

business insurance

update:

UAW approves Chrysler cutbacks

DETROIT—Chrysler Corp. members of the United Auto Workers ratified a new contract with the automaker that will cut pensions for current and retired workers over the next 18 months.

The pact is part of a \$622 million package of wage and benefits cuts designed to help the struggling corporation stay
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MGM buys back-dated cover

By KATHRYN J. McINTYRE

CHICAGO—Newly written but back-dated liability insurance policies could add as much as \$170 million to the insurance covering MGM Grand Hotels Inc. for losses arising from the Nov. 21 fire at its Las Vegas hotel, *Business Insurance* learned.

Insurance broker Frank B. Hall & Co. recently placed additional liability insurance for MGM Grand Hotels Inc., confirmed Hall executive vp John McCaffrey. The additional guaranteed-cost coverage is dated Nov. 1, 1980—20 days before the blaze killed 84 people.

The placement of the additional insurance flies in the face of the old adage against writing insurance on a burning building.

Mr. McCaffrey counters that the underwriting of additional insurance to cover the known fire loss Nov. 21 proves "there are innovations in this business."

Indeed, brokers have been developing new insurance products to cover past losses. (See related story.)

MGM Grand Hotels had only \$30 million of liability insurance at the time of the fire, an amount immediately called inadequate to cover the liability losses from claims and suits filed by the injured and survivors of those killed (*BI*, Dec. 1, 1980).

As of Jan. 16, 57 complaints seeking aggregate compensatory damages in excess of \$275 million and punitive damages of about \$780 million had been filed.

The new additional coverage is written above the \$30 million of liability insurance

MGM Grand Hotels had at the time of the fire, *BI* learned. Sources who had seen the slip being circulated to underwriters in the United States and London said the coverage is written in three layers: \$35 million excess of the existing \$30 million, \$35 million excess of \$65 million and \$100 million excess of \$100 million.

Robin Jackson of Merrett Dixey Syndicates Ltd. at Lloyd's of London confirmed he had offered terms to lead the first additional layer, but he would not say if he got an order. Most of the first layer is said to have been written by a U.S. company.

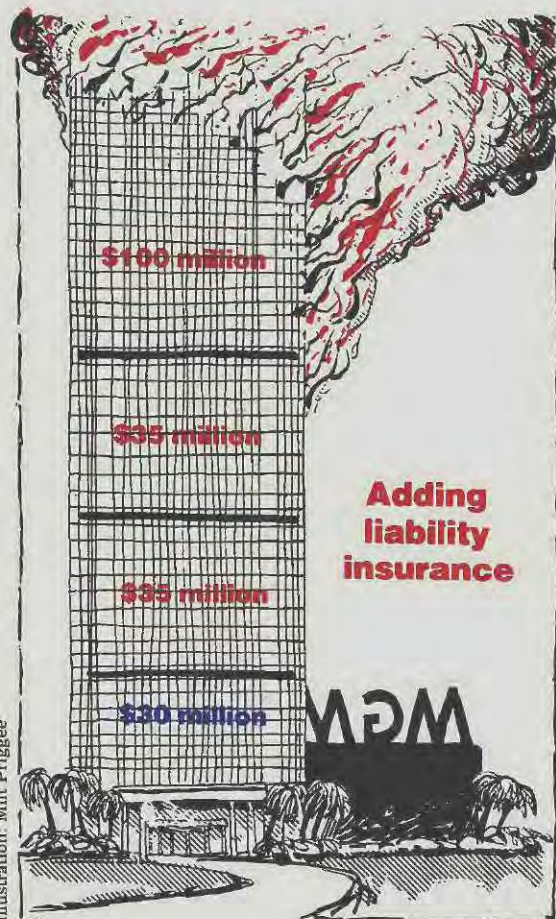
The premium for that first layer, which most assume will be exhausted, is said to

be about \$20 million. The second new layer is said to cost "several million" and the \$100 million excess of \$100 million costs \$10,000 per million.

The top \$100 million layer is not all completed and may not be. Sources say Hall pushed hardest for the first two layers.

Mr. McCaffrey refused to elaborate on the limits, premium or commissions.

Insurance industry sources speculate MGM Grand Hotels wanted the additional insurance to avoid receiving a qualification of its 1980 financial statements from auditors who were sure to deem the \$30 million of existing liability insurance in-
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Adding liability insurance

Liability plan fills old gaps

CHICAGO—Insurance broker Marsh & McLennan is advising clients to inspect their past insurance programs for holes in liability coverage that can be plugged with a new insurance approach called "retroactive liability coverage."

After placing policies for several clients that wanted to increase liability insurance with back-dated coverage, M&M decided to alert other clients to the availability of this new protection for past unknown losses.

The coverage differs from the package assembled for MGM Grand Hotels Inc. by broker Frank B. Hall & Co. in that M&M designed the concept to cover losses yet to be discovered.

Other major national brokers have placed similar coverage for a few clients with old product liability or malpractice risks, but M&M is the first to blitz its clients with news that the coverage is available.

Retroactive coverage can solve the problems of underestimating insurance needs in the past and buying too little or having inadequate insurance in past years because insurers wouldn't sell all the coverage the buyer wanted, said
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Arizona will test open comp rating

By LEN STRAZEWSKI

PHOENIX—Experience in Arizona could settle the industry controversy over open competition for workers compensation risks.

The National Assn. of Insurance Commissioners and individual state regulators are trying to design legislation that would free regulators from constant workers compensation rate reviews and include insurers' booming investment income in ratemaking, possibly reducing insurance costs.

Insurers oppose the plan as a threat to industry rating bureaus and the uniform loss data base used in calculating rates.

Since no states allow open competition for workers compensation, the debate has been academic, with studies and counter-studies bounced back and forth from regulators to insurers.

Tentative steps by Arizona, however, may provide the practical data researchers are seeking.

Under legislation introduced late last month by the state insurance department, Arizona regulators soon will be approving rate
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Firms drop Blue Shield for wraparound plans

By EILEEN NORRIS

CHICAGO—Several large employers, looking for lower rates, better service and less paperwork, are dropping Blue Shield health insurance coverage.

Other longtime customers, sources say, are re-examining their Blue Shield programs, which cover physicians' medical and surgical expenses under a scheduled plan:

- American Telephone & Telegraph Co., which has about one million employees in the United States alone, is re-evaluating its service with the association. AT&T expects to announce in August whether it will drop Blue Shield and place its major medical coverage with an insurance company. Bids for the insurance program are already out.
- Union Carbide's benefit manager Max Cherrington says Blue Shield's unwillingness to provide services for some of the company's offices has forced



about 5% of Union Carbide's U.S. plants to drop Blue Shield and wrap around the Blue Cross hospital benefits with a major insurer.

• Gulf & Western Industries, which has several thousand employees, has bumped Blue Shield from its coverage during a gradual three-year conversion.

Benefit manager Tom Miller says Gulf & Western "is just one of many companies to convert plans to wraparound protection over the last few years."

• Materials Research Corp., a New York conglomerate of 700 companies, estimates it will save \$30,000 to \$34,000 a year in premiums by dropping Blue Shield and converting its major medical coverage to Provident Accident & Casualty Insurance Co. The change became effective Jan. 1.

The trend away from Blue Shield is not a new one, but rather a steady movement over the last five to 10
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NEWSPAPER

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update:**UAW ratifies Chrysler pact**

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Under the agreement, pension increases scheduled for Aug. 1 will be postponed until Jan. 1, 1982. Pension increases scheduled for Oct. 1 and all other benefit improvements scheduled after Jan. 1, 1982, will be canceled. Salaried employees are subject to similar cuts totaling \$8 million.

UAW locals also are participating in Chrysler's comprehensive plan to resolve threats to its self-insured workers compensation program.

As in Michigan, Chrysler is proposing cumulative trust funds to satisfy challenges from the Illinois, Missouri, Ohio and Delaware industrial commissions (BI, Jan. 5). Most states are requiring UAW members to serve as trustees or beneficiaries of the funds if the proposals are finally accepted.

Ohio and Missouri are also reviewing the financial status of the Chrysler Insurance Co., a subsidiary that provides surety bonding for the automaker's self-insurance plans.

New law reorganizes Blues

LANSING, Mich.—Gov. William Milliken signed into law a bill calling for reorganization of Blue Cross & Blue Shield of Michigan's board of directors and regulating several procedures.

The governor will be allowed to appoint four members to the BC&BSM board, a move state officials say will increase consumer representation. BC&BSM officials criticize the requirement as an attempt to politicize the board, saying there already is substantial subscriber representation.

The bill also forces BC&BSM to show evidence of cost-containment efforts, caps the amount of reimbursements to health care providers in accordance with inflation and economic growth and controls reserving practices.

Other provisions require BC&BSM to reimburse state mental hospitals meeting regular requirements for plan participation and to provide coverage for outpatient alcohol and drug abuse treatment. State review of hospital and physicians' rates is removed for the first two years of new provider class plans.

BC&BSM can only form new administrative-services-only contracts with groups of 500 or more subscribers under the new law.

Syndicate seeks premiums

LONDON—Lloyd's Syndicate 295 is seeking an injunction in the High Court here to recover premiums paid to brokerage Christopher Moran & Co. when it represented the syndicate from April 1977 until October 1980.

Sources estimate the syndicate's demand at 350,000 pounds sterling plus interest.

Among the members of Syndicate 295 are employees of Harman Hedley Agencies Ltd., a Lloyd's underwriting agent that is also a subsidiary of The Christopher Moran Group. A spokesman for Harman Hedley noted that the brokerage and underwriting agent are operated as separate companies.

Derek Walker of Gooda, Walker Ltd., which manages Syndicate 295, suspended himself from doing any business on the floor of Lloyd's after Christopher Moran was arrested last August and charged with fraud.

Township sues insurers

TOMS RIVER, N.J.—Jackson Township is suing seven insurers in Superior Court here to force them to defend a \$51.5 million pollution liability suit against the New Jersey township.

Named in the action filed Feb. 11 are: American Home Assurance Co.; National Union Fire Insurance Co. of Pittsburgh; Insurance Co. of North America; International Surplus Lines Insurance Co.; United States Fidelity & Guaranty Co.; The Continental Insurance Co., and Hartford Fire Insurance Co.

Jackson Township wants its liability insurers to defend a 1979 class-action lawsuit filed against it by 300 residents of the Legler community who charge toxic wastes seeped from a town landfill and contaminated their water supply (BI, Feb. 25, 1980).

No insurer has denied coverage yet, but Toms River attorney Robert V. Paschon, representing the township, wants to prevent the insurers from denying coverage under the liability policy exclusion of "nonsudden and gradual pollution."

He argues the insurers should defend the township because the alleged contamination was due to negligence by township employees. The policies do cover "sudden and accidental pollution."

New federal regulations require dumps accepting toxic wastes to buy insurance against nonsudden and gradual pollution (BI, Jan. 12).

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N.Y. bill would halve Blue Cross discounts

By MARY ANN MATLOCK

NEW YORK—Blue Cross plans in New York will lose to commercial insurers some of their big hospital rate discounts under a bill being prepared for the state legislature.

The bill would cut in half the price savings Blue Cross plans get compared with rates charged commercial insurers. Instead of a 20% discount, only a 9% discount would be allowed to Blue Cross plans.

The current average 25% price differential Blue Cross plans enjoy compared with prices paid by commercial insurers would be limited to 12% under the bill.

Tow trucks could need higher limits

By ELLIS SIMON

WASHINGTON—Tow truck operators might refuse to move broken-down trucks hauling hazardous commodities to avoid buying high-limit liability insurance required in a proposed Transportation Department regulation, the Interstate Towing Assn. says.

The proposed rule, issued late last month, eventually would require tow truck operators to carry \$5 million in liability insurance for "environmental restoration" if they tow vehicles carrying hazardous commodities defined in the regulation.

Truckers that haul these hazardous goods regularly also must have this coverage. The requirement would be phased in over two years, depending on the motor carrier's size (BI, Dec. 22, 1980).

Motor carriers with five or more trucks would be required to buy \$5 million in liability coverage as of July 1 to haul certain hazardous commodities.

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Illinois reconsiders rules for workers comp pools

By EILEEN NORRIS

CHICAGO—The Illinois Insurance Department may loosen its proposed rules for employers that want to dive into workers compensation group self-insurance pools.

The state is considering lowering or eliminating the minimum number of employees required for each pool member and scrapping a minimum payroll standard for each member.

The re-examination by the department follows a hearing at which several business groups criticized the proposed pool requirements for being too rigid.

The Illinois Manufacturers Assn., the Southern Illinois Builders Assn. and the Illinois Construction Industry Committee testified that the state's requirements would keep employers with fewer than 20 workers from joining a pool.

"While our membership includes many large companies, about 2,000 or 35% of our companies have fewer than 25 employees," said Orville V. Bergren, president of the IMA.

The New York bill also would cap hospital revenues under a complicated formula recognizing operating costs, capital costs and bad debts.

This health care cost-containment measure in New York is a different approach than that being tried in neighboring New Jersey, where an experiment in using pre-determined rates for hospital procedures continues.

Instead of spreading north to New York, a version of the New Jersey program is being picked up in Georgia, where it is being applied only to Medicaid patients.

While the New York bill presumably would provide a price break for commercial insurers and their

policyholders, the Georgia program could end up driving up the price of hospital care for them.

The New Jersey and New York programs, however, are intended by their architects to curb the overall increase in hospital costs, equalize costs for different plan payers and provide payment for indigent care—problems that exist around the country.

The New York bill is being prepared from a study produced by the Council on Health Care Financing in Albany. It will be introduced in the state Senate by Syracuse Republican Tarky Lombardi, said John J. Finn, director of research at the council.

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Reagan freezes new regulations

By JERRY GEISEL

WASHINGTON—The Reagan administration wasn't kidding when it said it would review all final regulations published during the closing weeks of the Carter administration.

President Reagan's order to the federal agencies delayed until March 29 all "midnight" final Carter administration regulations planned for earlier adoption. This order put key regulations affecting worker safety, health maintenance organizations and employee pension plans on the back burner.

The Occupational Safety and Health Administration's controversial final "walkaround pay" rule requiring companies to compensate employees for the time they spend with federal officials during safety inspections is now temporarily shelved. The rule had been set to go into effect Feb. 17.

A final rule reducing the amount of paperwork employers must complete if they offer employees enrollment in HMOs also has been postponed. That rule, set for Feb. 20, would eliminate duplicate filings to the Labor Department, requiring only one filing with the Department of Health and Human Services.

Finally, a Labor Department regulation reducing paperwork burdens for employers who sponsor simplified employee pension plans, scheduled to go into effect Feb. 6, has been trapped in the Reagan regulatory freeze and won't go into effect until March 29—at the earliest.

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"The need by small manufacturers for relief from excessive workers compensation costs in Illinois is great," he added. "It is the No. 1 complaint contributing to the perception of a poor business climate in the state."

The state's proposed rules would have required a self-insurance group to have a minimum total payroll of \$10 million, with a minimum \$250,000 payroll for each employer in the pool.

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Plastics firms mold captive

By STUART EMMRICH

LOS ANGELES—Twenty California plastics processors, looking for a cheaper way to fund workers compensation insurance, have formed a captive they expect to call their own in a few years.

Right now, the Bermuda-based captive, American Plastics Insurance Co., has been capitalized at \$1 million as a subsidiary of Waite Hill Assurance Ltd., a Bermuda captive owned by ATO Inc. But members of the Plastics Employers Associates will share its investment income and eventually will buy out of Waite Hill, said managing broker Merritt Moselle of Moselle Insurance in Los Angeles.

"Ultimately, the members will earn ownership in the captive," Mr. Moselle said. "They will share in the investment income, and we expect within four to five years they will accumulate enough capital to have a captive stand on its own."

The captive initially will be limited to writing workers compensation for its California-based members, mostly small manufac-

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Drought could drain sprinklers

By ELLIS SIMON

NEW YORK—What happens if sprinkler systems don't have water to sprinkle?

This area's worst drought in more than 15 years is making that distant possibility less remote and turning loss-prevention managers and insurers to emergency planning.

The region's drought, which primarily affects New York City, New Jersey and Philadelphia, already has forced cutbacks in pressure tests on factory sprinkler systems.

Should the water supply deteriorate further, pressure in the area's water systems could be reduced. Water utilities, with as little as a 40-day supply on hand, could run dry.

Large factories, however, would be less vulnerable to the drying up than smaller buildings without alternative water supplies.

Many large factories do not rely on public utilities to supply their water needs. Many have auxiliary systems or rely entirely on their own supply to feed sprinklers.

Backup water supplies often are stored in tanks on the roof or adjacent to the buildings. Some fire protection systems use booster pumps to ensure adequate water pressure if sprinklers are used.

Coca-Cola Bottling Co. of New York would go on "red tag alert" if its sprinklers became ineffective, says Richard A. Kempler, corpo-



New Jersey Gov. Brendan Byrne inspects the dried-out bed of the Tappan Reservoir. Droughts in New Jersey, New York and Philadelphia have forced cutbacks in tests on sprinkler systems.

rate safety director.

A ban on smoking throughout the plants would be strictly enforced and portable fire extinguishers would be positioned at strategic locations. The company

would arrange spot-checks in the plants during off hours.

Plants that run out of water probably would be shut down, adds Michael Thrower, manager of loss prevention at Union Camp

Corp. in Wayne, N.J. If the plant's sprinkler system were dry, the company would hire full-time fire-watchers and maximize use of fire extinguishers.

Most large factories have night

Computers face problem

NEW YORK—If New York's water shortage does not ease, computer centers here could face trouble, says Burt Carbino, senior vp of Irving Trust Co.

Commercial computer rooms need water for cooling systems and New York City could cut the flow if the city's water situation deteriorates, he says. Without cooling systems, computers are subject to increased breakdowns and errors.

"We'll have to run our computer and we have to take steps to assure continuation of our water supplies," Mr. Carbino says.

The risk, though, is insurable. Broad all-risk property insurance policies could provide coverage for obtaining emergency water supplies under their extra expense or business interruption provisions.

"We have anticipated the problem," Mr. Carbino said.

watchmen and central alarm systems, adds Ray Nella, engineer in charge at Industrial Risk Insurers' New York branch office. Factories within New York City also benefit

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'Community cancer'

Goodrich pays \$391,291

By JOHN MAES

CAMDEN, N.J.—B.F. Goodrich Co. is paying \$391,291 in damages to a woman whose husband died of cancer in 1977. The victim did not work at a Goodrich plant; he lived nearby.

The award is part of what could be a new trend of legal action against firms for causing "community cancer" or health hazards to neighboring communities.

A federal court ordered the rubber manufacturer to pay the damages to Grace M. Grasso of Pedrickstown, N.J. Her husband, John, 49, died of liver cancer in January 1977 induced by vinyl chloride gas emissions from a Goodrich plant near their home, the woman charged.

The award falls within the company's self-insured retention for liability, Goodrich says, but an attorney for Ms. Grasso said the case could be one of many filed in the coming months against companies operating near homes.

Michael Vassalotti, attorney with the law firm of Brown, Conery, Culp, Wille, Purnell & Green

in Camden, said "community cancer" is the source of growing concern.

"It stands to reason that if you're living next to a plant emitting cancer-causing elements, it's not going to do you any good," he said. "At the worst, it could cause cancer."

Richard Lippes of Buffalo, N.Y., a key plaintiffs' attorney in the Love Canal suits, says community cancer claims are not new, but agrees the recent judgment could trigger suits by people claiming to be victims of industrial emissions.

Most of the cases in which companies have been held liable for pollution damages have involved only property, he said.

"There have been some cases where residents that didn't work in a plant where asbestos was used got asbestosis," he explained.

The Three Mile Island nuclear power plant accident of 1979, for example, led to several suits over "cancer phobia" by people who have suffered psychological damage for fear they will contract cancer because of the accident, Mr. Lippes said.

"Industry should realize that the cost of doing business is going up and emissions regulation is one of those costs that companies are going to have to assume," he explained.

Goodrich, an Akron, Ohio, firm, said it may appeal the judgment and that it does not believe Mr. Grasso's cancer was the result of its vinyl chloride emissions.

"We firmly believe that exposure to vinyl chloride at the levels found at the Pedrickstown plant could not have caused Mr. Grasso's angiosarcoma," a company statement said.

"This belief is supported by laboratory studies and medical evidence. All angiosarcoma cases attributed to vinyl chloride exposure have been in workers who have experienced high concentrations of vinyl chloride in the workplace over long periods of time.

"The Pedrickstown facility began operation only in 1970 and has not emitted high levels of vinyl chloride. In fact, no one, either inside or outside any Goodrich facility, is being exposed to such conditions," Goodrich contends.

HMO hopes to deliver maternity cost savings

By MARY ANN MATLOCK

WILLOW GROVE, Pa.—Hoping that ideas planted now will bear fruit later, HMO-Pa. has started a cost-containment program to make childbirth less of a financial pain.

Called "L'il Apple Seeds," the program aims to reduce average hospital stays for mother and child in non-complicated maternity cases from four to three days.

Money saved by the reduction, based on an average day's hospital cost of \$300 in the Philadelphia area, would fund supplemental care for mother and child and offset future membership increases for the HMO's 54,000 subscribers, proponents say.

About 1,200 employer groups offer the federally qualified HMO, including Sears, Sun Oil, American Express and Gimbel's.

"We're always experimenting and improving medical delivery," said HMO president Leonard Abramson. "There wasn't any justifiable medical reason gals normally had to stay in the hospital four days. Based on our analysis in the Western part of the country, the average is two days and here it is 4.4 days."

"There's nothing medically unsafe or unsound about the three-day program," said Dr. Jeffrey Weiner, one of the 180 primary care physicians at the independent practice association-type HMO.

He attributed four-day stays to tradition while emphasizing that "studies on 12- to 24-hour stays show there is no change in the morbidity rate."

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Insurers debate liability for worker suit

By RHONDA L. RUNDLE

LOS ANGELES—If one of your injured employees breaks through the workers compensation system and wins a damage suit against you, your next problem will be recovering under an insurance policy.

Recent court cases permitting employees to sue their employers outside the workers compensation system raise the new question: What insurer is liable for any damages awarded?

Workers compensation and liability insurers are tossing this hot potato back and forth and risk managers are scrutinizing their

policies to see if their corporate flanks are protected.

Insurance company claims managers are looking to each other for guidance. Responding to inquiries, the California Workers Compensation Institute has drafted recommendations for insurers to follow in disputed coverage cases.

The central issue is whether civil suits should be defended under coverage B, the so-called employers liability section of the workers compensation policy, or if such litigation is the responsibility of the employer's liability insurer.

Workers compensation insurers say section B was never intended

to cover civil damages on top of statutory benefits already paid to the injured worker. Liability insurers say their policies specifically exclude coverage for suits brought against a policyholder by an employee.

"There are probably a thousand of these exceptional cases creeping up nationwide," observed Sterling Hilen, senior vp and general counsel at Industrial Indemnity Co. in San Francisco.

But the confusion is especially bad in California, where the courts are demonstrating a growing willingness to recognize and expand employers' exposure to third-party suits brought by injured

workers.

Claimants argue they have a civil case against an employer who stands in a dual capacity to them—as both employer and manufacturer or purveyor of a product or service that caused their injury.

A jury in Siskiyou County Superior Court recently awarded \$875,000 to an injured lumbermill worker who sued International Paper Co., his employer. The jury ruled self-insured International Paper Co. assumed the role of insurer to its employees and had failed to provide a safe work environment. The decision will be appealed (BI, Jan. 19).

In other pending appeals in Cali-

fornia, employers are fighting product liability actions successfully brought against them by employees. Plaintiffs contend a product manufactured by their employer for sale to the public caused their work-related injury.

Frank Damon, assistant vp-governance affairs for the Mission Insurance Group, is chairman of the California Workers Compensation Institute's legal committee that recently prepared guidelines for insurers for dual-capacity litigation.

"As an industry, we're still groping in an answer," Mr. Damon said. He stressed that the CWCI's

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Mines would split unfunded liability in pension switch

IF THE Bituminous Coal Operators Assn. negotiates an end to its multiemployer pension program and replaces it with company-by-company arrangements, coal mine operators will take the program's \$4 billion in unfunded vested liabilities with them.

A spokesman for the BCOA refused to confirm or deny published reports that the operators are seeking to scrap their two pension trusts in their negotiations with the United Mine Workers.

The BCOA's opening statement cited the high cost of funding pen-

benefit beat

sion benefits for the trusts—about \$4,000 per miner annually—in saying pension benefits “deserve special attention.” But it did not talk about solutions to the problem, the spokesman said.

Pension benefits for miners are funded through two multiemployer trusts. One trust was begun in 1950 and covers about 68,000 retirees, all of whom retired before Jan. 1, 1976. Another trust begun in 1974 covers all miners who retired after that time, currently about 10,000 to 12,000.

The 1950 trust paid out about \$239.5 million in benefits in fiscal 1979-80, or up to \$275 a month, while the 1974 trust paid average monthly benefits of \$481.

In the case of a mass withdrawal from a multiemployer pension plan such as that proposed by the BCOA, all unfunded vested liabilities must be allocated among the employers, said a spokesman for the Pension Benefit Guaranty Corp.

The liability of each employer would be calculated on the proportions of its pension contribution over the previous five years. The calculations would be made by the plan itself based on a formula in the PBGC law or another formula devised by the plan trustees and approved by the PBGC.

The \$4 billion unfunded liability figure is cited by the BCOA and includes liabilities of both trusts. PBGC experts estimate the unfunded liability for the 1950 trust at \$1.5 billion to \$2 billion.

The UMW, meanwhile, is demanding improvements in pension benefits as well as an industry-paid dental plan and elimination of the \$200 deductible in health insurance plans.

Mine operators provide their own health insurance programs for miners.

Retirement revamp

In an effort to save \$20 million a year, Montgomery Ward & Co. in Chicago is revamping its retirement program.

Under the new system, payouts will be based on the employee's average annual salary over his or her entire term of employment. The former plan based payouts on the average of the top five yearly salaries in the last 10 years of a worker's employment.

About 40,000 employees are covered by the retirement plan, but the change will only affect those who retire on or after Jan. 1, 1985.

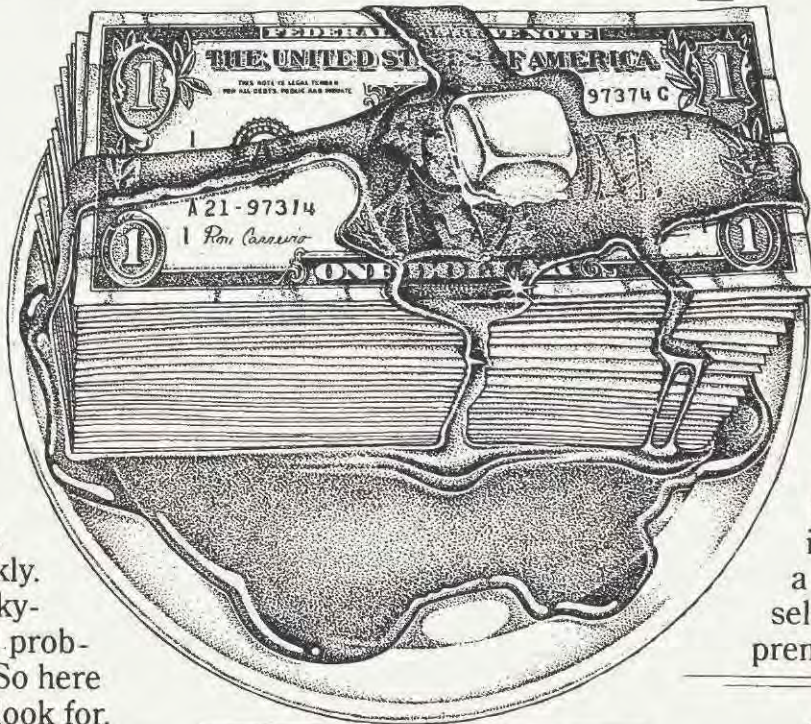
The change should reduce the maximum retirement benefit to about 75% of final average pay from about 80%, a company spokesman confirmed.

But while average benefits may be less, employees will be eligible to receive them sooner. Employees can now retire with full benefits at age 63, rather than the previous 65, and are considered eligible for the plan at age 21, rather than 25.

Meanwhile, Ward's cut employees' monthly health insurance premiums to \$7.50 from \$10 for individual coverage and to \$15 from \$20 for family coverage. The plan is underwritten by Equitable.

Made any benefit changes? Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

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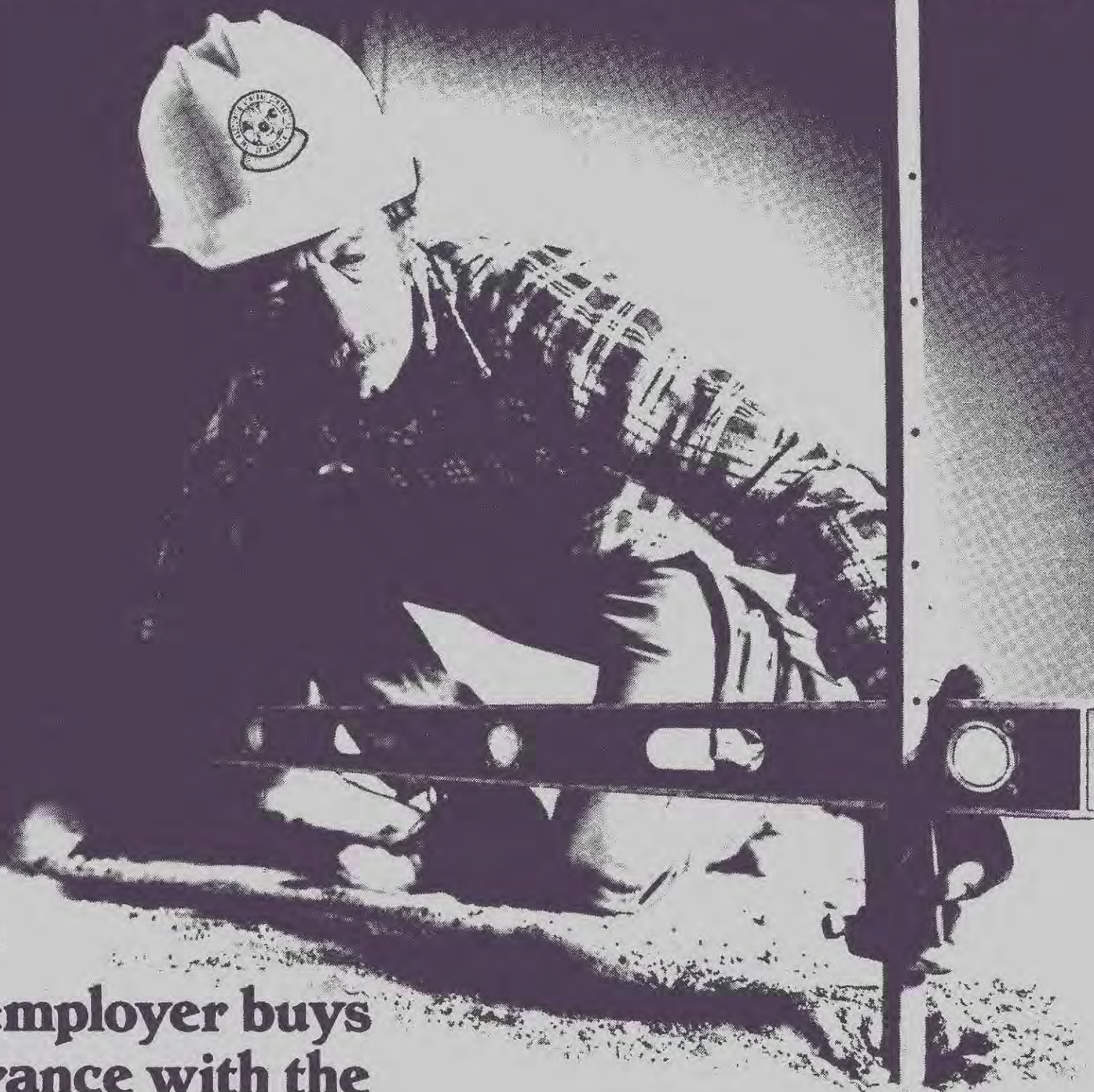
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His employer buys insurance with the strength of over 70 companies. He's found safety in numbers.

Being a small company can have its own rewards — independence, personal fulfillment, potential profitability. But there can also be potential disadvantages. For example, in buying insurance. Smaller companies may find their dollars don't go as far as those spent by larger companies.

There is a way small and medium companies with a good safety record can enjoy large-company advantages in buying insurance. By working together in a group plan.

One example is the workers compensation group safety plan administered by Wausau Insurance Companies through the Oregon-Columbia Chapter of the Associated General Contractors. "The plan provides members with a continuing safety training program; monitors construction safety practices; and administers a rewarding dividend plan," says Kenneth W. Twedt, Oregon-Columbia AGC Manager.

Experience shows that loss-reducing safety services have been effective. Dividends have been excellent. Rates and premiums have been better controlled. And — proof of its value — membership in the insurance plan has grown from 18 companies to over 70 in just five years.

Individual members retain their small company advantages, and enjoy big company purchasing power. It's the best of both worlds, with Wausau and the AGC.



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editorial opinions

Building from ashes

SPRINGING FROM the ashes of the MGM Grand Hotel fire in Las Vegas are welcome lessons and innovations in safety plans and insurance.

A risk management consultant confessed to us the other day that he is more careful than ever to look for fire exits and plan an escape route when he checks into a hotel. Risk and benefit managers around the country are distributing hotel fire safety tips to employees. For companies that haven't distributed such a list yet, we offer one in this week's Perspective section.

Beyond personal safety plans for individual hotel guests, municipal fire and building officials are reassessing their jobs and their building codes to see if they adequately protect the public's safety.

Risk managers of hotel chains are re-evaluating their insurance programs and in many cases increasing liability insurance limits.

Risk managers everywhere are using the tragic fire as a vivid example of what can happen, when they argue with management for more money for fire prevention systems.

Property insurance underwriters and their engineers are attacking fire safety inspections with new enthusiasm.

And now we even have the insurance industry providing additional liability insur-

ance for MGM Grand Hotels Inc. on back-dated policies. As our stories this week note, insurance for past losses is not unique, but the additional coverage for MGM Grand Hotels goes beyond common practice.

We know there are underwriters who find the concept of back-dated coverage abhorrent. We can see that the concept could be abused by those who would jump to the conclusion that they don't need to buy insurance until a loss strikes. But MGM is paying many millions of dollars more for the insurance now than it would have if it had purchased it before the loss. That should remind business executives that insurance should be purchased before a loss and that losses should be prevented from happening in the first place.

We are pleased to see that the insurance industry responded to MGM Grand Hotels' need for additional insurance. It guarantees the future of the company and payments to claimants. We have to agree that proves insurers can be innovative.

The treatment of lawsuits and claims arising from this fire also will produce lessons and probably more innovations in the use of structured settlements. It will be interesting to monitor.

But we shudder when we remember that these innovations came after and not before a tragic fire that killed 84 people.

Plugging the leaks

THE BEST way to find leaks in a container is a pressure test. That seems to be what's happening to the workers compensation system around the country.

The Massachusetts Ferriter decision, which used a state law loophole to allow the family of an injured worker to sue an employer, is a good example.

We support the workers compensation system as a worker's exclusive remedy for job-related injuries and do not think the courts should allow families to sue.

But the suit and others like it serve one purpose: They remind the states that workers compensation benefits and regulations should be reviewed regularly in anticipation of social pressures and lawyers looking for weaknesses.

A system that leaks is no system at all.



letters

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

Setting MICA straight . . .

To the editor: Two issues of *Business Insurance* have contained properly reported articles about the pending suit against the Mutual Insurance Co. of Arizona by a group of attorneys ("Physician Mutual sued over 'hit list' of lawyers," *BI*, Jan. 12; "Attorneys may drop suit," *BI*, Jan. 26).

Apparently the Mutual Insurance Co. of Arizona refers to itself as MICA.

Mass Insurance Consultants & Administrators Inc. holds the registered service mark MICA for almost any application in insurance or employee benefits. We are communicating this information to Mutual Insurance Co. of Arizona.

In the meanwhile, I'd appreciate anything which *Business Insurance* can do to minimize the confusion between our two organizations. MICA Inc. has been very fortunate in receiving a lot of favorable publicity regarding our successful efforts to reduce health care cost for the clients for whom we administer employee benefit programs. I hate to see this negated by people thinking we're being sued by a group of attorneys.

Robert J. Cardinal

President
Mass Insurance Consultants
& Administrators Inc.
Chicago, Ill.

■ Thanks for the clarification.

. . . Setting history straight

To the editor: James E. Flynn's recent letter ("Flag-waving hyperbole," *BI*, Jan. 26) concerning your Jan. 12 editorial "Defending contractors" was more of a wobbly argument than your editorial.

It's obvious that forgetfulness of recent history is not a monopoly of *Business Insurance*. It's equally obvious that Mr. Flynn "never knew it" or at the very least has slanted it to fit his wobbly argument.

To set the record straight, it

should be noted that German industrialists went to jail for using slave labor, not for just making guns, as Mr. Flynn indicates.

One wonders if there is more behind the letter of protest. Is there something between the lines we readers are missing?

Frankly, I have to agree with your editorial.

Anthony Giardino

Risk manager
Transamerica Interway
New York, N.Y.

Vive la difference?

To the editor: Your report of research on differences in mortality between the sexes by a group from the University of Chicago (*BI*, Jan. 5) said the researchers found:

- Separate mortality tables based on sex are not reliable as a basis for devising pension and insurance plans.

- All major investigators now believe that social, cultural, environmental and behavioral factors are more important than genetic or biological facts in explaining sexual mortality differences.

There are several errors implicit in these statements.

There is still considerable controversy over the cause of sexual mortality differences. The article implies that biological factors are now known to be unimportant; in fact, some responsible researchers do believe that biological differences are a root cause of sexual mortality differences.

More important, regardless of the cause of these differences, they clearly exist. Moreover, in this country, the differences have recently been increasing, even as social, cultural, environmental and behavioral differences have been

decreasing. There is no evidence the differences will shrink significantly or rapidly and, therefore, it is not true that separate mortality tables by sex are in any fundamental way unsound.

It is accepted actuarial practice to base predictions about future mortality in large part upon actual mortality experience. In this way, trends in mortality patterns can be identified and reflected in projections as they emerge. Current debate on this subject focuses on whether separate mortality tables based on sex are illegal or unfair. These questions involve social and political judgments.

The University of Chicago researchers are almost alone in asserting that such tables are unsound, and all of the evidence—successful operation of most pension and insurance plans based upon generally accepted actuarial practices regarding sex-distinct mortality tables—contradicts their assertion.

Jay C. Ripps

Chairman
Committee on Risk Classification
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Pension mandate opponent switches

WASHINGTON—A member of the President's Commission on Pension Policy has changed her mind about mandatory pensions.

Commission member Martha Griffiths, an outspoken opponent of the commission's recommendation that every employer be required to offer a pension plan that immediately vests 3% of each worker's annual wages, now backs the idea.

"I looked the whole thing over and mandatory pensions seemed a more acceptable alternative than

washington

higher Social Security taxes," Ms. Griffiths told *Business Insurance*.

Ms. Griffiths expressed fears at the commission's final public meeting (*BI*, Feb. 2) that the costs of mandatory plans could prove crippling to smaller firms. But the former Michigan congresswoman now says costs wouldn't be severe so long as tax credits are offered to small companies beginning new

plans.

Ms. Griffiths' turnaround now leaves only two members of the 10-person commission opposed to a universal minimum pension system. Those opposed are William Greenough, the former chairman of Teachers Insurance & Annuity Assn. of America, and Henry Bowden, a former city attorney for Atlanta.

Meanwhile, the commission, set up by former President Carter in 1978 to establish a national retirement income policy, says its final report will be on the desks of President Reagan and members of Congress on Feb. 26.

The commission will disband May 24.

IRA withdrawals

Sen. John Chafee (R-R.I.) has introduced legislation (S. 243) to allow an employee to withdraw

without penalty up to \$10,000 from an Individual Retirement Account to purchase a home or pay higher education expenses.

Under current law, employees who withdraw funds from an IRA before age 59 are hit with substantial tax penalties.

This feature would make IRAs more attractive to younger workers who are reluctant to invest funds for retirement that they may need for major family expenses, Sen. Chafee said.

The Chafee legislation also would allow employees to deduct annually from their federal income taxes up to \$2,000 in contributions to their employer-sponsored pension plans. Currently, employee contributions to employer pension plans are not considered tax-deductible.

In addition, Sen. Chafee's bill would increase to \$2,000 from \$1,750 the current annual limit on employee contributions to an IRA.

A companion bill (H.R. 1250) has been introduced in the House by Rep. Henson Moore (R-La.).

Studies awarded

The Department of Labor has awarded two major studies on the workers compensation system to Cornell University in Ithaca, N.Y., and the University of Cincinnati.

The Cornell University study will analyze whether waiting periods give injured workers an incentive to extend their recovery period time, increasing the amount of their benefits and program costs.

The University of Cincinnati study will examine the relationship of pain to employment disability, such as the extent that pain itself is disabling.

Comp conference

The University of Connecticut and the Labor Department will sponsor a workers compensation research conference July 19-21 in Storrs, Conn.

The conference will give workers compensation experts an opportunity to share information on the results of research in the field.

For more information, contact Donald Ridzon, U.S. Department of Labor, Room C-3313, 200 Constitution Ave. N.W., Washington, D.C., 202-523-8509.

OPIC chief

Gerald T. West has been named acting president of the Overseas Private Investment Corp.

Mr. West joined OPIC in 1977 and most recently served as vp for development. He replaces Bruce Llewellyn.

OPIC is the federal agency that provides political risk insurance to U.S. corporations investing in less developed countries.

Saving FICA

Shoring up the financially strapped Social Security system will be a major goal of the Senate Finance Committee, says new chairman Sen. Robert Dole (R-Kan.).

There are no "painless" options to consider in putting Social Security back on its feet; either benefits must be cut, payroll taxes raised or funds transferred from general revenues, Sen. Dole said.

"Somehow we have to figure out a way of restraining the growth in the Social Security program," he said. Mr. Dole warns the public retirement program could run out of money next year unless action is taken.

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Municipal pool hopes to cut premiums 25%

SPRINGFIELD, Ill.—Forty-six municipalities in Illinois hope to slash insurance premiums at least 25% this year by pooling risks.

Insurance available through the Illinois Municipal League Risk Management Assn. pool, which opened shop Jan. 1, includes liability, collision, property and workers compensation coverage.

Specialty plans are not available, however, for municipal hospitals, electric utilities or boilers.

"We're offering just about everything but health insurance," said managing director Steven Sargent.

"Initially, we got into this for a number of reasons including the difficulty of obtaining insurance and the high cost."

For the pool's first year, members will pay 75% of 1980 earned premium for comparable coverage. Future premiums will be based on experience, the municipalities' operating budgets and risk management programs, Mr. Sargent said.

"We started out conservatively. In our opinion, members will save every bit of the 25% and might even save more," he explained. "We think there will be substantial growth in the pool."

Pooling programs save by im-

proving risk management, eliminating premium taxes, reducing broker or agent fees and earning investment interest on reserves.

The 950 members of the Illinois Municipal League are eligible to join the pooling program. Pooling, which is allowed in 20 states, has been legal in Illinois for some years. The trend is growing (BI, Jan. 7, 1980).

Total premium generated for the pool this year by participating towns and cities is \$2.6 million.

About 55% of this will be paid into a loss fund. The remainder will be used for risk management services provided by Cannon & Cochran in Danville, Ill.; claims administration from Martin Boyer Co. Inc. in Chicago, and excess insurance, Mr. Sargent said.

Excess coverages include property risks (specific), \$5.6 million; inland marine risks (specific), \$2 million; comprehensive general liability, \$11 million; public officials liability, \$11 million; workers compensation, \$15 million; automobile, \$11 million; physical damage, \$11 million; crime, \$25,000, and the self-insured risk fund, \$5 million.

Deductibles are \$250 on auto collision and comprehensive. Annual deductions per municipality range from \$1,000 to \$20,000 according to size, Mr. Sargent.

Excess coverage underwriters include International Insurance Co., International Surplus Lines Insurance Co., Northrup Excess Insurance Co. and North East Reinsurance Corp. ■

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Tanker salvage spares market from worst loss

By STACY SHAPIRO

LONDON—Salvaging the liquefied natural gas tanker Taurus may have saved London marine insurers from reporting the worst year ever in peacetime underwriting losses.

And competition may save buyers from higher premiums.

The \$180 million tanker, which ran aground off the coast of Japan in December, could have been the largest single loss in London marine insurers' history. But a salvage rescue has dropped the loss to only about \$30 million, said H.G. Merriman, chairman of the Institute of London Underwriters.

"We got off lightly," said Mr. Merriman, lead underwriter here on the Taurus with \$1 million and the chief marine underwriter for the general accident group.

But 1980 London marine underwriting losses—the Avondale ships, the Skyway Bridge at Tampa Bay, 72 ships still blocked in the Shatt Al Arab area—could send some underwriters out of business while others may raise rates.

"The situation has never been worse in our history," Mr. Merriman said at the annual ILU meeting here.

"Unless hull insurance premiums and deductibles are raised to realistic levels commensurate with the very high frequency of major casualties and the general rate of inflation, there is strong

likelihood of serious contraction in the hull market," he said.

But competition from overseas insurers could keep premiums down in London during this year. "I think we've said that until we are prepared to lose an amount of business, we'll keep rates level," Mr. Merriman said.

"Major losses occurred with daunting frequency," the ILU annual report states, even though fewer ships, 128, were lost in 1980 than the 156 in 1979. Among 1980 losses were:

- The Salem, valued at \$24 million, which sank off the coast of Africa.

- Capsizing of the drilling rig Alexander Kieland in the North Sea, valued at \$50 million.

- Claims from Hurricane Allen, including the \$21.2 million drilling barge Harvey H. Ward. Overall claims will exceed \$100 million.

- The sinking of the cruise liner Prinsendam in the Gulf of Alaska, costing underwriters \$3 million.

- Other losses, including drilling platforms, tankers and cargo ships, could raise the year-end loss figure considerably, but it's too soon to tell, the report indicates.

Mr. Merriman predicts there will be more claims made this year on ships carrying coal because more tankers are doing so and because soft coal can be easily ignited. Soft coal is vulnerable to spontaneous combustion, he said.

Social security shift proposed

london line

LONDON—Soaring social security costs seem to be worrying more heads of state than President Reagan.

Prime Minister Margaret Thatcher's Conservative Party has proposed cuts in social security

spending by making employers responsible for some disability benefits for their employees.

The employer would have to pay the first eight weeks of an employee's illness at 30 pounds sterling per week. In exchange, the employer would be given an overall 0.6% reduction on its national insurance contributions, which are now at 13.7% of each employee's salary on earnings of up to 165 pounds sterling per week.

The House of Commons Social Services Committee, however, has submitted a report questioning how much money the government will actually save and who will benefit from this new disability plan. In the report on the proposed bill, scheduled for Parliamentary debate sometime this month, the committee said:

- The government should compensate employers for disability payments by deducting payments from social security contributions.

- Child benefits should be raised to 26 weeks from eight, and employees with lower wages should not be given full benefits.

- No section of industry should pay more than another section for disability benefits.

- Those suffering long illnesses could be confused by the new payments and could get lower incomes.

- The secretary of state should provide more detailed information on how this plan would save money.

Ship collision

Two ships that collided off the Norfolk coast here in heavy fog Jan. 30, killing two crewmen, are insured mostly through the London, Belgium and German markets, a source said.

But it's too early to tell whether any claims will result from the phosphate acid drums that fell off one of the ships when it sank, and started heading to shore.

The EMS, a West German roll-on, roll-off cargo carrier hauling the acid, sank when the Belgian carrier Undine collided with it in

heavy fog. Fifteen percent of the EMS's value of 27.2 million deutsche marks is insured with London underwriters, while the rest is placed in Germany, a source said. The EMS is owned by Frisia Schiffahrts GMBH Co.

The Undine, owned by Union Belge D'Enterprises Maritime S.A. and valued at 7.5 million deutsche marks, insured 12% of its hull value with Lloyd's and other London marine insurers. But the lead underwriter is said to be in Belgium.

Oil platform

The largest and most valuable oil platform ever will not be fully insured for its estimated \$2 billion value, London insurers say.

Marine underwriters will only cover about \$1.3 billion of the Statfjord B platform, it was announced at the International Underwriters Assn. Eighty percent of the insurance will be placed with London and Lloyd's insurers, while 10% will be written in Norway.

The platform, owned by Statoil, the Norwegian state oil company, and operated by Mobil North Sea Ltd., is scheduled for its first short tow on Feb. 20 (BI, Jan. 19). Its final tow to the Mobil oil fields in the North Sea isn't scheduled until late summer.

The platform is weighted at 800 tons displacement.

Hull claim paid

London underwriters have paid the \$1 million hull claim on the U.S. Poet, which was said to have been kidnapped by the Mafia.

Insurers now believe the ship must have sunk in a freak Atlantic storm three months ago, and Lloyd's has officially listed it as missing. They do not believe the ship is still afloat off Iran and being converted into a drug runner for the Mafia, as some U.S. authorities and journalists believe.

Lloyd's underwriters say that if the \$3 million ship were still afloat, it would have had to show up sometime to refuel, but it hasn't. ■



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N.Y. seeks plans for toxic waste plant

ALBANY—New York State is seeking proposals from private companies to finance, build and operate a large plant to process toxic wastes.

The Environmental Conservation Department is taking the action after an advisory committee to Gov. Hugh Carey reported a shortage of processing facilities and recommended that another plant be built. In sponsoring the plant, the state hopes that within five years less than 15% of the toxic wastes in New York State will be buried rather than processed.

The department, with the help of the advisory Environmental Facilities Corp., will acquire a 500- to 700-acre site for the plant and develop regulations for its operation. The facility will cost an estimated \$40 million to \$100 million,

around the states

the spokesman said.

COB rules

NEW YORK—Group health insurers in New York are being urged to update coordination of benefit rules covering dependent children of divorced, separated and annulled couples.

In a Jan. 19 circular letter, Insurance Superintendent Albert B. Lewis advised health insurers to adopt recently amended National Assn. of Insurance Commissioners model rules on coordination of benefits. New York has not formally adopted the rule, but permits insurers to follow it.

Previously, the NAIC said coverage of a male took precedent over coverage of a female in the payment of dependent claims. The rule was criticized as sexist and it resulted in confusion when handling claims of dependent children of divorced, separated and annulled couples.

Coordination of benefits for children of married couples living together continues to follow the old rule. However, if a child is in the custody of a divorced, separated or annulled parent who has not remarried, that parent's coverage takes precedence over the coverage of the parent who does not have custody.

If the parent having custody remarries, that parent's coverage takes precedence over the step-parent's insurance, which, in turn, takes precedence over coverage of the parent not having custody.

The NAIC rule exempts instances when the courts have de-

creed financial responsibility for a dependent's health care lies with a specific parent.

Safety complaint

INDIANAPOLIS—The federal Occupational Safety and Health Administration wants to withdraw Indiana's authority to run its own job safety and health plan.

In a complaint filed with an administrative law judge, OSHA says Indiana, which began the program six years ago, has a "consistent pattern of poor performance in critical program areas."

OSHA charges the state doesn't employ enough experienced, qualified industrial hygienists, a situation that has led to an inadequate enforcement program.

The federal safety agency also charges Indiana compliance officers have failed to spot a substantial number of serious safety and health hazards in worksites, leaving the state's enforcement program "ineffective and exposing Indiana employees needlessly to serious hazards."

Indiana's proposed penalties are much lower than the federal agency's for similar violations, making the Indiana program less effective than the federal program, OSHA added.

Under the 1970 OSHA act, states can set up their own health and safety plans with OSHA's approval. OSHA then monitors these plans. Some 24 states and territories now have their own plans.

Indiana has until Feb. 17 to respond to OSHA charges.

Child-care credit

ALBANY—Employers providing child-care centers at or near their plants may receive state tax breaks if a bill now in the Assembly Ways and Means Committee gains approval.

A.B. 1130, sponsored by Long Island Democrat May W. Newberger, would give employers a tax credit for up to 60% of the cost of acquiring, building or developing the centers. No estimates are available on how much the proposal would cost the state.

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BI

RM enrollment at UG grows as standards get tougher

By JOANNE WOJCIK O'HARE

ATHENS, Ga.—Tougher undergraduate admission standards are not scaring risk management and insurance majors away from the University of Georgia. In fact, the number of graduates in the field has increased 125% since 1973.

The number of insurance majors in the master's of business administration program also has grown from one or two students a year to 10 to 20 insurance graduates annually.

The statistics have won independence for the department, which was considered too small to stand on its own and had been combined with the Quantitative Business Analysis Department. Since January 1980, however, it has been its own department again.

"While the department has enjoyed growth in numbers, quality has not been forgotten," said Dr. James Trieschmann, department head.

A student transferring into the College of Business must have a 3.0 college grade point average. Students in the risk management sequence must take courses in commercial lines insurance, risk identification, property evaluation, needs analysis, workers compensation, self-insurance and cash-flow analysis.

In one course, undergraduates are required to complete a 50- to 60-page paper on a needs analysis project they conduct. In another course, a team of four to five students must "go out to a small business and do an analysis," Dr. Trieschmann explained. Afterward, the group writes a 15- to 20-page report. "In many cases, businesses involved will ask for a copy of the report," he said.

The Tailor Grady House owned by a local nonprofit organization learned how to cut liability exposures through an analysis that students conducted, Dr. Trieschmann said.

The approaches taken in each course differ according to the instructor. Risk management professor E.J. Leverett is more project- and analysis-oriented than Dr. Martin Greene, who emphasizes practice. "You are a risk manager in his (Dr. Greene's) courses," Dr.

insurance education



The University of Georgia has enjoyed growth in insurance admissions while keeping standards high, says Dr. Trieschmann (inset).

Trieschmann explained.

Risk management is taught in a more traditional manner at the master's level, Dr. Trieschmann explained. "We try not to duplicate with the M.B.A. what's been taught in the B.B.A."

By graduation, the university places nearly all of its risk management students in jobs. To help acquaint the industry with its students, the department produces a resume book and mails it to about 400 companies, Dr. Trieschmann said.

"We can get the students two or three solid leads," Dr. Trieschmann explained. "Most get one or two offers; others get five or six."

At the M.B.A. level, the average starting salary is more than \$20,000 for UG risk management and insurance graduates.

"Many insurance companies are discovering that a UG graduate in risk management and insurance is unique," Dr. Trieschmann said. "We've had several go out and become risk managers at medium-sized firms."

The faculty has been enlarged and improved to match growth in the department, Dr. Trieschmann says. From a faculty of four instructors and one Ph.D. teaching assistant, it has grown to a faculty of six instructors and three teach-

ing assistants.

Each year the faculty publishes in numerous journals, including The Journal of Risk and Insurance, The CPCU Journal, Risk Management and Best's Review. Dr. Greene has written several books on risk management and insurance.

The faculty also is active in the service area, Dr. Trieschmann said. Dr. Leverett is known throughout the United States as an outstanding speaker on risk management and insurance. He also conducts eight to 10 programs each year on the Athens campus for Georgia residents. Dr. Trieschmann has accepted an appointment by the state insurance commissioner to the Georgia FAIR Plan Board.

Once they complete their rigid studies, UG graduates are not forgotten, Dr. Trieschmann says. "We send out alumni letters twice a year asking what they're doing and telling them what the department's doing," he said.

Tuition is \$234 per quarter for residents and \$551 for nonresidents. Fees are lower for reduced course loads and part-time study. Room and board are separate, estimated at \$3,000 per year for residents and \$4,000 for nonresidents.

comings & goings: buyers

Hinckley leaves James to manage risks for Avery

LAURA L. HINCKLEY, 29, is the new corporate risk manager at Avery International in San Marino, Calif. Ms. Hinckley, formerly an assistant vp at Fred S. James & Co. in Chicago, is responsible for the direction of Avery International's risk management program, including property, casualty, safety and the company's captive insurer. She has a bachelor of arts in business administration from North Central College in Naperville, Ill., and has an M.B.A. from Northern Illinois University. She also holds CPCU and ARM designations. At Avery, she reports to Wayne Smith, vp/treasurer.

UCLA and a master's in public administration from California State University at Los Angeles.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Joanne O'Hare, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5482. We'd also like to receive pictures of the people.

L. Paul Van Zuiden, 35, has been appointed manager of corporate insurance for GATX Corp. in Chicago. In this newly created position, Mr. Van Zuiden will be responsible for all corporate insurance department duties except claims administration.



Van Zuiden

He reports to Arthur Melzer, director of insurance. Mr. Van Zuiden joined GATX in 1976 as a senior insurance administrator. He previously was assistant to the insurance manager at Motorola and assistant insurance manager for Alberto-Culver. He is a graduate of Northern Illinois University in De Kalb with a bachelor's degree in management and has a CPCU designation.

Terry W. Norwood has joined Reliance Electric Co. in Cleveland as loss-prevention and control specialist. In this newly created position, Mr. Norwood will be responsible for the collection, analysis and dissemination of insurance loss-experience data and coordination of loss-prevention services provided by outside consultants. Mr. Norwood reports to V.K. Schleimer, manager of insurance administration. Before joining Reliance, Mr. Norwood was a loss-control representative at U.S. Insurance Group in Indianapolis. He has a bachelor's degree in industrial safety and hygiene from Central Missouri State University.

Methodist Hospitals of Dallas has named **William F. Fraley**, 42, director of corporate insurance, a newly created position. Mr. Fraley formerly was corporate insurance manager with Humana Inc. in Louisville, and before that was insurance administrator with Allis-Chalmers in Milwaukee. He has a bachelor of arts degree in economics from the University of Wisconsin in Madison. He reports to Gerald Neal, vp of finance.

Gary J. Martin has been named risk manager for the city of Manhattan Beach, Calif., replacing **John Boyer**, who retired. Mr. Martin is responsible for all risk management functions and personnel administration. He reports to Ralph Luciana, director of administrative and community services. Mr. Martin has been with the city for nine years, most recently as assistant director of parks and recreation. He has a bachelor's degree in political science from



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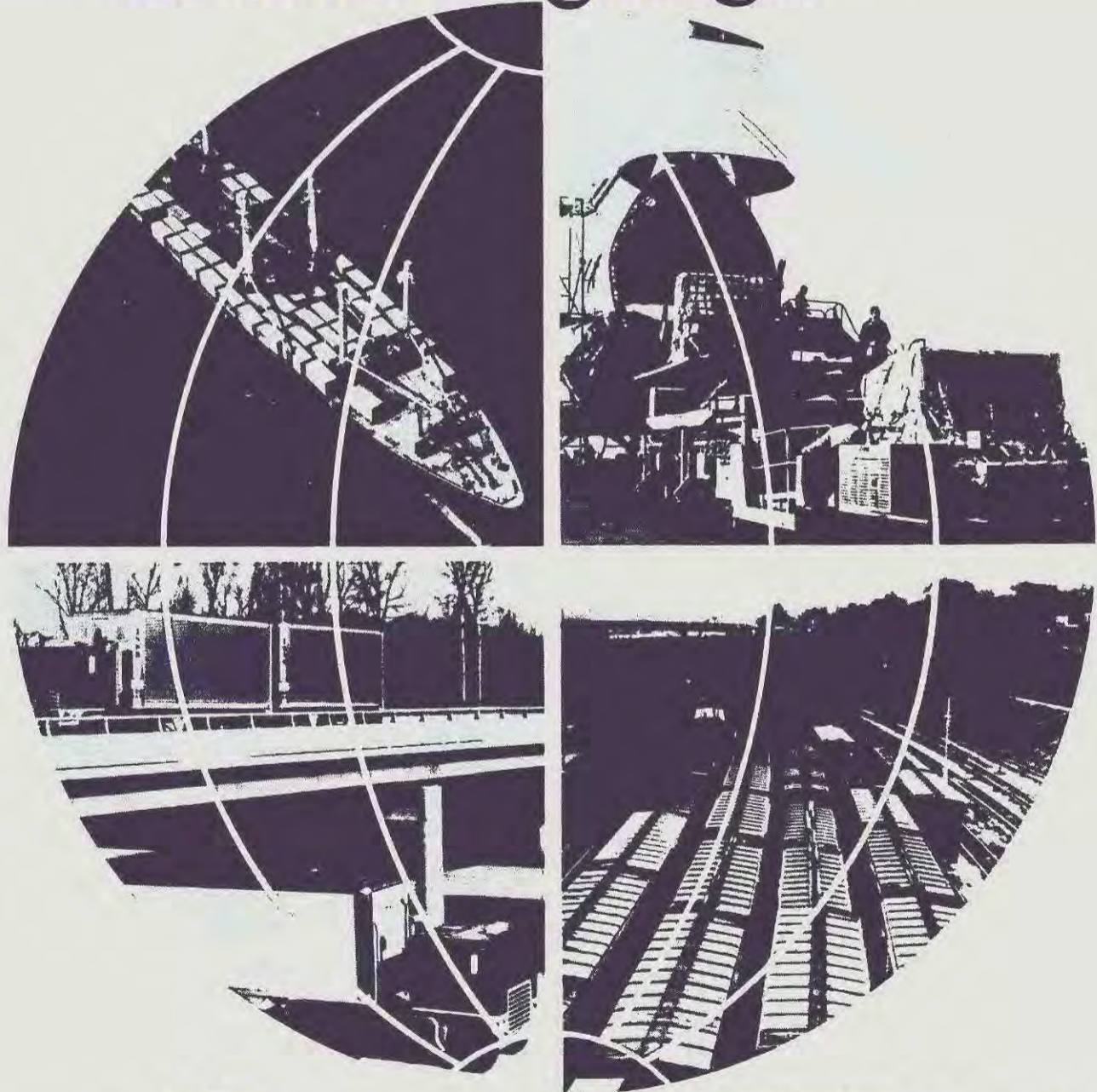
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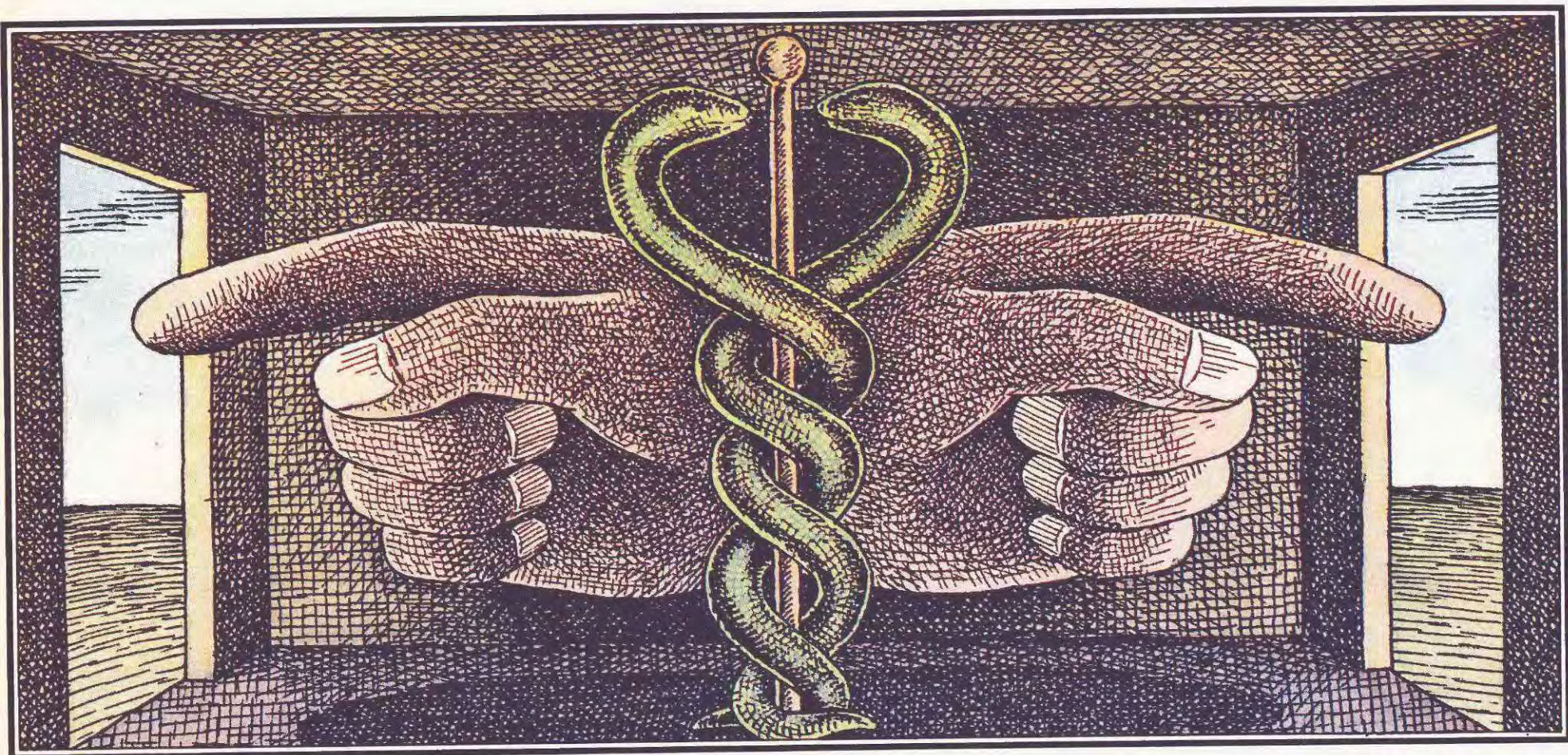
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A New Option



Rising premiums for both medical and hospital insurance are causing many firms to consider HMOs – an attractive alternative to conventional insurance systems.

INA reviews an important development in the area of health care.

HMOs, in return for a fixed monthly fee, provide their nearly 9 million current members with total health care, for everything from a preventive checkup to open-heart surgery.

Unlike conventional health insurers, an HMO does not reimburse a company's employees for medical and hospital expenses. Instead, the HMO is a *prepaid* health plan that provides services directly to its members. Charges usually are shared between the employer, who pays the larger part, and the employee, via payroll deductions.

Typically in health plans, physicians, dentists, administrators and technicians work together in medical centers equipped with all needed facilities—offices, examination rooms, laboratories, and x-ray services. Some very large HMOs also include entire hospitals, but most contract for hospital services locally.

Health plans cover everything from a scratch to radiation therapy. Except for some small out-of-pocket payments, there are no "deductibles." Even routine outpatient services, such as

children's checkups and immunization shots, usually are covered by the prepaid fee. As a result, health plan members often receive more comprehensive health care benefits per dollar than under conventional insurance plans.

The health plan's income is fixed by its membership fees. That's a strong incentive to keep the members well, and leads to emphasis on preventive health care through regular physical examinations and continuing health care education.

Reduces hospital days

Health plans seek to contain hospital costs by reducing the number and duration of hospital stays, sometimes by prescribing outpatient treatment, and by eliminating hospital days which attending physicians agree are unnecessary. Health insurance plans usually have less incentive for such reductions, since most

in Health Care

of the ultimate costs are borne by a third party—the employer's insurer.

Health plan results have been impressive. According to a 1979 study, the health plans surveyed averaged only 412 hospital days per thousand members each year. By contrast, members of some conventional health insurance plans average over 800 hospital days per thousand members.

This means less pressure for higher health plan rates, so many plans' charges are competitive with the premiums charged by comparable health insurance plans. In addition, the health plan's emphasis on preventive care means employers benefit from lower absenteeism and fewer disability payments.

When business and doctors support local plans, the promise quickly becomes a reality. For example, nearly 20% of the population in the Minneapolis-

St. Paul area is enrolled in several aggressively competing health plans. Participation may soon reach 50%. To remain competitive, conventional insurers in the area are offering more generous benefits and pruning wasteful expenditures, especially excessive hospitalization.

Consider the alternative

By law, companies with more than 25 employees must offer health plan services as an alternative to conventional health insurance plans, if a federally qualified pre-paid plan applies for consideration. This "dual choice," putting health plans and insurance plans side by side, gives employees greater understanding of the options available.

Since the first Health Maintenance Organizations were founded nearly half a century ago, they have been sponsored by physicians, hospitals, insur-

ance companies, universities and consumer groups. An INA Corporation company, INA Healthplan, operates a growing number of health plans in the United States.

Comprehensive services

Recognizing and meeting complex needs, such as providing efficient employee health care, typifies INA's comprehensive approach to increasingly sophisticated business and insurance problems.

The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation's international network of insurance, financial, and health care interests. In property and casualty insurance and risk management services, life and group insurance, health care management and financial services, INA and its affiliated companies offer a unique combination of products and services to business and industry worldwide.

For an informative booklet on prepaid health care plans, write INA, 1608 Arch Street, Dept. R, Philadelphia, PA 19101.

Shaping up hospitals

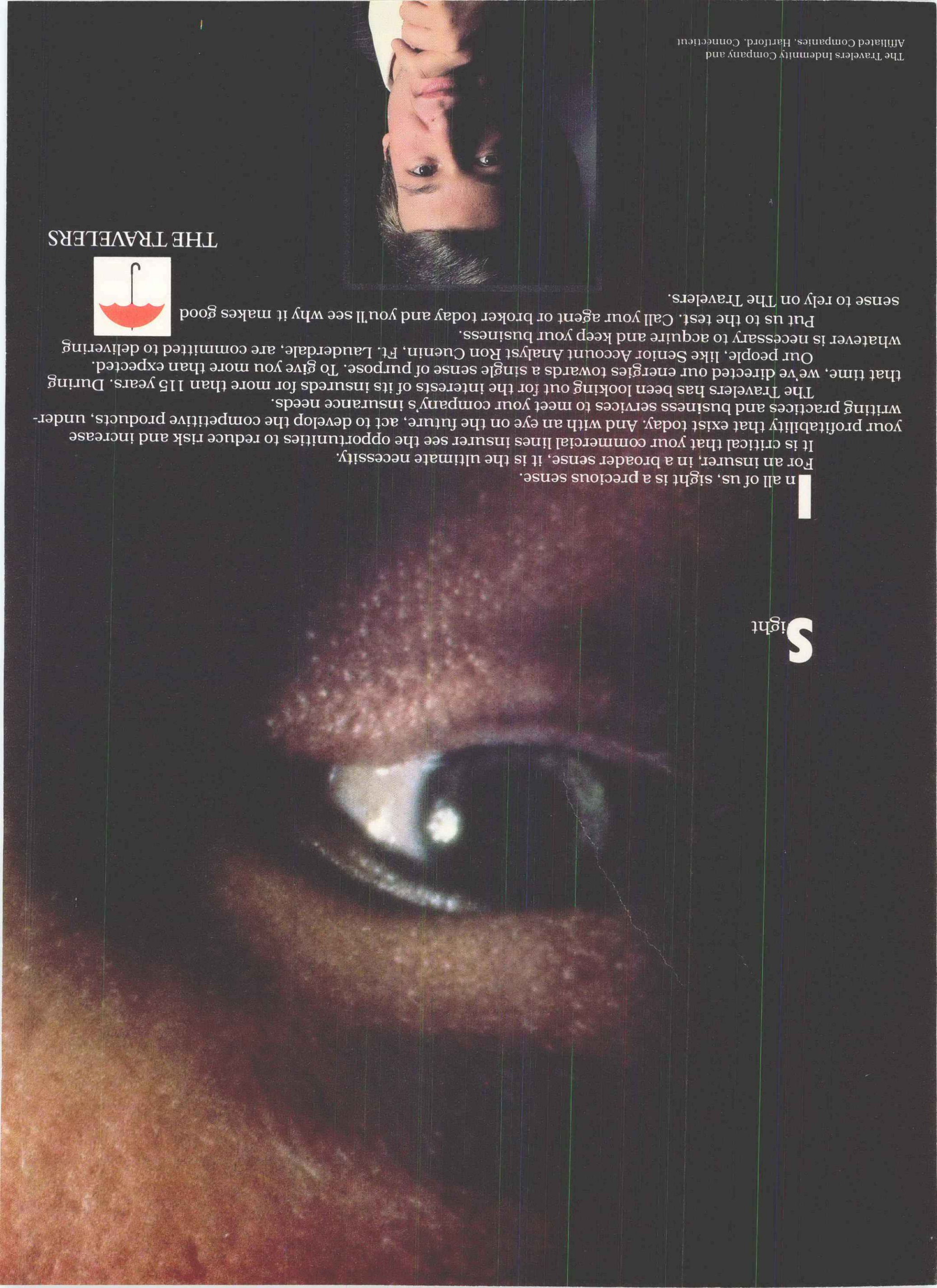
HMOs seek more efficient health care by providing an alternative to the third-party insurance system. Professional hospital management companies pursue the same goal through containment of hospital costs.

Results are proving proper management of a hospital's resources can improve the quality of patient services—while strengthening financial stability.

Hospital Affiliates International, an INA Corporation company, originated the concept of managing hospitals owned by others. Today it is one of the largest, most experienced firms in this growing field.



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perspective

Planning for disaster

By Belden Menkus

AN EDITORIAL in the Nov. 25 issue of the San Francisco Examiner expressed a widely held attitude: "When a man shaving in a hotel in Nevada has to learn via network television from New York that the building beneath his feet is on fire, then something is widely askew in the matter of hotel security in this country."

The fact that hotel security is not much better in most other countries is beside the point.

The overall problem is put into focus by statistics provided by the U.S. Fire Administration of the Federal Emergency Management Agency. This information was derived from analyses of reports gathered by USFA's National Fire Data Center.

- There were 12,500 U.S. hotel/motel-related fires in 1979.
- In 1978, 149 people died in fires of this type. What has focused public attention on these fires were the deaths of at least 110 persons in a recent two-week period.

Too little attention is paid to planning how to handle fires and related exposures. Hotels and motels have been chronically understaffed for years. Management is reluctant to spend scarce staff time on planning

**We had 12,500
U.S. hotel/motel
fires in 1979.**

and testing such things as evacuation procedures or other exercises management perceives could scare the guests.

And local governments seem reluctant to require fire drills with any frequency. In fact, local government generally seems to have shown little interest in disaster planning and training that involve exposures like nearby hotels or motels. Despite a large number of high-occupancy resort hotels in Las Vegas, local fire officials reportedly had not dealt with the possibility of off-the-roof rescue of occupants of these buildings during a fire. There are indications that actual rescue of some MGM occupants would have been stymied if helicopters had not been readily available at nearby Nellis Air Force Base.

Again, Las Vegas police did not appear to have planned how to deal with the aftermath of a major hotel/casino fire. Reportedly, the site was not made sufficiently secure when the fire was declared under control and looters were able to enter the premises immediately after to remove cash from the casino and guests' valuables from the vacant rooms.

Much attention was paid to the failure of both buildings to conform to the commonly accepted fire protection standards in this country: NFPA's

Continued on next page



perspective

Suggestions that may 18-point plan leads way to surviving blaze

IN THE aftermath of the MGM Grand Hotel fire in Las Vegas and the Stouffer's Inn fire in Harrison, N.Y., the following recommendations from the National Safety Council are of particular interest to Americans who use hotel accommodations during their travels:



1 Fire is not likely to chase you down and burn you to death; it's the byproducts of the fire that will kill you. Superheated gases, smoke and panic will almost always be the cause of death before the fire arrives, if it ever does.

2 Panic is especially a problem in unfamiliar surroundings. It is the product of your imagination running wild, and it can set in on you as soon as it dawns on you that you're lost, disoriented or you don't know what to do.

3 If you plan how to escape from a fire before you're caught in one—

in fact, if you start planning as soon as you check into your hotel—panic is not as likely to set in and you'll be in good shape to escape.

4 It's essential that you develop the habit of checking your exit after you put your luggage down. As you return to your room, count the doors from your room to the fire exit.



Check for exits when you check in.

5 Do not use an elevator as a fire exit. Smoke, heat and fire do funny things to elevator call buttons and controls.

6 When you return to your room, get in the habit of putting your key in the same place every time you stay in a hotel. A nightstand is an excellent location. It's close to the bed so you can

grab your key when you leave without wasting time looking for it. It's important to close the door after you, but don't lock yourself out. You may find fire and smoke in the hallway and want to return to your room.

7 Let's suppose you wake up to smoke in your room. Grab your key off the nightstand and head for the door on your hands and knees. Even if you could tolerate the smoke standing, don't. You'll want to save your eyes and lungs as long as possible. And air five feet from the floor could already be laden with odorless carbon monoxide.

8 Before you open the door, feel it with the palm of one hand. If the door or knob is hot, don't open it. The fire could be just outside. With the palm of your hand still on the door, in



Crawl to the door, feel for heat.

case you need to slam it shut, slowly open it and peek into the hallway to assess conditions.

9 If the coast is clear, crawl into the hallway. Be sure to close the door behind you to keep out fire and minimize smoke damage to your belongings. As you make your way to the exit, stay against the wall on the side where the exit is.

It's very easy to get lost or disoriented in smoke. If you're on the wrong side of the hallway, you might crawl past the exit. If you're in the middle of the hall, people who are running will trip over you. Stay on the same side as the exit, counting doors as you go.

10 When you reach the exit, walk down the stairs and hang onto the handrail as you go. Exit doors are locked on the stairwell side, so you must walk down to the first floor.

11 Smoke will sometimes get into the exit stairwell. If it's a tall building, the smoke may not rise very high before it cools and becomes heavy.

This is called stacking. If your room is on the 20th floor, for instance, you could enter the stairway and find it clear. As you descend, you could encounter smoke that has stacked. Do

Photos: Mary Cairns

Hotels fail to prepare for fire disasters

Continued from previous page
Life Safety Code. (It is American National Standard 101; Chapter 11). The San Francisco Examiner editorial quoted at the beginning of this discussion even called for a congressional investigation of safety conditions in the entire industry.

That oversimplifies the situation. Like all such standards in the United States, the code does not have the force of federal law. It must be adopted formally by each state legislature individually. Not all states have done so. And the code can be modified locally, at least in home rule states. This modification can be done either in the ordinances enacted or in the way these ordinances are interpreted and enforced locally.

As an illustration, reportedly loose interpretation of ordinances by the Las Vegas buildings department apparently resulted in the MGM facility having only a minimal number of sprinklers. As another illustration of this, strict code interpretation in nearby White Plains has been given as a major reason for location of the Stouffer's

unit in Harrison, where enforcement was believed to be not as rigorous.

Thorough and frequent premises inspections play a critical role in realistic fire prevention efforts. Yet far too many of these inspections are inadequate.

Fire inspections, chronically underfunded in most urban areas, are subject to the whims of budget-trimming local officials who try to ensure that actual firefighting crews can be kept intact in spite of rising salary and operating costs. In outlying areas like Harrison, site of the Stouffer's fire, where fire service is maintained by volunteers, inspection services may be limited.

The Stouffer's Inn had not been inspected in more than two years. A member of the local volunteer fire department had been acting as inspector. However, two weeks after the fire, the Harrison Town Board voted to hire its first full-time fire inspector and moved to review its 58-year-old fire prevention code.

Coverage apparently was limited; it was assumed, for example, that management would have the sprinkler system examined under contract by outside experts. And code violations found in other areas would be reported verbally to the inn's operating engineer. Apparently, no formal report of any fire inspection would have been made because the New York State code only requires written reports of school building

fire inspections.

Coincidentally, almost at the same time as the Stouffer's fire occurred, New York City officials announced disciplinary action against 72 fire inspectors for falsifying inspection records and failing to make actual required inspections.

The implied question raised at the start of this discussion can be answered only in part. There was no other way the individual mentioned could have been notified of the danger at that point.

Reportedly, one of the first things that resulted from the fire's spread into the casino area's false ceiling was the loss of telephone service as the locally installed cabling laid through that area burned.

The answer to the problems that apparently caused these fires lies in designing and building structures so they will protect their occupants.

The trouble is, it is not happening. Almost everyone involved probably means well, but is waiting for someone else to take the initiative.

A catalyst is needed.

The casualty insurers should fill that role. It is obvious, of course, that insurers cannot act as law enforcers, but if the insurers required that the code be drawn and enforced strictly and structured their rates to reflect those requirements, much could be done to improve hotel and motel fire security.



The MGM tragedy focuses concern on fire codes.



Belden Menkus is a security consultant in Middleville, N.J.

save lives

not try to run through it; people die that way. Turn around and walk up.

12 When you reach the roof, prop the door open. This is the only time you will leave a door open. Any smoke in the stairwell can now vent itself, and you won't find yourself locked out. Find the windward side of the building so you won't be caught in the smoke, have a seat and wait until firefighters find you. Stay put. Firefighters will always make a thorough search of the building looking for bodies. Live ones are nice to find.

13 If there is any smoke in your room, one of the first things you'll want to do is open the window to vent it. (Keep the window closed if there is no smoke. There may be smoke outside.) I hope you learned how to open the window when you check in; those of you who didn't may smash the glass when you don't need to. The broken glass could cut like a surgeon's scalpel.

14 If the room phone works, let someone know you're in there. Flip on the bathroom vent if smoke is coming through. Fill the tub with water. Don't get in it; it's for firefighting.

15 Wet some sheets or towels and stuff the cracks of your door to keep smoke out. With your ice bucket, bail water from the tub onto the door to keep it cool. Feel the walls; if they're hot, bail water on them, too. You can put your mattress up against the door and hold it in place with the dresser. Keep it wet; keep everything wet.



Stuff wet towels under the door.

16 A wet towel tied around your nose and mouth will help filter out smoke if you fold it in a triangle and put the corner in your mouth. If there is fire outside the window, pull down the drapes and move everything that's combustible away from the window.

17 It's important to say something about jumping because so many people do it. Most are killed or injured in the process. If you're on the first floor, you might as well just open the window and climb out. From the second floor you could probably make it with only a sprained ankle, but you must jump far enough to clear the building. Many people who hang from window sills and drop hit sills and ledges on the way down and then go into cartwheels. If they don't land on their heads and kill themselves, they're usually seriously injured. If you're higher than the third floor, chances are good you won't survive the fall. You would be better off fighting the fire.

18 Panic causes most people to jump. In a Brazil fire a few years ago, 40 people jumped from windows and all 40 died. Ironically, 36 of the 40 jumped after the fire was out.



Check firefighting equipment periodically.

Fire official's advice makes hotels safer

HERE ARE some fire safety recommendations for hotel and motel management from John Fogarty, Manhattan borough commander for the New York City Fire Department:

- All doors on guest rooms should be self-closing.
- All doors to stairways should be self-closing and normally kept closed.
- Doors designed to subdivide corridors should normally be kept closed or be installed with automatic closing devices that are kept in working order.
- Standpipe fire hose outlets within the building and inside sprinkler and outside standpipe siamese pipe connections should be clearly marked, not obstructed and in good working order. Periodic checks should also be made to insure the standpipe fire pump is operational and all sprinkler valves are sealed in the open position.
- The interior fire detection/alarm system should function properly. It should be tested no less than once a month and a record of those tests should be kept by hotel management.
- The bases of all building elevator shafts and all interior service stairwells should be free of trash or rubbish.
- All exits should be clearly marked, lighted and openable from the inside without being unlocked, and should be unobstructed.
- All fire extinguishing systems should be properly tested and maintained. Among other things, this means wall-mounted extinguishers should be properly charged and placed and that UL-approved grease filters will be used in the kitchen.

Tailor benefit plans to company's style

By Kenneth P. Shapiro

management

BECAUSE OF their rapidly growing cost and complexity, employee benefits are moving from the fringes to the fabric of an organization's total compensation program. In the past, implementation of benefit programs often has been reactive rather than carefully planned.

But now, as the expense and importance of employee benefits increase, it is time for decisions about them, like all other business planning, to reflect the company's internal organizational environment and key external influences.

Different organizations should develop benefit programs that match their own management style. For in-

stance, it might make sense for a growing entrepreneurial company to stress cash compensation (especially incentive bonuses) and de-emphasize benefits that are traditional and security minded. This would attract the aggressive management types needed in this setting. Benefit packages for this type of organization might be flexible, innovative and oriented toward a short-term payoff.

In contrast, an established financial company might emphasize the benefits that reflect a conservative management style and organizational environment, one where the benefit package would include such stable, long-term elements as retirement and insurance protection.

Forces outside the corporation will likely affect benefit decisions. External factors that will need to be considered in the benefit planning process in the 1980s are a healthier population with increased life expectancy and higher inflation-induced

taxes driving employees into higher tax brackets.

In the first case, the impact will likely be a population that not only will remain in the work force longer, but also will be more concerned with retirement issues such as pre-retirement counseling and the continuation of life and medical programs.

In the case of "bracket creeping," employees may further recognize the value of benefits as tax-preferred compensation, possibly resulting in emphasis on improvement of existing programs, introduction of new benefits and a "downward" extension of the perquisites generally reserved for executives.

The extent of employee involvement in the benefit planning process depends on management style and preference. A perception survey of all or a sampling of employees or interviews with specific employees can elicit opinions about their benefits.

In addition to the obvious value of incorporating employee concerns and preferences in planning, employee attitudes can have a positive effect upon morale.

But beware: The promise of benefit reform that a survey brings may have a negative effect if no change occurs.

Once objectives have been established, an analysis of the current benefit package will measure the elements of that program against these new goals. This will help determine the need for either new plans or modification in current plans.

Finally, corporations should establish continuing communications programs. Effective communications that enhance employee understanding and appreciation are vital if the employer is to receive a return on its time and money.

Most important, corporate human resource professionals should realize benefit planning is not a one-time exercise, but an ongoing process. Although this requires a broad-based commitment from the organization, it is the best way to ensure the effectiveness of the benefit dollar.



Kenneth P. Shapiro is a vp for Hay Hug-gins & Co. and a partner of Hay Associates in Philadelphia. His column on management ap-pears monthly in BI.

datebook

FEB 24-25. Risk and Claims Management Seminar in Oakland, Calif., sponsored by Darrell Heppner & Associates; \$185. Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577; 415-895-9630.

FEB 26-27. Information Systems to Improve Safety Management, Claims Management and Insurance Management Seminar in San Francisco, sponsored by Corporate Systems; \$345. Also March 11-12 in New York, March 26-27 in Chicago and April 23-24 in Dallas. Seminar Director, Corporate Systems, P. O. Box 31780, Amarillo, Texas 79120; 806-376-4223.

FEB 27-28. Toxic Substances: Problems in Litigation Seminar in New York, sponsored by the Practising Law Institute; \$275. For those unable to attend, the book sells for \$25. Nancy B. Hinman, PLI, 810 Seventh Avenue, New York, N.Y. 10019; 212-765-5700.

MARCH 9-10. Fifth Annual Eastern Claims Conference in New York; \$65 for full conference, \$50 for one day. Eastern Claims Conference, 1981, Ed M. Simson, Claim Consultants Inc., P.O. Box 2510, Grand Central Station, New York, N.Y. 10163; 212-996-7680.

MARCH 9-11. Fundamentals of Insurance Course in Jacksonville, Fla., sponsored by the Risk & Insurance Management Society Inc.; \$295 for members, \$395 for nonmembers. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MARCH 9-11. Fundamentals of Employee Benefits Meeting in Atlanta, sponsored by the Center for Management Development of American Management Assns.; \$555 for members, \$635 for nonmembers. William Texas, division manager, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

MARCH 9-11. Reporting and Disclosure Compliance Under ERISA Meeting in Chicago, sponsored by the Center for Management Development of American Management Assns.;

\$510 for members, \$585 for nonmembers. William Texas, division manager, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

MARCH 10. Public Employee Benefit Plans Workshop in Pittsburgh, sponsored by the International Foundation of Employee Benefit Plans; \$120 for members, \$145 for nonmembers. Late registration fee at the door is an additional \$20. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

MARCH 11-13. Shippers National Freight Claim Council's Seventh Claim Conference and Annual Meeting in New Orleans; \$175 for claimant members, \$150 for associate members and \$200 for nonmembers. SNFCC, 120 Main St. (Box 2), Huntington, N.Y. 11743; 516-549-8984.

MARCH 11-13. Product Liability and Warranty Meeting in New York, sponsored by the American Management Assns.; \$510 for members, \$585 for nonmembers. Also April 8-10 in Chicago. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-246-0800.

MARCH 11-13. 1981 London International Insurance Conference, sponsored by the Assn. of Insurance & Risk Managers in Industry & Commerce; \$900 (373.75 pounds sterling). Exportel Ltd., Bantahouse, Cambridge Grove, London W6; 01-741-7477.

MARCH 16-18. Establishing a Computer Security Program Course in Los Angeles, sponsored by Computer Security Institute; \$595. Computer Security Institute Educational Resource Center, 675 Line Road, Aberdeen, N.J. 07747; 201-566-6622.

MARCH 22-24. Back Pair: Mankind's Nemesis—Medicine's Dilemma Symposium in Boston, sponsored by Liberty Mutual Insurance Co. Whitney Lancaster, Liberty Mutual, 175 Berkeley St., Boston, Mass. 02117; 617-357-9500, or Lisa Jacobson, Newsome & Co., 617-426-4300.

Treaty renewals supply \$10.9 million for NYIE

NEW YORK—Jan. 1 renewals of reinsurance treaties helped put \$10.9 million in new premium on the books of the New York Insurance Exchange, reports NYIE secretary Peter Bickford.

Reinsurers, like retailers, have their busiest season during December, when most of the reinsurance treaties for the coming year are renegotiated. The business placed on the exchange reflects growing recognition of the exchange in the reinsurance marketplace, Mr. Bickford says.

For the first nine months of 1979, annualized premium written on the exchange was \$25.8 million, Mr. Bickford says. Of that, \$11.7 million was facultative reinsurance and \$14 million was treaty reinsurance. Direct business accounted for slightly more than \$100,000 in premium, Mr. Bickford said.

The exchange wrote \$10.9 million premium during the first three weeks of January, all of which was treaty reinsurance. Combined volume of \$36.7 million for 1980 and January 1981 puts the exchange close to its first-year target of \$40 million to \$50 million, Mr. Bickford notes. The exchange completes its first year of operation March 31.

At its January meeting, the exchange board of governors approved Richard Whaley Inc., a Crum & Forster subsidiary, as a new broker member and Reinco Intermediaries Inc. as an associate broker.

It also approved changing the name of Crum & Forster Syndicate to William St. Syndicate. The name change reflects C&F's reduced ownership interest in the syndicate, says C&F Managers president Ian Heap.

C&F's International Surplus Lines Insurance Co. now holds 19% of the \$5.25 million syndicate in partnership with Bellefonte Reinsurance Co., National Employers Mutual General Insurance Assn. Ltd. (U.K.), Pennsylvania National Mutual Casualty Insur-

markets

ance Co. and Utica Mutual Insurance Co.

Crum & Forster never intended to operate on the exchange with a wholly owned syndicate, but wanted to be identified as one of the founding members, Mr. Heap says. The insurance holding company attracted partners for the syndicate venture through a private placement offering.

Under state law governing the New York Insurance Exchange, Crum & Forster cannot own more than 19.9% of a syndicate since a wholly owned subsidiary, Richard Whaley Inc., is now a broker member of the exchange.

Betterley merges

Betterley Consulting Group Inc., a Boston-based risk management consulting firm, has merged its practice with Atlanta-based consulting and actuarial firm Tillinghast, Nelson & Warren Inc.

The Betterley Group, whose staff of 10 professionals and estimated gross revenues of \$1 million, put it among the three largest independent risk management consulting firms, will continue to operate from its Boston office with the same staff. The firm will now be known as The Betterley Consulting Group, a division of Tillinghast, Nelson & Warren.

TN&W, whose staff of more than 100 bills close to an estimated \$15 million a year, has specialized in consulting on employee benefit plans and to life and casualty insurers. It has 15 U.S. offices and others in Canada, Bermuda and the United Kingdom.

The merger of practices will "expand the professional skills" Betterley Group can offer, said George Betterley, the former principal of Betterley Consulting Group and now a principal with TN&W and on the board of TN&W. The actuarial and financial man-

agement consulting expertise of TN&W will be particularly valuable in Betterley's consulting work for clients using captive insurers and self-insurance plans, Mr. Betterley said.

The employee benefits consulting, for which TN&W is well-known, is a valuable addition because more risk managers are being asked to become involved in employee benefits, Mr. Betterley added.

Eventually, risk management consultants of the Betterley division will be located in other TN&W offices, Mr. Betterley said.

Charles Tagman Jr. of Betterley Consulting Group also was named a principal of TN&W.

McIntyre sells

William McIntyre last week sold his interest in INA Construction Risk Inc. to Insurance Co. of North America.

INACO was a joint venture of INA and Mr. McIntyre, created in 1979 to develop an insurance program for medium-size and large contractors, particularly those with design/build and construction management risk exposures (BI, April 30, 1979).

The underwriting activities of INACO will be decentralized to the regional offices of INA's Special Risk Facilities.

Mr. McIntyre formerly was president of the consulting firm RIMCO Risk Management, which he sold to McM Corp. after entering the joint venture with INA. He will now continue as president of Dallas-based McIntyre Financial Services. MFS provides management and marketing services for insurance organizations, including captive insurers, and is the parent company of RCI Communications, a publishing operation specializing in risk management information.

Equitable initiates hospice plan

GROUPS INSURED by health plans from The Equitable Life Assurance Society will now be able to opt for coverage of hospice care.

A hospice is a system of or-

ganized care for dying persons and their immediate families that attempts to meet their physical, psychological, spiritual, social and economic needs.

The hospice rider will be available to all group insurance clients with 500 or more participants. Present policyholders will not automatically receive hospice coverage, but will have to amend their policies to do so, an Equitable spokeswoman said.

There is no added premium for the hospice benefit, but it must be provided in combination with a health plan covering hospital charges, she said.

In-plant tests

In-plant health testing programs are available throughout the country for factory workers and executives through United Health Systems, a mobile health testing company based in Highland Park, Ill.

United will bring a medical van to your plant or office and perform up to 75 health evaluation tests, the company says. Tests include X-rays, lung function, hearing, vision, urine analysis, blood pressure and diabetes. Doctors' evaluations can be included.

For a free booklet on the program, contact United Health Systems Inc., 194A Skokie Valley Road, Highland Park, Ill. 60035;

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312-831-4747.

Equipment ID

Equipment Theft Information Program Inc. has introduced 10- and 12-digit die stamps to permanently mark equipment and provide easy identification if stolen.

The die stamps provide a one-eighth inch straight-line, factory-type impression that is difficult to alter without detection, says Hugh Goulding, president of the firm.

The stamps can be used to imprint metal, plastics, wood, etc., and are useful in both business and at home. The complete alphabet, many symbols and all numerals and blanks for spaces are available.

The Property Marking Kits, which include 10 or 12 characters of your choice, are \$56 and \$64, respectively. Additional characters cost \$3 each and blanks are \$1.07 each.

Contact Equipment Theft Information Program Inc. at P.O. Box 571, Addison, Ill. 60101; 312-530-8393.

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Bill would halve Blue Cross discounts

Continued from page 2

"We're recommending a revenue cap be established for each hospital to determine the maximum revenue they can generate," Mr. Finn said. "Then they could establish a uniform method of payment for Medicare, Medicaid, Blue Cross and charges for commercial and private payers." Per diem rates would be the basis of the billing system.

This would limit the differential in prices paid by Blue Cross and commercial insurers. But a 12% difference in prices would be allowed.

"Complete equality is inappropriate because there are a number of impositions on Blue Cross that are not placed on commercials," Mr. Finn said, among them rules on premium retention levels, open enrollment requirements and pay-out regulations.

Burden distributed

"There should be a difference between these (payer groups)," Mr. Finn said. The 12% figure was selected as midway between the past years' average 25% difference.

"The program will not cut costs overall, but will provide an equitable distribution of the burden for indigent care and reduce the rate of increase in costs," Mr. Finn said.

Federal approval would be required to implement the plan if the bill is passed because Medicare and Medicaid are involved. Hospitals are expected to begin using the system in phases, starting the first January after federal approval is received.

Mr. Finn contends the New York plan is better than the program in New Jersey, where rates are established for hospital procedures by diagnosis-related groups called DRG.

"We believe a charge-related system has more flexibility," Mr. Finn said. DRG assumes patient cases will fit the average illness and charges, he said, inducing hospitals to try to follow DRG rates.

"This is cookbook medicine," he said.

Twenty-six New Jersey hospitals are now billing according to a patient's diagnosis as opposed to services rendered, with 40 more expected to implement the system this spring. The state sets the base billing rate for each of the 383 diagnosis-related groups and adjusts each hospital's bills by taking into account overhead expenses, special staff available and the case-load for indigent care.

Cautious praise

However, New Jersey state officials and insurers are cautiously praising the cost-cutting abilities of the DRG system, especially after a July tune-up corrected a major problem (BI, Sept. 8, 1980).

Last summer, when there were no minimum and maximum days required for patients to be billed according to the DRG rates, prices soared for DRGs, negating the purpose of the program.

"I think it's running pretty well, although we will not have the system data until April," said Bruce Vladeck, assistant commissioner of health planning and resources development. "We seem to be starting to shake out the problems."

Insurers such as Prudential, Aetna, Equitable, Metropolitan and Blue Cross of New Jersey share this cautious optimism, while continuing to compile data and refine the system.

Initial savings

Commercial insurers have found initial savings under the program, but decline to divulge the figures, contending they are still incomplete or yet insignificant because of the limited sampling.

Blue Cross, however, estimates costs for 1980 are up about 22%. About 11% to 12% of the increase is attributable to inflation, but the other half is the cost of the plan now paying its share of hospitals'

unpaid bills for treating the poor, vp Joseph Walsh says.

"As for the added expense for the mechanics of DRG, it is limited," Mr. Walsh said. But, he added, "data is extremely limited."

In September, Blue Cross expected 1980 rates to jump 30% because of the new system.

While the state awaits data from hospitals to determine whether costs were cut overall or just shifted, the program continues to be fine-tuned.

Adjustments that became effective in January include the virtual elimination of 20 DRGs that caused problems and the adoption of a uniform billing document.

Among the procedures eliminated as DRGs by a team of doctors was DRG No. 348, which produced a hospital bill of more than \$6,000 for a broken finger in 1980. Others involved neurological treatment.

"These 20 DRGs were a source of recurrent problems," Mr. Vladeck said. They will now be billed according to service used.

Complaints about the problem DRGs, however, came mainly

from individuals.

"None of the DRGs posed any particular problem for us. We expected things to be corrected along the way," said Marsha Rosenthal, consultant and health policy coordinator for Prudential in Newark.

The other January refinement, establishment of a uniform billing document, is expected to ease comparison of bills from different hospitals and cut confusion resulting from the listing of itemized hospital charges next to the DRG rate.

Georgia program

While New Jersey is the only state using diagnosis-related groups for billing patients, Georgia has started using DRGs to group hospitals for Medicaid billing purposes.

"We use DRGs to determine which hospitals are comparable to each other. DRGs help establish the severity of their cases," said Hubert Jordan, director of administration for the program,

which started Jan. 1.

Hospital costs for related peer groups are allowed to increase with inflation from year to year. However, those exceeding the limit are penalized while those under it will receive extra funds.

Even backers of the program admit it could cause price problems for those not in it.

"A charge can be made that when a program doesn't include all payers, costs can be passed on to those not in the system," said Al Jones, member of the project staff for the Health Care Financing Administration in Washington, which funds the DRG projects.

"But other insurance companies might consider adopting similar techniques."

The state hospital association is challenging the newly approved system in court on a technicality. Before the approval of this statewide system, it had suggested implementing the program gradually, says Joseph Parker, its vp of financial services.

Action on the suit is not expected for months.

Transportation Dept. seeks higher limits for tow trucks

Continued from page 2

Smaller motor carriers would need \$1 million in coverage by July 1, \$2.5 million by July 1, 1982, and \$5 million by July 1, 1983. Tow truck operators would need \$1 million in coverage by July 1 and \$5 million by July 1, 1983.

The requirements now apply to haulers of oil and other hazardous substances carried in tanks or hoppers holding 3,500 gallons or more. They also apply to haulers of class A explosives, poison gas, liquefied gas, compressed gas and large amounts of radioactive materials.

After 1983, the requirements extend to oil and hazardous substances carried in tanks holding 110 or more gallons.

The Transportation Department contends that if a hazardous commodity is not removed from a truck before it is towed, the towing firm is hauling a hazardous commodity and, therefore, should maintain the same liability insurance as the motor carrier.

The Michigan-based towing group contends that if members were forced to carry higher insurance limits to tow vehicles hauling hazardous commodities, they would not move those vehicles.

The department suggests trip in-

surance—coverage arranged in advance for one move—might alleviate the towing firm's concerns. The department intends to check the availability of trip insurance for towing firms before issuing its final regulation June 1.

The proposed regulations also expand insurance requirements for haulers of goods that are not considered hazardous.

Motor carrier fleets of five or more trucks hauling non-hazardous commodities would need \$750,000 in liability insurance by July 1. Smaller fleets and tow truck operators would need that much coverage by July 1, 1983.

The interim requirement for small truckers is \$500,000 in insurance as of July 1 and \$600,000 as of July 1, 1982. For tow truck operators, a \$500,000 insurance requirement applies beginning July 1.

The Interstate Commerce Commission currently requires interstate motor carriers to carry \$100,000 liability coverage per person and \$300,000 per occurrence. Truckers are also subject to insurance requirements of the states where they operate.

Going to the \$5 million liability insurance requirement is likely to raise a trucker's premium by 51% if he now carries the minimum (BI, Dec. 22, 1980).

Illinois re-examines work comp pool regs

Continued from page 2

The rules, which were set last September when the workers compensation reform measures establishing group pooling for the first time were signed into law, also would have required each employer in the pool to have a minimum of 20 employees.

The department is looking at changing both of those recommendations, said Tom Jenkins, hearing officer and special counsel for the insurance department.

"We don't want to overregulate, but we do have a responsibility to make sure these pools are financially solvent," he said. The department might recommend that pool members be in business three to five years rather than set a minimum payroll and employment requirement, he said.

The state's current rules would "substantially limit participation in the program and defeat the intent of the legislation," said Robert Maher, Illinois Construction Industry Committee spokesman.

"Construction firms with fewer than 20 employees total 88.1% of the construction companies in the state," he said. "Size itself has never been an adequate measure of company solvency and as such should be eliminated as a requirement for membership in a self-insured group pool."

The proposed criteria for defin-

ing "similar risk characteristics" for the self-insurance pools also were attacked by the manufacturers association.

"We believe for sound insurance and business reasons the pools should be permitted to form under a broad definition of 'similar risk characteristics,'" said Ronald D. O'Nan, senior vp of Corroon & Black. Mr. O'Nan testified on behalf of the IMA.

The Independent Insurance Agents of Illinois also said it is concerned about the definition of "similar risk characteristics or lack of one," said Jim Hardesty, IIAI president.

"In workers compensation, the more similar the risk, the more accurate the statistics are, which allows for precise and fair rating of risks," Mr. Hardesty said.

Southern Illinois Builders Assn. executive director Wayne Barber recommended construction operations employing on-site labor be the industry's definition for pooling together with "similar risk characteristics."

One more hearing is scheduled before the rules are amended and sent to Director of Insurance Phillip O'Connor for his approval. If the rules are approved by O'Connor, pool applications could be processed in 30 to 60 days, Mr. Jenkins said.

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MGM Grand purchases back-dated liability plan

Continued from page 1

adequate to cover losses. A qualified audit would create severe problems in arranging credit with financial institutions and could concern stockholders.

Other sources point out buying more insurance now will give MGM Grand Hotels a tax advantage. The insurance premiums paid now for the additional insurance are immediately tax-deductible, but any reserves established now by MGM Grand Hotels to pay future losses would not be tax-deductible until the losses were paid.

Subcontractors for the MGM Grand Hotel in Las Vegas are also said to be looking for additional liability insurance.

Mr. McCaffrey said MGM Grand Hotels approached Hall to arrange the additional coverage for all its locations effective Nov. 1. The locations include the Las Vegas hotel, now being refurbished, a hotel in Reno and a new hotel to be built in Atlantic City.

Affiliates used

"We were successful in providing the limits they required—within 30 days," Mr. McCaffrey said. The expertise of several Hall affiliates was used in the placement, Mr. McCaffrey said, including that of London-based broker Leslie & Godwin, Los Angeles-based surplus lines broker Global Surplus Insurance Services, Brown Brothers Adjusting Co. and Frank B. Hall Services Division.

"This is not a shelf product," Mr. McCaffrey conceded when asked how often this kind of back-dated insurance is placed.

But he related the additional insurance to the common practice of insurers and self-insurers selling loss reserves: "Virtually every alphabet house has sold off a medical malpractice tail and taken a self-insurer of workers compensation to an insured program."

In these transactions, referred to

'This is not a shelf product,' says John McCaffrey of Frank B. Hall.

as a portfolio transfer of liability, an insurer assumes the liability of another for losses—for a price. The price is determined by studying the loss payout history, calculating the future cost of losses and establishing the net present value of money needed to pay those losses in the future.

Striking differences

Similar analysis went into the marketing and underwriting of the additional insurance for MGM Grand Hotels Inc. "You need to have a good fix on the ultimate loss to market this," Mr. McCaffrey said.

But the striking differences are that the loss history is very green with lawsuits still being filed and the additional coverage not only applies to the known loss in Las Vegas, but to all of MGM Grand Hotels' business.

Other sources say the placement of additional insurance for the hotel chain is an extension of underwriters' willingness to cover prior acts in claims-made professional liability policies.

These insurance policies, however, often include periods of one to three years for discovery of a prior act in order for coverage to apply. And the prior acts must be unknown to the policyholder at the time the claims-made insurance with prior acts coverage is written.

Underwriters also are willing to add coverage for new acquisitions of companies that didn't buy as much insurance as the parent company, Mr. McCaffrey said.

Although this too has been handled on a claims-made basis, it also has been written on occur-

rence forms.

"The difference here is the loss occurred and is known," Mr. McCaffrey said.

One need look only to the marine insurance business, however, to find yet another similar insurance product. Cargo insurers will write a policy on the cargo of a sinking ship, hedging their price on salvage value of the cargo.

He declined to name the insurers underwriting the additional insurance, except to confirm they include London and U.S. insurers and are "professional risk-bearers."

Most sources compliment Hall on the novel insurance placement, but a few expressed disdain for "back-dating an insurance policy."

Nothing improper

Mr. McCaffrey contends, "There is nothing improper here. It's an insurance product. The principle is clear. The loss cannot be measured and won't be for several years."

The underwriters taking the risks, especially on the lower layers of the new coverage, are betting they have charged enough to make a profit on the risk as the loss reserves produce investment income until the losses must be paid.

"It will be six to 10 years down the road before this is settled. There is a lot of investment income to be made," said one reinsurance expert.

But another reinsurance expert suggested wrongful death suits could be settled in a couple years because the liability is pretty clear, limiting the time to earn investment income.

Two different prices were reported for the \$100 million excess of \$100 million coverage, suggesting the price went up during the marketing. A price of \$1,000 per \$1 million, first quoted, was considered too cheap by many.

It's taking longer to fill the top \$100 million layer because "there's no reinsurance in that area," explained one source.

In the lower layers, the presence of reinsurance created problems. Reinsurance treaties do not provide for back-dating policies and insurers either had to take the risk on a net basis or get approval from their reinsurers.

Coverage plugs gaps

Continued from page 1

M&M senior vp Joseph Fahys. It can fill in holes in the coverage of newly merged companies and bring low limits of a newly purchased company up to the limits purchased by the parent company.

Underwriters have been lined up in London and the U.S. surplus market by Mr. Fahys and M&M, but Mr. Fahys wouldn't identify them.

Trenwick of Hamilton, Bermuda, is among reinsurers willing to underwrite retroactive insurance.

"Hospitals most need this," Mr. Fahys said, recalling that in the tight insurance markets of the mid-70s, many hospitals could not buy any or all of the liability insurance they wanted. Now they can buy additional insurance to cover accidents that occurred during that uninsured or underinsured period.

The coverage is applicable, however, to any liability risk. The retroactive policies can be written on a claims-made basis with an extended or unlimited period to discover past losses or they can be written on an occurrence form back-dated for the period needing additional insurance.

This insurance product is not quickly placed, however. Potential underwriters demand extensive information on loss history, Mr. Fahys said.

The price of the insurance depends on the potential policyholder's experience and its industry's experience. If a company wants to add to its past excess insurance limits and has had good loss experience, the price would be 10% to 25% of the existing umbrella insurance premium.

Robert A. Reeves, vp-insurance at Hospital Corp. of America in Nashville, calls the retroactive coverage a "valid product."

The coverage can be especially important for companies that have merged with other companies that had inadequate amounts of insurance in the past, he said.

HCA hasn't purchased any because as a relatively new company created in 1968, it has always purchased "adequate amounts of insurance," he said.

Howard Weber, director of insurance at 3M Co. in St. Paul, however, notes that during the tight markets, 3M couldn't always purchase all the insurance it desired.

"During 1975, '76 and '77, many insureds couldn't buy as much coverage as they would have liked to have had because the capacity wasn't there. Say you had 70% coverage then—to fill in the 30% now is worthwhile. The insurance industry has greater capacity now, why not make use of that capacity?"

"We're looking at it," he added.

There could be new applications for retroactive coverage. Experts disagree, for example, on how to read the recent U.S. Appeals Court decision in INA vs. 48 Insulations Inc. That decision, now on appeal, established that insurers at risk at the time a person was exposed to an injury-causing agent are liable for injuries that manifest themselves years later (BI, Nov. 3, 1980).

But some experts also read the decision to uphold a lower court ruling that says if one insurer is at risk over more than one policy period during time of exposure, the insurer is liable only for the limits of one policy period, the highest, not an accumulation of each policy period limit.

Such a limitation on coverage would severely reduce the amount of insurance available to companies that stayed with the same insurer over a long period of time, during which claimants were exposed to injury-causing substances.

Mr. Weber at 3M contends such a finding punishes insurance buyers who believe in market stability and stay with the same insurer.

A buyer who purchased \$5 million of liability insurance from the same insurer for 12 years would be limited to \$5 million of coverage under this exposure coverage ruling instead of \$60 million, he fears. "That's absolutely ridiculous," he said.

Others reading the court opinion say the coverage limitation applies only when the exposure is not continuous over the policy periods. If exposure to the injury-causing substance continues over more than one period, the insurance written for all those periods of exposure applies, they say.

"We'll need subsequent litigation to determine what exactly the court meant," observed William C. Murphy, attorney for 48 Insulations in the litigation. He is with the Aurora, Ill., law firm of Reid, Ochenschlager, Murphy & Hupp.

Asked if retroactive coverage could be purchased by companies if their exposure coverage is restricted by the courts, Mr. Fahys said, "You're darn right." But, he added, "the problems are a lot more complex."

The coverage also could be applied to limit a corporation's liability for contingent liabilities of an acquired company, Mr. Fahys said. Under Financial Accounting Standards Board Rule No. 38, a company acquiring another company's liabilities has one year after the merger to revalue the subsidiary's contingent liabilities.

If the adjustment is delayed longer than a year, the accounting rule requires the company to compensate for the difference in liabilities out of income during the accounting period in which the contingent liability is revalued.

An M&M Risk Management Services bulletin explains: "An agreement was reached on Jan. 1, 1981, for Company A to purchase Company B. B has a contingent liability on its books of \$10 million. Because some claims are settled before Jan. 1, 1982, there is sufficient information for A's public accountants to believe the remaining claim reserves represent a contingency of \$20 million."

"This adjustment in the liability can be made during the allocation period with no material effect on A's 1981 consolidated income statement. However, a revaluation subsequent to Jan. 1, 1982, to \$25 million would imply that A's pretax income would be reduced in the annual report by \$5 million."

A retroactive insurance policy could extend the limits of liability for prior years' policies purchased by the acquired company, or limit the payment of losses to the amount of the contingency established before the end of the one-year allocation period.



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Arizona to test open work comp rating

Continued from page 1
changes based on a formula that denies insurers a guaranteed 2.5% underwriting profit, and evaluates future investment income in establishing how much profit the insurer is making.

Though the calculations are complex, including a review of potential investment return levels, ultimate loss expectations and overall insurer financial standing, the principle behind the formula is simple: If stockholders make an adequate return from their investment in the insurer, rates must be sound.

The bill also would eliminate the usually poor loss experience of state fund policyholders from manual rate calculations.

"This is just the first step," explained Arizona Insurance Director J. Michael Low. "The governor is appointing a committee that I will chair to examine a comprehensive open competition law for implementation next year."

Though five other states—Minnesota, Oregon, Arkansas, Illinois and Wisconsin—are preparing open competitive rating bills for workers compensation, Arizona's trial efforts may speed the way (*BI*, Dec. 15, 1980).

"Oregon and Illinois also have bills in preparation and they could beat us," Mr. Low notes, "but I would like Arizona to be the first. I firmly believe that we can maintain an adequate data base with open competition."

Mr. Low's confidence is fueled by a controversial Peat Marwick Mitchell & Co. study that recommended open competitive rating practices and denied National Council on Compensation Insurance contentions that workers compensation is "social insurance" and not a naturally competitive line.

"The most intriguing aspect of the Peat Marwick study is that it examined the competitive environment in Arizona and found insurers price-sensitive through dividends to policyholders," Mr. Low explained.

Open competition, therefore, would only emphasize the competitive trend and eliminate underwriting profit guarantees, Mr. Low says.

The Peat Marwick analysis shows net cost to policyholders, premium less any dividend paid by insurers, clearly varies from insurer to insurer, though none of the state insurers deviated from manual rates.

"The exhibits show variability in dividend rates, which likely implies that many policyholders could obtain lower costs by changing insurers," the study said. "Some policyholders may be willing to pay a higher net cost to a company that offers better administrative procedures, loss-prevention services, agent services and the like."

"Other policyholders may be unable to determine which insurer is offering the lowest net cost because of the complexities involved in comparing dividend plans," the study revealed.

Overall insurer profit margins, however, remain above what insurers earn in other states and above insurance department benchmarks for reasonable return for stockholders' equity.

More competition is required, the study says, because insurers are making too much money from current manual rates despite dividends.

Other advantages of a fully competitive environment that would allow insurers to deviate from manual rates are:

- Companies would seek the most efficient mode of operation.
 - Inefficient companies would be eliminated.
 - Regulatory resources would not be wasted on factors the marketplace could regulate on its own.
 - Loss-control activities might be encouraged as companies differentiate themselves from other insurers.
- The study also noted some potential negatives:
- Issues of availability and affordability of insurance may receive insufficient attention in a competitive marketplace.
 - Price competition may result in reduced rehabilitation and loss-control efforts.
 - The need for regulatory supervision of insurer solvency would be increased.

The NCCI, which helps insurers set and publish manual rates for workers compensation insurance, attacked the study as "technically flawed" and overly confident of high returns from premium and loss-reserve investments.

"Theoretical rates of return on invested assets are fine, but to project such rates over the 15- to 20-year life of investments, completely ignoring actual history, makes little sense," the NCCI told Arizona officials in a formal response.

Investment income needs are already calculated within the guaranteed underwriting profit, the rating bureau said.

Research in other states, however, seems to agree with the Arizona study. In Minnesota, a study

by Donald Kramer, president of Kramer Capital Consultants Inc. and mastermind of the New York and Illinois Insurance Exchanges, also says insurers need no profit guarantees.

Using a computer model designed to demonstrate sensitivity of workers compensation insurance to changing interest rates, Mr. Kramer told Minnesota regulators the traditional 2.5% profit formula needs adjustment.

"We showed that if nothing changes except current investment yields, profits on compensation double. This leads to a re-examination of the 2.5% profit formula which the rating bureau alleges is a proper target," he explained.

Return on equity, as used in the Arizona study, would top 40%,

over 10% more than what stock analysts consider generous.

Combined ratio, a traditional measure of underwriting and loss costs, ceases to be an accurate profit measure, Mr. Kramer says.

A combined ratio of 98.6%, which would provide nearly 2.5% underwriting profit, produces equity return of nearly 33% even with conservative investments.

"This certainly substantiates my contention that the industry can earn very high returns on this line with a very small underwriting profit and less than optimum investment yields," he explained.

"Using investment underwriting and payout assumptions for Minnesota data, it was possible to demonstrate that a 106.8% combined ratio would produce significant net profit after taxes."

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13.	MAR 30	Mar 18
14. CAPTIVES/OFFSHORE . . . R.I.M.S. PREVIEW	APR 6	Mar 24
15. R.I.M.S. Conference Report #1	APR 13	Apr 1
16. R.I.M.S. Conference Report #2	APR 20	Apr 8
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Drought spurs fire plans

info

Continued from page 3
from the full-time professional fire department that can quickly get to a fire, he says.

IRI insures some plants within New York City that do not employ night watchmen or central fire alarm systems, Mr. Nella notes. However, most of these risks are low-value properties written as a favor on the property schedule of large firms, he says.

IRI voluntarily cut back pressure testing of sprinkler systems on risks within New York City. Mr. Nella says the city eventually would have requested the cutback. In New Jersey, sprinkler testing has been banned since last September as a nonessential use of water.

At a large factory, a pressure test of the sprinklers and alarm system could use 2,000 gallons, Mr. Nella says. Such tests are performed weekly at some companies. Booster pump tests, performed annually, use 5,000 gallons.

If testing had been conducted regularly, temporary postponements would not hurt, says William E. Morrison, risk manager at AIRCO, a Montvale, N.J.-based industrial gas manufacturer.

However, if sprinkler systems are temporarily shut down or redesigned, new testing is necessary. IRI's Mr. Nella says his inspectors conduct pressure tests only on new accounts and on pipes where the valves had been shut and reopened since the last inspection.

Union Camp's Mr. Thrower says

local water authorities refused to let the firm conduct a pressure test on a redesigned sprinkler system at one location. The company had to rely on old data to determine whether it needed to install a booster pump to raise sprinkler system pressure.

Factory Mutual system engineers had to convince water authorities in one New Jersey community to permit the refilling of a storage tank that was drained after a pipe broke, said Elmer Wallster, senior engineering officer at Allendale Insurance's Short Hills, N.J., regional office.

FM engineers are trying to pinpoint plants affected by the water shortage, make managers aware of the problem and develop plans of action with local fire departments, Mr. Wallster adds.

If the situation gets worse, alternative water supplies may be needed for the plants. If pressure drops, fire trucks could be hooked up to a plant to pump water through its sprinkler system in case of fire.

Hackensack Water Co., the area utility hit hardest by the water shortage that began last summer, estimates it needs 25 to 30 inches of rain between now and May to refill its reservoirs and end restrictions on nonessential use of water, a spokesman said.

The National Weather Service anticipates light precipitation in the New York-New Jersey area during the next 30 days. It does not

have longer range predictions available.

Although the water shortage is a new problem for the Northeast, parts of Texas and other Southwestern states experience it each year, Mr. Wallster notes.

But New York has some experience with the problem.

When neighborhood residents open fire hydrants during the summer, water pressure in parts of Brooklyn drops to 30 pounds per square inch from 50 to 55 pounds, a level that reduces the effectiveness of sprinkler systems, says IRI's Mr. Nella.

The entire New York-New Jersey region could experience serious pressure drops this summer, explains John D. Holthusen, fire protection manager for J.C. Penney Co. The retailer has faced this problem at stores in the Southwest.

"Nothing can be done about it," he said.

If a fire occurs, the sprinklers will still work, but more heads will have to be open to extinguish the blaze.

Penney's stores are well sprinklered, Mr. Holthusen says. Under normal water pressure, only two or three sprinkler heads are likely to open in case of fire.

Area utilities are trying to avoid reducing system pressure. Hackensack Water Co., with its reservoir only 19.5% filled, could not service customers in high elevations if pressure were reduced, a spokesman said.

• Kwasha Lipton's January newsletter looks at **The Arcane World of Actuarial Assumptions**. Free copies are available from the consultant by writing Kwasha Lipton, Dept. M, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632; 201-567-0001.

• Bayly, Martin & Fay's safety consulting staff has prepared a one-page **Safety Self-Evaluation Checklist** to help firms review loss-control programs. For a free copy, contact Samuel Alcorn, senior vp, Bayly, Martin & Fay International Inc., 3200 Wilshire Blvd., Los Angeles, Calif. 90010; 213-736-9831.

• The Alliance of American Insurers has published a new booklet, **Careers in Insurance**, to provide an overview of career options in the nation's 2,800 property/casualty insurance companies. The booklet is intended primarily for guidance counselors and students in high school and college. It discusses insurance functions and benefits; sales, underwriting and claims; professional and technical fields such as law, engineering and rehabilitation, and educational requirements. Copies are available in bulk for 20 cents each plus shipping. Single review copies are free when ordered on company letterhead. Write the alliance at 20 N. Wacker Drive, Chicago, Ill. 60606; 312-558-3700.

• The latest section of the **National Foam Engineering Manual**

contains a full discussion of fire protection in hazardous areas of oil- or coal-fired, nuclear and gas turbine peak unit power plants. It includes charts, diagrams and photographs. Copies are available free if requested on company stationery from National Foam, 150 Gordon Drive, Lionville, Pa. 19353; 215-363-1400.

• **The Lift Correctly—Observe Body Movements in Figure** card is available free from Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577.

• **Guidelines for Fiduciaries of Taft-Hartley Trusts: An ERISA Manual**, written by Noel Arnold Levin, is the latest book published by the International Foundation of Employee Benefit Plans. The 139-page manual is available to foundation members for \$15 and to nonmembers for \$25. Copies can be obtained by contacting the IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

• The International Risk Management Institute has published its second edition of **Glossary of Insurance and Risk Management Terms**. The dictionary defines more than 1,000 key words and phrases in laymen's language. Copies are available for \$12.95 each from the International Risk Management Institute Inc., 10300 North Central Expressway, Building IV, Suite 208, Dallas, Tex. 75231; 214-363-9656.

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Policyholders drop Blue Shield cover

Continued from page 1
 years, employee benefit consultants and group insurance experts agree. But many employers that opt to keep Blue Cross don't want to be quoted criticizing Blue Shield.

In private business enrollment alone, Blue Shield dropped 2.3 million members between December 1979 and September 1980, said a spokesman for the Chicago-based Blue Cross & Blue Shield Assns., the coordinating arm of the Blue Cross & Blue Shield plans. Blue Cross enrollment, however has remained steady at 83 million members for the past three years.

"We have seen a move away from Blue Shield to the wraparound," said David H. Klein, senior vp of marketing for the association. "But in terms of our success, Blue Cross & Blue Shield is not at a disadvantage today."

Data compiled by the Blues group doesn't show any clear pattern of employers dropping the Blue Shield portion of their plans, Mr. Klein said. "In some geographical areas, Blue Shield is growing and in other areas Blue Cross has more members," he added.

More competition

More competition in the insurance market and a growing trend for employers to move toward comprehensive major medical plans, however, has contributed to declining membership for some Blue Shield plans, Mr. Klein says.

But he adds that Blue Shield has no more service problems than any other insurer that handles a heavy volume of claims. "We're still selling new business and keeping our old business," he said.

Blue Cross is helping that. While insurers would like to write both the major medical and hospital coverage for employers,

the majority admit it's all but impossible to beat the discount Blue Cross can get on hospital coverage.

"Blue Cross is simple to deal with," said Tom Patsau, vp at Johnson & Higgins. "But Blue Shield has a history of poor claims service. And Blue Shield didn't get into the major medical market until the late '50s, when the insurance companies already were there doing a better job."

'Makes lot of sense'

Many banks and stockbrokerages in the New York area have or are in the process of dropping Blue Shield and wrapping the Blue Cross coverage with an insurer, Mr. Patsau said.

"It makes a lot of sense for large companies who try to simplify the claims process as much as possible," he said.

"Since most employers supplement Blue Cross & Blue Shield with a commercial carrier for major medical, the administration of the claim becomes complex," said John Hickey, partner of Kwasha-Lipton in Englewood Cliffs, N.J.

"Blue Shield pays what it pays first and what is left over is paid by the carrier. It's a lot of paperwork," he added, pointing out this is contributing to the exodus from Blue Shield.

Prudential Insurance Co.'s New York home office reports an increase in the number of wraparound policies it has written, and Richard Souders, vp of group insurance, says the trend is fairly prevalent.

"Employers are dropping Blue Shield because it has some fairly serious claim delay problems," Mr. Souders said. "Blue Shield is a national product and in some states, it can be provided cheaper by insurers."

Prudential is providing varying

degrees of medical coverage for Union Carbide and Gulf & Western, which recently dropped some or all of their Blue Shield coverage.

One insurance company executive in the East, who asked not to be identified, said Blue Shield has and will continue to lose employers because it limits the amount it will pay for a variety of services that routinely would be covered by an insurer.

"Blue Shield has become very active in cost containment," he said.

"Blue Shield has never really been competitive with carriers," said Neil Burger, senior vp with Martin E. Segal Co., a consulting firm in New York.

"Now that insurers are writing wraparound policies, it makes sense for many of our clients to investigate coverage with an insurer and still keep Blue Cross," he said.

'Nothing new'

Christian T. Paul, vp of group insurance at The Travelers Insurance Corp., also says he has seen an increase in the number of employers dropping the Blue Shield portion of their Blue Cross & Blue Shield coverage.

"It's nothing new," Mr. Paul said. "Wraparounds have been done for years. It's competition. Anytime anyone is giving poor service, the employer is going to look around for a better value."

About 10% of John Hancock Mutual Insurance Co.'s business involves wraparound insurance programs, says Anna-Marie Ferraro, regional underwriter in Boston.

"If an employer wants to keep the Blue Cross portion of the policy, we can insure them for the surgical and major medical, but that's still two places to go for claims service. That's our argument for trying to get the whole package."

Plastics group molds captive

Continued from page 2
 turers with no more than 200 employees. However, Mr. Moselle said the captive, which was formed Jan. 1, might expand its geographic boundaries and lines of business.

Premium volume for the first year is pegged at \$1 million, but Mr. Moselle said it would jump to \$3 million by the middle of next year and eventually would near \$5 million.

The increasingly high cost of workers compensation insurance in California spurred the formation of the captive, which Mr. Moselle said has been discussed for several years.

"Other groups have saved up to 40% through an arrangement like this," Mr. Moselle said. "We aren't saying we will save that much

money, but I wouldn't be surprised if we get something close to that."

Limits to be offered by the captive are not firm yet, Mr. Moselle said. "This is an industry that needs substantial limits," he explained. "I think we are looking at somewhere around \$5 million."

Northwestern National Insurance Co. of Milwaukee will be the issuing and servicing insurer for the group for a "nominal fee," but will reinsure all the risk without the captive, Mr. Moselle said.

Members say the arrangement also will allow them to purchase specialty services as a group.

"We have unbundled the services usually provided by an insurer and gone out to find people we think can best serve specific

needs," Mr. Moselle said.

For example, claims handling will be done by CDS, with several offices in California, and engineering work will be done by Industrial Safety Engineers of Laguna Beach, Calif., Mr. Moselle said.

The arrangement with the plastics processors is one of about 10 that ATO has established in the past year, said ATO risk manager Bruce Fowler.

"The success has been great so far," he said.

"It gives us a chance to develop outside business for our captive, while at the same time making it possible for others to do what they want to do without some of the problems inherent in capitalization and registration," Mr. Fowler said.

Senior vp Taft retires from IRI

HARTFORD—Senior vp Robert M. Taft has retired after 42 years with Industrial Risk Insurers.

Mr. Taft began his career with IRI in 1938 after graduating from Worcester Polytechnic Institute with a degree in civil engineering. Except for four years during World War II when he served as a U.S. Navy pilot, Mr. Taft held many field and regional office inspection and underwriting supervisory positions for IRI.

Other insurer changes:

Walter Liptak promoted to senior vp at Chicago-based Montgomery Ward Insurance Group with responsibility for casualty commercial lines and group and

comings & goings: industry

credit life insurance. He was previously vp and actuary.

Brooks R. Joslin named vp in the underwriting and service division of the group department of The Travelers Insurance Cos. in Hartford.

Millicent McKenzie elected assistant vp of claims administration at Houston General Insurance Co. William H. Heck named assistant vp of casualty underwriting.

Richard P. Czarnecki joins Hallmark Insurance Co. of Middleton, Wis., as Illinois underwriting man-

ager. Mr. Czarnecki will maintain Hallmark's Illinois branch underwriting office in Chicago.

James W. Ward named group pensions assistant vp at New York-based Metropolitan Life Insurance Co.

William J. Flynn named senior vp of group operations for the Manhattan Life Insurance Co. of New York. Mr. Flynn will be responsible for all group insurance lines, group marketing, product development, underwriting and group administration.

The Equitable Life Assurance Society in New York and Provident in New Jersey both agree Blue Shield is losing business because employers are starting to become even more aware of cost savings.

"It's not a new trend," said a spokesman for Provident.

"Our impression is that more and more are going to wraparound policies," said Jim Murphy, head of group insurance for The Equitable's Midwest office. "Now

we're seeing more of it."

Three years ago, Blue Cross & Blue Shield Assns. announced a new business strategy to offer options on coverage and plan design for the products they offered nationally.

BC&BS said it was the first time in its history that enrollment declined by more than one million in a two-year period. The drop in enrollment was primarily attributed to the movement of national accounts to insurers.

Blues encourage same-day surgery

CHICAGO—The Blue Cross & Blue Shield Assns. are encouraging subscriber use of same-day surgery instead of overnight hospitalization when appropriate for its 110 member plans.

With elimination of hospital room and board charges, costs for ambulatory or same-day surgery could be 30% to 50% less than those for inpatient surgery, said Walter J. McNerney, BC & BS Assns. president.

"We stand behind the concept that surgery, like any other health service, should be performed in the least expensive setting that enables delivery of safe, high-quality care," he said.

Advantages of same-day surgery cited by Mr. McNerney include a reduction in the waiting period for surgery, convenience to patients and physicians, less psychological trauma and apprehension for patients and the benefit of recovery in the home setting.

Five of the most frequently performed surgical procedures that can often be handled without hospitalization account for about one-sixth of all inpatient surgery performed, according to the Blues. The five are biopsies, dilation and curettage, tubal ligations, tonsillectomies and hernia repairs.

Other common surgical procedures suitable to same-day surgery include removal of cysts and moles, vasectomy, myringotomy (draining fluids from behind the eardrum) and dental surgery.

"Blue Cross & Blue Shield plans should work to contain the total cost of health care, not just the costs of individual surgery cases," McNerney said.

Specific recommendations are for plans to urge subscribers to ask their doctor if surgery can be done on an ambulatory basis. The associations recommend inpatient and outpatient benefits for surgery be comparable and that the services covered be similar whether performed in an inpatient or outpatient setting.


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Insurers debate liability for worker suit

Continued from page 3

recommendations are intended to guide insurers, but are not binding.

The guidelines distinguish between dual-capacity suits in which only the employer is alleged to have assumed a non-employment role and those in which both employer and employee assume non-employment roles.

If a physician treats his own employee for an injury, for example, both parties have stepped outside their employment relationship and assumed new roles as doctor and patient. Under these circumstances, the CWCI recommends the liability insurer provide defense.

If the liability insurer declines to defend, the workers compensation insurer should assume the defense under a reservation of rights and then take action against the liability insurer for declaratory relief.

The more common dual-capacity suits, however, involve situations in which the employer assumes a non-employment role as a manufacturer of a product that caused the employee's injury. In these cases, the CWCI advises

'The general liability carrier should provide coverage for dual capacity actions,' says George P. Janich.

workers compensation insurers to defend their policyholders under coverage B provisions.

Mr. Damon believes many insurers would adopt this approach, especially because failure to do so might leave them open to a bad faith action brought against them by a policyholder.

E.&J. Gallo Winery is appealing a dual-capacity lawsuit won by an employee. The Argonaut Insurance Co. is providing Gallo's defense under the employers liability section of a workers compensation policy, said Ralph Korn, director of insurance.

But most insurance company executives stress the employers liability section of the workers compensation policy was never intended to cover civil damage suits

against an employer over and above statutory benefits already paid the claimant under section A.

The provision originally was written in the early 1900s to protect an employer against suits brought by employees working in states that did not have workers compensation statutes, said Mr. Hilten at Industrial Indemnity. "It's a historical hangover," he said.

But as a matter of internal policy, Mr. Hilten says, Industrial Indemnity will adopt the recommendations of the CWCI. So far, he said, the insurer has not paid any claims under coverage B.

"The general liability carrier should provide coverage for dual-capacity actions," said George P. Janich, senior vp-claims at the Fremont Indemnity Co.

"Our standard workers compen-

sation policy specifically excludes coverage B in an instance where statutory benefits have been paid or where we may be held liable to pay.

"If there is no general liability carrier on the risk, however, we might handle it under a reservation of rights. Each case is slightly different and would receive individual attention," he noted.

Insurers are hoping to resolve the coverage dilemma in another way.

Within the next couple of months, the Assn. of California In-

urance Cos. will introduce a bill in Sacramento to strengthen workers compensation as the exclusive remedy for work-related injuries, said George W. Tye, executive manager.

The National Council on Compensation Insurance in New York also is revising the workers compensation policy, said Donald DeCarlo, vp and general counsel.

The revision will address coverage B in detail, he said, although the main impetus for the overhaul is state legislation in Maine and other states requiring simplified policy language.

Reagan freezes new rules on safety, HMOs, pensions

Continued from page 2

Controversial regulations that go into effect after March 29 also are being scanned from top to bottom by the new administration for possible revision.

For example, OSHA's final standard requiring employers to offer more hearing protection to workers exposed to high noise levels (*BI*, Jan. 26) isn't immediately affected by the freeze.

That regulation will be phased in over the next three years beginning April 15. The long lead time gives the Reagan administration sufficient lead time to amend the

regulation, withdraw it or propose a new one if it so chooses, sources say.

Some agencies, on their own, delayed effective dates of final regulations to give the Reagan administration time to review the rules and propose possible changes.

The Labor Department, for example, delayed by three months the effective date of a final rule that could bar employers from being federal contractors if they refuse to pay for some abortion-related costs of their employees.

Those rules, which would apply to about 300,000 firms that each do

more than \$10,000 of business with the federal government, had been due to go into effect Jan. 29, but now won't take effect until April 29.

Under the rules, employers would have to pay for the cost of abortions on the same basis as they pay for other sicknesses if the woman's life is endangered by the pregnancy. Employers also must cover the costs of any medical complications from an abortion.

It is unclear now if the new administration will change the abortion requirements which are part of the Labor Department's standards governing government contractors. President Reagan has been an outspoken opponent of abortion.

It also is unclear whether the Reagan administration can indefinitely postpone final regulations through moratoriums. There are no precedents, notes one government attorney.

It is clear, however, that the administration cannot simply rescind regulations. The public must be given at least 30 days to comment on proposed changes to final regulations. And it is difficult to overhaul a final regulation in less than three months, government experts say.

Some government officials predict 95% of the regulations now stalled will be approved by the Reagan administration when the 60-day freeze expires.

"They just want to see that all I's are dotted and nothing slipped in because they'll have to live with the regulations for the next four years," one source noted.

The regulations affecting HMOs and SEPs are noncontroversial, and Ian Lanoff, the U.S. pension administrator, expects Reagan administration approval. "People want these regulations. There have been no complaints about them," he said.

The OSHA walkaround rule, though, could be headed for the scrap heap or drastic revision. The U.S. Chamber of Commerce has been urging the Reagan administration to dump the rule. As a candidate, Mr. Reagan pledged to reduce OSHA's role.

HMO hopes to deliver maternity cost savings

Continued from page 3

Estimates show 50% of the HMO's 3,000 births per year will fall into the new program, which starts with educational instruction before birth.

"As soon as we find out a member is pregnant, we check with the obstetrician and keep in contact throughout," Dr. Weiner said. Literature on pre- and post-natal care is then distributed to the future mother, as well as information on post-natal services offered under "Apple Seeds."

After release from the hospital, Dr. Weiner explained, a pediatric nurse practitioner will make one to three visits to mom and baby at home. During these times, patients will be checked for general health and questions regarding baby care will be answered. The patients' doctors will be notified of the visits.

"It's another level of care," Mr. Abramson said. "Many times new moms are intimidated."

"I don't know of a similar program," Dr. Weiner said. "It's something no one has ever paid attention to." The IPA and a team from Temple University will study the program's results.

"Apple Seeds" and other preventive programs offered by the HMO are expected to keep hospital stays, and therefore costs, down.

"Our rates are the lowest in the area. They've increased 8% to 12% a year and we hope to maintain a lower-than-inflation rate increase," Mr. Abramson said. "Decreasing rates are due to decreasing hospital utilization."

In 1980, the HMO averaged 466 hospital days per 1,000 members, compared with 800 days for Blue Cross members, Mr. Abramson said. This reduction can be traced to programs emphasizing weight control, exercise and cardiovascular health and stopping smoking, in addition to "Apple Seeds," he said.

These programs have been developed over the five years the HMO has been operating, and two more are in the works. They will be counseling sessions attended by a psychiatrist, physician and patient, or a primary physician, patient and clergy member.

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January 27, 1981

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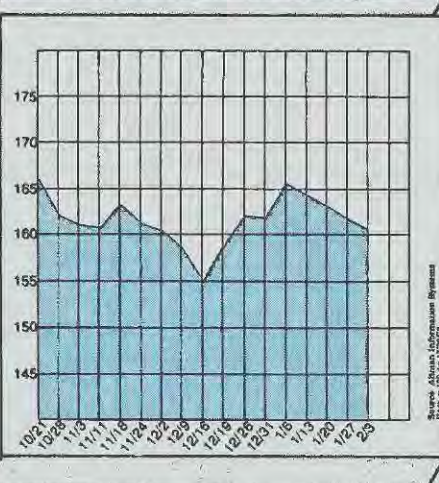
American Institute of Certified Public Accountants
Room 402, 1211 Avenue of the Americas, New York, N.Y. 10036

Broker outlook for 1981 shows little improvement

By HARVEY H. BUNDY III
Special to Business Insurance

BI ticker

BI Insurance Index



Insurance industry stocks dipped for the fourth straight week with the *Business Insurance* stock index dropping to 161.3 from 161.8. The base of 100 was at year-end 1978. Thirty-four stocks dropped, 29 rose and nine remained unchanged. Largest drops were: Statesman Group, 11.6%; PennCorp Financial Inc., 7%; Fred S. James & Co. Inc., 6.1%; Bitco Corp., 5.3%, and Avemco Corp. 5.3%. Biggest gainers were: Nationwide Corp. of Ohio, 10.1%; St. Paul Cos. Inc., 8.3%; United Fire & Casualty Co., 7.9%; American Indemnity Financial Corp., 4.9%, and Crum & Forster, 4.2%. The index drop of 0.3% was less than that of the three major market indicators.

AS THE final 1980 earnings results begin to come in from the insurance brokers, it is time to put aside the most difficult year in recent memory and turn toward the prospects for 1981.

Clearly there is no consensus among the insurance brokers, much less among all observers. For example, Jack Bogardus of Alexander & Alexander was all doom and gloom in these pages several weeks ago. Jack Regan of Marsh & McLennan Cos. Inc., however, exuded a slight hint of optimism during some comments made to a group of security analysts in December.

Looking forward through 1981, the following factors should play upon the results of all major brokers: New business is likely to continue to be strong, in line with the results of recent quarters. Moreover, rate competition should moderate as the year progresses. However, it is unlikely insurance rates will show any year-to-year increase during 1981. At best, they may be flat year-to-year by year-end.

Declining interest rates on the premium float will result in lower investment income. Contingent commissions also should decline as a result of deteriorating underwriting results among the major insurers.

Finally, expense pressure will continue to be intense, with competition for people pressuring salaries and other operating expenses suffering from continued inflation in travel and entertainment costs. For the major publicly owned brokers, several of



Bundy

Harvey H. Bundy III, a partner at William Blair & Co. in Chicago, specializes in financial and insurance stocks. His monthly column on insurance brokerage stocks appears on this page the second Monday of every month.

their other operating divisions, such as the Putnam asset management operations of Marsh & McLennan, may modestly affect the total earnings picture.

In order to quantify the probable impact of these factors on an insurance broker, we have built a detailed model of Alexander & Alexander, the only company to provide a sufficiently detailed breakdown of revenues. The assumptions incorporated into this model are as optimistic as any we anticipate for the brokers.

During the year, we are projecting an acceleration of brokerage revenue gains for Alexander & Alexander from approximately 9% in the first quarter to 15% for the fourth quarter and averaging 12% for the entire year. This 12% gain will develop as follows: 13% as a result of new business, a negative 3% from lost business, 10% positive from economic growth and inflation in values and a negative 8% from rates (versus a negative 15% to 20% in 1980).

We have assumed an interest rate decline averaging approximately 200 basis points (2%) and a 15% decline in contingent commissions. Salaries and employee benefits are projected to increase 12.5% for the year, with more rapid increases later in the year. In other operating expenses, we are projecting a 16% increase.

The result of the assumptions is a modest decline in earnings for Alexander & Alexander in the first two quarters followed by approximately 15% earnings increases in the second half of the year. For the full year, we

are estimating earnings will be up approximately 5%.

Since we believe Alexander & Alexander's results will be among the best in the industry, it is interesting to note the sensitivity of these estimates to changes in assumptions. For example, for each percentage point change in operating revenues, the corresponding impact on earnings per share will be 3% or better. Likewise, salaries and employee benefits will affect earnings per share by 2% for each percentage point change.

Interest rates have a 1.5% effect for every 100-basis-point change. Therefore, a broker with a mix of business comparable to that of Alexander & Alexander but with only a 10% revenue gain would show an earnings decline in our model. Likewise, increases in salaries of several percentage points or a 300-basis-point decline in interest rates also could wipe out an earnings gain.

This year will not be much of an improvement over 1980 unless revenue gains exceed our expectations. In any case, it is unlikely any of the brokers will show encouraging results in the first half of the year.

One also should keep in mind that adverse surprises are more likely in a difficult operating environment than are favorable developments. We believe 1981 could be a year when investors encounter several disappointments as brokers' earnings do not measure up to early expectations. Perhaps this accounts for the fact that the brokers' stocks continue to lag the market, with the January performance showing an average decline of 3.6% vs. a 6.9% increase in the S&P 400 Stock Index.

British Issues

2/3 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low
Comm Union	153	8.1	14.57	9.5	153-144
Eagle Star	256	8.8	14.28	5.6	256-250
Genl Accident	302	7.7	18.24	6.0	302-296
Gdn Royal Exch	316	8.3	20.71	6.8	316-302
Phoenix	258	8.1	20.00	7.8	258-250
Royal	361	8.2	32.17	8.9	361-350
Sun Alliance	739	10.0	42.14	5.7	739-896

Brokers

CE Health	104	8.3	8.14	7.8	104-103
Hogg Robinson	96	8.0	10.00	10.4	96-95
Alex Howden	91	11.4	6.45	7.1	92-91
JH Minet	116	10.6	7.14	6.1	116-112
Sedg Grp	86	8.2	6.64	7.7	86-84
Stenhouse Hldg	202	9.4	17.14	8.5	202-185
Stew Wrightson	280	12.4	16.14	5.8	280-272
Willis Faber					

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Broker Stock Performance

	Price 1/31/81	% Change vs. 12/31/80	% Change vs. 1/31/80
A&A	32	(5.9)	4.1
Cor. & Bl.	21½	(1.7)	(20.4)
Hall	22½	(5.3)	(10.0)
James	24	—	(4.0)
M&M	30½	(11.3)	(55.1)
RBH	22	2.3	—
S&P 400	143.73	6.9	10.7

William Blair & Co. maintains a market in the common shares of Rollins Burdick Hunter and Alexander & Alexander Services. Edgar D. Jannotta, a partner in William Blair & Co. is on the board of directors of Rollins Burdick Hunter.

Financial briefs

INA

INA Corp. increased its fourth-quarter net income from operations 12.2%, to \$71.7 million from \$63.9 million. Revenues for the year's last quarter rose 16.7%, to \$1.4 billion from \$1.2 billion.

Earnings for the full year of 1980 went up 13.9%, to \$278.6 million from \$224.6 million, while revenues rose 15.2%, to \$5.3 billion from \$4.6 billion.

A&A

Alexander & Alexander Services Inc. has declared an increased quarterly dividend of 46 cents per share, payable Feb. 27 to shareholders of record Feb. 6. This is an increase of 5 cents per share over the previous regular quarterly dividend.

Crum & Forster

Crum & Forster Syndicate Inc., a founding underwriting member on the New York Insurance Exchange, has changed its name to William Street Syndicate Inc. Capitalized at \$5.2 million, the new syndicate is owned by five insurance companies: Bellefonte Reinsurance Co., International Surplus Lines Insurance Co., National Employers Mutual General Insurance Assn. Ltd, Pennsylvania National Mutual Casualty Insurance Co. and Utica Mutual Insurance Co.

Hartford Steam Boiler

Hartford Steam Boiler Inspection and Insurance Co. announced a fourth-quarter net income of \$1.36 per share, a 6.4% increase over the same period in 1979. The increase was the highest for any quarter in the company's history.

Operating revenues jumped 24.6% to \$55.8 million, bringing total 1980 revenues to \$195.9 million, up 14.6% from the \$171 million reported for 1979.

BI Industry Stock Report

Insurance Cos.	FEB. 3, 1981				1/28/81 THRU 2/3/81				Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)									
Aetna Life & Cas Co	NYSE	34.13	2.2	5.1	2.12	6.2	34.13	33.13	273.4								
American Bankers Ins Group	OTC	7.38	-1.7	4.9	0.11	1.5	7.63	7.38	72.2								
American Finl Corp Ohio	OTC	26.13	2.5	4.9	0.50	1.9	26.13	25.75	24.9								
American Gen Ins Co	NYSE	38.00	1.3	6.0	2.00	5.3	38.00	37.38	97.3								
American Indty Finl Corp	OTC	15.50	4.9	6.0	1.12	7.2	15.50	15.11	26.5								
American Intl Group Inc	OTC	75.00	0.7	10.6	0.50	0.7	75.00	74.25	148.3								
American Natl Ins Co	OTC	12.88	0.0	5.4	0.68	5.3	13.38	12.88	76.0								
American Sta Life Ins Co	OTC	20.00	-4.8	8.3	0.72	3.6	21.00	20.00	2.7								
Aneco Reins Ltd	OTC	4.63	-2.6	0.0	0.00	0.0	4.63	4.63	4.2								
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	0.2								
Avemco Corp	AMEX	9.00	-5.3	7.8	0.50	5.6	9.50	9.00	6.8								
Banks Iowa Inc	OTC	28.00	1.8	5.3	1.32	4.7	28.00	27.25	1.5								
Bitco Corp	OTC	35.00	-5.3	5.6	1.68	4.7	37.50	35.50	5.5								
Carolina Cas Ins Co	OTC	7.50	0.0	3.8	0.32	4.3	7.71	7.50	1.2								
Central Natl Finl Corp	OTC	10.38	-1.2	3.8	0.50	4.8	10.50	10.38	1.5								
Chubb Corp	OTC	39.75	2.9	5.0	2.68	6.7	39.75	38.50	60.0								
Combined Intl Corp	NYSE	17.25	-4.2	5.0	1.60	9.3	17.88	17.13	166.5								
Connecticut Gen Ins Corp	NYSE	43.00	-1.7	5.9	1.52	3.5	44.00	41.88	115.6								
Continental Corp	NYSE	25.50	2.0	5.5	2.40	9.4	25.88	24.88	105.0								
Crawford & Co	OTC	18.00	1.4	13.7	0.52	2.9	18.00	18.00	4.2								
Crom Life Ins Co	OTC	92.00	0.0	66.7	2.40	2.6	92.00	92.00	4.4								
Crum & Forster	NYSE	24.75	4.2	4.6	1.44	5.8	25.13	24.00	139.7								
Employers Cas Co	OTC	40.75	1.2	6.6	1.44	3.5	40.75	40.25	6.6								
Equifax Inc	NYSE	20.63	-0.6	6.7	2.40	11.6	20.75	20.63	3.2								
Farmers Group Inc	OTC	27.63	-2.6	8.7	1.00	3.6	28.38	27.63	162.1								
First Colony Life Ins Co	OTC	34.00	1.5	12.5	0.80	2.4	34.50	33.50	0.8								
Foremost Corp Amer	OTC	19.50	-3.1	6.4	0.80	4.1	20.13	19.50	13.7								
Great West Life Assn Co	OTC	205.00	0.0	10.1	10.00	4.9	205.00	205.00	0.5								
Hanover Ins Co	OTC	41.75	-2.3	3.8	0.72	1.7	42.75	41.75	16.7								
Hartford Steam Boiler Inspnt	OTC	36.50	-2.7	7.3	2.40	6.6	37.50	36.50	15.4								
Integon Corp	NYSE	35.25	-4.1	12.2	0.52	1.5	35.13	35.25	36.8								
Jefferson Natl Life Ins Co	OTC	40.00	1.3	14.7	0.64	1.6	40.50	39.50	1.8								
Kemper Corp	OTC	31.88	-1.2	4.7	1.60	5.0	32.25	31.88	19.4								
Lincoln Natl Corp Ind	NYSE	39.25	-0.6	5.5	3.00	7.6	39.50	39.00	51.5								
Mgic Invnt Corp	NYSE	28.63	-2.1	8.1	1.12	3.9	29.50	28.13	368.6								
Mission Ins Group Inc	NYSE	33.63	-3.6	6.9	0.80	2.4	34.63	33.63	21.7								
Nationwide Corp Ohio	OTC	21.75	10.1	5.5	0.70	3.2	21.75*	21.00	31.1								
Northern Natl Life Ins	OTC	28.38	0.0	6.1	1.25	4.4	28.38	28.38	24.6								
Ohio Cas Corp	OTC	34.50	1.1	5.8	1.76	5.1	34.50	34.00	27.2								
Old Rep Intl Corp	OTC	15.13	0.8	3.8	0.92	6.1	15.13	15.13	50.6								
Pinehurst Corp	OTC	6.50	-3.7	12.0	0.00	0.0	6.75	6.50	5.6								
Preferred Risk Life Ins Co	OTC	16.50	0.0	6.0	0.64	3.9	16.50	16.50	1.3								
Provident Life & Acc Ins Co	OTC	43.50	0.0	5.6	1.88	4.3	43.50	43.00	19.1								
Republic Natl Life Ins Co	OTC	24.63	-0.5	13.7	0.70	2.8	24.88*	24.63	470.6								
Ryan Ins Group Inc	OTC	25.50	2.0	7.6	0.12	0.5	25.50	25.00	4.1								
St Paul Cos Inc	OTC	40.75	8.3	7.3	2.32	5.7	40.75	37.75	164.2								
Steffens Corp	OTC	33.75	1.5	6.0	2.00	5.9	33.75	33.00	112.2								
Sri Corp	OTC	27.00	-1.8	5.0	1.20	4.4	27.50	26.00	21.2								
Seibels Bruce Group Inc	OTC	16.63	-1.5	3.9	0.80	4.8	17.13	16.63	28.2								
Statesman Group Inc	OTC	4.75	-11.6	3													

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