



Schools page 24

Vandalism losses have risen to the point where school systems are turning to tougher loss control measures and more self-insurance for policies covering such malicious mischief. Premiums for school coverage are low now, although a replay of the late-1960s property insurance crunch may lie ahead.



Group package page 36

The Northeastern Loggers Assn. put together a comprehensive insurance package for its members. Automation is making the industry a more attractive risk.



Marine profile page 30

Safety, loss control and self-insured retentions are top priority for Walter E. Beaumont, the risk manager for Foss Launch & Q Tug Co., Seattle. The Alaska pipeline is keeping things humming for Foss these days.



Federal no-fault page 15

Sen. Warren Magnuson is pushing for a federal no-fault law, and it's raising eyebrows in Washington. Insurers and other senators want more hearings on the re-filed S. 354 bill.

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business insurance®

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Benefit plans cost 32.7 cents of payroll \$: Study

NEW YORK—Employee benefits—including health and life insurance, retirement and disability income and severance pay coverage—now account for 32.7 cents of every payroll dollar, up from 25.6 cents ten years ago, according to a study released last week by the Conference Board.

A growing number of U.S. companies are liberalizing their employe benefits, the study reports. It notes two major trends:

- Companies increasingly are paying the full cost of employe benefits.

- More firms are providing the same benefits package to all employes rather than differentiating between white- and blue-collar workers.

"In the next five years," it says, "virtually every company in America with more than a handful of employes will be weighing substantive changes in its employe benefit package. Most of these expected changes will be costly: Adding vesting to give employes lifetime pension guarantees; providing three- and four-week vacations for all employes; agreeing to pay full cost of inflated hospital and major medical insurance for all employes and their families; even adding entirely new benefits, such as dental insurance."

THE CONFERENCE Board study used benefits policies and practices of 1,800 U.S. companies,

representing a broad cross-section of business, as its base. Mitchell Meyer and Harland Fox, compensation specialists for the board, conducted the study.

Major medical coverage has become a standard benefit, with virtually all companies now offering basic hospital-surgical-medical coverage for all employes, the study found. Some 95% of the surveyed firms have major medical programs for their office employes; 85% cover non-office workers. The company pays the full cost of employe coverage in most cases with costs generally shared by the company and the employe for dependents' coverage.

Relatively new types of cover-

ages—such as dental insurance, extended post-hospital care and nursing home care—are beginning to show up in private plans, the study disclosed. About 10% of the surveyed firms were found to offer dental coverage.

Long-term disability insurance benefits have increased dramatically, the Conference Board said. Only 26% of the companies had such plans in 1965. Today, 72% have plans covering managers, 62% cover office employes, and 28% cover non-office workers.

ABOUT HALF of the companies pay all the costs of this benefit, up from 25% in 1965.

The greatest shift in short-term disability insurance, the study showed, is toward providing maximum coverage for more than 26 weeks a year. For example, in 1964, 30% of the manufacturers offered coverage for 13 weeks or less, but the figure has dropped to 15%. Some 20% of the manufacturers now offer maximum coverage of more than 26 weeks a year, up from 5% a decade ago.

About 85% of the companies have pension plans, up significantly over the last decade. The typical plan—providing vesting

at age 45 and after 15 years of service—will need to be revised to comply with the federal pension reform law. Age and service requirements will likely be reduced. Some 80% of the surveyed plans pay full pension costs for all employes.

Savings and thrift plans were provided by 24% of the manufacturers surveyed, up from 6% a decade ago. For every dollar contributed by the employe the company generally adds 50 cents.

Stock-ownership plans also have become more prevalent: 33% of the surveyed firms have them, against 10% a decade ago.

Virtually every surveyed firm provides group life insurance. Three-fourths of the employers provide accidental death and dismemberment riders. Both of these show about the same proportion as a decade ago.

Twice as many firms pick up the full cost of life insurance as did in 1961. About 45% of the firms provide a "spouse's pension" whereby a surviving spouse receives the pension earned by an employe if he or she dies before retirement. Fewer than 10% of the companies offered this type of benefit in 1964.

Continued on page 2

Request of foreign risks pulls only one bid, from CNA

Raytheon seeks terrorism cover

By MARIE KRAKOWIECKI

LEXINGTON, MA.—The Raytheon Co. solicited, and finally received, a quote on terrorism insurance for its foreign warehouses and assembly areas for the Hawk defensive missiles it sells to nine NATO countries and Saudi Arabia, *Business Insurance* learned.

The quote came in earlier this month from CNA, through Frank B. Hall & Co. It capped a two-month search for an underwriter for the risks, some of which have values of up to \$50 million per location in the NATO countries.

When the CNA quote was first submitted, Raytheon did not immediately say whether it would buy the coverage. It was holding out pending review of CNA's renewal proposal for standard coverages it writes for the contractor.

Russell Cooley, Raytheon's insurance manager, said the company's deal with customer countries for the Hawk missiles includes a clause making all shipments Raytheon's risk until the goods are accepted by the buyers. It was only after the contracts were effective that Raytheon, the contractor, discovered its insurance

coverage excluded terrorism.

Then began a massive search for a terrorism carrier, conducted chiefly by Frank B. Hall, although Marsh & McLennan participated on a limited basis.

"This exclusion for terrorism does not appear on any of Raytheon's standard policies," Mr. Cooley said. "Actually, the chance of a loss does not seem great. We have never had any experience with terrorism. But when you have a \$50 million value in one location, without coverage, you had better do something about it."

Tankers: Ultra-large risks

Noel Mostert wrote "Supership" to describe problems accompanying the evolution of the super-tanker. The issues he describes are called to the fore in a disaster like the Delaware River crash of a cargo vessel into an oil tanker. Can shipping accidents be prevented? Marine loss prevention methods are the subject of an article on page 38, a review of Mr. Mostert's book is on page 39.

HE EXPLAINED that matters were complicated when Frank B. Hall conducted the search for a terrorism carrier, because some underwriters offering the coverage wanted to write it with a "short hour duration" clause of 24 hours which Raytheon found totally unacceptable.

Nearly 40 underwriters were on the list of prospects which Frank B. Hall worked from to get the terrorism quote for Raytheon.

Details of the coverage were not immediately forthcoming. "If we decide to buy the coverage from CNA, it will probably be on our overall property coverage with them, which has a \$100,000 deductible," Mr. Cooley said. He added that it was possible the terrorism coverage might carry different terms which had not yet been fully worked out.

Continued on page 2

Fiduciary insurance is sought amid confusion

By MARGARET LeROUX

NEW YORK—Fiduciary liability insurance has made the trip from obscurity to fame in record time.

"Last fall we were hard-pressed to find a market for it," a spokesman for a major brokerage firm commented. "Today it's the hottest item around."

At least six U.S. underwriters are now marketing fiduciary liability insurance: Aetna Life & Casualty Co., GATX Insurance Co., National Union Fire Insurance Co. (a member of American International Group), First State Insurance Co., CNA Insurance Group and Travelers Insurance Co. (See related stories, pages 2 and 10.)

Lloyd's of London also writes fiduciary liability insurance. (*Business Insurance*, Feb. 3.)

The majority of domestic underwriters, however, is steering clear of the market. "The subject is too cloudy, too indefinite at

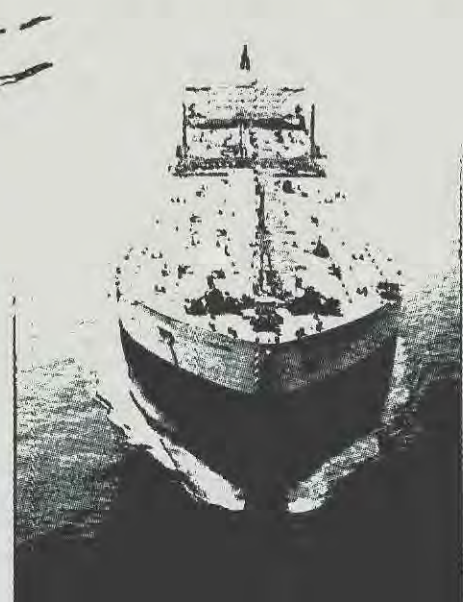
this point," a Kemper Insurance Group vp noted.

Some confusion stems from the wording of the Employee Retirement Income Security Act (ERISA), which says a benefit plan fiduciary may buy insurance to cover his liability "from and for his own account." The law also says an employer or employe organization may take out insurance to cover the liability of fiduciaries of its employe benefit or pension plan.

BUT THE ACT also provides, with minor exceptions, that any provision in a policy which would relieve a fiduciary from personal liability violates public policy, and would be void.

The Labor Department has yet to issue a definitive statement regarding the legality of purchasing indemnity coverage for pension or employe benefit plan fiduciaries, which by definition would relieve them of personal liability.

Continued on page 12



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Rule due on using plan assets for fiduciaries

WASHINGTON—The Department of Labor will issue a statement shortly indicating whether fiduciaries can insure their liability using plan funds to pay the premium, *Business Insurance* learned.

Mike Gordon, minority counsel for the Senate subcommittee on labor, said "Some sort of statement probably saying, in effect, it's okay to buy fiduciary liability insurance for fiduciaries does not meet the spirit of the law."

And one area where the spirit of the pension reform law may be violated, Mr. Gordon said, is in excluding recourse provisions.

A spokesman for Travelers Insurance Co. said "There's a movement underway to have the Labor Department rescind that part of the law."

"I don't see why the recourse provision is so horrible," Mr. Gordon responded. "The primary

purpose of the recourse provision is to assure that the plans don't subsidize breaches of trust by fiduciaries."

Trying to get around the recourse provision by insuring fiduciaries on a separate policy, paying an amount substantially less than what the fund pays "raises some serious questions," Mr. Gordon said.

In an interview with *Business Insurance's* sister publication, Pensions and Investments, Mr. Gordon noted that the cost of fiduciary liability insurance may lead to a Congressional investigation.

"We've had complaints from smaller corporations saying the insurance is so costly that they'd just as soon discontinue the plan," he said. "If exorbitant rates are being charged, one of the upshots could be a Congressional investigation."

It is the cost of the protection

which is likely to cause Congress to take a look at the situation.

Mr. Gordon continued, "There might be a recommendation for an amendment to the pension law specifying types of insurance which can be sold and at what premiums."

Raytheon . . .

Continued from page 1

"If there is any message for other risk managers here, it is that they should be aware of potential exclusions for terrorism in their coverage," Mr. Cooley said.

"A seller should avoid the assumption of loss and write it into the contract with the customer. The only reason we didn't do that was because our contract was in force before we realized there was an exclusion on terrorism," he said.

ANOTHER PROBLEM Mr. Cooley anticipated with terrorism coverage is a matter of defining it clearly. "What exactly is terrorism? It is not a peril listed in war risk exclusions. We think there is a difference, and it is something for managements to look at closely now," he commented.

"Many U.S. managers are not faced with high values overseas, so they may not be aware that some underwriters are busily excluding terrorism risks from some of their property coverages," the Raytheon insurance manager said.

"But the inability to get this coverage is great. We had to go all over the waterfront for it."

Benefit plan trends . . .

Continued from page 1

Neither unemployment pay nor severance pay have become much more widespread in the last decade, the study showed. Under 15% of the firms have supplemental unemployment benefit plans for laid-off workers. About 56% have severance pay plans, up slightly in recent years. The typical plan provides two weeks pay for most short-service situations and a week's pay for each year employed (up to 10 or 12 years) for employees laid-off after longer service.

Time off with pay has increased for all classes of employees. Generally, two-week vacations are given for less than 10

years of service. Three- and four-week vacations are usually granted after 10 and 20 years. One-third of the firms surveyed, however, give three-week vacations for less than 10 years service, up from 9% in 1964.

A NEW TREND highlighted by the survey is that more first-year factory workers are receiving two-week vacations, a benefit formerly granted only to office workers.

A typical company now provides nine paid holidays per year, two more than a decade ago. About one-third of the firms surveyed offer 10 paid holidays or more, however, up from 19% in 1964.

Insurer atty. nominated NY regulator

NEW YORK—The former counsel for Intercontinental Financial Corp., a New Jersey life insurance company, was nominated by Gov. Hugh Carey to be the New York superintendent of insurance, succeeding Benjamin Schenck, whose resignation is effective Feb. 28.

Lawrence W. Keepnews, a lawyer who described himself as "active in and around the insurance industry for the past 10 years" is the nominee, subject to confirmation by the state legislature.

Malpractice insurance for New York physicians, whose policies are being terminated by the Argonaut Insurance Co. July 1 (*Business Insurance*, Jan. 27) "will receive top priority consideration," upon his taking office, Mr. Keepnews said.

Recodification of the state insurance laws is another major project Mr. Keepnews hopes to become involved in.

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AHA seeking non-medical malpractice carrier

By ELISABETH M. WECHSLER

CHICAGO—The American Hospital Assn. (AHA) is internationally seeking a medical malpractice underwriter not presently in the field to provide the primary coverage to hospitals for its recently announced reinsurance captive.

"We want to add coverage, not take it away," said James L. Groves, AHA's risk manager, referring to an AHA decision not to negotiate a contract with carriers already offering malpractice policies.

He said he thought Argonaut Insurance Co. and other malpractice carriers would "be relieved" that the more than 7,100 hospitals in the U.S. were being offered a new source for malpractice coverage. (*Business Insurance*, Feb. 10). Staff physicians or doctors under hospital contracts would be covered for work done at participating hospitals.

The AHA captive will essentially assume all liability for the claims made coverage, Mr. Groves explained. Reinsurance for the captive is being sought through "Lloyd's of London and other sources," he added.

"THE REINSURANCE rates are not firmed up," he said. "We have an indicated rate but I don't want it to be firmed up by being publicized," he added. "Also, we don't have the membership's formal permission to proceed."

Whichever national casualty underwriter AHA chooses to provide the first layer of coverage will find the arrangement financially attractive, Mr. Groves promised.

"They'll be guaranteed a profit—about 3% on every dollar of coverage," he said. "And they'll be passing on (to the captive) all the liability legally entitled to in each state."

Mr. Groves said that the AHA is "talking to five or six malpractice underwriters to find out how much first dollar coverage they require and how much they want for that." He explained that the new arrangement will be designed to offer hospitals the same coverage they're getting now, or better if they desire, up to a maximum of \$15 million per occurrence.

The AHA captive will assume \$1 million to \$1.5 million of that risk, Mr. Groves said.

The reinsurance of the captive will be based on a third layer of coverage for the per occurrence coverage as well as stop/loss coverage for the captive itself, he explained.

"For example, if the loss fund (captive) reaches \$100 million, we'll be purchasing \$162.5 million in excess of that," Mr. Groves said, emphasizing "if we can purchase that much."

"WE WANT TO get the insurer of the \$12.5 million per occurrence coverage—that's gravy—to pay at least \$12.5 million of the loss fund coverage," Mr. Groves said.

All details of the new arrangement including the cost of the captive's reinsurance and the designation of the primary insurer will be determined by May 17 when the AHA meets again. At that time a formal vote will be taken on the dues supplement, expected to range between \$1 and \$4 per hospital bed, Mr. Groves explained.

The one-time assessment will provide the AHA with about \$2.5 million in capitalization, he continued.

As yet, the location of the captive is not decided, though accord-

ing to Mr. Groves, Colorado and Bermuda have been ruled out as possible domiciles.

COLORADO WAS eliminated as a possibility "in spite of its captive law," Mr. Groves said, "because a captive must be owned by its membership and much of our income is paid by Social Security and Blue Cross, and the hospitals couldn't afford the non-reimbursable expense." Also, Colorado's captive law would exclude participation by state- and municipal-owned hospitals, he added.

Mr. Groves went on to explain that Bermuda was rejected as a domicile possibility because "we don't want the federal government getting queasy about our captive. Anyway we don't have the tax problems that make Bermuda attractive to others."

As details for the captive are finalized, an interim solution must be found for hospitals in 14 states, including 92 in Louisiana, whose malpractice policies with Argonaut will terminate on April 1.

"If we can't extend coverage for an AHA hospital with the same carrier for a few months, we'll try Lloyd's," Mr. Groves said.

An important feature of the proposed set-up, Mr. Groves believes, is that an extension policy will be available to a hospital that plans to terminate coverage because it's going out of business, merging with another hospital or switching to an occurrence-type coverage.

Though he pointed out that termination of coverage was probably unlikely for any of those reasons, Mr. Groves said after payment on three annual installments

was made a hospital would "have coverage on a forever basis."

"The biggest problem is providing coverage at the end of claims made coverage," he said. "A claim that comes in today, based on something that happened five years ago during a claims made policy would be denied by carriers for both the claims made and occurrence type coverage," he explained.

WHEN ALL THE details are worked out, Mr. Groves said the AHA will ask the various state hospital associations if they want to co-sponsor the captive and assess their members for capitalization. "If they do, we'll offer the malpractice coverage to hospitals in either association," he said.

Out of the approximately 7,123 hospitals in the country, all but

about 23 would belong to either the AHA or a state association, he said. About 6,500 hospitals belong to the AHA. A non-member hospital would probably be "a 5-bed clinic" or one that dropped membership with one of the associations because of a bad experience, Mr. Groves said.

The AHA is working with the American Medical Assn. (AMA) to see that as many doctors as possible can be included.

Doctors who are on the hospital's full-time staff or who have compensation contracts with the hospital would be covered for work actually done at the hospital, Mr. Groves said. In addition, doctors on hospital committees would be covered for pertinent responsibilities.

"Possibly, a doctor who is par-

Continued on page 4

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Malpractice carrier . . .

Continued from page 3

tially covered by our policy will find a better deal for his individual coverage than he might otherwise," Mr. Groves pointed out.

The AHA's long-term goal is to help stimulate states laws that will ease the medical malpractice crisis in a more substantive way. The AHA plans to press for mandatory arbitration laws, a workers' compensation-type schedule of benefits (which would lend a no-fault element to settlements, he said) and "equitable statute of limitations" laws.

The AHA is more interested in legislation at the state level than at the federal level because they believe their is more likelihood of passage, Mr. Groves said. Nobody at the federal level wants to get into this issue, except possibly to tack it onto the national

health insurance legislation."

Another long-range objective is upgrading hospital risk management, Mr. Groves said. He explained that AHA staff members have worked for some time on isolating and reducing various types of hospital and treatment risks but their study lacked realistic, detailed statistics.

WITH THE reinsurance captive, an opportunity to gather specific data on related risks will materialize, Mr. Groves explained. We'll have a data bank through loss coding, so we can find out exactly where the loss is occurring and what steps can be taken to reduce it."

"The captive will give us the structure to get out to the field with some real numbers. We can't just tell our membership to be

more careful about emergency room risks; we've got to tell them more precisely where the trouble is," he said, adding that the AHA would hope to have "a tag on it after the first of next year."

"Nobody has been able to put together loss experience statistics," Mr. Groves continued. "We know we've got about \$750 million in hospital-paid malpractice premiums annually, but the carriers apparently haven't broken out bodily injury risks coverage between doctors and hospitals. It's incredible the figures haven't been collected and analyzed before."

At the Washington meeting where the AHA captive idea was announced, the vote to approve the concept was also an informal vote to improve the membership's assessment for capitalization, Mr. Groves said. "We told them we didn't want anyone with reservations about the special dues assessment to vote for the idea and then raise objections later." ■

Expanded ESOP bill emphasizes flexibility

WASHINGTON—A bill to make employe stock ownership plans (ESOP) a more attractive employe benefit was filed by Rep. William Frenzel (D-Mn.).

Rep. Frenzel said presently a standard ESOP incorporates a deferred compensation trust—technically a qualified stock bonus trust alone or coupled with a money purchase pension trust—into the financing process itself.

"In one common technique," he explained, "the employes' trust borrows to invest in the employer corporation. This then allows the affected employes, subject only to the trust paying off the loans, to become beneficial owners of the company's stock."

"The employer corporation ob-

ligates itself to make annual payments into the trust in amounts sufficient to amortize the debt out of tax deductible dollars."

Rep. Frenzel's bill would:

- Provide ESOPs with the same flexibility in making distributions now enjoyed by profit-sharing plans. The IRS has previously ruled that ESOP distributions must be company stock. The bill would allow distributions in cash or other income-yielding instruments.

- Exempt lump sum distributions of income yielding estates derived from an ESOP from any form of taxation, provided the assets are held to produce a taxable second income for the taxpayer or his beneficiaries.

HOWEVER, if the assets are converted into spendable income and not reinvested within 60 days, the uninvested proceeds would be taxed as ordinary income, instead of partially at the lower capital gains rate permitted under present law.

- Exempt payments to an ESOP for financing purposes from treatment as conventional employe benefits for purposes of wage, salary, deferred compensation, or other employe benefit controls or guidelines that might be established under executive order, regulation, or future economic stabilization laws at the federal or state level.

- Remove the present statutory limitation of 25% of covered compensation as the maximum amount an employer can contribute to a qualified employe stock ownership plan when such payments enable the benefit plan to repay stock acquisition debt incurred in connection with meeting the employer's capital requirements.

- Provide a tax deduction to corporations for the amount of dividends distributed either directly as taxable second incomes on stock held in an employe's account or used to repay stock acquisition indebtedness of the employes' trust.

- And establishes a cutoff on further contributions in behalf of any employe when the value of assets that an employe has acquired during his working lifetime through one or more ESOPs exceeds \$500,000. ■



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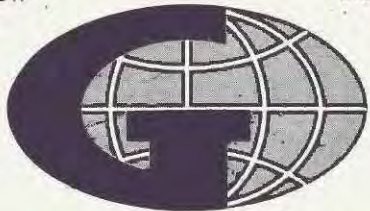
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Political risk OPIC covers top \$400 mil

WASHINGTON—Political risk insurance coverage totalling \$462.7 million was sold in the last six months of 1974 on American investments in developing countries, the Overseas Private Investment Corp. said.

The total amount breaks down into \$160.2 million for inconvertibility risks, \$172.4 million for expropriation risks, and \$130 million for war risks.

THE NEW COVERAGE was written on 69 projects in 25 developing nations.

Insurance buyers during the six months period paid in \$13.5 million in premium, OPIC said, for existing policies.

Insurance reserves at the close of business on Dec. 31, 1974, stood at \$145.9 million after cash settlement of four claims, including the payment of \$34.7 million to International Telephone & Telegraph Corp. ■



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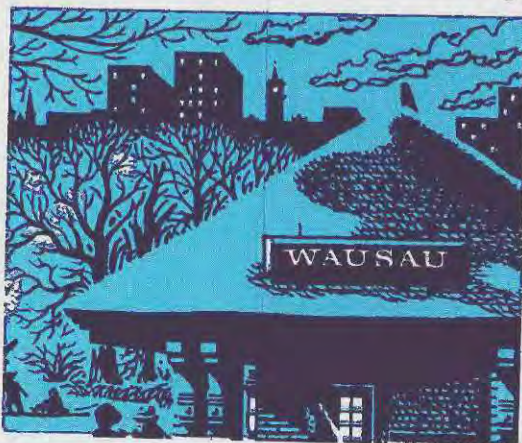
So we prepared a tailor-made safety program in cooperation with Umpqua and the Corps. We formed a team of construction specialists who began by attending preconstruction meetings and continued participating throughout the project. They worked at all levels . . . with management, with the construction crews; they

The plan consisted of jetty repair using 232 million pounds of core stone followed by the application of a wave-defeating armor called "dolosse" . . . huge, interlocking concrete structures that look like cufflinks. Except that each arm is 15 feet long and five feet in diameter, and a single dolos weighs 42 tons. Nearly 5000 were required! And when you start manufacturing, transporting and placing structures like these by the thousands, you'd better have anticipated Murphy's Law (If something can go wrong, it will).

even alerted local medical services. And despite rough seas and other problems that made working conditions "unusually severe, unpredictable, and hazardous", the project was completed with a remarkable safety record . . . not one lost time accident in jetty operations. (Murphy's Law defeated.)

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EMPLOYERS INSURANCE OF WAUSAU Wausau, Wisconsin

City of Madison's insurance fund allows risk management methods

By MARGARET LeROUX

MADISON, WI.—Dennis Tweedale, risk manager for the city of Madison, has a risk management tool that makes his job a lot easier: a \$900,000 insurance fund.

"The fund allows the city to self-insure extensively and use sophisticated risk management techniques," Mr. Tweedale says.

Five basic policies are built around the fund, the risk manager explained: liability, fire and extended coverage, a fleet physical damage policy for city vehicles, boiler insurance and workers' compensation.

The city retains at least a \$25,000 deductible on most of its policies with the exception of

boiler insurance. That policy, underwritten by Arkwright Boston, one of the Factory Mutual companies, has a \$1,000 deductible and a \$1 million limit.

Sentry Indemnity Insurance Co. underwrites the primary layer of liability coverage for the city. Excess layers are insured with the Stonewall Insurance Co. and the total liability limit is \$5 million.

Sentry also underwrites fire and extended coverage replacement value policy and the fleet physical damage policy for the city's vehicles, total value estimated at \$5 million.

The city assumes the first \$30,000 of workers' compensation payments and the excess is insured with Employers of Wausau.

The insurance fund originated in the 1920s when the board of education requested that the city council contribute \$15,000 a year for a five year period to a fund insuring city school buildings against fire and wind damage.

"AFTER THE five years were up, the city council kept making annual contributions," Mr. Tweedale related, "and the fund kept growing.

"We've had phenomenal luck," he continued, "in that minimal losses have been paid from that fund."

The board of education is now separately administered, "though we insure \$80 million worth of its properties," Mr. Tweedale said.

"And the city insurance fund is responsible for the first \$250,000 in losses sustained by board of education properties."

Despite the existence of the fund, insurance coverage for the city was disorganized and haphazard until the 1960s, the city risk manager said.

"No one was looking at the overall risk potential," Mr. Tweedale said. In 1968, a reorganization of the city finance department resulted in the creation of a risk management position first held by Gerald Surfus, who recently became risk manager for the County of Los Angeles.

Under Mr. Surfus, the fund became the basis for building insurance for the city which included, for the first time, excess layers of coverage, Mr. Tweedale explained. "Previously the different city departments budgeted for and purchased their own insurance. These policies were consolidated by the risk management department and

paid out of the insurance fund and the city council's annual contribution to the fund has increased to \$130,000."

The existence of the fund does create some problems, Mr. Tweedale conceded. "It's hard to maintain the integrity of the fund's intent," he said. "If an unusual or unexpected expense comes up, the fund is the first place the city council turns to."

FOR EXAMPLE, in 1971 the city council passed an ordinance granting any police officer or firefighter permanently disabled in the course of performing his job an amount totaling twice his annual salary, "on the average \$25,000."

However, no insurance policy was purchased to cover that risk and when two claims were filed in 1973, the city attorney handed down a ruling saying that payments must be made from the insurance fund.

Risk management in the city of Madison, which is the site of the state capitol and other government buildings as well as the University of Wisconsin, has other unique problems.

Madison can't help but have a close relationship with the university, whose buildings dominate the center of town. The combined city-university population is 174,000. Mr. Tweedale, in fact, comes to municipal risk management from the position of risk manager for the university.

The city contracts with the university and state offices to provide them with fire protection, sewage and other municipal services.

The biggest expense for Madison's risk management department is workers' compensation. Costs average \$100,000 per year and are mostly back-related injuries.

"We'd like to set up some sort of pre-placement orthopedic exam for city employees in jobs where there would be a lot of heavy lifting," the risk manager explained, "so we know where we're at . . . so we'll have some experience data.

"We're looking into the possibility of self-insuring the hospitalization portion of the health insurance program for the city employees," he continued.

CURRENTLY THE Wisconsin Position Services underwrites and administers billing for the hospitalization, major medical and physicians' services.

"Since 96% of the hospitalization billing is from four area hospitals, I'd like to see if we could administer the billing process cheaper," the city risk manager noted. "There's a cash flow savings that way.

"We're aiming at keeping our total costs for insurance premiums and self-insurance losses to 0.5% of the city budget," Mr. Tweedale explained.

The city's insurance expenses for 1973 were \$289,762 of a city budget of \$38,042,000. Mr. Tweedale estimates 1974's expenses at \$246,800 of the \$41,402,000 city budget and projects 1975 expenses as \$232,000 of a \$50,812,000 budget, a figure close to 0.5%.

The city's biggest exposure is its buses, he says. All 140 of them are parked in one lot between 12:30 and 6 a.m. "That's a \$3 million loss potential in one area," Mr. Tweedale noted.

"I asked the city transit manager to consider parking some of the buses at a separate location to spread the risk, but that would involve an additional \$60,000 payroll expense for security guards," he said.

The city transit committee defeated the proposal.

Mr. Tweedale's complaint is familiar to all municipal risk managers: "My what-ifs don't stand up against their budget figures." ■



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• The Medical Group Management Assn. has published a **Manual on Insurance**. It provides a clinic administrator with basic information on the concepts of insurance and risk management and it will assist both the fee-for-service and prepaid medical group practice administrator. The major sections include business insurance, insurance for the professional staff and insurance considerations of prepayment. The

manual is available for \$6.00 from the Medical Group Management Assn., 4101 E. Louisiana Ave., Denver, Co. 80222.

• **News about the Employee Retirement Income Security Act of 1974** is a booklet prepared by the Department of Labor to outline the principal provisions of the Act. Copies may be obtained from Labor-Management Services Administration field offices in all

major cities, or from the field office at 1111 20th St., NW, Washington, D.C. 20210.

• The Medical Group Management Assn. (MGMA) is offering **The Superbill: A Guide to a Uniform System of Billing and/or Claims**, a "do it yourself" billing system designed for doctors or group practices to eliminate insurance claims processing backlog and cut overhead. The 51-page guide is \$10. Write the MGMA at 4101 E. Louisiana Ave., Denver, Co. 80222.

• Two checklists for OSHA compliance—one for general industry and one for construction—are available from the Atlantic Cos. They cover the most commonly inspected areas of inspection and about 90% of all OSHA-listed standards. Single copies are available by writing to Engineering Administration, the Atlantic Cos., 45 Wall St., New York, N.Y. 10005.

• **A Need . . . A Response . . . Metropolitan Life** discusses the insurance company's response to society's needs through equal employment opportunity practices, financial investments and contributions, community involvement and health education. A free copy of this fully illustrated, 20-page brochure is available by writing Metropolitan Life Insurance Co., Press Relations, Room 1204, One Madison Ave., New York, N.Y. 10010.

• **Micro-Gen Equipment Corp.** is offering a free booklet outlining the capabilities of Micron Generation equipment for control of smoke odor and other undesirable odors. For free copies of the booklet write the company, 4418 Woodcock Dr., San Antonio, Tx. 78284.

• **How to Insure Your Insurance**, published by Marshall & Stevens Inc., points out some of the traps

in the corporate insurance policy and suggests how to avoid them. The coverage trap . . . determining correct values for covered items, and the proof of loss trap . . . being ready with what's really required for a fast, fair settlement are discussed. For a free copy write John Heath Jr., Marshall & Stevens Inc., 1645 Beverly Blvd., Los Angeles, Ca. 90026.

• C.V. Industries is making available a descriptive brochure on **The New SFH Sprinklers**, designed to bring "a new dimension to fire protection sprinklers—beauty." For a free copy write the firm at 2334 Market St., Jacksonville, Fl. 32206.

• **Claims Guide for Goods and Merchandise** is intended to serve as a guide in the handling of losses and damage to property while in transit. For a free copy write S. Hobart Lockett, Marine Claims Department, Marsh & McLennan Inc., 1221 Avenue of the Americas, New York, N.Y. 10020.

• **Stop Passing the Buck—The MFMS Guide to Self-Insurance** is published by Market Facilities Management Services. It is a guide for risk managers, insurance buyers and corporate executives concerned with the insurance needs of their businesses. It describes MFMS programs in the casualty, workmen's compensation and employee benefits areas. For a copy write Alan Cooper, Market Facilities Management Services, 3435 Wilshire Blvd., Suite 1600, Los Angeles, Cal. 90010.

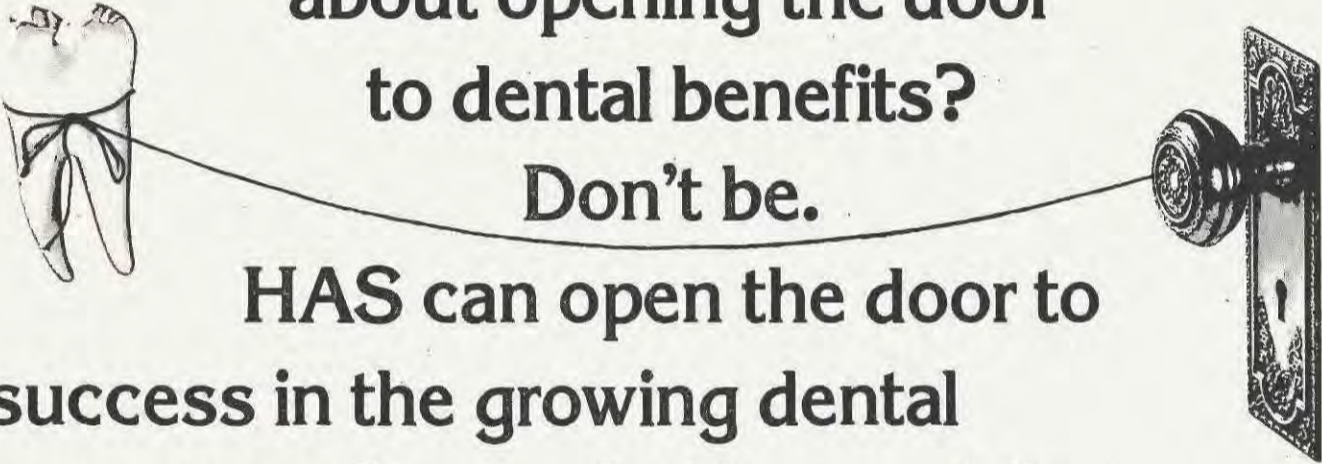
• **Today's Appraisals and the Valuation Revolution**, available from Marshall & Stevens Inc., contains facts on new tools and techniques of today's professional appraiser. It suggests revolutionary methods which can be used to gain tighter control on ever-changing values for insurance and other purposes. Complete listing of commercial appraisal services provided by the company and world wide associates is included. For a free copy write John Heath, Jr. Marshall & Stevens Inc., 1645 Beverly Blvd., Los Angeles, Ca. 90026.

• Literature from Mosler details the company's concept of lock security and explains the variety of lock systems available. Seven different types of locks are shown and their function and applications are explained. For a copy of the literature write Mosler, Dept. LF-73, 1561 Grand Blvd., Hamilton, Oh. 45012.

• A full color, sound film entitled **Crisis Management** is available from Charles S. MacCrone Productions. The film deals with the process of evaluating business risk exposure, realigning preventive priorities and capabilities, and utilizing business and police resources to deal effectively with the risk of criminal confrontations. The film may be either purchased or rented. For complete information, write Charles S. MacCrone Productions, 8048 Soquel Dr., Aptos Village, Aptos, Ca. 95003.

• **How Not to Cook Your Corporate Goose**, a brochure from Marshall & Stevens Inc., succinctly suggests practical precautionary steps the corporate risk manager can take to be sure of adequate coverage and usable proof of loss. The emerging role of the professional valuation consultant in the corporate insurance program is spelled out. For a free copy write John Heath Jr., Marshall & Stevens Inc., 1645 Beverly Blvd., Los Angeles, Ca., 90026.

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• Royal-Globe Insurance Cos. have prepared a booklet which tells how to **Reduce Product Liability through Management Control**. It focuses on the cost and benefits to be obtained through improved design and processes, as well as the articulation of loss control programs. For a free copy write to Royal-Globe Insurance Cos., 150 William St., New York, N.Y. 10038.

• A new 12-page condensed catalog describing many of the popular burglar and fire alarm products is now available from Morse Products Mfg. Included in the fully illustrated catalog are burglar alarm transmitters, fire alarm equipment, central station equipment and a new security polling system. For a free copy write Morse Products Mfg., 12960 Bradley Ave., Sylmar, Ca. 91342.

• **MEDICAID—Lessons for National Health Insurance** is a book that gives an overview of the problems associated with the grant-in-aid program of health care and the implications for the nation's health care system under national health insurance. Written by Allen D. Spiegel, Ph.D., and Simon Podair, M.A., the 375-page book is \$24. Write Dept. HI, Health Law Center, Aspen Systems Corp., 11600 Nebel St., Rockville, Md. 20852.

• Two brochures that describe access control systems are available from Diebold Inc. The diebold pamphlets explain the flexibility and effectiveness of the R20 and R40 access security systems with illustrations and diagrams. For free copies write Rod Saunders, Advertising Mgr., Diebold, Inc., 818 Mulberry Rd., Canton, Oh. 44711.

• **Diebold Insulated Files** describes the complete line of insulated filing cabinets marketed by Diebold Inc. Charts and model illustrations are included in the eight-page pamphlet. A free copy can be obtained by writing Rod Saunders, Advertising Mgr., Diebold, Inc., 818 Mulberry Rd., Canton, Oh. 44711.

• Liberty Mutual Insurance Co. has made available **Medical and Rehabilitation Services**. The booklet describes the rehabilitative services available to injured workers who are covered under the company's workers' compensation insurance. Copies can be obtained by writing the company, Public Relations Dept., 175 Berkeley St., Boston, Ma. 02117.

• **Kidnap and Ransom Insurance** is a new brochure released by Lowndes Lambert (U.S.A.) Inc. A schedule of recent ransom cases involving underwriters in the London market is included as are copies of the policy form in current use, proposal forms for use by both firms and individuals and personal accident extensions. For a free copy write Lowndes Lambert, 15 Broad St., Boston, Ma. 02109.

• **New Concepts in Self Funding Employee Benefits** describes self funding group accident and health administrative programs offered by Market Facilities Management Services. It is designed to explain the benefits of such a program for business and institutions that can qualify for these programs. This should be

read by risk managers, corporate executives and anyone entrusted with the responsibility of purchasing employee benefit programs. For a free copy write Alan Cooper, Market Facilities Management Services, 3435 Wilshire Blvd. #1600, Los Angeles, Ca. 90010.

• **Self-funding Through the Universal Health Care System** is an eight-page brochure describing the self-funding concept and the "health card." For a free copy write William Alcott, Universal Health Care Inc., 2281 Mack Ave., St. Clair Shores, Mi. 48080.

• **For Your Healthy Tomorrow**, a brochure published by American Health Profiles Inc., describes, in pictures and text, multiphasic health screening as performed by the health testing firm. For a free copy, write American Health Profiles, 4304 Harding Rd., Nashville, Tn. 37205.



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Fiduciaries . . .

Continued from page 1

Another problem area in the pension reform act is the recourse clause required in all policies purchased with the plan's funds. Those who drew up the pension law believed that the defense of a trustee or fiduciary who has allegedly breached a trust should not be subsidized by the trust's beneficiaries. This recourse clause says the insurer can recover any loss from the insured fiduciary.

Underwriters approached these problems in a variety of ways. Aetna offers a separate elimination of recourse policy for fiduciaries to buy personally. First State and National Union don't include recourse clauses in their basic policies, which are designed to be purchased as personal policies or by the company.

"We'd have to charge a significantly higher premium, from 25%

to 50% of the cost of the policy, to include a recourse provision," a First State spokesman said.

THUS, THE Taft-Hartley or jointly administered plans which require recourse provisions in any liability policy will pay more for coverage than a health and welfare plan covering employees of a single company.

Travelers offers an endorsement covering fiduciaries which can be added to a general liability policy written for its insureds.

The GATX approach is the most complicated: It writes three separate policies to cover the plan, the individual fiduciaries and a trust reimbursement policy for defense costs if a plan is required to pay a fiduciary for his legal expenses in defending a claim. Each policy has a separate premium.

Premiums are generally based on the size and assets of a plan

and include a \$1,000 deductible which does not apply to defense costs. The exception is the First State policy which has a per loss deductible of \$1,000 which includes defense costs.

CNA "is working on a new package and until all the wrinkles are worked out we'd prefer not to quote any figures," a spokesman said.

The number of exclusions also varies from policy to policy but standard among them are punitive and exemplary damages.

Chicago-based Wyatt Co., in an analysis of fiduciary liability policies now available to clients, concludes that only three of the policies—GATX, National Union, and CNA—are acceptable with minor modification, this magazine learned. Wyatt considers the Lloyd's policy acceptable only with major modification, and considers the Aetna and First State policies unacceptable.

CNA, however, said the policy

referred to is an out-of-date trustee insurance policy, now being completely revamped.

Highlights of the coverages offered by the domestic underwriters of fiduciary liability insurance include:

• **AETNA:** A minimum premium for a Taft-Hartley plan to receive \$1 million in coverage would be \$1,000. Lower limits of coverage are discounted; premiums of "approximately \$825 for a \$500,000 limit and \$700 for a \$250,000 limit are the most frequently quoted figures," a company spokesman said.

Aetna's maximum limit is \$5 million, carrying with it a \$2,000 premium. The separate personal policy for internal fiduciaries offers them the same limits of coverage at a cost of \$25 per fiduciary. Aetna will cover external plan managers at another separate rate of 5% of the premium.

Insured benefit plans have a different rating base, the Aetna spokesman said.

• **NATIONAL UNION:** Both Taft-Hartley and company-administered health and welfare plans are covered in the same policy. No minimum premium would be quoted by the company, but a maximum limit of \$15 million is available, a spokesman said, "with higher limits available through reinsurance."

Outside fund managers for the plan are not included.

"Somewhere along the line we'll consider a special policy for money managers or bank trust departments," the spokesman said.

• **FIRST STATE:** An unusual feature of this policy is that it will pay a portion of the civil penalties assessed a plan accused of engaging in transactions prohibited by ERISA. A fine of 5% of the amount involved in the transaction is assessed a plan found to have engaged in prohibited transactions and the First State policy will cover this amount.

If a plan doesn't correct the transaction within 90 days, the penalty is increased to 100% of the amount involved; this fine is not covered.

For a \$500,000 liability limit a plan with assets of less than \$1 million and less than 100 participants would pay a premium of \$500, a First State spokesman said.

"Rates then increase according to size and assets of the plan with a maximum limit of \$5 million in coverage for a plan with assets in excess of \$20 million," he added. "The premium for this policy would be about \$3,000."

First State's rating schedule includes credits for insured plans and plans with professional advisers and professional administrators, although outside managers are not included in the policy.

• **TRAVELERS:** "This policy offers \$250,000, \$500,000 and \$1 million limits of liability with premiums based on a combination of plan size and assets.

The policy has a standard exclusion; "We won't respond if a plan is either unfunded, uninsured or not part of a written trust," a company spokesman said. "A plan has to meet one of those three criteria."

The Travelers policy doesn't insure external fiduciaries. "The form covers average exposures," the spokesman said, "but is negotiable for the more sophisticated risk."

• **GATX:** This policy includes a complex rating system with heavy surcharges for Taft-Hartley plans. The minimum premium for \$1 million limit of liability for a plan with \$1 million in assets and up to 1,000 participants is \$650.

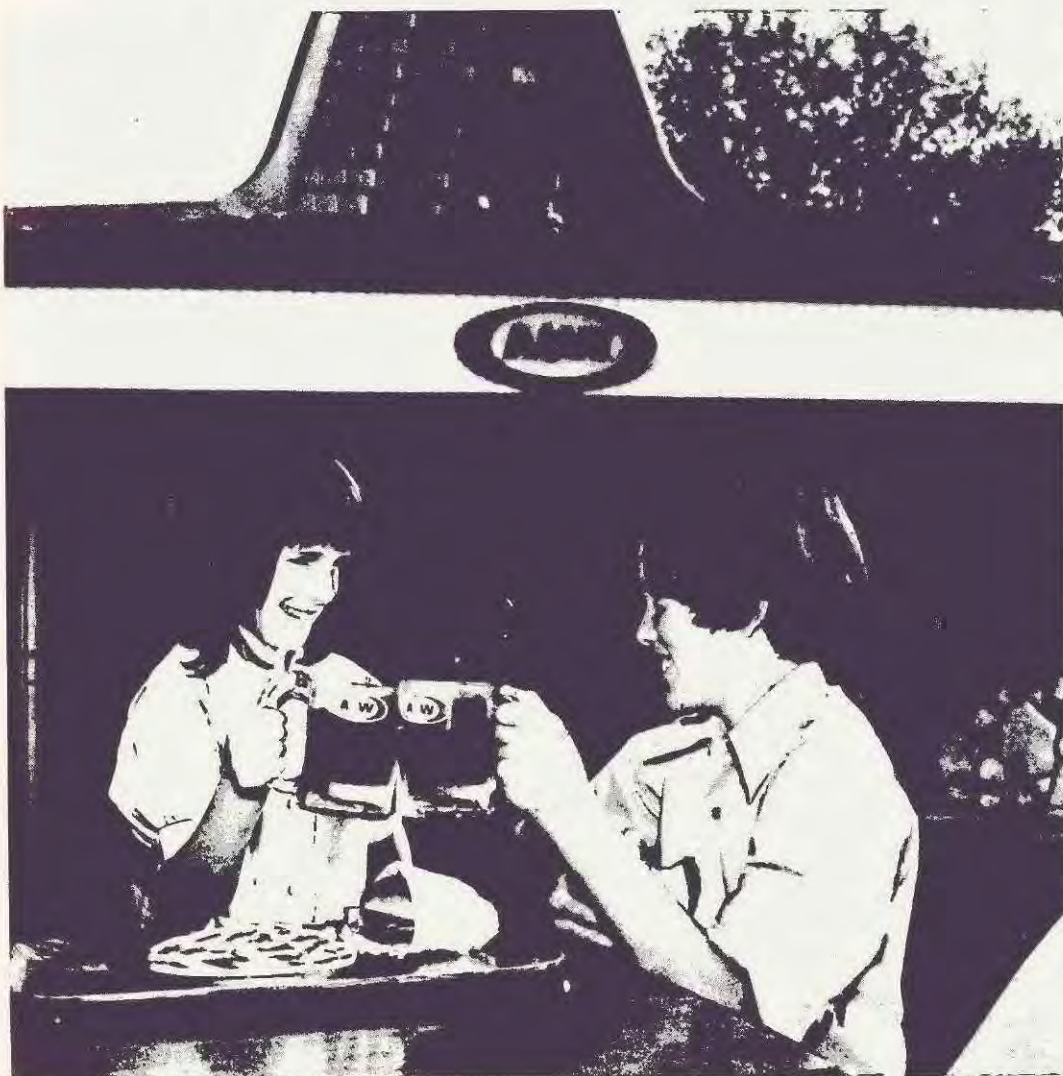
If a plan is not insured, a 50% increase is applied to the minimum premium and if the plan is jointly-administered another increase of approximately 150% is applied.

"It's their intention to write the single employer fund rather than Taft-Hartley plans," a broker commented on the GATX policy.

Most of the response to fiduciary liability insurance will come from Taft-Hartley plans, according to Lance Sanberg, vp, Mack & Parker, a Chicago-based brokerage firm.

"Taft-Hartley trustees are the guys who are concerned; they're the ones who are buying," Mr. Sanberg said. "The corporate response has been more casual, though your large corporations will probably buy it just as they did directors' and officers' insurance a few years ago." ■

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Federal no-fault bill stirs calls for more hearings by senator, insurers

By RICHARD L. GORDON

WASHINGTON—A dispute is developing over Sen. Warren G. Magnuson's (D-Wa.) apparent intent to push a no-fault auto insurance bill onto the floor of the Senate without another round of public hearings by the Senate commerce committee.

Sen. Magnuson, chairman of the commerce committee, late last month refiled, with only technical corrections, S. 354, a no-fault auto insurance bill passed by the Senate last May 1, in a 53 to 42 vote.

The House last year failed to act on a no-fault bill before Congress adjourned in December.

The Senator doesn't want to hold public hearings again, a Magnuson aide told this magazine, "because the bill is not something that's suddenly dropped out of the sky. It's the same bill that's been here for six years.

INSTEAD OF hearings, the Senator invited interested parties to file written comments with the commerce committee.

Sen. James L. Buckley (Conservative-N.Y.), a commerce committee member, and two insurance groups so far have objected to the no-hearings idea.

The theme for most of the objections has been the fact that the final Senate version of the bill had been amended in several areas during floor debate and was not the same proposal that previous committee hearings had discussed.

Sen. Buckley, in a letter to Sen. Magnuson this month, listed the following amendments as significant changes from the no-fault bill reported out by the Senate commerce and judiciary committees last year:

- an amendment removing the \$2,500 deductible from any tort recovery, a step likely to "increase the cost of insurance," according to Sen. Buckley;
- an amendment reducing the tort threshold from six months to 90 days, which he said could fail to relieve any court congestion;
- an amendment allowing health insurance to be the primary source for medical benefits, which he said could result in a duplication of efforts in accident investigation and loss of benefits to a worker who has lost his job, and hence his health insurance;
- an amendment giving states with no-fault laws in place a four

year moratorium on meeting federal standards while forcing other states to immediately accept federal standards;

• an amendment requiring an annual report from the Secretary of Transportation "on just about every aspect of the operation of state no-fault laws," which, he said, amounts potentially to total federal regulation of the insurance industry;

• an amendment authorizing \$10 million to cover state costs of implementing no-fault laws, which, he said, "raises serious questions about the funding of a

federal no-fault standards law and completely destroys the cost-saving argument."

"**IN VIEW OF** these and other changes made in S. 354 since it was last considered by the commerce committee, I would urge that the committee hold full hearings on no-fault legislation," Sen. Buckley told Sen. Magnuson.

Similar concerns were voiced by both the American Mutual Insurance Alliance and the National Assn. of Independent Insurers.

Sen. Magnuson is sticking by estimates that his no-fault bill would save consumers 12% to 15% in auto insurance premiums and result in additional savings to the taxpayer through less crowded courts.

"And at the rate we are going," Sen. Magnuson said, that last point—"savings to the taxpayer"—should be changed to "reduction of the federal budget deficit."

"It is a fact," he said, that the

federal government is the largest owner and operator of motor vehicles in the United States, and it would therefore save a considerable amount of money from what it now pays as a self-insurer of all those postal service, military, and other motor vehicles."

On the house side, no-fault action is being slowed by a reorganization underway in inter-

state and foreign commerce committees.

The reorganization has taken no-fault jurisdiction out from under its previous chief House sponsor, Rep. John E. Moss (D-Cal.).

No-fault legislation is now being shifted to a new consumer protection and finance subcommittee, chaired by Rep. Lionel Van Deerlin (D-Cal.).



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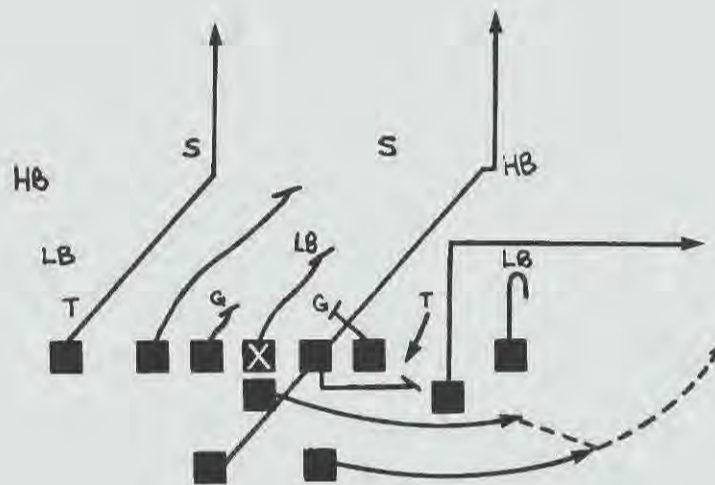
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OPIC offers coverages in Bangladesh

WASHINGTON—Political risk insurance for American investments in Bangladesh will be made available through the Overseas Private Investment Corp. (OPIC).

OPIC said Bangladesh is interested in attracting new foreign investment to support its agricultural and agri-business programs and is also interested in new investment in labor intensive, export oriented light industry.

OPIC said Bangladesh would offer investors guaranties against nationalization. OPIC offers insurance coverage for expropriations, currency inconvertibility, and war risks.

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Would mean extended health benefits for unemployed

Bill proposes federal benefit subsidy

WASHINGTON—The federal government would pay up to \$1.5 billion to continue employer-sponsored health insurance benefits for unemployed workers through June 30, 1976, under a bill filed in the Senate this month.

"The absolutely appalling unemployment statistics released this month dramatically underscore the urgency of enacting this kind of legislation," said Sen. Harrison Williams (D-N.J.), a sponsor of the bill and chairman of the Senate labor and public welfare committee.

"The well being of hundreds of thousands of families is on the line right now, and we do not have the luxury of the usual leisurely legislative process," he said. "I intend to make sure that our committee acts on this bill."

THE SENATE health subcommittee, chaired by Sen. Edward Kennedy (D-Ma.), another sponsor of the bill, is anticipating hearings late this month or in early March.

A companion bill is expected to be filed in the House.

While passage of the bill, known as the Emergency Unemployment Health Benefits Act (S. 625), would authorize the federal funding, it will be up to the Senate and House appropriations committees to later appropriate money from an already deficit swollen federal budget.

The White House has earlier said it was against starting any new spending programs this year.

"The program established by this bill is a simple one," Sen. Kennedy said this month. "It provides funds for the Secretary of Labor to make payments to health insurance carriers, or employers, or health and welfare trusts, which agree to continue employment-based health insurance for unemployed individuals."

"We estimate the cost of the program to be between \$1 billion and \$1.5 billion assuming an unemployment rate of 8%," he said.

To be eligible for the federal

program, an individual must:

- Be eligible for unemployment compensation benefits.
- Have been eligible for health benefits coverage at his last job.
- Not be eligible for health insurance as a result of prior employment or coverage through a spouse or other family member.

THE INDIVIDUAL and his family would receive the same type and scope of benefits they would have received had the worker continued to be employed. The federal premium payments could be made directly to the insurance carrier, at the group rate, or through the employer or health and welfare trust.

"Of course, you can buy health insurance for yourself when you are laid off," Sen. Ken-

edy said. "That is, if you can afford to pay at least \$40 a month. That is 15% of the average monthly unemployment benefit, in fact, by the time the rent and utilities are paid, and you return from the food market there is simply nothing left."

"So, according to one estimate as many as 75% of workers who have been unemployed more than 30 days have no health insurance at all," the Senator said.

Other principal sponsors of the bill include Sens. Jacob Javits (R-N.Y.) and Richard Schweiker (R-Pa.).

AS MANY AS eight million unemployed persons and their families, a total of 25 million people, would be covered in the new program, according to one Senate estimate. ■

Rehabilitation is required for injured Calif. workers

SAN FRANCISCO—California workers who are injured in industrial accidents now have a mandatory right to rehabilitation.

R. A. McLeod, chief of the Rehabilitation Bureau here, told *Business Insurance* that the new right is spelled out in Assembly Bill 760.

He explained that prior to Jan. 1, 1975, an injured worker's right to rehabilitation was handled on a voluntary basis. Assembly Bill 760, he said, requires employers or insurance carriers to provide additional living expenses necessitated by rehabilitation and all reasonable and necessary vocational training. The program is being financed through workers' compensation premiums.

Mr. McLeod, said the bureau will require information from employers or their insurance carriers to assist in the identification and implementation of rehabilitation plans. All cases which involve temporary disability of 120 days or longer must be reported to the

state workers' compensation bureau, the director said.

The employee, under the law has the right to either accept or reject the program. However, once there is a show of the need and feasibility of rehabilitation, "the employer must provide such a program," he asserted.

One important change embodied in the bill, he went on, is the provision for utilizing the bureau for resolution of disputes.

"Then if the employer or employee is dissatisfied with the decision, an appeal can be made to the referee of the workers' compensation appeals board."

To pay for the program, workers' compensation premiums were boosted by 2.7% or approximately \$18 million, according to the rehabilitation bureau chief. "The actual number of employers who will benefit from AB 760 cannot be accurately estimated at this time. We figure between 7,000 and 12,000 will be served annually," he added. ■

Accidents
Agriculture
Air Cargo (Domestic)
Animal Floaters
Appliance Dealers
Bailee Customers
Bridge Builders' Risks
Bridge Tunnels
Cable
Camera Musical
Instrument Dealers
Cold Storage Lockers
Commercial Camera
Floaters
Contractors'
Equipment
Equipment Dealers
Exhibitions
Fine Art Dealers
Floor Plan
Furriers' Customers
Garment Contractors
Horse & Wagon
Installments
Installations
Livestock Floaters
Logging Equipment
Mining Equipment
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Neon Signs
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geons' Equipment
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and Broadcasting
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editorial opinions

Here's one to think about

WHEN IT COMES to predicting future losses in a new line of liability insurance, underwriters at Lloyd's are not always the most cheerful blokes to approach.

Witness the comments of Leslie Robert Dew, deputy chairman of Lloyd's and chairman of the Merrett Group, Lloyd's largest underwriter of non-marine risks. Mr. Dew, speaking to a *Business Insurance* editor visiting London in January, had this to say about future fiduciary liability claims that might arise out of the Employe Retirement Income Security Act of 1974:

"The liability arising from the . . . act is producing a class of business which will, in three years, make medical malpractice look profitable" (*BI*, Feb. 10).

Given the condition of the medical malpractice insurance markets at the moment, Mr. Dew's comments are sensational. In fact, given this prognostication by a leading Lloyd's underwriter, we can only wonder why underwriters all over the globe are scrambling to get a piece of the fiduciary liability action. They'll tell you, of course, that it's so they can get a chunk of premium on their books, ready for that day when the "spate" of losses begin—within two, three or four years, in Mr. Dew's judgment.

In any event, the line corporate risk managers seem to be hearing about fiduciary liability insurance these days is vaguely reminiscent of one heard a few years ago when directors' and officers' liability insurance was introduced. At that time underwriters spoke in the dimmest of terms of the "spate" of stockholder derivative actions that were bound to come along.

Just how much of the "spate" of D&O actions that followed was insured is anyone's guess, for underwriters are still reticent about disclosing D&O premium income vs. losses paid out. (We do know, however, that the cost of D&O has dropped dramatically in the last year or so—ever since, in fact, this magazine and a few courageous corporate insurance buyers began asking some hard questions of D&O underwriters, questions that still have not been answered.)

At the moment, it seems to us that the worth—or necessity of—fiduciary liability insurance under the pension reform act is questionable at best. It is certainly not mandated under the law. Nor does it seem to have been the intent of the framers to write a law that would send everyone scurrying for the cover of insurance protection.

Fiduciary coverage is very expensive right now, and it is largely unrefined in policy form. Yet it is being sold—and, yes, being demanded by fiduciaries—as actively as umbrellas on a Manhattan street corner during a rainstorm. "What fiduciary is not going to ask for it?", someone has said.

But it remains to be seen whether fiduciary liability is a valid form of insurance protection, and we'll reserve judgment on that score.

One question persists with us, however: Given the prudence under which fiduciaries have long been expected to act, could it now be considered extremely imprudent to expend substantial sums of a pension fund's assets to purchase liability protection to protect against the possibility that the fiduciary might not fulfill his/her fiduciary obligations?

Think about that one for a minute.

Encouraging news of work safety

THE NATIONAL SAFETY Council, in a preliminary report, says that there were 16 deaths per 100,000 workers in 1974, a new all-time low rate.

According to the council, there were 13,500 work-related fatalities in 1974. This is 700 below the 14,200 work-related fatalities the year before. The record was set, moreover, as average employment for the year showed about a two percent increase over the previous year.

The decrease of 700 deaths was five percent below 1973 work accident fatalities of 14,200, according to the National Safety Council report. Previous low years for work related accidents were 1973 and 1972 when there were 17 deaths per 100,000 workers. The highest previous year recorded by the council was 1937 when job-related accidents numbered 43 for every 100,000 workers.

Of the eight principal industrial groups included in the study, six showed decreases. Two—government, and transportation and public utilities—with 1,800 and 1,700 fatalities

respectively, showed no change.

The statistics, grim as they are, should offer a bit of encouragement to safety professionals who labor in the occupational safety and health area. They should also help offer some proof that the long tail of the Occupational Safety and Health Act of 1970 is finally beginning to wag. Hopefully, even more new records will be set in the years ahead.

This is a desirable goal, for the benefits to business and industry are obvious. Beyond the preservation of human lives, there are astounding economic benefits when job-related accidents and deaths are reduced.

Work accident costs in 1974, the National Safety Council estimates, were \$46.8 billion. The figure includes wage loss, medical expense administrative costs, and claim settlement costs of insurance. If business and industry must economize these days, the further reduction of these costs, through better risk control and safety management, is an excellent place to start.

letters

This column is a readers' forum. Letters are welcome. Address letters to the Editor of *Business Insurance*, 708 Third Ave., New York, N.Y. 10017.

London directory

To the Editor: I understand the 1974 edition of the "Directory of Commercial Insurance Agents and Brokers" is now available. I assume this applies to the United States.

I would be interested in a comparable directory dealing with London brokers. Is such a directory available? If so, I would appreciate any advice you can give me on the subject.

G. L. Matriciano

Senior insurance specialist,
E. I. duPont deNemours & Co.,
Wilmington, De.

Editor's note: To find out about such a listing of London brokers, write *The Secretary, Corp. of Insurance Brokers*, 15 St. Helen's Place, London EC3A, England. More than 600 of the leading brokers and agents in the U.K. are members of this organization. The *Lloyd's Insurance Brokers Assn.* could also provide information on London brokers, many of whom are Lloyd's brokers. This organization could be contacted through *Lloyd's of London*, Lime Street, London EC3M.

Looming problem

To the Editor: Your "Malpractice Crisis" article in the January 27, 1975 issue of *Business Insurance* was quite interesting. The possibility looms that the continuation of the withdrawal of carriers from this particular phase of the market could affect very many insurance managers across the nation. Many of the manufacturing firms have physicians on a retainer basis to assist in their plant hospitals and dispensaries. Some physicians spend a required amount of time at the plants. This is a tremendous asset in the attempt to reduce the costs of corporations who are self-insured for workmen's compensation.

It will be interesting to see how much longer it will be before the general liability carriers for large corporations take a stand on company retained physicians who are covered by a medical malpractice endorsement. It could have an effect on the overall decision as to whether self-insurance in workmen's compensation would be economically feasible for some of the smaller companies. There is quite a savings experienced when employe patients do not have to go to an outside physician for minor treatments or periodic examinations.

In my opinion, the legal com-
Continued on page 20

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Banks told of additional liability risks under ERISA

NEW YORK—Bank trust departments acting as fiduciaries for pension and employe benefit plans other than their own have an additional risk exposure under the Employee Retirement Income Security Act (ERISA), according to Raymond V. Brady, vp and manager of the financial institution department at Frank B. Hall & Co. Speaking at a meeting of the New York chapter of the Society

of Property and Casualty Underwriters, Mr. Brady noted that a bank's errors and omissions liability policy could be extended to include the trust department's fiduciary liability under ERISA.

FOR ITS OWN employe benefit plan, "it might be more advantageous to extend the bank's directors' and officers' liability policy to include fiduciary liability. . . it depends on the underwriter and the scope of the policy," Mr. Brady commented in a later interview.

The diversity of activities in which banks are engaging today has made the task of inventorying risks "monumental," Mr. Brady told the CPCU meeting.

Exposures of the bank must be identified and categorized, he stated. In addition, a written statement of bank policy endorsed by senior management concerning the philosophy of the bank towards risk management and insurance should be prepared, he urged. ■

Risk control must use scientific techniques

CHICAGO—Risk managers should continue to apply scientific techniques in their jobs, said Warren Brockmeier, director of risk management services at the Wyatt Co., a national consulting firm.

Speaking at the monthly meeting of Chartered Property and Casualty Underwriters (CPCU) here, Mr. Brockmeier said that risk managers should try to remove the guesswork from insurance estimates, but added that "more than 50% of risk management still is based on art" and intuition.

"Risk management is one form of the management process," he emphasized, adding that his definition of risk managers extended

to the agent or broker who performs risk management functions for small- or medium-sized companies, as well as places their commercial insurance.

The cents-per-share cost to stockholders is a legitimate concern but there are better methods for determining the deductible level, Mr. Brockmeier said. "The deductible should be set at a minimum of at least that level which will eliminate predictable losses," he said.

He recommends that risk managers use their actual loss statistics to determine what their loss experience has been. "Don't take a set of facts automatically or use historical experience only."

"Each individual loss factor should be updated to account for inflation," he continued. "The number of losses within each category, after being adjusted for inflation, should then be adjusted for company growth. These should be further adjusted for specific changes in the overall level of exposure due to the introduction of new manufacturing process, changes in fire prevention programs, windstorm susceptibility, etc.," he explained.

Mr. Brockmeier suggested using the number of units produced rather than sales figures to determine a change in growth, because inflation disguises the impact of sales figures. ■



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Letters . . .

Continued from page 18

munity, especially the courts, should re-examine their position on the amounts of awards and the "give him something" attitude which is beginning to snowball. If the insurance companies one by one are withdrawing from the market even after charging exorbitant premiums and doctors, such as the one in your article, are withdrawing from private practice, doesn't this seem to point out the fact that verdicts and awards are too generous in favor of claimants?

People in the medical profession are human and are bound to make an error when dealing with a very complex piece of machinery—the human body. I don't think a person's entire career, after fourteen years of study, should be laid on the line for one error. With the size of the court awards, it only takes one. For myself and other insurance managers who are self-insured in workmen's compensation, we don't need the task of self-insuring medical malpractice suits against the company and its physicians retained under contract.

Raymond J. Dettore

Corporate insurance manager,
Sharon Steel Corp., Sharon, Pa.

Article request

To the Editor: In one of your recent issues of *Business Insurance*, I believe December 30, 1974, you published an article about a device which is planned to be installed on all commercial aircrafts that will indicate by flashing light, loud bell and the remark "pull up" when the aircraft gets too close to the ground.

I would greatly appreciate a copy of this article. Please bill me for whatever expense is involved.

John F. Shea

Hialeah, Fl.

Editor's note: The article's on its way, Mr. Shea. It appeared in our Dec. 23, 1974 issue. Thanks for your interest.

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london line

Investigate JAL food poisoning; \$150 million chemical plant damage

LONDON—Acute food poisoning struck 140 passengers on a Japan Air Lines jumbo jet flight on its way from Tokyo to Paris. U.S. health authorities at Anchorage, Alaska, were being asked to check on details of food which was apparently taken on board during a routine stopover there.

Though most of the passengers recovered within 24 hours, they were hospitalized on medical orders when the plane landed at Copenhagen, so insurance aspects are being checked in case of any liability claims against the airline. They were on their way to Paris after being prize winners in a soft-drinks contest in Tokyo.

The European division of Japan Air Lines in London said the cause of the food poisoning could not be completely established until inquiries at Anchorage are completed. But the airline is believed to use local catering facilities there from time to time, and doctors in Copenhagen attributed the poisoning to portions of ham which were eaten during the nine-hour leg between Anchorage and Copenhagen. These are thought to have been taken on to the aircraft at Anchorage, which is a regular stopover on the route. No reports were received of other airlines being affected but it is possible they use other catering facilities.

Health authorities in Europe believe that such sudden mass food poisoning is unique, as all the passengers were taken seriously ill just when their jet was about to touch down at Copenhagen, after having an inflight breakfast.

"We've no definite decision yet how it happened, but we're checking on the catering services at Anchorage," a spokesman told *Business Insurance*. The incident has not affected normal catering facilities on other Japan Air Lines world flights, but steps are being taken to avoid it happening again.

REPORTS ON THE cause of the Flixborough explosion (*Business Insurance*, June 24/Aug. 5, 1974) which killed 28 people at the Nypro U.K. chemical plant and created large-scale destruction are being studied by British research experts.

It is now believed that total insurance claims arising out of the disaster will be close to \$150 million, making it the largest bill the U.K. market has had to face for an industrial catastrophe.

But the risk is spread across so many sections of the market, including reinsurance, that the full impact is still being assessed.

One suggestion is that a break in an eight inch permanent pipe at the plant caused the main blast, which led to further explosions. But it is also possible that a temporary pipe collapsed under pressure and led to the incident.

The eight inch pipe theory is based on the assumption that a safety valve had two loose bolts which allowed highly volatile cyclohexane to drip onto protective material. Then the flow of the cyclohexane increased so much that it dislodged the twenty inch temporary pipe, and explosive situations followed.

A government court of inquiry is studying the theories and will present its technical findings later.

Sun Alliance & London led the group of insurers for the fire policy covering the Flixborough plant of Nypro. Sun Alliance is said to have paid some \$1.5 million on the Flixborough disaster. General Accident is thought to have paid out another \$12.4 million following the Nypro explosion, and the Royal Insurance Group \$7.4 million.

ENVIRONMENTAL experts believe a serious nuclear accident

will occur somewhere in the world in the next 25 years.

Lord Nathan, chairman of an official U.K. committee probing future energy problems, declared: "Danger to the general public from exposure to radiation from existing nuclear industry seems small.

"But eliminating all risk of accidents at nuclear plants is another matter. It is difficult to believe there will not be a serious accident somewhere in the world

before the year 2000, particularly if the care of such installations starts passing to less skilled and educated men than those presently in charge of them."

He urged that dependence on nuclear power must be aligned with close study of any safety risks likely to be involved.

SAFETY PRECAUTIONS are being tightened at major European centers after terror attacks at Heathrow (London) and Orly (Paris) international airports where insurers faced the possibility of substantial claims.

Luckily the most recent hijacking bid at Heathrow on an internal U.K. flight ended abortively when the gunman, a 28 year old Iranian, was arrested after holding the crew hostages for more than 10 hours.

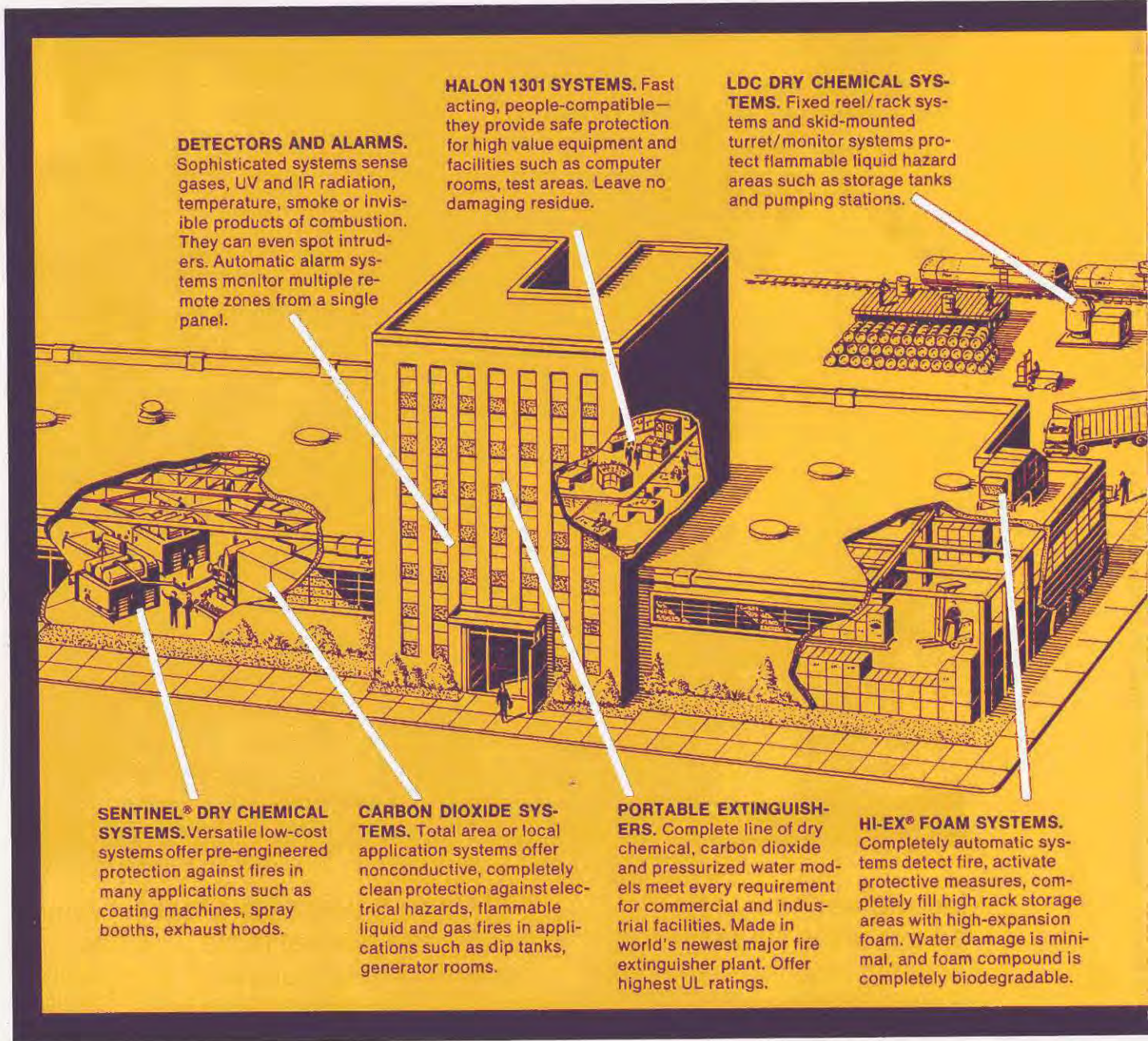
But he threatened to blow up a British Airways BAC111 which was insured for between \$2 million and \$3 million on the London market.

Security experts in Britain realize that this is the first hijack bid on a domestic flight, but Trade Secretary Peter Shore, on behalf of government authorities, declared that he would not hesitate to order gunmen shot if this was the only way to save lives and aircraft when faced with terrorist attempts inside the country.

Later there was a bazooka attack at Orly airport, followed by the taking of 10 hostages by Arab terrorists. But the gunmen were subsequently allowed to leave for the Middle East. No lives were lost.

FIRES RAVAGED British industrial plants and caused a total of \$660 million in insured losses last year, according to figures released by the British Insurance Assn. This included the big Flixborough chemical disaster in June, where property damage alone is now put at nearly \$90 million.

Continued on page 23



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Portable Extinguishers

Continued from page 22

million. Although there were 22 fires that cost more than \$2.5 million each, twice as many as in 1973, there seems to be a slowing in the scale of losses when the effect of inflation on claims is taken into account. Excluding the Flixborough affair, the U.K. total fire loss was only \$60 million above 1973. Troubles in Northern Ireland caused fire losses through bombing and other violent acts of \$45 million, up from \$35 million.

The view of the British Insurance Assn. is that many of the very large industrial fires could have been prevented from spreading if automatic sprinklers or alarm systems had been installed in the stricken premises. There were many more fires in schools.

TWO MAJOR U.K. insurance companies, Eagle Star and Pearl Assurance, are planning to pull out of the Canadian market fol-

lowing heavy losses there. They will continue writing marine and aviation lines, and will service existing life business in Canada.

The two companies have a joint branch operation in Canada with annual premium income of around \$10 million (Canadian). Losses last year reached \$2 million.

Main lines of business affected by the decision are auto, fire and casualty. Competition from the U.S. has forced premium income down, say London sources, who also point to the nationalization of third party auto liability cover in British Columbia and government interference on premium rates as contributing to high losses.

Specialized types of coverage on multinational accounts will still be written by Eagle Star in Canada.

SOLVENCY MARGINS for U.K. insurance companies are being examined by the government's Trade Department which will hike required reserves later this year.

They will be raised from 10% of premium income to a new floor of 16%, in line with the surplus reserve figure in force in most European countries. All companies selling insurance in the U.K. will have to prove adequate assets in corporate funds to meet this requirement.

Capacity for new business can technically be affected if the ratio of surplus reserves to premium income drops too close to the minimum 16% level. But most companies have already taken preliminary steps to ensure they have ample reserves to avoid any cut-back in premium writings.

Insurance companies in many places have seen reserves falling heavily during the past two years as stock markets slumped. U.K. insurers' solvency margins currently average about 25%, compared with 60% or more in 1972.

Lloyd's is not affected by the new rules, as it operates on a quite different liability system. ■

Insurer will refund premium assessments

SAN FRANCISCO—Industrial Indemnity Co. agreed to file revised unit statistical reports previously made under the California workers' compensation unit statistical plan in order to comply with an order issued by the state insurance department.

Fred Drexler, chairman of the board of Industrial Indemnity, the largest private industrial accident insurance carrier in California, said that his organization also agreed to refund approximately \$200,000 to policyholder companies. The state insurance department said the charges were wrongfully compelled under a program called "loss development factor adjustment" requiring insureds to pay excess premiums.

He denied that his company's filings have violated the unit statistical plan or any provisions of the California insurance code.

In its notice of noncompliance, the department of insurance said that from the period April, 1973 to November, 1974 Industrial Indemnity administered the loss development factor adjustment program. By applying a so-called LDFA factor to then-outstanding reserves on certain open workers' compensation claim cases the case reserves were increased by first 21% and then by 29%, according to the department. It said that the result was that as of Sept. 30, 1974, reserves had been increased on a case basis by \$8.5 million.

THE DEPARTMENT further said that the LDFA program was administered in such a fashion that "individually increased open claim case reserve figures were reported to the California inspection rating bureau by means of the unit statistical filing reports made by the company under each policy, thus affecting the statistical experience and the 'experience modification' of certain commercial policy-holders for ratemaking purposes."

The result, according to the department, were "increases in certain premium charges for workers' compensation."

The department further charged that each month Industrial Indemnity's data processing center identified and prepared computer lists of policies due to expire as of a given month and against which the LDFA factor was to be applied. Such lists were distributed to the home office claims department, said the department, for referral to appropriate division claim managers who were to apply the LDFA factor.

The California inspection rating bureau is an association of California insurance carriers authorized by the state to compile statistics on industrial accidents and recommend minimum rates for approval by the insurance department.

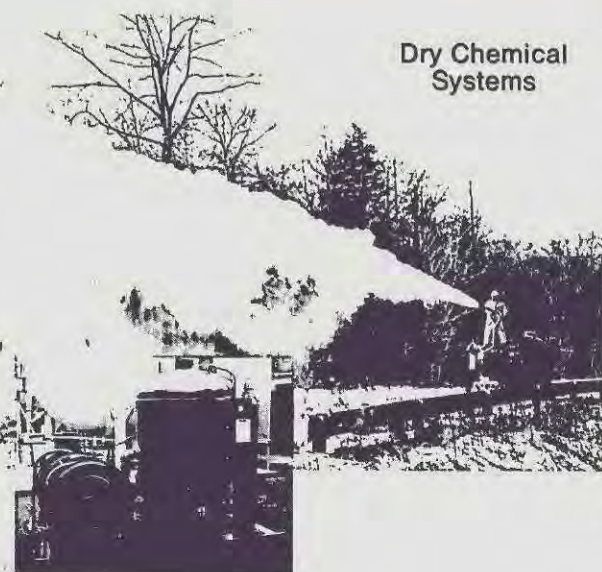
MR. DREXLER estimated that the adjustment filings covered in the department's order amounted to fewer than 1,400 and represent "less than 2% of the 84,000 unit statistical reports filed by Industrial Indemnity" during the period from April, 1973 to November, 1974.

He added his company expects any changes in modification that emerge from the department's order will be no more than one or two points. ■

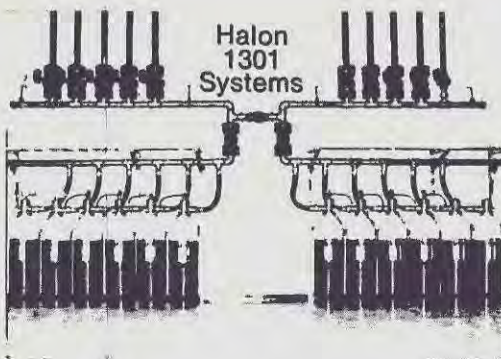
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New bill to extend miner lung benefits

WASHINGTON—A bill designed to extend "black lung" occupational disability benefits now awarded coal miners to iron miners suffering from "red lung" was filed this month by Sen. John Sparkman (D-Al.).

The bill would provide federal benefits to iron miners totally disabled by the newly defined disease or to the survivors of miners who die of the red lung disease.

The Sparkman bill would amend the Federal Coal Mine Health and Safety Act to include iron miners in its benefits coverage. ■

Escalating vandalism losses, higher premiums prompting switch

Schools using more self-insurance, loss control

By LINDA MOSKOWITZ

NEW YORK—A trend towards self-insurance against vandalism damage in public schools which began during a tight market several years ago, is becoming even more popular as administrators view another predicted capacity crunch in the insurance industry.

Many large urban school systems already are self-insured, and more are learning that tighter security, special curriculum programs, and a more cost-conscious administration can hold vandalism losses to a minimum and help reduce the risk of going self-insured.

The initial tightening of the school property insurance market began in the late 1960s. Under-

writers and risk managers at that time placed the blame largely on widespread student unrest.

"Many municipalities were forced to look really hard," commented Delbert Betterly, risk management consultant with Betterly Assoc. in Boston as he discussed the schools' difficulty in obtaining adequate coverage during this time.

MR. BETTERLY further explained that large losses at a school would often mean cancellation of policies.

Vandalism coverage in itself does not exist. A school district must purchase fire, theft and malicious mischief coverage. Extended all-risk coverage also is

frequently part of the package.

Government-sponsored FAIR plans, established in 1968 to make fire and basic property insurance available to those who could not qualify for coverage by commercial insurers, provided an alternative for some schools that preferred not to pay high premiums or could not get any coverage.

However, FAIR plan policies can only be written with limits of \$500,000. Insurance against fire, with extended coverage, property damage, and loss resulting from malicious mischief are included in the policy.

"Most schools are worth considerably more," said Lloyd Shook, head of the Illinois FAIR plan, referring to the minimal

limit permitted on FAIR policies.

Presently, Mr. Shook said that his office "doesn't write many schools," and also commented that there haven't been inquiries from schools for the past one and one-half to two years. This leads him to conclude that there is now "no school insurance problem."

WHILE THE PROBLEMS of several years ago have largely vanished, there does remain the prospect of tighter markets ahead.

One man who believes that rates for such insurance aren't as competitive as they were only a year ago is Richard C. Lofberg, chairman of Clarence Lofberg Inc. of Teaneck, N.J., who has acted as consultant to the New Jersey

school system.

While rates aren't going up, he says "discounts aren't being given."

As insurance companies become more restrictive, he expects FAIR plans to gain in popularity. Placing excess coverage on top of this will compensate for the low policy limit.



American Insurance Assn.

Excess coverage, claims Mr. Lofberg, is frequently easier to obtain than the initial policy.

New Jersey school boards are currently pushing for legislation which would allow them to become self-insured. The current annual bill for fire, theft and vandalism coverage is estimated at \$60 million.

Assemblyman Daniel Newman, sponsor of the bill, previously twice defeated, claims that creation of a self-insurance fund could save school boards between \$2 million and \$5 million in premiums annually.

Mr. Lofberg does not expect passage of the bill this time around, either.

Among the school districts already self-insuring is the Mt. Diablo Unified School District, 22 miles east of San Francisco. It is a medium-sized school district that has been largely self-insured for the past two years.

A FUND HAS been set aside by the board of education to provide for losses to property or for unusual peril, explained Dan Pope, business manager of the district.

The self-insured deductibles range from \$50,000 to \$100,000. Losses costing less than this are paid for with other funds allotted for less drastic vandalism damage.

The district also has \$7,250,000 worth of fire coverage on a first loss basis with Lloyd's of London for each of the 60 schools under its jurisdiction.

A \$50,000 deductible is included in this policy, which allows for all-risk coverage. Lloyd's was chosen because this "bid was among the lowest and they met our specifications," said Mr. Pope.

Why did the Mt. Diablo district choose to go self-insured? Mr. Pope explains:

"About four years ago, when the climate for insuring school districts was uncertain, and we had had several fires which nearly caused an increase in our insurance, we felt that our experience required us to have a deductible insurance fund to protect ourselves against small losses and keep premiums low."

Fire losses for the district have amounted to \$120,000 during the past two years.

Prior to creation of the self-insurance fund, the district was paying \$97,000 in premiums for similar fire coverage on a five year basis with a deductible varying between \$1,000 and \$25,000.

Continued on page 25



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Schools . . .

Continued from page 26

Now, Mr. Pope explains, the premium is a three year guaranteed rate of \$56,121, paid annually.

Theft is totally self-insured in the Mt. Diablo district. This saves payment of the previous premium rate of \$1,250 per year. No losses due to theft have yet occurred.

Altogether Mr. Pope estimates that the district spends \$140,000 annually for vandalism damage. This includes all overhead, including labor and replacement materials.

Over half these expenses are due to broken windows, said Mr. Pope. Approximately \$1,200 to \$1,300 is spent annually at each school for window repair.

An anti-vandalism campaign has been introduced in the Mt. Diablo schools to further curb potential vandals. Essay and poster contests with cash prizes are sponsored.

A 5% to 10% reduction in vandalism damage has been attributed to these educational programs.

Increased safety and security procedures have also been adopted to act as further deterrents.

Installments of electronic motion



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detectors and flood lighting in key locations, employment of additional custodial staff, an equipment identification plan, and construction of several vandal proof and fireproof rooms are measures that have been undertaken by the school district.

A similar insurance program is in effect at the Los Angeles Unified School District.

A fire loss reserve fund will self-

Ford budgets 1976 hike in OSHA \$

WASHINGTON—President Ford asked Congress in his federal budget proposal to allocate \$116 million to operate the Occupational Safety and Health Administration (OSHA) in fiscal 1976.

That represents a 13.7% increase over the fiscal 1975 budget of \$102 million for OSHA.

Some \$7 million of the increase is to finance the federal government's 50% cost sharing with four new state job safety and health programs expected to come on line this year. There are currently 26 OSHA-approved state programs.

Another \$6 million of the increase will go to finance OSHA's own federal enforcement program. The money represents in large part full year salaries for about 320 new OSHA inspectors authorized by Congress last year and to be hired early this year.

The total number of OSHA inspectors in fiscal 1976 is expected to remain at a level of around 1,100, however.

An additional \$1.1 million of the increase will fund data collection programs.

insure \$1 billion worth of school property. Currently there is \$5 million in the fund.

"We recognize that this is an inadequate amount, but it takes care of emergencies," commented Dr. Clifford Allen, insurance manager of the Los Angeles County school system.

Losses due to theft are totally self-insured, with deductibles up to \$4,500 per loss, in Los Angeles city schools.

"We are trying to promote a risk management concept where small losses will be paid by expensing from a budgeted fund," said Dr. Allen. He claims the Los Angeles district found it more economical to insure only against catastrophe.

While Dr. Allen believes such a risk management plan is now a trend among urban centers, he added that most school districts in California do purchase insurance.

"As the market tightens up, the pattern will change" towards more self-insurance, he believes.

Dr. Allen feels that in the past three to four years, the market for this insurance has become "much more liberal and competitive," but he also stated, "It's not going to stay like that any more."

A decline in investment profits and amounts of surplus money in insurance companies, Dr. Allen maintains, will lead to higher rates, capacity reductions and greater selectivity in approving policyholders, "especially for liability," he said.

He further anticipates that some companies will drop out of the market.

Dr. Allen thinks that better protection systems and an educational effort to reduce vandalism are "having some effect," but said that there is "still a large number of incendiary incidents."

In Rochester, N.Y., increased security measures have had a positive effect in curbing vandalism, said Keith Marshall, coordinator of educational facilities for the Roch-

ester City School District.

Glass breakage is the big problem here. Rochester schools have no vandalism insurance. Instead, each school is insured up to \$500,000 for disasters.

Even when the number of vandalism incidents goes down, costs frequently remain high because the price of replacement glass has risen with inflation.

The high cost of glass and other construction materials is leading "to an increased awareness of the need to spend money on loss prevention," believes Dennis Cadian, vp, at Alexander & Alexander, insurance brokers.

Vandalism prevention, he said, has "much to do with the school authorities and their maintenance."

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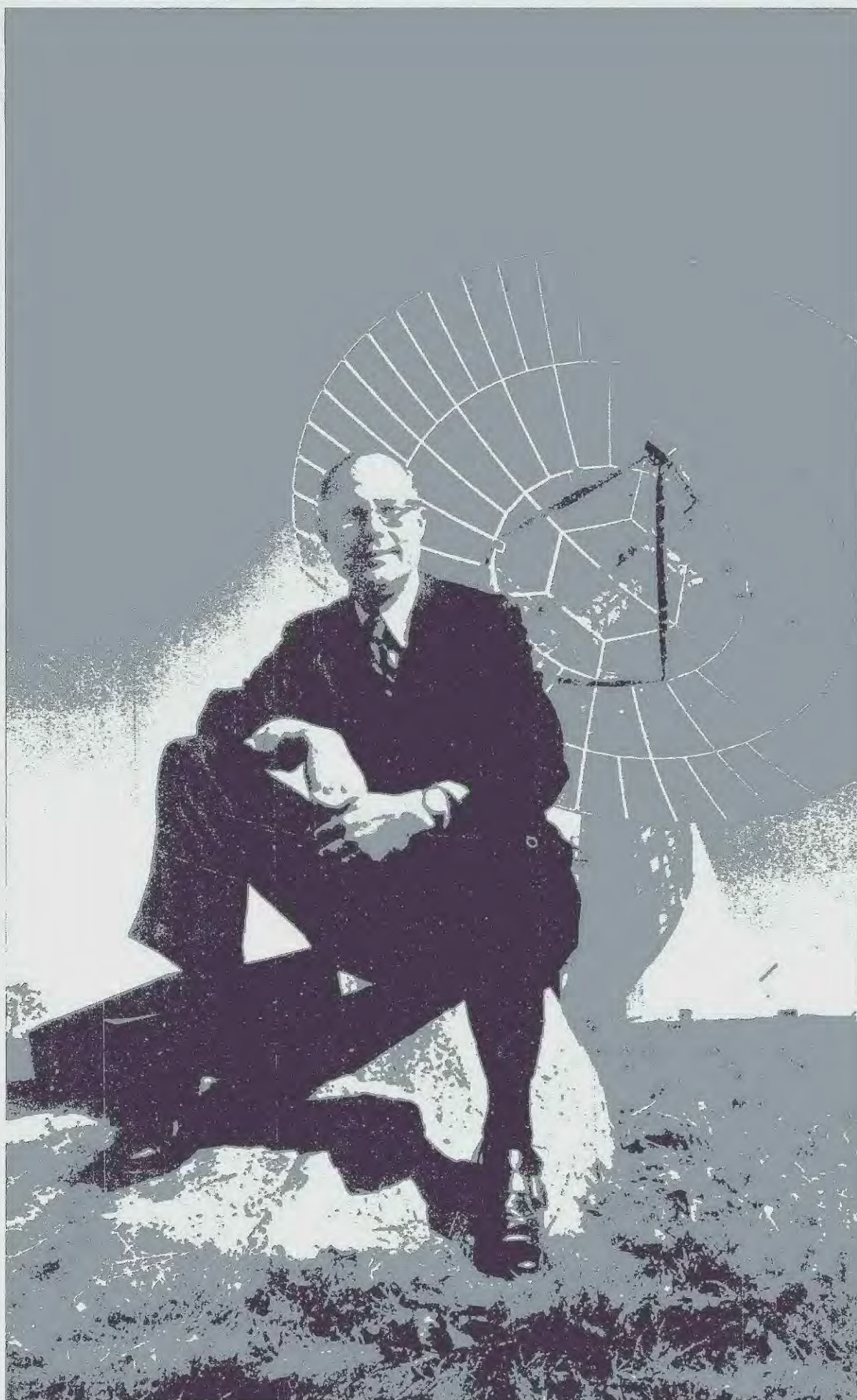
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PERSPECTIVE

Key to control of risk costs during recession is funding methods

"In today's economy, there may be a tendency to cut back on costly risk control measures. This should be avoided if at all possible . . . mistakes made in the haste of a capital crunch may be very expensive to correct after the squeeze is over . . ."



By JOSEPH F. BOYLE, CPCU
assistant vp
Management Services Division
Cameron and Colby Co.

WITH THE ECONOMY in a depressed state, a company cannot afford the luxury of a major uninsured or self-insured nonfunded loss. Such could be the "last straw" on the camel's back. And this is certainly the last thing a risk manager, who values his job, wants at any time.

The overall objective of the combined

art and science of risk management is the maximization of profitability and operating efficiency of the firm served by the risk manager, agent, broker, consultant or insurance company specialist. This is accomplished through the use of risk control and risk financing techniques.

But now, the risk manager suddenly finds himself in a "capital crunch." National leaders have made it official. The United States is in a recession. Businesses of all types and sizes are being forced to cut back. Cancelled expansion plans, over-stocked products, layoffs and no-hire policies abound.

Along with his employer, the risk manager must tighten his belt; in some cases he may be faced with a budget cut. All this comes at a time when the insurance industry has experienced the worst year in its history.

Rather than cry about it, let's approach this situation as positively as we can. Once the sources of risk are identified, what is the most efficient way to use the techniques of risk management to protect the assets of the firm? How can the risk manager best control risk costs in a recession economy?

CONSIDER THE TECHNIQUES. Briefly, they may be grouped into two categories. First, there is risk control designed to minimize the losses which may strike the firm. This includes risk avoidance, loss prevention, loss reduction, combination of expo-

sure units, and non-insurance transfer. Second, is risk financing, which includes various risk retention methods, borrowing to restore losses, insurance transfer, and non-insurance transfers which obligate others to pay for losses. The effective handling of the majority of exposures requires combining at least one risk control technique with one risk financing technique.

If we accept the premise that a firm's profitability is affected by its cash flow and that the selection of risk management techniques affects cash flow (and therefore profitability), we recognize the importance of the proper choice now—when cash flow is more important than ever.

A firm must have the cash resources available after a loss in order to continue operations with minimum disruption. Which risk management techniques will provide maximum post-loss dollars at minimum cost?

Risk control techniques are often less expensive than risk financing techniques, but they do not provide postloss dollars. They are, however, all-important in maintaining the going concern value of a firm. Moreover, risk financing becomes less expensive when losses are effectively controlled. Maximum use must be made of insurance company loss prevention personnel as a means to this end.

In today's economy, there may be a tendency to cut back on costly risk control measures. This should be avoided if at all

possible, provided the firm plans to remain a going concern in the future. Mistakes made in the haste of a capital crunch atmosphere may be very expensive to correct after the squeeze is over—if they can be corrected at all.

Cutbacks in planned expansion at this time may be an unrecognized blessing for the risk manager. It may be better not to build the new plant now, than to cut costs and build it without proper fire protection, for such misdirected thrift can result in greater loss potential and higher insurance costs. Increased production efficiency of existing facilities may be a better approach.

A prime question exists in the minds of many risk managers today: should the firm insure and pay increased premium as a result of increased rates and inflation-boosted values or should it make use of other risk financing techniques and save premium dollars? A close examination will show that in most instances, balance is necessary. Although insurance should be last on the risk manager's shopping list, its value and his dependence on it may have to increase in a time of economic strain.

To self-insure without funding (i.e., non-insurance) is to court disaster. The amount of capital and surplus required to form a viable captive insurer would eliminate perhaps 95% of all firms.

Following a loss, the assets which could have backed a loan may literally have gone up in smoke. If credit is to be used to finance losses, it must be arranged in advance. Standby charges in the one-half of 1% range are common, when available.

The resultant conclusion for most firms must be risk retention through the selective use of insurance combined with increased deductibles to balance cost. For those too small for a fulltime risk manager but too large to ignore the problem it will mean the use of deductibles. With Uncle Sam effectively paying half the premium and half the deductible losses, it may be a bit more attractive to the risk manager.

THE PROPER USE of deductibles allows the risk manager to minimize his risk financing cost while at the same time providing all-important catastrophe protection. It allows him to avoid trading dollars with insurers.

However, selection of proper deductible levels is a difficult process, too complex for adequate discussion here. Full consideration must be given to the exposure, attitude, and financial ability of the firm, plus the compounded problem of cash flow in a recession. The various types of available deductibles for different situations, straight, disappearing, franchise and aggregate, must also be considered. If liability exposures are to be included in deductible plans, many risk managers will want the insurance company to handle losses within the deductible to avoid direct claimant contact.

The absence from this article of specific reference to many highly sophisticated risk financing methods, e.g., chronological stabilization, will be noted by some. Although such methods are highly appealing to larger firms when insurance capacity is restricted or rates increased, the writer does not believe they have sufficient appeal to the majority in the current economy, when cash flow requirements and present value are considered. There are exceptions of course; funding a substantial, non-voluntary deductible for example.

It is appropriate at this time to recall a few risk management cliches which—although well worn—are even more relevant in a recession:

"Don't risk a lot for a little."

"Don't risk more than you can afford to lose."

"Consider the odds."

It is well-recognized that in the long run, the insured pays for his losses. The risk manager's job is to find the least expensive method of spreading these loss payments. In today's economy a business cannot afford nonfunded or prepaid loss. Properly designed deductible insurance, while not a panacea, may be a worthy alternative. ■

Mr. Boyle is assistant vp, management services division of Cameron and Colby Co., Boston-based international insurance, and risk management consultants. Of his 20 years' insurance experience, seven were in the consulting field. Mr. Boyle is a director of the Boston chapter CPCU. He also holds the associate in risk management designation from the IIA.

'Claims made' malpractice cover seen relieving current crisis

"With the exception of medical malpractice insurance, most professional liability classes of risks are now written on a claims made basis."

By DAVID W. SHAND JR.
president, Shand, Morahan & Co. Inc.
Evanston, Ill.

Editor's note: This article is adapted from Mr. Shand's testimony prepared for, and submitted last month to Caspar Weinberger, Secretary of the Department of Health, Education and Welfare. Mr. Shand addressed himself, in this paper, to what he sees as the "one solution that will immediately reduce the premium 20% to 50% paid by the doctor, put the premium pricing on a sound basis both understood and accepted readily by doctors, insurance regulators and insurance companies, and increase today's availability of insurance market for (malpractice) coverage."

MANY CAUSES FOR the malpractice crisis and many solutions to it have been identified. However, what characterizes solutions such as shorter statutes of limitations, binding arbitration, review by

peer groups, elimination of court delay, revision of the contingent fee system for lawyers, etc. is that they are all long-term remedies which will take months and years to effect and many months and years thereafter until the dollar-reduction benefits will be felt. I suggest that those actions, all of which are desirable and should be seriously considered and probably implemented, will not solve today's crisis.

I will address myself to one solution that will immediately reduce the premium 20% to 50% paid by the doctor. I recommend that the insurance companies begin very promptly to write new and renewal medical malpractice policies on a "claims made" basis. The insurance companies can, or should be able to, furnish statistics which will demonstrate that the "claims made" basis for coverage is cheaper than the coverage presently furnished, without impairment of the coverage for the doctor.

What the "claims made" form of policy coverage will additionally do are the following:

- Permit the doctor to purchase in 1975, with 1975 dollars, limits of liability protection he needs for a claim brought in 1975. Permit the doctor in 1980, with 1980 inflated dollars, limits of liability he will need for an inflated claim brought in 1980.

- Permit the insurer to determine underwriting results for a given policy year at a much earlier date.

- Eliminate the need for heavy loadings.
- Assist the insurer in justifying and obtaining rate increases when they are needed.
- Eliminate actuarial crystal balling of a decade ahead.

- Give the regulator figures that are not so heavily weighted.

IF ALL OF THE above benefits can be realized and realized promptly, the "crisis" can be overcome promptly, and the doctors, insurers, legislators and regulators can then address themselves to the more involved and socially far-reaching solutions that have been widely proposed.

To understand why these benefits can be realized, it is necessary to understand the characteristics and differences between the claims made basis of medical malpractice insurance coverage and the basis on which the coverage is presently provided to the doctors.

Continued on following page

business insurance

PERSPECTIVE

Claims made form can lower premiums, broaden coverage...

Continued from preceding page

Professional liability was first written as occurrence coverage. That is, the policy covered acts or errors or omissions that occurred during the policy period, and it defended and paid for any claims that arose at any time in the future out of those occurrences. This pattern of coverage developed for two reasons, at least. First, insurers were concerned about the moral hazard. Few professionals carried insurance, and insurers did not want to pay for claims from applicants who waited to buy insurance only after they were aware of an error and an impending resultant claim. Second, it followed the pattern of automobile liability and general liability coverages in which the policies defended and paid for claims arising out of accidents which occurred during the policy period.

IN PROFESSIONAL liability and malpractice classes, the three elements of a loss—the occurrence of the error, the discovery of it and the claim against the insured resulting from it—may be spread over a considerable time. On the other hand, in automobile liability insurance, the driving error (occurrence) and the resultant crash (discovery of error) occur simultaneously and the claim is made against the driver usually soon thereafter—thus, the insurer has adequate knowledge, facts and time immediately after the accident to assess its possible future defense and loss liability.

It was the long lapse of time between occurrence and claim that gave professional liability its reputation for long tail. Insurers had to cope not only with the problem of inflation as it affected known claims, but the two additional burdens of unknown claims and the inflated economic costs of those claims when they became known, long after the applicable professional liability policy had expired.

The claims made form eliminates the long tail of the other form. It covers claims made against the professional during the policy period irrespective of when the error that caused the claim was made. It covers claims from prior and current acts or errors.

Since professional liability coverage deals with the claims made during the policy period, the insurer knows at the expiration of a given policy all the claims that will be reported against that policy and be paid for out of the premium for that policy. The insurer need not be concerned with unknown claims that may be made in future years at inflated costs. Of course, it must set up adequate reserves on the cases that are reported during the policy period and finally settled years later, but that is a problem of all liability lines.

THE CLAIMS MADE insurer can charge a lower premium each year than the occurrence insurer because the premium does not have to be loaded in 1974 for the unknown claims in subsequent years and, secondly, for the future inflationary development of claims reported as late as 1978. The argument is sometimes advanced in defense of the occurrence form that the claim cost and premiums for the two forms equate after a few years. This is not true. For example, in a historically inflationary society, the 1974 claims made premium is not burdened with the loading for adverse inflationary development of claims to be reported in 1978, and the 1975 premium is not burdened with similar development of 1979 claims. Hence, the claims made premium can always be below the occurrence premium, until the occurrence carrier estimates that the national economy will be historically deflationary.

The claims made form is not a new one. It has been used by Lloyd's on certain classes of business since the 1930s. Lloyd's has

been using this form for medical malpractice since 1967. Lloyd's, however, has less than one percent of the U. S. market, and the wording is not widely known and often misunderstood. With the exception of medical malpractice, most professional liability classes are now written on a claims made basis. All insurers of architect's and engineer's professional liability insurance use it. Nearly all insurers of agent's and broker's errors and omissions use it; and now many insurers of lawyer's and accountant's professional liability use it.

THE CLAIMS MADE form will not reduce frequency; will not reduce awards; will not eliminate the need for loss control, shorter statutes of limitation, etc. These problems must be dealt with by legislation and other long-term actions. They are, nevertheless, very important since the country is likely to adopt a form of broad national health legislation before the medical profession and the government have developed the facilities for providing delivery of the medical services to all segments of the population. Such disparity between the right to medical service and availability of medical service will exacerbate medical malpractice insurance problems in future years.

The objections to the claims made form most frequently raised have been:

- It can't be sold to professionals.

"The claims made form will not reduce frequency; will not reduce awards; will not eliminate the need for loss control, shorter statutes of limitation, etc. These problems must be dealt with by legislation and other long term actions."

- It does not give the doctor protection forever.

- If there is only one claims made carrier, and it goes out of the field the doctors are left with a gap for prior acts.

- The retired doctor is left without assurance of coverage and assurance that the cost will not be prohibitive.

Professionals will and are buying the claims made concept. During the past year at least a dozen bar associations, including the Assn. of Trial Lawyers of America, endorsed a claims made program for its members. Thousands of law firms have changed from an occurrence policy to a claims made policy wording. Architects buy it, engineers buy it, accountants buy it, and if the advantages of the form are studied and properly explained, insurance companies will sell it, and doctors will buy it because they will recognize it is better for them.

The unlimited protection of the occurrence policy for late reported claims is a delusion, offset by inadequate limits in an inflationary economy.

WHEN THE LAST occurrence carrier leaves the field, as is happening in some states, will the doctors be any better off than if the only claims made carrier left the field? In either case the doctors will have no insurance or the government will step in.

Coverage can be provided to the retired doctor at a reasonable price. A so-called non-practicing lawyers professional liability policy is sold to attorneys who retire or move to the bench; a similar "prior acts" policy can be made available to the retired doctor. He will buy a policy each year after retirement, as he buys an automobile policy each year after retirement, as he buys a homeowners policy with higher limits in order to keep pace with inflation. The premium for such retirement coverage will be

significantly less than he paid for the insurance during his active practice, because most claims, medical malpractice included, are reported within two to four years after the error is committed. The premium would no doubt vary from one medical specialty to another, but it will nevertheless be low. There have been proposals for writing a single prior acts policy for the retired doctor with a single premium for all the years subsequent to his retirement instead of separate policies each year. While appealing, these proposals are, of course, a watered-down form of occurrence coverage and are subject to similar inadequacies of limits of liability and pose similar IBNR actuarial problems for the insurers and the doctors. There is no need to do this since a prior acts policy premium will decrease with passing years as the exposure after retirement decreases.

Finally, there have been occasional suits challenging the claims made form. Generally, these situations have involved restrictive claims made forms or unclear statements of the coverage. These points are ably dealt with in the attached legal brief prepared by our claims attorney, Kroll, Edelman, Elser & Wilson, New York, N.Y., and such occasional objections are no basis for inhibiting action in the present crisis.

A sound, current cost of claims can be developed for claims made coverage. During the transition from occurrence to claims made policies most claims in 1975 and 1976 will be properly paid for under previously issued occurrences policies—insurers have already collected the premiums for such claims—so the premium reductions possible in 1975 and 1976 under claims made will be very substantial (from 20% to 50% depending on the state, the adequacy of the current "occurrence" rate level, and the medical specialty).

The doctors will further benefit by the knowledge that each year from now on the limits of liability they select can be adequate for the claims they may face.



David W. Shand Jr.

The additional value of a "claims made" basis policy was illustrated in a decision in Oct., 1974 by the United States District Court for the Eastern District of Michigan, Southern Division. In *P.L. Cantor Agency, Inc. v. Continental Casualty & Utica Mutual Insurance Company*, (Civil Action 32887), the Federal Judge held that an insured who holds an "occurrence" policy may be covered for negligent acts which "occurred" during the term of his policy with the "occurrence carrier", and then be additionally covered for the excess of such liability by the "claims made" carrier from whom the assured had obtained (after the expiration of his occurrence policy), a "claims made" form of insurance for negligent acts, errors and omissions.

THUS, PHYSICIANS who already hold occurrence policies and who hereafter obtain coverage under the "claims made" form, could have excess coverage in current dollars in addition to the insurance afforded to them under previously obtained "occurrence" policies of insurance.

In the well-known Gyler case, *Gyler v. Mission Insurance Co.*, 514 P. 2d (Cal. 1973) the California Supreme Court in effect held that a policy which affords coverage, in unambiguous language, for claims which are made against an assured during the policy period, is valid. To a similar effect is an earlier decision by the California Courts in *San Pedro Properties Inc. v. Sayre & Toso Inc.*, 203 Cal. App. 2d 750, 21 Ca. Rptr. 844 (Dist. Ct., App. 2d, Calif. 1962).

Although we have only cited cases involving the "claims made" policy form for the purpose of this brief, it should be noted that the "occurrence" type form of medical malpractice coverage has also been the subject of numerous cases involving judicial interpretation of its provisions.

The "claims made" form of professional liability insurance for physicians is decisively more responsive in meeting the reasonable expectations of an insured physician. With this form of insurance policy in hand, a physician knows that his policy limits will be more reflective of current times and the type of claim which may now be made against him. He will have 1975 policy limits available to meet 1975 claims.

The court decisions which we have discussed and others, show that the "claims made" form has met the requirements of public policy of the various states in which it was judicially tested, and establish the viability of this much needed type of insurance coverage.

Mr. Shand has been president of Evanston, Ill.-based Shand, Morahan since 1970. Shand, Morahan is underwriting manager for five insurance companies, and is a surplus lines broker and reinsurance intermediary. The firm specializes in professional liability insurance. Before 1970, Mr. Shand was president of James S. Kemper & Co., Chicago, an international brokerage firm specializing in commercial business. He was also president of Excess Underwriters Inc., a Kemper agency affiliate, which emphasizes excess and surplus lines and professional liability.

Both the insured and the industry have a responsibility under the claims made form. The doctor's responsibility is to buy an insurance policy every year, even after retirement. That is certainly not burdensome. The industry's responsibility is to provide continuity of market. The combination will go a long way toward eliminating the financial pain of judgments in excess of policy limits, and provide the industry with the tools for establishing a reasonable and correct price each year based on current economic conditions and for providing a stable insurance market.

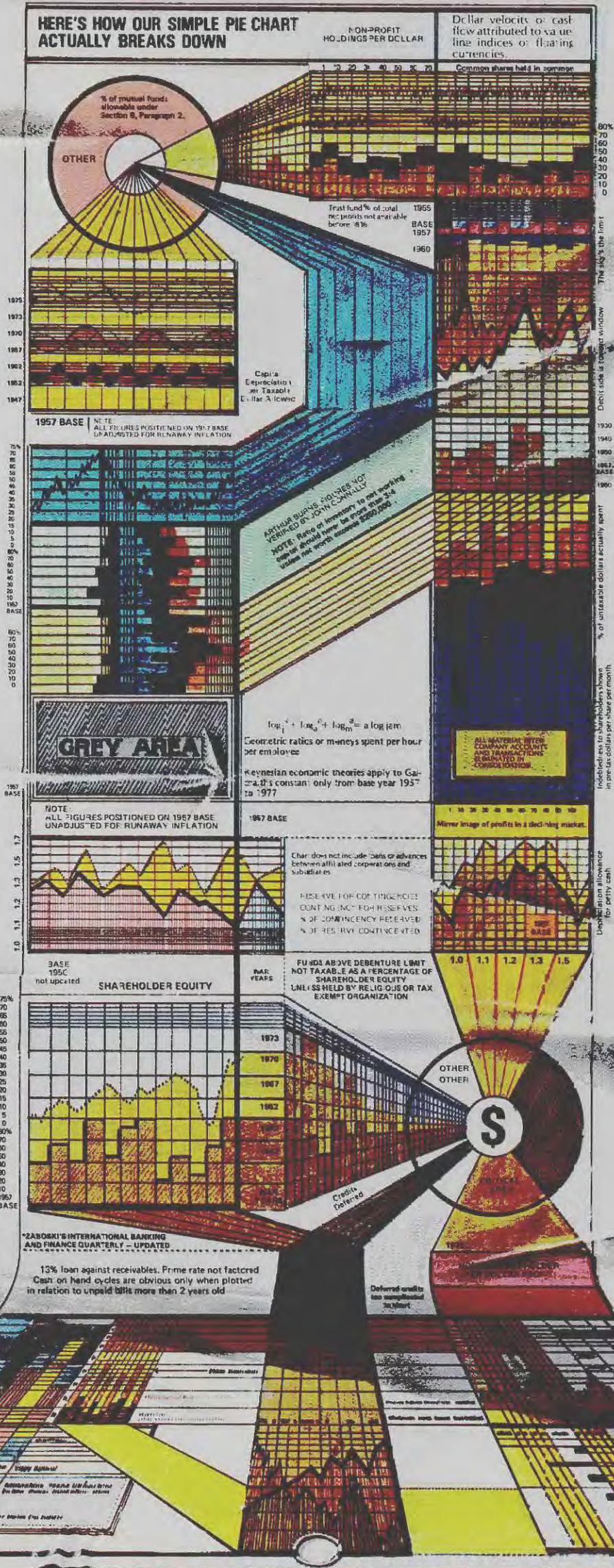
(The following legal report on the judicial history of claims made liability insurance policies was prepared by Kroll, Edelman, Elser & Wilson as a supplement to Mr. Shand's testimony to the HEW.)

The "claims made" form has been judicially approved, as a valid and viable type of professional liability insurance. Considering the substantial number of "claims made" type of professional liability policies written across the broad spectrum of the insurance industry, there has been relatively little litigation with respect thereto.

In a leading case *J.M. Construction Co. Inc., V. D & M Mechanical Contractors, Inc.*, 222 So. 2d 93, (1969), the Court of Appeals of Louisiana for the First Circuit upheld the "claims made" form as a valid type of policy. The Supreme Court of Louisiana in 1973 in *Livingston Parish School Board v. Fireman's Fund American Insurance Co., et al.*, 282 So. 2d 478, made a similar ruling.

The court in the latter case significantly said in part: "No reasonable expectation of coverage by the insured was defeated by the unambiguous provisions clearly limiting coverage to those claims discovered and reported during the policy period."

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Marine service firm's new risk mgr. focuses on retention, loss control

By HARRIET KING

SEATTLE—Getting oil out of Alaska may be the ultimate goal, but getting supplies and equipment up there to build the pipeline is the immediate objective that's keeping things humming around Puget Sound these days. The multi-billion dollar job is putting a premium on all types of transportation facilities—land, air and sea.

Among marine carriers, it has meant revenue increases approaching 100% in the last three years for the Foss Launch & Tug Co., one of the largest marine service companies in the world.

But as business increased, the risks also multiplied for the company, started in 1899 with a single

rowboat by the legendary Tugboat Annie and her husband, Arthur Foss. Today, as tugs and barges loaded with housing modules, cement mixers, myriad construction supplies and equipment wend their way north, they go through often turbulent coastal waters and the stormy, icy Gulf of Alaska. And because the craft are farther from civilization, when problems develop, help isn't likely to come quickly.

"The marine business has traditionally been fraught with accidents" since it is at the mercy of nature and human frailties, says Walter E. Beaumont, the company's new risk manager. "Therefore, safety has to have a top priority.

"Marine coverages have large deductibles and retentions but we can only absorb so much. We've just got to cut accidents to save the bottom line," says Mr. Beaumont, a soft spoken native Londoner.

IN ALASKA, Foss has a big help in keeping losses down: In 1968, Foss merged with the Honolulu-based conglomerate Dillingham Corp., which owns the only dry dock in Alaska, crucial for doing needed hull work and other repairs.

Foss' ocean towing capabilities are worldwide since towing and barging remain two of the world's most economical methods of moving goods over water. But outside

of Alaska, the majority of Foss activities occur in the home waters of Puget Sound, moving tons of logs, lumber, heating oil, sand, gravel, industrial wastes, etc. Ship assists are important, too. Many ships are so huge, they don't dare maneuver under their own power and need tugs to help dock and undock.

Because Foss' daily work is so diverse, Mr. Beaumont feels that "safety is an oblique area that people tend to ignore until a substantial number of losses are reported. We're now trying to diagnose problem areas to get at solutions early on."

As a major step, the company last fall created the risk manager position, including responsibilities for the managers of marine and industrial safety. Mr. Beaumont now is trying to make first line managers "more aware of safety before, rather than after, the fact. In the past, if an accident occurred or something needed cleaning up,

someone would yell 'get the safety man.' We're trying to switch this thinking so that our men are thinking safety-before an accident happens, so that our safety men function basically as inspectors. To do this, we need the fullest management cooperation."

FOSS' LOSSES in the first 11 months of 1974 were under \$1.5 million for the company's 160 barges and some 80 tugs that range from draft river boats and harbor tugs to mighty-ocean going work horses of 6,000 pounds tonnage. "We run all expenses through the insurance department to keep a record of all casualty type losses, whether they are insured or not," he says. About 75% are self-insured or in the form of large deductibles.

In addition to the tugs and barges, Foss property includes the headquarter facility, two 130-foot drydocks, a loading terminal for loading barges destined for Alaska, and a 15-acre pier facility for loading goods into containers.

Although Foss suffered the greatest loss of its recent history—a \$500,000 tug which sank in rough water off Alaska—the majority of losses are strandings, heavy weather damages or collisions.

"Collisions—mainly hitting stationary objects—are frequent because of the great number of landings we make and the nature of our equipment," says Mr. Beaumont. And he mentions a "freak" collision which occurred late last year when the company was moving a huge crane through a ship canal to Seattle's Lake Union. Earlier in the year the crane had been moved to Foss' shipyard with no problem; in the interim, a 20-foot extension was added so that the crane extended 143 feet and a bridge it had to clear—and didn't—was only 139 feet.

This resulted in \$20,000 in bridge repairs and another \$15,000 to replace the crane's gantry. "The trauma for the men involved was the fear that either the crane or parts of the bridge might fall on them," says Mr. Beaumont.

COLLISION LIABILITY was not originally in the policy covering hull and machinery, "but eventually the U.S. collision liability was put wholly into hull and machinery property damage coverages." The law was also amended to include the tow vessel as well, whether it be a barge, ship or drilling rig, etc. He contrasts this with England's "three-quarter collision liability clause. The balance is a protection and indemnity clause," says Mr. Beaumont.

Before joining Foss in 1973, Mr. Beaumont was a claims adjuster, an expert in marine claims, with Marsh & McLennan. Born and raised in England, he worked as a claims adjuster in London before joining Marsh & McLennan in 1958.

In 1973, he joined Foss as assistant insurance manager, became manager a year later. He recalls that "in the last few years, marine insurance has changed with deductibles getting continually higher. The bread and butter business is shrinking with so much self-insurance in the field and major claims are getting more complex. So I decided to leave the underwriting end and to get on the other side of the fence."

At Foss, Mr. Beaumont says the only major change made recently was to set up self-insurance for the longshore and harbor workers' compensation claims. How much Foss would have had to pay in premiums for similar coverage, though, "is not too clear as our insurance programs are continually evolving."

Continued on page 33

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Foss tug . . .

Continued from page 30

Personal injuries for seamen are under the protection and indemnity cover. Shipyard employees are covered by the Longshore and Harbor Workers Act and others, including office workers, under the Washington's state workers' compensation act.

"The federal government is trying to raise state workers' compensation countrywide to levels comparable to the Longshore and Harbor act. In Washington state, both coverages are at about the same level, but I understand that in some southern states, this does not hold true," says Beaumont. He adds that seamen receive even greater coverage under Admiralty Law as wards of the U.S. courts.

FOR ITS containerized, I.C.C. weekly shipments to southeast Alaska, Foss provides insurance for cargoes in a variety of ways. Tariff fees include insurance on goods that Foss ships out, excluding the canned salmon that is southbound seasonally from Alaska. "The value of the salmon pack is so tremendous that we couldn't attempt to provide the coverage, in case the cargo was lost," he says.

On some cargoes, such as modular housing units shipped from Long Beach, Ca., "we arrange private carriage contracts, that is, the owner of the cargo arranges the insurance. In addition to our own coverages, we request that we're named coinsurers with the cargo owners along with a waiver of subrogation. Otherwise, our costs would increase prohibitively," says Mr. Beaumont.

Normal business coverages—buildings, fidelity, etc.—are incorporated into coverages with the parent company, Dillingham. Employee benefits, too, are handled out of Honolulu. Mr. Beaumont says that Frank B. Hall & Co. of Washington is Foss' marine broker and Johnson & Higgins handles non-marine policies. Corporate-wide, Dillingham has a loss control administrator who operates out of Walnut Creek, Ca., although "separate divisions like Foss have our own line risk management and safety personnel. The California administrator is a kind of overseer who keeps track of all corporate losses," Mr. Beaumont says.

Mr. Beaumont however, can also draw on the knowledge of risk managers of the other Dillingham companies such as Pacific Towboat & Salvage in Long Beach, Albina

Heil policy covers award

MILWAUKEE—Record damages awarded in a Texas product liability suit are covered by the Heil Co.'s liability insurance policy with employers Insurance of Wausau, a company spokesman announced.

A jury awarded \$475,000 to the family of a man who was crushed to death when his brother accidentally brushed against a cable, causing the bed of the dump truck to come down on him.

THE DECISION was appealed and the outcome is expected within eight months, a company attorney said.

The suit charged the dump truck hoist, manufactured by Heil Co., was "dangerously defective" and that Heil designed and sold the product "with gross or conscious indifference to the rights, welfare, or safety of the persons who might be affected by their acts."

The Heil Co. official declined to reveal the limits of the policy but said they were sufficient to cover the award.

Shipyards in Oregon, Washington and Alaska and Dilmar and Young Brothers in Hawaii.

"We had a corporate risk managers meeting in October in Honolulu, attended by 20 risk management staff people and 18 others plus representatives from brokers' offices. Maritime safety people also have quarterly meetings," says Mr. Beaumont, "so the interchange between branches is continuous."

Mr. Beaumont wryly concludes that "We've been fortunate in the losses that we haven't had." For instance, at midyear 1974, Foss lost the contract for barging several million dollars worth of fertilizer headed for Northwest farm lands. Only three months later, the \$8 million barge went down. "The same thing could happen to us, though, anytime," he cautions. He says his bills of lading limit the loss from a single barge to \$3 million. "But you seldom know the precise value of a cargo until there is a loss," he notes.

Judge reduces jury award

ALEXANDRIA, VA.—A federal judge has reduced to \$250,000 from \$500,000 the damages awarded by a jury to a construction worker injured in the 1973 collapse of a 24-story apartment building in Falls Church, Va.

U.S. district court judge Albert V. Bryan reduced the award last month, but the entire case is being appealed to the federal appeals court in Richmond, Va.

A federal court jury in January ruled that Virginia's workers' compensation law did not protect the structural engineers and architects from liability. (*Business Insurance*, Jan. 27, 1975).

The contractors involved in the project were earlier ruled immune from liability by the worker's compensation law.

Defendants in the case are structural engineers Arthur Black & Jeffries, of Washington,

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ance (engineers) was with Mutual Fire, Marine & Inland Insurance Co. Architects' liability was with GNA.

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RIMS member urges state adoption of all 19 work comp recommendations

By PAUL R. MERRION

CHICAGO—Immediate adoption of all 19 national commission recommendations on workers' compensation was urged by a Risk and Insurance Management (RIMS) member testifying before the Illinois Commission of Labor Laws' subcommittee on workers' compensation.

The hearings have also heard other experts and victims describe the compensation system in Illinois, which, according to the national commission's recommendations of 1972, ranks as the fifth worst in the nation.

The largely conservative, Nixon-appointed commission gave the states three years to comply

with its recommendations, after which the responsibility for an adequate system would be assumed by the federal government.

As that deadline fast approaches, the subcommittee must hear testimony and ponder the issue: what can be done to improve the workers' compensation system in Illinois?

THE FIRST to admit that the system is "all wrong" was Melvin Rosenbloom, chairman of the Illinois Industrial Commission and the man in charge of enforcing the state's workers' compensation laws.

"The incentives are all backwards under the system," he said, referring to the larger fees law-

yers on both sides receive from going to trial rather than settling out of court.

Mr. Rosenbloom estimated that last year \$50 million of benefits paid went to pay attorneys' fees.

In his testimony at the last day of hearings, Feb. 15, Art Saret, risk manager of Esmark, Inc., and a member of RIMS, called for less burdensome means of determining equitable benefits.

"CURRENTLY, HEARINGS before the Industrial Commission not only impose a substantial financial burden upon the employer but also upon the employee. Normally these hearings result in the delay of benefits payable because each side tends to hedge

their position," Mr. Saret said.

"The responsible employers of Illinois, which employ a large percentage of the work force, have in many instances shown their willingness to comply with their social obligation for just payment by subsidizing workers' compensation benefits through their employee benefit programs," he continued.

"We must cut all the fat out of the present program," he said, or else "the burden will fall directly upon the American public and benefit payments will become more cumbersome, slower in deliverance and more costly to administer."

Mr. Saret also said that benefits should be coordinated to reduce "wind-fall" income. In some instances, he said, benefits that are paid in addition to workers' compensation can add up to "a substantial income that may be conducive to malingering and/or moon-lighting."

else who can comply," he said in the interview. "If I want to pay a benefit of \$150 instead of \$106 (the maximum in Illinois), let me do it without a hassle."

In his testimony, Mr. Saret said, "The employer must be relieved of the maximum amount of wasteful fringe and administration expense under the current system, thereby providing more dollars to flow toward the employee benefit."

"THE WAY TO provide more of the necessary dollars may not be through more regulation and legislation, but perhaps through a liberalization of the ways and means responsible employers can provide equitable benefits faster," he said.

Mr. Saret called for cooperation among legislators, industry and the Industrial Commission to develop a program that would place less restrictions on large corporations.

Mr. Saret's fourth major point was that workers' compensation should be redefined as the exclusive legal remedy of the employee against the employers.

"The virtual double-jeopardy of a third party action resulting in subrogation against the employer tends to prostitute the meaning and the intent of the Act," he said.

The added costs of third-party lawsuits and other aspects of the present workers' compensation law form an administrative overhead that "must ultimately be passed on to the consumer, as a matter of financial stability," Mr. Saret said.

"Therefore, we recognize that the employer not only has an obligation to the employee but also an obligation to the consumer to stabilize the cost of the product delivered and to minimize the inflationary bite taken out of every pay check," he said. ■

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"WHEN WE STATE that the employee must receive just benefits, we are referring to a double-edged sword. The benefits must be equitable for the individual and all other employees under the Act as well as for the employer," he said.

Another point Mr. Saret urged the subcommittee to consider is that "responsible employers should be relieved of some of the burdensome and costly procedures currently required of them" under the Act.

Mr. Saret told this magazine in an interview that chief among those procedures are restrictions that do not allow companies in Illinois to self-insure workers' compensation benefits. He defined "responsible employers" as those among the Fortune 500.

"There should be a minimal standard (for procedures) set for larger corporations or anyone

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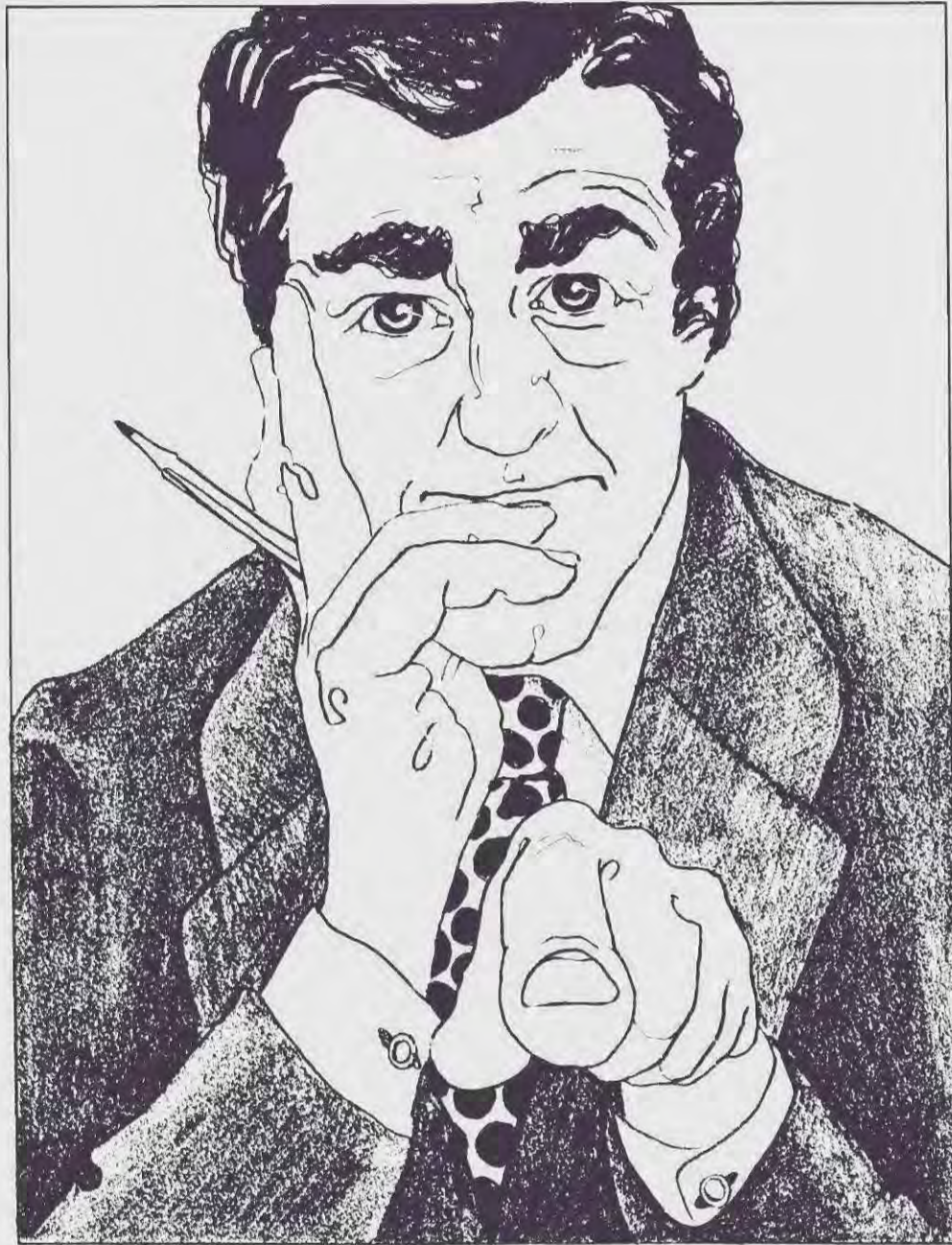
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Automation gives loggers new insurance deal

By LINDA MOSKOWITZ

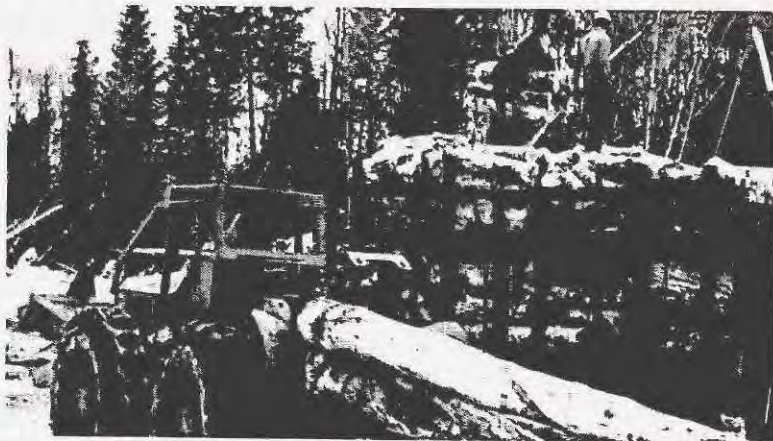
NEW YORK—Historically considered a poor risk by most insurers, increased mechanization and professionalism in the logging and sawmilling industries is making this largely ignored market

more attractive to underwriters. Members of the Northeastern Loggers Assn. (NELA) are now benefiting from this reversal with a comprehensive property and liability insurance package developed by two insurance agents, owners of ForPac, Forest Products Agency

Co. in Norwich, Ct.

NELA is the oldest trade association in the Northeast devoted to the harvesting and processing of wood products.

The program, available to members of six New England states, focuses on workers' compensation coverage, and features dividend payments when higher safety records hold claims below premium levels.



Loggers in the Northeast receive workers' compensation through a plan sponsored by Northeastern Loggers Assn. through Forest Products Agency.

RETROSPECTIVE RATING

by John R. Stafford

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TO PROMOTE greater safety within the industry, a safety committee consisting of several insureds is formed in each state "to review losses and maintain a positive attitude toward safety," according to Les Young, one of the creators of the NELA-sponsored insurance program. A central safety committee oversees the activities of the state committees.

Mr. Young's concern for improved safety in the industry stems from his own direct experience in the field. He holds a master's degree in forestry from Duke University and worked for several years for the West Virginia Pulp and Paper Co.

The ForPac Agency was established in 1969 by Mr. Young and his partner, Ernie Poore, to specifically serve the forestry industry. This agency is a subsidiary of their RL&G Agency in Norwich.

Zurich-American Insurance Co. in Chicago, the American arm of the International Zurich Insurance Group, agreed to underwrite the workers' compensation program

for ForPac, after it was rejected by at least 15 companies.

In addition, Zurich-American underwrites the optional coverages that are available in the package, including various liability and property/casualty lines.

General and automobile fleet liability is offered with limits of \$100,000 bodily injury per person, \$300,000 bodily injury per occurrence, and \$100,000 property damage for each occurrence. Policy limit may be increased substantially, if the insured desires, subject to underwriting requirements.

Equipment floaters are also available for large machinery, covering damage due to fire and other perils.

VEHICLE COVERAGES include collision and protection against fire, theft and other perils, property insurance protecting investments in buildings and equipment, independent contractors liability, and boiler and machinery coverage are other options. Further coverages can be requested as well.

Although Mr. Young and his partner were prepared with an extensive study to support their proposed insurance program that detailed the advantages of providing coverage to the changing logging industry, they had difficulty finding a carrier.

"The industry is stereotyped," explained Mr. Young. "People just envision loggers swinging axes, chopping their legs off and dropping trees on each other," he said.

Fortunately, the methods currently employed in forestry are far more sophisticated, although automation has become widespread only within the past 20 years, in an industry that dates back to the 1630's in this country alone.

Today a logger can perform a variety of tasks once done by hand or with horses, in less time and sometimes without leaving the cab of his mobile machinery.

The stocking of large supplies of costly machinery with which to produce processed wood and wood products at a much faster rate has made lumber manufacturers aware that forestry is becoming big business, requiring a more extensive risk management program.

ONE INDUSTRY representative stated in a speech to the 19th Northeastern Loggers Congress that in 1956 when horses were used with a sled to transport lumber, the investment in equipment was less than \$1,000.

"Well, in the space of 18 years," the official continued, "we have arrived at a point where in order to go into this business you need a four wheel drive truck, and a hydraulic loader—you need \$50,000 to \$60,000 in order to start in the logging business. This is an amazing transition in the space of 15 to 16 years."

Similar technical advances have been made in other aspects of the

Continued on page 37

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Loggers' package plan . . .

Continued from page 36
forestry field.

While mechanized operations contribute to better safety records, OSHA compliance has had as big an impact. Mr. Young explains that just by enforcing the use of hard hats and steel-toed shoes by logging industry and snowmilling workers, a large number of accidents have been avoided.

"And we're just getting started with this trend," Mr. Young stated enthusiastically.

The incentive to obtain dividends in ForPac's workers' compensation program is also making employers take increased note of safety precautions.

"There was no particular reason to care before," said Mr. Young. "Now if they perform safely, they will get a good deal of their premium back. Money talks."

FRED SIMMONS, the executive secretary-treasurer of NELA, is quite optimistic about the program. NELA has about 1,000 members and the program has been sold to several hundred of these employers.

Some members are self-insured for workers' compensation, such as the International Paper Co., which is prepared to pay up to \$50,000 in an award for any individual case, according to Mr. Simmons. Kemper Insurance Co. provides excess coverage for them.

The decision to expand the divi-

Surety bonds still required on federal job

NEW YORK—The General Accounting Office (GAO) advised continuation of the requirement of surety bonds for federal construction projects. A report recently issued argued against the government becoming a self-insurer for payment and performance bonds and strongly endorsed the current bonding system.

Under the provisions of the Miller Act, surety bonds are required for any federal construction, alteration or repair contract over a minimum contract price. The bonds are posted and the premiums paid for by contractors.

IN 1974 contract bonds for federal government projects totalled \$24 million, 9% of the market for such bonds, according to the Insurance Information Institute.

The report also urged Congress to amend the Miller Act to permit federal construction agencies "to require contractors to furnish up to 100% payment bonds," for labor and material supplied by subcontractors.

Currently the act requires payment bonding up to 50% depending upon the size of the construction project. ■

Gallagher to London

Arthur J. Gallagher & Co., Chicago-based brokerage firm, formed a joint venture with Hinton Hill & Coles, London, a major Lloyd's broker. The resulting company, Gallagher, Hinton and Vereker Ltd., is 57% owned by Arthur J. Gallagher & Co. Directors of the company are Robert E. Gallagher, president of the Chicago firm, and John Gallagher, also an officer of the Chicago brokerage firm, along with David W. L. M. Vereker, John Shaw, and David Arnold, all of the London firm. Mr. Vereker was formerly with Stewart Wrightson Ltd., another large Lloyd's broker.

dend-paying workers' compensation program was prompted by the successful experience in New York state, where 42% of premium payments were returned last year. A pilot project was begun here in 1966.

Each state has different base rates for employer-contributions to the workers' compensation fund. Rates can vary from \$10 to \$23 per \$100 of payroll. New York employers pay approximately \$23 per \$100.

Before this pilot project was created in this part of the country, many employers had to contribute an extra 8% on top of this premium due to their assigned high-risk status.

ForPac's workers' compensation coverage is available to NELA members in Connecticut, Maine, Vermont, New Hampshire, Massachusetts and Rhode Island.

"**THIS IS ONLY** one phase of a greater safety consciousness in the industry," Mr. Simmons commented on the program. Future plans include offering group life, accident and health, and a retirement program to members. Life and health will be underwritten by Connecticut General Life Insurance Co., and the retirement program will be handled by John Hancock Insurance Co.

NELA is waiting for the economy to improve before extending the insurance program any further. Hopefully, these benefits will be offered by April, according to Mr. Young.

Improvement of fringe benefits is a major objective of the industry in order to attract a larger workforce and make the industry more competitive. In the past, many logging firms depended on Canadian labor to compensate for the lack of Americans willing to do such work.

The development of vocational

training schools for forestry and increased emphasis on safety and worker benefits is, however, contributing to a more professional

attitude in the industry, and many loggers hope these changes will enable them to improve their insurance programs at reduced rates. ■

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Marine loss prevention hinges on safety data

By MARIE KRAKOWIECKI

NEW YORK—In the wake of the tragic Delaware River crash of the Edgar M. Queeny into the Corinthos last month, a grim picture emerged on maritime loss prevention procedures.

The records show that human errors are far and away the biggest cause of ship accidents, and that hundreds upon hundreds of American seamen are neither physically nor psychologically suited to their responsibilities.

U.S. marine underwriters contend they are more concerned with loss prevention than are their arch rivals in the London market. That may be true enough.

BUT THE FACT remains that the U.S. Coast Guard is hamstrung in its efforts to establish something basic to any safety program: medical examination and physical standards for licensing and certifying merchant marine personnel. Nor does the U.S. Public Health Service have specific criteria for medical standards required for seamen's ratings.

The only commercial depository for illness and injury data on personnel of U.S. merchant marine and affiliated industries is an organization called the Marine Index Bureau.

The MIB, whose Battery Place offices overlook the New York harbor and the Statue of Liberty, provides a valuable "pre-employment reports" service to which most shipowners subscribe on an annual, flat-fee basis. The few exceptions are Waterman Ship Co. of Mobile, Al., and ironically, Keystone Ship Co. of Philadelphia, shipping agent for the ill-fated Queeny.

MIB wouldn't discuss specifics of its individual subscribers, but apparently Keystone occasionally uses the pre-employment statistics, paying separately for each report it requests.

Bruno J. Augenti, a former sea captain, is chairman of the MIB; a retired navy captain, Robert B. Hart, is president. They run an operation that keeps records on the health and injury backgrounds of more than seven million seamen. Whenever a subscriber to their pre-employment service is about to hire a seaman, it merely has to make an inquiry to MIB to get a same-day answer.

The MIB makes no recommendations on whether or not to hire a certain person. But if the statistics it provides paint a suspicious safety picture, the shipowner can (and under U.S. maritime law, should) refuse to take the seaman onboard.

CAPTAINS AUGENTI and Hart warned against drawing a direct relationship between a shipowner's subscribing to their statistical service and its resultant safety record. Some shipowners (Keystone presumably among them) keep their own safety statistics, the two company officials point out.

Nevertheless, prominent marine underwriters give high scores to the value of the MIB service in loss control and safety. Yet use of these statistics, or comparable ones, does not appear to be a mandatory part of the underwriters' contracts with insureds, despite the edge they could provide in cutting back on human error.

Last year the American Hull Insurance Syndicate estimated that about 85% of the amount it pays in annual claims could be traced to human failure.

And a study of total tanker losses between 1964 and 1973 concludes that human factors appear

to be the main cause of strandings, fires, collisions, and explosions in cargo tankers.

Arthur McKenzie, director of the Tanker Advisory Center, completed the study. Having identified the human problem, he also fingered an alarming related trend: total loss ratios of tanker tonnage is on the increase.

LAST SPRING, the center reported 74 deaths and 151 injuries in 1973 for casualties of world tankers weighing 6,000 tons and more. It found that the ratio of percentage of casualties to total tankers in the world was 33.9%. The human factor would seem to play a big role.

In a breakdown by registry, the center listed the American tanker rate of casualties per tanker at 23.7%. In contrast, Jap-

anese tankers, which traditionally hire only Japanese crews and are famous for their "good housekeeping" practices onboard, had an incredibly low 2.6% rate of casualties per tanker.

Unfortunately, the high rate of human error is not the only stumbling block in marine loss prevention. Complicating matters for underwriters and shipowners is a labyrinth of problems from too much seaway traffic to outmoded navigational charts which pose real threats to hulls.

John Potts, president of MOAC, the Marine Office-Appleton & Cox, unveiled some startling statistics on navigation charts. As chairman this year of the hull committee of the International Union of Marine Insurance, Mr. Potts' research led him to discover that in some waterways like

the Straits of Magellan, the most recent navigation charts were mapped in 1896.

Nineteenth-century charts might make amusing antiques, but they aren't at all funny to ships like the Showa Maru, which ran into underwater pinnacles that did not appear on the charts.

MR. POTTS pointed out that old navigation charts were drawn with the specifications of smaller ships in mind.

The biggest ships then drew about 54 feet of water (they extended 54 feet below the water surface). Today's giant vessels draw up to 100 feet of water. Theoretically, that makes them 46 feet more likely to strike underwater obstacles not indicated on the old charts.

In his office, tapping a copy of

the book "Supership," a recent expose of tanker hazards, he sighed. "If everything in this book is true, it makes you wonder why we insure these things at all."

"Supership" (see review, page 39) was also on Bruno Augenti's just-read list. As an ex-seaman, Capt. Augenti had a different perspective of the book. He was suspect of the author's authority as seamen, but he did not question solid research. Most of all, the MIB chairman is concerned with what possible ship disasters mean in human terms:

"I'd like to see all the maritime nations get together to set up guidelines to prevent catastrophes," he said. "You can always replace a ship that's wrecked. But when lives are lost, there's just no way you can make that up." ■

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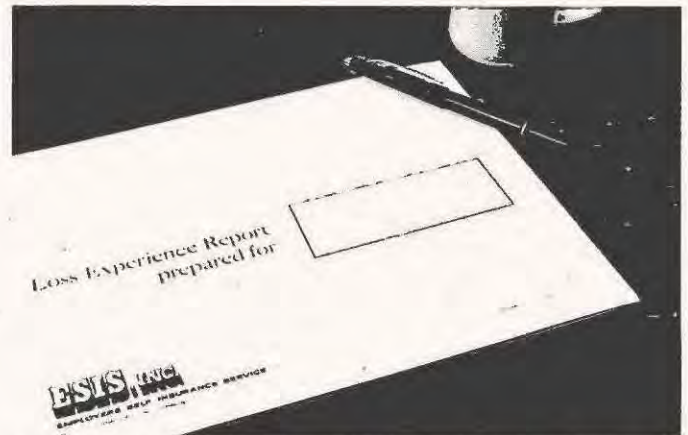
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Business Insurance book review

Safety not first for supertankers

Reviewed by RICHARD L. GORDON

SUPERSHIP, by Noel Mostert, published in 1974 by Alfred A. Knopf Inc., New York, 332 pages, \$8.95.

Author Mostert has painted a very unpretty picture of the safety of the supertanker operations in a book that has caught the public's eye and hit the best seller's lists.

As risks multiply along with the world's fleet of mammoth tankers, loaded with millions of gallons of oil and gas, the use of loss control techniques will be imperative.

His message is one that risk managers, and particularly those faced with marine risks, are going to have to deal with and deal with now.

The huge ships, says Mr. Mostert, have often been designed not for safety, but for economy. They are too big to handle easily

in congested sea lanes, they have a nasty history of exploding, their crews are too often of uncertain quality, and the oil slicks they produce in an accident are not only expensive to clean up, but have international political ramifications.

BECAUSE OF THEIR potential for pollution, no tanker accident is a small one. And when the accident is serious, it can be truly horrifying, such as the recent collision and fire near Philadelphia only last month (*Business Insurance*, Feb. 10).

If Mr. Mostert is right, risk managers can expect governments around the world to tighten up the liability noose around all tanker operators soon.

In some rather blunt language, Mr. Mostert points the finger of responsibility at tanker operators, the marine insurance industry and ship classification societies for the situation.

Of the major oil companies, he says they "appear to exercise little or no control over the standards of the independently owned ships they charter for oil transports."

"Their own ships are usually run to the highest standards, yet they allow to crawl in and out of their terminals, under the eyes of their marine superintendents and managers, vessels of deplorable condition and standards of operation, on charter to themselves."

"Only when these ships get into trouble does it emerge on whose account they were carrying oil."

HE FINDS insurers equally lax about policing the tanker safety problem, even though the industry claims it already exercises a range of punitive premiums against operators with bad accident records.

Mr. Mostert says: "One is left with the strong impression that it would take the shock and incalculable impact of a fully laden VLCC (very large crude carrier) totally wrecked, as Torrey Canyon was, in an area sensitive to public opinion and political reaction, and the incalculable claims that this would involve, before the insurers establish a code of acceptance based on something more than the seaworthiness of the vessel."

"The view of insurers and classification societies appears to be that so long as owners and operators meet their standards for seaworthiness and fire fighting, the rest is up to the owner. That is, no attempt is made to lay down a code of design or back up systems."

And back up systems are crucial, he points out. Large numbers of these big ships have sophisticated electronic navigational and safety systems, with dependence for power relying on a single main boiler.

If there is boiler trouble, and Mr. Mostert says such trouble is common, a multimillion dollar vessel can suddenly find itself dangerously adrift in a crowded sea lane.

THE READER IS struck by another ironic situation: how primitive the safety and operational requirements are for huge tankers compared to our commercial air fleets.

Strict medical supervision of chief officers of supertankers is apparently a sometimes thing, Mr. Mostert points out.

Only after the wreck of the Torrey Canyon in the English Channel was it learned that its captain was tubercular.

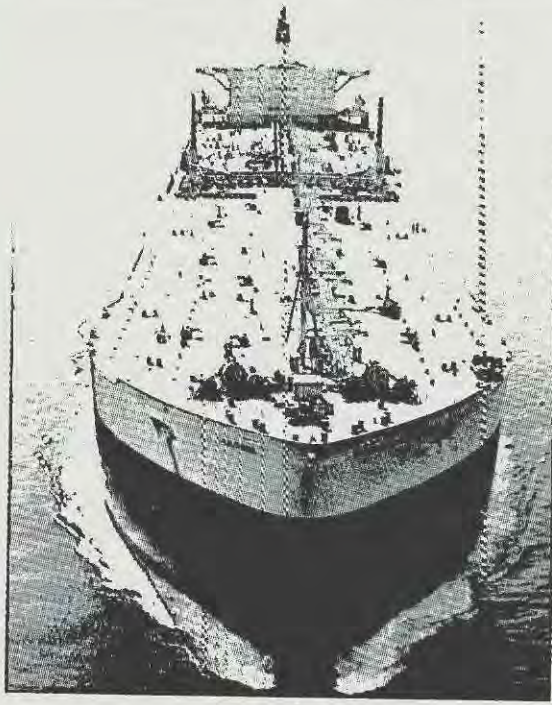
"If airline pilots are compelled to undergo health examinations, why not the masters of supertankers? The state of health of Captain Ruggiatti of the Torrey Canyon alone would seem to have made that an indisputable requirement."

Why not, indeed?

"Nor should any master take command of a supership without intensive simulator training of the airline sort," Mr. Mostert declares.

And steps only now are being taken in many places to force these giant lumbering ships (which need miles in which to stop) into "traffic lanes" to limit

Continued on page 40



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Federal pension advisory board represents employers, workers

WASHINGTON—The Labor Department this month named the 15-member advisory council, including three employer and three employee representatives, that will work with the government on implementing the new pension reform law.

The first meeting of the council is tentatively set for early March. Advisory council meetings will be public.

Representing the employers will be: Robert A. Albright, vp-administration, U.S. Steel and Carnegie Pension Fund, Pittsburgh; Theodore D. Bower, special assistant to the vp-taxes, Sears Roebuck & Co., Chicago; and Wesley G. Jeltema, manager, Michigan Chapter, Assoc. Gener-

al Contractors of America, Lansing, Mi.

Representing employe organizations will be: Bert Seidman, director, Department of Social Security, AFL-CIO, Washington; Murray W. Miller, general secretary-treasurer, International Brotherhood of Teamsters, Washington; and Robert A. Georgine, president, Building and Construction Trades Department, AFL-CIO, Washington.

MESSRS. JELTEMA and Georgine are to represent the interests of multiemployer pension benefit plans.

The rest of the council is rounded out with representatives of the public and of the various

pension related service industries. The other members, and their fields, are:

- Insurance—Douglas B. Hunter, vp-group pension operations, Connecticut General Life Insurance Co., Hartford.

- Corporate trust—Howard M. Koster, first vp-employe benefit trust division, Bankers Trust Co., New York.

- Actuarial counselling—Preston C. Bassett, vp and actuary, Towers, Perrin, Forster, & Crosby Inc., Philadelphia.

- Investment counseling—John O. Parker, president and director, Putnam Advisory Services Inc., Boston.

- Investment management—Donald E. Bowman, president and

director, T. Rowe Price Associates Inc., Baltimore.

- Accounting—Arthur J. Helganz, partner, Ernst & Ernst, Detroit.

- Public representatives—Nelson Cruikshank, president, National Council of Senior Citizens, Washington; Claudine B. Malone, associate professor, Harvard Business School, Boston; and A. Robert Scotti, of A. Robert Scotti Assoc., Utica, N.Y., an accounting firm that specializes in the pension fund area.

The advisory council will be chaired by Assistant Labor Secretary Paul J. Fasser.

Initial terms of appointment for the advisory council were split evenly for one, two, and three years periods.

As these appointed terms expire, new appointees will be named for three year terms. The present terms began Nov. 15, 1974, a spokesman for the Labor Department said.

Flood policies scarce in devastated part of Texas

WASHINGTON—Only 16 federal flood insurance policies were in effect this month when a flood devastated Nacogdoches, Texas, taking at least three lives and causing millions of dollars in damage, according to the federal government.

The Federal Insurance Administration, which administers the federally subsidized insurance program, sent city officials a map early last summer identifying its flood prone areas, the government said.

But the city failed to take the necessary steps to qualify for the insurance program at that time and was not accepted into the program until January 16, just two weeks before the flood struck.

"PRECIOUS TIME was lost when flood insurance policies could have been sold which might at least have eased the financial impact of property losses in Nacogdoches," said Acting Federal Insurance Administrator J. Robert Hunter.

Of 8,600 communities issued flood maps last summer, 4,750 have still not qualified for participation in the flood insurance program, Mr. Hunter said. They must do so before next July 1.

The communities need only submit a complete application to FIA, including a copy of the local flood plain management measures adopted to conform with federal regulations. The measures are designed to reduce or avoid future flood losses.

The insurance coverage is primarily aimed at home owners and owners of small commercial or industrial properties.

"Since the rates are attractively low," Mr. Hunter said, "the program should be viewed as a welcome dose of preventive medicine. Certainly it's superior to dependence on disaster relief, which at best is an interest loan."

Mr. Hunter said his office is mounting a new all-out educational campaign to communities that have yet to sign up for the program.

'Supership' . . .

Continued from page 39
the chance of collision off coastlines and in narrow channels.

In the last two months alone, the Coast Guard and Canadian authorities have established sea lanes to cover the tanker routes between Alaska and the northern coast of Washington state.

The Coast Guard is also establishing sea lanes off the Southern California coast.

THE PROBLEM IS difficult because it is so international in nature. And it is magnified as soon as one talks about flag of convenience ships, Mr. Mostert's book makes clear.

"If one judges by Liberia's recent record, it often seems to make little differences aboard a Liberian ship whether it has the newest equipment or the oldest; too often those in charge of an ultramodern bridge don't know how to use what's there, or don't know how to repair anything that breaks down, or worse, don't even bother to report a fault when they get to port," the author illustrates.

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More than one million workers eligible for insurance

Competition grows over AT&T dental contracts

NEW YORK—Top insurance companies are grinding their competitive teeth over who will win contracts for the nationwide dental plan negotiated by unions of American Telephone & Telegraph last year.

Each AT&T subsidiary will pick its own carrier, but all will administer the same plan, scheduled to go into effect Jan. 1, 1976. In the meantime all the big dental writers are submitting quotes.

One contender for the dental plan is giant Metropolitan Life Insurance Co., underwriter of the pioneer IBM dental plan started in 1973 and covering some 60,000 employees.

No published statistics are available on which insurance companies write the most dental plans. The Metropolitan is generally considered a leader, with coverage on some 400,000 employees and their dependents. Other big dental underwriters include Equitable Life Assurance Society, Aetna Life & Casualty and Connecticut General, to name a few.

THERE IS good incentive for insurers to woo AT&T's business. The three major unions which won the agreement for the dental plan managed to get coverage for more than a million AT&T workers and their dependents.

Premium costs of a dental plan are pegged at \$16 per month per employee up to \$27 per month per employee, depending on the geographic area and income level of participants. (There is a theory that the higher the income level, the higher the utilization rate on dental plans, increasing the costs.)

Those costs, multiplied by the number of employees to be included under the dental plan, would mean insurers could expect a flow of between \$16 million and \$27 million a month in their benefit premium pipelines. That would mean an annual premium between \$192 million and a whopping \$324 million for dental underwriters, just from the telephone contracts.

"This has not been a losing coverage for us," said Metropolitan Life's Philip Briggs, senior vp in charge of group insurance and pensions in an interview with *Business Insurance*.

He is proud of his company's involvement as carrier for the IBM

dental plan. He said it was worked out a couple of years ago in almost total secrecy between IBM and The Met. This was done to prevent a move by IBM employees to avoid having their teeth cared for until after the insurance plan came in, a common practice among employees which artificially inflates the claims rate of a new plan.

MOST SUBSEQUENT dental benefit plans, however, were hammered out with full advance knowledge of the employees to be covered, since most were won through union bargaining.

Mr. Briggs thinks most corporate insurance buyers are uncertain about provisions for dental coverage included in their com-

pany health plans. He suggested a scheduled plan of coverage, at least initially, rather than a "reasonable and customary" cost approach as a means of better cost control.

The Met vp also advised insurance buyers to use dental plans with a waiting period of at least one year, even though there may be a shorter waiting period for other group coverages.

"We feel that dental care, particularly, is subject to being utilized by short service people, strictly with the intention of getting dental work done. I'm afraid we can speak from personal experience; we have had groups in which this turned out to be the case," Mr. Briggs said.

Since IBM, The Met has underwritten dental plans at General Motors, First National City Bank, Texasgulf, and Reynolds Metals. Union negotiations—like those at AT&T with the International Brotherhood of Electrical Workers, the Communications Workers of America, and the Alliance of Independent Telephone Unions—are a spur Mr. Briggs expects will catapult dental plans into the limelight.

"I WOULDN'T be surprised if our volume of business would triple by the end of 1975."

"For example, when you think about the steel plan, the hourly workers of Bethlehem Steel represent 70,000 employees that are involved. Republic Steel is about

135,000. The telephone workers have nearly 1,100,000 employees alone. I don't know how much we'll get but I would hope a nice percentage," he added.

The dental plan The Met usually writes is non-contributory, has standard coverage of \$1,000 a year and \$5,000 lifetime limit per individual, and no deductible.

One of the biggest problems in arranging dental coverage, Mr. Briggs said, is understanding the terminology needed for an effective claims control and claim handling system.

The Met favors using dentists on a consulting basis, and has supplied its own claims people with a basic glossary of dental terms, and definitions.



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The Knowledge Broker

PBGC tells how to figure new premium

WASHINGTON—The Pension Benefit Guaranty Corp. (PBGC), the government pension benefit reinsurance agency, issued a clarification to aid company officials puzzled over how to calculate the new premiums due PBGC.

The premiums are based on the number of participants in the plan. PBGC said it will accept a plan's own definition of a participant so long as it is defined in plan documents and is keeping with the law.

PBGC said, for example, that if plan documents define a participant as an employee with 700 hours of employment, an employee who has not met that requirement, and who has no accrual of benefits under that plan, need not be counted for premium payment purposes.

PBGC premiums are \$1 per participant per year for single employer plans and 50 cents per participant for multiemployer plans. ■

people

Olin creates compliance position

William Hollingsworth was named safety compliance consultant for Olin Corp., Stamford, Ct., a newly created position. Mr. Hollingsworth was formerly corporate director of insurance and loss prevention, responsibilities which will now be handled by **John J. Delaney**, insurance manager, and **Dr. L. Y. LeVine**, loss prevention manager, following a reorganization of the department. The three men will now report to Olin's vp for administrative services.

Mr. Hollingsworth's new duties will be to assist the company in complying with OSHA regulations, consumer product safety laws and environmental protection laws. Mr. Hollingsworth, formerly chairman of RIMS' national legislative committee, has resigned that association position.

Norman A. Kenney, CPCU, was named director of corporate insurance at McGraw-Edison Co., Elgin, Ill. He replaces **Arthur Bostwick**, past president of the Chicago chapter of the American Society of Insurance Management. Mr. Bostwick's plans are unknown at the present time. Mr. Kenney,

who joined the company last June, as reported, was formerly vp of insurance and risk management consulting for Middle West Service Co., Chicago, an engineering consulting firm.

Joe Osborn was named to the newly created position of employee benefits manager for the west coast division of Vornado Inc., located in Whittier, Ca. Formerly, he was an executive with the Insurance Education Assn. Prior to that, Mr. Osborn worked for Cal State-Fullerton.

National Health Enterprises, Santa Monica, Ca. named **Suzanne Rodgers** insurance coordinator to replace **Dennis Miller**, who

resigned. Ms. Rodgers was formerly in the payroll-personnel department at the company. She reports to Gerald R. Healy, vp for labor relations.

Leonard Fortner, 28, was named to the new post of risk management administrator for Reserve Oil & Gas Corp., Los Angeles. He formerly was insurance coordinator for Teledyne Inc.

John C. Welch has assumed the position of supervisor of employee benefits for the Perkin-Elmer Corp., Norwalk, Ct. He will administer all company-sponsored benefit programs including health, disability, pension and profit-sharing plans. In addition, Mr. Welch will be in

charge of recruiting for the corporate industrial relations department. Previously, he was director of financial recruiting for Zackrisson Assoc., an executive search firm. Mr. Welch replaces **Edward Watson**, who was transferred to the company's Metco Inc. division, and is now director of industrial relations there.

Vick Poveromo was named insurance manager for Hilton Hotels Corp., Beverly Hills, Ca., replacing **David E. Tucker** who resigned. Mr. Poveromo formerly worked for City Investing Co., as corporate insurance manager. Prior to that, he was insurance manager of Rheem Manufacturing Co. At Hilton Hotels, he reports to Frank Crall, vp.

dates for buyers

Mar. 14-16: The American Medical Assn. and the American Bar Assn. are co-sponsoring the 1975 National Medical Legal Symposium at the MGM Grand Hotel in Las Vegas. Major developments in the malpractice field will be discussed. Details are available by contacting Faith Manning, American Bar Assn., 1155 E. 60th St., Chicago, Ill. 60637.

Mar. 19: The second annual Capital I Day will explore a wide range of problems facing the insurance business. Sponsored by 11 insurance associations representing companies, agents, buyers and professional societies, the meeting will take place in Washington, D.C. Reservations can be made through the Metropolitan Washington Assn. of Independent Insurance Agents, 1750 Old Meadow Rd., McLean, Va. 22101.

Mar. 24-26: Health Maintenance Organizations are the topic of an American Management Assn. meeting to be held in New York. For more information write the AMA at 135 W. 50th St., New York, N.Y. 10020.

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April 21—In Conference Issue
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Disability: surprise killer of small businesses



Continental Assurance Co. 1975

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