

How do risk managers like their jobs?

Positive 94%

Negative 2%

Neutral 4%



A landslide! Risk managers love their jobs, survey shows

CHICAGO—Risk managers, we've discovered, are a remarkably positive group of people. Despite periodic discordant notes, risk managers as a group resound a harmonious tune when asked to reveal their feelings about their jobs, their relationships with brokers and their opinions of underwriters.

Furthermore, they turned out in greater numbers than ever before to participate in the latest *Business Insurance* opinion poll of Editorial Advisory Panel members. One hundred managers told us of their attitudes toward their work and the industry

they're involved in.

The most important finding this time was that risk managers are overwhelmingly enthusiastic about their jobs. Is the grumbling and grumbling often heard from this select group only for show? Must be, since 94 risk managers who serve on our panel said they feel positively toward their jobs, citing 35 different reasons why they like what they're doing and how exciting their jobs are.

Consider this testimonial, for example: "It is the most dynamic way I can think of to make a living!"

Only two risk managers re-

vealed negative feelings about what they do, while another four stumbled ambivalently into the response that they are "neutral" about their jobs.

Similarly, risk managers were high on their brokers and underwriters, although their enthusiasm waned from the levels expressed when asked about job attitudes.

On brokers and underwriters:

- 92 of the panelists described their working relationship with their brokers as generally good.

- 84 risk managers rated the effectiveness of their brokers as

Continued on Page 28

Damm & Associates

Firm says its plan cuts hospital costs

By SUSAN ALT

CLEVELAND—Corporate medical directors and employee benefit managers are teaming up to cut outlays for hospital benefits.

There's a third party involved, too. Damm & Associates based here is completing feasibility studies for four major corporations in which it hopes to pinpoint problems in the quality of care at hospitals, abnormally high use of risky medical procedures and high rates of unnecessary surgery.

For seven years Damm & Associates has been studying how well hospitals comply with established medical standards. The firm wanted to ascertain the quality of care delivered by doctors in hospitals, where 85% to 90% of preventable malpractice claims occur.

Damm has recently enlisted Sun Co. of Philadelphia, TRW Inc. of Cleveland and Uniroyal Inc. of Middlebury, Conn., as customers for initial feasibility stud-

ies to determine areas where Damm's findings could be applied to controlling hospital costs.

The company in April completed a study for American Telephone & Telegraph Corp. designed to help AT&T establish a method to calculate utilization of its hospital and medical plans.

Although none of the corporations has yet signed up for the second phase of the three-part program, the companies' medical directors and benefit executives have joined in a "user's group" to explore the Damm approach.

Damm believes that employers in a hospital district can influence the amount and quality of hospital care if they band together and use the firm's data on hospital procedures being paid under benefit programs. Hospitals would be forced to abide by standards already set up within the profession. The consulting firm designates questionable procedures for

Continued on page 26

business insurance

the national newsmagazine of loss prevention, risk financing and employee benefit management

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Week of July 11, 1977

State takes over insurer after severe trust losses

By GREG DAVID

BOSTON—The state insurance department has taken control of a Massachusetts life insurance company in the wake of severe losses connected with a multiple employer trust.

Loyal Protective Life Insurance Co. of Boston was losing \$6,000 an hour in early July on policies issued by Consolidated Group Trust, according to Keith Rodney, deputy insurance commissioner.

Sixty percent of the company's business was written through the trust, he said.

Consolidated Group Trust (CGT) is based in Framingham, Mass., and provides medical and life coverage. The trust's primary target is groups of three to 100 persons, said CGT vp Michael Clark. He confirmed a figure supplied by Mr. Rodney that 300,000 persons are presently insured with Loyal through CGT.

The fate of coverage for those individuals remains unclear. Mr. Rodney said he was involved "in sensitive negotiations" with a number of insurance companies to obtain a new underwriter for the risks. A press release issued by the department in late June said claims were being paid.

Two large self-funded multiple employer trusts collapsed earlier in California, but the CGT-Loyal problems are the first this year involving an insured trust. The CGT-Loyal situation appears very similar to the situation involving Old Republic Life Insurance Co. of Chicago in early 1976.

CGT was formed in April 1971.

The trust began by insuring groups of three to 15 lives with The Hartford Insurance Co., but soon decided it wanted to work with larger groups. In August 1971 the trust began its relationship with Loyal Protective for groups over 10 while The Hartford remained the insurer for groups of three to nine persons in Massachusetts.

The trust began a national advertising campaign in insurance publications in late 1976. According to those ads, the trust han-

dled \$60 million in annual premiums since 1971. An advertisement in early 1977 said 5,000 new companies would join the trust this year.

The Lumbermans Mutual Insurance Co., one of the Kemper Cos., insured the trust's dental coverage.

Loyal Protective set the rates charged by the trust and paid claims, according to Mr. Clark. CGT prepared proposals, handled some administrative work and

Continued on page 31

The inside story

- FIREMAN'S FUND will not write any excess policies over Chubb & Son primary coverage. **Page 2.**
- NATIONAL AIRLINES pact improves medical, dental benefits. **Benefit Beat, Page 3.**
- SEN. BROOKE'S controversial dual regulation bill is offered again with few surprises. **Page 4.**
- AIR BAGS will not lower fleet premiums for some time, it appears. **Page 2.**
- HIGHER WORK comp costs for ship terminals may follow a Supreme Court decision. **Page 7.**
- RETENTIONS "CLEANUP" a Washington sanitary district's insurance problems. **Page 8.**
- AN HMO, the first for Manhattan, plans a September opening. **Page 11.**
- NURSING HOME operators should examine their fire statistics. **Editorial, Page 12.**
- BENEFIT CHIEFS: You need to use more computers. **Perspective, Page 19.**
- VERY GOOD profits leave insurers with a concept to sell. **riskWatch, Page 29.**

The people column
page 30

Reciprocal targets Illinois municipalities

By KATHRYN McINTYRE ROBERTS

BLOOMINGTON, Ill.—A new municipal liability insurance market is opening up in Illinois—but to shop there, local governments will have to invest some money.

A reciprocal insurance exchange is being formed to provide Illinois cities, towns and counties with general liability insurance and its attendant fringes, as well as automobile liability and physical damage coverage. The capital will be raised from the subscribers.

James I. Bliss, president of Bliss Insurance here, is president of Governmental Insurance Managers Inc. (GIM), a new corporation formed as the attorney-in-fact for the reciprocal. The Illinois insurance department has issued GIM a permit to solicit

subscribers to the reciprocal.

Illinois requires \$1.5 million of capital for licensing a reciprocal, but GIM is shooting for double that by September to begin accepting risks. Subscribers will be assessed for capital on the basis of their population: \$3 per person for cities and \$1.50 per person for counties.

Although the first reciprocal was created in 1881, Mr. Bliss believes Governmental Interinsurance Exchange (GIE) is the first reciprocal formed for local government units.

In Illinois, the exchange offers municipalities—such as suburban Chicago communities now considering self-funding and pooling their risks—another risk funding option.

Mr. Bliss and Bliss Insurance staff know the municipal lia-

Continued on page 25

Air bag decision's impact on corporate fleets is uncertain

By FRANK MARKOWITZ

NEW YORK—The impact on corporate fleet insurance of Transportation Secretary Brock Adams' decision to require air bags is uncertain.

Secretary Adams ruled June 30 that air bags or other passive restraint systems must be installed on all new cars by 1984.

The standard discount, 30% off personal injury and medical coverages, does not apply to fleet insurance which is usually experience-rated. Phil Brown, assistant director of The Travelers Insurance Co.'s commercial lines department, explained that Travelers bases its new fleet premiums not on its own personal lines rates, but follows Insurance Services Office guidelines for discounts.

If the air bags improve a company's fleet accident record, premiums will reflect this within two or three years, Mr. Brown said. But even if underwriters used national accident data, there would be some delay between the 1982 model year introduction of air bags and a drop in premiums.

ISO does not suggest any air bag discounts for fleets yet, although it has been considering the idea for several years. "Certainly prior to 1982 there will be a decision announced," an ISO spokesman said.

There is widespread belief, however, that commercial discounts will become commonplace before then. "I'd expect that competition would result in widespread discounts," said Donald Segraves, vp of American Mutual Insurance Alliance.

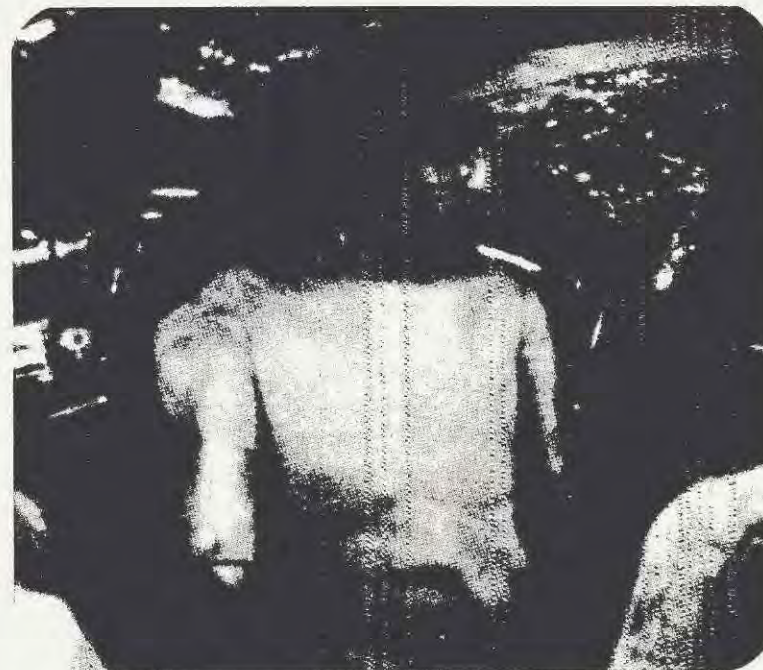
Allstate was first to offer the air bag discount in late 1973. Others now giving individuals lower premiums include Travelers Insurance Co., Government Employees Insurance Co., Volkswagen Insurance Co. and Nationwide Mutual Insurance Co. Prudential Property & Casualty Co. is seeking approval in a number of states for such a discount.

Some insurers, including Volkswagen, consider passive belts or harnesses as devices qualifying for the premium cut. Others, such as Travelers and Allstate, do not.

Insurers pointed out that the discount is not as large as it might seem. A Travelers spokesman said that the discount is only subtracted from first-party bodily injury coverage. Since about 20% of an individual's auto premiums go toward this coverage, the discount should be worth between \$10 and \$80 in most cases.

In states without no-fault insurance, medical coverage takes the place of personal injury coverage. Since medical coverage values and premiums tend to be lower, the dollar value of the discount may be less. While a Travelers spokesman said that it is impossible to make any generalizations on this matter, his figures indicate that discounts in some states without no-fault might fall in the \$7-\$40 range.

Whatever the ramifications of the air bag order, corporate insurance and risk managers hardly seem to have noticed the decision. Executives at Avis Inc., Heublein Inc., and the Gillette Co., all large fleet owners, said they didn't know how the air bag ruling



These two pictures illustrate the effect of air bags. At top, an air bag protects a dummy passenger in an accident. At the bottom, the dummy crashes into the dashboard, probably causing serious injury. Air bags will save more lives than any other single decision made in the development of the automobile, contends Allstate chairman Archie R. Boe.

would affect their fleet insurance premiums.

Automakers similarly said they didn't know what the effect of the order on their product liability insurance would be although they had complained to Mr. Adams that their rates would go up with the introduction of the devices. A General Motors Corp. spokesman acknowledged a report that Allstate had offered to insure air-bag equipped cars at the same terms as GM's present product liability insurer. He said, however, that "nothing had been finalized."

Mr. Adams' decision, which he said could save as many as 9,000 lives a year, reversed an earlier department decision by former

Secretary William Coleman to put off mandatory restraint system requirements for six or eight years in return for a demonstration offering by automakers.

Mr. Adams said he had ordered the air bags' installation because "too many people have needlessly been injured or killed in crashes where passive restraints could have saved them. I cannot in good conscience be a party to further, unnecessary delay."

If not overturned by Congress by September, the decision will force domestic and foreign car makers to install either air bags or automatic restraining devices on standard and luxury cars by the 1982 model year. Smaller car manufacturers have until the 1984 model year to install the devices. Air bags will add \$100 to \$300 to the price of a car, while lap and shoulder restraints will run \$25 to \$100, according to Mr. Adams.

Archie R. Boe, chairman of the board of Allstate Insurance Co., predicted that the decision to make air bags mandatory "will save more lives and prevent more injuries than any other single decision made in the development of the automobile."

New subsidiaries

Intermec, an underwriting manager in Greenwich, Conn., has formed three subsidiaries. They are Intermec North America Inc., Americar Claims Management Corp. and E. D. P. Management Services Inc.

Fireman's won't write excess over Chubb policy

By REBECCA A. FANNIN

NEW YORK—Fireman's Fund Insurance Co. has instructed its regional managers not to write any excess insurance coverage over primary policies written by Chubb & Son Inc., according to Richard Jankowski, sales manager at the Chicago office of Fireman's Fund.

Mr. Jankowski termed the situation "unusual," adding that refusal to write excess coverage usually occurs "because of the financial situation of the primary carrier."

It couldn't be determined whether Fireman's Fund's decision affected excess property, liability or surety bond coverage.

Chubb & Son incurred a loss and expense ratio amounting to 119% during the last three years for its fidelity bonds. However, an official notice to Fireman's Fund offices claimed that the decision did not relate to Chubb & Son's recent financial difficulties.

The notice didn't indicate why the problem occurred, Mr. Jankowski said.

An initial unconfirmed report indicated the Fireman's Fund notice had possibly arisen because of a too-liberal Chubb stance on claims settlements.

At Chubb & Son, Jim Blair, vp, commented "that something is amiss," with Fireman's Fund, but that his company "does not know what the devil the problem is."

"We are aware that they (Fireman's Fund) sent some communication out" concerning refusal to write excess over Chubb, Mr. Blair said, but "they did not mention why the problem occurred. We're totally in the dark" about why this happened, he added.

In the notice to its regional managers, Mr. Jankowski said, Fireman's Fund said it hopes "the situation will be short term."

At the Fireman's Fund home office in San Francisco, Ray Gardner, assistant excess manager, refused to comment, saying only, "If Chubb wants to confirm something, then that's their problem."

Comments urged on acrylonitrile

WASHINGTON—With a view toward issuing a possible emergency standard, the Occupational Safety and Health Administration (OSHA) is asking employers to submit data on the effects of worker exposure to acrylonitrile, a chemical used in the manufacture of acrylic fibers, plastics and synthetic rubber.

OSHA officials fear that prolonged exposure to the chemical may cause cancer. A recent study conducted at a South Carolina textile fibers plant found that workers exposed to acrylonitrile had a higher than average incidence of lung and colon cancer, according to OSHA.

Comments should be submitted by July 29 to the Docket Officer, Docket H-103, Room S6212, U.S. Department of Labor, 3rd St. and Constitution Ave., NW, Washington, D.C. 20210.

GUIDE TO FEATURES

Benefit Beat	3
Editorial Opinions	12
Letters	12
Info for Buyers	22
London Line	15
Around the States	21
Perspective	19
RiskWatch	23
Dates for Buyers	22

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the benefit beat

Airline contract improves medical, dental plans

NATIONAL AIRLINES and the Air Lines Employees Assn. have agreed on a new three-year contract covering 3,200 sales agents, station employees and office personnel that improves the company-paid medical and dental insurance plans and adds a company-paid vision care plan. The major medical benefit was increased to \$250,000 over a three-year benefit period from \$50,000 over a two-year period. Reimbursement for miscellaneous hospital expenses was upped to \$1,000 from \$750 and the surgical schedule was increased to \$750 from \$600. Dental dependent coverage was improved to equal the employee coverage at 75% reimbursement over a \$15 annual deductible with a maximum annual benefit of \$750. Periodontics were added to the plan at 50% reimbursement and orthodontic treatment for dependent children was added, payable at 50% up to \$1,000 per child. The new vision plan provides for one eye exam at \$12.50, one set of lenses at \$40 and one set of frames at \$7.50 per year. Wages will be boosted an average of 26% over the next three years. The agreement was reached under unique conditions suggested by the National Mediation Board which provided that the union would limit itself to 10 opening proposals, observe strict time limits for direct talks and, if necessary, go to mediation. If the procedures had failed to produce a settlement, any remaining economic issues would have gone to arbitration with a guaranteed 10% pay raise. Other outstanding issues would have remained in negotiation but could not have been the basis for a strike by the union nor a lockout by National.

EQUITABLE LIFE Assurance Society of the U.S. won three group benefit accounts. The first, for Beth Israel Hospital in New York, is a group life account for 1,650 employees with a life volume of \$56 million and annual premiums of \$140,000. Frank B. Hall is the broker on the account, which was formerly written by Union Mutual Life Insurance Co. The second piece of business is a \$2.5 million premium life/health account for 3,000 employees of Leaseway Transportation Corp. of Beachwood, Ohio. The Wyatt Co. of Chicago was the consultant for Leaseway on the account. The third account is a group life policy written for employees of a Houston-based petroleum industry concern, Western Co. of N. A. Johnson & Higgins is the broker for the business, which has a life volume of \$62 million.

CLOTHING AND TEXTILE workers won pension plan improvements from the Clothing Manufacturers Assn. in a new three-year contract. Beginning in January, monthly pensions will be upped \$5 each year until the present minimum \$100-a-month benefit reaches \$115 in 1980. The increases will be funded by a 2% of payroll increase in employer contributions to the fund for a total pension fund cost to 700 manufacturers of 13.6% of payroll. The agreement, covering 80,000 men's and boys' apparel industry workers, continues a 6.7% of payroll contribution by employers to the social insurance fund, but it may be increased by .4% if an actuarial review deems the increase necessary. The contract provides total pay increases of \$1.10 an hour, a graduated cost-of-living adjustment tied to

the consumer price index and two additional paid holidays.

MADISON WIS., has covered pregnancy as any other disability since 1972 without adverse economic impact. A woman disabled by pregnancy first uses up all her sick leave and then draws disability benefits—65% of wage—for as long as her physician says she is disabled. In 1976, eight maternity related disability cases out of 1,700 contracts accounted for 50 days of sick leave and 362 days of disability. The length of absence ranged from 20 days to 80 days and averaged 6.25 days of sick leave and 45.25 days of disability per pregnancy. Costs averaged \$257 for sick leave and \$1,208 for disability for a total aver-

age cost per pregnancy, excluding medical care, of \$1,465. Risk manager Dennis Tweedale said from Madison's experience, he doesn't think the cost of covering pregnancy as any other disability warrants the current employer arguments against it.

MANDATORY MATERNITY benefits have been upheld by the New York Supreme Court. Last December the state insurance department ruled that accident or health policies written in the state must cover maternity care on the same basis as any other illness. The Health Insurance Assn. of America challenged the ruling, arguing that they were deprived of "due process" since the decision would raise costs

and deter persons from purchasing health insurance. They also said they were not given enough time to comply with the ruling. The judge dismissed the first contention, but ordered a hearing on whether the companies received sufficient time. It appears mandatory maternity benefits are required, but as of when remains to be determined.

RECONSTRUCTIVE BREAST cancer coverage will not be cancelled by Blue Cross/Blue Shield of Massachusetts. The coverage was to have been ended July 1 except as a rider to group policies, but a public outcry developed in the state. Blue Cross announced it would continue the coverage, attributing the decision

to a continuing review of the medical evidence rather than to the public opposition. Reconstructive surgery will now be covered when it is a separate operation from the cancer surgery. Reconstructive surgery done at the same time as a mastectomy has a high rate of failure, the plans said.

FRANKLIN COUNTY in Ohio (Columbus) is saving \$600,000 in health insurance costs after switching to a cost-plus contract with Blue Cross/Blue Shield. The county would have paid about \$1.5 million in health insurance premiums for 4,200 employees; under the cost-plus program the county expects costs for the first year to be about \$900,000.

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RIMS unsure of its position

Few surprises as Brooke offers proposal again

By JERRY GEISEL

WASHINGTON—The long-awaited introduction of Sen. Edward Brooke's bill calling for limited dual regulation of insurance companies produced few surprises despite the "controversial" label often attached to the measure.

As expected, major insurance companies and key trade associations such as the American Mutual Insurance Alliance issued a flood of press releases opposing the proposal by the Massachusetts Republican. Other insurance companies, however, were adopting a "wait-and-see" attitude.

The Risk & Insurance Management Society Inc. has not yet decided if it is going to take a position on the measure, though Russell Drake, who heads RIMS public affairs committee, did say he would have no problem with the bill if it reduced the likelihood of insurance company insolvency.

One backer of the measure acknowledged that with hearings so far off—probably early September—reaction to the bill (S. 1710) would be slow to develop.

According to Sen. Brooke, the origin of the bill goes back three years when property/casualty firms began suffering horrendous

losses. There was genuine fear that GEICO, a major insurance company, might fold causing widespread repercussions.

If GEICO or another major insurer collapsed, Sen. Brooke feared policyholders might be caught bare with their premium dollars washed down the river with little chance of recovery.

Many states do run guaranty funds to pay for insolvencies, but these assessments are made after the fact and are "ineffective and fragmented," Sen. Brooke said.

As a supplement—not a replacement—to state guaranty systems, a Federal Insurance Guaranty Fund, whose revenues would come from an annual one-

fourth of 1% fee on insurance premiums, would be established to meet the obligations of an insurer that went under. That fund would be administered by a federal insurance commission.

Of greater significance than the fund is a key section of the bill that would allow insurance companies, at their option, to obtain a federal or state charter.

If an insurance company opted for a federal charter, it would have to meet federal standards concerning reserves and investments.

Federally chartered companies, though, would be exempt from state rate regulation, opening the

possibility of an open rating system at the federal level.

In short, just as banks change from state to national charters, so could insurance companies. An insurance company with a federal charter could do business in all states.

In a change from a similar bill Sen. Brooke introduced last year, a newly created Federal Insurance Commission, rather than the Federal Insurance Administration, would regulate the federally chartered companies.

Furthermore, state-regulated companies would be allowed to participate in the federal guaranty fund.

Whether the measure will save policyholders money, is a question that is up for grabs. One spokesman for a major insurance trade association charged that federal regulation, by its very nature, tends to be much more expensive than regulation at the state level.

While sidestepping the cost question, a Banking Committee staffer said risk and insurance managers should support the measure since the federal guaranty system would offer a better system of protection if an insurance company went bankrupt.

But the staffer also conceded that support for the bill would be difficult to garner since there is a general tendency to support the status quo.

He conceded, however, that passage of Sen. Brooke's bill was "rather unlikely" during this congressional session. "This isn't the kind of thing that moves ahead, one, two, three."

A protracted battle seems almost certain, he said.

Proposal targets computer thieves

WASHINGTON — Electronic burglars are the targets of legislation recently introduced that makes all unauthorized use of computers used in interstate commerce a federal offense.

Convicted information thieves could face up to 15 years in prison and a \$50,000 fine.

The growing national dependence on computers and the mushrooming opportunities for electronic thievery makes tough federal legislation essential, said the chief sponsor of the computer abuse control bill, Sen. Abraham Ribicoff (D-Conn.).

Under the measure, it would be a federal crime to:

- Introduce fraudulent records or data into a computer system.
- Alter or destroy information or files stored in a computer.
- Steal, by electronic or other means, money, financial instruments, property, services or data from computers.

"It is time to tell criminals who use computer terminals to rob millions of dollars that their corrosive activities will not be tolerated," said Sen. Ribicoff.

New members

Eight insurance companies have joined the Institute of Home Office Underwriters. The companies are Automotive Life, Lincoln Mutual Life & Casualty, Old American Insurance, Sovereign Life Assurance of Canada, Storebrand International Reinsurance Ltd. and Western Fidelity Life.



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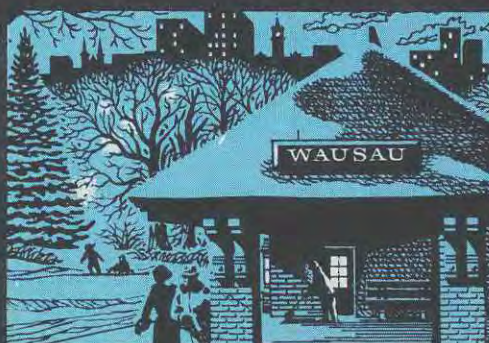
There are a lot of other advantages too. Some systems make a permanent tape recording of

your call to prove that you provided notice. The service is free, financed by the participating companies and public agencies. It's fast and convenient. It greatly reduces delays and public inconvenience. And most importantly, it helps prevent needless deaths, injuries and destruction.

Our compliments to the farsighted companies and public agencies who are cooperating to create one-call systems. Their unified approach is an excellent example of the benefits of working together—an excellent example of the partnership concept.

For further information, contact C. Richard Kuykendall, Secretary-American Public Works Assoc., Attention: Utility Location and Coordination Council, 1313 E. 60th Street, Chicago, IL 60637. Phone 312/947-2520.

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From the partnership people

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HIAA urges insurers to include occupational therapy coverage

NEW YORK—The Health Insurance Assn. of America (HIAA) is recommending that insurers consider adding occupational therapy to the list of services covered in their major medical policies.

The National Assn. of Insurance Commissioners (NAIC) recommended last December that occupational therapy be specifically covered in health plans. At that time, the HIAA wasn't opposed to the recommendation, but a spokesman would only say, "If it's true that it (occupational therapy) will reduce costs, then we're all for it." (*Business Insurance*, Jan. 24)

The comprehensive coverage subcommittee of the HIAA, along

with HIAA staff and the allied health services committee, studied occupational therapy and how it fits into today's health care delivery system. As a result an informational bulletin on occupational therapy was recently issued to guide the HIAA's 320 member insurance companies in considering coverage for it.

The bulletin defines occupational therapy as a health-care profession concerned with restoring useful physical function following a disabling accident or sickness.

The subcommittee concluded from its study that occupational therapy is a "professional health care service which when properly

used can be instrumental in decreasing hospital confinement, disability, and the ultimate cost of health care."

However, the subcommittee found that payment for occupational therapy services varies widely among private insurers. Most basic hospital and major medical policies provide benefits for hospital in-patient occupational therapy services when the charge appears on the hospital bill as an ancillary service, the subcommittee said. Coverage for out-patient services is more sporadic.

Although some major medical policies and home health care benefit plans specifically identify occupational therapy as an eligible expense, the subcommittee

found others do not. Of those that do not mention occupational therapy, the subcommittee found some companies cover the service administratively where the policy provides benefits for a broad spectrum of services. Others refuse to pay on the basis occupational therapy is not specifically listed as an eligible expense, it said.

The subcommittee recommended "that insurers consider covering such services administratively under existing major medical policies which are silent about occupational therapy, and also that they consider adding benefit provisions to cover such services when new policy forms are issued."

James J. Garibaldi, executive director of the American Occupational Therapy Assn., hailed the HIAA's action as a milestone in recognition of occupational therapy by the health insurance industry.

Wickes Corp. expands its loss program

SAN DIEGO—The Wickes Corp.'s corporate loss prevention program may be the company's last, best hope for moderating property/casualty losses, says Jim Morton, senior director of insurance.

The program, which is under the aegis of Mr. Morton's corporate insurance department, was launched during the first quarter of this year and is now going strong.

Mr. Morton also noted that The Wickes Corp. has set up a Colorado captive through its casualty broker, Frank B. Hall in Los Angeles.

However, he emphasized that the captive for now is merely a paper arrangement.

"We have filed in Colorado, but we haven't taken it any further than that," he explained, indicating the captive will be activated if the insurance capacity situation grows worse in 1978.

Frank B. Hall in Los Angeles and The Travelers Insurance Co., the corporation's casualty broker and underwriter, have contributed to the program, he said, as did the Northbrook Insurance Co. which underwrote Wickes' property coverage until May 15.

Mr. Morton, who noted that he has long fought to co-ordinate the Wickes Corp.'s loss control efforts in his department, said the new program is staffed by 10 safety employees, drawn from the company's 17 divisions. One key individual in the program is Aubrey Johnson, who headed Wickes' lumber security department.

"The aim of the program is to reach the average worker with the idea that safety is crucial to him and to Wickes," continued the insurance director. "For this reason, the staffers in the loss prevention department are working with the general managers of the different divisions."

"To personalize the program further, we gave all of the general managers the home phone numbers of the loss prevention people," he added.

Mr. Morton said that the new department is not only making surveys and recommendations in regard to loss control but it is also setting up educational programs to encompass each division.

"We believe we are going about loss prevention in a well organized, yet humanistic manner, unlike the colder, by-the-book approach used by OSHA," he said.

Consulting firm set in Wisconsin

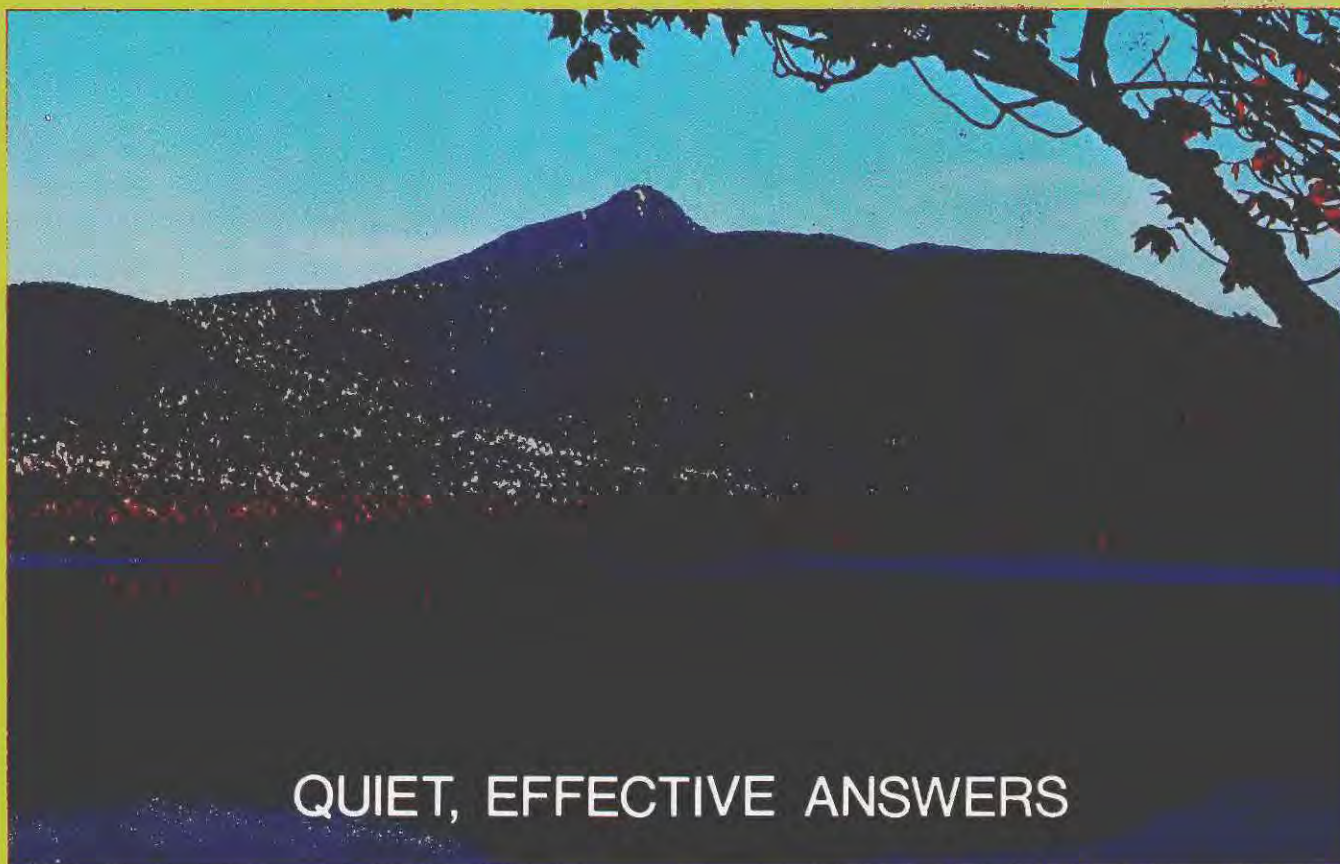
NEENAH, Wis.—Corporate Risk Managers Inc. has been organized to specialize in analyzing conventional company insurance costs and to monitor insurance packages to reduce the cost of insuring risks.

President of the firm, whose people will serve as in-house risk managers on a part-time basis, is A. G. (Tony) Koehn.

Mr. Koehn has 17 years experience marketing business insurance for a major, Wisconsin-based, national direct writing insurance company. His primary responsibilities included dealing with large risks.

Offices of Corporate Risk Managers Inc. are at 630 South Green Bay Road, Neenah.

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Higher work comp costs for terminals loom after decision

By JERRY GEISEL

WASHINGTON — A hefty increase in workers' compensation insurance premiums for ship terminal operators could be the result of a Supreme Court decision that broadly extends the federal Longshoremen Act to cover a huge new class of workers.

The court ruled last month that maritime workers injured in terminals while handling cargo are entitled to the same generous benefits mandated by federal law for harbor employes removing loads from ships onto the pier.

The decision is a bitter and costly blow to terminal operators who earlier waged a lengthy battle in the lower courts to limit federal jurisdiction to the dock area.

Benefits provided to injured maritime employes under the federal act far exceed compensation offered under the state program that previously covered the workers.

In New York, still the shipping capital of the country, injured workers covered under state workers' compensation are eligible for weekly benefits up to \$125. The federal program, however, provides up to \$342.54 in weekly benefits. This disparity in benefits is even greater in other shipping states.

Although it is too soon to measure the exact impact of the decision on workers' compensation rates, one attorney close to the case said insurance premiums on harbor workers now covered under the federal act were quietly hiked 138% in major shipping states. Additional "staggering" increases are expected, he added.

The two maritime operators involved in the case, Northeast Marine Terminal Co. and International Terminal Operating Co., argued that the federal act extended only to the point of rest—the dock area—where goods are temporarily stored after removal from a ship's hold.

Attorneys for the petitioners maintained that the two injured workers were beyond the point of rest and thus were not engaged in longshoring operations.

The court, though, forcibly struck down these twin defenses. The intent of Congress, the court ruled, in passing the 1972 act was to extend protection to maritime employes in the entire terminal area, not just on the pier adjacent to the water.

After settling "situs" questions, the court turned to the issue of "status." Could the injured employes be considered longshoremen (and thus covered under the act) even though they were not directly involved in the loading and unloading of cargo from a ship?

Here, the court took note of the revolution in ship unloading techniques involving containerization. Unlike traditional break-bulk cargo handling where each item is stored individually in the hold of a ship, containerization allows stowage and unstowage to be performed in terminal warehouses days after a cargo-carrying ship leaves the harbor.

As a result, the operation of loading and unloading has moved inland. "The container is a modern substitute for the hold of the

vessel," the court said. Thus workers involved in "stripping" and "stuffing" containers in warehouses in the dock area are performing the 1977 version of loading and unloading vessels and are covered under the act.

In effect the net of federal coverage has been cast farther, said John Doyle, a specialist in the area of workers' compensation for the American Mutual Alliance in Chicago.

"This is another example of subtle federal encroachment on state compensation systems," Mr. Doyle said. ■

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Program saves \$853,000

Sanitary district finds retentions a way to clean up insurance costs

By JERRY GEISEL

HYATTSVILLE, Md.—Every time Washington Suburban Sanitary Commission's Herbert Jacobsen studied the commission's insurance package he was struck by a very distressing fact: premiums continued to soar even though claims has stabilized.

Last year, claims and insurance manager Jacobsen decided it was time to turn around a situation that had become intolerable to a cost-conscious insurance manager.

Six months of work, including a trip to San Diego for a first

hand look at that city's innovative self-insurance program, were necessary before Mr. Jacobsen was ready to unveil his restructuring of the insurance program to the commission's top officers for approval.

Mr. Jacobsen got that approval. Now, six months later, he has an impressive program firmly in place that is cost effective to the tune of a cool \$853,192. And the top liability limits have increased to \$45 million from \$4 million.

One doesn't have to be an Einstein to figure out the mathematics involved. When Mr. Ja-

cobsen revamped the commission's insurance program he found that it would have cost \$1,553,961 for a package needed to meet the commission's requirements.

By boosting the commission's liability retention to \$5 million, the total program this year costs \$700,769, including claims paid (\$17,669), reserves to pay claims open at the end of the year (\$23,724) and insurance (\$659,376).

This massive \$853,192 cost differential is a boon to the citizens of Prince George's and Montgomery counties, a broad geographic area outside Washington,

D.C., since the savings are reflected in lower water and sewer rates.

Mr. Jacobsen pointed out that there are no hidden costs in administering the \$5 million retention in comprehensive general liability coverage.

"For years, we had been assisting our insurers in conducting investigations. And all along we had been handling all our property damage claims up to \$50,000.

"I guess in short we were not operating at full capability. Now we've taken staff who have been here before and made them perform at 100%. As a result, we haven't had to hire additional staff."

Above the \$5 million retention, the commission has four excess layers of customized comprehensive general liability protection providing \$45 million in coverage. Cost of the policies: a manageable \$74,000.

Acquiring \$45 million in excess liability and assuming the first \$5 million in general liability eliminated what Mr. Jacobsen saw as a key shortcoming of its earlier insurance programs. The commission was paying such a high price for a variety of casualty policies that it could afford retentions at a much lower cost.

At the same time, however, the commission was going bare in excess liability over \$4 million in annual aggregate. For an outfit with two dams, 23,000 water hydrants and 6,500 miles of water mains and sewers, greater protection in the event of accidents was a must.

In the property area, the commission maintains a \$50,000 deductible per occurrence, insuring up to \$164 million with the Allendale Mutual Insurance Co. For this protection, the commission will pay a \$112,000 premium this year.

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The commission has \$424,000 reserve to meet routine claims. If the commission, however, was socked with a \$2 million liability suit, it has a special taxing authority to pay for judgments rendered against it.

The key to making a self-retention program work is an aggressive accident-prevention program, Mr. Jacobsen said. An accident review board keeps track of accidents and recommends corrective procedures if a dangerous trend is spotted.

During the first five months of the program, paid liability claims were held to a scant \$7,000. Mr. Jacobsen attributes this impressive record to fast footwork when an accident occurs.

"There is no time lag in getting our people out when an accident occurs. Our policy is to make every effort to accommodate the victim and make a settlement as quickly as possible where we are legally responsible."

Speedy settlements of claims, such as a flooded basement caused by a broken water main, often avoid costly litigation in the courts, Mr. Jacobsen believes.

Aside from having an insurance portfolio that offers more protection at a lower cost, "we no longer are at the whim of the insurance companies. We can now look at the future with some degree of stability," he said.

"By self-retaining where we have the resources and purchasing excess where the capacity is beyond our means, we achieved maximum cost effectiveness and yet protected ourselves against catastrophic losses."

Instead of worrying about having casualty policies cancelled, Mr. Jacobsen and his 12-person staff can prepare for the next project: self-insuring workers' compensation, saving still more dollars for the commission's customers.

New regulations need attention

NEW YORK—New regulations for the transportation of hazardous materials effective July 1 need to be carefully observed, says Gerry Trottle, director of safety for New York-based Branch Industries Inc.

Included in the changes are additional classifications and regulations on marking, labeling and packaging of goods. In January 1978 the present rectangular warning sign on trucks will be replaced with a diamond-shaped one.

Mr. Trottle is setting up educational seminars on the new regulations.

Frank B. Hall markets program

Manhattan's first HMO plans fall opening

By FRANK MARKOWITZ

NEW YORK—The first health maintenance organization in Manhattan is scheduled to open by early fall. The Manhattan Health Plan is emphasizing lower health-care costs and one-stop medical care rather than new services in its pitch to New York corporations.

"We're really not designed to introduce any additional health resources to Manhattan," explained Stuart Friedman, president of MHP. "We know that Manhattan is over-rich with health care services."

The not-for-profit plan is aimed primarily at the young, prosperous employees of Manhattan's Upper East and West Sides. It is being marketed partly by Frank B. Hall Consultants Inc. on a non-commission basis. Frank B. Hall is interested in getting experience in the HMO area, according to Michael Ponicali, senior vp.

"This was a bit of a change from the usual consultant-broker arrangements, but we felt that this would give us the chance to get in on the early development of a HMO," he said.

MHP is currently hiring staff, making contract arrangements and applying to the Department of Health, Education and Welfare for federal qualification.

Under the 1973 HMO Act, an employer with at least 25 employees must offer a qualified HMO as an option to employees when approached by the HMO. Qualification is also necessary to receive federal loans of up to \$2.4 million for initial operating costs.

MHP passed the initial HEW screening and is now under detailed review, Mr. Friedman said. An August site review will be the final step in determining if it

Wickes moves property plan

SAN DIEGO—The Wickes Corp. moved its property coverage from Frank B. Hall in Los Angeles to Marsh & McLennan in Chicago on May 1.

The underwriter was changed from Northbrook Insurance in Northbrook, Ill., to Lloyd's of London, according to Jim Morton, senior director of insurance and security.

Marsh & McLennan in Chicago submitted a lower bid for Wickes' property coverage than did Frank B. Hall, Mr. Morton explained.

Although Mr. Morton declined to disclose the premium volume on the property package, he said that the property values involved total about \$736 million.

"The property package is our second highest in terms of premium costs, right under casualty," he said. ■

Consultant expands

Warren, McVeigh, Griffin & Huntington, risk management consultants based in San Francisco and Newport Beach, Calif., opened a new office in suburban Philadelphia, headed by A. Hawthorne (Bud) Criddle, who joined the firm effective June 1. Mr. Criddle is managing partner of Warren, McVeigh, Griffin & Huntington of Delaware Valley, located at 1005 General Stevens Drive, West Chester, Pa. 19380. He was formerly executive vp with Fred S. James & Co.

qualifies.

MHP expects to enroll 5,400 members after its first year, with enrollment peaking at 35,000 after five years. Mr. Friedman believes, however, that there will be room for further expansion with satellite facilities.

The projected break-even point is the end of MHP's third year. Initial premiums will be roughly equivalent to standard health insurance rates. Under a two-step schedule, companies will pay \$28.83 for individual coverage and \$69.10 for family. A standard Blue Cross of Greater New York combined medical-hospital policy runs \$23.05 for individuals and \$58.69 for families. (The Blue Cross policy includes physical

therapy, which MPH does not provide, but it also has stricter limits on benefits, such as a 120-day hospital limit.)

It offers most medical benefits, including hospital and convalescent care, ambulance services, maternity care and family planning. There is no time limit on hospital care. It does not include prescription drugs, blood/plasma transfusions, prosthetic devices, long term hospitalization for mental disorders and physical therapy.

Although all medical and hospital services will be housed in Manhattan, members will be fully covered for out-of-area care, even if they leave their employer and move out of the region. Out-

of-area costs are being reinsured by Prudential Insurance Co., which is also underwriting excess coverage to the legal limits of the HMO Act. Any individual's catastrophic illness expenses over \$5,000 are fully recoverable. In addition, MHP can collect 90% of cost overruns which exceed 115% of its income.

Mr. Friedman said he does not expect to need the aggregate excess insurance, which costs "something less" than \$1 per member. "It's just inconceivable to me that that could happen."

He pointed out possible HMO benefits he believes are often overlooked, such as higher employee morale and reduced absenteeism and disability loss. He

predicted that the Occupational Safety and Health Administration will find an increasing number of job-related illnesses. If so, an HMO would be able to gather data on a company's employees and spot health problems before OSHA does, he said.

Wider use of HMO's, he told corporate benefits managers at a marketing seminar, might also cut down on workers' compensation claims. "Teamwork between physicians and employers" could develop, he said, in contrast to the present "adversary system."

The plan was initiated by a broadly based group led by Dr. Alden N. Haffner, president of the College of Optometry at the State University of New York. ■

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editorial opinions

Nursing home rules

NURSING HOME OPERATORS deserve to be chided for their poopooing of fire safety regulations enacted in the last few years by states and cities.

A BI reporter found that many nursing home operators believe the regulations for fire protection equipment are stiffer than they need to be. Operators said, for example, that because building codes for nursing homes require the use of fire doors and fire resistant materials, there's little need for sprinklers in addition to those materials—or alarms, or smoke detectors.

We realize that all of these protective devices have required massive investments by the nursing homes. But apparently those facilities have a major problem with fires that hasn't yet been corrected. We wonder if the nursing home operators have looked at their own fire statistics.

Although it appears that few lives were lost last year in multiple-death nursing home fires, the number of fires taking place in nursing homes is skyrocketing. And the loss of property is soaring. Looking at figures like those provided by the National Fire Protection Assn., we can't help but wonder if the number of lives lost will soon start climbing as well.

Consider, for example, the \$6.4 million lost in 9,300 nursing home fires last year vs. \$2.4 million lost in 1,900 fires in 1968.

Fire protection makes sense.

Operators of those same health care facilities seem to be complacent about the potential loss of property and lives entrusted to their care. They seem to be saying, cynically, that only the barest minimum fire protection is enough. And they don't want to be bothered by any more rules.

Looks to us as if the regulations aren't tough enough.

Excess and surplus

EXCESS AND SURPLUS LINES will be the focus, along with all kinds of specialty risks, of a special issue of *Business Insurance* scheduled for Sept. 19.

This will be the second special issue devoted to this topic, following the very successful, information-filled issue on the same subject last fall.

BI editors will again be taking a close look at how agents, brokers and risk managers are using the excess and surplus lines markets, at how the intermediaries are working to provide liaison between the special markets and purchasers of specialty insurances and at the prices being charged for specialty coverages.

Of foremost importance is the current condition of the excess and surplus lines underwriters and the outlook for profits and losses in that field.

We'll be asking what the regulators have been up to in the excess and surplus markets in the past year, and we'll look at some of the techniques used by corporate insurance managers to use the markets most effectively.

Your ideas for stories and contributed perspective articles



for this special issue are welcome. If you know a particularly knowledgeable person we should talk to about excess and surplus lines insurance, send along a name or two. To contribute to the editorial content of this issue, contact Susan Alt, *Business Insurance*, 740 N. Rush, Chicago, Ill. 60611.

Insurers as lemmings

ARE INSURERS LIKE LEMMINGS? Here's a story which indicates they are. Al Mangold of First Risk Management in Philadelphia went out to renew the small liability insurance policy for the Insurance Consultants Society. The policy has a \$500,000 combined single limit and has never cost very much, because the society of risk management consultants doesn't have much risk.

Indeed, the policy had always been a standard general liability policy including coverage for product liability. But ICS didn't have any product exposures to speak of... the group's only "product" is a small brochure telling about ICS.

Not much risk in the product area, is there?

The insurer, however, abreast of all the latest developments in the field, said it would renew the policy only on the basis that product risks wouldn't be included in the coverage. Afraid, perhaps, that ICS was going to start producing autos next month. Or football helmets.

After a bit of negotiating, Al got the renewal—with product liability coverage back in it—for an annual premium of some \$200.

It's good to know insurers are watching out for those big product risks. Too bad they don't take a look at the nature of the individual risks first.

letters

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

Pfizer's dental plan

To the Editor: In your magazine's May 16 article "Dental Plan is Difficult to Forecast" you alluded to a comment made by Charles H. Meyer concerning the Pfizer dental plan at the RIMS conference in New York City. While the quote is essentially correct, I am concerned that in not expanding upon the information presented at the conference many of your readers may conclude that orthodontic charges for employees and dependents covered by the Pfizer dental plan are in excess of the "national average" solely because our plan maximum is \$1,000 as opposed to the \$500 orthodontic maximum found in many dental plans.

This is certainly not the case. With the exception of a very few cases, the insurance company has found that charges submitted for orthodontic work have been reasonable and customary. Moreover, since more than half of our employees are located in major East Coast cities, our dental charges for all services, including orthodontia, tend to be somewhat higher than the "national average."

In designing the Pfizer dental plan our objective was to provide a program which would reimburse employees at a 50% level with no deductible. We felt that it would also be appropriate to provide a 100% reimbursement of orthodontic charges.

We considered utilizing a \$750 orthodontic maximum, but felt that this would probably need to be amended in a year or two as dental fees continue to escalate. Since we wanted our dental plan to be competitive for the next several years, we opted for the \$1,000 lifetime orthodontia maximum.

We have found very little abuse on any portion of our dental coverage because of the widespread acceptance of the plan.

I believe that within the next two to three years many dental plans will have an orthodontic maximum of \$1,000 and would therefore recommend that individuals involved in designing dental plans at this time give serious consideration as to what constitutes an appropriate maximum.

Continued on page 14

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letters

Continued from page 12

mum for orthodontic services.

Richard A. Harvey

Manager, Employee Benefits Planning, Pfizer Inc., New York.

Surety rates

To the Editor: Our association and its members firmly support the contract surety rate increase recently filed by the Surety Assn. of America (June 13). We believe this increase is timely and warranted in view of the contract surety industry's loss experience of the last three years and the increased expense factors encountered in recent years by the surety bonds and companies in underwriting contract bonds and handling claims.

We take strong exception, however, to the suggestions made by Howard Boyle, assistant vp of Johnson & Higgins, that owner-controlled bond programs are advantageous to anyone, including the owner. The only exception to this is the owner's agent or broker, who becomes the recipient of what amounts to, for the most part, windfall surety bond commissions.

Virtually all contractors want no part of any "program" which requires that they release confidential financial and other underwriting information to a surety company and/or agent or broker who are not the contractor's regular bonding source.

The relationship of a contractor with his bonding company and agent is normally a close and confidential one, similar to the contractor's relationship with his attorney, his bank or his accountant. For this reason, a contractor who may find himself or his construction projects in any kind of difficulty will more often than not be responsive to the advice, counsel and assistance of his surety and his bond agent. That contractor will most certainly not, in the event of difficulty, be responsive to a surety company that is foreign to him, and with which he has a "one-shot" bond relationship.

This should be a factor to be borne in mind by any owner contemplating adoption of an owner-controlled bond program for his company.

Another factor which should mitigate against an owner's decision to adopt an owner-controlled bonding program is the proven fact that many contractors, including some of the largest and most experienced in the U.S., refuse to bid on any project wherein they will not be able to provide performance and payment bonds secured through their regular or usual surety and agent.

We believe it can be demonstrated very clearly that the relatively insignificant savings on bond premiums of an owner-controlled bonding plan, will be more than offset by the loss of those contractors who will not bid on this type of project.

Bruce T. Wallace

Executive vp, National Assn. of Surety Bond Producers, Washington, D.C.

Storm damage

Two storms in mid-June resulted in an estimated \$8.6 million in damage, according to the American Insurance Assn. Wind, hail, tornadoes and flooding in Colorado, Iowa and Kansas between June 16 and 20 caused \$5.6 million in damage. Severe winds and hail caused \$3 million damage in Wyoming and other areas of the West on June 16. The storms are catastrophes 94 and 95.

High court limits suits under federal law

WASHINGTON—The Supreme Court unanimously ruled last month that state law, rather than federal law, applies to those suing as third-party beneficiaries of contracts between the federal government and local governments.

The case was sent back to the U.S. Court of Appeals which now must decide whether Georgia's sovereign governmental immunity law prohibits claims for third party beneficiaries of a breach of contract involving a governmental body. A U.S. District Court previously decided that the state's immunity law forbids such suits.

At issue was whether grant agreements between the Federal Aviation Administration (FAA) and a county-administered airport gives an injured party the right to sue under federal law when the conditions of federal grants are violated.

The case involved the crash of a business jet on Feb. 26 1973, at De Kalb-Peachtree Airport, a general aviation facility in Atlanta. Seven persons died when the plane crashed on take off after its engines sucked in a flock of birds. The birds had been attracted to the airport area by a nearby county-run garbage

dump.

The plaintiffs contended that the airport violated its contract with the FAA. That contract provided federal grants to improve the airport's facilities; in turn county authorities agreed to ensure the airport's safe operation.

By failing to close the garbage dump that attracted the birds, despite an FAA order requesting that action, De Kalb County officials breached the contract, lawyers for the plaintiffs had argued. As a result, their clients were entitled to damages as third party beneficiaries of that breach.

The suit was in district court because the parties in the case were from different states. Normally, a federal court in such cases applies the law of the state where the accident occurs. A lower court, however, ruled that federal law applied since the United States was a party to the airport-FAA contract.

The Supreme Court, though, disagreed noting that "the litigation before us raises no question regarding the liability of the United States . . . and since only the rights of private litigants" were at issue, the federal common law did not apply. ■

The more you know about loss prevention, the less your business could lose.

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london line

Aviation markets tighten, rates to increase, predicts underwriter

By JOHN H. MILLER

LONDON—Aviation underwriters believe that market rates are already hardening as a result of the recent Tenerife air disaster in which more than 580 people were killed and two Boeing 747s belonging to Pan Am and KLM were destroyed.

David J. Barham, a leading U.K. broker, told delegates from more than thirty countries at the annual meeting of the International Union of Aviation Insurers, "This enormous cost will sooner or later have to be repaid by the insuring airline and manufacturing industry. Virtually every aviation insurer and reinsurer in the world is affected, and strenuous efforts are being made to en-

sure that adequate compensation is made available to dependents of the victims as soon as possible. There are already signs that market attitudes are hardening."

Mr. Barham, current president of the I.U.A.I., warned that there are many airports with inadequate ground aid facilities or air traffic control problems. Governments ought to be pressed to provide

funds for safety improvements, he said.

Other speakers pointed out that airline jets are suffering just as many accidents as they did five years ago. The cost of claims relating to the past use of wide-bodied aircraft had caused an annual average loss to the insurance industry of \$150,000 per unit. Purchase prices of new wide-bodied aircraft, coupled with increased use and the effect of inflation on spares and repairs, will hike this unit cost considerably in the coming months.

No-fault legislation

Britain is contemplating "no-fault" legislation for defective goods. But action is many months away as there are many potential

problems to be settled before any change can be made.

The need for action is stressed by the members of a special government-appointed law commission which has ruled that existing laws for the protection of the consumer are inadequate.

It has directed that the primary producer ought to be made strictly liable in every case of defective goods as he is the person who can most conveniently insure against the risks of his products.

But this will cover only individuals who suffer death or injury from product defects.

Corporate bodies will still have to sue in the courts in the normal way for trading losses or other damage they incur.

The report of the government commission says, "We have not overlooked the recent escalation in insurance premiums in the U.S. But there are many differences between personal injury litigation there and in Britain."

"Medical treatment figures vary largely in U.S. awards, but in the U.K. represent only a small amount as the state's national health program reduces this aspect of cost considerably."

"We accept that the introduction of strict liability in Britain will have a significant effect on insurance costs, but until there is adequate claims experience it is impossible to say how much."

Safeguards against excessively high claims are being recommended by the law commission, which believes that a manufacturer should not be made liable for a defective product if he can establish it was safe when it left his plant and had been tampered with or misused in some way.

Victims who deliberately ignore product instructions will also lose out on compensation if their contributory negligence is proven.

Greater selectivity

Greater selectivity in underwriting attitudes at the expense of premium growth is the prediction of a leading firm of U.K. stockbrokers, Rowe and Pitman.

Dealing with the prospects of seven major U.K. companies with substantial international interests, the firm says, "The possible re-emergence of competition in 1978 and 1979, which will be the third and fourth years in the current underwriting cycle, is already a talking point in the market."

"But the industry is entering new ground, and it is by no means certain that the traditional pattern of severe competition will repeat itself."

"Underwriting profitability will have a much higher priority and the seeking of premium income for cash flow purposes a much lower priority. Increasingly stringent solvency requirements are an important factor and we are convinced they will lead to companies being forced to generate retained earnings."

"Liability cover remains the most worrying of all insurance classes, with evidence of willingness on the part of the policyholder everywhere to sue even in increasingly unlikely circumstances."

"The greatest uncertainty exists in the field of product liability. Legal systems in most countries do not have the controversial contingent fee system which has been such a factor in the U.S., but we believe that court awards in general will continue to head upwards."

Iranian venture

Johnson & Higgins and two of the brokerage firm's correspondent brokers have formed United Iranian Insurance Services, an insurance and reinsurance broker in Teheran, Iran.

a clothing maker patterns.



The manufacturer's new Spring line looked fantastic. But on the production line, the accident picture was another story.

So when The Hartford took a close look at this clothing business back in 1970, we recommended the manufacturer start a loss prevention program. A program that six years later has helped cut the accident rate an incredible 75%.

How did our loss prevention counseling help?

We recommended the foremen take our Supervisor's Training Program to learn how to investigate accidents so they could be prevented from happening again.

We recommended that sewing machines be equipped with special guards to help prevent the finger and eye injuries that were plaguing workers. A safety measure the manufacturer put into effect long before OSHA became the law.

And after analyzing some of the other types of accidents, we also recommended that "housekeeping" be improved.

The effects weren't obvious overnight. But once the whole idea of prevention became part of the work routine, the results proved dramatic. Because even though the work force had increased by more than 300 people from 1971 through 1976, the accident rate went down by 75%, with steady decreases shown each year.

When losses go down, rates don't have to go up.

With insurance costs soaring, the need for loss prevention is greater than ever. Especially since we've proved it effective in case after case in helping control insurance costs. Which is why every business nowadays can use all the loss prevention help it can get.

In fact, the impact of loss prevention is such that many business owners now choose an insurance company based on the quality of its loss prevention services—and renew their policies because of loss prevention's effectiveness.

How we put loss prevention to work.

At The Hartford, there is no "miracle" formula in helping you cut losses. Because every loss prevention program we design is tailored to the needs of that business. Our recommendations can help cut accidents and injuries, and also serve to improve employee morale—and productivity. And in the long run, profits.

One reason we've been able to establish effective programs is our staff of over 500 loss prevention specialists, located across the nation. A staff that includes chemists, engineers, product liability specialists—backed by an array of technical resources such as our own Environmental Sciences Laboratory.

In short, it's the kind of preventive help every business needs but can't always afford on its own. Which is why all kinds of businesses are asking for The Hartford's advice—and getting results.

Extra help that doesn't cost extra.

Every commercial policy we sell comes with our loss prevention counseling. So when required, you get help in establishing the controls that prevent fires, accidents, lawsuits, and OSHA violations. Help in improving employee safety training. And help in finding the most potentially dangerous areas of your business.

Learn how a loss prevention program can make your business safer—and better. Just contact your independent Hartford agent listed in the Yellow Pages.

Do it today. Because as one manufacturer learned, "a stitch in time can save nine."

The best protection is prevention.

THE HARTFORD



The Hartford Insurance Group, Hartford, Conn. 06115

If this ad gets enough people to act,
your insurance may become
a better buy.

**Many people
just won't use
products right.**

**Guess who
pays for their
injuries.**

Insurance rates are at record levels. Some types of coverage are becoming unaffordable.

Now then. Insurance companies are required to see that there is enough money on hand to cover losses as they occur. So rates are based on expected claims.

And frankly, rate increases could go on forever if the public is willing to pay for them.

But at The St. Paul we think people ought to know the score. Because ultimately they pay for high claims costs.

So we're running advertising like this. Hopefully,

it will inform the public and encourage them to take a long hard look at what is happening and then take action.

And if that happens, insurance rates might just stabilize. That would be a nice change.

You can help. Get one of our Enough is Enough booklets from your local Independent Agent or broker representing The St. Paul.

It's full of information on the causes, the pro's and the con's of some possible cures for high insurance rates.

At The St. Paul we feel Enough is Enough.

How do you feel?

We *all* do. In the form of higher prices for the products we buy.

Why? Because manufacturers and sellers of products are being besieged by product liability suits, many stemming from improper or careless use of products.

The total number of suits has soared. And the average settlement is 200 percent larger than it was 5 years ago.

This sue-somebody syndrome has pushed the cost of product liability insurance to record levels.

All of us help manufacturers and sellers meet their soaring product liability insurance costs by paying more for their products. Sometimes, a lot more.

So what's to be done?

On the one hand, the public certainly has a right to reasonable protection against injury and damage from faulty products.

On the other hand, it is impossible for manufacturers and sellers to anticipate every misuse.

Should manufacturers and sellers be held liable even when products are misused? Or, should greater responsibility be placed on consumers to use products properly, with reasonable care?

Furthermore, manufacturers are being sued as long as 40 years after products leave their plants. Even when products are altered by others and made unsafe.

Should manufacturers continue to be held liable forever? Or, should time limits be established?

These are not easy questions.

But we at The St. Paul feel the public must answer them.

How can you participate in making these decisions?

Send for our "Enough is Enough" consumer booklet. It's full of information on the causes and the pro's and con's of some possible cures for high insurance rates. You'll find out how to register your views where they'll count. Along with some tips on how you can hold down your own insurance costs.

Then get involved. Support the action you want taken.

Write a letter to your legislators. Be heard.

Or you can just do nothing and figure the problem will go away. Of course, if it doesn't, better keep your checkbook handy.

Enough is Enough

Write The St. Paul for your Enough is Enough booklet. Or contact an Independent Agent or broker representing The St. Paul. He's in this with you and wants to help. You'll find him in the Yellow Pages.

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Property & Liability
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Serving you through Independent Agents. St. Paul Fire and Marine Insurance Company/St. Paul Mercury Insurance Company/The St. Paul Insurance Company/St. Paul Guardian Insurance Company/The St. Paul Insurance Company of Illinois: Property and Liability Affiliates of The St. Paul Companies Inc., Saint Paul, Minnesota 55102.

For years, you've been coming to us with your hard-to-place and capacity risks. And we've been insuring them. Gladly. But since we've gotten such a good reputation for taking on the big jobs, you may think your typical, bureau-rated commercial fire accounts aren't welcome.

They are. So why not give us a shot at them, too? You'll find that our approach is innovative. And that our experience handling the

tough ones make us experts at routine coverages, as well.

So bring us your capacity risks, excess of loss, valued business interruption, and hospital operating risks.

But bring us your standard fire risks too. Just as a fireman handles all kinds of emergencies, we handle all kinds of fire insurance.

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PERSPECTIVE

Attention benefit chiefs: More computers needed

By Grant Morris
Consultant, Morris Associates
New York

IT IS HARDLY A PROFUND observation to note that computers and data processing can now be found practically everywhere. With increasing frequency, we encounter the more obvious examples of this trend at supermarket checkouts, at retail store cash registers and at teller's windows in banks.

In each of these cases, we are dealing with a terminal linked by telephone lines to a computer which stores and updates information about our account and/or the store's inventory.

Less obvious, but more widespread, are the thousands of computer installations used by business and government which touch upon every aspect of our daily lives, both in the workplace and as private citizens. From counting us as statistics in government reports, to recording our Social Security payments, to printing our name and address on most of the mail we receive—the list of computer applications which affect our lives is endless.

Narrowing our focus to the world of pensions and employee benefits, can anyone imagine a pension trustee operating in 1977 without the aid of computers? Not only for the flashy econometric models and simulations which are used in the investment selection process, but also for the mundane task of keeping track of the investment records for each account: account inventories, purchases, sales, dividends and interest payments. Or, can anyone picture what it would be like for a consulting actuary to perform an annual valuation on a 10,000 life pension plan without his computer?

Yet, when we come to the area of record keeping for employee benefits in most companies, we usually find ourselves in a backwater where data processing use is con-

completely bypassed by modern record keeping methods, since payroll systems were among the first to be put on the computer, and the payroll record contains a great deal of benefits information.

But, after some early gains with payroll, this area has been left in a state of more or less frozen animation, with few improvements since then. This has left it with a mixture of manual and data processing records as a base for performing its work. With this often redundant, inconsistent, and poorly controlled mixture, the benefits people make do as best they can.

This situation isn't going to last much longer, and our purpose here is to outline some ideas for the employee benefit manager as the day approaches when he or she is going to meet data processing. That employee benefits will not remain in the backwaters was brought home in a forceful manner to the author recently when he addressed a gathering of benefit managers. The topic was: "Using the Computer for ERISA Compliance and Disclosure," and the group soon made two things very clear:

- Employee benefit managers, as a group, know much more about computers and data processing today than they did a few years ago.

- They admitted the validity of certain general comments I made about top management's negative attitude toward spending data processing budget on overhead functions, such as employee benefits. They also appeared to agree that some of their difficulties in dealing with data processing management might be explained by certain pointed remarks I made about the attitudes of this group.

Having permitted me my cynical comments, the benefits group came right back and said, in effect: "That's all well and good, but we do need more and better support from data processing, and we want



Employee benefit managers as a group know much more about computers and data processing than they did a few years ago.

you to tell us how to go about it."

Having been steeped in cynicism by too close involvement in this problem for too long, I found my answers fumbling and unsatisfactory. Further reflection has led me to think the problem through and try to arrive at a few sensible approaches for benefit people to use in order to get more and better service out of their data processing departments.

First, you should know what motivates an organization to spend time and money on computer applications. A review of data processing history shows that computers and their associated systems analysts, programmers, and operators came into most companies to be used in fundamental activities related to the conduct of the business. This usually meant they were used to record facts about money, such as accounts receivable/payable, payroll, general ledger and financial reporting; or, they were used to record facts about things which represent money to the company, such as inventory control, order entry, purchasing and receiving.

As time went on, and these applications became settled, the data processing effort began to focus on items further down in the priority table, such as sales forecasting, manufacturing control, integration of prior applications into larger systems, and so on.

Always, the emphasis has been on re-

cording money, or on items which represent money, and on the basic activities of the enterprise. Employee benefits did not rank very high on this priority list. Now, however, thanks to ERISA, benefit managers are charged with responsibility for looking after money, participants' money to be sure, but nevertheless money. They must keep accurate records about this money, and for a very long time. If they are not able to do this, the DOL, IRS and PBGC are all hovering over their shoulders to enforce the law.

It may not have fully dawned on top management yet, but it is beginning to occur to benefit people that under ERISA they are responsible for something much closer to the fundamental concerns of the company, and that they ought to be moving up on the data processing priority list.

Second, you have to know your problem. It is possible you may have to meet data processing at a time not of your choosing, because someone in management decides that it is time to "do something" about benefits records. It is more likely that you will get attention from the computer people only as a result of a lot of nudging on your part.

Your chances of making real progress with your record keeping systems will be greatly enhanced if you have a firm grasp of your problem. No one should expect you

Continued on following page

Here's a new way to rate product liability risks

By C. W. Carter, CMC
President, The Product Integrity Co.
Enfield, Conn.

THE GROWTH OF BOTH claims and settlements in product liability cases during the past decade is well recognized. Consumers have become more aware of their prerogative to sue manufacturers of defective or presumably deficient products. Lawyers are finding such "contingency fee" cases fairly lucrative and juries are generally sympathetic to plaintiffs. Threatened lawsuits will often bring out-of-court settlements, sometimes to avoid such a torrent of similar claims as the attendant publicity might bring.

Starkly dramatic incidents aside, these mundane cases illustrate the problems:

- A nurse, accustomed to a certain hand lotion, switched to another brand and suffered such a severe case of dermatitis that she was out of work for some time. A \$40,000 settlement was made when it was shown that a certain ingredient in the new lotion could cause severe skin disorders.

- A can manufacturer was successfully sued for \$70,000 when it became obvious that a coating in his product imparted an undesirable—although innocuous—odor to the processed food.

- One producer of masonry nails had to pay heavy damages to a man whose

eye had been pierced by a flying nail fragment.

These and many thousands of similar cases have brought about a dramatic shift in emphasis for the manufacturer. The traditional axiom Caveat Emptor has been replaced by Caveat Vendor. It is to such changing emphasis this article is directed.

During recent years, product liability actions have clearly demonstrated a relationship between a manufacturing company's quality system and its exposure to such losses. In preparing defenses, lawyers have subjected the quality of design, manufacture and marketing to searching scrutiny. Repeatedly trying to convey to juries the effectiveness of these systems—which may occasionally fail no matter how good—has prompted the

question. "Why should this be necessary?"

An extensive research project was undertaken to define the role of quality systems in this complex problem. A sampling of manufacturing companies was selected, carefully stratified as to size, type of product and system merit. They range from less than \$1 million to well over \$200 million of annual sales. Products run the gamut from very high risk to those with virtually no exposure. Included are companies with highly sophisticated, effective systems and those with relatively weak ones.

Enumerating the usual underwriting factors was done in consultation with several insurance companies and brokers. These include yearly sales (Factor 1); product type (Factor 2); effective prod-

uct life (Factor 3); the number of subsequent steps through which the product goes before ultimately being put to use (Factor 4); the percent of direct labor to the cost of goods sold (Factor 5); material purchases as a percent of the cost of goods sold (Factor 6); the product safety function (Factor 7), and the degree of legal support within the organization (Factor 8).

Next, a rating plan was developed to measure the quality of the system. This adds 10 more factors, the first six of which are general areas of quality. Each of these consists of a number of specific items, which can be rated by a knowledgeable quality practitioner with some training in this technique.

Here is a brief description of the first six areas and some specifics showing how they relate to product liability:

Quality Policy (Factor 9): These are the principles which guide management. Included in this area are the written and implied statements regarding management's commitment to customers, suppliers and employees in regard to product quality. Further, the degree to which these policies are recognized and acknowledged is a vital part of these ratings.

Item: It was one company's policy to

Continued on following page

Mr. Carter's management consulting firm specializes in rating industrial quality systems with particular regard to their product liability exposure. He obtained his B.E. in mechanical engineering from Yale University in 1942 and was employed by George S. Armstrong & Co., Bigelow-Sanford Carpet Co. and Rath & Strong Inc. In 1959, he established his own management consulting practice in quality control, statistical engineering and operations research. He founded Product Integrity Co. in 1976 to help industry, insurers and lawyers better handle product liability problems.



PERSPECTIVE

Computers and benefits...

Continued from preceding page

to do formal systems analysis on your files, nor to state the problem in data processing terms, but you can state the record keeping problem systematically in your own terms.

How many different files are your records located in? How are these files maintained: on the computer, or manually? What is your opinion of the condition of the data in these files? Can you prove it, with examples? Can you list your needs in order of importance? What is the first project you would like data processing to undertake for you? The second? Have you given thought to what you would like your record keeping system to do for you, if you could have an ideal system?

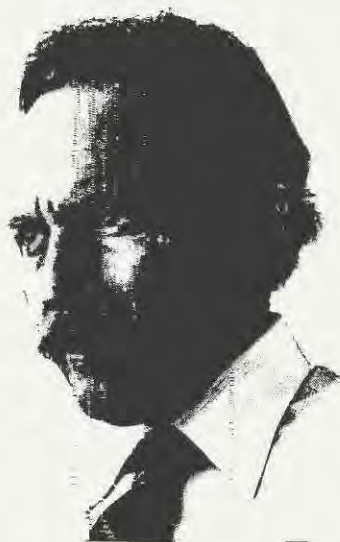
Time taken now to formulate fairly detailed answers to these questions will pay off, even if data processing never comes around to help you, but the answers will be essential if you want to deal successfully with them when they do. This step, knowing your problem, is basic in meeting data processing. Without it, the other approaches listed here, although they are very important, simply will not work in the long run.

Third, you have to know your organization. In most companies, employee benefits reports upward through a branch of the hierarchy separate from the one through which data processing reports. This usually

means that in order to get attention from data processing, benefits must make its approach first through its own management, hoping that it will move the appeal upward, across and down to the computer people.

Being human (all too human), data processing managers sometimes have been known to resent directives of this sort, when they arrive from above without any advance notice. Unfortunately, being hard shelled as well as human, D. P. managers also have a tendency to put off or ignore people from other parts of the organization who want to engage them in general discussions about what might be available if their management requested it through proper channels, thereby sealing themselves off from the advance notice.

To deal with this, you must know your human relations. Benefit people may not think of themselves as salesmen, but this is a situation which calls for sales skills. Once you know your problem and begin communicating it upward through your management, you are in effect trying to sell them an idea in which you believe. At a minimum, you've got to figure out a way to communicate across to D. P. that you have a defined problem, that you want and need their help and that you're making the request through channels. In this way,



GRANT MORRIS

at least they can't resent you for springing something on them without warning.

How to communicate with the computer people? Well, how would a salesman go about it? By learning enough about the prospect to be aware of his problems and the accomplishments he is proud of. You can't talk to him in the language of computer people; in fact he will probably be put off by such an approach. But, you can talk to him in terms of the normal successes and failures which everyone in an organization feels.

If you've really succeeded in formulating your record keeping problem, you can gain

his confidence to some degree just by stating it clearly. You should be able to reassure him that if his people come into your area, they will receive your full backing and assistance. With a little luck, you may get a good deal further with the computer people than the minimum.

You might even end up with active support from them in justifying the cost of your project, which is the very best way to begin any such endeavor. Since they frequently work on projects and systems which the users do not fully support, it should be refreshing for them to have a user who is eager to have their help.

Readers can probably supply other basic approaches to this problem, and many variations on the four outlined above. One that comes to mind immediately: if you can find time, by all means attend a seminar where the use of computers in employee benefits is discussed. This added bit of knowledge will make it easier both to examine your specific problems, and to deal with the D. P. people when they come to your area.

To summarize: if you know what motivates an organization to spend time and money on computer applications, if you know your own problem and can state it systematically, if you know how your organization works, and if you know how to sell an idea in which you believe to others, then you will be demonstrating once again that knowledge is power. Armed with this kind of power, you can go forth with greater confidence to meet data processing.

Evaluating product risks...

Continued from preceding page

pay workers for total parts produced regardless of quality. Despite final inspection's acceptance of sampling plans, numerous defective products got into the customers' hands. Some of this gave rise to product liability claims.

Quality Organization (Factor 10): The structure of a business represents a significant aspect of the quality system. Its suitability, assigned responsibilities and corresponding authorities, together with the qualifications of those involved, determine how well the policies will be implemented. The apparent degree of motivation, level of compensation and stability also contribute in a product liability rating.

Item: It was not uncommon for certain inspectors in one defense contractor's plant to record their findings to conform to the specification rather than the actual test results. Their reason: "To satisfy the quality requirement." Fortunately, this was recognized and corrected before it spread too far and complaints became widespread. Had it persisted, product liability actions would certainly have followed.

Quality Standards (Factor 11): Established by general consent, quality standards are the criteria by which raw materials, purchased parts and components, manufacturing operations and processes, finished product and performance are judged. Also included are packaging, storage, shipping, product safety, instructions as to use and appropriate precautions to the user. These ratings evaluate how the standards were developed and how well they serve the requirements for the product.

Item: One specification failed to spell out a vital requirement, and \$5,000 worth of defective components resulted in almost \$250,000 of faulty assembled product. Quality practices in the engineering and design functions were overhauled to prevent a recurrence of this fiasco.

Quality Procedures (Factor 12): Quality aspects included here are planning, control, locating and dealing with substandard product (both in-process and finished goods), defect prevention, handling customer product difficulties and how this information is communicated throughout the organization.

Item: Failure to properly mark a rejected product allowed some \$30,000 of faulty textile product to be shipped. Only chance discovery prompted a hasty recall and prevented disastrous losses. The procedure now precludes the need to depend upon chance.

Quality Assurance (Factor 13): The degree of confidence a company has that

Two objectives have been accomplished by a numerical rating plan. The first is that of combining relative standing with theoretically perfect criteria. The second is developing a high degree of repeatability for individual ratings.

The final four factors are in the area of quality costs. In theory, a perfect quality system is one in which nothing ever went wrong. No defective product would ever be produced, and all products would perform intended functions without the slightest trouble. This utopia would result in a considerably healthier profit-and-loss statement. Through examination of a company's accounts, this situation is synthesized. Potential additions to net profit are:

Appraisal (Factor 15): The cost of measuring quality characteristics to determine conformance to quality requirements.

A strong association has been shown between a company's neglect of its quality system and its harvest of product liability claims.

its policies are being carried out by the organization, in conformity with its standards through established procedures, is the essence of quality assurance. Ratings depend upon whether all available up-to-date methods and techniques are employed and how convincingly a company can show it is doing what it sets out to do.

Item: Careful documentation of test data, combined with a well-organized presentation of how sampling plans were designed, installed and maintained was effective in convincing one jury of the manufacturer's strong concern for the consumer's safety. The resultant award, although attaching guilt, was considerably less than expected—implying some degree of contributory negligence on the part of the plaintiff.

Total rating (Factor 14): The sum of the individual ratings for the five previous areas provides the means for calculating a total rating.

ments.

Failure (Factor 16): Costs incurred due to failure of the product to meet the quality requirements.

Prevention (Factor 17): Costs expended in planning, analyzing and instituting procedural changes aimed at avoiding defective product.

Total (Factor 18): The sum of the above three headings.

The statistical technique known as multiple regression was used to relate these 18 factors to product liability payout per million dollars of sales. This approximates the contribution of each factor and identifies the order of importance in the problem.

Preliminary studies, based upon the first 20 companies thus served, point to some interesting relationships. Product type is certainly the dominant factor. But

by mathematically "neutralizing" this effect, it is possible to examine the contribution of the other factors.

There appears to be a significant relationship between the system rating and product liability costs. This presumes that the present "snapshot" is representative of a company's condition during the time subject product was produced.

Further, by using this tool, the importance of each quality area may be weighted. Hence it is now possible, for a given product, to estimate a company's product liability exposure. This is the "product integrity rating."

To date, this approach has achieved some measure of success in improving situations. Four advantages are clear:

- The rating itself has proven a strong motivation in bringing about positive changes for the better. Management's attention is focused on the problem and specific recommendations for shoring up weaknesses are realistically implemented.

- Reduced quality costs nearly always follow as a consequence of an improved system. The gains in reduced scrap, rework, inspection costs and customer returns more than pay for the nominal cost of prevention and assurance.

- The value of an objective engineering appraisal has already been demonstrated in obtaining product liability coverage in cases where it had been refused. We look to the time when premium consideration may be given for outstanding ratings.

- Responsible executives find product integrity ratings helpful in shaping their risk management programs. By comparing this rating with proposed insurance premiums, they can better decide the prudent extent of risk transference.

The product liability problem has many facets. For such a challenge there is no one answer. However, a strong association has been shown between a company's neglect of its quality system and its harvest of product liability claims. Although the validity of the product integrity rating approach can be proven only after repeated applications it does appear to have merit. It is one positive response to the growing problem of product liability.

around the states

Product liability reforms advance in Ohio, offered in Pennsylvania

COLUMBUS—The Ohio house of representatives last month passed by a whopping 85-7 vote legislation that requires product liability suits be brought within 10 years after the product was first sold or delivered for use or consumption. Actions for bodily injury or injuring personal property must be launched within two years of the accident. The measure (H.B. 319) protects a manufacturer from liability if the product was altered, not properly maintained or if the injured party misused the product "for other than the ordinary purpose for which it is designed or intended." In addition, the bill offers a manufacturer or seller a rebuttable presumption if the product was made in conformity with prevailing federal or state standards or rules regarding product design and manufacture. The bill now goes to the state senate where a tougher battle is expected.

Product liability

HARRISBURG—The Pennsylvania senate is considering legislation that would limit the risks of manufacturers and retailers in product liability suits.

The measure imposes a six-year statute of limitations on suits, starting at the point that the manufacturer or retailer loses control over the product. It also bars liability claims if the product is altered or modified from its original condition.

Other major provisions of the bill:

- Products will be judged in suits on standards that are generally recognized and prevailing at the time of manufacture.
- Punitive damages are not permitted in product liability suits.
- Attorney fees are restricted to 35% of awards up to \$100,000 and 30% of awards above that figure.

Pregnancy pay

OLYMPIA—The Washington Human Relations Commission has ruled that refusal by employers to include maternity benefits in sick-pay plans is sex discrimination.

The commission unanimously approved a resolution declaring that the absence of maternity benefits in such plans is a violation of state law. The U.S. Supreme Court ruled otherwise earlier this year, but commission member Kenneth Webster said:

"I don't think we have to change our feelings because of something that the Supreme Court has done. This is the law of the state of Washington."

Alcoholism treatment

JEFFERSON CITY—The Missouri house has defeated legislation that would have required group health hospitalization insurance policies to include coverage for alcoholism treatment.

Backers of the bill said some doctors admit patients for alcohol-

ism treatment, but term it treatment for nervousness so the patient's health policy will cover it. Opponents said the legislature should not mandate coverages in group health plans.

Malpractice suit

HARRISBURG—A Pittsburgh woman who underwent intestinal bypass surgery to lose weight and nearly died has accepted \$350,000 in the first major medical malpractice case settled by arbitration under a new state law.

Marlene Baumiller, 28, has been forced to live on a diet of baby

food and mashed potatoes since complications virtually destroyed her stomach, according to her lawyer, Clyde T. MacVay.

"She won't ever be able to resume regular meal-eating," he said. "She has to eat a lot of small meals, and she has trouble keeping those down."

Mrs. Baumiller is to get \$100,000 from Dr. Robert Cassella, \$25,000 from the Pittsburgh Podiatry Hospital and \$225,000 from the state's medical professional liability catastrophe loss fund.

The surgeon's share, which is covered by a private insurance

company, is the maximum individual liability provided under the Pennsylvania malpractice law that went into effect in January 1976.

The loss fund, an \$11 million pool created by a 10% surcharge on malpractice insurance premiums, covers liability exceeding individual and institutional limits.

Safety inspections

FRANKFORT—The Kentucky court of appeals has limited the authority of state labor department safety inspectors to enter the premises of companies.

The court ruled that a search warrant or court order is necessary unless it is shown that the business is dangerous or is already subject to regulation.

Work comp up

COLUMBUS—The Ohio industrial commission has raised workers' compensation insurance rates by an average of 29.7% in an ef-

fort to help the state insurance fund meet higher costs next year.

The rates, based on a projected average weekly salary of \$235, were effective July 1 and affect 238,000 employers.

Dental coverage

DOVER—Blue Cross and Blue Shield of Delaware has revamped its dental insurance coverage in hopes of rescuing the experimental program from chronic deficits. Among the major changes are a change to indemnity coverage and an annual limit on benefit payments. Currently the program has only about 6,000 subscribers and a deficit of more than \$100,000.

Credit life fees

DES MOINES—Gov. Robert Ray of Iowa has signed into law a bill reducing maximum fees for credit life and credit accident and health insurance from 75 cents to 65 cents for every \$100 of debt insured.

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New office

Crain, Langer & Co., Cleveland risk and insurance management consultants, have moved their offices from the downtown business community to western suburban Rocky River. Their new address is 20575 Center Ridge Rd., Rocky River, Ohio 44116.

info for buyers

To receive literature listed in Info for Buyers write directly to the name and address accompanying each item, mentioning that you saw the offering in *Business Insurance*.

• A special Justice Department task force during the Ford Administration proposed a dual system of federal and state charters for insurance companies in a report published by the American Enterprise Institute for Public Policy Research: **Federal-State Regulation of the Pricing and Marketing of Insurance**. The report recommends removing anti-trust exemptions for federally-chartered insurance companies and allowing insurance rates to be determined by competition instead of regulation. A copy of the 103-page report is \$3.25. Write the American Enterprise Institute for Public Policy Research, 1150 17th St., N.W., Washington, D.C. 20036.

• **The Fire Triangle and UV Detector Innovations** is a 13-page illustrated booklet of a paper presented to the National Fire Protection Assn. meeting in May by T.E. Larsen, president of Detector Electronics Corp. For a free copy write Detector Electronics Corp., 7351 Washington Ave. S., Minneapolis, Minn. 55435.

• The complete proceedings of the first **World Congress on Product Liability** held in London in January are now available from The Research Group International. In addition to 575 pages of the proceedings, 300 pages of program materials are included

in the \$95 package. The Research Group International has also introduced a monthly product liability newsletter at an annual \$110 subscription rate. The World Congress materials and a one-year subscription to the newsletter are available at a combined price of \$175. Write Neill Hollenshead, vp, The Research Group International, Product Liability Division, PO Box 7187, Charlottesville, Va. 22906.

• A new text, **Workers' Compensation and Employers' Liability Experience Rating**, by John R. Stafford covers the National Council on Workers' Compensation experience rating plans. Eligibility, jurisdictions, and single state, interstate and exception states calculations are included. The major 1977 revision of the plan is also explained. Prepaid cost is \$6.45, otherwise \$7.20. Write J&M Publications, Dept. F., PO Box 338, Palatine, Ill. 60067.

• **Our Way Is Better** is a promotional brochure on self-funded employee benefit programs and Self-Insurers Service Inc. For a free copy write J. Heil, Self-Insurers Service Inc., 55 E. Monroe St., Chicago, Ill. 60603.

• **Highly Protected Risk Coverage** from Commerce and Industry Insurance Co. is described in

a promotional brochure of that title. For a free copy write Product Information, Corporate Communications, American International Group, 102 Maiden Lane, New York, N.Y. 10005.

• **Directors & Officers** liability insurance from American Home/National Union is described in a promotional brochure, *In Your Position, Every Move Is Visible... and Vulnerable*. For a free copy write Product Information, Corporate Communications, American International Group, 102 Maiden Lane, New York,

Info for Buyers is intended as a forum for the exchange of educational information as well as promotional material from suppliers. Studies, guidebooks, and results of surveys are wanted for inclusion in the column. If your association or think-tank is publicly offering any insurance, risk management or employee benefit-related material, please send a copy to Info for Buyers. And as a risk manager, if you come across something you think would be helpful to your colleagues, tell us about it. Write Info for Buyers, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

N.Y. 10005.

• Cayzer Steel Bowater International Ltd., an insurance and reinsurance broking group operating in the U.K. and overseas, has made available its current **Directory**. The group operates 25 separate companies, branches and divisions and handles all aspects of insurance. The firm's facilities in Saudi Arabia are included.

For a free copy write Cayzer Steel Bowater International Ltd., Greenly House, 30 Creechchurch Lane, London, EC3A 5EJ.

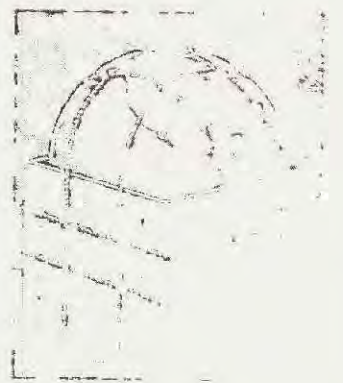
• **A Study of the Corporate Risk Management Function**, an 11-page primer on risk management published by the Insurance Buyers' Council Inc., defines and outlines the functions of risk management. It also offers a step-by-step procedure for developing a risk management program. For a free copy write Pat Davis, Insurance Buyers' Council Inc., 22 West Road, Baltimore, Md. 21204.

• Shippers, consignees, ocean carriers, port and terminal operators, air terminal operators and marine underwriters are the target audience of **Cargo Loss Prevention Recommendations**, a 45-page booklet available for \$1. Write Robert A. Herbst, American Institute of Marine Underwriters, 14 Wall St., New York, N.Y. 10005.

• A reprint from the Journal of Maritime Law & Commerce considers **Containerization: Comments on Insurance and Liability**. The reprint is available in single copies from the American Institute of Marine Underwriters. For a free copy write Robert A. Herbst, American Institute of Marine Underwriters, 14 Wall St., New York, N.Y. 10005.

• **A Risk Managers Guide to Goods in Transit**, a 16-page booklet prepared by the Insurance Co. of North America for risk managers of corporations that sell and ship goods domestically and overseas, discusses ways to identify, measure and handle the risk and implement a risk management

A RISK MANAGER'S GUIDE TO GOODS IN TRANSIT



program. For a free copy write INA, SuperService, 1600 Arch St., Philadelphia, Pa. 19101.

• Johnson & Higgins calls **Employee Stock Ownership Plans: A New Breed of Capitalism**. A benefit plan bulletin outlines stock bonus plans, ESOPs as a financial tool, investment tax credit ESOPs and some problems involved in ESOPs. For a free copy write Judith L. Cromwell, Assistant Manager, Production & Coordination Department, Johnson & Higgins, 95 Wall St., New York, N.Y. 10005.

• Attention contractors. **An Insurance Buyer's Checklist for Contractors** is available to help you decide on an appropriate schedule of coverages. The 14-page working booklet is free to buyers of insurance but costs \$5 a copy for non-buyers. Write William McIntyre, Rimco Inc., 10300 North Central Expressway, Suite 180, Dallas, Tex. 75231.

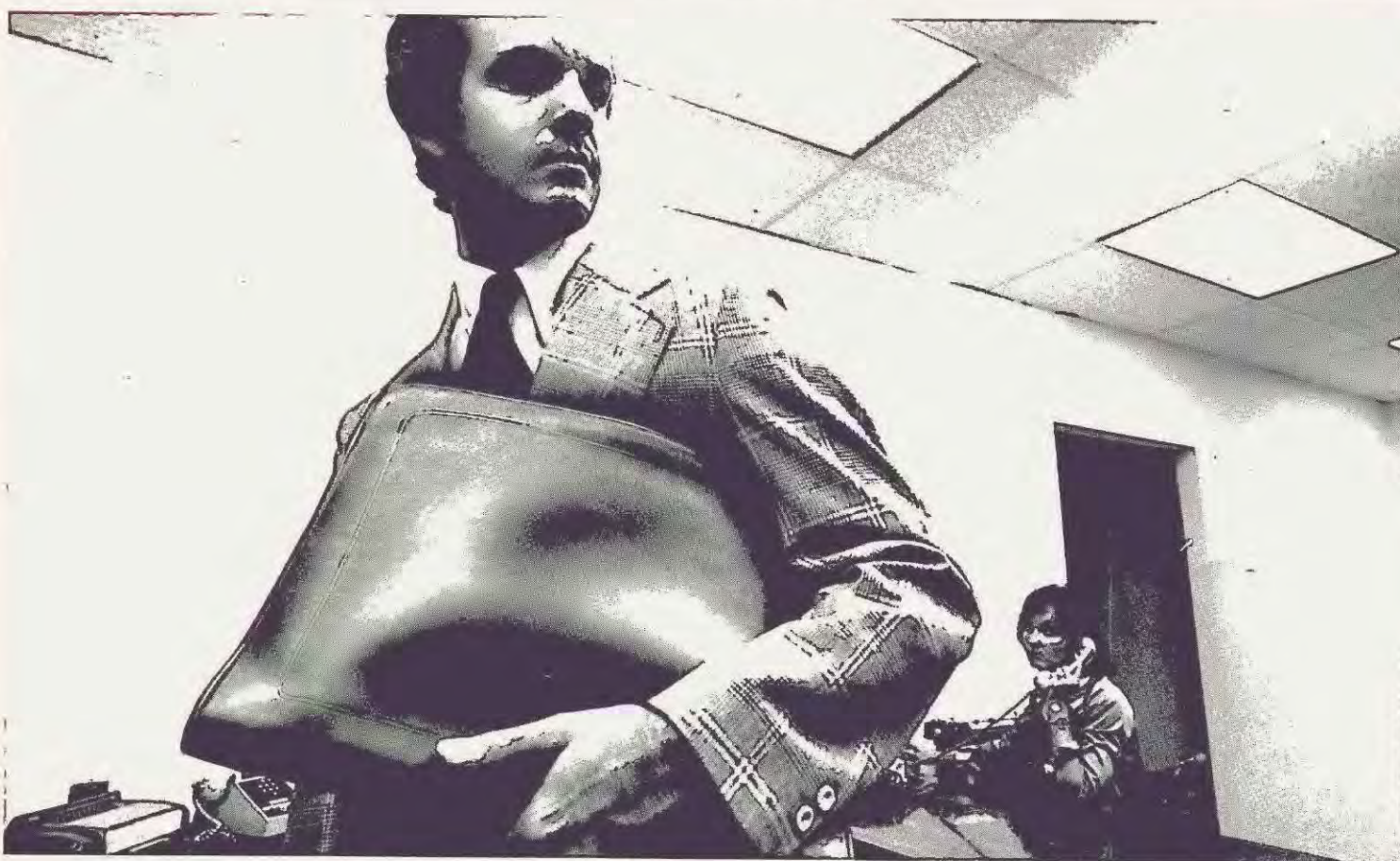
• Insurope has published a booklet, **Multinational Benefits Assessment**. Topics covered include the need for an international benefit system, corporate benefit planning, local management and employee relations, and cost control of benefits abroad. For a free copy of the booklet write Multinational Benefit Associates, 980 Post Rd., Darien, Conn. 06820.

dates for buyers

Aug. 1-3: Fundamentals of Occupational Safety & Health, a three-day short course, offered at Louisiana State University, Baton Rouge. Responsibility for safety supervision and what can be done to improve a safety program and reduce costs will be covered. Registration is \$75 and should be sent for receipt by July 25 to Manager, Continuing Education Center, Pleasant Hall, Louisiana State University, Baton Rouge, La. 70803. For further information on the course call L.A. Braud at the University's Department of Industrial & Technical Education, phone (504) 388-2095.

Aug. 6-10: International Foundation of Employee Benefit Plans' 23rd annual educational conference in San Francisco. The first two days of the five-day "Gateway to Learning" conference will be devoted to institutes on interpersonal skills, communications, leadership and motivation. The final three days will be filled with 140 educational sessions on 49 topics. Registration is limited to members of the foundation. Contact: International Foundation of Employee Benefit Plans, PO Box 69, Brookfield, Wis. 53005; phone (414) 786-6700.

Aug. 8-12: Seventh annual Fairleigh Dickinson Seminar in Teaneck, N.J., co-sponsored by Fairleigh Dickinson University, Business Seminars Institute Inc. and R&R Newkirk. Sessions include a two-day course on basic pension and profit sharing and two three-day seminars, one on retirement plan administration and another on pensions and other employee benefit sales and consulting techniques. Cost is \$395 for the two-day school and one seminar or \$220 for the two-day school and \$250 for either seminar. Contact: Business Seminars Institute Inc., 428 Old Hook Road, Emerson, N.J. 07630; phone (201) 967-1220.



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Reciprocal planned . . .

Continued from page 1
billion insurance problems in Illinois. As four general agencies serving three-quarters of the local governments in Illinois, Bliss Insurance has felt the squeeze in the municipal liability insurance market. "In the past couple of years, we've dropped 15 to 20 clients," Mr. Bliss said. "But that's out of 1,100 clients; others have dropped all their clients," he observed.

The capacity crunch in Illinois has been caused by the withdrawal of municipal liability insurance underwriters, Mr. Bliss said, naming Gulf Insurance Co. of Kansas City and Employers Mutual Casualty Co. and Hawkeye-Security Insurance Co., both of Des Moines. They carried a large percentage of the business, he explained. In addition, Pacific Indemnity Co. of Los Angeles, has reduced its participation in the market, he said.

This has forced Bliss Insurance not only to drop some clients, but also to accept and write programs they are sometimes "less than satisfied with," Mr. Bliss said.

Others involved

When Rep. Bernard E. Epton (R-Chicago) called an informal meeting of local government representatives last February to discuss municipal insurance problems, Mr. Bliss was there as an interested party. And when the idea of the formation of a reciprocal was favorably received, he went to work.

Mr. Bliss emphasizes that the formation of GIE is a "multiple person operation," including Bliss Insurance staff and other GIM directors. They include Robert E. Engelmann, president and director of Continental Western Insurance Co. in Des Moines, Gordon M. Barker, president and director of American Druggists Insurance Co. in Cincinnati and Charles F. Cliggett, now manager of the Illinois FAIR Plan Assn. and formerly senior vp of Royal Globe Insurance. Roger L. Bliss, chairman of Bliss Insurance, and John J. McKnight, executive vp of Bliss Insurance, are also GIM directors. Collectively, they will manage the operation of the reciprocal.

Mr. Bliss believes enough local governments will subscribe in the next few months to begin operation in the fall. On the outside, he is giving the reciprocal two years to get off the ground. "But if it takes that long, it won't go," he said.

Based on surveys, Mr. Bliss estimates there is a potential \$15 million to \$20 million premium volume market for the reciprocal. He is projecting first year participation at 30% of that potential market for an annual premium volume of \$5 million.

The market, as GIM has assessed it, is cities with at least a 20,000 population and the larger Illinois counties and townships. "GIE is not relative to Chicago or Cook County; they're too big. Nor is it for the small entities; they generally have a private market," he said.

But on the upper end of that middle ground, says Mr. Bliss, are the municipalities having real problems finding insurance. Kane County, in northern Illinois with a population of 251,000, he noted, can't find liability insurance.

When the insurance is available it can cost dearly. Even auto liability insurance, which Mr. Bliss said one would expect to be "easy," is costing some municipalities \$3,500 a vehicle.

Are Mr. Bliss and GIM setting themselves up as the conservators of local governments' interests? Not exactly. Mr. Bliss admits their reasons for establishing the reciprocal "aren't entirely altruistic."

Governmental Interinsurance Exchange, Mr. Bliss believes, "will help protect the existence of the private market. And as general agents, we have a vested interest in that." A joint underwriting association for municipal insurance in Illinois is a possibility. A bill to create such a JUA is in a legislative committee, though no action is expected this year on it.

Mr. Bliss observed, "If we can't make a line of business pay for itself, then the government will have to insure the risk and that's an anathema to us here."

In terms of a business venture, Mr. Bliss doesn't anticipate GIM will make "a lot of money." He has already invested "thousands of dollars" of his own legal time to this, as well as the time of Bliss Insurance staff. "We don't really expect to get that back. But in the long run, in experience and in income from the attorney-in-fact, we'll make something," he speculated.

As attorney-in-fact managing the reciprocal, Governmental Insurance Managers will be paid 15% of the premium dollars in the reciprocal. "We're going to have to be super efficient. It's probably going to be close to the line in the beginning," Mr. Bliss predicted.

The sheer "fun" of setting up the reciprocal has been its own reward, Mr. Bliss indicated. "We've had more fun with this. We've written the general liability and auto forms as we've wanted to see them written—everything we always wanted to do, but couldn't," he said.

In hand with the reciprocal, GIM is working up a comprehensive loss prevention/control program focusing on liability exposures for local governments. "It doesn't exist in the private market," Mr. Bliss noted.

"The real key of this is to provide a market, a market that relates to the losses of local governments, and to create a loss prevention/control program. We believe if we don't do it, it won't get done."

Premium pricing will be on an exposure basis, using a five-year data bank on losses of

Bliss Insurance municipal clients. Mr. Bliss said the reciprocal will be competitive with commercial market prices, but he qualified that, saying, "The premiums in the commercial market are so wide ranging. Some are consistent with what GIE will charge; some are so far above that we can't believe they are charging it. We haven't seen too many much lower."

The policies issued by the reciprocal will be nonassessable. It will not pay dividends, but Mr. Bliss said, "As the experience goes, so go the premiums."

\$1 million of coverage

First dollar coverage up to \$1 million will be offered initially. In the current market, Mr. Bliss said municipalities should be able to purchase excess insurance over \$1 million of primary insurance.

GIE will be reinsured, Mr. Bliss said. Currently discussions are with domestic reinsurers.

In addition to the 15% slice of premium paid to GIM to manage the reciprocal, at least 1% of premium will be allocated to the loss prevention/control program. Local brokers will market the reciprocal and handle the day-to-day problems of their clients for a 10% commission.

The managers' immediate task is to "inform local governments of this alternative and to go to those interested," Mr. Bliss said. The 33-year-old attorney, who has set up another reciprocal for a client, said GIE was kept under wraps until they were sure it would work. "We didn't want to create a demand for something that might not be there," Mr. Bliss explained.

That's why the Northwest Municipal Conference and the DuPage Mayors and Managers Conference, organizations representing suburban Chicago communities engaged in a risk management and funding study, weren't aware of the pending reciprocal. Risk Planning Group Inc. of Darien, Conn. went to work last January identifying the communities' risk management problems and considering solutions to them. Their first report was made this spring (*Business Insurance*, June 13).

Mr. Bliss said GIM didn't approach the group with the reciprocal proposal "because we didn't want to shade their opinions of RPG's proposals." About 20 of the municipalities are expected to continue a second phase of the study: a detailed examination of the risk funding alternatives available to them. RPG

said it will look at the reciprocal as one possible approach.

An informal pooling of risks among the Chicago suburban communities, which has been mentioned, may run into a road block at the Illinois insurance department. Kenneth W. Smith, assistant deputy director of the property/casualty division of the department, said informal pooling is not permitted under the Illinois insurance code.

He explained that any time two unrelated entities agree to share losses, "you've got an insurance company." And under the Illinois insurance code, only three types of insurance companies are permitted: stock, mutual and reciprocal.

However, Roger Bixby, administrative assistant to the Illinois Insurance Laws Study Commission, believes, "with any kind of decent drafting, pooling could be undertaken." He pointed to a "constitutional provision that encourages intergovernmental cooperation and a specific statute that says local governments can get together to self-insure." He conceded, though, "That's not in the insurance code."

Advantages discussed

Michael G. Thistle, vp of Risk Planning Group, said, "We want to satisfy the regulators that the mechanism chosen is stable. But the duty is to establish something that is cost effective." At this point he is reserving judgment on the new reciprocal, but granted, "It's good. At least it's breaking ground for a solution to these problems."

Mr. Bliss believes the reciprocal has some advantages for municipalities over informal pooling. "One problem with an informal pool is the influence of politics, which can be destructive. If it's run by people involved in politics—and I don't mean that derogatorily—it's difficult to make a decision on a technical insurance basis."

"The reciprocal insulates the insurance world from the political world. There will be an advisory committee of the local government subscribers, but the day-to-day operations, like underwriting, claims payment and rating, will be handled on an insurance basis."

Mr. Bliss is quick to add, "I'm not suggesting an informal pool can't work. And GIE doesn't preclude any other type of arrangement. We don't think we have the final answer. But this is an effort to effect a solution on a statewide basis."

M&M picks panel chief

SAN FRANCISCO—Marsh & McLennan Inc. has named Robert C. Goshay, professor of business administration at the University of California, as executive director of its product liability council.

The council was established last February to assist business, government and consumers with the problems of increased product liability litigation and the contingent tightening insurance market.

Thomas J. Ryan, senior vp of Marsh & McLennan and chairman of the council, said the highly respected professor brings to the council "an element of objectivity, representing as he does both the thinking of industry and the perspective of academia."

Mr. Goshay is an economics and insurance studies Ph.D. graduate of the Wharton School of the University of Pennsylvania. He is a corporate finance and insurance specialist who in addition to teaching, has been a consultant to industry, insurance concerns and government since 1961.

Mr. Goshay is based in Marsh & McLennan's San Francisco office and reports to Mr. Ryan. ■

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Damm & Associates . . .

Continued from page 1

treating certain illnesses and indicates treatments with the best cost-to-benefit advantage.

Damm is also approaching other major corporations around the country including Caterpillar Tractor, Sears, Roebuck and many Taft-Hartley benefit plans. Karl Bunkelman, an executive at Damm & Associates, also hopes to sign up the federal Civil Service Administration as a client for his program. He is optimistically predicting participation by five million to six million employees within several years.

"We figured when we spend \$19 million a year on health benefits, \$10,000 for the Damm & Associates study was just a drop in the bucket if it would find a new way to control and monitor these costs," said Bill Fisher, manager of corporate benefits for Sun Co.

TRW and Uniroyal also have paid \$10,000 each for the initial study by Damm & Associates to see whether their own hospitalization benefit payouts deserve closer scrutiny.

TRW's Dan Hodan, corporate director of employee benefits, has taken charge of the new users' group for the first year. Damm began in November 1976 to sample the hospital discharges of TRW's 7,000 employees in the Cleveland area.

Uniroyal contracted with Damm in March to check a random sampling of about 5% of its 40,000 employees in the U.S. covered by medical plans, in several locations, said Norma Sullivan, director of employee benefits.

Sun Co. contracted with Damm in May for a study of hospital records on a sample of about 1,000 employees in Tulsa and Philadelphia. Sun's U.S. medical plans cover about 23,000 employees and retirees. The company wanted two different geographical locations to be studied, and went to cities where it had large groups of employees to sample, said Mr. Fisher.

AT&T study

AT&T also spent about \$10,000 for its survey sampling 2,000 hospital cases in each of four locations, with in-depth studies of 200 cases in each area. According to AT&T assistant vp in charge of benefits John Kingsbury, the outcome was a report from Damm on the accuracy of the records and a recommendation of a full-blown loss control system for the employer's health benefit plans for all the Bell systems. But, says Mr. Kingsbury, the cost of implementing such a plan nationwide would be over \$10 million, including start-up costs, plus the annual maintenance cost.

Damm's system consists of three distinct phases, said Mr. Bunkelman. They are an initial data gathering phase to indicate utilization rates and show which procedures don't conform to standard medical criteria, a review of all patient discharges from local hospitals in a given location, (such as Cleveland for TRW) and a monitoring phase which includes pre-certification by hospitals of procedures to be used in the treatment of patients covered by employer medical plans working with Damm.

Mr. Bunkelman calculates costs

for the health benefits loss control program at about 3% of a company's health premiums, covering data collection activities by the insurance carriers, hospital fees and education programs for employees, insurers and suppliers (i.e. hospitals).

The monitoring/auditing portion of this would be about one-third of the total cost, or 1% of premiums, he said. Thus, Mr. Bunkelman estimates that TRW would need to spend about \$70,000 a year for full monitoring in the Cleveland area, based upon 3,500 hospital discharges there a year costing an average of \$20 per discharge.

TRW's Dan Hodan, however, figures the cost would be closer to \$35,000 or \$40,000 a year based on a lower average discharge cost for TRW employees.

Damm's study for TRW leads Mr. Hodan to predict that TRW could save \$70,000 to \$80,000 a year in the four or five "opportunity areas" defined by the study. These areas for monitoring and application of standards, said Mr. Hodan, are: surgery for removal of tonsils/adenoids; hysterectomies; gall bladder surgery; discectomies (surgery to remove a spinal disc).

Several other areas which were found to deserve closer scrutiny, he added, were treatments for complications of pregnancy and psychiatric care, especially acute psychiatric care in hospitals.

"We see high frequencies arising in these areas. The first two (tonsils and adenoids, and hysterectomies) might be good targets for pre-certification standards," commented Mr. Hodan. Pre-certification programs would require the hospital and the attending physician to fill out a form justifying a method of treatment, for prior approval, before using it.

Selling the concept

Mr. Bunkelman is selling his concept on the basis that "right now there is no real loss control in the health benefits field."

And on that ground, no one disagrees with him. "We know from studying medical records for seven years that hospitals have little or no accountability to the purchasers," he continued. "Standards aren't being followed and backup systems in hospitals to

detect errors aren't being used."

Mr. Hodan of TRW added that under insurers' claims payment procedures, the carriers have "tended to take the hospitals' word about what they're paying for."

Mr. Bunkelman contended that it's not difficult to find cases as strange as the claim for a six-year-old boy who had a hysterectomy, was in the hospital for only two days, but ended up with a bill for \$7,000. Thus, he said, his firm believes that 20 to 40 cents of every health dollar spent by employers "goes right down the tubes" because of the lack of standards and the failure to have a statistical monitoring system to evaluate claims as they are submitted.

Defensive medicine

Another major problem with escalating health costs today, said Mr. Bunkelman, is the amount of defensive medicine being practiced by doctors and hospitals. He hopes Damm & Associates can curtail unnecessary testing by giving the hospitals a quality standard which ultimately would protect them as well as benefit the purchasers of hospital care.

"Our system will prevent a lot of defensive medicine which has been in many cases a misapplication of funds" for unnecessary tests and often the wrong ones, he noted.

The standards which hospitals would be urged to use will designate, for instance, the required diagnostic procedures for certain symptoms and the most acceptable (least cost, least risk and highest benefit) approach to treatment by the doctor.

In order to make a program like this effective, Mr. Bunkelman figures Damm & Associates would need to pull together enough employees in a given area to represent 20% to 30% of the total discharges from a given hospital. Without this big a group, the system probably wouldn't have much collective influence on the hospital and the doctors practicing within it.

Over the long term, TRW's Mr. Hodan guesses his company could reduce benefit payouts and spill-over costs (workers' compensation benefit costs, sick pay, rehabilitation, absenteeism, etc.) by 25% to 30% by upgrading the quality of hospital/health care.

Mr. Bunkelman maintains that the estimated return on investment in the first full year of implementation could be eight to 10 times the cost of the monitoring/auditing service. "This will increase to an estimated factor of 15 to 20 in the second year of operation," he contends.

Target locations

Damm & Associates aims to sign up enough corporate clients to begin establishing a monitoring and auditing system in several cities by late summer. The target locations are Cleveland, Washington, D.C., Boston and Philadelphia. Beyond that, Mr. Bunkelman is planning systems for the New York-Connecticut area and possibly for parts of Los Angeles.

The potential problems in establishing such a system, even for a single city, are nothing to sneeze at. There are problems of possible resistance by hospitals and doctors resentful of any outsider trying to censure their treatment procedures. Other obstacles include invasion-of-privacy statutes which protect the health records of employees and foot-dragging by insurance carriers who must provide the medical and hospital benefit claims data for Damm & Associates to work with.

Bill Fisher of Sun Co., for one,

has some reservations about how effective and costly this system would be. "It seems to me that in order to do what they claim can be done you'd have to have a hell of a lot of industry in this program. Just four companies can't affect hospital costs and standards. Two things worry me," he continued. "How many companies would really have to be in this thing for it to do any good? And, second, how much data is going to have to be manipulated all the time, and at what cost?"

John Kingsbury of AT&T said his company has not decided whether to go with the Damm & Associates system as yet. "My personal thinking is that we would not go into something the magnitude of what they proposed to us," he said, referring to Damm's recommendation of a nationwide Bell System monitoring effort. Furthermore, he's not fully convinced that such an effort has to be undertaken by a third party, outside the health insurance industry.

"I think we might be able to use the Blues" to better advantage, drawing better data from them now that there's some idea what can be done with it, he said.

Mr. Hodan of TRW, on the other hand, doesn't believe the carriers can do the job that Damm & Associates would be in a position to do. "I don't think the carriers can build this same data base and monitor this quality output for the purchasers. They're serving both the providers—the hospitals—and the purchasers—the employers and the patients. Look at the Blues' relationship to the hospitals; they are very close to the hospitals. You need an independent third party serving the buyers" to audit the quality of care purchased and to wield some influence with the providers of health care, he is convinced. ■

Here's how Damm gets information

CHICAGO—Here's how Damm and Associates operates its program aimed at cutting hospital payout costs.

Damm picks a selective group of cases which it knows to be high-risk in some way—a high ratio of mortality or complications, low effectiveness or inappropriate treatment—or are unusual for their long length of stay or the high cost of the stay.

Damm then reports to a client that it has paid for a certain number of cases which should have been monitored or audited.

Karl Bunkelman of the consulting firm thinks its conceivable that cases of subrogation could arise as an outcome of such an auditing/monitoring system. It's possible, he said, that a purchaser's health insurer would file a claim against the hospital and its malpractice carrier or a doctor and his carrier in the event of medical standards not being followed or inappropriate treatment being used, resulting in complications or damages.

So far, Damm & Associates has avoided any problems with privacy statutes by gathering only statistical information from carriers, ignoring names of individuals who were treated. Some states, though, have privacy statutes requiring the patient's consent before any medical records can be relinquished.

Damm & Associates has successfully avoided this problem by assuring the hospitals that records would be laundered to remove patient identification. ■



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Commissions exempted from ERISA

WASHINGTON—After months of heated controversy and spirited debate, the Department of Labor and the Internal Revenue Service last month issued the eagerly-awaited class exemptions under ERISA.

The class exemption allows employee benefit professionals to accept both fees and commissions for services performed that normally would be prohibited under ERISA as a conflict of interest.

This exemption is of major significance to insurance agents and brokers since they typically provide consulting services in addition to selling a plan an insurance policy.

To qualify for such an exemption, however, several conditions on the transaction must be met.

The fees and commissions must be reasonable. The regulation, though, does not define what reasonable compensation is. Instead, each individual case will be evaluated to determine if compensation was reasonable according to the particular situation.

In addition, the IRS and the Labor Department backed off from an earlier proposal that would have required an insurance agent to disclose the names of all insurance companies that the agent is affiliated with.

The final proposal, though, requires an agent or other pension professional to disclose information regarding the insurer or investment company whose contract is being recommended. ■

No-fault is better way, says survey

WASHINGTON—No-fault automobile insurance plans provide faster and more equitable benefits than the traditional liability system, a federal survey of 16 state no-fault plans found.

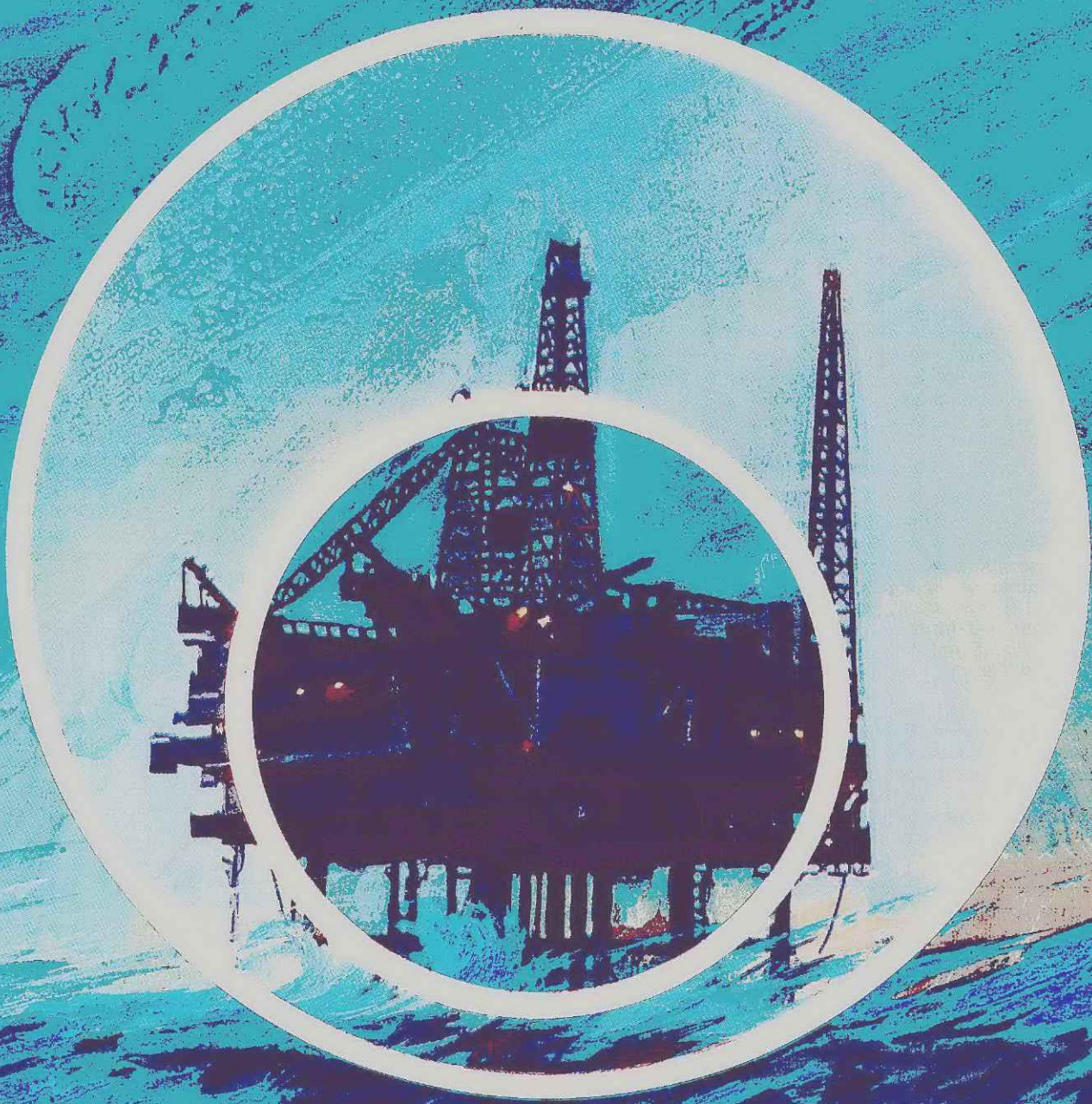
According to the report, which was released last month by the Department of Transportation, the backlog of costly court cases involving auto accident claims is reduced considerably under a no-fault system.

Furthermore, benefits are paid far faster under no-fault. In Colorado, for example, 91% of no-fault claims were settled within six months. Under the liability system, claims often are delayed for up to five years in the clogged courts.

The survey gives more ammunition to backers of bills pending in Congress that call for mandatory federal guidelines for state no-fault plans. Hearings on those measures resume this month. ■

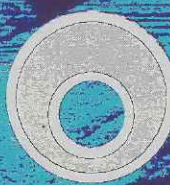
Arthritis sufferers

What disorder causes more prolonged misery to more people in the United States than any other disease? Arthritis, reports the Health Insurance Institute. More than 20 million people—1 in every 10—are afflicted with arthritis severe enough to require medical care. According to the Institute, an estimated 3.5 million arthritis victims are disabled—limited in their usual activities—at any one time. Of these, more than 430,000 are under 45 years of age.



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Bausom, 29, gets top post at Esmark

Gary Bausom, 29, joined Esmark Inc., Chicago-based holding company and parent of Swift & Co., effective June 1 as director of risk management. He is the holding company's first risk management officer. Previously, there have been insurance and risk managers for the Swift & Co. division. **Arnold J. Saret** had been director of insurance for Swift & Co. until his departure in mid-1976, leaving the position unfilled since then. Mr. Saret, however, was actually part of GSI Inc., reporting to the corporate controller of Swift. Mr. Bausom reports to the treasurer of Esmark. Mr. Bausom is responsible for all property and casualty risks. He was formerly vp-risk management for Budget Rent-A-Car, Chicago, where he has not yet been replaced. He'd been with Budget, a division of Transamerica Corp., since January of this year. He was risk manager for Transamerica, San Francisco, prior to joining Budget. He was with Transamerica a total of five years.

Steven Christie, 32, was appointed safety director of ServiceMaster Industries Inc. in Downer's Grove, Ill., on June 20. The newly created position involves managing safety programs for all company facilities and customer locations, particularly for ServiceMaster's hospital clients. Mr. Christie, a graduate of Oklahoma State University, previously worked at Quaker Oats as manager of safety and loss prevention. He is now working toward a law degree at Lewis University. Mr. Christie reports to Harold W. Eavey, vp, service operations department. ServiceMaster handles home and industrial cleaning and plant maintenance, specializing in health care facilities.

Battelle Columbus Laboratories of Ohio has recently expanded its safety management operation by hiring **Dave Miller**, 33, as safety manager. Mr. Miller's duties consist of investigating and analyzing accidents, compiling safety surveys, coordinating specialized

surveys such as industrial hygiene, solving safety problems, and acting as liaison with outside regulatory agencies. Mr. Miller replaces **Dawn Peterseim**, who split duties as safety manager and general manager of Olentangy Management Corp., an offshoot of Battelle. Mr. Peterseim now works full-time as general manager. Mr. Miller, who is a certified safety professional, formerly worked as an engineering manager at Travelers Insurance Co. in Louisville, Ky., Los Angeles and Kansas City.

Robert L. Kelly, 49, manager of the insurance department of Petrolane Inc. died last month in Long Beach, Calif., after an illness of several months. Mr. Kelly joined Petrolane's insurance department in 1955, subsequently serving as insurance administrator, insurance and safety manager and manager of the insurance department. Mr. Kelly was recently succeeded by Dick Smith, as previously reported.

Standard Oil Co. of Ohio has hired **Peter J. Lunati**, 23, as a risk analyst in the insurance and claims section of its Cleveland office. The newly created position involves general responsibilities in both insurance and risk management. Mr. Lunati will be involved particularly in Standard's Alaskan operations. He will report to the manager of insurance administration, Robert Walsh. Mr. Lunati is a recent graduate of the department of risk management and insurance at the University of Georgia and a co-winner of that department's outstanding risk management award.

Susan Backus, 21, was named a risk analyst with Federal-Mogul Corp. in Detroit effective July 1. Responsibilities of her newly created position include risk analysis, selection of treatment and property conservation. Ms. Backus, a co-winner of the outstanding risk management award in the department of risk management and insurance at the University of Georgia, will report to the corporate risk manager, Ronald Stasch. Federal-Mogul is a manufacturing

firm, specializing in precision parts for transportation, farm, construction and aerospace machinery.

Richard Howie, 22, was named to a newly created position of insurance assistant by Foster Wheeler Energy Corp. in Livingston, N.J. The appointment is part of a general reorganization of the corporate insurance department. Mr. Howie, a graduate in economics of Rider College, is in charge of insurance accounting functions. He will eventually report to an insurance administrator, who has not been named. A previously existing position of insurance assistant was filled last August by **Grace I. Russo**, who was promoted from a secretarial position. Ms. Russo handles claims processing and will also report to the new insurance administrator. Both are presently responsible to the insurance director, Jessie Pagonis. Foster Wheeler designs and constructs steam generators and petrochemical and natural gas plants.

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Group insurance services

Rockwell saves \$3,500 a month with special IBM computer

SEAL BEACH, Calif.—Rockwell International Corp.'s group insurance services department here says it is saving more than \$3,500 a month on clerical costs alone by using a special IBM computer to process benefit claims.

At the same time, Rockwell's central payroll/personnel operations department, which handles group insurance payments, is able to make payments and produce other documents much more rapidly.

Benefit disbursements now take only about two days, said Henry D. Mjelle, manager of group insurance services. That is 1.5 days less than the 3.5 days required before the IBM system was installed in the late summer of 1975.

The IBM system uses a single keying procedure requiring only three clerical people, said Mr. Mjelle, compared with the seven people previously required to handle the typing, keypunching and manual auditing functions for group claims processing.

The group insurance services department processes hospital and medical claims for 47,000 Rockwell employees in the aerospace, electronics and automotive operations as well as for corporate staff employees. They are covered under two Metropolitan Life Insurance Co. plans.

The operation issues between 1,300 and 1,500 benefit checks each day at a cost of about \$3 per claim. Clarence P. Dietterich, manager of systems development for the central payroll/personnel operations at Rockwell, said the system has enabled the department to hold its claims processing costs to this level "in spite of increasing labor costs." He said the \$3 per claim processed is "a very low figure in comparison with average claims processing costs throughout the country."

The system when implemented resulted in savings in the area of a few cents per claim, a substantial aggregate savings, Mr. Mjelle

said.

Besides cutting clerical labor and benefits costs and speeding up payments, the system has resulted in no backlogs, less overtime by typists, greater accuracy and speed in the monthly classification-of-benefits report and faster bank account reconciliation, according to Mr. Dietterich.

Previously, he said, there was always a backlog of one to two days' work for the various typists, who often worked for four hours a day overtime. "Now they are able to keep up with the large volume of worksheets generated by our 26 pricers, even during the big work crunch that typically occurs during January and February. Overtime is now practically nonexistent and the workload is up-to-date at the close of each day," he said.

The monthly balancing and printing of the classification-of-benefits report formerly could not be completed until after the middle of the following month. It is now mailed no later than the ninth day of the month, said Mr. Dietterich, who attributed much of this speedup to having the edits and audits built into the system so that corrections are now made at the point of entry.

Information on storage disks is also used to create a magnetic tape which is sent to the bank for account reconciliation on its own computer, eliminating the need for

manual reconciling by group insurance services personnel, the systems manager said.

Additional savings came from the elimination of the four-part remittance forms Rockwell had used. The new system also eliminated the carbon copy check register.

"Moreover, we no longer incur the expense of buying and storing data cards. We require no more than about 150 diskettes for recording all data, and these are continually recycled," Mr. Dietterich added.

Mr. Mjelle said Rockwell chose an IBM 3740 Data Entry System after studying available hardware in order to have a system that would integrate all the steps of processing benefit checks and capturing data for the reports with a single data-entry procedure. The IBM 3740 uses a multi-unit, stand along system that isn't affected by down-time, an advantage over a central processor, Mr. Mjelle explained.

The system uses four programmable work stations, each having a core memory. One of the four can transmit data to the central computer center. Several of the work stations have printers attached to them for issuing checks. All of the hardware is leased from IBM, so there was no initial capital outlay. Rockwell created its own programs and software, said Mr. Mjelle.

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CGT trust problems . . .

Continued from page 1

marketed the trust through the agency system.

Mr. Clark said "he was not in a position to comment" on what went wrong with the trust and its arrangement with Loyal. Officials at the insurance company declined comment, referring questions to deputy commissioner Rodney. Loyal has \$80 million in assets, Mr. Rodney said.

But several competitors of CGT argue that the trust's rates were too low to be viable. One official at Mutual of New York in the Midwest said CGT rates were at least 30% below what other companies were charging for similar benefits.

"It's difficult to explain to agents and to clients that there is something wrong with rates that are too low," he said.

Another official with Mutual of New York used a suburban Chicago company to illustrate the problem. CGT charged that firm \$17 a month for employee cover-

age and \$50 a month for family coverage. MONY would not accept the risk for less than \$31 a month per employee and \$85 a month for family coverage.

Bruce Crawford, vp in charge of group sales for State Mutual Life Assurance Co. in Worcester, Mass., also said CGT was well below the market price. Mr. Crawford singled out the CGT rates for Chicago and New England, two areas where the trust took a significant portion of business away from State Mutual.

"They didn't even have to sell the stuff," he said.

The problem of inadequate rates was the main reason for the collapse earlier this year of Hospital Welfare Assn., a self-funded California trust.

Mr. Crawford compared the problem to a surfer riding a large

wave. Everything is fine as long as you are at the top, but if you fall even a bit there is a lot of trouble.

Mr. Clark of CGT said it was "not necessarily correct" that the trust was charging inadequate rates.

Deputy commissioner Rodney said what went wrong is less important than rehabilitating the company and arranging coverage for the policyholders. He believes the 300,000 persons insured through the trust "are risks someone can make money on."

One of the companies involved in negotiations to take over the business is the Kemper Insurance Cos. A Kemper spokesman said his company would not assume any liabilities, but would "roll over the business on our own terms and at our own rates." This could involve case-by-case underwriting, he indicated.

The situation involving CGT and Loyal Protective closely par-

allels the difficulties encountered in 1976 by Old Republic Insurance Co. of Chicago. Old Republic's multiple employer trust business skyrocketed from \$4 million in 1974 to over \$60 million in 1975, according to the Illinois insurance department. By early 1976 it became clear that losses on the multiple employer trusts, many of which charged inadequate rates, were endangering the company.

The Illinois department ordered the company to cut off almost all the trusts with as little as 30 days notice. As a result, trust administrators covering hundreds of thousands of persons were left to scramble for coverage. The Illinois action putting the company ahead of policyholders across the nation has been deplored by other state insurance officials.

Mr. Rodney said his department has three options. The first is simply to allow the trust to

go bankrupt. No one would win under this option, he argued, since at best claims would not be paid for over a year while liquidation proceedings were concluded.

The department could also cut off the CGT risks so that the non-CGT policyholders could get paid. Finally the department could find a new insurer for the trust. The third alternative is the best and is the one the department is pursuing, he said.

The National Assn. of Insurance Commissioners, reacting in part to the Old Republic situation, has developed a model bill to regulate third-party administrators such as CGT. At present state departments have little control over trusts, although they presumably should be reviewing rates through their regulation of insurance companies.

"There is no question insurance departments are responsible for rates," said Mr. Crawford. ■

Hearing set on OSHA rule

WASHINGTON—The Occupational Safety and Health Administration (OSHA) will hold a public hearing Aug. 16 on a proposed standard that would sharply reduce worker exposure to beryllium.

The current standard limits exposure to beryllium, a lightweight metal that can cause damage to the lungs, skin and eyes—up to two micrograms per cubic meter of air over an eight-hour period. OSHA officials have recommended a one microgram per cubic meter of air limit.

OSHA estimates that beryllium is used in more than 8,000 workplaces, including ceramic plants, tool and die manufacturing shops and in factories involved in metallurgical operations.

Employers who would like to testify at the hearing should write to the OSHA Consumer Affairs Office, Docket No. H-005, Room N3635, U.S. Department of Labor, 3rd St. and Constitution Ave., NW, Washington, D.C. 20210 by July 14. ■

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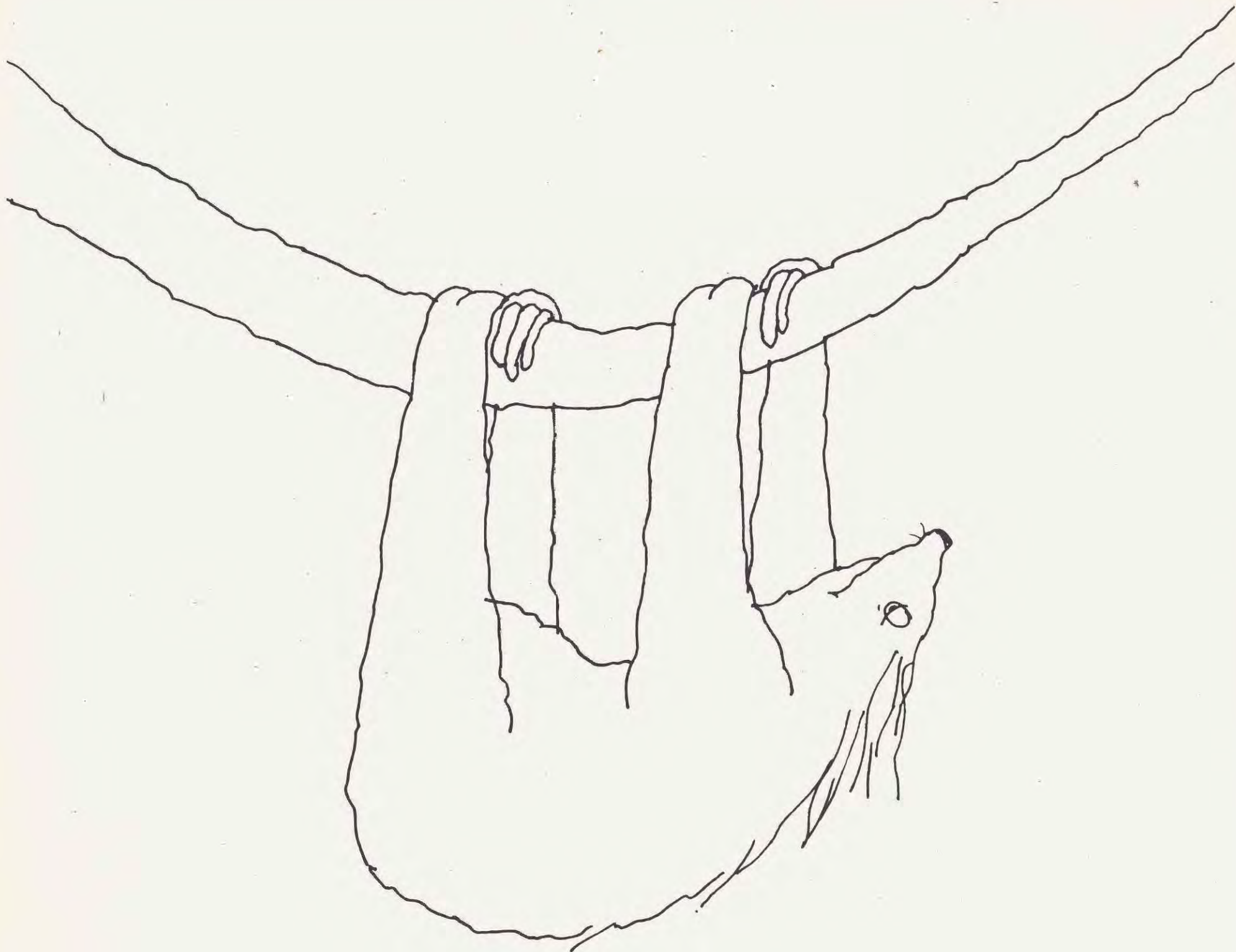
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