

business insurance

Fidelity & surety



Fidelity bonds are flowing as free as water, but look out for losses that turn off the tap. The squeeze has already hit the surety market. See the Spotlight Report: Page 11.

PRIMA conference

Public risk managers need to prepare now for the tight insurance market ahead: Page 22.

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$25 a year

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City trains pass up savings



A MARTA train stops at the Hightower Station in Atlanta during the morning run.

By **STUART EMMRICH**

ATLANTA—Atlanta's transit system, fighting for a rate hike, could be saving at least \$130,000 on its casualty insurance this year if it had taken the low bid submitted.

The Metropolitan Atlanta Rapid Transit Authority went for the higher price on the \$50 million of insurance coverage effective July 1, *Business Insurance* learned.

Officials decided that less than a month "wasn't enough time" to decide if the lower bid were better, said assistant insurance manager William Sharrow.

In rejecting the lower bid given by Marsh & McLennan through its AP-TIST program, MARTA con-

Continued on page 27

Earnings: Many benefit execs top \$40,000 mark

By **LORRIE GAWLA**

NEW YORK—Most benefit managers are earning \$25,000 to \$40,000 a year, but the dollars don't have to stop there.

About 30% of the benefit managers who answered a survey by

Segal Associates of New York are earning more than \$40,000, with 4% topping the \$60,000 mark. Fourteen percent earn \$40,000 to \$45,000.

On the low side, 2% of the benefit managers make less than \$15,000 and another 2% don't top \$20,000

but make more than \$15,000.

Some 56% of the managers listed their salaries at \$25,000 to \$40,000. Twenty-three percent earn \$30,000 to \$35,000.

Most also receive bonuses, with the average being 10% to 20% of salary.

The benefit field seems to be for the middle-aged married man who has a college degree in business.

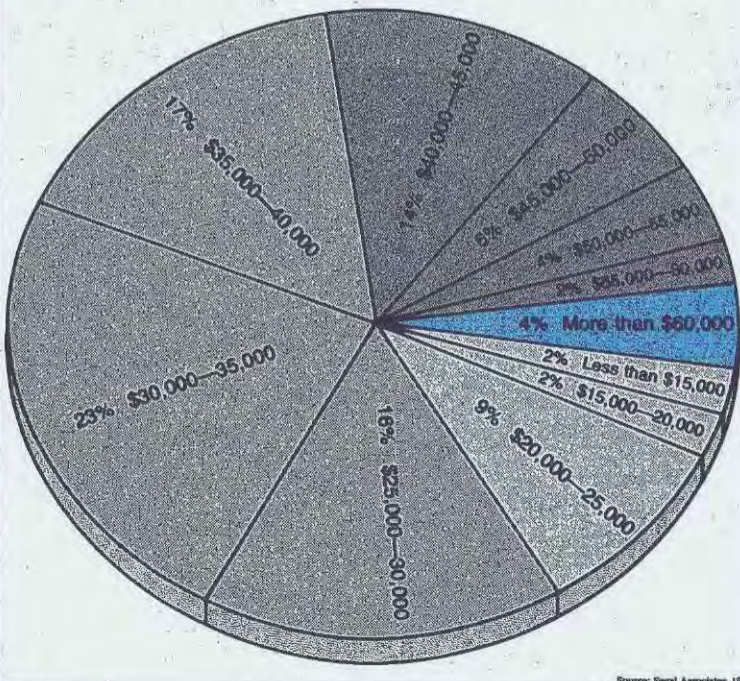
There are 5.5 men to every woman among the benefit managers from the Fortune 1000 industrial corporations surveyed by Segal. Some 37% are in their 30s, but the average age is 42.2 years. Only 9% of the benefit managers are single; 86% are married and the other 5% divorced, separated or widowed.

Sixty percent of the managers prepared for their profession by getting a college degree, with 66% of those having a business-related major. These included business, 19%; accounting, 14%; economics, 13%; management, 6%; industrial relations, 3%, and finance, 3%.

The benefit manager as a specialized corporate position is a relatively new field, Segal Associates says. The average benefit manager has been in his or her position only 4.7 years, and 45% have had their job only one to three years.

Forty-six percent said their job is very fulfilling. Fifty-six percent said the future is very bright for their profession.

Benefit Managers' Salaries



Source: Segal Associates, 1980

GOP insures risks, Reagan in 1980

By **STACY SHAPIRO**

DETROIT—There's not much at risk for the GOP at the Republican National Convention this week.

The presidential nominee is assured and the risks are insured.

The Republican National Committee, the city of Detroit and owners of the Joe Louis Arena are insured against liability for injuries to any of the 30,000 people packed into the arena for the Republican National Convention this week.

And to prevent danger from passing into convention headquarters, the Republican National Committee has stepped up security with the help of the Detroit police department and the Secret Service.

"We have excellent, tight security at the Joe Louis Arena," says Lynn Lowe, sergeant at arms for the convention. The Detroit police will handle credentials at the door and they will be in plain clothes throughout the convention hall, he says.

The Secret Service is available in case of bomb threats, Mr. Lowe says, and will comb the hall before the delegates arrive each day. The Secret Service, however, will not be at the hotels where the delegates are staying.

"By law, the Secret Service only can protect Ford, Reagan and whomever the vice president might be," Mr. Lowe says.

To protect the arrangements committee of the Republican National Convention from lawsuits resulting from accidents in the convention center, the party bought \$5 million worth of comprehensive general liability insurance.

Warfield-Dorsey Co., an excess/surplus lines broker in Baltimore, placed the first \$1 million with Puritan Insurance Co. and \$4 million excess with Lexington Insurance Co., says James Riddle, partner of Lambert, Riddle, Horrigan & Caldwell, insurance agent for the GOP National Committee.

Stan Anderson, general counsel for the arrangements committee of the Republican National Convention, says a claim could be made on these policies "if a cameraman is climbing up some scaffolding

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**Communicating is top task;
More on Segal benefit study: Page 25**

for your information

Terrill sentenced to prison for issuing bogus policies

MIAMI—Alvin Terrill, who issued nearly 200 bogus insurance policies to excess/surplus lines brokers and their clients, was sentenced to four years in prison and 10 years probation following conviction on a seven-count indictment.

Mr. Terrill was found guilty June 30 on five counts of second-degree grand theft and one count each of organized fraud and first-degree grand theft.

Mr. Terrill also was ordered to make restitution for more than \$80,000 in premiums taken from clients. Conditions of his probation specify he cannot return to the insurance business after his prison term. (BI, April 7).

Mr. Terrill sold bogus property insurance and construction performance bonds to agents in New York, Illinois, California and other states. He claimed to have binding authority with Lloyd's of London and F. Bolton International (BI, Dec. 24, 1979).

Crowd guidelines urged

CINCINNATI—New crowd management guidelines are needed in the wake of last December's tragedy in which 11 persons were trampled to death at a rock concert, the city council here says.

Over 7,000 general admission ticketholders stormed glass doors outside Riverfront Coliseum Dec. 3 for choice seats for a concert by The Who, an English rock group (BI, Dec. 10, 1979, Jan. 21).

Among the city council's recommendations are: Alcoholic beverages should be barred at events where unruly crowds are expected. General admission seating should be allowed only when orderly audiences are expected. Ushers should remain at their posts until an event is over. Crowd management plans should be mandatory for events attracting more than 2,000 persons. Fifteen lawsuits pending in Hamilton County Court seek \$57 million total in compensatory and punitive damages from the city; the promoter, Electric Factory Concerts; the Coliseum, and the Who.

2nd pilot files pension suit

NEW YORK—A second fiduciary liability suit was filed last month against Eastern Airlines, the Air Line Pilots Assn. and the Master Executive Council of Pilots for Eastern Airlines as a result of real estate transactions made by managers of the pilots' pension funds.

The first suit was filed last August by Eastern pilot David L. Mudd of Southold, N.Y., to recover more than \$5.3 million invested in real estate by the pilots' pension fund (BI, Oct. 29, 1979).

The second suit was filed by Archie F. Seccio, a retired pilot living in East Patchogue, N.Y.

The suits test ERISA's "prudent man" investment ruling that requires responsible investments of pension funds.

Aircraft, hangars damaged

WATERLOO, Iowa—Winds exceeding 100 mph caused at least \$5 million damage to 80 aircraft and seven of nine hangars at the city's airport.

Losses, excluding the aircraft, are fully insured under the city's master property policy with the Home Insurance Co. Niederhauser Airways, a charter/flight instruction firm, said seven of its eight planes were damaged and its offices destroyed.

USAIG insures the planes and Des Moines broker Chamberlin, Kirk & Cline handles office and contents coverage.

Broker calls off merger

LOS ANGELES—Kindler & Laucci has decided to pursue an independent course and will not merge with Insurance Management Corp., said Rodney Fletcher, Kindler & Laucci executive vp.

The merger would have had a great effect on both brokers, adding to Insurance Management's geographic spread and contributing Kindler's \$8.5 million in 1979 revenues to Insurance Management's \$25.5 million (BI, June 2).

"It isn't because of anything one or the other of us did, it is just that we called it off," Mr. Fletcher said.

Wage-loss bill defeated

DOVER—A workers compensation reform bill that would have made Delaware the first state since Florida to adopt the wage-loss concept was defeated by the state legislature here.

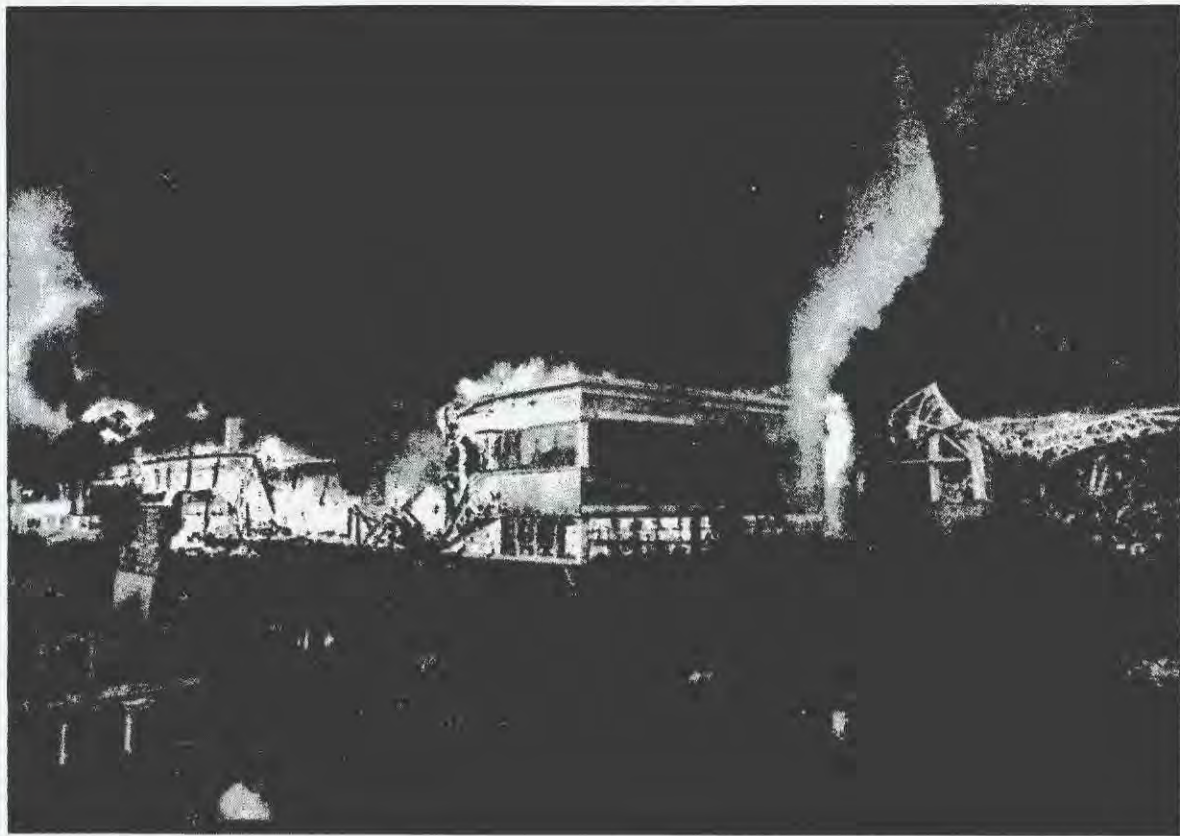
The bill (S.B. 582) was opposed by labor and lawyers (BI, June 9).

The two bills that did pass (S.B. 665 and S.B. 407) allocate \$75,000 to the insurance department for a study of workers compensation insurers and limit to two years the use of driving records for insurance purposes.

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Replacement costs for a plant of comparable size to the American Standard Inc. in New Orleans

could cost from \$7.4 million to \$22.3 million, according to construction experts.

Separate fires destroy plant, industrial park

By ELLIS SIMON and MARY ANN MATLOCK

NEW ORLEANS—Businesses in New Orleans and Perth Amboy, N.J., were burned to the ground in separate fires last week.

Industrial Risk Insurers provided undisclosed property and business interruption coverage to American Standard Inc. for its New Orleans plumb-fixture plant destroyed July 8. Local officials called it one of the worst fires in the city's history.

Insurance written by the Insurance Co. of the State of Pennsylvania is expected to cover most of the property damage resulting from the July 7 razing of the \$5 million Perth Amboy Industrial Complex. But the eventual replacement cost of the facility will probably reach \$10 million, adjusters told *Business Insurance*.

The 22 businesses in the complex lost an estimated \$3 million to \$5 million in personal property, adjusters said.

Replacement costs for a new plant of comparable size to the 800,000-square-foot wooden-frame structure destroyed in New Orleans could cost \$7.4 million to \$22.3 million, depending on the type of construction, said R. S. Means Co. of Kingston, Mass., which follows construction cost trends.

The fire was believed to have started in a false ceiling between the second and third floors, minimizing what effect the building's sprinklers might have had, a fire department spokesman said.

Packing material for the plant's bathroom fixtures was mostly combustible cardboard which fueled the spread of the late-night fire, the spokesman said.

Nothing of the building or its contents was saved, but firefighters prevented further losses by keeping the fire from spreading to a liquid petroleum tank farm 300 feet from the destroyed building.

Delivery of the fixtures to customers of American Standard probably will not be seriously affected by



A pollution control expert prepares to enter the industrial complex area in Perth Amboy, N.J.

the fire because the company has four other U.S. plants, a spokesman said.

In New Jersey, the cause of the blaze that destroyed the complex and 22 of the 24 businesses in it is still being investigated.

Both property and business interruption insurance for the plant owners, Perth Amboy Industrial Assn., were placed with Insurance Co. of the State of Pennsylvania by Alexander & Alexander, said local A&A managing vp Thomas Laffey. The business interruption insurance will cover the loss of rental income, Mr. Laffey said.

Personal property of the individual businesses is insured under their own policies. Insurance Co. of

Continued on page 27

3 insurers sue Con Ed

By ELLIS SIMON

NEW YORK—Consolidated Edison expects to avoid liability for property damages and theft during the 1977 New York City blackout.

But three insurers made it under the wire to file three new suits before Sunday's statute of limitation deadline.

Only one judgment, which is being appealed, has been entered against the utility in suits over the looting, rioting and arson that took place during the massive power failure.

Con Ed's potential liability from the blackout was estimated at \$10 billion. That has been reduced to \$200 million, said company attorney Ernest Williams.

About 300 plaintiffs have sued Con Ed.

Now New York FAIR plan has filed an \$8.7 million suit in New York State supreme court to recover claims arising from the blackout. Two more subrogation suits, seeking more than \$700,000, were filed by The Home Insurance Co. and underwriters at Lloyd's of

London.

The property at issue in the Lloyd's suit is part of the business Lloyd's Sasse Syndicate had accepted on New York City buildings from Den-Har Underwriters of Coral Gables, Fla. Sasse Syndicate collapsed partly as a result of excessive losses on this business after suspicious fires.

The three subrogation suits charge Con Ed with gross negligence in failing to maintain service to its customers and seek to put the blame for rioting, looting

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Village seeks self-funded savings

By JILL KAPLAN

SKOKIE, Ill.—Cheap excess casualty insurance rates and an expensive group health insurance plan convinced this municipality to take large self-insured retentions this year.

The suburban Chicago village of 70,000 expects to save a total of \$195,000 this year in insurance and loss costs compared with the cost of fully insured casualty and group health programs.

The biggest saving—estimated at \$147,000—is expected in the casualty program, which was redesigned to provide the village with coverage for more risks.

"The numbers fell into place just right in 1980," said Daniel Ryan, Skokie director of finance.

Skokie had considered self-funding casualty risks two years ago, but the \$290,000 premium for excess insurance was too high, Mr. Ryan said. The excess casualty insurance premium under the new program is \$143,000—about half the price of the earlier quote.

The excess policy covers risks previously not insured, including personal injury liability and police professional liability. All employees will be named as insureds on the policy—another village first.

The city's new plan also covers general liability resulting from riot or civil disorder, a provision absent from the old policy. Most municipalities have a civil disorder exclusion.

Skokie, a village with many Jewish residents, made national headlines several years ago as the proposed site for a Nazi march.

The new casualty plan, instituted May 1, includes self-insured retentions of \$250,000 per occurrence, with a \$500,000 annual aggregate for workers compensation, general liability and auto risks. Mr. Ryan refers to it as "protected self-insurance."

The program, presented by broker Arthur J. Gallagher & Co. of Rolling Meadows, Ill., uses Holland American Insurance Co. of the Mission Group as the excess insurer. The excess policy goes to \$5 million.

Claims services for Skokie's casualty coverage are being provided by Gallagher-Basnet Insurance Services, a division of Arthur J. Gallagher.

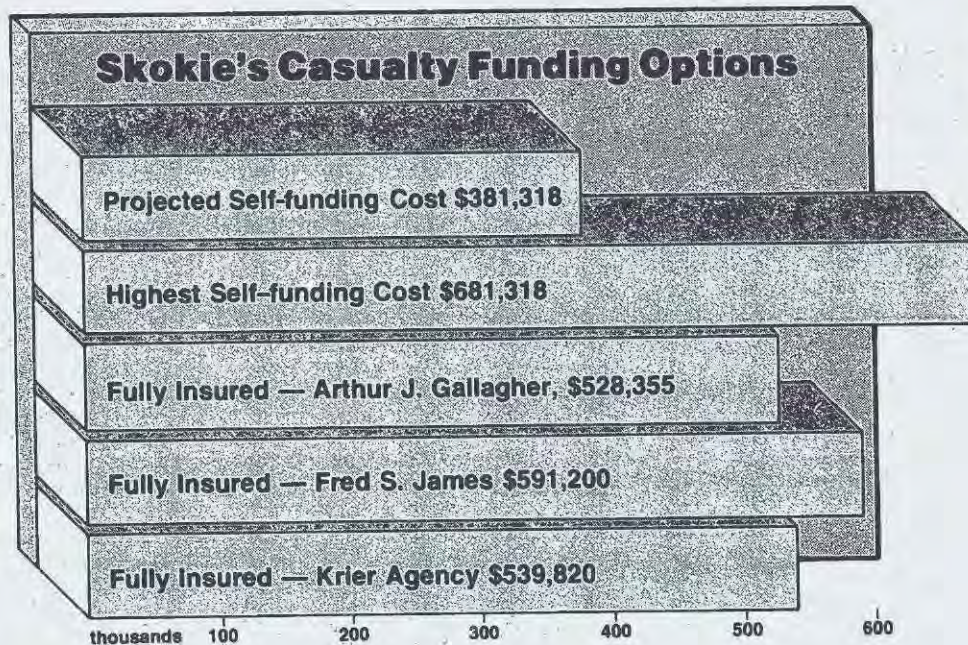
Skokie estimates its total annual casualty and loss costs under the program at \$381,318. This includes the excess insurance premium of \$143,000, a claim services fee of \$38,000 and projected losses of \$220,000. Investment revenue is expected to defray costs by \$20,000.

This estimate projects a \$147,000 annual savings over the lowest conventional quote of \$528,355, also submitted by Gallagher.

If the worst losses occur, the maximum cost to Skokie would be the aggregate \$500,000 loss plus \$181,318 for excess insurance and service fees—or \$681,318. This is \$153,000 more than the cost of the conventional package.

But Skokie's losses over the past four years average only \$194,000. To exceed the cost of standard insurance, the loss level would have to be more than \$367,000—equal to the losses in 1979, the year of the great Chicago blizzard, Mr. Ryan says.

Skokie's insurance committee canvassed four brokers and one insurer for quotations on standard casualty policies: Arthur J. Gallagher & Co., Fred S. James Inc., Krier



Agency of Skokie, Corroon & Black and Employers of Wausau.

The five were encouraged to offer alternatives to standard policies. Each was handed a broad description of minimum protection requirements and a detailed outline of the city's loss history, job classifications, payroll and fleet.

"We did not want to write an airtight insurance specification," Mr. Ryan said.

Gallagher was the only broker to propose a self-insured retention for all casualty lines and the plan offered the village the most potential savings, Mr. Ryan said.

Corroon & Black and Employers of Wausau didn't bid.

Fred S. James of Illinois, quoting prices for Northbrook Excess & Surplus Lines Insurance Co., proposed various programs using retrospectively rated plans and deductibles.

The fully insured plan proposed by James was quoted at \$591,200. A \$5,000 deductible for general liability risks reduced the total casualty insurance package cost to an esti-

mated \$541,900.

In a proposal including a retro plan for workers compensation, James quoted annual costs ranging from \$441,000 to \$705,000 depending upon losses. With a self-insured workers compensation plan, James quoted fixed costs of \$88,153 and maximum workers compensation costs of \$483,753.

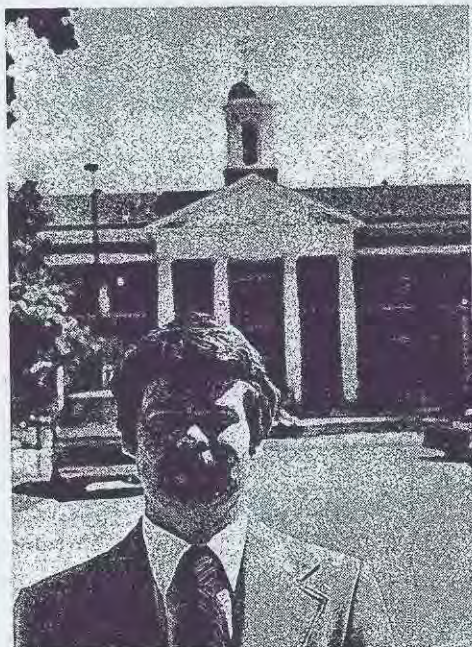
Krier Agency of Skokie quoted \$539,820 for a fully insured plan using Aetna Insurance Co. Skokie had been insured by Aetna through Krier Agency.

Using retrospectively rated plans for the casualty risks, Krier quoted annual costs ranging from \$388,921 to \$697,000. The Krier retro plans would have limited to \$100,000 each loss charged under the retros.

The insurance committee recommended against the retro plans for three reasons:

- The village would lose flexibility at the two policy renewal dates because of the potential risk in canceling the retro.
- One bad year would affect the total retro adjustment for all three years. The benefit of one or two good years would be lost.

Continued on page 26



"The numbers fell into place just right in 1980," says Daniel Ryan.

Few policies cool heat losses

The Federal Crop Insurance Corp. expects to pay out an estimated \$160.9 million on more than 95,000 claims from participating farmers whose crops are severely damaged by the heat wave hitting the Southern United States.

But these farmers may be the only businessmen insured for losses directly caused by the heat.

Heat is not a named peril, and so losses caused by it wouldn't be covered under named peril policies, brokers and insurers told *Business Insurance*.

Poultry growers could buy mortality insurance for their flocks but few do anymore, said W. Philip Brown, vp of Marsh & McLennan in Dallas.

Fireman's Fund Insurance Co., which at one time wrote an all-risk policy that would have covered poultry growers for the heat losses, no longer writes the coverage, said L.A. Smith, branch manager in Dallas.

Poultry losses in the heat wave are estimated at \$6 million to \$7 million.

Valuable horses and bulls insured under bloodstock mortality policies would be insured for death from the heat. Field cattle, however, generally aren't insured, Mr. Brown of M&M said.

"They couldn't afford mortality coverage on range stock," noted Mr. Smith of Fireman's Fund. Some insurable losses could be aggravated by the heat, however. There are fears, for example, that workers compensation claims could increase as outdoor workers suffer sunstroke.

"We are checking to make sure that workers are wearing proper headgear to protect against the sun and that they are maintaining a good body fluid and there is salt out there for them to take," said Ed Looke, vp of engineering for Texas Employers Insurance Assn.

If air conditioning breaks down and the extreme heat causes losses, anyone with a boiler and machinery policy also would be insured, noted Mr. Brown of M&M.



Heat-caused losses will fall through cracks of most policies.

Oil spill bills set rules for liability

WASHINGTON—Liability standards and a superfund for oil spill pollution would be set by two bills moving through Congress.

Committees in both houses have approved different versions of the pollution liability proposal.

The Senate Environmental and Public Works Committee voted June 26 to send the Environmental Emergency Responsibility Act (S. 1480) to the floor for a vote.

Six days earlier, the House Ways and Means Committee issued a favorable report on the Comprehensive Oil Pollution Liability and Compensation Act (H.R. 85).

Both bills establish strict liability standards for vessels, ports, terminals and offshore facilities.

Vessels, offshore facilities and tank trucks are required to show financial responsibility through evidence of insurance, guarantee, surety bond or, in the House version, qualification as a self-insurer.

The Senate version also would establish financial responsibility requirements for onshore facilities on a phased-in basis over three to six years.

Liability limits also differ in the two versions.

The Senate bill sets a \$300 per ton limit on vessels having more than 300 gross tons and a \$5 million limit on hazardous substance cargoes.

The House bill calls for the greater of \$150,000 or \$150 per ton on inland oil barges, the greater of \$250,000 or \$300 per ton up to a \$30 million maximum on ships, \$50 million for deepwater ports and \$50 million plus removal costs for offshore facilities.

The Senate bill sets up a fund that would ultimately grow to \$800 million and would be 90% financed by charges against industry. The House version sets up a \$200 million fund, 75% financed by industry.

The chemical industry is against the tax. It also believes the legislation would increase its vulnerability to lawsuits, especially under the Senate version.

The Senate bill eases rules of evidence for claims and makes owners liable for damage even if they are not negligent. It also does not limit liability to waste from dumps but applies it to almost all releases from nearly any facility, including plants.

Levies against crude oil, specified petrochemical feedstocks and specified inorganic substances also differ in the bills.

Neither bill has been scheduled yet for further action. They could come to the floor when Congress returns from its recess this month for the Republican National Convention.

Subscribers to pay more for Blues

ABOUT 600,000 New Hampshire residents will be paying \$9.5 million more for health coverage from Blue Cross & Blue Shield of New Hampshire and Vermont, after New Hampshire insurance commissioner Frank Whaland approved a 9.5% average rate increase.

But the subscribers, 80% of them in group contracts, were spared a far bigger increase. The commissioner rejected Blue Cross & Blue Shield's 27.38% rate increase re-

benefit beat

quest, saying the plans have made inadequate efforts to solve a host of problems. The Blues are appealing the decision to the New Hampshire supreme court.

A three-month audit of the plans showed they have inadequately administered coordination of benefits and subrogation provisions; made serious errors in issuing benefit payments, and done little to contain hospital and physician costs, Mr. Whaland said.

Group life

The state of Kentucky is renewing its group life policy for 92,000 state and school employees on a

month-to-month basis until a bidding process for an underwriter can be set up after the policy with Kentucky Central Life Insurance expired June 30.

Gov. John Brown last winter set up a special five-man panel to eliminate politics and install competitive bidding into Kentucky's insurance purchasing program, which includes group life and health policies for state employees as well as various property and casualty coverages.

"My feeling is that the contract (group life) will be bid, but I don't know when," said Gil McCarty, director of the life and health division of the state insurance

department.

In the past, bids have been taken on the state's group life policy, but most other policies have been awarded without public notice or bidding.

Visual care

A new three-year pact between the 17,000-member Utility Workers of America Local 1-2 and New York's Consolidated Edison provides for increased visual care and major medical benefits, retirement supplements and a new savings plan.

The union represents workers in Westchester County and New York City except Staten Island.

Beginning in July 1981, the lifetime limit on major medical benefits will be increased to \$50,000

from \$40,000. In July 1982, the maximum will reach \$60,000.

Also starting in July 1981, workers will be reimbursed for the costs of eye examinations and glasses.

Under the supplementary retirement plan, workers retiring at age 64 or older will receive an additional \$500 a year. Workers retiring at 62 or 63 will get \$400 a year until they reach 64, when the \$500 annual benefit will be paid.

The savings plan, to begin next January, will allow workers to contribute \$2 to \$10 a week. Con Ed will match 25% of a worker's contribution.

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

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around the states

Award set for arson tipsters

NEW ORLEANS—Persons who supply information leading to the arrest and conviction of an arsonist will receive an award from a \$5,000 fund set up by the Property Insurance Assn. of Louisiana.

Awards will be considered for persons nominated by fire and law enforcement authorities, says Joe Davis, PIAL manager.

Persons wishing to report information about arsons should call their local fire department or sheriff's office or the state fire marshal's office in New Orleans, 504-568-5507.

Losses from 899 known arson fires in 1978 were estimated at \$10 million by the state fire marshal's office. Actual losses from arson may be much greater.

The PIAL is a rating and service organization to which all companies writing property insurance in the state are required by law to belong.

Work comp rates

HARRISBURG—Investment income should be more directly reflected in Pennsylvania's workers compensation rates, urges a recent study.

The report, commissioned by the state insurance department here, analyzes the rate-making procedures used by the Pennsylvania compensation rating bureau.

The insurance department, the report recommended, should:

- Spread losses over more classifications of business so rates would fluctuate less between classes.

- Calculate rates on a policy year basis, rather than according to the calendar year.

- Review insurers' expense provisions used in setting rates. Insurers now provide for the highest expenses when filing rates so they can give clients greater dividends, the report charges.

- Consider competitive pricing by insurers as a long-range solution to rate-making problems.

All insurers in the state currently use one set of rates, set by the Pennsylvania compensation rating bureau.

The report was prepared by W. James MacGinnitie, an independent actuary in Atlanta. ■

We may not be in the plans today... but we could be tomorrow

Tomorrow the dust will clear. Bulldozers and cranes will remove the debris, and new construction will replace the demolished buildings. With this will come the need for many specialized insurance coverages.

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This president of three steel specialty firms expects an insurance "partnership."



She's found it. With Wausau.

Maribel Coombes is president and CEO of Arizona Custom Manufacturing, Arizona Custom Steel, and Eagle Erectors... three mid-size firms busy growing in the fields of steel fabrication and low-structure erection. Like all presidents of successful firms, she faces a myriad of challenges every day. But she's found that a solid relationship with Wausau Insurance Companies can help her meet many challenges faster, better, more profitably.

Mrs. Coombes says, "You must be able to count on an active 'partnership' effort with your insurance carrier—to cut your losses, control your costs, and keep your

safety record up. Otherwise, your insurance simply isn't working right. We've found Wausau works just fine throughout our broad range of coverages."

Dennis Miller, Wausau sales representative in Phoenix, says, "Sure, Maribel makes us work for a living. Justifiably so. Because questions and answers are continual in specialty businesses such as hers. But we give her one less thing to worry about because of Wausau's high level

of service, safety and health expertise, and underwriting flexibility."

Wausau makes business insurance *work*, like nobody else in the business.



**WAUSAU
INSURANCE
COMPANIES**

Employers Insurance of Wausau

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editorial opinions

Demand your data

YOU MUST demand your individual loss history under every insurance program. You have a right to it and a need for it. Don't give up. If your current insurer and broker won't do it for you, there are plenty who will in this competitive insurance market.

The story of Suffolk County in our last issue points out just one of the problems of not having your loss history at your fingertips.

Suffolk County wants to self-fund its group health insurance program, but the state plan won't release the county's loss history. The state says the figures aren't available.

Without accurate loss experience, no one can predict what future losses will be. Loss statistics from a similar group or industry are helpful, but fall far short of being the quality of data one wants in creating a self-funding program.

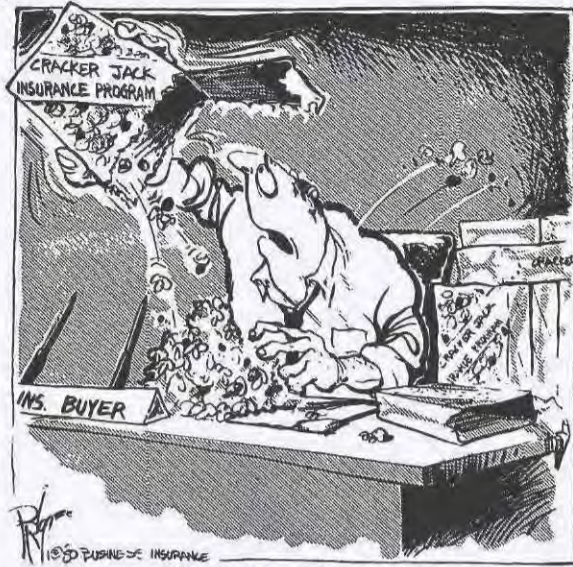
But there is a more fundamental reason for having your loss data. You need it to be a good risk or benefit manager.

You can only attack and control loss costs when you know what the losses are and what is causing them. Then you can target the most frequent losses first. It would be an exercise in futility to try to control losses on one's gut feelings.

We've said many times before that you need this loss history to negotiate the price of your insurance product. You can only be a good bargainer when you are armed with the facts of what kind of risk you are.

No insurer deserves your business if it won't give you your loss history. You're paying for a product—insurance—and you deserve to know everything about that product: losses, loss reserves, insurance company overhead charges, loss adjustment and other expenses.

Your broker should be able to strong-arm an insurer into providing you with the needed statistics. Many brokers, frustra-



Where's my loss run?

ted with insurers that move too slowly in supplying loss reports, maintain their own data systems for providing clients with loss runs. Among these brokers, some negotiate the cost of a policy down by pointing out to insurers that they are maintaining the loss records.

You can also negotiate with your insurer to unbundle the insurance program and place the claims handling with a claims service that will provide you with the loss reporting you need. This could be more expensive in dollars, but worth the price.

Finally, you should within your own departments be able to keep track of your losses. Granted, this is in the ideal setting in which you have enough staff to do this. Second best, you should have the capability to audit your loss reports from the insurer/broker.

Not to demand, audit and act on your loss reports is abdication of your duties as insurance-buying professionals. And you're slamming the door on alternative risk funding and financing methods in the future.

letters

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

Severe reservations

To the editor: I was pleased to note that you followed up your June 9 article "Bill would revamp health care plans" on the Stockman-Gephardt health competition legislation with an editorial June 16 expressing severe reservations about the proposal.

The Stockman-Gephardt bill is another in a series of measures introduced in the Congress to stimulate competition, a buzzword which has attracted much support with few taking the time to find out exactly what this competition will cost in quality health care and increased administrative burdens on employers, especially small businesses.

It is hard for me to comprehend how a proposal can be called competitive when employers are mandated to offer three different plans from as many different carriers (as they are in some of the bills), to provide specified coverage and to provide rebates to employees in order to retain the tax deductions for their contributions to health benefit packages.

Organized labor, the American Medical Assn., the U.S. Chamber of Commerce and the insurance industry have expressed reservations about competition legislation.

The American Assn. of Retired Persons has also voiced vehement opposition to the measures, which it feels would most severely affect the older, less healthy population that would be forced to pay more for health care when the younger and healthier population takes the less expensive plans with rebates.

Even the President's health adviser, Dr. James Mongan, and the secretary of Health and Human Services, Patricia Harris, have recently expressed concern that enactment of these competition proposals would have an adverse impact on our citizens and economy.

I concur with your editorial view that employers should seek to control health care costs by utilization review, the encouragement of outpatient care and second opinions on surgery.

If more employees took such an active interest in their health plans, it is very likely that a much more significant decline in the growth of health care costs would result than could ever be achieved under competition.

Samuel X. Kaplan

President
U.S. Administrators Inc.
Los Angeles, Calif.

Continuous process

To the editor: The recent editorial opinion "Check out the players" (June 23) did not address the subject fairly as respects the majority of the members of the surplus lines insurance marketplace.

Checking out the players should not be a one-time review of *Business Insurance*, but rather a continuous process between the retail broker and the surplus lines broker.

Let the retail broker meet the surplus lines broker's office staff and look them in the eye! Request names of carriers represented by the surplus lines brokers, check past employment of the broker, check out the surplus lines broker with other retail brokers and judge the surplus lines broker by any other criteria the retail brokers would use in judging one of his own companies.

Don't rely on what the surplus

lines broker wants you to see in print!

The problems you mention are not exclusive to surplus lines insurance but rather a risk taken whenever money exchanges hands for promises. The recent "black eyes" to surplus lines insurance have involved not only sellers, but also buyers that are willing to take the rock-bottom price with little regard as to the quality of the proposal. When the buyer is interested in only price, we will always find the problem of poor quality.

Robert W. Schmidt Jr.

President
Tower Special Facilities
Milwaukee, Wis.

Right on target

To the editor: As a CPA and currently controller of a medium-size corporation, I would like to comment that Howard C. Alper was right on target in his article "Worksheet for confusion" (BI Perspective, June 16).

I'm not a broker or agent, but I've had to face many forms. None was ever so confusing and illogical as the business interruption worksheet. I say that with full knowledge of the confusion that exists in the tax forms, etc., of the federal government.

Dave Jaffe, CPCA (Letters to the editor, June 30), notwithstanding, the insurance industry has a form whose confusion factor exceeds that of the bureaucracy.

J. Curtis Coomb

Controller
Kaman Sciences Corp.
Colorado Springs, Colo.

Job well done

To the editor: Since I was one of several excess/surplus intermediaries who criticized the style of last year's excess/surplus issue, I certainly want to be among the first this year to tell you that this year's issue (June 23) is very well done.

It is well-balanced reporting and has lots of data for readers to draw their own conclusions on the many issues which are involved with utilizing the excess/surplus lines market.

James H. Bryson

President
National Assn. of Professional
Surplus Lines Offices
Jenkintown, Pa.

Human element

To the editor: Back reading has brought to my attention, from your Feb. 18 issue, an organization whose forte is that it "treats a claim as a claim" because it "takes the human element out of claims examination" ("Computers plug more objectivity into claim review").

My files on the subject of medical malpractice problems are full of items that say one of the principal causes of the malpractice claims boom is removal of the personal elements from doctor-patient relationships, producing a feeling of, and resentment at, being treated as a "case" instead of a person.

Every one of us indeed resents being treated as a thing, a number, an entry in a computer: "I am a human being; please treat with care: Do not fold, staple or mutilate."

Bob A. Hedges

Professor of insurance and risk
Temple University
Philadelphia, Pa.

business insurance

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Use variety to sell benefits, says expert



If employees don't know their benefits, the program isn't good, says Terry Toth.

CHICAGO—Variety is the key to a successful employee benefits communication program.

It's not enough to simply tell employees about the benefits they receive. They must be told constantly and in different ways, says communications expert Terry Toth.

Mr. Toth, director of communications at Buck Consultants Inc. in New York, will speak at the *Business Insurance Communicating Employee Benefits Conference* here Oct. 26-29.

In his speech "Tools, Tactics & Timing," Mr. Toth will show employers the different ways a firm

can package its benefits program. "If employees don't know about their employee benefits program, then it's not a good program," Mr. Toth said.

The conference will be highlighted by the presentation of the *BI* awards honoring the companies with the best communications programs submitted to the annual competition.

The awards, to be presented at a dinner Oct. 28, are in five categories: booklets, personalized correspondence, audiovisuals, special projects and total communications program.

The conference begins on Sunday evening Oct. 26 with the film "MediSense," which will be discussed by Tylie Jones of Tylie Jones Communications. The film on health care costs is an example of how clear communications can translate a complex subject.

Kicking off the session on Monday will be Alan Siegel, president of Siegel & Gale Inc., who will explain techniques for simplifying the benefit message.

CPC International's use of an imaginative benefits story will be explained by Richard T. Whitman, a partner with Kwasha Lipton consultants.

He will be followed by Robert Zabel, president of NW Ayer ABH International-Chicago, who will show how to personalize programs.

On Tuesday morning, Herbert Zeltner, group vp of Crain Communications, will lead the audience in judging the effectiveness of various programs.

Tuesday's luncheon features Thomas F. Masloski, director of communications for Source/Inc., examining the role of corporate advertising and public relations.

Kathy Groon, audiovisual training coordinator for Jewel Food Stores, begins the afternoon with an account of Jewel's use of audiovisual presentations and how the programs have affected claims.

Joseph Young, vp-manager of compensation and benefits for Bank of California, will demonstrate how to adapt communications to new employee needs.

Wednesday morning's program is on how and why to develop a total communications program, with Walter D. LeGrow, director of personnel services for Control Data of Canada Ltd.

How to deal with the legal department to preserve clear communications will be revealed by Robert W. Ridley, partner with Forster, Gemmill & Farmer.

A registration fee of \$385 includes admission to all scheduled sessions and functions, resource materials, receptions, luncheons and the awards dinner.

Hotel reservation forms listing preferred rates for conference attendees will be provided.

If your plans change, you may substitute the name of another person from the same company without penalty. A full refund is available if a cancellation is received in writing by Oct. 1. Persons canceling after this date will pay a \$100 service charge.

A 10% discount is offered for additional participants registered from the same firm at the same time.

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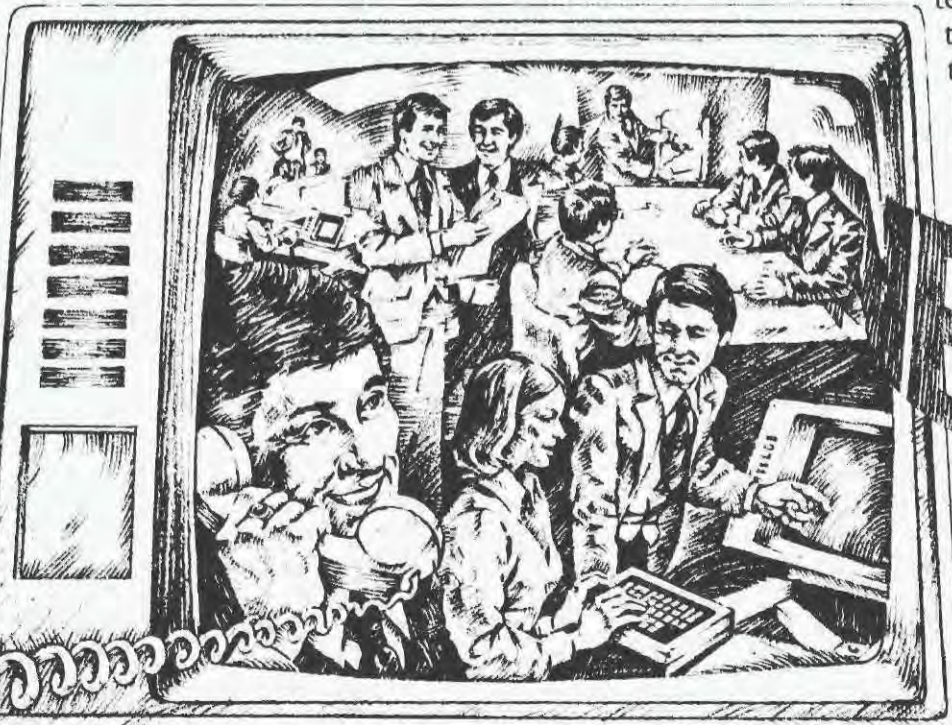
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Democrat panel rejects changes in FICA system

By JERRY GEISEL

washington

THE PLATFORM committee of the Democratic National Committee has come out against raising the Social Security retirement age or imposing a tax on Social Security benefits.

Changes affecting Social Security should be based on the program's objectives, not their impact on the federal budget, the committee said. It will submit its complete platform at the Democratic National Convention next month in New York.

The committee urges the adoption of a national health insurance program. Provisions sought are universal coverage, comprehensive benefits, cost containment measures and a redistribution of health services.

The committee also recommends that President Carter's Commission on Pension Policy in its final report address "the discrimination and hardships imposed on women in pension plans, such as the failure to consider pension rights in divorce proceedings, lack of pension benefits for survivors when the worker dies before retirement age... and the vesting rules and participation for pension plans."

Faster vesting

Faster vesting schedules will increase the pool of participants receiving benefits, but the value of the benefits will be small, a pension research organization says.

If full vesting were required after just one year of service, 69% of all separating participants would receive a benefit, according to the Employee Benefit Research Institute.

But in 90% of cases, the lump sum value of the vested benefit would be less than \$1,750, according to EBRI. Under the pension reform law, a defined benefit plan has the option to pay out benefits of less than \$1,750 in a lump sum, rather than make monthly payments.

"The analysis appears to indicate that while faster vesting would generally increase the total number of vested workers, the value of vested benefits for newly vested workers may be relatively small," said EBRI executive director Dallas Salisbury.

The EBRI findings come on the heels of renewed pressure for faster vesting. President Carter's pension commission in its interim report urged that vesting requirements be shortened (BI, May 12). Currently, most companies provide full pension benefits only after an employee has worked 10 years for the firm.

Copies of the EBRI report, "Preliminary Analysis of Alternative Requirements," may be obtained from the Employee Benefit Research Institute, 1800 M. St. N.W., Washington, D.C. 20036. The cost is \$3 per copy.

Labor Dept. suit

The Labor Department has filed suit in U.S. District Court in Honolulu to block a Hawaiian pension plan from using a major chunk of its assets for one investment.

The suit asks the court to prevent the trustees of the Glaziers & Glass Workers Pension Plan, a multiemployer plan with 250 participants, from loaning \$1.2 million to develop a country club. The pro-

posed loan comprises 45% of the plan's assets.

The Labor Department says it has no objections to pension plan investing in real estate. But it is concerned that too big a share of the Hawaiian plan would be tied up in one investment.

The trustees of the plan have agreed to hold off on the loan, pending a hearing on the Labor Department suit.

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Fidelity & surety

Low-price market offers bargain employe bonds

By STUART EMMRICH

NEW YORK—Underwriters are grumbling that they can't make a profit and are subtly threatening to raise prices, but fidelity bond buyers will continue to pay bargain rates through the end of the year. Underwriters may have no choice but to serve the buyers' whims.

"The fidelity market is very soft, but don't ask me why, because I don't know," laments Mary Scharf, secretary of The Hartford Group's fidelity line. "Losses are going up every day."

Even the 20% rate increase set July 1 by the Surety Assn. on mercantile establishment bonds won't have that much effect on prices in the coming year, Ms. Scharf said.

"It will help us somewhat, but competition is so fierce that underwriters are going to take that rate, and by experience rating will lop off three-quarters of it."

The Hartford Group is trying to cut its potential losses in the fidelity market by aggressively pursuing small and medium-sized accounts,

where the dangers are perceived as less severe.

But Ms. Scharf said this marketing direction won't result in any premium concessions or other enticements for new clients.

"We are just telling our agents that this is the type of business we like to write and that they should push for it. We will be as competitive as we can, but that is as far as we will go," she said.

Competitors agree they are selling fidelity bond coverage at lower rates than they like, but admit any change in that policy will not come soon.

"It is just difficult to price the market because of the competition. Even though the experience is turning sour, the companies are still going after business aggressively," said Myron Warndahl, senior fidelity underwriting officer for St. Paul Fire & Marine Insurance Co.

Deductibles might inch up a bit—kicked by inflation—and prices might follow the drift, but not extremely so, Mr. Warndahl

predicts.

"The market is going to stay relatively soft. I don't know when things will change," he said.

The time for some pricing changes has long past, argues Ms. Scharf.

"Commercial enterprises are underpriced and underwritten," she said.

"In some cases competitors' prices have been up to 50% lower than we have quoted, and the levels of deductibles are just as bad. We have seen large corporations that have deductibles of between \$10,000 and \$25,000, when they should be carrying \$250,000 or more.

"We are talking about big bucks here," she noted, describing the potential losses from employe dishonesty.

A \$20 million loss suffered by Chase Manhattan Bank that may have resulted from employe dishonesty only fuels underwriters' fears. Insurers are afraid they are going to be burned if tighter controls and demands for more premium aren't imposed on policy-

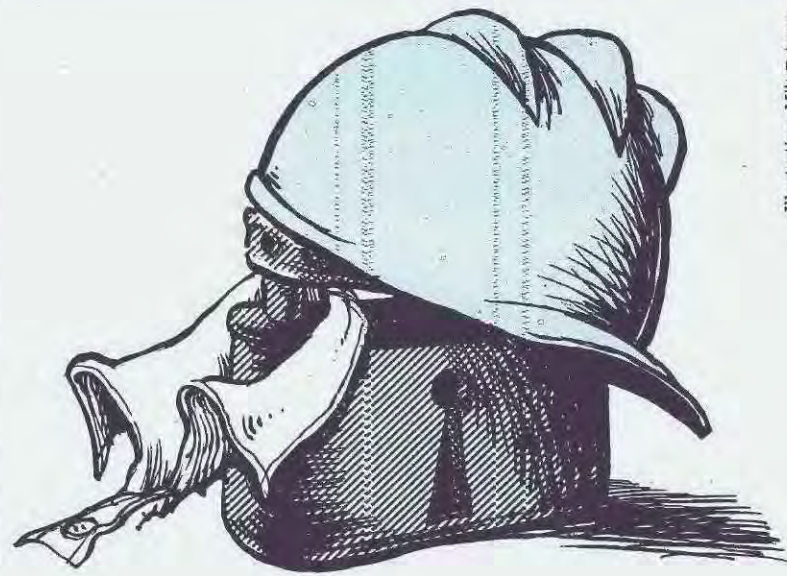


Illustration: Milt Prigge

holders soon.

"A risk manager might say to me that 'I have 40 years of good experience, so I shouldn't have to pay much premium.' But who's to say that next year he won't be hit with a couple of million-dollar losses. It only takes one big theft to reach that point," Ms. Scharf said. "And that risk manager might be paying only \$2,000 a year in premium."

Banks and financial institutions, which traditionally pay the highest premiums and must take the largest deductibles, are now reaping the benefits of the current market, many underwriters agree.

But insurers who say they are not making a profit on this business also complain they have no

choice but to cut rates. In many cases, to deny a policyholder the prices and the deductibles he wants on fidelity coverage might mean losing that account, they say.

The Hartford and other major insurers say they have lost money on fidelity bonds the last couple of years. Aetna Life & Casualty, the industry's biggest underwriter of this business, says it still makes a profit, "but at a declining rate." All add they have to look for other ways to protect themselves.

Some insurers now share risks. Others heavily reinsure the business, giving up what profit there is so they can minimize their losses. Still others are going after the smaller businesses where the dangers seem less severe.

Employe fraud worsens along with economy

NEW YORK—When economic recession hits the country, employers are especially vulnerable to worker pilferage and employe fraud, experts say.

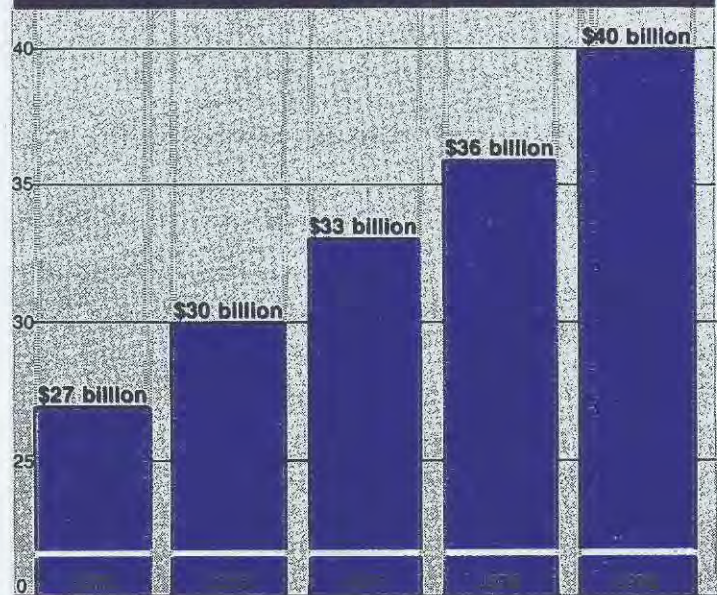
But even in strong economic times, white-collar crime is a problem for business. Losses from white-collar crime totaled \$40 billion in 1979 and have been rising at a rate of 10% over the last five years.

"It is hard to quantify this with exact figures, but my gut feeling—based on years of working in this field—is that businesses suffer more from white-collar crime in a period of economic troubles," said Mark Richard, deputy assistant attorney general for the U.S. Department of Justice.

Criminal justice officials are now trying to support this

Continued on next page

White Collar Crime Estimated Annual Losses



Surety bond standards squeeze contractors

By MARY ANN MATLOCK

NEW YORK—Surety bond underwriters are looking at the prospects of a recession much as the battle-weary soldier faces the rumors of another war: with caution.

And buyers better plan to weather a siege or work hard to attract underwriters.

"Nobody knows what the effects of a recession will be, but from 1973 to 1978 a lot of insurers went out of the surety business and others tightened up," said Lloyd Provost, secretary of the Surety Assn. of America, the rate making group.

Sloppy underwriting practices during those five years cost the contract surety insurers \$165 million in losses, but have been corrected, he notes.

"At least this time we're facing inflation with underwriting in good shape," he said. Last year was profitable, he adds.

However, the uncertainty of 1980 and 1981 is forcing insurers to remain strict in their underwriting while trying to compete for new accounts. This combination, though, hasn't reduced capacity. Underwriters are just picky.

"It's a fearful market in so far as what may happen in the future, but it's still very competitive," Mr. Provost said.

Martin Huber, executive director of the National Assn. of Surety Producers in Washington, sums up the market conditions: "I wouldn't expect a contractor who wouldn't qualify in other times to qualify in a recession. In light of past losses, insurers won't lower their standards. There will just be fewer bonds written and fewer applications for bonds."

The large contracts with heavy experience on bonded work have the best choice. For the contractor who meets these qualifications, rates are reasonable. The last increase suggested by the Surety Assn. was a 15% hike in 1977.

Not all insurers accepted this increase, but ones that did now typically charge slightly less than 0.5% of the general building contract for premium.

"The surety market is rather tough and conservative. For big accounts there's always a market, but for the average firm, placing can be difficult," said Howard Boyle, vp at Johnson & Higgins.

"The market in itself has been very, very tight. I don't really see any change today," said Brian O'Rourke, vp at Marsh & McLennan Inc.

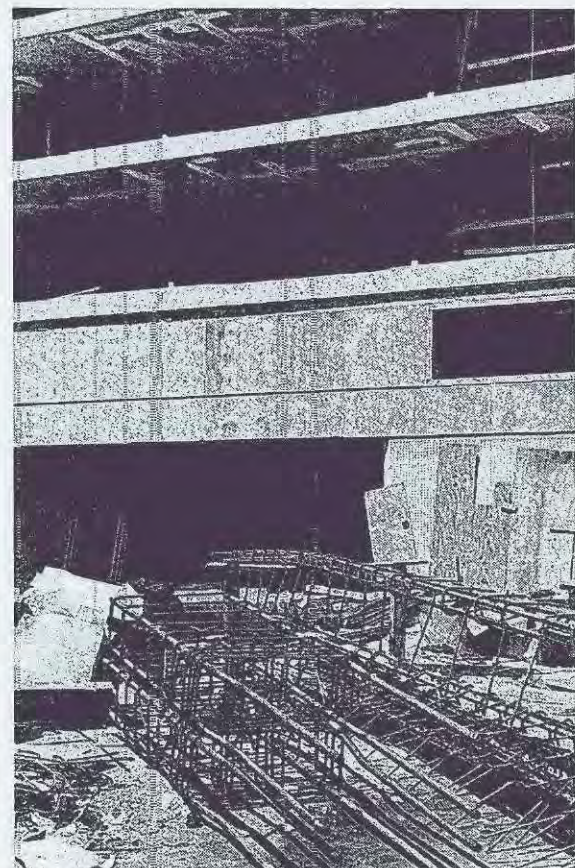


Photo: Mary Cairns

The recession may force some weaker construction companies into bankruptcy or trouble. This is making surety bond underwriters more cautious in their work.

The economy has made this strict posture necessary, observers agree, because predicted increases in contractor defaults and increased competition for jobs make the business risky.

"We are starting to see marginal signs of construction companies getting into trouble. The recession is going to force some of the weaker companies into

Continued on page 20

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Worker crime rises as economy drops

Continued from previous page
conclusion and track the contention that white-collar crime ebbs and flows with changes in the economy.

"We have found a pretty good correlation between crimes of this sort and the economy," said Jerry Prather, senior research analyst for the Federal Bureau of Prisons. "There seems to be a 15- to 17-month time lag between a period of recession, for instance, and a sharp rise in the number of incarcerations."

Fidelity bond underwriters don't have to be told this to know their risks rise as the economy falls, but buyers should know why their rates rise.

"The economy always has an ef-

fect on the fidelity market," said Myron Warn-dahl, senior underwriting officer for fidelity bonds at St. Paul Fire & Marine Insurance Co. "It gets worse at a time of recession, with the frequency and the severity of losses on the increase."



Ralph Wheeler, assistant secretary of the Aetna Life & Casualty bond department, said his company has already watched an increase in the number and size of fidelity claims in the last half of 1979.

"The individual is more afraid of losing his job in a time of recession and so might turn to what is called white-collar crime (falsifying records) as a way to protect himself," he said.

"Also you find at a time of recession and rising unemployment there is less loyalty to the employer. The employe feels he is going to leave anyway, so why worry what happens to the business?"

About 20% of the businesses that go bankrupt do so because of white-collar crime losses, Mr. Wheeler estimates.

GAO lashes fed bond guarantees

By JERRY GEISEL

WASHINGTON—The General Accounting Office has lashed out against a nine-year-old government program that provides federal guarantees for surety bonds purchased by small contractors.

The program began in 1971 following complaints from contractors that they were unable to obtain bonds from insurers. The federal government assumes 90% of the risk for surety bonds of up to \$250,000 issued to contractors and takes 20% of the premium paid to the bonding companies.

The federal program, administered by the Small Business Administration, has ensured the availability of surety bonds to small contractors. Since 1971, the program has guaranteed bonds on more than 91,000 contracts totaling \$6.3 billion.

But the GAO, in a report to Congress, says the SBA is not managing the surety bond guarantee program properly.

The watchdog agency contends the SBA approves most surety bond guarantee applications based on limited reviews of incomplete or erroneous underwriting information.

A GAO review of 639 applications from 150 underwriting files revealed 87% of the applications contained outdated, inaccurate or inconsistent underwriting data.

All applications reviewed at the Chicago regional office and Nashville district office contained underwriting deficiencies while 90% of the applications in the Atlanta office had underwriting shortcomings, the GAO reported.

The SBA agrees underwriting has been a problem in the surety bond guarantee program, but says it plans to improve underwriting review procedures.

The Senate Small Business Committee is reviewing the contractors' bonding program and staffers have informally discussed setting up a federal agency to issue bonds to small contractors.

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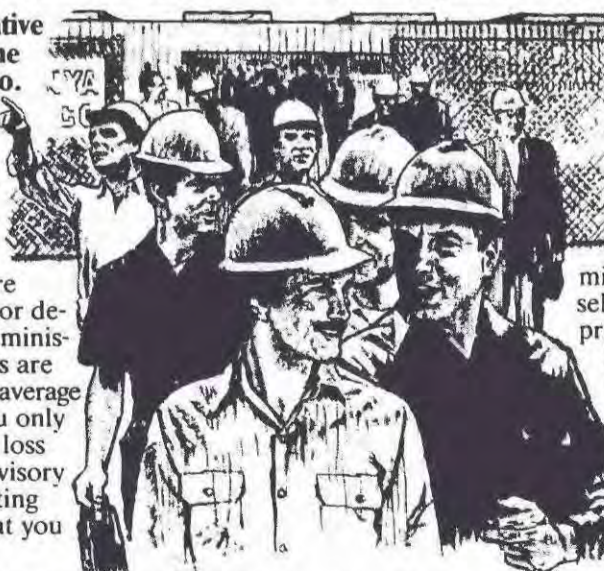
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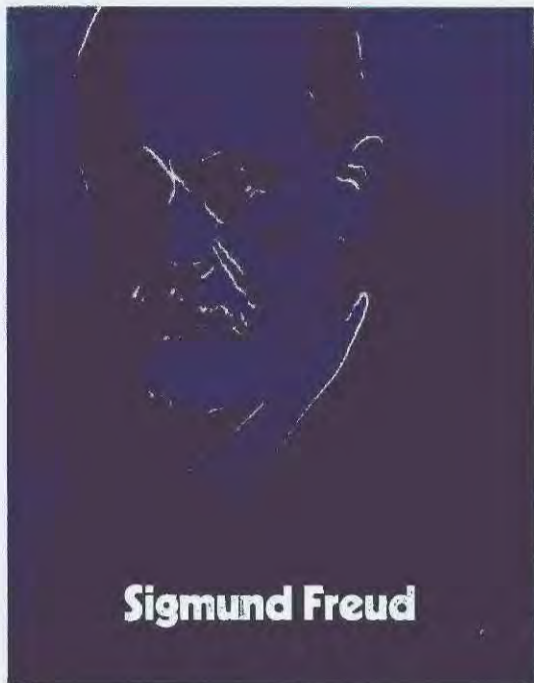
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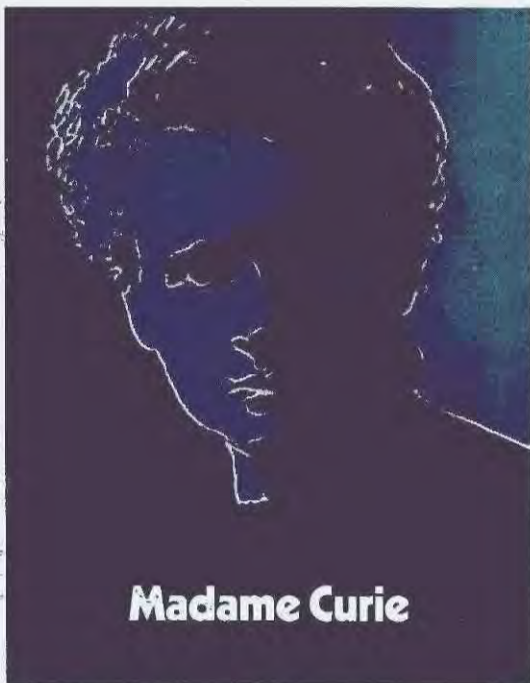
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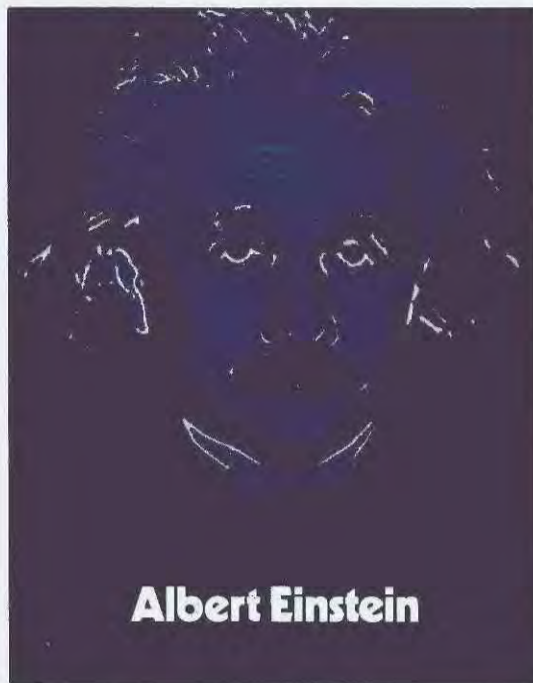
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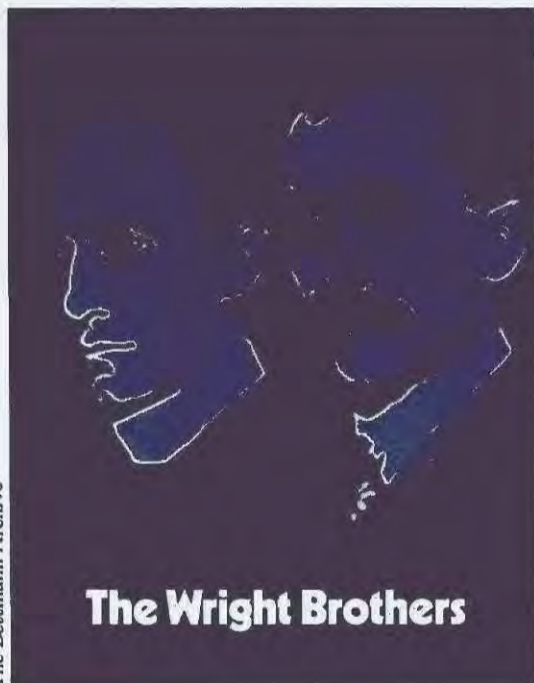
Sigmund Freud



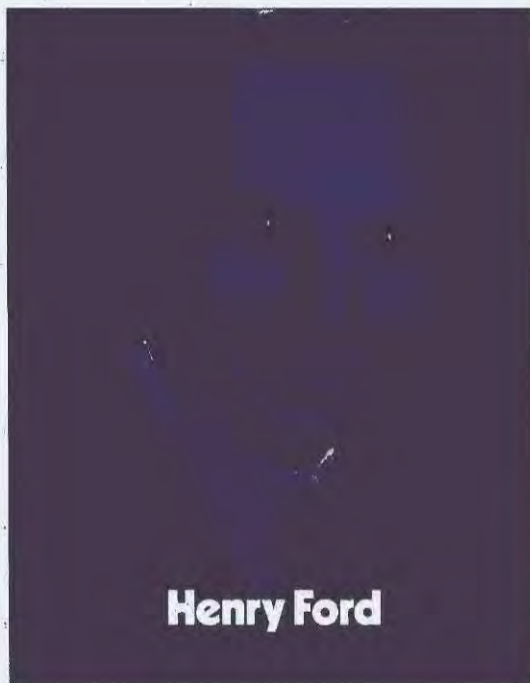
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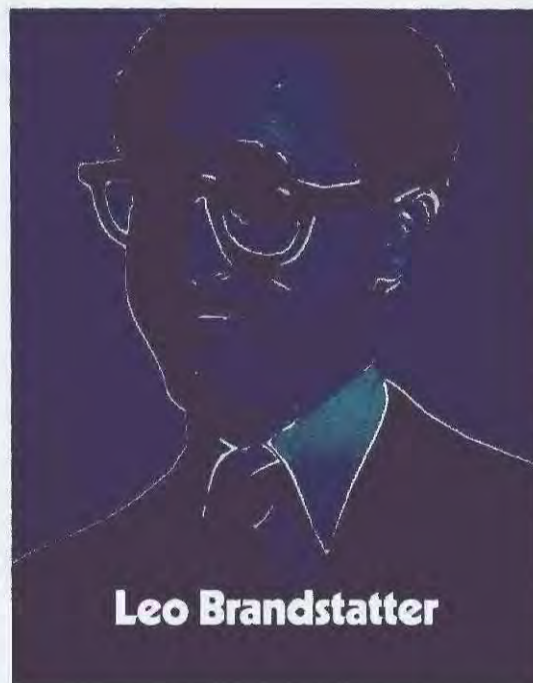
Albert Einstein



The Wright Brothers



Henry Ford



Leo Brandstatter

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

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Comprehensive coverage for lenders' liabilities.

- Crown Valley Insurance's Robert Evans

Lending institutions face an increasingly complex set of insurance exposures. Many of these bear directly on their overall financial performance.

Robert Evans, President of Crown Valley Insurance (CVI), a leading California agency, has approached these special coverage requirements by custom-tailoring a comprehensive protection program to a lender's individual needs.

"Today," suggests Evans, "the only way to supply needed protection on a cost-effective basis is to put yourself in the lender's position."

CVI's careful analysis of a lender's situation often leads to a multi-faceted solution. Basic coverages such as property, general liability, and auto fleet are the fundamentals. "Then comes the procedure," says Evans, "of fitting specialized components into place. We can strategically recommend additional products

ranging from mortgage impairment and bonding to safe deposit box liability or even errors and omissions."

The agency's capabilities in this field are enhanced by INA's concern for serving the needs of the banking system. In Evans' opinion, no other carrier offers so large an inventory of products and services for "creating the correct protection formula."

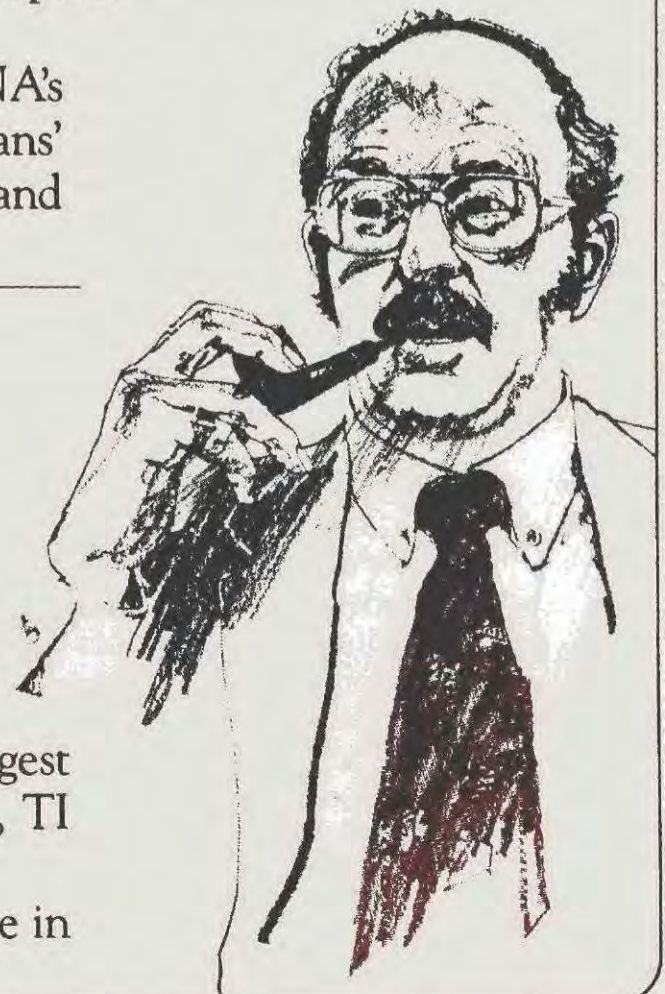
Seismic exploration vessels are prospecting the ocean's floor to pinpoint vital oil fields. Their searches for new energy sources have become increasingly urgent and widespread, multiplying the risk to both ships and the high-technology equipment they carry.

Texas Instruments (TI), through its subsidiary, Geophysical Service Inc., operates one of the world's largest seismic fleets, under contract to major oil companies. In 1973, TI acted decisively to control the subsidiary's mounting losses.

Realizing that changes in shipboard personnel (taking place in

Writing the book on offshore exploration.

- Texas Instruments' Hugo Hines



locations as diverse as the Arctic Circle and the Persian Gulf) increased the chance of human error, TI decided to issue a safety manual to each ship's captain.

"Working with INA," explains Hugo Hines, Corporate Risk Manager for TI, "we designed a comprehensive guide, specifying standard procedures for both routine and emergency situations."

This constantly updated manual, as important to the captain as his charts and log, has contributed to a remarkable reduction in losses. As a result, Geophysical Service was awarded the prestigious "Safety in Seas" award in 1978 by the National Ocean Industries Association.

"We formerly insured the fleet with the London market," Hines adds, "but switched to INA since their expertise helped us to contain our marine exposures. Reduced losses have translated into reduced insurance costs."

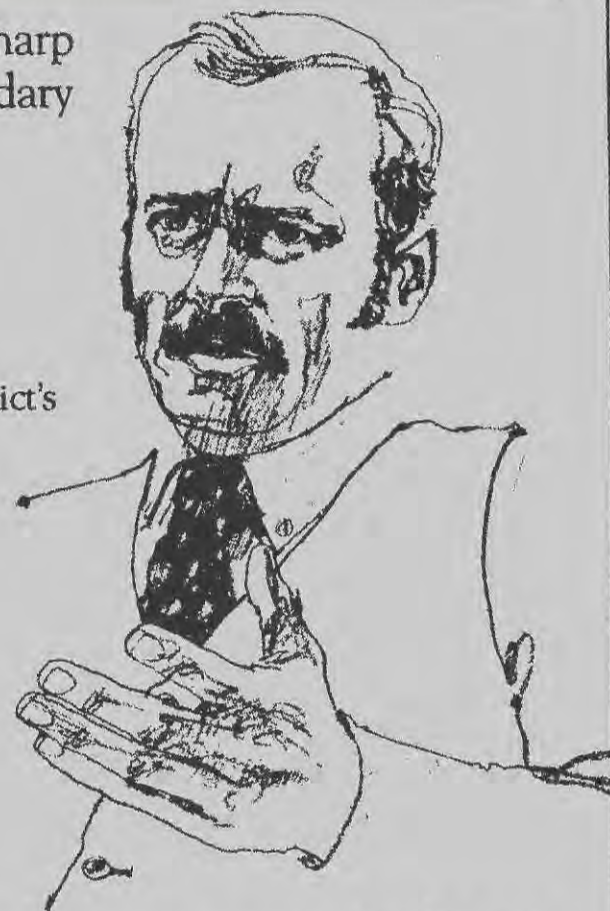
During the early 70's, unrest on college campuses triggered sharp increases in the cost of property coverage for primary and secondary schools as well. "We suddenly confronted a doubled premium and an unusually high deductible," recalls Dr. William Bedell, Assistant Superintendent of Livonia, Michigan, Public Schools. Seeking a solution to the rate crisis, Bedell and fellow administrators in the area studied alternatives to commercial coverage. They found that school districts did not hold sufficient reserves to permit self-insurance. And a state-sponsored insurance pool was far too difficult to administer.

Then, working with his brokerage firm, R.L. Jones and Associates, Bedell found two ways to lower the cost of property coverage. First, he placed the district's insurance with INA and, through restructuring the coverage, realized a reduction in premiums. As the next step, he enrolled the school district in a state-wide safety group created by MarketDyne, an INA subsidiary, and sponsored by the Michigan Association of School Boards.

"Since then, our premiums have been related to the actual loss experience of schools in the group," Bedell explains. "And we receive a dividend return on premiums in years of lower-than-expected losses." Last year, the districts in the group were refunded 17.8% of their premiums, and the year before 16.5% was returned, allowing a shift of funds from operations to education. "Our dividends have translated into salaries for two teachers a year," Bedell observes.

Choosing the logical alternative.

- The Livonia School District's Dr. William Bedell



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perspective

Insuring performance

Prove financial health to obtain bonding

By Irving M. Fogel

THE MOST IMPORTANT tool for a construction contractor who bids for publicly funded projects—municipal, state or federal—is a bid bond followed by payment and performance bonds. Many private clients also require payment and performance bonds from general contractors, and general contractors are demanding bonds from major subcontractors.

If you use contracted services, you should know what support the bonds provide and what information contractors must provide to bond underwriters. Tight market conditions have made underwriters choosy and demanding of their clients.

If you are a contractor entering the world of bonded jobs for the first time, you should be prepared to bare your financial soul. You must do this to convince a surety bond underwriter that, for all practical purposes, issuing the bond poses no risk. If you understand one of the major differences between a surety bond and an insurance policy, you will appreciate the importance of being able to convince the underwriter of your financial stability and soundness.

When you buy a life insurance policy, the insurer gambles that income from premium and investment of the premium will exceed the payment to you. When it pays your estate it has no recourse against you—in heaven or hell—or your estate. An insurer pays and shuts up.

Irving Fogel is president of Fogel & Associates Inc., a New York construction industry consulting firm. He is a registered professional engineer in 13 states, the District of Columbia and Israel.

When the surety company sells you a bond, it requires you to sign an indemnity agreement that will allow it to try to collect whatever money it pays out under the terms of the bond because of what you may or may not do. The company expects to collect back any money paid on your behalf. With this in mind, you should be able to understand why you have to prove the soundness of your financial health before you will be given a bond.

As a contractor interested in being bonded, you should contact an agent or producer who deals with surety bonds. If your insurance agent is not familiar with the surety bond industry, he should recommend a specialist who will probably be a member of the National Assn. of Surety Bond Producers.

These people are professionals who specialize in placing surety bond business as independent agents. The knowledgeable agent can help you prepare a good presentation so you can sell yourself to an underwriter, and "sell" is the proper term. You have to convince the underwriter that writing a bond is for all practical purposes a no-risk situation.

The underwriter will be interested in knowing your track record for completing projects on time and within the budget. He or she will be interested in the depth of your organization and continuing management capabilities. Is there a plan for the life of the company to continue beyond the life of any one individual? The underwriter will question the financial soundness and fiscal reliability of the indemnifier.

The "physical" that you must pass before a surety bond is written, unlike a true physical examination you cannot prepare for, must be anticipated



Before issuing a bond, an underwriter will be interested in knowing a contractor's track record for completing projects on time and within the budget.

with advance preparation.

You should develop a history of your past projects indicating for each: the date, name of the owner, architect/engineer, location, type of project, percentage of completion, projected completion date if incomplete, profit/loss (actual or projected) and any comments you believe are pertinent. This information and properly prepared cash-flow projections for ongoing projects will assist the underwriter in determining your bondability.

As a contractor wanting to increase your bonding capacity, you will be faced with the same inquisitiveness of the underwriter. The information that helps underwriters decide to issue bonds—a sound financial statement, history of profitability, a sound man-

agement plan, a promise of continuity and properly maintained and presented documentation—can also convince future clients to hire you.

Corporations that use contractors should also look for this information and use it to help choose a contractor or subcontractor.

Underwriters are most afraid of writing bonds or increasing bonding capacity for a contractor who wants to undertake work of a nature he has never done or undertake projects larger than he has ever completed.

Generally, the underwriter will want to walk with you before you run together, and will want the transition to be gradual. A contractor who thinks he may someday want to do bonded work must plan ahead. ■

Fidelity bond covers third-party damage

DOES AN EMPLOYEE fidelity bond cover losses an insured employer incurs in settling a suit for damages caused by its employee's dishonest or fraudulent act directed at third persons? A Florida appellate court decided it did.

A motor company was insured by two Transamerica Insurance Co. employee fidelity bonds against loss of money, securities or other property resulting from any fraudulent act of its employees. The Padgetts purchased a truck from the motor company; however, financing was not approved.

Company employees made a false financial statement of the Padgetts' assets and liabilities, forged their signatures and induced a bank to purchase

These abstracts were prepared by Cases Unlimited Inc. Copies of the entire decision may be obtained by sending a check for \$4 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

legal briefs

the contract. The forgery was discovered when the Padgetts failed to make payments. The motor company repurchased the contract and sued the Padgetts to recover the truck or its value. In turn, the Padgetts sued the motor company for fraud and settled for \$10,000 plus the truck.

The motor company then sued its insurer, contending the fidelity bonds covered the damages it had paid out to the Padgetts. The trial court dismissed the motor company's suit.

The appellate court concluded the policies were ambiguous in failing to define "loss". Because the clause involved the extension of coverage rather than exclusion of coverage, the court said it must be liberally construed in favor of the policyholder. The court determined that a third party's damages resulting from employee fraud were covered under the bonds. Thus

the case was returned to the lower court for trial. *Southside Motor Co. vs. Transamerica Insurance Co.*, Florida district court of appeals, Feb. 5, 1980 (BI/02/Au.-\$4).

All risks

The Massachusetts supreme court ruled that the "all risks" coverage provision of a physicians' and surgeons' equipment floater policy covered loss by theft, including embezzlement. Furthermore, the court said that each act of embezzlement was a separate occurrence within the meaning of the policy.

A dentist insured his office property with the floater issued by U.S. Fidelity & Guaranty Co. The policy contained an "all risks" clause with certain noted exceptions. An extension of coverage was issued later to cover "currency, money and stamps" not to exceed \$250 in any one occurrence.

Over two years, the dentist's receptionist embezzled \$9,000 of his funds with no one theft exceeding \$250. The doctor discovered his losses in March 1972 and immediately notified USF&G. USF&G limited coverage to \$250. The doctor sued and recovered only \$250.

On appeal, USF&G argued that an "all risks" policy did not insure the fidelity of employees and that all of the embezzlements were a single "occurrence" subject to the \$250 liability limit. The court rejected both arguments, observing that if USF&G intended to exclude fidelity losses it could have used plain language.

The court also concluded that the phrase "one occurrence," without giving a definition, was ambiguous and must be construed against USF&G. The insurer was found liable for the full \$9,000 loss. *Slater vs. U.S. Fidelity and Guaranty Co.*, Massachusetts supreme court, Feb. 15, 1980 (BI/04/Au.-\$4). ■

risk management notes

Cover overall exposure, not disaster

By David Warren

MANY RISK MANAGERS will contend a certain risk should be insured, even though its loss potential is not catastrophic, simply because there are not enough exposure units to create a "spread of risk."

For example, a firm with two trucks worth \$12,000 each might be advised to insure for collision, even though the firm is able to absorb a loss of that magnitude, simply because two trucks do not constitute a large enough spread of homogeneous units.

Or a video camera might be insured because there are no others to spread the risk.

The fallacy of this reasoning is aptly demonstrated by a favorite saying of one of the old-time, pioneering risk managers: "A buck is a buck."

What he meant was that any company has a huge number of unique risks, a wide variety of methods to protect against loss and a certain probability of loss for each kind of exposure. The important thing to recognize is that a company should not look at its risks piecemeal, but overall. When it does, it can see a huge spectrum of risks, many insurable and many not. The list can only be limited by your imagination.

Each risk represents a certain dollar loss. Protection features are a certain dollar cost. We should look not at a number of unique risk exposures but at all of them combined into a broad spectrum of dollar exposures. The dol-

David Warren is a risk management consultant in Orinda, Calif.



Photo: New York Harbor Waterfront Commission

Risk dollars equal

A dollar of risk is still a dollar of risk, whether it is exposure to theft or to a truck collision.

lars are homogeneous, so we do have a large spread of homogeneous risks.

A buck is a buck, whether it is the risk of loss of whiskey in a bonded warehouse or a truck collision or fire loss to a research project. As far as the organization is concerned, a loss such as a fire or theft means dollars out of pocket. Theft prevention and fire pro-

tection measures mean dollars out of pocket. It doesn't matter what causes the dollars to go—they go, and the object is to develop the physical protection and arrangement measures that will minimize the total flow of dollars out, regardless of the cause. The homogeneous units are dollars. A buck is a buck.

Premises of others

Say you are a metal processor that sends small parts out to be painted. Or a shirtmaker that sends its product to subcontractors that sew on special pockets.

The common factor here is that owned property is on the premises of others. Suppose there is a fire or other casualty that destroys your property. Would the owner of the premises or his insurer pay you for the loss? Would he even be legally liable?

The answer to the last question is that he would not be liable unless you could prove negligence. Therefore, unless you could prove negligence, any liability insurance he may have would not cover the loss. And if you could, he might not have coverage for damage to property in his care, custody or control. However, he might have property insurance that would apply if it had been extended to cover property of others and if the values had been reported.

You could also have a contract with the other party that would require him to be responsible for the property. If so, you can require evidence of contractual liability insurance to back this assumption of liability. Remember, though, that the standard contractual liability form excludes property in custody. His policy should specifically name your contract.

Rather than be concerned about the other party's insurance, however, you may want to cover your own property. But you don't want to make the mistakes of insuring a lot of small objects for which the loss potential does not meet your loss assumption capability. ■

benefit tax slants

'Reverse pension' eliminates red tape

By Joseph S. Robinson
Attorney-at-law

MANY CLOSELY HELD corporations find qualified retirement plans burdensome and time-consuming. What's more, sponsors of such plans are somewhat fearful of their personal responsibility as fiduciaries. As a result, companies wishing to offer some form of retirement plan are looking into other avenues.

One approach that eliminates the tension and red tape is a kind of pension in reverse. This plan requires no IRS approval and allows the corporation to pick and choose its participants. Here's how it works:

Instead of contributing money into a formal Treasury-approved pension, the company gives an annual bonus to a selected employee that equals the premium for a participating insurance policy on the life of each selected employee. The employee owns the policy and names the beneficiary.

Consequently, the premium dollars are taxable to the employee. But that's not so bad because the tax-free policy dividends, which belong to the employee, will partially offset the extra income tax the employee must pay. In the

meantime, the corporation takes a deduction for the premium as it would when contributing to a qualified pension (I.R.C. Sec. 162 (a)).

Example: ABC Corp. takes out a \$100,000 life policy paid up at 65 on Mr. Kay, a 40-year-old plant manager in the 37% bracket. Thus, the \$3,200 annual premium, which the company advances, only costs Mr. Kay \$1,150, the amount he pays in additional taxes. However, a \$250 first-year dividend reduces the figure to \$900. By the fifth year, a \$620 dividend further offsets Mr. Kay's additional tax payment to a net of \$530. By the 10th year, dividends will completely wash out Mr. Kay's tax obligation for the insurance policy.

At the time he is ready to retire at 65, he will have accumulated roughly \$74,000 in guaranteed cash values that can be converted into a \$600 per month pension for life under a 10-year certain settlement option. In the meantime, Kay's family was protected with \$100,000 of life insurance coverage.

Survivor's benefits

Many businesses provide a variety of employee benefits, each of which is designed to cover a specific need of an

employee or his beneficiaries. Often, as in the case of a survivor's benefit, taxation of the benefit depends not only on the particular benefit, but also on how it fits into an employee's overall compensation package.

In a recent case, the family of a deceased employee won a major victory. Bill was employed by IBM and covered by several benefit plans, including life insurance, retirement, sickness and accident and disability plans. Each plan was adopted at a different time and administered separately. The cost of all these benefits was borne by IBM.

While still employed, Bill died at age 60 after a brief illness. At the time of his death, neither he nor any of his beneficiaries had received payments from the qualified retirement plan, the disability plan or the sickness and accident plan.

Under the terms of the life insurance plan, Bill's widow was entitled to a death benefit of \$23,666 and a survivor's income benefit of \$1,063 per month.

The IRS contended the value of the survivor's income benefit should be in Bill's gross estate. The IRS attempted to combine the disability and insurance plans to satisfy the taxation re-

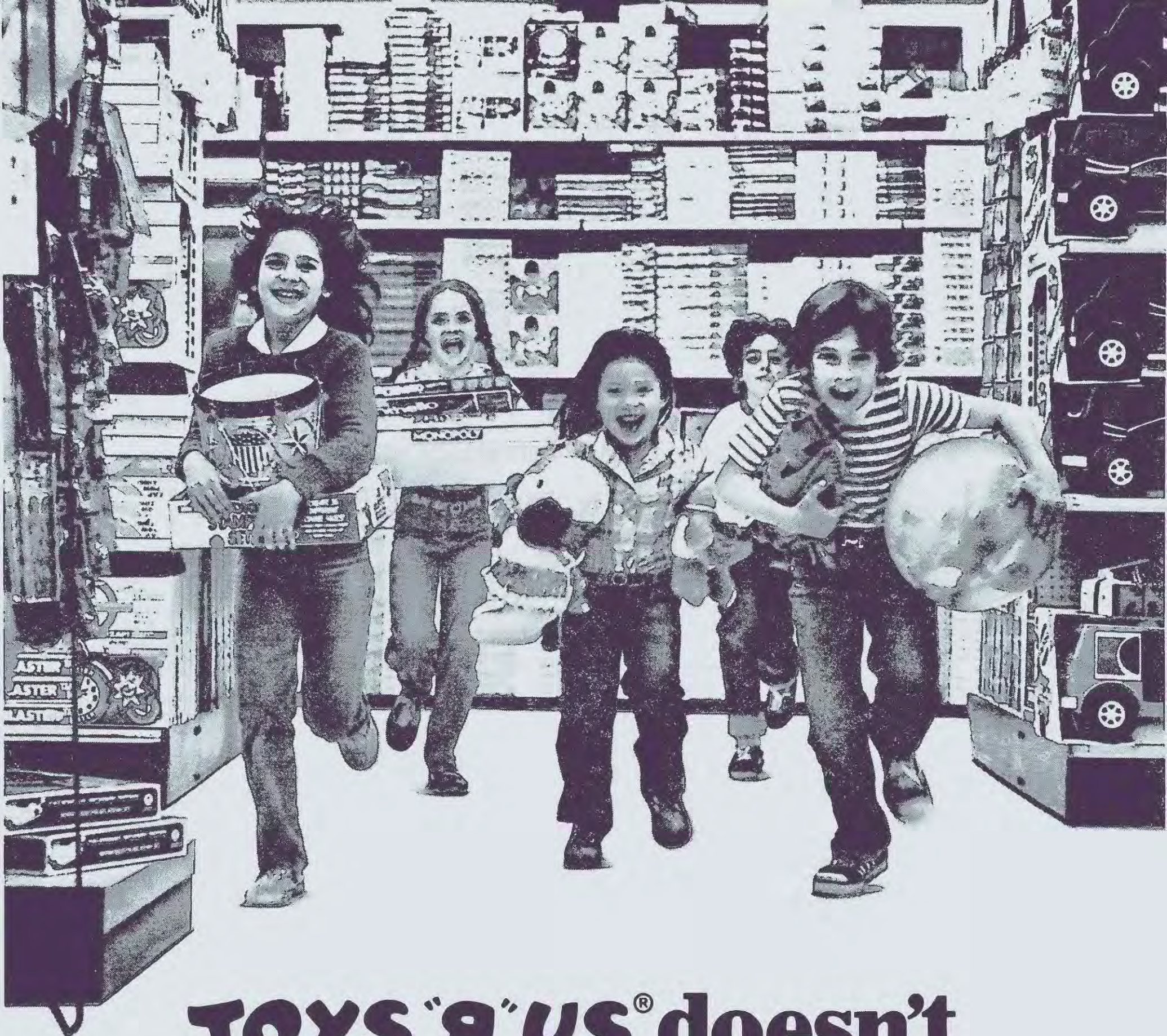
quirements.

The Court of Appeals ruled, however, the two plans could not be combined. The court noted that under the IRS's own rulings, neither the retirement nor the accident and sickness plan could be combined with the insurance (see Rev. Rul. 76-380 and Rev. Rul. 77-183).

This left only disability, which would not take effect until all of Bill's rights under the accident and sickness plan had been exhausted. After considering the leading cases on the point, the court concluded the disability plan should not be combined with the survivor's benefits for estate tax purposes. As a result, these benefits were not tacked on Bill's gross estate (*Schelberg, Ct. of App., 2nd Cir., 10/29/79*).

The case is important to employees and companies alike. For employees, the decision means certain survivor's benefits may be eliminated from an employee's estate.

For a company wishing to take advantage of the appeals court decision, its group insurance, retirement, accident and health and disability plans should be independently adopted and structured. ■



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Surety underwriters tighten up standards

Continued from page 11
bankruptcy or trouble," noted Joseph P. Nolt, representative for the Keystone chapter of the Associated Builders & Contractors in Washington.

Dun & Bradstreet reports contract bankruptcies rose to 1,205 for the first 10 months of 1979, an increase from 991 a year earlier.

"Surety companies are very alert to this and are tightening up and being cautious. It's being reflected in their underwriting," Mr. Nolt said.

"We're extremely concerned about the effects of inflation/recession on the mortality rate of contractors. I feel we're going to see a situation as grave as 1974-75," said James E. Lee, vp at INA Bond

Facility Inc. in Chicago.

To ease these fears, "We're taking a closer look at contractor financing, meeting more frequently with bondholders and demanding contractors get management more involved in reducing fixed overhead," he said.

INA is also forcing more joint contracting ventures and telling some contractors they no longer qualify for surety bonds, Mr. Lee says.

Despite this caution, the insurer expects bond underwriting to increase this year at the same rate as inflation. About \$32 million in contract surety will be underwritten, Mr. Lee notes.

At Aetna Life & Casualty, where some \$53 million in bonds is underwritten in a normal year, similar cutbacks are in the works.

"We have not taken any more of a restrictive position but we're looking more carefully at the underwriting process," said assistant vp Robert Mills.

"In trying to assess premium volume we have to assess the viability of the construction market itself. The surety market is in a number of ways a direct reflection of the construction market," he explained. "When public works are delayed or cut, the reduction has a direct effect on the contract surety line."

However, the impact takes about two years from the bonding date to be felt.

Aetna's bonding volume has increased steadily over past years, Mr. Mills says. Recently, the firm bonded about 50% of the \$425 million Baltimore Tunnel project.

"There seems to be plenty of capacity to go around; a quality contractor won't have any problem," adds Donald McComber, executive vp at Industrial Indemnity Co. in San Francisco, a division of Crum & Forster.

However, "Underwriters are being a little more selective than before," Mr. McComber said.

"When times are tough an underwriter tries not to let a contractor get too much work on hand," he said.

"It's a two-way street; contractors during tough times have to show us they have made a profit," adds Industrial Indemnity vp Ken Ryan. During these times, underwriters demand more information from contractors and frequent meetings, he said.

Tips may help obtain bonds

Looking for a new construction project bond or bigger bond limits? Here are some ways to attract underwriters and lower rates:

- Keep construction work in one geographic area to maintain maximum management control over worksites.
- Hire a certified public accountant to prepare earnings statements.
- Show slow growth in your business over a eight- to 10-year period. Erratic high and low years suggest weak management.
- Stay within your building expertise and keep workloads practical.
- Have big liquidity or working capital.
- Maintain a senior staff with substantial experience.

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BROKER
PROFILES

JUL
28

JUL
15

more to come :

ISSUE DATE

AD CLOSING

| | | |
|--|--------|--------|
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| 27. | JUL 7 | Jun 25 |
| 28. Spotlight Report: Fidelity & Surety Bonds | JUL 14 | Jul 1 |
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Security plans step up combat on employe theft

By STUART EMMRICH

"Check out their work history with employers as far back as 10 years," Mr.



Wheeler said. "And just don't do it with a letter. Often people will tell you things on the phone that they wouldn't write down."

Banks must take special precautions: frequent physical plant inspections, sophisticated vault and alarm systems and tight control of tellers' drawers, said The Hartford's Ms. Scharf.

NEW YORK—A huge electronics firm weighs its employes as they enter and leave work each day, checking for suspicious weight gains that signal pilferage.

A company that manufactures chips forbids women employes to take handbags into the work area and requires workers to leave jackets and coats in a supervised locker room.

A firm that uses a computer system to control its financial record-keeping constantly changes an elaborate system of code words and controls to prevent employes from issuing extra checks.

These are a few examples of what American businesses are doing to combat an undeniable fact in the modern workplace: Workers steal from their employers.

"Anyone can steal from his employer. Anyone can do it fairly easily," concedes Ralph Wheeler Jr., assistant secretary of Aetna Life & Casualty's bond department. "What's worse, the employe who wants to steal has become smarter every year."

Growing losses under fidelity bond contracts that insure against employe dishonesty have made insurers more concerned than ever with improving clients' security.

Business may be vulnerable to employe theft, but it is not powerless against it, say several fidelity bond underwriters who try to help clients identify ways to cut down their risks.

An outside auditor's review, called a "letter to management", may help cut losses, too, adds Mary Scharf, secretary of The Hartford Group's fidelity line.

"An auditor's management letter can give you a pretty good feeling about what controls are in place and what ones might be needed," she explained.

An outside auditor with free rein to watch people at work and have complete access to the company's bookkeeping can carefully examine security measures and report directly to the top management. This is probably the best first line of defense against employe crime, agrees Aetna's Mr. Wheeler.

But an auditor's recommendations aren't worth the paper they are written on if the company doesn't act on them, he notes.

Companies should augment an auditor's findings by tapping professional investigators or former law enforcement personnel to do an additional audit.

"They usually do a good job of identifying potential areas of losses and suggesting what can be done to deal with them," Mr. Wheeler said.

Sometimes those recommendations might be simple; for example, removing such valuable pieces of inventory as precious metals or sophisticated electronic equipment from general access, suggests Myron Warndahl, senior underwriting officer of the St. Paul Fire & Marine Insurance Co. fidelity department.

"You have to cut down the temptation. If there are no controls, what is going to keep an employe from stealing?" argues Mr. Warndahl.

Employers should also go beyond a cursory background check when hiring employes for sensitive jobs, Mr. Wheeler said.

Blanket policy trims bankers bonds

State insurance departments are expected to soon approve a new bankers blanket bond policy that will streamline the bonds protecting banks against employe theft and fraud.

The new policy, devised by the Surety Assn. of America and the American Bankers Assn., eliminates a 12-month discovery period for receivers and liquidators when a bank fails. "Forgery" is re-defined, too.

The new definition of forgery allows the bond not to cover legitimate signatures as forgeries just because they are unauthorized, said Francis LeMunyon, secretary of the Surety Assn.

The new form "is without a doubt the single most important revision of any of our fidelity contracts," Mr. LeMunyon said. The commercial bank classification accounts for one-third of the premium volume of the entire fidelity line.

"We feel the finished product will be a much clearer and better understood contract—one that gives the same nuts and bolts of coverage as the existing bond, but without the myriad riders currently required," Mr. LeMunyon said.

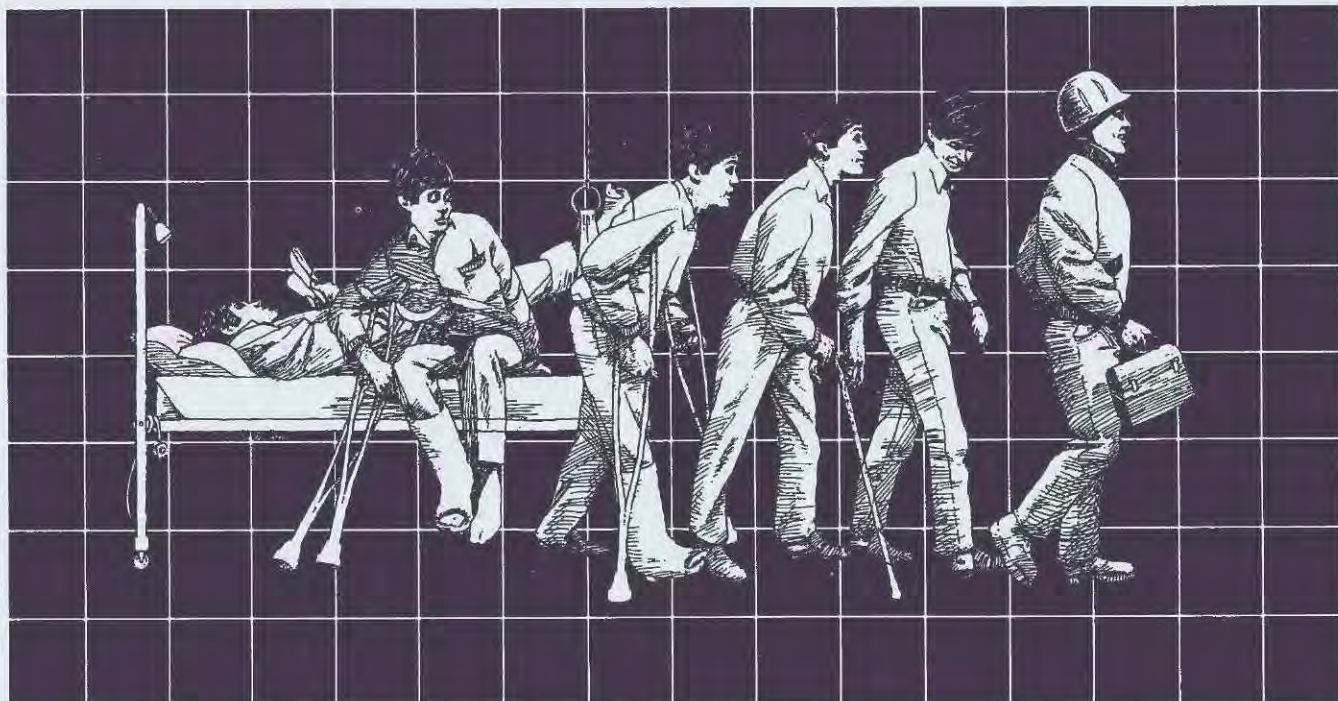


Photo: Mary Cairns

New blanket bonds for banks will provide the same coverage without myriad riders.

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At International Rehabilitation Associates (IRA), we've learned from our experience with over 700 companies that injured workers usually want to return to work. It's our task to make that road to recovery as smooth as possible for the worker, the worker's family and the employer.

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IRA's "whole person" approach involves the consideration not only of medical requirements, but motivational, vocational and financial needs as well. The goal is to take every practical step in helping re-

store the worker to productive employment.

IRA's "whole person" approach to rehabilitation has often proven successful in saving claims dollars by bringing a new perspective to cases assumed to involve permanent total disability. The case of Marvin S., unable to return to work for an extended period of time due to a disabling injury, is typical.

The IRA Rehabilitation Specialist assigned to the case found that Marvin S. wanted to work, but that the nature of his disability had forced him to rule out the types of jobs he'd held in the past. After determining the extent of his capabilities through medical and vocational testing, IRA was able to help Marvin redefine his employment objectives and find a new, full-time job that exceeded both his occupational and financial expectations.

store the worker to productive employment.

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PRIMA convention:

Self-insure, pool to beat problems of future crunch

MEMPHIS—Exploring risk pooling and self-insurance programs now could help governments weather tight insurance market conditions ahead, industry analysts advise.

Today's soft market is accommodating government, but the market is going to change and government will find itself orphaned again, they say.

Because it traditionally is considered a bad risk, government needs creative alternatives to primary insurance, says Clark Johnson, manager of risk management services at Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

"The only way to avoid the effects of being totally dependent on the insurance market is to become a better risk and buy less insurance," Mr. Johnson told members of the Public Risk & Insurance Management Assn.

"If you have a competitive program, don't fall in love with it," he warned. "Times will get worse and when the market changes, you will have the answer if alternatives are sought now."

"I'm biased in favor of self-insuring to the greatest degree possible," Mr. Johnson said.

He suggested low retention self-insurance programs for government units paying \$50,000 in premiums per year for general liability

or auto insurance and \$200,000 for workers compensation.

These programs permit greater claims control through a third-party administrator and can be tailored to the group's needs. Municipalities also benefit from interest accrued on reserves.

If self-insurance is not viable, pooling is allowed in about 20 states. Its use is expected to grow this decade, Mr. Johnson said.

Self-insurance and pooling also allow the municipality access to excess/surplus lines companies to purchase insurance against catastrophic losses. They are less restrictive and more competitive than standard markets, he explained.

Mr. Johnson suggested governments approach Lloyd's of London for excess insurance since it is "the most impressive insurance market in the world, very innovative and available in good and bad years." He also suggested Inco and Northumberland as markets. Both in Bermuda, the companies were captives and are now writing third-party risks.

The success of pooling and self-insuring depends on initiation of loss control programs and insulating required reserves from political manipulation, said Claire Stone, senior consultant with Scor Risk Management Inc.

Proving worth could save job

By MARY ANN MATLOCK

MEMPHIS—The public risk manager who hides the light of his achievements under a barrel may be leaving his superiors in the dark about the importance of his job.

That omission could cost him his job if the economy forces public officials to start trimming budgets more severely, says Susan Alt, former *Business Insurance* editor and now consultant with Wyatt & Co.

"The most prominent failing of the risk manager has been his unwillingness to get out of the office and do politicking to emphasize the importance of his role," she told members of the Public Risk & Insurance Management Assn. conference here last month.

"It's easy to cut off the risk manager because if he's doing the job well and is invisible, his superiors will think the system is running by itself," she said.

Aggressive tactics she suggested the risk manager use to show increasing cost-effectiveness are:

- Establish a five-year loss history with detailed background on safety programs.
- Ask brokers and insurers about cost-effective alternatives to first dollar coverage, especially if premiums paid on a particular insurance cost \$100,000 per year.

Remember you are paying the bills. Act tough in negotiating rates, reserves, policy wording, commissions, fees and services.

Pool risks with other municipalities and push for legislation allowing pooling. It is cost effective and a tool for gathering claims data.

Allocate the cost of loss to individual departments to increase the power of risk management.

- Investigate claims over a designated amount.
- Seek cash flow plans that allow the buyer to share investment income reaped on premiums, especially if the premium is \$500,000 or more.

recession watch

Facts fight poor image

MEMPHIS—To fight charges that government units are bad insurance risks, public risk managers must arm themselves with the facts.

A challenge to organize the fact-finding mission was given members of the Public Risk & Insurance Management Assn. last month at their first convention here by Dr. Nestor Roos, professor of insurance at the University of Arizona.

"It's ironic that the insurance industry does not have any statistics on government buyers or clients as a whole. They don't know how good or bad you are," he told PRIMA members.

PRIMA should gather this loss data, he said, suggesting it work with public interest groups that have the resources to survey government units.

Natalie Wasserman, PRIMA executive director, said the organization probably will profile the governmental risk manager, the unit he or she represents and whether he or she is a full- or part-time employee, she said.

Dr. Roos urged PRIMA members to work with the National Safety Council to obtain governmental risk statistics, to encourage professionalism among its members and to push for legislation permitting risk pooling.

Public sector group

The Public Risk & Insurance Management Assn. was formed in February 1978 to address the risk management problems faced by the nation's 80,000 government entities and to act as a group clearinghouse for education materials.

More than 500 risk and insurance managers from counties, cities and special government bodies belong to the group, which held its first convention in Memphis, Tenn., last month.

Information on PRIMA can be obtained from executive director Natalie Wasserman at 1140 Connecticut Ave. N.W., Suite 210, Washington, D.C. 20036; 202-828-3614.

Process beats corruption

MEMPHIS—Don Blackhurst, risk manager for Santa Clara County in California, has a formula for keeping political corruption

out of the public risk manager's office.

When it's time to award an insurance contract, he calls on private industry for help. After consulting with two insurance experts from the private sector, he selects the underwriter or broker according to bids and makes his recommendation to the county board. Opening up the decision-making process to persons outside county government reduces the chance of favoritism or political manipulation, he said.

This system and qualifying standards for brokers have greatly cut insurance corruption on the West Coast, he said.

Other public risk managers interviewed last month at the Public Risk & Insurance Management Assn. seminar here agreed professionalism is the best tool against the political manipulation of their office.

They prefer that to legislation. "I think the system can work on its own," said Herb McGill, risk manager for Savannah, Ga. But he suggested agents be discouraged from holding political office and insurance contracts be awarded by a professional risk manager or consultant.

Mark Wilson, risk manager for Wichita Falls, Tex., said paying the

risk manager as a professional and making him responsible for his work is important, too.

Louis Cantin, consultant with Risk Control Associates Inc., had a more specific recommendation for PRIMA members to protect their department from corruption: Get a written risk management policy.

"A strong written risk management policy will go a long way toward eliminating political influence on your program," Mr. Cantin told PRIMA members.

"If you get a written statement, you can avoid some cronyism because rescinding the statement needs council vote at a public meeting. No one will want to touch that," he said.

To obtain this leverage, the risk manager first must get the written policy accepted by the government unit.

"Develop patience and nibble away at it," Mr. Cantin said.

He suggests first writing a formal policy on workers compensation because it is statutory with no exceptions.

Next, produce quarterly reports stressing the positive aspects, including money-saving potential, of the initial written policy.

"Give them a policy one at a time. It's more digestible that way," Mr. Cantin said.

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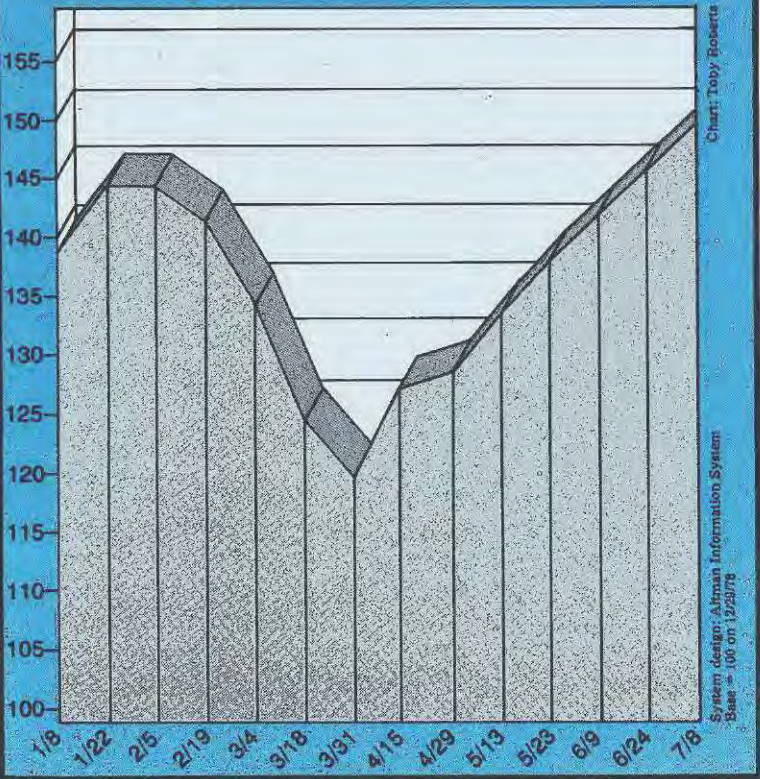


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BI Insurance Index Mid-year Performance



Industry finishes half by besting predictions

BI ticker

By STUART EMMRICH

The Business Insurance industry index continued its steady rise over the last two weeks and hit another new high for the year, climbing by 2.5 points to 148.2 (the base of 100 was at year-end 1978). Forty-six of the industry stocks were up, 20 declined and eight remained unchanged. Among those showing the biggest increases were: Statesman Group Inc., up 19.4% to \$5.37; United Services Life Insurance Co., up 13% to \$16.25; Jefferson National Life Insurance Co., up 12.9% to \$43.50; Mission Insurance Group, up 11.2% to \$36 and SAFECO Corp., up 7.2% to \$39 at the close of markets July 8. Biggest declines were registered by: Integrated Resources Inc., down 9% to \$12.50; Pinehurst Corp. down 8.7% to \$6.50; American General Corp., down 6.5% to \$31.88; Integon Corp., down 6.5% to \$25, and Equifax Inc., down 5.4% to \$21.87. The BI Index again outpaced the other major stock indicators, the Dow Jones climbed only 2.2% for the period while the New York Stock Exchange and Standard & Poors rose 2.3%. For the first six months of this year, the index shows a 6.8% rise from a level of 138.9 for year-end 1978 and an increase of nearly 2.7% from the level of 144.64 for the first two weeks of the year. Since then, the index rose slightly to 144.67, then began a steady decline that took it to 119.5 on March 31, its lowest point of the year. Insurance stocks then began to rally, rising to 127.7 the following two weeks, 128.6 on April 29, 133.1 by May 13 and to 137.8 by May 28. The following two weeks, the index jumped again, this time to 141.9 and to 145.9 on June 24.

INSURERS AND brokers are heading into a tough second half of 1980 with better results than most analysts had predicted.

Brokers, facing an especially difficult year, will come out eventual winners, says one analyst who is encouraging investment in their stock now.

New business, investment income and few catastrophes buoyed the industry against the downward pressure of price-cutting.

And insurers are learning from their mid-'70s mistakes, analysts say.

"There of course is continued price-cutting and an intensely competitive environment, which will dampen earnings, but it is not as bad as it was during 1973 and 1974," said Myron Picoult, analyst for Oppenheimer & Co.

"The competition is more specific this time around in terms of lines of business and geography, rather than the across-the-board price cutting that we had a few years ago and that caused so much trouble."

Mr. Picoult was one of the few analysts who had strong hopes for insurers back in January, when most analysts were giving their somewhat gloomy assessments of the insurance industry in 1980. While others saw an earnings slump by the second, if not the first quarter, Mr. Picoult was touting the insurance industry as a good investment.

"I was one of the few real bulls. I wasn't hedging it, either, I was out buying them," he said. Because of this strong position, Mr. Picoult sees the industry results as a "mixed bag," while other analysts are surprised that earnings gains have continued so long into this year. They warn that results are going to be down by the end of this year and into next, but for the most part see modest increases for the second quarter, a possibility generally discounted earlier in the year.

The second-half slump may not be as low as first thought, says Herbert Goodfriend, of Bache Halsey Stuart & Shields Inc. But he isn't sure continued price-cutting is going to slow up soon.

"I see no relenting in the pressure to cut rates, and statements coming from some of the large insurers that they aren't going to continue matching these low prices is pure rhetoric," Mr. Goodfriend said. "Everyone says that competition is fierce, but they are all participating in it to various degrees."

At least one analyst, Harvey Bundy of William Blair & Co., is now pushing the stocks of the large brokers as an attractive investment because he sees them weathering the coming difficult period in decent shape. He predicts their performance will dramatically improve.

"We are anticipating that earnings in the second half of 1981 will be up 20% to 40% and that earnings for most of the brokers will show 30% to 50% gains in 1982," Mr. Bundy says in an investment report being released this week. That "earnings explosion" is reason to stick with the brokers even though the next several quarters "will be the most difficult" for them.

"Any of the major six firms could show an earnings decline in either the third or fourth quarter of 1980. Were such a decline to occur for Alexander & Alexander or Rollins Burdick Hunter, it would be the first ever for those companies," he said.

Leonard Wilson, analyst with First Manhattan Co., agrees with Mr. Bundy that earnings gains will become more difficult, if not impossible, during the second half of 1980. But he says the longer-than-expected good performance for top brokers will mean second-quarter earnings will probably be up 8% to 10%, with a few experiencing a "flat" quarter.

But Mr. Wilson disagreed that the brokers would rebound as much as Mr. Bundy predicts them doing after the current slump.

"Their earnings will not be as robust as first seemed six months ago," he said, adding that falling interest rates and rate-cutting were the chief dampening causes.

Companies forming the BI Index

Companies making up the BI insurance industry composite index are Aetna Life & Casualty Co., American Bankers Insurance Co. of Florida, American Financial Corp. of Ohio, American General Corp., American Indemnity Financial Corp., American International Group Inc., American National Insurance Co., American States Life Insurance Co., Aneco Reinsurance Ltd., Appalachian National Corp., Avemco Corp., Banks Iowa Inc., Bitco Corp., Carolina Casualty Insurance Co., Central National Financial Corp., Chubb Corp., Combined International Corp., Connecticut General Insurance Corp., Continental Corp., Crawford & Co., Crown Life Insurance Co., Crum & Forster, Employers Casualty Co., ERC Corp., Equifax Inc., Farmers Group Inc., First Colony Life Insurance Co., Foremost Corp. of America, General Reinsurance Corp., Globe Life & Accident Insurance Co., Great West Assurance Co., Hanover Insurance Co., Hartford Steam Boiler Inspection Co., Integon Corp., Jefferson National Life Insurance Co., Kemper Corp., Lincoln National Corp. of Indiana, MGIC Investment Corp.

Also, Mission Insurance Group Inc., Nationwide Corp. of Ohio, NN Corp., Northwestern National Life Insurance Co., Ohio Casualty Corp., Old Republic International Corp., Pinehurst Corp., Preferred Risk Life Insurance Co., Provident Life & Accident Insurance Co., PennCorp Financial Inc., Republic National Life Insurance Co., Ryan Insurance Group Inc., St. Paul Cos. Inc., SAFECO Corp., SRI Corp., Standard Life Insurance Co. of Indiana, Statesman Group Inc., Tokio Marine & Fire Insurance Co., The Travelers Corp., United Fire & Casualty Co., United States Fidelity & Guaranty Co., United Services Life Insurance Co., Washington National Corp., Zenith National Insurance Corp., CNA Financial Corp., INA Corp.

Ten publicly held brokers also included are: Alexander & Alexander Services, Baldwin & Lyons Inc., Corroon & Black Corp., E.H. Crump Cos. Inc., Frank B. Hall & Co., Integrated Resources Inc., Fred S. James Co. Inc., Marsh & McLennan Cos. Inc., Reed Stenhouse Cos. Ltd., Rollins Burdick Hunter Co.

British Issues

| 7/8 Companies | Price pence | P/E | Div. pence | Yield % | 2 Week High-Low pence |
|----------------|-------------|------|------------|---------|-----------------------|
| Comml Union | 162 | 8.1 | 14.00 | 8.6 | 162-149 |
| Eagle Star | 224 | 7.5 | 12.86 | 5.7 | 224-205 |
| Genl Accident | 304 | 7.4 | 17.14 | 5.6 | 304-282 |
| Gdn Royal Exch | 308 | 8.3 | 19.28 | 6.2 | 308-292 |
| Phoenix | 262 | 7.3 | 19.00 | 7.2 | 262-242 |
| Royal | 393 | 7.9 | 30.71 | 7.8 | 393-368 |
| Sun Alliance | 692 | 8.9 | 40.00 | 5.8 | 592-654 |
| Brokers | | | | | |
| CE Heath | 210 | 9.3 | 13.80 | 6.6 | 215-190 |
| Hogg Robinson | 109 | 8.7 | 7.48 | 6.9 | 109-104 |
| Alex Howden | 106 | 7.3 | 10.00 | 9.4 | 108-100 |
| JH Minet | 103 | 9.8 | 6.38 | 6.2 | 106-96 |
| Sedg Grp | 126 | 10.2 | 7.14 | 5.7 | 127-113 |
| Stenhouse Hldg | 92 | 8.4 | 6.46 | 7.0 | 94-79 |
| Stew Wrightson | 225 | 7.9 | 17.14 | 7.6 | 227-232 |
| Willis Faber | 247 | 11.5 | 15.71 | 6.4 | 250-232 |

Source: Kitcat & Aitken, London

BI Industry Stock Report

| Insurance Cos. | JULY 8, 1980 | | | | | | 6/25/80 THRU 7/8/80 | | | JULY 8, 1980 | | | | | | 6/25/80 THRU 7/8/80 | | |
|------------------------------|--------------|--------|------|---------|--------|--------|---------------------|------------|---|--------------|------|---------|--------|---------------|---------|---------------------|---------|--|
| | Price | % Chg. | P/E | \$ Div. | % Yld. | High | Low | Vol. (000) | Price | % Chg. | P/E | \$ Div. | % Yld. | High | Low | Vol. (000) | | |
| Aetna Life & Cas Co | 38.63 | -0.3 | 5.3 | 2.12 | 5.5 | 39.25* | 37.75 | 941.9 | 39.00 | 7.2 | 5.4 | 1.80 | 4.6 | 39.00* | 37.00 | 205.0 | | |
| American Bankers Ins Co Fla | 7.50 | 3.4 | 5.0 | 0.44 | 5.9 | 7.50 | 7.13 | 36.4 | 21.00 | 5.0 | 3.8 | 1.00 | 4.8 | 21.00 | 20.00 | 58.2 | | |
| American Finl Corp Ohio | 23.25 | 1.8 | 3.8 | 0.50 | 2.2 | 23.25* | 22.00 | 37.5 | 16.88 | 2.3 | 6.6 | 0.80 | 4.7 | 16.88* | 16.25 | 22.0 | | |
| American Gen Ins Co | 31.88 | -6.6 | 4.8 | 1.00 | 3.1 | 34.38 | 31.75 | 227.9 | 26.00 | 0.0 | 14.3 | 0.44 | 1.7 | DID NOT TRADE | | | | |
| American Indty Finl Corp | 16.00 | 1.6 | 4.6 | 1.12 | 7.0 | 16.00 | 15.63 | 32.1 | 5.37 | 19.4 | 4.3 | 0.15 | 2.8 | 5.50* | 4.75 | 67.5 | | |
| American Intl Group Inc | 66.25 | 0.8 | 10.3 | 0.50 | 0.8 | 67.75* | 66.00 | 249.1 | 137.75 | -4.0 | 14.6 | 0.00 | 0.0 | 141.00 | 136.50 | 4.0 | | |
| American Natl Ins Co | 15.12 | -4.7 | 5.8 | 0.62 | 4.1 | 15.88 | 14.75 | 188.5 | 41.00 | 0.0 | 4.6 | 2.48 | 6.0 | 41.63 | 40.88 | 501.5 | | |
| American Sts Life Ins Co | 16.50 | 0.0 | 6.8 | 0.64 | 3.9 | 16.50 | 16.50 | 3.7 | 27.25 | 0.9 | 8.0 | 0.90 | 3.3 | 27.25 | 27.00 | 0.0 | | |
| Aneco Reins Ltd | 5.12 | 5.1 | **** | 0.00 | 0.0 | 5.13 | 4.63 | 61.3 | 43.13 | 3.3 | 5.2 | 2.80 | 6.5 | 43.38* | 42.25 | 291.3 | | |
| Appalachian Natl Corp | 2.00 | 0.0 | 5.7 | 0.05 | 2.5 | 2.00 | 2.00 | 2.9 | 16.25 | 13.0 | 5.8 | 0.96 | 5.9 | 16.25 | 14.88 | 128.7 | | |
| Avemco Corp | 11.00 | 1.1 | 7.3 | 0.50 | 4.5 | 11.00 | 10.63 | 18.2 | Uslife Corp | 21.87 | -3.3 | 5.5 | 0.70 | 3.2 | 22.75 | 21.88 | 455.2 | |
| Banks Iowa Inc | 23.50 | 4.4 | 4.5 | 1.32 | 5.6 | 23.50 | 23.00 | 4.9 | Washington Natl Corp | 29.00 | -2.5 | 5.9 | 1.50 | 5.2 | 30.00 | 29.00 | 49.4 | |
| Bitco Corp | 27.50 | 0.0 | 4.2 | 1.68 | 6.1 | 27.50 | 27.00 | 16.9 | Zenith Natl Ins Corp | 15.75 | 1.6 | 9.7 | 0.50 | 3.2 | 15.75 | 15.00 | 36.3 | |
| Carolina Cas Ins Co | 6.75 | 1.9 | 3.9 | 0.32 | 4.7 | 6.75 | 6.63 | 0.4 | INSURANCE COMPANIES | | | AVERAGE | 6.9 | 3.8 | | | | |
| Central Natl Finl Corp | 8.25 | 6.5 | 3.4 | 0.50 | 6.1 | 8.25* | 7.75 | 2.4 | AGENTS/BROKERS | | | AVERAGE | 8.3 | 5.0 | | | | |
| Chubb Corp | 40.12 | -0.3 | 5.3 | 2.40 | 6.0 | 40.75* | 40.00 | 250.9 | Agents/Brokers | | | | | | | | | |
| Combined Intl Corp | 20.00 | -0.6 | 0.0 | 1.40 | 7.0 | 20.38 | 19.13 | 137.6 | Alexander & Alexander Svcs | 33.50 | 1.5 | 11.2 | 1.64 | 4.9 | 33.75 | 33.00 | 308.5 | |
| Connecticut Gen Ins Corp | 39.50 | 0.3 | 6.0 | 1.52 | 3.8 | 40.88* | 38.50 | 432.1 | Baldwin & Lyons Inc | 27.50 | 2.8 | 5.0 | 0.80 | 2.9 | 27.50 | 26.75 | 34.6 | |
| Continental Corp | 26.37 | 2.4 | 5.1 | 2.20 | 8.3 | 26.88 | 25.88 | 222.7 | Corroon & Black Corp | 23.50 | -0.5 | 8.8 | 1.72 | 7.3 | 24.00 | 23.50 | 81.7 | |
| Crawford & Co | 16.00 | 0.0 | 13.5 | 0.54 | 3.4 | 16.00 | 15.75 | 9.2 | Crump E H Cos Inc | 10.38 | -3.5 | 9.5 | 0.36 | 3.5 | 10.75 | 10.25 | 6.7 | |
| Crown Life Ins Co | 65.00 | 2.4 | 4.7 | 2.40 | 3.7 | 65.00 | 63.50 | 7.5 | Ball Frank B & Co Inc | 25.87 | -0.5 | 8.6 | 1.44 | 5.6 | 25.88 | 24.88 | 158.1 | |
| Crum & Forster | 27.50 | 3.3 | 4.9 | 1.26 | 4.6 | 27.50 | 26.63 | 159.8 | Integrated Res Inc | 12.50 | -9.1 | 7.8 | 0.00 | 0.0 | 14.13 | 12.50 | 86.3 | |
| Employers Cas Co | 31.50 | 3.3 | 5.7 | 1.20 | 3.8 | 31.50 | 30.50 | 6.3 | James Fred S & Co Inc | 23.25 | 3.9 | 8.5 | 1.40 | 6.0 | 23.25 | 22.50 | 73.5 | |
| ERC Corp | 96.00 | 2.4 | 10.7 | 1.40 | 1.5 | 96.00* | 94.00 | 230.5 | Marsh & McLennan Cos Inc | 62.62 | 3.1 | 10.2 | 3.60 | 5.7 | 63.25 | 61.00 | 176.1 | |
| Equifax Inc | 21.87 | -5.4 | 7.0 | 2.40 | 11.0 | 23.00 | 21.88 | 10.2 | PennCorp Finl Inc | 8.87 | 6.0 | 5.4 | 0.16 | 1.8 | 9.13 | 8.50 | 387.0 | |
| Farmers Group Inc | 30.37 | 7.5 | 9.9 | 1.00 | 3.3 | 30.38* | 27.88 | 313.1 | Reed Stenhouse Cos Ltd | 10.00 | 6.7 | 7.7 | 0.48 | 4.8 | 10.00* | 9.25 | 16.6 | |
| First Colony Life Ins Co | 28.50 | 0.0 | 10.6 | 0.76 | 2.7 | 28.50 | 27.50 | 6.4 | Rollins Burdick Hunter Co | 20.25 | 3.8 | 8.8 | 1.24 | 6.1 | 20.25 | 19.75 | 16.4 | |
| Foremost Corp Amer | 19.88 | 3.9 | 8.0 | 0.60 | 3.0 | 19.88* | 19.13 | 16.8 | AGENTS/BROKERS | | | AVERAGE | 8.3 | 5.0 | | | | |
| General Reins Corp Del | 93.50 | 0.5 | 7.4 | 2.80 | 3.0 | 93.50 | 91.50 | 208.6 | Conglomerates/Holding Cos. | | | | | | | | | |
| Globe Life & Acc Ins Co | 34.25 | 1.1 | 12.8 | 0.40 | 1.2 | 34.25* | 33.75 | 99.0 | American Express (Fireman's Fd) | 34.37 | -3.5 | 7.0 | 2.00 | 5.8 | 36.25 | 34.38 | 817.8 | |
| Great West Life Assurn Co | 150.00 | 3.4 | 7.4 | 8.00 | 5.3 | 150.00 | 145.00 | 0.6 | Anderson Clayton (Ranger/PanAm) | 23.00 | 4.5 | 6.0 | 1.12 | 4.9 | 23.25 | 22.00 | 53.8 | |
| Hanover Ins Co | 35.50 | -2.1 | 3.6 | 0.72 | 2.0 | 35.75 | 35.00 | 17.5 | City Investing Co. (Home Ins.) | 26.13 | -6.7 | 5.0 | 1.50 | 5.7 | 27.75 | 26.13 | 1,891.7 | |
| Hartford Steam Boiler Insptn | 30.00 | 0.0 | 6.3 | 2.20 | 7.3 | 30.50 | 29.00 | 13.7 | CNA Finl Corp (CNA) | 15.62 | -0.8 | 3.5 | 0.00 | 0.0 | 15.88 | 15.38 | 40.4 | |
| Integon Corp | 25.00 | -6.5 | 9.2 | 0.48 | 1.9 | 26.25 | 24.75 | 94.5 | Control Data (Comm. Credit) | 59.00 | 8.3 | 8.0 | 0.60 | 1.0 | 59.00 | 53.88 | 588.2 | |
| Jefferson Natl Life Ins Co | 43.50 | 13.0 | 10.5 | 0.64 | 1.5 | 47.50* | 38.00 | 57.7 | INA Corp (Ins. Co. of NA) | 34.37 | -4.5 | 5.2 | 2.20 | 6.4 | 36.50* | 34.38 | 421.6 | |
| Kemper Corp | 28.62 | 4.1 | 4.1 | 1.40 | 4.9 | 28.63 | 27.50 | 59.9 | ITT (Hartford Group) | 28.62 | 2.7 | 8.0 | 2.40 | 8.4 | 28.63 | 27.75 | 1,145.5 | |
| Lincoln Natl Corp Ind | 42.50 | 1.5 | 6.0 | 2.80 | 6.6 | 42.50 | 41.25 | 67.3 | Reliance Group Inc | 68.75 | 0.7 | 2.8 | 2.00 | 2.9 | 69.38 | 68.63 | 34.2 | |
| Mgic Inv Corp | 25.37 | -4.7 | 7.5 | 1.12 | 4.4 | 26.88 | 25.38 | 465.5 | Sears Roebuck & Co. (Allstate) | 17.50 | 3.7 | 7.7 | 1.36 | 7.8 | 17.75 | 17.00 | 1,991.1 | |
| Mission Ins Group Inc | 36.00 | 11.2 | 8.1 | 0.80 | 2.2 | 36.00* | 32.75 | 119.9 | S & H Co. (Bayly Martin & Fay) | 14.00 | 0.9 | 5.1 | 1.00 | 7.1 | 14.50 | 13.63 | 12.2 | |
| Nationwide Corp Ohio | 19.25 | 4.1 | 5.4 | 0.66 | 3.4 | 19.25* | 18.75 | 3.9 | Teledyne Inc (Argonaut) | 136.50 | 14.2 | 6.1 | 10.00 | 7.3 | 138.00* | 118.88 | 591.7 | |
| Nn Corp | 42.25 | 5.6 | 9.0 | 2.00 | 4.7 | 42.25* | 41.00 | 575.5 | Transamerica Corp (Occidental) | 16.63 | -3.6 | 4.6 | 1.12 | 6.7 | 18.00 | 16.25 | 739.2 | |
| Northwestern Natl Life Ins | 33.25 | -1.5 | 6.6 | 1.25 | 3.8 | 34.13 | 32.50 | 161.3 | CONGLOMERATES/HOLDING COS. | | | AVERAGE | 5.2 | 5.3 | | | | |
| Ohio Cas Corp | 35.25 | 6.4 | 5.0 | 1.76 | 5.0 | 35.25 | 32.50 | 322.4 | System design: Altman Information Systems | | | | | | | | | |
| Old Rep Intl Corp | 15.38 | 6.0 | 3.6 | 0.92 | 6.0 | 15.50 | 14.75 | 238.8 | | | | | | | | | | |
| Pinehurst Corp | 6.50 | -8.8 | | | | | | | | | | | | | | | | |

McDonald to analyze Nationwide risks

DONNA JEANINE McDonald, 25, has been named corporate risk management analyst at Nationwide Insurance Cos. in Columbus, Ohio, to replace **Juanita Sheppard**, who was transferred to Insurance Intermediaries Inc. Ms. McDonald, who will report to Elmer J. Hogue, corporate risk management director, has worked for the past six and a half years in the company's group insurance department. She has a B.S. degree in business administration from Franklin University and is working toward advanced insurance

comings & goings: buyers

designations.

James C. McCall, 42, has been promoted from manager-corporate financial analysis to director-corporate insurance at Quaker Oats Co. in Chicago. Mr. McCall, who reports to vp and controller Donald Wittmer in the newly created position, has an engineering degree and a master's in business administration from

Northwestern University and is a certified public accountant.

Lawrence Nemirow, 31, has been named to the newly created position of director of insurance and benefits at John Morrell & Co. in Chicago. Mr. Nemirow, who reports to Lee Bishop, vp-administration, was previously an insurance specialist at Ford Motor Co., where that job has been elimina-

ted. He has a B.B.A degree and an M.B.A. in finance from the University of Detroit.

Florian J. Szmurlo, 31, has been promoted from insurance supervisor to assistant insurance manager at Ceco Corp. in Chicago. In this upgraded position, Mr. Szmurlo will report to insurance manager Phil Spotts. He has a B.A. degree from Loyola University.

Barbara Fein has been named to the newly created position of corporate risk manager at Carlsberg

Corp. in Santa Monica, Calif. Ms. Fein, who previously was risk manager at R&B Enterprises in Los Angeles before that spot was eliminated, reports to Ron Tankersley, vp of finance. She attended UCLA, has an ARM designation and is working on a CPCU.

We'd like to report on staff changes in your risk management or employe benefits department. Just drop a note to Mary Ann Maclock, Business Insurance, 708 Third Ave., N.Y., 10017 or call 212-986-5050.

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with order. Figure all cap lines (maximum two) 26 letters and spaces per line; upper and lower case 34 per line. Add two lines for box number. Replies forwarded daily. Mail ads to Barbara Tosheff, Business Insurance, Classified Advertising Dept., 740 N. Rush St., Chicago, Illinois 60611. Call (312) 649-5340 for more information. No verbal phone copy accepted.

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BROKERAGE OPPORTUNITIES SALES DIRECTOR (South)

Established Southern agency seeks commercial sales director to head existing dept. Must have existing agency sales management exp. Comfortable starting package to \$50,000. Contact Jim Gilbert in Dallas for details.
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Primary responsibilities include marketing and servicing of medium-to-jumbo international commercial accounts. Related energy insurance account exp. will draw immediate attention. Extremely attractive growth environment with excellent vertical growth potential. Negotiable compensation package in the range of mid \$40s. Contact Linda Mayer in Denver.
REINSURER BROKER

Facultative reinsurance broker seeks persons with solid knowledge of commercial casualty markets in Los Angeles, San Francisco, Seattle, New York, Chicago, and Atlanta. Excess and surplus experience is desirable. Will be additionally responsible for the development of new accounts for this proven performer. Contact Jim Gilbert in Dallas for info.

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Will supervise agency personnel and service existing accounts plus develop new accounts. Lite travel. Must have commercial sales bkgd. Starting salary to low \$20K. Contact Chicago.
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Colorado firm seeks candidate with experience in underwriting, marketing, and some servicing of commercial trucking accounts. Salary to mid \$20s. Contact Linda Mayer in Denver.
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3-5 years commercial casualty underwriting exp. required. Any energy related experience helpful. Contact Linda Mayer in Denver.

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J. F. Shea Co., Inc., a major company specializing in heavy construction and real estate development has an immediate opening for a Risk Manager at Corporate Headquarters in Walnut, California. Applicants should have at least five years experience in Construction Safety Engineering as well as experience in loss control, claims and insurance purchasing.

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Chicago based Fortune 500 company desires a manager with at least five years experience in handling Workers Compensation and liability claims for a manufacturer, an insurance company, or a claim service. In lieu thereof, at least three years experience in the Risk Management department of an industrial concern having direct responsibility for administering the casualty insurance program with heavy concentration on claim administration.

The manager of this corporate function is also required to work with brokers in negotiating and placing of needed casualty insurance coverages, analyzing risks and recommending procedures for minimizing exposure, and directing the accounting functions pertinent to the casualty insurance program.

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Major Problems as Ranked by Benefit Managers

| Problem Ranking | Communicating Benefit Programs | Medical Care Cost Containment | ERISA Compliance | Employee Wage/Salary Demands | Employee Benefit Demands |
|---------------------|--------------------------------|-------------------------------|------------------|------------------------------|--------------------------|
| Number of Responses | | | | | |
| 1 | 61 | 57 | 37 | 37 | 17 |
| 2 | 43 | 50 | 47 | 28 | 12 |
| 3 | 38 | 36 | 22 | 41 | 44 |
| 4 | 30 | 20 | 36 | 29 | 38 |
| 5 | 18 | 16 | 30 | 22 | 40 |

Source: Segal Associates

Getting word out is hard

By LORRIE GAWLA

NEW YORK—It's not easy to get the message across when it comes to employee benefits programs.

Benefit managers responding to a survey of the Fortune 1000 industrial companies ranked communicating employee benefits programs as their No. 1 problem.

Nearly 30% of the benefit managers who answered a survey by Segal Associates of New York said keeping employees informed about their benefits is their toughest task.

The second hardest problem, ranked closely behind communication by 27%, is containing medical care costs, the poll showed.

These answers indicate a shift in benefit managers' priorities, Segal Associates points out. In an earlier survey by the consultants, benefit managers overwhelmingly ranked compliance with the Employee Retirement Income Security Act as their top problem.

"As companies become more used to dealing with the complexities of ERISA (now nearly six years old), attention shifts toward more current issues of concern: economic and human resources questions now are taking the lead," the Segal report says.

However, ERISA compliance still ranks third among benefit managers' headaches.

Other top problems are employee wage and salary demands and employee demands for benefits. (See accompanying chart for breakdown of the areas of concern.)

Benefit managers also named 50 other problems not listed as choices by Segal. The top three were:

inflation's impact on benefits; government intervention and regulations, and investment services and management.

Although the Segal survey shows benefit managers have become more accustomed to ERISA, having government looking over their shoulders has made life harder for them.

A whopping 98% responded that their workload has increased since the enactment of ERISA and 87% said it has increased the areas of their responsibility.

ERISA, likewise, has increased the size of benefit staffs, according to the survey. The average benefit department has expanded 74% because of the department workload increase since 1974, when ERISA was enacted, and 56% because of increased areas of responsibility.

Forty-nine percent have added additional clerical help and 47% have increased their professional staff.

The survey showed budgets for internal staffs range from less than \$50,000 to more than \$2 million, yielding an average internal budget of about \$320,000. However, most budgets fall into a lower niche, with 52% of companies reporting budgets of \$50,000 to \$250,000.

"Budgets for external consulting and other services have an even wider range, with some respondents reporting multimillion dollar budgets," Segal reports.

Segal Associates is a division of Martin E. Segal Co. of New York, a leading consultant in employee benefit, compensation and actuarial accounts.

It mailed this survey to the benefit managers of the Fortune 1000 industrial companies. About 25% of the companies polled completed a survey.

3 suing Con Ed

Continued from page 2

and arson on the blackout, according to plaintiffs attorney Melvin Meyer of Abrams & Martin.

The complaint filed for the New York Property Underwriters Assn. or FAIR Plan—the state-shared market facility for property insurance—charges Con Ed with gross negligence by:

- Failing to have adequate generating facilities in good, safe operating conditions.
- Relying on power from outside sources coming through a narrow corridor.
- Failing to isolate cables and power sources.
- Failing to maintain reserve generating equipment that could be automatically placed in operation by remote control.
- Permitting automatic reserve generating devices to remain unattended.
- Using untrained employees.
- Failing to reduce power although it had been warned to do so.
- Failing to have devices to reactivate power cables.

New York state supreme court records show one other blackout subrogation suit pending against Con Ed, a \$1 million action filed in June 1978 by Cosmopolitan Mutual Insurance Co.

The only jury verdict against Con Ed has been appealed to the state appellate division. The case, involving a \$10,000 award by a Bronx court to Food Pageant Inc., is to be heard in the fall.

The largest undecided case is for more than \$100 million sought by the city of New York for recovery of overtime pay and other damages, Mr. Williams said.

At the time of the blackout, Con Ed's liability insurance totaled \$50 million. Associated Electric Gas & Insurance Services Ltd. wrote the first \$1 million. Lloyd's and British companies wrote \$19 million in excess insurance. A \$30 million layer excess of \$20 million was written

by Lloyd's, American Sentinel Insurance Co., Lexington Insurance Co., American Home Assurance Co. and Northeast Fire Insurance Co.

Con Ed's current insurance provides \$100 million coverage for general liability and \$60 million for service interruption liability. AEGIS writes the first \$15 million. Northbrook Excess & Surplus Lines Insurance Co., International Surplus Lines Insurance Co., Mission Insurance Co., Ideal Mutual Insurance Co., Southern American Insurance Co., Integrity Insurance Co., Union Indemnity Insurance Co. and Centaur Insurance Co. write a \$15 million layer excess of \$15 million.

A \$20 million layer excess of \$30 million is written by Northbrook, Mission, Midlands Insurance Co., Lexington, Highlands Insurance Co., Southern American and First State Insurance Co. Granite State Insurance Co., Lexington, Northbrook, Highlands and Union Indemnity share a \$10 million excess of \$50 million layer.

The \$40 million layer excess of \$60 million is written by Continental Insurance Co., INA, Lexington, Mutual Marine Office, Employers of Wausau, Pinetop Insurance Co., Highlands, Transit Casualty Co., Granite State, Mead Reinsurance Co., Excess Insurance Co. and Ideal Mutual. ■

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Losses reach \$738 million

RESIDUAL MARKET underwriting losses and insurer insolvency assessments totaled about \$738 million in 1978, adding about 1.12 points to the industry's underwriting ratio, according to a study by the Alliance of American Insurers.

The 1978 loss was about 0.6% more than the \$733.5 million loss in 1977.

Statutory underwriting losses from workers compensation residual markets totaled \$253 million in 1978, a record high, and about a 5% increase in losses over 1977.

The highest losses were in Maine, with losses of \$16.19 per \$100 of voluntary workers compensation premiums; Vermont, \$15.31; New Hampshire, \$12.06; North Carolina, \$10.23; Massachusetts, \$9.59; District of Columbia, \$9.19; Missouri, \$8.51; Rhode Island, \$7.36; South Carolina, \$6.21, and Virginia, \$6.07.

Prepaid dental

Employer's Dental Services of New Mexico Inc. has been licensed by the state insurance department to offer prepaid group dental plans—the first company to offer such plans in the state.

The plan offers 100% coverage for routine preventive dentistry, with a minimal charge for special work.

Employer's Dental Services now serves Santa Fe, but will extend coverage to include Albuquerque and other New Mexico communities later.

The company is at 5400 Phoenix N.E., Suite 107, P.O. Box 102, Al-

markets

buquerque, N.M. 87110; 602-247-0344.

Inland marine

The Reliance Insurance Cos. of Philadelphia is launching a new role as a specialty underwriter of commercial inland marine coverages.

In addition, the company will increase its risk management services to offer claims and loss, tax computation and actuarial services to corporations that self-insure or own Bermuda captives, says William A. Pollard, Reliance president and CEO.

New offices

Oliver/Picher & Associates has relocated its Glendale office to 5322 W. Northern, Glendale, Ariz. 85301.

Hull & Co. Inc. has opened a new office at 208 S. LaSalle St., Suite 1240, Chicago, Ill. 60604.

Acquisitions

The Rhulen Agency Inc. of Monticello, N.Y., has acquired Interstate Insurance Agency and Illinois Interstate Insurance Agency Inc. Interstate Insurance Agency and Illinois Insurance Agency, with offices in Los Angeles and Atlanta, specialize in writing accident and health insurance for educational institutions, camps, youth groups and sports programs. ■



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CLAIMS, ENGINEERING, loss information analysis and other risk management services are now being sold independently of insurance by Constitution State Service Co., a wholly owned subsidiary of The Travelers Insurance Cos.

The Travelers was considered one of the last major insurers holding out against unbundling services.

The Travelers is at 1 Tower Square, Hartford, Conn. 06115.

Dry valve

A dry valve, accelerator and valve trim package from The Viking Corp. brings design innovations to dry pipe sprinkler systems.

The new model E dry valve features a latching differential valve mechanism designed to increase operational efficiency and cut installation and maintenance costs. The preassembled valve trim package cuts dry valve installation time to about 30 minutes from the normal six to eight hours.

products & services

The dry valve is available in 3-, 4- and 6-inch sizes and will be marketed through Viking's national distributor network. More information is available from The Viking Corp., 210 N. Industrial Park Road, Hastings, Mich. 49058; 616-945-9501.

'Horizonplus' plans

Pacific Mutual Life Insurance Co. is marketing a series of profit sharing and pension plans under its "Horizonplus" program.

Four types of plans are available, allowing the employer a wide range of eligibility, vesting and benefit formula options.

The insurer is at 700 Newport Center Drive, P.O. Box 9000, Newport Beach, Calif. 92660; 714-640-3014.

Village self-funds for savings

Continued from page 3

The insurance company sets the reserves for claims and holds the policyholders' money under the plans.

The insurance committee also recommended the village self-insure, with stop-loss coverage, its group health program for 500 employees.

The fully insured group health plan quoted by Blue Cross at \$504,000 reflected a 15% rate hike over last year.

The plan adopted keeps Blue Cross as the administrator at 6.9% of claims paid. Skokie pays the first \$615,850 in claims. Aggregate stop-loss insurance capping annual loss at \$615,850 costs the city \$6,500.

The medical program's total cost is expected to be \$455,538, with losses estimated at \$492,680. The savings are estimated at \$48,000 compared with the insured program cost.

But employee and retiree contributions of 12% of premiums to the village subtracted \$80,100 to reach the total program cost, Mr. Ryan said.

The program has been going for four months and so far projections are right on target, he says. Even if the city is hit with an unexpected blow of big claims, the maximum cost of the health plan would be \$587,822—only \$84,000 more than the Blue Cross conventional premium plan for \$504,000.

"One of the most difficult tasks was explaining the concept of protected self-insurance to the staff, board of trustees and the public," Mr. Ryan said.

The insurance committee that recommended the self-insurance included Mr. Ryan and the city's purchasing agent, director of personnel and assistant village manager.

Trenwick puzzler: CLAIMS.



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Province changes pension act

REGINA—The government of Saskatchewan has amended the province's private pension benefits act to change vesting rules and limit employee contributions.

Plan members will be fully vested after one year of service when a member's age and years of service total 45. Previously, vesting was not required until an employee reached age 45 and had 10 years of service.

The employer also will be required to pay a member at least 50% of accumulated benefits. Previously, the worker could receive only accumulated contributions. A terminating employee also will be allowed to transfer excess accumulated contributions with interest to another plan or individual account or purchase an annuity.

The amendment increases to 50% from 25% the amount a vested employee can withdraw from a deferred pension plan.

A married employee's spouse also will have to be automatically provided with joint benefits at the employee's retirement.

Rebuilding program

MANAGUA—The Nicaraguan Institute of Insurance is financing a massive national rebuilding program for towns and cities damaged during the 1978 revolution here that overthrew the Anastasio Somoza government.

The program will be funded by allocating two-thirds of the \$25 million in insurance premiums to be collected by the insurance institute for 1980, reports La Prensa, a Managua newspaper.

An estimated \$50 million in property losses occurred during the September 1978 overthrow of the Somoza regime by the left-wing Sandinista faction.

AFIA, AIG and INA along with several foreign insurers and reinsurers reportedly suffered losses.

The government has since nationalized the insurance industry. In its 1979 report to stockholders, AIG says it is seeking compensation from the Nicaraguans for the seizure of its insurance interests there.

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Atlanta transit unit passes up savings

Continued from page 1
 tinues a long-standing arrangement with a consortium of brokers headed by Fred S. James & Co.

As MARTA was deciding with whom to place its insurance, it also was doubling its fare to 50 cents. The fare hike, needed to take some of the funding burden off area taxpayers, is now being fought in court by the city council.

MARTA is paying about \$770,000 to insure its rail and bus operations for liability and workers compensation to \$50 million over a \$500,000 self-insured retention. The premium is a little less than 1% of the authority's \$90 million operating budget for 1980, MARTA confirmed. That 1980 premium is a 20% savings over the \$990,000 paid last year, but still more than the approximately \$640,000 Marsh & McLennan quoted for the coverage, industry sources told BI.

M&M, if it had won the program, would have also charged a \$50,000 fee. It suggested that the fee be paid out of an estimated \$100,000-\$150,000 fee MARTA pays its brokers for the casualty and wrap-up program.

Marsh & McLennan refused to

comment on coverage and prices, but confirmed that its lower bid was rejected.

The M&M bid was solicited June 2 and submitted June 10, a period that Mr. Sharrow said did not give his office or the MARTA board of directors long enough to thoroughly study it.

"There really wasn't time to properly evaluate it," Mr. Sharrow said. "When you get a proposal to completely change your entire program, you need time to sit down and carefully go over it all. That problem is compounded by the fact that we have a board of directors that must approve this and you need enough time so that they can also take a close look at it at one of their meetings."

The MARTA board received the "paperwork" on the M&M bid, but Mr. Sharrow said the insurance department did not feel it had done enough evaluation to formally present the bid to the board nor recommend the lower price.

Mr. Sharrow said he was not certain why the M&M bid was only solicited in June. The negotiations were then being handled by insurance manager James Scott, since

hospitalized for an illness. Mr. Sharrow said he understood the APTIST program only recently was open to rail and bus systems.

Nicholas Munson, senior vp for the M&M Atlanta office, confirmed that MARTA did not ask for bids from the broker until June. But the change in APTIST to include rail systems could not have been the main reason, he said.

"That was changed since the program was first started, but it was changed late last year," he said. "If someone said it was just done recently and by that they mean in the last couple of months, I think that would be a bit of a poetic license."

The arrangement with James, which goes back to 1972, also played a factor in the rejection of the M&M bid, Mr. Sharrow of MARTA said.

"You have to ask yourself, do you leave your brokers, whom you have been with for a long time and gotten good service from, just because someone else is offering you a cheaper price?" Mr. Sharrow said.

MARTA isn't totally rejecting the APTIST program, however, Mr. Sharrow contended. He said

that the authority had already told M&M it was interested in receiving another bid when the coverage comes up for renewal next year and that he expected there would be plenty of time to evaluate it with the present arrangement.

APTIST is an industrywide program for public transit authorities that provides lower-priced coverage than most have been able to find in the past (BI, Aug. 6, 1979). It is underwritten by the Transit Casualty Co. of Los Angeles.

In a letter to M&M explaining that its bid was turned down, MARTA did request that a new offer be submitted next year, Mr. Munson confirmed.

If MARTA had taken the M&M program, besides saving \$130,000 in premium it might have saved an additional \$110,000 through cash-flow advantages and a guaranteed rate not tied to fare increases, *Business Insurance* learned.

The coverage also would have been written by an admitted insurer—Transit Casualty—a factor pointed out by industry sources questioning the MARTA decision.

The coverage through James is spread among at least 10 different

companies, with Lloyd's of London taking a large chunk of it, Mr. Sharrow said. Lloyd's is not an admitted insurer in the state of Georgia and insurance laws there strongly recommend the use of admitted insurers.

"An insurance buyer has a right to buy where they please, but we don't encourage them to use non-admitted insurers," a spokesman for the state insurance department said.

Georgia law governing public agencies requires only that they take the "lowest and best" bid. ■



The chairs on the convention floor and the Republican candidate himself are not all that won't be left to chance this week. Insurance will cover the GOP possible losses.

GOP takes no chances

Continued from page 1
 and a camera falls off his arm and a conventioneer gets hit on the head."

But if the cameraman is one of 8,000 national or international journalists attending the convention, he will be insured by his own network or publication also, Mr. Anderson says.

The Republican National Committee also had to buy personal property insurance for the glass-encased "sky suite" at the insistence of the city of Detroit, which owns the arena, Mr. Riddle says.

The \$200,000 of coverage insuring the furniture and fixtures in the suite—which holds VIPs and news broadcasters—is an endorsement to a business package for the Republican National Committee, which was placed by Mr. Riddle. "I placed that with The Travelers Insurance Co.," he said.

Republicans have to insure their own furniture also, says Robert L. Cavaliere, general counsel for the Olympia Stadium Corp., the lessors and operators of the Joe Louis Arena.

"If Republicans are bringing in their own furniture, of which they have lots, then they have to insure their own property," he said.

The arena operators also could

be responsible for accidents while the convention is in progress. Olympia Stadium Corp., which leases the arena from the city, self-insures the first \$500,000 of general liability and workers compensation risks and buys \$5 million of excess general liability insurance from First State Insurance Co. Another \$10 million of coverage is purchased from Northbrook Excess & Surplus Lines Insurance Co., Mr. Cavaliere says.

Republicans and media personnel are also flowing over into Cobo Hall next door, owned and operated by the city. Meeting and press rooms are set up in Cobo Hall for the four-day convention. While the media are responsible for their own equipment, the city insures the hall against liability suits.

The first \$500,000 is self-insured, says a spokesman for the city. The second \$500,000 is placed with Canadian Universal Insurance Co. Ltd. and \$25 million of excess insurance is written by Northbrook.

Olympia Stadium Corp. was also insured against losing the convention. A \$3 million business interruption policy is written by The Continental Insurance Co.

The city employe strikes here seemed threatening. "But

AFSCME (the Detroit union on strike) does not have jurisdiction in the arena because we are privately leased," said Mr. Cavaliere. ■

Fire razes businesses

Continued from page 2

North America has already received a small claim from one of its clients there, a spokesman said.

The businesses shut down by the fire could not be reached for comment.

No serious injuries were reported as a result of the blaze. However, abnormally high levels of hydrogen chloride rising from the complex's rubble forced the evacuation of 200 area residents and 2,000 industrial workers for one day.

Companies whose operations were destroyed in the New Jersey disaster are: Duane Marine Chemical Co.; Esco Plastics Co.; Khem Trol Manufacturing Co.; Chatham Lead Burning Co.; C&L Knitwear; Tri-State Tanker Repair; Phase II Inc.; Perth Amboy Warehousing; C&C Lift Trucking; Gregory Metal Fabricators; Cooper-Jarrett; John BenKart & Sons; W. R. Sage Inc.; Jetco Inc.; Calcutta Warehouse; American Industrial Supply; RM Distributors; White Marine Inc.; Lifestyle Lampshades; WRF Trims Inc.; Bally Litho Co., and A. J. Graul & Sons. ■

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