WEEK OF JANUARY 5, 1981

business insurance®

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update:

No federal liability in Agent Orange suit

WESTBURY, N.Y.—Manufacturers of the chemical Agent Orange won't get any help from the federal government in defending class-action suits against them claiming damages from exposure to the war-time herbicide, according to rulings of a federal judge here.

Ruling that the Vietnam veterans and

Continued on next page

Chrysler unveils new comp plan

By LEN STRAZEWSKI

DETROIT—Financially troubled Chrysler Corp. is fighting bans in Michigan and Illinois on its workers compensation self-insurance programs with offers of a trust fund earmarked for injured worker claims.

In Illinois, the plan already has been submitted to the state industrial commission which in early December revoked the automaker's authority to self-insure.

"What we are proposing is that Chrysler make monthly payments into a trust fund account to provide workers compensation benefits," explained Elmer Rudy, partner of the Williams, McCarthy law firm of Rockford, Ill., and Chrysler's Illinois counsel.

"These payments would be somewhat higher than our monthly experience," he continued, "allowing for a slow buildup of reserves."

The fund would pay workers compensation claims up to a $250,000 self-insured retention. An excess insurance policy to be purchased would pay benefits above the retention.

Chrysler employs about 3,500 workers in its Belvidere, Ill., factory and now self-funds the first $500,000 of a workers compensation loss, according to Mr. Rudy.

In Michigan, where Chrysler employs more than 50,000, a similar trust fund plan will be proposed at a Jan. 9 hearing called by the Michigan Bureau of Workers Disability Compensation, says Mr. Rudy.

Chrysler now completely self-insures workers compensation risks in Michigan, but permission to continue its program was revoked by the state workers compensation bureau on Christmas Eve in light of Chrysler's financial troubles.

The Michigan revocation was



Financial troubles, including poor K-car sales, have threatened Chrysler's right to self-insure work comp.

prompted by an annual financial review of self-insurers and publicity about Chrysler's hard times, says workers compensation bureau director James Brakora.

"Several issues prompted the ruling, including the poor reception of the K-car, the continued reluctance of the market to buy automobiles and the (federal) loan guarantees that haven't come through yet," said Mr. Brakora.

Chrysler Corp. reported losses of nearly $1.1 billion in 1979 and estimates $1.7 billion in overall losses for 1980. The firm has asked for but not yet received an additional $400 million in federal loan guarantees.

Chrysler, according to Mr. Brakora, paid out nearly $40 million in workers compensation benefits last year for its Michigan employees, former employees still receiving benefits and retirees who also are receiving benefits.

"Chrysler can meet its day-to-day expenses, but we're worried about its future," said Mr. Brakora. "The big worry is bankruptcy."

Chrysler officials were not available for comment because the firm's corporate headquarters were closed until Jan. 5 for the holidays. Mr. Brakora says that the state is hoping for a compromise, similar to the Illinois proposal.

"At the Jan. 9 hearing, we will show cause why Chrysler should not self-insure after Jan. 15 (the plan's renewal date)," Mr. Brakora said. "If Chrysler appeals, however,

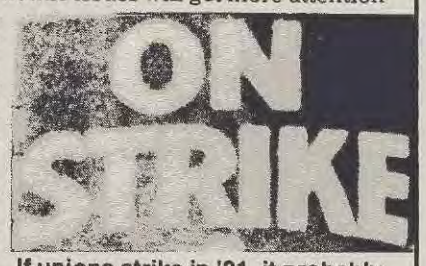
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Benefits to take backseat to wages in '81 bargaining

BI roundup

Employee benefits will take a backseat at the bargaining table this year as unions try to protect their members in the face of layoffs and production slowdowns, a *Business Insurance* survey shows.

Wage demands and non-economic issues will get more attention as hefty benefit increases give way to modest increases. New benefits will be the exception rather than the rule, according to some of the major unions going to the bargaining table in 1981.



If unions strike in '81, it probably will be over wages, but pensions are an issue, too.

However, pensions will get attention.

The United Steelworkers union, for example, wants the pension increases it won in its steel industry contract at the expense of a cost-of-living raise to be granted by the container industry—without any concessions.

A USW spokesman said the membership expects the container industry, which is generally more prosperous than the basic steelmakers, also to ask to hold cost-of-living raises to finance pension improvements.

"We'll tell them we're not of a mind to do it," the spokesman said, citing unsuccessful efforts by the aluminum and nonferrous metal industry to divert the COLA.

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Big fires prompt hotels to book more insurance

By STUART EMMRICH

NEW YORK—Risk managers for many of the nation's hotel chains are buying more liability insurance and considering beefed-up fire protection programs in the aftermath of fires that ravaged hotels in Las Vegas and New York's Westchester County.

"We have several hotels as clients and we have seen them in the past few weeks go into the market to increase their umbrellas substantially—to $75 million, $100 million, $125 million," said Don Sanderson, senior vp of Marsh & McLennan.

Seth Faison, vp at Johnson & Higgins, said his company is seeing the same interest in higher liability limits.

"We have seen this not only by hotels but other large facilities that hold high concentrations of people.

"If they had $25 million, they might be looking to see if they could get $50 million. If they had $50 million, they might be going for $100 million."

"I have talked to risk managers at most of the major hotel chains in the last couple of weeks and those that didn't have at least $100 million in liability coverage either have gotten it now or are in the process of getting it," said an insurance manager for a major hotel chain who asked not to be named because of the sensitivity of the issue.

Most risk managers for the hotels decline to discuss their insurance packages but several industry sources said the rush to the marketplace was prompted in part by the news that only $30 million of liability insurance was in force when the tragic fire struck the MGM Grand Hotel in Las Vegas. Observers have said that amount may not be enough to cover the liability claims.

Stouffer Corp. reported having more than $100 million in liability insurance for its Westchester County, New York, hotel.

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A do-it-yourself guide to self-insurance



Everything you need to know about building or evaluating self-funded property, casualty, workers compensation and benefit programs begins on page 15.

NEWSPAPER

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Hospitals might pay 40% more for insurance Page 3

Arts play big role at Baruch College Pages 64-65

update:

Judge says no federal liability

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their families can sue the Agent Orange manufacturers in a class-action suit, U.S. District Court Judge George Pratt also dismissed a suit by the chemical companies against the government seeking to make the government liable for any damages Agent Orange may have caused. He also denied a motion by the chemical firms that the suit filed by the veterans against the chemical manufacturers be dismissed. The companies—Dow Chemical Co., Diamond-Shamrock Corp., Monsanto Co., Thompson-Hayward Chemical Co. and Hercules Inc.—had argued that the suit should be dismissed because the manufacture of Agent Orange was dictated by the government.

Judge Pratt's decision to grant a motion by the plaintiffs' attorney that the lawsuits involving potentially tens of thousands of veterans be consolidated "opens the courthouse door to 50,000 or more veterans and their families who may have been damaged by Agent Orange," said plaintiffs' attorney Victor Yannacone.

The veterans charge that exposure to Agent Orange, used in the 1960s to defoliate the Vietnamese jungles, caused disorders including cancer in them and defects in their children (*BI*, Dec. 15, 1980).

Losses near 1975 record

CHICAGO—Underwriting losses could top $2.6 billion for 1980 making it the worst year for losses since 1975, according to figures released by the Insurance Information Institute.

The institute said the industry had $2.28 billion in losses during the first nine months of the year. Fourth-quarter results have not been tabulated.

Direct losses for the three quarters totaled $1.28 billion, and $997 million was paid to policyholders as dividends.

In 1975, $4.2 billion in losses was recorded.

On the other hand, the outlook is bright for investment income. For the first nine months of 1980, the industry recorded $7.82 billion in investment income, not far behind the 1979 total of $10.5 billion, according to the institute.

FICA loophole is closed

WASHINGTON—President Carter has signed into law legislation (H.R. 7765) closing a loophole that made it advantageous for companies to pay their workers' Social Security taxes.

That practice had been legal under a section of the Social Security Act that says the FICA and other payroll taxes may be computed on a lower wage base if the FICA tax is paid by the employer instead of being deducted from the worker's wages.

The new law says any portion of an employee's FICA or unemployment taxes paid by the employer be considered wages for the purpose of computing the FICA tax—wiping out cost advantages of the arrangement, notes consultant firm Hewitt Associates.

The law went into effect Jan. 1 for private employers. State and local governments can continue to pay their employees' share of FICA taxes and exclude that amount from gross wages until Dec. 31, 1983.

Hearings set on comp pools

SPRINGFIELD, Ill.—Public hearings will be held on Illinois' proposed regulations governing the formation of self-insurance pools under the Workers Compensation Act.

The 9:30 a.m. hearings, sponsored by the Illinois Department of Insurance, will be Jan. 30 in Chicago at 160 N. LaSalle St., Room 1800, and Feb. 5 in Springfield at 320 W. Washington St., fourth floor.

The proposed regulations have been criticized for setting minimum standards that will close work comp pools to smaller employers. The proposed regulations require each pool member to have a minimum payroll of $250,000. Each pool would need 20 members and a collective annual payroll of at least $10 million.

3 seek to join exchange

CHICAGO—Hartford Insurance Cos., The Traveler's Insurance Cos. and a third unnamed major insurer will file applications for syndicate membership on the Illinois Insurance Exchange.

Seven insurers now have applied for membership but two, The Sentry Group Syndicate and the General Casualty Co. of Illinois, will not activate their syndicates until 10 have been formed, according to exchange officials.

RCA, formed by Avreco and Reinsurance Co. of America and First Management Syndicate, formed by the Bliss Group Cos., were the first to file applications.

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Washington studies opening comp market

By RHONDA L. RUNDLE

OLYMPIA, Wash.—A bill sponsored by major employers to end Washington's 69-year-old workers compensation insurance monopoly is expected to receive early consideration when the state legislature convenes Jan. 12.

The measure, called the three-way compensation bill, would permit private insurers to vie with the state fund for nearly $500 million in annual premiums. In 1971, state law was amended to allow qualified companies to self-insure.

The bill, lacking a number until the state legislature convenes, includes a program for prompt rehabilitation of seriously injured workers, provision for accident-prevention service for employers and introduction of the wage-loss concept as the basis for benefit payments.

This is the third major attempt in 25 years to topple the state's monopoly system, reports William C. Jacobs, a management consultant hired by the Assn. of Washington Business to spearhead its legislative drive.

Past efforts have been blocked by organized labor, which strongly opposes a competitive workers compensation system.

Prospects appear bright for passage this year, however. Washington voters elected a more conservative legislature in November and a new Republican governor, John D. Spellman. Republicans command a 56-42 margin in the House of Representatives and lack only one vote for parity with Democrats in the Senate.

A number of legislative and private studies completed recently also show the present workers compensation system isn't working well, Mr. Jacobs notes. These studies are focusing widespread interest on reforming the state's delivery system, he says.

The wage-loss concept, pioneered in Florida, calls for benefits to an injured worker to replace personal income lost because of a temporary or permanent work-related disability. Washington employers currently pay benefits based on a formula tied to the nature and extent of the injury.

The maximum weekly wage-loss benefit to an injured worker under the proposed bill would increase to 100% of the state average weekly wage, up from the 75% now paid. In addition, weekly wages would be tied to take-home pay.

Supporters of the bill have formed a statewide organization named the Committee for Better Workers Compensation.

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RM consultants alert

Calling all risk management consultants: *Business Insurance* is planning a detailed directory of risk management consultants in its Feb. 16 Spotlight Report on risk management services.

Survey questionnaires have been sent to consultants who were listed in our 1980 directory, but we want to expand the listing. Consultants who were not listed last year, but who want to be listed this year, can get a questionnaire from: Len Strazewski, senior editor/features & special reports, 740 N. Rush St., Chicago, Ill. 60611, 312-649-5393.

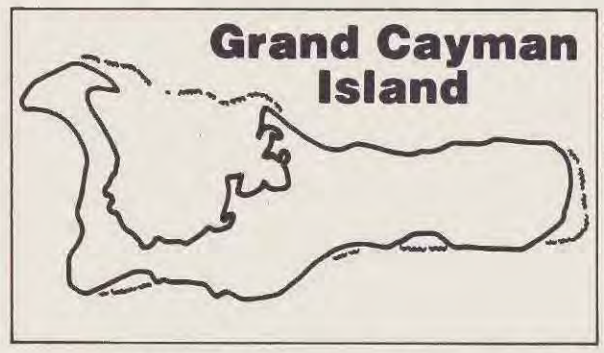
Risk management consultants must return the completed form by Jan. 26. We cannot guarantee that firms that do not completely answer the questionnaire will be listed.

New Cayman regulations will weed out 'insurers'

By KATHRYN J. McINTYRE

GEORGETOWN, Grand Cayman—The new insurance regulations here will weed out more companies than will be registered here as regulated insurers.

That's just fine with insurance superintendent John Darwood and those who drafted the Caymans' Insurance Law of 1979. The law was passed and the regulations issued to bring credibility to the insurance business here, which is dominated mostly by captives, and to ensure "that the island was not brought into disrepute" by the activities of insurers, Mr. Darwood says.



Map: Toby Roberts

About 240 applications for licenses under the law were filed with the insurance superintendent by the Dec. 17 deadline.

Another 100 companies have notified the superintendent that they are going to change their names so as not to imply they are in the insurance business, and will not conduct insurance business.

"There are about 300 companies that have not yet come forward. I imagine most of them will opt out (of regulation by changing their names)," Mr. Darwood said.

Many companies have registered in the Caymans over the years with the word "insurance" in their names, although they weren't conducting insurance business "as you and I know it," Mr. Darwood observed. The companies were more often trusts for the wealthy, he explained.

Of the insurance companies that registered under the law and are now subject to its regulation, about 60 have been licensed by the superintendent. The other 180 applications are being processed.

Of the 60 licensed companies, 38 now hold their permanent licenses under the law, having complied with all the filing requirements. The other 22 hold temporary licenses valid until June, a provision for existing companies that need more time to prepare their statements under the law.

All insurance companies now formed in the Caymans must immediately comply with the law's provisions.

The regulations govern both domestic insurers, to protect local policyholders, and companies operating internationally and as captives, to protect the Caymans' reputation.

International companies and captives are granted Class B licenses, unrestricted and restricted, respectively. The restricted license exempts captives from many of Class B license requirements, but is designed for companies that aren't writing insurance for related parties.

For example, a company with a restricted license doesn't have to meet the net worth requirements of $120,000 for companies writing property/casualty insurance, $240,000 for companies writing life and accident insurance and $360,000 for companies writing both types. The superintendent, however, has discretion to set a lesser net worth requirement for captives.

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BI promotes 2 staff members

CHICAGO—*Business Insurance* has promoted two staff members in its office here.

Dave Galanti has been named Agent/Broker Topics editor and Claudette Eisenzimmer has been promoted to editorial assistant, announced Editor Kathryn J. McIntyre.

Mr. Galanti, who was an associate editor, is in charge of *BI's* special monthly demographic section for agents and brokers.

Ms. Eizenzimmer was the staff typist but now is responsible for a variety of newsroom functions.

Both promotions were effective the first of the year.

Effective Jan. 19, associate editor Stacy Shapiro, who has been based in Chicago, will be working in London as *Business Insurance* correspondent, covering Lloyd's of London and the European market. She can be reached in London at 01-637-7961. ■



Photo: Mary Cairns

Dave Galanti

employee benefit board

It's back to school for execs

By STACY SHAPIRO

Employee benefit specialists are going after more degrees and continuing their education despite little support from employers, a survey of the *Business Insurance* Employee Benefit Board shows.

Few employee benefit managers report immediate rewards for continuing education. There is no guarantee of promotions, salary increases or even tuition reimbursement for going back to school, they say.

Still, benefit specialists are hitting the books and taking seats in classrooms to learn better methods for dealing with today's complications of administering corporate benefit programs.

"I have six benefit staff people pursuing undergraduate, graduate or Certified Employee Benefits Specialist degrees, as well as special seminar training," said a director of employee benefits for a $2 billion food products company.

"Our company pays 100% of the tuition, books, exam fees. But these folks won't get promoted or receive higher pay or better titles for the sake of the degree," he pointed out.

They only hope that "their increased knowledge will lead to better job performance and perhaps rapid promotion and increases," he said.

Only 36% of the employee benefit managers surveyed said some tuition reimbursement is available and only half of those members get full payment for fees.

Fewer still received promotions or salary increases by going back to school. Of 12 board members who said they have continued their education while on the job,

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30% to 40% increase seen

Hospital liability rates will rise

By VINCE DiPAOLO
Crain News Service

Hospitals can expect to pay 30% to 40% more for their professional liability insurance a year from now, insurance company executives say.

Premiums per bed held steady in 1980 after declining 9% last year, according at a survey by Modern Healthcare, a magazine published by Crain Communications Inc., of 20 insurers covering 204,000 beds.

But a 57% increase in the amount of an average paid liability claim in 1980 and the prospect of lower returns on invested funds make a hefty boost in hospital professional and general liability premiums inevitable, insurers warn.

Surveys were sent to 40 captives and commercial insurance firms. Twenty insurers responded; 13 were sponsored by or related to state hospital associations, five were operated by multihospital systems, one was a commercial insurer and one a group-owned captive insurer (see accompanying chart).

Hospitals will continue to win lower premium quotes as long as the currently high interest rates are sustained, says John Middleton, vp of Hospital Underwriting Group in Nashville.

High interest rates have served as a buffer to blunt premium increases, Mr. Middleton says.

"Premiums are usually set at a level to cover future losses," he explained. "But during the last two years, premiums have been set lower in order to undercut the competition. Insurers have made up this shortfall in underwriting because of unusually high earnings (as much as 20%) on invested premiums."

The current high interest rates should continue into the second quarter of 1981 when lower investment returns and higher frequency and severity of claims should push premium quotations sharply higher, Mr. Middleton says.

"Be prepared for substantial increases in premiums, with conventional markets quoting 30% to 40% higher premiums by January 1982."

Premiums are already soaring. Some Connecticut hospitals are being quoted 40% premium hikes. Medical Malpractice Insurance Assn., a joint underwriting association, raised its premiums 100% for its 35 hospitals in New York City.

There will be more competition in the New York hospital professional liability market, with Insurance Co. of North America getting back into both hospital and physician lines for the first time in several years.

New Jersey-based Ambassador Insurance is also getting into the New York market. Recently it quoted Putnam Community Hospital in Carmel, N.Y., a premium half that charged by the hospital's current insurer, Hospital Underwriters Mutual Inc. HUM is the captive operated by the Hospital Assn. of New York State.

Don't, however, look for captive companies to try to match such cut-rate premium quotes. "You don't like

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1980 Hospital Malpractice Insurers

	Name of Insurer	Earned Premiums (000)	Premiums per Bed	Capital & Surplus (000)
OCCURRENCE	Hospital Underwriters Mutual Insurance (Hospital Assn. of New York State)	$15,000	$ 785	$10,500
	Parthenon Insurance Co. (Hospital Corp. of America)	14,725	793	7,390
	Michigan Hospital Assn. Mutual (Michigan Hospital Assn.)	11,500	1,825	7,600
	Washington Liability Insurance Fund (Washington Hospital Assn.)	3,000	492	170
	Missouri Professional Liability Insurance Assn. (Missouri Hospital Assn.)	2,600	274	5,500
	Florida Hospital Trust Fund (All Risk Corp. of Florida)	2,543	627	—0—
	Texas Hospital Insurance Exchange (Texas Hospital Assn.)	1,888	396	2,083
	Louisiana Hospital Assn. Trust Fund (Louisiana Hospital Assn.)	1,669	469	—0—
FORMS	Hospital Casualty Co. (Oklahoma Hospital Assn.)	1,120	228	2,169
	Edessa Insurance Co., Ltd. (Alexian Brothers of America)	1,037	1,204	167
	Associated Medical Assurance Ltd. (Fairview Community Hospitals)	855	1,125	NA
CLAIMS MADE	Pennsylvania Hospital Insurance Co. (Hospital Assn. of Pennsylvania)	$20,000	$664	$48,000
	Health Care Insurance Exchange (New Jersey Hospital Assn.)	17,000	850	8,500
	Virginia Hospital Insurance Reciprocal (Virginia Hospital Assn.)	6,200	620	3,300
	Alabama Hospital Assn. Trust (Alabama Hospital Assn.)	2,622	472	—0—
	Kentucky Hospital Assn. Trust (Kentucky Hospital Assn.)	1,165	514	—0—
	North Carolina Hospital Assn. Trust (North Carolina Hospital Assn.)	1,051	108	3,900
	Brookdale Assurance (Health Central Inc.)	149	219	792
BOTH	Aetna Life & Casualty (Commercial carrier)	$24,000	$558	NA
	Controlled Risk Insurance Co. (Harvard Affiliated Medical Inst.)	3,200	762	NA

Source: Modern Healthcare survey December 1980

Kloman risks a little notoriety

By STUART EMMRICH

DARIEN, Conn.—The headquarters of Risk Planning Group is an anomaly in this rural Connecticut town. The sleek, modern, three-story structure just doesn't blend with the rest of this old New England village.

There is a lot of Felix Kloman in that building.

The president of Risk Planning Group has made a career of standing out from the rest of the crowd. That isn't to say Felix Kloman does his job better than his risk management consulting competitors; he just does it with a little more flair.

And a little notoriety that Mr. Kloman unabashedly welcomes.

"I would say that Felix is controversial, but in his job controversy is good," said Charles Moody, a former associate of Mr. Kloman's who left Risk Planning Group about seven months ago to set up his own consulting practice.

"When someone is looking for a risk management consultant, Mr. Kloman is certainly one person they think of," Mr. Moody pointed out.

Mr. Kloman readily concedes that some of the speeches he gives and many of the periodic reports he publishes are designed to stir up people, that they contain statements that are supposed to be slightly inflammatory.

"Part of the allure of the reports is their controversial nature," he said. "They take the news one step further and are designed to get people thinking."

But Mr. Kloman says he tries to temper that controversy with some sound advice.

"We don't stimulate controversy for the sake of controversy, but instead we are trying to stimulate discussion," Mr. Kloman said. "The proper role of a consultant is to be critical. He should be an outspoken critic of the system, with no ties to that system.



Photo: Stuart Emmrich

Felix Kloman admits that he tries to stir up controversy in his reports.

"I hope most people would say that we are reasonable and objective critics."

Others who know him agree Mr. Kloman has an unusual talent for saying things that are not that provocative in nature in a very provocative manner. In essence, he often says things that make the most ordinary sense, but most likely would be

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Second opinions save only a little, says Blues study

By STUART EMMRICH

NEW YORK—Doctors' recommendations for surgery are being confirmed by their colleagues and additional diagnostic tests, almost eliminating any savings under a voluntary second opinion program at Blue Cross & Blue Shield of New York.

The four-year study, which covers the first 1,500 patients to receive second opinions in the New York Blue Cross program, showed only a small number of surgeries were avoided. In most cases, second opinions reinforced the diagnosis of the first doctor and increased the likelihood of surgery.

The survey showed that 70% of the second opinions concurred with the first diagnosis for surgery. Of the remaining 30%, more than half of the second opinions either called for surgery after additional diagnostic tests or for an alternative surgical procedure.

Blue Cross officials acknowledged the findings of the study surprised them.

"We initially foresaw second surgical opinions as a way to achieve significant cost savings," said Blue Cross vp Steven Sieverts. "What we are finding is not exactly what we intended to find.

"It seems logical to wonder whether the overall impact of the second surgical opinion program actually could be to increase the volume of elective surgery," Mr. Sieverts said.

The report, which up to now has received only limited publicity in the medical and insurance communities, already is causing controversy in the health care insurance industry.

"I think you will find some people who will be arguing against these observations," said Prudential vp Cliff Hoch. Prudential has been one of the most vocal supporters of second opinion plans the last few years.

The study also may intensify the debate over voluntary versus manda-

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Material Research retirees keep benefits

WORKERS WHO RETIRE from Material Research Corp. in Orangeburg, N.Y., after the New Year will retain their major medical, dental and group life insurance benefits.

The benefit change is one of many inaugurating the New Year.

Company-paid life insurance underwritten by Provident Accident & Casualty will be increased to 150% of salary from 125%. Dependent benefits also are being added: $2,000 for a spouse and each child over 6 months of age and $500 for children age 14 days to six months.

A voluntary life insurance program also is being made available, underwritten by Manhattan Life Insurance Co. through Productive Consultants in cooperation with The Robbins Organization in New York City.

benefit beat

The one-year renewable term life insurance to age 100 is written as individual policies that employees can take with them if they leave MRC. The rate for the insurance varies from $2.49 to $19.77 per $1,000 of coverage.

Pediatric well-baby care, which covers visits to the doctor for reasons other than illness for children younger than one year, is being added to the major medical plan underwritten by Provident. Outpatient psychiatric coverage also is being increased to 90% from 50% of the first $50 of charges to a maximum of $2,500 a year.

MRC also will give employees adopting children a $500 benefit for agency placement or legal fees.

The savings plan was liberalized to allow employees to make savings, withdrawal and investment changes quarterly instead of only annually or semiannually.

Costs of the benefit changes were not available.

Although not affecting benefit levels or cost, the company also has removed Blue Shield from its benefit program and converted its major medical program with Provident to wrap around the Blue Cross of New York hospital benefits to streamline claim procedures.

Previously, employees first submitted doctor bills to Blue Shield to collect any applicable benefits and then forwarded them to Provident to collect any major medical benefits. Now claims for doctors' services will be submitted only to Provident.

Switch to HMO

The village of Forest View, Ill., will switch its employee health insurance plan to a health maintenance organization Jan. 1.

The Hartford Insurance Co. has been the medical plan underwriter for the 25 village employees. But after investigating HMO membership, Police Chief John David estimated the village could save as much as $35,000 a year by joining the Merci Group Health Plan. Administration will be handled by Syncor Corp.

The HMO has two clinics in the Forest View area and utilizes La Grange Community Memorial Hospital. Total costs have yet to be worked out.

Rate request

Hospital Plan, Inc., the Blue Cross plan serving the city of Utica, N.Y., and neighboring counties, has filed for an average 23.5% rate increase for Plan PB subscribers, effective Feb. 1.

No new benefits would be offered. The plan received an overall average subscriber rate increase of 19.5% last Aug. 1.

If the new rates are accepted by the New York Insurance Department, rates for the 11,140 individual Plan PB group remittance contracts would be increased to $13.70 a month from $13, a 5.4% hike, while rates for the 13,249 family contracts would increase to $44.65 a month from $33.55.

Benefit beat keeps insurance and employee benefit managers up-to-date on what other companies are doing and informed of current developments in the employee benefit field. We'd like to know if you've made any changes. Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

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Court limits maritime injury award

WASHINGTON—Maritime workers with permanent partial injuries are limited to a federal benefit schedule and not allowed expanded benefits based on loss of earnings capacity, the Supreme Court says.

In a victory for employers, the high court in an 8-1 decision said benefits for permanently partially injured workers are limited by a statutory schedule.

In 1974, Terry Cross, an employee of Potomac Electric Power Co. of Washington, D.C., lost part of the use of his knee in a work accident. The accident left him 5% to 20% disabled.

Mr. Cross filed a claim under the federal Longshore and Harbor Workers Act, which covers maritime employees and workers in the District of Columbia.

An administrative law judge said Mr. Cross was not required to accept the specific benefit amount authorized by the longshore act for the partial loss of the use of a leg, but instead could recover an amount based on a formula for "all other cases."

The judge found that Mr. Cross's permanent loss of earnings capacity was $130 a week and ordered Pepco to pay two-thirds of that amount, or $86 a week, for the rest of Mr. Cross's working life.

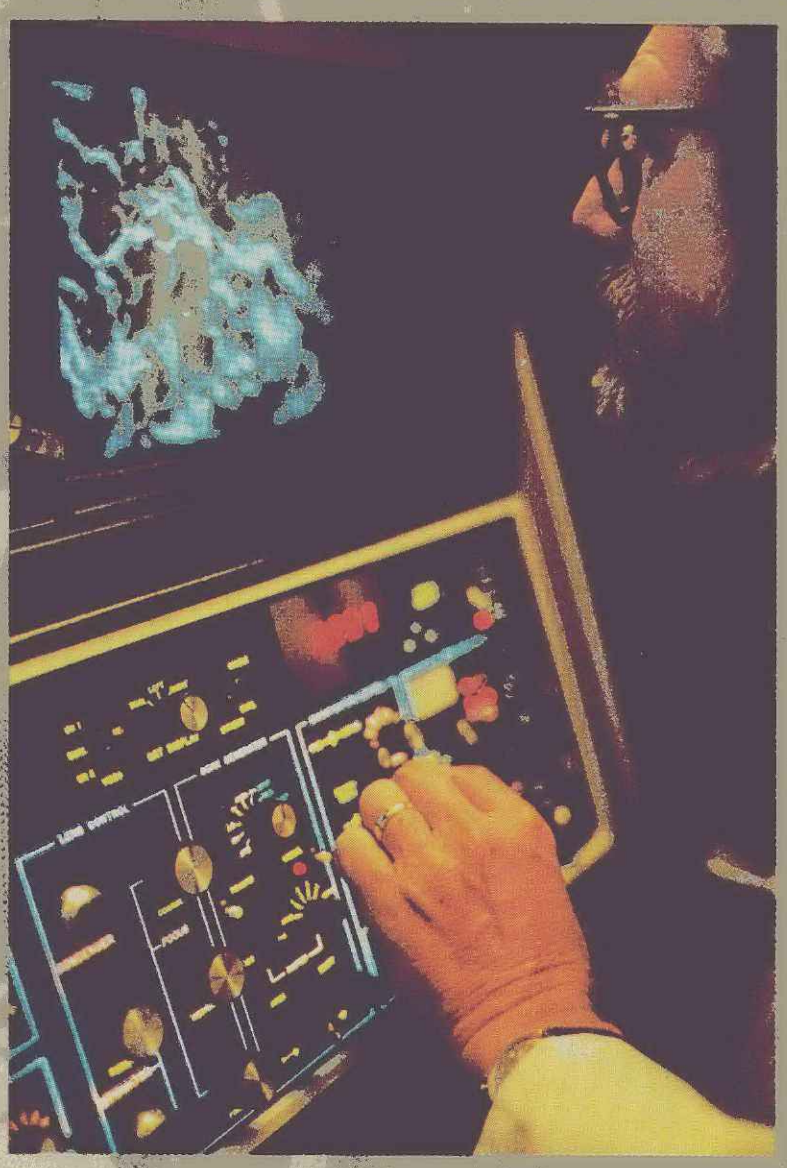
Pepco appealed the award, observing that there is a schedule for permanent partial injury benefits.

Under the longshore schedule for partial permanent disabilities, Mr. Cross was entitled to two-thirds of his average weekly wage for about 140 weeks. He would have received a maximum of about $12,000.

Based on a 30-year life span, Mr. Cross would have received about $135,000 under the administrative law judge's ruling for $86 a week.

But the Supreme Court overturned the administrative judge's ruling. "None of the categories of disability covered by the LHWCA authorizes recovery measured by the full loss of an employee's earnings," the court said. ■

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1866

'Secret' training center offers real tests

Photo: Eileen Norris



Lee Saltzgaver, manager of OSHA's training institute, demonstrates a pipe ventilation training unit.

By EILEEN NORRIS

DES PLAINES, Ill.—Thousands of private industry and public agency employees go through "basic training" every year in an unmarked, one-story building that hides behind a grocery store here.

Only when they enter the lobby of the Occupational Safety and Health Administration's national training institute do the words "U.S. Department of Labor" reveal the building's purpose.

The secrecy shrouding the institute is intentional, explains manager Lee Saltzgaver. Off-the-street curious persons could flood the office with questions and complaints if it were clearly marked as an arm of the federal government, he notes.

OSHA's enforcement officers come here from all over the United States for basic training. Once their schooling is complete, they are the men and women who enforce agency standards.

The institute, which lies within a half-mile of Chicago's O'Hare Airport, has eight classrooms and labs that offer "hands-on learning" for OSHA enforcers and industry safety supervisors.

Of about 4,000 persons who pass through the institute every year, nearly 20% are employees from private businesses seeking instruction on complying with OSHA's regulations.

The training center offers two free five-day sessions for the safety manager, security officer or employee benefit manager charged with keeping the business safe.

One seminar is geared for the construction industry and allied fields. The other class is a guide to voluntary compliance for all types of employers.

About 50% of the private students are from the insurance industry, estimates Mr. Saltzgaver.

Though the private students attending the course don't get the full training compliance officers receive, they do learn the basics of the OSHA regulations, he said. They also are taught how to develop an effective safety and health program at their workplace.

Most of the institute's lecturing goes to the officers who are hired in one of OSHA's 10 regional offices before they come to Des Plaines.

After two weeks, the trainee is sent back into the field for on the job training before returning to the institute in three to four months.

During the three-year-long instruction, an OSHA officer will receive about 30 weeks of classroom instruction.

"It is a vocational kind of training, similar to an auto shop in any school. What we've tried to do here is install the equipment that the officer will encounter out in the field," Mr. Saltzgaver says.

In a hearing lab, trainees reproduce and measure noises they will most likely find in large industrial plants. In another end of a large room, a flame propagation unit visually demonstrates what happens to trapped gases and flames.

Another lab is equipped with "high-flow pumps." Students can individually measure air particles for pollution in this room.

Through the next door is woodworking and metal-forming equipment. A welding lab is next.

All the equipment operates to give the students an authentic feel for what they will look for when they make inspections.

The institute has three separate programs for the industrial hygienist, the safety engineer and the safety specialist, but all learn basic health and safety rules.

Depending on their program, enforcement officers also take courses on hazardous materials, accident investigation, electrical standards and cranes and material handling.

They also are schooled in industrial ventilation, noise control, respirator training, radiation, law enforcement and communications and human relations.

When the enforcement officer is out in the field, he still is working closely with his supervisor as inspections are made, says Mr. Saltzgaver.

When the trainee is deemed ready to make "a least complicated inspection," the enforcement officer is sent out to a small business to make his first solo investigation.

If he successfully completes the inspection, the recruit is sent out to the more complex assignments—oil refineries or metal foundries—with the supervisor.

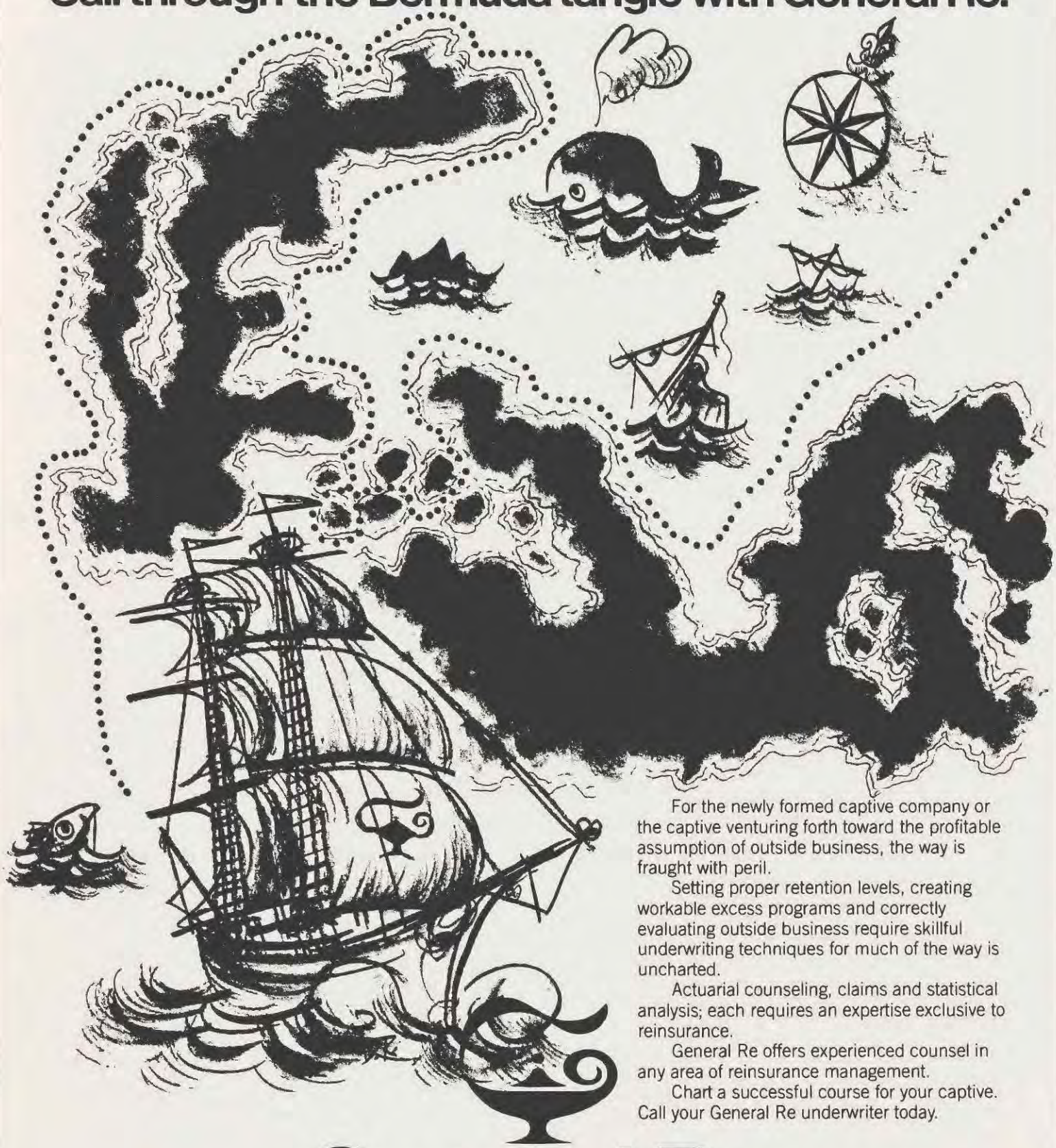
Even though the institute spends 80% of its manpower on training federal and state employees to make these safety inspections, the chances of a small to medium-size employer having an OSHA inspector pop in are slim, says Mr. Saltzgaver.

Larger petrochemical and nuclear plants can expect a visit at least once every three years, he says.

OSHA inspections are usually triggered by a catastrophe or complaint, but officers go out on a "worst first" basis.

"A non-high hazard plant that is small stands a chance of being inspected about once every 42 years," he added. ■

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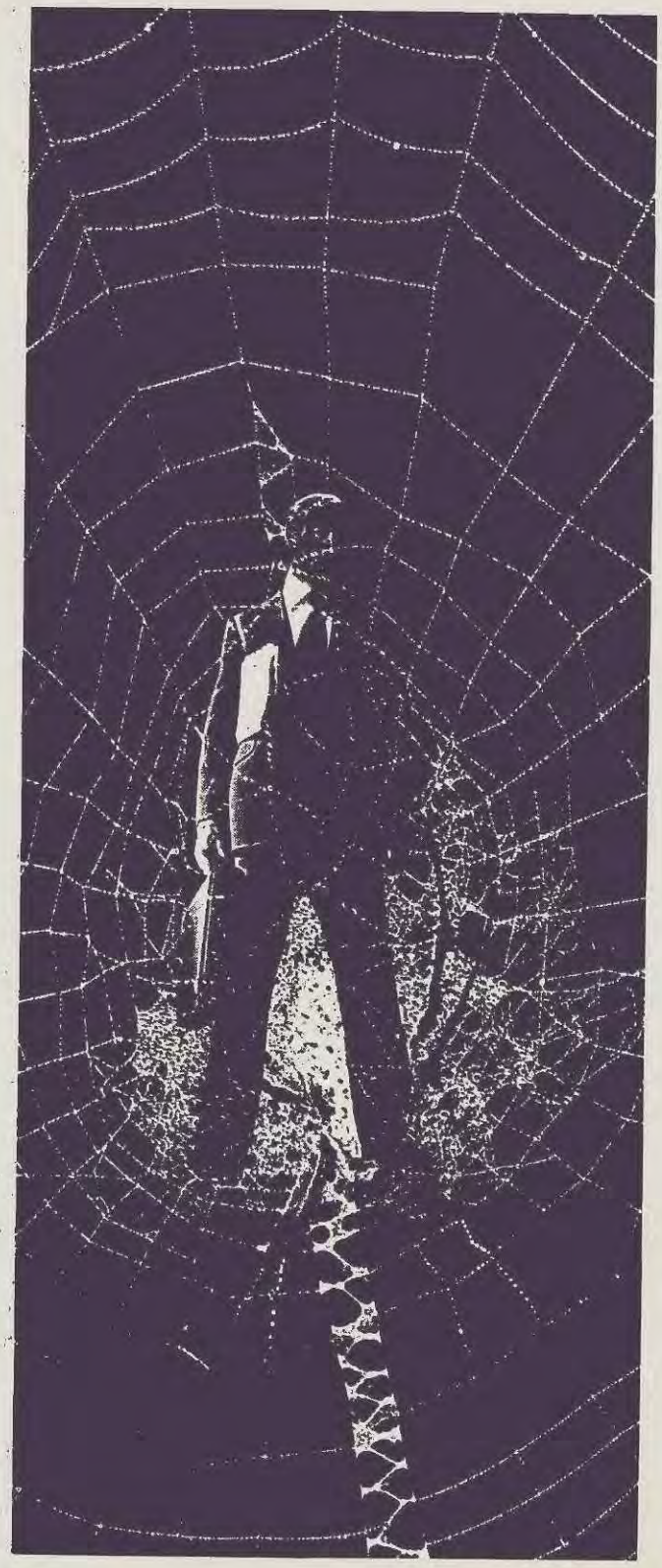
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editorial opinions

It had to happen

WE KNEW it was coming. Risk management and insurance programs must be constructed to complement a company's financial strategy and built no heavier than the financial structure can support. When a company's financial strategy or structure changes, attendant changes must be made in the risk management and insurance programs.

Contemporary risk management principles dictate that firms should assume as much risk as they can afford to avoid paying unnecessary service fees to insurers for the privilege of trading dollars with them. A special section in this issue offers advice to self-insurers and would-be self-insurers on how to best structure a self-insurance program, staying mindful that ability to pay dictates the proper level of self-funding.

So we weren't surprised last week when the Michigan Insurance Department revoked Chrysler's authority to self-fund workers compensation risks in its home state. We have been watching Chrysler for changes in insurance and risk management programs in light of its ailing financial condition.

We're not convinced, however, that the insurance department in Michigan or any other state where Chrysler operates should immediately revoke its right to self-fund workers compensation.

We don't want to engage in the debate over whether there should be any government bailout of Chrysler. We do want to recommend that insurance departments at least not contribute to Chrysler's financial problems by laying down mandates to purchase workers compensation insurance.

We were relieved to hear from the Michigan Insurance Department that wire service stories over the holiday weekend proclaiming Chrysler would be forced to buy workers compensation insurance were a little misleading. Indeed, what the department is contemplating is forcing Chrysler to purchase some excess insurance or structure a high-deductible plan that will maintain the benefits of self-funding risks while providing catastrophe protection to cover benefits to injured workers if workers compensation costs outpace a level Chrysler is able to pay. A special insurance department hearing will be held to determine what insurance is needed.

A surety bond to guarantee that Chrysler will pay even the amount determined that it can self-fund seems appropriate.

We encourage the Michigan Insurance Department to work with Chrysler to structure a cost-efficient program that will not add unnecessary costs for the corporation but will provide a measure of protection for injured Chrysler workers.

Insurance departments in other states where Chrysler operates should monitor the developments in Michigan and also work with Chrysler to establish an appropriate amount of self-funding. They should not jump on the bandwagon and too quickly revoke authorization to self-insure.

The Michigan Insurance Department deserves a compliment for recognizing potential problems with a fully self-insured workers compensation program at Chrysler. It is the department's duty to be sure injured workers will collect benefits.

Other businesses in Michigan that self-fund workers compensation risks also should be relieved to see the insurance department looking at Chrysler's ability to keep paying workers compensation benefits that in 1980 totaled about $40 million in Michigan alone. All Michigan self-insurers of workers compensation pay 3% of paid benefits to a guarantee fund to cover the cost of benefits unpaid by bankrupt self-insurers. A flood of claims from Chrysler workers on the mere $4 million guarantee fund could encourage the Michigan legislature to increase the assessment against all self-insurers. No one wants that.

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letters

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A matter of preference

To the editor: Re: Joe Destein's observation that captives aren't necessary (*BI*, Nov. 24, 1980).

"Captives aren't necessary because insurance companies are proving they are flexible in meeting the needs of the risk manager." Who told you this, Joe—some insurance company underwriter?

Mr. Destein should recognize that a leopard doesn't change its spots that easily. True, a number of major insurers are tyring to stem the outflow of business by offering "risk management" services. In most cases, I believe the offering of unbundled services they are touting will prove to be more lip service than fact.

Sure, some carriers offer cash-flow plans—but not without extracting their pound of flesh. They share investment income with the policyholder, but still keep a pretty good slice for themselves. And as to tax deductibility, I understand the IRS is now looking quizzically at paid-loss retros.

Finally, and most important to me—bundled or unbundled—I don't believe the quality of services from an insurance company matches those of an independent provider. I prefer independent claims and engineering personnel who are not confused as to whether they are working for me or some insurance company underwriter. And I like loss experience and analysis reports that are tailored to my needs rather than being a byproduct of the carrier's data-gathering system.

This move by carriers into "risk management services" may be of benefit to a medium-size firm that is not really big enough to launch a captive operation, but I see little in their offerings to deter a Fortune 500 company from going the captive route. Joe, I'm afraid these insurers still have a lot of proving to do to convince me that they are "just as good as a Xerox."

Lawrence J. Bell
Assistant vp-risk management
Revco D.S. Inc.
Twinsburg, Ohio

In defense of philosophers

To the editor: In the Letters column Dec. 22, Dennis E. Flynn quotes another person's comment that "(My undergraduate work) gave me about as much as a philosophy student would have going into insurance."

Mr. Flynn's response omits discussion of the philosophy student, and I do not disagree with anything that Mr. Flynn had to say, only with the comment of another whom he quoted.

We "philosophy students" who went into insurance have something to say. I came into the insurance business as a casualty underwriter after graduating with an A.B. from Loyola University in Chicago.

My liberal arts education has never been anything but an asset to me in insurance company employment, agency ownership, the Army or in CPCU.

The liberal arts discipline provides a special training in thinking and in living. It prepares the individual for future development. The A.B. graduate should be a flexible person, easily trainable in the technical skills required in the insurance industry.

Put-downs about the philosophy student are old hat. They went out as far back as when someone said personal service would be replaced by the computers.

Frank A. Hohenadel
Hohenadel, Webster & Beebe Associates
Chicago, Ill.

Can't figure FFF quotient

To the editor: Your Dec. 15 issue points out a need to hire at least one, and apparently more, of the listed benefit consultants to compute an illusive statistic we could call the FFF, or Fortunate Five Hundred Fascination, quotient.

The consultants who reported information provide services to a low of 2,690 of Fortune 1,000 clients or a high of 5,863. Two, with an identical number of elite accounts, have the same parent company and presumably this is a duplication—subtract 174. One provides services to either 30% of the Fortune 1,000 or has Fortune 1,000 companies as 30% of their clients. With only 50 plus clients, however, we must assume 15 is the correct figure, or the 50 plus would have to be 50 plus 250.

Two others have percentages of Fortune 1,000. If we apply these consistently, as a percentage of total clients, one services 1,100 and the other 2,250 out of 1,000. On the other hand, if these are percentage of Fortune 1,000 itself, then these three firms are even more dominant, consulting to 110% of the field.

The answer must be that each company uses between 2.7 and 5.9 consultants. We know that some maintain extensive risk management departments and we find these statistics somewhat belittling to the professionals who work in them. But maybe I just don't understand. Can you recommend a consultant?

John A. Williamson
The Nickel Agency Inc.
Birmingham, Mich.

■ *Take your pick. You've already checked their arithmetic.*

Rate increase misstated

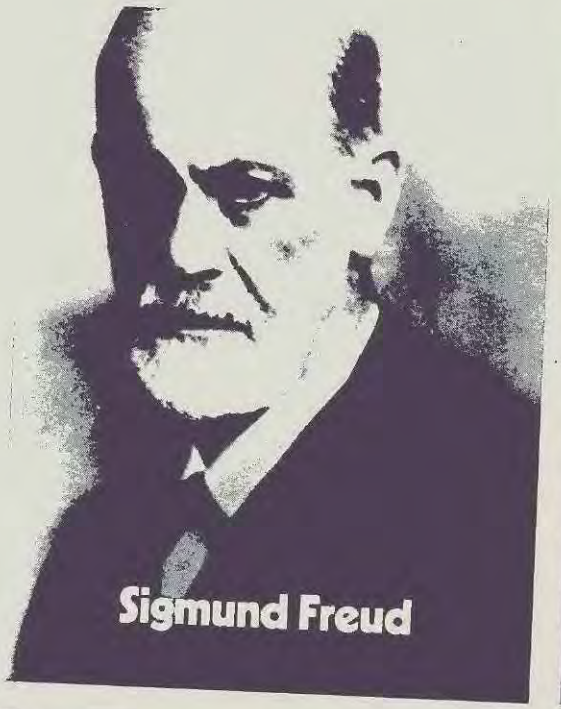
To the editor: In reviewing our records, I find that I may have misstated the rate increase for 1980 for the Intergroup HMO ("Motorola's review short-circuits costs," *BI*, Dec. 15). The rate increase was only 15%, not the 20% indicated in the article.

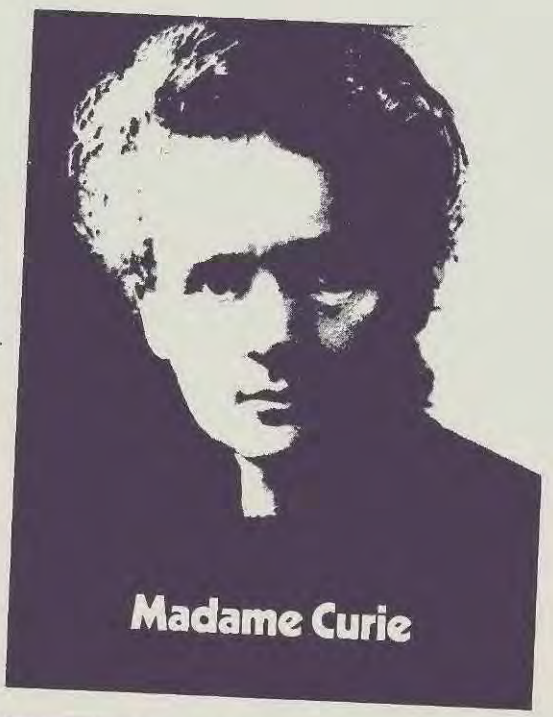
We have a high percentage of our Chicago area employees participating in Intergroup, so it is important that we treat Intergroup fairly. Intergroup's 15% increase compares favorably with our own experience in this area.

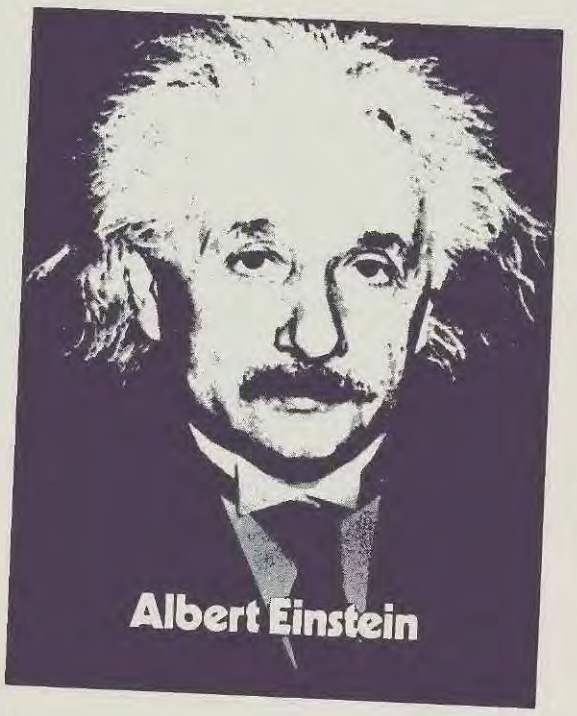
Our employees in the United States participate in 14 different HMOs. Some have had very good cost experience, and Intergroup should be counted among them.

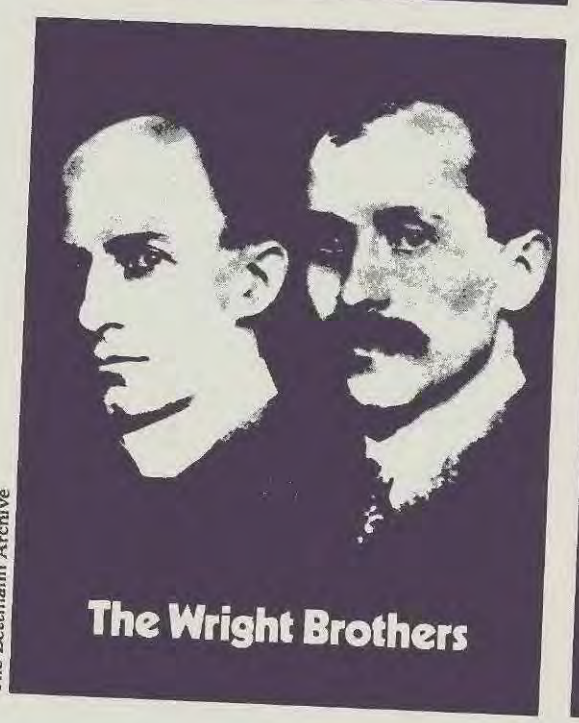
William F. Badgett
Director of employee benefits
Motorola Inc.
Schaumburg, Ill.

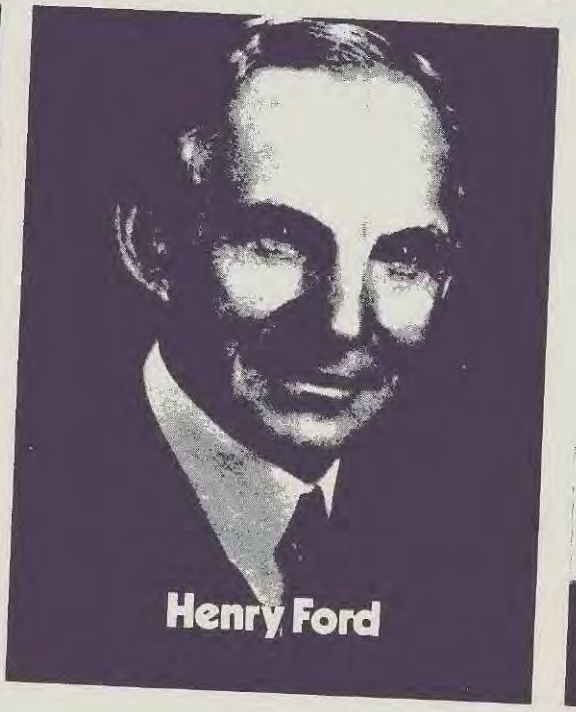
Great problem solvers of the 20th century.

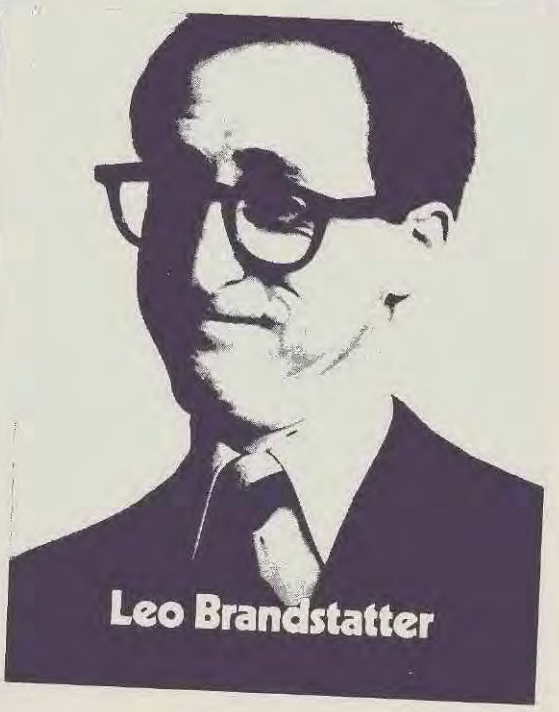

Sigmund Freud


Madame Curie


Albert Einstein


The Wright Brothers


Henry Ford


Leo Brandstatter

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Then Einstein, the Wright brothers, Henry Ford and Leo Brandstatter.

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Market ignores quake coverage: Study

By JERRY GEISEL

washington

WASHINGTON—Most buyers aren't very interested in purchasing earthquake insurance and the insurance industry doesn't want to sell the coverage, a new study says.

The study, prepared by J.H. Wiggins Co. of Redondo, Calif., for the Federal Insurance Administration, says losses would be enormous if a major earthquake struck several states.

The highest maximum losses would be $30 billion in California, $10 billion in Washington state, $4.7 billion in Massachusetts and $3.1 billion in New York.

The 89-page "working paper" does not reach any conclusions on whether there should be a federal earthquake insurance or reinsurance program.

The final report may include such a recommendation (*BI*, Aug. 18).

Current federal property/casualty insurance programs protect businesses only from flood damage and break-ins. These programs are mainly purchased by very small firms.

Copies of the earthquake insurance working paper are available free from the Federal Insurance Administration, HUD Building, 451 7th St. S.W., Room 5136, Washington, D.C., 20410; 202-755-6580.

Pension confab

The President's Commission on Pension Policy will sponsor a conference this week on developing a national retirement income policy.

Discussion topics at the Jan. 6-8 conference include:

- Demographics and retirement age policy.
- Mandatory pensions.
- Spouse and disability issues.
- Retirement income goals.

The conference will be at the Washington Hilton Hotel, 1919 Connecticut Ave. N.W. The conference is open to the public; no preregistration is required. Each session will be from 9 a.m. to 5 p.m.

PERISA call

Federal guidelines are necessary for the nation's 7,000 public pension plans, says one pension expert.

Federal legislation that would set reporting and disclosure requirements for public plans "would enable voters in state and local jurisdictions, as well as participants and the press, to learn more about the status" of the plans, says Washington labor attorney George Driesen.

Speaking before a public employee benefit conference sponsored by the International Foundation of Employee Benefit Plans, Mr. Driesen said a Public Employee Retirement Income Security Act would accelerate consolidation of small public plans.

Possible cost increases resulting from increased reporting requirements could be spread out, Mr. Driesen added.

During the last two sessions of Congress, Rep. John Erlenborn (R-Ill.) has introduced legislation to establish rules for public pension plans similar to those covering private plans. But the Erlenborn PERISA legislation hasn't moved out of committee.

The reason for the lack of interest is that "the mood of Congress and of the country is obviously toward less regulation, not more, and toward reducing federal supervision of state activities," Mr. Driesen said.

PBGC rules

The Pension Benefit Guaranty Corp. during the next year will be developing a new list of regulations to help employers participating in multiemployer pension plans understand the Multiemployer Pension Plan Amendments Act of 1980.

That act imposes new liabilities on employers that want to withdraw from such plans. It also increases the premium employers pay to the PBGC for termination insurance.

Regulations to be developed include:

- Rules governing the arbitration of disputes concerning employer liability.
- Alternative rules for allocating liability of unfunded vested pension benefits.
- Rules to determine the interest employers must pay on delinquent withdrawal charges.

The list of areas in which multiemployer pension regulations will be developed was published in the Dec. 22 Federal Register. ■



Reinsurance adequate

ROME—Reinsurance capacity appears adequate for multinational firms to protect their interests in Italy and Algeria, both recently rocked by earthquakes, London sources say.

Insured losses have been relatively light because of the large amount of uninsured property in the two countries, sources say. The heaviest insured damage has been the $13.1 million in losses suffered by Fiat at its Southern Italy facility, for which it says it is fully insured (*BI*, Dec. 22).

Sales of quake insurance have been brisk in Caribbean countries such as Jamaica and Trinidad, where new quakes are expected. Japanese underwriters are said to be major marketers of the coverage. ■

Doctors group to review diagnostic procedures

PHILADELPHIA—The American College of Physicians will develop a review and evaluation office in its headquarters here, thanks to a three-year $650,412 grant compliments of the John A. Hartford Foundation.

The project, called the Clinical Efficacy Assessment Program, will evaluate and make recommendations to the medical community on the usefulness of many nonsurgical diagnostic tests and procedures, including pulmonary function testing, cardiac stress testing and intermittent positive pressure breathing.

The new ACP project will help control the rising cost of medical care through education, said Dr. Robert H. Moser, executive vp of the 50,000-member ACP.

The information supplied through review "will enable physicians to select appropriate tests and therapies and abandon those that are out of date or ineffective," Dr. Moser said.

The grant to the ACP is part of the Hartford foundation's program to stimulate reform of the health care payment system.

Although the new program will not be the total solution to rising health care costs, Dr. Moser says it is "a big step" in the right direction.

The grant will be used to expand ACP activities first launched in 1976 with the Medical Necessity Project.

Under this project, member physicians from around the country formed a medical practice committee. The committee made recommendations to the board of regents, which in turn delivered them to the Blue Cross & Blue Shield Assn. of America.

The ACP says the Hartford grant will help provide more sophisticated investigation and review needed to accommodate the more controversial and complex tests and procedures.

The Hartford grant also will help the college monitor the work of other organizations engaged in similar pursuits.

The ACP will conduct research, contact experts in medicine and science, convene review panels, produce reports and determine the impact of the recommendations it submits.

The Medical Necessity Project recommendations have been endorsed by the medical community and significant savings have been attributed to the decline in the ordering of some tests found to be outmoded.

As a direct result of ACP findings, BC & BS president Walter J. McNerney announced the association's recommendation that its plans no longer reimburse "routine admission batteries" such as chest X-rays, serologic tests for syphilis or electrocardiograms, unless a physician orders them on an individual basis.

"The point of this recommendation is to encourage medical professionals to think about the costs of procedures routinely performed," Mr. McNerney explained.

"The ACP has stated that injudicious use of diagnostic tests contributes greatly to the cost of medical care." ■

Oil spill safety to be probed

WASHINGTON—The U.S. Coast Guard and the U.S. Geological Survey will coordinate investigations of oil spill accidents on the Outer Continental Shelf.

The agencies will coordinate oil spill contingency plans and cooperate in developing standards and regulations.

The agreement will result in greater safety during oil drilling and less burdensome regulations governing oil exploration and production in ocean waters, the agencies say. ■



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Study pegs rates for hospital room around country

NEW YORK—Benefit managers in Mississippi might have a little easier time containing health care costs than their counterparts in the other 49 states.

The average hospital rate for a semi-private room in Mississippi is the cheapest in the nation: $73.50 a day, according to a survey by The Equitable Life Assurance Society of the U.S.

But the Golden State of California charges more than twice that for its 33,968 semi-private beds, making it the most expensive state in the continental United States for semi-private beds, averaging $177 a day.

The diverse hospital service charges of the nation's 50 states, District of Columbia and Puerto Rico are mapped out in the recent 1980 Hospital Daily Service Charge survey by The Equitable.

The state averages for the third quarter of 1980 were compiled by sending questionnaires to 3,030 hospitals in 1,729 cities nationwide, with an 89.5% return. The study found:

• The District of Columbia had the most expensive rates for a state or district. Semi-private beds are $196.50 a day, private $202 and intensive care $508. Alaska is the state with the most expensive hospital bed rates. A private bed costs $195 per day, a semi-private room $196.50 and intensive care unit $412.50.

(The private rooms appear to cost less than the semi-private because average charges have been weighted by the number of beds in each category.)

• The most expensive city to be hospitalized in is Nome, Alaska. Its 15 semi-private beds cost $342 per day; no private rooms are available there. By contrast, the 65 semi-private rooms in Bainbridge, Ga., cost only an average of $63 per day.

• The most expensive major city for semi-private care is New York, with 16,275 beds averaging $220 a day. However, Los Angeles has the most expensive intensive care units among major cities, with the average cost $512.50 per day; New York has an average charge of $388 per day.

Rates in Chicago are $197.50 for a semi-private room, $223 for a private room and $376 for intensive care.

Dallas has the least expensive hospital rates of any major city. Semi-private beds average $99.50 a day, and intensive care units $256.

• The least expensive region is the deep South, excluding Alabama and Florida, the survey reveals. In the South, semi-private rooms cost $73.50 to $83 a day.

In most of the Midwest, except for Illinois and Minnesota, rates are the second least expensive. They average from $94 to $114 a day for a bed in a semi-private room.

• On the West Coast, rates average $129 to $155 per day for semi-private rooms.

• On the East Coast, the state of New York has the most expensive rates, averaging $172.50 per day for semi-private rooms and $183 for private ones. But next door, Vermont has the lowest East Coast rates, $114 for semi-private and $121 for private.

The Equitable cautions that comparing hospital rates in one part of the country to rates in another may result in discrepancies "since slight regional variations in charging bases may exist."

•

For a copy of the 1980 Hospital Daily Services Charges booklet, contact John Goddard, The Equitable Life Assurance Society of the U.S., 1285 Ave. of the Americas, New York, N.Y. 10019; 212-554-2970.

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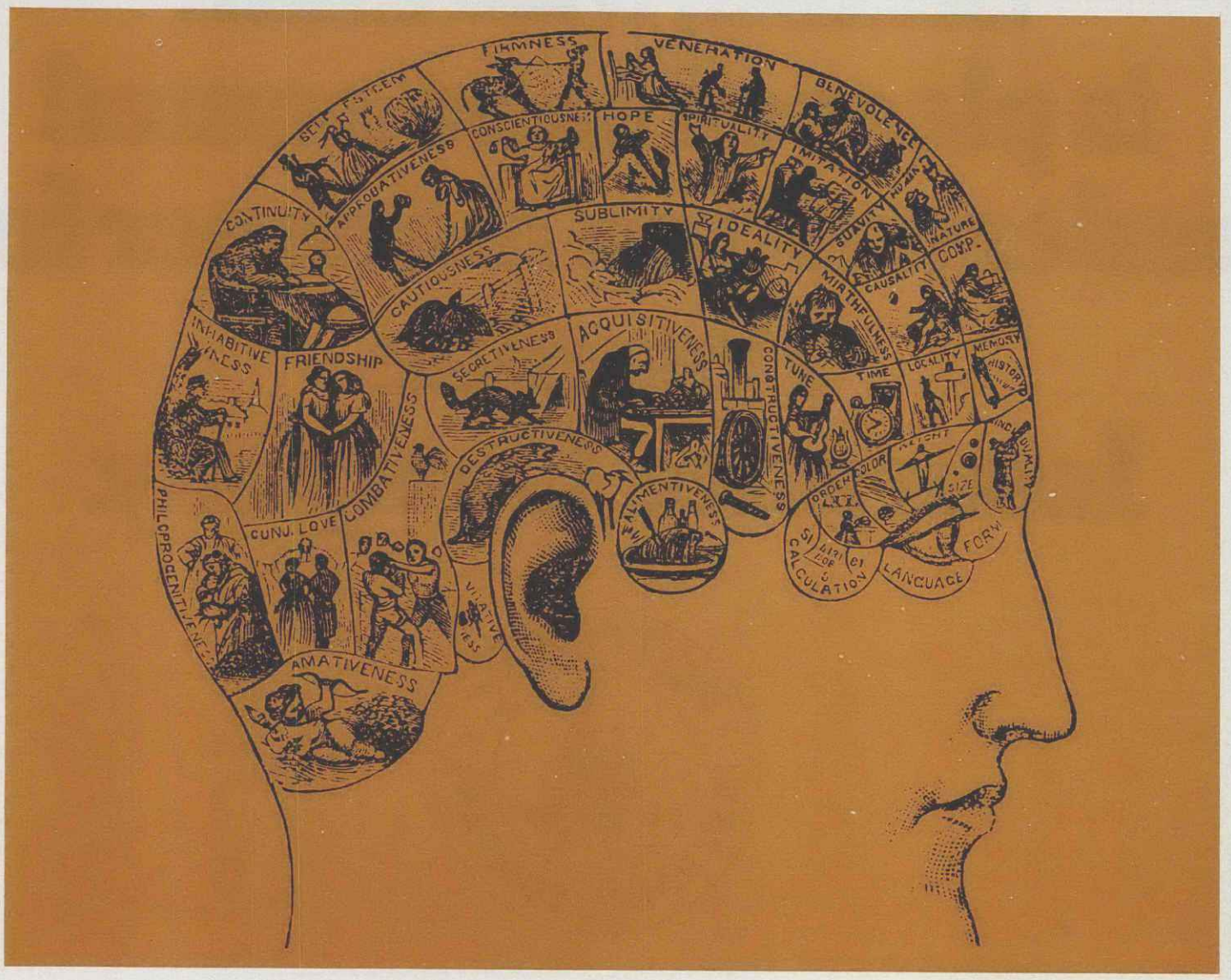
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A do-it-yourself guide to self-insurance

The beginner's primer . . .



By EILEEN NORRIS

For sale: Self-insurance plans. Buyer should be prepared for a long-term commitment. Results not immediate. Requires dedicated management and careful construction.

So you want to self-insure. Consider these guidelines before you start building your plan:

Cost is important. One source said that a company that wants to self-insure property/casualty risks should be paying $1 million in yearly premiums before considering self-funding workers compensation.

Donald J. Krutek, vp of risk management sales at Gallagher Bassett Insurance Services in Rolling Meadows, Ill., says firms should initially try to fund self-insurance within the same dollar amount paid to insurers, with a profit expected in the following years.

A criterion for self-insurance should be high volume and predictable losses, according to industry sources.

Just as important as cost, experts say, is the exposure.

"A company may feel capable of paying losses, but what happens if they have a catastrophe?" asked James Paulding, managing vp of Alexis in Atlanta. A smaller firm with fewer losses also has less capability to get excess insurance, Mr. Paulding added.

"Some companies are risk takers and others are not," added Robert Young, senior vp of the self-insurance services division at Fred S. James & Co. in Chicago. "The first test is to look at the predictable loss."

Very few firms that self-insure go totally bare, Mr. Young says. "No one would be able to pay for a major catastrophe," he added, which is why most self-insurers have an extended umbrella policy.

Firms considering self-insurance should also study local regulations. Most states overregulate and "look at the worst case of liquidation" when they write the self-insurance laws, sources say. Some states require a bond, others a financial guarantee that could be greater than what the firm can afford.

In California, self-insurers are audited every three years by the state. Other states require annual reports or renewal reports.

The best thing to do is check with the state insurance department or industrial commission for rules that may be peculiar to that state.

Continued on page 18

. . . the expert's test

By JOHN MAES

Is it cheaper to do it yourself?

The old-fashioned dollar-for-dollar comparison is the most popular method of evaluating a self-insurance program.

Officials of companies and organizations say the best method of measuring success at self-insuring is comparing cash spent paying claims and plan administration with what premiums would be if the firms brought conventional insurance.

Some corporate administrators use terms like "objective" and "realistic" to decribe the usefulness of such comparisons, but all agree it's also the language top management understands.

As Robert E. Rich, director of insurance and risk management at Gold Kist Inc., in Atlanta, puts it, "There's no better way to convince management that it should continue a self-insurance program than to show a monetary savings.

"It's black and white," he said. "There's no argument about it."

James Patterson, insurance manager for Suffolk County, N.Y., shows his bosses the county has saved $15 million over the six years of the program.

"When I had to justify the program and what we're doing, what better way to do it than to look at where we are and where we had been?" he explained.

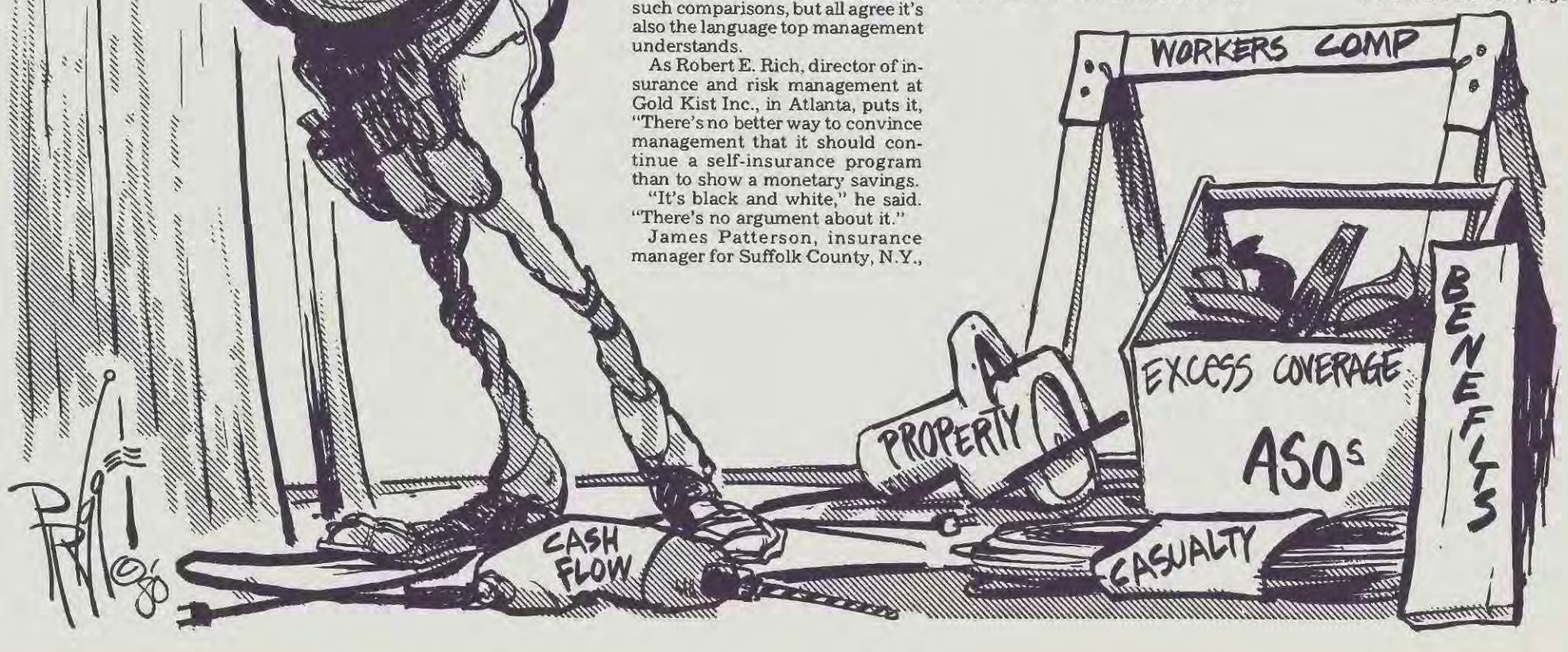
Another proponent of self-insurance, Paul Bingham, vp of Fleetwood Enterprises Inc. in Riverside, Calif., says the cost versus premium comparison is not a flawless precison instrument but is "somewhat objective" in helping him determine the success of the firm's self-insurance of workers compensation.

There are various ways to make the comparison, but most need the help of your broker or self-insurance administrator.

Mr. Patterson of Suffolk County, which self-insures all lines, including the first $250,000 per case of workers compensation since 1974, says his broker provides premium information that is weighed against claims and administrative costs.

"We say to our broker that we want to know what it would cost to self-insure and go the insurance route, and we keep statistics on it."

Continued on next page



Testing your self-funded programs

Continued from previous page

Mr. Rich of Gold Kist says he provides management with a monthly report of how the firm's self-insured workers compensation program stacks up with the conventional market.

"I can keep top management abreast of the situation on a monthly basis," he said. "If we had a catastrophic event, they're aware of it in short order."

The firm's self-insured retention varies from $150,000 to $250,000 in the 12 states in which it operates, depending on the amount of state regulation.

The risk manager's premium information comes from his excess insurer, which computes standard premiums during auditing "just like we were insured. They have to compute what the premium would be and that's how we get our cost comparison," Mr. Rich noted. That and the company's loss data is fed into a specially designed computer program that assembles the comparison.

'Your evaluation should be current. It should never stop,' says Bob Rich, risk manager of Gold Kist.

Results for the first four months of this year alone show Gold Kist, with 400 U.S. installations, would have paid more than $1 million in workers compensation premiums. But in fact, the firm paid only $118,000 in costs and benefits.

At Moline Forge Co. Inc. in Moline, Ill., "the comparison of what we would have paid to an insurance company with the exact amount we did pay out is the most critical factor we have to work with in evaluating our success," said president Thomas Getz.

Moline Forge self-insures workers compensation and develops its comparison from its own costs and the manual rates in Illinois.

"It's shown us that we've saved a substantial amount of money," he said.

That's fine for evaluating a program's success, but what's the best technique for determining what changes, if any, are necessary?

Analyzing loss data is the best bet, the experts say.

"We monitor our loss ratio, which is incurred claims divided by statutory premium. If that particular measure starts to deteriorate, that's what triggers any adjustments we may make," explained Mr. Bingham of Fleetwood Enterprises.

Loss and claims information has helped another self-insurer refine its program.

"It's made us more acutely aware of what's happening in terms of employee injuries," said Dean McLean, risk manager at Chicago College of Osteopathic Medicine. "In some cases, it's shown us where we've needed to give remedial instruction."

Mr. McLean said his broker provides him with injury information monthly. "That way, we're able to determine what type of injuries we're looking at."

The data has shown that the college, self-insured for five months, was experiencing an inordinate amount of back injuries from nurses and other employees lifting and handling patients.

To solve the problem, the institution's own rehabilitation staff was instructed to set up semi-annual seminars in body mechanics and proper lifting techniques, Mr. McLean says.

In spring, when the expected spate of winter slips and falls is recorded, Mr. McLean will do another injury analysis to see if the seminars are having the desired impact.

Thorough, periodic risk analysis is another way of focusing attention on where to improve a self-insurance program, adds Mr. Rich of Gold Kist. "We're constantly updating," he said, referring to his 15 staffers who travel to company facilities across the country, conduct inspections and file regular reports to his office.

"Your evaluation should be current. It should never stop," he explained. "As for the cost comparison, it should be done every month and should give the cost comparison for each of the previous three years."

But there's one caution. Self-insurers wishing to take the pulse of their programs should also plan acturial review every year or so, said Jon Roeder, marketing office for St. Paul Risk Services Inc., a subsidiary of St. Paul Fire & Marine Insurance Co.

Such analysis provides trend and forecasting of potential future risks, market circumstances and funding adequacy, he said.

"Self-insurers may be overlooking the actuarial aspects that are just as important as the program itself.

"It will give you an assurance of the adequacy of the program and an opportunity to review and decide whether to maintain it in the form that it's presently structured," he said.

Some companies are able to determine through actuarial review whether they should expand their programs or consider returning to the conventional markets. ■

Some tips for plotting plan costs

IF YOU'RE USING a cost vs. premium comparison to evaluate your self-insured workers compensation program and process your own data, here are a few tricks to remember:

- Keep loss data as far back as you can and as complete as possible to perform a loss run for the periods under comparison.
- Know the formula for determining experience modification for workers compensation.
- Know how to compute the formula for retrospectively rated and loss-sensitive plans so you can have a comparison against both these types of premiums. ■

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In the past, the term "risk management" was nonexistent, because insurance was an administrative function. A policy was written and the premium came out of a book. Basically, a company had only three options to save money: to change brokers, to change insurers or to change both. That was about all "managing risk" entailed.

The dramatic rise in the cost of insurance has necessitated a more sophisticated and disciplined approach to the management of risk.

Risk must now be identified in advance. In order to protect yourself, you can't afford to speculate – you have to be aware of every possible exposure.

Once identified and quantified you can see how much risk can be sustained and how much should be transferred. For every exposure, management has three options: to consider the risk as insignificant and not insure it, to transfer the risk entirely, or to strike a balance between self-assumption and transfer. The balance between not insuring, self insurance and full-insurance is one answer to cost-effective risk management. It opens up a new set of variables in the economics of risk management – variables such as taxes, investments and cash flow. In effect, the economics of successful risk management are dependent upon the methods of funding or non-funding you choose – the goal is to find the optimum position for your own circumstances.

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Risk Management Economics.

How to prepare for a self-insured plan

Continued from page 15

Firms also have to become aware of data processing and clerical help for claims too, says Mr. Young of Fred S. James. "A company can do it itself, if it has the expertise, or it can buy the services," he said. "The insurance carrier is no longer there to do it."

The more a company can do itself, the fewer the services it must buy from others. Those considering self-insuring can and should talk to the competition, their brokers or agents and consultants to see what the going rate is for various services, Mr. Young advises.

'It was a matter of availability for us,' said Illinois Hospital Assn.'s Phillip J. Haas. 'There were rate increases.'

Management must make a strong commitment to self-insurance if the method is to work, says Mr. Krutek of Gallagher Bassett.

"If a firm thinks it's going to self-insure and reduce costs without practicing loss prevention, then they're wrong," he added.

Self-insurers also should have a system to provide management with the present and future estimated costs of self-insurance reserves, he said.

Cash flow should increase within a self-insured firm as the loss experience improves. For instance, the cost in the first year of self-insuring workers compensation might be 35% to 50% lower but there's a catch to it, says Mr. Young of Fred S. James.

"The dollars paid don't include all the losses. Ultimately, you pay the losses and a big firm will see a 20% to 25% savings within an average of five years," he said.

For some companies, switching to self-insurance is not only a dollar and "sense" type of proposition. Availability of coverage also has to be considered.

The Illinois Hospital Assn. in Oak Brook had almost 50 of its member hospitals begin self-insuring their liabilities in the mid-1970s.

"It was a matter of availability for us," said Phillip J. Haas, vp of the association.

"There were rate increases. One minute the carriers were begging us for business and the next minute we were begging them. The hospital industry is different and the premiums were never high enough to self-fund.

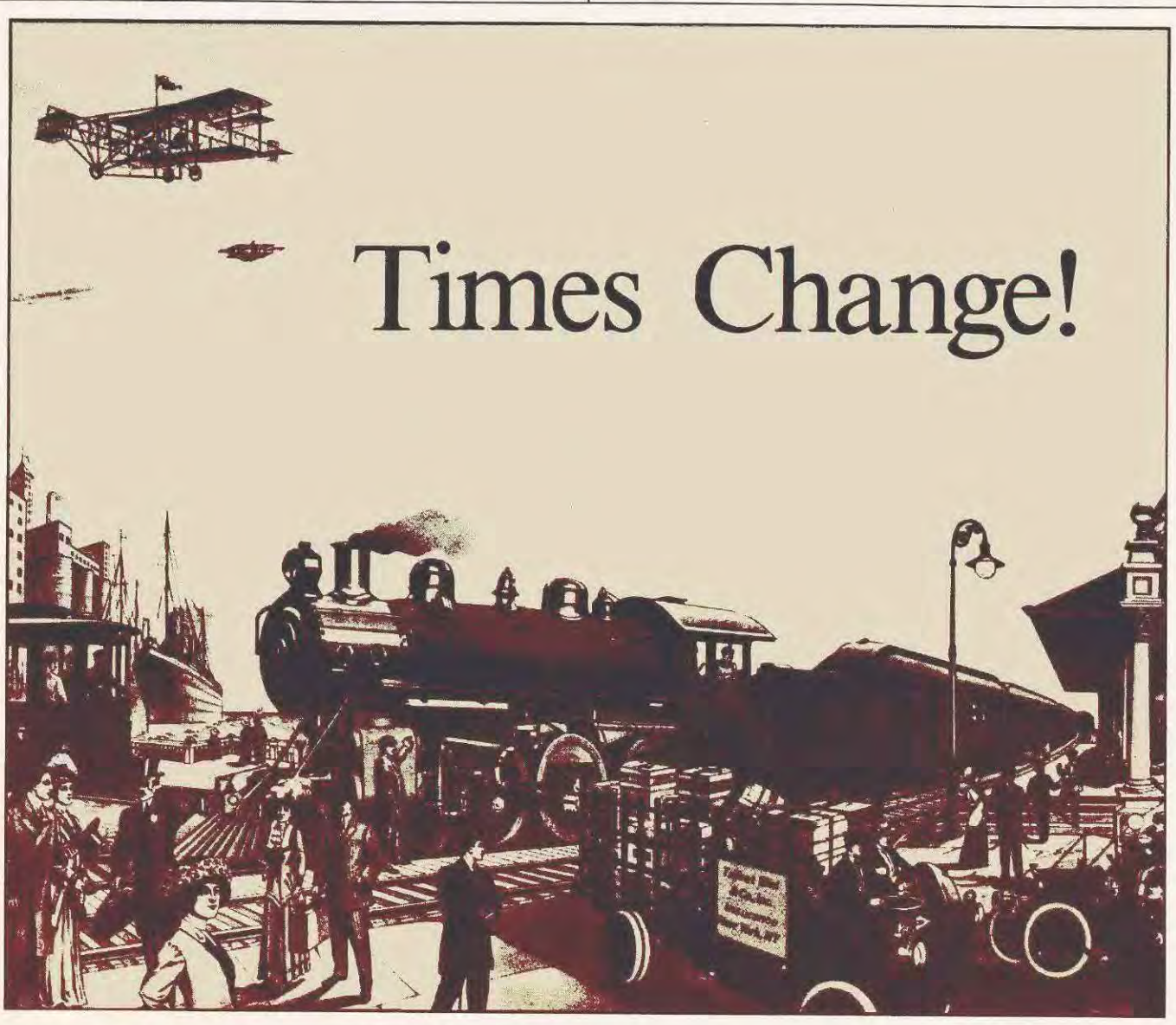
"There was limited availability and high prices for liability and we found that we could get better services by doing it ourself," Mr. Haas said.

Twenty member hospitals also have self-insured their workers compensation risks, with the bulk of those changeovers in 1977 and 1978, Mr. Haas said.

If the decision to self-insure becomes overwhelming, there are service representatives who will help you decide, like Manny Buzzell, president of self-insurance services for Corroon & Black's corporate offices in Nashville.

"Self-insurance isn't the panacea of the world," Mr. Buzzell said. "A loss is a loss. If a risk manager is doing his job, there is control over losses. If money is being wasted because of incompetent claims handling, then self-insurance can make sense." ■

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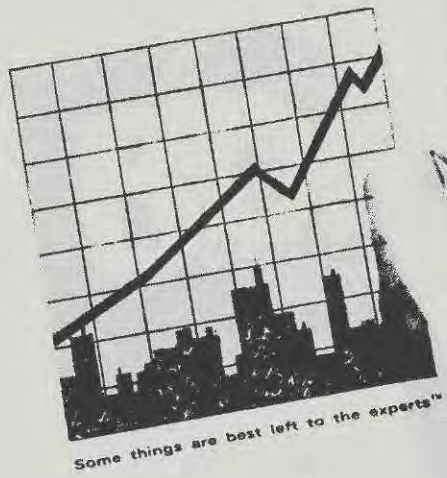
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Buying excess cover directly may limit options

By ELLIS SIMON

Buyers can bypass brokers when shopping for excess coverage over their self-insured retentions, but they may be limiting some options.

Few markets will sell buyers excess coverage directly, and those that do often build their production costs into the policy price.

Firms that self-insure benefits most commonly buy excess insurance directly. But often the direct writer of the stop-loss coverage is the insurer serving as claims administrator for the plan, says consultant John Hickey of Kwasha Lipton of Englewood Cliffs, N.J.

General Reinsurance Corp. underwrites excess coverage over self-insured retentions on workers compensation and sells directly, but the broker always becomes involved in the transaction, says assistant vp Roger Greiner.

If the risk manager markets the coverage to General Re on his own, he still needs a broker to countersign his policies and meet state requirements, Mr. Greiner explains.

General Re offers coverage on a net cost basis. It does not build a broker's commission into its rates, Mr. Greiner says. This allows the risk manager to negotiate his broker's pay for services.

Some risk managers, such as Gold Kist's Bob Rich, canvass the markets on their own, negotiating their own deals and paying the broker a service fee.



Photo: Ellis Simon

Buyers can hunt their own excess coverage, says Gold Kist's risk exec Bob Rich.

Mr. Rich suggests buyers can do their own shopping by keeping abreast of the market through their contacts with brokers and underwriters.

Other risk executives shun the idea, saying their time is better spent analyzing how they can protect their risks and reduce losses.

"For me to maintain familiarity with the excess market is almost an impossibility," said Russell Drake of Borden, who formerly bought excess liability coverage directly from Affiliated FM.

"For the five or 10 covers we place annually in the excess market, the effort isn't justified."

Shopping for coverage on his own forces a risk manager to develop underwriting presentations done as well as what a broker can do, says Spencer Traver, B.F. Goodrich's director of risk management. "It takes a lot of work and that's not something for every risk manager."

The risk manager also runs the danger of paying more than he should for excess coverage, Mr. Traver says. "If you think there's only one market, it may turn out that there are four other markets you didn't know about."

"You need a broker for spread of market," added Joe Destein, president of Risk Science Group, a California consulting firm.

"In the excess markets, you use international markets with so many people taking pieces of the risk. A broker is of greatest value here, where creative marketing can really make a difference in pricing," he said. ■

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SEMINAR DATES

February 4-5 Omni International	Atlanta 404/659-0000	February 26-27 Four Seasons-Clift	San Francisco 415/775-4700	March 26-27 The Tremont	Chicago 312/280-1317
		March 11-12 The Barclay	New York 212/755-5900	April 23-24 The Mansion on Turtle Creek	Dallas 214/559-2100

THE ASSUREX JOURNAL.

VOL. MCMLXXXI NO. 1 ** JANUARY, 1981 INTERNATIONAL EDITION

Future

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The Assurex president replied, "Assurex partners will continue to grow because of new programs to improve client services, and much closer company relationships. We're committed to finding creative ways to represent companies and to serve our clients. We have," he concluded, "over 4,000 men and women dedicated to these goals."

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Assurex News—

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United States

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Assurex shareholders have approved the establishment of a Financial Consulting and Planning Division within the corporation. Formed to provide Assurex partners with unique perpetuation planning capabilities, the division will be headquartered in Columbus, Ohio.

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With over 50 risk management assignments completed for regional clients, the Assurex Risk Management Institute (ARMI) has announced an expansion of services to this important market segment.

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International

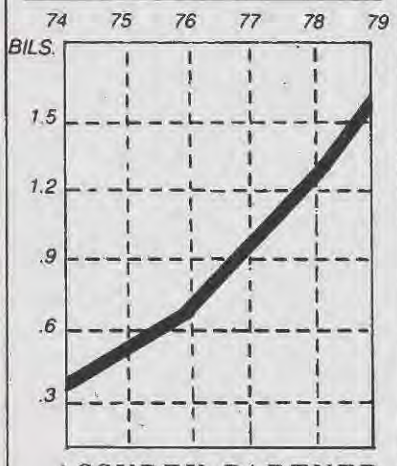
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C. E. Heath & Co., Ltd., one of the largest Lloyd's broking firms, has been appointed the London associate of Assurex International Corporation. The appointment extends Heath's full range of professional services to clients of Assurex partners.

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Premium Volume



ASSUREX PARTNER CONSOLIDATED PREMIUM VOLUME continued its upward trend through 1979, and now exceeds $1.5 billion annually. Since 1974, Assurex has achieved a 37% annual compound growth rate.

Many Believe Time Is At A Premium

* * *

COLUMBUS, O. – A billion minutes ago, Titus Flavius was proclaimed emperor of Rome (79 A.D.)

A billion seconds ago, Harry Truman began his second term as president of the United States (1949).

But a billion premium dollars ago was just last March for Assurex International partners.

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Weigh finance in self-funding benefits

By MARY ANN MATLOCK

NEW YORK—Self-insuring employee benefits is not a guaranteed way to find a pot of gold at the bottom of the balance sheet.

Too often, observers agree, the gleam of potential savings, especially in health care, blinds employers into a quick trip down a path that is actually long and arduous.

Before total risk is assumed, they caution, extensive calculations using a firm's past experience, demographics, geographics and financial position must be weighed for fiscal stability.

And if total risk cannot be assumed, cash-flow alternatives may help the small employer interested in cutting health care costs.

"Too many employers are going into self-insurance too lightly," cautioned Charles Blanksteen, senior managing consultant at William M. Mercer. "Don't go fully self-insured if you're not sure."

Being sure, however, takes time and actuarial analysis. No hard rules decide what size firm or type of employer can best self-insure.

Some steps consultants and benefit managers agree should first be taken include:

- Planning a detailed analysis of a minimum of five years experience, looking not only at claims costs, but comparing those costs to variations in census enrollments, aging of employees, utilization of benefits and cost variations between geographic locations of various divisions.

This type of analysis can be completed by someone with a mathematics, actuarial or underwriting background.

"This is the most critical test you will do," Mr. Blanksteen said. "It's not just a question of size (premium or number of employees)."

If you do your own evaluation in-house, check: true costs from the past; a comparison of true to expected costs; projected claims for the coming year, and probable range of claims costs.

Actuarial charts on the ratio of actual to projected claims for various industry groups are published by the International Foundation of Employee Benefit Plans, says Paul Van Dyne, manager of compensation and benefits at Realex Corp. in Kansas City. Check them.

"A big thing to watch is what kind of claims variable you have," Mr. Van Dyne cautioned. "If there was any one time when you would not have been able to pay for past claims, you're probably not in good condition to self-insure."

- Contact your present health coverage underwriter and ask about total and partial self-insurance options.
- Ask another insurer or third-party administrator for cost estimates on self-insuring and an opinion to keep your calculations and your underwriters in check.
- Ask other employers of a similar size how they insure their benefits and what their results have been.
- Determine how a self-insurance plan would fit into the corporate philosophy.

"It's a good idea to gather as much information as possible. Glean as much information as possible from all sources," said Kathryn Cillick, corporate insurance and benefit manager at Masco Corp. in Taylor, Mich.

Only after you gather the information and fit it into the corporate evaluation should you plan for total or partial self-insurance.

Firms with total self-insurance health programs cite such major advantages as program flexibility, relief from state premium taxes and advantages of in-house management of reserves.

"We started self-insuring based on cost and improved services," said Bruce Mueller, employee benefits director at Foote, Cone & Belding Communications.

In the first year of the 18-month-old program, $150,000 was saved. "We have more control over our destiny in a self-insurance approach," Mr. Mueller admitted.

He designed the firm's program using prior underwriting contracts as a base. In addition to contracting claims administration out to Northwestern National Life Insurance Co., he purchased stop-loss coverage over a self-insured retention of $50,000 per case.

No hard rules decide what firms can best self-fund.

At Masco Corp., self-insuring has provided interest gained from money formerly held in insurer reserves.

"You're going to be charged claims experience regardless of the system, but we looked at the best way to use our money," Ms. Cillick said.

The company recently added a self-insured dental plan to its list of self-insured medical and long-term disability offerings. This benefit, Ms. Cillick explained, "is more logical to self-insure since it has limited value."

The dental program and the others administered by third parties offer advantages, Ms. Cillick explained: protection of employees' rights to record privacy; a buffer against unfavorable claims decisions; an offset against the unprofitability of processing claims in-house for 5,000 employees.

If the pluses of total self-insurance are not enough to outweigh the risk assumption and capital gains, don't fret, consultants say.

"Some form of self-insurance can be appropriate for even a couple hundred lives," said John Hickey, partner at Kwasha Lipton.

"It's now unusual to find a large company that hasn't adopted some form of self-insurance. The trend is spreading to small employers."

Smaller employers, he said, may benefit from using insurance company cash-flow options such as minimum premium plans and cost-plus arrangements.

"Very often the insurance carrier will initiate the activity. It's probably best for small companies to go through an insurance company because they don't have to do much more than keep their money in reserve," he explained.

Some of the other options include: obtaining retrospective rating from an insurer; getting the insurer to release reserves that can range from 20% to 40% of premium, and arranging minimum premium plans. ■

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Stop-loss market may stay open—for higher price

By MARY ANN MATLOCK

Markets for stop-loss insurance on self-insured benefit plans are expected to remain open next year, but the price of entry may be costlier.

"The markets we deal with are pushing ahead," said Robert Swanke, president of the third-party administrative firm of Swanke-Lapp Inc. in Minneapolis. Some of these markets, he said, are Northwestern National Life Insurance Co., North American Life & Casualty Co. and Lloyd's of London.

"I think it will still be readily available and I think we'll see more standard group companies such as the Hartfords, Equitables and Connecticut Generals offering aggregate and specific excess," said Clay Messick Jr., vp at Alexander & Alexander's Kansas City office.

Both executives also agree the price of this risk protection may cost the buyer more.

On specific or per occurrence coverage, quotes are coming in about 20% higher for next year while aggregate coverage, which is often priced at a flat yearly fee, may cost up to double next year, Mr. Swanke explains.

"We've seen some increases in premium on specific, roughly 20%, but on aggregate, which used to often cost $3,000 per year, we're getting quotes of $5,000 to $6,000," he said.

Specific coverages this year ranged from $1.33 to $3.46 for an individual and $2.43 to $6.80 for a family per month with a $15,000 attachment point (*BI*, June 23).

Mr. Messick expects prices for both types of coverage to keep pace with inflation and therefore increase about 8%. "If medical care is increasing 18% a year, stop-loss might increase somewhere in that neighborhood," he said.

'If underwriting stays accurate, prices won't go up,' says Roger Slotkin.

These predictions of price increases, however, are not shared by all.

"I don't think rates will go up," said Roger Slotkin, president of Lovell Self-Insurance Services in New York. "If underwriting stays as accurate as it has been, prices will not go up. The only thing that will do it is careless underwriting."

Some of his major markets for the protection include Lloyd's and Lexington Insurance Co., part of the American International Group.

Whether predictions for rate increases come true or not, observers say stop-loss is still a bargain.

"Percentage-wise, the price increases are a bit steep, but it's still such a small amount of premium that it doesn't amount to much," Mr. Swanke said.

"If you structure reinsurance right, you can buy it for a small amount of money," he added.

Though prices and availability are determined by the underwriters, attachment points, at least on aggregate cover, are still linked closely to claim experience.

"Attachment points are still very much related to losses," Mr. Swanke noted.

If a firm's experience is good, a lower aggregate may be negotiated because "insurance companies are still to some degree in the risk business."

Specific attachment points, however, follow less of a claims experience formula and vary by client desire. ■

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Justify your retention, risk execs say

By ELLIS SIMON

NEW YORK—Despite sinking property insurance rates, firms armed with sophisticated risk forecasting, a good spread of risk and a fine-tuned loss-prevention program may still be able to save with self-insurance, experts say.

"A risk manager must forecast expected losses and decide if the (premium) savings are worth the risk," said Spencer Traver, director of risk management at B.F. Goodrich & Co.

Insurers charge $2 in premiums for every $1 they pay in losses, Mr. Traver contends. "If you have a series of predictable losses, why pay two for one?"

Other experts agree, but caution that a firm lacking the required preparation or slow in cash flow should be wary.

The corporate self-insured retention for property risks is usually 0.1% to 0.3% of a firm's pretax profits, says Felix Kloman, president of Connecticut-based Risk Planning Group Inc.

A company can retain more or less risk as a percentage of profits, but its risk manager should justify such a decision, he says.

Few firms are large enough or have a great enough spread of risk to fully self-insure property, but firms could take higher deductibles if underwriters give premium credits that justify assuming more risk, he adds.

And what may be a justifiable deductible in a high-priced market may not be right for a bargain market. If taking a $250,000 deductible qualifies a company having $200,000 expected annual losses for a 30% premium credit, it pays to take the deductible on a $1 million premium, but not on a $600,000 premium, notes Hunter Long, vp at Frank B. Hall & Co.

If you can manage the best cost savings from your insurer with the desired excess coverage, loss control is the next concern.

"It's ludicrous to take a higher retention if an organization can't manage it," said Risk Planning Group vp Mitchell Cole. Self-insurers need organized protection plans and should maintain engineering standards that are equal to or better than those required by highly protected risk insurers, he suggests.

An organization's fire protection plans should meet the needs and special demands of high hazard exposures unique to a particular risk, he adds.

Among industrial risks, oil and chemical companies tend to take the largest retentions. One major oil company retains $40 million on property, notes Mr. Kloman of Risk Planning Group.

These risks are the more hazardous industrial risks, commanding higher rates from insurers. Because rates are high, there is room for risk managers to use leverage by getting credit for high deductibles.

On machine shops and fabricating plants, where the rate for HPR coverage might be 4 cents per $100, there is less room to get credit for deductibles.

Spread of risk also makes self-insurance plans work. The best risk for self-insurance would be a fast-food restaurant chain or retail store with thousands of outlets, none of which would be worth more than $500,000, says Russell Drake, director of risk management for Borden Inc. of Columbus, Ohio. "No one store would bankrupt you."

Municipalities and universities often self-insure because of simple risk. However, small institutions could be wiped out by severe fires and earthquakes or windstorms could devastate a larger risk, he warns.

"Fifty buildings at a big university is a good spread of risk, unless it's all on the San Andreas Fault," Mr. Drake added.

Going self-insured demands risk managers establish systems for paying losses and recording loss



Do savings justify the risk? asks Mr. Traver.

experience. Some insurers pay claims that are less than the deductible and bill the client. In other cases, policyholders set up reserves to pay anticipated losses or, in the case of municipalities, pool their reserves for small claims.

Charles Tagman Jr., executive vp of George Betterley Consulting Group in Boston, suggests assigning loss experience to individual profit centers makes local managers more conscious of their role in loss prevention.

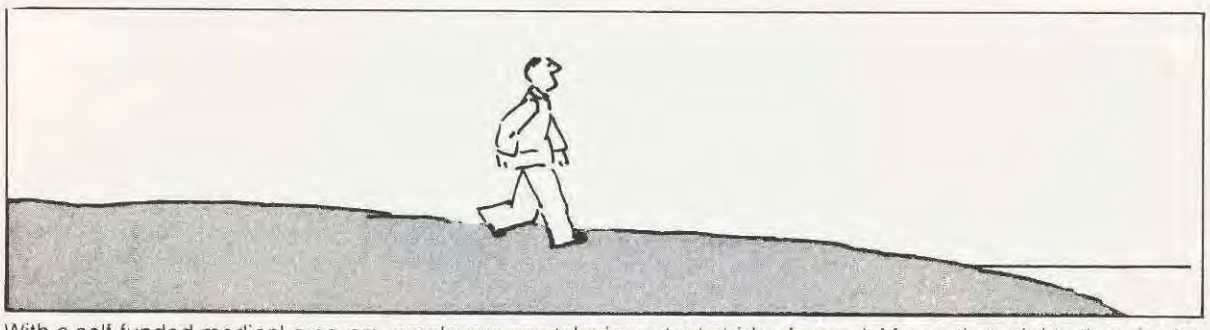
A self-insured firm also may need an outside adjuster to settle differences between a local manager and the risk manager on the value of a claim, Mr. Tagman says.

Outside adjusters also are required to satisfy the Internal Revenue Service when losses exceed $50,000, he notes.

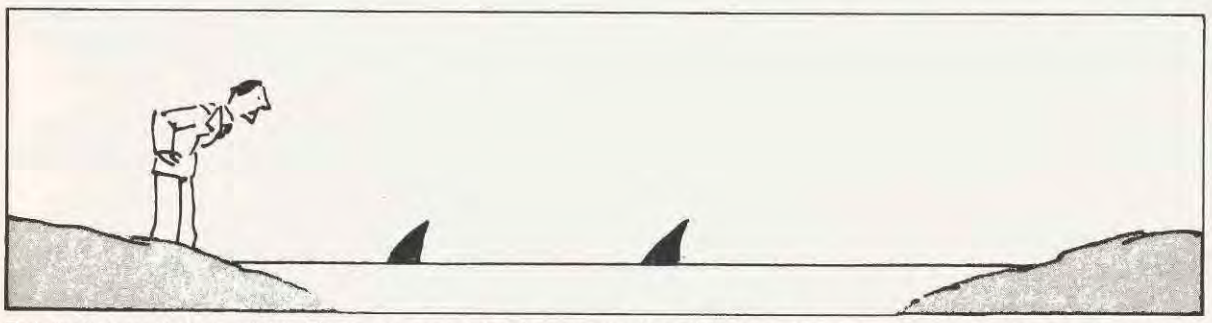
Even if a firm is financially capable of taking a large retention, corporate philosophy may dictate that it not.

"A company has to think through the level of property risk they can retain," said Risk Planning Group's Mr. Cole. "Some clients can take a $1 million retention on property each year, but they just don't want to take it. They're mentally afraid of taking the retention."

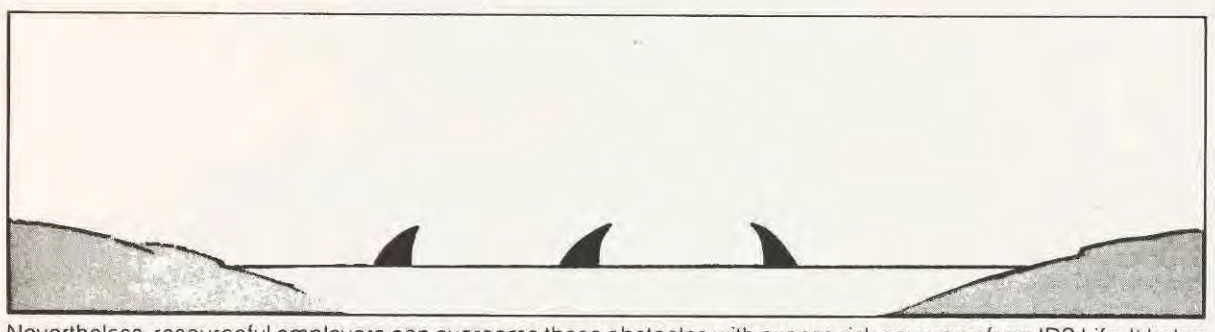
For corporate management, a factory fire is a lot easier to conceptualize than a large lawsuit, he says. ■



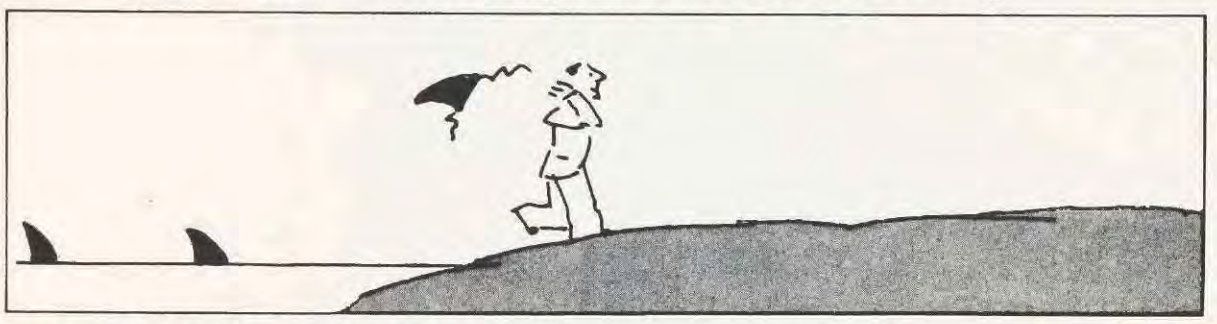
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But don't jump in too quickly. There are a couple of obstacles to self-funding. Over a period, you may be unprepared for an unusually large individual claim. Or an unexpected surge of claims in aggregate.



Nevertheless, resourceful employers can overcome these obstacles with excess risk coverage from IDS Life. It helps protect them against castastrophes, and it's packaged with other services that augment your benefit program. So, don't fall prey to the unexpected. Let IDS Life help you overcome the obstacles to self-funding.



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For full details on self-funding, ask your insurance representative, consultant, or broker for a free brochure. Or call (612) 372-3799. **IDS Life,** Group Marketing Division, 3500 IDS Tower, Minneapolis, MN 55402.

Administrators tout assistance in loss control

By STUART EMMRICH

CONTROLLING LOSSES in a self-insured program is not an easy task for any risk manager, but it is crucial.

Claims administrators say they can help.

It isn't enough anymore that a claims administrator can offer a smooth claims payment and evaluation program. There has to be more.

Reining in health care costs and putting together an effective loss-control program are two of the selling points many third-party administrators tout when they are trying to win new business.

"Without a question, loss prevention is the key to our services," said John Campbell, president of Gallagher Basset Insurance Services in Chicago. "A loss-prevention program will make the difference between a self-insured program being a success or not."

Health care cost containment is one of the key services the Chicago-based Mass Insurance Consultants & Administrators tries to sell to potential customers for self-insured benefits service.

"We have been very aggressive in the area of trying to contain health care costs," said president Robert Cardinal. "We provide services for a fee, the service of 200 people trying to find ways to keep costs down. We better do it well."

Other claims administrators agree part of their attractiveness to clients is their willingness to spend time and money devising ways to halt the inflationary spiral of health care costs.

They say they can be more effective in getting coordination of benefits savings, in negotiating bills with providers, in challenging bills that seem too high and in suggesting plan design changes that could be more cost containing.

"Insurers have had 40 years of experience in trying to keep health costs down. I don't think anyone can say they have done a great job of it," charged Max Fine, president of Medical Cost Management Systems Inc. of Washington, D.C. "It is time we were given a shot."

Third-party administrators especially tout what they say is their ability to obtain substantial savings by coordination of benefits, making sure claims are not paid twice under two coverages. They

Continued on next page

How to choose an administrator

Here are a few considerations that can help a self-insured firm shopping the market for a third-party administrator:

- Geographic capabilities. Decide whether you want a large national firm with branches around the country or a smaller specialized company in a nearby town.
- Data processing capabilities. What information services does the administrator provide and how carefully are they tailored to individual accounts?
- Professional expertise. Don't be swayed by a company with a dynamo at its helm. What are the capabilities of the middle management personnel who will be doing the actual work on your account?
- Loss prevention. What loss-prevention techniques can the firm offer? Ask for some results from other clients.
- Type of services. Decide whether you want to buy all your claims administration services from one firm or split them up— claims handling by one, loss prevention by another— and shop accordingly.
- Fees. The best services can't always be bought at the lowest price, but do some comparative shopping. Also decide whether you want to pay by the hour, a flat fee, per claim filed or a percentage of claims settled. ■

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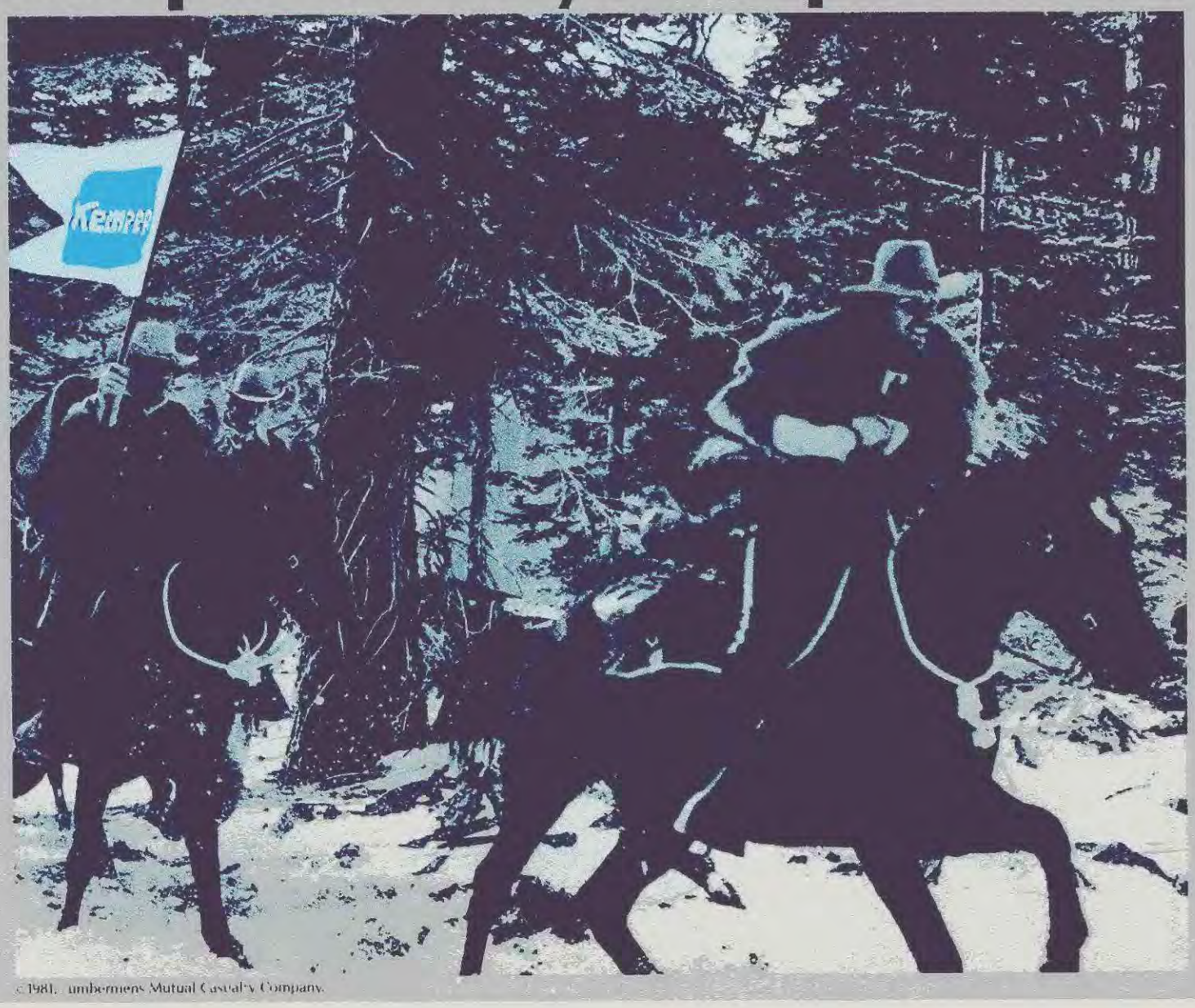
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Administrators tout loss-control expertise

Continued from previous page
contend they often get twice what insurers get under conventional methods.

"Insurers say they can get around 6% in COB savings; we are running about 12% to 14%," said MICA's Mr. Cardinal.

"We aggressively pursue COB, even if it is not checked on the claim. We have a director of claims who looks for such things as copies of bills, large nonassigned bills, parts of bills ripped off."

Mr. Fine says his company gets about 12% COB savings on bills submitted to clients, but adds that higher savings—perhaps as much as 20% of claims—can be realized through changing self-insured benefit plan design.

If an employee is covered by a spouse's comprehensive plan, rather than offering another such plan and then going after COB savings, Mr. Fine suggests an employer offer the option of a supplemental plan to fill just the gaps in the coverage.

More traditional means of COB savings are followed by another third-party administrator, Galbraith & Green of Salt Lake City, that contends savings can run 6% to 20%.

Going after hospitals by performing audits is another method the administrator favors to help self-insurers save money.

Mr. Cardinal says his company can prove it saves $12 for every $1 spent on an audit, adding it has done "eight or 10 in the past six months."

"We also aggressively enforce reasonable and customary clauses to the extent that we can get the employer to do it," Mr. Cardinal said. "It is a lot easier in a small town, where the employer has a lot more clout. It is hard to pull off in a place like Chicago."

Mr. Cardinal also says his firm tries to encourage clients to explore alternative methods of health care that may result in long-term savings.

"We are trying to get them to go for more outpatient testing and more home health care. We don't have hospice alternatives at this point, but might have some within the next two years," he said.

Changing plans, particularly going to a comprehensive plan that has employers and employees sharing costs on an 80/20 basis, is also popular with some of Cardinal's clients.

"A lot of companies are doing this. They are going back to deductibles," he said. "In the last year, every trade association we have had either came out with a deductible or increased the one they have had."

Claims administrators are expanding in other ways besides programs to control health costs. Data processing capability is one of the most competitive areas among administrators.

Gates, McDonald of Columbus, Ohio, touts its two-tier processing system, says assistant vp Charles Jenks.

The first tier shows all data relating to claims and is reported on a regular basis quarterly or monthly, for instance.

The second tier, called an industrial claims cost analysis, shows a breakdown of the dollars paid in workers compensation claims and the total number of claims, both indexed by type of injury.

"It shows you where the major number of claims are coming from and is an effective loss-control tool," Mr. Jenks said. Gates, McDonald acts as a loss-control consultant for most of its clients, either developing a program or implementing one already in place at the company.

Galbraith & Green says its data processing facilities can save clients up to 40% of their administrative costs.

Statistical reports provided by Galbraith & Green include periodic financial data on contributions, expenses, premiums paid and claims paid; claims analysis; dollars saved because of COB; the average length of time between date of service and date of payment, and the dollar amount of claim lag liability. All this can be provided on a division, fund or geographic basis.

Self-insured firms also might find that using administrators can be a cost-effective way to handle in-house claims, administrators contend.

"Most self-insured firms don't have the time or the money to administer their own programs," said Ted Miller, vp of Compensation Consultants of Columbus, Ohio. "It is just too costly for an in-house administrator to handle.

"Excess and surplus carriers like the idea of an administrator as well," Mr. Miller added. "It is almost like having an outside auditor come in." ■

More services to be listed later

Nothing drags like the holiday mail! For claims administrators that couldn't get claims administration surveys to us in time, *Business Insurance* is planning a directory addendum to be published in our Feb. 2 issue.

Information in the directory and addendum is supplied by the administrators and includes revenues, professional staff, offices and compensation. Claims administrators can be listed by calling Len Strazewski, senior editor/features and special reports, at 312-649-5393. ■

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THE WORLD OF THE LANDMARK GROUP

Here's where to find claims services

A

AASC-Claim Management Specialists

10534 Natural Bridge Road, St. Louis, Mo. 63145; 800-325-8000

Parent company: NAVCO Corp.
Total claims processing staff: 9.
Total employees: 12.
Compensation: Per claim.
Specialties/areas of expertise: Products, medical malpractice, marine/surface transportation.
Principal officers: Leo Howe, president; Ed L. Jamison, director, and Russ L. Oldham, associate director.

Adjusting Systems International

625 N. Michigan Ave., Suite 500, Chicago, Ill. 60611; 312-943-1511, 800-621-8130

Total claims processing staff: 2,300.
Total employees: 3,060.
Branch offices: 261 cities.
Compensation: Per claim, by contract.
Specialties/areas of expertise: Workers compensation, property, casualty (all lines).
Principal officers: T.M. Kelly, president; T.M. Keenan, vp; Charles Kuhn, treasurer; E.R. Reilly, secretary, and John Cones, executive vp.

Aetna Technical Services Inc.

151 Farmington Ave., Hartford, Conn. 06156; 203-273-7593

Parent company: Aetna Life & Casualty.
Total claims processing staff: 3,800 plus.
Total employees: 4,500 plus.
Branch offices: 69 in U.S., 2 in Canada.
No. of clients: 75.
No. of clients in Fortune 1,000: 32.
Compensation: Per claim, percent of claim.
Specialties/areas of expertise: Workers compensation, auto physical damage, professional liability claim services.
Principal officers: Robertson Mackay, president; John J. Kearney, Robert F. Warner, Robert McDaniel, vps, and Bryan V. Maguire, assistant secretary.

All Risk Management Services Inc.

160 Water St., New York, N.Y. 10038; 800-221-5166; 10 S. Riverside Plaza, Chicago, Ill. 60611; 312-641-6020

Parent company: Ashford Holding Corp. of New York.
Total claims processing staff: 34.
Total employees: 79.
Branch offices: Atlanta, Chicago, Los Angeles, Miami, New Orleans, New York, Philadelphia and St. Louis.
Compensation: Per claim on contract basis.
1980 gross revenues: $2.8 million.
Specialties/areas of expertise: Claims administration for self-insured risks, designing and training for self-administration programs, claim audit services.
Principal officers: Joseph G. Tapfar, president; Charles H. Bauer, Edward Quinn, Robert T. Shine, vps, and John J. Richardson, vp and claims counsel.

Allied Claim Services Inc.

237 Main St., Buffalo, N.Y. 14203; 716-853-7939

Total claims processing staff: 10.
Total employees: 27.
Branch offices: Venice, Fla.
No. of clients: 23.
No. of clients in Fortune 1,000: 5.
Maximum size client or claims capability: Service only in New York and Florida.
Compensation: Per claim.
Specialties/areas of expertise: Workers compensation, products, malpractice.
Principal officers: Henry E.B. Dendler, president, and Richard E. Robb and Gregory J. Dendler, vps.

B

Bierly & Associates

1631 Huntington Drive, South Pasadena, Calif. 91030; 213-441-3151

Total claims processing staff: 110.
Total employees: 155.
Branch offices: Santa Ana, Burlingame, Calif.
No. of clients: 105.
No. of clients in Fortune 1,000: 6.
Compensation: Per claim, percent of claim incurred, commissions for excess insurance placed with underwriters.
Specialties/areas of expertise: Safety, data processing, claims

Continued on next page

Citibank: The Innovators.

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Ask for our captive strategy guide. Or even more, ask to have the Insurance Task Force assigned to your company. Either way you'll end up with the facts you need to create your own money-making strategy.





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Captive Insurance Task Force
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Captive Insurance Task Force

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Phone No. ( ) _____

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Claims . . .

Continued from previous page
management.

Principal officers: R. Michael Bierly, president; Bruce Vanner, executive vp, and James Jamerson, Harry Heinen and James Bailey, vps.

Brown Brothers Adjusters

545 Sansome St., San Francisco, Calif. 94111; 415-392-2825

Total claims processing staff: 160.
Total employees: 300.
Branch offices: 45.
No. of clients: 300.
No. of clients in Fortune 1,000: 3.
Compensation: Per claim, percent of payroll, time and expense.
1980 gross revenues: $7.6 million.
Specialties/areas of expertise: Property, casualty, workers compensation.
Principal officers: Vernon Neufeld, chairman; Bob Wills, president, and Orio Hill, Tom Beasley and Ted Brown Jr., vps.

C

Cannon-Cochran Management Services Inc.

326 N. Vermilion, Danville, Ill. 61832; 217-446-1089

Total claims processing staff: 6.
Total employees: 20.
Branch offices: Peoria, Ill.; Palm Springs, Calif.; Sarasota, Fla.
No. of clients: 35.
No. of clients in Fortune 1,000: 2.
Compensation: Per claim.
Specialties/areas of expertise: Claims audits, safety audits, loss-control program development and implementation.
Principal officers: Gary Schirmer, president; Cecil Chastain, Jerry Kats and Sam Cannon, vps, and Robert Cowgill, claims administration.

Claim & Risk Control Inc.

116 John St., New York, N.Y. 10038; 212-964-4242

Total claims processing staff: 15.
Total employees: 25.
Branch offices: New York City, Hauppauge, N.Y.
No. of clients: 15.
No. of clients in Fortune 1,000: 3.
Compensation: Per claim.
1980 gross revenues: $1.2 million.
Specialties/areas of expertise: High frequency general liability, auto, municipalities.
Principal officers: Eugene Fleischer, president, and Kathleen Arnone, vp.

Collier Cobb Risk Management & Financial Services Inc.

317 S. Tryon St., Charlotte, N.C. 28231; 704-376-9161

Parent company: Collier Cobb & Associates Inc.
Total claims processing staff: 14.
Total employees: 140.
Branch offices: Boston; Dallas, Houston, Tex.; McLean, Va.; Montgomery, Ala.; Southfield, Mich.; Chapel Hill, Henderson, Raleigh, N.C.
No. of clients: 4.
No. of clients in Fortune 1,000: 2.
Compensation: Per claim, percent of claim, commissions for excess insurance placed with underwriters.
1980 gross revenues: $75 million (premium and claim income).
Specialties/areas of expertise: Workers compensation, professional liability, product liability.
Principal officers: Mr. Hudson, Mr. Clarke, Mr. Norem, Mr. Shrake, Mr. Mills and Mr. McDuffie.

Compensation Consultants Inc.

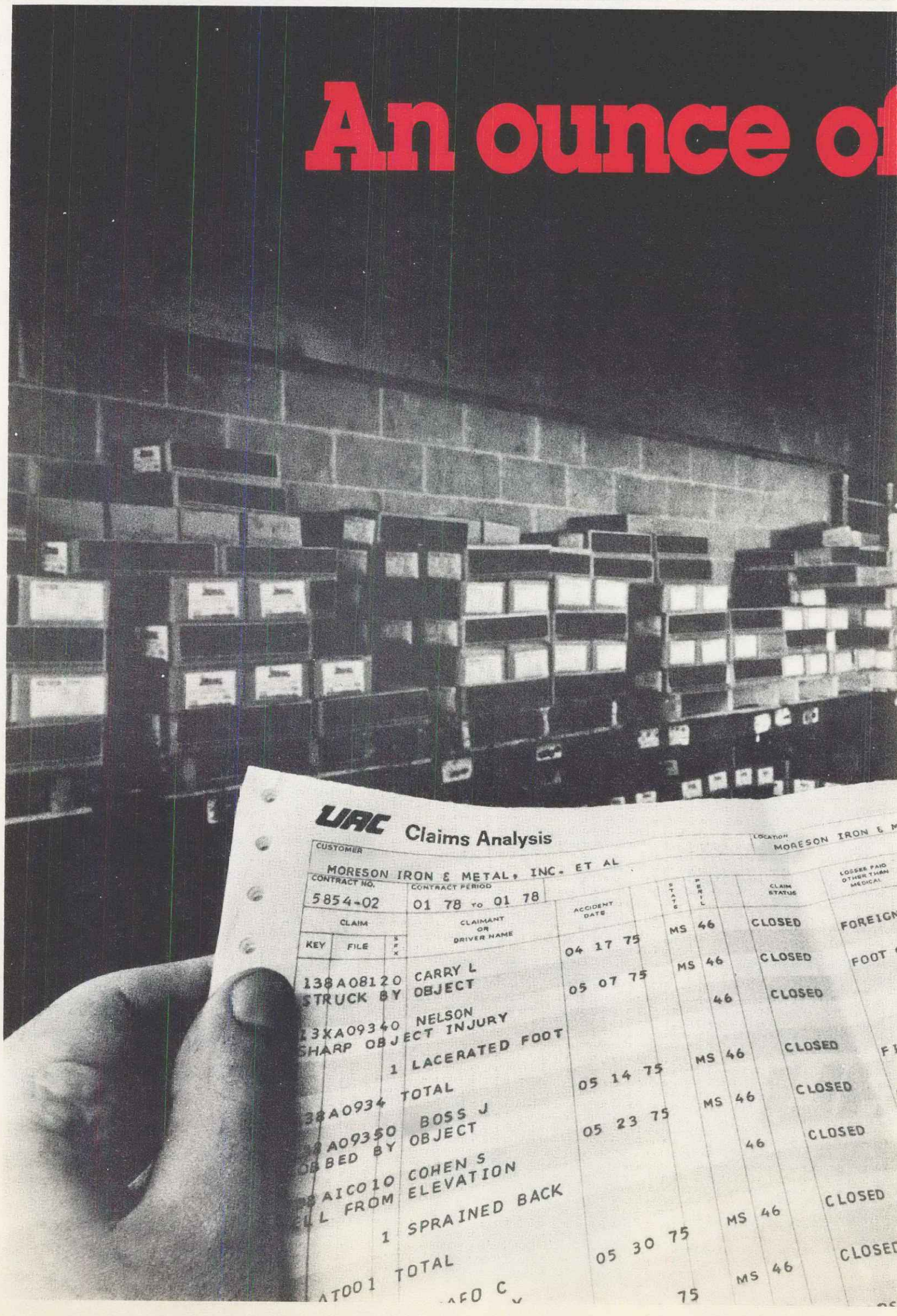
1601 Bethel Road, Columbus, Ohio 43220; 614-459-3933

Total claims processing staff: 26.
Total employees: 32.
Branch offices: Akron, Canton, Cincinnati, Ohio.
No. of clients: 650.
No. of clients in Fortune 1,000: 20.
Compensation: Per claim, flat fee, commissions for excess insurance placed with underwriters.
Specialties/areas of expertise: Employee health benefits, workers and unemployment compensation.
Principal officers: Dean Wise, chairman; Dick Alkire, president; Mike Graham, executive vp; Ted Miller, vp-marketing, and Bill Turner, vp-self-insurance.

Constitution State Service Co.

100 Constitution Plaza, Suite 1632, Hartford, Conn. 06115; 203-277-5489

Parent company: The Travelers Insurance Co.
Total claims processing staff: 4,000.



Total employees: 30,000.
Branch offices: All major U.S. cities.
No. of clients: 100.
No. of clients in Fortune 1,000: 50.
Compensation: Per claim.
1980 gross revenues: $1 million.
Specialties/areas of expertise: Multistate exposures, compensation, product liability.
Principal officers: Raymond Stahl, chairman of executive committee; Sheldon Rothbart, executive vp, and Lyndsay R. deManbey, George Addona and Robert Greenberg, vps.

Crawford & Co.

5620 Glenridge Drive N.E., Atlanta, Ga. 30342; P.O. Box 5047, Atlanta, Ga. 30302; 404-256-0830

Total claims processing staff: 3,000.
Total employees: 4,300.
Branch offices: 750 in U.S., Canada and Puerto Rico.
No. of clients: 215.
No. of clients in Fortune 1,000: 150.
Compensation: Per claim, percent of claim.
1980 gross revenues: $140 million est.
Specialties/areas of expertise: Claim, rehabilitation and statistical services.
Principal officers: T.G. Germany, president; F.L. Minix, executive vp; D.R. Chapman, senior vp-finance; C.C. Lefler, senior vp-marketing, and P.A. Bollinger, senior vp-property/casualty.

Creative Risk Management Corp.

34820 Harper Ave., Mount Clemens, Mich. 48043; 313-792-6355

Total claims processing staff: 21.
Total employees: 45.
No. of clients: 115.
No. of clients in Fortune 1,000: 9.
Compensation: Per claim, percent of claim, percent of premium or payroll.
1980 gross revenues: $2 million.
Specialties/areas of expertise: Self-insured or captive workers compensation, casualty/workers compensation programs, self-insured employee benefit plans.
Principal officers: James W. Duff, president; Richard L. Martinez, executive vp; Thomas D. Mather, senior vp; Rosemary Lendzion, vp-claims, and James F. Weyhing, senior staff administrator.

CU Risk Management Inc.

1 Heritage Drive, P.O. Box 1620, Quincy, Mass. 02269; 617-786-2222

Parent company: Commercial Union Insurance Co.
Total claims processing staff: 1,500 nationwide.
Total employees: 22 in home office.
Branch offices: Most U.S. cities.
No. of clients: 60.
No. of clients in Fortune 1,000: 16.
Compensation: Per claim, percent of claim.
Specialties/areas of expertise: Loss analysis, product liability, workers compensation.
Principal officers: Robert J. Kelly, president; Richard T. Lapham, senior vp; Hugh C. Bolton, vp-claims; David Supey, vp-technical services, and G. Gregory Tooker, vp-marketing services.

E

Employee Benefit Claims Inc.

6950 Wayzata Blvd., Minneapolis, Minn. 55426; 612-546-4353

Total claims processing staff: 170.
Total employees: 200 plus.
Branch offices: Pittsburgh, Erie, Pa.; Milwaukee, Appleton, Wis.; Chicago; Oklahoma City, Tulsa, Okla.; Dallas, Austin, Tex.; Miami; San Diego.
No. of clients: 800 plus.
Compensation: Per claim, percent of claim.
Specialties/areas of expertise: Self-funding, workers compensation, accident and health.
Principal officers: Richard J. Dunlap, president; John Feith, Wisconsin president; Paul Hughes, Pennsylvania president; Bob Winchell, Oklahoma president, and Steven E. Schanes, California president.

Employee Services Inc.

120 S. Indiana, P.O. Box 1610, Sioux Falls, S.D. 57101; 605-336-2457

Continued on next page

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Claims . . .

Continued from previous page

Total claims processing staff: 8.
Total employees: 10.
No. of clients: 25.
Minimum size of client: 50 employees.
No. of clients in Fortune, 1000: 2.
Maximum size client or claims capability: 3,000 to 5,000 employees.
Compensation: Flat fee, commissions for excess insurance placed with underwriters.
1980 gross revenues: $250,000.
Specialties/areas of expertise: Self-insured employee benefit programs, pension and profit-sharing programs.
Principal officers: John Timmer, president, and Marvin Jansen, secretary/treasurer.

Executive & Employee Benefit Plans Inc.

2025 Riverside Drive, Columbus, Ohio 43221; 614-481-8391

Total claims processing staff: 80.
Total employees: 107.
Branch offices: Atlanta; Boston; Charlotte, N.C.; Cincinnati, Cleveland, Ohio; Houston; Miami, Orlando, Fla.
No. of clients: 125.
No. of clients in Fortune 1,000: 7.
Compensation: Per employee, commissions for excess insurance placed with underwriters.
Specialties/areas of expertise: Consulting group employee benefits, medical claim administration, self-funded life and long-term disability.
Principal officers: C.E. Cobe, chairman; Richard Perkins, president; E. A. Hightower Jr., vp, and C. Jeffrey Wintersteller, vp/secretary.

F

Financial Insurance Service Consultants Inc.

1010 Meacham Road, Schaumburg, Ill. 60194; 312-884-3800

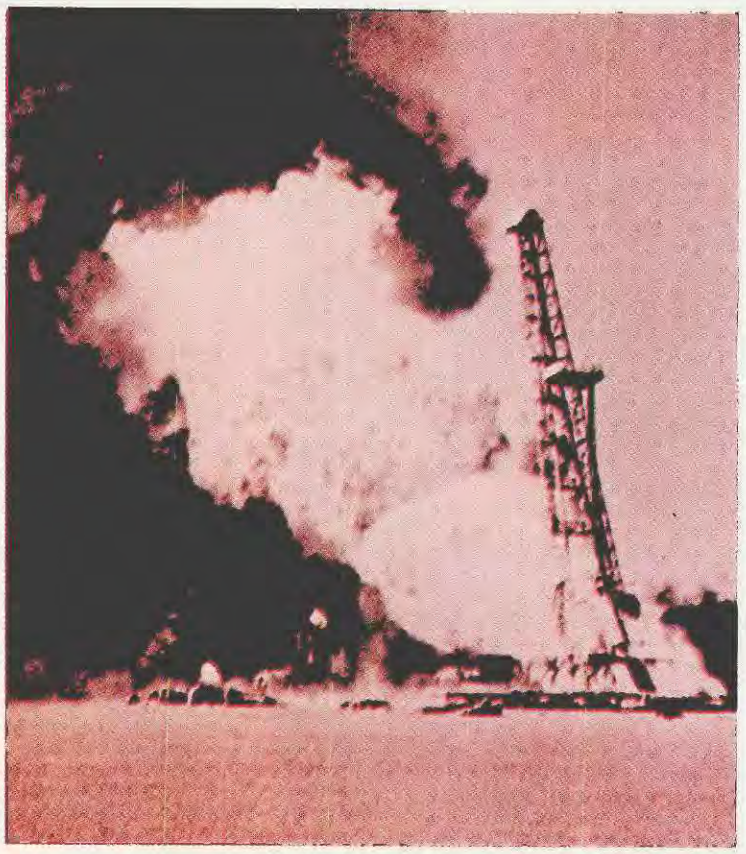
Parent company: Financial Insurance Service Inc.
Total claims processing staff: 5.
Total employees: 15.
No. of clients: 500.
Maximum size client or claims capability: 50,000 lives.
Compensation: Per capita.
1980 gross revenues: $750,000.
Specialties/areas of expertise: Financial institutions.
Principal officers: Peter Engstrom, president; Ronald Anferson, treasurer, and Joseph P. Ambrose, vp-operations.

C.L. Frates & Co.

Box 18839, Oklahoma City, Okla. 73157; 405-848-7661

Total claims processing staff: 10.
Total employees: 53.
No. of clients: 8.
Compensation: Percent of claim.
Specialties/areas of expertise: Captive management, hospitals, workers compensation, oil drillers.
Principal officers: Rod Frates, president, and Tom Haynes and Jerry D. Messick, vps.

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Photograph courtesy of Boots & Coots, Inc.

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February 9 & 10, 1981

Galleria Plaza Hotel
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This year's program will emphasize the ins and outs of insurance programs and pricing. General sessions will cover industry-wide problems and trends. Special small breakout sessions will zero in on specific concerns of owners, operators, service contractors, pipeliners, refiners, and distributors.

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The conference advisory committee has chosen speakers based on their expertise, experience, and ability to communicate. Each speaker will emphasize the practical aspects of insurance and risk management so that you can gain new insights into the nature and availability of alternatives, discuss parameters, and explore innovative solutions to your specific problems.

Program

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General Sessions
- Petroleum risk management
- Pitfalls in ambiguous policies

Breakout Sessions
- Control of well
- Insuring loss of income
- Handling property claims
- Care, custody and control

2nd Day
General Sessions
- Evolving insurance placement problems and opportunities
- Certificates of insurance

Breakout Sessions
- Insurance and the drilling funds
- Builder's risk
- Contracts: risk transfer and insurance

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Registration will be limited, so complete and return the attached registration form today.

Hotel arrangements are the responsibility of the registrant. The Galleria Plaza will be holding a block of rooms for conference attendees until January 19.

Professional Development Institute
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Registration Fee—$395
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G

Gallagher Bassett Insurance Service

60 Gould Center, Rolling Meadows, Ill. 60008; 312-640-8555

Parent company: Arthur J. Gallagher & Co.
Total claims processing staff: 400.
Total employees: 800.
Branch offices: 64 U.S., 2 international.
No. of clients: 252.
No. of clients in Fortune, 1,000: 15.
Compensation: Per claim, percent of claim, annual fee.
1980 gross revenues: $37.8 million.
Specialties/areas of expertise: All areas of self-insurance, loss prevention, property appraisals.
Principal officers: John G. Campbell, president, and Ralph Janke, Guenther Ahlf and James R. Enright, vps.

Gates, McDonald & Co.

1 Nationwide Plaza, Columbus, Ohio; 614-227-7211

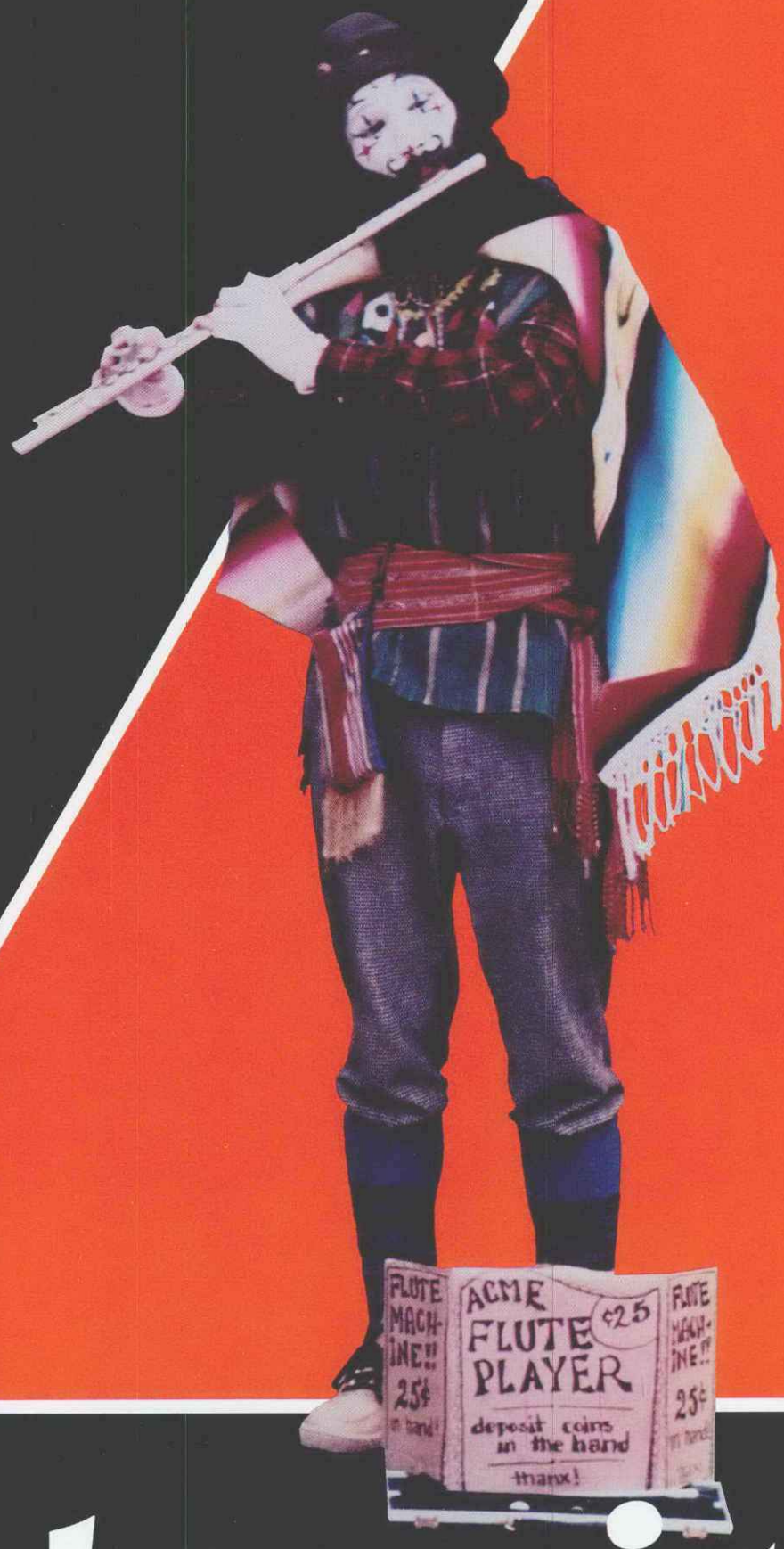
Parent company: Nationwide Corp.
Total claims processing staff: 200.
Total employees: 275.
Branch offices: Los Angeles; Oakland; Portland; Seattle; Tulsa; Chicago; Detroit; Frankfort, Ky.; Atlanta; Tampa; New York; Pittsburgh.
No. of clients: 500 plus.
Compensation: Per claim, percent of claim.
1980 gross revenues: $19 million plus.
Principal officers: Richard O. Mader, president; David M. Parker, vp; William B. Shelton, vp/treasurer, and Charles Jenks, assistant vp.

Genelco Inc.

1201 Macklind Ave., St. Louis, Mo. 63110; 314-644-3200

Parent company: General American Life Insurance Co.
Total claims processing staff: 23.
Total employees: 62.
Branch offices: Denver.
No. of clients: 39.
No. of clients in Fortune, 1,000: 2.
Compensation: Per month per employee.
1980 gross revenues: $2 million plus.
Specialties/areas of expertise:

Continued on page 32



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Claims . . .

Continued from page 30

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Principal officers: David B. Johnson, president; Ben C. Allen Jr., Thomas D. Hiegel, Russell E. Korte and Dale A. Skelton, vps.

Group Plans Inc.

11231 Cornell Park Drive, Cincinnati, Ohio 45242; 513-489-1776

Total claims processing staff: 1.
Total employees: 4.
No. of clients: 1.
Compensation: Per employee per month.
1980 gross revenues: $30,000.
Specialties/areas of expertise: Self-funded employee benefit programs.

Principal officers: Raymond D. Shekley, chairman; Larry A. Shekley, president, and Jack Hunter, executive vp.

H

Hartford Management Services/Hartford Specialty Co.

Hartford Plaza, Hartford, Conn. 06115; 203-547-5000

Parent company: Hartford Fire Insurance Co.
Total claims processing staff: 4,500.
Branch offices: All major U.S. cities, 240 field locations.
No. of clients: 91.
No. of clients in Fortune 1,000: 24.
Compensation: Per claim, percent of claim, flat annual fee.
1980 gross revenues: $30 million.
Specialties/areas of expertise: Liability, workers compensation, group accident and health.
Principal officers: Joseph F. Quinn and Lyman J. Baldwin, senior vps; Harvey Martini and J. Philip Griffin, vps, and John J. Tickner, assistant vp.

Hewitt, Coleman & Associates Inc.

P.O. Box 3665, Greenville, S.C. 29608; 803-242-4350

Parent company: The Continental Group Inc.
Total claims processing staff: 75.
Total employees: 145.
Branch offices: Orlando, Fla.; Jackson, Miss.; Little Rock; Versailles, Ky.; Richmond, Va.
No. of clients: 70.
No. of clients in Fortune, 1,000: 5.
Compensation: Per claim, percent of claim, commissions for excess insurance placed with underwriters.
1980 gross revenues: $4.8 million.
Specialties/areas of expertise: Workers compensation group self-insurance programs, self-insured health care.
Principal officers: James G. Lane, president; William T. Whitley and Robert E. Blackburn, vps; James G. Willox, president of R. P. Hewitt & Associates of Florida, and James E. Cady, vp-underwriting.

J

Fred S. James & Co. Inc.

230 W. Monroe St., Chicago, Ill. 60606; 312-726-4080

Total claims processing staff: 287.
Total employees: 3,700.
Branch offices: 35 plus.
No. of clients: 600 plus.
Compensation: Per claim, percent of claim, commissions for excess insurance placed with underwriters.
Specialties/areas of expertise: Rehabilitation, loss control, information systems.
Principal officers: Robert L. Young, senior vp-self insurance services division.

K

R. L. Kautz & Co.

1800 Ave. of the Stars, Los Angeles, Calif. 90067; 213-556-1111

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Minneapolis	New York	Philadelphia	Phoenix	San Francisco	Seattle
(612) 545-4300	(212) 943-2070	(215) 567-2700	(602) 957-4580	(415) 777-4300	(206) 624-8711

Parent company: Pinehurst Corp.
Total claims processing staff: 262.
Total employees: 336.
Branch offices: Irvine, San Diego, San Francisco, Calif.; Des Plaines, Ill.; Milwaukee; St. Louis; Albany, Buffalo, Syracuse, N.Y.
No. of clients: 406.
No. of clients in Fortune 1,000: 18.
Compensation: Per claim, percent of manual premium, percent of payroll, flat annual fee.
1980 gross revenues: $10.8 million.
Specialties/areas of expertise: Computerized claims management, safety, auditing and consulting services.
Principal officers: E.V. Schmidt, president; Gary Rindfleisch, vp-finance; Clarence Vaughn, executive vp; David J. DeWenter, vp-Western region, and Robert J. Ellison, administrative vp.

L

Leader Administrators Inc.

Suite 1016, 994 Old Eagle School Road, Wayne, Pa. 19087; 215-687-5924

Total claims processing staff: 8.
Total employees: 21.
Branch office: Los Angeles.
No. of clients: 33.
Minimum size of client: $100,000 of projected health premium.
Compensation: Per person, per month.
Specialties/areas of expertise: Weekly income, health, dental, vision.
Principal officers; Robert B. Hancock, president; William A. Leader, secretary; William H. Batchelor and Joseph H. Brehm, vps.

M

Maury, Donnelly & Parr Inc.

Commerce and Water Streets, Baltimore, Md. 21202; 301-685-4625

Total claims processing staff: 8.
Total employees: 12.
No. of clients: 20.
Minimum size of client: 300 employees (for health).
Compensation: Negotiable.
1980 gross revenues: $480,000 est. (claims only).
Specialties/areas of expertise: Plan design and administration, all employee benefits, self-insured trusts.
Principal officers: Thomas D.R. Parr, president; Henry A. Parr IV, senior vp; John Connelly, vp-employee benefits, and Walter Bedell and Ros Crosier, vps.

The McElroy-Minister Co.

141 E. Town St., Columbus, Ohio 43215; 614-228-5565.

Total claims processing staff: 22.
Total employees: 89.
No. of clients: 205.
Compensation: Per covered person.
1980 gross revenues: $1.1 million (self-funded or claims administered groups only).
Specialties/areas of expertise: Group medical and dental, college student health.
Principal officers: R.P. Banks, J.C. Glandon, H.B. Liles, H.T. Minister and H.M. Hadley.

Medical Cost Management Systems Inc.

400 First St., #706, Washington, D.C. 20001; 202-783-2460

Parent company: American Family Corp.
Branch offices: Columbus, Ga.
Minimum size of client: 500 employees.
Compensation: Per claim, percent of claim.
Specialties/areas of expertise: Cost containment, utilization review.
Principal officers: Max W. Fine, president; Sal Diaz-Verson, secretary/treasurer; Peter D. Morrow, executive vp, and Brant Kelch, administrator.

Continued on next page

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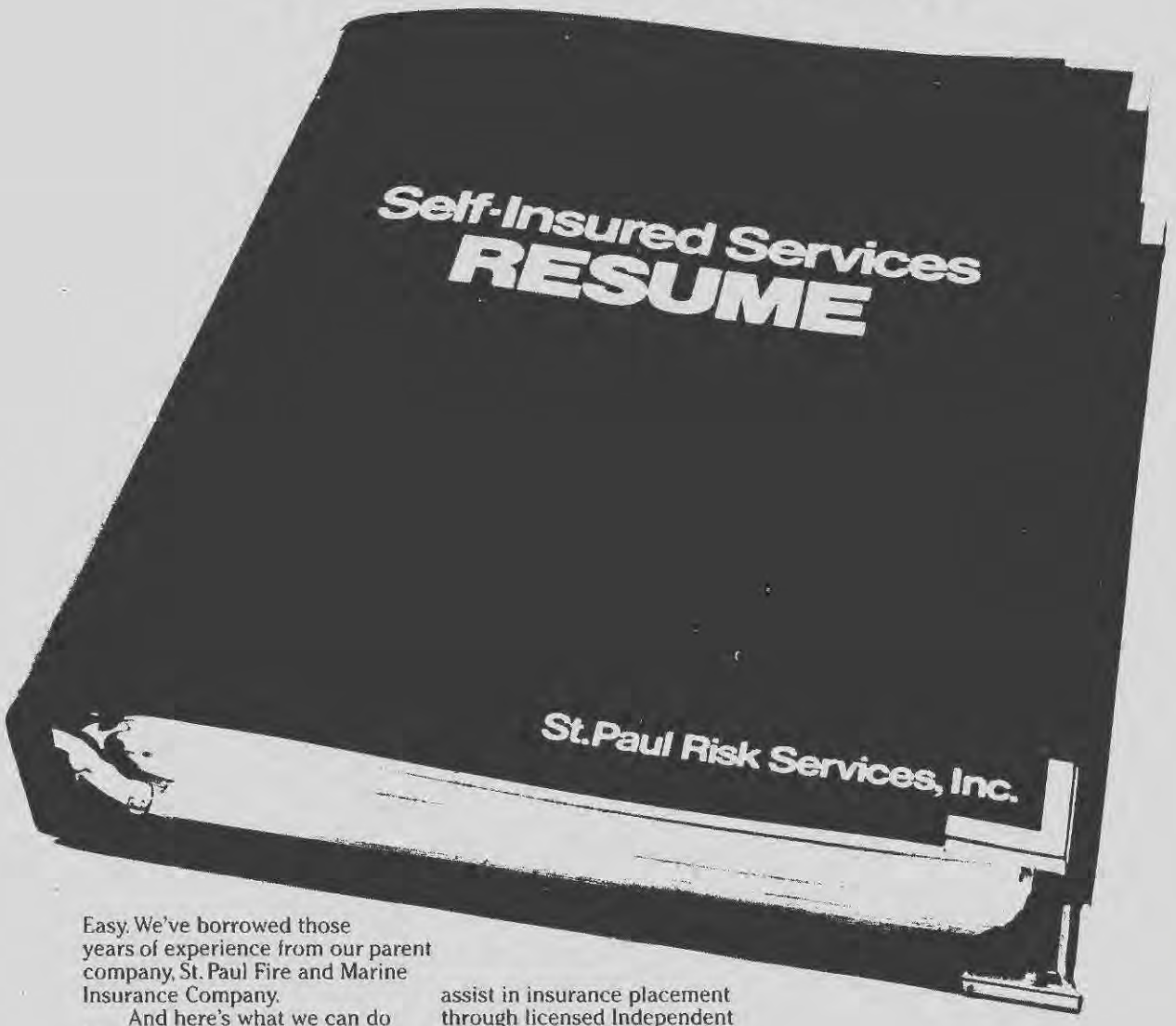
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UPG Publications Division, Dept. B12, Box 700, Redwood City, CA 94064.

Claims . . .

Continued from previous page

Michigan Claim Service Inc.

7201 W. Saginaw St., P.O. Box 19069, Lansing, Mich. 48901; 517-321-5565.

Total claims processing staff: 108.
Total employees: 173.
Branch offices: 31.
No. of clients: 1,000.
No. of clients in Fortune 1,000: 24.
Compensation: Per claim, percent of claim, annual contract, percent of payroll.
1980 gross revenues: $6.5 million.
Specialties/areas of expertise: Property, workers compensation, casualty, rehabilitation.
Principal officers: R.J. Young, president; T.M. Kelly, executive vp/general manager, and C.C. Shotwell, secretary/treasurer.

Miller & Gilbert

5822 Uplander Way, #102, Culver City, Calif. 90230; 213-670-5015; 4340 Redwood Highway, #12, San Rafael, Calif. 94903; 415-499-8444

Total claims processing staff: 8.
Total employees: 10.
No. of clients: 29.
No. of clients in Fortune 1,000: 1.
Compensation: Per claim.
Specialties/areas of expertise: Product liability, loss prevention, general liability.
Principal officers: William E. Miller, Frederick J. Fisher.

Morris & Ward

P.O. Box 5937, Washington, D.C. 20014; 301-320-4900

Total employees: 3 professional staff plus outside experts as necessary.
No. of clients: 30 (est.).
Minimum size of client: Claim exposure greater than $100,000.
Compensation: Per claim, by hour, charges for expenses.
1980 gross revenues: Under $250,000.
Specialties/areas of expertise: Loss limitation for large exposure claims.
Principal officers: Dr. Allan D. Morris, senior partner.

MRM/Multi Risk Management Inc.

180 N. LaSalle St., Chicago, Ill. 60601; 312-782-3139

Total claims processing staff: 8.
Total employees: 14.
No. of clients: 90.
Compensation: Flat fee, per employee, per hour.
Specialties/areas of expertise: Professional liability, workers compensation/health, integration and complete analysis/audits.
Principal officers: Michael E. Burack, president; Amy Cohen, secretary, and Robert Moysey, vp.

N

National Premium & Benefit Administration Co.

4242 Lindell Blvd., St. Louis, Mo 63108; 314-652-1414, 800-325-8258

Parent company: Hickey, Mitchell Co.
Total claims processing staff: 34.
Total employees: 95.
No. of clients: 7.
Minimum size of client: 25 covered employees.
Compensation: Monthly fee per employee, commissions for excess insurance placed with underwriters.
Specialties/areas of expertise: Claims paying, recordkeeping.
Principal officers: Joseph Hickey, chairman; F.C. Schumacher Jr., president; Charles W. Capari, senior vp; P. L. Chamberlain, secretary, and John Delaloye, treasurer.

P

Penn General Service Corp.

11620 Wilshire Blvd., Los Angeles, Calif. 90025; 213-820-7070

Parent company: Penn Corp Financial Inc.
Total claims processing staff: 77.
Total employees: 160.

Continued on page



RPG: The Source ...for captives!

Fifth International Captive Insurance Company Conference

Southampton Princess Hotel
Bermuda, March 23, 24 and 25, 1981

The captive movement is now a major market force in the insurance world. Corporations, associations and other organizations increasingly use captives to fund their own risks, and many are now insuring "outside" risks. The resulting flow of billions of premium dollars has attracted the attention of many banks and investment firms as well as insurance regulators and tax authorities worldwide.

The Fifth International Captive Insurance Company Conference will explore the current evolutionary development of captive insurance companies, with particular emphasis on:

- The current positions of the U.S. Internal Revenue Service and the U.K. Inland Revenue toward captives.
- Investment strategies and opportunities—and caveats.
- The Bermuda market and captive "climate."
- Alternatives to captives: current market responses.
- Case studies, detailing the decision-making process for a number of captives in various stages of development.

In addition to the general sessions, one afternoon session will be given over to Discussion Group workshops, allowing for an intensive study by participants of a particular topic of interest to them.

Risk Planning Group, Inc. is the sponsor of this annual conference, recognized as one of the major opportunities for critical and constructive review of the captive insurance company phenomenon. Over 225 participants from 11 countries attended the 1980 conference.

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The fee for this 3-day conference is US$595. (US$550 each for the second or more from the same company as the primary registrant.) The "Spouses Program" fee is US$35.

Please use the coupon provided to reserve your place. Additional information may be obtained by contacting:

Director of Conferences
Risk Planning Group, Inc.
722 Post Road
Darien, CT 06820
203/655-9791 Telex: 996358

The proceedings of the 1980 conference, "**Captive Insurance Companies: 1980**," are available from Risk Planning Group, Inc. at US$35 per copy. To receive one, mark the appropriate box on the coupon.

risk management reports

Risk Management Reports

Risk Management Reports is RPG's bi-monthly journal which explores in depth many of the major issues facing Risk Managers today. For the seventh consecutive year, **Risk Management Reports** presents its annual review of the captive insurance company movement, the January, 1981 issue. This report lists over 1,200 active captive insurance companies in over 15 worldwide domiciles, showing parent, domicile and manager. Special lists cover association captives and, this year for the first time, there is a list of over 100 captive credit life insurance companies operated by banking institutions. A list of management companies is also provided, plus an index of parents. This issue also includes a critical analysis of the major events affecting captives in 1980, prepared by the staff of Risk Planning Group.

captive insurance company Reports

Captive Insurance Company Reports

Captive Insurance Company Reports, RPG's bi-monthly newsletter, covers captive insurers and their growth world-wide. CICR features information on new captives, captive management firms, loss control services, current investment rates, legal and tax news and reinsurance. Whatever their activities—parent risk, outside risk, investments, choice of domicile, tax and regulatory changes, conferences—CICR reports on them objectively and critically.

If you are now actively participating in the captive industry or intend to do so in the future, **Captive Insurance Company Reports** offers articles of practical use and interest.

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Bermuda, March 23, 24 and 25, 1981

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Claims . . .

Continued from page 34

Branch offices: Southfield, Grand Rapids, Cadillac, Mich.; Falmouth, Maine; Barrington, N.H.; Miami; Oak Brook, Ill.; Little Rock, Ark.; Dallas.

No. of clients: 250.

Minimum size of client: 50 employees.

No. of clients in Fortune 1,000: 7.

Compensation: Percent of premium or payroll, per employee, commissions for excess insurance placed with underwriters.

1980 gross revenues: $4.8 million.

Specialties/areas of expertise: Self-insured workers compensation group funds, association employee benefits, single-employer self-insured programs.

Principal officers: W.J. Nietschmann, president; J.H. Hettrick, executive vp, and W.B. Lichtig, R.P. Shea and R.S. Wos, vps.

Pension & Group Services Inc.

308 Michigan Building, Kalamazoo, Mich. 49007; 616-382-0300

Total claims processing staff: 31.

Total employees: 75.

No. of clients: 2,700.

Compensation: Per claim.

1980 gross revenues: $10 million.

Specialties/areas of expertise: Benefits.

Principal officers: John Connors, president; Lawrence Farrell, executive vp; Ross Hoover, secretary/treasurer; William Ellwood, vp-marketing, and Daniel Sperry, vp-consulting.

Preferred Group Administrators Inc.

P.O. Box 29098, San Antonio, Tex. 78229; 512-734-5013

Total claims processing staff: 3.

Total employees: 5.

No. of clients: 150.

Minimum size of client: One employee.

Compensation: Per claim, percent of claim, commissions for excess insurance placed with underwriters.

1980 gross revenues: $200,000.

Specialties/areas of expertise: Group major medical, basic benefits, surgical.

Principal officers: Dan Heiman, president, and Ron Wartes, secretary/treasurer.

R

Radcliff Administrator Inc.

2550 S. Telegraph, Suite 240, Bloomfield Hills, Mich. 48013; 313-334-3520

Parent company: North American Agencies Inc.

Total claims processing staff: 4.

Total employees: 6.

No. of clients: 6.

Minimum size of client: 75 employees.

Compensation: Monthly fee per covered employee, percent of annual premium, commissions for excess insurance placed with underwriters.

1980 gross revenues: $150,000 est.

Specialties/areas of expertise: Workers compensation, safety and loss control, in-house claims processing.

Principal officers: Gerald A. Kanter, chairman/president; Bruce Tock, vp; Joanne Brownrigg, secretary/treasurer; Martin Johnson, manager-workers compensation; Lawrence Wylie, manager-safety and loss control, and JoAnne Bolek, group manager.

Rasmussen Agency Inc.

60 Evergreen Place, East Orange, N.J. 07018; 201-675-3940

Total claims processing staff: 51.

Total employees: 60.

Branch offices: Atlantic City, N.J.

No. of clients: 45.

Compensation: Commissions for excess insurance placed with underwriters.

1980 gross revenues: $4.6 million.

Specialties/areas of expertise: Workers compensation, auto/general liability, employee health benefits.

Principal officers: Lawrence E. Small, Robert F. Hughes and C. David Martin, senior vps; Richard H. Rasmussen, president, and Anthony J. Constantino and John Serapiglia, vps.

Continued on page 38



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PENNSYLVANIA NATIONAL MUTUAL CASUALTY INS. CO.
UNION MUTUAL INS. CO. OF PROVIDENCE
UTICA MUTUAL INSURANCE COMPANY

Claims . . .

Continued from page 36

Reed, Roberts Associates

1701 Golf Road, Rolling Meadows, Ill. 60008; 312-981-5702

Total claims processing staff: 150.
Total employees: 300.
Branch offices: 22.
Clients: 3,000.
Minimum size of client: 300 lives.
No. of clients in Fortune 1,000: 125.
Maximum size client or claims capability: 50,000 employees.
Compensation: Per claim, percent of claim, flat annual fee.
1980 gross revenues: $11 million.
Specialties/areas of expertise: Benefits, workers compensation.
Principal officers: Philip Kaplan, president/CEO; Richard Kaplan, executive vp/COO, and Lawrence J. McDonald, senior vp.

Risk Management Resources Inc.

3 Embarcadero Center, Suite 2470, San Francisco, Calif. 94111; 415-392-1680

No. of clients: 6.
Clients in Fortune 1,000: 1.
Compensation: Per claim, per employee, commissions for insurance placed with underwriters.
1980 gross revenues: $500,000.
Specialties/areas of expertise: Health claims administration, claims processing systems, benefit plan design, self-funding.
Principal officers: James H. Gardner, president, and Terrence E. Devereux and Walter G. Berry III, vps.

S

St. Paul Risk Services Inc.

Hamm Building, 408 St. Peter St., St. Paul, Minn. 55101; 612-221-7990

Parent company: St. Paul Fire & Marine.
Total claims processing staff: 400 (includes insurer staff).
Total employees: 30.
Branch offices: 45.
No. of clients: 100.
Compensation: Per claim, annual contract, commissions for excess insurance placed with underwriters.
1980 gross revenues: $5 million.
Specialties/areas of expertise: Health care providers, manufacturers.
Principal officers: E. Warren Bessler, vp; John Roeder, marketing officer; William P. Walsh, financial services officer, and Ellen Conway, operations manager.

Raymond Shekley & Assoc.

11231 Cornell Park Drive, Cincinnati, Ohio 45242; 513-489-1776

Claims processing staff: 20.
Total employees: 40.
Branch offices: Columbus, Cleveland, Atlanta, Chicago.
No. of clients: 750.
Clients in Fortune 1,000: 2.
Compensation: Flat fee, commissions for excess insurance placed with underwriters.
1980 gross revenues: $1 million.
Specialties/areas of expertise: Self-insured workers compensation, unemployment cost-control programs, state fund cost-control programs.
Principal officers: Raymond D. Shekley, chairman; Larry A. Shekley, president, and Jack Hunter, executive vp.

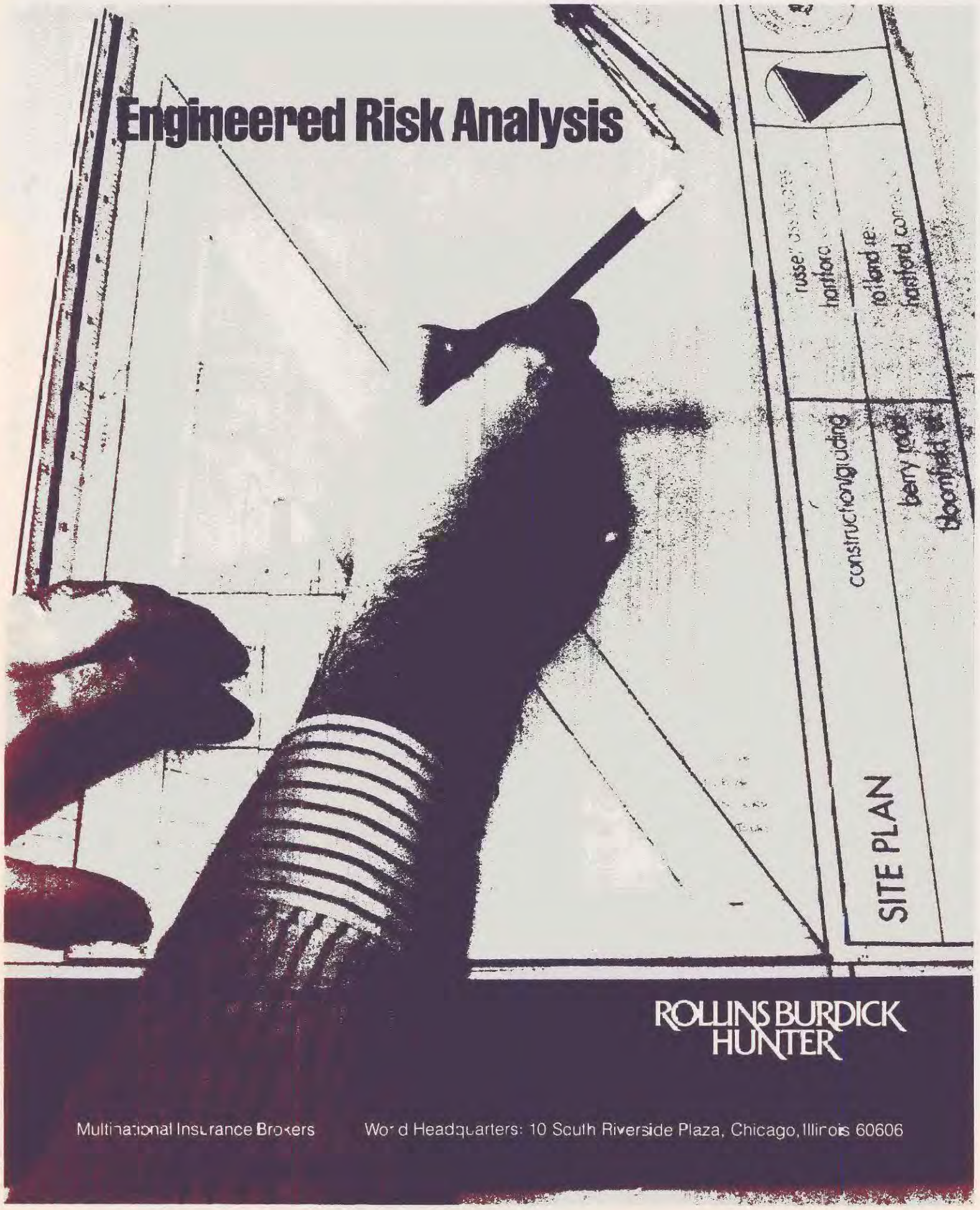
Southwest Health Claims Service Inc.

P.O. Box 29098, San Antonio, Tex. 78229; 512-734-7101

Total claims processing staff: 8.
Total employees: 12.
No. of clients: 50.
Minimum size of client: 10 employees.
Compensation: Per claim, percent of claim, commissions for excess insurance placed with underwriters.
1980 gross revenues: $110,000.
Specialties/areas of expertise: Group health, surgical, weekly income.
Principal officers: Dan Heiman, president, and Ron Wartes, secretary/treasurer.

Southwestern Insurance Administrators

3580 Fifth Ave., San Diego, Calif. 92103; 714-297-6820



Parent company: Corroon & Black Corp.
Total claims processing staff: 17.
Total employees: 72.
Branch offices: Los Angeles, San Jose, San Francisco, Sacramento, Calif.
No. of clients: 40.
Minimum size of client: $250,000 annual premium.
Compensation: Per claim, flat fee.
1980 gross revenues: $792,000.
Specialties/areas of expertise: Public entities, school and fire districts, city and counties combined.
Principal officers: Paul T. Carter, chairman; Verne Watts, president; Marjorie Gates, treasurer, and Phil Bwinell and John Doddridge, vps.

Stevenson-Walker

85 Water St., Boston, Mass. 02109; 617-482-8990

Parent company: Graham-Watson Inc.
Total claims processing staff: 2.
Total employees: 10.
No. of clients: 3.
No. of clients in Fortune 1,000: 1.
Compensation: Per claim.
Specialties/areas of expertise: Professional liability, errors and omissions cover, reinsurance claim reviews and audits, claim management.
Principal officers: Neil D. Coates, president; John E. O'Connell, senior vp; Robert G. Wright, first vp; Joseph F. Boyle, vp/treasurer, and Richard P. Cardoza, vp.

V

Voluntary Plan Administrators Inc.

18321 Ventura Blvd., Tarzana, Calif. 91356; 213-705-6463, 714-540-1818

Branch offices: Newport Beach, Calif.
No. of clients: 65.
Minimum size of client: 200 employees.
No. of clients in Fortune 1,000: 22.
Compensation: Fee based on percentage of total payroll.
Specialties/areas of expertise: California state disability, long-term disability, sick pay plans.
Principal officers: Jack H. Bredehorn, president; Ralph D. Hurley, vp, and Thelma Wilson, secretary.

W

Wausau Insurance Cos.

2000 Westwood Drive, Wausau, Wis. 54401; 715-845-5211

Total claims processing staff: 1,600.
Total employees: 7,000 plus.
Branch offices: 220 claims-servicing offices.
Compensation: Per claim, percent of claim.
Specialties/areas of expertise: Claim administration and management services.
Principal officers: T.A. Mack, vp-business development, and Ronald E. Fisher, manager-casualty services.

Scott Wetzel Services Inc.

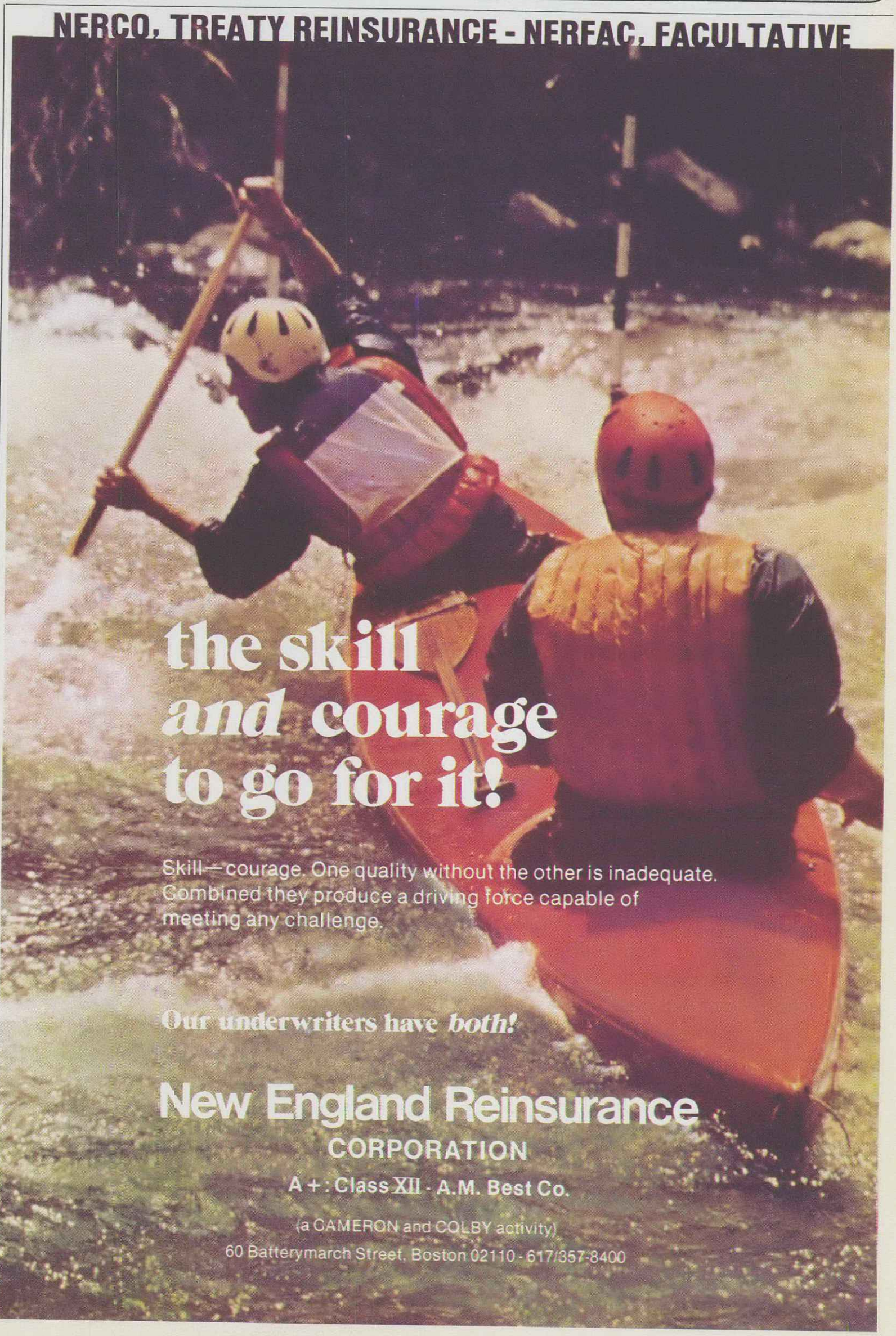
500 Pacific Ave., 7th floor, P.O. Box 418, Bremerton, Wash. 98310; 800-426-5990, 206-479-0200

Parent company: The Home Group Inc.
Total claims processing staff: 336.
Total employees: 385.
Branch offices: Juneau, Anchorage, Alaska; Boise, Idaho; Chicago; Dallas; Los Angeles, San Francisco, Calif.; Omaha; Portland; Salt Lake City; Seattle, Spokane, Tacoma, Wash.; Tampa; Twinsburg, Ohio; Washington, D.C.
No. of clients: 300 plus.
Clients in Fortune 1,000: 45.
Compensation: Per claim, percent of claim, negotiated fee.
1980 gross revenues: $200 million displaced premiums.
Specialties/areas of expertise: Workers compensation, all casualty, employee benefits, on-client premises claims administration.
Principal officers: E. Scott Wetzel Jr., president; Donald W. Mulliner, executive vp; Robert B. Spratt, senior vp; Myron A. Soltau, Harold R. McCallister, Kenneth C. Rosser, Jack L. Bickmore and Thomas J. Laskowski, vps. ■

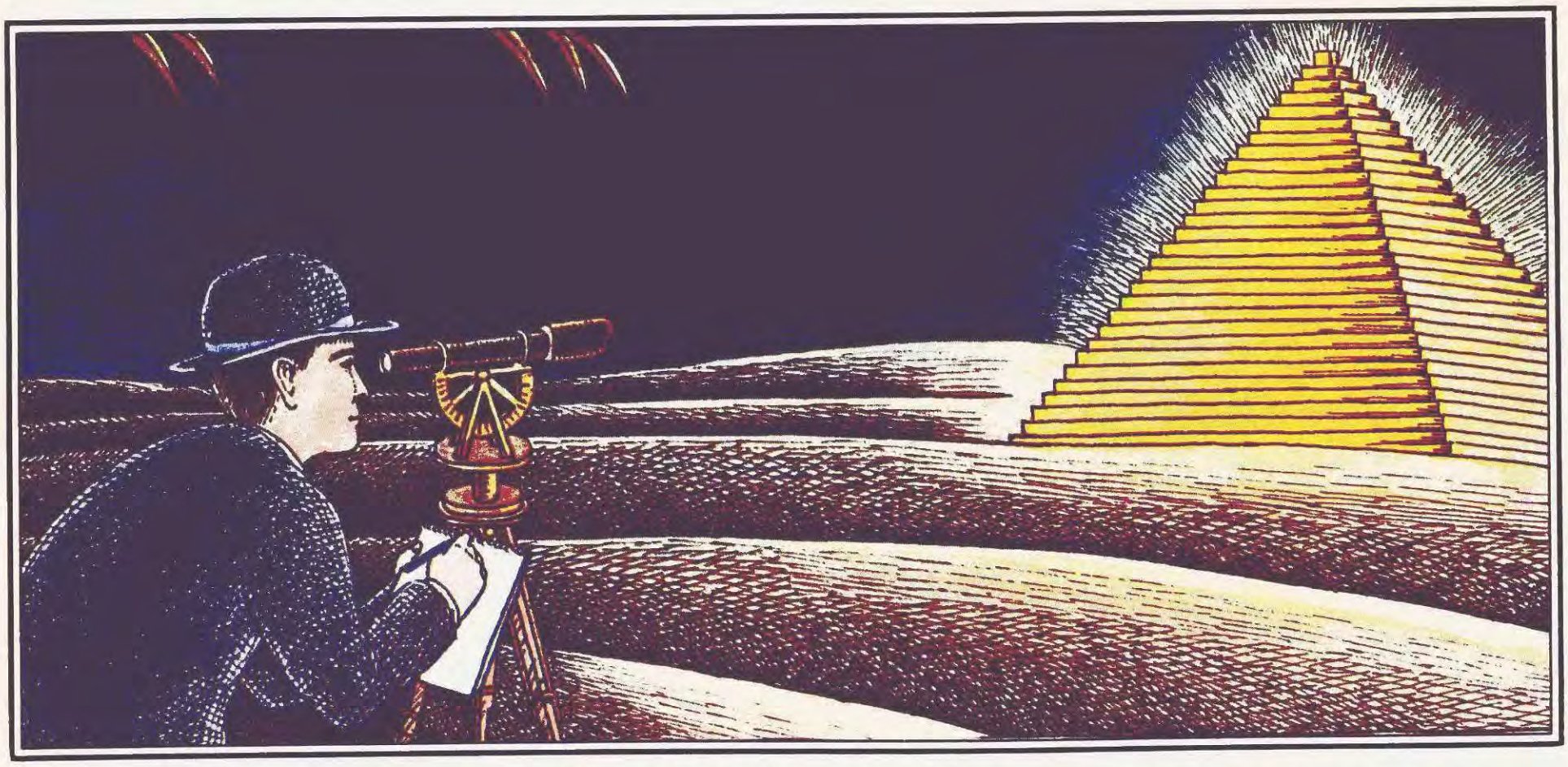
Source of information

Information in this special listing of claims administrators was compiled by the editors of *Business Insurance* based on information supplied by the firms.

The profiles include gross revenues, professional staff, parent firm, branch offices, principal officers and compensation for claims services.



Determining Risk



With the magnitude of business risks expanding, sophisticated techniques are being developed to determine more precisely the optimum degrees of risk retention for a company's exposures.

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

In an increasingly demanding economic environment, corporate financial executives are reexamining the capital and cash flow needs of their businesses. Part of this analysis focuses on the cost of business insurance, which in the typical corporation has risen in direct proportion to expanded exposures. In this environment, corporate risk managers are attempting to structure their insurance programs to help enhance cash flow without jeopardizing financial results through inadequate protection against losses.

Specifically, they are looking for ways that will help determine the most productive retention levels for their companies' growing exposures to risk and financial loss, recognizing that the ability and willingness to bear risks can vary sharply from one company to another.

For example, it might be advantageous to retain, either partially or completely, such exposures as automobile fleet physical damage and workers' compensation, where losses tend to have a high degree of predictability. Dollars that would otherwise be committed to insurance premiums would then be available for corporate use. Before setting specific retention levels, however, a determination is needed of the maximum amount of loss, in dollars, a company would be willing to bear.

Based on trend analysis, the availability of coverages and, most important, personal knowledge and judgment, there are several approaches to establishing this amount.

Maximum retention limits

Perhaps the most common, particularly for publicly held companies, is an earnings-per-share determination, in which uninsured losses are retained up to the limit where they will adversely impact the company's financial results. This figure is sometimes set at five percent of the company's operating earnings for its most recent year. Thus, a company reporting pretax earnings of $60 million would not retain risks with a maximum possible loss in excess of $3 million.

Retention Levels

A second method is to use a percentage of net working capital, generally between one percent and five percent. This method is frequently employed because it is based on corporate liquidity.

And a third method is based on an earnings-and-surplus yardstick. Here the limit of retained losses is set at a given percentage of current retained earnings, plus an equal percentage of average pretax earnings over the preceding several years.

In each case the figure represents an aggregate maximum retention for all lines. It is usually fixed at the beginning of each fiscal year to reflect an up-to-date picture of the company's financial position.

Arriving at specific retention levels

Having ascertained a maximum retention amount, the next step is to determine the optimum choice among a number of possible specific retention levels.

This is done by a fairly complicated procedure. Essentially, it consists of taking two variables – the maximum retention figure expressed as a company risk tolerance level, and another factor called the "risk-adjusted cost" – and using them as the two axes of a graph. Various retention options (such as complete self-insurance, $10,000 deductible, $50,000 deductible) are then plotted on the graph as curves. The best decision at a given risk tolerance level is that option having the lowest risk-adjusted cost.

An example is a large integrated oil company with an experience of 720 property damage claims, both open and closed, over a recent three-year period. The average severity was $11,214, with a maximum possible loss per occurrence of $2.5 million. The expected frequency was 240 occurrences a year and the expected aggregate loss was $2,691,464.

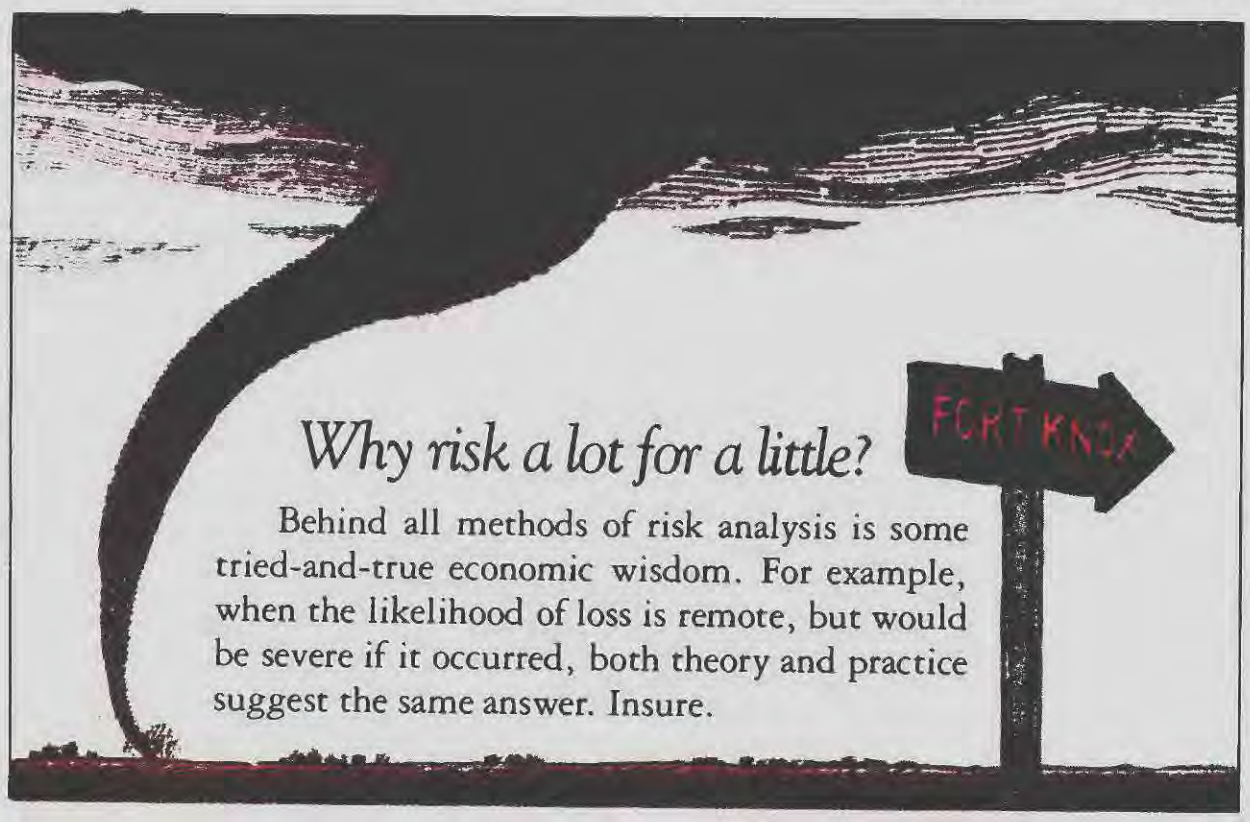
After taking into account both the expense of self-insurance and the premiums for commercial insurance with various deductibles, risk curves were computed and plotted for a number of options. They included full retention of the risks by the company; partial retention, with a large deductible; and full coverage by commercial insurance. The results indicated that at the company's risk tolerance level, the preferable option would be an insurance policy with a deductible of $1 million.

Even with the assistance of techniques such as these, setting risk retention levels remains a subtle and sometimes demanding process. Risk managers have found that consultation with insurance agents, brokers, and companies providing insurance products as well as self-insurance services is often invaluable in arriving at viable solutions.

* * *

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

INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on determining risk retention levels, write INA, 1600 Arch Street, Phila., PA 19101.

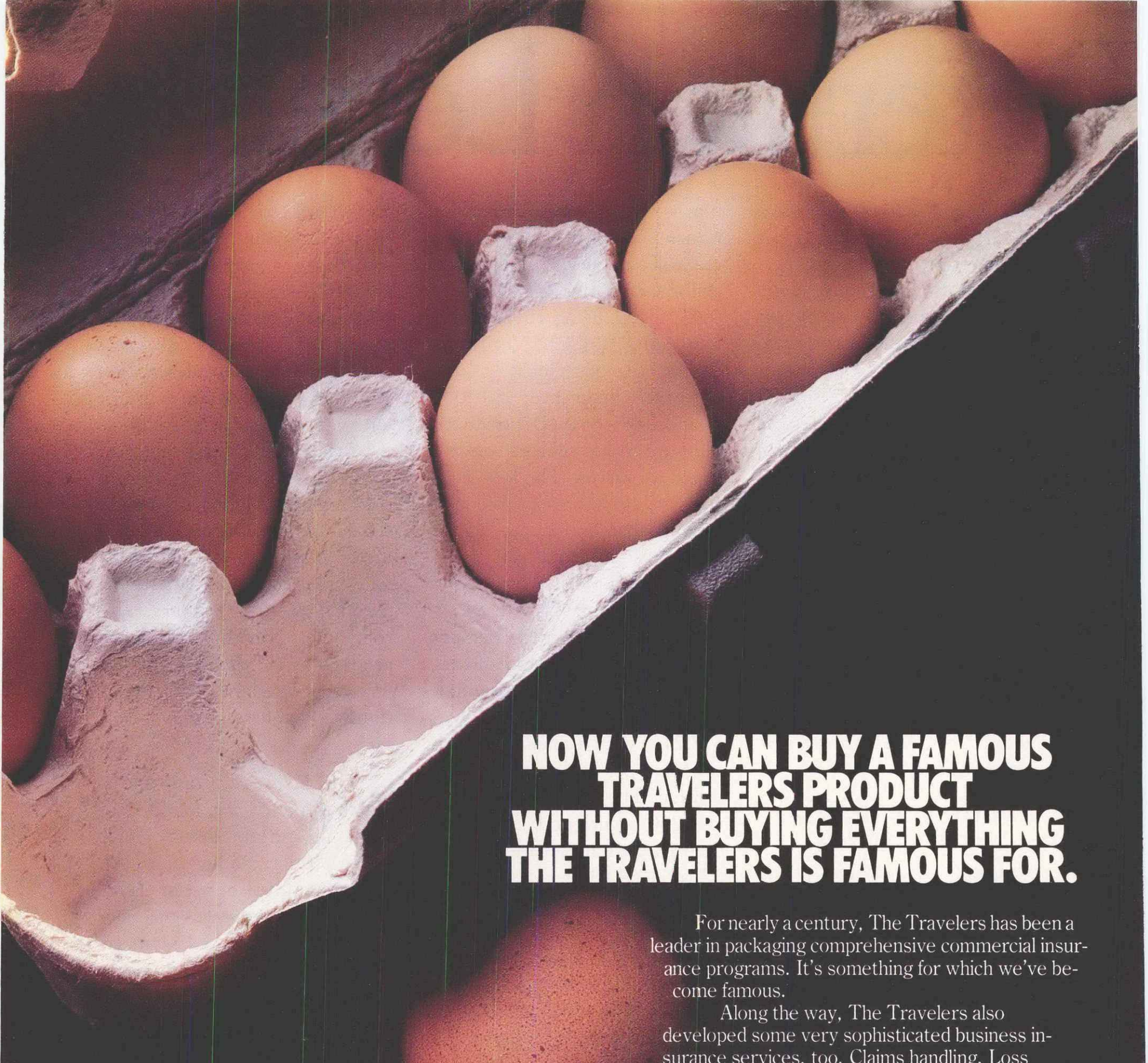


Why risk a lot for a little?

Behind all methods of risk analysis is some tried-and-true economic wisdom. For example, when the likelihood of loss is remote, but would be severe if it occurred, both theory and practice suggest the same answer. Insure.

INA

The Professionals



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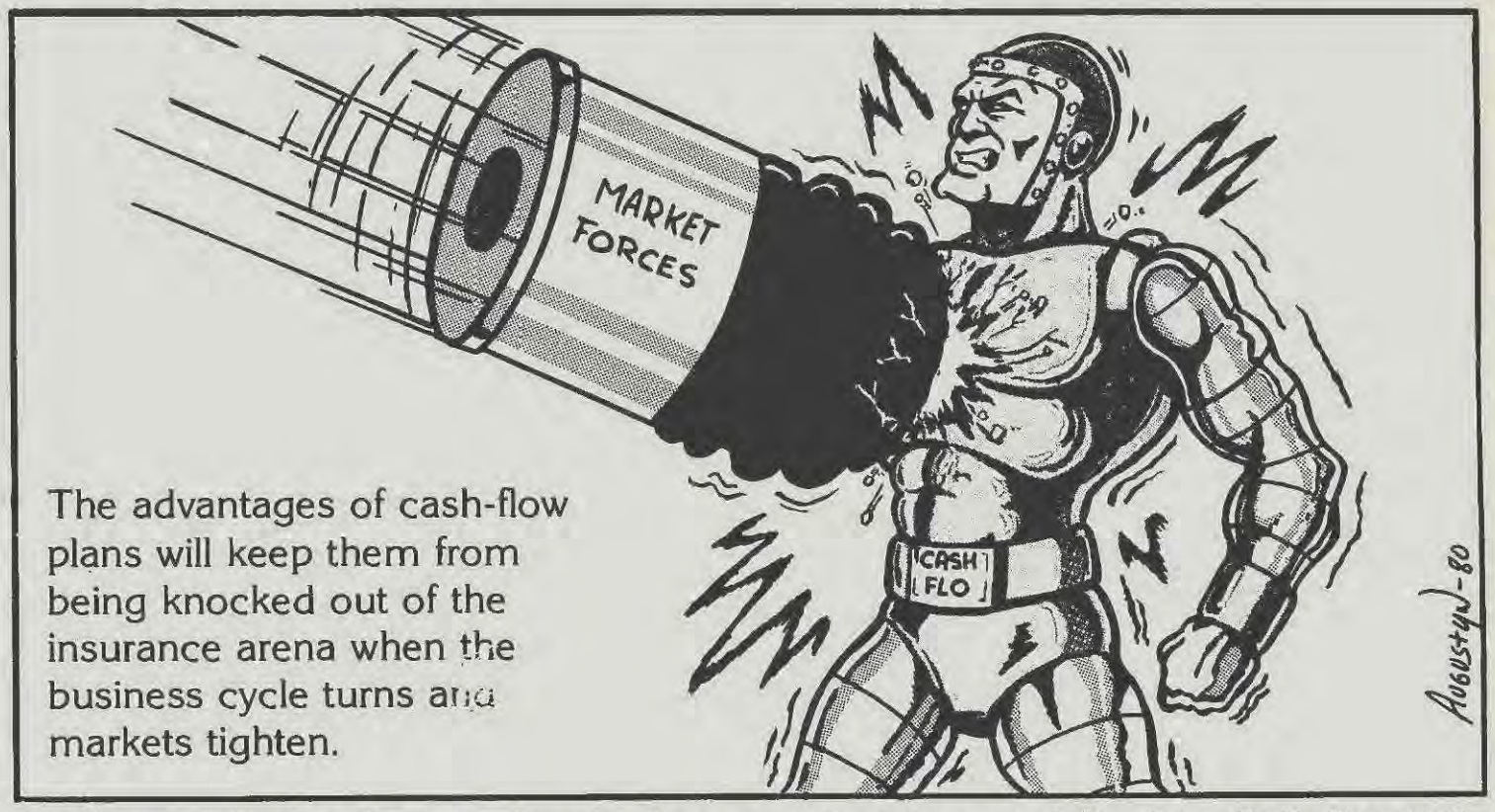
Constitution State Service Company is a wholly owned subsidiary of The Travelers Corporation, One Tower Square, Hartford, Connecticut 06115

perspective

Considering cash-flow

Plans offer alternative for all cycles

By Albert J. Beer



The advantages of cash-flow plans will keep them from being knocked out of the insurance arena when the business cycle turns and markets tighten.

THERE HAS BEEN some discussion recently concerning the viability of cash-flow plans if the present soft market should tighten. Since a number of experts have predicted this turnaround is imminent, I'd like to share a few of my thoughts on this matter. First, let's clarify what is generally thought to be a cash-flow plan.

The premium paid to an insurer is designed to cover the insurer's administrative costs, including profit, claim-handling expenses and loss payments. Although a large portion of the administrative costs—such as agents' commissions—is paid shortly after policy inception, some are distributed relatively evenly throughout the policy period.

More significant is the delay in loss and loss-expense payments, which may represent as much as 70% of the premium. Although coverage generally is provided for accidents occurring during a specific policy term, the claim costs and expenses that arise from these incidents may not be finalized until years after the occurrence.

In quick-reporting, fast-settling lines such as automobile physical damage, this delay is relatively short and the potential investment income from the funds allocated for these payments is not exceptionally large. However, coverages that historically have shown long delays between occurrence and indemnification may represent a significant source of investment return on funds reserved for their payment. This has proven to be the case in most liability and compensation lines. For example, a $10,000 claim that has been accurately reserved and is settled three years after the policy's inception would generate $3,310 of investment income at a 10% annual rate of return.

Any premium payment plan that recognizes the deferred nature of these expenditures could technically be called a cash-flow plan. The basic installment plan, in which a policyholder pays a percentage of the annual premium periodically over the year, is an example of such a plan that has been used for a number of years. However, consumer sophistication and competition among insurers during the past few years has prompted insurers to devise a variety of programs to allow the policyholder to share this advantage of delayed payout of loss and expense.

For example, although the compensating balances plan requires a full premium payment at policy inception, the portion remaining after initial expense payments are deducted is deposited in a bank at the policyholder's direction to support a line of credit. Therefore, funds previously tied up in this manner become available for generally higher returns on investment to the policyholder. These funds are returned to the compensating balance account only as the losses and expenses are paid by the insurer.

A further innovation offered by a number of insurers is the paid-loss retro. Essentially, this plan allows for the billing of insurance costs as they are actually paid. The insured firm initially pays a relatively small portion of the standard retro premium to cover some early administrative and loss costs while supplying the insurer with a promissory note or letter of credit for the balance. The policyholder is then billed as costs arise while maintaining control of and receiving investment income for these remaining funds.

It should be realized that cash-flow plans are merely alternative methods of financing insurance costs. They fit clearly between retention under a self-insured program and the conventional mechanism of a guaranteed cost or a retrospective rating plan.

In recent years, competition has fostered a soft market for conventional insurance to attract as much premium income as possible while taking advantage of incredibly high investment returns. Reduced rates have made the cost of transfer favorable compared with the cost of retaining.

If interest rates remain high, the cash-flow plans will still offer a significant advantage over a fixed-premium conventional insurance program. Obviously, increased rates will raise the cost of risk transfer and, correspondingly, promote more self-insurance.

However, a large number of small and medium-sized firms will not be in the financial position to absorb all the associated administrative expenses and risk related to a retention program. The stability of a conventional plan, made more attractive by a cash-flow arrangement, will still be a major advantage of an insured program.

Simply because cash-flow plans were spawned from a soft market does not imply that their existence is predicated on such circumstances. Rather, the insurance consumer's increased awareness concerning certain advantages of self-insurance has promoted the use of these plans and other innovations among insurers. While the relative significance of the cash-flow advantage is related to the rate of investment return, cash-flow plans always will represent a marketing alternative among conventional insurance programs as well as a means of competing with risk-retention options. ■



Albert J. Beer is an associate professor of actuarial science at The College of Insurance in New York City and works as an independent actuarial consultant.

Reimbursement provision sidesteps statute

legal briefs

A REIMBURSEMENT agreement in a group health policy was an attempt to secure the assignment of personal injury claims that are not assignable under state law, the Arizona supreme court ruled.

Duane Brockman and his dependents were insured under a major medical policy covering employees of the J.I. Case Co. and issued by Metropolitan Life Insurance Co. Mr. Brockman's wife and son were seriously injured in an accident on Dec. 22, 1969. Mr. Brockman claimed benefits under the policy, but was rejected by Case on the grounds that he had terminated his employment before the accident. There was a factual dispute as to when Mr. Brockman actually left the company.

An agreement was reached allowing insurance benefits subject to reimbursement if the Brockmans recovered any of those costs against third parties. The insurance policy also contained a refund provision if benefits should be paid by reimbursement of others. Subsequently, the Brockmans recovered substantial damages against the state for their injuries. Metropolitan brought this suit to recover nearly $18,000 in medical bills it had paid. The trial court ruled in favor of Metropolitan.

The appellate court reversed the decision, rejecting Metropolitan's argument that its claim against Mr. Brockman was based on a compromise between the parties that settled the coverage dispute and that the agreement was enforceable. The court said that the agreement, no matter how it was labeled, was actually and assignment of the proceeds of a personal injury claim and was unenforceable. *Brock-*

Continued on next page

Copies of the entire decision may be obtained by sending $5 to Cases Unlimited in care of Business Insurance, *740 N. Rush St., Chicago, Ill. 60611.*

perspective

Litigation creation

Work comp cases create new exposures

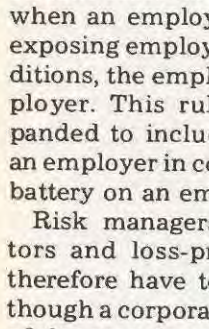
By Frederick J. Fisher

LITIGATION APPEARS to be the watchword of today's lifestyle. The traditional role of the risk manager, loss-prevention consultant and claims administrator is going to have to become greatly altered in view of new U.S. legal developments.

As a result of recent lawsuits, there has been a tremendous weakening in the exclusive remedy rule regarding workers compensation. It has traditionally been held that if an employee is injured on the job, his or her exclusive remedy is workers compensation. Recent cases have held, however, that when an employer is aware that it is exposing employees to dangerous conditions, the employee may sue the employer. This rule also has been expanded to include intentional acts of an employer in committing assault and battery on an employee.

Risk managers, claims administrators and loss-prevention specialists therefore have to understand that although a corporation may not be aware of dangers, lawsuits may give rise to expensive defense costs. As we all are aware, many lawsuits of questionable validity are settled in order to avoid the cost of litigation.

The end, however, is not in sight. Some time ago, insurance departments of several states fought insurers over their refusal to insure poor risks, particularly in the automobile market. It was thought that this violated public policy and that everyone should be entitled to insurance at a fair price. Some legislation has appeared fitting these guidelines. There has also been a lot of redlining litigation. It now appears it may end up being a "damned if you do, damned if you don't" situation because of a recent Assn. of Trial Lawyers of America position on insuring these risks.



Frederick J. Fisher is vp of Miller & Gilbert of Southern California, an excess/surplus lines claims adjusting firm.

Harry Philo, president of the Assn. of Trial Lawyers, says the association is now seeking to be able to sue an insurer that provides product liability insurance. The association would like to hold insurers liable beyond the limits of their policies for inadequate safety engineering.

It appears the trial lawyers are trying to create new causes of action so more lawsuits can be filed, giving rise to more extortive settlements.

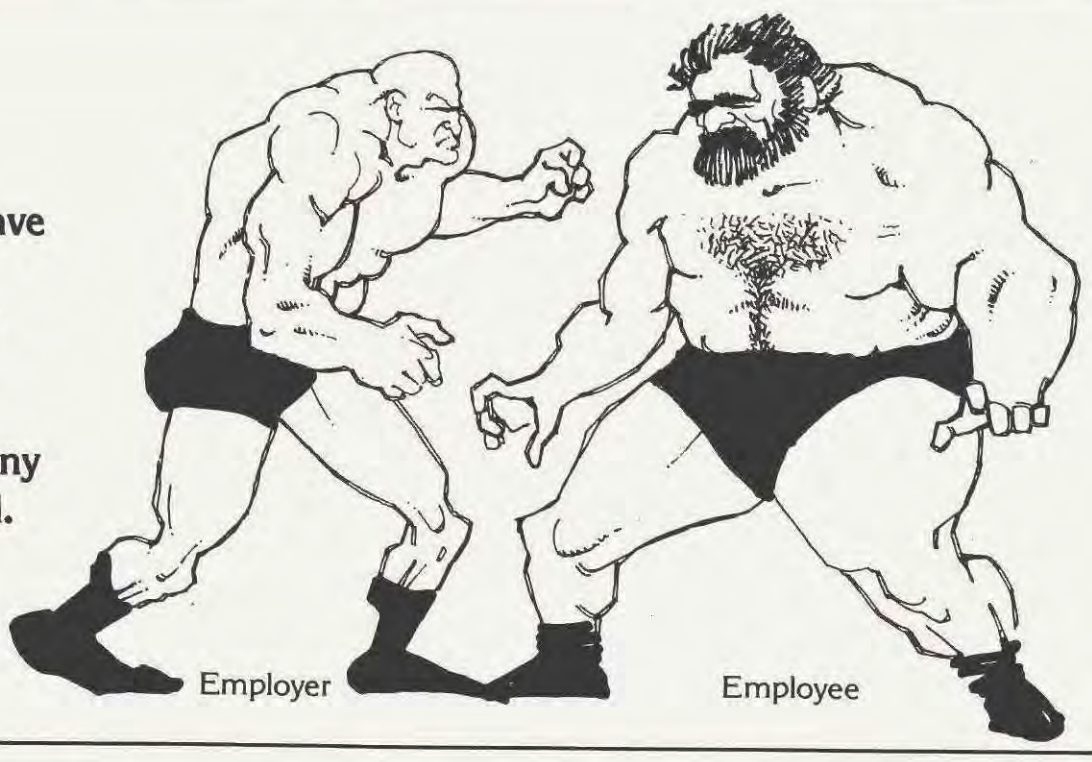
Risk managers and loss-prevention and claims experts will therefore not only have to be concerned with the traditional roles but will have to act more carefully in their own offices to advise their clients or their firms as to sources of potential litigation. If corporations may be sued by their employees, insurers may be directly exposed for providing coverage to unsafe risks.

An additional problem arises from this situation. General liability insurance policies may not cover these types of losses. Most general liability policies have exclusions for claims that would normally fall under workers compensation. If an employee attempts to sue the employer as opposed to seeking redress through the workers compensation procedure, the insurer could decline coverage on the basis that intentional acts are excluded and that their policies do not cover actions against an employer.

Therefore, risk management, loss prevention and claims administrators are going to have to reserve accordingly.

Litigation is becoming more complicated and strict regarding the rights of plaintiffs against corporations and insurers companies. With unfair claims settlement statutes all over the United States, the costs of litigation and liability will continue to rise and contribute to what promises to be a tight insurance market in the 1980s. ■

Recent cases have held that employees may sue their employer, and insurers may deny coverage as well.



Reimbursement rules can't be enforced

Continued from page previous page

man vs. Metropolitan Life Insurance Co., Arizona Supreme Court, March 18, 1980 (*BI*/05/S.-$5).

Off premises

Was a mental health worker's heart attack, precipitated by reading a letter in a newspaper critical of her job performance, covered by workers compensation? A Pennsylvania appellate court decided it was not.

The employee had conferred with a patient at an outpatient center Aug. 10, 1973. The patient had only recently been discharged from a mental hospital. The patient was distressed, but unable to consult her psychiatrist. Because no psychiatrist was available at the center, the employee made alternate suggestions to the patient, including providing her with the telephone number of the physician covering for the psychiatrist.

A week later, the patient's husband called the employee to report his wife had committed suicide three days after the interview. Several weeks later, the employee, while at home, read in a local newspaper of a letter to the editor from the patient's husband sharply critical of the employee's attitiude at the original interview. The employee became distraught and ill, and was hospitalized for a myocardial infarction. Later, she filed a claim for benefits that was denied.

On appeal, the employee contended her heart attack arose in the course of her employment because it resulted from stress caused by a series of events, beginning with the patient interview and culminating in her reading the letter in the newspaper. The court disagreed, concluding that her act of reading the letter to the editor at her home "was not done while she was engaged in furthering her employer's business . . ." as required by the workers compensation act. *Bowes vs. Inter-Community Action Inc.*, Pennsylvania Commonwealth Court, March 7, 1980 (*BI*/03/S.-$5).

Willful violation

An insured contractor's willful and knowing violations of contract specifications and expected standards of workmanship do not establish an "occurrence" under standard liability insurance policy language, according to the Minnesota Supreme Court.

A contractor entered into a written contract with the Smith family to build a home. The contractor was covered under a comprehensive liability policy that provided for coverage for an "occurrence" resulting in property damage neither expected nor intended from the standpoint of the insured."

The Smiths subsequently sued the contractor, seeking damages for conscious faulty workmanship, not damages resulting from miscalculations or negligence. Specifically, the Smiths alleged structural defects. departures from design and poor quality of workmanship.

The contractor requested his insurer to defend the Smith suit. When the insurer declined, the contractor filed suit contending the insurer had a duty to defend. The trial ruled in favor of the insurer.

The appellate court said the results of obvious violations of contract standards of workmanship were not "unexpected." The court observed that a contractor's liability insurance is designed to protect him from fortuitous losses occurring in connection with his work.

The court concluded that the contractor's performance here did not constitute a mistake or carelessness on his part, agreeing the insurer was not obliged to defend the Smith suit. *Johnson vs. AID Insurance Co. of Des Moines*, Minnesota Supreme Court, Jan. 11, 1980 (*BI*/02/Jy.-$5). ■

Safety needs organizing effort

book & ideas

By Z'ev Kronish

Product Safety and Liability: A Desk Reference
By John Kolb and Steven S. Ross
McGraw-Hill, 1221 Ave. of the Americas, New York, N.Y. 10020
688 pp., $29.50



Photo: General Re

Losses resulting from lawsuits can best be controlled by intensifying the drive for safety, the authors contend.

THE FORD Pinto trial puts a new face on product liability. With the risk of criminal negligence hovering over manufacturers, responsibility for the design of safe products becomes more urgent. The manufacturer now has to contend with criminal charges filed by state prosecutors as well as civil liability lawsuits.

And the losses resulting from lawsuits are not the only cause for concern; poor publicity harms sales and profits, too.

These losses can best be controlled by intensifying the drive for safety. This would appear to be axiomatic, but all too often corporate management is indifferent to loss-prevention undertakings. Mr. Kolb, who had an engineering background and died in the midst of writing this book, and Mr. Ross, who brings us editorial and chemical knowledge, have shown us it takes an abiding commitment to bring design into line for safety's sake.

But quality control will not become an immediate objective unless the firm institutes a new kind of organizing effort.

Without being risk professionals, the authors have pointed up the paramount issue: Unsafe products get a company into deep trouble, but it is up to each firm to put its own house in order. Safety standards are not to be left to chance.

"Product Safety and Liability" emphasizes that top management's attitude is a major factor. A policy statement supporting safety but not grounded in genuine concern, coupled with a plan for action, is "worse than useless, because it can only lull management into a false sense of security."

Procedures must be developed for staying on top of problems, the authors continue. If management and employees maintain two-way communication, the rein over safety will not slacken. An unambiguous and continuous message filtering down to all subordinates is one guarantee of an effective campaign. But at the same time, management's awareness of problems at the plant is equally important.

The book is accurate in its observation that rivalry among executives can interfere with a well-intentioned program. In any organization there are always a lot of people in the act—no one person is really in a position to lead the safety drive. The danger is that people will pull in different directions, with the result that safety standards will be applied unevenly. The remedy for such chaos is systems organization.

To be effective, the book tells us, a systems approach needs a coordinator to orchestrate the overall effort. It lists the criteria for this initial move:

- The top safety executive should answer only to top management.
- He should be an inside person. Picking an ousider can create needless friction.

Would someone with risk experience be an ideal candidate? The authors have not made this suggestion, probably because an engineer comes to mind more naturally, but also because the risk department is still largely ignored in the search for safety.

No matter how well the design concept, the real test of product safety does not take place until the consumer's reaction filters back to the manufacturer.

Data from the service departments is a vital source of feedback—if it reaches the home office. Complaints provide useful clues and should not be treated lightly. Unfortunately, service departments tend to minimize repair problems and fail to share their findings with management.

And then there are consumers who don't even want to bother the service department when their products break down; they regard the matter as a minor nuisance, easy to repair. The authors note that product failure can reverberate when someone tinkers without the needed expertise and is hurt in the process.

An open mind is the surest way to prevent incorrect diagnosis of accidents. Not only should you teach your staff not to jump to conclusions, but you must extend this approach to the field to deter other investigators from arriving at a faulty hypothesis. This threat can be reduced by the firm's use of its own report forms as a control measure.

Despite all efforts to produce a safe product, claims will be filed. Corporate reaction should be swift and include such steps as:

- Finding out what occurred.
- Trying to reach a settlement before meddling relatives propel the injured person into legal orbit.
- Developing a plan with the insurer to control the loss. Insurers, the authors' research shows, are often the last to hear that a suit is in the works.

A "safety warning is no longer merely a public relations function," the authors write. The warning should be geared to specific groups. The retailer requires one kind of message while the ultimate user will benefit from another set of instructions. For a service representative, a warning on the surface may be overlooked because his concern will usually be inside the apparatus.

The warning must survive the life of the product and withstand handling abuse. And it must be permanently attached.

The use of insurance is reserved for the last chapter. It is clear that the authors' enthusiasm and knowledge lie in loss prevention and safety management rather than indemnity management.

When the authors say "do this" to achieve safety, they are effective. But when they report on the impact of workers compensation rules on product liability, they display surprising naivete with their comment, "Nevertheless, workers compensation laws, although subject to modification, appear here to stay."

The volume is subtitled "a desk reference" because it contains a 333-page "appendix." The 21-page index ought to please any avid reader. ■

Z'ev Kronish, who holds an MBA degree from The College of Insurance, has handled corporate risk management and benefits administration. He is in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in BI.

Money talks—and test teaches language

management

By Kenneth P. Shapiro

IT IS AN AXIOM of communication theory that in order to communicate with someone, you must speak their language. The language of senior management is "return on investment." Therefore, the language of the benefit manager should be "return on benefits investment."

Return on investment can be defined as the ratio of the dollar value of the benefits to the employees to the dollar cost of the benefits to the company. We all know what our employee benefit programs consist of and how much they cost. What we need to find out, therefore, is how many dollars the benefits are worth to our employees. This can be accomplished through a perceived value test, a sensitive measuring tool for quantifying employee perceptions.

The perceived value test uses a simple questionnaire. One part collects demographic data and information regarding work characteristics. This information is used to both validate questions as well as provide data for subgroup analysis. Another part asks about the employees' preferences among various benefits. This is done by testing employee benefits in groups against each other and as alternatives to optional cash payments.

The test results show preferences among benefits as well as the perceived dollar value of each benefit, by various subgroups. This analysis can provide a benefit manager with objective data on which to base benefit recommendations to senior management. It also provides justification for decisions regarding an employee benefit program.

This analysis also can distinguish between problems arising from the composition of the benefit package, from communications problems and from problems with the benefit delivery system. The benefit manager also can use this method for before-and-after testing to measure response to change.

Information on the relationship of pay to benefits in attracting, retaining and motivating employees is another feature. If conducted on an ongoing basis, it can also track changes in the perceived value of employee benefits because of social, political or economic changes.

Finally, the benefit manager gains a basis for talking to senior management in its "return on investment" language. It's a way of discussing the role of benefits based on dollar return on investment. ■



Kenneth P. Shapiro is a vp for Huggins & Co. Inc. and a partner of Hay Associates in Philadelphia. His column on management appears monthly in BI.

College offers CEBS classes

NEW YORK—Five preparatory courses for the Certified Employee Benefit Specialist designation examinations will be offered at The College of Insurance here beginning the week of Feb. 2 and ending May 25.

Courses are: Pension Plans (CEB 002), Wednesdays; Management Principles (CEB 004), Thursdays; Accounting and Information Systems (CEB 006), Mondays; Industrial Relations (CEB 008), Tuesdays, and Contemporary Benefit Issues (CEB 010), Wednesdays.

Classes meet from 5:15 to 7:45 p.m. Tuition is $145 for one course and $135 for each additional CEBS course to be taken at the same time.

Individuals may register from 9 a.m. to 5 p.m. any weekday at the college, 123 William St., New York City.

For further information, contact the life and health department at the college, 212-962-4111. ▪

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riskWatch

Brush up now on self-insurance before the crunch

By KATHRYN J. McINTYRE

Enjoy the fruits of a competitive insurance market that will write sweet cash-flow plans now. But don't forget all you've learned about straight self-insurance of risk. If and when another capacity crunch hits the underwriters, cash-flow insurance products are likely to shrivel up and drop from sight.

Not everyone agrees with this assessment, but there are enough experts who do think risk managers should take heed and be prepared for less attractive funding options from insurers in a less competitive market.


McIntyre

Right now more risk managers are self-funding corporate risks under an array of cash-flow insurance products than there are risk managers running straight, in-house self-insurance plans, experts agree.

Joseph Smetana, president of AIG Risk Management, which specializes in cash-flow insurance products and working with captive insurers, estimates 40% of corporate risks are self-insured if one counts cash-flow plans with pure self-insurance and captives. This estimate is nearly double the 22% of self-funding in the "real commercial insurance market" recently pegged by Conning & Co. as 15% self-insurance and 7% captive funding (*BI*, Dec. 15).

Convenience and tax issues make cash-flow insurance products very attractive when they are available. Under most cash-flow plans, the insurer provides the services attending an insurance policy, but the policyholder is paying only for its losses and agreed-to charges for services and insurer expenses. And the losses are paid for as they develop, offering, as the name implies, cash-flow advantages. Excess or stop-loss insurance can be part of the deal.

Despite concern to the contrary, cash-flow insurance products are viewed as offering tax advantages that normal self-insurance doesn't. Most corporations are taking tax deductions for the cost of a cash-flow insurance product as though it were conventional insurance.

Without definitive rulings otherwise from the Internal Revenue Service, these cash-flow plans have an edge over self-insurance, which clearly allows tax deductions only as losses are paid.

Paid-loss retros are the most popular type of cash-flow plan, and some experts fear the most vulnerable to extinction in a tight insurance market. Insurers make more profit off a conventional retro that offers fewer cash-flow advantages to buyers. When insurers are in a position to decide where to allocate surplus, they most surely will allocate to products that offer the most profit.

"I'm banking on that to happen," says Mr. Smetana at AIG, who is up against heavy competition from traditional insurers willing to provide innovative cash-flow plans that AIGRM pioneered.

"We had our field day in '75-'76," he says, recalling when AIGRM was among the few insurers to offer cash-flow plans in the tight insurance market.

"They had a field day because companies were forced into self-insurance," counters John Olsen, senior vp at Fred S. James & Co. He disagrees cash-flow products are the natural casualty of a capacity crunch.

"There's no problem for cash-flow plans in a tightening market because there is minimal transfer of risk. Only to the extent cash-flow plans impair surplus will there be an effect, and this will be among smaller insurance companies with major accounts."

Joseph Fahys, senior vp of Marsh & McLennan Inc., predicts a "second wave" of capacity is lying in wait among captives and new insurers that will be willing to write cash-flow insurance programs when the traditional markets turn stodgy.

Joe Destein, president of Risk Sciences Group in Mill Valley, Calif., contends insurers will keep selling cash-flow plans in a tight market because they know they will never push major clients back into conventional insurance products.

To stop selling cash-flow plans would be to push companies into pure self-insurance or another burst of captive growth, he says.

Exactly.

Companies plug claims operation into own systems

By CAROL BLITZER

Before shopping for your own computerized claims administration, get a clear idea of the information you want regularly provided, then see what equipment you already have that could do some of the job.

You may find you can develop or purchase programs for the computers you have now.

You may choose to invest in your own computer, perhaps a mini version. Or you may be satisfied buying a system that has terminals only and links with hardware elsewhere.

Costs vary with the complexity of needs. Motorola Inc. in Schaumburg, Ill., is setting up a $500,000 system that will tie in with its existing computers.

"We're on IBM and what we had to do was convert the system for IMS, a method of computer processing," explained Don Jennings, benefit planning manager.

Motorola receives more than a million pieces of insurance-related mail per year and produces about 180,000 benefit drafts each year for its more than 40,000 domestic employees and their dependents. After evaluating manual claims processing, Motorola found "it just wasn't feasible to continue to provide service to our people," Mr. Jennings said.

Motorola has self-administered health benefits for a number of years under a cost-plus contract with Washington National Insurance Co. Motorola processed its claims manually in-house with support from Washington National.

Working with Washington National, Motorola chose Automated Health Systems to fulfill its programming needs. The AHS system was modified to be compatible with Motorola's computer sytems and AHS trained Motorola employees for three months on how to use the system.

"We had the capability. We had the hardware. We had the ability and the manual systems expertise within our own company. It would have taken considerable time to develop system software in-house; it was more economical to identify an existing system that could do the job," Mr. Jennings said.

Motorola is installing its system in phases, initially in the Chicago office. Washington National will continue to process dental claims. Because the system is not yet running, operating costs are unknown, he says.

Ed Mohr, president of AHS, adds that his software doesn't have to be rewritten for each company.

"We can make the system work for almost anyone. We don't have to reinvent the wheel," he added. A firm could use a $100,000 minicomputer instead of the huge machinery that requires an environmentally controlled room.

Loma Linda University in Loma Linda, Calif., worked for three years to develop its own claims administration software to line up with the IBM 370-15 already in its medical center.

The special program is not available on the market today, says Stanton Parker, director of risk management. The key to his system is an integration of workers compensation, disability and unemployment records on one screen.

"We can pull out claims history by employee, by department or by specific injury" for risk analysis, Mr. Parker explained.

The system, for example, turned up a large number of needle puncture wounds and it was discovered that employees were using the wrong technique. Information is fed in by claim number, employee number and Social Security number, he explains.

Mr. Parker's department serves

Continued on next page

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Firms handle claims on in-house computer

Continued from previous page
7,000 employees and their dependents in addition to 5,500 students who have health insurance. It does not process medical center employee health claims.

The system costs $50,000 to start up and monthly operating costs are still unknown. The system has been working for about six months, but is not in full use yet. Loma Linda is adding data to provide a three-year history on file.

Mr. Parker says the advantages of doing his own claims administration include timeliness of claims payments, integrating benefits with sick leave programs and making certain the employee is paid out of the proper benefit account.

Loma Linda tends to have a much better rapport with employees, who are less likely to file an appeals board action against their employer than against an insurer, he says.

One drawback to the in-house system is that the employer tends to become more personally involved, Mr. Parker says, but that can also be a plus. "We have more empathy, but we can apply corrective measures more personally," he added.

"We can make sure all benefits are applied on a consistent and nonduplicated basis," whether it's a job-related injury, off-the-job injury or unemployment claim Loma Linda can help rehabilitate.

"We can manage a person's benefit program much more effectively," he said.

The Loma Linda system already has four programs in it and can supply reports for OSHA and state disability boards. "We're still writing reports. We'll be finding all kinds of uses for it in the future,"

'We think there's substantial money to be saved.'

Mr. Parker noted.

AMFAC Inc., a Honolulu-based conglomerate with interests in food processing and retailing, decided against using its own existing computer system. Instead, it chose Corporate Systems in 1977 and set up terminals to link with the Amarillo, Tex., firm's computer.

Start-up costs were about $7,500 and monthly operating costs run about $5,000. AMFAC employs 27,000 people and handles about 6,000 claims per year.

The main impetus for computer claims processing was for a better handle on safety management. AMFAC has seven major groups, with about 25 divisions and multiple locations (40 in food processing alone). Using computerized claims processing, AMFAC is able to find out what's happening from the loss records and where the claims are occurring.

"It makes people in branches more responsive to controlling losses. It permits visibility, which is the first step," explained Ralph F. Perry Jr., assistant vp and director of risk management. "The difficult part is getting accountability; that's the next step."

"I don't think we could do it manually and handle the input and keep people informed about how claims are trending," Mr. Perry pointed out. Now his department can supply quarterly reports rather than annuals.

"Controllers don't want surprises," he added.

The only drawback he sees is that the system needs constant surveillance. "We have to keep oiling it, reconciling numbers. We have to ask, did the computer accept the information? Did the numbers look right?" Mr. Perry said.

AMFAC had to add personnel to handle the keypunching and had to train people to do reports, "but the volume increased substantially. We didn't have anyone doing statistical recordkeeping before," he added.

"We think there's a substantial amount of money to be saved." ■



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agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

Brokers versus agents:

GUN for medium

By DAVE GALANTI

CHICAGO—There's going to be a war, but unlike the battles fought by the gunfighters of the old West, this one isn't going to be fought with pistols. It will be fought with sales.

It's a fight that has been fought before, but with different stakes. Since the late 1960s, when most of the nation's largest brokers went public, they have been waging war for the big risks, either taking them away from the independent agent or buying them up through merger and acquisition.

In the 1980s, however, big brokers will begin to target more and more of their attacks on the previously de-emphasized small to medium-sized commercial risks.

To do so, they will not only be trying to keep the business they have obtained through acquisition, but also going head-to-head against some 40,000 independent agents who have traditionally called this business their bread and butter.

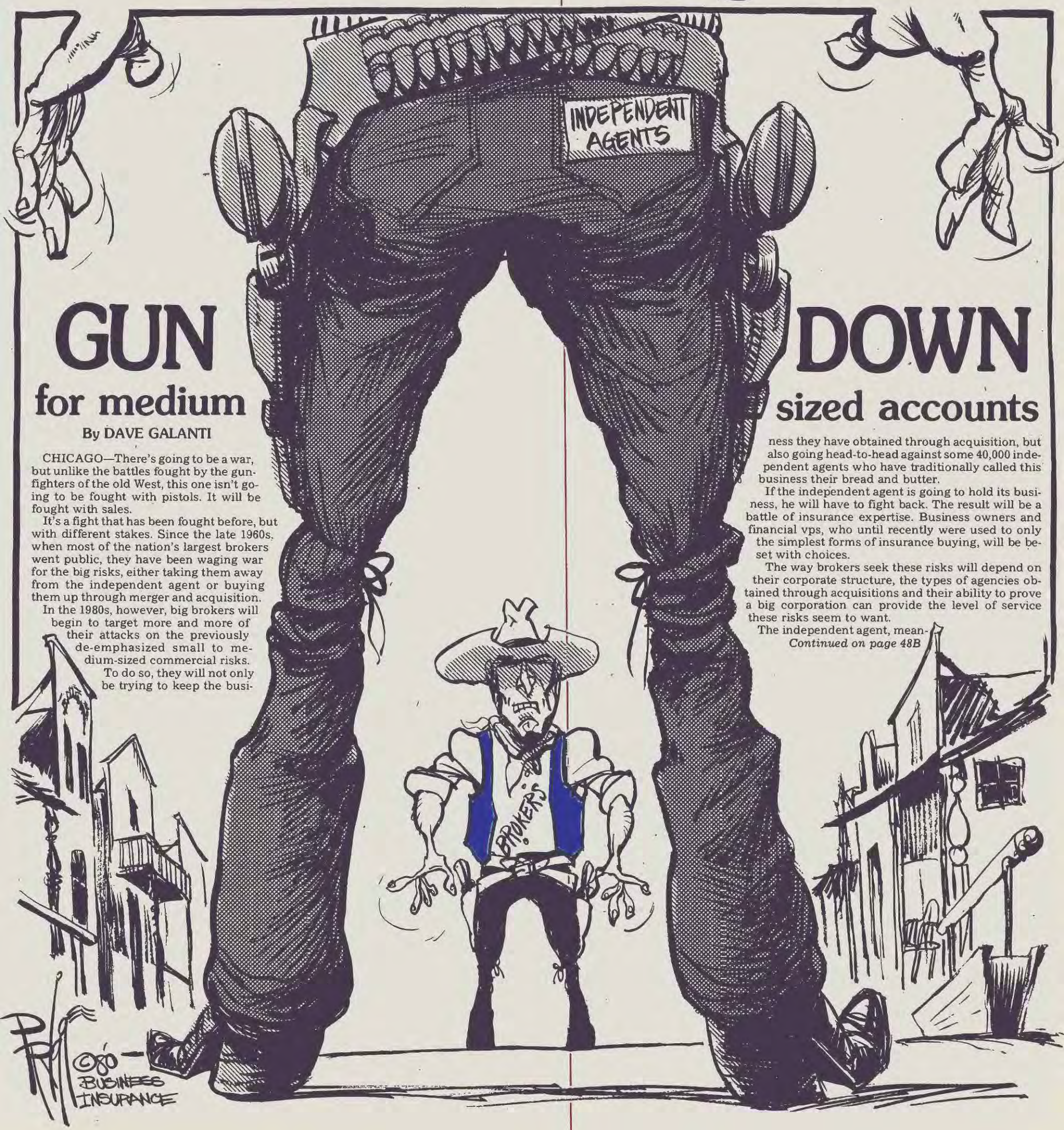
If the independent agent is going to hold its business, he will have to fight back. The result will be a battle of insurance expertise. Business owners and financial vps, who until recently were used to only the simplest forms of insurance buying, will be beset with choices.

The way brokers seek these risks will depend on their corporate structure, the types of agencies obtained through acquisitions and their ability to prove a big corporation can provide the level of service these risks seem to want.

The independent agent, mean-

Continued on page 48B

DOWN sized accounts



'This is a very good growth area for us' —M&M

Continued from previous page
while, has the advantage of long-standing relationships with his choice accounts. To this, many agents say , he will have to add all the information and knowledge he can gain from continuing education programs, his instincts and his past. The agent will have to prove he can perform like the big guys while still retaining those close personal ties.

"The small to medium-sized risk is a tremendous virgin area for growth among the big brokers," says Guy Migliaccio, senior vp and deputy manager for the commercial and personal lines accounts departments of Marsh & McLennan Inc.

"We don't have as much of this segment as we would like. When you look at the scope of these types of accounts throughout the United States, you can easily see that it is at least as big as the larger account sector."

M&M, he says, has specific plans to go after small to medium-sized business, tailoring its approach to the individual branch offices. Getting this business, Mr. Migliaccio believes, will be one of the keys to M&M's success in the 1980s.

"The way we go after this type of business will depend on what size office we have," he says. "In our larger offices, it is easier to dedicate a group of people to specifically attack these types of risks. In a smaller office, we may send a couple of producers after the biggies, then give an off-on switch to the rest to go after each type."

M&M estimates it currently has a 1% to 2% share of this type of business, Mr. Migliaccio says. This market share could easily double in five years, making it a bigger growth area for M&M than the larger accounts, he says.

"The opportunity is there for that because M&M has a large proportion of larger accounts already here," he says. "Our competition on larger accounts is the national brokers, and that can be tough business to move. We think we can double this type of business over the next five years. It's hard for me to think of doubling our larger lines in five years, although some here may disagree with me."

The key to going after these accounts will be to target certain types of risks for its producers.

"We think we can handle some industries that have a smaller premium base but still need complicated insurance packages," Mr. Migliaccio says.

"For instance, some industries have had to buy a range of policies to cover their needs. Just as in larger accounts, this results in overlaps, different expirations, etc. Our job should be to design a product to do that. We need to determine mandatory coverages and write it that way, then go to an interested insurer.

"Along that line, M&M has done some basic research on several industries and developed various programs," but they are not limited to associations, he adds.

"We do that as well, but what we really need to aim ourselves at is to make our people sensitive to the needs of certain industries—how that business works. That is the best way to serve these risks."

Mr. Migliaccio says M&M is on the verge of announcing several new programs to win the small to medium-sized risks. At Alexander & Alexander, however, the theory is somewhat different. There, officials say the firm's acquisition pattern already has made it an expert in this area.

"We already have a very positive attitude toward this type of business," says senior vp George B. Clark, who is also director of national production. "We made a lot of acquistions where this business was their lifeblood. We find that it is very important to keep emphasizing this type of business."

A&A, too, varies its plans according to the office size. Still, it is stressed to A&A producers that they should not forget where they came from.

"The aggresssive producer naturally goes after the big accounts," Mr. Clark says. "And a producer who joins an alphabet house suddenly may have the ability to go after, say, the top five accounts in town that he might not have been able to touch before.

"But I have seen a lot of producers fail because they ignored the medium-sized risks. The best go after big accounts, but balance it out with the small.

"And we must go after this business to grow," he adds. "We have to. The big accounts are already handled by brokers."

One of the questions asked by agents and brokers alike is not so much whether the big brokers will solicit this type of of business, but how far down the premium ladder they will go. Mr. Clark says that will vary.

This same question also is being asked at Rollins Burdick Hunter. RBH has a reputation of having a

Continued on page 48H

Are medium risks the battlefield of the 80s?



Brokers won't top medium turf yet, say independents

By DAVE GALANTI

CHICAGO—The battle between the national brokers and independent agents for small to medium-sized commercial risks may come down to who wins the war of words.

Agents will say brokers are too large, with too many personnel turnovers. The smaller account will get lost in the flow.

Brokers will argue the agent may be too small, or too behind the times, to properly service an account. The agent cannot provide the risk management tools available from the big brokers, they will say.

Finally, although both sides will preach the gospel of up-to-date knowledge and insurance insight, each will say it is better adapted to bring these services down to the small-to-medium premium level.

Independent agents say these arguments are now being used only for higher premium risks. Most do not see strong organized efforts from the nationals for their bread-and-butter risks.

"I sense that they're getting down off their high horses and infiltrating down the premium scale, although I'm not sure I'm actually seeing it yet," says Wesley Schoelzel, president of Schoelzel & Associates in Denver.

"I question whether brokers are compatible with that size business," he adds. "I wonder whether it will keep their interest long enough, and I'm not so sure that smaller buyers will be that taken by bigger brokers.

"I feel I have a lot going for me here. Underwriting authority programs are a big help. So is my relationship with my markets here, which I think is better than the nationals can boast."

Jack Shellabarger, partner at Barney & Barney in San Diego, Calif., says he can see the trend coming, however.

"Here in San Diego, the national brokers until recently have not made the inroads they have made elsewhere," Mr. Shellabarger says. "This is changing—most of the brokers are here now. The brokers are also pushing harder and we're seeing the premium level they are interested in dropping. We're running into them more and more."

Like Mr. Schoelzel, Mr. Shellabarger says he's confident he can compete, however.

"We've been here since 1909 and we have a toehold here that's hard to beat," he says. "Not everybody buys insurance on price, size or the impressiveness of national clients. Some, thank goodness, buy on referrals and good personal service and all that good stuff.

"Besides, I believe that there is a cutoff below which brokers won't want to work too hard," he adds. "That level may be $25,000 in annual premium, maybe $10,000. At present, I think that level is higher than that.

"But I do have friends that are worried," Mr. Shellabarger adds. "Marsh & McLennan recently opened an office in San Bernardino that automatically puts them in the $5,000 to $10,000 annual premium level. They are the first broker in there. That's a good indication that the national brokers will work themselves down. For now, however, I think they don't have the bodies yet to do that in San Diego."

Mr. Shellabarger says he's planning for the future by attending seminars and keeping up with insurance trends so he has the same knowledge as the national brokers. He was able to retain a recent renewal because he was able to learn about a new California workers compensation cash-flow system, he says.

Marx-Lewis-Ruth Insurance Services Inc. in San Jose, Calif., has a different problem. An account they had handled since the business began in a garage had grown to the point where the nationals were beginning to be interested. To help it compete, Marx-Lewis-Ruth turned to a franchise organization for help.

"By using the group, we were able to get a better selection of backup services than a national broker could supply," says Jeff Lewis, marketing director. "The problem for us was that the firm was going international, and we had to find ways to serve them.

"It's a large account for us, about 8% of our commissions," he says. "But we had been able to handle it well from the beginning. Everything was fine as long as the operation was domestic. When they went multinational, we knew the national brokers would be after it. We had to show our client that we could work a foreign program.

"With our franchise group's connections in Europe, we were able to do just that. We went to Europe to get a general survey of what was going on, and the franchise group set up the brokers we needed there," he says. ■

Smaller is better: broker

NEW YORK—Going after small to medium-sized risks isn't boring if you work for a national alphabet broker.

So says Marsh & McLennan's Brian O'Rourke, who gave up the big accounts years ago to concentrate on the smaller risks. The producer is now head of sales for M&M's metropolitan division in New York.

"I certainly don't feel like a second-class citizen here," Mr. O'Rourke says. "I used to go after the big accounts and there is nothing so boring as working one account all the time. In this department, I feel I am in a place where I can really provide knowledge to our clients. And I have learned more here about insurance than I could ever have predicted."

Selling smaller accounts in a large brokerage can be difficult, but not for the financial reasons many might expect, he adds. It's tough to be a generalist who knows all areas of insurance well.

"I find that a lot of producers, especially young ones, really don't know multiple lines coverages," he says.

"For this type of department, we look for a person who has multiline capabilities and wants to stay here. That can be hard to find."

A large-lines producer moving down the premium ladder must first learn to deal with



"I'm not second class," says M&M's Brian O'Rourke.

business owners who also purchase insurance.

"In most cases, in this size risk you're dealing with a top executive—not an intermediary like on the bigger accounts," Mr. O'Rourke says. "And more and more, these guys want to know what insurance is all about, if only because it has become so expensive for them.

"These business owners want to know about soft markets, what that means and when they are going to turn," he adds. "At the same time, they don't have time to wait for you to go out and get an answer. You have to have enough background so you can answer their questions right then and there."

If a producer can handle that, the next toughest trick is getting in the front door.

"It can be especially hard to get in the door cold on this type of business," he says. "Sometimes you're lucky, other times you spin your wheels. Some people think you're out to sell them life insurance and shy away. But I don't think it is as difficult to do as a few years ago, maybe because more and more brokers are getting into this type of business."

Once you do get in the door, selling small commercial insurance gets easier, he says.

"Many times we start by picking an area we want to concentrate in, contractors, for example. Then we go out and try to talk to them. Someone from this office will get their present insurance information and then prepare a loose-leaf binder that shows them what they have. This leaves a good impression.

"Many times we're trying to take business away from an independent agent," he adds. "And the toughest thing in the world is to overcome the reluctance of a businessman to move his insurance from a friend or relative. But today, friends become less important. And believe me, we've seen some pretty messed up insurance programs out there."



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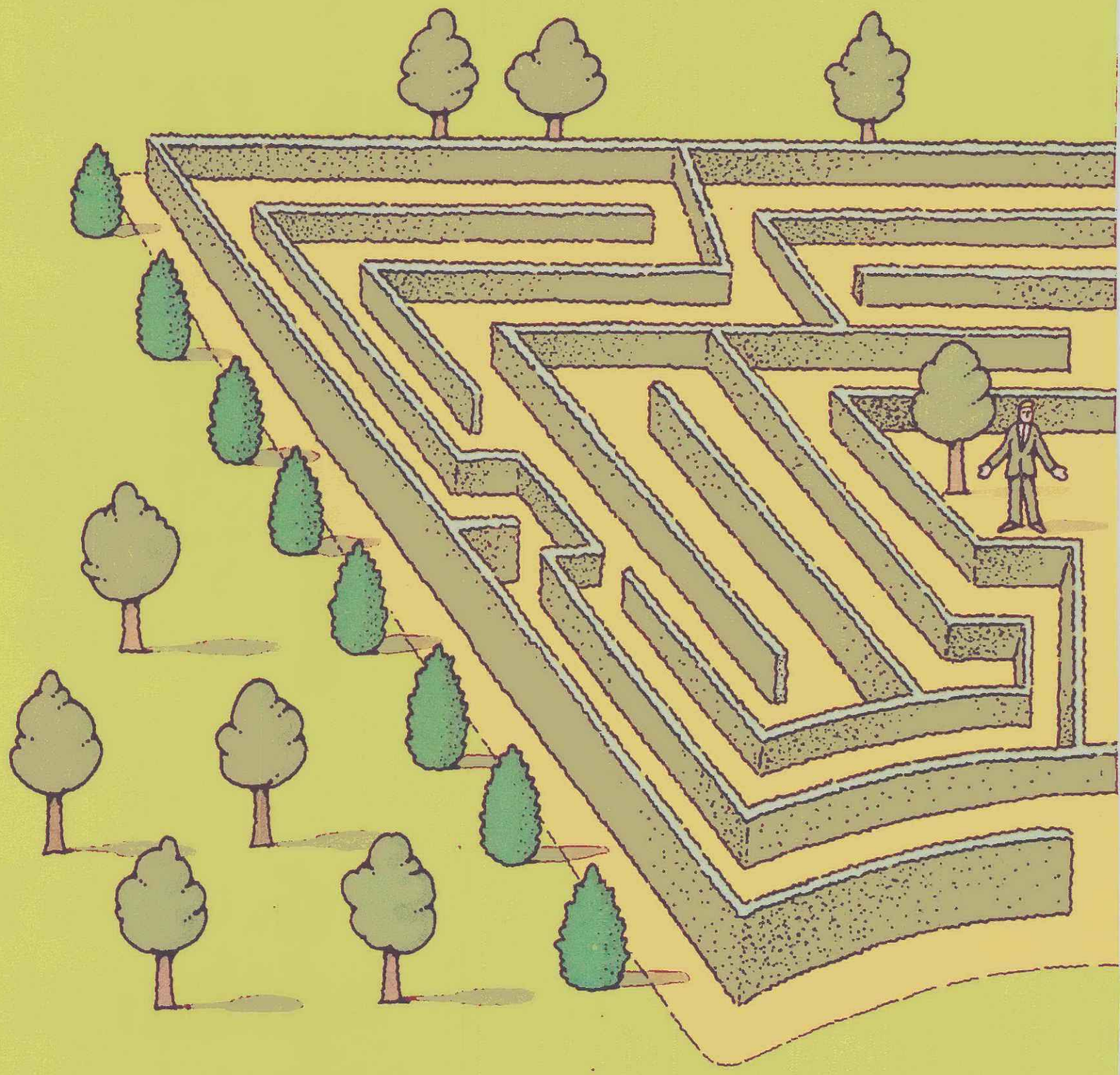
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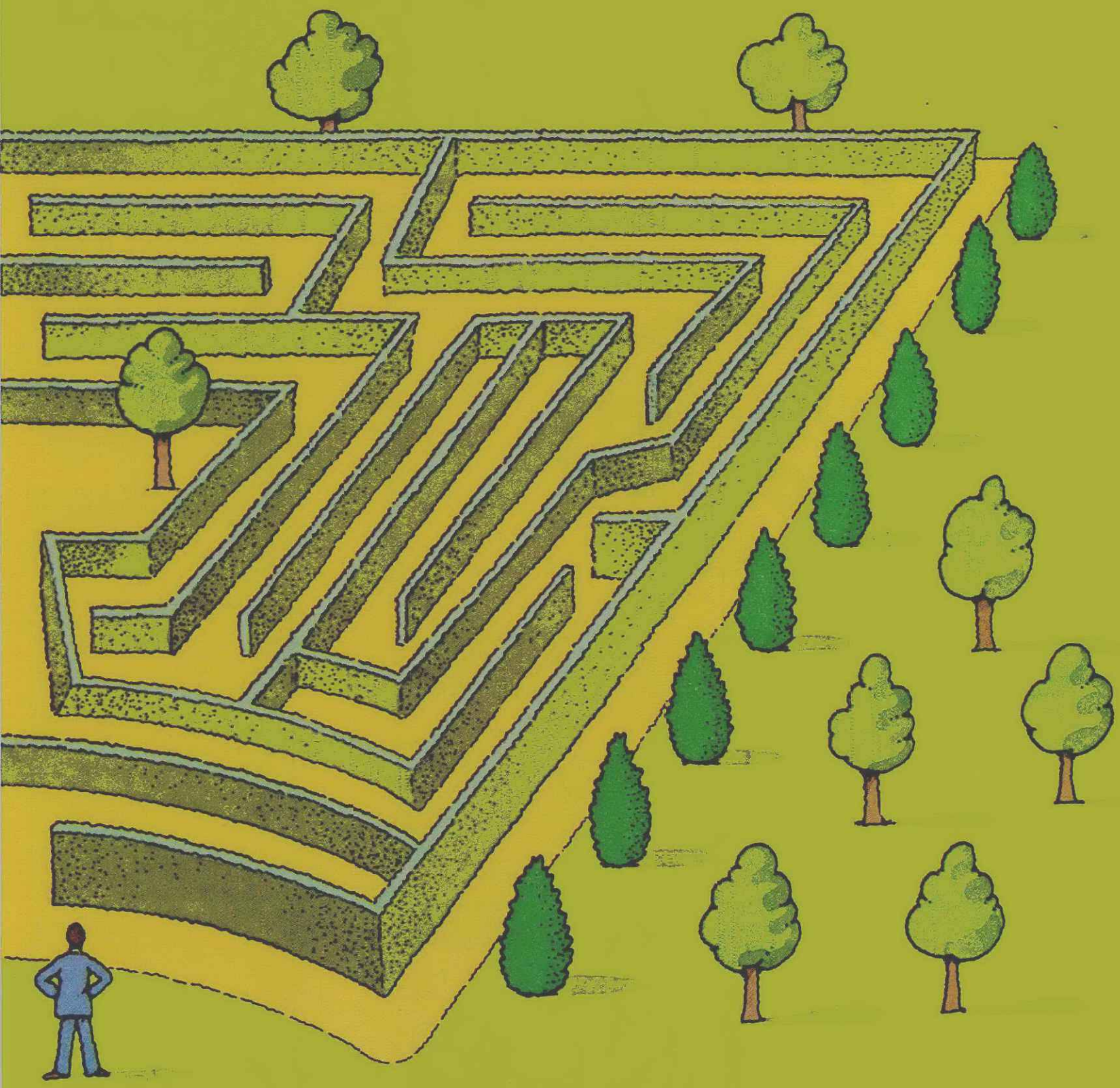
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Agents: use edge to beat nationals for medium risks

By A. RUSSELL CHANEY

A/BT perspective

Many independent agents are already No. 1 in their communities. That's right, No. 1. Their challenge isn't to overcome the advantages of a big national or regional brokerage; it's simply to avoid "frittering away" their natural competitive edge. When independent agents understand this basic premise, they will have the key to successful competition in the 1980s.

For agents, here's some ways to keep your medium sized risks. For brokers, here's what to watch for.

When the independent goes head-to-head with an alphabet house for a medium-sized commercial account, one of his most formidable advantages is his strong peer relationship with the buyer. The insurance buyer at that account is likely to be an owner—and research shows he strongly wants to do business with another entrepreneur, the independent agent or broker. If the independent can give him the needed expertise, he'll be a very receptive buyer.

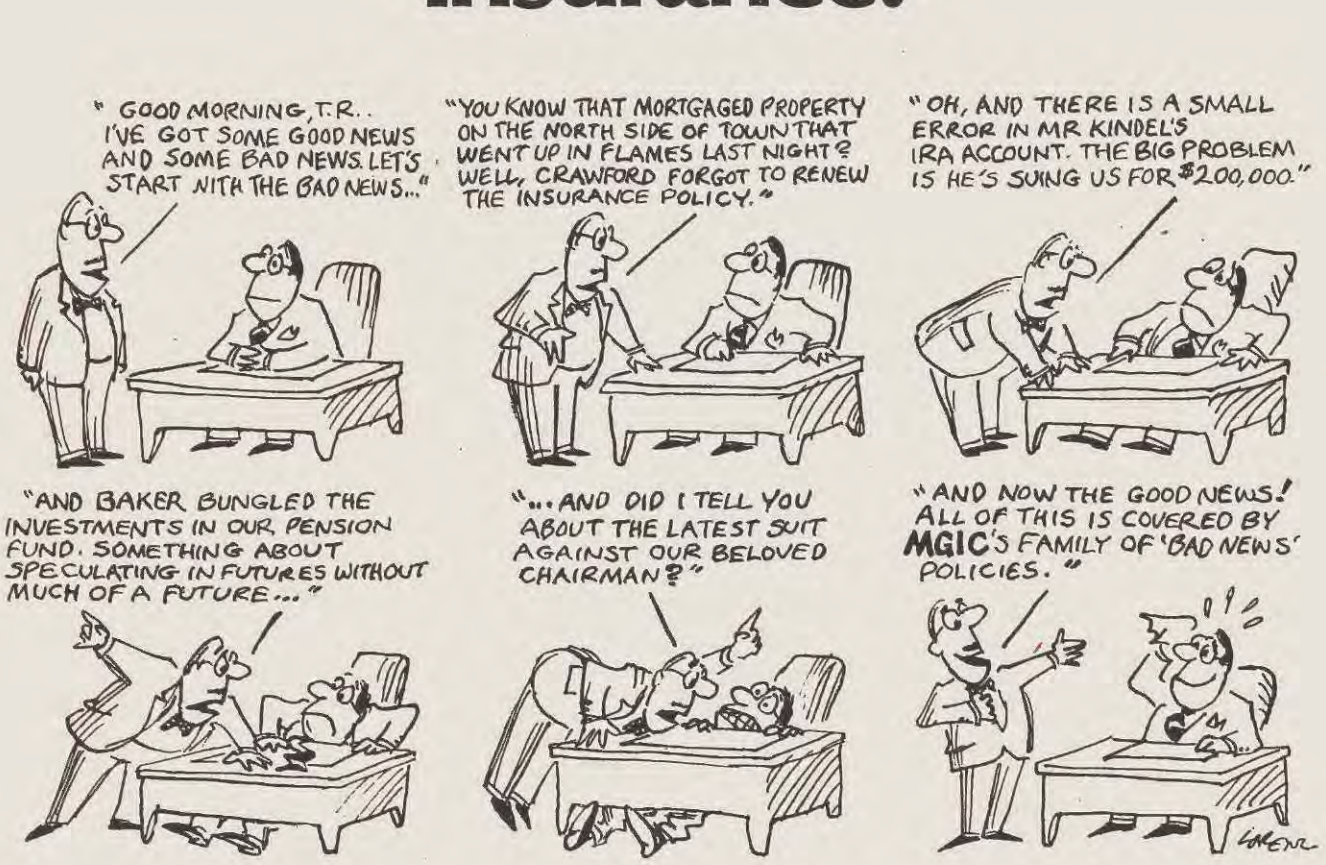
How do you turn that natural competitive edge to advantage? Some independents are better prepared than others, but there are eight areas that are absolutely critical in determining how well an agency will fare in the struggle for Main Street accounts:

- **Technical proficiency with an emphasis on risk analysis and management.** Agents need up-to-the-minute status reports on which markets are offering cash-flow plans to use in talking with chief financial officers.
- **The "survival instinct"—the ability to analyze and mount a planned response to competition.** ISU uses a competition analyzer, a simple organizational tool that identifies how the prospective client compares the independent agent and his competition on key buying factors. The analysis leads to specific actions designed to capitalize on strengths and reduce or eliminate weaknesses.
- **Face-to-face selling skills.** Personal selling is critical to success in the current marketplace. Agents need account development seminars that discuss face-to-face techniques applicable to the commercial insurance-buying situation.

Agents also need account strategy planning tools that can make it easy to utilize effective professional techniques. These should be designed to bring a sense of organization and discipline to the prospecting and selling function.

- **A new business development model.** Everyone should have a plan that provides a step-by-step process for winning and holding commercial accounts. This should serve as a guideline to direct the activities of the entire agency—specifically producers—to an efficient, profit-producing approach. No independent agent can afford to let opportunities slip away in this intensely competitive marketplace.
- **Respect and credibility with markets.** To get that respect, there has to be frequent and effective two-way communication between insurers and agent/brokers. If the independent demonstrates a high level of technical know-how and has a sound knowledge of available markets, he'll get not only respect, but more responsive treatment from insurers.
- **Increased professional self-image.** The biggest barrier to knocking on the door of a new account may be the agent/broker's own low self-image. He's reluctant to try for an account where his abilities are unknown and where a great deal of work must go into establishing his credibility. Agents can find the answer in advertising,

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capabilities brochures, direct mail and case studies. They also may want to seek highly sophisticated technical backup. The high visibility promotes a strong technical proficiency. Agents are then confident enough to go after any profitable account available.

• **An increased level of knowledge about the client's business.** Research has shown an overriding desire by commercial insurance consumers to have their agent/brokers know the client's business. It's near the top of the list of factors from which they choose an insurance supplier. If specialized knowledge is required, agents should provide it.

• **Organization and human resources.** It's not enough for the independent agent to have all the resources to know and execute his own business well. Nor is it enough for him to be thoroughly aware of the business operations of all his clients. He also must be able to organize and manage his own staff to gain optimum sales and service of accounts. For many agents, these demands are practically overwhelming, in time pressures alone. Agents may want to seek the advice of experts on organizational development and human resources. Training, recruiting and motivational techniques will help them mold a winning team.

These eight areas represent a tall order for the independent agent—and may provide a clue as to why the independent agency force is losing market share to the bigger national concerns.

The forces that exist in today's economic environment certainly will prove Darwin's law. Survival of the fittest will depend on each independent agent's ability to muster the tools that maximize his competitive strengths and eliminate or diminish his weaknesses. Only in this way can the independent agent truly manage a business, as opposed to simply rolling with the punches.

•

A. Russell Chaney is vp of ISU Cos. Inc., a San Francisco-based franchise organization for independent agents.



Agents must avoid "frittering away" business, says A. Russell Chaney of ISU Cos.

A/BT goes monthly in 1981

CHICAGO—With this issue, Agent/Broker Topics will become a monthly publication, appearing in *Business Insurance* the first Monday of each month.

Agent/Broker Topics is a special demographic section mailed only to agent/broker subscribers of *Business Insurance*. Previously, Agent/Broker Topics had been published nine times a year.

The editorial design of the section remains the same—an in-depth article each issue about insurance markets and agency/brokerage problems plus news about the nation's 40,000 independent agencies and brokerages.

Topics in 1981 will include regional insurance market stories on Oklahoma, Atlanta, Hartford and Cincinnati. Special articles also will focus on computers, agency perpetuation and personal lines coverages.

The February section will spotlight changes at Reed Stenhouse Cos. as the broker gears up for U.S. revenues.

Along with this expanded frequency, associate editor Dave Galanti becomes Agent/Broker Topics editor. Mr. Galanti will continue to report A/BT news and manage editorial creation of the section, including editing, writing and photography. ■

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Brokers

Continued from page 48B

large book of business relative to its size.

"But we also see the need to look below that national level," says vp John Stimpson. "What we're doing is to identify in each city those firms that may not yet be nationally known, but are important to that office.

"Then we put those clients on notice that we want them and are giving thought as to how we can adapt the risk management services we traditionally provide to large clients to them. Many smaller firms have particular problems that we can help solve."

One criticism of national brokers is that there is a high turnover of account executives assigned to small and medium-sized risks. Brokers often use these accounts as training grounds for the young. This is not true at RBH, Mr. Stimpson contends.

"We don't use smaller accounts as a training ground," he says. "We turn business over to people expert in that area of risk, no matter what the premium size. We want all our accounts to go to people who know what they're doing."

Like Marsh & McLennan, RBH sees the need to target its efforts.

"Here in Chicago, we're asking our producers to become more aware that this type of business exists. We don't want our producers chasing only one or two businesses over the next five years. We'd rather have them go after 10 or 15 that we have a better chance of getting," Mr. Stimpson says.

"Of course, there are more companies out there than we can possibly handle. So we focus on the companies that have problems we have solved before on larger risks, such as railroads.

"As big railroads shed off unprofitable branch lines, for example, many 'short line' railroads are being formed. Those are smaller risks, but they have the same exposures," Mr. Stimpson says.

However, the theory that the national brokers will have to comb the streets for new business may not be correct, says John McCaffery, executive vp of Frank B. Hall.

"There are growth areas for national brokers at the upper levels," he says. "Newly created products and industries give us a lot of growth. Growth also comes out of regulations like ERISA.

"And as smaller businesses get larger, all of a sudden someone buys them up and we get the business. Even if they don't get bought up, they eventually hire a risk manager and that risk manager takes a look at us."

The theory for big brokers could be, then, to watch developing areas and hit them on the way up. Expertise in a quickly developing industry could give an alert broker a year to compile a large market share before other brokers caught on, Mr. McCaffrey speculates.

"You have to consider the economics of the situation," he says. "I'd be surprised if many alphabet houses are sitting down in their corporate boardrooms, spending a lot of time figuring how to attack this business.

"At the same time, we all started with small risks sometime in our careers. I don't think we will ever forget them."

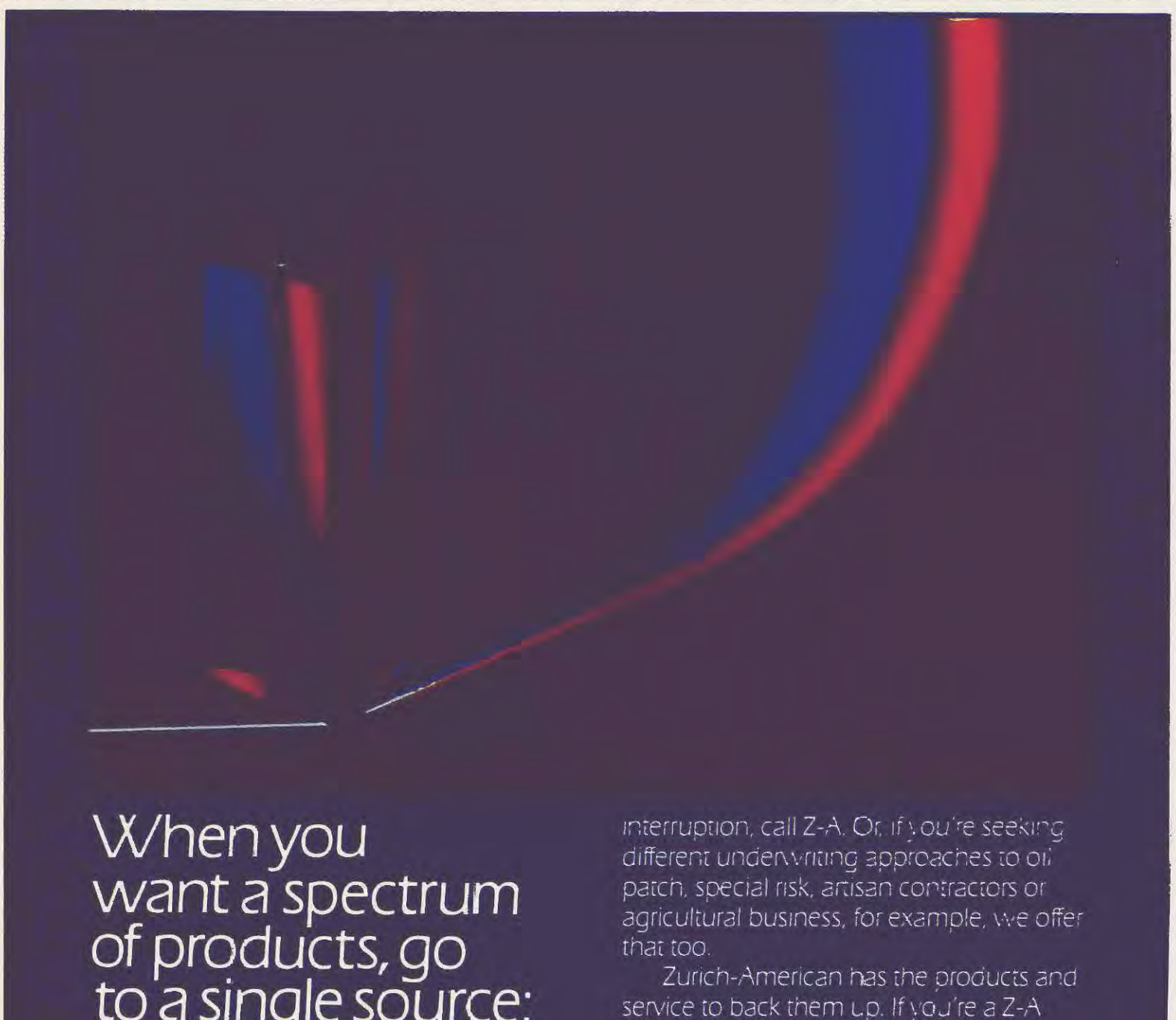
Mr. McCaffrey's statement seems to be borne out by the beliefs of Sam Aiena, senior vp of Johnson & Higgins in Denver.

"We're handling these accounts right now," he says. "There is no need for New York to say to me to go after it. We're going after whatever business exists here in Denver. The best way for us to get business is to portray ourselves as a full-fledged broker who can serve all risks well."

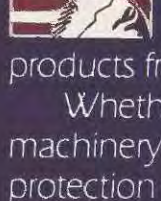
At least one broker thinks those corporate boardroom sessions must take place. M&M's Guy Migliaccio says brokers must provide career paths for employees that overcome compensation and status problems that can make the small-business expert a second-class citizen with the brokerage.

"We have to overcome those problems," Mr. Migliaccio says. "We also have to provide more rounded training to these people, because when they go after the smaller risk they will have to handle all lines of insurance. They also have to be taught to be conversant with lay people, because buyers on this level are looking for simple, concise answers.

"I'm sure the other brokers are having the same problems," he adds. "We have to look at pricing in these areas, products and look to eliminate redundancy. And we just have to organize better internally to go after these risks." ■



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Intricacy makes work comp tricky to self-insure

By EILEEN NORRIS

What makes self-insuring workers compensation risks different than any other kind of self-funded program?

Complexity. Workers compensation involves working with a plethora of people at all levels—employees, physicians and attorneys. It also requires following the varying state mandates.

Industry sources consider self-insuring workers compensation a form of "social" insurance.

What many employers forget is that there are many services once performed by the insurer that must be taken on with new means in a self-insured program, says Dave Evert, manager of disability management at Control Data Corp. in Minneapolis.

"It's critical to understand that self-insuring workers compensation requires a much higher degree of loss prevention," Mr. Evert said. "If you want to do a good job, management has to be committed to a periodic audit of safety and claims services."

"Is self-insuring worth the hassle, to provide the state with a lot of additional paperwork?" Mr. Evert asked. "If an employer has a lean staff, there's no way he should self-insure. It's no free lunch."

three times its annual premium.

Bonds and excess insurance also are required in Florida, which has allowed self-insurance since 1956.

In Texas, firms can't legally self-insure workers compensation. However, plans are available that resemble self-insurance but stay within the letter of the law.

For all the differences, though, sources agree the key to a successful program is having competent people on staff who know the various laws. It's also important to

Continued on next page



Work comp can be very sensitive, says Robert Young.

Working with so many aspects of society demands extra staffing, says Robert Young, senior vp of the self-insurance services division at Fred S. James & Co. in Chicago.

"You deal with the courts, the medical community and others," he said. "It can be sensitive and very political at times."

Complicating self-funded workers compensation are the peculiarities of state laws. All states that allow self-insurance require prior approval and some kind of financial guarantee from the employer.

Some states require surety bonds, others a letter of credit and still others an annual report.

In Florida, for example, a company has to have a minimum $150,000 annual workers compensation premium before it can self-

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Work comp calculations complicate self-funding

Continued from previous page
have claims adjusters who have recent experience in the particular state, says Donald J. Krutek, vp of risk management sales for Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

Three large employers recently began self-insuring workers compensation risks and report varying degrees of success:

- The University of California, which has nine campuses and is based in Berkeley, switched to self-insurance last April. Risk manager Woodrow Anderson says he believes the change will be lucrative, although it may be too early to really tell.

The university, which has 113,000 employees, spent $21.8 million on workers compensation in 1979, Mr. Anderson reports. He expects that amount will drop drastically once loss experience improves.

- The Illinois Hospital Assn. in Oakbrook, which has 276 member hospitals, has seen about 20 of them self-fund workers compensation risks, says vp Phillip J. Haas.

"The bulk of those members self-insured in 1977 or 1978," Mr. Haas said.

"Workers compensation premiums were never high enough before that time to self-insure," Mr. Haas said. The higher rates, the availability and the services the insurer provided made the association decide to look at alternative methods.

Mr. Haas said he expects many more of the association's members to consider self-insuring workers compensation before long.

- The Regional Transportation District of Colorado has been self-insured since last March 1. The RTD, which has 1,850 employees, had been insured with the state compensation insurance fund, but found it wasn't getting adequate attention on claims.

"We decided we could get better results by doing it ourselves," said risk manager Leroy Loseke. The RTD had 400 workers compensation claims in 1979, Mr. Loseke said.

The claims may be up slightly this year, Mr. Loseke says, but he believes the number of man-hours lost from time off work will be drastically down.

The bigger companies get the best results from self-insuring workers compensation, says James Paulding, managing vp of Alexis in Atlanta.

"Self-insurance is pretty clearly an attractive option for workers compensation," he said. "And it's one insurance that's not benefited by the soft market." ■

Excess comp plentiful

Excess workers compensation insurance is plentiful. Rates are down and competition is fierce, sources say.

"The market is such that companies can put together $20 million in excess coverage with no problem," said Manny Buzzell, president of self-insurance services at Corroon & Black in Nashville.

"It's rather pliable just about everywhere," added Dave Evert, manager of disability management for Control Data in Minneapolis. "If you don't like the rates in one place, you can go someplace else."


Evert

Not only are rates down and capacity expanding, but more insurers also are writing the risk, sources say.

"A lot write it, but not in big volume," said Robert Young, senior vp of the self-insurance services division at Fred S. James in Chicago. "A lot of companies come and go in workers compensation excess. The major players are always there, though."

The leading writers of excess insurance for workers compensation are:

- General Reinsurance Corp. in Greenwich, Conn.
- Safety Mutual Casualty Co. in St. Louis.
- INA of Philadelphia.
- Aetna Life & Casualty Insurance Co. in Hartford.
- Employers Reinsurance of Kansas City.
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Consider services in ASO contract

By CAROL BLITZER

SAN FRANCISCO—Knowing what you want and spelling out those specifications can narrow the field of contenders offering administrative services only contracts.

Recently, a steering committee made up of representatives from Levi Strauss & Co. here and the applied risk management division of its broker, Fred S. James & Co. Inc., invited 14 insurers selling claims contracts to bid on the Levi Strauss contract for self-insured workers compensation.

Eight firms offered written proposals and five were invited to do an additional oral presentation. The committee chose Scott Wetzel Services Inc., a subsidiary of The Home Insurance Co., explains Richard H. Soper, director of risk and insurance management.

The ASO contracts differed in their guarantee of in-depth service and links with Levi Strauss offices in the eight states where the manufacturer is self-insured, Mr. Soper says. There was a difference of 20% in cost.

"Cost is one of several primary concerns but not the primary concern," Mr. Soper stressed. Other considerations included service capability, aggressive investigation, prompt follow-up and loss control capabilities, he says.

Levi Strauss also judged other resources: rehabilitation services, medical treatment review, ability to recommend a qualified medical panel and qualified in-depth investigation.

"It's important to bear in mind the ultimate cost is expense of claims. Our desire is to acquire a service which will provide overall control and direction with regards to our claims program. Consequently our bottom-line expense will be less," Mr. Soper said.

Levi Strauss chose not to administer its own claims because of lack of flexibility, extra training required and the difficulty in remaining objective.

The structured quotations included:

- Bidding instructions.
- Information on equal employment opportunity.
- Resumes of key personnel.
- Summary of company history and description of activities (annual report if a public company).
- Schedule of major work and clients.
- Description of affirmative action program and policy of applicant.
- States where licensed as claims administrator (and breakdown of branch office locations).
- Number of management personnel, medical only claims examiners, casualty loss personnel (CSP or professional engineers), and support clerical personnel.
- Workers compensation claim load in each office per individual (medical only and indemnity claims).

Levi Strauss agreed to pay a flat amount plus additional incurred expenses, Mr. Soper says. The company does not repeat the bid process annually, but will negotiate the renewal contract on performance. ■

Firms stall comp tax deduction changes

By RHONDA L. RUNDLE

LOS ANGELES—Corporations that tax deduct reserves for self-funded workers compensation losses appear unruffled by a recent Internal Revenue Service ruling that prohibits the practice.

Fears of an IRS attack grow dim as the remaining days of the Carter presidency dwindle down to a precious few. The Reagan administration is generally expected to create a friendlier climate for corporate tax policy.

"I don't think companies are likely to revise their approach on the verge of this change in Washington," explained Sam Alcorn, senior vp of Bayly, Martin & Fay in Los Angeles. "People will wait and see what the Reagan administration will do."

The IRS seems to lack the appetite to take the issue to trial and fight it all the way to the Supreme Court, Mr. Alcorn says. That would be a logical step to resolve conflicting appellate court decisions and overturn the Crescent Wharf ruling.

Two 9th Circuit Court of Appeals rulings in 1975 and 1976, Crescent Wharf & Warehouse Co. vs. Commissioner and Wein Consolidated Airlines Inc. vs. Commissioner, established that an employer may tax deduct liabilities for certain workers compensation losses to be paid in the future.



Photo: Rhonda Rundle

Companies aren't likely to change, says Mr. Alcorn.

In Revenue Ruling 80-191, issued in July, the IRS announced it will not follow those decisions (*BI*, Oct. 13). Corporations can only deduct amounts payable in the taxable year, not future years, the IRS contends.

Several risk managers, consultants and brokers told *Business Insurance* they were not impressed by the IRS ruling, however. They do not think it will change self-funded corporations' attitudes toward tax deductions for workers compensation reserves.

"Tax aggressive companies willing to go to the mat with the IRS will not roll over in the face of this ruling," said consultant Felix Kloman, president of Risk Planning Group in Darien, Conn. "Tax passive companies do not tax deduct for these reserves anyway," he added.

He estimates about 80% of his clients know about the revenue ruling. To his knowledge, none is contemplating a change in tax policy based on the ruling.

Another consultant said he believes the IRS is trying to enact its own legislation, hoping courts will follow its lead. The IRS is bound by Crescent Wharf and Wein in the 9th Circuit, which includes California, Arizona, Alaska, Hawaii, Montana, Washington, Oregon, Idaho and Nevada.

Jim Davis, president of the advanced risk management services division of Corroon & Black Corp., believes more companies would rethink their tax position if they were aware of the revenue ruling.

"The word has not gotten around very quickly," he said. "It is not getting the attention it merits."

At the American Management Assns. National Conference on Risk and Insurance Management this fall, Mr. Davis cautioned that corporations outside the 9th Circuit that continue to tax deduct reserves for incurred but unpaid losses are risking fraud and negligence charges. IRS policy is supported by 60 years of tax court decisions, he argues.

He knows of only one company, located on the East Coast, that has decided to stop deducting workers compensation reserves after discussing the matter with its tax attorneys. This was before the revenue ruling, he says.

Mr. Davis expects the IRS to challenge tax deductions for workers compensation reserves outside the 9th Circuit. "Their long-range goal is to pick a weak case in another jurisdiction and then force it all the way to the Supreme Court," he said.

Many companies tax deduct reserves for all lines of long-tail casualty exposure, including automobile, general comprehensive and product liability, Mr. Davis says.

"These corporations are really asking for it," he warned. "There is absolutely no basis in case law for such deductions." ■

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CREATIVE SOLUTIONS IN INSURANCE MANAGEMENT

Work comp pools grab mixed bag of risks

By STACY SHAPIRO

Mix a bank, a retail store and a steel manufacturer in a state with soaring workers compensation rates. Pour them into an association.

Add a self-insurance management team and excess insurers willing to take on the blend of diversified risks.

You've got a heterogeneous workers compensation self-insurance fund.

This formula is spreading across the nation as businesses watch these self-insurance pools save up to 59% in premiums. Already, multifaceted business associations in Florida, Alabama, Kentucky and Louisiana have set up self-insured workers compensation pools and groups in other states are investigating them.

The newest diversified workers compensation self-insurance fund could be in Virginia as early as January 1981. The plan for Virginia Retail Merchants Group Self-Insurance Assn. is in the state's insurance commissioner's office waiting for approval, says C.C. Dockery, president of Summit Consulting Inc., manager.

However, the fund will only cover the retail industry for now, Mr. Dockery says. Pooled are 45 accounts that bring in nearly $300,000 in starting premiums. They should grow to $1.25 million at the end of 1981, he says, with $2 million in aggregate and specific excess policies insured by INA.

Retailers also should see a 20% to 40% year-end dividend by joining the fund, he notes.

But while this new fund in Virginia will begin as a homogeneous pool there is precedent for it to open its doors to other industries.

The most recent self-insured workers compensation pool Mr. Dockery started was the Louisiana Retailers Assn. Self-Insurance Fund. The fund was originally designed exclusively for retailers in the state, and on July 1 it began operating with 41 retail members contributing $341,000 in premiums (*BI*, Aug. 25, 1980).

Less than six months later, the fund is taking in diverse risks, Mr. Dockery says.

"They even got a school board," he said. "The Louisiana trustees of the fund later decided to expand to retail goods and services—their suppliers," he said.

Mr. Dockery points out that there are advantages to opening up the fund to other industries.

The biggest advantage comes when rates skyrocket in one industry within the state, he says. If there is a rate problem among the roofers, for example, the fund would suffer across the board because it is narrowly based.

"But with a broad-based fund, the effect is negligible," he said, because it would only affect one or two members rather than the entire fund.

By setting up a heterogeneous fund, he said, "you're spreading the risk across many classes of risks. I find that to be an advantage."

The Associated Industries of Florida agreed with Mr. Dockery's idea of a diversified workers compensation fund. It opened for business in 1978.

"We were getting the shaft from insurers," said John L. Shebel, president of the 1,500-member association.

The workers compensation premium was high at that time and charges were made that businesses with good loss experience were being forced into the assigned risk pool and paying manual rates plus an 8% charge (*BI*, June 12, 1978).

Mr. Shebel called in Mr. Dockery to pool the membership of manufacturers, contractors, truckers, etc. "The businesses had faith in us, so they figured we could get them a good deal.

"In the first year of business we gave about a third of our policyholders (with no losses) a 15% discount and a 44% year-end dividend. That's a 59% savings," Mr. Shebel said.

The Associated Industries of Florida Self-Insurers Fund now has more than 1,000 members representing $16 million in annual premiums. Some of the smaller companies contribute only a few hundred dollars in premiums, Mr. Dockery says, but that's fine as long as they meet all the other underwriting criteria.

"We require that they have good loss ratios for the last three years, that the employer must have been in business for a minimum of two years and that the company com-

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Mr. Shebel is so pleased with the savings the fund is getting that he and the association are looking to expand it. "We're looking at all property/casualty coverage now."

The trouble with forming a diversified workers compensation self-insurance fund in states allowing them seems to be attitude.

"Diversified risks never bothered me, it bothered the insurance industry," said S. Rayburn Watkins, president of the Associated Industries of Kentucky, which formed a self-insured workers compensation fund in 1979.

"A good risk is a good risk."

The Associated Industries of Kentucky Selective Self-Insurance Fund needed to attract wary excess insurers and convince the state the fund was a good risk.

Thus, the fund began as a homogeneous group of manufacturers.

"Manufacturing was the base for the pool," said Jim McMasters, vp of Corroon & Black Management Inc., manager of the fund. "We established a good solid base, but we recognized the ultimate goal was a heterogeneous fund."

"I don't see any grounds for not having a group that was diversified," said Mr. Watkins, who asked C&B to manage the fund after studying self-funding for 2½ years. "If an insurance company can insure everyone down the pipe, then why can't we (pool) anyone?"

C&B brought together four or five of the association's manufacturers to start the workers compensation self-insurance fund. Each had to have a minimum premium of $25,000.

After six months, AIK opened the fund to any member of the association meeting underwriting and premium requirements, including "banks, trucking, large retailers, meatpackers and pretty much the gamut of industry," Mr. McMasters said.

With the new industry came a lowering of minimum premium to the $5,000 required today, he said.

This year the fund, worth $2 million in premium volume, will award a 10% discount plus 3% savings on premium taxes.

"The full allowable tax of premium in Kentucky is 8.91%. But in 1980, there's only a 5% charge. That savings and our 10% discount equal 13%," Mr. McMasters says.

AIK covers the first $250,000 retention with $4.75 million in specific excess insurance. The $750,000 is insured by Insco, a Bermuda-based insurer owned by Gulf Oil. Insurance Co. of North America insures the top layer.

Insco and INA also insure the fund for $2.5 million aggregate over 85% of the earned premium.■

Mixed self-funding grew from necessity

DIVERSIFIED self-funding actually sprang out of necessity rather than invention in some instances.

Although many associations insure only apples, sometimes they have a few oranges mixed in that contribute to the industry and its organizations, sources say.

That's how the first diversified workers compensation self-insurance fund started.

The Florida Construction Contracting Industry Self-Insurers Fund, begun in 1959, found its members weren't just contractors.

"In 1959, we began for the construction industry," said Gil Waters, president of Waters Insurance Management Co. in Sarasota, fund manager. "Little by little, however, the boundaries got gray.

"There's all kinds of diversity, even in the construction industry," he said.

As the administrator of FCCI, Mr. Waters began questioning where to draw the line for fund members. "What is the difference in a trucker going from one construction site to another, or going to two different points? So we insured truckers."

Early in 1978, FCCI changed its name to the Florida Construction Commerce & Industry Self-Insurers Fund to bring in all industry affiliated with construction.

Then it opened its doors to hotel/motel chains, restaurants, manufacturing and intrastate trucking lines.

"The underwriters don't require similar industry," Mr. Waters said of today's diversified workers compensation self-insurance fund.

"They want good loss histories, a minimum premium of $2,500, good financial background and a desire to participate in our loss-control program."

The pool has grown tremendously since it diversified, he said. Beginning in 1978, FCCI had a $5 million premium volume, but by the year's end it had grown to $12 million.

Two years later, it is $25 million strong with 2,000 members.

"The only business we stay away from is the low classification areas," Mr. Waters said, "because the rates are very low compared to their payrolls.

"With a premium of over $45,000, the initial savings is at least 15% advance discount," Mr. Waters said.

"During the year you have four or five loss-control visits. Then at the year's end, if you've had less than 15% loss experience, you get an additional 5% safety bonus.

"The fund runs like a gold watch," he said. It pays for $100,000 per occurrence with $10 million of excess insurance. The lead underwriter is the American International Group, with FCCI's captive taking a portion of the loss.

AIG also insures the fund against more than a $5 million aggregate excess loss followed by a $1 million guaranty fund on top of that insured by FCCI. "We run a very conservative operation," he said. ■

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Low rates may sway casualty self-insurers

By JOHN MAES

When many companies are contemplating entering or staying in the self-insurance arena, it might be wise to take another look at the conventional casualty markets.

Rates and premium levels are coming down dramatically on some casualty risks because of intense competition in the marketplace, say consultants and self-insurers.

"With the soft market conditions, I think the potential self-insurer sitting on the fence will stay with the traditional first-dollar coverage markets if they do a feasibility study," said Jon Roeder, marketing officer of St. Paul Risk Services. "A study might substantiate that it's the right thing for them to do."

Smaller corporations that have to tie up sizable portions of their assets to finance the costs of a self-insurance program should take special heed, he said. "Some of the smaller corporations don't have as much money to fund a program."

Firms still smarting from the enormous price increases and tight markets in product liability and malpractice coverages several years ago may remain sour on the idea of looking to conventional insurance once again, but a test of the market might prove interesting, said Robert A. Wilson, president of Corporate Risk Management Inc , a Hinsdale, Ill., consulting firm.

"Product liability is so competitive right now that rates of $1.50 and more two and three years ago are now 55 cents," he said. "So for other than Fortune 500 companies, it's becoming less and less desirable to self-insure general liability and product liability.

"Sure, if you're in a high-hazard business with no relief in sight on rates, you should continue to self-insure. But some of the smaller types of companies and manufacturers should take a look at the conventional market," Mr. Wilson said.

The electronics industry and machinery and rebuilding firms, for example, are non-high hazard companies that should take a look at the conventional markets, Mr. Wilson said.

Firms with $100 million in annual sales can buy product liability coverage for $12,000 to $20,000 a year, possibly lower than the costs of setting up and administering self-insurance and monitoring claims, he said.

Companies should remember that the market allows flexibility, and the option of abandoning self-insurance for the traditional market and restoring self-insurance later is available, he said.

"You can do it for one, two or three years and go back either way if the situation dictates," Mr. Wilson said. "There's no hard and fast rule that once you're into self-insurance and leave, you can't go back in."

Illinois offers an example of this flexibility in the formation of anticipated self-insurance groups to ward off increases in workers compensation rates.

"Some members of these groups may think it's a disaster and say, 'This is not for me' and go back to the traditional market," he said.

"The market would welcome self-insurers back into the marketplace and would continue to provide a viable product," he added.

There are risks, however, that a firm is better off self-insuring regardless of the conventional market, consultants advise.

General liability coverage for a corporate vehicle fleet is such a risk, Mr. Wilson says. A firm can do a better job of predicting losses and reserving for them.

"It's much more predictable than other lines," he said.

In workers compensation, a company should be paying $125,000 to $150,000 in premiums before considering the move, he said.

General liability premiums should be about $150,000 yearly and a fleet should number at least 125 vehicles before self-insuring liability is considered, he added.

Some advantages of self-insuring will continue to outweigh those of traditional insurance no matter how soft the market, points out Donald Krutek, vp of risk management sales at Gallagher Bassett Insurance Services in Rolling Meadows, Ill.

"When you're self-insuring casualty, you'll always have the use of your money," he said, referring to cash-flow and investment income opportunities.

Since there seem to be no signs of tightening in the market, Mr. Krutek says it's difficult to tell how many companies will self-insure because they couldn't get coverage.

But it's a mistake for a company to turn to self-insurance only as a hedge against an anticipated tight market, he says.

"Self-insurance is a means of controlling cost and you must be committed to the entire concept if you're going to do it," he explained.

Dean McLean, risk manager at the Chicago College of Osteopathic Medicine, is also a believer in self-insuring casualty risks, competitive market or not.

"If you have an effective risk management program, you're better off self-insuring even though the market is soft."

But Paul Bingham, vp of Fleetwood Industries in Riverside, Calif., says the size and type of the company should determine whether it should self-insure or buy coverage for a casualty risk.

He adds, however, that he would not close the door on conventional markets if future costs and economic trends prove buying insurance is desirable. ■

Excess casualty cover remains competitive

The excess casualty market is still as competitive as the rest of the insurance market, with low rates and capacity galore.

It's still virtually impossible, however, to buy without a broker, observers say.

"The whole excess casualty market's incredibly flexible," said Robert A. Wilson, a Hinsdale, Ill., risk management consultant. "There's no problem with casualty risks. I've not encountered one situation where capacity's been a problem."

Mr. Wilson said he's seen professional liability premiums as low as $9,000. Three years ago, insurers were getting as much as $25 in premiums for every $100 in the buying corporations' receipts, but today rates are as low as $10 per $100 of receipts, he said.

Echoing that view was R.N. Roberts, vp with Johnson & Higgins in New York. The excess casualty market scene is "unbelievably soft" with no signs of change in sight, he says.

Paul Bingham, vp of Fleetwood Industries in Riverside, Calif., also says buyers should have a pleasant trip through the excess casualty insurance market.

"We just renewed our excess umbrella policy recently and found the rates to be quite reasonable," he said.

This segment of the insurance market reacts slower to change than the rest of the market and could remain competitive for a while after the rest of the market tightens, adds Donald Krutek, vp of risk management sales at Gallagher Bassett Insurance Services in Rolling Meadows, Ill.

And the capacity is not just domestic. International insurers are reaching out to grab a share of the market, he says.

But it's almost impossible to get coverage without a broker.

"Few markets will deal direct with the buyer himself," he said.

Some direct writers such as General Re and Liberty Mutual do deal directly with buyers, but a trend is not emerging, observers say.

"You still must buy with a broker," Mr. Wilson said. "Insurance companies do not want to deal with a policyholder or risk manager. They don't even like to talk to them." ■

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Insurers will buy liability, reserves of self-insurer

By KATHRYN J. McINTYRE

NEW YORK—Is management anxious about carrying millions of dollars in contingent liabilities on the books for self-insured programs? Does management want a tax break for those reserves?

As a self-insurer, you've been operating like an insurance company. If you want to move those reserves off your books, you can borrow another trick of the trade and arrange for a portfolio transfer of liability to an insurance company.

For a price, an insurer will buy out your reserves and remaining liability. It will probably be a deal comparable to what you would have paid for insurance for those years.

The insurer will be able to judge the outstanding liability based on claims experience to date and also will calculate the present value of money needed to cover those future liabilities, says Joseph Smetana, president of AIG Risk Management.



'Captives with big IBNR reserves can do this,' says Mr. Smetana.

As an insurance transaction, the cost is tax deductible.

AIG Risk Management has had inquiries from companies wondering what to do with huge contingent liabilities on their books. AIGRM, which often sells nonstandard programs with retentions plus excess coverage, has prepared a portfolio transfer of liability with one of the companies.

"Captives with big IBNR (incurred but not reported) reserves can do this, too," Mr. Smetana noted.

The technique is often employed in the insurance industry when one insurer wants to get out of a particular line of insurance and sells off all its business and reserves on that line, or when an insurer is going out of business.

AIGRM is up 60% to 70% over 1979. "But in '79 we were up 200%," Mr. Smetana notes. AIGRM has 350 clients. One third uses captive insurers to fund risk, one-third opts for an AIGRM cash-flow plan and another third is association business using either a captive or rent-a-captive. "Not more than two are qualified self-insurance accounts," Mr. Smetana noted.

A half-dozen of the cash-flow clients are using compensating balance plans under which AIGRM deposits the policyholder's premium in a bank of the policyholder's choice. Although the premium is in the name of AIGRM, it serves to offset compensating balance requirements and frees other money for client use.

Compensating balance plans are attractive to businesses that are highly leveraged, like rental companies, Mr. Smetana noted.

The most popular cash-flow plan among AIGRM clients—and other companies choosing a cash-flow plan—is the paid-loss retro under which AIGRM accepts a letter of credit for the premium due and allows the policyholder to pay the cost as the losses develop. ■

ASO isn't for all, sellers say

LOS ANGELES—Even insurers selling administrative services agree the special deals are not heaven-sent.

"ASO is right for some clients, but not for others," said Steve White, vp of group insurance marketing at Prudential's Western home office in Los Angeles.

There are more issues to consider than the number of lives: for example, the company's cash position and the stability of benefit costs.

"As a generality, it makes more sense for larger accounts becaue the smaller accounts have more fluctuation in claim levels," he explained. "There's no simple point where you can say an ASO is right." He has sold contracts for as few as 250 lives, but thinks 500 more reasonable.

Richard Packard, vp of group operations for Fireman's Fund in San Rafael, Calif., explains that the range for partial insured arrangements can vary from 50 to 1,000 lives. "At 1,000 it becomes appropriate to go full self-funded," he added.

Many companies also opt for a stop-loss policy because it's a security blanket, Mr. White continues. The self-insurance concept must be sold to top management, and stop-loss is added to make them more comfortable with the idea.

But stop-loss insurance is expensive, he contends, and it's just moving right back into insurance. It's common for a company to drop stop-loss insurance later, he says.

Mr. White points out some disadvantages of an ASO.

The timing of claims could have an inverse effect on cash flow and benefits are not guaranteed the same way they are guaranteed by an insurer; the self-insurer can only pay what it has.

"You could save money going ASO: but it's important that you understand what to do with the money and what you expect to yield.

There may have to be liquid funds, meaning you can't put them into long-term capital improvements," he added.

On the positive side, companies can get their reserves back, they can eliminate risk charge and a positive cash flow may be generated.

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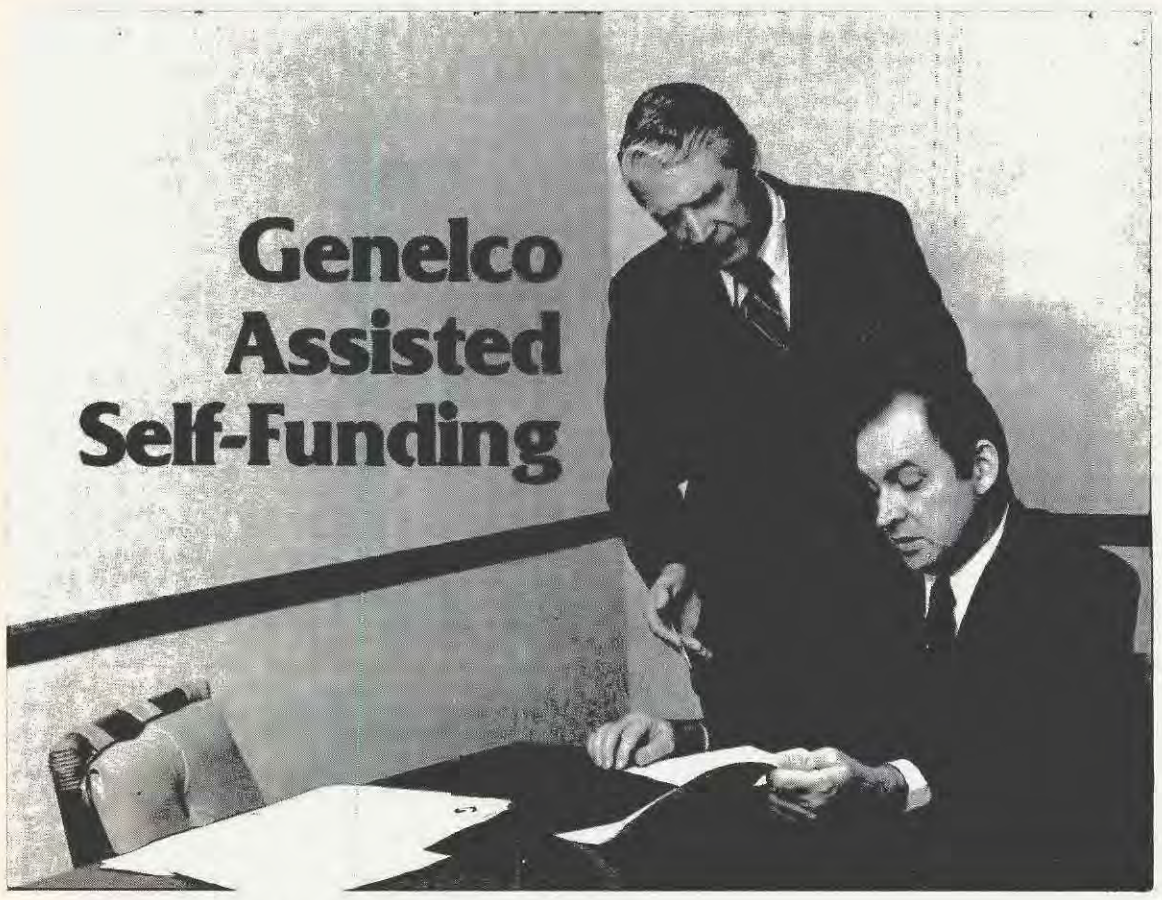
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Consider more than selling price of ASO contract

By CAROL BLITZER

SHOPPING FOR an administrative services only contract can be as mind-boggling as tackling Macy's the day after Christmas.

But if you know what services you're seeking and how much excess coverage you need, you can make the job easier, say insurers selling their services.

Interviews with these companies reveal what the insurers selling ASO contracts think their clients should look for and reveal what these companies are most proud of among their wares. They offer almost a seller's guide.

Nationwide service, uniformity in claims handling and reporting, strong management and supervisory controls, support programs in medical management, legal cost control, return-to-work and rehabilitation, as well as strong settlement policies, are essential administrative services, says Robert McDaniel, vp-claims at Aetna Technical Services, a wholly owned subsidiary of Aetna Life & Casualty in Hartford, Conn.

Mr. McDaniel advises choosing a company with an insurance background because it will tend to have a good reserve policy and can account for incurred but not reported losses.

"Look for a long-lasting relationship. Be selective," he said, noting it can prove expensive to change in midstream because new companies tend to charge to take over the handling of old claims.

"There's more to paying claims than might meet the eye," said Richard Packard, vp-group operations at Fireman's Fund in San Rafael, Calif.

"You want somebody who's going to control those claims and do things like ensure that the benefits are being paid, that the employees who are applying for them are eligible.

"But there are a lot of other services that are a little less apparent," he added. Mr. Packard stresses that monthly reports should include information on outstanding liability and on whether the client is near his limit.

Costs for administrative services vary widely.

"Price should be based on good specifications, the type of plan(s), where employees are located and the number of employees," pointed out John Fuller, senior vp of the Equitable Life Assurance Society in New York.

Mr. Fuller suggests risk managers keep in mind the service group's electronic data processing capability, making sure data can be used for analysis to control claims expenses.

There are four basic ways of quoting services, Mr. McDaniel says: on an hourly rate, as a percentage of paid or incurred loss, as a guaranteed cost per claim or as a guaranteed cost per contract year. An additional method calls for a guaranteed cost per contract year predicated on a total number of claims with a retroactive feature built in.

For example, if Aetna quoted to handle 500 claims and only 400 were filed, Aetna would pay a rebate of 100 claims times X dollars. If the client had 520 claims, Aetna would bill it for the additional ones.

"Setting reserves is extremely important to a self-insured account because they have to take those monies and put them back. If the service company does not have a well-founded reserve policy, then you may be thousands of dollars underreserved that you have to come up with," Mr. McDaniel added.

An ASO contract also can supply the personnel department with tips on how to write about the program for employees and not use insurance jargon.

"It's got to be accurate: it's got to be said right because if it's wrong and he's spread the word to all the employees, he's on the hook for whatever he's said," he explained. ■

Claims handling is top priority

ST. LOUIS—The bottom line in choosing an ASO contract is the firm's ability to handle claims, wherever and whenever, points out Robert B. Schellerup, insurance manager of Consolidated Aluminum here.

"Choosing is difficult because each firm presents in a different way—the way they price claims, the way they handle claims, even whether they will handle certain claims," Mr. Schellerup explained. His company chose Aetna Technical Services three years ago to handle workers compensation and product liability claims.

"I think we place more importance on the handling of claims than other firms of comparable size. By the proper handling of claims under our guidance and direction, we think we keep our losses down to a reasonable figure and much lower than if we were fully insured," Mr. Schellerup said.

ATS also offers a loss-prevention service as a separate package, which Consolidated buys at some of its 15 plants. Consolidated pays a negotiated fee per claim. ■

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markets

Kwasha Lipton joins overseas consortium

CONSULTING FIRM Kwasha Lipton has become the first American partner in an international consortium of actuarial and benefit consulting firms.

The new liaison "means that when our multinational clients have overseas problems that require local assistance, we are able to guarantee that it will be provided in a highly professional manner through members of this consortium," said Robert Heitzman, Kwasha Lipton partner responsible for relations within the consortium.

The group also will keep the American company up-to-date on international benefit and compensation laws, regulations and practices, he says.

Member companies include Duncan C. Fraser & Co., U.K. and Eire; Brans & Co., the Netherlands; Buro Dr. Heubeck, West Germany; PRASA Pierre Rieben Actuaire S.A., Switzerland; Malan & Partners, South Africa, and Duncan C. Fraser & Co. (Far East), Singapore and Malaysia.

Florida division

Powell & Co. of Decatur, Ga., has opened its first out-of-state subsidiary, Powell & Co. of Florida, in St. Petersburg.

The company brokers property/casualty insurance for corporate clients in the Southeast. The Florida division will be managed by Bill Creech.

China link

The American Institute of Marine Underwriters has appointed the People's Insurance Co. of China as AIMU's correspondent for the districts of Shanghai, Tianjin, Guangzhou, Dalian and Qingdao.

"The appointment by AIMU of the People's Insurance of China as an AIMU correspondent represents a major step forward in the development of relationships between the American marine insurance market and the People's Republic of China," said Thomas A. Fain, president of AIMU.

AIMU correspondents serve the American marine insurers as marine surveyors and as a source of information on matters of interest. AIMU maintains a network of about 350 correspondents.

E/S agency

Jack D. Hunter & Associates, an excess/surplus lines agency, has been formed in Arlington, Tex.

The agency has underwriting facilities with limits up to $1 million available for most classes of product liability, primary manufacturers and contractors, owners, landlords and tenants, excess automobile/general liability, garage liability/open lot, errors and omissions, professional liability, nonstandard special multiperil, nonstandard property, inland marine, truck physical damage and public official liability.

The agency is at 2415 Avenue J, Suite 106, P.O. Box 5703, Arlington, Tex. 76011; 817-640-9901.

China division

American International Underwriters has formed a China division to handle dealings with the People's Republic of China.

Houghton Freeman has been named president of the new division, which is headquartered at 50 Pine St., New York.

Seeking business

Underwriters Adjusting Co. has appointed 18 new regional account executives in a move to strengthen its marketing field force. The company hopes to develop new business from self-insurers and captives.

New offices

North American Re has moved to 100 S. Wacker Drive, Suite 826, Chicago, Ill. 60606. ■

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Investigator says firms can cut white-collar crime

By MARY ANN MATLOCK

NEW YORK—The "good guys" in corporations aren't necessarily the ones wearing the white collars.

Crimes committed by nonmanual labor workers are rising sharply and virtually choking the financial future of many businesses, says one investigator. But he believes employers can do things to protect themselves.

"We work with corporations brokers and insurers and in 90% of the cases, we catch a crook who is an employee," explained Sanford E. Beck, executive vp of Royal Shutt International Inc., an investigations company.

Recent cases involved a corporate secretary selling private correspondence, cashiers giving away food items and gold coins disappearing from a file cabinet in a public relations agency, he said.

"For the last five to six years, there seems to be a marked increase in the number of bad guys who are vps, comptrollers and salesmen as opposed to the trucking or platform loading guys," Mr. Beck explained.



Sandford Beck (left) and Steven R. Schutt of Royal Shutt International Inc. map out investigation strategy.

He attributed this increase to a combination of factors including the ailing economy and rise in the numbers of white-collar jobs, which topped blue-collar offerings in 1976.

"There is a tremendous amount of economic pressure on the worker in 1980. Inflation is making a tremendous impact. If there's going to be a way to take something, you're going to be tempted," he said. "A lot of straight, honest people are now turning to white-collar crime."

The Commerce Department estimates white-collar crime costs business $40 billion a year. Royal Shutt, however, estimates the loss at $200 billion a year. It says it recoups $8 million to $9 million annually for its clients.

The resolution of the white-collar crime problem lies with the employer, since few others are addressing the situation, Mr. Beck says.

"Insurance companies are doing nothing about it. Brokers are just starting and law enforcement officials are concerned with crimes of passion.

"If you think something is wrong, 90% of the time you're right," he tells employers. "You must ask where you can be beaten. You've got to do what we do in our assessment vulnerability studies (which can range in price from $4,500 to $50,000)."

He recommends the employers:

- Cover the perimeter—checking fences, alarms and locks at each plant or warehouse.
- Move inside the employment sites, especially focusing on the personnel department to see how job applicants are screened. All the security measures in the world won't avert crime if criminals or those inclined to steal, such as drug addicts, are hired.
- Check the most vulnerable areas, including shipping, receiving, inventory, asset control and storage and cash management.
- Conduct an in-depth analysis of purchasing. Because most companies don't competitively bid, there is more chance that funds will be diverted into pockets.

A *Business Insurance* survey of security personnel (*BI*, Oct. 20, 1980) showed the recession is a boon for their industry.

Security managers contacted said the poor economy was increasing incidence of crime and, therefore, increasing their workload. Firms were not cutting back security staffs even when cutbacks were necessary in other departments. In some cases, security staffs were being increased to deal with the wave of crime among white- and blue-collar workers and from persons outside the company.

"What we do is come in and look at paths no one has ever gone down before," Mr. Beck explained. "Our success ratio is pretty good."

However, most clients contact the investigators after the crime, trying to recoup money through fidelity bonds or from the criminals.

"Many clients come when they think they have a problem," he said. "Sometimes they call early enough, but a good percentage call too late," Mr. Beck said.

About 50 investigations are conducted annually using experts in fields, ranging from data processing to loading personnel. At times, these people go undercover to solve the case. Lie detectors are used in states where they are legal, he said.

The fee for these investigations is comparable to what a good law firm would charge, Mr. Beck said.

Royal Shutt is organizing an investigative unit to probe a chronic white-collar crime area: medical claims fraud.

"We're in the business of getting money back for our clients and what we're seeing is an industry group that is woefully and inadequately staffed to handle problems involved with (medical) claims coming in," Mr. Beck said.

Starting in February, two to three investigators will work on suspicious claims, mostly for insurance companies.

"Nobody is doing this in a big enough way geographically. Only a handful of investigators are working for insurance companies," Mr. Beck said. They (insurers) are relying on state and federal agencies to solve the problem.

"The impact of a little fraud here can be devastating," he said. Statistics show $1,000 to $1,500 per hospital bed is lost per year due to theft.

This specialty team will focus on surveillance of claimants and establishment of a data base to cross-reference medical claims. It will work out of the New York headquarters. ■

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Lower comp rates now in effect

COLUMBUS, Ohio—New lower workers compensation rates for public employer taxing districts are in effect here.

The new rates, that became effective Jan. 1, average 3.75% lower than rates that became effective Jan. 1, 1980.

Rates for cities, villages and townships and hospitals are down. However, rates for counties and special districts increased 3.98% over last year to $1.83 per $100 of payroll. There is no change in rates for schools and libraries.

There will be no assessment against payroll of employers during 1981 to support the Public Works Relief Employees Fund because earnings from investments have far exceeded expenditures, it was reported. ■

Rey to head AIU's Latin American unit

NEW YORK—Raymond A. Rey has been named president of the Latin American division of American International Underwriters. Andrew J. Warren has been named president of the newly formed transoceanic division and Donald P. Nelson has been appointed manager of the property management division worldwide.

Other insurer changes:

Clinton J. Bailey, underwriting manager for Long Grove, Ill.-based Kemper Group's empire division, appointed division underwriting officer. **Ronald L. Harnack** appointed division claims officer and **C. David Sullivan** appointed assistant claims officer.

Thomas B. Creager named associate general manager of The Hartford Group's Baltimore office.

William D. Rosencrantz appointed group sales manager in the South Bend group branch office of Benefit Trust Life Insurance Co. of Indiana.

O.L. Ayers promoted to senior vp-claims services at Gulf Insurance Co., an insurance subsidiary of Commercial Credit Co. of Baltimore. **M.O. Lilly** promoted to senior vp-field operations and **A.C. Werden** promoted to senior vp-property and casualty underwriting.

Gordon Reynolds appointed vp-workers compensation at the Los Angeles headquarters of Enterprise Insurance Co.

Gerald W. Kimmerle promoted to executive vp in the group division at Pacific Mutual Life Insurance Co., headquartered in Newport Beach, Calif.

W. David Ritchie appointed marine manager of Consumer Insurance Co.'s new direct marine facility for consumers in Seattle.

Dennis L. Breen, vp and general manager of AVEMCO Aircraft Investment Corp. of Bethesda, Md., has become regional manager for AVEMCO's Fort Worth regional sales office.

Agent/brokers

Joseph M. Rosenthal appointed vp-aviation of the New York office of Reed Stenhouse. For the past 12 years, Mr. Rosenthal has been employed by Alexander & Alexander in its aviation department.

Cushman L. Andrews named head of the Indianapolis office of Marsh & McLennan Inc.

Terry R. McCubbin and **Robert Leigh Gray** named vp-sales managers at Alexander & Alexander in Chicago.

David G. Klose named manager of the commercial insurance department specializing in smaller accounts at Barney & Barney, a San Diego-based agency.

Joseph Staerk named new agency service manager of Pennock Insurance Agency Inc. of Upper Darby, Pa.

Gerald F. Ahlenius joined The Rockwood Co. in Chicago as vp.

MacRobert S. Thompson named manager of the Philadelphia office of Marsh & McLennan Inc. He was vp of major business development in the Philadelphia office.

David C. Cootes named deputy managing vp of Alexander & Alexander's San Francisco office, responsible for day-to-day operations.

Joe M. Smith named president of Schaefer-Smith-Ankeney Insurance in Phoenix. **William C. Schaefer** named executive vp. **Bob Allen** named vp-operations, **Francis Gray** named vp-underwriting, **Travis Hair** named vp-marketing and **Craig F. Ankeney** named secretary/treasurer.

Charles L. Hobbs Jr. joined The Frank A. Cramsie Co. in Hinsdale, Ill., as vp.

G.W. Haynes joined Lon Worth Crow Insurance Agency in Coral Gables, Fla., as vp. He had been senior vp of Frank B. Hall of Florida.

Excess/surplus

Bruce Pennington appointed manager of the San Francisco office of Surplus Insurance Brokers of North America.

Reinsurers

David C. Smith appointed second vp at North Star Reinsurance Corp. of Greenwich, Conn.

Frederick C. Easty promoted to senior vp at Intercontinental Reinsurance Inc. of Los Angeles. **Ronald D. Huxley** promoted to vp-underwriting and **James H. Frank** promoted to assistant vp-claims.

Brian A. Carlin promoted to senior vp of property business at Munich American Reinsurance Co. of Scarsdale, N.Y. Also promoted to vp were: **Lyle J. Morien,** casualty; **Michael A. Pero Jr.,** technical insurance; **Stephen F. Smith,** bonding; **Frank X. Tierny,** casualty claims, and **Edward H. Fischer**, controller.

Promoted to assistant vp were: **James F. Bancroft,** property; **Michael A. Cojohn Jr.**, property; **Thomas J. Houlihan,** marketing; **Robert A. Lynch Jr.,** casualty claims, and **Raymond H. Manka,** casualty.

Promoted to assistant secretary were: **Joseph Campolo,** reinsurance accounting; **Joseph Garcia Jr.,** technical insurance; **Thomas P. Gaughran,** casualty; **Frank Lorenzo,** property; **Michael A. Occulto,** casualty, and **Curt C. Shipton,** casualty. ▪

comings & goings: industry

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• Two free leaflets entitled **On Course for Safety** and **In-Plant Training Service** have been issued by the British Safety Council. The leaflets detail 400 safety training courses ranging from the basic courses required by law to the sophisticated courses leading to qualification for the diploma in safety management. For copies, contact Helen Kelman, British Safety Council, 62/64, Chancellons Road, Hammersmith, London, W6; 01-741-1231, ext. 259.

• The Federal Department of Transportation's **1980 Emergency Response Guidebook** is available from J.J. Keller & Associates Inc. The publication is designed to assist shippers and transporters of hazardous materials to deal safely with emergency situations involving such materials. For a copy, contact J.J. Keller & Associates, 145 W. Wisconsin Ave., Neenah, Wis. 54956; 800-558-5011.

• Past insurance industry trends and projections for 1981 are reviewed in the first **D.A. Betterley Risk Consultants Premium and Underwriting Forecast,** featured in Risk Management Commentary, a quarterly publication of D.A. Betterley Risk Consultants. The publication is available free to qualified risk management professionals. It provides practical information and detailed analyses of various concerns. To obtain a year's complimentary subscription, contact Richard S. Betterley, D.A. Betterley Risk Consultants Inc., Worchester Plaza, 446 Main St., Worchester, Mass. 01608; 617-754-1704.

• A **business vehicle service** designed to underwrite commercial automobile policies on one to five commercial vehicles or drivers is described in a brochure by Equifax Services Inc. The report was developed from the results of a study of 14 insurers in five cities. It specifically addresses questions on vehicle use, territory-radius in which it is driven and gross vehicle weight and gross combination weight. For a free copy, write Linda J. Bolinger, P&C Market Center, Equifax Services Inc., P.O. Box 4081, Atlanta, Ga. 30302.

• A new booklet on business insurance as a tool of risk management has been published by the Insurance Information Institute. **Risk Management and Business Insurance** has been produced as a guidebook for professionals as well as an educational tool. The 16-page booklet shows how to identify and analyze loss exposures, manage loss exposures through risk management and purchase and use business insurance. Single copies are available free; bulk quantities cost 50 cents each for members and $1 each for others. Write Education Department, Insurance Information Institute, 110 William St., New York, New York 10038.

• An **analysis of oil/gas well-drilling rig fatalities** is available from the Labor Department's Occupational Safety and Health Administration. OSHA staffers reviewed the fatality data to assist the agency in developing and improving OSHA standards, planning compliance activities and conducting safety inspection training. Copies are available through OSHA Publications, Room S-1212, Frances Perkins Building, Third Street and Constitution Avenue N.W., Washington, D.C. 20210; 202-523-6138.

• **The 1980-81 Edition of the Smith-Owens Insurance Directory,** a comprehensive listing of names, addresses and phone numbers of all the general insurance companies, general agents and adjusting companies in Alberta, Canada, is available. Send $10 to Smith-Owens Publishing Ltd., #205, 10018-105 St., Edmonton, Alberta, Canada T5J 1C6.

• **The National Environmental Policy Act: Cases and Materials** presents a broad introduction to the field of environmental law as well as a collection of materials on its impact. Single copies are available at $25 each from: BNA Education Systems, The Bureau of National Affairs, 9401 Decoverly Hall Road, Rockville, Md. 20850.

• **An Insurance Buyer's Checklist for Manufacturers** lists insurance applicable to manufacturers. It discusses available alternatives, preparing specifications and asking for competitive bids. For a copy, send $10 to International Risk Management Institute, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.

• **The Risk Management "Lift Correctly"** Card is available from Darrell Heppner & Associates. The card illustrates the proper posture for lifting heavy objects. For a free sample copy, write Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577.

• **Complete materials testing and evaluation services for industry and government** are described in a new brochure. The four-page, full-color publication is available from the engineering services division of the United States Testing Co. Inc., 1415 Park Ave., Hoboken, N.J. 07030.

• The **Glossary of Insurance and Risk Management Terms,** second edition, is available from the International Risk Management Institute Inc. for $12.95. For copies, write the institute at 10300 North Central Expressway, Building IV, Dallas, Tex. 75231.

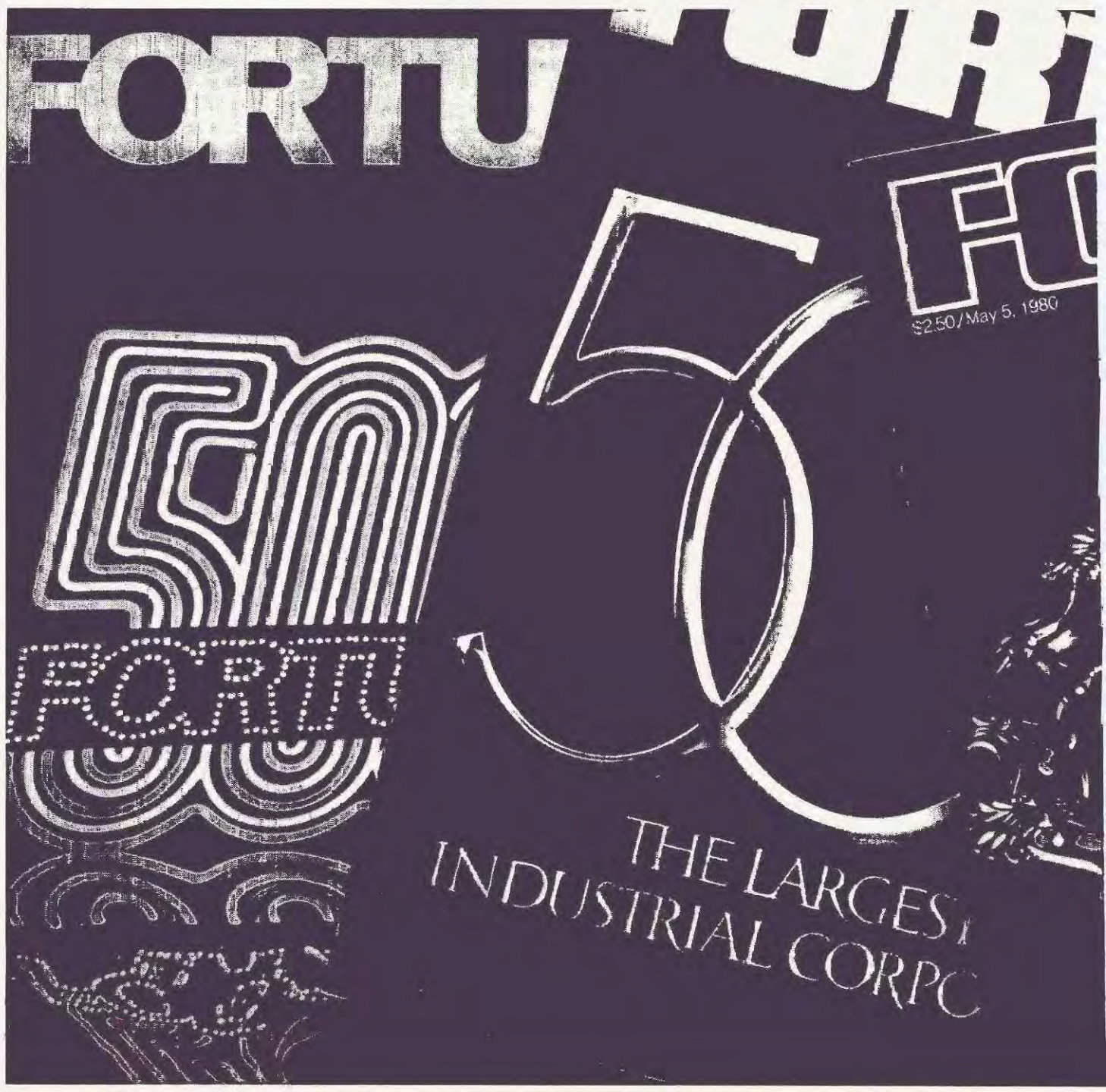
• **SI Units in Fire Protection Engineering** is the title of the 1980 report of the Measurement of Fire Phenomena Committee of the Society of Fire Protection Engineers. It documents the terms common to fire protection engineering, using SI units. For a copy, send $9.95 to the Society of Fire Protection Engineers, 60 Batterymarch St., Boston, Mass. 02110.

• **Fire Tests to Compare Sprinkler Demands of Wet-Pipe and Dry-Pipe Systems** shows that demand on dry-pipe sprinkler systems is greater than that on wet-pipe systems. Copies of TR-80-1, written by J. Richard Brown, senior research engineer at Factory Mutual Research Corp. in Norwood, Mass., are available for $3.25. Write to the Society of Fire Protection Engineers, 60 Batterymarch St., Boston, Mass. 02110.

• The Society of Chartered Property & Casualty Underwriters has published a new monograph entitled **Insurance and Reinsurance in Bermuda.** Topics include the process of determining need for a captive, tax consequences of captive ownership, requirements for establishing a Bermuda captive and the regulatory climate in Bermuda. Copies are available for $20 from the Society of CPCU, Kahler Hall, Providence Rd. (CB#9), Malvern, Pa. 19355.

• **An Insurance Buyer's Checklist For Truckmen** is available from the International Risk Management Institute. The booklet can be used to examine corporate insurance portfolios. Send $10 to International Risk Management Institute, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231. ■

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Toxic dumping linked to underworld

WASHINGTON—Hazardous chemicals are being dumped indiscriminately by firms linked to the underworld, a government informer charges.

Harold Kaufman told the House Oversight and Investigations subcommittee that organized crime controls the solid waste disposal industry in New Jersey and is rapidly gaining hold of the toxic waste disposal business.

"I see 90% of the companies in New Jersey are trying to follow regulations set up for them," Mr. Kaufman said. "I know the people. I know that organized crime is right in the middle, not through the companies but through the haulers."

Mr. Kaufman, who worked in the waste disposal industry for six years, is using an assumed name under the Federal Witness Protection Program. During the hearing he was shielded from photographers and the public by U.S. marshals and Capitol police.

Organized crime controls the sanitation industry in New Jersey, Mr. Kaufman said. Following the implementation of the manifest system in 1978, in which companies were required to differentiate between garbage and toxic wastes, the garbage companies gained control of the toxic waste disposal business. The price of hauling skyrocketed overnight from $1 a yard to $20 a yard, he said.

The Public Utilities Commission controls sanitation in New Jersey and in the past issued hauling licenses for a $50 fee. "No questions were asked about anybody's background," Mr. Kaufman said.

When asked how New Jersey could eliminate the criminal elements controlling the waste disposal industry, Mr. Kaufman replied, "Check on who the hauler is. Forget about the generator. Let's not blame the people. These companies are trying to follow your laws."

Since July 1978, New Jersey has received approximately $1.8 million from the Environmental Protection Agency and $407,000 from the Law Enforcement Assistance Administration to prosecute unlawful dumping.

datebook

JAN. 26. Chartered Property & Casualty Underwriter exam preparatory courses in New York, sponsored by The College of Insurance; $88 per credit hour for employees of organizations sponsoring the college, $99 per credit hour for all others, plus an $18 registration fee. The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111.

FEB. 2-3. Self-Funding Your Employee Benefits Meeting in Atlanta, sponsored by the American Management Assns.; $435 for members, $495 for nonmembers. William Fexas, AMA, 135 W. 50th St., New York, N.Y. 10020.

FEB. 2-4. Communicating Employee Benefits Meeting in New York, sponsored by the American Management Assns.; $545 for members, $625 for nonmembers. William Fexas, AMA, 135 W. 50th St., New York, N.Y. 10020.

FEB. 2-4. Fundamentals of Property and Casualty Insurance Meeting in New York, sponsored by the American Management Assns.; $555 for members, $635 for nonmembers. William Fexas, AMA, 135 W. 50th St., New York, N.Y. 10020; 212586-8100.

FEB. 2-6. Governmental Risk Management Seminar (basic) in Tucson, sponsored by the University of Arizona College of Business and Public Administration; $350. Also advanced seminar **Feb. 23-25**; $300. Executive Programs, College of Business and Public Administration, University of Arizona, Tucson, Ariz. 85721.

FEB. 2-6. Safety Management: Total Loss-Control Management Course I in Houston, sponsored by the International Safety Academy; $535, $485 each for three or more from the same organization. Also **March 2-6.** Internationalk Safety Academy, P.O. Box 19600, 10575 Katy Freeway, Houston, Tex. 77024.

FEB. 9. Petroleum Insurance Conference in Houston, sponsored by RIMCO Risk Management Inc.; $395. Professional Development Institute, North Texas State University, P.O. Box 13288, Denton, Tex. 76203; 817-788-2483.

FEB. 9-11. Fundamentals of Employee Benefits Meeting in Denver, sponsored by the American Management Assns.; $555 for members, $635 for nonmembers. William Fexas, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

FEB. 9-11. Self-Insurance and Risk Retention Course in Denver, sponsored by American Management Assns.; $510 for members, $585 for nonmembers. William Fexas, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

FEB. 11-13. Pension Plan Design and Administration Meeting in San Francisco, sponsored by the American Management Assns.; $510 for members, $585 for nonmembers. William Fexas, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

FEB. 12-13. Executive Perks Meeting in Dallas, sponsored by the American Management Assns.; $460 for members, $525 for nonmembers. William Fexas, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

FEB 18-20. Financial Analysis for Risk Management Decisions Seminar in San Francisco, sponsored by The Wharton School; $685 plus $50 registration fee. The Business Risk Education Center, Fourth Floor Vance Hall/CS, University of Pennsylvania, Philadelphia, Pa. 19104.

FEB. 24-25. Risk Management & Claims Management Seminar in San Leandro, Calif., sponsored by Darrell Heppner & Associates; $185. Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577; 415-895-9650.

MARCH 9-12. Corporate Benefits Management Conference in Miami, sponsored by the International Foundation of Employee Benefit Plans: $380 for members. $455 for nonmembers. Also **March 23-26** in San Diego, **Oct. 26-29** in Lake Tahoe, Nev., and **Dec. 3-6** in Orlando, Fla. IFEBP, 18700 W. Bluemound Rd., P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

MARCH 9-13. Total Loss Control Management: Course II Advanced Safety Management in Houston, sponsored by the International Safety Academy; $570. Also **May 11-15.** ISA, P.O. Box 19600, 10575 Katy Freeway, Houston, Tex. 77024.

MARCH 23-26. A Guide to Product Safety and Liability Course in Miami, sponsored by Union College and the University of Miami; $695. Dr. Jerome Catz, University of Miami; 305-284-2571.

MARCH 24. Risk & Insurance Management Workshop in San Leandro, Calif., sponsored by Darrel Heppner & Associates; $95. Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577; 415-895-9650.

APRIL 2-3. Pension Fund Money Management Seminar in New York, sponsored by The Wharton School; $595 plus $75 registration fee. Also **June 18-19** in Chicago. Heidi E. Kaplan, Department 20NR, University Conference Center, 360 Lexington Ave., New York, N.Y.; 800-223-7450.

MAY 17-20. Nuts and Bolts: Building a Risk Management Program Conference in Denver, sponsored by the Public Risk & Insurance Management Assn.; $190 for members, $250 for nonmembers before April 3; $240 for members, $300 for nonmembers afterwards. PRIMA Conference, 1140 Connecticut Ave. N.W., Suite 210, Washington, D.C. 20036; 202-828-3614. ■

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NEW REGULATORY services for hazardous substances are available from J.J. Keller & Associates, regulatory servicing agent. The program consists of hazardous wastes/materials consulting and hazardous wastes transporter permit service.

The consulting service examines the client's operation for current and potential problems in procedures for handling hazardous substances. From this review, Keller's regulatory technicians will prepare a proposal outlining existing problems, possible solutions and the cost to implement these solutions.

If the client accepts the proposal, the agents will design a master compliance plan that includes recordkeeping systems, transportation, distribution and personnel.

The transporter permit service helps keep transporters running legally, guiding them through regulations and state agencies, the company says. Keller's regulatory team will take basic information supplied by the client and research the current laws, compiling a customized procedures manual.

For an additional fee, Keller will handle the entire permit-obtaining process for the client.

More information about Keller's new services and a fee estimate can be obtained by contacting transportation services sales at J.J. Keller & Associates, 145 W. Wisconsin Ave., Neenah, Wis. 54956; 800-558-5011, 414-722-2848.

Key protection

In compliance with the Revenue Act of 1978, the Corporate Health Insurance Program offers an alternative for continued protection of key employees on a tax-exempt basis: a fully insured medical expense reimbursement policy underwritten by the Capital Life Insurance Co.

The program does not constitute a self-insured or cost-plus plan, which must meet more rigid tests to ensure continued qualification for tax deduction by the employer. It permits the employee to exclude any benefits received under the plan from his or her gross income.

Cost of the plan is variable. For a free brochure, write Lockwood, Dipple & Green Inc., 131 State St., Boston, Mass. 02109.

Architect seminars

Shand, Morahan & Co. Inc. has announced a special program for architects and engineers to help them avoid professional liability claims. The loss-avoidance program will consist of a series of seminars presented by Shand, Morahan and cosponsored by the University of Illinois at Chicago Circle Campus.

Continuing education credits will be available. The first seminar, entitled "Wind and Water Penetration of Vertical Surfaces," will be March 27. Any architects or engineers whose professional liability coverage is placed through Shand, Morahan can attend the one-day seminar free; registration fee for others is $125.

Seminar brochures and registration forms are available from Shand, Morahan & Co. Inc., 1 American Plaza, Evanston, Ill. 60201.

Fire barrier

A fire barrier material that expands when exposed to heat and creates a tight seal around electrical and plumbing wall and floor penetrations is described in a new specification sheet available from 3M's technical ceramic products division.

The 3M Fire Barrier sheet, FS-195, is a flexible, rubbery material that expands as it absorbs heat, filling holes created by burning cable insulation or by distortion and buckling of metal components. It provides a smoke and fire screen and is strong enough to resist fire hose streams, according to 3M.

The fire barrier sheet is available in 28- by 20-inch sheets that are a quarter-inch thick, or can be cut to fit. Rolls 50 feet by 8 inches and 0.05 inch thick are available on special order.

For a copy of the four-page specification sheet describing 3M fire barrier material, contact 3M, Department Te80-15, P.O. Box 33600, St. Paul, Minn. 55133; 612-733-1835.

Physical damage

A new program covering physical damage of commercial vehicles has been developed by Executive Excess Ltd. of Princeton, N.J. Vehicles covered include trucks (both long- and short-haul), trailers, buses, antique autos and other valuable cars.

The program emphasizes competitive pricing using nonadmitted American insurers with A+ ratings, Executive Excess says. The agency will give quotations by phone and immediate binding.

A minimum deductible of $250 is required. There are no minimum premiums or limits.

Executive Excess, a firm specializing in excess/surplus lines insurance, is located at 1101 State Road, Princeton, N.J. 08540; 609-921-6070.

Security services

Norman Industries has formed a new security services division offering commercial and private investigations, patrol services and other security manpower operations.

This new arm of Chicago-based Norman Industries will also provide executive protection, store detectives, industrial espionage and sabotage investigation and undercover and plainclothes agents.

The service is available to all Midwest firms. Cost is variable, depending upon the extent of services rendered.

Norman Industries has specialized in surveillance technology for 23 years, says Harry Mulvihill, vp of the new division.

For more information, contact Norman Industries at 814 W. Diversey Parkway, Chicago, Ill. 60614.

Burglar detector

The Microwave Motion Detector is distributed by Mountain West. The burglar detector plugs into the wall and is controlled by a rear panel switch with remote-control possibilities. A relay output can be hooked up to trip a phone dialer or extra sounder.

Other features include a rechargeable standby battery, inputs for easy hookup to external sensors such as door and window contacts, automatic alarm reset and fast sweep siren for connection to standard loudspeakers (not included).

For a copy of a catalog with further information on the microwave detector and other security products, contact Mountain West, P.O. Box 10780, Phoenix, Ariz. 85064; 800-528-6169.

New respirators

Two new half-mask air purifying respirators, approved by the National Institute of Occupational Safety and Health, have been introduced by HSC Corp. of Buchanan, Mich. These respirator additions protect against ammonia, methylamine and other harmful dusts and mists.

The new cartridges have been molded in vibrant green for easy identification and carry the model number G106, the company says.

For a free selection guide detailing 20 contaminants for which the newly approved respirators offer protection, write HSC Corp., 107 E. Alexander, Buchanan, Mich. 49107.

Snowplow liability

Liability insurance for commercial snowplowing services has been introduced by Executive Excess Ltd. of Princeton, N.J. The plan covers liability and property damage for snowplowing operations on a seasonal basis at competitive rates, the company says.

Snowplowing operators should contact their local insurance agent for further information. Executive Excess will provide the operator's local agents with rate quotations by telephone and offer immediate binding of coverage.

Executive Excess, an agency specializing in excess/ surplus lines, is based at 1101 State Road, Princeton, N.J. 08540; 609-921-6070. ■

DIETZ INTERNATIONAL PUBLIC ADJUSTERS, INC., announces the adjustment of the Hi-G, Inc., tornado loss in Winsor Locks, Conn. The claim was concluded with the representatives of Arkwright-Boston Manufactures Mutual Insurance Company. The settlement for the building, contents, and business interruption claims was approximately $15.8 million dollars.

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Safety plays legal defense role: Expert

By JACK THORNTON

MADISON, Wis.—Courts are balancing manufacturers' and plaintiffs' rights in product liability cases, but slipshod safety programs could tip the scales to the plaintiffs, says Dr. Richard A. Moll.

Dr. Moll, a metallurgical engineer and product liability expert at the University of Wisconsin's engineering extension division, also says the number of "shocker" decisions against manufacturers in accident and injury cases is dwindling compared with that of the middle 1970s.

However, the assistant professor says this trend will not last if the managements at industrial companies do not concentrate on managing more defensively so safety improvements can be documented.

An important shift for manufacturers in product liability litigation is the courts' acceptance of risk-benefit and cost-benefit analyses.

This theory, which compares the cost of proposed safety improvements with the magnitude of the risks involved, lets corporations refute plaintiffs' charges that a safe design alternative exists.

Corporations cannot afford to ignore these legal defenses nor the need for documentation to build such defenses, Dr. Moll said. A company cannot simply argue in court that safety features "cost too much," but now plaintiffs' attorneys also cannot ignore engineering and competitive realities.

He cited a Missouri appellate court case settled in October, Lewis vs. Bucyrus-Erie Co. A worker was injured when a crane tipped over, dropping the worker to the ground with the load on which he was riding. The plaintiff's lawyers argued that Bucyrus-Erie, the crane manufacturer, should have provided a device to warn of impending tipover at low loads.

The judges decided such devices have not proved infallible at low loads, exonerating Bucyrus-Erie.

But this defense works both ways, as in Gordon vs. Grove Manufacturing, a 1978 case. Grove, a division of Walter Kidde & Co., makes cranes. It failed to provide devices to warn of the proximity of the crane's boom to electric wires, to provide insulating links, or to warn workers of the danger. The company could not show it had investigated the state of the art of proximity warning devices and loss.

Dr. Moll believes the state courts are coming close to penetrating the workers compensation "shield" that has protected employers from lawsuits by their injured employees, causing an increase of third-party lawsuits against machinery manufacturers.

If this can be changed, "it will make employers beef up their in-house safety and training" and ease the product liability burden on the manufacturers, he said.

However, Dr. Moll says the biggest product liability problem manufacturers face is the low budget priority they assign to remedying the problem.

"I see hundreds of managers and engineers a year in my extension engineering courses," Dr. Moll said. "When I tell them that product liability and safety still need more attention in their companies, very few disagree.

"Someday," he said, "they are going to be asked as defendants in court what percentage of their budgets they put into safety." The judges and juries might not like the answers, he predicts.

"Companies that have effective

Companies with safety and liability prevention programs tend to win in court, says Dr. Richard Moll.



grams and lose in court are few and far between," Dr. Moll added. "But when I ask how many (in his courses) have effective programs at their companies, only about 10% say yes."

From his files he dug out a 1978 Conference Board study showing that less than 30% of nearly 300 companies surveyed had full-time product liability people at the corporate or divisional level.

Dr. Moll believes the risks of product liability are heaviest on small manufacturers "because their management people each wear so many different hats." They are too busy to stay abreast of legal and technical developments, he says.

Industry standards are another dangerous area, Dr. Moll pointed out. "So many companies are vulnerable in court because they rely on the naive assumption that compliance with some industry or government code is enough. It is not."

He singled out three widely publicized incidents involving manufacturers of intrauterine devices, children's sleepwear and polyurethane foam insulation. In each case, the accepted standards were shown in court to be inadequate and the defendant companies paid the damages.

In the Minnesota case against a sleepwear manufacturer, for instance, the plaintiff's attorneys showed that paper would pass the federal sleepwear flammability standards the manufacturer had followed.

One area in which major improvements are possible is human-factors engineering, Dr. Moll says. He said machine tool and welding machine operator panels are "terrible examples of the man-machine interface." They are confusing, cluttered and light-years away from standardization, he said.

Dr. Moll also says insurers too often slough off their responsibility to help policyholders make factories and products safer. For example, insurers stung by medical malpractice cases in the late 1960s and early 1970s simply jacked up their premiums and hoped for the best—or quit writing product liability coverage, he said.

He also warns manufacturers that the Reagan administration's pro-business stance actually could hurt the manufacturers in court. As the federal agencies relax enforcement of regulations, product liability lawyers will prosecute more vigorously, he predicts. ■



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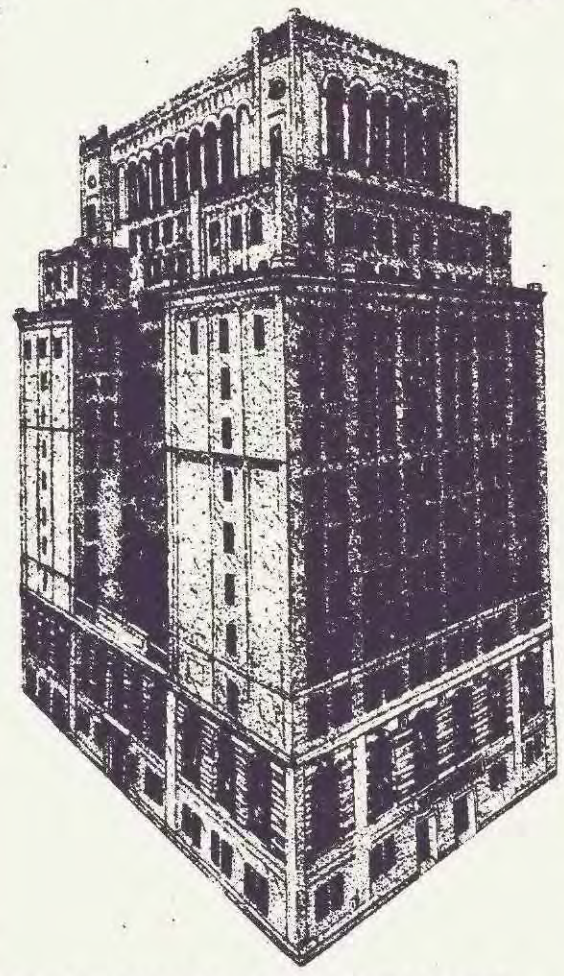
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The arts have a role in training at Baruch

By MARY ANN MATLOCK



This is the site of Bernard M. Baruch College.

NEW YORK—Don't be surprised if you run into an insurance graduate from Bernard M. Baruch College who knows as much about the novels of Hemingway as he does about self-insured retentions.

When students attend Baruch, they are expected to blend a generous sampling of liberal arts courses with their business school class load—a philosophy college administrators say produces well-rounded graduates from their 11,000 full-time students.

The insurance specialization is offered in the bachelor of business administration program to both day and night students in this division of the City University of New York. Courses to prepare students for a broker's license are more technical and limited to the continuing education department.

"An education at Baruch makes for a better, well-rounded student," said Aaron Rennert, assistant professor and supervisor of the insurance program. Twenty-four credits in the specialization are generally earned in insurance courses, 30 in business work, 64 in liberal arts and the rest in electives.

"We used to train people for specific jobs, but we now give them a general background," Professor Rennert said, explaining the change in the 30-year-old program. "Throughout the country this has been the trend . . . a shift from the practical to the theoretical."

He estimates half of the 17 insurance courses approved by the college are theoretical. "We look at the reasons for insurance . . . we go into statistical analysis, risk management, self-insurance."

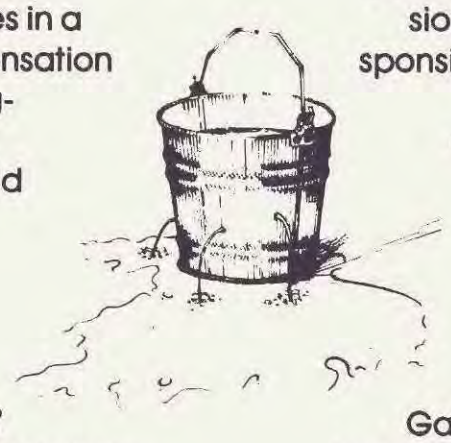
"I've been here 10 years, and the demand for insurance courses is increasing, especially on the part of business students who want a background in insurance," Professor Rennert said.

"We find a lot of people who are not insurance majors trying to find out what policies are all about."

These students, who often are accounting or computer science majors, usually limit their insurance instruction to basic courses in property, casualty, life

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HMO wins nod for increased rates

around the states

NEW YORK—The New York State Insurance Department and the Office of Health Systems Management have approved an overall 4.1% premium increase requested by the Health Insurance Plan-Health Maintenance Organization here.

The approved monthly basic premiums are $30.96 for individuals, up from $29.73, and $83.55 for a family, up from $80.26. The monthly premium for the program's mental health rider has been increased to $1.48 from $1.35 for individuals and to $4 from $3.65 for a family. The increases are retroactive to July 1, 1980.

The HIP-HMO program has 86,800 enrollees, most of them employees of the federal government and the state of New York and their dependents. HIP-HMO serves the counties of Kings, Queens, Richmond, New York, Bronx, Nassau and Suffolk.

Work injuries

SAN FRANCISCO—The incidence of occupational injuries in California inched upward during 1978, the California Workers Compensation Institute reports.

"Recordable" injury cases occurred at a rate of 10.6 for each 100 full-time employees in California, up from 10.3 in 1977, according to figures released from the State Division of Labor Statistics and Research.

The rate translates to an estimated 830,800 injured employees in 1978, up 74,600 or nearly 10% from 1977. But the incidence rate rose less because the workforce grew by more than 600,000 during that year.

The average number of lost workdays dropped to 15 per case, down from 16 in 1976 and 1977.

No overcharge

JEFFERSON CITY—St. Louis Blue Cross did not overcharge its customers $8.5 million, Cole County (Mo.) Circuit Court has ruled.

Gov. Joseph Teasdale and the Missouri Division of Insurance had ordered Blue Cross to refund $8.5 million in allegedly excessive charges.

Insurer fined

ALBANY—The First Rehabilitation Co. of America in Great Neck, N.Y., has been fined $10,000 by the New York State Insurance Department.

The department charged the insurer:

- Changed a major medical insurance policy issued to a union welfare fund to an administrative services contract without submitting the modification and the new method of calculating the premium to the department for approval.
- Charged premiums below manual rates.
- Used unauthorized policy forms.
- Failed to comply with a departmental regulation on pre-filing group coverage.

The company stated the violations were inadvertent. ■

or accident and health insurance.

Enrollment in these courses is usually 200 to 250 students per semester, far more than 50 to 75 declared insurance majors.

The broad nature of the program attracts many students from the New York metropolitan area to Baruch.

"My education was superior," said Donald Gabay, first deputy superintendent for the New York Insurance Department.

"As an accounting major I also took insurance courses which enabled me to become a licensed broker. My education had a direct relationship to my position now."

"Actually, it is a good school, and I felt it gave me the basis to go on in insurance and risk management," said William Collins, Consolidated Edison director of risk management.

Insurance majors have similar praise for their alma mater, which gives them the chance to spend a semester working in the industry during their senior year.

"The program is well designed and very, very well rounded," said Edward Lucie, president of Sullivan, Shugrue & Lucie Agency in Farmingdale, N.Y.

"The insurance faculty at Baruch has superior technical and theoretical knowledge," said John McPhillips, an insurance graduate working as sales/association coordinator for Frenkel & Co. brokerage in New York.

Most insurance graduates obtain jobs in the insurance industry, government or agencies and brokerages, said Professor Rennert.

However, the college has another growing field—actuarial science—that feeds the needs of the insurance industry.

"Most people we deal with have been people thinking of this as a primary career," said Jack Shapiro, associate professor of math. "Our program is about five years old. The thrust of it is geared to life insurance and preparing the students for the first three exams given by the Society of Actuaries."

These initial exams, he said, do not require an insurance background, but one is needed for the remaining six tests. Students may prepare for the fourth exam, which focuses on life contingencies and theory of interest on an independent study basis. It is used by pension actuaries.

"The program provides a very good synthesis of business and math," Professor Shapiro said. Though it is only a designation within the math department now, an actuarial science degree soon will be granted at the college.

Growth in this area has been tremendous over the past four years, increasing 20% to 25%, Professor Shapiro said. Of the current 40 to 50 actuarial students, five will graduate with the major. The Insurance Department, which is not large enough to stand on its own, will move in February from the Law Department to become a division of the Finance and Economics Department.

•

Tuition for in-state residents at Baruch is $462.50 per semester for full-time students taking a minimum of 12 credits, $35 per credit for a part-time student with 60 or fewer credits and $40 per credit above the 60-credit level. Out-of-state students pay $750 a semester, or $55 per credit.

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Workers learning to eat well

NEW YORK—Goodbye apple cobbler and danish and hello dates, nuts and cabbage. The junk food junkie is being purged from the office, and with him go the heart ailments.

Or that's what Metropolitan Life Insurance Co. hopes for as it begins its five-week course on nutritional recipes.

Thousands of Metropolitan employees have just been introduced to the "Eat Well, Be Well" program, a series developed and produced by Amram-Nowak Associates in conjunction with the National Institutes of Health.

Each day for five weeks, Metropolitan employees receive a different nutritious recipe. This way the company's health and safety education division hopes to promote low-carbohydrate and low-fat meals among its employees.

The recipes also have been distributed to the cafeteria chefs, who then cook such delectables as baked halibut in wine and yogurt sauce for the Metropolitan employees at lunch time.

And if they want to learn how to make the day's meal, they can walk over to the cafeteria lounge after lunch for a screening of videotaped cooking demonstrations.

Shopping bags and aprons imprinted with the dietary guidelines are used to remind employees to use the recipe.

Metropolitan is pleased with the success of the program and plans to expand it to company offices around the country. Group insurance policyholders, business organizations and community groups also will be allowed to join.

Metropolitan hopes to distribute its nutritious recipe cookbook this year.

Metropolitan also offers its employees blood pressure readings and assistance for smokers who want to kick the habit. ■

Broker to push bullion market

JOHANNESBURG, South Africa—The Stewart Wrightson brokering group is attempting to corner the market for coverage of South African gold bullion shipments.

Managing director Bernard McHardy told South African Digest that brokers have long neglected the market. The Wrightson group will start its push in 1981, he said. ■

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Savings draw others to N.Y. comp pool

By MARY ANN MATLOCK

NEW YORK—Early results of self-insured workers compensation programs in two counties here are drawing others to join the self-funding movement.

In Dutchess County, where a year-old program has saved $225,000 for the county government, towns and villages have been invited to jump on the bandwagon next year.

Four towns and the city of Poughkeepsie already have approved the venture, which could save 40% to 50% of the group's combined premium, estimated at slightly less than $1 million for 1981, says Roger Slotkin, whose Lovell Safety Management Co. Inc. handles the account.

A similar program is underway in Rockland County, where three towns—Clarkstown, Ramapo and Haverstraw—have joined in the venture. With these additions, premium volume will top $1 million by Jan. 1 when the coverage begins, Mr. Slotkin says.

Rockland County has self-insured workers compensation for the past two years at annual savings of about $200,000 based on a premium of $400,000, Mr. Slotkin said.

Savings for the first three years of the programs, however, are being put into a "shock loss" fund to guard against catastrophe claims.

"This type of plan is allowed under the state workers compensation law and state municipal act," said Anthony R. Arena, insurance manager for Dutchess County.

To expand the county's program, he explained, a local ordinance was passed, and the plan's name changed to Dutchess County Workers Compensation Self-Insurance Plan. Invitations were sent to all municipalities within county borders.

The plan differs from pooling, which is banned by state law, because each municipality is experience rated. This eliminates the controversial issue of municipalities paying each other's losses, he said.

The crux of both county programs, and a year-old plan for Putnam County workers only, is safety management, founders say.

In-service presentations, on-site visits, safety training programs and countywide safety committees are part of the services provided by the management firm to shave costs.

Both programs are protected by stop-loss insurance. In Dutchess County, coverage is $3 million per occurrence and $1 million aggregate on top of a self-insured retention of $350,000 per occurrence and $1 million aggregate. The aggregate retention increased from last year's $750,000 because of expansion.

The Rockland program has a self-insured retention of $300,000 per occurrence topped by $5 million in per occurence excess coverage.

No aggregate cover was purchased by the county.

The excess coverage also was raised from last year's $2 million because of the expansion, Mr. Slotkin said.

The results of these programs could very well tip Putnam County into opening up its program to others next year. This county, Mr. Slotkin said, saved $106,000 out of a premium quote of $200,000 in the program's first year. ■

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THE SPECIALISTS

Marianne Stark named Yolo County risk manager

comings & goings: buyers

MARIANNE STARK will assume the newly created position of risk manager for the Yolo County Public Agency Risk Management Insurance Authority in Davis, Calif., this week. Before accepting this job, which covers risk management functions for the cities of Davis, Winters and Woodland, Yolo County and the local school district, Ms. Stark was risk manager for Washoe County, Nev. That position is now vacant. She has a bachelor's degree from the University of San Francisco and a certificate of insurance from the Insurance Institute of America.

* * *

Lear Siegler Inc. in Santa Monica, Calif., has promoted **Garry A. Pew** from associate director of insurance to director of insurance. Mr. Pew, who will report to vp and controller David J. Louks, replaces **Edward Cates,** who was promoted to director of corporate accounting. Mr. Pew joined Royal Operations, a group within Lear Siegler, in 1977. Before that he worked for City Investing Co. and The Hartford Insurance Co. He has a bachelor of science degree in business administration and finance from California State University at Los Angeles and a CPCU designation.

* * *

Marypat Bilodeau has been named director of personnel with responsibility for employee benefits at New Hampshire Insurance Co. in Manchester, N.H. Ms. Bilodeau, who reports to senior vp D. William Alligood, is replacing **Duane H. Johnson,** who was named director of affirmative action. She joined the company in 1978 as personnel supervisor and became assistant director of personnel in 1979. Ms. Bilodeau has a bachelor's degree from Marywood College in Scranton, Pa., and did postgraduate work at the State College of New York.

* * *

R. Stanley Osofsky has been named to the newly created position of assistant treasurer at Grand Union Co.'s Paramus, N.J., headquarters. Mr. Osofsky, who reports to treasurer Roger W. Kennedy, will be responsible for the administration of insurance and employee benefit programs for the supermarket chain. He previously was director of corporate insurance at Sun Chemical Corp. in New York. He has a bachelor of arts degree in English from Tufts University and a master's in business administration from New York University.

•

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Consultants cut kidnap, ransom risk

By STUART EMMRICH

NEW YORK—A terrorist's bomb goes off in Rome and destroys the Italian headquarters of a U.S. multinational corporation.

An American bank executive is kidnapped from his West German office, and the company pays the $1 million ransom.

The Liberian government is overthrown by a coup and all foreign operations—including some American firms—are nationalized.

These hypothetical scenarios are becoming all too real as American corporations increase the amount of business they do overseas. They also are increasing their vulnerability to unstable and volatile political situations.

Risk managers for multinational corporations are increasingly considering the political winds abroad when putting together insurance packages for overseas branches. Already kidnap and ransom insurance has become a standard part of many international corporate insurance programs.

But some risk managers are going beyond purchasing after-the-fact protection when they are advising management how to prepare for overseas operation. Many are contracting with consultants in the burgeoning field of risk analysis to gauge their chances of being hit with losses and what they can do to minimize the risk.

For the last four years, most companies have been turning to Control Risk Ltd., a London-based firm that for a minimum of $500 a day will prepare an analysis of a company's vulnerability to losses



You can eliminate 95% of your risk, says Mr. Wright.

and tell it how to reduce them. The company has contracted with more than 120 multinationals operating in 40 countries.

Control Risks advises clients on how to devise security systems for employees and corporate offices. The firm sometimes helps in kidnap situations by taking over part of the negotiations. Its basic service, however, is detailing a company's major weaknesses and how they can be minimized.

Control Risks' chief competitors are Probe International, a Stamford, Conn.-based firm formed by a former foreign service officer who uses his government background in foreign countries to advise corporate clients on political situations overseas; Arthur Little, the Cambridge, Mass., consulting firm, and Business Environment Risk Index of Long Beach, Calif.

A relatively new market entrant, but one that is making a strong push for American business, is Armadillo Management Safeguards Ltd. It is a British firm formed about 1½ years ago to provide loss-control and risk management services for major corporations with European or African investments. Headed by Don Wright, a former retail business executive, the company services about 25 multinationals. About three-quarters of them are U.S. firms.

The staff of eight is augmented by outside specialists used in specific cases. Fees for a total program usually run $3,000 to $5,000 and include a risk analysis and consulting work.

"We feel that it is possible to eliminate up to 95% of your risk," Mr. Wright said.

"By watching the daily movements of top executives, by looking closely at how the company does business and by knowing a great deal about the country they are doing business in, we can help them know what they should and should not do to make themselves less vulnerable to losses.

"If you keep from falling into rigid patterns and make yourself an unattractive risk, then they (political terrorists) will go looking for someone who is an easier mark," he added.

Companies have less to fear from political terrorists than from common criminals, Mr. Wright says in an opinion not shared by a lot of other consultants.

"The terrorists get all the attention, but you will find that many of the people who are now hitting multinationals are just criminals who are copying the methods of the terrorists," Mr. Wright said.

He said this is why the little-known companies are as easy a target for attacks as the more visible firms. They are just as attractive as a source of money when politics don't matter, he said.

Mr. Wright concedes Control Risks has the major share of the risk analysis market, but he says more companies will enter it.

"I think Control Risks is a good firm, but there is no reason for them to have a monopoly," he said. "There is enough there to spread it around."

The move toward hiring these consultants has been spurred in part by the rapidly growing market for kidnap and ransom insurance.

While Lloyd's of London has historically been the major writer of such business, American International Group and Insurance Co. of North America recently entered the field with great fanfare. Other insurers are expected to follow.

Risk managers often can get up to a 10% discount on kidnap and ransom premiums if they can show they have a formal program of security, Mr. Wright said.

Buying insurance also can protect against extortion attempts, says Mr. Wright, contradicting other experts who argue that letting others know about insurance coverage increases the risk of attempts and can result in automatic revocation of the policy.

"People know that insurers are going to try to track down whoever took the money," he contended. "They have tough investigators and are not going to give away anything without a fight." ■



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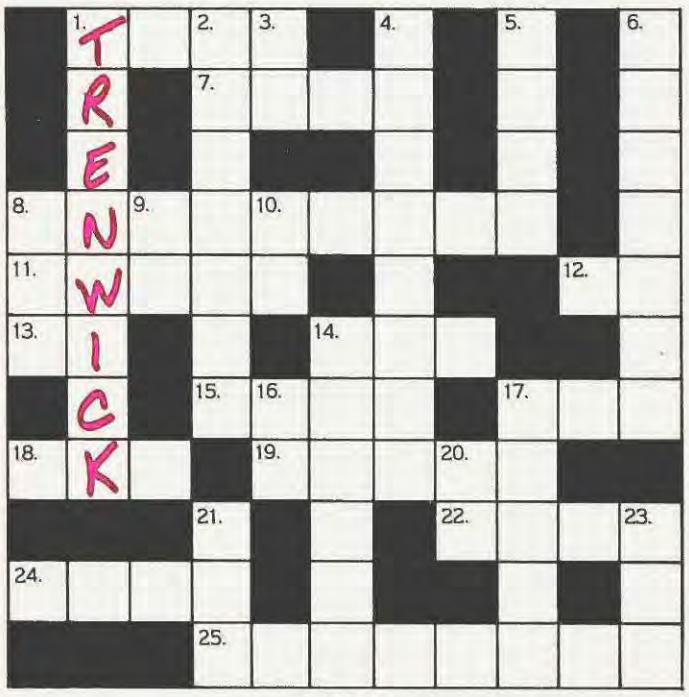
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Trenwick puzzler: CLAIMS.



ACROSS

1. In law, a wrongful act. **7.** Knievel's first name. **8.** Secure or protect against hurt or damage. **11.** Decision of Judge/Jury in a suit. **12.** Occupational disease or drug abuse: abbr. **13.** A name I call myself—precedes fa on scale. **14.** Nationwide claims adjusting firm. **15.** Level is to headed as _____ is to handec. **17.** O.T.C. offer. **18.** Social inflation has resulted in _____ rocketing settlements. **19.** Bandleader Shaw. **22.** A cancellation effective at inception. **24.** Type of product associated with largest liability award to date. **25.** Damages other than compensatory.

DOWN

1. World's most innovative reinsurance group, offering independent claims management and loss reserving analysis. **2.** Amount set aside for pending claim. **3.** Questionable type of news coverage of trials. **4.** Person asserting a right or title. **5.** Body of impaneled peers. **6.** Loss involving injury to persons and property: abbr. **8.** I think, therefore... **9.** Prosecutor: abbr. **10.** Adverse loss experience escalated premiums paid by this professional. **14.** Kind of shepherd. **16.** Hospitals affording care to military personnel. **17.** King of Tort. **20.** What ____? **21.** Director of traffic. **23.** One little piggy.

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1980 assets and loss reserves per bed

Type of Insurer	Total Assets (000)		Average Loss Reserves Per Bed		Total Loss Reserves (000)	
	'80	'79	'80	'79	'80	'79
Claims-made	$221,785	$185,000	$1,226	$1,003	$ 96,142	$ 76,114
Occurrence	221,282	157,668	1,583	1,203	124,393	87,156
Total/Average	**$443,067**	**$343,468**	**$1,404**	**$1,101**	**$220,535**	**$163,270**

1980 premiums per bed/hospital

Type of Insurer	Average Premium Per Hospital		Earned Premiums (000)		Hospitals Insured	
	'80	'79	'80	'79	'80	'79
Claims-made	$97,151.21	$99,391.21	$48,187	$47,509	496	478
Occurrence	86,523.62	91,041.03	64,114	59,905	741	658
Claims-made & occurrence	97,491.04	95,940.96	27,200	26,000	279	271
Total/ Average	**$92,019.13**	**$94,821.61**	**$139,501**	**$133,414**	**1,516**	**1,407**

Source: Modern Healthcare survey December 1980

Rates for hospital liability may jump 30%: Insurers

Continued from page 3

to lose a hospital to a lower bid, but sometimes you just have to grin and bear it," said Robert Nugent, vp for underwriting for HUM.

HUM offers hospitals up to a 15% discount on premiums for fully utilizing HUM's risk management incentive program (see related story, page 70).

HUM expects to raise the discount for following its program to 25% in fiscal 1982.

Beyond cutting premiums for hospitals with good loss experience, captives simply don't have the resources to slash premiums far below costs. Those that do will find themselves critically undercapitalized when major claims start coming in during the next few years, experts say.

"Hospitals need to establish more mature relationships with their insurer," said risk manager Robert Reeves, president of Hospital Corp. of America's Parthenon Insurance subsidiary. "They need a relationship like they maintain with a bank."

It doesn't make sense for hospitals to leave the captives that bailed them out during the last malpractice crisis, Mr. Reeves says.

"They'd be going back to the same unstable market," he explained.

"Besides," he added, "it costs more for a hospital to jump around insurance companies. Insurers will quote unstable hospitals higher rates because they know they can't count on having a long-term relationship."

According to normal insurance cycles, which run about four years, hospitals should now be in a crisis similar to the one in 1975 and 1976 when markets dried up and premiums skyrocketed.

However, inflation-fueled high interest rates have increased insurers' investment earnings and delayed the expected crisis. But insurance industry executives believe another period of high premiums is inevitable within about 18 months.

Hospitals can take comfort in knowing there are not at least 30 captives (18 state hospital association-related and 12 multihospital-related) to turn to when commercial insurers pull out of a market.

Premiums per bed dipped slightly to $683 from almost $690 in 1979, the Modern Healthcare survey found (see accompanying chart).

Premiums per hospital fell 3% to $92,019. Gross earned premiums rose 5%, but that was more than offset by a 6% increase in the number of beds covered and an 8% rise in the number of hospitals insured.

Assets rose 29%, while assets per bed rose 22% to 2,822. Loss reserves shot up 35%, while loss reserves per bed increased 28% to $1,404 (see accompanying chart).

Among insurers offering occurrence-form policies, premiums ranged from $228 per bed from Oklahoma Hospital Assn.'s Hospital Casualty Co. to $1,825 from Michigan Hospital Assn.'s Mutual Insurance Co. The average occurrence premium was $816 per bed.

Premiums for claims-made policies ranged from $108 per bed through North Carolina Hospital Assn.'s Trust Fund to $850 through New Jersey Hospital Assn.'s Health Care Insurance Exchange. The average claims-made premium was $614 per bed.

Lower premiums per bed don't necessarily indicate a better insurance value. Some of the higher premiums provide up to 10 times the coverage of smaller ones.

Modern Healthcare's survey showed an estimated 57% increase in the size of the average paid claim in 1980. New York's Hospital Underwriters Mutual had the highest average paid claim, $13,000, while Louisiana Hospital Assn.'s Trust Fund was lowest with a $668 average.

A study of federal court records indicates frequency of claims is increasing dramatically as well.

In the fiscal year that ended June 30, 720 medical malpractice cases were filed in federal court, a 44% increase. The 500 cases filed in fiscal 1979 represented a 23% increase over the 385 cases filed the previous year.

Meanwhile, a report in For the Defense, published by the Defense Research Institute, found juries in medical malpractice trials find for the plaintiff twice as often in cases where the defendant is a hospital than where only a physician is a defendant. ■

Captives write many lines

Hospital-owned insurance companies are writing more than medical malpractice insurance.

Among 19 captive or group-owned insurers responding to a Modern Healthcare survey, six offered workers compensation coverage in addition to professional liability.

Six offered general liability and two each offered policies covering employed physicians and property reinsurance. Directors and liability insurance was offered by one company.

Among the captives, Pennsylvania's Hospital Insurance Co. offered six lines of coverage. Louisiana's Hospital Assn. Trust Fund had four lines.

Hospital Corp. of America's Parthenon Insurance insures risks in 28 states and Alexian Brothers' Edessa Insurance Co. Ltd. insures in three states. The rest insure in only one state. ■

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Hospital computers ward off lawsuits

By SUZANNE LaVIOLETTE
Crain News Service

CHICAGO—Hospitals are tapping computers in their fight against traveling infections.

Controlling cross-infection of patients can reduce infection-related medical malpractice suits against hospitals.

Some pioneer hospitals are using computers to help survey and analyze infections transmitted from one patient to another. They have cut their cross-infection rates and tracked down sources of infection that would have remained buried if they had relied on manual data collection.

Cutting the amount of time infection-control experts spend in surveillance also frees them to take over quality assurance programs to further reduce the chance of malpractice suits.

Hospital administrators consider infection control a "can of worms" or "a nuisance they wish would go away," several computer industry spokesmen say in explaining why computers haven't caught on in epidemiology departments.

Infection control doesn't produce direct revenues, so it may be hard to justify the costs of a computer, one said.

Bac-Data Medical Information Systems Inc. provides computerized infection alert reports to about 150 hospitals on a time-sharing basis. The Clifton, N.J., company picked up many of those clients about four years ago when the Joint Commission on Accreditation of Hospitals put teeth into its infection-control guidelines, says Vince DeDea, sales manager.

He believes a greater push on quality assurance in the future—by JCAH and perhaps third-party payers—will spur more hospitals toward computers for infection control.

Bac-Data's clients fall in the 200- to 400-bed range. Smaller hospitals can't justify the cost and larger hospitals want to set up in-house systems, Mr. DeDea says.

The Hospital Data Center of Virginia, a Norfolk-based shared data-processing service, plans to develop an in-house, stand-alone minicomputer epidemiology system for hospitals—a system 75% of all U.S. hospitals could justify installing, says President Daniel Decherts.

Hospitals are "just scratching the surface" of computers' potential in infection control, though epidemiology is "ripe" for computerization, says registered nurse Charles Osterman, epidemiology nursing supervisor at the University of Virginia Hospitals in Charlottesville. Hospital Data Center's epidemiology system, used by seven hospitals, was developed with the university.

The university hospital has on-line access to the center's computer to enter and retrieve epidemiology data. When investigating an infection outbreak, it can call up statistics from previous months and retrieve infection data.

The Los Angeles County-University of Southern California Medical Center has been developing a computerized infection surveillance system during the past three years. The system is still in its pilot stage, but the four-hospital, 2,100-bed medical center has been turning out reports in high-risk areas—like burn units and surgery wards—for six months.

With the aid of the computer, the medical center has been able to lower its secondary infection rate by preventing cross-infections between patients. Hospital staff have been able to control these infections because they're regularly given detailed computer reports pinpointing infections in their units, explaind Dr. Peter Heseltine, hospital epidemiologist.

The computer has cut the amount of time LAC-USC spends on infection surveillance. In one of its hospitals, the infection-control practitioner used to spend 80% of her time in surveillance. Now she spends only 25% and can take on more quality assurance activities, Dr. Helseltine said.

Yet the computer doesn't mean an overall labor savings, he explained. More time now must be spent entering data. ■

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Survey can win hospitals 15% savings

By VINCE DiPAOLO
Crain News Service

NEW YORK—The results of an 86-point risk management survey can win hospitals a 15% savings on their liability insurance from Hospital Underwriters Mutual Insurance Co.

The member-owned mutual insurer, sponsored by the Hospital Assn. of New York State, surveys its policyholders' compliance with a recommended risk management program. The 86-question survey determines how much of a discount—or surcharge—the policyholder will get.

Documents are essential for passing the test for an effective risk management program.

A hospital not only must give assurances that all staff physicians are licensed, it also must keep on file photocopies of each physician's license.

HUM insists on such documentation because claims and suits have been filed against hospital staff physicians who were without a current license or who were practicing beyond their scope of expertise.

And in some cases, suits charge the care provided didn't meet current standards of practice because the physicians involved hadn't participated in available continuing education programs.

Verifying credentials also is important because several courts have recently held hospitals liable for not verifying credentials at the time physicians were appointed to their staffs.

HUM's survey asks whether a hospital requires physicians, dentists and physician extenders to carry their own malpractice insurance.

"Hospitals are often involved in lawsuits where the physician has no malpractice insurance and it appears that the hospital's insurance will have to cover the entire award," explained William F. Klein, a consultant for HUM.

Hospitals should keep records of initial credentials and maintain an ongoing performance evaluation of nonemployees providing patient care, Mr. Klein says, because hospitals are sometimes involved in claims in which outside contractors have exceeded their duties or expertise.

Several court decisions have held hospitals liable for the acts of private duty nurses. In other cases, privately employed physician extenders have acted or attempted to act beyond the scope of their expertise or license.

Hospitals must ensure their medical staff bylaws, rules and regulations provide for the awarding of credentials, evaluation and delineation of privileges or duties of physician extenders. In one malpractice case, a physician assistant carried out procedures for which his supervising physician hadn't been given privileges.

HUM noted some situations in which physician extenders evaluated, diagnosed, treated and discharged patients without consulting or involving their sponsoring physician or a specialist.

Some physician assistants with privileges limited to the emergency room have expanded their practice beyond their scope of expertise into special care units, operating room, delivery room and medical/surgical units, Mr. Klein noted.

HUM requires hospitals to prove they have an organized assurance/risk control program. It also requires insured hospitals to adhere strictly to HUM's system for reporting incidents and injuries.

Without the HUM incident report, Mr. Klein noted, "hospitals won't receive computerized summaries by which patterns of incidents can be observed and corrective action instituted before injuries and losses occur." The incident reporting system allows HUM to gather evidence quickly, make an early evaluation and, if appropriate, settle claims quickly.

HUM requires hospitals to be especially careful in documenting that their anesthesia conforms to good practice, since some of HUM's largest lawsuits have resulted from anesthesia malpractice. Anesthesia-related incidents are especially costly because they often cause brain damage requiring years of expensive care.

HUM found situations in which unacceptable practices by anesthetists or failure to adhere to "current standards of care" have allegedly caused injury.

For example, nonphysicians have made pre-anesthesia evaluations and selected the anesthetizing agent; nonphysicians have written pre-anesthesia orders, including those for controlled drugs, and nonphysicians provided anesthesia for procedures performed by nonphysicians.

In other cases, nonphysician anesthetists worked without a supervising anesthesiologist. There also have been cases in which the anesthesia record wasn't fully documented or equipment wasn't tested before anesthesia was administered. In still other cases, there was insufficient equipment to monitor patients or replace malfunctioning equipment.

Hospitals must make the medical records department responsible for maintaining clinical records and for reviewing the quality of the records it keeps, HUM believes.

"HUM hospitals have had to settle claims that might have been successfully defended if the clinical record had adequately described the patients' care and treatment," Mr. Klein said.

In at least one hospital case, the defense against a lawsuit was compromised when it was discovered that a medical record had been altered.

Some hospitals have been charged with negligent acts directly attributed to illegible orders. In other cases, hospitals incurred additional defense costs because they didn't have enough documentation to establish the level of care rendered to plaintiffs.

HUM insists hospital records be complete enough to maintain an ongoing assessment of the quality of emergency room services. Three frequent sources of emergency room claims are failure to correctly diagnose or treat patients, failure to provide qualified emergency room personnel and failure to adequately supervise patients in the emergency room holding area, Mr. Klein notes.

Hospitals also must keep careful records in the operating room, Mr. Klein says. Some lawsuits have been caused by leaving sponges, instruments and needles in patients. Other suits resulted from hospitals not having a qualified surgical assistant present during operations.

Some hospitals also have been sued because physicians performed procedures they weren't qualified to do. Those suits could have been avoided if a list of privileges granted to each physician was available to operating room personnel.

HUM requires hospitals to document that there are enough personnel staffing special care units. HUM hospitals have been sued because they didn't establish formal criteria to determine if a patient should be admitted to a special care unit. ■

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Lloyd's denotes names of agents who bind risks

By JOHN H. MILLER

LONDON—Lloyd's is setting up a register file of agents who have syndicate binding authority.

Suits and countersuits being filed by and against Lloyd's properly fulfilled what officials see as a "duty" to screen anyone outside the organization who is able to commit Lloyd's underwriters to risks.

"New rules have been drawn up for binding authorities after discussions throughout the market. We hope these will eliminate any further problems," said Lloyd's chairman Peter Green.

"In the future, if we get any complaints, we can go rapidly to the lead underwriter involved and ask him what has been going on.

"There is no intention of discontinuing the use of binders, which have been a very acceptable feature of Lloyd's business for more than 50 years," Mr. Green added.

Unsafe ships

International societies that classify ships for safety have agreed to exchange information about vessels known to be run-down.

Some shipowners, trying to evade costly repairs for older vessels, have devised a scheme in which they ask some other classification organization to certify they are seaworthy—even if the ship doesn't measure up to the standards underwriters normally want.

The worldwide International Assn. of Classification Societies has decided to keep a list of ships that need repairs and to exchange information about these vessels before they can be classified according to marine standards.

london line

Malpractice rates

Rates for malpractice insurance for 170,000 UK doctors will increase more than 25% for 1981. But individual premiums paid into the self-funded pools will be less than $300 a year.

The rates are far less than in the United States because British courts make awards only on the victim's financial loss from medical negligence.

Punitive damages and other high compensation payments are excluded from judgments, which rarely exceed $200,000. Claims are paid out of two self-funded pools run by doctors' protection societies.

The Medical Defense Union and the Medical Protection Society paid $6.5 million in claims in 1979.

Soft reinsurance

The U.K. market will continue to reinsure nonmarine policies at "soft rates" for the next several months, financial analysts here believe.

"It is proving easier to fix reinsurance protection in this area than it was last year, and anyone who is looking to the reinsurance market to provide the discipline necessary to prompt primary underwriters into taking a harsher approach to premium fixing is looking in vain," says stockbrokerage Kitcat & Aitken here.

But treaty conditions have hardened noticeably in the marine and aviation excess-of-loss markets, it is reported. ■

Court to rule on MET regulation

LOS ANGELES—The long legal battle to determine whether a California-based multiple employer trust is an employee benefit plan covered under the federal pension reform law is going to trial here this month.

A trial will begin Jan. 20 in U.S. District Court before Judge Robert Takasugi to resolve a suit filed by Insurance & Prepaid Benefits Trust of Tustin, Calif., against the U.S. Department of Labor.

The suit asks the court to order the department to recognize that IBT is an employee benefit plan under the Employee Retirement Income Security Act or to inform IBT how to change its structure so it can gain Labor Department recognition as a benefit plan.

Such recognition would remove the trust from state regulation and leave it subject only to federal regulation.

In an advisory opinion letter released in 1979, the Labor Department said IBT was not an employee benefit plan "but a funding vehicle." *(BI*, Aug. 6, 1979).

After the Labor Department released its advisory letter rejecting IBT's contention that it is an employee benefit, California insurance officials said they were considering legal action to shut the trust down.

But the California officials later agreed to hold off possible legal action until the Labor Department-IBT suit is settled.

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Lifespan not matter of sex: Researchers

CHICAGO—Separate mortality tables based on sex are not reliable as a basis for devising pension and insurance plans, according to four University of Chicago researchers.

Companies that base pension and insurance plans on the basis that women live longer not only discriminate against women but fail to accurately predict life expectancy, say lawyers Lea Brilmayer and Douglas Laycock and demographers Teresa A. Sullivan and Richard W. Hekeler.

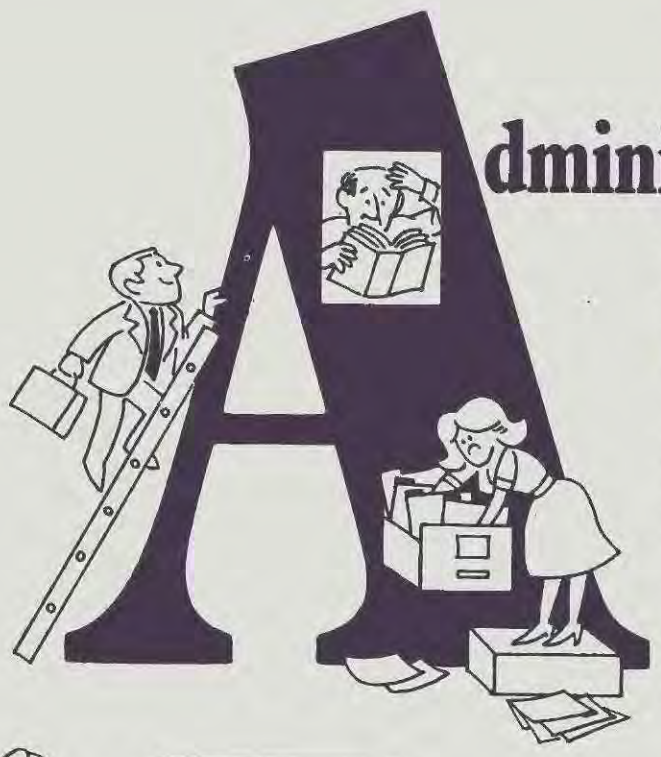
They discussed their views in a recent issue of "The University of Chicago Law Review."

"This conclusion (that mortality rates based on sex are not reliable) is so contrary to the conventional wisdom in the legal and insurance literature that it is likely to be greeted with skepticism," they said.

"But . . . all major investigators now believe that social, cultural, environmental and behavorial factors are more important than genetic or biological facts in explaining SMDs (sexual mortality differences)."

The authors cite studies that show that substantially greater female longevity is only a recent development in this country. Throughout history, changing social factors and lifestyles have given the advantage first to one sex and then another.

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Consultant stands out from the crowd

Continued from page 3

ignored if he said them that way.

Mr. Kloman has perfected what some have called a "practiced outrageousness" since he formed RPG. The company, which marked its 10th anniversary this fall, is an acknowledged leader in the risk management consulting field. Other consultants rank right up there with RPG, but few have the widespread impact of Mr. Kloman's organization.

Risk Planning Group has become an ubiquitous part of the risk management field, with the staff producing bimonthly risk management reports, publications on captives and government risk management, risk management seminars and more than 100 speeches and magazine articles.

But it isn't just quantity that is making folks look twice at this team. RPG is also recognized as one of the founders of modern risk management consulting—expanding the idea of consulting from just evaluating and recommending insurance programs to stressing the full scale of risk management concepts.

Its push into captives is one example of how RPG has broadened the role of the risk management consultant.

Besides its annual conference on captives, RPG also has sponsored seminars in Switzerland, the Cayman Islands and many U.S. states on hospital malpractice, government risk management and risk management administration.

The company, with a staff of 11 professionals and five clerical personnel, estimates 1980 revenues will total $1.25 million, with about 15% of that coming from publications and seminars.

That is quite an operation for a man who some 20 years ago "fell into" an insurance career.

"It was the last thing I thought I wanted to do," Mr. Kloman said about the career he started with a small brokerage firm in Philadelphia soon after getting out of the Navy.

"I was looking for a publishing job, but I happened to talk to a senior partner at Lukens, Savage & Washburn who made what he did sound interesting, particularly the consulting end of things."

After about 10 years there, Mr. Kloman became an assistant vp of the consulting division of Alexander & Alexander when the two firms merged.

In 1970 he decided to strike out on his own, forming Risk Planning Group.

Growth has come steadily, Mr. Kloman says, as has a national reputation. The firm does not advertise and there is no outward solicitation of clients; almost all business comes by referral. That is one reason competitors suggest Mr. Kloman has been so outspoken. There is nothing like a little free publicity.

But along with that publicity has come respect and praise for expanding the concept of risk management.

Mr. Kloman is almost evangelical in talking about the powers that risk managers could bring to their jobs if they realize how much impact they could have on the company. Because they are often financial people, they know about the economic workings of the company. Because they are also administrative people, they know how a firm's other operations share in the dollars.

In fact, Mr. Kloman talks wistfully of a devolution of risk management—the day when the job title of risk manager will almost disappear and risk management functions will be coordinated by the top people in administration.

That is something today's risk managers have to shoot for, Mr. Kloman says.

"I would hope that we are able to contribute something to the growing concept of risk management," he said. "We are slowly but surely trying to push the barriers outward."

In his career as a consultant, Mr. Kloman also has collected a few pet peeves, primary among them the fees vs. commission controversy. He rarely lets the chance go by to rail against the commission approach, a position that bothers some brokers and confounds even some of his colleagues.

"You can call them little green apples, for all I care, if the value of the services received matches up to the fees or commissions charged," said Mr. Moody, his former associate.

Others argue that Mr. Kloman not only tends to go off the deep end when criticizing something, but also is not always adept at translating theoretical risk management ideas to the day-to-day workings of a risk manager in a large corporation.

But these criticisms don't diminish Felix Kloman's place in the risk management consulting field.

As one industry source says: "You can say a lot of things about Felix, but one thing you can't do is ignore him." ■

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UAW will expand education

DETROIT—The United Auto Workers will continue to expand its health and safety education program with a grant from the Occupational Safety and Health Administration.

The $300,000 from OSHA's New Directions Grant Program will be used to train an additional 7,000 workers in health and safety.

But many more workers also will be trained, said Art Shy, UAW education director. "That (7,000) is the minimum commitment that we make to the government," he said. "We train as many workers as we possibly can.

"It's a very sophisticated program that we're conducting," he noted. "We have (education in) noise control, hazardous substances, detection of carcinogens, moving machinery and lockout procedures."

The extra funds will allow union locals to tailor their health and safety education to their workers' individual needs, he said. A worker melting metal certainly has different safety needs than a company clerk, he said.

About 60 union health and safety leaders have completed the two-week special health and safety training program at the OSHA Institute in Des Plaines, Ill. This was followed by a week-long UAW program in Detroit.

At least 20 films dealing with workplace safety also have been produced by the UAW to be viewed by workers at local union meetings and in the UAW Family Education Center in Onaway, Mich., Mr. Shy said.

The films and other slide presentations are produced with the cooperation of Ohio State University's health and safety department, Mr. Shy said. ■

Mini-programs

The College of Insurance's Western division here will offer mini-programs on excess/surplus lines, marine insurance and reinsurance in 1981. Registration for all programs is being accepted and a schedule of dates is available from the college, 3142 Wilshire Blvd., Los Angeles, Calif. 90010; 213-738-9973.



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Cayman rules will weed out 'insurers'

Continued from page 2

Basically, captives operating within the law must:

- Provide the insurance superintendent with details of the shareholders, directors and officers.
- Provide the insurance superintendent with a description of business to be written and how it will be conducted. Any changes in that business plan must be approved by the insurance superintendent before they can be made.
- Maintain business records in the Caymans unless approval is obtained to keep them elsewhere.
- Maintain separate accounts if business other than insurance is conducted.
- Appoint auditors to annually audit the financial statements.
- Appoint a principal representative in the Caymans.
- Annually file a written statement from the auditors that the accounts have been prepared in accordance with generally accepted accounting principles, noting if the certificate is qualified or unqualified. The accounts don't have to be filed, but the superintendent of insurance can ask for them.
- Annually file a statement from the auditors or licensed underwriting manager that the insurer is conducting business in accordance with the information provided in the license application and that any changes in the nature of the business have been approved by the insurance superintendent. This is called the annual compliance certificate.

This system depends upon "developing full knowledge and understanding of each captive at the time of licensing and then reliance upon those licensed to self-monitor by way of annual certification of the originally disclosed information," Mr. Darwood says.

Companies qualifying for an unrestricted Class B license could find the insurance superintendent asking for more information about their business than they might have expected from reading the law. Mr. Darwood is concerned that insurers can operate in the worldwide market from Bermuda with this minimum Class B regulation because they aren't conducting domestic business.

Referring to life and general reinsurance companies operating from the Caymans in the worldwide market, Mr. Darwood says, "Plainly it is inappropriate that the latter two categories should be authorized to operate freely worldwide on the foundation of such modest regulation. Fortunately, the superintendent has the discretionary power to call for additional reporting requirements and consequently, the annual submission of audited accounts and a full underwriting statement becomes the order of the day."

Mr. Darwood noted, "I am not interested in encouraging people to come to the Caymans who are optimistic entrepreneurs in the reinsurance field with speculative reinsurance ventures." Although "happy to consider bona fide reinsurers with a commercial reason to be here," Mr. Darwood is not interested in "premium washing exercises," he said.

Considering this international business, Mr. Darwood is even considering recommending that the B category for licensed companies be replaced with as many as four new categories with tailor-made regulations: captives with less than 50% of business from unrelated sources; association captives; life companies, and general reinsurers including captives earning more than 50% of their income from unrelated sources. In practice, he says, only the latter two categories would notice any change in regulation.

Some rules of thumb Mr. Darwood has released in speeches about solvency for international companies have caused "a bit of consternation," he said. He stressed that these are intended to give an indication about his thinking about the operation of insurers with outside business, not captives underwriting only parent company business, he said.

"There will be many instances where it will be different and each company will be looked at in its own light," he said.

The rules of thumb he has mentioned are:

- Planned premium income to net assets should not exceed 3-to-1 for the first two years of operation.
- Assumption of liability per risk should not exceed 10% of net assets.

Mr. Darwood also is working on a recommendation to amend the law to provide for a winding-up procedure for companies that cease underwriting insurance, something not covered in the current law. ■

Review work comp rates: NCCI

DALLAS—Workers' compensation insurance rates in Texas could drop 20% if the state's $300 payroll limitation rule were eliminated, a National Council on Compensation Insurance spokesman says.

NCCI vp Roy H. Kallop's comments came during a State Board of Insurance hearing on a proposal to reduce the state's workers compensation insurance rate and premiums an average of 4% and reduce manual rates by 10.5%. The board approved the reduction, which will go into effect Feb. 1.

"We hear concern expressed by business people outside the state that Texas has high workers' comp rates," Kallop told the insurance board. "What they do not realize is that we are still operating under the $300 payroll limitation rule."

"Had the total payroll factor been adopted prior to this hearing, we would be looking at an adjustment 20.5% lower than the reduction proposed today," he said.

Only Texas and Louisiana currently limit payroll subject to workers' compensation premiums.

As the average weekly wage approaches $300 in Texas, workers' compensation insurance becomes "essentially a head-count," Mr. Kallop said, "that really doesn't reflect the actual risk." A period of relative calm in Texas workers' comp claims has allowed several recent rate reductions.

Were total payroll used as a basis for figuring premiums, adjustments would be automatic as weekly wages increased, resulting in a more equitable distribution of premiums, he claimed. The rate would not have to be continually adjusted by the State Board of Insurance, he concluded. ■

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2.		JAN 12	Dec 29
3.		JAN 19	Jan 7
4.	ENERGY	JAN 26	Jan 13
5.		FEB 2	Jan 21
6.		FEB 9	Jan 28
7.	RISK MANAGEMENT SERVICES	FEB 16	Feb 3
8.		FEB 23	Feb 10
9.		MAR 2	Feb 18
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Hotels beefing up safety and insurance

Continued from page 1

"This is an opportunity for risk managers to say, 'We haven't looked at our limits for a while. Maybe we should do so now, especially since the market is soft,'" said Mr. Faison. "Something dramatic in the news like this makes it easier to sell to top management."

Insurers will satisfy hotels' demand for more liability insurance, several sources said. "It would take more than one or two of these incidents to dry things up," said one.

Managements of hotel companies are also looking at buying more directors and officers liability insurance, often as much as $150 million. They worry they could be held liable either for not carrying enough insurance on the buildings or being charged with mismanagement of safety programs, Mr. Sanderson said.

The publicity over the two recent hotel fires—particularly assertions that structural factors in the MGM Grand may have aggravated the fire—also has prompted risk managers to re-examine their own buildings for possible improvements in fire safety.

"We have seen our clients looking at things they can do for property loss prevention, such as sprinklers, and evaluating and updating evacuation procedures. Some haven't taken a look at their evacuation plans in long time," M&M's Mr. Sanderson said. "They are looking at existing buildings to see if anything can be done to make them safer.

"People often give lip service to loss prevention, but it takes a tragedy like this for something to get done," he added.

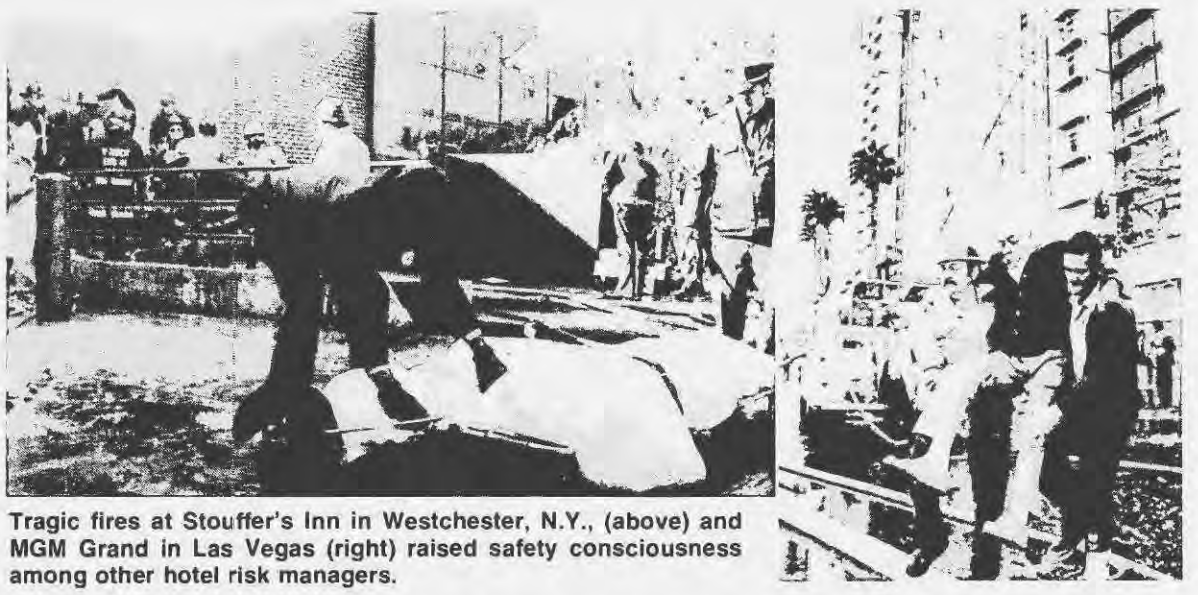
The risk manager for a major chain agrees the two recent fires will make it easier "to get things done that some of us have wanted to get done for a long time."

The expense of putting in such devices as sprinklers and smoke detectors can be "enormous," the risk manager said. The tragedies at the MGM Grand and Stouffer hotels should make it easier to justify those costs to management, he predicted.

"It is much better to learn from the mistakes of others, rather than your own. It is much less expensive," he said.

"All of us are going to be paying close attention to the official reports coming out of these fires. They can be useful tools in convincing management that things in our own buildings need to be taken care of.

"The problem always has been: How do you convince management that it is necessary to spend more money on life-safety programs that you cannot readily show will bring a return on equity?" he added. "This will help."



Tragic fires at Stouffer's Inn in Westchester, N.Y., (above) and MGM Grand in Las Vegas (right) raised safety consciousness among other hotel risk managers.

Some hotels may not have a choice in deciding what changes they will make in their buildings. Since the fires, there has been growing pressure for local governments to pass stricter safety codes and to force companies with older buildings to comply with new codes.

"These two fires might mean that some fire safety codes around the country will do away with grandfather clauses and require buildings to make structural changes. That is going to be expensive," said the risk manager.

Investigators studying the MGM fire have said automatic sprinklers probably would have contained the fire where it started. They also reported that the most serious threat to life is trapped smoke and that better methods should be developed to release that smoke from burning buildings.

Both New York Governor Hugh Carey and New York City Mayor Ed Koch have appointed separate task forces to study possible changes in state and local fire codes.

The state panel is expected to issue recommendations by Feb. 15, 1981.

The city commission, which has not set a date for its findings, is reportedly considering requiring such things as the installation of fire alarms, automatic elevator-recall systems, smoke detectors and two-way communication systems in any new or existing building that is taller than 100 feet. ■

Benefits to take backseat to wages

Continued from page 1

The container industry conference statement of contract goals calls for expanded health insurance coverage, elimination of co-payment clauses and deductibles and improvement of alcoholic and drug abuse treatments.

But the 34,300 members will be more concerned with contract administration, job security in the depressed steel industry and grievance procedures, the USW spokesman said.

The Brotherhood of Railway and Airline Clerks also is worried about its ailing pension fund. Consequently, a major order of business will be ways to save the fund when the union and railroads come to the bargaining table next month, predicted Diane Curry, union publications director.

The U.S. Railroad Retirement Fund has fallen to $2.2 billion from $5 billion in 1970. More than half a million retirees collect benefits, but only 530,000 contribute to the fund.

Frank J. Kroll, BRAC president, has said employer contributions should be raised to $1.21 per hour from 92 cents an hour. Labor opposes increasing the worker contributions.

The United Food & Commercial Workers says it will push for cost-of-living increases in pensions and wages. The union's goal is uncapped COLA adjustments, which most of its locals don't have now, said Tom Russow, internatonal vp and director of bargaining and benefits.

"We're concerned about our retirees and want cost-of-living increases for our pension people," he said. "What looked great five or 10 years ago is starvation today."

Mr. Russow says the union wants some new benefits such as prepaid legal and group auto coverage for its 300,000 members, but he says those items will take a back seat to the immediate problem of maintaining current benefit levels.

Some unions will have to negotiate to avoid benefit cutbacks. The United Auto Workers already has begun negotiations with the financially troubled Chrysler Corp. to freeze or cut back wages to keep the automaker in business.

A UAW spokesman said benefits definitely will be considered as Chrysler tries to lower its labor costs to $17.52 per worker per hour from the $22.11 projected by 1982. But any reductions will come primarily in wages and cost-of-living allowances, he said.

The 33,000-member Airline Pilots Assn. says the issue of pilot layoffs is the most important contract item for 1981.

John Bradley, manager of contract administration for ALPA, says aviators may agree to modest wage increases and ask the airlines to call back some of the 2,500 members on furlough.

"We'll be moderate because we've got a number of people on furlough and as a good union, we want to get them back to work," he said Losing or curtailing benefits is not a concern of the pilots who routinely receive two physical examinations a year and benefits unmatched by other industries because of the nature of their work.

The Union of Flight Attendants has reached a contract agreement with Continental Airlines that calls for a 30.5% pay raise over the next 27 months, but the union failed to win benefit or other concessions.

Benefit executives train

Continued from page 3

one said he got a $5,000 raise after receiving an MBA. He is the director of employee benefits for a pharmaceutical/medical products firm. Others who reported promotions held college degrees before taking their current jobs.

But all 41 participating board members agree continuing education is vital for doing the best job as benefit managers.

"Continual eduation is important in order to keep current and in order to have a fresh outlook concerning the entire field of employee benefits," said a corporate benefit manager of a $275 million medical equipment company.

More than 95% of the benefit managers surveyed hold undergraduate degrees. Only two of the 41 responding majored in insurance.

Graduate school also is popular among the board members. Sixteen hold a master's degree in business administration, two acquired master's in the arts and four earned law degrees.

New challenges

Constant changes in federal legislation, Social Security, asset management, industrial relations and pension plans almost require benefit managers attend classes, board members say.

"There is a change in concepts—what was OK yesterday is not OK today," said a corporate manager of employee benefits for a $2.3 billion agricultural processing company.

"Accounting changes, investment outlook of benefit field—it's all becoming very complex."

With employee benefits now costing almost 40% of salary, managers should learn to tighten up the administration of the plans, board members say. But only 29% of the board members are attending classes.

"Continuing education helps to develop a disciplined approach to problem-solving and assists in learning new education aids such as computer programming and skills," said a director of employee benefit planning and administration for a $5 billion energy/transportation company.

While most board members agree formal education is important, some believe on-the-job training along with a few seminars is enough education.

"I think the best approach is the continuing exposure to innovations or changes in benefits by attendance at conferences and ad hoc courses on specific topics," said a manager for benefit planning of a $3.5 billion chemical manufacturer. "This enables you to concentrate on current items rather than a general educational course which may or may not be applicable to your particular company. The information that I gather from exchanges in information from other companies' representatives at seminars is much more useful to me than a formal instruction session," he said.

Others say a mix of both formal education and the school of hard knocks is best for benefit managers.

"In my opinion, no degree can match on-the-job experience in the benefits area. There are no books that outline the countless usual and unusual situations that must be dealt with daily," said one board member.

Realizing the need for up-to-date information for the hard-working benefit administrator, the International Foundation of Employee Benefit Plans and The Wharton School of the University of Pennsylvania coordinated the first designation for employee benefit managers.

A benefit manager can take courses through Wharton and the IFEBP to become a Certified Employee Benefit Specialist. More than 7,000 people are working toward a CEBS designation, including four of the board members surveyed. Each student must complete 10 courses dealing with the legal and managerial aspects of benefit plans.

CEBS program

Formal classes are now being offered in 30 colleges across the country, but students can study independently for the various tests issued by Wharton.

One board member with no other formal education but who is working toward a CEBS advised, "Continue your education only in a special field—CEBS, for instance, is excellent in the employee benefits field—varying courses in human resources and managerial roles. They do well to keep you up-to-date on the issues as well as how to deal with various situations and problems." ■

Classes focus on benefits

BROOKFIELD, Wis.—A series of one-day benefit briefings sponsored by the International Foundation of Employee Benefit Plans will analyze current issues affecting Taft-Hartley employee benefit trust funds.

The first series of programs will be April 2 in San Diego; April 3 in Las Vegas; May 13 in Seattle; May 14 in San Francisco; June 3 in Huron, Ohio; June 3 in Washington, D.C.; Aug. 6 in Milwaukee, and Aug. 7 in Minneapolis.

A second series of corporate benefit management conferences will provide up-to-date information for those involved in administering corporate employee benefit plans.

The three-day programs are set for April 8-11 in Miami Beach; June 28-July 1 in St. Charles, Ill., and Sept. 30-Oct. 3 in San Francisco.

Concurrent sessions will be held for those new to the employee benefits field and for those who are experienced managers and supervisors.

More information about the programs may be obtained from the foundation, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700. ■

1981 will be 'difficult,' says A&A exec

By ELLIS SIMON

John A. Bogardus probably wishes it were 1982 already.

By then, Alexander & Alexander Services Inc. should complete its announced merger with Sedgwick Group Ltd. and the rampant ratecutting in the commercial insurance markets will subside, predicts Mr. Bogardus, A&A's chief executive officer.

"1981 will be a difficult year for this company and all brokers," he said. "I hope we'll be more profitable in 1981 than 1980, but it's extremely challenging."

A&A's earnings have been flat recently, but "flat earnings is pretty good in this environment," said Leonard Wilson, a financial analyst with First Manhattan Co. who follows insurance brokerage stocks.

Third-quarter net income of $13.4 million was only 2.3% greater than the $13.1 million reported a year earlier. Nine-month net income for the firm, the second largest U.S. insurance broker, was $44.8 million, a 9.2% gain over 1979's $41 million.

Only Marsh & McLennan, the nation's largest broker, outperformed A&A among brokers on growth of profits, Mr. Wilson said. Other large brokers saw their earnings drop in 1980.

Ratecutting reduces a broker's profitability. Lower rates mean smaller commissions, but the amount of work needed to service an account rises or, at best, remains the same.

"In an environment like this, someone can come out of left field (with a lower quote)," Mr. Bogardus said. "You have to cover more bases since almost every market will be competitive."

To remain profitable, a broker must control its costs and produce more business, he maintains. Cost-control options are limited, however, and the price of acquiring new accounts often exceeds the first-year revenues they produce, he notes.

Hiring of new personnel can be delayed and advertising budgets can be reduced, but limited pruning can be done in other expense areas, Mr. Bogardus says.

Brokers maintain a heavy travel schedule and A&A, despite careful control, is budgeting 20% more for travel because of anticipated higher costs.

A&A could save "a couple of million dollars overnight" by eliminating research and development, but Mr. Bogardus says that would be "false economy."

"We have to keep increasing the state of the art," he said. "Risk managers and corporate financial people are more sophisticated and looking for sophisticated answers to their problems. It's the way you stay ahead."

Last year was A&A's best for production of new business, Mr. Bogardus says. The firm gained "significant parts" of about 10 Fortune 500 accounts while losing none, he says. One Fortune 500 account that left the firm in 1979 affected 1980 results, however.

Mr. Bogardus predicts the current market cycle will begin to turn late in 1981, but will have little impact this year. The tightening market will have a moderate impact on 1982 results and a more significant impact on 1983.

Meanwhile, A&A will continue to diversify into financial service areas that are not subject to the insurance industry's cyclical behavior.

In July, A&A acquired Montag & Caldwell, an Atlanta-based investment counseling firm, adding it to a property tax service already under A&A's financial services umbrella.

A&A probably will continue to seek diversification in the financial services area, but will be "selective" in what it does and cautious about putting its resources at risk, Mr. Bogardus says. Diversification will concentrate on consulting areas, he adds.

Acquisition of small brokerage firms also will continue, but at a slower pace, Mr. Bogardus says. "As long as we feel there are new territories with good 10-year growth patterns ahead or we see special talent situations, mergers will continue."

One merger that will have a dramatic impact on A&A is the recently announced combination with Sedgwick Group Ltd. of London. The firms have combined revenues of $672.6 million and insurance operations would exceed those of recently combined M&M/C.T. Bowring (*BI*, Dec. 22). ■

BI ticker

BI stock index closes 1980 on the rise

The Business Insurance index of 72 insurance industry stocks closed 1980 on the rise but short of its record 1980 high. The Dec. 26 index value of 162.6 is up from 158.7 on Dec. 19 and 139.4 on Jan. 8, 1980, but down from the 1980 record high of 170.4 struck on Oct. 7. The base of 100 was at year-end 1978.

The average 2.4% gain of insurance stocks for the week outpaced the leading stock indicators except the Dow Jones Industrials, which gained 3.1% for the same period. Biggest gainers for the week ending Dec. 26 were Connecticut General Insurance Corp., up 9%; Northwestern National Life Insurance, up 9.7%; U.S. Life Corp., up 25.5%, and Alexander & Alexander, up 9.2%. The biggest loser of the week was Aneco Reinsurance Ltd., down 7.7%. Of the 72 stocks, 45 posted gains, 10 posted losses and 17 were unchanged.

For 1980, the BI index hit its low on March 31: 119.5. Steadily climbing throughout the spring, summer and early fall, the index hit its year-high of 170.4 on Oct. 7. The index value deteriorated until Dec. 19, when it turned up to 158.7 from 154.9 on Dec. 16.

Among the biggest gainers at year-end 1980 compared with year-end 1979 were Connecticut General Insurance Corp., up 35.9%; Ryan Insurance Group Inc., up 85.4%, and INA Corp, up 26.1%. The biggest loser for the year-end price comparison was Aneco, down 37.9%.

Mergers and acquistions prompted changes in the make-up of companies forming the BI Index. Added to the index during 1980 were Penncorp Financial Inc., U.S. Life Corp. and Armco Inc. with its acquisition of NN Corp. Deleted from the index during the year were Penn General Agency, Southwestern Life, Standard Life of Indiana, Globe Life & Accident, ERC Corp., and NN Corp. Also, at year-end American Bankers Insurance Co. of Florida was replaced with its new owner, American Bankers Insurance Group.

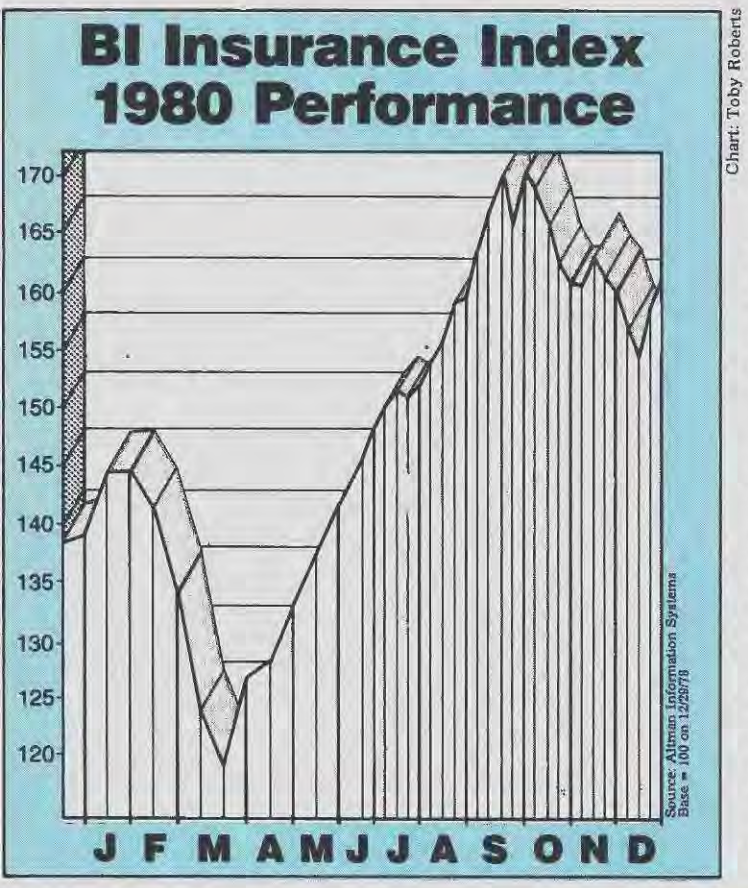


Chart: Toby Roberts

The complete listing of stocks to be charted in the BI index for 1981 follows: Aetna Life & Casualty Co., American Bankers Insurance Group, American Financial Corp. of Ohio, American General Corp., American Indemnity Financial Corp., American International Group Inc., American National Insurance Co., Armco Inc., American States Life Insurance Co., Aneco Reinsurance Ltd., Appalachian National Corp., Avemco Corp., Bankers of Iowa Inc., Bitco Corp., Carolina Casualty Insurance Co., Central National Financial Corp., Chubb Corp., Combined International Corp., Connecticut General Insurance Corp., Continental Corp., Crawford & Co., Crown Life Insurance Co., Crum & Forster, Employers Casualty Co., Equifax Inc., Farmers Group Inc., First Colony Life Insurance Co., Foremost Corp. of America, General Reinsurance Corp., Great West Life Assurance Co., Hanover Insurance Co., Hartford Steam Boiler Inspection Co., Integon Corp., Jefferson National Life Insurance Co., Kemper Corp., Lincoln National Corp. of Indiana, MGIC Investment Corp.

Also, Mission Insurance Group Inc., Nationwide Corp. of Ohio, Northwestern National Life Insurance Co., Ohio Casualty Corp., Old Republic International Corp., Pinehurst Corp., Preferred Risk Life Insurance Co., Provident Life & Accident Insurance Co., Penncorp Financial Inc., Republic National Life Insurance Co., Ryan Insurance Group Inc., St. Paul Cos. Inc., SAFECO Corp., SRI Corp., Statesman Group Inc., Tokio Marine & Fire Insurance Co., The Travelers Corp., United Fire & Casualty Co., United States Fidelity & Guaranty Co., United Services Life Insurance Co., U.S. Life Corp., Washington National Corp., Zenith National Insurance Corp., CNA Financial Corp., INA Corp.

Ten publicly held brokers also included are: Alexander & Alexander Services, Baldwin & Lyons Inc., Corroon & Black Corp., E.H. Crump Cos. Inc., Frank B. Hall & Co., Integrated Resources Inc., Fred S. James Co. Inc., Marsh & McLennan Cos. Inc., Reed Stenhouse Cos. Ltd., Rollins Burdick Hunter Co.

BI Industry Stock Report

Insurance Cos.		DEC. 26, 1980 Price	% Chg.	P E	$ Div.	%Yld.	12/22/80 THRU 12/26/80 High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	35.63	0.4	5.3	2.12	6.0	36.88	35.63	403.1
American Bankers Ins Co Fla	OTC	6.38	0.0	12.5	0.44	6.9	0.00	0.00	0.0
American Finl Corp Ohio	OTC	25.13	6.9	4.7	0.50	2.0	25.13	23.75	13.1
American Gen Ins Co	NYSE	36.88	0.0	5.8	1.00	2.7	37.25	36.50	47.7
American Indty Finl Corp	OTC	15.38	6.0	5.1	1.12	7.3	15.38	15.25	7.0
American Intl Group Inc	OTC	74.50	4.9	10.5	0.50	0.7	74.50	72.75	102.2
American Natl Ins Co	OTC	13.00	3.0	5.4	0.68	5.2	13.00	12.75	53.8
American Sts Life Ins Co	OTC	19.50	0.0	8.1	0.72	3.7	19.50	19.50	0.2
Aneco Reins Ltd	OTC	4.50	-7.7	0.0	0.00	0.0	4.63	4.50	31.7
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	1.4
Avemco Corp	AMEX	8.50	4.6	7.3	0.50	5.9	8.50	8.25	9.5
Banks Iowa Inc	OTC	26.50	0.0	5.0	1.32	5.0	26.50	26.50	1.4
Bitco Corp	OTC	36.50	1.4	5.8	1.68	4 6	36.50	36.50	1.1
Carolina Cas Ins Co	OTC	10.00	-2.4	4.3	0.32	3.2	10.25	10.00	0.5
Central Natl Finl Corp	OTC	10.75	0.0	4.2	0.50	4.7	10.75	10.75	0.3
Chubb Corp	OTC	39.25	1.9	4.9	2.68	6.8	39.25	39.25	65.1
Combined Intl Corp	NYSE	18.00	5.9	5.3	1.60	8.9	18.00	17.63	158.3
Connecticut Gen Ins Corp	NYSE	46.88	9.0	6.4	1.52	3.2	48.00	45.50	145.3
Continental Corp	NYSE	24.88	1.5	5.3	2.20	8.8	24.88	24.00	137.7
Crawford & Co	OTC	17.75	0.0	13.9	0.48	2.7	17.75	17.75	2.0
Crown Life Ins Co	OTC	95.00	0.5	68.8	2.40	2.5	95.00	95.00	0.0
Crum & Forster	NYSE	28.00	3.7	5.2	1.44	5.1	28.88	28.00	234.4
Employers Cas Co	OTC	39.75	0.0	6.5	1.20	3.0	39.75	39.75	0.0
Equifax Inc	NYSE	20.63	3.1	6.7	2.40	11.6	20.88	20.00	2.6
Farmers Group Inc	OTC	27.88	5.7	8.8	1.00	3.6	27.88	27.38	124.7
First Colony Life Ins Co	OTC	33.00	6.5	12.2	0.80	2.4	33.50	32.00	5.4
Foremost Corp Amer	OTC	20.13	1.9	7.2	0.60	3.0	20.13	19.88	76.3
Great West Life Assurn Co	OTC	195.00	0.0	9.7	8.00	4.1	195.00	195.00	0.3
Hanover Ins Co	OTC	44.00	6.0	4.0	0.72	1 6	44.00	42.00	28.0
Hartford Steam Boiler Insptn	OTC	33.50	1.5	7.0	2.40	7.2	34.00	33.00	2.6
Integon Corp	NYSE	38.63	1.0	13.7	0.52	1.3	38.63*	38.25	130.0
Jefferson Natl Life Ins Co	OTC	41.50	0.0	15.3	0.64	1.5	42.00	41.50	10.1
Kemper Corp	OTC	32.63	5.2	4.8	1.40	4.3	32.63	32.13	30.2
Lincoln Natl Corp Ind	NYSE	39.88	2.9	5.6	3.00	7.5	39.88	38.50	50.9
Mgic Invt Corp	NYSE	31.00	0.8	8.7	1.12	3 6	31.25	30.75	213.0
Mission Ins Group Inc	NYSE	34.75	3.7	7.1	0.80	2.3	35.75	34.75	54.0
Nationwide Corp Ohio	OTC	20.00	0.0	5.0	0.66	3.3	20.00	20.00	1.5
Northwestern Natl Life Ins	OTC	26.75	9.7	5.8	1.25	4.7	26.75	25.25	31.5
Ohio Cas Corp	OTC	33.63	0.4	5.5	1.76	5.2	33.88	33.50	48.5
Old Rep Intl Corp	OTC	15.25	3.4	3.8	0.92	6.0	15.38	14.88	85.9
Pinehurst Corp	OTC	6.25	-3.8	11.6	0.00	0.0	6.50	6.25	18.8
Preferred Risk Life Ins Co	OTC	17.00	0.0	6.1	0.64	3.8	17.00	17.00	0.8
Provident Life & Acc Ins Co	OTC	45.50	2.2	5.9	1.88	4.1	45.50	44.50	9.1
Republic Natl Life Ins Co	OTC	24.50	1.0	13.6	0.70	2.9	24.50*	24.25	121.6
Ryan Ins Group Inc	OTC	28.50	0.0	8.5	0.12	0.4	28.50	28.50	0.1
St Paul Cos Inc	OTC	38.38	3.0	5.2	2.32	6 0	38.75	38.25	49.2
Safeco Corp	OTC	36.50	4.3	5.5	2.00	5.5	36.63	36.25	45.8
Sri Corp	OTC	24.25	1.0	4.5	1.20	4.9	24.50	24.00	8.8
Seibels Bruce Group Inc	OTC	21.75	1.2	3.8	1.00	4.6	21.75	21.50	16.5
Statesman Group Inc	OTC	5.38	-2.3	4.0	0.15	2 8	5.38	5.25	5.6
Tokio Marine & Fire Ins Co	OTC	154.25	0.1	17.1	1.03	0.7	155.50	154.25	5.1
Travelers Corp	NYSE	39.25	3.0	4.4	2.48	6.3	40.63	39.25	452.0
United Fire & Cas Co	OTC	27.00	0.0	7.5	0.90	3.3	27.00	27.00	0.0
United States Fid & Gty Co	NYSE	42.00	6.3	4.7	2.80	6.7	42.00	41.00	102.9
United Svcs Life Ins Co	OTC	15.13	-0.8	5.5	0.96	6.3	15.25	15.13	15.8
Uslife Corp	NYSE	25.25	25.5	6.3	0.72	2.9	25.25*	20.88	227.7
Washington Natl Corp	NYSE	39.50	1.9	8.1	1.50	3.8	39 75	39.38	30.0
Zenith Natl Ins Corp	OTC	18.75	5.6	9.9	0.63	3.3	18.75	18.50	12.8
INSURANCE COMPANIES	AVERAGE			7.2		3.8			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	32.75	9.2	10.7	1.64	5.0	32 75	31.00	185.1
Baldwin & Lyons Inc	OTC	31.50	-2.3	5.9	0.80	2.5	32.00	31.50	9.2
Corroon & Black Corp	NYSE	21.63	-1.7	8.8	1.72	8.0	22.13	21.63	11.9
Crump E H Cos Inc	OTC	12.63	1.0	11.0	0.40	3.2	12.63	12.50	4.7
Hall Frank B & Co Inc	NYSE	23.50	6.8	8.0	1.54	6 6	23.63	23.13	103.8
Integrated Res Inc	AMEX	18.75	2.0	9.4	0.00	0.0	19.13	18.25	23.8
James Fred S & Co Inc	NYSE	24.50	3.7	9.2	1.60	6 5	25.00	24.00	24.4
Marsh & Mclennan Cos Inc	NYSE	34.25	6.6	10.9	2.00	5 8	34.25	33.00	210.0
Penncorp Fincl Inc	NYSE	7.13	3.6	5.2	0.16	2 2	7 13	6 88	227.2
Reed Stenhouse Cos Ltd	OTC	11.63	-1.1	9.9	0.56	4 8	12.00	11.50	6.2
Rollins Burdick Hunter Co	OTC	21.25	0.0	9.7	1.24	5.8	21.25	21.25	4.6
AGENTS/BROKERS	AVERAGE			8.7		4.9			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	40.00	1.6	7.8	2.00	5.0	40.00	38.88	445.8
Anderson Clayton(Ranger/PanAm)	NYSE	21.00	1.2	5.6	1.20	5.7	21.00	20.75	68.4
Armco Inc	NYSE	36.13	-1.4	7.1	1.64	4.5	36.63	36.00	116.9
City Investing Co. (Home Ins.)	NYSE	21.75	-2.2	4.9	1.50	6 9	22.25	21.75	276.6
CNA Finl Corp (CNA)	NYSE	15.63	-3.8	4.3	0.00	0.0	16.00	15.63	17.7
Control Data (Comml. Credit)	NYSE	75.38	8.5	9.7	0.60	0.8	75.38	71.00	167.8
General Re Corp	NYSE	51.63	1.7	0.0	1.40	2.7	51.63*	51.00	73.4
INA Corp (Ins. Co. of NA)	NYSE	41.50	6.4	6.0	2.40	5.8	41.50	41.38	271.1
ITT (Hartford Group)	NYSE	30.88	5.6	5.9	2.60	8.4	30.88	30.00	642.5
Reliance Group Inc	NYSE	71.25	0.0	2.8	3.00	4.2	71.25	71.25	6.2
Sears Roebuck & Co. (Allstate)	NYSE	15.88	6.7	8.6	1.36	8.6	15.88	15.75	2,215.5
S & H Co. (Bayly Martin & Fay)	NYSE	26.88	1.4	13.3	1.00	3.7	26.88	26.38	35.2
Teledyne Inc (Argonaut)	NYSE	219.50	0.8	9.8	0.00	0.0	222.50	217.00	114.3
Transamerica Corp (Occidental)	NYSE	18.63	4.2	5.2	1.28	6.9	19.00	18.63	205.0
CONGLOMERATES/HOLDING COS.	AVERAGE			7.0		2.9			

*Record high/low since Jan. 1, 1980.

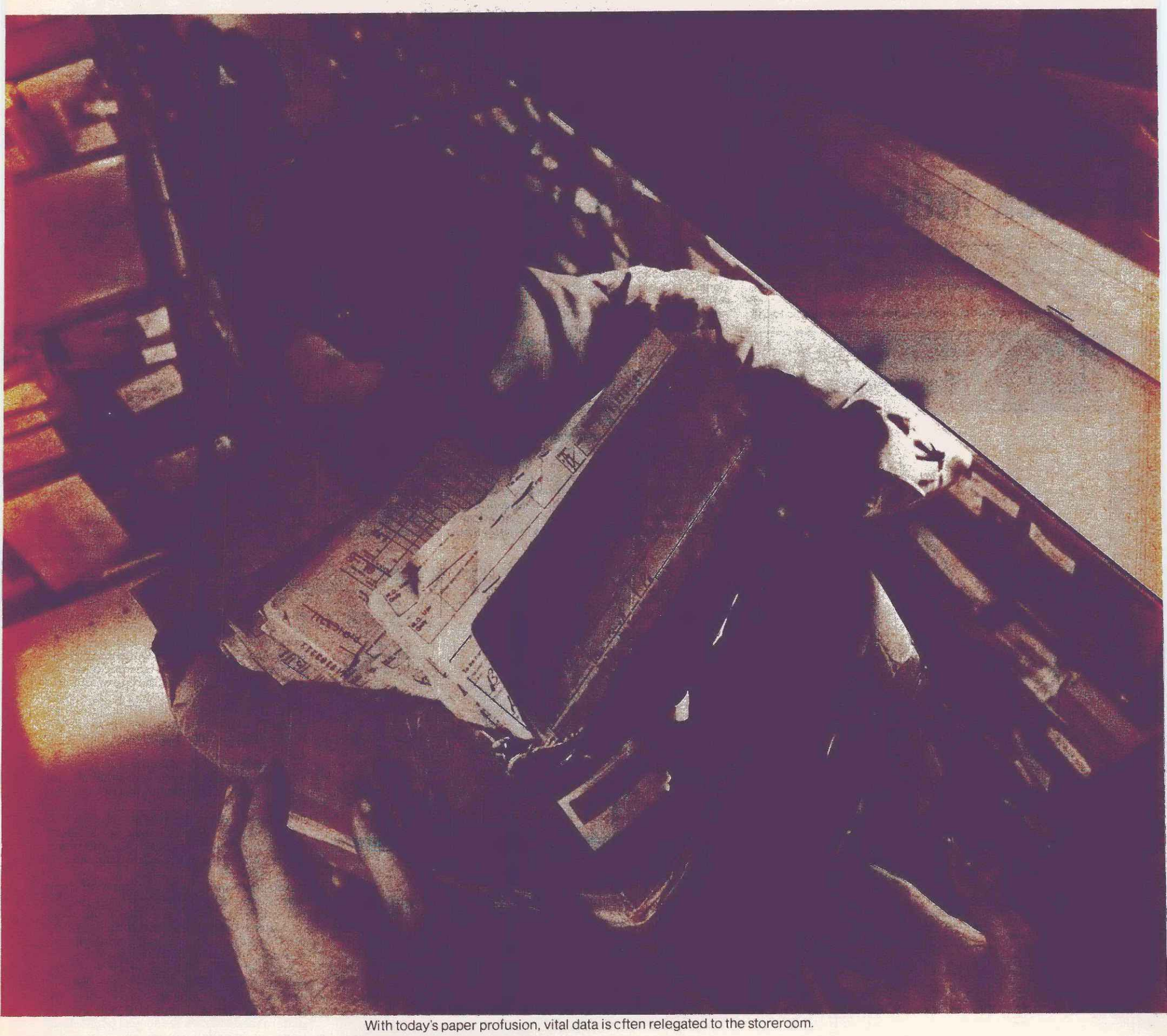
System design: Altman Information Systems

British Issues

12/29 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	136	7.2	14.57	10.7	137—	135
Eagle Star	223	7.7	14.28	6.4	224—	222
Genl Accident	296	7.6	18.24	6.2	296—	292
Gdn Royal Exch	298	7.8	20.71	6.9	298—	294
Phoenix	250	7.8	20.00	8.0	252—	248
Royal	347	7.7	32.17	9.3	353—	347
Sun Alliance	700	9.5	42.14	6.0	704—	696
Brokers						
CE Heath	180	8.8	13.87	7.7	182—	178
Hogg Robinson	111	8.2	8.14	7.3	112—	110
Alex Howden	96	8.0	10.00	10.4	97—	95
JH Minet	91	11.0	6.45	7.1	91—	90
Sedg Grp	115	10.6	7.14	6.2	118—	113
Stenhouse Hldg	84	8.0	6.64	7.9	85—	83
Stew Wrightson	192	8.0	17.14	8.8	195—	192
Willis Faber	270	12.0	16.14	5.9	273—	270

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

An innovative view of information retrieval



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To make risk management more like other business functions, Alexander & Alexander developed a unique insurance broker service—ARIS (Alexander Risk Information Service). ARIS viewed loss records through the eyes of those trying to cope with them. We learned that vital facts lay buried in the mass of records. That loss data is meaningless unless it can be manipulated and made manageable. And that from frustration come possibilities, then concepts and, finally, new systems to turn mass data into effectual risk information.

Integrated, computerized data on demand

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