



Sen. Edward Kennedy has reintroduced his comprehensive health care bill.



Jimmy Carter's aides say he won't offer a national health bill this year.

## Health care bills introduced despite new Carter position

By PAUL R. MERRION

WASHINGTON—Three major national health insurance proposals were reintroduced in the new Congress despite warnings that the Carter administration will not support such legislation this year.

This is the fourth year in a row that legislative proposals for national health insurance have been introduced without presidential support. And despite the replacement of a Republican president opposed to the legislation with a Democratic president committed to national health care, the outlook for the legislation appears uncertain.

Government reorganization and the economy will probably take most of the new President's time during the first year of his administration. The Secretary-designate of Health, Education and Welfare, Joseph A. Califano Jr., told the Senate Finance Committee at his confirmation hearing on Jan. 13 that the Carter administration doesn't plan to present or support legislation for national health insurance this year.

Dr. Peter Dourne, recently appointed presidential adviser on health, said the administration plans a "carefully phased-in program, depending on what the nation can afford."

"It will be incremental and phased in, no matter what," he said. "But the commitment Mr. Carter has made is that it will be eventually comprehensive."

At the same time, the President said during his campaign early last year that he would "reserve the right" to include the private sector, "say, Blue Cross and Blue Shield," in the administration of any federal health care program.

Meanwhile, several versions of national health insurance legislation have been reintroduced in the first few weeks of the new Congress.

Sen. Edward Kennedy (D-Mass.) and Rep. James C.orman (D-Calif.) introduced their legislation for a federal takeover of the health care system. The bill picked up 70 co-sponsors in the House on the first day of Congress, which indicates a high degree of support, considering that other co-sponsors will be added later.

Rumors that Sen. Kennedy might be giving up the chairmanship of the Senate health subcommittee are apparently untrue, according to his aides, despite the possibility that he will become chairman of the Judiciary Committee when Sen. James Eastland (D-Miss.) retires next year. Capitol Hill observers say the senator can't carry both responsibilities, but Sen. Kennedy apparently believes he can.

However, Sen. Kennedy himself seems to have softened his position on participation by the private insurance industry. "I think there may be some useful role for private industry," he said, in areas such as claims monitoring.

A bill backed by the American Medical Assn.—the Comprehensive Health Care Insurance Act—was reintroduced by Sen. Clifford P. Hansen (R-Wyo.) and Tim Lee Carter (R-Ky.) on Jan. 13. The bill provides for coverage of basic benefits and catastrophic needs and would be essentially based on the present employer-purchased system.

Among the basic benefits, during any 12-month period are 365 days of in-patient hospital care, 100

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## Many eye insurers' stability

By SUSAN ALT

CHICAGO—Risk and insurance managers depend on Best's directory of rated underwriters and on their brokers when they're worried about the financial stability of their insurance carriers.

And many risk and insurance managers have, during the last few years, been concerned at one time or another about how stable their insurers really were.

That's the indication from the latest Editorial Advisory Panel survey conducted by *Business Insurance*. Fifty-eight risk managers responded to a written questionnaire.

Forty-four panelists said they have been concerned enough about

their carriers' stability to do some checking. Only 14 said they'd never worried about the solvency of their insurers.

When such concerns surface, most insurance managers have a pretty clear idea of the two or three steps to take immediately. Twenty-five said the first step is to check the A. M. Best & Co. rating of the insurer, although several panelists commented that this rating isn't adequate reassurance of current conditions. "I used Best's, but they are 12 months old or more," said one manager.

After this preliminary check, risk managers turn to their brokers for a more detailed analysis of insurers. Twenty panelists believe it is the broker's job to be informed

about the current financial status of the insurers they place business with and to gather intelligence continuously on those carriers.

One risk manager panelist said he "requested his broker to research" the situation when he was concerned about the insurer's stability. Other risk managers, however, told us they go much further in using the broker's analytical abilities. "We have given our broker certain financial standards to use in selecting carriers," said the risk manager for a large West Coast-based company. "A careful study is made of carriers not meeting these standards."

Another panelist insists brokers submit letters detailing the stability of carriers.

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Week of January 24, 1977

# business insurance

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

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## Interagency report praised despite omission, semantics

By PAUL R. MERRION

WASHINGTON—The advisory committee on product liability heartily endorsed the preliminary report of the Interagency Task Force on Product Liability except for criticism of the omission of wholesalers and distributors and arguments over the word crisis.

Nearly all the 19 members of the panel of business and legal experts praised the report as a job well done under pressing circumstances before listing several problems in the 40-page report.

The briefing report as published by the Commerce Department contains the essence of the report sent to the White House Economic Policy Board on Dec. 15. That report (detailed in *Business Insurance* Dec. 27) concluded there is no "nationwide multi-industry product liability crisis." The report did

say that some small businesses were faced with the difficult choice of going without product liability insurance or purchasing it at a greatly increased premium. It also made few, specific recommendations for reforms.

Significantly, the Jan. 1 public briefing report does not contain the recommendations to the Economic Policy Board. Most of those recommendations dealt with the release of the independent contractors' studies and the final task force report.

A Commerce Department spokesman said the Jan. 15 target date for release of the insurance and legal studies had been delayed to the first week in February. The industry study should be available in mid- to late-February and the final report which is still being prepared is expected in mid-

March, he said.

Most of the negative comments at the Jan. 11 meeting of the advisory committee took issue with what some on the panel felt were sins of omission—notably, a neglect of the problems of wholesalers and distributors.

The report covers manufacturers and consumers, "but nowhere in the report have we addressed the plight of the wholesale distributor, and this is something we should consider," said William M. Brooks, senior partner with Brooks Burke Surgical Supply Co. in Atlanta.

"Wholesale distributors are often sued along with the manufacturer, many times for the same amount," he said. "I hope something can be done for the problem of the middleman."

Mr. Brooks told the advisory committee that he has been trying unsuccessfully to get blanket product liability coverage for his 550-member association of medical supply distributors. "I've been turned down flat," he said. "That punches a hole in the theory that it can be done," he added, in reference to a conclusion in the report that the product liability problem "appears to be more one of affordability than availability."

A Commerce Department staffer in the audience who worked closely with the task force told this magazine he doesn't know of any insurers writing product liability insurance for associations. "If anything they're going in the opposite direction," he said.

(Aetna Life & Casualty Co.,

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## The inside story

### Training students

The University of Wisconsin leads the way with a program that gives risk management students actual working experience. That experience usually means an impressive career boost. Eastern editor Marie Krakowiecki explains in riskWatch, her new column on interesting people and developments in the field. **Page 17.**



### DC-10 crash liability

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A ruling that punitive damages may be awarded may greatly increase awards in the Paris DC10 accident.

- CHICAGO BURGLARY spotlights weaknesses in alarm systems. **Page 2.**
- FIELD ENTERPRISES begins a pension-thrift-plan. Benefit beat, **Page 3.**
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# Punitive damage ruling may increase liability in Paris DC-10 crash

By JOANNE GAMLIN

LOS ANGELES—A federal court ruling that California's statute excluding punitive damages in wrongful death cases is unconstitutional has dramatically increased the potential liability resulting from the 1974 Turkish Airlines crash near Paris.

The crash of the DC-10 killed 346 people in the worst aviation disaster in history. Sources said total damages could reach \$75 million if punitive damages are awarded. So far, survivors of 240 passengers who waived their right to punitive damages have been paid \$48 million in out-of-court settlements.

A Lloyd's of London syndicate insures most of the coverage for Turkish Airlines. Lloyd's reportedly expects to pay any punitive damages awarded in the case.

(A report from London in February 1976 said Lloyd's is expected to be liable for up to \$100 million in connection with the crash.)

Judge Manuel L. Real said in his Jan. 4 ruling that neither the state legislature nor the California courts had made any rational distinction as to why punitive damages are allowable in personal injury cases but not in wrongful death cases. Such a distinction has

been observed in the laws of many states and dates to the early 19th century.

With the ruling, the trial on the crash liability question was postponed again to Jan. 31. It will pit McDonnell Douglas Corp. and General Dynamics Corp. against 54 plaintiffs, 48 of them Japanese, who say they have been morally outraged by the conduct of the defendants early in the case and have been demanding punitive damages ever since. The trial may last as long as six months.

The ruling was a blow to the defendants. They have moved to have it appealed to the Ninth Circuit Court of Appeals.

Because the defendants were thought to want to avoid a liability trial, sources predicted the defendants would rush into out-of-court settlements after Judge Real's ruling. Indeed, Marshall Morgan, a lawyer who is working with attorney Lee S. Kreindler in representing the heirs of the Japanese crash victims, most of whom were young and single, told *Business Insurance* after the ruling that he anticipated higher settlement offers. Yet he later confirmed that no such increases had been offered. James Fitzsimons, attorney for McDonnell Douglas, al-

so said in mid-January that while settlement negotiations continue, no new or expanded offers have been made.

The two major defendants, along with Turkish Airlines, are known to have offered each of the families of the single Japanese \$115,000. However, that amount is thought to be far below what the heirs were asking even before the ruling by Judge Real.

Because they were mostly single, the Japanese heirs under California law can expect to receive no more than \$80,000 in compensatory damages. Under Japanese law, they would receive much more than that in compensatory awards.

Judge Real, who was called into the case to assist 82-year-old Judge Peirson Hall, is expected to rule in mid-January whether to certify an appeal of his ruling to the Ninth Circuit Court. The trial will begin if he does not certify an appeal or should the Circuit Court reject the appeal. Once the trial starts, the defendants cannot appeal Judge Real's ruling until the trial is concluded.

But if the appeal is accepted, the attorneys representing the Japanese heirs plan to ask the circuit court to rule on the question of whether California or Japanese law should govern the award of compensatory damages.

If these actions occur, the trial will be postponed for a year, according to Mr. Morgan. He said that in this case, panels of three retired judges will be summoned for non-binding arbitration under both Japanese and California law.

"The sole function of the panels will be to move toward a settlement," said Mr. Morgan.

Some estimate the defendants could settle the case by adding \$5 million to their current settlement offers.

Attorney Fitzsimons said he is confident the appeals court will overturn Judge Real's ruling. He also said that contrary to reports, the defense is not afraid of a punitive damage award because under the circumstances of the March 3, 1974 crash, a jury will not agree with the plaintiffs' case.

Destination Disaster, a major investigation of the crash by three London reporters, has a different view. The book cites evidence of gross negligence by McDonnell Douglas, willful misconduct by Turkish Airlines and acts of omission by both General Dynamics and McDonnell Douglas.

The defendants, including a fourth defendant, the Federal Aviation Administration, have a secret agreement on how to split the costs of settlement.

According to Destination Disaster, the essentials of the agreement were that the U.S. government, for the FAA, contributed a fixed sum of \$3 million; Turkish Airlines paid an average of \$30,000 for every passenger killed for a total of \$10,050,000; General Dynamics agreed to pay a fixed percentage between 15% and 20% of the total compensation bill, and McDonnell Douglas agreed to pay the balance. ■

## GUIDE TO FEATURES

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# Burglary focuses need on protecting alarms

By KATHRYN MCINTYRE ROBERTS

CHICAGO — Sophisticated alarm systems won't keep out everybody. So they apparently need their own protection—either an alarm, a guard, or both.

Henry Kay Jewelers, a store on Chicago's posh Michigan Ave., was equipped with what police described as a "very adequate alarm system." It reportedly included sound, magnetic and heat alarms.

But burglars, wise in electronics, circumvented the whole system on Jan. 8. They presumably attached a bypass device to the central security system that connected the alarms. There was no alarm on the central system.

Thus, the thieves calmly collected an estimated \$500,000 worth of jewelry including diamond rings, ruby and emerald-studded bracelets and expensive digital watches, according to published reports.

The burglary was discovered because alarms rang at an office of Burns International Security Services when the thieves disconnected their bypass device.

Still, that wasn't in time to stop the theft or catch the thieves.

Lt. Francis O'Malley of the Chicago Police Department admitted the security system was one of the best, but added the successful burglary suggests "there should have been something better."

He said there should have been a guard on duty instead of relying solely on electronics. He also recommended that safes be visible from the street.

Henry Kay Jewelers' safe was not visible from the street. The thieves were able to torch the safe to open it, shielded from the view of late night strollers and window gazers.

"Put the safe out in public. Make it visible from the street," Lt. O'Malley said.

An underwriter for Fireman's Fund Insurance Co., insurers for Henry Kay Jewelers, said his company recommends "all kinds of alarm systems . . . and an alarm on

the alarm systems."

Questions regarding the specifics of Henry Kay Jewelers' insurance were answered with "no comment" from Fireman's Fund and Associated Agencies of Chicago, which brokered the policy.

Owner of the store Henry Kaplan, was unavailable for comment on the burglary or his insurance coverage. However, *Business Insurance* learned the jeweler has a standard jeweler's block policy which covers all risks on stock and customers' goods. Fireman's Fund requires policyholders to inventory their stock annually and maintain a policy covering 80% of the stock's value. One claims adjuster said most jewelers hold policies designed to cover their largest inventory.

The burglary may have occurred at the most propitious time for Mr. Kaplan and Fireman's Fund. Walter Pyne, claims supervisor for the insurer, explained that a jeweler's inventory normally peaks in September or October and declines to its lowest point at the end of January after the Christmas buying binge.

Published reports that the loss amounted to \$500,000 could not be confirmed. Accountants for Fireman's Fund were still working a week after the burglary trying to determine the loss.

Regardless, Lt. O'Malley characterized the burglary as "a substantial loss—no doubt about it." ■

## Agencies merge

Three insurance agencies have merged to form Insurance Management Services Inc. The new agency is expected to have gross revenues of more than \$1 million annually. The three agencies merged are David & Disette Inc.; Lenihan, Groton & Co. and Yost Insurance Agency. The combined firms will employ 40 persons. William D. Gordon has been named chairman of the board. Edward J. Sealy is president and chief executive officer; E. D. (Ned) Yost, vp for client services, and William R. Groton, vp for administration.

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Similar disputes can take place where one person acts in more than one capacity. It is not uncommon for one person to be a director, officer, fiduciary, employee, an employee benefit plan participant and a stockholder. The Department of Labor has issued several helpful ERISA bulletins on this matter.

The standards to apply to measure the adequacy of coverage are:

1. The Director, Officer, Trustee or Fiduciary must be covered for any matter claimed against him in his capacity (position) of Director, Officer, Trustee or Fiduciary.
2. The corporation as Sponsor Employer and Named Fiduciary must be covered for its obligations to plan participants and plan beneficiaries plus for its obligation to indemnify Directors, Officers, Trustees or Fiduciaries.
3. The Trust or Plan must be covered for claims or suits registered against them as legal entities under ERISA; they were not legal entities at common law and hence not a proper party to sue.

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# Publisher adopts combined pension, thrift plan

**FIELD ENTERPRISES** Educational Corp., Chicago publisher of World Book Encyclopedia, dropped its profit sharing plan for its 1,000 home office employees in favor of a pension plan combined with a thrift plan. The profit sharing plan will continue for the 2,000-person sales staff. "We wanted to provide retirement income our employees could count on rather than being at the mercy of the stock market," said Robert Joyce, assistant vp for employee benefits and compensation. "Profit sharing was not providing a high enough level of benefits for the home office employees and seemed more geared to the commissioned sales people." Under the profit sharing plan, 10% of the company's profits were distributed in proportion to an employee's earnings. Now, home office employees are covered by a defined benefit pension plan providing up to 60% of an employee's average salary in the last five years of employment. Half of the Social Security payment and the actuarial value of the present profit sharing balances will be subtracted. The employee will be fully vested after 10 years. In addition, home office employees may save up to 10% of their earnings in a thrift plan. The company will contribute 25% of the employee's contribution up to 6% of salary. Vesting is 10% a year and the funds will be invested in a fixed income vehicle with Prudential Insurance Co. In addition to the profit sharing plan, the sales staff will earn a pension credit each year for earnings in excess of the Social Security wage base.

**BASF WYANDOTTE** has established a thrift plan for 60 salaried employees of its Canadian subsidiary, Wyandotte Chemicals of Canada Ltd. Employees may contribute from 2% to 6% of their basic salary to either a guaranteed rate of return account or an equity fund. The company will add 10% of an employee's contribution in the first year of participation, rising to 50% in the fifth year. BASF established a thrift plan for its U.S. employees in May 1976, but was unable to extend that plan to Canada because of that country's tax laws. Canada does not allow a vesting schedule, thus giving employees an immediate right to all company contributions.

**GULF OIL CORP.** has agreed to increase its contribution for medical and hospital coverage under a contract covering 3,000 refinery workers. Family coverage contributions will be increased \$22 a month over the two-year contract to \$72 from \$50. Single person contributions will be increased \$8 a month to \$30.50 from \$22.50. However, the Gulf contribution, which goes into a union run insurance plan, will not exceed the total cost of premiums. A union spokesman said he did not know the present total cost of the insurance. The minimum pension was increased to \$12 a month for each year of service from \$10 a month. Wage increases were 18% and additional money was added for shift premiums. The agreement is expected to be the pacesetter in negotiations involving 57,000 refinery workers. The union also reached agreement on a similar contract covering 3,850 workers of Atlantic-Richfield.

**PENNSYLVANIA STATE POLICE** have won an agreement under which the state will pay all legal costs defending any suits filed in connection with the policeman's performance of his duties. Previously the state reimbursed the policeman only if he won his case.

**DO YOUR EMPLOYEES** realize the value of the fringe benefits you are providing? Golden Rule & Congressional Life Insurance Cos. of Lawrenceville, Ill., will determine the dollar value of fringe benefits without cost to the employer. The insurer holds employee sessions to communicate those costs (with a movie and a presentation) and to offer permanent life insurance to be entirely paid for by employees through payroll deductions. The employees may buy the life insurance with deductions of \$2, \$4 or \$6 a week, with the amount of insurance to be determined by age and sex. M. Wayne Bennett, vp, said Golden Rule hopes to recoup the cost of the fringe benefit program through the life insurance it will sell to em-

ployees at the meetings.

**ONTARIO** will now allow employers with deficiencies in funding their retirement plans 15 years to pay off the liabilities instead of the present five years. The problem has occurred as escalating wages and salaries have outstripped contributions to pension plans.

**THOSE CONNECTICUT GENERAL** advertisements for dental insurance you've been seeing in the Wall Street Journal, other major newspapers around the country and the trade press (including *Business Insurance*), are a reflection of the company's aggressive commitment to the dental insurance market. Joe Walton, di-

rector of marketing, said the ad campaign's specific aim was to make sure agents, brokers and employee benefit managers considered CG when adding or changing their dental programs. It was also a chance to get across the CG philosophy, which stresses cooperation with providers. "We feel deeply that a dental insurance plan can only be effective if dentists are working with you," he said. CG now insures one million employees for dental coverage or about four million persons, three times as many as three years ago. Annual premium income is now about \$160 million. Mr. Walton would not discuss the specifics of the campaign or its cost, but he did say the reaction has been very positive. "I think what we are do-

ing and saying loudly and publicly puts pressure on us to deliver good performance. It also puts pressure on our competitors to do the same. That's good for everybody," he said. CG plans to continue its aggressive marketing approach although Mr. Walton would not say if the advertising campaign would be continued.

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# Providers urge specific coverage for rehabilitation; insurers wary

By KATHRYN McINTYRE ROBERTS

CHICAGO—Occupational therapy should be specifically covered in health plans.

That's what its practitioners say. The National Assn. of Insurance Commissioners (NAIC) agrees. The Health Insurance Assn. of American (HIA) isn't objecting.

But major insurance companies contacted by *Business Insurance* are somewhat wary of the idea. Few of them specifically identify the service in their group plans now. No matter, they say, the service is paid for when it is a necessary medical expense.

Occupational therapists, meanwhile, maintain they've had a hard time collecting. They complain

their bills are rejected by claims adjusters because the service isn't specifically listed in the policy's coverage.

The problem, apparently, is defining and understanding what occupational therapy is. The executive director of the American Occupational Therapy Assn. (AOTA), James J. Garibaldi, observed, "Claims adjusters see occupational therapy and they think of job training or arts and crafts."

Instead, he said, the relationship between physical therapy and occupational therapy can be described this way: "A physical therapist is concerned with restoration. An occupational therapist is more involved in a person's ability

to function, to perform activities. The emphasis is on getting the person to be independent . . . and back in the work force.

"A physical therapist working with a person who has an injured arm gets the arm to hold an ice cream cone. The occupational therapist gets the ice cream cone from the forehead to the mouth," he said.

Frank Mallon, director of governmental and legal affairs for the AOTA, asserted, "If an employer is going to provide comprehensive health coverage it must include the services of an occupational therapist." Mr. Garibaldi added, "It helps insure that the life which has been saved is a meaningful and productive one."

Insurance company officials admit it is up to the individual claims adjusters whether or not a claim for occupational therapy is approved.

Martin Brantman, manager of medical management and rehabilitation services for CNA in Chicago, said, "It depends on the philosophy and judgment of the claims people. If an insurance company feels the occupational therapy is treating a specific accident or illness, it will cover it."

Confusion over the service exists because occupational therapists also work with people such as the elderly who need therapy not because of a specific illness or accident but because of the general effects of aging.

Claims adjusters generally approve the service if it was ordered by a physician and rendered in a hospital.

Occupational therapists argue with the later requirement. Ac-

cording to Mr. Garibaldi, the services of an occupational therapist can often be rendered on an out-patient basis.

However, "if the policy doesn't provide for out-patient services of an occupational therapist, the doctor will keep the patient in the hospital," he said. That means added costs for the insurer and an unhappy patient, he observed.

Mr. Garibaldi and two occupational therapists who had trouble collecting their fees from insurance companies presented their case at the NAIC meeting late last year.

As a result, the regulators approved the following resolution: "NAIC recommends that any plan or program which reimburses or provides benefits for health care services consider for inclusion licensed M.D. or D.O. (doctor of osteopathy) referred occupational therapy services as delivered by a licensed, certified or otherwise qualified occupational therapist, and that such services be specifically identified in the coverage provided."

The HIA, a voluntary trade association of 320 insurance companies in the health insurance field, doesn't object to the resolution, Joe W. Peel, associate general counsel, said. "If it's true that it (occupational therapy) will reduce costs—then we're all for it."

The AOTA has zeroed in on insurance companies to get their services covered by health plans. Insurance company officials suggest they go to the buyers instead.

Mr. Brantman noted, "Sometimes insurance companies write large group policies that are the product of labor/management negotiations. If it is not in the negotiated agreement, the purchaser is sometimes hesitant to include it."

Still, Mr. Brantman, who is a member of the HIA's subcommittee on comprehensive coverage, said, "I'm an advocate of occupational therapy in health plans. We are going to have to face if the treatment is really for a specific illness, but that's true for other professions too, like psychologists."

The services of occupational therapists can be more educational than health related, Mr. Garibaldi admits. But occupational therapists are looking for recognition from insurance companies only for their health related work, he said.

Insurance company officials don't know what the costs of including occupational therapy as a specific covered service in a policy would be.

"There shouldn't be any added cost," Mr. Brantman said. "If they weren't performing the service, it would be someone else."

The 32 out of 70 Blue Cross plans last year which specifically covered occupational therapy included it under the additional cost benefit of rehabilitation therapy.

Mr. Garibaldi believes including occupational therapy in health plans will "result in reduced costs. It will get patients out of the hospital quicker if it allows for out-patient treatment."

Whether or not occupational therapy will end up listed in group health policies is questionable. Mr. Brantman believes it will because "insurance companies want to reflect changes in health care—and save money."

Mr. Peel suggested that it will be accepted by the industry when some companies begin to cover it. "It's a matter of competition," he noted.

But ultimately, as one senior consultant in a large insurance company observed, it will depend on whether or not the group policy buyers ask for it. "We'll provide whatever the policy holder wants to pay for."

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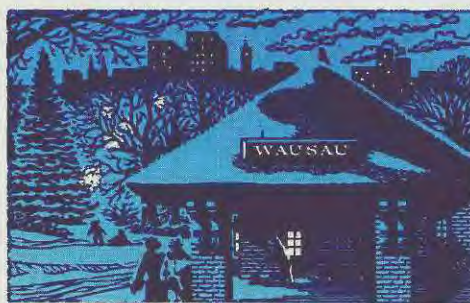
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### **A Wausau Story** **From the Partnership People**



EMPLOYERS INSURANCE OF WAUSAU Wausau, Wisconsin

# National health bills . . .

Continued from page 1

days of in-patient nursing home care, emergency and outpatient care provided by a hospital, and all medical care—diagnostic, therapeutic or preventive—regardless of where such services are rendered.

Individuals and families whose employers do not offer health plans would get a tax deduction for the cost of buying health insurance under the Hansen-Carter proposal, with the government financing part or all of the premiums for the poor.

The bill, which caused a great deal of controversy at the last AMA convention in December, would mandate that health insurance be made available to all individuals regardless of their health

histories on a guaranteed renewable basis. In addition, premiums for individuals or small groups could not be more than 125% of the premiums for large employee groups (over 50 persons) in each state. All insurers would be required to participate in an assigned risk pool if necessary.

Another health insurance proposal, this one backed by the Health Insurance Assn. of America (HIA), was also introduced.

The bill, called the National Health Care Act, was introduced by Rep. Omar Bureson (D-Tex.), a high-ranking member of the Ways and Means Health Subcommittee, and Sen. Thomas J. McIntyre (D-N.H.), who does not currently serve on any health-related committees. The bill was previously introduced twice.

Significantly, however, this time around, the bill picked up the co-sponsorship of the Senate minority leader, Howard Baker Jr. (R-Tenn.) enhancing its chances of passage, considering that Sen. McIntyre isn't a member of any committee with jurisdiction in the health care field.

Sen. McIntyre's assistant, Thomas Keane, said he was optimistic about passage because the 118-page bill takes a middle-of-the-road position between catastrophic coverage alone and full federal financing of the nation's health system.

"At the present time, it doesn't look like anybody is willing to fork out \$100 billion for national health insurance," Mr. Keane said.

The National Health Care Act would do to employer-sponsored health plans what the Employee Retirement Income Security Act does to private pension plans. Minimum standards would be set up for such health plans, as well as for individually purchased plans and federally financed plans for the poor.

Among the minimum standards of coverage, which will be phased in in two steps (by 1979 and by 1987), are unlimited hospital in- and out-patient care; all professional services for the diagnosis and treatment of injuries and illnesses other than dental or mental, by or at the direction of a physician; the first 20 out-patient mental health visits; 90 days hospitalization for mental illness; prescription drugs and birth control; 180 days of nursing home care; 270 days of home health care; emergency oral surgery; X-rays and laboratory tests outside the hospital; dental and visual examinations for children under 13 years; and one pre-natal examination during each trimester of pregnancy.

The maximum allowable deductible would be \$100 and the maximum co-payment is 20%, with the exception of 50% for mental health visits. Also, a hospital deductible equal to one day's room and board is allowed.

If the employer's plan meets all the standards, the employer's and the employee's cost of providing that plan would be tax-deductible.

## errors & omissions

• An editorial in the Jan. 10 issue said that tool builders having sales over \$15 million a year pay an average premium that's .31% of sales. The latter figure was incorrectly shown as 31% of sales.

• Ideal Mutual Insurance Co., which was formed by Kraft Foods Co. in 1944 as a mutual insurer, is no longer under the control of Kraft Inc. The insurer clarified its relationship with the former parent company following a story in the Dec. 13 issue. Following a 1972 agreement with the New York insurance department, Kraft no longer maintains a controlling interest in the insurer, although until 1957 it had been wholly owned by Kraft. Ed Lalley, president of Ideal Mutual, said Kraft Inc. is simply a policyholder in Ideal Mutual at the present time, along with a number of other companies which buy insurance from Ideal.

Contrary to an indication in the story, Ideal has been underwriting casualty insurance for outside companies since 1973 when it sold insurance to Burmah Oil, now known as Aminoil. Arrangements whereby Ideal reinsures portions of insured casualty programs with the captive insurance subsidiaries of its clients, however, have only been established since early 1976.

## info for buyers

To receive literature listed in Info for Buyers write directly to the name and address accompanying each item, mentioning that you saw the offering in *Business Insurance*. Readers are welcome to submit items for possible inclusion in the column. All items that are free and have informational value to readers are eligible. The column will also consider items for which there is a modest handling charge. A sample of your literature should be sent to Info for Buyers, *Business Insurance*, 740 Rush St. Chicago, Ill. 60611.

• **At What Price Service** is a brochure describing the Association Professional Liability Plan developed by Albert H. Wohlers & Co. for non-profit associations and societies. For a free copy write to Albert H. Wohlers & Co., 720 Garden St., Park Ridge, Ill. 60068.

• **Employers HMO Service**, a bimonthly newsletter and question service for employers who must comply with the HMO Act, will be published beginning in February by the Personnel Research Associates of New Jersey. Annual subscription rate is \$16. For a free sample copy, write to Personnel Research Associates, 49 Oakridge Road, Verona, N.J. 07044.

• **A Guide to Z-Abbreviations and Z-Acronyms** has been published by the Zurich-American Insurance Cos. Listing 455 commonly used but sometimes mysterious letter combinations, the booklet will be a handy reference to anyone trying to learn the insurance business. Some of the terms are unique to Zurich-American, but most are used throughout the industry. For free copies write the company at 111 W. Jackson Blvd., Chicago, Ill. 60604.

• American Assurance Co. and American International Underwriters are offering a descriptive brochure on their expertise and capacity to write **Utility Insurance**. Coverages for difference in conditions, builder's risk, standard fire and contractor's all risk are described. For a free copy write to the companies at Dept. A, 102 Maiden Lane, New York, N.Y. 10005.

• Managers of employee health and disability benefits can learn **How Martin Boyer Company Can Help You Self-Insure Your Program . . .** The brochure tells how the company will "work with you—and your broker—to tailor-make an employee benefit program that fits your specific needs." For a free copy write to Robert W. Burmeister, vp, Martin Boyer Co. Inc., 120 S. Riverside Plaza, Chicago, Ill. 60606.

• The Computer Security Institute publishes a **Portfolio of Membership Services** which describes the institute's bimonthly newsletter and tells of research projects in progress, including a cost/benefit analysis of automatic fire suppression systems for computer facilities. For a free copy of the descriptive brochure, write to John C. O'Mara, Computer Security Institute, Five Boston Post Rd., Northboro, Mass. 01532.

• **ESIS/Loss Control Services** is a brochure detailing ESIS Inc.'s services, including OSHA-oriented inspections and total loss control systems. For a copy of the brochure or more information, contact Stanley A. Greene, vp, ESIS Inc., Two INA Plaza, 13th Floor, 1600 Arch St., Philadelphia, Pa. 19101.

• A brochure on Kemper Insurance Cos.' comprehensive policy, **A Package Insurance Plan for**

**Your Organization**, shows how to combine basic and optional coverages into one policy. Included is a quotation form for comparison. To obtain a free copy, write to Communications & Public Affairs Dept., Kemper Insurance Cos., Long Grove, Ill. 60049.

• **Petroleum Fire Protection Systems** from 3M Company describes in four pages the use of Light Water AFFF Systems in petroleum storage. The 3M Subsurface Injection System, listed by Underwriters Laboratories Inc. is defined and test data is included. For a free copy, write to David A. Glas, 3M Company, 3M Center, Fire Protection Systems, Bldg. 223-6SE, St. Paul, Minn. 55101.

• **Highlights of General American Life's Deposit Administration Side Fund Contract** are discussed in a 48-page brochure. Interest guarantees, alternative purchase rates and expense charges for individual policy pension trust plans are treated. For a free copy, write to Mr. K. R. McCaffrey, Director of Group Marketing, General American Life, 1501 Locust St., St. Louis, Mo. 63103.

• Details of the General Adjustment Bureau's expanded emergency claims services are detailed in a free pamphlet **It's For You**. New specialized procedures for emergency claims are pointed out in the pamphlet. For a copy write GAB Management Services, 123 William St., New York, N.Y. 10033.

• A pocket-size **Automotive Service Shop** safety manual is available to comply with OSHA-required employee training. It uses pictures to explain the rules on both high-frequency injuries and most frequent OSHA violations. A free sample copy and quantity prices are available from Dray Publications Inc., Deerfield, Mass. 01342.

• **Directors and Officers Beware!** is a brochure that describes directors and officers liability insurance offered by Employers Insurance of Wausau. The coverage is available to companies with assets in the millions of dollars. For a copy of the free brochure write to R. E. Fisher, director, sales services, Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wis. 54401.

• Recent film additions to the Film Library cover all facets of industrial safety and health, security and training for business, industry and government use. The Film Library, with over 1,000 films, services all fifty states. For a free copy of the current catalogue and supplement, write The Film Library, 3388 W. 8th St., Los Angeles, Calif. 90005.

• **The Complex Puzzle of Rising Health Care Costs: Can the Private Sector Fit it Together?** is a 200-page report available free from the Council on Wage and Price Stability, 726 Jackson Pl., N.W., Washington, D.C. 20506.

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# Group offers added nuclear liability insurance

By MARIE KRAKOWIECKI

NEW YORK—Nuclear power plant operators and suppliers will soon be able to buy an additional \$90 million of property and liability insurance. The Nuclear Energy Liability-Property Insurance Assn. (NEL-PIA) said that worldwide capacity from private insurers, including about 200 foreign reinsurance companies, has been increased to \$390 million from \$300 million per incident for a nuclear accident.

This does not mean that the general public will receive any more protection in the event of an accident, however. Under the Price-Anderson Act, the federal law which limits the liability of the nuclear industry, the maximum payment for damages for an accident remains \$560 million. The association's action means the industry will receive a larger portion of its protection from private insurance rather than from government indemnification.

Burt C. Proom, general manager of NEL-PIA, said the federal government's role as an indemnitor of nuclear facilities and supplier will probably be completely phased out by 1981, as pools of insurance companies continue to increase their capacity for nuclear risks.

Mr. Proom is also a spokesman for two other associations of U.S. insurers which provide coverage for nuclear risks—Mutual Atomic Energy Liability Underwriters (MAELU) and Mutual Atomic Energy Reinsurance Pool (MAERP).

Public liability coverage, which protects the general public and employees against bodily injury or property damage, has been increased \$15 million, to \$140 million from \$125 million. The premium for this new capacity is \$800 for every million dollars of coverage for single reactors and \$500 per million for reactors located on twin sites.

Coverage for the insureds' own property has been increased \$45 million, to \$220 million from \$175 million. Unlike the public liability coverage, which applies only to losses resulting from radiation incidents, the property coverage also applies to fire, wind, hail and other conventional perils.

The increased property limits open a new option for utilities insured by NEL-PIA. When \$175 million was the top limit, all utilities were required to buy the full amount. Now, however, they will be allowed three options. They can either stay with the \$175 million limit, buy a \$200 million policy or purchase the full \$220 million policy.

If they choose the \$200 million limit, their premium would cost approximately 4% more than what they paid for the \$175 million coverage. If they choose the full \$220 million limit, their premium increase would be about 6%, Mr. Proom said.

In addition to the liability and property coverage increases, Mr. Proom said that \$30 million in contingent liability insurance will be

available in August, when a retrospective premium provision of the amended version of the Price-Anderson Act goes into effect.

In 1975, Congress amended Price-Anderson by adopting a retrospective premium mechanism to phase out the federal government as an indemnitor of nuclear facilities and suppliers.

In case of a nuclear accident for which public liability losses exceeded coverage offered by private insurance pools, operators of nuclear power plants and fuel reprocessing facilities would be billed up to \$5 million for each facility they own.

The contingent liability capacity of \$30 million is designed to serve as a buffer in case one or more of these operators cannot meet its obligation for a post-loss assessment.

At a later date, the pools would seek repayment should there be defaults.

Mr. Proom explained that operators would be required to make up to two \$5 million dollar retrospective premium payments a year. If more than two nuclear accidents took place in a given year, each of which required a \$5 million retrospective premium, the operator could amortize his payments over following years at the rate of two per year.

NEL-PIA has not made a final decision on how much the contingent liability coverage will cost. In mid-January Mr. Proom said the premium was under consideration and would be at least \$6,000 annually.

Currently, 64 nuclear power plants are in operation. There are no commercial fuel reprocessing

facilities in operation. As a result, the pools' \$140 million liability coverage plus the \$320 million collectable through the retrospective premium (\$5 million times 64 plants) would amount to less than the \$560 million limit under Price-Anderson. Until insurance and retrospective premiums total \$560 million, federal indemnification will make up the difference.

"Over the 19-plus years of nuclear insurance only about \$400,000 have been paid in claims resulting from radiation incidents," Mr. Proom said, noting that the nuclear industry was able to attract increased capacity from insurers because of its excellent safety record.

NEL-PIA, MAERP and MAELU solicited U.S. insurers and foreign insurance organizations for several

months in order to develop the commitments enabling the nuclear insurance pools to write the increased nuclear coverages. NEL-PIA said it added 17 new stock companies to its membership, increasing its size by 15%.

NEL-PIA has still not completed a study of what a probable maximum loss for property would be in case of a nuclear accident, a project it announced was underway during its annual meeting in March. Mr. Proom also said a premium installment plan introduced last year for insureds with annual premiums of \$250,000 or more would be extended to all insureds who pay an annual premium of at least \$100,000. About 15 insureds finance their premiums this way now and more are expected to participate after March 1 renewals.



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## Tort seminar set

NEW YORK—The Risk & Insurance Management Society is sponsoring a one-day seminar to explore the possibility of tort reform. Russel A. Drake Jr., corporate risk manager at Borden Inc. will chair the panel. Registration is \$95.00. The seminar will be held Feb. 23 at the Biltmore Hotel in New York City and will be repeated Feb. 24 at the Hyatt Regency in Nashville, Tenn. Additional information may be obtained from RIMS, 205 East 42nd St., New York, N.Y. 10017.



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## editorial opinions

### Occupational therapy

**S**POKESMEN FOR THE National Assn. of Insurance Commissioners and the Health Insurance Assn. have taken up the cause of insurance coverage for occupational therapy. Indeed, it's difficult to find anyone who doesn't agree that health insurance policies should cover such rehabilitative costs.

Even the health insurers themselves agree, as long as the service is "a necessary medical expense." That's where the rub comes. Few policies specifically include coverage for occupational therapy within the language explaining what's covered. And there is some disparity of views on definitions on what OT really is and whether or not it's necessary.

Perhaps it's time for corporate insurance and benefit managers to involve themselves in this controversy.

What's happening now is that the lack of covering language and standard definitions is allowing claims people at the insurance companies to make judgments about whether such therapy is covered or not. Sometimes it is, and sometimes it isn't.

Insurance and benefit managers stand to reap long term benefits by cutting workers' compensation costs and disability costs through rehabilitation of injured workers. Thus, it stands to reason that insurance buyers may want to exert some pressure to see that this coverage is included in health policies and not arbitrarily denied when claims are submitted.

Occupational therapists say that's what has been happening. If they provide services, for example, on an out-patient basis outside a hospital (which certainly results in less cost for the employer or third party payer) insurers often deny the claims.

This sounds like another instance of insurers fostering a non-competitive system of health care delivery. It behooves benefit managers to control their benefit costs by encouraging out-patient care as well as by insisting on coverage for therapy which helps people return to their workplaces as productive members of society.

### Nader's liability plan

**I**S RALPH NADER on the federal payroll? Maybe not, but he sure sounds like a big-government lobbyist.

Take a look at his latest testimony in Washington before the Senate Small Business Committee. He's discussing the product liability problem facing businesses in this country. And he thinks the solution is for the government to supply the mechanism for businesses to pool their risks to cover product liability losses. They'd do this in the event they couldn't obtain the necessary insurance in the private sector, of course.

Looks very much like the government would establish another insurance underwriting operation to us. It's not necessary.

Why doesn't the government merely change some tax laws to make it possible—even attractive—for corporations to un-

derwrite their own risks? Right now, it's virtually impossible for companies to set aside reserves for self-insured risks.

Such a change avoids the growth of big-government and would go a long way toward helping business to help itself.

### Captive rule praised

**T**HE LABOR DEPARTMENT is preparing to rule that a provision of the federal pension law which restricts or prevents corporations from using subsidiary captive insurance companies for employee benefit insurance programs won't be enforced. Quite a number of companies using captive insurers to underwrite group life, health, pensions and other benefit programs have already applied for exemptions to this rule.

More than 500 applications for exemptions from the rule have been filed. The rule itself technically prohibits a subsidiary insurance company from having any more than 5% of its total premiums coming from its parent company's employee benefit group insurance plans. This limitation under the Employee Retirement Income Security Act has been a major stumbling block to self-insurance of employee benefits.

Had these firms been forced to take group benefits out of their captive insurance companies and go back to purchasing more expensive commercial group coverage, the pension reform law would have taken one more step toward killing off benefit plans altogether. At the very least, good financial management of insurable risks would have taken a step backwards.

The Labor Department is to be applauded for paving the way for better corporate benefits and better benefit management.

### Join us, won't you?

IN THIS ISSUE IS A STORY resulting from the first Editorial Advisory Panel survey mailing of 1977. The surveys are scheduled to be conducted six times this year, to collect opinions, experiences and other data from risk and insurance managers for corporations, governmental entities and institutions.

At the present time, the survey mailings go out to some 85 risk and insurance managers, with between 40 and 75 responding to the surveys each time.

But we'd like to have a larger sample of at least 100 responses each time. We believe risk and insurance managers have much to learn from each other and such surveys can provide an interchange of information.

One result of these surveys can—and should—be the increased sophistication of our buyer-readers. We want you to be able to approach your underwriters and brokers with all the information necessary to be the best possible negotiator and deal-maker.

We'd like to have you on the Advisory Panel. Please send your name and address to Susan Alt, 740 N. Rush St., Chicago, Ill. 60611.

## 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 Magazine, 740 N. Rush St., Chicago, Ill. 60611.*

### Product liability

To the Editor: It appears that the President's Task Force has a problem with the definition of the word "crisis," as they have concluded that "no nationwide multi-industry product liability crisis exists," according to your Dec. 27 article.

The report indicated that the cost increases of this "non-crisis" have translated in a 1% to 3% increase in the sales price of goods, depending upon the industry. We would get all excited about an equivalent rise in the monthly consumer price index; this directly affects the consumer price index.

The article further indicated that the cost of product liability insurance had forced some small companies to go without insurance. If there is a large legitimate claim against one of these companies, someone will certainly have a "crisis."

C. A. Roloff

Controller, Pillar Corp., Milwaukee, Wis.

\* \* \*

To The Editor: I read with interest the *Business Insurance* article of Dec. 27 with the headline "No Nationwide Product Crisis, Reports Task Force." Product liability has been one of the major problems that insurance agents on the firing line have been faced with.

No one apparently takes seriously the fact that there is a product liability crisis. I would like to have the people that handled the investigation for the task force spend a couple of days with me and talk to my clients, and I am sure they will find out that there is a serious problem relative to the availability of product liability insurance at a fair market price.

All of the rate raises cannot be passed on to the consuming public. I have on my desk right now an example of a manufacturing firm that last year paid \$6,200 for the product liability loss in 51 years in business. The present writing company refused to renew the insurance because they are withdrawing from the product liability field and many other insurance giants, and after spending hours with their engineering department and making on-the-spot reviews, we have received a quotation for

*Continued on page 10*

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## letters

Continued from page 8

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We have a problem, and it is a serious problem, and any task force that makes a report such as the one that appeared in your publication has not thoroughly and completely investigated the problem to which they were assigned.

**Harry L. Ashmore**

G-A Insurance Agency Inc., Danbury, Conn.

### Blue's discount

To the Editor: Your report and editorial on the Blue's Discount (Dec. 13) was very thorough and also interesting. Unfortunately I have had to sell the Blues to many of my clients (without reimburse-

ment for services) because I just couldn't compete with their cost and benefit package. I usually was able to place the group life insurance and major medical with my own carrier but I could not, in most instances and in good conscience, recommend any other hospital plan other than Blue Cross.

If Blue Cross is getting a discount in the local hospitals, take advantage of it and don't pay the subsidiary. I loose out on part of a sale, but my client gets a better group package for the buck.

It's not that I agree with the situation, but I can't fight it.

**Richard P. Duffy**

Group plans representative, The Equitable Life Assurance Society of the U.S., White Plains, N.Y.

\* \* \*

To the Editor: We note that your Dec. 13 editorial on subsidizing the Blues states that unwitting third party payers shouldn't reimburse any costs that the Blues

won't accept.

Who should?

**George H. Maze**

American Nickeloid Co., Peru, Ill.

*Editor's note: Business Insurance believes the Blues should not be allowed to exclude costs that are then moved to other third party payers.*

### Finding a broker

To the Editor: I found Mr. Koenes' article in the Dec. 27, 1976 issue of *Business Insurance* ("How a Michigan school selected its agency") to be excellent and informative. I plan to use (the) suggestions when I go out on our next resolicitation.

Thank you on behalf of myself and Rensselaer Polytechnic Institute.

**J. B. Leavitt**

Business Services Director, Rensselaer Polytechnic Institute, Troy, N. Y.

## Product liability pool delayed in Connecticut

HARTFORD—An assigned risk plan developed to help 200 small Connecticut businesses obtain product liability insurance has been deferred by the state insurance department.

Instead, casualty insurers in the state will be allowed to follow a voluntary plan to provide coverage for the troubled firms. These firms, some of which have gone uninsured for months, were the subject of public hearings in early December on the availability and affordability of product liability coverage.

Under Connecticut law, the insurance commissioner has the power to set up an assigned risk plan for firms which can't buy insurance. After the hearings,

Commissioner Thomas Francis Gilrce Daly developed a plan that was scheduled to go into effect Dec. 30.

In the interim, however, licensed casualty insurers in the state made a concerted effort to provide proposals for product liability coverage for the firms unable to purchase any coverage. The commissioner said they showed "good faith" in their voluntary efforts and should continue on that basis. He announced in early January his decision to let the voluntary placements continue and to set aside the intended assigned risk plan.

A spokesman for the insurance department said that the insurers were giving quotes for product liability coverage first to those firms which seemed to need it most urgently. The insurers will eventually make proposals to all the troubled firms, he said.

One company which recently received a voluntary proposal for product liability coverage complained that the insurers offered the same coverage as previously purchased for a premium 450% higher than the earlier charge. The company has no record of any product-related claim against it.

Another firm, Safeguard Manufacturing Co., a metal stamping concern in Woodbury, said in early January it had still not received any quotations from insurers to voluntarily provide product liability coverage. Safeguard has been uninsured for product-related risks since April 1975.

The assigned risk plan has not been abandoned; a department spokesman said it is "ready to go" if the insurance commissioner receives evidence that the voluntary efforts of the industry aren't meeting the market shortage problem. The plan is supposedly ready for implementation within one day.

The insurance department developed that assigned risk plan with the help of an industry committee headed by Stephen I. Martin, vp of Hartford Insurance Group. Another industry committee, headed by Vail Haak Jr., manager of commercial lines at The Travelers Insurance Cos., gathered all complaints sent to the commissioner concerning the scarcity of product liability coverage. This committee was responsible for beginning the voluntary action of placing coverage.

Until an assigned risk plan is implemented, a department spokesman said, rates being quoted by the insurance companies are the general ones on file with the department, and do not require prior approval. ■

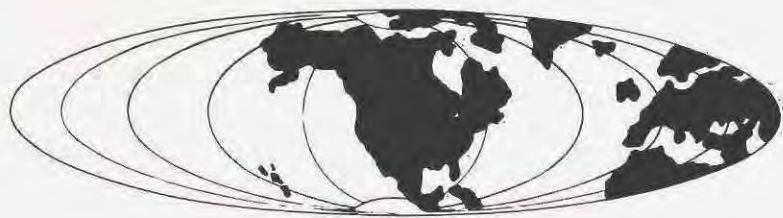
## M&M adds Furman firm

NEW YORK—Marsh & McLennan Inc. has acquired The Furman Agency, a brokerage firm with offices in three cities in the Carolinas. At the same time William M. Mercer Inc., the parent company's employee benefits subsidiary, has acquired The Furman Life Insurance Brokerage Co.

The two companies, headquartered in Greenville, S.C., were affiliated with common ownership.

The brokerage operations will continue with their present management, headed by Alester G. Furman III. ■

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**WRITE: B. David Hinkle, Vice President & Director of Education  
Crawford and Company, P. O. Box 5047, Atlanta, Georgia 30302**

# agent/broker topics

Combined with a team concept

## Formal training keys Mack & Parker approach

By JANET MROCZEK CORRADO

CHICAGO—When Edward Mack III joined Mack & Parker Inc. in 1971 he was surprised "at the lack of formal personnel development programs at the agency level."

The absence of training programs "very well may be a function of the way the independent agency system has developed. There are a lot of people in the business who are sons or daughters of the producer," said young Mr. Mack, 33, grandson of one of the founders of the Chicago agency and son of the chairman and president.

Mr. Mack had worked for IBM, which is renowned for its sales training programs. When two producers retired from Mack & Parker four years ago it was an ideal time to restructure the agency, he said, and institute a formal personnel development plan.

Previously all the agency's producers sold and were responsible for any of the lines the firm offered. In 1972 Mack & Parker reorganized into five "profit centers" with distinct staffs. They are commercial, property and casualty only; group, employee benefits for single and multiple employer groups; mass marketing, property and casualty only; life insurance, and personal lines. Since then, the firm has grown 211%, and had gross revenues of \$1.45 million for 1976.

New producers were needed in the commercial department, which Mr. Mack heads as executive vp of the agency. That department,

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agents and brokers

which accounts for about 25% of the agency's income, has four account executives including Mr. Mack, and five analysts.

The analysts, primarily inside technical people, are teamed with producers and are responsible for servicing accounts on a day-to-day basis. Marketing may be done by either the account executive or the analyst, depending on the account, and analysts visit every major client, Mr. Mack said, to get to know the people and see the risk. Since 1972, the number of employees has risen to 38.

The team approach is emphasized at Mack & Parker, the agency official said. And the firm's triple phase training program reflects it. Potential producers and analysts follow the same development course virtually to the end in many cases.

The entire program takes six to eight months. Phase one, which ideally lasts about four months, Mr. Mack said, consists of on-the-job training combined with home study.

Trainees begin by working in

every department in the agency to become familiar with all the functions and the entire staff. They progress from filing to order writing, risk submissions, billing, collections and sales reports. And, Mr. Mack added, they accompany an account executive or analyst on sales calls and visits to insurance company underwriters.

Trainees are given a schedule of how much time to spend in each department and the number of calls to make, but they work on their own, he explained.

At the same time, trainees are studying at home preparing for formal insurance schooling. A number of insurance companies offer training courses, Mr. Mack said. Mack & Parker uses the home study material from Aetna Life & Casualty and sends its trainees to that insurer's five-week course.

Phase two of the agency's training program is the formal course work itself. "We want to get them to school as fast as possible," Mr. Mack said.

After the five-week school, both potential account executives and analysts must obtain their broker's licenses. That is phase three of the program, he said, which takes about four weeks.

At this time, the salespeople also attend a sales training program "to make them aware of the fact they're the ones who can make it happen, and to show them the way," Mr. Mack said. Analysts sometimes but not always attend a sales training school.

Mack & Parker uses the Dale Carnegie Sales training course, but

there are several others available, he said.

As soon as a trainee gets his broker's license, he is assigned "a nucleus of accounts," Mr. Mack said. The account executive is then immediately operating under the agency's sales compensation plan. Analysts are paid a salary.

That way, if a new producer loses an account, his remuneration is immediately lowered, he explained, and as soon as the producer sells his first piece of new business or a new contract to an existing account, remuneration improves.

New account executives and analysts also are urged to enroll in CPCU or risk management courses. Mack & Parker "strongly indicates" that it would be a good idea to get a CPCU designation, Mr. Mack said. The brokerage firm foots the bill for costs of the courses.

He called his agency training program successful, but emphasized that there is work an agency must do before starting a personnel development plan. An agency must know what business it is in, Mr. Mack said, know what it wants and how it is going to operate "be-

Continued on page 10D

Kling Bros. Insurance Agency combines insurance business with a museum featuring Currier & Ives prints. See page 10F for an explanation of this interesting approach.



## Illinois resumes agents exams after 5 month hiatus

By BARBARA JEAN GRAY

SPRINGFIELD—The State of Illinois planned resumption of regular licensing examinations for insurance agents and brokers Jan. 22 after a hiatus of nearly five months.

Testing ceased last August when a circuit court judge enjoined the program following the filing of a civil suit by two Illinois firms.

Golden Rule Life Insurance Co. and Congressional Life Insurance Co., both of Lawrenceville, had filed suit against the Illinois Director of Insurance and the Testing firm, Educational Testing Service of Princeton, N.J. last July. The suit charged the test discriminated against certain age and minority groups, was unduly obscure and technical. The suit also said the

method of fee payment violated Illinois statute and was illegal. The \$25 fee had been paid partially (\$15) to the state and partially (\$10) to the testing service. Illinois has statutes for state-administered tests.

Civil Suit 419-76 is pending before Judge Gordon Seator in Sangamon County.

John P. Meyer, John P. Meyer & Associates, and Daniel F. Welch of Young, Welch & Hall, both of Danville, represent the plaintiff.

Frank S. Ladner, president of Congressional Life Insurance Co., though declining to speculate on the outcome of the suit, commented that the grievances against the program still hold. "The main issue is that the tests themselves are not job-validated. That means

the material being tested is not necessarily what is needed to perform the job and (the test) is not reviewing the best material. The tests are discriminatory against people lacking formal education and people who are getting older. Those facts have not changed."

Michael P. Duncan, Illinois director of insurance, remarked, "We have no doubt that we're going to win the lawsuit and the type of test we have will be continued." Regarding the method of payment, he said, "There's no need to change the statute. We have sufficient authority to enter into such a contract and make payment."

Through a special state appropriations bill of \$140,000 passed Dec. 14, the state conducted a catch-up exam Dec. 4 for 3,000 applicants. David Taylor, deputy director of the consumer market branch of the Department of Insurance, estimated the test used about \$32,000 to \$33,000 of the appropriation and said the remainder was expected to last throughout the end of the fiscal year in June. About 1,000 applicants take the test each month, he said.

Illinois was the first state to use the Educational Testing Service for insurance licensing examinations. The test was developed by the agent and broker licensing subcommittee of the National Association of Insurance Commissioners in 1973, which then endorsed ETS.

Robert Wilcox, president of the Property Casualty Insurance Council and former Illinois director of insurance, said, "In my opinion the arrangement between the Illinois Insurance Department and ETS is an excellent one from the point of view of the public. The purpose of the arrangement, which I instituted as director, was to place a portion of the testing activity in the hands of a highly professional, independent, well qualified private organization that specializes in the conduct of tests of this sort. ETS is widely regarded as the preeminent firm in the country for various vocational licensing qualifications. The selection of ETS, after competitive bidding to conduct agent/broker tests, arose out of very, very undesirable testing circumstances which prevailed in the department when I took over in the fall of 1975. Prior to that the testing process was subject to undue political influence and examinations being given were not soundly constructed and conceived... The purpose of the arrangement with ETS was to guarantee, as much as possible, objectivity.

"The point here is that the ETS arrangement does not place into the hands of ETS the determination of examination questions to be asked. The Insurance Department retains authority over preparation of authorized questions. ETS' function is limited to ran-

dom selection of questions prior to the conduct of the examination. The examinations are sealed before and after writing the answers."

Within the state agent and broker community, one top executive of a large national firm volunteered, "I believe that the tests are better than before. I have no reservations about that. But I also feel strongly that the tests are (still) not stringent enough. They don't require enough professionalism. The more we move toward those types of tests the more we will protect the public."

The ETS program has been used by the state of Delaware since December 1975, and is scheduled to be used in Massachusetts this month, and in Pennsylvania next month. ETS is also negotiating with Wisconsin and Colorado.

The first ETS-administered exam in Illinois in October 1975, was passed by 31% of the applicants, a sharp passing rate decline from the average 60% to 70% passing rate for previous exams. During the first half of 1976 the passing ratio climbed to a 70% level, according to Mr. Taylor and the December test passing rate was about 75%.

Mr. Taylor noted that the same decline and then rebound trend occurred in 1973 when the State of Illinois changed the test format from essay to multiple choice. ■

## BI expands staff

CHICAGO—Barbara Jean Gray, 31, joined Business Insurance in a newly created position as associate editor responsible for developing the year-old Agent/Broker Topics.

The section, which appeared seven times in the course of 1976 and is scheduled to be published nine times during 1977, has grown in size and now will receive an expanded editorial effort. The section focuses on the business and

management aspects of operating an insurance agency or brokerage firm and is directed to the agents and brokers among the readers of Business Insurance.

Ms. Gray was Midwest editor of Inside Footwear, a monthly newsletter for footwear retailers, and was Midwest editor and a regular columnist for Footwear News, a weekly business publication of Fairchild Publications. ■

# People, not objectives, stressed at Myers-Beatty

By JANET MROCZEK CORRADO

CHICAGO—Myers-Beatty & Co. Inc. has no profit goals, yet it has averaged 20% annual growth for the last 10 years.

The agency has no formal personnel training program. Yet of its nine producers, two hold CLU and seven CPCU designations with four of those currently teaching CPCU courses. "I have studied management by objective (MBO) concepts, but this is a people business," says chairman Gerald E. Myers of goal-setting. "If everybody is happy and working hard growth will come. We like to get everybody in the right spot."

The agency doesn't suffer for lack of a training program, he believes. "If it is handled right, there is no training better than sitting down at the next desk."

The agency chairman thinks it is the "climate of interest" in the office which produces a lot of self-motivation to learn and succeed. Myers-Beatty also encourages and pays the cost of any insurance education. Four or five of its 25 employees are currently taking Insurance Institute of America courses. The firm hires only experienced people, many of whom have come from CPCU classes which Mr. Myers taught for 15 years. Some account executives have moved up from personal lines.

The firm participates widely in industry associations and functions. "We try to set up a seminar budget each year," Mr. Myers said, "and decide who's going to go where. We send three people to the CPCU convention each year. Others go to the agent's meetings. Everybody is

involved."

Mr. Myers founded the agency in 1964. That year commission income was \$100,000. In 1975 it reached \$500,000.

He calls his a "small agency," and claims that "whatever success we've had is due in no small part to our participation in industry affairs."

"These activities are of tremendous help in our relationship with our companies," he said. "It has been our attitude since 1964 that we need the insurance companies more than they need us, and they've been great to us this past year, which is the worst year I've ever seen."

"When you're small, you have to have something the big guys don't," he said, "which is why we have many CPCUs on the staff."

Myers-Beatty is a member of Affiliated Insurance Services, a CPCU-based group of more than 20 agencies nationwide which operate as a small Assurex but on a more informal basis, Mr. Myers said.

"It is a working relationship that will let us compete with any broker in the country," he says.

Mr. Myers thinks there are some financial advantages in being small. "We can increase our surplus substantially and stay in a lower tax bracket," he said.

He admits frankly to "touting the small agency that is closely knit, well managed and professional, which is why I've resisted any buy-out offers."

Mr. Myers started a plan some years ago in which he is selling the stock in the corporation to the agency's producers. In fact, he doesn't hold a majority of the stock

any more.

There is the danger of being eaten up by a large firm and the small agency's people are nowhere, Mr. Myers added.

Myers-Beatty has about 1,500 to 2,000 personal lines insureds, accounting for 10% to 15% of the agency's income. It handles 300 to 400 smaller commercial accounts.

"The vast number of accounts are in the \$1,000 to \$10,000 range in commission income," he said.

In addition, the agency has half a dozen large accounts which produce 5% to 10% of commission income each.

"There is no account that produces more than 10% of income," Mr. Myers said. "If I lose my biggest account, I don't want it to take any more than my profit."

Fees from companies that don't pay commissions make up a minor part of income. The agency sells only a modest amount of life insurance, though it handles the group insurance for a majority of its commercial clients and for associations, particularly in the medical field.

Mr. Myers' background as a fire protection engineer and his law degree has helped land accounts where engineering is important as well as groups, especially associations, with legal problems. He also worked as a broker in another agency for 10 years.

One of the agency's large accounts is the Chicago Bar Assn. for which it handles members' legal liability coverage. It accounts for about \$1 million in premium volume, or about 10% of the agency's gross income. That figure will increase in 1977, Mr. Myers said, with rate hikes.

Myers-Beatty makes a point of avoiding a "production line" operation. "We operate more like a law firm," the agency head said.

"We don't have a loss department, or a policy writing department. Every account executive has a secretary/administrative assistant, and together they handle new business, renewals, endorsements, claims and collections," Mr. Myers said.

The agency does have a personal lines department primarily designed to take care of the personal insurance needs of its commercial customers as well as professional clients, such as doctors and lawyers, he said.

Personal lines business comes from referrals coupled with solicitation by the agency's producers. "We realize that somebody has to take care of these people," Mr. Myers said, "and a generation or a half a generation from now, these people will be running companies. We like continuity."

The agency also likes to retain accounts and to handle all of a client's insurance needs, and the agency chairman thinks the producer compensation formula encourages that.

Account executives are paid a salary based on their book of business, Mr. Myers said, according to a formula which allots 60% of commissions to salary and costs.

For example, if a producer has a \$100,000 book of business, his salary would be about \$40,000, his administrative assistant would get \$12,000, expense account and car costs would be about \$5,000, and fringe benefits would cost \$3,000.

The remaining 40% of commission income is for the owners, surplus, profit-sharing and fixed expenses such as overhead, Mr. Myers said.

If an account executive's book of business increases or declines, so does his salary. But the formula is not an income policy, Mr. Myers maintains. More than one year's experience is used and there are variations, but "we think our producers need some guide to tell them what to produce."

Mr. Myers has a separate corporation called Gerald E. Myers Associates which specializes in consulting work for entities such as the City Colleges of Chicago and city park districts. Agency clients and consulting clients are kept separate, which he views as essential. But, "an agency in consulting has a tremendous advantage because it has close contact with the market," Mr. Myers thinks.



Gerald E. Myers

He predicts that in the future "we will have more women in higher paid positions." Dorothy Duck, who once owned her own agency, is manager of the personal lines department, "which was our first opportunity to put a woman in a prominent position," Mr. Myers said.

One of the agency's secretaries has expressed an interest in going into sales, he added, and a young woman handles the Chicago Bar Assn. account.

The agency won the Chicago Bar plan in April 1975, with Kemper as carrier. Now it is with GATX Underwriters Inc., which places the coverage either with GATX or Imperial Casualty, owned by Standard Oil of Indiana.

"Lawyers' rates are starting to go up as doctors' rates did," he said, "and the market for the coverage written on occurrence forms is restricted."

As an example, Mr. Myers cited the premium for coverage for patent lawyers, which is written by a broker in New York. It went from \$175 on a claims-made basis to \$600 on an occurrence basis in one year.

Myers-Beatty has no risk control program for the group. "Chicago  
Continued on page 10H

## editorial opinions

### New licensing tests deserve your support

A FEW STATES HAVE changed or are making plans to alter their methods of testing brokers prior to licensing them in their respective states.

What has happened in Illinois as a result of the institution of a tougher testing program administered by Educational Testing Service is outrageous. Several insurers sharing a sales force are suing the state insurance department to try to force a return to the old testing system. In addition, a good deal of political pressure is being put on the insurance commissioner to do away with the new system.

This may be one of the points showing an agent's or broker's true colors. Smaller agents seem to be constituting the most vocal opposition to the new tests. They say the tests discriminate against older insurance salespeople who haven't had as much formal schooling as the young turks.

■ We don't think that argument stands up in the face of another agent cry that they be considered "professionals" in their field. If they are professionals, they must agree to take the tougher tests and fulfill the formal courses of education on a continuing basis which will enable them to pass the tests.

Otherwise, they don't deserve to be called professional agents and brokers.

On the other hand, a number of brokers for medium and large firms, particularly the national houses, are enthusiastically in favor of the new testing programs because they upgrade the professional status of licensed brokers.

We think that's an enlightened attitude. We don't like to see the old guard wanting to live by yesterday's standards—either educationally or professionally. We'd have better performance and less chicanery in the insurance sales field if all the states would upgrade their testing methods.

## Divorce frees Brokerage Resources from unhappy tie to conglomerate

By MARGARET LeROUX

NEW YORK—Brokerage Resources Inc. has completed an unusual divorce from a financial services conglomerate by changing its name to BRI, the last step in the transition from a public to a private firm.

"Going private" was the happy ending to an unhappy marriage for the firm, acquired in late 1970 by Integrated Resources, a financial services conglomerate.

During the five-year relationship, "our stock declined, our customers suffered and our employees were unhappy," Don Ferrarini, president of BRI said in an interview.

BRI's "divorce" from Integrated Resources was called an unusual move by security analysts. "When a big company makes an acquisition, the stock of both companies usually goes up," one analyst said. "In the case of Integrated Resources, however, the stock went to zilch." In mid-November Integrated Resources shares were traded at 1 1/2%.

The conglomerate, "one of the darling stocks of the early 70s," one analyst explained, "lost a lot of money between 1973 and 1974."

"They were almost broke; we were a viable division, so we were informed we were being sold in the spring of 1974," Mr. Ferrarini said.

Rather than become a subsidiary of yet another conglomerate or large brokerage firm, the principal officers of Brokerage Resources decided to buy back the firm's stock, ending five years of merger.

BRI began as a merger between Joseph Halberstadt & Co. and Weinschel Co. Inc. becoming the Halberstadt Corp. That company was in turn acquired by International Banknote in December 1969.

In December 1970, International Banknote sold the subsidiary to Integrated Resources and within two months it was renamed Brokerage Resources.

"We had had enough of the public, corporate life," Mr. Ferrarini said. "We were tired of worrying about which way the stock was going. We decided to concentrate on what we know best and that is the commercial insurance brokerage business."

Mr. Ferrarini and two other officers of the company, Howard Miller, vp, director of sales and Burt Matfus, comptroller, began negotiating with the parent com-

pany to repurchase Brokerage Resources' stock.

"We closed the deal in October 1974 and became private as of Jan. 1, 1975," the firm's president said. Purchase price was \$1.75 million.

BRI's officers couldn't be happier with the transition. "We've increased our volume of business in excess of \$1 million since going private," Mr. Ferrarini said.

The day-to-day operations of the firm have improved too, since going private, the officers agreed. "There's no more clearing of decisions with corporate headquarters who may or may not understand the situation," Mr. Miller said. "Now we have nobody to answer to but our clients."

The firm has been able to improve its employee benefits package since becoming private, Mr. Ferrarini noted. "We now have a profit sharing plan, something we were never able to do as part of a public corporation."

As a subsidiary of Integrated Resources, BRI's medical plan had to conform to the parent corporation's plan, he continued. "Now we have a much better program... a total medical program."

Other changes in the firm in-  
Continued on page 10D

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# Mack & Parker training program . . .

Continued from page 10A

fore it can go talk with college graduates about coming to work in our industry."

"At Mack & Parker we defined our business as the insurance service business and our philosophy as representing the buyer," he said.

"Then we set both service and revenue goals, and developed an organizational structure which we feel will enable us to achieve those goals."

A newly established computer system at Mack & Parker "is helping us become much more sophisticated" in the area of service goals for account executives, said Mr. Mack. It was installed during 1976 and is helping to measure the amount of time necessary to make service calls, for example.

Revenue goals was a subject Mr. Mack didn't want to talk much

about, particularly when it came to actual quotas determined each year for producers. An average producer, Mr. Mack conceded, should be able to generate \$25,000 to \$30,000 in revenues in a year.

"We also developed a sales and compensation plan for our account executives designed to make their goals parallel to the corporate goals for both service and increased revenues," Mr. Mack explained.

Account executives are paid by salary, commission and bonus, he said, and the compensation formula is balanced between sales and service so that producers are not more highly compensated for developing new business than for servicing existing accounts.

The agency's compensation formula is written out in a 12 to 13 page document, which includes

training salary and base salary figures. It demonstrates what an account executive's salary can be in X years, Mr. Mack said, "so when we are hiring a trainee, we don't have to dwell on salaries."

The training salary is low, but account executives must take risks, he explained, and one risk is taking a low starting salary for the opportunity to make a lot more later.

"You can bring a guy in at a low training salary—say \$8,000 a year—if he has expectations of earning great commissions relatively quickly on top of this," he believes.

Mr. Mack modeled the firm's compensation plan after IBM's, in the belief the combination program is the best motivator. He is aware that some of the biggest brokerage firms are moving in the



Edward Mack

direction of straight salary for employees, but prefers the salary-commission-bonus plan. Most smaller firms, he noted, are still on straight commission.

Mr. Mack also differs from some top managers in larger brokerage

houses because he'd prefer to hire a recent college graduate than raid underwriters or other brokers for experienced people. "I don't want to have to un-learn bad habits," he said.

Although only two people besides Mr. Mack himself have gone through the entire training program to date, both have remained with the firm following training and are top producers.

This test may be limited, but that's not to say it won't be beneficial for future use. Of eight slots Mr. Mack forecasts will have to be filled this year, six are analyst or account executive positions. The training program is likely to see heavier use, necessitated by a 40% growth in commercial and group business in 1976.

Mack & Parker is a member of Assurex International, and handles employee benefits for single and multiple employer groups (including associations, societies and Taft-Hartley insurance trusts). Group business accounts for about 40% of the agency's revenues.

The mass marketing department brings in about 25% of revenues, the same as the commercial lines unit. Personal lines and life insurance account for the balance of 10%.

## Divorce . . .

Continued from page 10B

clude expansion of the ocean marine department and the addition of a bonding department.

The final step in the transition from public to private was the name change. "There are several Brokerage Resources, all subsidiaries of Integrated Resources, and we wanted to make a complete break from the corporation," Mr. Ferrarini said.

To emphasize the firm's new status to its employee, a contest was held to suggest the new name with a \$100 savings bond as the prize.

Describing some of the 200 entries, Mr. Ferrarini grimaced. "After reading through all of them, I decided the best we could do was to stick with the initials of the firm."

Though trumpeting the freedom from control by corporate headquarters which the firm now enjoys, BRI's officers won't rule out acquisitions of their own in the future.

A certain percentage of the firm's stock is set aside as treasury stock, designated for future distribution to key employees and for possible acquisitions, the president said.

"We're not actively considering acquisitions now," he said. "But we'd consider it if we found the right kind of arrangement."

## Lawyers found to dominate legislatures

About one in every five legislators in the U.S. is a lawyer, according to an occupational profile of lawmakers compiled by the Insurance Information Institute. About one in every 20 lawmakers is in the insurance business, the III found. Current findings compared with similar profiles done by the III in 1966 show a decline in both lawyers and insurance people. Lawyers dropped to 22% from 26% of all the persons making up legislatures, while insurance people were found to make up only 5% of all legislators, down from 9% in the earlier study. Virginia has the most lawyer-legislators (57%) and Delaware and New Hampshire have the least (2% each). Florida has the most insurance-oriented legislators (13%), and Virginia has none.



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# Seattle brokers reverse a trend by expanding underwriting authority

By JOANNE GAMLIN

LOS ANGELES—Whereas California brokers say—some sourly, others gleefully—that the amount of binding authority they receive from insurance companies can be measured in ever-declining inches, a Seattle-based brokerage firm believes it may be opening up new vistas of authority with its underwriters.

Parker Smith & Feek in Seattle last year began to develop the in-house capability to perform enough underwriting functions to be able to approach an underwriter and ask: "Is this policy acceptable?"

Keith Douglas, president, told *Business Insurance* that by early 1977, Parker Smith & Feek's underwriting capacity had grown to such an extent that the firm is now able to employ the approach on all multiline packages.

"What we do in-house," explained Mr. Douglas, "is to set the rate, the experience modification factors and the pricing on our multiline packages." He estimates that this procedure comprises about three-fourths of the underwriting function. With this done, he said there is not much for an insurer to do other than to say yes or no.

The brokerage firm utilizes the in-house approach on all business that requires re-negotiation, he said. By contrast, surplus lines and umbrella coverages are too complex to permit the approach to work, he added.

The common experience of discovering that its insurers were so behind schedule that policies with a renewal date of January were often not appraised until that month inspired the Seattle firm last year to grit its teeth and work hard to build up its in-house capacity, according to Mr. Douglas.

Another view of the binding authority problem was sounded by a large San Francisco firm.

"We think it is an adverse trend which has caused us to surrender a lot of responsibility," said Art Kindler, head of Kindler & Laucci. He recalled that brokerage firms with a high level of staff and talent were rewarded with a wide latitude of authority in the underwriting area, enough to customize the coverages of many accounts. He said his own firm was free to use its own forms when it had a strong relationship with a particular underwriter.

In the early 1960s, however, the ability of his firm to customize a client's coverage began to diminish, he said, in a trend largely shaped by the growing complexity of policy writing.

This trend disturbs the broker because he believes his firm offers better service when it can custom tailor a client's coverages.

Wes Luekens, president of A. Mason Blodgett & Associates in San Francisco, said he had observed little change in the binding authority granted by insurance companies.

He said his firm strives to work from the "moments of enlightenment" when it suddenly grasps exactly what an insurance company will accept in a risk.

"Once we get this insight, we gain some authority within insurance company guidelines," he said. Nevertheless, instances when a broker can bring a risk in nearly finished shape to an underwriter and merely negotiate price are declining, he quickly conceded.

"Today, the broker is forced to shop for a market," he said, "rather than price."

To Bernard Mizel, head of Albert M. Bender Co., Inc. in San Francisco, the fact that most insurance companies grant ever decreasing amounts of binding authority is justified by the fact that "brokers are not experienced in taking on the responsibility of insurers."

Brokers given binding authority by insurers must have personnel able to understand and implement the guidelines laid down by underwriters, he said.

Big trouble can boil up if an agent or broker binds a poor risk or fails to adhere to insurance company guidelines, he suggested.

"For example," he went on, "if an agent or broker binds a commercial risk with a known bad

driving problem and a loss occurs, the insurance company will probably become upset if it learns that the broker knew of the driving difficulty before it bound the risk."

The upshot of this situation could be an errors and omissions claim by the insurance company against the broker, although underwriters traditionally have been reluctant to take legal action against agents and brokers.

At Albert M. Bender, a brokerage firm that anticipates writing over \$5 million in commissions this year, the risk of small- and medium-sized clients are usually underwritten by the broker based on long-standing relationships the firm has with certain insurers.



What happens if a broker binds a risk with a known drinking problem?

"This is an efficient way of handling accounts in the \$5,000 to \$25,000 premium area," elaborated the broker, adding that it permits Bender to service these clients rapidly and effectively.

However, to shoulder such a big chunk of underwriting responsibility, brokers have to be willing to spend money developing facilities to handle underwriting personnel, he said.

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# Currier & Ives put this insurance agency on the map

By MARIE KRAKOWIECKI

YORK, PA.—On those hot summer days when busloads of out-of-towners swarm to this Pennsylvania Dutch countryside like flies to a Shoo-fly pie, Ralph and Earl Kling have ushered as many as 200 visitors a day through their insurance agency here.

One attraction of the multiline operation is that it is housed in an ornate 19th-century mansion which the brothers bought in 1954 and restored to its early gingerbread splendor.

But what makes the \$2 million to \$3 million premium volume agency a "must-see" stop for tourists weary of hex signs and gift shops is the Currier & Ives and Antiques Gallery at the Kling Bros. Insurance Agency.

The Klings have combined their

insurance business with what is essentially a museum business. They are the owners and proprietors of one of the largest collections of original Currier & Ives prints to be found anywhere.

Although the frequent heavy tourist traffic creates certain management problems which the typical insurance agency would never encounter, the Klings have found that it doesn't hurt business a bit to let people in during office hours to browse. It's good public relations and good corporate advertising, Earl Kling believes, even though about 90% of the firm's accounts are commercial and group.

On slow days, only a handful of people might sign in at the guest register the agency keeps. But in the summer when those buses pull up on King Street outside the

agency's front door, everyone inside mobilizes for action.

For small to medium size crowds, the Klings will delegate certain office staff to work part-time at their insurance chores and part-time as tour guides to show people around the 16-room mansion.

But when the traffic gets very heavy, the agency hires as many as four additional people to act as tour guides. On those days, the working staff at the agency abandons its elegant offices and sequesters itself in a separate room to handle phone work and other details of the agency's business.

Local residents are allowed in free while out-of-towners pay a small admission charge.

Despite the problems inherent in this sort of arrangement, the Kling

Bros. Insurance Agency has grown steadily over the years, reportedly becoming one of the largest agencies in southeastern Pennsylvania. Earl Kling, who said he thought it was "some kind of practical joke" when the New York Times recently interviewed him, said he didn't have exact figures to indicate size.

How the agency first became listed in all the local Pennsylvania Dutch tour guidebooks is a mystery to Mr. Kling. But listed it is, right along with a weightlifters' museum and a farmers market located in York. Tourists come by to see the Currier & Ives prints, while local inhabitants tend to look favorably on the agency because the Klings improved the status of the town when they restored the mansion.

People from all over the country have filed through the Kling agency at one time or another. Earl Kling says the most famous visitors he remembers were the parents of former President Nixon.

This was years ago, he said, when the Nixons moved from California to Pennsylvania in order to establish residency so their son, a new face in the political arena at the time, could run for the state senate there. Mr. & Mrs. Nixon placed their personal insurance through the Kling agency, he said.

Mr. Kling couldn't pinpoint the exact year the visit took place. He and his brother Ralph have run the agency since 1933 and the years have a way of blending into one another over that time span.

One thing Mr. Kling remembers vividly, however, was the way he and his brother first became interested in starting a Currier & Ives collection. The principal company the Kling brothers represent is The Travelers Insurance Co. (They also use Continental, Maryland Casualty and Hartford Accident & Indemnity).

Each year The Travelers would send them a calendar illustrated with Currier & Ives prints, which drew admiration. But eventually they realized they could turn their admiration into a profitable business venture, due to their location.

They discovered that many of the original Currier & Ives prints were virtually in their own backyard. The local German farmers nearby owned many of the prints and would sell them at prices which today seem incredibly low.

So the Klings started acquiring prints 20 years ago, primarily from the Pennsylvania Dutch farms around them. Earl Kling remembers that occasionally farmers would sell small prints for as little as \$3 or in some cases 25 cents.

Today the Kling Bros. Insurance Agency owns about 300 original Currier & Ives prints. Earl Kling says the smaller prints are worth between \$100 and \$600 each. And at least one of the larger prints in the collection, which depicts skaters on a pond, is worth approximately \$3,000.

The agency appropriately insures the Currier & Ives' collection through the company which first inspired it: The Travelers. The collection is evaluated separately and insured for limits well in excess of \$100,000 on a fine arts floater that also covers the many antiques in the Victorian mansion. By Earl Kling's own assessment the building and contents of his agency "could never be replaced" if anything happened to them.

Despite this, the tourists who visit are allowed free access to most of the mansion, furnished with grandfather clocks, Oriental rugs, Tiffany lamps, chandeliers, a circular cherrywood staircase and offices paneled in solid oak, cherry and cypress.

Thus far, the agency has not found it necessary to have its tour guides double as security guards. "We are right straight across the street from York's finest," Mr. Kling said, referring to the local police department directly opposite on King Street.

"If anybody wanted to steal something from us, they'd almost have to walk through the police department with it under their arms. We sleep well at night knowing that the police here have no intention of being embarrassed by letting this happen," he said.

So sure are the Klings that their agency can continue successfully from its current base that they recently made arrangements to perpetuate it, Earl Kling said, by taking on a new partner.

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# How are producers compensated? Here are the details on 4 insurers

By JANET MROCZEK CORRADO

CHICAGO—How does the way a producer is compensated affect service to the insured? Does straight commission foster too much emphasis on production? Would straight salary take away all incentive? Is a combination of the two the answer?

The questions are not new, but answers change with shifts in the insurance climate. And the issue of service is generating renewed interest.

We asked several insurers to tell us how they compensate their sales forces and why.

Liberty Mutual was most often cited as a good prospect for comparison. That company declined to talk to us, however, saying that its method of compensation was a private matter between it and its agents. Allstate also turned us down.

## Florists' Mutual Insurance

This downstate Illinois insurer is a specialty company, offering all lines to the retailers, growers and wholesalers in the florist industry.

Agents are paid a straight salary plus a bonus at year-end based on new production. All expenses are picked up by the company.

Charles Schroeder, vp, said that because Florists' Mutual is a specialty company "we need control."

"We don't go up one side of the street and down the other. We may have one or two clients in one town."

Agent salaries, based on what field men in other companies would make, are paid for servicing clients and adding to current accounts. Agents get a schedule every year of how many service calls they must make, "and if a guy gets all his service work done, he can sell new business," Mr. Schroeder said.

He said that this system gives the company the degree of control required for a continuing relationship with the insured and with the agent. "We pay good salaries," he said.

The bonus is set up as an incentive to get new business—and is less than is paid for adding to current accounts. Agents are given goals, which allow the company to place emphasis on certain lines, Mr. Schroeder explained.

"We don't like to see an individual not get a bonus," he said. The company will help an agent out with new sales, but if he doesn't make a bonus he is no longer an employee, Mr. Schroeder said. Turnover is low, however, he added.

Distribution costs for Florists' Mutual are considerably lower than for companies using independent agents, Mr. Schroeder said. An independent agent will get 15% commission on a \$100,000 policy, for example, he said, but "we have people who handle three quarters of a million dollars of business and they don't get 15% of that. And we have the control we need."

The agent handling a large area of northern Illinois and southern Wisconsin, including Chicago and Milwaukee, made \$25,000 in 1975. The agent paid no expenses out of that figure.

Mr. Schroeder said a lot of mutual companies, including Liberty Mutual, work about the same way as his company. He called it "semantics as to who calls what which" in compensation arrangements. Sources at the American Mutual Insurance Alliance were unaware, however, of any other

insurer that had an equally pure salary compensation system.

## Kemper

Kemper uses the American Agency System to sell its wares. Independent agents get a straight commission, the same for new business and renewals.

Peter Standbridge, vp, doesn't feel that service suffers because of the arrangement.

"The independent producer lives by what he provides. He has to provide service," he said.

A large number of brokers and regular producers negotiate commissions, Mr. Standbridge added, which is based partly on how much money is necessary to properly service the account.

He said direct writers pay more for new business than for renewals. But, if you look at the commercial account, there is probably the same amount of work necessary at renewal as there was in selling the client, Mr. Standbridge said. The issue is more a bone of contention in personal lines, he added.

## State Farm

State Farm thinks it has "the system of distribution," according to Earl Johnson, senior agency officer.

Mr. Johnson, who holds the titles of vp and secretary of State Farm Mutual Auto and chairman of State Farm Life, said the insurer's exclusive agency system "gives us the opportunity to make sure he

(the agent) is trained to deliver the standard of service we prescribe."

State Farm agents are paid 10% for auto and 15% for fire on both new and renewal policies. They get 50% of the first year premium for life insurance when the policy is sold and an annual 2% "maintenance commission" after that.

Agents also get 55% of a \$10 to \$15 "membership fee" charged to new auto policyholders the first year. The membership fee, kept separate from the premium, is charged for acquisition and selling costs, Mr. Johnson explained. Managers get 15% of the fee, and the rest goes for sales promotion and bonus. "It all gets back to the sales force," he said.

## Unigard Mutual

Unigard Mutual of Seattle switched from using salaried agents to the independent agency system in the late 1930s, Foster Cronyn,

director of public affairs, said.

The company considered two things. It was looking for market expansion, and "there already was a cadre of professional career people out there." It also considered the total cost of having agents on the payroll.

Mr. Cronyn also talked to the direct writers who pay lower renewal commissions because they figure that there is more work in finding a client than there is later when the work is routine.

Unigard pays the same commission for new business as for renewals, he said, and "we expect our agents to provide service" since they are being paid the same.

"There are just as many areas where the agent spends time and effort on renewals as when the policy first comes in," Mr. Cronyn said.

The company pays commissions that are standard throughout the agency system, he said, adding

*Continued on page 10H*

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## Myers-Beatty . . .

Continued from page 10B

lawyers are pretty sophisticated, as are Chicago brokers," he said. "We wouldn't expect anyone to tell us how to avoid lawsuits. We know how to avoid lawsuits."

But the agency does have a personal relationship with the lawyers in the plan, encourages docket control, and is concerned about sole proprietorships.

"We ask the sole proprietor to get together with another lawyer to cover himself if he is away," he explained. An arrangement with another law firm also solves the problem of continuation of legal liability coverage when the lawyer retires.

The agency covers several thousand Chicago Bar lawyers out of a 12,000 to 15,000 total membership, but Mr. Myers said many lawyers are not active in law like himself

or are retired. Some others are also covered under the Illinois Bar Assn. plan.

He said CNA Insurance now underwrites the Illinois Bar (the state group) plan and charges \$595 premium on an occurrence basis.

The base rate for the Chicago Bar plan for \$100,000 limit and \$1,000 deductible on a claims made basis is \$233 the first year if the lawyer is changing from an occurrence form, and \$310 the next year.

"The same amount of dollars will be spent either under an occurrence form or a claims-made form," Mr. Myers said.

The agency chairman is not hopeful about the legal liability climate. "There are trends in the legal field that make me somewhat apprehensive about keeping claims under control," he said.

There is a legal aid bureau for the indigent in Chicago, and last year the Chicago Bar Assn. referred 30,000 people who could afford legal help but didn't know where to go for it to lawyers, Mr. Myers said.

The Chicago Bar also has an "in-court service," lawyers who make themselves available in courtrooms to people who arrive without legal representation, he added, and with group legal services, an even larger number of people will be consulting lawyers.

Lawyers figure they will win 50% of their cases and lose 50%. But, Mr. Myers claims, a good many of their unsophisticated clients expect to win. "With large numbers of people going to lawyers, there is bound to be more claims."

"I am not saying it's an impossible situation," he said, "but a larger share of our Gross National Product will be going to pay for lawyers' liability premiums." ■

## Compensation . . .

Continued from page 10G

that Unigard, as a general company, is competing with perhaps 20 other companies in an agent's office with its products and compensation.

An agent gets a bonus, based to some degree on volume but mostly directed towards balance, Mr. Johnson said. Persistency is also important. Typically, an agent will sell an auto policy first, and with the bonus formula "we try to do things to get the homeowners', fire, life insurance—the whole household," he said. "We want the policyholder to look to State Farm and his agent for all his insurance needs."

All the bonus funds come from the membership fees, not from premium, Mr. Johnson emphasized. And, he said, the bonus is a very minimal part of an agent's income.

Typically, about 62% to 65% of an agent's come will come from auto, 25% to 27% from fire, 8% from life insurance, and 1% to 2% from membership fees, Mr. Johnson said.

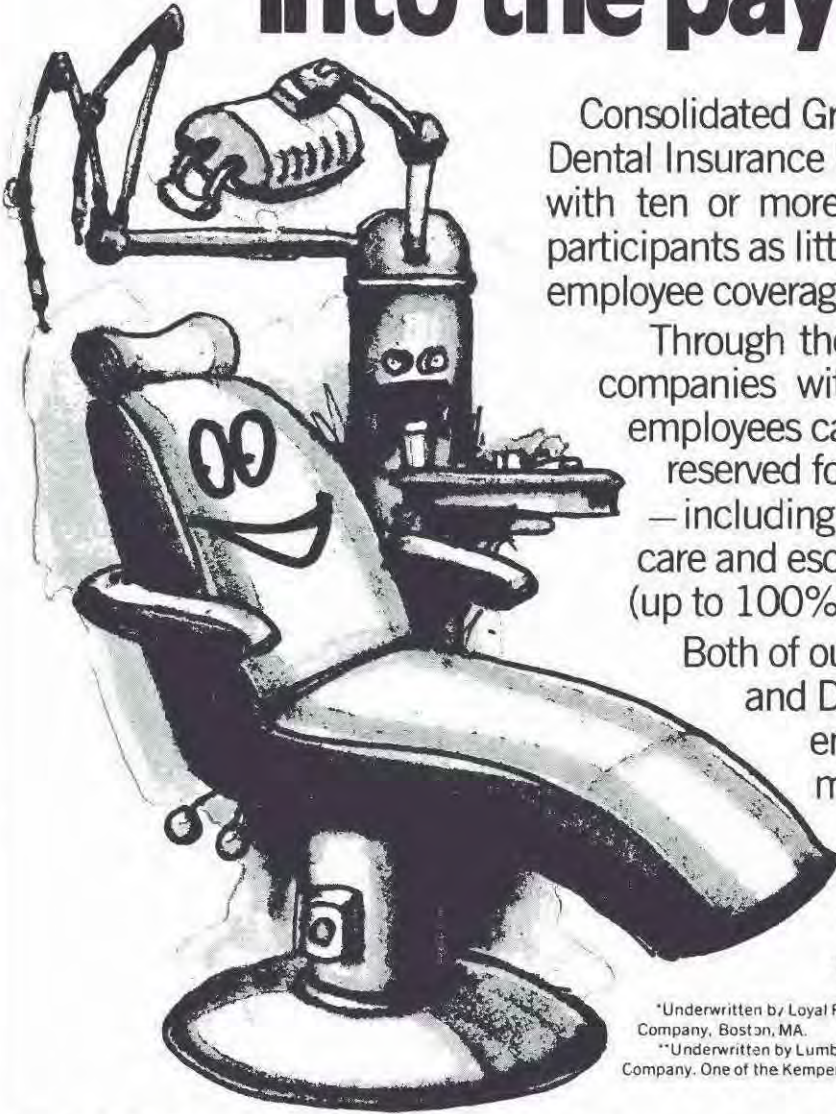
He said the company calls the commission arrangement "service compensation," and in exchange for it the agent has to keep an office open, handle initial and small claims and perhaps hire a secretary.

Commissions are lower than the industry's generally, Mr. Johnson said, partly because State Farm agents have a higher volume and partly because the company furnishes training, manuals and promotional materials, sometimes on a shared-cost basis.

Independent agents will get a higher commission rate, 18% to 20% on auto and 20% to 25% on fire—and direct writer/agents get 6% to 7% for auto renewals.

"This system has stabilized the turnover of agents," Mr. Johnson said, and given agents the chance to develop in a career program. ■

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## Nally gets post at Hall

LOS ANGELES—Joseph T. Nally has been named chairman and chief executive officer of the southern division of Frank B. Hall & Co. of California. Nally had been president with the responsibility of production and client coordination.

He replaces William A. Baxter, executive vp of Frank B. Hall & Co. Inc., the parent company, who is resigning as chairman of the division in order to concentrate on activities involving the parent company and the three western regions.

Benjamin (Bud) F. Grier, formerly executive vp and chief operating officer, has been moved up to president of the division. Mr. Grier retains his title as chief operating officer of the Southern California division of the international brokerage firm.

There are two other promotions at the division: John W. Searles, formerly senior vp, primarily in charge of marketing, moved up to executive vp in the marketing area and James E. Cranwill, formerly senior vp, primarily in charge of employee benefits, was elevated to executive vp in the employee benefit area. ■

## New systems are offered

CHICAGO—International Agency Management Systems, Inc., a wholly owned marketing organization, has been formed by two individuals.

A. G. (Tony) Hornick of Positive Management Systems, Inc., Buffalo, N.Y., and George Coffman of Improved Insurance Systems, here, are principals in the firm specializing in systems for insurance agencies and brokers. Services offered are manual and computer systems, consultation, software design, hardware sales, forms production and management seminars.

The purpose of the new marketing firm is to expand services in North America. Under the previous, subsidiary operated system, eight franchise distributors have already been established in Canada, England, Florida, Illinois, New York. Expansion plans are under way in Indiana, Wisconsin and Michigan. ■

# BI benefit contest deadline is Feb. 28

NEW YORK—Entries are now being accepted for the fifth annual *Business Insurance* Employee Benefits Communications Awards Competition.

All entries must be submitted by Feb. 28. The awards will be presented at the Risk & Insurance Management Society (RIMS) conference in New York on April 26.

Entry forms, contest rules and further information may be obtained by writing or calling Ronnie Drachman, Award Coordinator, Business Insurance, 708 Third Ave., New York, N.Y. 10017. Mr. Drachman's phone number is (212) 986-5050.

A panel of 12 judges has been selected including corporate benefits managers and employee communication experts.

Among the judges are Nathan Smith, assistant vp and director of employee benefits of American Home Products in New York; Maryanne Sherman, manager, corporate communications at American International Group, New York; Herbert Hadley, director,

pension and group insurance department of American Standard Inc., New York.

Also included on the panel are Therese Pick, administrator, employee benefits, AT&T, New York; Walt Klint, director, employee benefits program, Continental Can Co., New York; Joan Myers, assistant manager, employee benefits, Diamond International Corp., New York; Richard Doyle, vp, public relations and advertising, Home Insurance Co., New York.

Also, John Lamantia, employee benefits administrator, Lever Brothers Co., New York; R. B. Peters, manager, benefits, Mobil Oil Corp., New York; Mathew F. Morgan, director, employee benefits, Otis Elevator Co., New York.

## Cities hire consultant to cut costs

CHICAGO—Twenty-five suburban Chicago cities are cooperatively hiring a risk management consultant in hopes of combating skyrocketing insurance costs.

The cities, mostly members of either the Northwest Municipal Conference or the DuPage County Mayors and Managers Conference, have hired Risk Planning Group Inc. of Darien, Conn.

William H. Muhlenfeld, executive director of the Northwest Municipal Conference, called the contract "pioneering, at least for Illinois."

Although details are still being worked out, the cost of the RPG study is estimated at \$35,000, or \$1,500 for each municipality. That's about one-third of what it would cost a city to hire a consultant individually, Mr. Muhlenfeld noted. The contract with the consulting firm calls for a three-pronged study. First, the current insurance plans of each of the cities will be audited and recommendations for risk management made. Second, alternatives for municipal insurance will be examined. Finally, the Risk Planning Group will aid the municipalities in implementing their plans.

Although not wanting to preempt the experts, Mr. Muhlenfeld said the municipalities are interested in "some pooling effort, at least in workers' compensation."

In the past year some of the suburban Chicago cities have seen increases of 400% to 500% in the cost of workers' compensation insurance. The average increase was 100% to 200%, according to Mr. Muhlenfeld.

He blamed the increases on the liberal workers' compensation law passed in Illinois in July 1975 and the general lack of availability of municipal insurance.

Self-insurance of liability risks appears to be another likely prospect. But municipal officials want to hear it recommended from some experts. "We're looking for some answers," Mr. Muhlenfeld said.

The first phase of the study is expected to be completed in late spring.

### Employee Benefits Communications Awards Competition

Mail to: Benefits Communications Awards  
708 Third Ave.  
Business Insurance  
New York, N.Y. 10017

Yes, I am interested in entering our communications program(s). Please send me \_\_\_\_\_ entry blank(s) and the competition rules.

Name, title \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Telephone \_\_\_\_\_

## Paperwork cost study

BROOKFIELD, WIS.—A major study of the administrative costs of employee benefit plans is being launched by the International Foundation of Employee Benefit Plans.

Thomas Luck, research director of the group, said the completed study would give companies a tool to use in comparing their administrative costs with similar companies. Cost ranges of various functions will be found.

Two hundred companies will be asked to participate. The researchers will review administrative records and then conduct interviews with company officials. All information will be kept confidential.

No deadline has been set for completion of the study.

## Business Insurance Employee Benefits Communications Awards Competition



### Award of Excellence presented for outstanding achievement in communicating an employee benefits program

On April 26, 1977, at a luncheon during the Risk and Insurance Management Society's annual conference, *Business Insurance* will present awards for outstanding achievement in communicating employee benefits programs. Awards will also be presented to consultants.

The competition officially opens on **January 1, 1977 for entries to be received** in the New York office of *Business Insurance* (note address below).

There are four categories of communication which will be judged by an independent panel selected by *Business*

*Insurance*. The categories involved are: Booklets . . . Personalized Correspondence . . . Audio-Visuals . . . Total Communications Program. The competition is open to all companies and is not limited by the number of employees.

For more information about the competition; to obtain entry forms or to submit your employee benefits program, call . . . Ronnie Drachman, Awards Coordinator, 212/986-5050 or clip the coupon and send it to us as soon as possible.

Note: Entries will not be received after February 28, 1977. If your entry will be delayed, for any reason, please let us know.

### Employee Benefits Communications Awards Competition

Mail to: Benefits Communications Awards • Business Insurance • 708 Third Avenue • New York, N.Y. 10017

Yes, I am interested in entering our communications program(s). Please send me \_\_\_\_\_ entry blank(s) and the competition rules.

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## PERSPECTIVE

# Risk managers! You need to improve your communication skills

By Thomas Briggan, vp  
Risk Planning Group  
San Francisco, Calif.

"Twas Gillig and the slith toves  
Did gyre and gimble in the wabe..."

LEWIS CARROLL's nonsense verse brings to mind the many absolutely meaningless and incoherent pieces of communication that occur daily in our business and personal lives. The risk manager, alas, is no exception to this rule of confusion. Terms, such as "excess of loss," "indemnity over," "chronological stabilization," "self-insurance," and, yes, even "risk management," may be almost instantaneously understood by the risk manager, or two risk managers, or even a gathering of risk managers. But what do these terms or jargon mean to others in the business organization? To quite a few, probably very little.

Despite a general, or at least an increasing awareness of the term "risk management," the term still is often considered as a substitute wording for insurance management. The risk manager, because of poor communications, or even lack of any communications, may be largely to blame for this current misimpression and continuing position in the corporate structure.

But first, what communications are we talking about? Communications means to most the sending or receipt of a letter or memorandum, or a conversation between two associates; some may think of newspapers or television or telephone conversations linking one speaker and one listener.

One interesting definition is that "communication is the discriminating response of an organism to a stimulus" (Journal of the Acoustical Society of America). Not only is the response critical, but perhaps most significant is the transmission of stimuli and the evocation of responses.

It almost borders on the sophomoric to say that we must carefully construct our words and phrases as we judge what is necessary for the recipient to understand. In conversation, for example, what is often overlooked is that it is rarely "correct" in grammar or syntax; sentences may remain uncompleted, words may be repeated, or phrases uttered several times in different ways.

With writing it is another matter; the writer cannot see his or her readers and can only make prior judgment of their difficulties. Does it take much effort to write an ambiguous sentence? Not at all. For example, "Do you think that one will do?" When spoken, stressing of each of the seven words here results in seven distinct meanings; each meaning could be conveyed less ambiguously in writing by restructuring the sentence.

The risk manager must deal with many "barriers" to effective communications. Among these are the following:

**Distorted perception** of events outside the risk manager's "world."

**Misinterpretation** of signs coming to the risk manager from the outside environment.

**Resistance to change**—If the risk manager resists new ideas, such as the use of



The risk manager must deal with many "barriers" to effective communications.

quantitative methods because of the mental or physical effort involved in learning, he or she will tend to ignore or misunderstand ideas that are in conflict with long-held views, and the communication of new ideas will become difficult, to say the least.

**Lack of feedback** between the risk manager and others within or outside the organization who are trying to communicate with each other.

**Overgeneralization**—Lack of specificity in communicating the risk manager's corporate mission can cause others to reach conclusions of great generality.

**Overcommunication**—If the risk manager attempts to transmit too much information, such as in the form of a risk management manual, others may not be able to absorb the information, and the entire effort may be a failure.

**Inappropriate channel** of communication—knowing to whom and by what means to communicate are essentials to assuring success and minimizing frustration.

**Lack of organization** of the ideas being communicated—Here, particularly if the risk manager is making an oral presentation to senior management on the accom-

plishments of his or her department, ideas and concepts must be structured in a logical and understandable format.

**Lack of use of visuals**—What is that old adage about the worth of a picture? Visuals, used discriminately, can enhance the level and effect of communication.

**Social and status barriers**—About the only comment here is that such inhibiting factors do exist and must be recognized and dealt with on an extremely personal basis.

Overcoming these barriers and others require a number of attributes including:

- Avoiding generalization
- Being positive
- Exhibiting sensitivity
- Being flexible
- Avoiding ambiguity
- Avoiding negative attitudes

The road to effective communications is often misleadingly simplified. Policies that suit one firm are seldom right for another. Communication goals for the risk manager must always be specific to the organization where he or she is employed.

Once being confronted with some "essentials" of proper communication, the risk manager must apply this knowledge. Yet, application to date has been quite erratic. Despite some very fine methods of communications developed by the more enterprising and motivated risk managers, such as the preparation of slide shows for plant managers and the use of videotape, there is still a lot left to be desired.

A survey conducted approximately two years ago by Risk Management Reports revealed that most written communications used by risk managers were heavily insurance oriented, too lengthy, and failed to relate the risk management function to overall corporate or institutional objectives. Furthermore, only 40% of the respondents scheduled seminars or similar conferences for any levels of management on risk and insurance policies and procedures, and only 33% used visual aids in reports.

The response elicited from participants at a recent RIMS mini-seminar confirmed that the situation remains generally unchanged two years later. Regrettably, the Risk and Insurance Manual published by RIMS is too heavily insurance oriented and, thus, communicates a continuing impression of risk management being synonymous with insurance management.

Also, unfortunately, the risk manager has tended to have a "micro" approach to communications, centering on his or her specific problems at his or her level. The risk manager has forgotten an old adage that man is not an isolated being in a void. A micro approach is appropriate only after a "macro" approach—one where the risk manager is cognizant of the basic organizational structure and the various information systems and communication tools that exist within the organization. This requires "system thinking."

He or she must determine what information company executives and others really need, rather than provide just routine information. He or she will become a member of the management group only through communication. The risk manager's efforts must be continuing. The demand for business information will continue to grow. Will the risk manager be able to respond to the demand?

## What went wrong?

# Group life policies and the IRS



By George C. White, CLU  
Consultant  
Massapequa Park, N.Y.

ON NOVEMBER 4TH, the Internal Revenue Service (IRS) announced that it was "reconsidering the treatment under Section 79 . . . of group insurance arrangements that provide both pure life insurance protection and permanent benefits." Further, it was stated in IR 1689, that the service was ". . . considering the extent to which arrangements of this type are consistent with the purpose . . . to provide a limited exclusion from gross income for benefits received by employees under group-term . . . plans." In conclusion, it stated that "pending completion of this study, the IRS will not issue letter rulings under Section

79 on insurance arrangements of the type referred to above. Prior letter rulings issued under Section 79, with respect to such arrangements, are suspended as to contracts entered into after November 4, 1976."

The letter rulings referred to are private and, as such, though widely circulated by insurance companies through their agents, they generally have no force insofar as reliance on them is concerned—except as to the party to whom they were issued. Nevertheless, it is on these facts that the companies have so strenuously marketed their products, in the (not unreasonable) expectation that if their particular policy allocation of premium costs satisfied the IRS in the case of one policyholder (who, to be cynical, might very well have been set up by them as a stalking horse), it should certainly suffice in the case of all other insureds buying the same policy form.

Well, then what went wrong? Probably a confluence of several factors contributed to the present state of affairs. Undoubtedly, in their zeal to get a share of the market (an ever-growing one), many companies had so sharpened their pencils that other companies—perhaps more conservative in their approach—may have been reduced to an inequitable disadvantage. If one or more of such disgruntled companies should have gotten the ear of Washington, it would not be unreasonable to expect that some concerned government official may have decided that it was time to establish some uniform and nationwide ground rules before the matter completely got out of control. Even more assuredly, there have been abuses in which the concept has been distorted to achieve such (probably) unintended purposes as funding business buy-

sell agreements. Knowing the proclivity of companies to increase volume irrespective of the consequence, one or more of the following also occurred: grossly disproportionate amounts of insurance were being written on a few company executives (e.g., \$1,000,000 on its president, while remaining employees might be covered for negligible amounts), and new business was cannibalistically written at the expense of old business (in the same or other carriers) in which the latter was being "twisted" (read "ripped off"). The consequence, again some aggrieved party (and that's always the loser when it comes to competition for business), convinces Treasury officials it's time to weed and prune a garden gone riot.

The name of the game may be unification (as in the gift and estate tax areas under the '76 Tax Reform Act). Therefore, someone may rather persuasively be saying, "Hey, fellas, why do we impute income to the insured in one manner and at a different price under qualified retirement plans in general—and split-dollar plans as well—when we treat the same insurance differently in both of the former respects when it comes to group life insurance?"

In the near-panic which ensued after the announcement, many companies (especially those having only a single-policy contract) withdrew their "79" products. Others stood pat (especially those with two-policy plans in their portfolio), and a number of those who "suspended" their sales are since back in the field with all guns blazing.

Insofar as the author knows, those who are selling the product now mandate the use by their agents/brokers of a disclosure statement (not a disclaimer) receipt of

Continued on following page

SPEAKING OUT

An insurance expert views health care—as a patient

By Peter Downes  
Manager of Insurance  
American Trading & Production Corp.  
Baltimore.

THE MORE I LOOK at news columns on recent insurance happenings, the more frequently do I get the feeling that we are a bunch of lost souls seeking to identify landmarks through the wrong end of a telescope. In this way we see only the most obvious of them and tend to overlook those obscured by the undergrowth or those overshadowed by the monstrosities which dot the landscape. To put it another way, we are so busy attacking symptoms that we tend to overlook causes, especially when those causes are not immediately obvious.

This reflection was brought about by my viewing the cost of medical services and the question of malpractice from a new angle for me—that of patient. Sometime ago a burst blister on my heel ultimately gave me an infected leg in consequence of which I remained almost totally immobilized for two weary weeks.

There was some light relief. A couple of friends called and spent the period of their visit telling me of their own medical symptoms. Another called with a bottle of bourbon. Since I was on a diet of penicillin I was unable to join him, but far from fretting about this, he helped himself to several shots and left taking the bottle with him. Then George, my elderly next door neighbor, looked in and after studying the situation carefully, announced lugubriously, "Calvin Coolidge's son died from that." What with one thing or another, that just about made my whole day!

Most of the time, however, I just laid on my back and reflected on things in general. One of the first things that occurred to me was that the way things are in these United States, there is absolutely no way in which

medical attention is going to come to me except on an emergency basis. Somehow or another I had to seek out medical attention for myself. In my own case, our family doctor did agree to see me between appointments. If he had not done so, my only other resource would have been to make my way to a hospital emergency room and wait around for perhaps several hours until somebody could find time to attend to me. My doctor seemed quite efficient.

"Yes, it appears infected, soak it in hot water on the hour every hour. Meanwhile, here is a prescription, come back and see me if you feel it is necessary. That will be \$10. Please pay as you leave. Next."

"But doctor I have a problem. Merely lowering my foot to ground level is excruciating. How do you suggest that I sit on the john, let alone soak my leg?"

"You'll just have to work something out"

A week later the calf of my leg was shocking pink and steaks of red were making their way towards my groin. A call to my doctor demanded my presence in his office. I rounded up transport, painfully made my way to it and rode 10 miles over country roads lying on the backseat with my foot on the roof of the car. No, the doctor would not leave his office to look at me, I must crawl up the steps to see him.

"It looks quite bad but actually it is coming along nicely. I will renew your prescription. That will be \$10. Please pay as you leave. Next."

"Do I need to come back again?"

"That's up to you."

After two rounds of this, and listening to my quack in all his pontifical infallibility, my attitude was, "Damn it, you had better be right because if you are not, I am going to squeeze you until the pips squeak." Unreasonable, perhaps, but I was hurting far too much to care about being reasonable.

Actually, what I was seeking was reas-

urance that my case was proceeding normally. Having had no prior experience I never knew whether it was or not. I was aware that although immobile I was not not sick enough to be in the hospital, or at least I convinced myself of this. By sheer coincidence, I knew of another person of my acquaintance who contracted the same complaint as myself and did hospitalize himself. For myself, having once worked a night shift in an American hospital as a service technician (a euphemism for corpse hauler) there is no way I will voluntarily enter such an institution—I'm not that masochistic. Actually, although I was bored stiff and there was some pain, I could quite well attend to myself at home. The cost differential was suggestive. My expenses were \$20 for the doctor and \$15 for pills. My acquaintance's hospital room and board was \$120 a day plus doctor's fees, etc. I estimated his cost as \$2,500 against my \$35. How did he benefit? Well, he did have somebody look at him daily and tell him he was coming along fine. Nevertheless, \$2,400 or so seems excessive for this kind of reassurance, but since he recovered just about all of it from his group insurance, what did he care about waste?

The result of all my reflections was the thought that a basic and urgent need of American medical practice is the study of the delivery of medical care to the patient by those best qualified to do so, the doctors themselves. Persons such as employers, health care insurers, employee benefit managers, and others could pressure them into doing so. One would not expect a change overnight but in the long run there might well be a vast improvement.

What techniques are available? When I was a student I recall reading a history text wherein the author reflected that social problems and their remedies tended to reach the United States anywhere between 50 and 80 years after Europeans had already coped with them. A system adopted

by the British (and many other countries) as early as the 1920s used the district nurse. She would be a registered nurse with a midwifery diploma and hospital experience. The job included child delivery, the care of terminally ill patients and attendance on people who were sick but not sick enough to be hospitalized.

In Baltimore in the 1970s a similar system has been introduced. In East Baltimore there is perhaps one doctor for 6,500 families. Recognizing this as being totally inadequate, the local authority has introduced nursing practitioners who can perform just about 80% of what a general practitioner can do.

Perhaps this is a sign of the future in American medical practice even though it is half a century or more late. Doctors no longer make house calls, but for myself I would consider the money well spent to pay for the visit of a nurse who would be capable of telling me what was up. Evidently the universities do too, because both Johns Hopkins and Maryland and doubtless many others as well, have degree courses in the subject.

But is this enough? Perhaps it will be in years to come but only if the patient is aware of what is going on. To illustrate, a couple of years ago, my ever loving spouse entered Johns Hopkins Hospital to have a vein stripped that was becoming phlebitic. After the operation, the leg became infected and instead of a few days she was there for three weeks. She actually saw her surgeon once at the initial interview. Tests and procedures were conducted by aides and nurses and after the operation her recovery was overseen by a hospital resident.

All this sounds very reasonable, and indeed it was. However, said spouse is one who is convinced that anybody who stays home for more than 24 hours with a triple compound fracture of the femur is malingering. Consequently, she was totally infuriated at her own immobility and let everyone within hearing know all about it. During her hospital stay all the non-technical personnel of the hospital went on strike over a labor contract. My children say that it was not that way at all, it was on account of Mom. In the meantime, urgently needing to give the surgeon a piece of her mind, she was completely frustrated by the fact that she never heard from him at all except to receive his bill.

Apart from the question of personal idiosyncrasies, that turned her off. Very simply, from the day she first saw the surgeon until the day she was released from the hospital she did not really have the first conception of what was going on. Nobody took the trouble to explain how she would be treated; who would do what and why. Consequently, my wife felt wholly neglected, even if wrongly so.

But it may be said you are judging a whole medical system on a couple of personal cases. Quite true, but I have the feeling that the cases I have described are not uncharacteristic. The New York Times Book Review recently carried an advertisement that makes the point for me. "The book you must read before entering the hospital!" it said. The book in question is "The Consumer's Guide to Successful Surgery" by Seymour Isenberg and Dr. L. M. Elting (St. Martin's Press, \$10).

What nonsense, and yet if such a book is necessary for a patient, how sad. How much better would it be if medical practitioners took the time to explain what they were doing instead of making their trade a mystery. And indeed it is this aura of magic which invites malpractice suits.

All this does not gainsay the need for coping with malpractice suits here and now and the question of excessive awards and so on. What is being suggested is that all these activities may be of little effect if doctors, insurance carriers, employee benefit managers and the rest overlook basic needs. Two of these needs have been suggested: the delivery of medical services and communication with the patient. Doubtless there are many more, but I think these to be important.

Group life programs and the IRS . . .

Continued from preceding page which must be acknowledged by the applicant. The thrust is to reveal to the employer and employee the existence of IR 1689 and the rubric that they consult with their own attorneys as to the legal implications thereof. In addition, many companies are giving applicants written assurance that should their plan fail to qualify for Section 79 treatment, all monies (except for pro-rated premiums allocable to the interim protection) will be refunded.

Well, what's the prognosis? Without ascribing any probability scale to their sequence, the author believes the following may take place:

1. Group term treatment will be denied for any individual policy. This would probably be the worst thing that could happen, as compared to the present state of the art.
2. Group term treatment would be denied any individual policy with cash values. This would eviscerate the guts of the sale in the author's view—effectively relegating the product to limbo.
3. Group treatment would be denied any policy (including group in the literal sense) with cash values. Though not a "79" product as sold today, such a product would still be viable as a possibly preferred alternative to contributory group term coverage, since it would be expected that the employer's group program would consist of a diminishing non-contributory basic element together with this increasing "group permanent" portion which would be paid for entirely by the employee.
4. As implied earlier, there would be one method and one rate scale for determining the value of insurance protection under qualified retirement plans, split-dollar plans, and group term life insurance. Such a scale might not necessarily be the present PS 58 rates (which are costlier and less liberal in their application than that of Table I under Section 79); instead, it could very well be something that would be less favorable than "79" enjoys at present, yet be more generous than that under PS 58 rules.

Insurance was sold before the term "79" enjoyed its present currency! It will continue to be sold, even if worst comes to worst, so long as the need for it is manifest.

Nevertheless, what about some alternatives? Briefly, in the author's opinion, they would include . . .

1. Individual term will still be sold in jumbo amounts where substantial, temporary coverage is required, or where cash flow considerations preclude buying ample permanent protection (at least for the present, whereas the need to be covered adequately is the imperative).
2. Alternatively, particularly at older attained ages and/or where a qualified policy loan interest deduction is obtainable and is meaningful (because of the individual's or firm's tax bracket), "minimum deposit" techniques will still be utilized in place of term protection.
3. "Split-dollar" techniques will continue to make sense, especially where the need is of long-duration and/or where such protection is functionally coupled to some deferred or incentive compensation arrangement. Generally, without such a tandem relationship as the latter, split-dollar plans may lack the lifetime utility that other approaches might offer more efficiently.
4. As an integral of a non-qualified deferred compensation plan, a whole life policy obtained under a "dolgoff" approach may offer a superior means of obtaining lifetime coverage.
5. A "net/net-minimum deposit bonus" might afford greatest economies in outlay; however, unless complementary savings/investment arrangements were effectuated in order to reduce or eliminate ultimate indebtedness, such an approach might be deficient in meeting lifetime post-retirement needs.
6. Last, but assuredly not least (this sequence again, having no relation to order of value or utility), there is the too-often neglected "whole-dollar" approach. To equate this most flexible, and perhaps assuredly, permanent of choices with giving

the executive a cash bonus that he/she would then use to buy a policy begs the question, since he/she might not do so or might not retain the coverage. Some degree of restraint can be imposed on the employee under this approach, ensuring to some degree the attainment of objectives. Functionally, this most nearly resembles "79" in the author's view, though it is conceded that the latter's leverage (particularly if the premium should be rated-up for health reasons, etc.) is absent. However, dividends would assuredly be tax free and the individual's basis would be equal to his/her aggregate "additional compensation" attributable to the premiums paid in his/her behalf. The author would not wish to have it inferred that resultant tax economies or any lifetime gain would "wash" any interim difference in after-tax outlays incurred by the employee (even disallowing for imputed earnings on such differences in cumulative outlay). However, he suggests that this, nevertheless, may be a reasonably viable (and certainly selective) alternative.

Others may fault the author for not including favorites of their own. More by way of explanation than of defense—although he certainly does not claim either omniscience nor infallibility—the author merely hopes that the reader will be encouraged by this effort to seek out courses of his own. In that way, all will benefit—the industry of insurance, the consulting profession and, the insuring public.

Mr. White has been an independent consultant on benefit insurance and estate planning matters. As of Feb. 1 he will head the newly formed insurance consulting arm of Merrill, Lynch, Pierce, Fenner & Smith, Inc., which is named Personal Capital Planning Group. Before becoming a consultant, Mr. White for 18 years was an independent agent, most recently for Massachusetts Mutual Life Insurance Co. In 1970 he joined the Aims Group, directing executive compensation and benefit studies for many Fortune 500 companies.

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# Report . . .

Continued from page 1

Fireman's Fund Insurance Cos. and INA all underwrite association product liability insurance programs, according to Robert Nelson, executive vp of the Insurance Administration Center, Des Plaines, Ill., which brokers insurance to a number of trade associations. "But I don't know of a single wholesaler association program still in effect. They've all been aborted in the last four or five months," he said, noting that both Fireman's Fund and INA, however, have recently expressed interest in underwriting even these insurance programs.)

There was also some discussion about the semantics of "crisis." The report of the task force said, "Our study does suggest that the so-called product liability 'crisis' is not a crisis in the sense that a large sector of industry cannot obtain product liability insurance or that the increased cost of such insurance has made a substantial impact on the price of many products."

Perhaps predictably, Melvin Block of the American Trial Lawyers Assn. said, "I'm thankful that the report has diluted some of the semantic hysteria that was rampant at our previous meeting (on Nov. 1, 1976). I haven't heard the word 'crisis' being used today."

Taking issue with the task force's use—or rather non-use—of the "crisis" label were two trade association representatives who were not members of the panel.

Citing premium increases for some of his member companies that ranged from 1,176% for a materials handling equipment firm to 4,112% for a textile manufacturer, Thomas Fahey of the Associated Industries of New York State said, "I can't see such a big difference between affordability and availability. Don't lose sight of the fact that for some of us this is a crisis situation."

Echoed Charles Stewart, president of the Machinery and Allied Products Institute, "I'm concerned about the discussion of 'crisis.'"

"Semantics are important," he said, adding that the problem of product liability is "widespread and growing."

A member of the advisory committee, attorney John Koch of Washington, D.C., said the discussion in the press about whether or not there is a crisis is "not important."

After congratulating the task force on its "balanced and reasonable" report, Mr. Koch said the use of the "crisis" label is not important because the report "documents a serious problem."

Mr. Koch said he sensed a "tentativeness or hesitancy" in the report, "based on what's described as 'a lack of an adequate data base.'"

He pointed out that there is "one thing that won't show up in numbers"—that is, the "demoralizing effect" caused by the current uncertainty in the product liability situation.

One of the strongest criticisms of the report came from Ralph Baldwin, president of Oliver Machinery Co. in Grand Rapids, Mich. Mr. Baldwin instigated the task force study with a letter outlining the product liability problems he wrote to William Seidman, economic adviser to former president Ford and an acquaintance from Grand Rapids.

Mr. Baldwin said he was "somewhat disappointed that more specific recommendations were not made."

"Nothing has been done to rescue the relatively few machinery manufacturers (who may go out of business) in 1977," he said.

"I'm very much afraid that in 1977 we'll have more companies, relatively small, that will go out of business and bring this problem to the public's eye," said Mr. Baldwin. He added that somewhere in the report there should have been a definition of a "defect."

Undersecretary of Commerce Edward O. Vetter told the advisory committee that the group will not be disbanded now that the work of the task force is nearly completed. "Rest assured we'll keep you working," he said, noting that the committee was constituted in June 1976 with a two-year charter.

Project Director Victor Schwartz said the completion date for the final report was uncertain due to the transition of Presidential power.

## Here are 40 panel members

Participating on the Business Insurance Editorial Advisory Panel are some 90 risk and insurance managers for large institutions in the U.S. and Canada.

For the first time since the magazine began conducting its surveys in early 1976, panelists were asked if they would approve the disclosure of a listing of company names. Many readers of Business Insurance as well as panelists, have asked for some idea of who's represented on the panel. Forty

panel members approved the disclosure of their employers' names to readers. We believe this is an invaluable aid in assisting those using the panel findings to judge their credibility. We thank panel members for allowing the use of names and will expand the list of panel members' affiliations as more approvals are given for release of names.

Here are the names of 40 corporations and organizations whose risk and insurance managers participate in the Editorial Advisory Panel surveys:

American Hospital Assn.  
Ameron Inc.  
American Trading & Production Corp.  
Aminoil USA Inc.  
Anchor Hocking Corp.  
Bettelle Memorial Institute  
Bell & Howell Co.  
Borden Inc.  
Boise Cascade Corp.  
Bucyrus-Erie Co.  
Canada Packers Ltd.  
Clark Equipment Co.  
Connecticut General Insurance Corp.

Consolidated Natural Gas Co., Inc.  
Control Data Corp.  
DeSoto Inc.  
Fingerhut Corp.  
First City Bancorporation of Texas Inc.  
Fuqua Industries  
Gold Kist Inc.  
Joy Manufacturing Co.  
Kolmar Laboratories Inc.  
Los Angeles County  
Libby, McNeill & Libby Inc.  
Madison, Wis. (City of)  
Nabisco Inc.  
N.Y.-N.J. Port Authority

Penrod Drilling Co.  
Pinellas County, Fla.  
Republic National Bank of Dallas  
Ryder Truck Lines Inc., (Pacific Intermountain Express)  
Samsonite Corp.  
Seattle First National Bank  
Temple University  
Trans Union Corp.  
U.S. Industries  
Ward Foods Inc.  
J. Weingarten Inc.  
Westchester County, N.Y.  
The Wickes Corp.

## Editorial advisory panel . . .

Continued from page 1

ity of markets used.

Brokers are expected to be listening for intelligence about the financial status of insurers, many managers noted. In some cases, the risk managers talk with the top executives of the insurance companies to check out the rumors. Occasionally they assign their brokers the task. Seven panelists saw this direct contact with the carrier's executives as an important step.

For example, a risk manager from the Northwest recounted two instances where meetings were arranged with the presidents and financial officers of companies he had questions about in regard to Best ratings and surplus.

Risk managers also frequently approach the state insurance commissioner or insurance department for the latest filings from insurers. Nine panelists saw this as a necessary step in checking out the insurer's financial status.

Risk managers for three very large—and, we assume, influential—organizations obtained cut-through endorsements from their insurers when there was doubt about the insurer's financial ability to cover losses being underwritten by a policy.

In the case of a large bank in the Southwest, the risk manager "requested certification from reinsurers with an agreement for direct access to the reinsurers." This same risk manager obtained an agreement by the insurer that it would inform the policyholder of material changes in reinsurance relationships.

A major Midwest company involved in the transportation industry asked the parent company to guarantee the contract of its small insurance subsidiary when there was doubt about the insurer's financial strength.

Five panelists said they refused to work with the insurers when doubts arose about their ability to pay losses. In other words, there are times when an insurer has to be replaced.

Among the other suggestions panelists had for checking on the integrity of an insurer were:

- Ask a consultant.
- Check news reports.
- Contact the National Assn. of Insurance Commissioners.
- Only deal with reputable carriers and the industry's giants.
- Get the latest annual report.
- Check with other risk managers.
- Check surplus lines associations.

- Talk to an insurance industry securities analyst.

One panelist even recommended there be a Congressional investigation of the financial status of insurers.

Panelists generally have found insurers willing to discuss their relative financial strengths and weaknesses.

When asked about insurers' attitudes towards discussing finances and experience in various lines of commercial insurance, 33 panelists said insurers have been willing to talk about these matters. Eleven said they'd never asked insurance executives these questions and the remaining 14 said they have found insurers unwilling to discuss financial status and loss experience by line.

An oil company risk manager, however, despite his feelings that insurers have generally been willing to tell him what he wants to know, said, "It is difficult to determine if they are providing factual information."

The group of responding panel members divided equally when asked whether they'd been able to obtain loss statistics. Of the half that said they've found it impossible to extract the statistics they wanted, the lines of insurance most frequently involved were general liability, workers' compensation, directors' and officers' liability, property/fire, difference in conditions, medical malpractice and auto liability.

Loss experience also remained a mystery in fiduciary liability, gas transmission/property, kidnap/ ransom, surety bonds and corporate aircraft hull and liability, said risk managers who'd been frustrated in their attempts to gather data.

The well-known risk manager who originally suggested this survey suspected that most of the concern about financial stability of insurers grew out of well-publicized court awards and heavy casualty losses. He also suspected that most insurance managers didn't know how to gather or analyze the financial statistics submitted by casualty insurers to state regulators.

He was partially correct. Thirty-four risk managers on our panel said they didn't know what Schedule P is, while 24 said they knew what it was but generally hadn't scrutinized it in ascertaining an insurer's stability.

Only five panelists said they had ever used Schedule P in assessing their insurer's ability to pay losses when they arose.

Schedule P is one form available

from state regulators which applies a financial test design to indicate reserve deficiencies. Schedule P is the test for casualty underwriters, while Schedule O is the test of other insurers. The test compares an insurer's original projected losses to actual current developments. A margin of 10% is commonly allowed, since some losses occurring at the end of a year may not have been adequately reserved.

How an insurance or risk manager can use Schedule P is best illustrated in this comment from an oil company risk manager: "Chiefly used to examine loss ratios and claim payment history. We also look at the number of outstanding claims for prior years to evaluate the number of unsettled claims from prior periods. For some carriers, we also pay particular attention to incurred losses to determine what impact our losses have had on the carrier."

A tire company risk manager who knows of Schedule P but has never used it in an analysis said he doesn't believe it's an accurate enough indication of surplus vulnerability.

Of those panelists who were aware of Schedule P's information and potential usefulness, most had learned of it through a CPCU course, a broker or from reading annual convention statements submitted annually by all insurers to state regulators.

## dates for buyers

Feb. 9-11: 3rd Annual Pension Consultants Conference—to share ideas on practical pension problems and marketing techniques at Clearwater Beach, Fla. Discussions will be held in a workshop atmosphere, minus government officials and the general press. Focus will be on the questions, problems and experiences of pension consultants active in the small plan market. Registration fee: \$185. Contact: Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606, conference sponsors, Attn.: Seymour LaRock.

Feb. 15: ERISA Today sponsored by the Profit Sharing Council of America in Houston, Tex. Open to members and non-members. Registration fee: \$25. Also offered March 15 in Nashville, Tenn. and May 18 in Seattle. Contact: Walter Holan, vp, Profit Sharing Council of America, Suite 722, 20 N. Wacker Dr., Chicago, Ill. 60606.

Feb. 28-March 4: Total Loss Control Management sponsored by International Safety Academy Conference in Houston, Tex. Course II, Advanced Safety Management, teaches the latest concepts and practices for experienced loss control managers. Tuition: \$400. Also offered March 14-18. Contact: International Safety Academy, P.O. Box 19600, 10575 Katy Freeway, Houston, Tex. 77024.

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# riskWatch

By MARIE KRAKOWIECKI

## Wisconsin shows the way using student risk managers

1970 WAS A PAINFUL year to be in college. Vietnam protests erupted in the springtime horror of Kent State. By August a bubble of the same caustic unrest burst at the University of Wisconsin when activists bombed a building where army supported research was being done. Bitterness was the order of the day and it seemed unlikely that new careers might be nurtured in that summer of our discontent.

But an unusual risk management training program was in quiet effect throughout the tumult, and undergraduate business student Gary Bausom got his first taste of risk management when he coordinated loss settlements after the bombing of Sterling Hall at the University of Wisconsin.

He was one of a string of students at the business school receiving their first professional breaks as trainees in the remarkable program William Hustedt established in the mid 1960s. It is remarkable in the sense of an endangered species: Despite the eminent good sense it demonstrates, the program is one of very few of its kind anywhere. The program was briefly mentioned in an earlier column. But it deserves further comment because it is an outstanding example of what could be done to advance the art of risk management—if anyone cared enough to bother.



Every year, with money grudgingly granted by the university, Mr. Hustedt hires a risk management student to assist him as director of risk management and staff benefits for the university's 13-campus system. The students are given specific project assignments to perform as professionals. Pay is about what they could earn in a more common part time job like bartending, but the career rewards are the real plum of the arrangement.

A trainee coming through the program usually escapes the limbo that awaits most new graduates who have to put in a requisite number of years at an unwanted job in an insurance company or brokerage firm before landing a real risk management job. Mr. Hustedt estimates his trainees cut anywhere from two to five years off their career climb.

Past trainees think this estimate is modest. Gary Bausom at 28 is starting his third corporate job after holding good risk management positions at Allis Chalmers and Transamerica. He credits the training program with giving him an "outstanding" boost professionally.

Equally enthusiastic is Dennis Brescoll, 25, assistant risk manager for the state of Wisconsin. As a trainee, he used his thesis on self-insurance to help the university in its own transition to self-insurance. His work attracted the attention of the state, landed him his job and was instrumental in getting the state of Wisconsin to go self-insured.

Despite his program's good record, Bill Hustedt is discouraged about its limited scope. He now has two student trainees, but can usually afford to hire only one. In 1974, the university tried to kill the program completely by cutting its budget, he said.

The program would have been scrapped except for the efforts of risk management professor Dan Anderson, who fought hard to save it, Mr. Hustedt recalls. Dr. Anderson says the training program is a valuable tool in helping place his students. He and others like him want to see more training program activity both at the university and corporate levels.

Some professors, like Dr. E. J. Leverett of the University of Georgia, use their personal contacts to get students placed as interns or trainees in companies on work study programs. Dr. Leverett helped place students in risk management departments of firms like Gold Kist Inc. and Super Value Stores during summer months. Robert Rich, Gold Kist's director of risk management and insurance, has hired several such trainees from Dr. Leverett.

People familiar with the student trainee approach to risk management are enthusiastic about its merits, with the possible exception of one actual trainee. She reportedly decided against the idea of risk management, choosing law school after reading an article in this magazine about the lack of opportunities for new risk managers.

If more companies would hire risk managers on a trainee basis directly from college instead of insisting they become glorified insurance clerks first, there might not be such a waste. It's an idea whose time has come.

## Insurer enters malpractice field providing hospital buffer layers

CHICAGO—Bercanus, an excess insurance company domiciled in Bermuda, has entered the medical malpractice field by providing hospitals with buffer layers between their primary and excess coverage.

Bercanus (which stands for Bermuda, Canada, U.S.) has \$1.02 million in capital and surplus. Day-to-day operations are handled by Neill Portermain, who works through International Underwriters in Dallas.

The company is one of the few insurers willing to provide buffer layers of liability coverage to hospitals, Mr. Portermain said. Several brokers agreed Bercanus was filling an important void in the market.

The company had coverage involving \$3.5 million in premiums in force at the end of 1976. It is committed to coverage involving \$3.5 million in premiums for 1977, according to Mr. Portermain.

The four principals in the company are Stewart Mount, executive secretary of the Nebraska Hospital Assn. in Lincoln and a member of Lloyd's of London; Stuart Struck, the founder of Dairyland Insurance Co. in Madison, Wis., one of the first substandard auto insurance underwriters; Mr. Portermain, a former actuary with the Berkley Co., who spent three years working in insurance with ITT in London; and Daniel Nordstrom, a broker specializing in hospital insurance with Alexander & Alexander in Lincoln. Mr. Nordstrom however, was killed in an airplane accident earlier in January.

The four principals formed a holding company, United Nebraska Investors, which is registered in Nebraska and owns Bercanus.

Hospitals are usually able to find some primary coverage, but are unable to obtain enough coverage to reach the lower limits of the excess market, Mr. Portermain said.

For example, a hospital may be able to obtain \$300,000 of primary coverage from one of the major malpractice underwriters. An excess insurer may be willing to provide coverage of losses from \$1 million to \$2 million. Thus the hospital must find a \$700,000 buffer layer between the primary and excess coverage.

Mr. Struck bought Bercanus seven years ago as a shell, awaiting a good opportunity to enter the insurance market. Early in 1976 the principals decided to enter the malpractice area as well as provide similar buffers for hard to obtain product liability insurance.

With the higher rates now in effect, without the longtails of outstanding claims troubling other insurers and with the better job the health professionals are doing of policing their areas, Mr. Mount explained, the company saw an ideal opportunity in the malpractice area.

## A&A buys Ohio agency

NEW YORK—Alexander & Alexander has acquired the Columbus, Ohio, brokerage firm of Turner & Shepard through a merger. The move is contingent upon a favorable ruling from the Internal Revenue Service.

Under the merger, A&A's Ohio corporation, Alexander Life Agency of Ohio, will merge into Turner & Shepard, with the Columbus agency as the surviving corporation.

"Rather than saying no to underwriting a class of business that seems to be insurable," Mr. Mount said, "we decided to do something about it."

All Bercanus policies are on a claims-made basis, allowing the possibility of rate reductions if the cost of claims is less than anticipated, Mr. Struck said.

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Gundersen moves to cancer unit

A former advertising agency vp was named director of insurance at Memorial Sloan-Kettering Cancer Center in New York. **Jon R. Gundersen**, 42, formerly a vp at the J. Walter Thompson advertising agency, was hired after seven-months search to fill the newly created position. Mr. Gundersen is responsible for the entire property, casualty and employee benefit programs for Sloan-Kettering, one of the world's largest private cancer treatment and research centers in the U.S. He reported to the vp of finance. At J. Walter Thompson, he was responsible for corporate insurance and employee benefits. His duties there will be divided among other personnel and no one will be named to replace him, Mr. Gundersen said.

**Louis Mongeluzzi**, 37, was named assistant director of insurance at Great Atlantic & Pacific Tea Co. (A&P) in Montvale, N.J., a newly created position. He reports to Richard V. Porett, director of insurance, who was Mr. Mongeluzzi's former superior at Eastern Airlines. Mr. Porett left Eastern in February 1976 and Mr. Mongeluzzi later that same year. At A&P Mr. Mongeluzzi will be involved in all aspects of corporate insurance, employee benefits and safety programs.

**Bruce L. Fowler**, 40, was named risk manager on the corporate staff of ATO Inc., a diversified international corporation in Willoughby, Ohio. He will be responsible for planning and administering the company's insurance safety, em-

ploye benefit and retirement programs. Mr. Fowler was formerly vp Rollings Burdick Hunter Agency of Ohio brokerage firm. He reports to Richard W. Peterson, vp.

**John Shankey**, 45, was named corporate manager of insurance and claims at Kroger Co. in Cincinnati. Mr. Shankey, formerly with Pneumo Corp. in Boston, will be responsible for placing corporate insurance coverages and dealings with insurance claims departments. He will report to Stanley Schrotell, director of risk management. Mr. Shankey replaces **Richard P. Wilber**, 35, who joined LaMair-Mulock-Condon Co. brokerage firm in Des Moines.

**Dennis F. McGovern**, 32, was appointed insurance manager for Gold Kist Inc. in Atlanta. Mr. McGovern, formerly insurance manager for Colonial Stores Inc., will be responsible for risk management of Agri-Services Affiliated Assn. He reports to Robert E. Rich, director of risk management. Mr. McGovern replaces David Bass, now with C&S Bank.

**Robert E. Meyer**, 40, joined Ethyl Corp. in Richmond, Va., as assistant insurance manager. Mr. Meyer assists in operating the company's property/casualty program both in the United States and abroad. He was formerly corporate risk administrator at Becton Dickinson in Rutherford, N. J. He reports to Edwin L. Tomlinson, insurance manager.

**Norman G. Lang**, 46, was appointed corporate risk manager at Indian Head, Inc. in New York, diversified container, industrial and automotive parts company. Mr. Lang, who has worked in the insurance departments of General Cigar and PPG Industries, will be responsible for the property/casualty, safety and loss control programs. He reports to Ralph S. Brown Jr., vp and treasurer. Mr. Lang's position had been reorganized and was vacant for over a year.

around the states

Michigan workers' comp fund put under supervision of commissioner

*Around the States, a new column in Business Insurance, will keep risk managers and employee benefits managers informed of recent legislation, court rulings and other developments in state governments.*

**LANSING**—Attorney General Frank Kelley ruled that the State Accident Fund is a state agency that must be supervised by the state insurance commissioner. The impact of the complicated ruling is to bring the fund under tighter supervision by the legislature and the governor. The fund, with current assets of \$70 million, was set up in 1912 to write workmen's compensation insurance when it was unavailable through regular commercial channels. The fund now writes coverage for 11,000 companies and also administers payments through the state's self-insurance apparatus.

**SACRAMENTO**—A California law that took effect Jan. 1 makes 150,000 women eligible for up to \$714 in state disability insurance benefits to cover normal pregnancies. Abnormal pregnancies have been covered for several years. The cost of the new benefits, estimated at \$65 million a year, will be covered by increased disability insurance contributions among workers earning more than \$9,000 a year.

**ANNA-POLIS**—Maryland Blue Cross agreed to give \$50,000 to the state health services cost review commission to speed up the agency's regulation of hospital rates. The state funded commission, which has set rates for 30 of Maryland's 51 general hospitals since its creation last year, plans to use the extra money to hire an outside accounting firm to augment its staff. With the help of the outside firm, the commission staff believes it can complete initial rate regulation of all Maryland hospitals by April.

**LANSING**—Gov. William Milliken of Michigan signed legislation sweetening retirement benefits for the state's public school teachers. The measure, estimated to cost the state \$10.6 million in 1977 and \$18.6 million in 1978, provides cost of living increases to retirees and allows former servicemen to "buy" their military years and add to their retirement years. Actuaries project the change will add \$228 million to the school fund's unfunded accrued liability, bringing it to a total of \$2.3 billion.

**COLUMBUS**—The Ohio Supreme Court upheld a steelhailer's right to make a personal injury claim for driving his rig into an unlighted, unmarked hole on a state highway. Eight years ago the driver sued Goff Kirby Co., the contractor repairing the road, but a trial court held that the driver was negligent for failing to maintain "assured clear distance" and colliding with a discernible object. An appeals court reversed the judgment in favor of the driver, and the state Supreme Court agreed that "the discernibility of the hole was a question for the jury."

**SACRAMENTO**—The state of California filed a civil suit against a prepaid health plan, charging that company officers illegally diverted \$2.4 million to their own uses. Gov. Edmund G. Brown Jr.

announced the filing of the suit in Los Angeles County Superior Court against Omni-Rx Health Care Inc. The governor said the suit was "the first of its kind in the country to probe into the inner workings of a PHP..."

**FRANKFORT**—A new Kentucky law allows health maintenance organizations to be considered as an alternative to group hospitalization insurance coverage for state and local government employees. The legislation, approved by a special session of the Kentucky General Assembly, will take effect without the signature of Governor Julian Carroll. Bills not vetoed by the governor automatically become law in 90 days.

**MADISON**—The Wisconsin attorney general's office was asked to investigate claims of fraudulent statistical reporting by Blue Cross

and Blue Shield. The request was made by state senator James Sensenbrenner, who said a correct statistical report of Medicaid claims was necessary to meet possible claims of overpayment by the state and federal governments.

**JEFFERSON CITY**—The Missouri Supreme Court ruled public employees do not have the right to strike—and that any agreements reached between public bodies and their workers as a result of a strike are null and void. The ruling came in a case filed by the St. Louis Teachers Assn. against the St. Louis Board of Education. The teachers group sought to force the board to implement a 1973 agreement reached after a strike. "The court finds that the agreement was clearly produced by the teachers' illegal strike..." the ruling said. "Therefore the agreement was void..."

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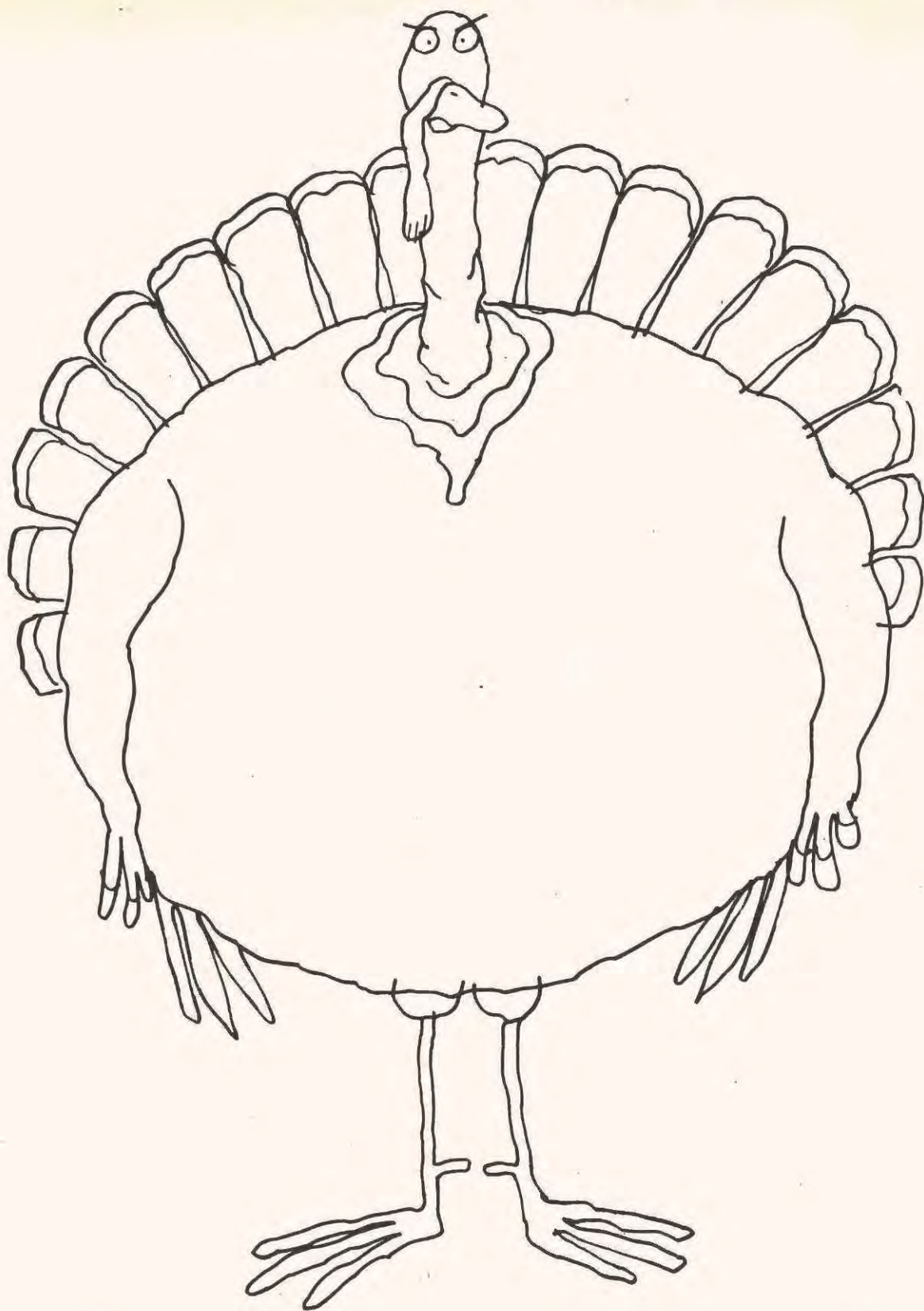
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