

business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

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ABC purchasing coverage for 1984 Olympic broadcast

NEW YORK—ABC-TV is purchasing \$200 million of insurance to protect its \$225 million investment for the broadcast rights for the 1984 Summer Olympics.

The coverage is furnished in a unique package, at least 75% of which is underwritten by Fireman's Fund Insurance Cos. The balance is written by about a dozen other insurers.

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Rapport with workers sparks comp success at Lockheed unit

By RHONDA L. RUNDLE

BURBANK, Calif.—Jack L. Bush, Lockheed-California Co.'s risk manager, could write a book about workers compensation. But he sums up his message in a sentence: "Success depends upon good rapport with your employees."

"As soon as we hear of an accident, we're out there talking to people, finding out what happened, showing that we care."

That's the advantage of self-administering workers compensation benefits, Mr. Bush explains.

"I think there is no point at all to self-insure unless you are going to administer your own claims," he declares with evangelistic zeal. The administrator's good relationship with employees speeds up



claims settlement, contains workers' demands and reduces litigation.

Lockheed-California is one of 13 operating companies of Lockheed Corp., an industrial giant with annual sales of more than \$5 billion. The California affiliate with 19,300 employees has self-funded and administered workers compensation since April 1, 1977.

Mr. Bush likes to talk about fast, fair and equitable handling of claims, rather than costs.

"We don't like to talk cost savings because we figure if we do our jobs right, the rest will take care of itself."

But the success of his program also can be measured in dollars and cents. Lockheed spends about half of

what it would have to pay for workers compensation insurance, he calculates. And that includes \$400,000 a year in administrative expenses for everything from salaries to supplies to office space.

"We know what commercial insurance would cost based on the job classifications of our workforce and our experience modification factor," says Mr. Bush. "Then we add in a typical insurer's retention for claims administration, taxes and profit."

There's another factor in the cost savings: the time value of money. "That's awfully important today," Mr. Bush stresses. Workers compensation benefits by their very nature are stretched out, sometimes over many years. "In the meantime, we have the use of that money."

Back injuries are responsible for a large percentage of Lockheed's workers compensation claims. There also are falls from ladders and scaffolding used to construct Lockheed's wide-bodied L-1011 Tristar, a jumbo jet that stands high above the ground.

Since 1977, the company has handled 12,000 claims at the rate of about 2,500 a year.

"We see a lot of knee and elbow injuries," notes Lockheed-California.

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Insurers cut comp rates in competitive Kentucky

By BETSY SHARKEY

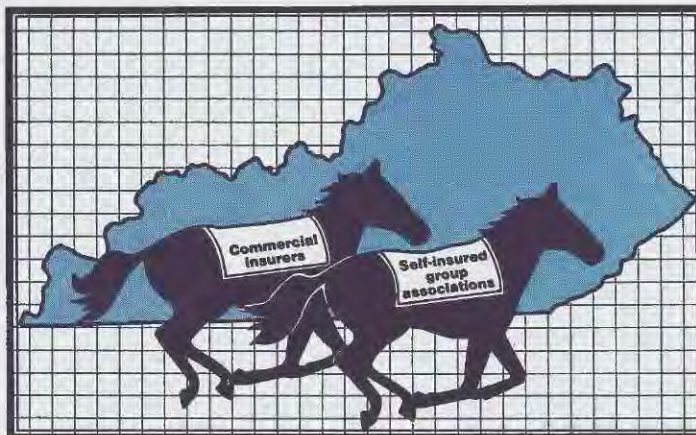
FRANKFORT, Ky.—Kentucky employers shopping for workers compensation insurance are finding lower rates and more options in an intensely competitive market fueled by the state's new open rating law.

In the first six months since the legislation was enacted, employers have watched workers compensation insurance rates drop by as much as 40%. One-fourth of the state's 214 commercial workers compensation insurers are filing rates that discount the previous standard rates 15% to 40%.

With more than \$200 million in workers compensation premiums up for grabs, the number of insurers offering lower rates is growing daily, inundating the state Insurance Department with a steady stream of new filings.

Additionally, since 1978 when the state first allowed self-insurance groups to form, nearly 25% of the employers in the state have turned to self-insurance group associations to escape the fixed rating structure used by commercial insurers.

Now the self-insurance group associations are finding themselves a highly visible target for commercial insurance markets hungry for new business and no longer allowed to use the National Council on Compensation Insurance rates in their bids for new business.



Graphic: Amy Palmer

Robert Haner, vp and head of broker Marsh & McLennan Inc.'s Louisville office, predicts that Kentucky employers will realize at least a 25% savings from their previous year's work comp cost as a result of the competition open rating is generating.

That prediction seems to match early assessments by many Kentucky employers.

"I have talked to a number of employers, many of whom a year ago were talking of leaving Kentucky because of the high workers compensation rates, and as far as I know they have no intention of leaving now," said Robert E. Bohan, personnel director for Lexington-based Kentucky Finance Co., which operates 75 offices throughout

the commonwealth. "We haven't been through a review of our workers comp coverage yet, but we're looking at it and everything indicates that our rates should go down."

The new law establishes a "use-and-file" system, which allows insurers to establish their own rating formula or to use the NCCI standard rate for Kentucky and adjust that rate by paring down the expense factors while maintaining the pure loss component.

During the early phases of the new system, the Insurance Department is finding that most companies are using the NCCI rate as a base rate, then modifying or

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Risk managers expecting fewer rate reductions in '83

By KATHRYN J. MCINTYRE

Risk managers predict 1983 will bring an end to insurance rate reductions, more pressure from their management to control costs and perhaps an insolvency of a major insurance company.

They are worried about increases in the cost of their property/casualty insurance, the continuing increase in the cost of health care, the strength of their safety programs, the cost of workers compensation claims and the threat of budget reductions.

In the face of such problems, risk managers are setting as their principal goals for 1983 more effective loss-control and cost-control programs, exploring or expanding self-retention of risk and computerizing loss

information. Some want a hand in employee benefits.

While a few risk managers are concerned about the security of their jobs in a depressed economy, most risk managers say their profession will grow in importance and professionalism during 1983.

These are the highlights of the results of the first survey of the newly reconstituted Business Insurance Risk Management Board, a group of corporate insurance and risk managers who have volunteered to respond to four surveys during 1983. The new board for 1983 includes 41 risk managers from companies large and small, from government entities and from not-for-profit institutions.

These risk managers shared their predictions for the coming year concerning risk management and the commercial insurance business. They also described their biggest problems in 1983 as they see them now.

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on new CGL policy
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New year brings
new benefit plan designs
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UPDATE

ABC purchases Olympic cover

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"This is not a revenue cover," says Stephen N. Brett, an executive in the excess and special risks department at Fireman's Fund in Novato, Calif. "We are only protecting the insured's outlays."

Those outlays, he added, include the \$225 million paid to the Los Angeles Olympic Organizing Committee in late 1979 for broadcast rights and production and support services, plus ABC's own production costs, which Mr. Brett says the network considers proprietary.

ABC has said it expects to earn at least \$615 million in advertising revenue for 207½ hours of Olympic coverage.

"You're talking huge sums of money and a very limited market," says Henry Marcelle, a vp at Johnson & Higgins of New York, ABC's primary broker. "It's been 2½ years aborning and it was wrapped up recently."

ABC refused to comment on the reports it paid \$8 million for the coverage. NBC-TV paid \$4 million to \$5 million for about \$90 million of coverage for its attempt to broadcast the 1980 Olympics.

Lloyd's of London and U.S. underwriters paid a \$76.5 million claim to NBC after the network aborted its coverage of the Moscow games. The decision came after the United States withdrew from the competition to protest the Soviet invasion of Afghanistan (BI, Jan. 14, 1980; May 31, 1982).

The ABC package, backed by 30 to 40 reinsurers in the United States and London, took about six months to complete. It was completed with the assistance of broker Albert G. Ruben & Co. Inc. of Beverly Hills, Calif., a subsidiary of Alexander & Alexander Services Inc. The package is now within a couple of million dollars of being fully subscribed.

Under the policy, Mr. Brett says, Fireman's Fund guarantees ABC its payments to the Los Angeles committee and production costs up to \$200 million if ABC does not broadcast the game as a result of any of several named perils.

Among the named perils are outright cancellation of the games for any reason or their postponement beyond Dec. 31, 1984. Other named events in the policy include war risk, earthquake, riot, boycott, labor dispute or technical problems with satellite or other transmissions.

Finally, "an event of national importance" triggering pre-emption of the Olympic coverage, like the death of a president, would trigger coverage.

A separate \$75 million limit on the policy would reimburse ABC for any losses it sustains if it does broadcast the games but is forced, because of low ratings, to grant rebates to advertisers. Two key perils that would apply to this coverage are the withdrawal of a key nation or what the policy terms a "critical change" in the format of the games that affects viewer interest.

Airline to terminate pension plan

LOS ANGELES—Western Airlines Inc. says it will terminate a defined benefit pension plan covering the airline's pilots so it can recover excess plan assets.

Western says pilots will not lose any benefits because of the termination of the plan, which has 1,628 participants, including 213 retirees. The airline will continue to offer the pilots a defined contribution retirement plan.

Because the plan has more assets than liabilities, the termination will not add any new liabilities to the Pension Benefit Guaranty Corp., the federal agency that insures workers' pensions. Western told the PBGC it wants to terminate the plan because of economic hardship caused by deregulation of commercial aviation.

Lloyd's questions brokers

LONDON—Lloyd's of London is asking 17 Lloyd's brokers about their involvement with Kenilworth Insurance Co. (BI, Dec. 6).

Lloyd's informal inquiry follows a report by the Illinois Insurance Department that said Lloyd's brokers placed reinsurance with Kenilworth before it was liquidated in April 1982. The brokers named in the report include Alexander Howden Group P.L.C., which says that five former directors misappropriated \$56 million, largely through the placement of reinsurance.

Lloyd's may not be able to take any action against the brokers if irregularities are found, a Lloyd's spokesman says. Lloyd's has no jurisdiction over Lloyd's brokers when they place business with underwriters other than Lloyd's syndicates unless it affects the syndicates' reinsurance. The spokesman says he does not believe much business was placed by Lloyd's syndicates with Kenilworth.

In another investigation, Lloyd's has allowed syndicates managed by W.M.D. Underwriting Agencies Ltd. to begin underwriting again. The agency's syndicates were recently barred because one of its underwriters was accused of having secret personal interests in the syndicates' reinsurance arrangements (BI, Dec. 13).

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'First-discovery' trigger no longer in CGL draft

By BILL DENSMORE

NEW YORK—The Insurance Services Office, reacting to a buzzsaw of opposition from buyers and brokers, is dropping, for now, plans for a "first-discovery" comprehensive general liability policy form.

"The consensus now is that the basic occurrence form, modernized and simplified, will continue to be offered," says Paul F. Jurgens, a vp and chief underwriter for standard commercial casualty lines at the Hartford Insurance Group in Hartford, Conn. "At the same time, a new pure claims-made form will be developed."

Mr. Jurgens, who chairs the outgoing ISO executive committee, says the first-discovery proposal "is on the shelf completely."

"That's a concept that's relatively difficult to handle

in the first place," he added in an interview.

ISO's executive committee has decided to update both the present claims-made and occurrence forms and let buyers and brokers decide which they prefer, says Roger A. Quigley, vp-casualty underwriting at Crum & Forster Underwriters Group, a subsidiary of Crum & Forster.

The first-discovery trigger idea "was a washout," according to Mr. Quigley. "Most of us in the company felt that moving forward on a single form without industrywide support would be a disaster."

ISO unveiled in July draft proposals for two rewrites of the 1973 CGL forms now in wide use (BI, July 12). ISO invited comments from brokers and insurance buyers, who responded that the new forms would hurt policyholders (BI, Oct. 25).

Coverage under one form would have been triggered by any claims made during the policy period. Under the alternate form, coverage would be triggered by injuries "first-discovered" and documented during the policy period. Both forms contained provisions for a definite aggregate limit.

The first-discovery trigger was to be a major weapon in the insurers' battle against potential billion-dollar, long-term losses from unknown new product risks and latent injuries.

For example, suppose an insurer wrote a "first-discovery" policy. *Continued on page 23*

Directory deadline

The annual *Business Insurance* directory of risk management consultants will be published Feb. 21. The deadline to return your completed questionnaire is Jan. 18. If you are a risk management consultant and have not yet received a questionnaire, call Sallie Drury at 312-649-5398.

Tampon maker ordered to pay \$10.5 million

By STEPHEN TARNOFF

SAN JOSE, Calif.—A tampon manufacturer ordered to pay \$10.5 million to a Los Gatos, Calif., woman who says she contracted toxic shock syndrome in 1980 could have settled the case for \$55,000, a plaintiff's attorney says.

Johnson & Johnson of New Brunswick, N.J., whose Johnson & Johnson Products Inc. subsidiary made O.B. Tampons in 1980, also refused a \$150,000 settlement offer and went to trial instead, says Robert P. Fisher, an attorney for plaintiff Lynnette West.

A Santa Clara County Superior Court jury Dec. 22 awarded Ms. West what is believed to be the largest amount ever in a toxic shock syndrome case: \$500,000 in compensatory and \$10 million in punitive damages.

The first toxic shock syndrome trial in California, the case is also believed to be the first in which punitive damages have been awarded.

Since punitive damages are not insurable in California, Johnson & Johnson will probably have to pay

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Congress delays truck cover deadline

By JERRY GEISEL

WASHINGTON—Truckers will get additional time to purchase more liability insurance.

Congress, on the last day of its legislative calendar, agreed to delay higher liability insurance requirements for motor carriers that were to go into effect July 1.

As part of the legislation raising the gasoline tax by 5 cents a gallon, Congress agreed to delay the higher liability limits until Jan. 1, 1985.

That 18-month reprieve delays the second stage of insurance requirements in the Motor Carrier Act of 1980.

Under that federal law, which deregulated the trucking industry, motor carriers that haul non-hazardous cargoes, like furniture, and hazardous cargo had to have \$500,000 of liability insurance by July 1, 1981, and carriers of very hazardous cargo, like liquified compressed gas, had to have \$1 million in insurance.

Then, by July 1 of this year, carriers of non-hazardous cargo were to have \$750,000 in coverage, carriers of hazardous substances were to buy \$1 million and carriers of very hazardous substances were to have \$5 million.

Delaying these higher limits is especially good news for small owner-operators. Insurance brokers earlier warned that the cost of purchasing higher limits of insurance could be prohibitive (BI, Sept. 13, 1982).

The delay, however, doesn't go as far as the Transportation Department wanted.

The department had urged Congress to give it the authority to set lower liability limits for any class of vehicles if the lower limit didn't "adversely affect public safety."

But Congress rejected that proposal because the issue had not been *Continued on page 8*

Captive industry reaching 'maturity,' consultants say

By LAURENCE H. GROSS

NASSAU, Bahamas—The growth of new captive insurance companies is slowing, but the industry is maturing into new forms, industry consultants say.

D. Hugh Rosenbaum, a vp at Risk Planning Group Inc. of Darien, Conn., said some 40% fewer captive companies were formed worldwide last year than were organized in 1981, one indication that the captive industry is indeed maturing.

"The second wave is upon us," Mr. Rosenbaum says. "The development of captive insurance companies will parallel closely the development of the insurance industry anywhere."

Speaking to about 80 people at a Risk Planning Group conference held last month in Nassau, Mr. Rosenbaum said captive insurers are moving away from serving solely as a profit center and tax shelter for their parents.

"The honeymoon phase of pretax profits from 50% to 100% of invested capital is tapering off," said Mr. Ro-

senbaum.

"As profits fall to 20% or 25%, the parent company will (re-evaluate) what the captive ought to be doing. The risk manager needs to try to capitalize on (investment returns from the captive) without being tempted to go into the regular insurance business."

Mr. Rosenbaum views the development of captive insurance companies as a three-tier process.

In the first stage, which takes from three to five years, the parent company earns spectacular rates of return on invested capital, ranging from 50% to more than 100% per year.

But as the business matures in the second phase, the rate of return declines to more modest levels in the 20% to 30% range, Mr. Rosenbaum said. At this point, the parent company's management begins to examine the captive's operations, and the captive may become involved in outside investing to increase its rate of return.

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New year starts with new benefit plans

SCM Corp redesigns program in record-setting time

By DOUGLAS McLEOD

NEW YORK—A benefit plan affecting 10,000 employees can be massively redesigned in less than six months with management's blessing. At least, that's the record set at SCM Corp.

Last April, New York-based SCM, the diversified manufacturer of Glidden paints, Smith Corona typewriters and other products, decided it had to do something to contain the health care costs of its 10,000 salaried employees. It decided that it would make employees bear more of their own health care costs.

By September, five months later, the company had reviewed its situation with Hewitt Associates, the Lincolnshire, Ill., benefits consulting firm, and had decided on a new plan design.

By mid-November, working with broker Johnson & Higgins, it had launched a communications drive to inform employees of the new plan.

And, on Jan. 1—only nine months after SCM decided to change its benefits program—the new plan was up and running.

SCM executives, from the company's chairman to division employee relations directors, were involved throughout the revision process, according to Joseph W. Duva, director of employee benefits and compensation.

"We had everyone involved all the time," Mr. Duva said, adding that top management had been advised of health care cost-containment problems from the beginning.

"Management bought on early" to the need for changes in the design of the plan, he said.

The overhaul began in April when Mr. Duva and James Balph, vp for employee relations, organized a task force of SCM employee relations directors to examine the company's "health care cost crisis."

That task force concluded in May that SCM should redesign its benefits program to:

- Combine the two plans then in force into one uniform program.
- Slow the rate of health care cost increases by providing for more employee cost-sharing.
- Take advantage of the employee tax savings opportunities offered by Section 401(k) of the Internal Revenue Code.

Hewitt Associates was then hired to redesign the plan and by September had submitted a proposal.

In subsequent discussions of the proposal by the divisional employee relations directors and corporate directors, only one trouble spot emerged, according to Mr. Duva.

The original Hewitt proposal called for no first-dollar

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NCR uses dental coverage to tempt workers to share costs

By JAMES C. LAWSON

DAYTON, Ohio.—NCR Corp. is using a dental insurance program to tempt its employees to share more of their health benefit costs.

And, to help employees control these expenses, the Dayton-based manufacturer of cash registers and other business equipment is adding coverage for several alternative health care services.

Under the new program that goes into effect this week, NCR employees who opt to pay a higher deductible and follow a higher co-payment schedule are rewarded with a dental plan that pays about 60% of costs.

But, employees who prefer to keep deductibles and co-payments to a minimum can have it that way, too, by sacrificing the dental coverage.

Regardless of which plan employees choose, for the first time they will be paying part of their hospitalization and surgical costs.

NCR, which self-insures its benefits program, formerly provided first-dollar coverage for a semiprivate hospital room and all reasonable and customary hospital and surgical costs. The plan also covered 80% of major medical costs after a \$100 individual deductible or a \$250 family deductible.

Now, under the medical/dental benefits plan, employees will pay a \$300 annual deductible for single coverage and \$750 for family coverage for hospital, surgical and major medical expenses. Employees will also pay 20% of all costs above the deductible up to \$1,000 per individual or \$2,500 for a family. Beyond these limits, NCR pays 100%.

The former plan did not cap costs until an individual had paid \$1,500 or a family paid \$5,000.

The dental plan pays 50% to 70% of most dental care costs up to an annual maximum of \$600, after a \$25 deductible.

Pre-authorization is required for treatments that cost more than \$300.

Employees who opt for the low-cost plan without dental coverage will pay a \$100 annual individual deductible or \$250 for a family and only pay 10% of costs above that. Their out-of-the-pocket expenses also will be capped at \$1,000 per individual and \$2,500 for a family.

Covered charges under both plans include 365 days of room and board in a semiprivate hospital room, up to six months of inpatient service following a medical emergency, in-hospital physician services, surgery, anesthesia, radiation therapy, extended care facilities, laboratory and X-ray, chemotherapy and office visits.

Other covered services include physical therapy, prosthetic appliances, ambulance services, accidental dental

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With the new year come new benefit plan designs. While each of the companies highlighted here is approaching its redesign in a different way, cost containment and making employees conscious of health care costs are among common goals.

Graphic: Jim Bakasetas

Chemical Bank employees can tap account to pay medical expenses

By JAMES C. LAWSON

NEW YORK—Chemical New York Corp., the parent of Chemical Bank, is opening special accounts for its employees to help them pay for medical and other benefit expenditures.

Chemical, the nation's sixth-largest bank holding company with assets of more than \$40 billion, will deposit \$300, plus 50% of the company's contributions to its profit-sharing plan, into the employees' accounts on Jan. 1.

Employees will be able to tap their "Employee Spending Accounts" to pay for medical expenditures, including health insurance premiums and deductibles, as well

as several benefits that are being offered by Chemical for the first time, including a dental plan and a survivor income plan.

The accounts can also be used to pay for certain legal and dependent child-care expenses.

The Chemical program, which was on the drawing board for some 18 months, is intended to allow employees to finance the expenditures with pretax dollars rather than final pay, explains Andrew G. Spohn, a senior vp and director of corporate benefits in Chemical's human resources division.

The Employee Spending Account program, Mr. Spohn explains, offers employees more flexibility in the selection of additional benefits while still allowing them to accrue interest on profit-sharing contributions. He

adds that the plan will also make employees more conscious of the cost of benefits.

"The program provides employees an option," notes Mr. Spohn. "It also encourages employees whose spouses work to coordinate the benefits between the two plans."

The program resembles a cafeteria benefits plan, which allows an employee to use credits to purchase additional benefits, Mr. Spohn explains. But, the Chemical plan is different from many flexible plans because it doesn't restrict the number of benefits an employee can choose. In most cafeteria plans, he notes, employees must forego some benefits to obtain others.

About 20,000 of Chemical's U.S. employees who have one year of service with the company are eligible for the plan, he says.

The amount an employee will have deposited in his account will depend on his salary and the level of corporate profit-sharing contributions. Recently, that contribution has been equal to about 10% of an employee's annual salary.

For example, using the 10% contribution figure, an employee earning \$15,000 a year could expect to have about \$1,050 deposited in his ESA: the \$300 bonus, plus \$750 or half of the company's \$1,500 profit-sharing contribution.

If an employee does not spend the entire account by the end of a year, the unused

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Du Pont builds cost containment into optional self-insured health plan

By MARGARET LeROUX

WILMINGTON, Del.—After testing the waters in Texas, E.I. du Pont de Nemours & Co. will offer many of its employees and retirees a choice of self-insured health plans this year.

The goal is to hold down medical costs increases, and Du Pont is counting on its employees to opt for the plan that stresses cost containment.

Individual Du Pont plants have the option of converting to the new self-insured program or keeping their current Blue Cross/Blue Shield Assn. plan.

If the plant does adopt the new self-insured program, called the Medical Care Assistance Plan, employees will have a choice of two different health plans: Option I, which is very similar to the current BC/BS plans, and Option II, which offers more coverage but stresses cost containment.

Option I covers 80% of all hospital, surgical and major medical expenses over a \$100 to \$200 individual or \$200 to \$400 family deductible. However, under this plan, there is no cap on how much an employee might have to pay for medical expenses in a year.

William C. Deans, manager-health care benefits, said that deductibles under the BC/BS plan varied from site to site but were many times less than the deductibles in the self-insured plan.

Employees must pay from \$2 to \$20 per

month toward the premium for individual coverage, depending upon the worksite. Family premium contributions range from \$10 to \$50 per month.

Under Option II, the cost containment plan, employees do not have to contribute toward the premium. Deductibles are the same as in the Option I program. However, Option II limits an employee's out-of-pocket medical expenses to \$1,000 a year for individual coverage and \$2,000 a year for family coverage.

The comprehensive plan pays 90% of all hospital and surgical costs, but it pays 95% of these costs if an employee receives a second opinion before undergoing surgery or undergoes pre-admission testing before checking into the hospital.

In addition, the plan pays 80% of all professional services like medical examinations. However, it will pay 100% of the cost of outpatient procedures, home health care, hospice care and birthing clinics to encourage employees to use these less costly forms of care.

"The program has the opportunity to influence the way people seek health care," Mr. Deans said. "Studies have shown if you can get people to share the costs, to use outpatient services, they become smarter consumers of health services."

Du Pont expects that the cost-containment provisions of the comprehensive plan will attract about half of the eligible employees.

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Rejecting settlement may cost J&J \$10 million

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\$10 million if the judgment stands.

Johnson & Johnson will file a motion for a new trial and, if unsuccessful, appeal the verdict, its attorneys say.

Although it declined to discuss its insurance, the company is believed to be at least partially self-insured, according to an attorney involved in the litigation.

"We were offered zero," said plaintiff's attorney Mr. Fisher of the San Jose firm of Glaspy, Elliott, Creech, McMahon & Reed. "It was a miscalculation on their part."

Noting that his firm mainly represents defendants, Mr. Fisher emphasized it approached settling the case in reasonable manner.

"It was not an unreasonable stance. We felt we were forced to go to trial."

Mr. Fisher's firm made its original \$55,000 settlement offer in the spring of 1981, before much pretrial discovery was undertaken. "The response was zero," Mr. Fisher said.

The firm subsequently withdrew the offer and, after examining Johnson & Johnson documents, it found that the manufacturer had failed to do much microbiological testing of the product before it was marketed, Mr. Fisher said.

The manufacturer did some testing but it was "more of a cosmetic nature," he said, like testing how comfortable the tampons were.

The firm made another settlement offer shortly before the trial began for \$150,000, which Johnson & Johnson also rejected.

But, George Gore, a Johnson & Johnson attorney with the Cleve-

land firm of Arter & Hadden, disputed the contentions that the tampons were not adequately tested.

"It's ludicrous," Mr. Gore said. "The testing was far more than adequate."

The same product has been used for 25 years and is still being used, he added.

Mr. Gore called the verdict "outrageous. There's no way to rationally justify the verdict based on the evidence."

Johnson & Johnson contended that Ms. West suffered from streptococcal scarlet fever, not toxic shock syndrome. The manufacturer also argued that O.B. tampons do not cause toxic shock syndrome and that there was no defect in the product, Mr. Gore said.

"Those are the reasons we are not settling any of these cases," he

added. "There is no scientific evidence that O.B. tampons cause toxic shock syndrome."

Johnson & Johnson is believed to be defending fewer than 20 similar cases.

Johnson & Johnson attorney Charles F. Preuss of the San Francisco firm of Bronson, Bronson & McKinnon added that Ms. West's illness occurred before toxic shock syndrome had been identified as a disease.

"The verdict holds us responsible for what nobody knew or could have known," Mr. Preuss said.

He added the manufacturer was justified in not settling the case since the defense contends Ms. West did not have toxic shock syndrome and that the product is not defective. "It's easy to have 20-20

hindsight," he said.

"We feel strongly she did not have toxic shock syndrome," he added. "It was not an attractive case to settle."

Mr. Fisher, the plaintiff's attorney, said the case could have a large impact in the public's mind.

Toxic shock syndrome is usually associated with Procter & Gamble's Rely tampons instead of other brands, he said, adding that the West case shows that the disease can be caused by other types of tampons. "This will expose a lot of other manufacturers."

Defendants will likely change their approach in defending toxic shock syndrome suits, he explained, noting that "companies will be pushed into settling rather than going to trial."

While the judgment may encourage more lawsuits, claims that aren't warranted won't get very far, Mr. Fisher said, explaining that plaintiffs will still have to prove they contracted toxic shock syndrome.

"It's just not going to happen," he said. "You can't fabricate the situation."

The \$10.5 million was awarded to Ms. West by a jury of seven men and five women that deliberated for 4½ days.

Ms. West was hospitalized for a week, spending four days in the intensive care unit. She suffered from shock, kidney problems, nausea, high fever and a sharp drop in blood pressure, Mr. Fisher said.

"If she was not hospitalized she would have died," he said. Although Ms. West recovered, she suffered a less-severe recurrence of the disease in August 1980. Toxic shock syndrome victims are sometimes subject to recurrences and the long-term effects of the disease are unknown, he added.

The largest toxic shock syndrome verdict before the West case was a \$350,000 award to the family of an Iowa woman who sued Procter & Gamble Co., alleging she died from toxic shock syndrome after using a Rely tampon, Mr. Fisher said (BI, April 26).

The attorney added that Esmark Inc. agreed to a \$500,000 settlement with the family of an Oklahoma woman who died from toxic shock syndrome after using tampons manufactured by the company's International Playtex unit.

Plan could raise employers' costs

WASHINGTON—A Reagan administration proposal to set the rates that the federal Medicare program would pay for certain hospital procedures could lead to still higher health care costs for employers.

The administration's plan, sent to Congress last week, would fix the rates that Medicare would pay for patients undergoing 467 specific types of treatment.

Insurers say that if new limits are imposed on what the Medicare program will pay for eligible patients, hospitals will charge patients covered by commercial health insurers more to recover whatever costs are not picked by Medicare, thus boosting insurance rates.

"There is a need for prospective rating, but such a system must set rates for all payers, not just Medicare," said a spokeswoman for the Health Insurance Assn. of America, a Washington-based industry trade group.

"Unless everyone is treated, the cost shift (from Medicare to private payers) gets even worse," she explained.

If it
sweeps,
beeps,
rides,
slides,
hovers,
covers,
goes up,
comes down,
or just plain sits there,

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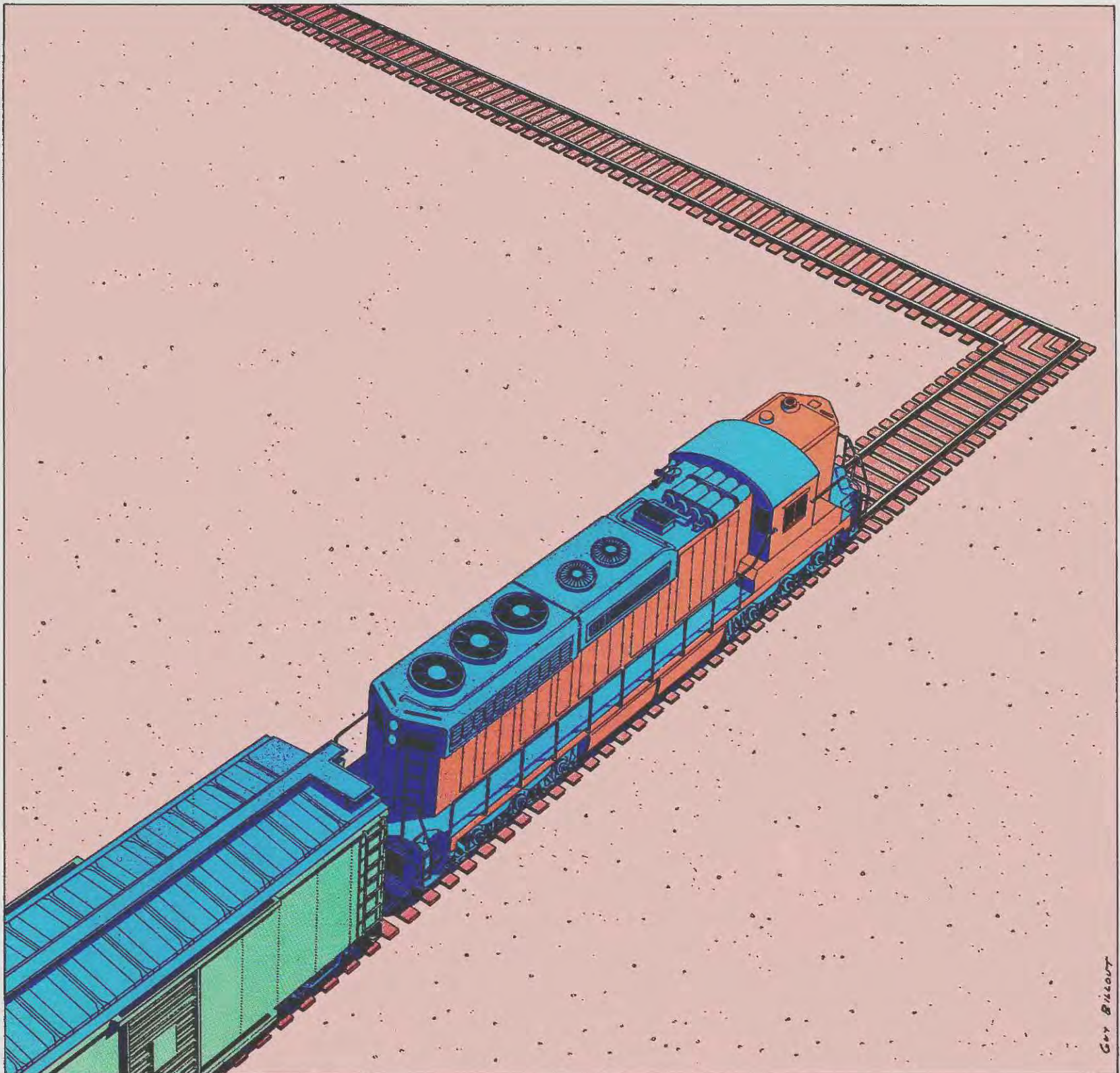


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OPINIONS

Resolve to cut health costs

IF BENEFIT MANAGERS could wish for anything at the start of the new year, it would probably be the end to rising health care costs. Even though the Consumer Price Index is now registering only moderate increases, double-digit health care inflation rages on, and a benefit manager is probably only deluding himself if he really thinks this wish will come true.

Although it's a couple of days late to be making resolutions, benefit managers whose budgets are being stretched tighter and tighter should resolve to do something. There are several courses of action to take.

First of all, you can revise your entire medical plan, like the companies we profile on page 3 of this week's issue. Although revamping a program can take time and a substantial monetary investment, three of these companies think that their new health care plans will hold health care cost hikes to a reasonable level and possibly even cut their expenditures in the long run.

You say that revising your plan would take too much time? You can learn a lesson from the benefits department at SCM Corp., which had a new plan in place just nine months after it decided to make changes.

If revamping your entire program seems too complicated, there are plenty of other things you can do. Try raising deductibles or increasing the level of employee co-payments. Even a small increase in deductibles or co-payments can mean large savings. Also, by making employees pay for a larger percentage of their medical bills, they will become smarter health care consumers, looking for alternatives to expensive treatment and questioning procedures that seem unnecessary.

Require workers to undergo pre-admission testing before they enter the hospital and require a second opinion before non-emergency surgeries. Many hospital procedures never need to be performed; find out if the treatment is necessary before you pay.

Get tough with providers and patients. Audit hospital bills and show health care providers that you will no longer pay for their billing errors. And, review suspect hospital stays. Tell your employees that you won't pay for unnecessary or overly long hospital stays.

Have you considered a wellness program? Preventing costly illnesses, like heart attacks and cancer caused by cigarette smoking, can pay off handsomely as your employees' health care utilization decreases.

Finally, talk about the problem with other benefit managers. The chances are they're just as worried and perplexed about rising health care costs as you are. If there is a health care business coalition in your area, join it. If there is not, then start a dialogue with others.

It's traditional to wish good health to others at the beginning of the new year, and *Business Insurance* does just that. We also might add that we hope that good health in 1983 doesn't cost very much more.

Commendation due

THE INSURANCE Services Office is to be commended for going back to the drawing board with its proposed new comprehensive general liability policy in response to buyers' objections (see story, page 2).

Insurance buyers and brokers also should feel a sense of satisfaction in knowing that their hard work in analyzing and critiquing the policy paid off. The comments filed with ISO changed the insurance industry's mind on pushing for the new policy in its final draft form.

Speaking of those persuasive critiques, which we published last year (*BI*, July 26), a compliment for excellence is long overdue to The Society of Chartered Property & Casualty Underwriters for its most thorough and insightful critique of the policy.

LETTERS

Money funds, banks face same risks

To the editor: In regard to "Money funds ask insurers to develop new coverage" (*BI*, Dec. 20, 1982), if a savings and loan association or a bank that is a member of the Federal Deposit Insurance Corp. goes belly up, the FDIC insures depositors up to the \$100,000 limit. General creditors go begging. The federal government, via its agencies, effectively "prints" whatever money is necessary to sustain the loss.

If a major bank goes belly up, essentially the same process occurs but the implications and repercussions are profound. Money market funds that have invested in the bank's paper are considered general creditors and could be left to go begging.

Insurers may be somewhat concerned because, in view of the debt obligations of myriad Third World countries and the attitudes of the countries, several major banks would be bankrupt today but for the gracious and understanding assurances of the federal government.

If any major bank "buys the farm," it will drag a good many other banks and surely some insurers right along with it into the "happy valley." The federal government cannot allow such a thing to happen. Rather, it will print whatever money is necessary to stave off formal insolvencies while the banks "refinance" forfeit loans (and agree not to call them that).

Investors in money market funds subject themselves to a small risk of mismanagement or dishonesty. Otherwise, vis-à-vis FDIC-insured depositors, they face the identical, very substantial risk of losing their buying power to currency inflation.

Any event that would cause the collapse of a money market fund would also leave FDIC-insured depositors wishing they had converted their paper to gold.

It's a pity that it is so self-defeating for the money funds to explain the facts that they have to create an insurance policy that allows them to skirt reality.

Edward S. Beneville Jr.
Beneville & Co.
Tustin, Calif.

Satellite reinsurance

To the editor: In recent years *Business Insurance* has devoted a number of articles to the subject of satellite insurance. As a broker who has arranged and placed satellite programs for major organizations over the last 15 years—including Comsat, Hughes Aircraft, Western Union and others—I have found your prior articles to be essentially correct and informative.

However, your article concerning satellite reinsurance (*BI*, Dec. 20) is a clear example of not "reporting" the news but attempting to "create" it.

It seems extraordinary to me that one of your reporter's major sources of information—James G. Smith, president of Constellation Reinsurance Co.—has never participated in a satellite risk.

Mr. Smith is quoted as saying, "Capacity problems probably will not arise until a loss occurs, then everyone is going to run, unfortunately."

Those of us who are familiar with satellite insurance are fully aware of the fact that losses have occurred in the past, most recently the INSAT loss referred to in the article. When interviewed for this article I advised the reporter that not one significant underwriter chose to "run" after the INSAT loss.

In handling this class of business over the years, I have learned that three of the more experienced and knowledgeable or-

ganizations are General Reinsurance Corp., Marsh & McLennan Inc. and Intec. It is unfortunate that your reporter chose to relegate their representatives' opinions to the end of the article.

I think it is accurate to say that reinsurers traditionally have been faced with the problem of inappropriate declarations to their treaties. The satellite situation is just an example of the reoccurrence of an old concern.

Richard M. Nausch
President
Nausch, Hogan & Murray Inc.
New York

Canadian capacity

In the article, "Ontario may establish exchange" (*BI*, Nov. 15), the case of the Law Society of Canada was cited as an example of large risks going outside Canada.

To the best of my knowledge, at least two quotes were given to the Law Society by the Canadian insurance market for the full capacity it requested. The only reason the risk went outside the country was that the U.S. market decided to charge a price that the local market felt was totally unsupportable.

The results of this particular risk in the last three years are such that it is probably beneficial to Canada that it is now insured outside the country.

Angus H. Ross
Senior Vp
Reinsurance Management Co.
of Canada Inc.
Toronto

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

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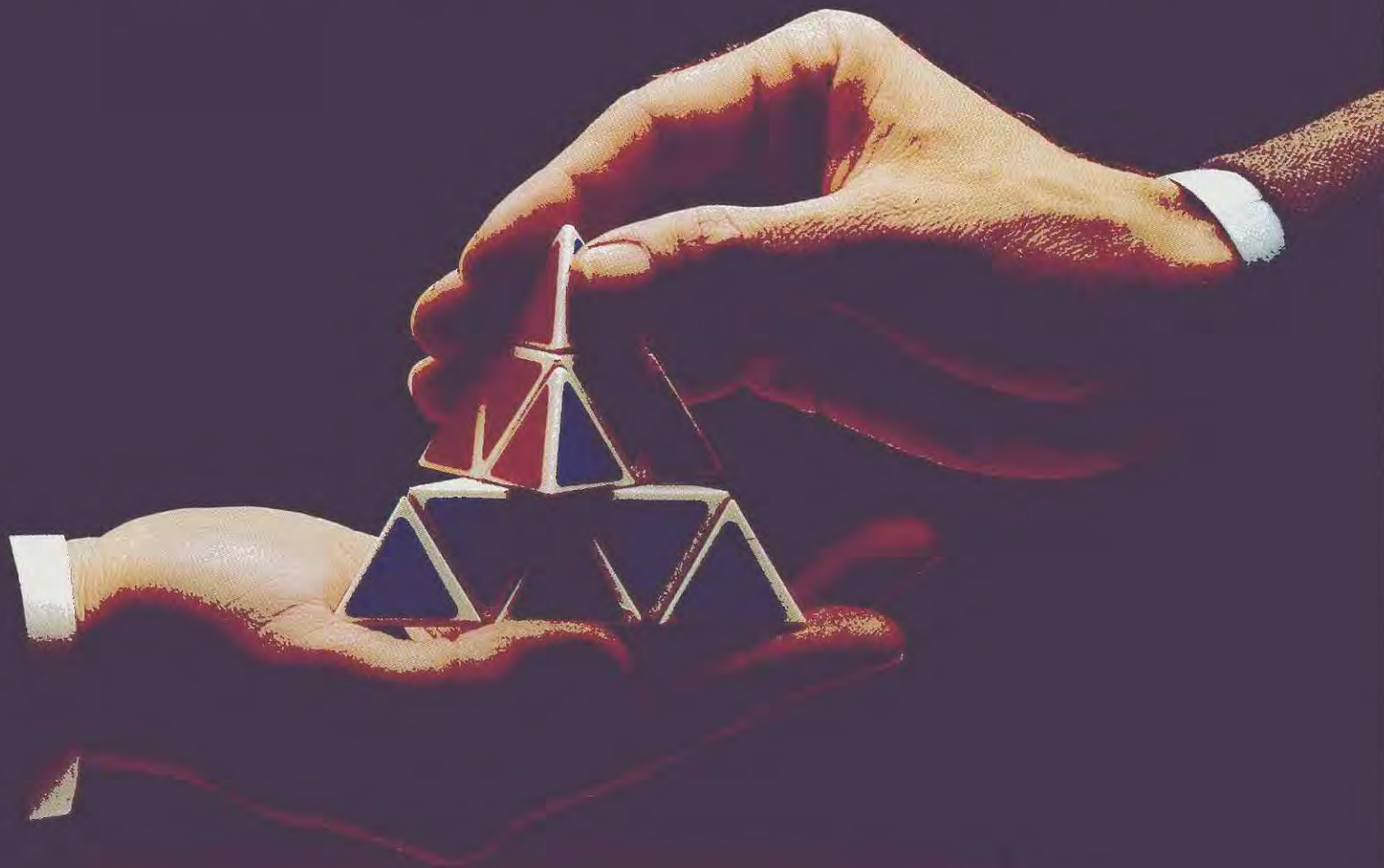
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RIMS sets program for '83 conference

LOS ANGELES—Risk managers from around the country will gather in Los Angeles in late April for the 21st Annual Risk & Insurance Management Society Conference.

The conference, to run from April 24-29, will be held in four separate hotels: the Los Angeles Bonaventure, the Biltmore, the Los Angeles Hilton and the Hyatt Regency Los Angeles.

Conference registration begins Sunday, April 24 at the Los Angeles Bonaventure.

Once again, the conference will be divided into industry sessions, general sessions, split sessions and miniseminars. Miniseminars are further divided into basic, intermediate, advanced and appropriate-for-all sessions.

Benefit issues are addressed the

first part of the week while risk management issues are discussed all week.

Industry sessions, which are generally restricted to RIMS members only, cover topics and problems faced by specific industries.

These 44 sessions, which will be held April 25, 26 and 27, cover risk management problems of industries as diverse as agricultural products, franchisors, manufacturers and entertainment.

Three general sessions will be held during the conference.

On Monday, April 25, the general session topic will be health care cost containment, with Bernard R. Tresnowski, president of Blue Cross & Blue Shield Assns. serving as moderator.

On Wednesday, April 27, workers compensation will be the gen-

eral session topic, with Harold Johnson, director of risk management of State Farm Insurance Co., acting as moderator.

The Friday, April 29, general session will cover four topics:

- "Roles of Financial Institutions in the Insurance Marketplace," co-moderated by H. Felix Kloman, president of Risk Planning Group Inc., and Donald T. Browne, vp of First Atlanta Corp.

- "Reserving for Self-insured Losses," co-moderated by Susan J. Alt, a risk management consultant at Towers, Perrin, Forster & Crosby, and Robert A. Reeves, president of the Health Services Group at the Hospital Corp. of America.

- "Federal/State Dichotomy and What It Means to Risk Managers," moderated by Edith Lichota, a

vp at INA Corp.

- "The Ultimate Risk," moderated by John McCaffrey, executive vp at Frank B. Hall & Co. Inc.

The split sessions are panel discussions that have no limit on the number of people attending. The 14 sessions' topics range from retirement income strategies to rehabilitation of injured workers to coping with crises.

Attendance is limited at the 72 miniseminars, which are either panel discussions or workshops. The 86 miniseminars fall into the following categories: employee benefits, general risk management, risk finance, loss control, insurance, legal-legislative, claims, exposures, special industry and general management.

In addition to the sessions and miniseminars, a special exhibit

area will be open to conference participants.

Also, RIMS' annual membership meeting will be at 8 a.m. April 25 and the chapter presidents' luncheon will be at 1 p.m. April 27.

The cost of attending the entire conference is \$495 for RIMS members and \$595 for non-members. In addition, RIMS members can attend three days of the conference (either Monday through Wednesday or Wednesday through Friday) for \$395. A partial registration for non-members costs \$420.

A \$25 fee is added to registration received after Feb. 28.

To register for the 1983 Risk & Insurance Management Society Conference, contact RIMS Conference Department, 205 E. 42 St., New York, N.Y. 10017; 212-286-9292.

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GMD Benefits the World

Congress delays trucking rules

Continued from page 2
analyzed in depth in committee, a department spokesman said.

But Congress did accept the department's recommendation that vehicles that weigh less than 10,000 pounds and transport poisonous gas, certain explosives and radioactive materials would have to abide by the same liability insurance requirements as bigger trucks.

Currently, such small vehicles are not covered by the Motor Carrier Act, an exclusion that doesn't make much sense, the Transportation Department told Congress.

"The transportation of small quantities of extremely hazardous commodities presents a real danger to the safety of the general public," the department said in successfully convincing Congress to repeal the small-vehicle exemption.

In addition, Congress made it clear that foreign motor carriers that operate in the United States that carry hazardous materials will have to abide by the same liability insurance requirements imposed on domestic carriers.

Finally, House-Senate conferees rejected a move by the Senate to give truckers and other employers that leave multiemployer pension plans more time before they have to make withdrawal liability payments to the plans.

Currently, under the Multiemployer Pension Plan Amendments Act of 1980, an employer leaving a multiemployer pension plan must pay a share of the plan's unfunded vested benefits. These payments are expected to begin 60 days after a withdrawing employer receives a claim from the plan.

Since many of the plans' funding did not keep pace with the benefits promised, employers leaving multiemployer plans can be hit with huge withdrawal liability claims.

These claims have been especially large for motor carriers since many truckers belong to the Central States, Southeast & Southwest Areas Teamsters' pension fund, which has billions of dollars in unfunded vested benefits.

For example, when Johnson Motor Lines of Charlotte, N.C., left the Teamsters plan during the summer of 1980, it was hit with a withdrawal liability bill of more than \$16 million, double its net worth (BI, July 20, 1981).

Under the provision rejected by the congressional conferees, a few employers would have had until Dec. 31, 1983, before they had to begin making withdrawal liability payments to the plans.

To qualify, an employer must have announced by July 30, 1980, its intent to cease operations as of Aug. 8, 1980. The company then would have had to completely terminate business by Aug. 30, 1980. ■

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Captive industry maturing: Consultants

Continued from page 2

In the third phase, the rates of return continue to fall. When the rate of return falls below 20%, the captive may begin underwriting in the general insurance market. As the captive writes outside business, it becomes intertwined in world insurance market cycles, he said.

As the captive insurance industry generally moves into a new phase—the second phase, according to Mr. Rosenbaum's scenario—basic motivations for organizing a captive insurer change, he explained.

Although offshore companies used to be formed by a U.S. parent corporation for tax benefits, increased cash flow and investment income, the benefits may diminish as captives diversify their books of business.

Another speaker at the seminar

—William F. Sennett, managing director of European Risk Management of Surrey, England,—appeared to agree with Mr. Rosenbaum that the basic motivation for captive ownership is changing.

However, although the two consultants agreed that motivations of parents will change as the captive industry matures, they disagreed on the direction the industry is heading as a result of the changes.

"With continued pressure (from the U.S. Internal Revenue Service) to underwrite outside business, pooling of captives will continue to develop," Mr. Sennett said. "But the captives will be viewed as a genuine business venture, despite the tax outlook."

Mr. Sennett said he expects to see captives concentrate on assuming their parent company's risks and

diversifying those risks in a pooling arrangement with other captives.

But Mr. Rosenbaum, noting the lack of growth in pooling during 1982, said he expects a greater integration of financial services through the use of captives.

"Owning more and more assets is a way of the past (for captives)," he said. "The profit-center motive has moved way down on the list because of the softer insurance markets."

Mr. Rosenbaum said he believes the greatest activity in the offshore captive industry will be the formation of multiple-domicile risk-financing groups.

In a multiple-domicile captive plan, one captive of a U.S. parent corporation may be used to assume risks from a European subsidiary, while another captive is used as a

financing unit, he explained. A third captive may be domiciled in a different location to underwrite U.S.-based insurance needs.

"We will see a gradual eclipse of the single-domicile captive."

Although the consultants had different views of where the captive industry is heading in the coming years, they agreed that captives will become a better tool for the parent company to develop risk-financing techniques.

"In the past, you (risk managers) may have earned a savings in insurance premiums from a good claims record, but the savings in premiums are a 90-day wonder; they are quickly forgotten," Mr. Sennett said. "From the risk manager's perspective, captives will provide a bottom line to show savings from a good program."

Mr. Rosenbaum, who emphasized that risk managers and financial officers of parent corporations will emphasize controlling the costs of their captive operations, said captives will be asked to "provide simplified risk financing and being able to return reserves to the parent in tough times."

"The strategic planning of captive insurance companies is moving away from an insurance management point of view to an overall financial management point of view," he said.

"The oil companies are way ahead of the rest of the captive field in financial integration, but we see other companies catching up—turning the insurance market into part of the risk-financing business instead of the insurance business," Mr. Rosenbaum explained. ■

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Unrelated business filled with many risks: Broker

By LAURENCE H. GROSS

NASSAU, Bahamas—Most captive insurance companies, trying to underwrite insurance unrelated to their U.S. parent corporation, face a market filled with adversely selected risks and other leftovers from the world reinsurance market, a New York broker says.

Timothy Delaney, a vp at Delaney Offices Inc., told a captive conference sponsored by Risk Planning Group Inc. that risk managers should be skeptical about any "great deals" offered to their captives.

"Any (insurer) who's involved in quality reinsurance transactions does not go to a captive," Mr. Delaney said. "A captive can only get quality business if it has a sphere of influence."

Captive insurers face a cruel dilemma in trying to juggle U.S. tax laws and security of assets, Mr. Delaney said.

Captive insurers, who must write third-party business to allow their U.S. parent corporations to deduct premiums as a business expense, have trouble gaining access to creditable reinsurance markets, Mr. Delaney added.

"It's not to say any company in Bermuda, the Bahamas or Cayman is any less secure than other reinsurers," said Mr. Delaney. "The markets just haven't given them creditability."

With abundant capacity in world reinsurance markets and commercial insurers underwriting at combined ratios exceeding 110%, few good risks are available to captives.

Mr. Delaney warned captive managers that if a reinsurance broker tries to place "seasoned, old business" with your captive, "you'd better be asking what's wrong with the book of business."

"It's like the old Groucho Marx joke, 'Anybody who wants to do business with me, I don't want to deal with,'" he said. "The old-line business wants A-plus rated insurers, not the captives."

Young captive insurers seem especially vulnerable to bad books of business, he pointed out.

As an example, Mr. Delaney said the captive of a U.S. corporation decided to underwrite marine casualty coverage for European vessels. The company set up policy limits of \$200,000 per vessel, and in only five years it managed to lose \$2 million.

"They (the captive) were told the marine business was a good deal and (thought) they were lucky to get in," said Mr. Delaney. "If they

had investigated the reason why they were being offered such a good deal, they would have found it was distressed marine business that couldn't find a market anywhere else."

Although the lack of a sphere of influence presents a problem for captive companies trying to underwrite profitable business, Mr. Delaney said that influence can be achieved in several ways.

"Investing in an established insurance exchange gives enormous creditability to captives," Mr. Delaney pointed out. "The investment to join may be more worthwhile than using that for additional capital and surplus."

Using a managing general agent, buying an equity position in a reinsurer or giving the parent company's pension fund management to the insurer may be other ways to gain entry to the more creditable markets, Mr. Delaney noted.

The broker also warned captive managers not to "dabble in areas that aren't actuarially sound."

"You can't begin writing catastrophe coverage up to \$500 million and take 15 contracts," he said. "You need 15,000 of them. If you dabble in these areas, you'll get your brains beat out."

To limit huge losses that could cripple a captive insurer, Mr. Delaney advised the conference participants to purchase two relatively inexpensive insurance coverages—a retrocessional cover and a clash cover.

"How much you buy depends on captive capital and surplus of the captive and how much you can stand to lose," he explained. "Captives have a tendency to overlook these policies."

The retrocessional cover will limit losses on any one occurrence, and the clash cover limits liability when different types of claims are made on the same incident.

Emphasizing the need for clash covers for captives, Mr. Delaney cited as an example a captive insurer underwriting workers compensation, general liability and automobile liability. A claim occurs in which there is a \$500,000 liability involving the workers comp and auto liability, but the captive believes it is covered because it has purchased a clash cover that commits the reinsurer to pick up \$250,000 in losses in excess of \$250,000.

"Unless the captive has provided for the clash in its aggregate, it will be liable for the entire \$500,000," says Mr. Delaney. "The clash has \$250,000 on each of the lines of coverage, not combined." ■

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Parents of captives still face tax uncertainty

NASSAU, Bahamas—The Internal Revenue Service is keeping open a giant hole in the tax laws regulating captive insurers, possibly creating a trap for U.S. corporations trying to deduct premi-

ums paid to their captives, a captive tax expert says.

Sidney R. Pine, an attorney with the New York-based firm of Trubin, Sillcocks, Edelman & Knapp, says the IRS has refused for 10

years to clarify the issue of deductibility of insurance premiums paid to captive insurers owned by U.S. corporations.

"As it stands now, you have to convince the local field agent that you are not just using different pockets to pay premiums and collect on losses," Mr. Pine says.

Addressing a conference on captives sponsored by Risk Planning Group Inc., Mr. Pine said two IRS rulings—Revenue Ruling 77-316 and Revenue Ruling 78-338—do not answer the important tax question: How much risk assumed by a captive insurer must originate from unrelated companies for the captive to qualify as a bona fide insurance company for tax purposes.

Ruling 77-316 addresses three specific situations in which a U.S. company owns a foreign insurance company that underwrites insurance only for related insurance companies.

In ruling that the premiums paid by the related companies are not tax-deductible, the IRS implies that a "substantial" amount of risks must be underwritten for unrelated companies in order for the insurance company to be considered a bona fide insurer for tax purposes, Mr. Pine said.

Tax experts have estimated "substantial" means anywhere from 20% to 51% of a captive's business. Otherwise, the IRS considers premiums paid by related companies to the offshore insurer to be a capital contribution to an offshore self-insurance fund, which is not tax-deductible as a business expense.

Revenue Ruling 78-338 did not answer the question, either. In that

'As it stands now, you have to convince the local (IRS) field agent that you are not just using different pockets to pay premiums and collect on losses,' captive tax expert Sidney Pine explains.

ruling, the IRS said that 31 unrelated companies could deduct the insurance premiums paid to a jointly owned offshore insurer in which none of the companies owned more than 5% of the captive and none produced more than 5% of the captive's total risk.

The IRS has been asked to clarify now it will treat captives whose business activity falls between the descriptions in the two rulings, but the IRS has intentionally left the area open to interpretation by the taxing authority's 58 district directors, Mr. Pine said.

Mr. Pine suggested captive owners take the following steps so they will be prepared to defend deductions for premiums paid to captive insurers:

- Keep copies of internal reports, any decision by the com-

pany's board of directors to diversify by taking unrelated risks and any plans to make the captive an insurance profit center.

- Be able to demonstrate a steady increase in the assumption of unrelated risks. The IRS so far has indicated that a large number of risks among a limited number of insureds may suffice to prove the parent company owns a true insurance company.

- Maintain adequate capital necessary for the captive to prove the captive is not just a self-insurance fund maintained offshore.

- Keep an offshore captive's business outside of the United States. Several of the captive's directors should be non-U.S. citizens and all of the captive's management activities should occur in the captive's domicile.

37% of employers offer EAPs

PHILADELPHIA—Despite the harsh economic conditions that have prompted some companies to cut benefits, 37% of the companies recently surveyed by benefit consultant Hay-Huggins offer an employee assistance program.

Thirteen percent of the companies are either developing or are

considering starting an EAP, which helps employees with alcohol, drug abuse, stress and/or family problems.

Another 18% said they offered employees assistance on an "as-needed" basis, while 32% provided no type of assistance and are not planning to offer the benefit.

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SAFECO offers cover for gradual pollution

SAFECO Insurance Cos. is now writing coverage for certain gradual pollution incidents.

The gradual pollution coverage is available through an expanded pollution liability policy that covers continuous discharge of smoke, vapors or soot.

SAFECO's coverage for both sudden and non-sudden pollution is offered on a claims-made basis. Limits range up to \$3 million per claim with a \$6 million annual aggregate.

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For more information about SAFECO's new coverage for gradual pollution incidents, contact John Gettles, Assistant Vp-Commercial Lines, SAFECO Corp., SAFECO Plaza, Seattle, Wash. 98185; 206-545-5783.

PRODUCTS & SERVICES

The cost of this program varies with the number of training days. Involving day-to-day training, a one-week program can run "\$4,000 to \$6,000 a week and includes up to 30 people (employees)," Mr. Chernicoff said.

A one- or two-day training program costs \$500 a day, plus expenses, he said.

For further details on the USAFIC International's security agencies training program, contact Joseph L. Chernicoff, Executive Director, USAFIC International, 282 Keswick Ave., Glenside, Pa. 19038; 215-572-7843.

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Group life policy

Phoenix Life Insurance Co., a subsidiary of Phoenix Mutual Life Insurance Co., is currently offering a new group life insurance policy called Group Executive Ordinary, which bases increases in policy cash values on short-term interest rates.

The rate of return on un borrowed policy funds is the 30-day Treasury Bill rate determined weekly by Salomon Brothers and published in its weekly market roundup.

The interest rate charged on borrowed funds is the Moody's corporate bond average. In a unique provision that provides tax leverage, Phoenix Life will credit back to policyholders on borrowed funds an amount equal to the Moody's bond average less 75 basis points (0.75%).

"The short-term rates used to build cash values and the tax leverage on borrowed funds enable companies to provide the widest possible range of executive benefits," according to Phoenix Life President Paul T. Bourdeau.

Traditional life insurance features such as level premiums, standard non-forfeiture options and increasing death benefits are also included in the Group Executive Ordinary program.

The GEO policy is available to groups with a minimum annual premium of \$15,000. Available coverage ranges from a minimum of \$50,000 per individual to a maximum of \$500,000.

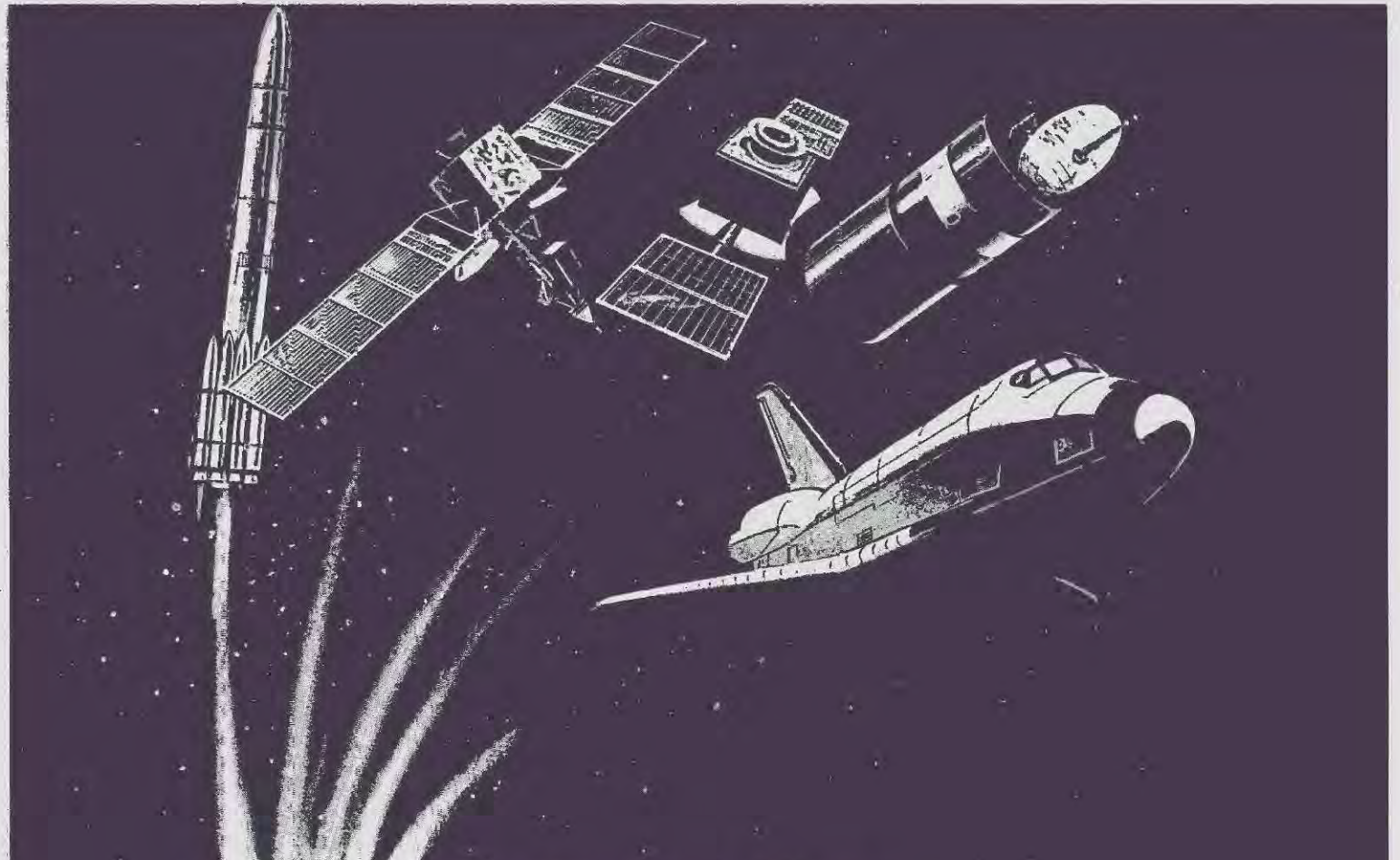
For more information on the Group Executive Ordinary program, contact Richard W. Schmidt, Phoenix Life Insurance Co., One American Row, Hartford, Connecticut 06115; 203-278-1212.

Security liability

USAFIC International is offering management and training programs for both in-house security forces and commercial security agencies to decrease the liability risks that are created by security operations.

Institutions most affected by liability exposure created by security operations are "hospitals, malls and shopping centers and some hotels," says Joseph Chernicoff, executive director of USAFIC.

USAFIC's management and training programs are designed to reduce the number of liability claims caused by security guards. The programs are meant to improve loss-control measures thereby reducing premium rates, making a client more insurable and shifting liability for injuries from the company to an individual offender.



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PERSPECTIVE

Defining a 'peculiar risk of harm'

By Jay W. Preston

CALIFORNIA, THE STATE that brought you *Greenman vs. Yuba Power Co.* and other enlightened product liability decisions, is at it again. This time the topic is general liability.

In the safety engineering profession, we have seen it coming for some time. Owners and general contractors have long been sued by subcontractor employees. This has been one way of getting around the restrictions placed on recovery by the workers compensation law.

The standard response has been to insist on contractual language to delegate safety procedures to the contractors and subcontractors who should have the best grasp of the hazards of their operations. For an owner, this is no longer enough. Even though an owner may know nothing about the specific hazards, it seems that soon, he will be unable to delegate the safety function.

The new doctrine, which will increase costs, is similar to the underlying reasoning behind the mechanics' lien law. The essence of this law is that property owners are the source of wealth and that anyone who supplies goods or services to improve property may claim against the owner if anyone in the stream of commerce fails to pay. If a contractor goes belly up and does not pay his suppliers or workers, those people may claim against the property owner.

One real effect of the mechanics' lien law is to create a thriving business for the people who write guarantees and performance bonds. It increases the volume of business form printers due to all the releases, waivers and other paper involved. All of this undoubtedly raises costs of the completed work, a building, for the ultimate consumers, the users of the space, whether they are residential or business tenants.

The latest doctrine is another way of nailing owners and increasing costs for everyone. This doctrine says that safety is a non-delegable duty where the owner's requested operation or site presents a "peculiar risk of harm."

The new doctrine hinges around

Who's liable for hazards: owners or contractors?

defining a peculiar risk of harm. A peculiar risk of harm is established by any characteristic of the owner's job which requires that special precautions be taken to provide for safe working conditions. Needless to say, virtually any job can present a peculiar risk of harm.

In effect, where an activity conducted by a contractor involves a peculiar risk of harm to a worker, the duty to control that risk cannot be delegated by an owner. It is the owner's duty solely. Gone are the days when an owner could hire a contractor and expect the contractor, alone, to take the necessary steps to ensure the safety of his workers. Long gone are the days when an employee's sole remedy for a work-related injury was the employer.

In today's cost-conscious construction industry, corners are cut. The safety requirements are frequently the first items to go. A lot of contractors gamble with the safety of their employees in order to have the illusion of making a few extra bucks.

Now, the owner is positioned where he must take an active part in ensuring the safety of the contractor's or subcontractor's employees. The owner is required to make sure corners aren't cut, to ensure that safe practices are followed.

From the practical standpoint, an owner must now take reasonable steps to ensure that workers on the property work in a safe manner and are protected from hazards where there is a peculiar risk of harm. Where the landowner has no safety training or experience, exercising his duty could be difficult.

A recent case has shown that a storeowner had the duty to barricade a ladder where a lighting maintenance man was working. The peculiar risk was not the use of the high ladder. The peculiar risk was subjecting the ladder to jostling by shoppers. Working on a 10-foot wall also was considered to a peculiar risk. The risk of being struck by traffic while

eradicating lane markings, being hit by backing dump trucks on a construction site, being injured by explosion from volatile paint inside a closed tank, being zapped when a crane hit overhead wires and falling from a bridge have all been considered to be peculiar risks.

The landmark case that got the ball rolling was *Griesel vs. Dart Industries*. The California Supreme Court said that trenching is not an ordinary and customary danger in construction work. The operation was a peculiar risk of harm, and the landowner had the duty to protect the injured subcontractor's worker from a dangerous condition of the premises.

We could probably expect that most roof operations would be considered a peculiar risk. A plumber on a high ladder replumbing an older building might also represent a peculiar risk. An electrician required to work on an electrified circuit, to prevent a blackout in a building, may also present the peculiar risk.

Any operation that involves high locations, any operation that involves toxic materials, and any operation that exposes a worker to high voltage, could be a candidate for consideration as a peculiar risk of harm. Demolition could fit into the category, particularly where there is some old asbestos building material floating around. Certainly, any trenching operations where workers were required to enter the trench would be considered a peculiar risk of harm.

Aside from burying heads in the sand, what can be done in peculiar-risk-of-harm situations? Here is my advice as a practicing safety engineer.

- Check with your attorneys to make sure that your contracts for repairs, construction and other maintenance are carefully drawn to include every legal waiver and hold-harmless agreement. Also check that there is specific wording to ensure full compliance with the terms

of the Occupational Safety and Health Administration, your state OSHA and the rest of the safety regulations. This might not do the job, but at least it will give house counsel some "smoke to blow."

- Ensure that your contractors' and subcontractors' workers will be covered by your general liability policies, and pay the premiums for the coverage. As an added precaution on jobs where there will be a significant number of contractor workers on the premises, think about being named as an additional insured on the workers compensation policy of the contractor.

The way to avoid duplication would be to consider putting the whole project under a master insurance policy. This may cost money, but it would limit your liability in the event of a loss. Every contractor and the owner would probably then be covered with limited liability as the injured worker's employer.

- To protect loss ratios, you should never contract with a person or firm who cannot issue a certificate of insurance for workers compensation, auto liability and general liability.

- Learn what you can about construction safety. A copy of "Construction Safety Orders" should be on hand. Take some training from a competent safety educator. Become familiar with the basic safety requirements for trenching, elevated, toxic and other hazardous operations.

- Finally, on a major job, contract with an independent safety engineer. It may be worthwhile. On smaller jobs, it could pay to ask for help from the insurer's safety engineering (or loss control, loss prevention or underwriting survey) department. These safety experts would be able to identify hazardous operations and areas and ensure that necessary precautions are taken by all workers on the job.

Using safety experts would ensure that you are performing your non-delegable duty to maintain a safe workplace where there may exist a peculiar risk of harm. It may even save a general liability loss ratio. ■

Jay W. Preston is an independent consulting safety engineer in Los Angeles.

Surveys help monitor management's decisions

By Kenneth P. Shapiro

MANAGERS MUST MONITOR the corporate pulse—especially in uncertain times. Special purpose employee attitude surveys can be management's stethoscope to monitor the human resource effects of the cost-cutting decisions they are being forced to make.

Relatively inexpensive, quick and comprehensive, a purposefully designed employee survey will measure how employees are reacting to difficult times—providing important information about potential long- and short-term effects on morale and productivity. This "diagnosis" can lead to cures.

Consider the following case study. The economy had forced a company to postpone a major development project, scrap plans for facility expansion and cancel all promotions. Layoffs and a hiring and wage freeze were instituted.

Over the next year, productivity declined dramatically. To assess the

problem, an employee survey program was commissioned. The survey found that employees were unsure of the company's direction and of their positions in the company; afraid that switches in policy and product line signaled the beginning of major changes; and felt their information was incomplete and perhaps inaccurate.

Management understood how productivity could be stifled in this climate and how, by not keeping employees informed, an unwanted environment of fear was created. More importantly, however, management saw that these unanticipated effects could be countered. To remedy the problem, the following steps were taken:

- The company president conducted a series of employee meetings to outline the company's direction and strategy and allay the concerns of the employee groups.
- New communications programs were

initiated. Managers made it clear that they were looking for new ways to improve performance and that they were genuinely open to all suggestions.

- "Survey-driven" quality circles were established to back up management's "reopening" of communications.

- A well-communicated incentive compensation system was initiated. The best performers would be rewarded; weak performers would be passed over.

Through these actions, management was able to check the company's eroding performance and begin to spur improved individual and group initiative, productivity and corporate vitality.

Companies that undertake employee surveys must be certain that their approach is correct. Surveys must:

- Receive the early support of key executives and employee groups to strengthen credibility.

MANAGEMENT

- Involve all employees; those left out may not be supportive of the changes.

- Communicate summary findings to everyone in the organization.

Management must also realize the survey programs create expectations. Actions must therefore be linked with survey findings. However, action doesn't have to be in the form of new or improved programs; ineffective programs can—and should—be dropped. But always tell employees why.

The survey itself must be conducted not as an exercise in data collection, but as an earnest attempt to diagnose problems and adjust human resource programs. ■



Kenneth P. Shapiro is a vp at Hay Huggins & Co. in Philadelphia. His column on management appears regularly in Business Insurance.

Property erosion not excluded from contractor's liability policy

THE UNDERLYING property was not a "named insured's product" under a general contractor's liability policy, according to a Florida appellate court.

The Sheridans purchased a lakeside lot from a developer and contracted to have a house and swimming pool built by M.A.P. Builders. M.A.P. was insured by Old Republic Insurance Co. under a policy for contractor's liability. The policy excluded coverage for property damage to M.A.P.'s "product" arising from such product.

Within three months after moving into the house, the Sheridans noticed that the land between the pool and the lake was eroding and falling into the lake. The erosion continued until the backyard ended in a four- to eight-foot cliff a few feet behind the pool deck. The Sheridans sued the developer, M.A.P., and the insurer for breach of contract and negligence. The insurer denied coverage and refused to defend the suit. The trial court ruled coverage existed.

On appeal, the insurer contended the house, pool and the underlying property were all products of the named insured, M.A.P. Thus, it maintained the erosion caused by the pool's weight and placement was property damage arising out of M.A.P.'s products and, therefore, the exclusionary clause precluded liability.

But, the court said only the house and pool were products. The underlying land purchased from the developer, the court concluded, was not a product—it did not result from the developer's or contractor's workmanship. *Old Republic Insurance Co. vs. Sheridan*, District Court of Appeal of Florida, Nov. 4, 1981, rehearing denied Jan. 27, 1982 (BI/04/S.-\$5).

Service for coverage

The Supreme Court of Texas ruled the only reasonable meaning of the term "service" used in group insurance policies meant regular work performed by the employee in a position for which she was hired and was paid an hourly wage.

LEGAL BRIEFS

Phyllis Gunn interviewed for employment by Fisher Scientific Co. on Sept. 2, 1976. On Sept. 3, she had a physical and filled out a W-4 withholding form, an Aetna Life & Casualty Co. card and an employment contract. The latter included an agreement to transfer to Fisher any inventions conceived during employment, to not divulge confidential information and to avoid employment that would interfere with her duties.

Ms. Gunn started work on Sept. 7. On Dec. 5, she was injured in an automobile accident and died the next day. The Aetna policies provided that each employee would become eligible for coverage on the date that he or she completes three months of "continuous service." Ms. Gunn's father filed a claim for benefits on behalf of her minor child. Aetna refused to pay. He sued and won in the trial court, but this was reversed by a higher court.

On appeal, Ms. Gunn's father contended her service started on the day she signed the employment contract and, thus, she had fulfilled the three-month waiting period by the time of the accident. According to her father, her agreements with regard to inventions, confidentiality and outside work were effective from the date she signed the employment contract and constituted service.

But, the court said it did not consider it reasonable that a promise to forebear from doing these things constituted commencement of "service" by Ms. Gunn. *Aetna Life & Casualty Co. vs. Gunn*, Supreme Court of Texas, Feb. 17, 1982 (BI/05/S.-\$5).

Business interruption

In a dispute between a policyholder and its insurer over a business interruption policy, a California appellate court ruled that simplicity of policy wording did not have a bearing on coverage. Although the

policy formula used to determine coverage was not as simple as that considered in some cases, it did not mean that the formula was ambiguous, uncertain or misleading.

A company was covered under a business interruption due to fire policy issued by the insurer in 1974. The company sustained a fire in 1976 and, as a result, had a net loss of earnings of approximately \$42,000. The policy contained a contributions clause. This clause limited the insurer's liability to no greater proportion than the amount of coverage, \$60,000, bore to the coinsurance percentage of 50% of the gross earnings that would have been earned, had no loss occurred, during the 12 months immediately following the date of the damage.

The company felt it was entitled to recover about \$21,000, but the insurer claimed only \$13,000 was due and tendered that amount. The company sued but the trial court upheld the insurer.

On appeal, the company claimed the contribution clause was ambiguous and that it was entitled to recover 50% of its loss not to exceed the amount of insurance, or \$60,000. But, the appellate court concluded that the clause was clear. It provided that the insurer was not liable for any greater sum than the maximum amount of coverage bore to the 50% contribution percentage of the gross earnings, which were about \$391,000. Thus, the court said the trial court correctly assessed the coverage available to the company. *Apparel City, etc. vs. Transamerica Inc.*, California Court of Appeal, 1st District, March 3, 1982 (BI/02/O.-\$5).

Master group life

The fact that there was no delivery of the master group insurance policy to an

employer or to the individual employees did not excuse an employee from failing to file a suit against an insurer within the three years required by the policy, according to a Louisiana court.

Francis Merten was employed by Dow Chemical Co. He and his wife were insured under a group insurance policy issued by American Home Assurance Co. Dow customarily mailed an insurance certificate to all employees shortly after enrollment that gave a brief explanation of the policy conditions. The certificate also specifically stated that all suits must be filed within three years after the time written proof was to be furnished.

Mrs. Merten died on Oct. 18, 1974. Mr. Merten informed Dow of her death, leaving a death certificate with the benefits administration manager. He was advised that no benefits would be available unless his wife's death were accidental. It was not until 1979 that Merten's attorney submitted a claim to American Home. Suit was filed in August 1980. The trial court dismissed the suit.

The appellate court was satisfied that Mr. Merten was presumed to have received the certificate and, therefore, was aware of the time limitations of the policy. The court rejected his argument that because there was no delivery of the policy to Dow's Louisiana office nor to the individual employees, he should be excused from failing to file the suit within the time allowed. The court said Mr. Merten had the responsibility to pursue the matter further, in timely fashion, if he had any doubts about his right to recover. *Merten vs. American Home Assurance Co.*, Court of Appeal of Louisiana, March 2, 1982 (BI/03/O.-\$5).

These abstracts were prepared by Cases Unlimited Inc. A copy of an entire decision may be obtained by sending a check for \$5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

Book discusses laws affecting security

"Legal Aspects of Private Security"
By Arthur Bilek, John Klotter and R. Keegan Federal
Anderson Publishing
646 Main St.,
Cincinnati, Ohio 45202
287 pages, \$15.95 paperback

By Belden Menkus

CONTINUED EXPANSION in the use of both contract and staff-member private security forces has raised many new questions about the duties and rights of members of these forces and the responsibility and liability of a corporation for their actions.

A growing body of new laws and regulations and court cases stems from recent attempts to resolve these questions. This book will help the risk manager understand these

developments, define the corporation's exposures, if any, and formulate a realistic approach to minimizing them.

"Legal Aspects of Private Security" offers an unusual multidisciplinary approach to its subject. The three authors are, respectively, a long-term private security firm executive (now security director of First National Bank of Chicago), the dean of the University of Louisville Justice Administration School and a Georgia Superior Court judge (also editor of the Private Security Case Law Reporter in Atlanta).

These three authors deal with the important differences between the roles, powers and authority of conventional law-enforcement officers and the members of private security forces.

These, then, are placed in the context of the various state and federal regulations that define the composition of a private security force and what its members can and cannot do.

In turn, the authors examine seven basic categories of criminal statutes and how they are enforced. The private security force member's role in enforcing the law, then, is examined in terms of the broad categories of detention and arrest as well as search and seizures.

In regard to these categories, risk exposures can develop in both of them. It is important, based on the material presented in this book, to have clearly defined corporate policies on the duties and authorities of the security force and to clarify the impact on them of licensing

practices in a particular state.

The balance of the book focuses on the criminal and civil liabilities that a corporation may be exposed to through the acts of private security forces. Guidance on their use of force in performing their duties is given. And, the possible obligations that may be incurred through such things as negligence and violation of an individual's civil rights are discussed.

This book includes the full text of a number of key court decisions. It is carefully indexed and contains an extensive bibliography. No special knowledge of law is required to understand "Legal Aspects of Private Security." It is must reading for risk managers.

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

BOOKS & IDEAS

Jackson to head special underwriting at CU

Albert H. Jackson has been appointed president of the Special Underwriting Group Inc. division of Commercial Union Insurance Cos. in Boston.

Mr. Jackson will have responsibility for CU Special Risks, Commercial Union Reinsurance Co. and the insurer's ceded reinsurance and marine departments.

Mr. Jackson, who joined the company in 1973, had been senior vp-corporate planning since 1976. He will now report to **William T. Buntrock**, senior executive vp-insurance.

Other insurer changes:

Ernest T. Vaughn Jr. joined The Home Insurance Co. in New York as senior vp-field operations. Mr. Vaughn will assist in overall management of The Home's four domestic regions as well as the Ca-

COMINGS & GOINGS INDUSTRY

nadian region. He was previously senior vp and chief underwriting executive of American International Underwriters for all business and operations lines outside the U.S. and Canada.

Duane H. Thompson elected president, chief operating officer and chief financial officer of Unigard Mutual Insurance Co. in Seattle. Mr. Thompson was most recently senior vp of investments at Unigard. Also at Unigard, **Bennett H. Clark** elected executive vp. He had been senior vp of insurance operations. **Marcus Payne** promoted to senior vp of field operations and marketing. He had been vp-marketing.

Alan D. MacLennan appointed group vp at Great-West Life Assurance Co. in Denver. Mr. MacLennan is responsible for all aspects of U.S. group product lines. He was most recently vp-group operations (U.S.) at Great-West Life.

Edward M. Ryska promoted to vp of loss control for Pacific Compensation Insurance Co. in San Francisco. He will head loss-control consultation and administration, systems and loss-analysis development. Mr. Ryska had been the California loss-control manager and assistant vp of loss control for Pacific.

Laverne R. Wolfanger elected vp and chief financial officer of Benico Insurance Group Cos. in

Peapack, N.J. Mr. Wolfanger had been vp and controller for Benico.

David G. McLinden joined Delta-Central in Minneapolis, a newly formed subsidiary of Delta Dental Plan of Minnesota, as executive vp. Mr. McLinden had been vp of marketing for Florist Mutual Insurance Co. Delta Dental is Minnesota's largest dental insurer.

Leo E. Suycott elected chairman and chief executive officer and **E. Everett Edwards Jr.** elected president and chief operating officer of Blue Cross & Blue Shield United of Wisconsin in Milwaukee. Mr. Suycott also will continue as president of the Compcore Health Services and Health Insurance Corp. subsidiaries. Mr. Edwards most recently had been regional vp in the marketing division of BC/BS United.

Harold W. Marston Jr. appointed a vp in the group life and health operations department of Metropolitan Life Insurance Co. in New York. Mr. Marston is responsible for MET 50 Plus, a line of life and health insurance products for employee groups of 50 to 200 people. Mr. Marston was previously assistant vp-group insurance marketing at Metropolitan.

Reinsurers

John J. Erickson appointed vp in the underwriting division of Metropolitan Reinsurance Co. in New York. He heads up treaty reinsurance underwriting, which includes statistical analysis, budgeting and administration. Mr. Erickson had been a senior vp at Philadelphia Reinsurance Corp. before joining Metropolitan Re.

Joseph E. Stanton promoted to vp-property and **Curt H. Pontz** promoted to vp-casualty at Commodore/Re Management Corp. in Cherry Hill, N.J.

Bruce S. Wise promoted to vp-marketing and underwriting of treaty reinsurance at Frankona Reinsurance Co. in Kansas City, Mo. Mr. Wise joined Frankona in September.

Excess/surplus

Henry Beidas named regional senior vp and general counsel of American International Underwriters Overseas Ltd. in New York, with responsibilities for the company's Arab contacts. He was most recently vp of American International Underwriters Overseas.

Herbert B. Pringle elected vp of Professional Managers Inc. in Chicago, a professional liability underwriting facility. Mr. Pringle is also the company's top claims officer.

Other suppliers

Luther T. Griffith named executive vp and chief operating officer of Anistics Inc., the risk management subsidiary of Alexander & Alexander Services Inc. He had been managing vp of the Anistics New York office.

Dr. John V. Wagner Jr. named executive vp and chief administrative officer of Russell Miller Inc. in San Francisco. He will be responsible for agency/brokerage consulting and merger and acquisition activities. Dr. Wagner will also continue in his duties as a principal in the insurance strategies consulting group at Russell Miller.

Eleven people were named principals at William M. Mercer Inc.: **Larry E. North** in Atlanta; **Richard L. Holofoff** and **Malcolm M. Hirsh** in Boston; **Daniel T. Cox** in Chicago; **Craig T. Mason** in Houston; **Andrew P. Damia** and **James O'Leary** in New York; **J. Paul Tom** in San Francisco; **George E. Hotton** in Stamford, Conn.; **Ronald D. Dearing** in St. Louis; and **Elliot A. Segal** in Mercer's Western region.

Charles H. Cox and **James B. Hood Jr.** appointed vps at Aldrich & Cox Inc., a risk management consulting firm headquartered in Buffalo, N.Y.

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agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

Landing high-tech clients



Agent/broker experts can guide them in

By DONNA LEIGH YANISH

If you think all business from high-technology industries is out of your reach because you don't have scientists on staff, think again.

You may be only partially correct.

Most high-tech industries don't necessarily require an insurance broker/scientist, but they do require a specialist willing to learn the risks of increasingly complex companies.

The broker's reward is a portion of one of the nation's few growing markets, expected to generate several billion dollars in premium over the next 10 years. The market includes semiconductor design and manufacturing, computer manufacturing, telecommunications and robotics.

To serve these new clients, however, you must know their risks, and gaining that knowledge requires many hours of homework.

An agent or broker with an average book of business may have a general understanding of many industries but may not even know, for example, what a semiconductor looks like.

And, the average agent or broker who hasn't studied a particular high-tech industry probably

wouldn't know to watch for exposures like business interruption from loss of a key resource in the semiconductor industry, environmental impairment liability from chemicals used in production and service interruption if a satellite or other equipment malfunctions.

One broker, who witnessed the evolution of the semiconductor industry in the region south of San Francisco known as the Silicon Valley, says brokers are being forced to learn the semiconductor business.

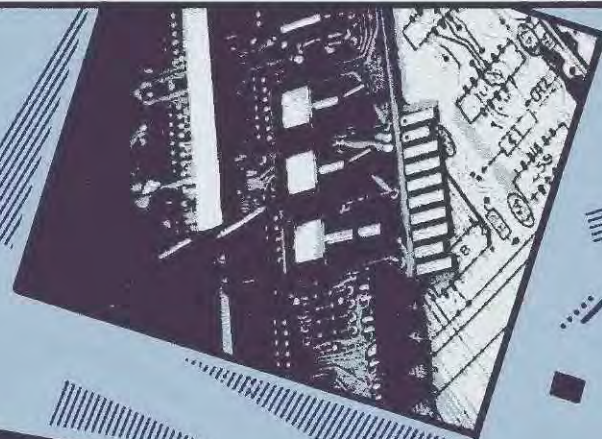
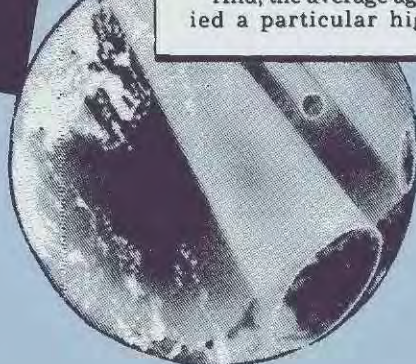
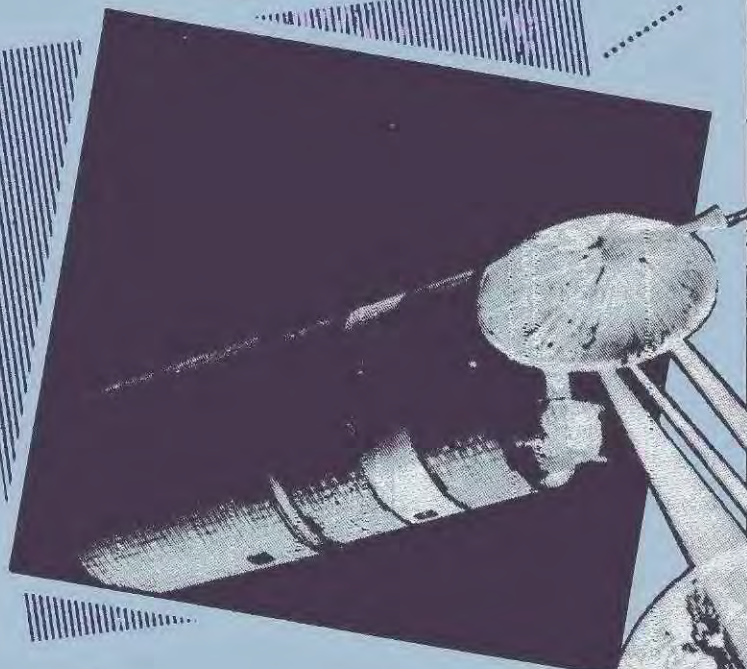
"The broker has to position himself like an employee of the client, keeping apprised of the new materials used in manufacturing," says Fritz B. Bodenheimer, vp of Emmett & Chandler Northern California Inc. in San Francisco.

"I tell my clients that they need to involve me at the earliest stages" when developing a new product, he adds.

A broker needs to be involved in every step of production from raw materials to finished products, he says.

Brokers need to know what raw materials clients are using to manufacture high-tech items for several

Continued on next page



Agent and broker specialists put high-tech risks in reach

Continued from previous page

reasons, Mr. Bodenheimer says. First, by learning about the raw materials, the broker can uncover a potential business interruption exposure created by a shortage of the material. This risk is not uncommon.

Semiconductor firms sometimes have only a single source for key resources, Mr. Bodenheimer notes, and an experienced broker should provide coverage to insure against such a shortage. He should also suggest ways of limiting the potential loss.

Advise the client's purchasing staff to research the markets to find a backup source, he says. If there's no source readily available, the risk and related losses should be insured.

Chemicals and other raw materials used in manufacturing may create other exposures, too, including environmental impairment liability. At least one Silicon Valley semiconductor manufacturer, Fairchild Camera & Instrument Corp., has acknowledged that problem (BF, Feb. 22) and others are showing interest.

Mattel Corp., for example, a Silicon Valley company that manufactures electronic games, sent letters to its semiconductor suppliers requesting information on what chemicals were used in manufacturing the products it uses, Mr. Bodenheimer notes.

Don't stop with research, the broker adds. To successfully service the semiconductor industry, agents and brokers should try to understand a client's entire business cycle, through purchasing, manufacturing and product distribution.

"A broker had better be prepared to educate himself. Clients don't have the time to teach you," he warns.

Other agents and brokers who service the semiconductor industry disagree. "You can learn a lot from clients," says Bob Peretti, managing director and head of the Boston office of Marsh & McLennan Inc.

Like the Silicon Valley, the area just west of Boston along Route 128 has become a center for many semiconductor manufacturers.

One broker specializing in the semiconductor industry calls the

area west of Boston a gold mine in which no single agent or broker has staked a claim that's much larger than his or her competition's.

Opportunities abound. Some high-tech firms in the area are newly emerging companies that start out small, Mr. Peretti explains.

"Many companies started blossoming on a shoestring. They aren't run by a lot of business people, but rather entrepreneurial scientists."

That means the founders usually don't have a broad insurance background. It's up to the broker to research the fledgling companies' exposures and provide advice, Mr. Peretti says.

"Don't ask the financial people. Get to the people involved in the manufacturing process. They're very happy to teach you about it because they're excited about it themselves," he explains.

Some high-tech industries are new enough that the brokers who pioneered coverage for them still recall the time when they were the only players in the market. They learned from their clients, one veteran says.

James W. Barrett began his insurance career 25 years ago with his own firm, James W. Barrett Co., which developed the first insurance program for a communications satellite. "I've always had an interest in bright shiny pieces of metal," he quips.

Mr. Barrett doesn't have an aerospace engineering degree; he learned about the industry from the pioneers, attending many seminars and programs.

In 1977, he joined Corroon & Black Corp. and formed International Space Risk Management Systems, known as INSPACE, C&B's subsidiary specializing in satellite risks. Mr. Barrett left C&B in 1981 to found International Technology Underwriters in Washington, D.C., an underwriting management firm that also specializes in satellite risks.

Because the industry was so new when Mr. Barrett began in the mid-1960s, he couldn't "read the book on space satellites" to develop an insurance program.

"They were just then writing the

book—everything was so new. But the people (developing the satellites) understood my dilemma. They made it possible for me to learn about the industry," he recalls.

The same situation is now occurring in other high-tech industries. One broker notes for example, that agents and brokers working with the robotics industry are trying to determine just what special insurance requirements are needed.

"We haven't reached any conclusions yet. You can't just go to the manuals—there aren't any manuals. It's a matter of what we should do next," notes Kenneth H. Pinkston, vp-brokerage services group with Corroon & Black in Nashville.



Mr. Bodenheimer

Mr. Barrett says that after he developed his satellite expertise, it became a hot commodity.

"Corroon & Black let us develop a high-tech department. We felt if we could understand the technology, we could win accounts. Back then, Corroon & Black didn't have any aerospace accounts," he recalls.

As INSPACE grew, so did the range of expertise in the satellite industry. Today, it's essential to have aerospace scientists on a broker's staff servicing the satellite industry, contends Michael Hewins, vp and general counsel at INSPACE in Washington.

"Only those who have worked in the industry as engineers know

what's really going on," he says.

A brokerage must maintain two separate sources of expertise, Mr. Hewins says: engineers who understand the satellite industry and engineers who understand risk management.

"Some brokers have a consultant they say they can call on at any time. I find, however, that on a day-to-day basis you have to have someone in the brokerage who can explain things to us," Mr. Hewins says.

"If you don't know anything about the technology, you can't fake your way through. The (client) engineer will find out very rapidly," he says.

If a broker who doesn't know the industry handles a satellite risk, an inappropriate level of insurance may be bought or an exposure can go uncovered, Mr. Hewins says.

Brokers must make sure, for example, that a satellite owner is protected against service interruption if the satellite malfunctions and that the owner is charged a fair rate for the coverage.

Brokers need to constantly stay in touch with satellite owners. Once a satellite owner's insurance program is in place and the satellite has been launched, there's still more work to be done, Mr. Hewins continues.

"Satellites only last as long as the fuel on board holds out—about 10 years." About every five years the satellite owners prepare a new launch, he explains.

Although a small brokerage may find it expensive to hire an aerospace expert, it can serve the satellite industry. One of the most experienced brokers in satellite risks is not one of the 20 largest brokers in the nation.

Nausch, Hogan & Murray Inc. in New York, which has about 25 employees, has placed more coverage than most other brokers servicing the industry, according to President Richard Nausch, who worked with Mr. Barrett earlier in his career.

Although some of the largest companies in the satellite business use their regular broker to place satellite risks, like American Telephone & Telegraph Co. and RCA Corp., many others solicit bids. That's how NH&M developed its book of business, which includes Western Union Telegraph Co., a subsidiary of Western Union Corp., and Hughes Communications Inc., a subsidiary of Hughes Aircraft Co., Mr. Nausch says.

However, the competition is growing, thanks to the many educational opportunities available. On the day before the most recent launch of the space shuttle Columbia last November, NASA sponsored a seminar about satellites for the insurance community, one of many such programs available.

"You could attend a space insurance seminar every week if you wanted to," he remarks.

Participation in such educational programs is growing, according to Mr. Nausch.

"In the past, (participants) tended to be the same four or five brokers—a basic fraternity. But that close fraternity is getting more members as there's greater utilization of spacecrafts," he says.

Greater utilization may bring more second-tier and regional brokers into the business.

Although the companies that build and launch satellites tend to be large, multinational corporations, generally beyond the reach

of smaller brokers, the companies that use the satellites can present other opportunities for small and medium-size agents and brokers.

"Once you get beyond the companies that build and send up the satellites, some of the companies you're talking about are small," Mr. Nausch says. Cable television, for example, relies on signals from satellites (see related story).

As satellite use increases, the number of smaller companies involved will grow as well. "You'll see four times as many brokers involved," Mr. Nausch predicts.

The national brokers will also be competing for this business, though. INSPACE has several clients that lease space on satellites. Mr. Hewins notes, adding the brokerage has also serviced clients who have needed insurance for a one-time satellite use, such as a corporation using video teleconferencing for a special program.

As the satellite industry grows, the numbers of insurers interested in the risks will grow, too. More and more insurers are underwriting satellite risks, Mr. Hewins says.

"It used to be that London and Europe took a lot of the risk. In the last year or two, there's been a growing American market."

The blossoming insurer interest in satellites stems from several sources, Mr. Hewins contends. Competition for premium dollars accounts for some of the growth. "With a depressed oil market, some of the marine writers weren't generating the premium they were in the past," he says, adding that they looked to satellites for extra premium.

"Also, as projects are getting larger and more familiar, there's more awareness of the business. People look at the space shuttle with pride. It's something intangible—wanting to be involved in the space industry," Mr. Hewins says.

Insurers writing satellite risks fall into three categories, Mr. Nausch says. On one end of the spectrum are the large insurers that have been underwriting satellite risks since the industry began. Those insurers understand the risks because there's a certain amount of redundancy in the types of risks involved, he says.

At the other end of the spectrum are small insurers, that are not a major force in the market.

"In the middle is the bulk of the people you talk to. They're brand new to the field. They've maybe written two, three or four programs. They keep getting to the edge of the water, and maybe stick their big toe in but not the whole foot," he says.

This middle group of insurers has the capacity to write satellite risks, but isn't very willing to commit that capacity. For example, "USF&G (United States Fidelity & Guaranty Co.) has capacity but hasn't exercised it yet," Mr. Nausch notes.

Increased capacity for satellite risks is important, Mr. Nausch says, since the number of satellite projects and their insured values are increasing faster than capacity.

A broker attempting to market a satellite risk may discover that the market's capacity has been strained by other programs.

Other high-tech industries don't face capacity problems. If presented correctly by the broker, underwriters welcome semiconductor companies' risks, Emmett & Chandler's Mr. Bodenheimer says.

Broker tunes in cable TV risks

CAPITOL HEIGHTS, Md.—Watching cable television isn't enough to make you a good cable television insurance broker. Behind-the-scenes risks and technology makes this industry a job for specialists.

One broker not only understands the business, but also pioneered the coverage now used in the industry.

Franey & Parr's interest in cable television grew with the adolescent industry, which now generates millions of dollars in insurance premium each year.

The broker's work in the industry began four years ago when it purchased another brokerage in Dallas that had a small portion of the cable TV business in the Southwest, says Vp Terry Sheldon.

"That agency had developed a unique marine policy form to cover the installation of the cable. We saw that (the agency) had done a little business in the industry, but that it was largely untapped. It was obvious that no one was looking to solve the industry's insurance problems," he says.

Learning about the industry took many hours and miles of footwork, Mr. Sheldon continues. "We did a lot of digging, meeting people and making contacts with the driving forces in the industry."

Franey & Parr also opened a branch office in Denver, which like Dallas, is a base for major cable TV companies.

After uncovering the problems cable TV companies face, the broker worked on solutions. The first step in improving coverage for the industry was revising marine coverage forms that are used

for insuring information in transit, Mr. Sheldon says, and later completely rewriting the property form.

"We then had to educate the insurance companies. The insurance industry doesn't understand the cable TV business. We had to say 'here's what they (cable TV companies) do and here's how you should cover them.'"

"We had to sell the cable TV industry to the insurance industry and the insurance industry to CATV," Mr. Sheldon says.

Franey & Parr places cable TV risks with four insurers, the names of which Mr. Sheldon wouldn't disclose. He adds the brokerage has exclusive rights to market some of those insurers' policies. It also serves as a subbroker for some of Corroon & Black Corp.'s clients.

In addition to establishing coverage against loss due to damage of underground wiring from floods and earthquakes, F&P helped the cable TV companies obtain surety bonds, which had been a problem, Mr. Sheldon notes.

Cable TV companies must provide performance bonds and franchise bonds that guarantee municipalities that the cable operator will complete the system in the area as it promises.

Bond companies, like insurers, had to be sold on the cable TV industry, Mr. Sheldon says. "Most bond companies don't know what franchise bonds are."

With F&P's help, however, they are learning, he adds.

M&M picks financial officer as president

By LEN STRAZEWSKI

NEW YORK—When is the right time for a brokerage to hire a top-level manager with more than insurance expertise?

For Marsh & McLennan Inc., the property/casualty brokerage division of Marsh & McLennan Cos. Inc., the time is now.

Last month, M&M Cos., the world's largest brokerage company, named Bruce Schnitzer, 38, previously the parent's chief financial officer, as president and chief operating officer of the brokerage subsidiary to replace Robert Clements, 50.

Mr. Clements was promoted to vice chairman of the brokerage.

Although Mr. Schnitzer has been with M&M since 1977 and is a member of the board of directors, his background is in investment banking, not in insurance. Previously, Mr. Schnitzer was a vp and head of the merger and acquisition group of Morgan Guaranty Trust Co. He holds a master's degree in business administration from the University of Texas.

John Regan Jr., chairman of the parent company, admits the promotion to top office of a financial

A/BT

M&M's C.T. Bowring Group subsidiary, said he anticipates a "triumvirate" leadership of the brokerage, split informally along the three executives' lines of interest and experience.

"Obviously, Bob Clements will take the lead in areas relating to service to clients and our relative position to the insurance markets,"

Mr. Schnitzer explained. "In that area, he is clearly stronger than I.

"Alessandro di Montezemolo's experience as the former head of Marsh & McLennan International makes him our specialist in international issues," he continued. "And we want to make the best use of that expertise. It will be many years before we are operating as a truly global company as is our goal, but Alessandro can help us with this perspective."

Mr. Schnitzer, who several industry observers say is destined for

a top position with the parent company, will focus on internal operations.

The separation of duties will not be formal, but rather "a question of dividing up the workload each morning," Mr. Schnitzer added.

Although financial managers are known for their desire for efficiency and cost control, Mr. Schnitzer says he enters the position with no special cost-control mandate.

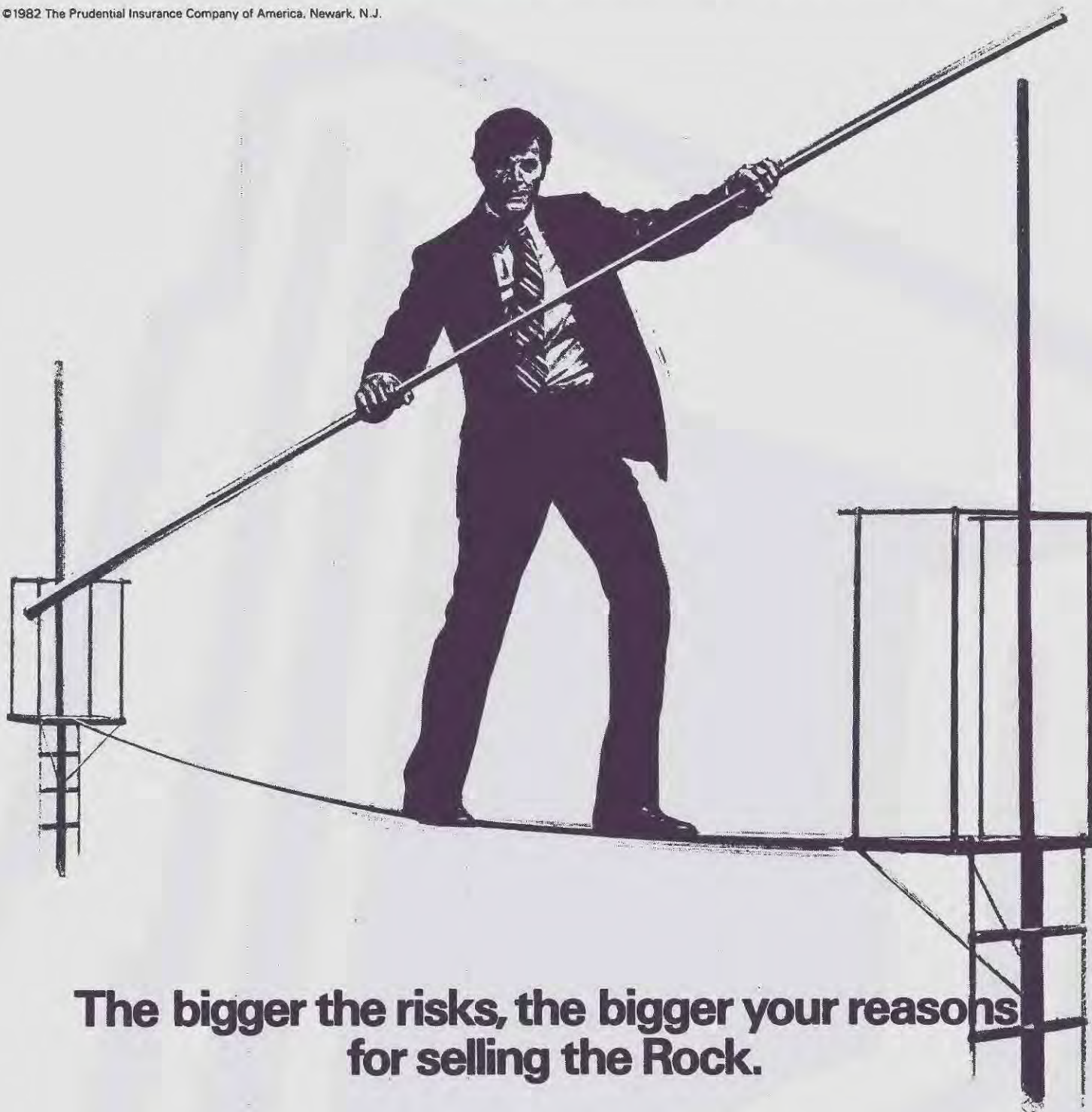
"We think the cost-containment measures already in place are sen-

sible and have been effective," he said. "The record of M&M earnings speaks for itself."

M&M has consistently ranked among the top earners of the publicly held brokerages, in spite of falling insurance premium rates and recessionary pressures, he notes.

Although M&M Inc. recently laid off several employees in non-brokerage support positions, Mr. Schnitzer predicts "no blanket layoffs" or other extreme cost-cutting changes.

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Mr. Schnitzer

manager rather than an insurance professional is unusual in the brokerage business, but not an unusual tactic generally.

Other brokers have tapped the professional management ranks for executive talent from time to time, notably Rollins Burdick Hunter Co., which hired its chairman, Charles R. Hall, from Continental Illinois National Bank.

However, most brokerages limit corporate managers to financial or internal operations functions only, fearing dilution of professional insurance standards.

Mr. Regan says Mr. Schnitzer's promotion will not diminish the firm's professional standards. If anything, he says, quality of performance will be improved.

"M&M Inc. is so big—60% of (the parent company's) revenues—we felt we could benefit from greater input from the management (rather than insurance) side," Mr. Regan says.

"This move will also give Bob Clements more time and freedom to function as our chief professional officer, overseeing and enhancing the quality of services performed by our profit-center offices."

The promotion, he adds, also takes into account the upcoming retirement of Alessandro C. di Montezemolo, 64, who became chairman and chief executive officer of M&M Inc. when the subsidiary merged with Marsh & McLennan International Inc. earlier this year.

However, Mr. Regan would not say who is likely to replace Mr. di Montezemolo as chairman upon his retirement.

Mr. Schnitzer, interviewed before leaving for London to attend the annual long-range planning of



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Miami agency dealing with fewer insurers

By DONNA LEIGH YANISH

MIAMI—Agents will deal with fewer insurers in the future, industry observers say, and SCN Insurance is showing them how.

SCN has already reduced its agency/insurer contracts to 12 from 20 by reviewing the value of each contract to the agency, explains President Rick Fenstermacher. The review, begun in July 1981, was completed in October.

Principals of the agency, which was formerly called Stevenson Nielson & Co., heard that insurers were making concessions in return for large blocks of business, Mr. Fenstermacher says. Rumors also rumbled through the marketplace that insurers were cutting back on

A/BT

their number of agency contracts, and SCN Insurance wanted to beat the insurers to the punch.

"We took (insurance) companies on right and left around 1975 when the market in South Florida was terrible. We grabbed anything we could get, ending up with 20 major insurers and no significant volume with any."

To find out which insurer was worth keeping, SCN established three tiers of desirable insurers. The first were aggressive insurers whose rates were competitive in today's market. When the review was complete, five insurers fit in this category. Mr. Fenstermacher, however, wouldn't disclose the insurers' names.

The second tier included valuable markets that weren't necessarily competitive now, but could be assets to the agency in the future. Three insurers fit this description.

Finally, "we identified four specialty insurers that weren't going to make or break the agency, but that filled in gaps," he says.

The next step in the weeding-out process was to contact the insurers in the first tier.

"We told them we were cleaning house and considering market reduction, and wanted to know what they would do for us if we transferred a book of business to them," Mr. Fenstermacher explains.

All five insurers the agency retained made concessions for retaining the contract. Most increased commissions 3% to 5% on a one-year basis, Mr. Fenstermacher says.

One insurer installed \$20,000 worth of computer equipment in the agency that interfaces directly with the company, he continues. SCN gave the insurer a volume commitment in return.

When the agency contacted the insurers that wouldn't be renewed, reactions varied, ranging from acceptance to indignation, Mr. Fenstermacher says.

"Some responded positively, saying 'thank you, we felt we weren't a force in the agency.' Others wanted to rehabilitate the relationship, but we said no."

"One insurance company is punishing us. It won't even increase a liability line for one automobile on an existing policy. (The insurer) said 'agencies don't cancel (insurance) companies, companies cancel agencies.'"

Although the agency's contracts with all insurers remain intact for the life of the current agreement, the agency lost clout with the canceled insurers, he says.

"We have no leverage with the claims department," he notes.

Insurers that the agency strengthened its relationship with, however, have become far more receptive to the agency's day-to-day needs.

"They know we've given them a commitment, so we're getting service from everyone from the head of the branch office on down to the mailroom," he says.

The changes did not seriously affect relationships with clients, Mr. Fenstermacher says, though some personal lines clients with long-standing insurer relationships did go to another agency.

"We tried to time the notice to the policyholder to arrive before the insurer's non-renewal slip. Some insurance companies' non-renewal slips say 'agency termination' that sounds as if we were terminated. It's still unusual for an agency to terminate a company," Mr. Fenstermacher remarks.

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Agents, brokers should learn what risk managers expect

CHICAGO—What does a risk manager expect from you?

Agents and brokers heard the answer to that question from someone who should know—a risk manager—at a symposium entitled “A Risk Management Approach to Commercial Accounts,” sponsored last month by The Chicago Board of Underwriters.

Ted Stathakis, assistant vp-insurance for financial consulting firm Walter E. Heller & Co. in Chicago, also posed and answered a few questions of his own:

- Why do I need you?
- What do I look for (in an agent or broker)?
- What do I expect?

“My degree of sophistication will dictate how much I need you. But I don’t know any risk manager that doesn’t need you at all,” he said. “I need you when it comes to obtaining a quotation.”

Most risk managers also need agents and brokers to help communicate with their insurers and their corporate superiors, Mr. Stathakis added. And sometimes they need another brain to pick about new coverages.

“How many of you have talked to risk managers about limits on general liability coverage?” he asked the audience. “That’s a major problem for risk managers.”

One agent responded that he always offers another layer of coverage, boosting protection, for example, from \$5 million to \$10 million.

But the decision to buy usually comes down to the gut feeling of the risk manager, the agent said.

If the risk manager decides to add coverage, he or she may also need the agent’s or broker’s help in selling the idea to a corporate superior. He advises agents to get to know top corporate decision makers as well as risk managers.

The agent also may have to be a good nag, Mr. Stathakis noted. “I expect the agent or broker to ride herd on me to get information to the insurer.”

“Many risk managers have never seen an application agents and brokers send to the underwriter. That shouldn’t happen. Make sure the risk manager sees the application and OKs the information,” he emphasized.

Also, the buyer may not have answered all vital questions. The agent or broker should find out whom the client expects to cover with the policy, Mr. Stathakis said.

“Make sure you know about all of the clients’ subsidiaries. Is the risk manager responsible for insuring those subsidiaries?” You don’t want any surprises if a subsidiary has a loss.

An agent or broker can help eliminate surprises for the client by insisting that the risk manager go through the policy when the agent or broker delivers it, Mr. Stathakis explained. “Make sure the risk manager understands if anything has changed since you talked with the underwriter.”

On larger accounts, bring the risk manager and the underwriter together, he suggested. That can help both of them become more comfortable and ease a communications gap.

Obviously, a corporate insurance buyer isn’t going to remember all the details you discuss about the policy when it is delivered, Mr. Stathakis admitted.

“Leave a summary with the risk manager,” he suggested. It should include a description of the coverage, limits, deductibles and annual premiums.

Risk managers also expect an agent or broker to counsel them on loss control, Mr. Stathakis said. They want to know if they really

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need a loss-control program. Few agents, however, seem to care.

Agents must study the client’s business to help with loss control, Mr. Stathakis said. “When your loss-control person goes through (the facility), give the risk manager a report. Make suggestions.”

When a loss does occur, agents and brokers should personally offer their assistance, Mr. Stathakis said. “I expect my agent to be there and help me through the loss. You owe it to the client. I may say I don’t need you, but you should at least ask. Don’t just send an adjuster.” ■



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AGENT/BROKER TOPICS PERSPECTIVE

Insurers should help agents win licenses

By MARJORIE C. KENNEDY

A/BT

Insurance companies depend on their agents, more than any other individuals within their organization, to generate income. Because of this, many companies give their agents undivided attention in matters of service and compensation.

However, there is one essential service that generally is not being provided efficiently to the agent: agency licensing.

Most insurers avoid the licensing problem because it involves a very technical area that requires specialized knowledge of the various state insurance codes.

Before agents can sell prop-

erty/casualty and/or life, accident and health insurance in their state of residence, a license must be obtained. Some licensing requirements are more stringent than others, especially if an examination is required and the agent has never been licensed before.

The licensing process is frustrating, costly, time-consuming and requires trained personnel.

If insurers would properly staff and train personnel in this important technical-support area, there is

no reason why agents shouldn't receive accurate, timely turnaround on their licensing requirements.

In addition, at the agency level, efforts to train personnel are ineffective, partially due to employee turnover. The use of a professional licensing service overcomes these problems at the agency level in a cost-effective manner.

Instead, there is a long delay between application and granting of a license that isn't necessarily the agent's fault. During this time, the agent is usually required to keep selling.

Legally, if an agent is not properly licensed, he or she cannot:

- Represent an insurance com-

pany.

- Make sales calls.
- Complete applications for insurance.
- Collect premium deposits.
- Receive commissions.

Most importantly, commissions can't be legally paid to an agent who has not received a license.

Many agents don't realize that if a policyholder is located in their state, but has insured operations in other states, the agent must obtain a non-resident license in the other states of operation in order to write the business.

A license is required to sell insurance or receive commissions from each state in which operations

occur. If the agent hasn't obtained a non-resident license in a state where the agent's client is doing business and the situation comes to the attention of the insurance department of the non-resident state, the insurer and the agent could have serious legal problems.

Some insurance agents and insurers have attempted to circumvent the non-resident licensing requirement by entering into reciprocal agreements with agents and insurers in other states if countersigning or residency requirements exist.

Most of the time, this practice goes unnoticed by the respective regulatory agencies. However, it can prove costly to the agent who produced the business if he or she is prohibited from receiving commissions on policies that fall into this category.

In one case involving a contractor that was awarded a sizable construction contract in another state when his insurance and surety agent didn't hold a valid non-resident agent's license, the surety company issued the required bonds and agreed with the agent that the commissions were due and payable.

They proceeded to secure signatures on the bonds and other related papers from one of their

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Ms. Kennedy

agents in that state. Subsequently, the matter was brought to the attention of the insurance commissioner in the non-resident state. He told both the agent and the surety company that any commission paid to the non-resident agent would violate the state insurance code and serious consequences would befall each of them unless they adhered to the statutes.

Needless to say, the agent was the loser because the commission had to be paid to the resident agent who signed the bonds and related papers, even though he didn't produce the business.

The producing agent missed receiving a commission worth more than \$10,000. Likewise, the premium was excluded from his annual written premium totals when the agent/surety company profit-sharing computation was tallied.

This seemingly innocent shortcut to avoid the time and effort necessary for proper licensing proved very expensive.

Proper licensing, both as a resident and non-resident agent, is a must today.

All states require a current non-resident license to solicit property/casualty and/or life, accident and health insurance in their state.

Many states, however, have reciprocal sales and licensing regulations for property/casualty insurance.

Continued on facing page

Marjorie C. Kennedy is director of services for RIMCO Risk Management Inc. in Dallas.

Continued from facing page
 ance. For example, if a California agent wishes to sell insurance in Texas, the agent cannot do so even with a non-resident license. Texas doesn't permit solicitation. Therefore, under the reciprocal provisions, California will not permit a Texas agent to do business in the Golden State.

No states have reciprocal provisions for life, accident and health insurance solicitations if the agent holds a current non-resident license.

Under the provisions of the insurance codes of all states, commissions on all new business may not be paid to an unlicensed non-resident, with the following exceptions:

- California and Michigan. Unlicensed non-resident agents may not receive any commission, unless the entire transaction takes place outside California or Michigan.

- New York. Unlicensed non-resident agents may receive commission on insurance covering property or other exposures in New York only if no service (solicitation) is performed in that state.

In all states, a license is not normally required to receive life, accident and health renewal commissions.

Many states require that, regardless of the residence of the insured or place where the contract is made, the policy must be countersigned by a licensed resident agent of the insurer.

An agent who fails to comply will lose the commission income.

Countersignature is required on property/casualty business for all states except Colorado, Connecticut, New Mexico, New York, Oregon, Tennessee, Vermont, Washington and Wisconsin.

Most states allow countersignature endorsement, but the countersigning agent cannot provide a supply of blank, signed endorsements. Countersignature is only required for life, accident and health policies written in Alaska, Arkansas, Delaware, Hawaii, Illinois, North Dakota, Ohio, Oklahoma and West Virginia.

The most overlooked law in insurance codes is the provision applying to corporate/partnership agency licensing. In addition to individual agent licenses, more than one-half of the states license insurance agencies, mostly on a retaliatory law basis.

Under a retaliatory law, restraints placed by state law on outside agencies are at least equal to the restraints placed by those other states on agencies doing business within their borders. The implication is that the agency is required to be licensed if solicitation is done in the agency's name or if commissions are paid to the agency.

Those states that require an agency to be licensed (either resident or non-resident) also normally require all individuals soliciting under the name of the agency to be listed on the license.

For example, if the individual lives in Illinois and is an agent of John Doe Insurance Agency Inc., a resident Illinois corporation, and is soliciting in Illinois under that agency name with business cards confirming he or she is their agent, the individual should be shown on the resident corporate agency license.

Some states not only require soliciting agents to be shown on the corporate license, but also require them to be corporate officers.

If no solicitation is being conducted in a non-resident state, then only one individual, generally a principal of the agency, must be shown on the non-resident license. A non-resident license is still required to receive commissions on the out-of-state exposures even though no in-state solicitation was performed.

A number of states require a non-resident corporate agency to

obtain a certificate of authority from that state's secretary of state even before applying for a non-resident license. To accomplish this, most agencies require assistance from an attorney or a professional licensing service.

Before opening a branch office in a particular state, an agent should examine the insurance laws and licensing requirements of that state. In some states, the corporate agency must form a separate domestic corporation with the secretary of state. In all states, the agency should at least qualify to do business by applying with the secretary of state.

Without qualifying, the agency could never bring suit within that jurisdiction and, more importantly, the agency could be in the position of being sued because it could be using a name that has already been taken by another corporation in that state.

In some states, the word "insurance" is prohibited from being used

in the corporate name, yet in other states, it is required.

In addition, a resident corporate license is required if that state licenses corporations. Some states license the authorized individual of the corporation only, and other states require that all officers and directors hold current individual resident licenses prior to issuing the corporate license.

Many insurance agents and brokers do not realize that most states have non-resident agent/broker licensing provisions.

However, agent vs. broker licensing provisions of the states are retaliatory. If an agent is not an exclusive agent of a company, many times it is advantageous to be licensed as a non-resident broker.

However, even an exclusive agent has the opportunity to be licensed as a broker. Obtaining a license as a non-resident broker may be advantageous because that broker can then place business with any insurance company, but with-

out binding authority.

When licensed as an agent, you must be licensed or appointed by every company with which you place business. This is true of both resident and non-resident laws.

Agents face another problem when trying to obtain insurance that is not available through admitted insurers. There are only six states (Alaska, Arizona, Louisiana, New York, Virginia and Washington) that will issue a non-resident excess/surplus lines license. However, in Arizona, Louisiana, New York and Washington, the agent must maintain a resident office.

In all other states, excess/surplus lines business must be placed through a resident excess/surplus lines agent or broker. A non-resident must possess a non-resident general lines (property/casualty) license prior to placing E/S business.

It is the licensed excess/surplus agent's responsibility to collect and pay applicable premium taxes, file reports, etc. Normally, the state

laws set a minimum and maximum fee that can be paid an E/S agent.

The penalties for non-compliance of the licensing laws can vary greatly, depending on the severity of the charge.

Monetary penalties could be imposed or the license could be revoked. If fraud is involved, imprisonment isn't out of the question.

In the case of a company, the certificate of authority to transact business could be revoked.

The licensing status of agents and insurers is public information and the public has the right to inquire about the licensing of an agent, broker and insurer in any state.

More and more, people are investigating an agent's or insurer's credentials. Thus, proper licensing can avoid embarrassment and loss of business. Fines for improper licensing can be in the thousands of dollars. Revocation of a license often means an agent never again will be able to obtain a resident or non-resident license. ■

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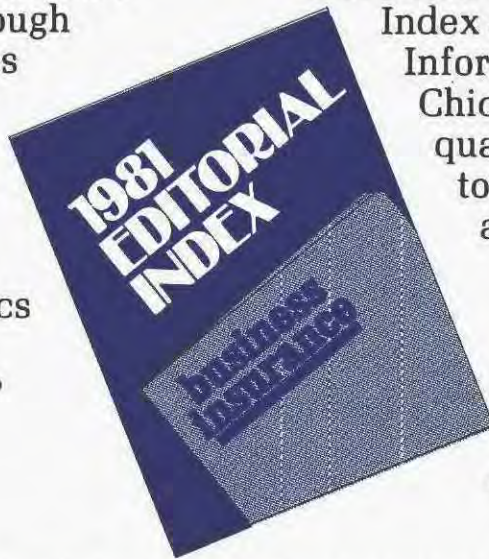
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Worker rapport helps comp program succeed

Continued from page 1

nia claims examiner Michael A. Hayward. But the high incidence of stress and cumulative injury claims, which have plagued some California employers, has not been a big problem for Lockheed.

A conservative estimate is that at least 6,000 cumulative trauma claims have been filed against California employers since 1981 by workers who have lost their jobs in a plant closing or relocation. Two-thirds of these have materialized in the past eight months (BI, Nov. 29).

Lockheed has experienced a small percentage of stress claims, but has never been hit with a dual-capacity lawsuit, in which an employee sues his or her employer outside the workers compensation system.

Following an employee injury, a Lockheed claims examiner stays with the file every step of the way. If the accident is serious, an examiner will contact the employee immediately to reassure him or her that medical bills and temporary disability benefits will be taken care of.

"In any event, the employee will hear from us within 48 hours," says Mr. Hayward.

The injured employee will first be seen by Lockheed's medical department, which refers the worker to a medical specialist if necessary. A claims examiner gets involved in scheduling appointments. After 30 days, the employee will be reimbursed if he or she prefers to see a personal physician.

"Our intention is to absolutely give him the treatment that he needs, but to know what his condition is and where he needs to go next," says Mr. Bush.

"We call each case a file—not a claim," he adds. "That's because each claims examiner knows the people involved."

An ability to demonstrate concern about employees is an important qualification for claims examiners because workers compensation research has shown that there is one reason why injured employees litigate: They think nobody cares.

"So you try to get people who demonstrate that they do care," says Mr. Bush. "We want someone with the expertise and background to handle claims, but also the sensitivity to deal with injured workers."

"Now, an injured worker might call you and you might think that it is not a legitimate claim—you

might think that—but you never want to convey that in the sound of your voice....

"We need people handling claims who want that injured person to get every penny he is entitled to... and not a penny more. And then to get it quick," stresses Mr. Bush.

But if a worker is dissatisfied with the way his or her claim is handled, the claims examiner will represent Lockheed before the Workers Compensation Appeals Board.

"It takes a very good claims examiner to do that," observes Mr. Bush. Sometimes the complexity of a case or constraints on staff time dictate use of outside counsel.

Lockheed's workers compensation team consists of seven claims examiners, one field investigator, a vocational rehabilitation administrator and four clerks. Backing up the staff is the company's computer program, which was designed in-house at a time when good software was not yet commercially available.

"We developed the one (software program) we have after our own programmers looked at an outside product we were considering and just laughed at it," says Mr. Bush.

Today, it's a lot different, he concedes. There are many vendors out there with good claims information systems, especially for group medical insurance, although fewer offer good systems for workers compensation claims, he says.

Lockheed's workers compensation software program enables the company to analyze claims, but it generates a lot of paper and is not interactive. Mr. Bush is considering purchase of minicomputers with an ability to provide on-line claims information.

Computers are a part of the mystique about self-administration, but they are not the secret to a successful workers compensation program, he believes. Employers need to know the frequency and severity of accidents for safety prevention, but at Lockheed, this function is separated from work comp claims administration.

"This may sound old-fashioned, but I would almost trade my computer system away entirely to get two more claims examiners who can take the time to talk to people. Knowing the injured workers, that's the key ingredient," says Mr. Bush.

This human relations approach

also has paid off in Lockheed's vocational rehabilitation program. "We started it in 1978—I think we were the first company to have an in-house vocational rehabilitation administrator," recalls Mr. Bush.

Since 1975, California employers have been required by law to provide vocational rehabilitation or training to injured employees with a permanent disability that prevents them from returning to their pre-injury job.

Lockheed has found new jobs within the company for nearly 300 such injured workers. This requires a lot of cooperation from line production and industrial relations managers. Another 60 workers are currently receiving post-injury counseling. And 75 were "generally disinterested in working," says Mr. Bush.

Following an injury report, Lockheed's workers compensation staffers set up an accounting reserve to fund the claim. But the reserves are not held in a separate account. To segregate funds this way would destroy part of the value of self-funding because Lockheed would lose the use of the money.

Lockheed retains an independent consultant to audit its claims reserves every year—and not always the same firm. "I find it beneficial, not so much from the point of view of administration, but so that our corporate fathers can sleep at night," says Mr. Bush.

The company's reserves also have been audited by California state examiners three times since 1977 and given a clean bill of health.

To protect itself in the event of a major catastrophe, Lockheed carries stop-loss insurance above a \$500,000 per occurrence self-funded retention. Aetna Casualty & Surety Co. is the primary insurer of the coverage, which provides limits of \$250 million for combined workers compensation and general liability exposures.

Besides workers compensation, Mr. Bush's responsibilities include Lockheed-California's property/casualty insurance and group health insurance for more than half of the parent's worldwide workforce of 70,000 employees. The

group insurance program also is self-funded and administered.

"Workers compensation is so vastly different from group health insurance—there you get a claim, and you pay it," says Mr. Bush. A workers compensation claim may be with you for six years and you have to monitor its status every step of the way.

And claims are going to have to be handled even more carefully in view of 1982 California legislation

that substantially raises benefit levels for injured workers. The California Self-Insurers Assn. predicts that workers compensation costs will increase 21% in 1983 and another 6% in 1984, reports Mr. Bush. Some estimates are even higher.

"I think 21% is very adequate, in fact I don't see costs going up that much," says Mr. Bush. "That is the figure I've used in talking with our financial forecast people."

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Florida proposes tough HMO rules

TALLAHASSEE, Fla.—Florida Insurance Commissioner Bill Gunter wants health maintenance organizations to meet tougher financial standards, but some HMOs say the proposed rules could force them to shut down.

Mr. Gunter, who says the financial condition of HMOs must be strengthened because of cutbacks in federal support, wants all 12 HMOs in the state to document by later this month that they have adequate working capital.

An HMO that does not have adequate working capital, which the department defines as \$100,000 in cash or an amount sufficient to pay all operating expenses for three months, could face proceedings leading to a revocation of its certificate of authority.

In addition, HMOs must submit, along with their annual financial statements, an actuarial certification that the plans are financially sound and that the rates they charge are adequate.

In March 1979, the state forced South Florida Services Inc. in Miami to close because of financial problems. In 1981, Prepaid Health-

Plan in Clearwater, Fla., was taken over by INA Corp., while Blue Cross/Blue Shield of Florida took control of South Florida Group Health Inc. of Miami in 1982.

Prepaid Health Plan and South Florida Group Health had been placed in the state's rehabilitation and liquidation division before they were taken over.

HMO officials acknowledge that new financial requirements may be necessary to prevent failures.

But some HMO experts say the adequate working capital reserve requirement is so tough that even financially sound HMOs could not meet it and would have to close.

"Maintaining these reserves would be a tremendous requirement," said Yaakov Kronfeld, vp of operations at Healthcare of Broward Inc., an 18-month-old HMO in Plantation.

"There has to be a sensible reserve requirement, but these rules could kill the provider (the HMO) that provides the services," Mr. Kronfeld warned. He noted that many of the nation's largest industrial corporations lack the kind of reserves that Mr. Gunter proposes.

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Insurers lowering comp rates in Kentucky

Continued from page 1
deviating from it.

In response, most of the self-insurance groups are adjusting their rating structures hoping that greater discounts and a strong dividend record will keep open rating from eroding their membership in this newly competitive environment.

With the stiff competition for workers compensation business, most insurance providers in Kentucky are seeing some defections from their ranks and the trend of shifting insurers is expected to continue until the workers compensation market stabilizes.

"We joined a self-insurance group three years ago and had a considerable reduction in our workers compensation premium by becoming a part of that group," said Joel H. Newman, vp-finance for Louisville-based Ben Snyder Inc., which owns Ben Snyder's Department Stores. "But with the open ratings, we received a quote from a carrier that was lower than our premiums would have been with the group."

"When our broker came to us with that quote, we told him to tell the carrier to sharpen its pencils and to get quotes from several other carriers. We're reviewing those quotes right now and feel we will be going back into the commercial market."

Mr. Newman expects to realize at least a 10% reduction in the cost of workers compensation insurance for Snyder's approximately 600 Kentucky employees.

R.A. Jones & Co., a manufacturing firm near Crescent Springs, a Kentucky suburb of Cincinnati, found most of the insurance companies bidding for its \$90,000 in worker compensation premiums were offering at least a 15% deviation off the NCCI rate for their high-risk classification.

"The least competitive was 15%," said Jim Schulte, vp-finance for R. A. Jones, which makes packaging machinery. "One company went off the rates by as much as 25%."

The manufacturer, which employs about 350 people and has been using a commercial insurer, decided to change insurers after re-

viewing all the bids. The previous insurer failed to offer as enticing a workers compensation proposal as some of the competing firms, according to Mr. Schulte.

Kentucky's school districts are reviewing their workers compensation insurance prior to renewals this month. Most of the 180 school districts are members of the Kentucky School Boards Insurance Trust in Frankfort, established in 1979 to provide workers compensation benefits for elementary and secondary school employees.

For the past month, Janis Scott, director of insurance for the school trust, has spent hours on the phone trying to keep her association members from making any kind of insurance switch in the wake of the deregulation.

"Four or five years ago, a board of education in this state could not beg, borrow or steal a workers comp policy. Nobody wanted to bother with them," said Ms. Scott.

However, during the renewal process some of the school boards received quotes from commercial insurers offering as much as 40% to

45% off the NCCI standard rate, while the school trust will be discounting the NCCI rate by 25% next year.

Frank Gross, who chairs the state's Independent Insurance Agent's Assn. task force on workers compensation and self-insurance, characterizes the ability of the commercial market to compete with the self-insured groups as one of the primary benefits of the new law.

"Heretofore, we couldn't touch them," said Mr. Gross, president of Lenke-Gross Insurance Associates Inc. in Covington. "There are a myriad of self-insured individuals like General Electric and the other heavy hitters but we're not concerned about them, just the group folks we'll be able to get back in the door."

"Right now, we're being extremely competitive with the Kentucky School Board Trust and a lot of agents throughout the state have given a lot of competitive quotes to the school boards. I know many of the quotes are less than what the school boards have been paying."

Despite the push for the school board business, Ms. Scott believes she will be able to keep all 142 school boards that currently are members of the trust, which has an annual earned premium of about \$2 million.

"These school boards are faced with a lot of local pressure, but I think they realize that if the commercial insurers run us out of business, they won't have an option anymore," said Ms. Scott.

"The insurance agents help elect these board members, so we've been talking to a lot of school boards. But once we explain our financial operations and explain the dividend factor, most are deciding that a one-shot year with a commercial carrier is not as prudent financially as being with the self-insured group."

In the past, non-profit group associations have been able to combine discounted premium rates with dividend plans, which commercial insurers rarely offered to small employers, making the groups often more attractive than

Continued on facing page

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Circulation Breakdown*

Commercial Consumers

Administrative Management: owners, presidents, vps, etc.	6,497
Financial Management: chief financial officers, vps of finance, secretaries, treasurers, etc.	9,634
Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,948
Government, Associations, Unions, Educational Institutions	1,004
Commercial Consumers Sub-total	23,083
Insurance Agents & Brokers	9,629
Insurance Cos.	4,944
Financial Institutions	314
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,406
Others allied to the field	854
TOTAL	41,232

*Source: Business/Occupational breakdown of qualified circulation, May 3, 1982 issue, as submitted to BPA for June 1982, BPA Publisher's Statement.

Continued from facing page
the commercial insurance companies. Kentucky requires a two-year waiting period before any dividend is paid for a given policy year.

The school trust paid its first dividend last January, returning 32% of the 1979 premiums to its members. In 1983, the trust will return an across-the-board dividend of 20% on Jan. 1 and another 20% that will be prorated based on individual loss experience on July 1, resulting in a total of 40% of the members' 1980 premiums being returned.

Members of the Greater Louisville Automobile Dealers Assn. Workers Compensation Fund have had commercial insurers pitching business to them, too, but none of the members has made a move, says Executive Vp George E. Johnson.

"It (commercial insurance) is still not competitive, particularly when we've been paying such big dividends," said Mr. Johnson. The fund has 33 dealers and generates an annual premium of about \$300,000.

The GLADA fund paid a 71% dividend in 1982, which meant members got back 71% of their 1979 premium. That was in addition to a 20% discount off the NCCI rate initially. Next year, the initial premium rate will be discounted 25% and the dividend for the 1980 fund

year is expected to be between 65% and 70%.

"Our loss ratio this year was 6.5% and I think the national average is about 30%," Mr. Johnson said. "We've just had a fantastic year. When the interest rates were at 18.25%, we earned enough on our (certificates of deposit) to pay all our claims off the investment income."

The Louisville-based Kentucky Associated General Contractors Self-Insurers Fund, which has about 300 members and annual earned premiums of about \$2.5 million, is adjusting its rate structure to respond to the increasing competition.

"Obviously, what we've done is attempted to meet the changing market conditions with our discount schedule," said Stephen P. Gennett, the fund's administrator. "We've developed a scaled discount, stepping through different levels."

For example, small firms with lower total premiums would receive a 15% discount off the standard rate, while firms with a larger premium could receive as much as a 35% rate discount.

The contracting fund is just completing its renewal period. It lost only one fund member and is still picking up new firms.

"We lost that one before our

scaled discount was put into effect," Mr. Gennett said. "When we went back to him with the scaled discount, we showed him an \$8,000 savings over what he was going to get with the major carrier's rate deviation. But, he said he was already committed to that carrier on a total package."

There are a variety of rate-reduction measures being used by insurers including the addition of dividend plans for both small and large employers. Although the law precludes insurers from guaranteeing a dividend, they can develop a proposed dividend plan, which when combined with a rate discount enables them to compete with the non-profit group associations.

"There seems to be no continuity in what is being offered," said M&M's Mr. Haner. "Some of the insurers are just taking a flat percentage off the rates, others are setting deviations from the rates based on individual experience within a specific classification (like a bank compared with a coal company) and others wait until you get to the premium and discount off of that."

"With the Kentucky law being as drastic as it is, I'll be interested to see what the true underwriting results are," he said. "I would think most companies will end up with underwriting losses in their anxiety to get business on the books." ■

'First-discovery' policy to be dropped

Continued from page 2
very" policy for a chemical manufacturer for the calendar year 1983. During that period the company manufacturers a chemical that goes into consumer use. In 1993, it is discovered that the chemical is cancer-causing.

Under an occurrence-based policy, the 1983 insurer might face a legal charge that it should cover the chemical manufacturer for the 1993 losses because the chemical was made in 1983 and damage due to exposure began "occurring" then.

Under a "first-discovery" policy, only a post-1993 insurer of the chemical manufacturer would be responsible for cancer-related damages if they are discovered by the victim or chemical company during the policy year in question.

Under a "claims-made" policy, the only important time factor is when the injury is presented as a claim, regardless of when the injury is first discovered or what caused it.

Buyers and brokers objected because they believed the new forms would let insurers escape liability in situations where they now must pay claims.

And, the National Assn. of Insurance Brokers warned that unless ISO gave the issue more thought, buyers would probably start placing risks only with insurers that do not use an ISO form, including the placement of more business in the non-admitted markets instead of with ISO-member insurers.

"ISO's board of directors has recently given instructions to pursue a new course," says Frank W. Barry, a director of the commercial insurance department at Aetna Life & Casualty Co.

He says it appears ISO will not press the idea of a "first-discovery" trigger.

"It represents such a dramatic

change from what we have today," says Arthur Phillips, senior vp-casualty at The Home Insurance Co. "The likelihood is that it would be rejected by the brokers and the buyers."

Mr. Phillips says the pharmaceutical- and asbestos-industry liabilities that have triggered concerns about long-past exposures to latent diseases may not be typical of most liability risks. "I'm wondering if ISO isn't attempting a sort of overkill (with the first-discovery trigger)," he says.

Not all company executives agree that a consensus has been reached about how to proceed on the policy rewrite.

Firemen's Fund Insurance Cos. hasn't taken a formal position yet on the trigger question, says Fred G. Marziano, vp and senior underwriting executive-commercial lines. But he says "there are substantial areas that concern us" about the proposals ISO unveiled last year.

"The brokers and customers feel nothing should change, and we don't feel comfortable with that," says Thomas A. Jackson, secretary-field division/product management at Travelers Corp. "There is not much doubt that the carriers would like to change the 1973 form (however)."

For the record, ISO officials say the moves by the industry rating and trade group, with 650 insurer members, will not represent an abandonment of ISO's efforts to modernize its commercial general liability form, but rather a "modification" of that effort.

"This is a modification of our exposure draft, not an abandonment of it," says B. Joseph Shelly, president of the Commercial Risk Services affiliate of ISO. Mr. Shelly says that ISO may unveil a new set of proposed CGL policy forms for

industry and buyer comment as early as February. ■



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Fireman's Fund insures bridge repair

NOVATO, Calif.—Fireman's Fund Insurance Cos., which insured the construction of the Golden Gate Bridge in the 1930s, will now cover reconstruction of the San Francisco landmark.

Fireman's Fund is providing a \$52.4 million performance bond for a joint venture between Dillingham Corp. and Tokola Offshore Inc. The two companies will re-

place the deck on the 1.7-mile bridge spanning the entrance to San Francisco Bay.

The performance bond was placed by brokers Corroon & Black and Miller & Ames and written through Fireman's Fund's San Francisco office.

The repairs, scheduled to begin early this year, should be completed by late 1985. ■

SCM redesigns health plan in record time

Continued from page 3

coverage under the basic medical plan. After payment of the deductible, all costs would be shared between company and employees on an 80%-20% basis.

"(The employee relations directors) didn't see how this program would fly with no full first-dollar coverage," Mr. Duva said. He added that although there was "some sentiment" for the original Hewitt plan by SCM's board, management decided to follow the task force recommendations to include first-dollar coverage to \$2,000.

"The recognition that we want a favorable employee reaction weighed in favor of the modified approach," he said.

In the first week of October, SCM hired Johnson & Higgins to design and coordinate a communications drive to explain the new benefit plan to eligible employees.

Within five weeks, J&H had finished its work. A two-day training seminar was held in New York to familiarize 75 divisional employee relations staff members with the new plan. The employee relations people then went back to their various divisions to pass the word along to employees.

Slide presentations were used to explain the new plan to employees, who also received enrollment kits that included written summaries of the changes being made and a phonograph record with messages from Mr. Duva and SCM Chairman Paul Elicker.

By the time all the explaining was finished, employees had a month to enroll in the new benefit plan before its Jan. 1 inception.

Since 1970, the cost of SCM's employee benefits program has jumped from about 24% of payroll to almost 40%.

Part of the increase can be attributed to improvements made in

SCM's plan over 12 years, including the addition of group dental insurance, an increase in the maximum benefit for major medical and the elimination of employee premium contributions for group medical coverage.

Other reasons cited by SCM for the jump in costs include greater utilization of services and the ever-growing expense of those services because of inflation and government-mandated changes such as stricter Medicare and Medicaid reimbursement procedures that have shifted public health care costs to the private sector.

SCM's health care costs shot up 20%, or about \$4.5 million, in 1981 and another 25%, or about \$6 million, in 1982. This rate of increase probably will continue in 1983, the company projects.

Blunting the peaks of this soaring cost curve was the purpose of the new benefit plan.

The plan combines two previous, nearly identical benefits programs, one of which covered SCM's Smith Corona, Proctor-Silex and Kleinschmidt subsidiaries, and the other that covered its Durkee Foods, Glidden Coatings and SCM Organic Chemicals & Metal Products subsidiaries.

Another subsidiary, Allied Paper, will continue with its own separate benefit plan until Jan. 1, 1985, when its employees will join SCM's new comprehensive plan.

The revised health and life insurance package, underwritten by Prudential Insurance Co. of America, now includes deductible, stop-loss and cost-sharing features. Another addition to the plan is a 401(k) salary reduction option for the company's Retirement Savings and Investment Plan.

Where no deductible existed for basic medical insurance under the previous plans, SCM employees will now pay a \$150 annual deductible for individual coverage or a \$300 deductible for family coverage.

The plan will cover 100% of hospital services, room and board and surgical charges to \$2,000. Beyond

that amount, SCM will pay 80% of the charges and the employee will pick up 20%.

Previously, SCM paid 100% of surgical expenses with no cost-sharing. The plan covered 100% of hospital services and room and board for 200 days and 80% for any period beyond that.

Under the new major medical program, no separate deductible will be applied; only one deductible must be paid by each person or family per year for basic and major medical insurance. Under the old plans, a \$100 major medical deductible was applied to each person for each illness or injury. SCM has also increased the maximum benefit for major medical to \$1 million from \$250,000.

Along with the new deductible and cost-sharing features, SCM has increased employee premium contribution levels for its medical insurance program. While single employees made no contributions under the previous plans, they will now be required to pay \$4 monthly. Employees opting for family coverage will pay \$15 per month. Coverage for families under one of the previous plans costs \$5 per month; no contribution was required under the other plan.

Not all of the plan changes increase employees' responsibility for health care costs, however. SCM has also added a stop-loss feature to its package, limiting the expenses each employee must bear to \$2,500 each year, including all deductibles and co-payments, for individual coverage and \$5,000 for family coverage.

No changes have been made in the outpatient psychiatric insurance program. The company will continue to pay 80% of outpatient psychiatric charges to a limit of \$2,500 per person per year, with a maximum lifetime benefit of \$25,000.

SCM's group dental plan will also remain unchanged.

After payment of a \$50 deductible per employee or family member, SCM covers 80% of charges for basic dental services like teeth cleaning, X-rays, oral surgery, fillings and root canal work. A separate deductible of \$50 per person is applied to major dental services—such as gold inlays, crowns and prosthodontics—which SCM covers at 50% of usual and customary charges. The maximum benefit per person for basic and major dental services is \$1,000 per year.

Orthodontia is covered for employees and family members under age 19, with a separate \$50 lifetime deductible and a lifetime maximum benefit of \$500 per person.

No employee premium contributions are required for group dental

coverage.

SCM is also making several changes in its self-insured long-term disability program. Disability benefits will remain at 60% of pay, but the maximum monthly benefit has been increased to \$5,000 from \$2,500. While the minimum monthly benefit under the old plans was 10% of pay, the new minimum will be \$100 per month.

In some cases, monthly employee contributions for long-term disability insurance will be reduced. Under one of the old plans, employees had to contribute 0.4% of salary; under the other, 0.1% of salaries under \$9,600 and 0.3% of salaries over \$9,600 had to be paid. Under the new program, required contributions will be 0.1% of salaries under \$20,000 and 0.3% of salaries exceeding that amount.

SCM is also touching up provisions of its group life insurance package. Where one of the old plans provided \$1,500 in life insurance at no cost to employees, the new plan will add \$10,000 to that amount. (The other existing plan already provided the additional \$10,000 of coverage.)

The company is also adding accidental death and dismemberment insurance as a basic benefit in its life insurance package. Each employee will be provided an additional \$10,000 in basic AD&D coverage at no cost.

Optional benefits now include life and AD&D insurance amounting to 100% of pay or 200% of pay, less the basic \$10,000 benefit. Monthly costs for this option range from 20 cents per \$1,000 of coverage for persons under 35 years old to 50 cents per \$1,000 for those older than 55.

Additional voluntary AD&D insurance is available to employees in \$10,000 increments to maximum of \$300,000 or 12 times earnings, whichever is less. An employee's spouse may be covered for the lesser of \$150,000 or the employee's amount and the employee's children may be covered to a maximum of 5% of the employee's coverage. Costs for the voluntary insurance are 43 cents per \$10,000 for employees, 36 cents per \$10,000 for their spouses and 7 cents per \$10,000 for their children.

Under SCM's old benefits programs, optional life insurance was available only for 200% of pay less the basic life benefit amount, at a cost of 25 cents per \$1,000 of coverage per person.

At the same time SCM was modifying its health care benefits pack-

age, it added a 401(k) salary reduction option to its Retirement Savings and Investment Plan.

The retirement plan allows employees to contribute up to 6% of their earnings. These basic contributions can be deducted from their pretax salary, taking advantage of the 401(k) option, or can be taken from after-tax salary, or a combination of the two. SCM offers a 50% company match on all basic contributions.

In addition to the basic contributions, employees can make supplemental contributions to the plan of up to 10% of salary.

While after-tax contributions may be withdrawn at any time, 401(k) contributions may only be withdrawn at age 59½ or upon proof of hardship. Effective Jan. 1, 1984, SCM plans to add a provision allowing loans to be made on the 401(k) funds. The loans could be made only once every three years and would have to be repaid within five years.

Although SCM's Allied Paper subsidiary continues to have its own separate benefits program, the division has also made changes to its plans, according to Mr. Duva.

Allied has added the same \$150 per-person/\$300 per-family yearly deductible to its medical plan, providing 100% coverage of hospital and surgical charges up to \$5,000. Allied has also added a 401(k) option to its retirement plan.

Although all of the change apply only to salaried employees, Mr. Duva says SCM will try to make similar changes in the programs covering its hourly employees as union contracts come up for renegotiation.

As of last July 1, the benefit plan for employees at the Smith-Corona plant in Cortland, N.Y., was renegotiated to include a front-end deductible, employee contributions and some other cost-sharing features, Mr. Duva said.

Mr. Duva pointed out that SCM does not expect to see immediate savings from the new benefit plan design, which was intended to reduce costs over the long term.

"All we ever thought is that it would slow the rate of increase (in health care costs). We never thought it would have an immediate impact on lowering costs," he said.

The plan changes are really intended to get employees "into the subject of cost containment" and reverse employees' expectations of "more, more, more" from their benefit plan, he said.

UC at San Francisco to hold series on retirement planning

SAN FRANCISCO—The University of California at San Francisco will hold its second series of seminars on retirement planning during the first half of the year.

The five seminars in the series will address in practical terms current information on retirement preparation topics and techniques for planning and implementing pre-retirement programs.

The five seminars are:

- Feb. 15. "Retirement Program Design," to be led by Lucy Ann Geiselman, a policy scholar at the university's Institute for Health Policy Studies.

- March 15. "Retirement Counseling," to be led by Mary Dale Scheller, a consultant/trainer on gerontological issues.

- April 19. "Health and Well-being in Retirement," to be led by Dr. Mervyn Silverman, director of public health for the city and county of San Francisco.

- May 17. "Leisure Planning," to be led by Helene Nemschoff, a leisure planning consultant; Heather Paige, director of the Marin County, Calif., Senior Information and Referral Service; and Sydney Pucek, manager of the United Way of the Bay Area Information and Referral Service.

- June 21. "Social and Health Policy Issues in Aging and Retirement," to be led by Juanita B. Wood, a senior research associate at the university's Aging Health Policy Center.

Each of the seminars will be held from 9 a.m. to noon at different locations in downtown San Francisco.

The cost for the entire series is \$150.

To register or for more information contact University of California Continuing Education, School of Nursing—N-4, University of California at San Francisco, San Francisco, Calif. 94143.

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NCR uses dental plan to promote cost sharing

Continued from page 3

services, prescription drugs and inpatient and outpatient psychiatric services.

Under both plans, the lifetime maximum benefits paid by the company increase to \$1 million from \$250,000.

"The bad economy has forced everyone to look at costs," explains James E. McElwain, NCR's assistant vp for compensation and benefits. "When you consider the cost-cutting option—freezing pay and laying off workers—you begin asking yourself why let things get out of hand in the other areas, like benefits."

Like most companies, NCR has been battling rising medical costs the last two years. Last year, NCR spent \$40 million for medical benefits for 30,000 hourly and salaried employees. That was a 17% increase over 1981 costs, and NCR expects another 20% increase this year.

"What we need is 30,000 police who will check what is happening with health care," says Mr. McElwain, explaining why the company decided to throw some of the responsibility for health care costs onto employees.

The new options program, offered to 25,000 non-union employees, is part of a total benefits over-

haul that began in October when NCR introduced an employee health care hot-line system.

The hot line gives employees advice on surgical problems, how to review and question physicians' bills and how to get the most out of their medical insurance program.

The 24-hour hot line is manned by consultants from Prudential Insurance Co. of America, which is NCR's claims administrator and underwrites stop-loss coverage for the health and dental plans.

In line with this move toward cost containment, NCR for the first time is offering coverage under both new health plans for home

health care, hospice care, second surgical opinions and ambulatory surgery.

Home health care not only saves money for the employee and employer by trimming costly hospitalization expenses, but experts believe the home is often a better environment for the patient and can actually speed recovery, points out Douglas Bartlett, NCR's director of employee benefits.

Under the home health care plan and the hospice care program for the terminally ill, NCR provides payment for most physician-prescribed, at-home medical services. Employees do not have to be hospitalized first to qualify for the coverage.

The plan pays \$50 per visit up to 100 yearly visits for:

- Part-time intermittent home nursing care services rendered by a registered nurse.
- Part-time intermittent home health aide services (personal care).
- Physical, occupational, speech or respiratory therapy by a qualified therapist.
- Nutrition counseling provided or supervised by a registered dietitian.

• Medical supplies, laboratory supplies, drugs and medications prescribed by a physician.

To control surgical costs, NCR also is introducing a mandatory second surgical opinion program.

Under this plan, employees must seek a second medical opinion before certain elective surgeries. NCR will pay 100% of the cost of a second opinion for a bunionectomy, hysterectomy, prostatectomy, repair of deviated septum (operation on nose and sinus), knee surgery, dilation and curettage (dilation and scraping of the uterus), mastectomy and other breast surgery, cataract removal and other eye surgery, varicose vein excision and ligation, cholecystectomy, hernia repair and tonsillectomy and adenoidectomy (removal of tonsils and adenoids).

If the employee receives a second opinion that confirms surgery is necessary, NCR will pay 80% or 90% of the cost after the deductible, depending on which health plan the employee has chosen. But, if the employee fails to seek a second opinion, NCR pays only 50% of

what it would have normally paid.

Under the ambulatory surgery program, in which the employee receives medical care on an outpatient basis, the same payment schedule is applied. NCR only picks up half of what it would pay for a particular procedure if the employee seeks inpatient care for an arthroscopy (examination of an interior joint), biopsy (removal of a tissue), bronchoscopy (examination of the lungs), dilation and curettage, laryngoscopy, myringotomy (surgical incision of the eardrum), nasal polyps (removal of growth from mucous membranes of the nose), podiatric surgery, sigmoidoscopy (examination of the colon), tenotomy (cutting of a tendon), vasectomy and tubal ligation by laparoscopy.

NCR also is introducing an inpatient review program that utilizes an outside professional medical review committee to review both the treatment of a patient and his or her progress. Claims payments are reduced if the patient stays in the hospital longer than the committee thinks is necessary.

NCR also has added an employee assistance program to provide personal counseling for emotional and family distress, alcoholism, drug abuse, financial difficulties and legal problems.

The voluntary program is fully financed by NCR and will be introduced gradually from location to location, said Mr. Bartlett.

The company also is providing special re-employment training to employees who have suffered a severe injury or suffered an extreme disability resulting from a heart attack, stroke, spinal cord disease, severe respiratory disease, glaucoma, severe renal disorders, degenerative arthritis and rheumatism.

The program provides employees with physical therapy, social guidance and disability income for a maximum of 12 months.

Employees who return to work will continue to receive the benefit, less 80% of their job earnings for up to one year or until it has been determined that the employee has satisfactorily recovered.

The benefit is provided at no charge to employees.

Bank opens benefit accounts

Continued from page 3

portion can be collected in cash, subject to income tax withholding, or be transferred back to his or her profit-sharing account, where it will collect interest tax-free with the rest of the accumulated profit-sharing funds.

Among the benefits for which the accounts can be used are:

- Medical. Employees can use the funds to pay for health plan deductibles, premiums and co-payments.

Chemical offers two medical plans: one with low deductibles and high premiums and one with high deductibles and low premiums.

Deductibles for the high-cost plan range from \$100 to \$200 per year depending upon the number of dependents covered. An employee must pay \$65 per month toward the cost of the plan premium if he chooses individual coverage, while Chemical pays the rest of the premium.

The plan covers 80% of hospitalization costs and other medical and surgical charges up to \$5,000. It pays the full cost of all charges above that amount. Under this plan, an employee's maximum out-of-pocket medical expense is \$1,200 a year.

An employee opting for the low-cost plan must pay just \$15 of the monthly premium for individual coverage, but deductibles range from \$200 to \$400.

This plan pays 80% of charges up to \$10,000, and 100% of all costs over that amount. Under this plan, an employee could pay up to \$2,400

a year in out-of-pocket medical expenses.

Chemical self-insures both of the medical plans, while New York Life Insurance coverage serves as plan administrator.

• Dental. Employees who opt for Chemical's new dental plan must pay a premium charge of \$4 per month for individual coverage, \$8 a month for one-dependent coverage or \$15 per month for coverage for two or more dependents.

The plan, which is also self-funded, covers 100% of all charges for diagnostic and preventive care. It will pay 50% of all restorative and periodontic charges up to an annual maximum of \$750, according to a schedule of reasonable and customary charges.

There is a \$50 per-person or \$100 per-family deductible for restorative and periodontic care.

The plan also pays 50% of all orthodontic charges up to a lifetime maximum of \$1,500 per covered individual.

• Survivor income. Under the self-insured survivor income plan, Chemical will pay an employee's beneficiary 10% of the worker's final salary for life should the employee die before he or she retires or leaves the company. This benefit is provided to all employees at no charge.

Employees with at least 10 years of service with the company can increase the amount paid to a survivor to 25% of salary for a premium equal to 0.5% of annual salary.

- Child care and legal expenses.

Employees can use the ESAs to pay for dependent child care or legal services if the services are listed by the Internal Revenue Service as tax-deductible.

Eligible legal services include the drafting of wills, estate planning and fees to attorneys handling home purchases.

Employees who use the account to finance medical, dental and legal expenses are restricted to spending a maximum of \$800 on these expenses, excluding medical and dental plan premium payments. However, employees can spend the full amount of their accounts if they do not use them for all three of these benefits, Mr. Spohn said.

In addition, employees can use ESA funds to pay for some non-covered medical expenses like flu shots and well-baby care.

The ESA program, Mr. Spohn says, is expected to cost Chemical more than \$6 million annually, but he says the program is "well worth the cost because it will offer employees more flexibility in selecting the amount of coverages and types of benefits they need most."

Chemical currently spends about \$6,000 per employee per year to provide employees with medical benefits as well as disability and life insurance, which are not affected by the new program.

The program will save Chemical money in the long run, Mr. Spohn adds, because "we now have a clearer idea of what employees want from our plan. We have an opportunity to be more specialized with the benefits we provide."

Du Pont gives workers a choice

Continued from page 3

Du Pont's optimistic outlook about MEDCAP is based on a pilot project involving the 28,000 Du Pont employees and dependents in Texas.

Those employees were given a choice of self-insured health plan options and by last month about 50% opted for Option II and its cost-containment provisions. Du Pont, whose bill for health benefits in 1982 was \$160 million, sees the MEDCAP plan as the first step in a companywide program of benefit cost containment.

"We could see some savings as a result of the new option," said Mr. Deans. "So far, the data we have from our Texas program indicates we haven't bitten off more than we can chew."

"At this point, we're interested in first controlling costs, rather than saving money through the new plan."

Du Pont's corporate medical bill increased 25% last year and around 20% in the three preceding years, he said.

Last year, the company spent an

average of \$1,000 per employee for medical benefits, up from \$250 in 1970.

Data from the 9-month-old pilot project in Texas shows that younger employees are more likely to sign up for the Option II program than older workers. More than 50% of the workers under age 30 opted for Option II, 48% of those from 30 to 39, 48% of those 40 to 49, 45% of those 50 to 59 and 38% of those 60 to 64.

Forty-seven percent of the male workers opted for the comprehensive plan, while 45% of the women signed up. More single workers (54%) signed up for Option II, compared with those with one dependent (47%) and more than one dependent (45%).

Fifty-six percent of salaried Texas employees participate in Option II, while 45% of hourly workers and only 30% of retirees and survivors joined.

The MEDCAP program will be introduced at participating Du Pont worksites in four phases starting in April and continuing throughout 1983.

"We'll be following the communications program used in Texas"

to spread the word about the MEDCAP program, Mr. Deans noted. "It was developed as a mutual effort between our staff and benefit consultants Towers, Perrin, Forster & Crosby of Philadelphia."

The program includes videotape presentations, slides and brochures explaining the new health care option.

The self-insured MEDCAP program will be administered by Aetna Life & Casualty Insurance Co. and Connecticut General Life Insurance Co., which has insured Du Pont's dental plan since 1976. Du Pont facilities in the Northeast will be serviced by Connecticut General, while Aetna will serve facilities in the rest of the nation.

The two insurers competed with four others to administer the new Du Pont plan.

Du Pont is planning to implement other health care cost-containment efforts in the future, like utilization review and wellness programs, Mr. Deans said. "We've recognized we have a problem, now we're going to do something about it."

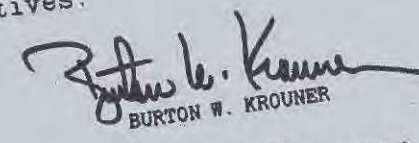
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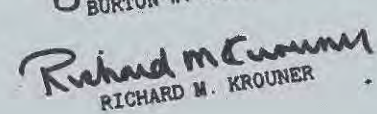


A MEMO TO THE INDUSTRY:

We are proud to announce that effective January 1, 1983, Inter-Cas Ltd. has increased its in-house facility to \$5,000,000 for all forms of excess liability including Umbrellas.

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Few expect insurance rates to drop in '83

Continued from page 1

Only five risk managers expect lower rates during 1983 with the rest evenly split between predicting rates will go up and predicting that rates will stay the same.

Of the 18 respondents predicting that commercial insurance rates in general will increase in 1983, only eight of the 18 predict their own rates will rise with the marketplace. Nine think they can hold their own rates steady in the face of a more expensive market and one thinks his rates will go down as other rates go up.

Of the 18 respondents predicting commercial insurance rates will hold about the same in 1983 as in 1982, 11 expect to ride with the market. Four think they can lower their own rates in a steady market, two think theirs will go up anyway and one isn't sure.

Of the five respondents who expect rates to fall further in 1983, four expect their own rates to fall with the market. The other thinks his rates will hold about the same.

The cost of property/casualty insurance was noted as a problem in 1983 by 10 risk managers.

In preparation for the 1983 marketplace, 14 of the respondents said they have either already shopped the market or are preparing to negotiate their renewals now.

The manager of risk and insurance for a financial services concern generating \$450 million in gross revenues in 1982 said that to maintain the company's costs and coverages, his top problem in the new year, he will "put together better underwriting data; be more involved in negotiating coverages; hit the market early; and be prepared to accept certain coverage limitations or higher deductibles."

The insurance coordinator for a propane sales and distribution company with \$175 million in sales will rely on his "broker/agent to market for the best coverage and price."

Only three risk managers said they are pursuing a course of continuity with underwriters to maintain low prices, although 24 said they did not currently have plans to change insurers during 1983.

The director of risk management for a manufacturer with \$400 million in sales says he will "work closely with current major insurers and, by keeping them well informed on our risks, avoid or at least minimize the impact of a tight market."

The controller for a small utility said he is "staying with current carriers and maintaining coverages."

The senior financial analyst who handles insurance part-time for a manufacturing company with \$105 million in sales notes he intends to "maintain long-term relationships." Yet, in preparing for increasing rates, he is "reviewing coverage and astutely obtaining quotes from stable sources."

Three respondents said they locked in three-year programs in

1982 to control their future costs, among them a utility, a toll road authority and a municipal government. Two others noted they had extended their terms but were not specific about how long an extension they negotiated.

Seven risk managers said they were preparing or are prepared to accept higher deductibles or to self-insure during 1983 if the marketplace raises their rates. Among them are a service company, the toll road authority and a small utility.

Two other risk managers noted they are keeping detailed records to prove that they are better risks than the average company in hopes of negotiating lower rates.

The manager of insurance for a manufacturing/distribution company with \$3 billion in sales said he is "keeping loss/risk data current to continue marketing 'my risk is better than the rest of the industry and should have the best rates' strategy."

Other risk managers said they are combining coverages and bringing property up to highly protected risk standards to prepare for higher insurance rates in 1983.

Although not always the responsibility of risk managers, group health care plan costs were mentioned 10 times as a major problem in 1983. Among the solutions cited were raising deductibles, charging for dependent care, adding coverage for second surgical opinions and contracting for peer review of attending physicians.

Proving that risk managers are not preoccupied with risk financing but also are committed to loss prevention and control, safety was mentioned 12 times and losses were mentioned 23 times as major problems in 1983.

Specifically, risk managers are concerned about workers compensation (13), auto/fleet losses (two), product liability losses (two) and fraud and fidelity losses during the recession (two).

In response to these concerns, 31 of the 41 responding risk managers said that they intend to improve their safety programs during 1983.

Among those who were specific about their plans, 10 said they intend to reorganize the program, six plan to add more training, three intend to more strictly enforce their safety rules, two plan to start new safety committees and two plan to add professional staff members.

Safety-related concerns were two out of the three biggest problems in 1983 listed by the risk manager for a retail drug store.

"Implement loss prevention/training at the store level" and "improve fire prevention specifications for new/remodeled stores" are the top two problems he faces in 1983. To solve these problems, he says he is "working with corporate and regional officers to obtain better cooperation from supervisors" for local loss control, and his broker is preparing a cost/benefit

analysis to prove that better fire prevention specifications will pay off.

A restaurant with \$427 million in sales will have its first safety committee in 1983 as will a communications equipment manufacturer with \$3.2 billion in sales.

A mobile home manufacturer will get very serious about enforcing safety rules. "Will tighten up on warnings and possible terminations for violators," says the director of safety and insurance for the company with \$150 million in sales.

An electric utility with \$110 million in revenues will attack the problem of workers compensation losses with mandated monthly safety meetings, revised safety manuals and more visual inspections of premises.

An office furniture manufacturer with \$300 million in sales intends to redesign jobs to control workers compensation claim costs and to bring safety engineers into product design sooner to control product liability costs.

Only the risk manager for a government entity mentioned complying with Occupational Safety and Health Administration regulations as a major problem in 1983. To solve it, the government is "using a new computer program to generate reports for OSHA. We are holding meetings with various departments to inform them of the OSHA requirements and of the consequences for failure to comply," the risk manager noted.

The risk manager for a government entity with a \$100 million budget is adding a safety professional to the staff and an educational, research and patient care concern is adding a fire inspector.

Only seven other risk managers said they will expand their staffs in 1983. Twenty-nine of the respondents said they will maintain the same staff in 1983, 25 of whom say they are adequately staffed and four of whom say their budgets won't let them add needed persons. Only three of the respondents said they would have to cut staff in 1983 because of economic problems.

But, budget reductions concern nine risk managers, like the executive director for fiscal affairs of a university governing board, the risk and insurance manager for a state government and the risk manager for a heavy equipment and aerospace manufacturer.

The university risk manager and state risk managers are among those who will review self-funding and package plans as ways to reduce costs. The risk manager for the equipment manufacturer will "scale back non-critical operations."

Risk managers also are concerned about the economic strength of insurers. More than half of the respondents, 22, predicted that a major insurer will become insolvent during 1983. Eighteen said no major insurer would become insolvent, while one board member wouldn't make a prediction.

Yet, only three risk managers said the security of insurers is one of the three major problems they think they will encounter in 1983.

Among those three, the risk management director for a manufacturing/printing and publishing company with \$1.3 billion in sales said he will make "more frequent use of Best's, the National Assn. of Insurance Commissioners, state insurance department and broker/risk management sources" to keep up with the financial strength of insurers.

Different risk managers also have specialized concerns. Environmental impairment liability concerns two risk managers. A risk manager with a manufacturer with \$400 million in sales says he will

"complete a comprehensive application form for each location and have quoting underwriters make inspections in an effort to provide a comprehensive set of underwriting data."

Two other risk managers mention projects related to a captive insurance company as a major task in 1983. The assistant treasurer for a rubber and chemical manufacturer with \$3.1 billion in sales wants to "develop risk exchange pools with underwriters, brokers or other industrial firms for reinsurance."

The director of risk management and a vp of a steel and financial services concern says his major problem in 1983 is "protecting closed plants and equipment." To solve the problem, the risk manager has ordered the use of electronic surveillance devices and automatic alarms with police and fire departments.

In addition to naming the solutions to their major problems, risk managers responding to the survey noted other goals for 1983.

Seven said that during 1983 they want to computerize their risk management information. Seven risk managers also want to improve communications during 1983.

Eight risk managers hope to expand their responsibilities during 1983, of which four are striving for responsibility for employee benefits. Another five risk managers listed as a major goal in 1983 "survival."

Two risk managers noted one of their three major goals is to complete the Associate in Risk Management courses offered by the Insurance Institute of America. Looking at their profession, risk managers generally are optimistic. Twelve respondents said risk management will grow in importance and professionalism in 1983 and another eight risk managers predicted more

companies of smaller size will appoint risk managers. Only two risk managers predicted the number of risk management positions will decrease during 1983.

Three risk managers predicted that employee benefits will be added to risk managers' assignments during 1983.

Two other risk managers predicted more women will enter the profession this year.

Five said the computer will become more vital to risk management programs during 1983.

Answering the open-ended request for predictions about the commercial insurance business, after predicting a major insolvency (22), the most often-made prediction—by 10 respondents—was "more mergers."

Six risk managers are looking forward to new insurance products during 1983, and two are looking forward to more tailor-made coverage.

Four risk managers expect to see more direct writing during 1983, in which the buyer deals directly with the insurer and and bypasses an agent or broker.

Other risk managers were more specific in their predictions.

One said an international society of risk managers will be started. Another took a chance at being very specific in one of his predictions for 1983: "St. Paul Insurance Cos. will acquire Minet and Corroon & Black ultimately, in step transactions."

Risk managers and buyers of property/casualty insurance are invited to join the Business Insurance Risk Management Board. Just send a card, noting you would like to join the board, to Kathryn J. McIntyre, Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. You will receive four surveys during the year.

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More supplemental plans offered

NEW YORK—More major companies are implementing supplemental executive retirement plans, according to a survey by consultant Towers, Perrin, Forster & Crosby.

Thirty-nine of the supplemental plans, known as SERPs, were reported in the proxy statements filed last year by the nation's 100 largest financial companies, up from 32 in 1981.

SERPs are designed to provide key executives with pension benefits in addition to those supplied by employers' qualified pensions plans.

"SERPs are versatile plans that serve a variety of objectives," says Donald E. Sullivan, a TPF&C vp. "By accelerating the rate at which

a pension accrues, a SERP can help induce a mid-career executive to change jobs."

SERPs can also make early retirement more attractive for executives with long service, thus opening up career possibilities for younger workers, Mr. Sullivan points out.

TPF&C predicts that more companies will adopt SERPs in the coming year.

"Recent tax legislation has lowered the ceiling on pension benefits from qualified plans to \$90,000 from \$136,000. As a result, new approaches in providing executive pensions are being sought," Mr. Sullivan says.

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British brokers grab investors' attention

By ALAN H. CLIFTON
and PHIL V. OLSEN

BI TICKER

WE DOUBT WHETHER the Lloyd's insurance brokerage companies have ever been the focus of such concentrated and widespread attention as they were last year. If anything, the attention escalated as the year unwound.

While the traumas of Alexander & Alexander Services Inc.'s ill-fated acquisition of Alexander Howden Group P.L.C. early last summer were serious enough to throw a light onto the imaginative use to which reinsurance might be put in a vertically integrated international insurance venture, the developments that took place later in the year switched floodlights on the entire industry.

In stock market terms, the Lloyd's brokerage stocks did not suffer too badly from the disclosures of July and August that had such a disastrous effect on A&A's stock. Part of the reason for this may be perverse psychology. It is quite possible that a good number of former Howden stockholders, the majority of whom did not convert to A&A shares, were quite relieved to find that Howden's problems had been exported to the U.S. securities markets.

The problems that surfaced at Howden were generally thought to be isolated and, with some reservation, not likely to appear at other Lloyd's brokerages and underwriting agencies. However, British investors did have a tendency to concentrate on the blue chips of the Lloyd's brokerage stocks: Willis Faber P.L.C. and Sedgwick Group P.L.C.

In addition, other Lloyd's brokers were able to shrug off A&A's and Howden's problems because, unlike their U.S. counterparts, the Lloyd's brokers' profit performances for the first half of 1982, as we noted in our last report (BI, Sept. 20), were expected to be good. And, indeed, they generally were: Sedgwick's pretax profit increased by 38% to 40.1 million pounds (approximately \$64.6 million); Minet Holdings P.L.C.'s profits increased 44% to 8.4 million pounds (\$13.5 million); and Willis Faber increased its profit by 22% to 17 million pounds (\$27.4 million).

Thus, the index of Lloyd's brokerage stocks increased from around 500 points before the July disclosures about Howden's troubles to a peak level of 585 in mid-October. With that rise, the brokerage index kept pace with the rise in the general index of British equities.

All of that, however, started to change in

early November, when it was learned that the reinsurance scandal was not solely the province of Howden.

The disclosure of secret beneficial interests in reinsurance arrangements by Minet's P.C.W. Underwriting Agencies Ltd.—leading first to the resignation of the agency's senior executive and later to the resignation of John Wallrock, the chairman of Minet itself—was just too much for investors to bear. Minet's stock was the early casualty; it declined 27% to 98 pence from 134 pence in two days.

The realization that the reinsurance scandals were not just a problem affecting a U.S. broker (A&A) and that problems could be lurking at other Lloyd's brokers caused the stock price all the major brokers to decline as well. Between Nov. 1 and Dec. 6, while the general index of British equities increased by 1%, the brokerage index plunged by 21% to 452 points from 572 points, as nervousness turned to something near panic.

The witch hunt was on, and the integrity of all Lloyd's brokers seemed suddenly to be evaluated under a distorted type of law: guilty until proven innocent.

The investors' mood was not helped by C.E. Heath P.L.C.'s announcement that profits increased only 9% to 8 million pounds during the six-month period ending Sept. 30. This announcement—highlighting the adverse impact of lower interest rates on investment income, moderating exchange-rate benefits and a low brokerage growth rate—has caused investors to question their expectations for other Lloyd's brokers' profits in the second half of 1982 and, indeed, for the new year.

So now, with the integrity of Lloyd's brokers in doubt and their immediate profit growth questioned, it appears that only realistic investors or opportunistic strategists will be brave enough to contemplate the possibilities that should accrue to the brokerage sector once commercial premium rates begin to reverse their trend of so many years past.

There has been little evidence, however, of any turn in premium rates in the most recent set of figures from British insurers. Nine-months results from the large British property/casualty insurance groups, published during November, made for depressing reading. In truth, though, the bad news was well-anticipated, with the heavy weather-related

losses in the first quarter of 1982 producing the really poor results.

Commercial Union Assurance P.L.C., Britain's largest insurer by premium volume, was once again the company to produce the most disappointing figures. Pretax earnings for the nine months were barely one-third of their equivalent in 1981. Underwriting losses in aggregate were up more than 80% to represent some 13.5% of total worldwide written premiums. In the third quarter itself, the equivalent rate of loss was 14.6%, compared with 8.6% and 8.3% respectively for CU's chief British rivals, Royal Insurance P.L.C. and General Accident Fire & Life Assurance Corp. P.L.C.

The prime problem areas for all three companies last year were their biggest markets: the United States and the United Kingdom. Commercial Union has produced by far the worst results in the United States, while General Accident has notched up the largest underwriting losses in the United Kingdom. As of Sept. 30, CU's statutory combined ratio in the United States was 117.1%, which was significantly worse than either Royal (at 113.3%) or General Accident (at 109.4%).

Thus, Commercial Union has earned a somewhat unwelcome reputation as one of the most aggressively competitive insurers in the American market in the past couple of years, though it is now attempting to increase some rates sizably. Accurate or not, the tag has stuck, and it may take Commercial Union some considerable time to shake off its "bad-boy" image. The news that its U.S. arm is in need of a further capital injection from London may only serve to reinforce CU's reputation in the American market.

While U.S. underwriting is producing the largest volume of losses in terms of sheer size for the three British insurers, the sharpest deteriorations last year were undoubtedly suffered in Britain itself. Due to the impact of the severe weather losses in the first quarter and increased rate competition, British underwriting losses greatly exceeded premium income.

General Accident, Britain's largest insurer, saw underwriting profits of 5.4 million pounds (\$8.7 million) in the first nine months of 1981 replaced by losses of 52.6 million pounds (\$84.7 million) this year. The story at both Royal and Commercial Union is similar

British Issues

24 DEC Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence
Comm Union	124	20.6	16.86	13.6	126—124
Eagle Star	343	13.7	21.43	6.2	350—338
Genl Accident	348	11.6	23.21	6.7	354—348
Gdn Royal Exch	348	10.0	25.00	7.2	354—348
Phoenix	288	15.2	24.00	8.3	288—278
Royal	422	10.3	36.07	8.5	440—422
Sun Alliance	670	14.5	61.43	7.1	670—660

Brokers	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence
CE Heath	275	7.9	18.71	6.8	280—270
Hogg Robinson	94	7.5	8.57	9.1	95—93
JH Minet	107	10.3	5.43	5.1	110—105
Sedg Grp	178	9.9	8.57	4.8	178—175
Stenhouse Hldg	99	9.2	7.86	7.9	99—96
Stew Wrightson	230	8.2	18.57	8.1	235—230
Willis Faber	490	12.2	21.43	4.4	490—475

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

if only marginally less disastrous. Combined ratios for British business are generally in the area of 110% this year.

Results from other regions where the British property/casualty insurers were active were better last year than in 1981, though there are few, if any, areas where market conditions are truly favorable. Nevertheless, losses on Canadian and Australian underwriting were generally a good deal lower than at the same date in 1981, though the improvements were offset by escalating losses on continental European business.

One of the most striking aspects of recent months, however, concerns not the dismal underwriting outlook, but rather the gains in the net worth of the British insurance companies. We estimate that in the four months after the close of 1982's second quarter, the net surplus assets of the major British insurance groups rose by an average of some 25%. The gains accrued from favorable bond and equity price movements (British insurers carry bonds at market, not amortized, values), exchange rate shifts and retained earnings. The upshot is a premiums-to-surplus ratio for the industry of 1.4-to-1, notably better than the U.S. insurance industry's ratio of 1.9-to-1.

The British insurance industry's financial strength, however, may extend the current market cycle, in both Britain and the United States, to a stage that individual insurers might well regard as irrational.

BI Industry Stock Report

DEC. 27, 1982 12/21/82 THRU 12/27/82

Insurance Cos.	Price	% Chg.	P/E	S Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE 37.13	2.8	6.1	2.52	6.8	37.25	36.38	956.0
American Bankers Ins Group	OTC 10.88	1.2	8.5	0.50	4.6	11.00	10.63	58.4
American Gen Ins Co	NYSE 55.00	3.5	7.6	2.20	4.0	55.00	53.13	158.9
American Indty Firl Corp	OTC 23.00	9.5	17.6	1.12	4.9	23.00*	21.00	18.1
American Intl Group Inc	OTC 81.25	4.2	12.0	0.24	0.3	81.25	78.00	352.8
American Natl Ins Co	OTC 15.25	5.2	6.7	0.84	5.5	15.25	14.63	22.5
American Sls Life Ins Co	OTC 23.00	0.0	6.9	0.88	3.8	23.00	23.00	2.5
Aneco Reins Ltd	OTC 2.50	0.0	0.0	0.00	0.0	2.50	2.50	18.3
Avenco Corp	AMEX 13.50	-5.3	7.8	0.58	4.3	13.88	13.50	4.0
Banks Iowa Inc	OTC 42.00	0.0	10.3	1.48	3.5	42.00	42.00	1.1
Biteco Corp	OTC 30.50	0.0	5.0	1.92	6.3	30.50	30.50	1.3
Carolina Cas Ins Co	OTC 7.25	0.0	8.8	0.32	4.4	7.25	7.25	0.3
Chubb Corp	OTC 52.63	0.5	8.5	2.92	5.5	52.63	52.00	74.5
Combined Intl Corp	NYSE 27.25	1.9	8.2	2.00	7.3	27.25	26.88	111.7
Continental Corp	NYSE 30.50	2.5	9.7	2.60	8.5	30.50	29.75	263.7
Crawford & Co	OTC 16.25	-1.5	11.9	0.56	3.4	16.50	16.25	3.9
Crown Life Ins Co	OTC 88.75	0.6	5.8	3.10	3.5	88.75	88.25	0.8
Crum & Forster	NYSE 53.63	1.9	11.1	1.76	3.3	54.13*	52.88	301.5
Employers Cas Co	OTC 31.75	-0.8	14.4	1.20	3.8	32.00	31.75	2.9
Equifax Inc	NYSE 25.88	2.0	13.7	1.32	5.1	25.88	25.50	16.5
Excelsior Ins Co	OTC 11.25	0.0	0.0	0.70	6.2	0.00	DID NOT TRADE	
Farmers Group Inc	OTC 36.13	-0.3	10.0	1.24	3.4	36.13	36.00	517.5
Foremost Corp Amer	OTC 39.00	0.0	11.9	1.12	2.9	39.25	39.00	9.2
Great West Life Assurn Co	OTC 190.00	0.0	15.5	10.00	5.3	190.00	190.00	0.0
Hanover Ins Co	OTC 34.25	8.7	5.0	0.88	2.6	34.25	33.38	55.4
Hartford Steam Boiler Insptn	OTC 38.00	-2.6	6.1	2.80	7.4	39.00	38.00	4.7
Jefferson Natl Life Ins Co	OTC 38.00	-3.8	10.6	0.76	2.0	39.00	38.00	4.5
Kemper Corp	OTC 38.25	2.0	7.3	1.80	4.7	38.25	37.38	82.1
Lincoln Natl Corp Ind	NYSE 45.75	-2.1	8.2	3.00	6.6	45.75	45.25	50.2
Mission Ins Group Inc	NYSE 28.00	-1.8	6.6	0.80	2.9	28.75	28.00	84.6
Nationwide Corp Ohio	OTC 40.50	0.0	12.0	0.70	1.7	40.50	40.50	0.2
Northwestern Natl Life Ins	OTC 27.88	-1.8	15.2	1.50	5.4	28.13	27.38	29.8
Ohio Cas Corp	OTC 42.63	0.3	8.0	2.36	5.5	42.63	42.63	61.3
Old Rep Intl Corp	OTC 24.25	0.0	5.6	0.92	3.8	24.25	24.25	24.6
Preferred Risk Lfe Ins Co	OTC 25.00	0.0	7.4	0.92	3.7	25.00	25.00	1.0
Provident Life & Acc Ins Co	OTC 50.00	0.0	7.6	2.44	4.9	50.00	49.75	13.6
St Paul Cos Inc	OTC 60.88	1.9	7.6	2.40	4.3	60.88	59.50	213.7
Safeco Corp	OTC 52.13	0.5	9.0	2.40	4.6	52.25	52.00	131.4
Sri Corp	OTC 36.50	1.4	7.6	1.12	3.1	36.50	36.00	31.7
Seibels Bruce Group Inc	OTC 26.88	2.9	19.7	1.00	3.7	26.88	26.13	9.4
Statesman Group Inc	OTC 7.00	-1.8	6.2	0.15	2.1	7.13	7.00	4.4
Tokio Marine & Fire Ins Co	OTC 105.00	6.9	16.8	0.92	0.9	105.00	98.13	16.8
Travelers Corp	NYSE 25.00	3.1	6.8	1.64	6.6	25.38	24.25	357.2
United Fire & Cas Co	OTC 32.00	0.0	8.6	0.88	2.8	32.00	31.75	1.6

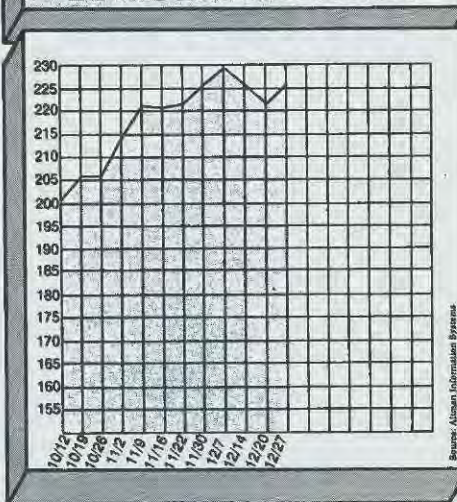
DEC. 27, 1982 12/21/82 THRU 12/27/82

		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
United States Fid & Gty Co	NYSE	44.75	7.2	10.9	3.60	8.0	44.75	41.13	181.6
United Svcs Life Ins Co	OTC	19.75	2.6	6.4	1.00	5.1	19.75	19.25	11.5
UsLife Corp	NYSE	23.00	1.7	5.0	0.88	3.8	23.25	22.63	95.6
Washington Natl Corp	NYSE	25.13	11.7	12.4	1.08	4.3	25.13*	22.75	180.4
Zenith Natl Ins Corp	OTC	20.00	6.7	9.1	0.80	4.0	20.00	18.75	22.9
				=====		=====			
INSURANCE COMPANIES	AVERAGE			9.1		4.2			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	25.00	5.8	11.2	1.94	7.8	25.00	23.75	244.6
Baldwin & Lyons Inc	OTC	39.00	0.0	6.4	0.80	2.1	39.00	39.00	2.0
Corroon & Black Corp	NYSE	26.63	0.5	13.1	1.80	6.8	26.75	26.38	4.9
Crum E H Cos Inc	OTC	10.00	3.9	16.9	0.40	4.0	10.00	9.63	4.9
Emett & Chandler Cos Inc	OTC	9.88	0.0	32.2	0.00	0.0	9.88	9.88	2.4
Hall Frank B & Co Inc	NYSE	28.75	2.2	12.4	1.70	5.9	28.88	28.38	77.2
Integrated Res Inc	AMEX	36.25	7.0	10.9	0.00	0.0	36.25	34.25	83.7
James Fred S & Co Inc	NYSE	33.25	0.0	16.8	1.60	4.8	33.25	33.25	0.0
Marsh & McLennan Cos Inc	NYSE	40.88	1.6	12.7	2.20	5.4	41.63	40.88	81.4
Penncorp Fincl Inc	NYSE	12.88	-1.9	8.0	0.16	1.2	13.13	12.88	313.0
Poe & Assoc Inc	OTC	11.50	0.0	11.3	0.80	7.0	11.50	11.50	0.0
Reed Stenhouse Cos Ltd	OTC	12.75	-5.6	12.6	0.60	4.7	13.50	12.75	7.6
Rollins Burdick Munter Co	OTC	24.38	0.0	20.1	0.00	0.0	0.00	DID NOT TRADE	
				=====		=====			
AGENTS/BROKERS	AVERAGE			11.6		3.9			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	66.25	7.1	11.3	2.40	3.6	66.25	64.50	922.1
Anderson Clayton(Ranger/PanAm)	NYSE	26.88	1.4	7.4	1.32	4.9	27.13	26.63	14.7
Araco Inc	NYSE	17.50	17.6	33.0	1.20	6.9	17.50	15.25	1,150.9
City Investing Co. (Home Ins.)	NYSE	29.50	3.1	9.2	1.70	5.8	29.50	29.00	134.4
CNA Finl Corp (CNA)	NYSE	17.25	-1.4	6.7	0.00	0.0	17.50	17.25	21.0
Control Data (Comm. Credit)	NYSE	38.38	1.7	9.5	0.55	1.4	38.50	37.63	448.3
General Re Corp	NYSE	60.38	5.5	13.2	1.08	1.8	61.13	59.00	208.9
Gulf Utd Corp	NYSE	27.50	12.2	9.6	1.32	4.8	27.50*	25.50	476.1
Cigna Corp	NYSE	45.25	7.7	6.6	2.30	5.1	45.25	42.75	475.4
ITT (Hartford Group)	NYSE	30.25	1.3	6.8	2.76	9.1	30.25	29.75	826.8
Optimum Hldg Corp	OTC	8.50	1.5	8.2	0.00	0.0	8.50	8.38	7.5
Sears Roebuck & Co. (Allstate)	NYSE	31.50	5.0	14.3	1.36	4.3	31.50	30.75	1,962.7
Baldwin Utd Corp	NYSE	30.00	9.1	5.8	0.88	2.9	30.00	27.50	901.5
Teledyne Inc (Argonaut)	NYSE	131.75	2.9	7.9	0.00	0.0	132.00	130.38	324.0
Transamerica Corp (Occidental)	NYSE	23.50	0.5	8.2	1.50	6.4	23.88	23.38	232.6
				=====		=====			
CONGLOMERATES/HOLDING COS.	AVERAGE			8.8		3.1			

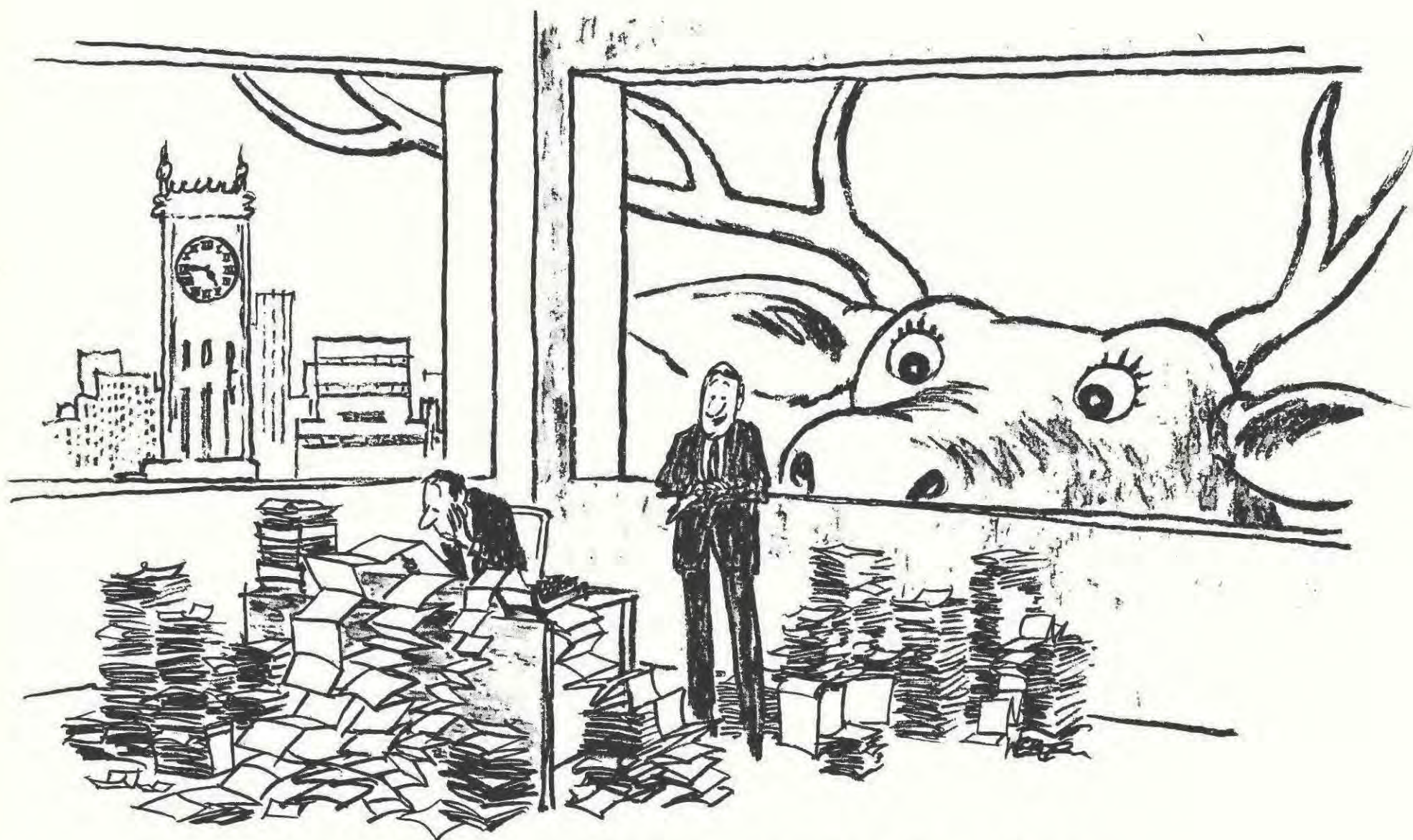
*Record high/low since Jan. 1, 1982

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BI Insurance Index



Insurance industry stocks rallied during the week ending Dec. 28, as the *Business Insurance* stock index rose 4.0 points from 222.7 to 226.7. Thirty-three stocks were up, 13 lost ground and 21 closed unchanged. The largest gains were posted by Armco Inc., 17.6%; Gulf United Corp., 12.2%; Washington National Corp., 11.7%; American Indemnity Financial Corp., 9.5%; and Hanover Insurance Co., 8.7%. The largest losses were reported by Reed Stenhouse Cos. Ltd., 5.6%; Avenco Corp., 5.3%; Jefferson National Life Insurance Co., 3.8%; Hartford Steam Boiler Inspection & Insurance Co., 2.6%; and Lincoln National Corp., 2.1%. The 1.8% rise in the BI index was less than the 6.6% increase in the Dow Jones 30 industrials during the same period. In 1982, the BI index rose 29.3% from an opening level of 183.1.



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