" that even full-coverage hospital insurance for the entire population would not increase demand by a large amount, Mr. Phelps said.

"Best available estimates now put the increase in the 5% to 15% range."

However, the demand for physicians' services is much more sensitive to changes in insurance coverage than is the demand for hospital care, he said, suggesting that estimates indicate about a 2% increase in demand for physician ambulatory services for every 10% decrease in out-of-pocket costs for the consumer.

One researcher concluded that demand for physician care under a universal plan with no deductibles or coinsurance would be at least 75% larger than now, said Mr. Phelps.

Studies of other services also show the relationship of insurance to demand for services. "For dental care, evidence is emerging that the quantities demanded under full coverage insurance are probably about twice as high as in the no-insurance case and the existing amount of insurance coverage is very low," he pointed out.

Demand for prescription drugs is a case similar to that of dental care, Mr. Phelps believes. "While

evidence is very thin, it appears that demand with full insurance is roughly double the level of demand with no insurance coverage."

Unlike dental care, where large jumps in demand will push up prices because supply can't keep pace, prescription drug prices would not be expected to rise as dramatically, said Mr. Phelps. This is because the supply of drugs can be expanded much more rapidly than either the supply of physicians to treat patients or dentists to supply services.

Health insurance may also induce people to seek more expensive care, Mr. Phelps believes. The additional expense may arise from patients seeking better qualified doctors, better equipped hospitals, or simply because they choose doctors and hospitals that provide more amenities, such as well-appointed offices, nicer neighborhoods and the like, he said.

Mr. Phelps noted that a hospitalization benefit plan paying a fixed amount per hospital day "clearly provides the strongest incentives for the patient to seek lower-cost hospitals or choose doctors with attending privileges at lower-cost hospitals, while a plan paying a flat percentage of a hospital bill (up to 100%) is more or less neutral, with some possibility for

choosing more luxurious care. A third type of plan, however, providing that a patient pay the first X dollars per day for hospital care provides a clear incentive to seek the most luxurious care.

A similar situation exists, he said, in the physician fee area, where a major medical plan would provide a uniform coinsurance rate across qualities, a plan with a fixed fee schedule would make the consumer bear the brunt of quality decisions, and a plan requiring the patient to pay, say \$3 per office visit, would provide the strongest incentives to seek expensive and luxurious care.

"Faced with this dilemma (of the relationship of insurance to increasing demand for services), architects of many national health insurance bills have included co-payments in the form of coinsurance and deductibles to maintain aggregate medical demand at or near its current level," said the Rand Corp. economist.

"The more useful of these mechanisms would appear to be a deductible, particularly in the ambulatory care sector (physicians, dentists, prescription drugs, etc.) if this approach is chosen. An insurance policy containing a deductible, even a large one of several hundred dollars, maintains the basic risk-reducing feature of insurance," Mr. Phelps said. ■

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Report says patients want high-cost care

WASHINGTON—The tremendous expansion of public and private insurance plans has resulted in patients asking for increasingly expensive and sophisticated hospital services, according to a recent government report.

"With insurance now paying approximately 90% of all hospital costs, there is a strong incentive for patients and their physicians to seek the best possible care almost without concern about its cost," said Dr. Martin Feldstein and Dr. Amy Taylor, authors of the report which was released by the Council on Wage and Price Stability.

A patient is mainly conscious of the net cost to him of hospital care, Dr. Taylor said in an interview. "As the patients net cost decreases due to the increasing assumption of the expenses by third parties, patients demand more expensive services."

Hospitals have responded to the increased demand for expensive care by raising their cost per patient pay and using the extra revenue to provide a more expensive style of care, Dr. Feldstein said.

The change in who is paying for hospital coverage can best be seen over time. The percentage of hospital costs paid by private insurance plans increased from 29.3% in 1950, to 43.6% in 1975.

At the same time, government insurance grew from paying 21.1% of total costs to 44.5%.

As a result, patients now pay less than one-eighth of their hospital bills compared to paying about half of the bill 25 years ago.

Because of this increase in hospital insurance coverage by third parties, the net real cost to the patient through direct payments has not significantly risen during this period.

The current system of financing hospital care through prepaid insurance does not give physicians and patients the incentive to choose higher or lower cost hos-

pitalization, Dr. Feldstein said in the report.

Once the premiums have been paid, patients opt for expensive care since the net out-of-pocket cost to them varies little regardless of the cost of care.

To deal with this problem, more external controls are needed to give patients the opportunity to choose between higher and lower cost hospital care, said Dr. Taylor.

One sort of control would be to require patients to assume a greater share of the costs of hospital care, Dr. Taylor suggests.

Other highlights of the report include:

- The cost of a day of hospital care has jumped more than 1,000% since 1950. At the same time, the cost of living has increased only 125%. In 1950 one day in the hospital cost an average of \$15.62. By 1975, the figure was up to \$175.08.

- Labor costs have been a declining fraction of the total cost per patient day. Payroll expenses declined from 62% of hospital costs in 1955 to 53% in 1975.

- The cost of hospital care currently is increasing at an annual rate of 15%.

The acting director of the Council on Wage and Price Stability, William Lilley III, said that unless the incentive system for choosing hospital care is changed "The spiral of inflation in this section of the economy will continue." ■

Maximize service

Agents and companies who are shopping for partners should look for persons who would maximize service to the customer, according to Dick De Mark, New England division manager of the Kemper Insurance Cos. Agents and companies are mutually dependent, he said, and continued education, updating of business practices and mutual respect are vital.

Inspections by OSHA are resumed in Idaho

WASHINGTON—Labor Department field officers resumed inspections of private businesses in Idaho after Supreme Court Justice William H. Rehnquist lifted a lower court injunction forbidding inspections by the Occupational Safety and Health Administration.

A three-judge U.S. District Court in Idaho had ruled in December that OSHA inspectors violated the Constitution's ban against unreasonable searches by failing to give prior warnings or to obtain warrants before making inspections.

Justice Rehnquist, however, left standing the lower court order upholding Barlow's Inc., a small Idaho company which originally challenged the warrantless searches as a violation of Fourth Amendment.

In the order, Justice Rehnquist said that where a district court decision invalidated a Congressional act that is "presumptively constitutional," the act "should remain in effect pending a final decision on the merits by this court."

After the Idaho district court's ruling, OSHA suspended all inspections in Idaho. The inspections were resumed immediately after Justice Rehnquist's order, an OSHA spokesman said.

The origins of the case go back to the summer of 1975 when F. G. "Bill" Barlow, owner of the Poostello, Idaho, plumbing, heating and air conditioning firm, refused to allow an OSHA inspector enter his 35-employee business.

Barlow was urged to take his case to court by Rep. George Hansen (R-Idaho), group chairman of Stop OSHA, a project of the American Conservative Union whose aim is the repeal of OSHA.

Rep. Hansen has introduced legislation in Congress that would repeal OSHA. He also is chairman of a fund raising drive to provide funds to pay the legal expenses of anyone who takes OSHA to court.

The congressman also has set up a legislative and legal clearing house for information to help anyone who will oppose OSHA.

An aide to Rep. Hansen said, "We will continue to pursue this supporting repeal of OSHA to the very end."

The aide also said the order was not a defeat for OSHA foes since it protected Barlow's firm from searches and therefore set a precedent for other businessmen who forbid OSHA inspectors from their firms. ■

Broker plans to take portions of some risks

OAKLAND—Marsh & McLennan will be in the risk-bearing business, but not as a major risk-bearer. Tom Grogan, senior vp in San Francisco, said at the annual meeting of the Public Agency Risk Managers Assn.

Entering the risk-bearing field is the next step for national brokers, who are becoming more involved in service-oriented operations than ever before, Mr. Grogan said.

Marsh & McLennan already has a risk-bearing position in a company that has been formed in England in the reinsurance field.

"It will be beneficial in the next 5-10 years, as we present programs for consideration by underwriters, that we have a financial

position in what we are trying to convince the underwriter that he ought to undertake," said Mr. Grogan, who stressed the fact that he was expressing a personal opinion and not making a corporate statement.

"As professional risk managers trying to promote sound insurance programs—be they self insured or insured, excess or primary—it will show good faith to have some of your own money on the line when you are trying to talk underwriters into this," he said.

Irvin Nicholas, of Fred S. James and Co. in San Francisco, said, "At this time, Fred S. James is not considering a risk-bearing role in 1977." ■

Top interest of counties is pooling

OAKLAND—Self insurance and pooling for public liability insurance have generated the most interest among county officials, according to a staffer of the County Supervisors Assn. of California.

Greg Trout told the annual meeting of the Public Agency Risk Managers Assn. that his group is offering workshops to educate county officials about the different funding mechanisms for self insurance.

An ad hoc committee on liability insurance was established last spring to deal with the high cost of liability insurance and the increasing number of liabilities. It will also provide information on risk management, insurance purchasing techniques, pooling mechanisms, and self insurance.

"The more informed people are about pooling of insurance, the better such pooling arrangements will turn out to be," Mr. Trout said.

One of the most important functions that the County Supervisors Assn. performs is to assist counties in developing knowledgeable self-insurance programs by advising them of the steps and program responsibilities necessary to implement self insurance, Mr. Trout said.

Counties are becoming increasingly involved in self insurance, either by choice or force. Many counties have been raised to a self insured potential level of 100,000 because insurers would only underwrite risks above that point.

Such programs require certain responsibilities that have to be accepted at the county level, Mr. Trout said.

The ad hoc committee has also conducted a survey on the California counties and 70 selected cities to establish an information base on public entity insurance. The analysis of the results on insurance premiums, coverages, potential levels, losses, and risk management practices is expected to be completed by the end of February. ■

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Surety bond problems could stymie self-insurance, worried firms say

By JOANNE GAMLIN

SACRAMENTO, CALIF.—A bill is to be introduced into the California legislature that its sponsors—third-party self-insurance administrators—hope will wipe out or mitigate what they call a crisis in self-insured workers' compensation programs.

The bill will create a self-insuring security fund to replace the surety bonds and corporate securities which at present must be presented to the state by companies wishing to self-insure their workers' compensation programs.

Self-insured workers' compensation is big business in California. The California Department of Industrial Relations said in 1975 there were approximately 1.5 million employees covered by workers' compensation self-insurance plans with total premium of approximately \$250 million in 1975.

Edward D. Struck, Jr., manager of self-insurance plans for the Department of Industrial Relations, "When I started this job in 1966, there were about \$80 million in surety bonds and between \$12 and \$15 million in securities in the hands of the state treasurer.

"But as of February 1976 there was \$120 million in surety bonds," and the amount in securities had dropped to about \$10 million.

Observers, however, believe that the growing difficulty suffered by companies that want to self-insure their workers' compensation programs in obtaining surety bonds may diminish these numbers. Insurance company after insurance company—Federal, Safeco and Seaboard Surety Co., to name three—are either being exceedingly selective, usually confining their surety bond under-

writing to "jumbo" companies, or are ceasing to write the bonds altogether.

They cite as the number one problem the lengthening tail or continuous trauma of workers' compensation losses.

"A few years ago, companies could reasonably rely on a tail of about five years," Mr. Struck said. "Now it is 20 to 40 years."

Likewise, Bilt Buell, vp for surety of Emett & Chandler, a Los Angeles brokerage firm, wrote in an information letter recently that surety bond underwriters have no way of measuring what their total exposure may be at the time of cancellation, they have continuous obligations for incurred but not reported injuries.

"In other words, a surety cancelling a bond in 1975 could find itself handling claims for a then non-existent 'self-insurer' in 1990 for an injury which occurred during the life period of the bond in question," he wrote.

Surety bond underwriters, he continued, do not want to be mistaken for insurance companies.

Some insurance companies, concerned not only about the long tail, but also about what they regard as the deteriorating quality of companies venturing into self insurance for workers' compensation programs, have decided to act.

Last November, for example, one major insurance company, which does not want to be identified, began to demand that companies for which it was writing surety bonds fund rather than simply reserve self-insured workers' compensation programs.

"We're doing this in an experimental way now, on a piecemeal basis," explained a spokesman, adding that Fortune 500-type corporations may be exempt from

the funding demand.

"This is our way of staying in the business," he added.

How have companies hit with the funding requirement reacted? They have done everything from demonstrating that they are already funded to retreating to a conventional workers' compensation program, he said.

Donald Spickard, vp of Safeco Insurance Co. in Seattle, said he agrees that companies that want to self insure workers' compensation must begin to think about funding these programs.

At the same time, Mr. Spickard, who expressed skepticism about the long term prospects of many companies now seeking to self-insure, observed that the funding requirement will rob the self-insurance concept of much of its "fun," a large corporate cash flow.

"I think the spasm of self-insurance will disappear in time," he predicted.

And, if self-insurance does return to being the province of very large corporations with vast financial resources, many firms in the fast growing administration field will be hurt.

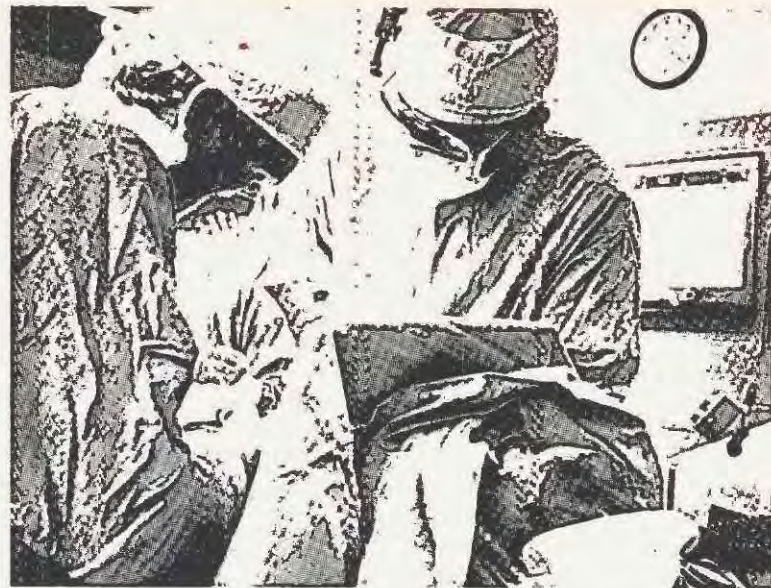
That may be why third-party administrators in California, who might have shunned co-operation in the past, are largely united in supporting the new bill establishing a self-insuring security fund.

As things stand now, a California employer wishing to self-insure workers' compensation must deposit either a surety bond or securities, both of which must be approved by the Director of Industrial Relations, in an amount determined by the director of that agency. The minimum deposit is \$100,000 or 100% of the self-insurer's liability for the payment of compensation, whichever is greater.

The new bill would abrogate those requirements and a security fund, guaranteeing the benefits of self-insured plans in California, would take their place.

The fund will be managed by five trustees representing five sectors of the market: the public, the administrative firms, employers who self administer, as well as Mr. Struck and Donald Vial, director of the Department of Industrial Relations.

The job of the trustees will be to authorize payments to an em-



A California hospital management firm, National Accommodations, found the surety bond market 'had dried up'

ployee entitled to workers' compensation benefits when they determine that the workers' self-insured compensation fund is insolvent. In return, the trustees must attempt to obtain full reimbursement including expenses to the fund for payments made on behalf of an insolvent self-insuring employer.

To support the fund, the director of industrial relations will collect from each self-insuring employer an amount equal to an unspecified percentage of the temporary and permanent disability benefits paid by the employer in the preceding year. Furthermore, the director will assess such additional amounts as the trustees deem necessary to maintain the financial health of the fund.

The bill also permits the director to allow two or more employers to enter into pooling agreements for workers' compensation liabilities for the purpose of qualifying as self-insuring employers.

Reaction to this early version of the bill was favorable.

"Although we don't like the idea of the state getting involved, the insurance industry welcomes a solution to the surety bond squeeze," a spokesman for a California-based insurance company said.

Edward Struck said that the position of his department, which evaluates the financial position of companies that want to self-insure workers' compensation, is officially neutral. He said passage of the bill should have no adverse affect on his department.

One California employer that was caught in the "only the top risks may apply market" was National Accommodations of Studio City, Calif. It manages hospitals in California, Arizona and Florida, and generates about \$200 million in volume annually.

"We met all the requirements for surety bonds, but when we ventured out to buy, we found that the market had dried up," said William Pierpoint, president and chief executive officer. He said his workers' compensation program is now insured with Leatherby Insurance Co.

Mr. Pierpoint observed that his firm has managed to cut its workers' compensation loss ratio significantly. Yet he acknowledged that until last year, his company's loss experience was not very good.

For contrast, he said that National Accommodations' loss ratio stood at 23% of total premiums as of June 30, 1976. In former years, he said the company consumed the entire premium to compensate losses.

Food Corp. of Whittier, Calif., which does about \$40 million in annual sales, likewise is back to insuring its workers' compensation plan with the Highlands In-

surance Co. in Houston, Tex. A spokesman said that Hood gave up its self-insurance plans after being told that it would have to buy a \$200,000 surety bond—the company had planned on acquiring a \$100,000 bond—and pay an annual bond premium of about \$16,000.

"We added this up and concluded it was too much," the spokesman said.

Most companies, though, are reluctant to acknowledge in print that they were turned down for surety bonds, possibly because they fear the rejection casts an unflattering light on their financial condition. And some firms that are denied surety bonds are not "blue chippers," in the words of an official in Mr. Struck's department.

The fact that so many bonds applicants are less than blue chip is worrying to many bond underwriters.

Donald Spickard of Safeco contends that the workers' compensation market has been knocked out of balance by the proliferation of administering firms.

"The servicing organizations first took the cream off the top of the workers' compensation market, leaving mostly higher risk to be insured," he said.

But now that many of the high quality, low risk companies are self-insured, servicing organizations are going after smaller, higher risk companies in the second tier of the Fortune 1000. How many of these firms will be in business in 20 years, Mr. Spickard asked, recalling management consultant Peter Drucker's claim that the average corporation in this country has a short, 25-year lifespan.

One servicing firm which is hedging its bets on the passage of the bill is Bierly & Associates, Pasadena. It is attempting to meet the surety bond shortage by acquiring a bonding company.

Gold Kist insured for \$750,000 fire

ATLANTA—Gold Kist Inc. was fully insured above a substantial deductible for a \$750,000 fire at its Bennettsville, N.C. warehouse in mid-January.

Insurer for Gold Kist is Manhattan Fire & Marine Insurance Co. General Adjustment Bureau is adjusting the claim.

Gold Kist uses an aggregate deductible for its property insurance program, which director of corporate insurance Robert E. Rich described as "a fairly high deductible on an aggregate basis."

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Tight markets are behind self-insurance interest

By MARIE KRAKOWIECKI

TAMPA, FLA.—The Society of Chartered Property & Casualty Underwriters got such an unexpectedly large response to its recent seminar on self-insurance that it had to turn away more than 100 people who wanted to attend, the session's organizers said.

From the remarks by a number of speakers at the seminar, however, it became evident that the boom of interest in self-insurance was prompted as much by an involuntary reaction to tight market conditions and regulatory control as it was by any willingness on the buyers' part to assume a larger portion of risk.

During a question and answer period led by Warren Brockmeier of the Wyatt Co. consulting firm, for instance, Florida insurance consultant Edward W. Siver said that he thought there is actual "coercion" to go self-insured for some lines of coverage.

Even in more sophisticated companies where self-insurance is selected for purely financial reasons, Mr. Siver said the motives for it are frequently misplaced.

"A lot of interest in self-insurance is centered on the arithmetic involved on the advantages versus the disadvantages" of self-retention, he explained. "That's putting the cart before the horse."

Many of the seminar participants appeared to be interested in self-insured programs for workers' compensation. Robert S. Spencer, vp-insurance and risk management for Fuqua Industries Inc. in Atlanta, offered his own experience in helping to set up a Bermuda captive with a fronting company arrangement which now self-insures his firm's workers' compensation in about eight or nine states. Mr. Spencer discussed what seemed to be on many minds: The escalating costs of insuring workers' compensation through traditional markets, now that benefit levels have risen in most states.

"I think workers' compensation is going to be our biggest single problem area; it is fast approaching the costs of medical benefits," Mr. Spencer said.

"There seems to be no end in sight. There is much greater expense, regardless of experience, which makes it (workers' compensation) a natural for self-insurance."

Mr. Spencer said Fuqua's captive really helped to contain the costs of workers' compensation insurance. But a number of seminar participants voiced concern that no matter what they do, the costs of workers' compensation benefits are

going to be a backbreaking business expense.

One insurance company executive told the group that in Minnesota the benefits paid to a widow in a workers' compensation case are so high that if she lives out a normal life expectancy (he used 39 years as an example) the benefits paid would exceed a million dollars.

There was murmured agreement, a sort of collective hand-wringing which seemed to capture the concerned mood of the group over costs.

One broker later privately pointed out that the insurance company spokesman had neglected to mention that despite the high level of benefits payments the insurance company would still wind up making money. Workers' compensation premiums go into a spe-

cial fund, the insurance company gets the interest and any investment income from that fund, and that amount can easily outstrip the benefits payments it has to make, the broker asserted.

His response to the question of why he didn't get up and point that out during the CPCU meeting may go a long way toward explaining the very tangible power that insurance companies exercise over their markets, particularly when conditions are tight enough to make a self-insurance seminar a total success.

"Are you crazy?" the broker said. "That guy is a big shot with one of the big compensation carriers I have to do business with. How do you think it would go for me, or for any broker, if we stood up and contradicted him in pub-

lic?"

Waller B. Smith, former risk manager for United Airlines and now a consultant with Rollins-Burdick-Hunter Co., was one of the CPCU speakers who apparently did not feel as pressured by the presence of insurers at the meeting. He offered this perspective as a counter to all the talk about a supposed "crisis" in workers' compensation costs today:

As a percentage of total payroll, workers' compensation is not going to cost companies any more than it did 20 years ago. Everybody complains about how much workers' compensation costs them, he remarked, but few are willing to admit how much it actually saves them, even though benefit levels have been brought into the 20th century.

He gave an example of how four

pilots were killed in a United Airlines crash. At the time of their deaths, the pilots were "dead heading" or riding as passengers, though the practice allows them to log air time on their records.

United tried to say they were riding as employees at the time of the crash, and would be covered by workers' compensation. However, the lawyers for the pilots' survivors sued United not as an employer, but as a carrier, and the courts upheld their position in that case.

The resulting cost to United was \$3.2 million, which Mr. Smith said was equal to all of United's workers' compensation costs for the year 1976. His point, of course, was that if companies didn't have limited liability under workers'

Continued on page 16

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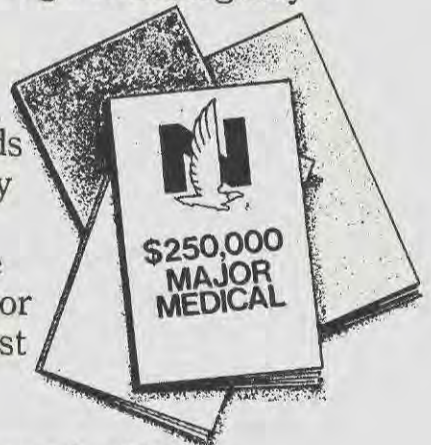
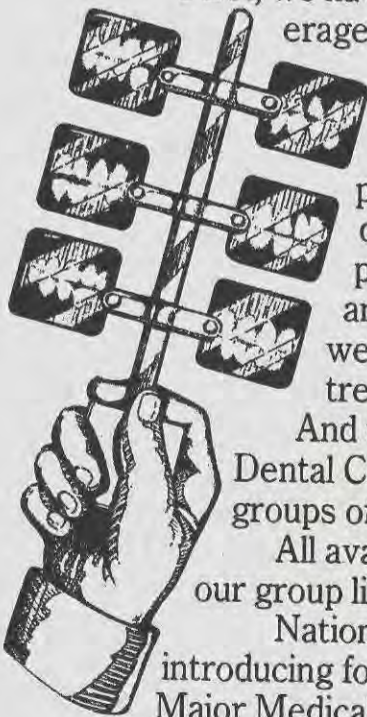
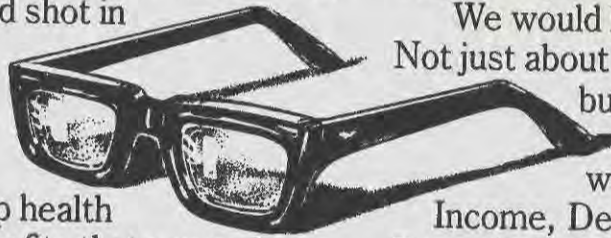
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RIMS taps Frederick

NEW YORK—Pauline Frederick, international affairs analyst for National Public Radio, will be a featured speaker at the 15th annual Risk & Insurance Management Society conference in New York.

Ms. Frederick will speak at the Conference's Monday luncheon at the Americana Hotel.

The RIMS meeting runs from April 24-29 at the Americana and New York Hilton hotels. The first two days will deal with risks and employe benefits problems in specific industries. The three following days will be devoted to general risk and insurance management topics.

Wrapup plan cuts insurance costs at RenCen

By STUART HANGER

DETROIT—A wrapup insurance program encompassing workers' compensation, liability and other insurance needs in the construction of the riverfront Renaissance Center is producing savings and safer working conditions.

Edward R. Jarchow, controller for RenCen Management Center, said the loss sensitive rating program helped to bring rebate dividends in each of the three years the basic core and shell has been under construction.

The annual premium for phase one of RenCen, expected to be completed this year at a cost of \$337 million, was \$800,000 annually. The program was arranged by Ed B. Therasse with Frank B. Hall & Co. in Detroit with Commercial Union Assurance Co. as the insurer for workers' compensation and general liability. A cut-off date for the insurance has not yet been designated, Mr. Jarchow said, nor has the insurance program for phase two been negoti-

ated.

A wrapup insurance program for a project of the size and complexity of the \$500 million RenCen undertaking probably saved the management company between 30% and 35%, Mr. Therasse estimated.

Other states have had major projects insured under a wrapup program (for example, the BART subway system in San Francisco). The idea became feasible in Michigan after passage of a law in August 1973 allowing coordinated loss control programs at construction projects exceeding \$100 million.

RenCen is the largest privately financed project to have a wrapup program on workers' compensation. It has 51 corporate partners who have put up \$114 million in equity investments. A \$200 million construction loan and a \$200 mil-

lion permanent first mortgage were packaged. Upon completion of phase one, the mortgage will be provided by Aetna Life & Casualty Co., the Equitable Life Assurance Society of the U.S., John Hancock Mutual Life Insurance Co., The Travelers Insurance Co. and the Ford Motor Credit Co.

Fire and extended coverage and difference in conditions (DIC) insurance are covered by a second master policy with the National Union Fire Insurance Co. of Pittsburgh. All risks are covered, with specific exclusions, at guaranteed cost.

Only three of the 200 contractors and subcontractors are not included in the wrapup program. American Bridge division of U.S. Steel, PPG Industries and Don Cartage, a small contractor, self

insure workers comp and liability crisis. PPG reported good experience to date in its insurance program.

The deductibles on the workers' compensation policy was below \$100,000, Mr. Therasse said.

The RenCen risk management team involved Mr. Jarchow; Tom Walter, business planning manager for Detroit Downtown Development Corp., a subsidiary of Ford; Horigman, Miller Schwartz & Cohn, the law firm for the project, and Emil Alberti, staff construction manager.

Mr. Jarchow pays the insurance premiums based on monthly payroll work sheets. Regular manual rates are applied, with Ren Cen developing its own experience rates. All rates must be approved by the state director of workers' compensation.

Starting the wrapup program began with meetings of small groups of contractors at Frank B. Hall offices near the site. The contractors were told they would not carry their own insurance and given information on the coverages to be provided, accident prevention practices to be followed and payroll reporting procedures. Certified letters informed them they had been issued formal contracts of insurance certificates by the state.

Company moves

American Reserve Corp. consolidated its corporate headquarters and Chicago-based field offices in the Mid-Continental Plaza during January. The firm's new address is 55 East Monroe, Chicago, Ill. 60603.

Seminar . . .

Continued from page 15

compensation, and if employees could sue them openly and win, then business would be in a lot more trouble than it is now.

Very few of the people attending the conference represented companies as large as United, so it is difficult to say how much of an impact Mr. Smith's example made on them. What was easier to assess was that for whatever their motivations, the participants at the CPCU seminar seemed determined to get more freedom in setting up self-insurance programs for workers' compensation and for other lines, even if it means battling regulators in some jurisdictions.

One of the most frequently heard complaints, during and after the meeting, for instance, had to do with the state of Texas. Texas does not allow employers to self-insure workers' compensation programs, seminar participants said, visibly irked. By the end of the seminar, there was talk of a lobbying effort for self-insurance trusts in Texas.

An example of what seems to be employers' determination to cash in on self-insurance while they can still save money doing it was given by Frederick Gillette of the Wyatt Co. Mr. Gillette was discussing the legal ramifications of an Internal Revenue Service suit against the Carnation Co. over deductibility of premiums paid into the firm's Bermuda captive for insurance of its U.S. risks.

As reported in *BI* (Dec. 27, 1976) the Carnation case, and another IRS suit against Ford Motor Co.'s Bermuda captive, could significantly affect corporations with captives. Mr. Gillette said the Carnation case is more significant because there are more captives which could be affected by the IRS challenge to the legitimacy of premiums paid for U.S. risks. (The Ford case concern's foreign subsidiaries.)

Despite the possible threat from the IRS, however, Mr. Gillette said the past year was the busiest one ever for the formation of captives, according to what representatives from the three largest captive management firms told him immediately before the CPCU meeting.

"And although the Carnation case may have a significant impact in slowing things down," Mr. Gillette said, "a number of our (the Wyatt Co.) clients have said, 'Go ahead with it anyway.'" ■

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• Underwriters Laboratories Inc.'s **1977 Catalog of Standards for Safety** is a quick reference guide to UL's 380 published Standards for Safety. It lists published standards alphabetically according to title and also in numerical order using the UL Standard number designation. It includes UL's proposed standards. For a free

copy write UL at 333 Pfingsten Road, Northbrook, Ill. 60062, Attn: National Standards Stock.

• **A Look at Summary Annual Reports**, a 24-page booklet published by Meidinger & Associates Inc., is a guide to requirements, deadlines and strategies for preparing the reports according to the

Pension Reform Act. For a free copy write Mary Bradenburg, Meidinger & Associates Inc., 2440 Grinstead Drive, Louisville, Ky. 40204.

• **Everything You Always Wanted to Know** about cash flow funding and alternative risk sharing approaches of employe benefit programs, including self insurance, is a reprint from the Risk Management journal. The cost is \$3 a copy. Write Brian T. Sinclair-Whitely, vp, Blair, Follin, Allen & Walker Inc., P.O. Box 1280, Nashville, Tenn. 37202.

• **Highlights of the Tax Reform Act of 1976**, a booklet available from New England Mutual Life Insurance Co., explains key features of the new law including how it can affect savings, estate and gift tax rates and increases in the maximum marital tax deductions. For a free copy write F. J. Malone, second vp, New England

Mutual Life Insurance Co., 501 Boylston St., Boston, Mass. 02117.

• A comprehensive Bibliography on **Health Maintenance Organizations: 1970-1973** is available from the Medical Group Management Assn. Its sources are intended to present an overview of the development of the health maintenance organization movement during the three years prior to passage of the HMO Act of 1973. Cost is \$3. Write Medical Group Management Assn., Library Reference Service, 4104 E. Louisiana Ave., Denver, Colo. 80222.

• New York City-based national corporations can get free assistance in setting up alcoholism programs for their staffs from the Corporate Headquarters Alcoholism Project (CHAP). It's estimated alcoholism costs American business more than \$9 billion annually in absenteeism, sickness-disability payments, lost efficiency and impaired

production. Funded by the National Institute on Alcohol Abuse and Alcoholism, CHAP exists to help companies help their employes. For more information write CHAP at 120 East 56th St., Suite 240, New York, N.Y. 10022.

• **The Who, What, When, Where, Why and How of Factory Mutual Approvals** is a booklet for manufacturers interested in obtaining an OSHA-recognized, Factory Mutual approval of equipment, services or materials they offer. For a free copy, write Public Information Division, FM Engineering and Research, P.O. Box 688, Norwood Mass. 02062.

• The General Adjustment Bureau describes its **Structured Approach to Safety of Loss Control** in a free booklet. Procedures and development of safety plans are outlined, including a safety and loss control checklist. Write GAB Business Services Inc., 123 William St., New York, N.Y. 10038, Attention: J. W. Weatherstone.

• A description of the **Highly Protected Risk Coverage**, how it works and what Commerce & Industry Insurance Co. can do for clients, is contained in a free brochure, available by writing Info for Buyers, American International Group, 102 Maiden Lane, New York, N.Y. 10005.

• The **Beneke Service Handbook** provides background information on its property appraisal service, annual appraisal revisions, procedures, records and adjustments. For a free copy, write R. G. Beneke & Co. Inc., Ten Thousand North Central Expwy., Dallas, Tex. 75231.

• Developing effective business crime prevention programs is the subject of a report published by the U.S. Department of Commerce. The 250-page report, **Crimes Against Business: A Management Perspective**, reports the evaluations of businessmen and government officials on embezzlement, credit losses, personnel selection and computer abuses. Copies are \$3.60 from the Superintendent of Documents, United States Government Printing Office, Washington, D.C., 20402.

• A series of brochures from Dymo Products Co. provides a **Guide to Effective Safety Signage**. Principles of safety communication and a survey of safety sign uses are included, along with price lists for Dymo sign-making products. For a free kit, write Dymo Products Co., Willow Hill Executive Center, 550 Frontage Rd., Suite 2033, Northfield, Ill. 60093.

• **The Forum—Answers to Questions on Insurance Coverage** has been published by the Rough Notes Co. Extensively revised, the 12-page book contains questions and answers on coverage and loss matters, such as auto, crime, fire and allied lines, general liability, and E&O, surety and bonding. Copies are \$3. Order from The Rough Notes Co. Inc., 1200 N. Meridan St., Indianapolis, Ind. 46204.

• An excerpt from Edward P. Lalley's book on risk management has been published in monograph form. **Self Assumption, Self Insurance and the Captive Insurance Company Concept** explores a wide variety of risk financing techniques, including informal self assumption of losses as current expenses, the formal use of self insurance reserves, highly structured risk retention through a captive insurance company, and risk transfer. Cost is \$3.50. Write to Dept. MG, Risk and Insurance Management Society, 205 East 42nd Street, New York, N.Y. 10017.

monitoring, voice messages to instruct building occupants, and fire department intercommunications can also be added.

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system checkout and training. What's more, our nationwide service network can provide both ongoing maintenance and emergency repair service.

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It's good business to run a fine-tuned building.

Honeywell

Self-insurance consultant looks to continued growth in Washington

By HARRIET KING

SEATTLE—Industrial insurance rates will increase an average 75% this year in Washington, where state-provided industrial insurance for lost wages, medical aid and supplemental pensions is mandatory for employers without self-insured workers' compensation program.

Consequently, Jerry Johnson is confident the self-insurance programs his company specializes in will look even better to some of the state's 92,000 employers faced with massive premium jumps. One electronics manufacturer who had been paying \$260,000 in annual premiums to the state recently reduced annual incurred liability losses to \$1,700 through a Johnston administered plan.

"They think I walk on water," he says.

Mr. Johnson is director of self insurance for Employee Benefits Industrial Service Co., a leader in establishing and administering self-insured workers' compensation programs.

Currently, only 150 of the larger businesses in Washington have their own programs. "They do represent 25% of the state's 1.2 million workforce, however," says Mr. Johnston. "But at least an equal number of prospective companies are probably eligible."

The new rate proposal comes because the department of labor and statistics says costs are mounting in every part of its industrial insurance program. The department's director cites rising prices of medical and hospital care which hike not only the costs of current claims but also costs of a large volume of active claims incurred in prior years. And he notes time-loss and pension costs escalate automatically when wages rise. In addition, injury claims rose 5,000 to 152,000 in 1976.

The state program includes:

- An accident fund for lost wages, paid quarterly by employers based on the number of hours their employes work.

- A medical aid fund covering medical and hospital costs paid equally by employers and employes through payroll deductions.

- A supplemental pension fund for workers insured before 1971 which employers and employes share equally.

Premiums for the program vary from industry to industry with loggers paying the highest rates.

"I don't know how some of the companies are going to be able to handle the state's premium increase," says Mr. Johnston. "But the state department of labor says it is \$120 million in deficit to the state fund. So it is trying to make it up by raising premium rates since the program is supposed to be self-sustaining."

"Unfortunately, self insurance for workers' comp doesn't work for every company," continues Mr. Johnston, who handles client companies in wood products, construction, steel foundries, food warehousing and manufacturing.

"We get many, many calls from companies asking if they can qualify. They like the idea of paying only incurred liability, not premiums. But the way we feel about it, a company should be paying in excess of \$75,000 normal standard premium to the department of labor and industry with a loss ratio of less than 50% to qualify."

"A lot of company managers will call and say 'I pay \$4,500 in premiums to the state and think that is high.' But they forget that a death benefit pays \$150,000 and a common back surgery case costs \$15,000."

The company's hazards create its risks, he says. In the wood products industry, with numerous injuries because of the nature of the work, a company needs 125 employes to consider self insurance. A similar sized retail operation would need 200 to 300 employes because its exposures and premiums are relatively lower.

Some companies, such as Seattle's First National Bank, are ideal candidates for self insurance, says Mr. Johnston.

"How bad could the exposures of a large bank be?" he asks. But businesses such as ski resorts which primarily employ seasonal workers "won't usually qualify."

The state has "stringent requirements" for companies who want to self insure, he says. "It's not just a wholesale program where anyone can jump in."

"The company must be able to secure a surety bond; it must demonstrate a cash flow to pay for the incurred liability. It must prove it has an effective loss control and accident prevention program, and must show financial stability. It must also have three years of audited financial statements, an expensive item which also eliminates some companies."

"A number of companies, too, can't get a surety bond if they have a small business loan because the Small Business Administration gets first crack at the company's assets if it defaults. The surety companies don't like that because they want first crack."

EBI studies the company to determine whether self insurance would be feasible or whether the company should drop the idea. "We only recommend self insurance for one out of every seven companies which contact us," he says.

The study is a five-year, historical actuarial feasibility study, based on each company's actual claim experience and exposure and actual loss ratios. "Then we project that five years forward to see if self insurance is for them," says Mr. Johnston.

He charges a fee for the initial study since an actuarial team could spend a week at the state capital for each client. In five years, each client may have generated 500 claims which the team must ferret out.

Mr. Johnston finds clients in several ways. Some call and ask to meet and have EBI perform a study. "Other times, I call a company cold. I may have read about them in the paper or heard about them through a mutual acquaintance. Generally, most firms of any size at all have a broker who gets in touch with us."

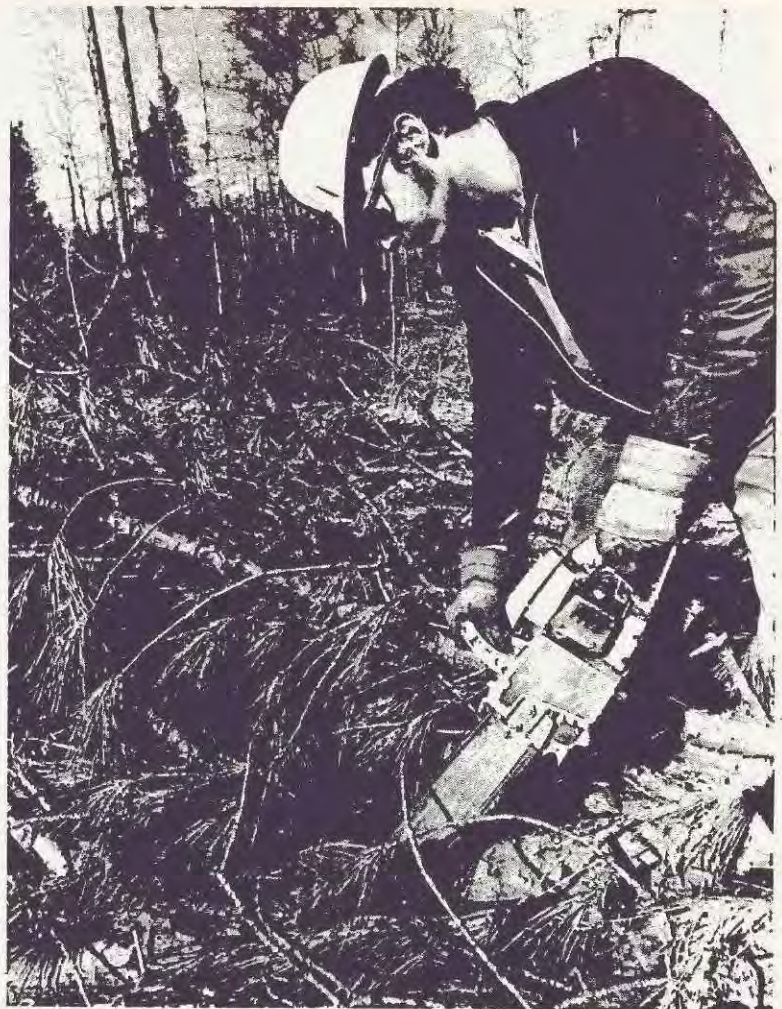
EBI began in 1970, after a year of planning, with three employes in the San Francisco home office. Today, the company has 320 employes in 15 offices in California, Washington and Oregon. EBI managers have applied a self-imposed geographical limitation because "we feel so strongly that we want to maintain good communication and control over our clients," says Mr. Johnston.

Once on the job, EBI performs several services from administration, actuarial analysis, claims administration and computerized recordkeeping. Perhaps its most valuable service is in safety and loss prevention.

"We provide a full safety and loss prevention program," says Mr. Johnston. "For instance, we have 22 safety consultants in Washington and Oregon alone who only work on these programs. One of our philosophies is to concentrate on the biomechanical element of injuries, the human element, the safety training."

He suggested "that 85% of accidents is human error and 15% mechanical. But industry addresses itself mainly to that 15% which is mechanical. Witness the labyrinth of OSHA rules and regulations."

"In spite of all of that, injuries are on the increase, however. So we feel we need to address ourselves



In the wood products industry, with many injuries because of the type of work, a company needs 125 employes to consider self insurance vs. 200-300 employes needed in a similar sized retail operation.

to the safety and loss prevention side. We feel that a company can't sometimes reduce accidents by themselves. Also, good claims management is an important aspect of a program. If there is an injury, for instance, we see to it that the person is seen by a specialist as soon as possible. We assist in securing the best possible medical help available," says Mr. Johnston. "One advantage to the employer is that he has better communication with the medical society. Plus, if a person is injured, there is often another job in the plant that can meet the injured employee's restrictions. It creates better understanding all around."

Mr. Johnston says EBI uses an "extensive" amount of videotaping for training and developing loss prevention programs. "One of our major industries is wood products. We spend a considerable amount of time on safety there. Many times, we just have to develop a safety awareness."

"For instance, if in a plant there is an area where there is a long track record of continuing accidents, we'll go out and videotape the machine in question. In one company where employes were making corrugated boxes, they kept getting back injuries. We found out that a loading table they were using was designed for a person five foot three, not a six foot man. Bending was causing a lumbar strain. That is the type of thing you learn by videotaping."

Another videotape example took place in a grocery warehouse. Employes carrying wax boxes of chicken were also receiving back strains. "We found that because employes weren't wearing proper apparel such as rubber jackets, they were holding the boxes of chicken away from themselves so they wouldn't get their clothes dirty. We recommended jackets and that company hasn't had a back injury in that department since."

"The problem is that sometimes we see a problem and say 'Ah ha! That is the cause and it should be corrected.' But the department manager will say 'What's wrong with it? We've been doing it that

way for years.' But most of the time, there is little resistance to change when a company is self-insuring because they know that a savings develops when they reduce accidents. When that happens, everyone in the company saves."

"Company managers realize, too, that a good loss control system increases productivity. Otherwise, if a person is out of work, they have to replace him with someone, and maybe pay some overtime. Workers' comp rates to someone out of work are \$604 maximum a month, so employes who are accustomed to \$1400 a month don't want to be injured and have to live on that."

Some companies by being self insured, can control their losses to some extent. I don't know of anyone who has had self insurance that cost them more than state insurance," says Mr. Johnston. His average client has below a 40% loss ratio, says Mr. Johnston, who was a risk manager with an Oregon steel company before joining EBI in 1973.

He sees an increasing trend toward more self insurance over-all, in such areas as malpractice, for instance.

"But we work broader our field. We've been asked many many times to do it. Clients will say 'You've done such a good job for me, take this other task on.' But we don't want to spread ourselves thin, we don't want to get out of our area of expertise," says Mr. Johnston. ■

Agencies merge

Three insurance agencies have merged to form Insurance Management Services Inc. The new agency is expected to have gross revenues of more than \$1 million annually. The three agencies merged are David & Dassette Inc.; Lenihan, Groton & Co. and Yost Insurance Agency. The combined firms will employ 60 persons. William D. Gordon has been named chairman of the board. Edward J. Sealy is president and chief executive officer; E. D. (Ned) Yost, vp for client services, and William R. Groton, vp for administration. ■

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agent/broker topics

Opportunity to do 'lots of things'

Risk manager joins medium-sized Iowa agency

By BARBARA JEAN GRAY

DES MOINES, IOWA—When a national brokerage house adds a former risk manager to its account executive ranks, few eyebrows are raised.

But when a medium-sized agency (\$500,000 in gross revenues) takes on an executive with nine years of risk management credentials, it's notable.

Is it a case of new service products for the agency? Or a case of risk manager seeking new horizons in the insurance industry?

In the case of Richard Wilber joining LaMair-Mulock-Condon Co., it was a combination of the two.

LaMair is a general lines agency presently generating most of its \$5 million-plus premiums in property/casualty and employe benefits. It is a firm, according to principal C. Ben Condon, "in one of those growth stages where we're not yet as refined (in job definitions) as in larger agencies. We all do a lot of things."

And it was precisely this opportunity to do "a lot of things" that appealed to the 35-year-old Mr. Wilber when he decided to further explore an industry he labels "fascinating. I felt that, for me, the greatest opportunity in the insurance business was in the agency. There are more avenues for growth, there's the variety of 'wearing several hats', and there's a kind of personality needed—one of outgoing-ness and openness—which I feel I have."

LaMair's philosophy since its founding in 1865 has been to prepare people to continue the agency, Mr. Condon explained. "We're now at the stage when we need to add people and we had the demand for additional service."

"When we were looking for additional people, we did the obvious and went to someone we already knew," he continued. "We wanted him for existing-client service and new account development (although those days are yet to come for Mr. Wilber). We can take advantage of his expertise in all areas, especially in self insurance. We don't offer that service now, as such. We have made Dick available to our clients to compare with their risk managers how he may have handled various situations."

Mr. Wilber came to LaMair after a four-year stint with the \$6 billion Kroger Co. where he began as corporate insurance manager, then was given the additional duties as corporate claims manager.

His office reviewed 2,500 of the company's 7,000 annual claims. Mr. Wilber, dissatisfied with the cursory synopses filed with the claims, undertook an extensive travel schedule to research information at the insurance company level and the Kroger plant level. "We wanted to retain authority on settling claims, and the insurance companies were very receptive to the research idea, as was Kroger." It was at the Cincinnati-based company that Mr. Wilber instituted several self-insurance programs.

Mr. Wilbur began his insurance career in 1967 with the Ralston-

Purina Co. in his hometown of St. Louis. He then moved to \$200 million Winnebago Industries in Forest City, Iowa, where he established a corporate insurance department.

It was while at Winnebago that insurance agent Ben Condon called on insurance manager Richard Wilber.

Mr. Wilber's blending into the LaMair fold was a mutual bidding. "In the insurance fraternity, there is an effective grapevine," he said. "As soon as I had decided that was what I wanted to do and that I wanted to stay in the Midwest, things clicked."

LaMair made the call, but not before the young risk manager had discussed opportunities with a few of the biggies, such as Marsh & McLennan and Fred S. James.

"It's not a maverick move," Mr. Condon said. "He's just an interesting asset. His background, talent and desire to get into the agency business all combine to make him an attractive addition. The client—and prospect—reaction has been favorable."

Although the majority of Mr. Wilber's time has been devoted to account review rather than sales, he hasn't had to go the peanut-butter-sandwich-route waiting for commissions. LaMair pays straight salaries for all producers, unlike many other agencies. It reflects the firm's commitment to the team approach, Mr. Condon said.

The account reviews have been mutually educational, Mr. Wilber feels; he learns about the account, and the management learns a second, professional risk manager's opinion. "I can approach the review from an independent objective point of view then discuss it with management. Also, at this time we can see if there are ways to broaden coverage or increase cash retention."

The greatest reward to date for the rookie agent? "Personal satisfaction from reviewing accounts and feeling that I made a contribution to communications." Passing the Iowa agent's licensing exam was gratifying, too, he added parenthetically.

"One of the mystiques of insurance is that most people don't understand it and don't have the inclination to try. This goes for both insurance industry people and consumers. Bringing a greater understanding of a line to a person or company is a great service."

The biggest obstacle? Concern about new business development, said Mr. Wilber. "I really have not had the opportunity to get into that area which will be new for me, although there are some large accounts I have had contacts with. And I am interested in the whole spectrum" of the agency.

LaMair generates about 90% of its revenues in commercial business and the remainder in personal lines.

"Our life insurance is nominal at this point, but we're paying a great deal of attention to it and will expand it," Mr. Condon related.

The Assurex member also plans to offer additional services such as those of a loss prevention engineer

in the near future.

Although Mr. Condon stressed that the firm is not rigidly departmentalized, an agency brochure identifies areas of specialization. Michael A. LaMair, administration; Mr. Condon, business development; Carl J. Grant, Jr., claims and engineering manager; James F. Norris, life and employe benefits manager, and James E. Thompson, bond manager are the principals. Other specialists for the firm are casualty manager Gene Clay and property and marine manager Lyle C. Geiger.

Commenting on general market conditions in Iowa, Mr. Condon observed that the single, dominant industries in outlying rural towns are "gravitating toward the larger cities" such as the 300,000 person metropolis of Des Moines "for one reason or another. One guestimate (on reasons for the shift) would be that the local agent can no longer handle the business and the customers are looking for other professional services such as accounting, legal and so forth. If the customer finds a good CPA firm in the city, for example, the natural progression is to bring other areas of professional needs into town. This situation didn't exist five years ago and the customers are looking for something

different from what they've had."

Unlike other Midwestern cities such as Omaha and Kansas City, Des Moines does not have as many home-owned industries. "Ours is an interesting marketing area" in that respect, said Mr. Condon. "The large national marketing companies are represented so that the market is only somewhat

Iowa-owned. We have a lot of foreign corporations."

Projecting business conditions for 1977, the agent stated that the major external factor affecting profits would be "the availability of market capacity and the possibility of further commission cuts." The greatest internal factor is the limitation on time.



Richard Wilber (left) brings nine years of risk management experience to LaMair-Mulock-Condon Co., where executives like Ben Condon wear "several hats."

Agent's fight over commission cuts draws nationwide financial support

HARTFORD, CONN.—A suit brought by an independent agent over unilateral commission cuts and violations of contractual agreements has rallied unprecedented financial support from agent association and private individuals nationwide.

The dispute is believed to be the first time a dispute between an independent agent and an insurance company has reached the courts.

Beechler-Tanguay, a small agency (under \$500,000 in premiums) in Manchester, Conn., has filed suit against Fireman's Fund Insurance Cos. of San Francisco in state court claiming the insurance company breached its contract with the agency.

The agency charges Fireman's Fund unilaterally reduced commissions to 15% from 20% last June on an auto policy written Jan. 1, 1975. It also charges the insurer cancelled the agency agreement because Beechler-Tanguay had refused to accept the commission cut.

To date, contributions of \$750 from the Independent Insurance Agents of America, \$1,000 from the Independent Mutual Agents of New York and \$500 from the Independent Mutual Agents of Connecticut have been made. Individual contributions from Texas, California, Florida, Pennsylvania, and Alabama have also been sent, pushing the Tanguay legal fund over the \$7,000 mark.

This is the first financial support IIAA has given a member for

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legal causes. In making the move, the executive committee expressed the hope that "a precedent will evolve from this lawsuit that will help agents in negotiating future contracts that provide for mutual give and take before the contracts are amended."

Similarly, the cause has evoked the first joint statement from Tanguay's local association, the Independent Mutual Agents of New York, New Jersey and Connecticut. The PIA affiliate is the largest regional bloc of independent agents, consisting of 12,000 to 13,000 agents representing 4,000 agencies. Donald Gardner, executive director of the three-state organization, said, "It's the purest breach of contract proposition we have really seen, as opposed to cases where there are amendments to contracts. Companies have the right to cancel for a number of reasons, none of which has been written into any state insurance law.

"It's important to deal with the

contract issue rather than emotion. You will find many other cases dealing with loss ratio but the issues are more difficult to pin down. The beach of contract question is solidly the issue here."

The suit is a "precursor of a number of similar suits," believes Charles Crowley, president of the Independent Mutual Agents of Connecticut. The agent/broker community has historically felt it "unprofessional" to take issues to court and there were questions regarding restraint of trade violations of federal laws, he said.

"We now feel that in view of what is regarded as professional for doctors and municipal workers and teachers, we would be showing less than proper deference," he explained.

A decision in this case could be a benchmark in insurance legal history, Crowley commented.

A spokesman for Fireman's Fund said, "We think we have a good case and think we could terminate the agreement."

Beechler-Tanguay, Inc. is a general lines agency writing 40% of its business in auto insurance. It has represented Fireman's Fund for nine years.

The suit seeks \$250,000 in damages, an injunction to be reinstated as an agent, and an injunction requiring Fireman's Fund to accept new and renewal auto business on a 20% commission.

The suit is pending in the Superior Court for Hartford County.

Unusual Indiana agency relies on hospital accounts

By JANET MROCZEK CORRADO

SOUTH BEND, IND.—If a typical insurance agency exists anywhere it is probably in the heart or in the slogan of an advertising executive.

By any measure, though, Lloyd Insurane Agency Inc. of South Bend is unusual.

For starters, it brought in \$4.5 million in premium volume last year from a scant three-producer, six-employee shop.

Operating principal John H. Lloyd, 40, is high on direct billing for personal lines, refuses to solicit life insurance, doesn't hold a CPCU or CLU designation (and doesn't feel a need to) and does not belong to the local independent agents' association.

But, then, Mr. Lloyd's grandfather, the agency's founder, was

not a conformist either. John H. Lloyd I, ran away to sea from his home in England and when the ship landed in Hartford, Conn., he got a job with Travelers because of his boiler expertise. He moved to the insurer's Indianapolis service office, and wound up starting the South Bend agency in 1917. Mr. Lloyd II, holds the title of president, but is ailing. John H. Lloyd III, is officially known as vp.

The unusual employe-to-volume ratio can be explained by the hospital accounts the agency holds. It writes the professional liability, general liability, difference-in-conditions, directors' and officers' liability and travel/accident coverage for 12 hospitals in Indiana and surrounding states.

Those institutions account for 60% of the \$4.5 million premium

volume, up from \$3.7 million in 1975, and from \$250,000 when Mr. Lloyd joined the agency in 1958. Commission income was \$300,000 in 1976, a \$27,000 increase over 1975.

Mr. Lloyd spends 80% of his time on the hospital business the agency acquired through its work for religious institutions, and lately by word of mouth.

"It's a real job putting the coverage together," he said, "and we go through the same zoo every year" remarketing the business at renewals.

There was a time when an insurance company would write an entire hospital policy and reinsurance, Mr. Lloyd said, but now they don't want to tie up their surplus.

That leaves the agency hunting for more carriers and dealing with more layers.

Few companies are willing to write the primary coverage for hospital professional liability, he said, and "if you can get the primary, you've only got 25% of the battle won."

"Some companies don't want to come in at \$5 million but they will at \$8 million, and nobody wants to take a large chunk. The market changes from one month to the next," Mr. Lloyd said. "There is virtually no market willing to step in and provide the layer immediately above the self insured or captive level. That presents an extreme problem."

Tight markets and premium increases began plaguing the agency about two years ago, but the trouble started a year before that when Argonaut began pulling out of the field, he said.

"Other companies got leery, people started moving coverage and rates started to zoom."

Premiums have doubled or quadrupled in some cases, Mr. Lloyd said, but the agency's income has not. He negotiates the commission with each client, and "I can't justify the same increase in fee" as the rates hike he said.

The Lloyd agency represents five companies, but much of its work is done with excess surplus lines brokers, such as Stewart Smith, George F. Brown and J. H. Blades.

Hospitals are required to have technical inspections, most often done on a quarterly basis, Mr. Lloyd said, and present written response to recommendations.

So far, the agency has been successful in keeping all the coverage on an occurrence basis, which the hospitals prefer.

Mr. Lloyd is not forecasting any premium volume increase for 1977 since some of the hospitals have formed captive insurers upon his advice.

In fact, he would like to diversify the agency more. The hospital field is a "powder keg," Mr. Lloyd said. "It could change overnight."

About 90% of the agency's business is commercial lines—"a good cross-section of accounts" outside of the hospitals, he said.

The agency covers a number of supermarkets, "which is another zoo," Mr. Lloyd said, because they have a reputation as poor fire risks.

Companies love the Ma and Pa store, he said, but they shudder at the 20,000 to 30,000 square foot operation.

The agency actively solicits personal lines. "You meet a tremendous cross-section of people" selling personal lines, he said.

"It keeps you in touch with the buying market. A lot of personal lines business leads to commercial accounts, and the converse works too," Mr. Lloyd said.

He feels that direct billing is a real help to the small agency in cutting costs. "The only drawback is that you do lose some personal contact," he said, but "the merits far outweigh the drawbacks."

The agency does not solicit life insurance, however. "You are dealing with a man's future," Mr. Lloyd said, "and I feel strongly enough about estate planning that unless I feel I know enough I won't touch it."

"Our expertise is in property and casualty and our basic tenet is that we like to know our clients upside down."

Producers handle their accounts from start to finish, Mr. Lloyd said, so "we don't have an in-house analyst which we could easily do from a financial standpoint."

The agency's philosophy is to "get good clients and service the hell out of them," he said. "We learn an individual's business as well as our own."

Producers are paid a salary plus bonus, and goals are set each year for production and mix of business.

Mr. Lloyd said he is not excited about getting to be a huge operation, but he is looking for internal growth "on a controlled basis."

"When we bring someone in we like to give them a piece of the action and not just a salary," he said, and "we have to have a complete individual that can do everything."

It costs \$25,000 or more to train an agent before he becomes productive, Mr. Lloyd said, which is expensive for a small agency. ■

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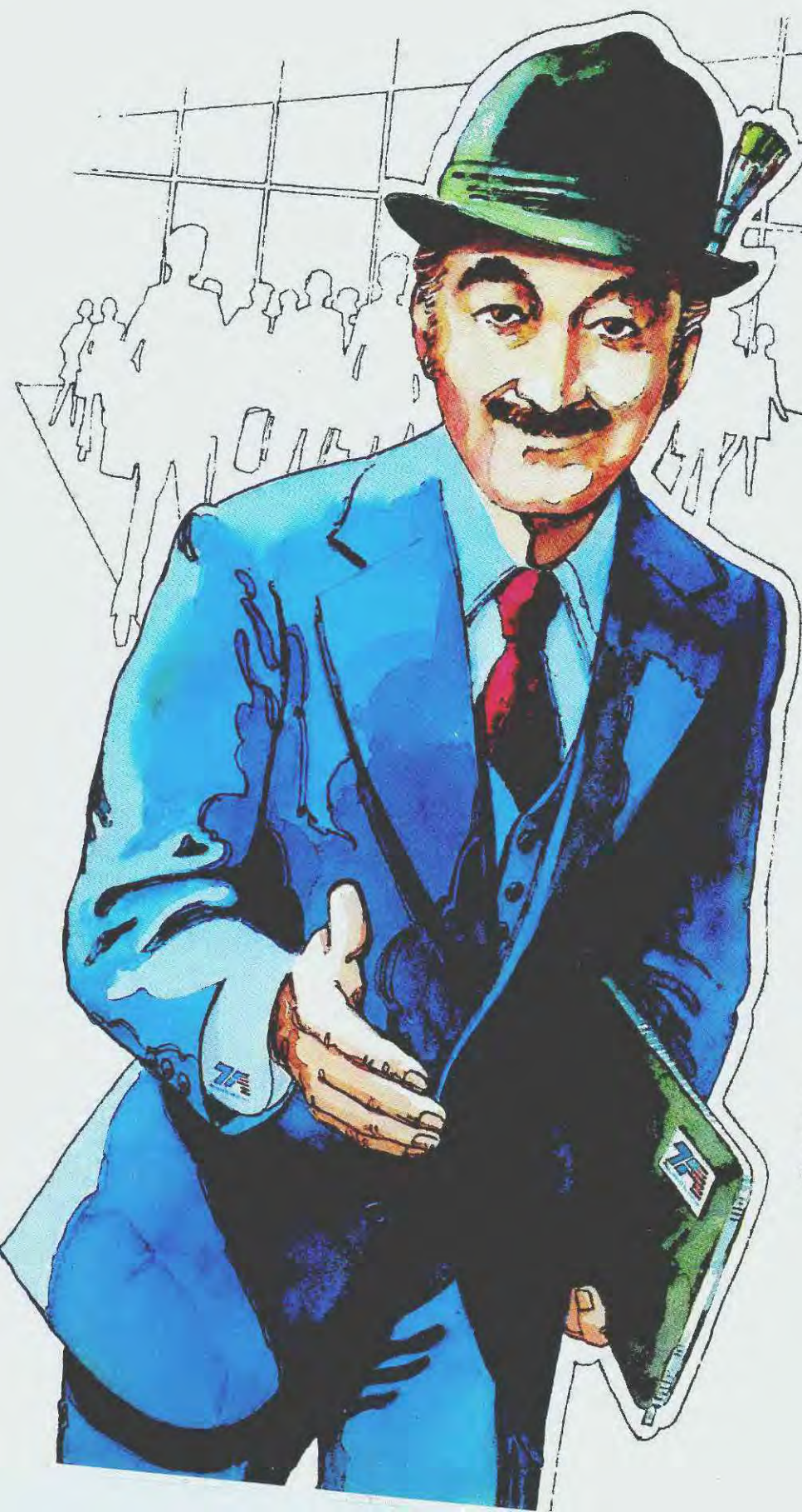
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New states to consider 3-way work comp system

CHICAGO—Legislation to allow a three-way system of insurance of workers' compensation will be introduced in two and possibly three states this spring, while at least one state is weighing the merits of moving in the other direction.

Nevada, Washington, and possibly Ohio could open up to private insurers, reversing their status as monopoly fund states. Alaska, which already offers three insurance alternatives for workers' compensation, is conducting a feasibility study on all options.

In Nevada, the action is being inaugurated by Willard (Bud) Meneley, Corroon & Black/Meneley & Ames of Reno, who heads the state Independent Insurance Assn. committee seeking competitive underwriting and self insur-

ance.

Regarding the desirability of the additional business, Mr. Meneley said, "The commission rate is low but it's probably an easier line to handle than others and it fits with all other insurance lines." Mr. Meneley's firm, coupled with its Lake Tahoe branch, generates \$2 million in premiums, writing commercial business exclusively.

Although there is no basis for price comparison to the employer "we feel that the economies that can be produced by open competition will be to the employers' benefit. Obviously, there will be costs—such as taxes—but increased efficiencies and safety programs should eventually reduce costs."

A similar bill was introduced to

the Nevada legislature in 1975 but it did not make it out of committee. The present bill, sponsored by Democratic Rep. Don Mellow, proposes a system effective by Jan. 1, 1980. It is based on the findings of an IIAN-sponsored study last year.

For the fiscal year ending July 1, 1976, the Nevada Industrial Commission took in premiums of \$53,626,736 and paid out actual losses of \$53,294,980.

Nevada is one of six states which prohibits private insurers. The others are North Dakota, West Virginia, Wyoming, Ohio, and Washington, although the last two also allow the option of self insurance.

In Washington, a bill to allow private insurers to underwrite worker's compensation has been reintroduced after failing to make

it out of committee last year. The sponsor, Rep. Sid Flanagan, said a comparable bill has been introduced in the Washington legislature for the last 16 years. Although Mr. Flanagan speculates that the odds are "not very good" again this year, he said they may be better than in past years because the rates employers pay into the State Fund are scheduled to increase a total of 75 per cent by year's end.

The Independent Insurance Agents of Washington were instrumental in drafting last year's version although Mr. Flanagan has prepared the duplicate version for presentation this year.

The Industrial Commission in Washington took in premiums of about \$200 million and had actual cash payouts of about \$148 million for the calendar year 1976.

In Ohio no bill has been drafted to date but the chances of one being introduced within the year (Ohio legislature sits for 24 months) are "reasonably good," according to Doug Avery, executive vp for the Independent Insurance Agents of Ohio. The Ohio discussion has also included a fourth possibility—that of an assigned risk pool.

"This decision (of a bill) ideally should have been made six months ago. However, there are so many decisions, because of the complexity of the issues and whether, politically, it has a chance of success. There was a time when the insurance industry would have made an aggressive move into it, but now they are reluctant. We're talking to employers' groups, labor unions, insurance companies, and state fund officials."

The Ohio Industrial Fund for the calendar year 1975 had premiums of \$306.5 million and paid out actual losses of \$285.5 million. According to a preliminary audit for the years 1972 through 1974, there would have been a deficit of \$1.4 billion on assets of \$1.6 billion if the operation were fully funded.

Meanwhile, legislators in the state of Alaska have undertaken a feasibility study comparing an exclusive fund to a competitive fund to its present three-way system.

Workers' compensation rates in Alaska "have risen on the order of 100% since 1973" according to a legislative research analyst, and "there is a suspicion that state fund operates more efficiently if not more cheaply."

The most recent conversion from a monopoly to three-way coverage was done by Oregon in 1965. There, total premiums rose from \$35 million in 1965 to \$250 million in 1975 partially aided by a new rating. The state fund currently writes about 60% of the worker's comp. Thirty percent is written by private insurers and ten by self insurance. The fund paid a 20% dividend last year. ■

Takeover pace up

SCOTTSDALE, Ariz.—The pace of agent/broker acquisitions has quickened in the last six months and will continue to increase during 1977, predicts a specialist in the sales of insurance agencies.

Russell R. Miller, head of the firm bearing his name, told the INSURORSGROUP annual convention, "We have seen the tempo of the transactions increase over the latter half of last year and as the public companies' and the larger regional companies' values in the open marketplace increase, they are more willing to share that with firms joining with them."

In an interview, Mr. Miller explained that the average price/earnings multiples of the major publicly held brokerage firms, which plummeted to below 10 in 1972-73 from the heydays of the 40s in 1970-71, has resumed climbing and is now double the average NYSE multiple.

Brokerage revenues increased an average of 25% although a large amount was due to increased premiums, Mr. Miller said. "This year will be a different story. Growth will not come from premiums and the only way the national houses will grow is getting new business." ■



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Larger the broker, smaller the fever against bankers selling insurance

CHICAGO—The bigger the brokerage house, the fainter the opposition to banks holding companies in the insurance field, a nationwide poll of agents and brokers revealed. However, even among the national houses the welcome mats were few and far between.

Business Insurance queried the agent/broker community on the recent developments in the federal courts, specifically the Fifth Circuit Court of Appeals decision to prohibit non-banking subsidiaries of bank holding companies from selling property/casualty insurance in connection with loans or financial services.

But in a related move of a somewhat contrary vein, the court agreed to reconsider its veto of a Federal Reserve Board regulation allowing a bank holding company to operate a general insurance agency in a town smaller than 5,000 people.

Reactions were tempered not only by the size of the agency/brokerage house but also according to greatly varied local conditions.

"We're 'agin' it," (banks or non-banking subsidiaries entering insurance sales) Donald MacDonald, of Hackett, Valine & MacDonald Inc., flatly stated. "We are fortunate in Vermont in that we have a statute that prohibits it, but generally speaking we feel it gives banks the unfair advantage with regard to the possibility of that business."

The Burlington agent said his opposition disregarded the size of the community. "If you're holding the purse strings as to whether someone gets a loan or not, the opportunity for coercion is strongly there."

Echoed Bob Whitmore in Rochester, N.J., "We have not had a problem with this in New York because of state statutes."

Statutes prohibit insurance selling in communities over 5,000 and "I would prefer they not go into those smaller areas either. I don't think banks should be allowed in. Period. It's not just a matter of being afraid of change or competition. The thing that scares us is the intangible," said the Hatch-Leonard Inc. vice president.

A Houston agent was not as vehement. Thomas Soriero, president of Management Insurance Systems, commented, "As an agent, I must say we're not interested in any new entry into the field. But I think we have to do a better job than the banks (if they are allowed)."

Any laws allowing banks or non-banking subsidiaries "won't be a threat to the average broker" he said. "I think banks can make some small inroads into personal lines, like auto, but we're not interested in that business anyhow. I don't think banks will make inroads into large commercial business—they just don't have the staff."

"I don't want to encourage people to enter the insurance field, but by the same token I think we should stop legislation," Soriero continued. "If banks force people to buy insurance, we already have laws for that."

In Georgia, the agents are more concerned about a federally financed sponsored program than banks. Michael Taylor, a member of the legislative committee of IIAG, stated that the association will sponsor again this year a bill to stop insurance sales by the Production Credit Agencies, a pro-

gram originally intended for agriculture financing which has extended coverage to other non-farming industries. The sole principal of Dawson, Taylor & Sherman Inc., of Augusta, Mr. Taylor said that while he generally is against non-banking subsidiaries of bank holding companies "in Georgia cities of less than 5,000, they do have banks selling insurance and that's okay. In a small town an agent might have a tough time otherwise."

One Midwestern agent spoke from experience. After having served for some years as a part-time president of a small savings and loan, he returned full time to insurance. "I think bank holding companies should be prohibited

from engaging in the insurance business."

"I saw cases where we would tell customers they could choose—and say very clearly to them, 'You do not have to buy this insurance from us' and then the next day they would go out and say, 'They told me I didn't have to buy it from them but I still felt I should.'"

"It convinced me that if savings and loans tried, just a little bit, they would get lots of insurance business just by the implied coercive elements."

The strongest invitation bankers received was from one officer of a national brokerage house who declined to be identified. And even he qualified his enthusiasm per-

taining to the bank's role in smaller communities.

"To a major broker it's much less important to worry about banks entering insurance than a regular walk-in where they have a competitive advantage. When you're in the hinterlands, it's easier for the banks to coerce. In most areas, the states have done an effective job of enforcing regulations on the theory that a small bank can operate an agency and meet a public need.

"Now, what happens if the Northern Bank buys us? Is it fair? It's a question of competition and we want more competition!

Most non-committal was the national house spokesman who commented, "We have stayed neutral on that issue. We have clients in the banking industry and feel we will always have a place on either side."

On the other side of the coin, a major brokerage house spokesman

remarked, "Legislature permitting banks to sell insurance in small towns is no good. It's healthy for small towns to have good strong agents. Laws allowing bank holding companies to operate agencies give the banks an "unhealthy" amount of "muscle." Anyone loaning money has the opportunity to exercise adverse control—and it's the job of government to control that."

Gardner Gillespie, of Frank B. Hall, viewed the situation yet another way. The role of non-banking subsidiaries in the insurance field "has been going on in various states for some time and it does not worry us," he said. "We don't think people are going to go to the banks for insurance advice. There will always be limitations on what they (the banks) can do to get this insurance.

"And I personally think bankers should spend more time in the banking business. They could still stand some improvement there." ■

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Omaha agent undertakes 2 ventures in excess/surplus and as consultant

OMAHA—An independent agent here has undertaken a two-pronged enterprise, a joint venture in the excess/surplus markets and a consulting role for an agents' association.

George Babcock, Jr., president of Babcock & Associates, has entered into a joint venture with E. H. Crump Co. Inc., to develop the excess/surplus lines field in the Upper Missouri Valley.

Crump-Babcock Underwriters Inc. is the first such joint venture for the Memphis-based Crump. Crump almost simultaneously established a similar arrangement with a second independent agent, William Kientz, in Columbus, Ohio.

Crump presently has a Lloyd's

of London correspondent and specialty insurance affiliate, Crump London Underwriters, Inc., also based in Memphis. Crump London has branch offices in Los Angeles (E. H. Crump of California), New Orleans (G & M Marine Surplus Lines), Orlando (Empex Agency) and Jonesboro (Arkansas Insurance Service).

Commenting on the diversification move for Crump, Sidney A. Stewart, Jr., president, said, "We have formed these independent associations because we wanted to be associated with these people who we feel are outstanding insurance people. This is a specialty business and we feel we have the expertise in it and could combine

our background with them."

Crump-Babcock will be working with Anthony Gibbs, Sage Ltd., London. The underwriting manager for the firm here is Kenneth Coon.

The second phase for Babcock is one of consultant to the Market Division of InsGroup, an association of some 40 independent agents in the western states.

InsGroup, of Englewood, Colorado, provides its members with marketing assistance and systems services such as cash management programs, contingency management programs and production and work flow systems analysis.

The services of Babcock are strictly of a market consultant and do not represent a financial ar-

range between him and InsGroup. Nor does it reflect a geographical expansion of InsGroup services beyond the Colorado headquarters, according to Rodger Hasty, administrative manager. "That's a central location and has had good market receptivity."

Mr. Babcock established Babcock & Associates last year. The firm has a total employ of four, including himself and Mr. Coon.

Prior to the establishment of his own agency he was an officer of the Cornhusker Casualty Company, here. He was a founding officer of the multi-line insurance company which was created in 1970 to underwrite coverage primarily in Nebraska and adjacent states. Before his eight year tenure there, Mr. Babcock managed the Omaha office for USF&G.

Mr. Coon was field coordinator of the marketing department for Cornhusker, before joining Mr. Babcock.

Kientz opens new agency in Columbus

COLUMBUS, OHIO—William Kientz has established his own agency, entering into one of the joint ventures with E. H. Crump Cos. Inc. in the excess and surplus field.

Kientz & Co., an Ohio corporation with seven employees, expects to do 90% to 95% of its gross revenues in the commercial business and the remainder in personal lines.

Mr. Kientz had been associated with the McElroy-Minister Co. here for 26 years, serving most recently as a partner and officer. He sold his interests in the firm to pursue business on his own.

According to a somewhat unusual departure agreement between him and McElroy, several of Mr. Kientz's accounts elected to shift all or part of their business to him in his new firm.

Mr. Kientz and Jack Glandon, president of McElroy, declined to elaborate on the terms of the arrangement other than to stress that it was mutually amicable. Among the accounts involved were Battelle Memorial Corp., Buckeye International Corp. and, reportedly, the Huntington National Bank, all of Columbus.

Mr. Glandon estimated that the business which elected to transfer to Mr. Kientz represented less than 5% of total McElroy-Minister business.

Ralph Hodges, the other principal in the new Kientz & Company, was also formerly affiliated with McElroy-Minister, as were three clerical employees.

Simultaneous to the incorporation of Kientz & Company, Mr. Kientz entered into a joint venture with E. H. Crump to form Crump-Kientz to handle excess/surplus lines.

It is the second joint venture for the Memphis-based Crump. Crump London Underwriters, Inc. operates four branches nationally. Crump-Kientz and Crump Babcock are the firm's first two independent affiliations in this field. Mr. Kientz will be cultivating business in regional Ohio.

Mr. Kientz is a member of the Ohio Product Liability Council, a trade association of the Independent Insurance Agents of Ohio and the Ohio Manufacturers Assn. He is also a director and member of the executive committee of the National Association of Casualty and Surety Agents, and chairman of the IIAA "Product Liability" Committee.

Mr. Kientz estimated that one third of the premiums written by Kientz & Company would be in the products liability area.

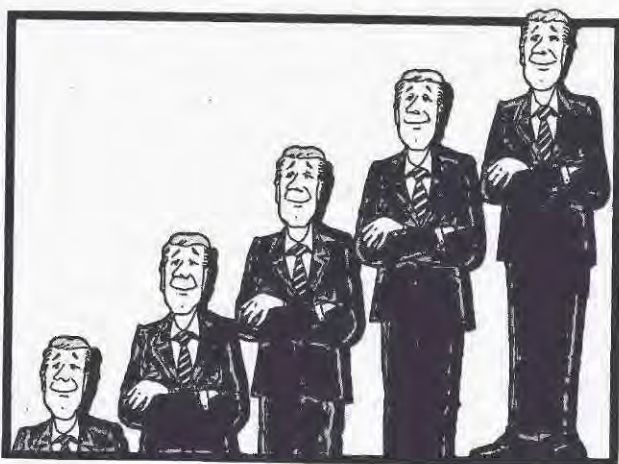
Salisbury picked

George B. Salisbury has been elected president of the Western Assn. of Insurance Brokers, succeeding Robert E. Jones. Mr. Salisbury is with Carter Salisbury Insurance in South Pasadena. Bruce D. Baker, president of Pacific Coast Holdings Insurance, was named vice president and William D. Bolton of Bolton & Co. in Los Angeles, secretary-treasurer.

Colonial acquisition

Colonial Western Agency of Sherman Oaks, Calif., has acquired Poders Insurance Services of Studio City, Calif. Poders has gross revenues of approximately \$110,000, according to William L. Hall, Colonial president. Colonial's own gross revenues are approximately \$2 million a year.

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How service is affected by compensation systems

By JANET MROZCEK CORRADO

DOES THE METHOD of compensating producers affect service to the insured?

Last month *Business Insurance* surveyed insurance companies and found each satisfied with its distribution system.

This month we asked average-income producers the same question. The exclusive agent, the independent agent-broker, and the salaried producer were more than content. Each felt that the way they earned their money allowed them to provide the best service to their clients. And, in job satisfaction and income potential, each thought their situation couldn't be beat.

Exclusive Agents

"The emphasis has always been on service at State Farm," Bill Belmonte said. "It's drilled into you. There is always somebody down the block who will write the business."

With the company's nationwide network of producers, there is always a local State Farm agent to help the traveling policyholder out, too.

Mr. Belmonte, with offices in the Chicago suburb of Palatine, has many goodwill tales of giving personal aid to out-of-state insureds, and of his clients receiving help from other agents while on the road.

Perhaps more important, however, is the continuing availability of coverage.

A lot of companies have stopped writing in the Chicago area, he said, but "State Farm would never do that."

"They don't shut off a market," Mr. Belmonte said. "They know their agents only have one market." And he points to the "great communication" he has with the insurer's regional and home offices which helps him place more difficult business.

"We are assigned underwriters, and they are with you for three or four years. They'll go along with you if you feel there is an exception," he said.

State Farm agents are paid 10% for auto and 15% for fire on both new and renewal policies. They get 50% of the first year's life insurance premium and a 2% a year "maintenance commission" after that.

Mr. Belmonte, who has been with the Bloomington, Ill. insurer eight years, put his commission income in the \$50,000-a-year range, which is average for a State Farm agent, he said. Out of that, he pays his own office and secretarial expenses.

Some agents, who have been with the company a lot longer, are bringing in over \$200,000, he said. "It is up to the individual as to how much he makes. I had a 30% growth factor in income last year."

All in all, being with State Farm "feels like I died and went to heaven," Mr. Belmonte said.

Independent Agents

"All the agents I know have to give good service," Betty L. Keatley, an independent agent/broker, said.

Claims consultant

A claims consulting and evaluation service called Proclaim has been established in Los Angeles. Philip Verhage, company president, said Proclaim will provide claims consultation for insurers, reinsurers, intermediaries, brokers and self insurers on a nationwide basis.

"We're a little more expensive, so we have to give them (our clients) more."

Ms. Keatley believes, in fact, that the independent agent gives better service than other producers.

"We can't leave any holes in coverage," she said, "and there is more personal contact with the insured when you are an independent agent. I know all my clients personally."

Ms. Keatley, who opened her own shop two-and-a-half years ago in Lombard, a suburb just outside Chicago, said she has lost clients to direct writers because of price, "but they came back when the rates went up elsewhere and they weren't getting service."

She worked as a secretary for an agent for 17 years before starting Betty L. Keatley Insurance.

Last year she grossed \$100,000 in property/casualty commission income.

Working as an independent agent is "the only route to go," Ms. Keatley said. "You can make what you produce."

Salaried Agents

"I could write a whale of a lot of business, but if I had eight or 12 customers calling the home office with complaints, I would be severely reprimanded if not fired," said George Pistoresi of McHenry, Ill.

Mr. Pistoresi handles a large midwestern territory, including Chicago and Milwaukee, for Florists' Mutual Insurance Co., a specialty firm offering all lines to retailers, growers and wholesalers in the florist industry.

He is paid a straight salary, plus

all expenses, for servicing insureds, and a bonus for new production, but the Edwardsville, Ill., insurer is based on service, he said.

The florist industry is closely knit, and "if we ever start doing a bad job, the company could be out of business in a year," Mr. Pistoresi said.

Florists' Mutual agents are given a schedule of service calls to make. Every client is visited at least once a year to review coverage, he said.

"The company doesn't want us to sell coverage that the client doesn't need," Mr. Pistoresi said, adding that he likes dealing with customers with the commission element removed.

He believes most commission agents "are after the dollar first, and your insurance interest sec-

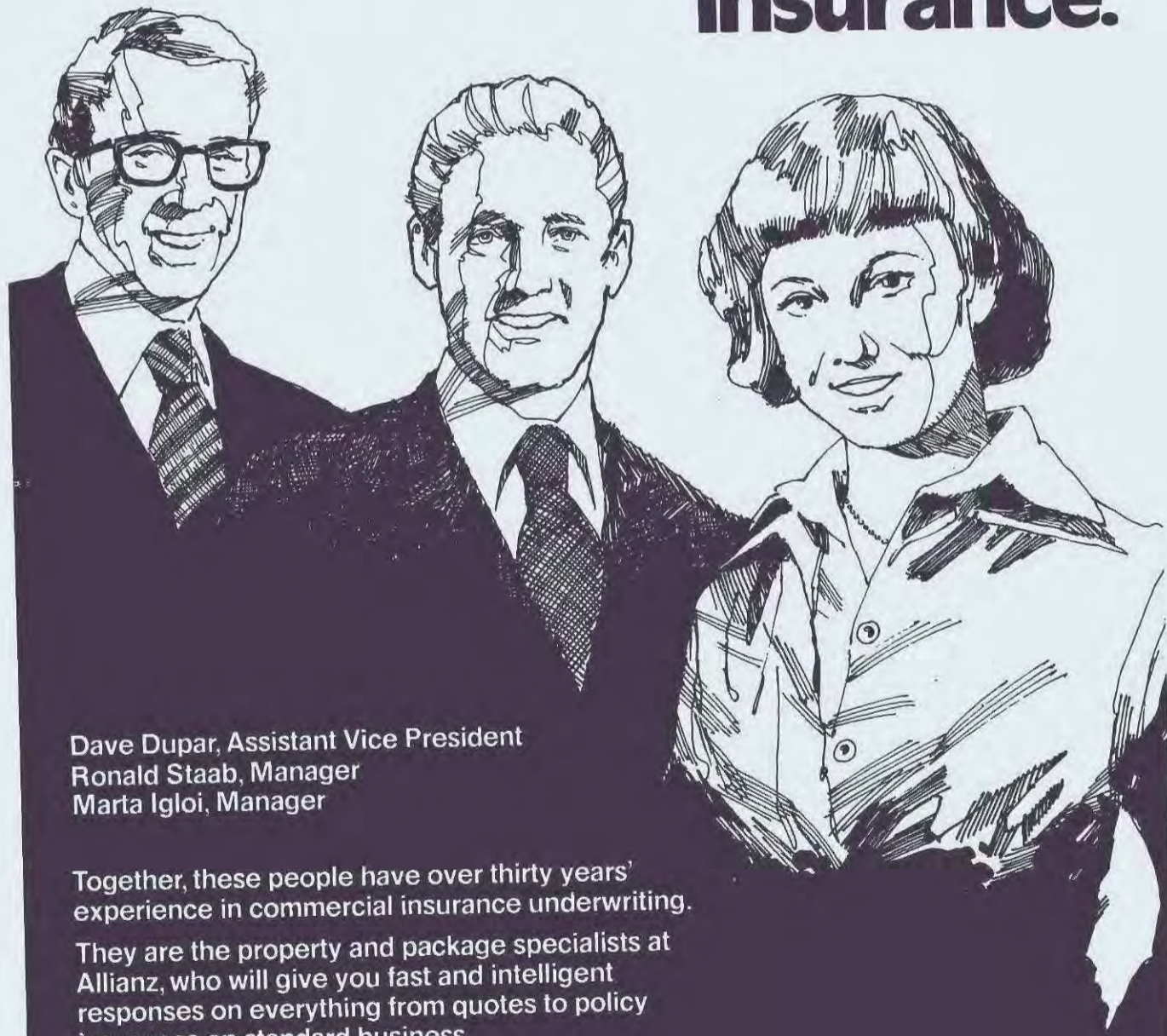
ond. And it is always in the back of a client's mind how much the salesman made."

Mr. Pistoresi also enjoys being out from under the pressure to produce, which he felt as a life insurance agent for John Hancock, and being with a company that "has such a reputation for honesty it never ceases to amaze me. I have never been treated rudely or abruptly in all the seven years I have been with the company."

His first year's salary with Florists' Mutual was \$15,000, but the company bought all his office equipment, pays the phone bill and car expenses, he said.

Last year he made \$25,000, which may not sound like much Mr. Pistoresi said, "but it's a hell of a lot more than the average commission salesman is making after expenses."

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Calif. agency scores with motivation plan

TORRANCE, CALIF.—An account executive sales motivation program, based on individually-set increase goals, has produced total results for Cal-Surance Associates.

The two-month program began Nov. 1 after producers and their immediate supervisors agreed upon a definite dollar increase goal. When employees set their individual goals at the annual management meeting in October, they were not aware that the motivation program had been planned.

Fifteen producers, including both inside and outside agents, participated. Cal-Surance has a total of about 100 employees in its headquarters here and branches in San Jose and Fresno.

November-December premiums for the brokerage firm totalled \$2.6 million compared to \$1.4 million for November-December of 1975, an increase of 86%. This represents a 30% increase in 'real dollars', taking into account inflation, risk factors and planned management goal increases, the firm estimates. Gross revenues for 1976 were about \$3 million.

Program participants were given a felt-tipped pen and a briefcase to kick off the program. Large achievement-recording thermometers for each person were updated and prominently displayed in offices. Bi-weekly "pep talk" phone calls were made by the firm to the participant and spouse at home.

Outside agents set their goals in commission dollars, inside agents in total premiums. Ten of the entrants achieved a 100% increase goal and six achieved a 120% increase goal. This qualified them for the ultimate prize, that of a "One Of A Kind" status.

Barbara Bohl, who scored a 150% increase, said, "My concern was to give the customers the best service possible" although it didn't seem to her that she did anything differently during the "contest" than she had in the past.

Ms. Bohl, an inside agent or service representative here, has 300 trucking accounts. For her, the "best service" meant "looking out for the truckers' interests. Truckers have filings they must make with the state. Making sure they are done, and "done on time" is one form of service. Another concern is to assure that certificates of insurance are received by brokers so that the employees will get paid.

Other "One of A Kind" achievers were Bonnie Greenwood, Terry Martin, Mike Bogen, Casey Dodge and Margie Higar.

The program was designed for Cal-Surance by Thomas J. Collins & Associates of Cerritos, an advertising agency, and implemented at the agency level by senior vice president, David D. Warren.

Cal-Surance ends its fiscal year Nov. 30, Mr. Warren explained. Hence, the timing of the program was designed to average out the strong month of November with the weak month of December.

The brokerage firm is definitely interested in repeating the program provided it can achieve the same element of surprise after the individual goals have been set, he said.

The six will be honored at a dinner and presented with a plaque.

The total cost of the program was \$9,000. ■

Agents set program for liability aid

WETHERSFIELD, CONN.—A program to help Connecticut agents and brokers place product liability business has been created, cosponsored by the Independent Insurance Agents of Connecticut and the Independent Mutual Agents of Connecticut.

The Market Assistance Program is operated as a function of the agency development program of the IIAC. John Maloney, agency development director, said, "Hopefully, it will be an educational service rather than a risk placement."

Following a public hearing in December, Insurance Commissioner T. F. Gilroy Daly instituted a joint commission of insurance companies and agents to study the situation. About 165 complaints were resolved through discussion in the following two-week period, Mr. Maloney estimated. Of the total 215 complaints handled to date, only six or seven are left and "not all of them are uninsurable."

Agents historically have not done a large amount of business in the product liability area and they are "not experienced in placing this business," he said. The purpose of the program is to teach agents to do a better job placing product liability and educating the public."

According to the system, an agent who is rejected for insurance or receives what he feels is an unaffordable quote can submit an explanatory letter with rejections, an application to the program, a \$25 fee, and a letter from the prospective customer. This is reviewed by a technical committee of six agents. If no resolution is reached, the complaint is referred to a committee of three or more underwriters who attempt to place the business. If that fails, the complaint is returned to the Market Assistance Program.

A possible further stage, that of an involuntary risk pool, "is what we're trying to avoid," Mr. Maloney said. "It has not happened so far, but we have a few that might be rejected."

To date, all inquiries have been resolved without requiring the application and fee.

Mr. Maloney says the program is unique among state associations. ■

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letters

A secret formula?

To the Editor: Your article on Formal Training Keys—Mack & Parker's Approach to developing an agency was most informative. Would you please advise if their written document or formula of 12 to 13 pages regarding training salary and base salary figures is public information. If so, would you please send it on to me?

I appreciate your help in this instance.

Fitzhugh K. Powell

President, Cecil W. Powell & Co., Jacksonville, Fla.

Editor's note: As Edward Mack III says, the compensation formula must be tailor-made to the company's goals and is an integral part of long range planning. Although he graciously discussed the training program and the formulation of the compensation document with us, Mr. Mack wasn't willing to disclose the details of the formula.

legal brief

Court orders Hartford to pay Purina claim

THE U.S. COURT of Appeals for the Eighth Circuit has held the Hartford Accident and Indemnity Co. (Hartford) liable for damages to the Ralston Purina Company (Purina) under general liability and excess insurance policies. The damages arose out of contaminated feed which necessitated the destruction of 300,000 chickens.

The general liability policy issued by Hartford to Purina indemnified the latter for sums Purina would become obligated to pay as damages because of "property damage liability" defined as "injury to or destruction of tangible property." An exclusion in the policy denied coverage for property damage to property owned by the insured as well as property damage to "the named insured's products arising out of such products."

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

This action arose when Hartford refused to reimburse Purina for a \$385,000 settlement entered into by Purina with a third party to whom it had sold chickens. The chickens were found to be contaminated by defective feed produced by Purina. Purina sold the chickens to one Auger who was to assume managerial control on Feb. 5, 1972, although transfer of title was not to occur until the closing on March 31. In its sales contract with Auger, Purina agreed to assume the risk of loss or damage by fire or other casualty until the closing.

The contamination was discovered after Auger took possession and negotiations between him and Purina occurred between Feb. 7 and Mar. 29, resulting in the settlement. Purina sued after Hartford declined coverage. The trial court found in favor of Hartford.

The appellate court disagreed with the court's conclusion that the buyer's acceptance of the goods obligated him to pay the full purchase price. Although Auger was afforded two contractual elections under the sales contract should there be material loss, the court concluded that there was no clear manifestation of purpose that such were to be the exclusive remedies available to him.

Consequently, even though Auger accepted the goods, the court believed this did not impair any other remedy provided him by law for non-conformity. The court thus concluded that because Auger's acceptance did not bar his claim for damages under the sales contract, his claim was one "arising out of (Purina's) legal liability . . . for damages, direct or consequential because of . . . property damage."

The court also determined that the Hartford policy exclusion for failure to perform a contract did apply to "physical injury to tangible property." Hartford was ordered to pay the claim under the "excess" policy. *Ralston Purina Company v. Hartford Accident and Indemnity Co.*, United States Court of Appeals for the Eighth Circuit, Aug. 9, 1976, Webster, C.J. (BI/01/J.—\$3)

Group disability

The Supreme Court of Minnesota has ruled that the notice requirement of a group long term disability policy can be satisfied

by a claim report filed by the employer which is timely within the terms of the policy. The court also concluded that an employee who failed to submit her statement and a physician's certificate and waited 2½ years to commence suit to recover benefits, was precluded by such delay from suit.

Constance Mitchell, a cafeteria employe of a savings and loan association, was covered under a group long term disability income policy issued by the Equitable Life Assurance Society (Equitable). The notice-of-claim form under the policy required an employer's statement, an employe's statement and a physician's certificate. In May 1970 Ms. Mitchell was hospitalized; Equitable paid her hospitalization expenses. Thereafter Mitchell sought only parttime employment from her employer. However, such employment was not available. In August 1970 Mitchell inquired about a disability claim.

Her employer mailed to her attorney her statement and the physician's certificate. The employer also sent to Equitable the employer's statement and recommended against benefits being paid. Mitchell never furnished the required employe's statement or the physician's certificate. It was not until March 1973 that Mitchell brought this suit. The court denied coverage.

On appeal the court concluded that while the employer's notice to Equitable satisfied the notice requirement of the policy with regard to "notice of injury" it was insufficient to furnish the insurance company with proper proof of disability. The court emphasized that the purpose of the three part notice is to alert the insurer to the nature of the claim so that it may undertake an adequate investigation and evaluation. The court did not believe that notice to Equitable was satisfied simply because Mitchell's employer submitted the hospital expense insurance claim.

"Equitable receives and processes hundreds of hospitalization claims daily," the court pointed out, and thus concluded that it would be unrealistic to expect the insurance company to review all such claims for a subsequent disability claim. Consequently, the court agreed that Mitchell had delayed too long to recover. *Mitchell v. Equitable Life Assur. Soc. of U.S.*, Supreme Court of Minnesota, September 3, 1976, Todd, J., 245 N.W.2d 618 (BI/02/J.—\$3)

Group Health

In a suit brought under a group health policy, the Montana Supreme Court ruled that, where a policy covered necessary services performed or prescribed by a licensed doctor, a Mongoloid child's treatments were covered notwithstanding the insurer's contention that the services performed were "experimental" and "unacceptable medical practice." The insurers' subsequent addition of this language to the exclusion clause of the policy was also held inapplicable to the insureds because of failure to notify them of the change.

The suit against Montana Physicians' Service grew out of medical services rendered to a Mongoloid child over a three-year period covering three successive pol-

icy years. The group health policy was issued to Mr. Melvin Fassio and during its first two years of coverage provided for reimbursement for ". . . usual, customary, and reasonable charges incurred by a member for necessary services performed or prescribed by a licensed doctor of medicine for an illness . . ."

Subsequently, the policy was amended in its third year without notice to the Fassios. The amendment excluded coverage for "medical treatment which is experimental in nature or which does not constitute accepted medical practice." At issue here was reimbursement for medical expenses incurred by the Fassios for their daughter. The medical services were provided by Dr. Henry Turkel of Detroit, a physician to whom they were referred by their Montana physician. The insurance company rejected the claim asserting that the services performed by Dr. Turkel for the child were worthless and unnecessary and therefore not covered by the health agreements. The trial court held for the parents.

The appellate court agreed with the trial court and concluded that the medical expenses during the first two policy years were clearly reimbursable because the services were prescribed and performed by a licensed doctor. The court believed that this was sufficient to meet the demands of the language of the 1971 and 1972 contracts. According to the court, the sudden insertion of the exclusionary language in the third contract year without notice to the Fassios violated a statutory mandate applicable to group insurance plans of providing a statement in summary form of the essential features of the coverage. *Fassio v. Montana Physicians' Service*, Supreme Court of Montana, May 11, 1976, rehearing denied September 1976, Lessley, D.J., 533 P.2d 998 (BI/03/J.—\$3)

Group Life

The issue for determination in this case was whether the employment of the plaintiff-employees by the Independent Publishing Company of Anderson, S.C., was terminated within the meaning of the provisions of a group policy of insurance issued by the Aetna Life Insurance Company, so as to entitle the plaintiffs to collect the cash surrender value of certificates of insurance held by them under the group policy. A trial court ruled that the cessation of work for five minutes was a "termination of employment" within the meaning of the policy. The South Carolina Supreme Court disagreed and reversed the lower court's judgment.

Under the policy definition, the court believed that there must be a cessation of active work to constitute a "termination of employment." But not every cessation of active work constitutes a termination, the court observed. The definition specifically states that, "if an employe is temporarily laid off or is granted a leave of absence" the employment shall not be regarded as terminated. The court emphasized that the fact the employer may designate a work stoppage as a "termination of employment" cannot make it a complete severance of the relationship in the face of the undisputed facts to the contrary.

The evidence here, according to the court, conclusively showed that the work stoppage relied upon in this case and characterized as a termination of employment, was in fact a temporary lay-off for five minutes with employment continuing during that period. The court noted that the employees did not leave their place of work; there was no loss of pay; and the

employer and employe knew and understood that work as usual would resume at the end of the five-minute period. The work stoppage was nothing more than a temporary interruption from work, with an intention of continuing the employer-employe relationship. Such does not constitute a termination, the court concluded. *Moss v. Aetna Life Inc. Co.*, Supreme Court of South Carolina,

September 9, 1976, Lewis, C.J., 228 S.E.2d 108 (BI/04/J.—\$3)

(Copies of the entire decision of cases described may be obtained by sending a check for \$3 made out to Cases Unlimited to Legal Briefs, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion requested, which is at the end of the brief.)

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editorial opinions

Smoke detectors

MINNEAPOLIS BECAME the first major city in the U.S. to pass an ordinance requiring smoke detectors in all houses, apartments, hotels and motels.

Following the skyrocketing losses of property and lives to fire and smoke in recent years, this enforced loss prevention is a good move. Other cities would do well to follow the Minnesotans' example.

Previously, the state required smoke detectors only on new houses. The new regulation will require the devices in an estimated 165,000 dwelling units, allowing five years to make the installations. Cost of the devices and the added wiring required in apartments ranges between \$25 and \$100 per dwelling unit. Some large residences may need more than one smoke detector.

All 17 of Minneapolis's fire deaths last year occurred in residential buildings.

This rule is a step in the right direction. We'd also advocate tougher sprinkler rules besides, for multiple dwelling units.

Ahead on air bags

ALTHOUGH AUTO MANUFACTURERS have heretofore been most reluctant to install air bags in passenger cars, General Motors, Ford, Daimler-Benz, Volvo and Volkswagen have agreed to inaugurate a two-year test run on air bags to ascertain consumer acceptance of the safety feature.

Auto makers have maintained that the cost of such devices would be prohibitive, despite the clear rewards in terms of lives saved. It's been estimated in various quarters over the last three years that anywhere from 12,000 to 50,000 lives could be saved each year by having airbags in all cars.

Even a limited test such as the one to begin with 1980 model cars is likely to produce very favorable results. Considering the cost of cars these days, a feature adding between \$100 and \$400 is not likely to encounter strong resistance. Its lifesaving properties, coupled with convenience (bags don't need buckling like belts, they are out of the way and require no handling until the moment of impact when they inflate) make them far more sensible for value-minded consumers than eight-track stereo radios and sun roofs which also cost in the hundreds of dollars.

GM, for one, said its planned test program for 300,000 of its 1980-81 model cars would depend on the insurance industry's willingness to underwrite product liability insurance covering the cars' having new passive restraint systems. Even that potentially thorny problem has been overcome. The insurance industry doesn't seem reluctant at all to take on these risks, and GM's regular insurer apparently has already agreed to provide coverage.

Even if it hadn't, however, Allstate Insurance Co. was ready to fill the breach. Allstate, an ardent promoter of air bags for several years, offered to supply GM with product liability insurance for the cars with air bag systems at the same rates it was paying for other product liability coverage.

Now all that remains is for the rest of the insurance in-

dustry to wise up to the loss-preventing potential of these restraint systems. Allstate, Nationwide and Volkswagen Insurance Co. have said they'll give a 30% premium discount to insurance buyers on their medical payments coverage and personal injury protection (PIP) coverage if they drive cars equipped with full passive restraint systems.

Corporate risk managers, too, can play a role in assuring the success of a very important loss prevention plan. Although President Ford's Transportation Secretary William Coleman refused to make air bags compulsory, the new Carter man, Brock Adams, says he'll reconsider that decision. He wisely and foresightedly ties the auto safety issue to the fuel crisis, noting that the petroleum shortage will necessitate smaller and lighter cars, prime candidates for mandatory safety systems including air bags.

Risk managers should tie their own companies' auto fleet risks to the same issues and recommend support for air bags, premium savings and lower losses.

Going too far

A SIGN OF THE TIMES: parents of a high school graduate sue school district for negligence, claiming \$5 million in damages because their son "was denied the right to make his way in the world and earn a living" as a result of serious deficiencies in his ability to read or write or perform simple arithmetic.

How absurd. Perhaps this country should reinstate governmental immunity laws to protect public servants from nuances like these.

In the case of our legal system, the process of blaming all life's frustrations on someone else is going too far. Can American citizens—the individuals as well as institutions and businesses—take no personal responsibility for what happens to them?



letters

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Product liability

To the Editor: I would like to take exception to your editorial on "Product Liability: A Crisis or a Problem" in the Jan. 10 issue.

You have quoted costs as a percentage of sales, not profits. Your reference is "the average expenditure for product liability insurance is just above 1% of sales." The reference being that it is insignificant. One percent of profits would be significant but one percent of sales is not, especially when the percent of profits on the sales is not considered. For example, based upon a 1% cost of sales, the following percent of profits would be devoted to product liability insurance. This percent assumes a 48% income tax rate.

Profit Margin	Per Cost of Profits For Product Liability Insurance
10%	5%
9%	6%
8%	7%
7%	7%
6%	9%
5%	10%
4%	13%
3%	17%
2%	26%
1%	52%

Based upon average profit margins, product liability insurance will cost 9% to 10% of total profits. A business cannot operate on averages, and some industries normally have much lower profit margins in the 1% to 2% areas. To these businesses 25% to 50% of profits must be used for product liability insurance.

Just because an insurance quote is available does not reflect on the problem. If the quote represents 25% to 50% of profits for just one expense, it is a crisis. It is these lost profits that make for a viable business operation that can grow and offer employment opportunities.

Roland G. Hughey
Durham, N.C.

The Umbrella Book

To the Editor: I offer Warren, McVeigh et al. a tip of my firehat for the effort involved in compiling "The Umbrella Book," but I fear that the authors (and you in your review Nov. 15) were misled by the false premise that a comparison of umbrella policy forms can yield a "ranking" of companies for a buyer to con-

Continued on page 26

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Pennsylvania agrees to foot bill for medical coverage for retirees

HARRISBURG—The State Executive Board in Pennsylvania has approved full payment by the state of Blue Cross/Blue Shield coverage for some 22,000 retired state employees at an additional annual cost of \$3.4 million. Prior to the board's action, the state's contribution to medical insured coverage for retired employees was \$2.6 million a year. The state had been paying \$10 a month toward each retiree's coverage, averaging \$24 monthly. The board said the action was taken to "maintain equity" between current retirees and those who will retire under union contracts that provide for full state payment upon retirement.

JUNEAU—A federal judge has ruled that Alaska's mandatory-65 retirement law is illegal because of another state law that prohibits job discrimination on the basis of age. The state is expected to appeal the decision.

MADISON—Legislation has been introduced in the Wisconsin legislature to provide state aid for

persons with heavy medical expenses who are unable to obtain medical insurance coverage. Under the proposal, the state insurance commissioner would establish a mandatory health insurance risk plan for persons whose incomes bar them from the medical assistance program and are unable to obtain insurance through regular channels.

DOVER—A deputy state attorney general in Delaware has warned that pending legislation to protect directors of the troubled Farmers Bank from liability in lawsuits could result in unlimited liability for the state. In an advisory opinion, Deputy Attorney General A. Gary Wilson said the state could be liable for more than \$20 million the bank lost in 1975 and 1976 if stockholders could prove the losses were the direct result of a lack of ordinary prudence by the directors. The indemnification bill has been passed by the Senate and is awaiting House action expected in March.

LANSING—The Michigan Supreme Court has declined to rule on the question of whether an employe seeking worker's compensation benefits should have his vision tested with or without glasses. Instead, the high court ordered the state Workmen's Compensation Appeal Board to determine whether poor vision in the applicant's left eye so disabled him that he has trouble finding a job. State law does not specify whether or not applicants should be tested for eye injuries with or without corrective glasses.

ANNAPOLIS—Maryland Insur-

ance Commissioner Edward Birrane has notified casualty insurance companies he plans to activate a 1974 state law requiring them to jointly underwrite malpractice policies for lawyers and podiatrists. He said a joint underwriting association was needed because private insurers have been unwilling to offer a "reasonable" policy to cover malpractice liability in the two professions.

TOPEKA—Legislation has been introduced in the Kansas Senate that would create a nonprofit corporation to provide legal aid to indigents. The Kansas Legal Services Corp. would provide financial assistance in non-criminal proceedings for persons who are unable to afford a lawyer. The corporation would be tax exempt, and it would be run by a board of seven directors appointed by the governor.

SACRAMENTO—A bill granting a one-year delay in a new California law granting workers' compensation benefits to domestic workers has been offered in the state Assembly. The new law grants the benefits to gardeners, babysitters, maids and other workers not covered in the past. It makes homeowners and renters who employ such persons liable for their on-the-job welfare. Backers of the moratorium said it would give the lawmakers an opportunity to clear up a number of problems with the new program.

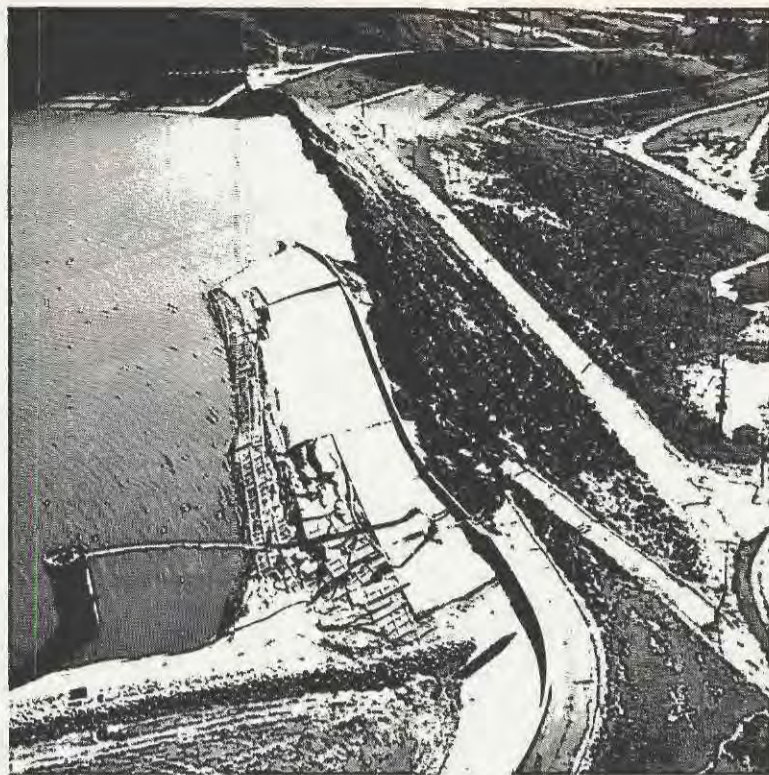
TRENTON—John J. Horn, New Jersey's acting labor and industry commissioner, has announced that the maximum amount of wages subject to the state payroll tax for unemployment and disability insurance purposes has been set at \$5,800 for calendar 1977. Under a 1975 state law, the taxable wage base is geared to the average weekly wage paid to workers protected by the law.

RICHMOND—A private consultant has informed Virginia legislators that the state's retirement system needs restructuring. He told the House appropriations committee that a growing number of state retirees are receiving pensions that exceed their take-home salaries before they retired.

TALLAHASSEE—A state legislator in Florida has proposed that high state officials be treated like anyone else in government for retirement purposes. Rep. Jerry Melvin said the 511 legislators and executive officers in the Elected State Officers Class should be merged in with other state employees in the pension system. The group now enjoys larger benefits than regular state workers.

HARRISBURG—The state Labor and Industry Department reports that the maximum weekly payment to workers disabled by job-related injuries or diseases in Pennsylvania is now \$199. The ceiling during 1976 was \$187.

SPRINGFIELD—Gov. James Thompson has named Richard L. Mathias as the new director of Insurance for Illinois. Mathias, 37, was legal counsel under the last Republican governor and was previously associate counsel for Allstate Insurance Co. in Northbrook, Ill. Mr. Mathias will receive \$35,000 a year.



Reliable forecasts of earthquakes, such as the one that destroyed this California road, could create severe problems, warns a new study.

Federal earthquake insurance proposed

SAN FRANCISCO—A federal system to guarantee earthquake insurance may be necessary to avert the "catastrophic side effects" of accurate forecasting of major seismic upheavals, according to Colorado sociologists J. Eugene Haas and Dennis S. Mileti.

Mr. Haas reported to California seismologists, developers, builders and engineers the results of an 18 month study by the University of Colorado Institute of Behavioral Science on the social effects of earthquake prediction.

The study, conducted with a \$500,000 grant from the National Science Foundation, involved personal interviews with more than 1,000 Californians in two major cities, including government officials as well as families and business executives.

"The conclusion was," Mr. Haas said, "that a believable long range earthquake forecast in any urban California city could produce catastrophic side effects, ranging from radical curtailment of necessary social services to temporary heavy unemployment."

"In our survey," he added, "we posed two hypothetical earthquake forecasts and asked for reaction. One involved a prediction five months in advance of a moderate 6.3 Richter magnitude tremor and the second an official prediction of a severe quake striking a specific area within a two-month period two years later."

"The answers," Mr. Haas said,

"would seem to indicate that soon after the prediction of a severe earthquake, people would begin trying to buy earthquake insurance and within a year new construction would substantially slow down."

"The economic and social effects would increase," Mr. Haas continued, "as the predicted time of the quake neared, with schools closing and more than 60% of the population fleeing the area."

"Banks would no longer lend money in the area, homeowners would begin refusing to pay property taxes and many business firms would cease operation."

"The side effects of long range earthquake prediction," Mr. Haas argued, "might well even include refusal of insurance carriers to sell policies in the area subject to the predicted quake and property values certainly would plummet."

"Our massive study," Haas said, "will be completed probably by November. Early results of the study would indicate serious need now for planning which could reduce the severity of such conditions which could follow accurate quake predicting."

Such plans, he suggested, would include, in addition to federal earthquake insurance, tax incentives to ensure that buildings and homes be made more resistant to earthquakes as well as changes in federal laws to provide financial assistance to earthquake prone areas "before disaster strikes." ■

ERISA reform urged

WASHINGTON — Legislation soon will be introduced into the House that calls for placing the Employee Retirement Income Security Act (ERISA) under one agency instead of the present three.

John Erlenborn (R-Ill.) and John H. Dent (D-Pa.) will ask for the merger of the current ERISA administrative and enforcement functions of the Labor Department, Internal Revenue Service and Pension Benefit Guaranty Corporation into a single Employee Benefits Administration. President Jimmy Carter could place the new agency within any department.

"The proposal is in keeping with President Carter's intent to streamline the bureaucracy," said Howard Kline, an aide to Rep. Erlenborn.

The congressmen said the original administrative design, in which three agencies shared ERISA's functions, caused inefficiency, massive paperwork and confusion.

"One example of the present system's failure is the inability of the Internal Revenue Service and the Labor Department to coordinate their filing dates," said Mr. Kline.

The bill will be introduced by the beginning of March. ■

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By MARIE KRAKOWIECKI

Provocative ideas offer a way to apply risk control to benefits

Victor M. Zink, director of employe benefits and services for General Motors Corp., got a great send-off for his Christmas holidays when a reporter asked him: "Now that you have failed to obtain any effective health care cost-sharing from the United Auto Workers, will you finally admit that you were wrong to launch your cost-sharing campaign in the first place?"

Vic Zink's short answer was "No." At a Conference Board meeting here he provided a much longer reply, much of it in the form of thoughtful questions about today's health care delivery system. His innovative ideas bear repeating because they give a valuable insight into how the nation's number one industrial employer is approaching its own huge health care costs.

GM shells out more than \$1 billion annually for health insurance covering its workers. This year the amount is expected to rise even higher as premiums escalate, employes utilize programs more and new vision hearing and rental plans come into effect.

Three years ago, when he wrote an article for this magazine, one of Vic Zink's questions was: "Is it still feasible to try to control health insurance costs solely through the carriers when the charge patterns are essentially determined by a delivery system controlled by the providers?" His short answer to that question is now "No," he told us, and his ruminations at the Conference Board support that.

■ In Mr. Zink's vision of the way things might be if employers did not rely solely on insurance carriers to contain costs, companies would actively work at developing long range plans in health maintenance, health education, patient sharing of costs, new kinds of underwriting arrangements, research and development and positive integration of private health benefits with public sector benefits.

"How many of us really know how hospitals function and why their costs are so high? If our people are to help contain costs in workable ways, they . . . need specific working knowledge about HSAs, HMOs, hospitals, nursing homes and community-based home care agencies, as well as a feel for the total spectrum of health care system problems," he said.

GM has already acted on some of his beliefs. Last June it held a seminar for its management personnel who sit on hospital boards to discuss how hospital management can be improved. A similar session was held for GM employes who serve on Blue Cross or Blue Shield boards and various health planning agencies and committees. These nationwide moves to contain health care costs are generally thought to be the first of their kind, and the GM benefit chief said the firm is probing in other new areas, notably trying to bargain with its union to get co-payment features included in all health care plans.

The UAW is dead set against co-payment, and so far GM has failed to get any patient sharing of cost for the firm's most expensive coverage, point-of-service care in hospitals. But through its efforts, it did manage to get co-payment provisions in outpatient psychiatric care, the prescription drug plan, and the dental plan scheduled to begin in July.

■ GM is also looking at ways to discourage unnecessary hospitalization, encourage ambulatory care and educate employes to use existing health care delivery systems so they can get high quality care without wasting medical resources—or GM's money. The company is doing this partly because it believes it would be "almost impossible" to restructure coverages emphasizing preventive care as long as workers and their unions remain committed to hospital-oriented, first-dollar coverage.

Vic Zink posed some provocative alternatives to the usual insurer-provider-delivery system, such as direct employer provision of health care, or even the possibility that hospitals should be subject to rate review or regulation.

GM isn't actively involved in all the possibilities he raised and it is frankly "discouraged" at the results of its cost-containment efforts so far. But at least the company is actively doing something to confront the problem of spiraling health care benefit costs, instead of wringing its hands.

What's good for GM may or may not be good for the country. But Vic Zink's approach takes benefit management beyond administrative boundaries and into the heart of risk control. When many firms are now channeling more than 35% of payroll into fringes, that's worth noting.



Krakowiecki

Probe fails to discover evidence St. Paul torpedoed hospital captive

By TOM WALSH

DES MOINES—Preliminary results of an investigation by the Iowa Insurance Commission has cleared St. Paul Fire & Marine Insurance Co. of charges that it cut malpractice insurance renewal rates for some Iowa hospitals in an attempt to sabotage the formation of an Iowa Hospital Assn. captive.

St. Paul now provides hospital malpractice coverage to 95 of Iowa's 134 hospitals, accounting for approximately 70% of Iowa's beds, according to James Anderson, insurance commissioner.

While cleared of accusations that it has been trying to torpedo the newly created Iowa Hospital Mutual Insurance Corp. (IHMIC), Mr. Anderson said the investigation uncovered some evidence that St. Paul overcharged some Iowa hospitals for excess layer coverages written between November 1975 and June 1976.

If the on-going investigation should show that inflated premiums were charged intentionally, "appropriate action will be taken," possibly including "substantial" refunds to affected policyholders or other sanctions against St. Paul, said Mr. Anderson.

St. Paul officials, he said, have denied any wrongdoing, claiming that it has followed proper rating methods "in all cases."

The state's investigation showed that renewal offers made by St. Paul after Sept. 1, 1976, were quoted in accord with rate filings approved by Mr. Anderson's office last June. There is no evidence, the Iowa commissioner said, that different treatment was offered to hospitals which indicated interest in seeking to insure malpractice risks through the Iowa Hospital Assn.'s mutual insurer, when it begins issuing policies.

The investigation did find, however, that methods used by St. Paul prior to June 1976 to rate policies in excess of \$100,000 per claim and \$300,000 aggregate appear to have produced rates for some policies which were higher than rates approved by the state, Mr. Anderson said.

"As a result," he said, "the renewal premium was less than could have been expected in view of the rates charged the previous year, giving the appearance of rate-cutting on renewals."

The investigation is now focusing on premiums collected during 1975-76 for excess layers above the basic \$100,000/\$300,000

Lloyd's shares in big award

SAN FRANCISCO—Lloyd's of London and five other insurers will pay a \$1.6 million jury award to Joshua Jackson, 40, a carpenter whose legs were paralyzed in an accident during the construction here of a new high-rise Holiday Inn.

Mr. Jackson, who had sought \$3.75 million, had been a star athlete in school and even now plays "wheelchair basketball."

He was injured March 20, 1973 when a construction hoist in which Jackson was riding, failed and fell five floors to the ground.

The hoist operator, also injured in the fall, was found negligent and liable for Mr. Jackson's injuries, along with several other manufacturers.

limits, he added.

The investigation began in mid-December when a state senator asked the Iowa Insurance Commission to look into reports that St. Paul hospital malpractice policyholders were being quoted

The investigation began in mid-December when an state senator asked the Iowa Insurance Commission to look into reports that St. Paul hospital malpractice policyholders were being quoted significantly lower renewal rates. One policyholder—Wayne County Hospital in Cordon, Iowa—said St. Paul offered to cut premiums to \$5,400 from the 1976 level of \$7,900 for identical coverage during 1977. The offer was made, administrator Leslie C. Nash claimed, after the IHMIC offered to provide the same coverage for \$5,400.

Mr. Anderson said the investigation by his staff uncovered two such cases where "simple mistakes such as misplaced decimal points" caused blatant overcharges to some St. Paul policyholders during 1976.

"In one case," Mr. Anderson said, "a policyholder was charged for malpractice coverage as if all the beds in the facility were hospital beds, whereas some were actually long term care beds."

The Iowa Hospital Mutual Insurance Corp. has yet to issue a policy. The group has raised \$328,000 of the \$500,000 surplus fund it needs before policies can be issued. So far, when coverage is written, the captive will initially offer a hospital liability policy with primary limits of \$500,000/\$1 million, according to its president, Donald Dunn.

"These are higher basic limits than now carried by a vast majority of Iowa hospitals," Mr. Dunn said.

Planning for the newborn captive began during 1975 in response to high malpractice rates for hospitals and restricted availability of such coverage from commercial sources.

"It was extremely difficult for Iowa hospitals to obtain coverage in 1975," Mr. Dunn said. "It was at that time Argonaut Insurance Co. removed themselves from the Iowa market, and the St. Paul companies were not taking on additional business in this area."

It was also during 1975 that the Iowa legislature passed a bill allowing health care providers to create mutual assessment corporations to cover malpractice liabilities. After a second round of what Mr. Dunn termed "a major escalation" of malpractice premiums, the Iowa Hospital Assn. a year ago ordered a feasibility study to determine the need for an IHA-sponsored mutual.

That study, among other things, showed that premiums paid by 20 member hospitals increased 436% between 1974 and 1976. The IHMIC was officially incorporated in June 1976 modeling itself after similar hospital association-sponsored captives in other states.

The IHA captive envisions "a more effective risk management program than offered by any independent insurance corporation. With the state-wide data we have available to us through the Iowa Hospital Assn., we will be able to identify the high-risk areas and mount a preventive, educational program that will allow us to minimize the risks in these areas," Mr. Dunn said.

"IHMIC would most likely contract out for services of a risk management consultant, but educational programs would be conducted by the staff of the captive," he added.

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Letters

Continued from page 20
sider.

Several of my colleagues and I once attempted such a project. We finally gave it up when we realized that even those few forms that were generally similar would be changed completely by endorsement when issued, making moot any comparison of the policy form itself. Authors of "The Umbrella Book" say as much themselves when they observe that the basic policy can and usually should be endorsed and that "proper endorsements completely transform a policy." They and *Business Insurance* both published a ranking anyway.

Any ranking of companies in such a volatile market is a perilous undertaking at best. I note that many of the companies have completely withdrawn from the

market or have severely restricted underwriting since the research for the book was done. Some other companies listed, while they provide a broad base form, write only small mercantile OL&T covers.

I can't help but remark how much more useful the book would have been had it stopped with the analysis chart of each section of the policy. From this a producer or insured could negotiate the amendment of that section of the policy if it did not give proper coverage.

One should always remember the basic purpose of the umbrella policy is to provide very high limits of coverage. Warren, McVeigh et al. suggest \$10 million in most cases. Very few of those companies ranked in "The Umbrella Book" can lay down the \$10 million that Fireman's Fund can, in a product area where the high limits and company capacity are what count.

E. Raymond Gardner
Assistant vp, Fireman's Fund
American, San Francisco, Calif.

It's still jabberwocky

To the Editor: Mr. Briggins' quotation in the Jan. 24 Perspective article from Lewis Carroll's "Jabberwocky": You must have been watching re-runs of "Gilligan's Island." There is no reference to "Gillig" or "slith" toves. The correct quote is:

"'Twas brillig, and the slithy toves

Did gyre and gimble in the wabe;

All mimsy were the borogoves,
And the mome raths outgrabe."

I question whether it should be referred to as nonsense verse because "raths outgrabe" clearly refers to the transfer of wisdom, as the Oxford English Dictionary confirms. Also, "gyre and gimble" clearly refers to the actions of an underwriter when asked to quote

product liability.

Read in its entirety, it is truly an inspiration for anyone in this wacky business.

Stanley C. Brock

The Lukes-Brock Co., Milwaukee, Wis.

Workers' comp in Texas

To the Editor: The article "Workers' Comp Top Insurance Cost at Maintenance Firm" by Joanne Gamlin may have an error or maybe I am uninformed. She quotes William Petree as saying, "The company also self insures workers' compensation in Oregon and Texas. . . ."

I manage a compensation program in Texas. When did the law change to allow self insurance (in workers' compensation) in Texas? It was not passed by the last legislature in 1975. It will probably be brought up again in 1977, but it is still not lawful to self insure workers' compensa-

tion in Texas. An employer may self-handle his claims, using his insurance company's drafts and in effect have a cost-plus program, or he may elect to not carry workers' compensation insurance, in which event, he is still subject to the act, but without monetary limitation he waives all of the common law defenses.

Edward B. Lee

Attorney-Insurance Manager
Merchants, Inc., Abilene, Texas

American Building Maintenance Industries insures its workers' compensation in Texas through Texas General Indemnity Co. The story was in error.

Curing an ill?

To the Editor: In regard to the Workers' Comp editorial in your Dec. 27, issue. Can you find and cite, or do you know of, a single incident where a benefit has come under federal control and saved money?

In your editorial you comment that a small percentage of employers who are covered under the Federal Longshoremen's Compensation Act are facing ever-expanding areas of coverage for the nation's most generous benefits to workers. Some of the companies, you go on to point out, are on the brink of bankruptcy.

The panacea you envision to cure these ills is a federal workers' compensation law covering all industry in the country.

If you add up the meaning of this editorial, reasonable minds might conclude that all American industry should be pushed to the brink of bankruptcy with a solid federal workers' compensation law.

I doubt if this was your intention. Would you clarify this point?

Carl J. Vogt

Manager, Workers' Compensation,
General Tire & Rubber
Co., Akron, Ohio.

Editor's note: We suggest a federal work comp law with minimum standards might relieve the confusion over the many different laws now in effect. That injured employes are suing to try and sneak in under the Longshoreman's Act is evidence enough that a liberally construed law covering a particular industry creates problems. We're saying it's wrong to push certain employers to the brink of bankruptcy just because they happen to be in a particular trade. It's about time for some "equal protection" for maritime-related businesses under a federal standard of liability which is hopefully not subject to the whims of state and judicial politics.

A distinct pleasure

To the Editor: The following letter is really addressed to Peter Downes.

It was a distinct pleasure to read your article in *Business Insurance*, "Illiteracy: An Insurance Plague" (Dec. 13).

It was Lincoln's Gettysburg Address—so much said in such few well chosen words, and cleverly. Thanks.

John Singreen, LL.B.

Singreen Agency, New Orleans, La.

Sue the bastards

To the Editor: Your letters to the editor of Nov. 29, 1976, refer to an article entitled "Sue the Bastards" as it was printed in your Aug. 19 issue.

The editorial was right on target and we would like to keep the ball rolling.

Stephen C. Budge

Marketing Manager, McGee & Thielen, Sacramento, Calif.

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PERSPECTIVE

Settling claims means handing over a check, right? Absolutely not!

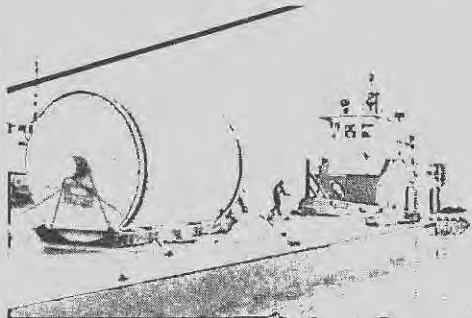


On Feb. 16, the Finn Clipper arrived in Pascagoula, Miss. at the Engle Shipyard—the only facility in the area with crane capability for handling this kind of tonnage. The new dryer roll was transferred from the Finn Clipper to the barge that took the roll on its journey to the American Can paper plant up-river at Naheola.



The team that did the job (left to right): Carson Chapman, American Can Field Eng.; Irving Pearl, Red Rock Construction Co.; Jesse Allen, Traffic Mgr., American Can; Roger Bodnar, Allendale Boiler Machinery Field Rep., and Henry O. Schneider, Export-Import Traffic Manager of American Can.

On Feb. 17, the dryer roll (upper left) began its journey by barge and tugboat up the Tombigbee River to a site on the river bank approximately one-half mile from American Can's Naheola plant.



On Feb. 18, the barge (upper right) with the new roll arrived at the river bank site near the plant about 12 hours earlier than anticipated.



On Feb. 19, the river bank site (lower left) was enlarged to accommodate the barge. The job required the use of a bulldozer to widen the mouth of the slip at the river bank site in order to fit the barge into place. Difficulty was expected because of the tendency of the river to rise and recede unpredictably, but the barge (lower right) was finally shifted into position and preparation began for unloading the roll.



On Feb. 20, wooden planks were placed on the barge and makeshift tracks were placed beneath the skids on which the dryer had been transported. STP was used on the tracks for lubrication. Using two winches the dryer was slowly pulled to the end of the barge. This operation proved tedious because the weight of the dryer bent the tracks which had not been adequately blocked underneath. (The transfer from the barge into the plant was handled by Osborne Truck Lines, Inc.)



After 11 hours of work moving the dryer to the end of the barge, it was finally loaded on the lowboy and moved to a higher spot on the river bank. During this attempt some problems had hampered progress: There was no lighting and darkness was approaching; the river had been rising which meant the barge was lifting higher than anticipated. It was decided to leave the dryer at the site until the following day because of the late hour and approaching darkness.

Anyone who thinks the settlement of an industrial insurance claim merely involves a check transaction need only take a look at photos of what happened when Allendale Mutual Insurance Co. settled a recent claim with American Can Co.

Allendale Insurance includes among its insureds the paper mill which American Can operates at Naheola, Ala., located about one-half mile from the Tombigbee River. Allendale not only underwrites damage to machinery and equipment in the mill, but also losses incurred when damage shuts down production operations.

Recently, one of American Can's four paper drying rolls, a 12-foot, 100-ton cast iron spool known as a Yankee Dryer, sustained a crack in its surface, putting it permanently out of commission. These huge drum-shaped rolls take the moisture out of the fragile tissue paper as it comes off the production line. The breakdown caused a 22% drop in tissue production in this mill.

When notification of this incident was given to Allendale, company representatives working with American Can management discovered that the Yankee Dryers available in the U.S. were not suitable. International detective work turned up a dryer in Carlsbad, Sweden, where such rolls are fabricated. Finding an existing dryer was a stroke of luck (to have made one would have taken as long as two years, including delivery time). But getting it back to the U.S. and installed in the Alabama paper mill was far from simple—and demanded a lot more than luck. Expertise in global physical distribution management was called for. Here's how it was done:

Luck entered the picture early. The

trans-Atlantic cargo ship, Finn Clipper, with Pascagoula, Miss. on its itinerary, was set to sail to the port of Goteborg, Sweden at about the time negotiations for the purchase of the dryer manufactured at Carlsbad were going on. The Finn Clipper was one of the few ships leaving Goteborg within a reasonable time and which could accommodate the bulky dryer. Despite the local tests that had to be made on the dryer, everything was stepped up and it was loaded in the ship's hold in time for sailing.

The next step was to unload the dryer from the Finn Clipper at Pascagoula and re-load it on a LASH barge for its journey up the Tombigbee River to Naheola. Weather at that time of year on the river was an unpredictable element . . . but usually bad. Fog and/or heavy tides could have created havoc.

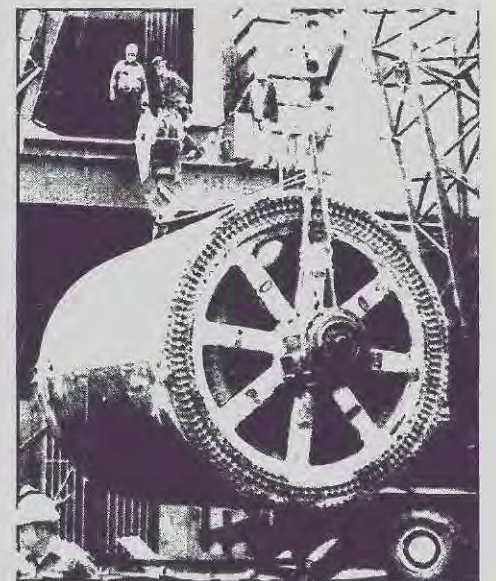
Before the barge reached the Naheola vicinity, a way had to be found to get the barge close enough to the river bank to unload the dryer. Since there was no dock a bulldozer was brought in to level the bank sufficiently to accommodate the barge. Railroad ties and a cherry picker were also brought into the action. Two days were required (and at nights without light) to get the dryer off the barge and onto a lowboy for hauling to the mill by truck.

At the mill site, the damaged roll had to be removed to allow for installation of the new one. This entailed removal of part of the building wall and erection of special scaffolding. The dryers were so heavy that floors had to be reinforced and other areas shored up to support them. Air skids were used to transport the new dryer within the mill to its new location.

Continued on following page



The dryer was delivered to the storage site at the plant for a 10-day "breathing period" before being uncrated, and then to the side of the building for placement inside. Scaffolding and a special opening (above) had to be made in the wall of the plant to accommodate the dryer. The picture (below) shows the crack on the face of the roll.



PERSPECTIVE

Settling claims . . .

Continued from preceding page

Allendale in locating an existing Yankee Dryer roll, as an "off-the-shelf" item, and to have it shipped from Sweden to arrive at the mill and be operational within six months from date of impairment shortened the business interruption time for American Can by 12 months.

If a new dryer roll had to be manufactured to order, the required time would have been 18 months.

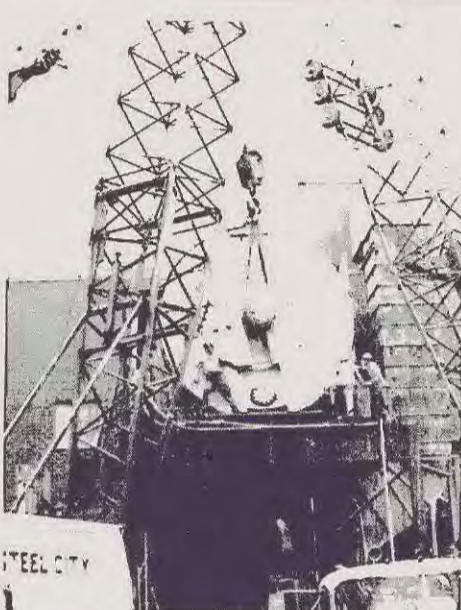
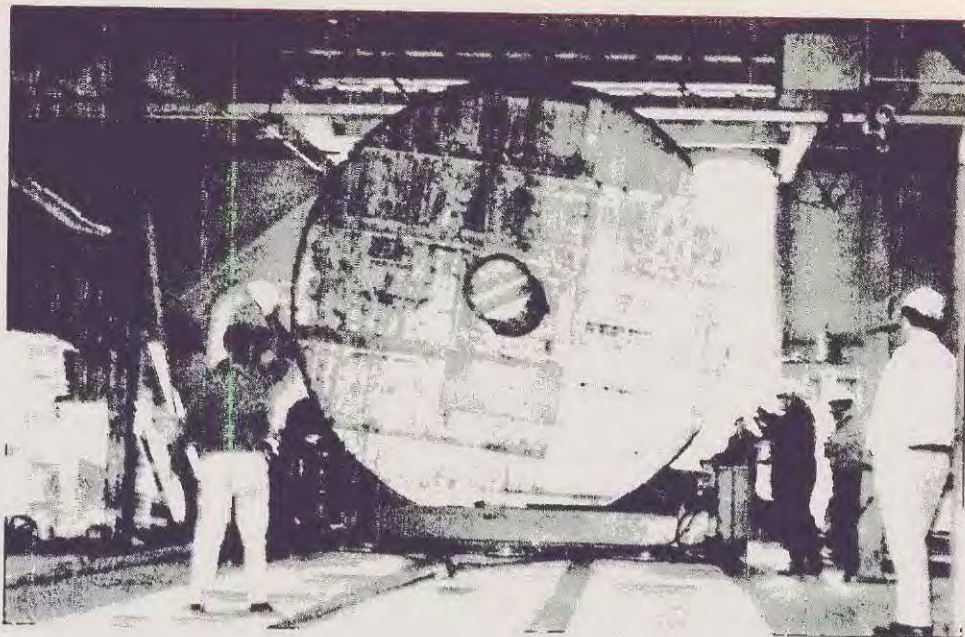
The potential business interruption loss was thereby reduced by two-thirds, based on the six month discovery and delivery

process.

The mill had four such machines. The loss of one represented a 25% reduction in production capacity.

Allendale's coverage of American Can is on a blanket basis, covering most American Can operations including business interruption. The two firms have a working relationship spanning some 75 years.

Photographs used in this story are courtesy of Allendale Mutual Insurance Co.



accomplished. On the air skids, the dryer roll presented a new problem—the original air skid bags were installed for the movement of the old dryer which weighed considerably less than the new one. Thus some bags burst apart when the new dryer roll was moved. It was then decided that stronger bags should be used if the flooring were smoothed

out with metal plates and plywood sheathing. However, the metal sheathing was picked up by the air bags causing them to burst again. The movement was finally accomplished by means of a small powered land winch which literally pulled the roll on a cushion of air slowly from the end of the plant to the paper machine.



The new dryer was moved to the side of the plant and lifted by two cranes onto the platform outside the building. This movement was not easy because the roll had to be brought in through a narrow alley and the two cranes had to be dismantled to accomplish this.

ing and blocking of the skid was performed. When the skid was blocked to the level of the paper machine frame, the roll was eased across to the bed of the paper machine. After the framework was completed, blocking up of the roll continued in slow stages until the roll reached the height of six feet to center of the shaft off the floor, at which time the roll was mounted on the frame and the skid and blocking removed.

On Mar. 10, the final journey, covering a distance of 100 feet, was

With the casing still on and the added height of the air skids, tolerance between overhead piping and the roll often came close to only one inch. Once the roll was moved adjacent to the paper machine, a jack-

SPEAKING OUT

Dear Mr. Nader: Your solution isn't enough

The following is an open letter to Ralph Nader from Howard J. Bruns, president of the Sporting Goods Manufacturing Assn. and general chairman of the Multiple Assn. Action Committee, a group working for reform of the laws governing product liability.

First, let me explain the reason for my interest. I am president of the Sporting Goods Manufacturers Assn. Manufacturers, distributors and retail store sales total \$13 billion in the industry. Accordingly, we believe ourselves to be a small industry, total sales equaling the eighth largest company on the Fortune 500 list and, more important, comprised of small businesses doing business in small sub-segments of this industry. Most of the companies in sporting goods have sales ranging from \$1 million to \$20 million. The few large corporations have small, autonomous operations divisions. My point—this industry is small and its participants are vulnerable.

Enough about us. About your testimony advocating a government insurance program for product liability.

At this point, business and industry are not interested in government insurance programs as a solution because they deal with the effects of the product liability

problem and not the cause. Analyzing the reasons insurance companies' rates have been increased, it appears that if the causes persist, the effects will continue escalating. What has transpired the last 24 months to costs is only the tip of the iceberg, and some businessmen who live with the problem daily well realize they are fighting for their very existence as businessmen.

In the aggregate, business and industry have no quarrel with the insurance industry. We understand that the basic premise of free enterprise is for the price of a product or service to exceed the cost. This has not happened. The insurance industry must cease to exist, or raise prices. Businesses receiving rate increases likewise must pass them on or cease to exist. The consumer does not have the same type of choice. He cannot cease to exist. He must either buy the product at the inflated price or do without it.

If our quarrel is not with the insurance industry, then who is it with?

It is with the gross inequities and waste that have crept into the system and which will escalate the cost of doing business until action is taken to stop it.

What are the inequities? Wasted dollars defending unwarranted suits and the large judgments that have no relationship to the

actual loss are the base of the problem. We who stand in the docket know in mind and in pocketbook that more and more suits filed are fakes, mock justice, and basis only in the letter of the law instead of the morality of law, and are filed only to extract a settlement. Unfortunately, the defendant discovers it more prudent to settle out of court than to defend even when totally innocent.

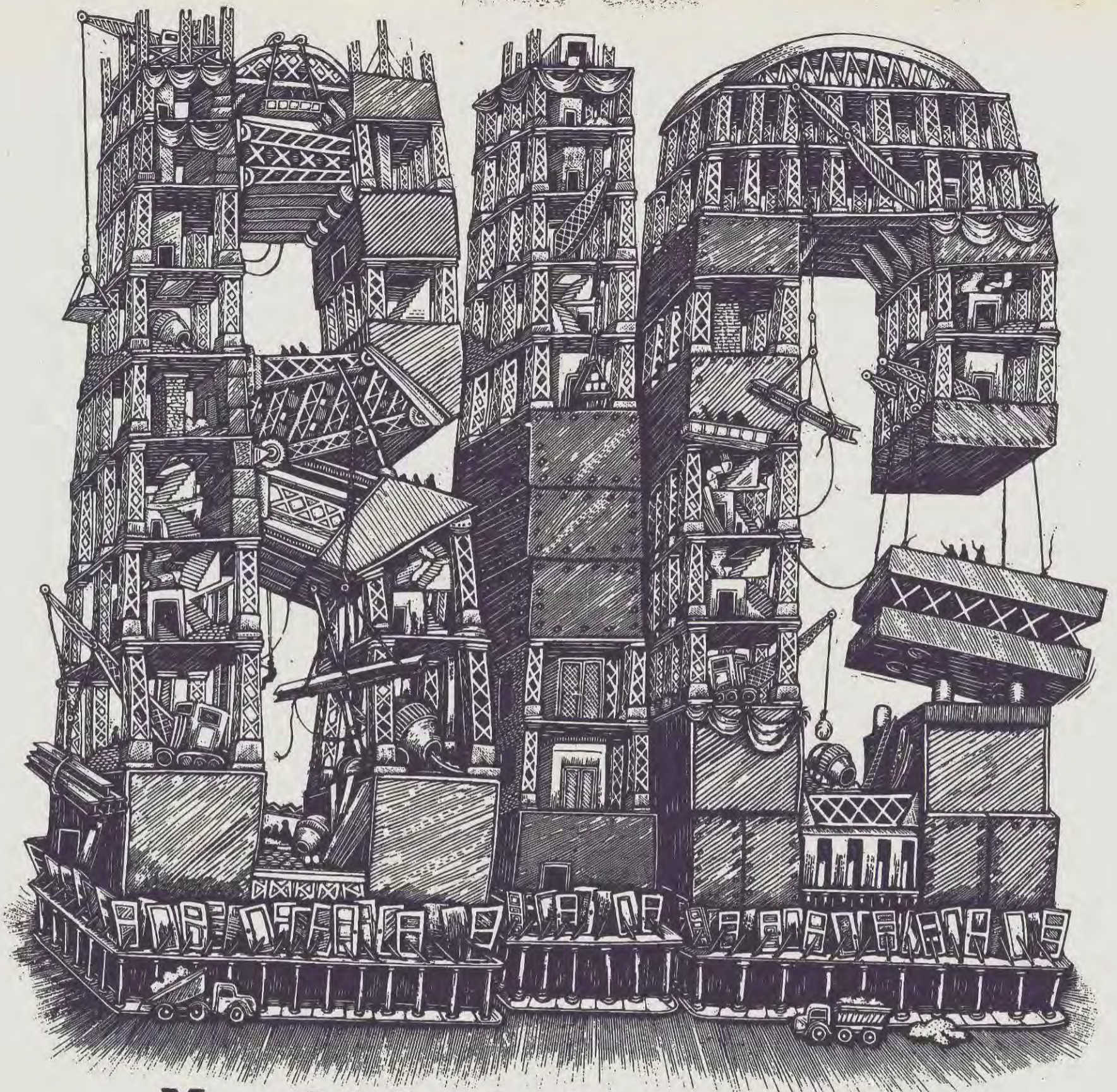
Our quarrel is not with the plaintiffs who have been injured, who deserve payment for damages or an award for suffering. We do not quarrel with railing to the wall producers of bad products or services. We do not quarrel with questionable suits where fault is difficult to determine. We recognize that while some people claim to be innocent, feel in their hearts they are innocent, they are guilty under the law and should be so declared. We do maintain, however, that the vast majority of businesses do the best possible in material selection, design and workmanship.

Small businessmen do not want to curtail consumers' rights. We are consumers also. And as consumers we do not want to pay for, in every product we use, the cost of the gross inequities of the tort reparation system. This cost, which is running up-

ward of 5% for some industries and upward of 10% for some companies, can be dangerous to society. Dangerous in that it was running at a rate of less than 1% a few years ago. Dangerous in that it is not spread evenly across industries, thereby making select manufacturers non-competitive. Dangerous because it makes the U.S. products less competitive on the world market. Dangerous in that it is utterly wasteful and serves no final purpose.

We look to consumer groups and unions to be allies in part in this fight to change the tort reparation system. The present system is counter-productive to the general good. It "rips the consumer off" while proclaiming to protect. We believe unions and consumer groups to be allies in part because there is a dramatic shift of wealth from the general fund to a minority—those supposedly working for the consumer, such as plaintiff attorneys. Studies in some industries have indicated that as little as 12¢ of the premium dollar related to product liability winds up in the hands of the consumer.

This is how business and industry see it. Assuming that our position is at least based on some fact, you and your people owe it to the followers that you have served so well to look closer.



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PERSPECTIVE

Transportation coverage: Details need attention

By William H. Rodda

President,
Marine Insurance Handbook Inc.
Chicago, Ill.

Editor's note: This is a speech Mr. Rodda delivered to the Traffic and Distribution Group of the Northern Illinois Industrial Assn. Nov. 17, 1976. His comments on transportation insurance, however, are applicable to risk managers as well.

TRANSPORTATION INSURANCE is intended to cover damage that occurs during transit of property from one place to another. Sometimes the insurance and the exposures to loss don't jibe. There may be a hole in the insurance coverage that the property owner and the insurance underwriter did not anticipate.

This discussion consists of actual examples. In these cases, somebody goofed when the insurance was written. Some of these examples may seem to be elementary, but every one of them constituted a dispute between insurance company and policyholder. It isn't elementary when many thousands of dollars are in dispute.

An important question is how much the shipper can depend upon the liability of the carrier for property in his custody. Do you always need insurance on property in transit? Does the carrier's liability cover the full value?

A jewelry salesman who was flying from Wichita, Kan., to Oklahoma City carrying \$93,000 worth of jewelry learned, to his dismay, about dollar limitation on a carrier's liability. He did not understand that common carriers in many circumstances may limit their liability by filing a tariff under which a dollar limitation is specified unless a higher value is declared and an additional fee paid.

The jewelry disappeared en route, allegedly the result of negligence on the part of the airline. The jewelry salesman and his employer sued for the full amount of the loss. The airline responded that they had filed a tariff providing for a limit on baggage of \$100 unless a higher value was declared and the extra fee paid. The court upheld the limitation, even in the face of an allegation of negligence.

This same principle applies to liability under a released bill of lading. Do you accept a released bill without having insurance to cover any value above the released value? The courts almost universally uphold a dollar limitation on the liability of a railroad, as airline or a trucker, especially if there is a lower fee for the small valuation. It is necessary in connection with any shipment under a released bill of lading to determine the relationship between the actual value and released value. This difference, if substantial, would determine the need for insurance.

Another important question is whether the contract with the carrier provides for getting the property to the final destination. Further, does the insurance coverage apply all of the way to the desired point of delivery or does it end at some intermediate point?

A small electrical distribution system in a Midwestern state a few years ago bought a transformer for \$10,000. The carrier's contract provided for delivery only to a railroad siding ten miles from the actual site of the installation. The purchaser could have insisted upon delivery to the site of installation, but he neglected to cover this particular point. They found themselves with a transformer on a railroad flat car ten miles from their plant. Then they had to arrange for unloading, loading onto a truck, and transportation to the installation site. This occasioned an additional expense of \$500 for insurance and transit over ten miles of dirt road.

The principle of the old "warehouse to warehouse" clause of ocean marine insurance is desirable both from the standpoint of transportation and the standpoint of in-

surance. The supplier in many cases can arrange for pick up at the supplier's plant and delivery to the actual site of the consignee. Insurance coverage that is coordinated with this warehouse to warehouse coverage is more satisfactory than an insurance contract in several pieces. There is less chance of a gap somewhere along the line in the transportation responsibility and in the insurance if all contracts are continuous from pick up to delivery site.

Many insurance policies are written to cover the property only while it is "in transit," or while it is in the custody of a carrier. There have been many disputes as to whether property in a particular situation is in transit.

An example was an insured who had bought a trip transit policy covering property "while in transit." The term "while in transit" was not defined in the policy. The insured loaded property into his automobile which was situated in a garage under the building where he lived. The car was stolen from the garage with its contents before the owner could start his trip. The insurance company denied liability on the basis that transit did not start until the car had moved. The court said, "Not so." The property started its journey when it was removed from the apartment and designated for transit.

Another tricky situation arises when property is to be shipped by a common carrier but the property is delivered to the carrier in the shipper's own trucks. Many transit insurance policies cover property only while it is in the custody of a carrier. This means that there is no coverage while the property is being taken to the carrier's office in the owner's trucks.

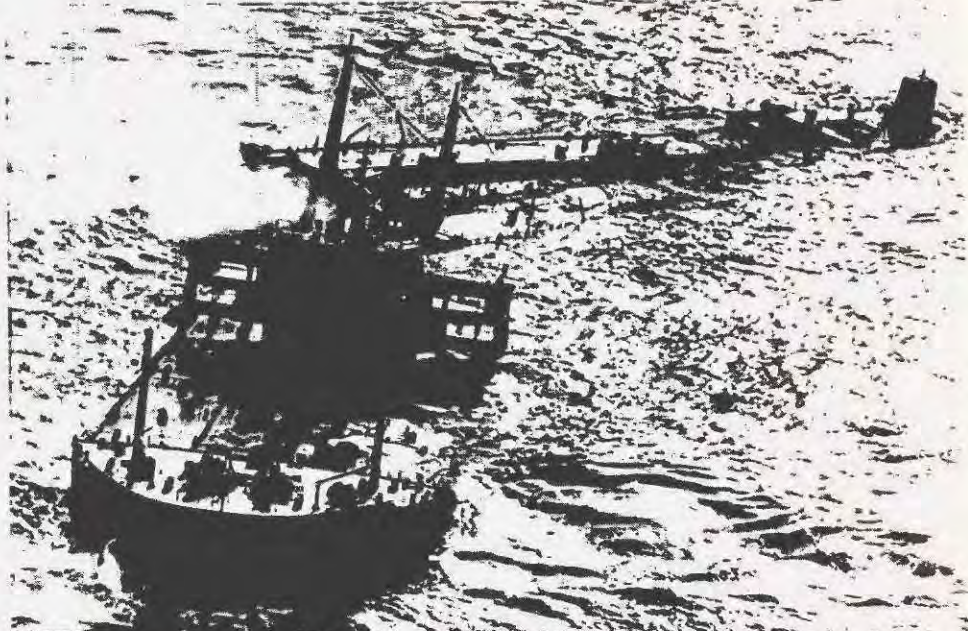
Ideally, a transit policy for the shipper or consignee should cover from the time the property is designated for shipment, while in transit by any means to the carrier's location, and while it is in the custody of the carrier. A transit policy that covers only while the property is in the custody of the carrier may leave a gap in coverage unless it is certain in every case that the property will be picked up by the carrier at the shipper's location.

Shippers of goods by sea carry insurance because that is the only practical way to have reasonable protection against loss. However, it may be difficult to secure insurance coverage against everything that can happen. Coverage against "the perils of the seas" is far from complete.

This is not in any sense comparable to the "all risks" coverage that has become popular for many kinds of insurance in the United States. Fire and lightning generally are specifically covered in addition to coverage for the perils of the seas. However, coverage against loss by theft must be specifically provided. There is another tricky little tradition here that can trap the unwary shipper. Coverage against loss by "thieves" in an ocean marine policy means loss from "assailing thieves," which in our landlubber terms in the United States means loss by robbery. Ordinary theft without violence or threat of violence must be specifically covered in clear terms if it is intended that such theft loss be covered.

Coastwise shipments that may be carried by truck or railroad for a part of the journey and on shipboard for another part of the journey may encounter another problem if the insurance is not correctly written. One shipper received a transit insurance policy which did not include coverage for general average charges. Neither the shipper nor the insurer realized that there might be a general average charge for which the shipper could be held liable.

The ship during its short coastwise trip ran aground, and the ship's engines were damaged in getting off the reef. This was held to be a general average loss since the damage occurred in an effort to save the entire venture. Insurance on a shipment where general average charges are included as part of the coverage is accepted



Shippers of goods by sea carry insurance because that is the only practical way to have reasonable protection against loss

as a guarantee that the general average charges against a particular shipment of cargo will be paid.

In this case, the owner of the cargo had to put up a bond to guarantee payment of the general average charges when they could be determined several months hence. It is important that general average charges be covered in any case where even a short portion of the trip is by sea.

Is an insurer liable for expenses incurred by its insured, a warehouse, in protecting property in the warehouse from further damage? The insurer paid a claim to a warehouseman's customer for damage to chemicals stored in the warehouse, but the company denied liability for \$22,000 of expenses for protection of exposed chemicals from further damage. The policy required that the insured take all reasonable means to protect, safeguard and salvage property.

However, the insurer argued that such action on the part of the insured could be taken only with the consent and approval of the insurer. The court decided that the additional expense for protection against further damage was a legitimate expense under the coverage of the policy. This dispute could have been avoided if the policy had included the traditional "sue and labor" clause of marine policies.

Many inland marine underwriters as well as ocean marine underwriters do include the sue and labor clause in all their transportation contracts. This clause gives the insured and the insurer the right to take whatever steps are necessary to protect the property from further damage. It is a clear statement of the obligations of both the insured and the insurer relating to protection against further damage. It is something to watch for in any policy covering property in transit.

I would like to caution against the words "The Continental United States" as a description of the territorial limits within which coverage applies. The United States of America is that part of the world over which our country exercises jurisdiction. The Continental United States is that part of our country which is located on the North American continent, including Alaska. However, a real question arises as to where the U.S. ends at sea.

Historically the U.S. had a three-mile limit at sea, and then jurisdiction was extended to a 12-mile limit. Some nations are now claiming jurisdiction for two hundred miles off their coastline and the U.S. is considering the establishment of a claim for some distance at sea. Our federal government is exercising jurisdiction over oil well drilling far beyond the old 12-mile limit. The possibility is being discussed seriously that the U.S. actually extends to the

edge of the continental shelf, which is a long way out at sea. One authority has said that the term "within the Continental Limits of the United States in a marine policy is fraught with so much ambiguity as to be beyond reasonable definition." There is at least one court case which holds that the three-mile limit is no longer a definition of the territorial limits of the U.S.

It is important when describing territorial limits in a marine policy to make certain that the description says precisely what is meant. The intent may be to cover shipments at sea between domestic ports of the U.S. That should be stated carefully and specifically if that is the intent. Any intent to limit coverage to a specified distance off the shores of the U.S. should also be stated specifically as applying to a space within a stated number of miles from the nearest land in the U.S.

Some transit policies specify a radius of operation. This is typically a provision of motor truck cargo policies. There have been cases where an insurer tried to interpret this as meaning the distance by highway miles. The more generally accepted interpretation, however, is that a radius of operation is the geometrical radius unless it is stated otherwise in the policy.

Negligence on the part of an insured is very likely to negate coverage under a policy. An interesting case in New York involved a car float on which there were thirteen gondola cars. The railroad's employees were to load the gondola cars with steel reinforcing rods. It was found during the afternoon that the car float was down at the bow with a freeboard of less than ten inches and with a list to port.

Employees also found that water was leaking into several compartments of the car ferry. However, they continued loading the cars with 800 tons of steel, knowing that the car float was supposed to be towed during the night.

During the evening the car float's bow continued to settle, and this was reported to the railroad office. The crew of the tugboat that had been dispatched to move the float saw the situation when it arrived and refused to attempt a tow. A short time later the gondola cars broke their chains because of the list and rolled off into the river. The railroad made claim against its insurer for a loss from perils of the sea.

The court decided that the loss was not from perils of the seas but was from gross negligence on the part of the railroad. In the face of a series of warnings and complete knowledge of the situation, the railroad crew continued to load a listing car float with heavy steel cargo. The float became unseaworthy because of the gross negligence of the railroad's managing employees.

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ERISA trusts . . .

Continued from page 1

the association while the issue is before a federal court.

It has been suggested the state action is merely designed to collect premium taxes. But Frederick Berry of the state insurance department dismisses that allegation, saying Arizona's concern is for the thousands of members who may be hurt if essentially unregulated trusts fail.

Mr. Berry said the department has a letter from former U.S. pension and welfare plan administrator James Hutchinson that Common Market is not an ERISA trust.

The Arizona department has also contended that Common Market's rate structure is inadequate and that it is in hazardous financial condition. Common Market denies the allegations.

Texas, where the trust is also under investigation, believes documents it has examined show three rate increases in the last seven months. However, Mr. Kunz said there have been only two increases in the \$48-a-month rate for the state. A 3.5% increase was put into effect in September and an increase to \$78 a month followed Jan. 1.

In addition to the action in federal court, the Arizona department has brought administrative action to revoke Frank Barry's license. A charge that Mr. Barry was operating an insurance company without proper approval has been deferred pending the court decision. The department also attempted to revoke Mr. Barry's license on the grounds he had been arrested on a burglary charge in 1964, later pleading guilty to petty larceny. However, Mr. Barry had informed the department of that conviction in a 1971 letter and the department agreed to dismiss the charge since it had failed to take action earlier.

Bellevue, Wash.

Four employe benefit trusts with identical benefit and rate structures have been linked to Bellevue, Wash., and Protective American Life Insurance Co. Particular concern has been voiced over the trusts' high commission structure.

The trusts involved are Employee Security Benefit Assn. (ESBA) of Bellevue, Wash.; Continental Employe Benefit Assn. of Lakewood, Colo., and National Business Conference Employe Benefit Assn. of Portland, Ore. The fourth trust, Protective Benefit Assn., was formerly administered by Frank Barry and Al Haney of Common Market.

The Montana department of insurance has begun action against Employee Security Benefit Assn. (ESBA), according to the department's chief counsel, Charles Erdmann. Colorado insurance commissioner J. Richard Barnes has filed suit against Continental, which is now pending in state court. Both suits seek state regulation of the trusts.

Three of the trusts—ESBA, Continental and National Business Conference—have service agreements for premium collection, actuarial work and claims handling with a corporation known as Benefit Services Corp. Benefit Services Corp., incorporated Jan. 20, 1977, has a contract with Protective American Life for computer services. Arthur M. Quine is president and Scott Straus is vp of Protective American Life; Mr. Quine and Mr. Straus are the only directors listed in papers filed with the Washington secretary of state for Benefit Services Corp.

Although Mr. Straus insisted the services corporation and the life insurance company are completely separate, they were operating from the same telephone number when *Business Insurance* contacted the two firms.

The trusts are recent creations. Duane Tresham, ESBA administrator, said his association was formed Dec. 1, 1976. Donald C. Kuhre, administrator for Continental, formed his trust at the end of 1976. Protective Benefit Assn. was established Oct. 1, 1976.

The trusts apparently are hoping for rapid growth. John Miller, an official with National Business Conference, said his trust covers several hundred lives in six states but hopes to expand into 30 states by the end of February.

The exact origin of the identical benefit and rate package used by the trusts remains in dispute. The three association officials said they are using a plan originated by Protective American Life Insurance Co. Continental's Donald Kuhre said he approached Protective American because he had been told that their plan had a good track record. Mr. Kuhre said specifically he had no plan of his own when he contacted the life insurance company late last year.

But Scott Straus denied the package has anything to do with the life insurance company. He said the plan is similar to the major medical policy being marketed by Protective American Life. (According to the A. M. Best & Co. rating service, premium income at Protective American Life skyrocketed six-fold to \$960,000 in 1975 from \$158,000 in 1974 with the company's entrance into the accident and health insurance field.)

Protective American Life's Mr. Straus traced the origin of the package being used by the trusts to a meeting he held last year with Al Haney, an old friend of his. Both Mr. Straus and Mr. Haney at one time worked for Equity Educators Assurance Co. based in Denver, Colo. (Equity Educators was placed in receivership in June 1975, long after Mr. Straus had left the company.)

Mr. Haney saw the Protective American Life major medical policy on a trip to Bellevue, Mr. Straus said. Mr. Haney was apparently impressed by the package and inquired about the possibility of becoming an agent for Protective American. Mr. Straus said he then received a phone call in which Mr. Haney said he had an organization named Common Market which would be interested in using the policy in connection with another employe benefit trust.

Mr. Haney then drew up a trust program based on the major medical policy, Mr. Straus said, adding "I helped him put the finishing touches on it." The trust, called Protective Benefit Assn., began negotiations with Protective American Life on a service contract, but those talks were not successful and no relationship was ever established with the company, Mr. Straus said.

When contacted by *Business Insurance*, Mr. Haney said he knew Protective American Life was marketing an attractive package and that was the origin of PBA's structure. BI was unable to contact Mr. Haney for further comment on Mr. Straus' account of the origin of the package.

Frank Barry and Mr. Haney severed their relationship with Protective Benefit Assn. Feb. 1 on the advice of their attorney, Don Kunz. Mr. Kunz said the decision

was purely tactical and was designed to give insurance departments only one organization as a target. Protective Benefit Assn. was originally based in Bellevue but is now reportedly operating out of Ogden, Utah.

Contrary to recollections of the administrators of ESBA, Continental and National Business Conference, Mr. Straus said the trusts came to Protective American Life with the FBA package and asked if the life insurance company could service it. Mr. Straus said he agreed after determining that no changes had been made in the package he had put together with Mr. Haney.

John Miller with National Business Conference said that trust's service agreement had been with the life insurance company and was recently renegotiated with Benefit Services Corp. However, Mr. Straus said he had no knowledge of any contract between National Business Conference and Protective American Life.

Despite Mr. Straus' statements that Protective American Life only provides services to the trusts through Benefit Services Corp., many agents around the country apparently have been told the life insurance company is behind the trusts in an effort to enhance their credibility.

One agent wrote the Montana department of insurance that he understood ESBA was a subsidiary of Protective American Life Insurance Co. Another agent in California was told the actuarial work for the trusts was done by George Lilly of Chicago. Even Mr. Tresham of ESBA said the trust's actuarial work was done by Mr. Lilly.

George P. Lilly of Lilly & Associates in Chicago is the consulting actuary for Protective American Life. However, he said he had never done any work on trusts, had never heard of Benefit Services Corp. and had not authorized use of his name in connection with any trusts. He also said any trust plan must have somewhat different underwriting assumptions than the individual accident and health policies he did work on for the life insurance company.

Much of the concern about the four trusts linked to Bellevue centers on their commission structure which a half dozen other trust administrators said was significantly higher than was traditional. Agents selling these four trusts are paid 25% on first year business, with additional commissions paid to general agents and the marketing organization.

One source in the trust business estimated 50% of the first year premium would be available to pay claims. The Montana department of insurance estimates 40% only of every premium dollar is available for claims and another trust administrator put the figure even lower.

Donald Kuhre of Continental confirmed that between 50% and 60% of premiums are used for commissions and administration, leaving between 40% and 50% to pay claims. Mr. Tresham of ESBA said 50% goes to pay commissions, leaving 50% for claims, although the fees charged by Benefit Services Corp. are paid from the 50% assigned to claims. (Mr. Straus would not disclose the fees charged by Benefit Services Corp.)

Other trust administrators and several insurance company officials questioned the commission structure for these trusts. Richard Biles, who administers a Los Angeles-based insured trust, said his trust pays only 10% to the agent, 5% to the general agent and uses

5% for administration. Ed Getoor, administrator of two trusts in Spokane, Wash., said his trust uses 35% of first-year premiums to pay all commissions and administrative expenses, leaving at least 65% to pay claims. By deferring compensation, Mr. Getoor said he had cut the actual commission and administrative expenses to 17.5%.

Hirsch Markufeld, vp in charge of group sales for Fireman's Fund Life Insurance Co., said a well-run trust should be using between 60% and 80% of premiums to pay claims. He said 60% was probably too low, but that 80% was probably impossible to achieve.

The commission paid agents in the second year of business for the trusts declines to 5%. But Tom Tennant, vp for group sales at Pacific Mutual Insurance Co., said employe groups participating in such trusts have a very high turnover, averaging 2.5% a month, or a complete turnover every 3.5 years. Thus, trusts with high first-year commissions would have permanently high acquisition costs.

Mr. Straus and the other trust administrators whose groups are being scrutinized vigorously defended the commission structure. Mr. Straus wondered what the critics would have the trusts do with the interest earned on the excess reserves that would be available with a lower commission structure. Mr. Tresham said safeguards such as waiting periods for coverage had been incorporated. Mr. Kuhre said savings were possible since there were no stockholders to be paid.

National Employers Foundation

The alarm over self-funded employe benefit trusts has been sparked by the bankruptcy of the National Multiple Employers Foundation. N. J. Dollwet, administrator of the trust and president of N. J. Dollwet & Associates, at first said he would be happy to tell his side of the story. But after checking with his attorney he said he "cannot discuss the matter with the press at this time."

The National Multiple Employers Foundation was originally founded in Boston in 1970 as CSI by Gerald E. Webb, a former vp at Fireman's Fund Life Insurance Co. in charge of ordinary life sales. According to papers filed Feb. 3 in federal bankruptcy court as well as Foundation promotional material, the trust moved to California in 1971 and changed its name to the National Multiple Employers Foundation. Mr. Dollwet acquired 100% "ownership" of the Foundation on June 1, 1975, although Gerald Webb remained a consultant to the Foundation and vp of N. J. Dollwet & Associates.

The California department of insurance had brought charges against Mr. Webb alleging he was passing information and receiving commissions from an insurance agency while with Fireman's Fund. The charges were dismissed in January after the state's major witness died.

The state attorney general's office also filed charges against him in Los Angeles superior court in March 1975. Those charges alleged Mr. Webb and other officials of American Medical Services Inc., a prepaid health plan, were falsely telling prospective clients AMS was still in business after it had become insolvent. Those charges were still pending in late February.

Business Insurance learned the Department of Labor has begun an audit of the National Multiple Employers Foundation, although the department would not confirm or deny that fact. One source close to the audit said the Founda-

tion's deficit may reach \$3 million. According to the bankruptcy papers, the Foundation had assets of \$106,000 with unknown liabilities. Monthly premiums for medical and dental coverage were reportedly \$1 million.

The Foundation apparently experienced rapid growth in 1976 after the Illinois insurance department forced Old Republic Life Insurance Co. to stop writing multiple employer trust business. Old Republic's trust business had skyrocketed from \$4 million in 1974 to over \$60 million in 1975 and the company became insolvent. As a result, thousands of trust policyholders left without coverage and many administrators moved to the self-funded Foundation.

Mr. Getoor, administrator of the American Salesmen's Assn. Trust and American Business Assn. Trust, was one of those who had been insured with Old Republic. He moved his business to the Foundation after being assured there would be monthly loss reports, bonding and reinsurance arrangements. Mr. Getoor and other administrators were to serve on an advisory board for the Foundation.

Despite the pressure from Mr. Getoor and others, the Foundation failed to provide monthly loss reports. Mr. Getoor also said he became concerned when he realized the Foundation was taking in "shakey blocs of business." Mr. Getoor stopped sending new business to the Foundation in November and pulled out entirely at the end of 1976. He has promised his trusts that he will guarantee all claims not paid by the Foundation.

Mr. Dollwet wrote the Foundation's trustees Jan. 17 that "due to a combination of extraordinarily high utilization rates and what we believe to be a wrongful cancellation of stop-loss coverage, the National Multiple Employers Foundation is unable to honor the majority of claims presented since mid-November 1976."

The foundation's reinsurance had been placed with Safety Mutual Casualty Corp. in St. Louis. According to E. Lewis Werner Jr., vp, the insurer's first contract with the Foundation was effective in April 1975. The contract was agreed to on what Mr. Werner called a "skeleton basis" with additional information to be furnished by Mr. Dollwet.

Mr. Dollwet never provided the information on claims and the number of lives in the Foundation, Mr. Werner said. The Foundation also fell behind on premium payments, and Safety Mutual cancelled the contract in August 1976 with only \$170,000 of an estimated \$360,000 in premiums received.

Three members of the Foundation, including Mr. Getoor, went to St. Louis on Dec. 20 in an attempt to reinstate the coverage with Safety Mutual. The insurer's Mr. Werner said the company offered to reinstate similar coverage, but that the administrators later did not accept the offer.

After losing the Safety Mutual coverage, Mr. Dollwet apparently placed a reinsurance contract with Contract Life Insurance Co. of Scottsdale, Ariz., a company owned by Gerald Webb, the bankruptcy papers indicate. According to the chief examiner for Arizona, Contract Life was limited to reinsuring \$3,000 of life insurance per person thus making a reinsurance contract for health coverage invalid.

Mr. Getoor said the contract between the Foundation and Contract Life may be the basis for a suit he intends to file against Mr. Dollwet. Contract Life Insurance Co. received a major infusion of capital in early February, according to the Arizona department.

Anchor Hocking . . .

Continued from page 1
mium taxes on group insurance. That program with Travelers was changed from an insured plan to a minimum premium (self-insured) plan with administrative services provided by the insurer. Mr. Heydinger achieved cash flow reductions of \$176,000 in group insurance, with \$1.1 million added to the compensating balance fund in casualty.

Anchor Hocking uses Marsh & McLennan for its group and casualty insurance and Alexander & Alexander for its property insurance.

In addition to the annual renewal effort associated with the Travelers group and casualty program, the fire insurance program underwent a competitive renewal (savings \$89,000); limits were increased fourfold on the company's D&O insurance policy (premium remained \$19,600), resulting in Mr. Heydinger's "estimated" savings of \$4,000 based on how much he thought the premium would rise; limits were raised on the corporate aircraft liability plan; seven new exposures were evaluated and insured, and six other policies were renewed.

Mr. Heydinger also evaluated two new exposures which did not result in the purchase of additional insurance.

Competitive renewal of the fire program pitted Factory Mutual against the incumbent Factory In-

surance Assn. (part of Industrial Risk Insurers). The outcome was a 12% reduction of current rates (amounting to \$60,000 savings in 1977) and waiver of a few past premium adjustments. F/A kept the account.

Continuation of Anchor Hocking's self-insurance program in Ohio through 1977 reduced workers' compensation costs for the company by \$200,000. Mr. Heydinger uses the firm of Merriman & Sutherly in Columbus as claims administrators. Workers' compensation excess coverage was also renewed with Travelers at existing rates and loss retentions.

"Upon comparing our relatively low retention and premium level with other Ohio (businesses), we believe our savings were approximately \$20,000 a year," said the director of risk management and retirement.

Directors' and officers' liability insurance is with Harbor Insurance Co. (primary) and National Union Fire Insurance Co. (excess), brokered through Marsh & McLennan.

Aircraft excess liability coverage was doubled to \$80 million "for a premium comparable to that paid in 1974" for half that, according to Mr. Heydinger.

The first renewal of Anchor Hocking's crime policy underwritten by American Home was negotiated at a savings of \$2,300 a year, with premiums at \$26,600.

Another first-time renewal involved fiduciary liability insurance with National Union. Premiums again dropped, this time by \$500 a year to \$7,600.

Anchor Hocking pays \$191,000 for its three-year long term disability coverage with Buckeye Union Insurance Co. renewed last year at existing rates "despite a less than favorable loss ratio," said Mr. Heydinger.

Meetings with Philadelphia Manufacturers Mutual Insurance Co. on renewal of the boiler and machinery program "led to a small increase in deductibles rather than substantial premium increases sought to overcome a three-year loss ratio of 167%," according to Mr. Heydinger's report. "We believe this effort thwarted a rate increase of 20%, or \$14,000."

Among the new exposures evaluated and added to corporate insurance policies were the newly constructed Newark plant and the company's retail store here. Because the Newark plant is in a new industry for Anchor Hocking—forest products—special arrangements were made for its extra expense exposure, since it supplies other Anchor Hocking plants with materials they need to continue in operation.

New coverages were arranged for the firm's guest home and for the food services operation. Added surety bonds were purchased from Chubb & Son for various operating units, and a "first class mails" policy was obtained, covering securities lost in the mail. This last policy is used mostly by Anchor Hocking's financial operations. Since the crime bond has a mails exclusion, the policy was needed for the several times each year when securities are mailed.

Product recall insurance was explored and "determined inappropriate," as was insurance for Anchor's oil and gas exploration risks.

Political risks are currently being evaluated by Alexander & Alexander, with quotations being revised for a potential insurance program, said Mr. Heydinger. Anchor Hocking is already purchasing political risk loss prevention services from Control Risks Ltd. in London.

In the group benefits field, Mr. Heydinger characterized 1976 as "pretty much the same" as previous years, with no drastic changes in coverage. Anchor's benefits are



Production of the Anchor-LITE combination glass-plastic container was expanded in 1975 to include Anchor Hocking's Jacksonville, Fla. and Waukegan, Ill. plants

relatively generous in the health insurance area, covering reasonable and customary charges, full semi-private room costs for hospital care, with a \$100,000 lifetime limit.

Mr. Heydinger is currently studying possible benefit changes in two areas: addition of a 100% contributory supplemental life insurance program, and possible addition of a payroll deduction group auto insurance plan for salaried employees.

"We did a survey of our own among employees and found pretty good interest" in the group auto plan, said Mr. Heydinger.

Mr. Heydinger's risk management department consists of six people responsible for risk management supervision, comp claims administration, risk analysis, group claims administration, insurance clerical and secretarial work. His chart of organizational structure for the department says safety and security are the responsibilities of the corporate safety director, who reports to the vp of industrial relations.

Fire loss prevention, however, is the responsibility of risk management.

OSHA compliance is the combined responsibility of the cor-

porate safety director and the labor attorney.

EEOC compliance is the combined responsibility of the minority affairs department and the labor attorney.

Product safety is the responsibility of the operating units.

During 1976, Mr. Heydinger's report details, 17 man-days were spent in eight different Anchor Hocking plants to monitor insurance procedures and conduct general inspections. In several cases, Mr. Heydinger felt problems which needed solving arose from not taking proper advantage of insurers' services or from a deficiency of an outside service organization.

At one major plant, for example, where Mr. Heydinger and his assistant, Jim Hill, spent several days last year, changes will probably be forthcoming during 1977 as a result of close scrutiny of the operation's workers' compensation claims control procedures.

At another plant, the two men met last year with Travelers to discuss methods of controlling that plant's increasing claims frequency. Following a reduction in the workforce there, more claims were filed. Mr. Heydinger said they ended up re-establishing a method of red-flagging workers and accidents causing the most claims. ■



Harvest Amber and Contemporary Crystal—new additions to the Tableware line that reflect Anchor Hocking's philosophy of providing the consumer with fashionable and functional glassware at reasonable prices

Ohio self-insurers cost up 76%

COLUMBUS, OHIO—Workers' compensation costs per employe rose 76.5% for Ohio self-insurers between 1971 and 1975, a study conducted by the Ohio Self-Insurers Assn. revealed.

In the same period, costs per man-hour rose 75% for the 21 industrial companies responding to the mail survey begun last fall by OSIA. The survey was sent to 110 Ohio companies, drawing 31 responses that were narrowed to 21 "compatible firms," said Dick Heydinger, director of risk management and retirement for Anchor Hocking Corp., Lancaster.

This was the first survey of its kind conducted by OSIA for its members.

In 1975, workers' compensation costs for the 21 companies exceeded \$7.8 million, an 80.5% rise in the one year reporting period, the study found. Nearly \$31 million were paid in workers' compensation funds by the 21 self-insurers over a five year period.

Total costs include benefits paid and administrative costs, Mr. Heydinger said.

Paid benefits—the amount of loss dollars—almost doubled (a

98.5% increase) between 1971 and 1975, findings showed.

"In 1971, the losses amounted to \$2,956,802. In 1975, that figure stood at \$5,869,224," said Heydinger.

The industries represented were metal fabricating, iron foundry,

retail drugs, public utilities, forestry products, steel and aluminum manufacturing, petroleum, machinery manufacturing, communications, raw materials handling, engine manufacturing, paper products, and other miscellaneous manufacturing. ■

Years	Losses	Admin. and other costs	Total
1971	\$ 2,956,802	\$1,407,102	\$ 4,363,904
1972	\$ 3,548,400	\$1,693,268	\$ 4,241,668
1973	\$ 4,263,640	\$1,797,963	\$ 6,061,603
1974	\$ 5,316,188	\$1,915,841	\$ 7,232,029
1975	\$ 5,869,224	\$2,008,528	\$ 7,877,752
5 yr. Total	\$21,954,254	\$8,822,702	\$30,776,956

INTERPRETATION OF SURVEY RESULTS

1. Increases in Costs vs. Exposure

Years	Manhours Increases	no. of Employees Increases	Paid Benefits %	Increased Total Costs %	Cost Per Manhour	Cost Per Employee
1972	Base	Base	Base	Base	Base	Base
1972	+13.8%	+ 9.2%	20.	19.5	5.	9.4
1973	+18.7	+11.1	44.2	38.9	17.1	25.1
1974	+18.7	+11.4	79.8	65.7	39.6	48.7
1975	+ 3:1	+ 2.3	98.5	80.5	75.0	76.5

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(Subscriptions cannot be entered unless all information requested is provided.) ORGANIZATION: (Check one only)

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- Less than 150 empl. 250 to 299 empl. 1,000 to 2,499 empl.
 150 to 199 empl. 300 to 499 empl. 2,500 to 4,999 empl.
 200 to 249 empl. 500 to 999 empl. Over 5,000 empl.

- Government Association Union Educational Institution
 Insurance Agent Broker
 Insurance Carrier
 Bank Investment Company Financial Advisor Credit Agency
 Actuary Attorney Adjuster Appraiser Consultant

OTHER _____ (Specify)

INDIVIDUAL: Are you involved in the selection, procurement or in authorizing the purchase of group life or health insurance, property or liability insurance, safety or asset protection programs, pension or profit-sharing plans for your organization? YES NO

I would prefer not to receive information and advertising by mail from companies not affiliated with Grain Communications.

people

Gladden joins Harris; Currey to GAF Corp.

William J. Gladden, 31, joined the treasury department staff of Harris Corp., Cleveland, as manager of casualty insurance. He replaces **Richard A. Siegrist** who joined Owens-Illinois Inc., as earlier reported. Mr. Gladden, who reports to **A. L. Collins**, manager of insurance and pension programs, was corporate insurance analyst at Emery Industries Inc. No replacement for him there has yet been named. At Harrison, Mr. Gladden is responsible for the entire corporate casualty program including overseas operations. He will also provide underwriting information for insurance companies and be responsible for contacts with brokers.

Ernest C. Currey, 45, joined GAF Corp.'s personnel department as manager of employe benefits, reporting to **George Doukas**, director of corporate benefits. He was formerly employe benefits supervisor at Eastern Airlines. No replacement there was named.

Richard E. Grimord, 53, was promoted to assistant treasurer of Rexnord in Milwaukee. He was corporate director-insurance and contracts. In his new position he will assume additional treasury responsibilities in addition to administering Rexnord's insurance program. Rexnord produces me-

chanical and hydraulic power transmission components and other specialized machinery.

Ron Lawless, 30, is the new insurance manager for First City Bancorporation, a holding company of 24 banks in Texas. The position was held by **Vincent Williams**, insurance manager for First City National Bank of Houston. Mr. Williams left the insurance industry. Mr. Lawless was with Transcontinental Gas Pipeline Corp. and Employers Insurance of Wausau. At First City, where he reports to the treasurer, he is responsible for the corporation's casualty program, specializing in placement of bankers' blanket bond and directors' and officers' liability insurance. The corporation is in the process of consolidating these coverages, administrative services and claims handling for all 24 banks, he said.

August Janik, former insurance manager with Geosource in Houston, has joined Corroon & Black brokerage firm as manager of the marine department. At Geosource, he was replaced by **Ernest C. Hundal**, as previously reported.

Richard F. Lee, 48, has been named manager of employe benefits for Glazier Bros. of Los Angeles, distributors of candy, tobac-

co, health and beauty aids. In the position, which is new to the company, Mr. Lee will handle Glazier Bros.' employe benefit plan and its \$1 million pension fund. In addition, he will oversee the company payroll. He reports to Edward N. Stanton, senior vp.

Stanley A. Pebsworth, 38, has been named insurance manager at C F Braun & Co. in Alhambra, Calif. He will take over the department with the impending retirement of John A. Parker. Mr. Pebsworth, formerly insurance administrator for the Bechtel Corp. in San Francisco, reports to J. Albert Curran, vp and secretary. W. A. Vreeburg, insurance supervisor at Bechtel, said present staff members will assume Mr. Pebsworth's duties.

James Beltrame, 33, was promoted to assistant controller responsible for all property and casualty insurance programs for Hyatt International Hotels based in Chicago. He also handles some group insurance, although a restructuring of insurance responsibilities resulted in most benefit insurance tasks being taken over by the personnel department. Gary Gooding, vp and treasurer of Hyatt International, formerly was responsible for insurance matters. Mr. Gooding left the company to join another hotel chain.

Otis Elevator Co., New York, hired **James S. Koutsares**, 36, as supervisor, claims administration. Mr. Koutsares, who was formerly an insurance claims supervisor for the Travelers Insurance Cos., will be responsible for all casualty, property and group insurance employe benefits claims at Otis. He replaces John Sinclair, who left the company to work for the American Broadcasting Co. Mr. Koutsares reports to W. Michael McDonald, risk manager.

Ray Hodges, 45, has been named risk manager for National Medical Enterprises in Los Angeles, a new position. Mr. Hodges, previously risk manager for the Hospital Corp. of America in Nashville, Tenn., is responsible for property/casualty and employe benefits. He reports to John Bedrosian, senior vp. National Medical Enterprises' insurance program was formerly handled by Penn General Agencies, which will continue as the firm's broker.

Clifford B. Seltzer, tax manager, and **Jack Cronin**, assistant to the treasurer, have taken over the insurance program at Lane Bryant in New York. The move was made last fall when the company's broker at Marsh & McLennan died, although the firm remains as broker. The Mr. Seltzer and Mr. Cronin are responsible for property/casualty and employe benefits although employe claims are handled by another department.

Norman Hoffman, 54, corporate insurance director for Kane-Miller Corp., Tarrytown, N.Y., has completed all requirements for his BS degree in business administration, which will be conferred by the University of the State of New York, Albany, in March.

Rate increase

PROVIDENCE—Rhode Island property insurers have requested a 40% rate increase for the state's FAIR plan, citing an unfavorable loss ratio. FAIR plan administrator Eugene L. Lecomte said claims losses and adjustment expenses are now running as high as \$4.55 on the premium dollar. Mr. Lecomte is also general manager of the Massachusetts FAIR plan, which recently requested a 50% increase in its rates.

Cos. Inc., P.O. Box 369, Boston, Mass. 02101

Mar. 15-18: New Jersey Institute of Technology—The seventh annual international product liability prevention meeting, will be held at the Cabana Hyatt House, Palo Alto, Calif. Twenty-three professional organizations are co-sponsoring the workshops, including the American Society of Safety Engineers, Assn. of Trial Lawyers of America, National Safety Council, American National Standards Institute and the American Insurance Assn. Cost is \$350 with a \$25 discount for registration before March 2; members of sponsoring organizations pay \$325. Contact New Jersey Institute of Technology, Dept. of Continuing Education, 323 High St., Newark, N.J. 07102.

Mar. 17: An Executive Briefing on Computer Risks: Security, Privacy and Legislation sponsored by the Computer Security Institute in New York City. To acquaint executives with the risks associated with computer use emphasizing computer security and privacy and examining the consequences of inadequate long range planning, management non-involvement and subtle social problems. Cost: \$275. Also offered Mar. 24 in Dearborn, Mich., and Mar. 31 in San Francisco. Contact: John C. O'Mara, Computer Security Institute, 43 Boston Post Rd., Northboro, Mass. 01532.

Mar. 17-20: 1977 National Medicolegal Symposium sponsored by the American Bar Assoc. and the American Medical Assn. in San Francisco. Speakers, panels and workshops will discuss such topics as the social impact of professional liability and remedial legislation in that field, malpractice insurance and national health insurance. Contact: American Bar Assn., 1155 East 60th St., Chicago, Ill. 60637, Attn.: Elizabeth Stein.

Symposium cancelled

The New York Section of the Marine Technology Society has postponed indefinitely its symposium on Insurance and the Diving Industry scheduled for March 7 in New York City. The symposium was announced in the last issue of *Business Insurance* in Dates for Buyers. Coordination problems necessitated the postponement.

Mar. 7-11: Basic Safety Management sponsored by International Safety Academy conference in Houston, Tex. Course I in total loss control management offers guidance in loss control program development and improvement for safety professionals. Tuition: \$380. Contact: International Safety Academy, P.O. Box 19600, 10575 Katy Freeway, Houston, Tex. 77024.

Mar. 8-11: Seminar for reinsurance buyers sponsored by the College of Insurance at the Management Development Institute of General Electric in Ossining, N.J. When and how to effectively use reinsurance will be discussed in 12 separate sessions taught by reinsurance professionals. The seminar fee of \$555 includes room and board costs as well as tuition. Contact: Robert W. Strain, Dean of The College of Insurance, 123 William St., New York, N.Y. 10038.

Mar. 14-15: Scientific Methods for Risk Management seminar in Los Angeles sponsored by the University of Pennsylvania's Wharton School. This and the following two-day seminars are repeats of ones held last fall in New York and Chicago. New methods of decision analysis to put risk management on a scientific basis will be presented. Also offered March 17-18 in San Francisco, March 31-April 1 in Atlanta, April 18-19 in Boston, May 23-24 in Dallas, May 30-31 in Toronto, June 16-17 in Philadelphia and June 27-28 in Hartford. Contact: The Wharton School, University of Pennsylvania, Philadelphia Pa. 19174.

Mar. 15-16: Physical Security Workshop sponsored by the Computer Security Institute in New York City. For computer users to learn how to recognize physical threats and to evaluate cost-effectiveness of alternative protection mechanisms. Cost: \$395. Also offered Mar. 22-23 in San Francisco and Mar. 30-31 in Chicago. Contact: John C. O'Mara, Computer Security Institute, 43 Boston Post Rd., Northboro, Mass. 01532.

Mar. 16: Horizons in Risk Management is the theme of the Massachusetts Risk and Insurance Management Society's eighth annual spring conference in Woburn, Mass. Liability insurance, workers' compensation and risk funding mechanisms will be discussed by panels in the afternoon. Dinner speaker is Paula W. Gold, assistant attorney general and Consumer Protection division chief in Massachusetts. Cost is \$25. Contact: Lawrence J. Babbitt, Stop & Shop

classified advertising

RATES AND CLOSING TIME: \$3.00 per line, minimum charge \$15.00. Cash with order. Figure all cap lines (maximum—two) 30 letters and spaces per line; upper & lower case 40 per line. Add two lines for box number. Replies are forwarded daily. Closing deadline: Copy in written form in Chicago office not later than noon, Monday, 7 days preceding publication date. Published every other Monday. Display classified takes card rate of \$30.25 per column inch, and card discounts on size and frequency. Mail ads to Business Insurance, classified advertising dept., 740 N. Rush St., Chicago, Illinois 60611.

HELP WANTED

Group Insurance Director for a Baltimore/Washington headquartered nat'l trade assn. Requires exper. in marketing and admin. of large member health and accident group insurance plan. Supervisory skills needed. 20% travel on an as-needed basis. Marketing and promo. capabilities essential. Insurance plan and assn. membership currently exper. 15-20% annual growth. Compensation will be based on qualifications and abilities. Forward resume and salary requirements.

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740 Rush St., Chicago, Ill. 60611

MARKETING MANAGER

National service company in the field of workers' compensation seeking individual capable of managing sales force. Duties will include directing sales, sales planning and market research. Candidate must possess strong workers' compensation background, and be experienced in all casualty lines. Excellent package of fringe benefits and salary commensurate with qualifications. Please send resume with salary requirements to

Box 834, BUSINESS INSURANCE
740 Rush St., Chicago, Ill. 60611

RISK MANAGER

Rhode Island Hospital, a 700-bed private, non-profit hospital has need for a Risk Manager to develop and direct a risk management, loss prevention and control program. Candidate should possess a college degree and have previous experience in on or more of the following: risk management; casualty, claims, engineering and loss control in an insurance company or brokerage firm; insurance management; hospital administration and law. Abilities should include analytical skills to readily grasp existing insurance and administrative systems and procedures; to organize, design and implement risk management procedures; and to effectively communicate with patients, medical staff, management, brokers and insurers. Information in strict confidence. Please forward resumes indicating salary requirements to:

Personnel Manager
RHODE ISLAND HOSPITAL
593 Eddy St.
Providence, R. I. 02902

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UNIQUE OPPORTUNITY FOR EXPERIENCED RISK MANAGER

The Farm Credit System is made up of some 1,000 corporations which loan over \$30 billion to farmers. It recently established a Denver-based administrative service organization—Farmbank Services—which has been charged with implementing an insurance service. The System currently handles annual premiums, etc., exceeding \$100 million.

Farmbank Services is seeking an experienced risk manager to develop and implement the Farmbank Insurance Service. He shall have full responsibility for identifying opportunity, developing the start-up and operating strategy, planning, organizing, and directing the Service. Candidates should have a successful risk management background and the personal characteristics of a CEO. Starting salary will be geared to the applicant's experience base and expected early results. Present background details and reasons for interest by March 1, 1977, to:

Mr. Frederick E. Wagner, Executive Manager
Farmbank Services
4700 Oakland Street, Suite 110
Box 39088
Denver, Colorado 80239

Risk & Insurance Analyst

Emery Industries, a leader in the chemical industry with corporate offices in Cincinnati, is seeking a Corporate Risk & Insurance Analyst.

Responsibilities include developing various risk treatment programs, including insurance, to adequately indemnify the company for loss or damage to assets or productivity from other than speculative or business risks. Requirements are an undergraduate degree and several years of risk and insurance management experience.

This position offers a full company paid benefit programs with immediate profit sharing plan and relocation.

We encourage you to investigate this opportunity by forwarding a confidential resume including salary history to the Salaried Personnel Department.

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1300 Carew Tower
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An equal opportunity
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We figure this man is worth \$72,000,000.



It's 5:30 on a Friday afternoon. And if this maintenance man forgets to check the sprinkler valves before he locks up for the weekend, the \$72,000,000 factory he works for might not be there on Monday morning.

At Arkwright-Boston we know that insurance is only a back-up system. The companies we insure have excellent loss prevention records because they have excellent loss control management programs. We have the toughest standards in the business.

In fact, it happens sometimes that we demand a better program than a company is willing to set up. And sometimes it costs us a client. But we'd rather lose a piece of business now because we demanded too much, than a whole factory later because we demanded too little.

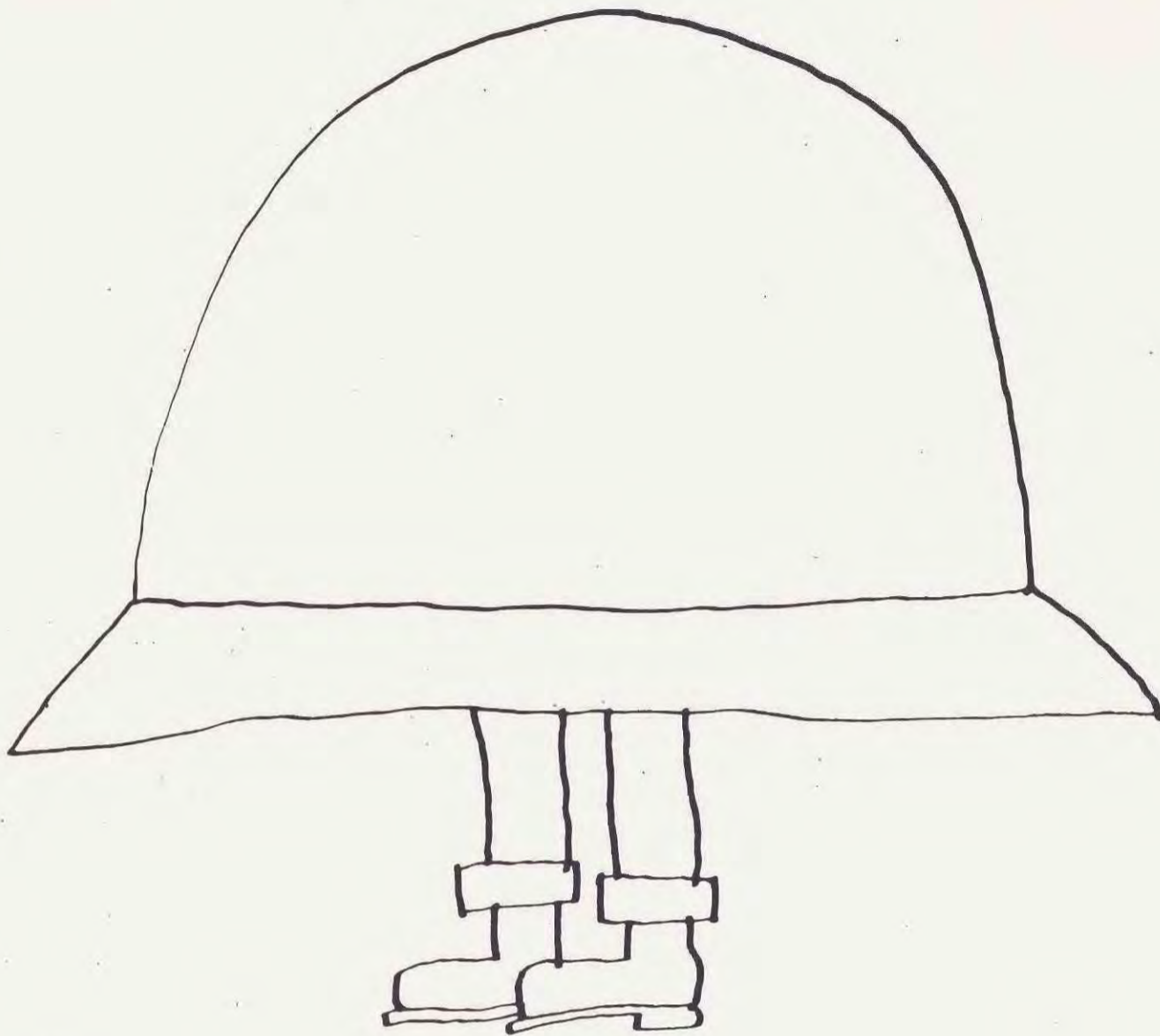
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But not with your company's insurance.

At American Mutual, the only "size"
insurance is the right size for you — and we

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Insurance that fits — and works — because
we deal direct. That's the American way, the
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