

business insurance

update:

Lloyd's continues to pay baseball strike losses

PHILADELPHIA—Lloyd's of London continues to pay its share of losses under the major league baseball club owners' strike insurance policy, despite opposition from the Major League Umpires Assn.

Lloyd's has paid more than \$3.8 million so far, its share of the first \$7 million in losses insured by the first layer of insurance. *Continued on next page*

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$30 a year

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REHABILITATION

Debate centers on right route

By RHONDA L. RUNDLE

LOS ANGELES—An Ohio policeman shot on duty and paralyzed from the waist down now administers lie detector tests in his old division.

A 55-year-old stock manager at The May Co. department store in Los Angeles is back at work as a records clerk after straining his back lifting heavy loads in the china section.

A lumberjack who injured his back working for the Weyerhaeuser Co. in Washington state now has a new employer and a sitdown bench job as a gunsmith.

Rehabilitation of permanently injured workers requires not only medical care but also restoration of their ability to earn a living. Returning workers to jobs after a disabling injury is fast gaining acceptance as part of an employer's moral, if not legal, responsibility.

Many states have enacted workers compensation laws mandating vocational rehabilitation for injured workers who cannot resume their former jobs. Government enforcement is lax in many states, however, and laws on the books are not a reliable guide to actual delivery of benefits.

Employers and insurance companies identify California, Michigan, Georgia, Oregon, Washington and Florida as states with active programs. Minnesota and Ohio are aggressively implementing recent laws. *Continued on page 25*



Photo: Rhonda L. Rundle

Dominic D'Arcy displays the halo brace that allowed him to leave the hospital just 12 days after breaking his neck.

Broken neck can't stop him

LOS ANGELES—Twelve days after entering the intensive care unit of a Los Angeles hospital with a broken neck, Dominic D'Arcy was sent home.

Within a week after his release from the hospital last February, Mr. D'Arcy, vp for new business development at the benefits consulting firm of William E. Mercer, was back at work—albeit on a very part-time, unconventional basis.

Screwed into a steel brace that held his neck immobile, propped up in a rented hospital bed and aided by a speaker phone installed in his home, Mr. D'Arcy kept in close touch with clients and colleagues.

He credits medical technology, his doctor, his employer and his co-workers for an unusual convalescence that speeded his physical and psychological recovery from a life-threatening injury and a long recuperation.

Still wearing a soft neck collar and enduring some degree of pain, Mr. D'Arcy says he hopes to resume office work part-time later this month.

Being on the sick end of a work-related injury was an eye-opener that "every consultant should experience once in their career," quips *Continued on page 25*

Employers pushing pre-hospital screening

By STEPHEN TARNOFF

Beginning this month, 14 of Minnesota's largest corporations will embark on a hospital pre-admission screening plan for employees and their families.

Designed to help bring down the costs of health care, the plan may make it more difficult for employees to get into a hospital if proper care can be acquired as an outpatient.

Among the groups that have endorsed the plan is the Minnesota Coalition on Health Care Costs, which helped create it and sell it to physicians and industry, says Dr. Richard J. Frey, a Minneapolis physician who heads the coalition.

A medical review organization, the Foundation for Health Care Evaluation, will screen the admissions of the 45,000 employees of the corporations and their families.

The screening process will have two aspects, Dr. Frey says. First will be a pre-admission screening where the examining physician *Continued on page 23*

Court OKs strikes to force firms to join pension plans

By JERRY GEISEL

WASHINGTON—Unions can go on strike to force employers to join multiemployer pension plans, the Supreme Court ruled last week.

This was one of four rulings by the high court the end of last month that directly affect benefit and risk managers.

In another pension case, the court said the wife of a serviceman does not have a right to share in her ex-husband's pension after a divorce.

In other actions, the high court said municipalities are immune from being slapped with punitive damage awards for federal civil rights violations. It also let stand strict federal controls on worker exposure to lead.

The flurry of activity comes as the court is completing its 1980-81 term. However, the court still must rule on challenges by corporations to the U.S.-Iranian hos-

tage agreement. The companies say former President Carter violated the Constitution when he suspended all suits by U.S. claimants against Iranian assets.

The multiemployer pension case involved a dispute between Amax Coal Co. and the United Mine Workers of America.

Amax refused to contribute to the massive UMW multiemployer pension plan for the employees of a new mine it opened in Belle Ayre, Wyo.

When the contract expired, the union demanded that Amax join the UMW multiemployer pension plan. When Amax declined, the union struck.

Amax contended that since the multiemployer plan already had been established, it never had the opportunity to participate in the selection of the plan trustee.

Amax said the trustee was a collective bargaining agent, and under federal law a union cannot force a company to accept a particular representative. *Continued on page 26*

update:

Baseball claims mount

Continued from previous page

ance. A little more than \$2 million of the Lloyd's share was sent early last week when a restraining order sought by the umpires was overruled, according to British brokerage Blackwall Green.

The original restraining order, granted June 24 by the Common Pleas Court in Philadelphia, was struck down by U.S. District Judge Donald Van Arsdale who ruled favorably on a motion filed by Lloyd's attorneys and placed the matter under federal jurisdiction.

The umpires association is appealing the move to the U.S. 3rd Circuit Court of Appeals, but the baseball players' association denies plans to take any legal action against the insurance.

Lloyd's has the majority of the first \$10 million of the owners' insurance, which it shares with Southern American Insurance Co. and the Heritage Insurance Co. The British insurance market heavily reinsures the next two layers of \$20 million each shared by Allianz and Southern American.

Dead horses are insured

CRETE, Ill.—The 33 thoroughbreds that died in a fire June 30 at Balmoral race track near Chicago are insured for up to \$25,000 each with Utica Mutual Insurance Co. and American Home Assurance Co. under a special policy purchased by the Horsemen's Benevolent Protective Assn.

The policy, purchased for race tracks around the nation, also covers damage to saddles, bridles and equipment, said Leilani Reynolds, secretary/treasurer for the HBPA's Chicago division.

Additional insurance for horses valued at more than \$25,000 is the responsibility of the individual owners, she said. The past race performance of each horse is used to determine values.

Property insurance for the track is handled through Frank B. Hall of Youngstown, Ohio, Balmoral officials said.

U.S. not liable for poison feed

BILLINGS, Mont.—The federal government is not liable for damages arising out of a 1979 chemical spill that poisoned animal feed and contaminated livestock, a federal judge has ruled.

Pierce Packing Co. and Farmers Union Grain Terminal Assn. had charged that various government agencies failed to quickly detect the contamination (BI, April 27).

Still to be decided in U.S. District Court in Billings are other product liability issues and allocation of insufficient product liability insurance among hundreds of claimants.

Malpractice rate request cut

NEW YORK—The Medical Malpractice Liability Insurance Co. has reduced a rate increase request to 52.2% from 71.7%, citing a new collateral bill signed June 23 by Gov. Hugh Carey (BI, May 11).

The bill allows state judges to reduce malpractice awards after a trial by the amount of any collateral source, such as other insurance, but excludes life insurance from the definition of collateral sources.

Medical society found guilty

WASHINGTON—The Michigan State Medical Society conspired with some of its members to fix fees and regulate reimbursement policies of Blue Cross/Blue Shield of Michigan, a Federal Trade Commission judge ruled last week.

Judge Thomas Howder's decision upheld contentions by Federal Trade Commission lawyers in a 1979 complaint that the medical society violated federal law by restraining competition among physicians.

Among the charges upheld were that the medical society, which has about 8,700 members, tampered with physicians' fees, engaged in "concerted action" to regulate cost-containment and reimbursement policies of third-party payers and engaged in illegal "concerted activities" concerning these policies.

The ruling will be reviewed by the full Federal Trade Commission.

Social Security benefits rise

WASHINGTON—Social Security benefits jumped an average of 11.2% last week for the program's 36 million beneficiaries.

The increase, which will cost the government \$15.4 billion, is based on the rise in the cost of living in the first quarter of this year over the cost of living in the same period in 1980.

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Comings&goings: industry	16	weekly at 740 Rush St., Chicago,	
Datebook	10	Ill. 60611. Second-class postage is	
Editorial opinions	6	paid at Chicago, Ill., and at additional	
Info	23	mailing offices. Postmaster:	
Insurance services guide	26	Send address changes to Business	
Letters	6	Insurance, circulation department,	
London line	10	740 Rush St., Chicago, Ill.,	
Markets	11	60611. Copyright 1981 by Crain	
Perspectives	17	Communications Inc.	

Pennsylvania Senate weakens tort reform bill

By STEPHEN TARNOFF

HARRISBURG, Pa.—The Pennsylvania Senate last week pared down the protection offered manufacturers in a pending product liability reform bill.

But the legislation that would place a number of restrictions on product liability suits, giving businesses a better defense, is not expected to make it to the House for action until next fall.

If the bill passes, it could reduce the impact of what one proponent calls Pennsylvania's "very liberal courts."

The legislation is aimed primarily at strict liability suits, where responsibility for a plaintiff's injury is placed on the manufacturers and sellers of dangerous products.

Pennsylvania businessmen are seeking to spread the responsibility around, relieving themselves of some of the burden.

The original bill proposed a 12-year "statute of repose" on product liability suits, barring a claimant from bringing a suit on strict liability grounds more than 12 years after the product was sold by the manufacturer.

But last week, the Senate amended the bill to extend the statute of repose to 30 years on non-consumer goods (a product used, but not purchased, by consum-

ers, such as a piece of machinery in a workplace) and 12 years for consumer goods. This increases the manufacturer's liability over what was sought in the original bill, but improves it over the present law, which does not set a time limit on suits based on the age of the product.

However, under the new legislation suits could still be filed charging negligence by the manufacturer, fraudulent misrepresentation or latent defects in the product, regardless of lapse of time.

Under the bill, the product would have to be "unreasonably dangerous" for strict liability to apply," said Fred Giles, legal counsel to the Pennsylvania Senate Judiciary Committee, which cleared the bill 8-1. Last week, it was still being debated on the Senate floor but was expected to be approved and passed to the House.

The legislation also would eliminate strict liability in suits against retailers and wholesalers although it would permit such suits in negligence and breach of warranty cases.

The bill also would prohibit courts from instructing juries that under strict liability a manufacturer is a guarantor of safety of the product and would establish comparative responsibility in strict liability actions.

"The current law is so out of shape, so badly outdated" that consumers are being hurt, said Tim Holt,

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California considers limiting injured workers' right to sue

By EILEEN NORRIS

SACRAMENTO, Calif.—Legislation that would reaffirm the workers compensation system as the exclusive remedy for workplace injuries has been approved by the state Senate and is moving into an Assembly committee.

Senate Bill 995, introduced by Sen. Dan Boatwright, D-Concord, and backed by the Assn. of California Insurance Companies, would reverse recent court rulings that have allowed employees to sue their employers—and collect.

The "dual capacity" doctrine handed down by California's Supreme Court allowed workers receiving compensation for injuries to bring civil action against employers in cases where the employee was hurt by products that the company also sold to the public.

Under state law, employees give up their right to sue their employer in return for workers compensation benefits. But claimants in California have successfully argued in court that they have a civil case against an employer who stands in a dual capacity to them—as both employer and manufacturer or seller of a product or service that caused their injury.

The legislation, which was approved by the Senate June 18 by a

22-11 vote, would make workers compensation the exclusive remedy for job injuries, except in cases when the employer was found to have known about dangerous work conditions, said Barry Brokaw, chief assistant for Sen. Boatwright.

The bill also would preclude other attempts to use the dual capacity doctrine to collect civil damages, said Mr. Brokaw.

Besides reversing third-party product liability actions, the pro-

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BI names N.Y. bureau chief

Lisa Bergson is the new bureau chief at *Business Insurance's* New York office at 220 E. 42nd St., Editor Kathryn J. McIntyre announced.

Ms. Bergson, 31, comes to *BI* from *World Business Weekly*, which is published by the *Financial Times* of London. At *World Business Weekly*, she covered international business, economics and finance from a U.S. perspective for a year.

Before joining *World Business Weekly*, Ms. Bergson was a staff editor for a year at *Business Week*, where she wrote articles for the *Corporate Strategies* section of the weekly magazine.

Ms. Bergson joined *Business Week* in May 1979 after completing the Walter Bagehot Fellowship Program at Columbia University's Graduate School of Journalism in New York. She was also a reporter at WRFM, a New York radio station, writing and producing documentaries and news features.

A doctoral candidate in political science with a concentration in political economics at Columbia, Ms. Bergson has a master's degree from New York University's Graduate School of Journalism and a bachelor's degree from Goddard College in Plainfield, Vt.

At *Business Insurance*, Ms. Bergson will head the three-member New York staff and coordinate coverage of the insurance industry for the *BI* Ticker page. She can be contacted at 212-210-0139.

Bergson

Asbestos suit settled for \$1.4 million

By STEPHEN TARNOFF

In what may be the largest settlement involving an asbestos-related death, the family of a St. Louis man has agreed to an out-of-court settlement of \$1.4 million.

The victim, Richard Bond, died of asbestosis and a rare form of lung cancer in 1979. His family agreed to the settlement with the four defendant companies after filing suit in federal court for \$10 million in damages.

Named as defendants in the suit were Turner-Newall Ltd. and one of its subsidiaries, J.R. Roberts Ltd., both of London; A C & S, a contracting and supply company; and Armstrong Cork Inc. of Penn-

sylvania, the United States distributor of an asbestos-based fire- and sound-proofing spray.

According to James E. Hullverson, attorney for the family, the settlement was more than double any other asbestos-related settlement. "There's never been a settlement higher than that," he said.

Mr. Bond, a St. Louis high school teacher, died in 1979, about 17 years after being exposed to a product called Limpet, an asbestos-based fire- and sound-proofing spray.

He reportedly was exposed to the spray, which is 75% asbestos, while doing summer work for his father spraying buildings, Mr. Hullverson said.

Mr. Bond was 32 years old when he died. Symptoms of the diseases did not appear until 1978 when he developed cramps while jogging.

Mr. Hullverson said that the manufacturer, Turner-Newall Ltd., knew that asbestos was hazardous to health but had included no warnings on the product nor sought to warn users through the media. "They did nothing to advise or warn that this type of asbestos was dangerous," he said.

Mr. Hullverson added that the 16-year span between the time Mr. Bond was exposed and the appearance of symptoms did not hinder establishing a causal connection between the asbestos and Mr.

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Rhode Island groups focus on work comp

By EILEEN NORRIS

PROVIDENCE, R.I.—Employer and consumer groups here have their hands full.

Not only are they trying to assist lawmakers in rewriting the state's workers compensation statutes for passage next year, but state workers compensation insurers also are asking for a 60% rate increase.

It won't be easy, but the Rhode Island Committee for Progress, along with other groups, plans to give both issues a lot of attention and energy.

When RICOMP was formed as an offshoot of the Rhode Island Chamber of Commerce in January, its main goal was to come up with some solid workers compensation reform for state legislators to vote on before next January, President Lane Newquist said.

The last reform of the state's compensation system was in 1957, he said.

The group is looking at the administration of the present system, benefits philosophy and rehabilitation offered.

It says the current system encourages injured workers to remain off the job, instead of stressing rehabilitation to get the injured worker back to work.

And employers are leaving the state, with most citing excessive workers compensation costs as the reason.

To make things more intense for the group, the National Council on Compensation Insurance filed a request for a 59.6% rate increase.

The proposed increase would boost employers' workers compensation insurance premiums to about \$108 million annually, based on the \$67 million in premium paid by employers in 1979.

The ratemaking group had determined several months ago that a 33.2% increase was actually needed for underwriters to realize a profit, but later decided to request just short of 60%, said NCCI actuary Steve Lattanzio.

If experience is any indication of what is to come, the increase might not be that hefty. The NCCI estimated for 1978 that it needed an increase of just more than 60%, asked for a rate increase of 30% and was awarded a 13% increase by the state's insurance commissioner.

But Mr. Lattanzio said those figures help to explain why the NCCI is asking the commissioner for a

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Hospital predicts captive profits

By KATHRYN J. McINTYRE

MEMPHIS, Tenn.—Methodist Hospitals of Memphis expects its new insurance company ventures will be writing \$10 million in liability insurance premiums for hospitals five years from now—profitably.

A projected \$1 million in net profits by then will be used by the hospital to "enhance patient care and programs," says Buddy Nichols, who was promoted from his risk management position at the hospitals to president of its two new insurance companies.

The not-for-profit institution formed a Tennessee captive insurance company to fund its self-insured retentions for hospital professional liability and comprehensive general liability. The captive, which will begin operations as soon as its rates and forms are approved, also will reinsure what otherwise would be deductibles under other lines of insurance, including property.

The captive, United States Security Insurance Co., also will form a subsidiary stock commercial insurance company in Tennessee to underwrite hospital professional liability and comprehensive general liability insurance for hospitals managed by Methodist Hospitals and other non-related hospitals.

It's the first captive of a not-for-profit institution licensed in the United States to form a for-profit subsidiary to get into the insurance business.

United States Security Fire & Casualty Co., which will be licensed soon, will be a tax-paying company. It will pay dividends on its profits to the captive, which in turn will pay the profits to Methodist Hospitals.

The separate tax-paying stock company was needed to preserve the hospital's not-for-profit status.

Methodist Hospitals, owned by three Meth-



Photo: Methodist Hospitals of Memphis

Methodist Hospitals hopes the new captive is the cure for insurance worries.

odist Church conferences, saved \$3.5 million over the last four years with a self-funded program emphasizing loss control, Mr. Nichols said. It wanted to offer similar savings to hospitals it manages, he said.

"We feel we are qualified to do this after

our years of experience," he noted.

Among the managed hospitals under Methodist Hospitals' wings may soon be the City of Memphis Hospital with more than 600 beds, which would increase the number of beds to

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Doctors use captives to fight large rate hikes

By MARGARET LeROUX

Faced with sizable rate hikes for malpractice insurance, doctors in the states of Washington and Georgia are turning from commercial insurers to captives.

In Seattle, the Washington Physicians Insurance Exchange expects to begin underwriting Jan. 1, and M.A.G. Mutual Insurance Co. in Georgia will be ready in February or March, said L.B. Storey, financial director for the Medical Assn. of Georgia.

The Washington captive is raising the \$2.4 million in capital required by state insurance regulation through a subordinated loan from People's National Bank of Washington. Physicians who participate in the reciprocal will sign limited guarantees for the loan, averaging \$4,000 each. The group is hoping at least 750 members will sign up.

In Atlanta, capitalization for the new malpractice captive is just getting underway, Mr. Storey said. State insurance regulations require a minimum of \$3 million in capital be-

fore the captive can do business.

The consultant for the Washington captive, which has been under study four years, is Warren, McVeigh and Griffin.

"We're making our application for a permit to solicit participation in the reciprocal, and we're searching for an experienced insurance executive to head the managing company for the captive," said Lee VanSykes, a Warren, McVeigh actuary.

McNeary Insurance Consultants of Charlotte, N.C., is advising the Georgia doctors on the establishment of their captive. Its goals are to underwrite at least a third of the 6,200 doctors now insured with St. Paul Fire & Marine Insurance Co., which has been the association-sponsored underwriter.

Both the Georgia and Washington medical associations have long-term relationships with their sponsored underwriters. St. Paul Fire & Marine has underwritten the Georgia physicians since 1955 and Aetna Life & Casualty Co. has underwritten Washington physicians for

more than 10 years.

St. Paul is increasing its rates for the claims-made malpractice policy it underwrites in Georgia by 21% as of July 1. Rates on the Aetna malpractice coverage in Washington, written on an occurrence basis, were increased 30% in January.

Spokesmen for both captives said their malpractice rates would be competitive with what is being charged by the commercial underwriters. "The big difference is return on the interest earned by reserves," Mr. Storey said.

"If the doctors had been able to see some return on the interest St. Paul has been earning on reserves for the associations premium, I don't think the captive would have been as popular as it has become," Mr. Storey said.

At the Washington State Medical Assn., a spokesman said, "Physicians here have concluded they could do a better job of controlling losses. Increases in professional liability insurance premium have been the root of the movement toward a captive," he added.

Legislators defeat wage-loss proposals

By STEVE SHERWOOD

DOVER, Del.—Although it is raising benefits and lowering premiums in Florida, the wage-loss concept for workers compensation is not getting off the ground in other states.

Workers compensation bills with wage-loss provisions in Delaware, Louisiana, Oregon, Maine and Washington were amended, delayed or defeated this year in these state legislatures.

However, in Louisiana and Washington, legislators did not vote directly against wage-loss, but rather killed total work comp bills that contained the wage-loss provision because they disagreed on other provisions in the proposed legislation.

Last week, only Delaware's bill still stood a chance of becoming law. However, the wage-loss proposal never came to a final vote and died in the Legislature.

But most of the bills' proponents plan to try again next year.

Under the wage-loss concept, an injured worker does not receive permanent partial disability benefits, except for extreme impairments. Instead, benefits are paid only for proven lost wages after an accident.

For example, if an injury forces a worker to return to a lower-paying job instead of his original job, he would be com-

pensated for the difference in salary.

Under the Florida plan, which has been used as a model by some states considering a wage-loss system, an injured worker would receive temporary total disability benefits (wages while not working) and full medical benefits.

But to qualify for further benefits, he would have to have a permanent impairment that results in loss of at least 15% of his pre-injury wages. This program, combined with other reforms, has brought a 28% reduction in Florida's workers compensation insurance rates (BI, June 22).

Delaware's wage-loss bill, which is designed after the Florida law, originated with the state's Chamber of Commerce.

"We feel we have the votes in the Senate for it, but may have a problem getting it out of committee and worked on before the June 30 deadline," said Chamber President Bill Wyer. "The bill has passed the House and is alive until next year, so if it doesn't pass the Senate, we'll bring it up again."

Unlike Florida's wage-loss law, which was aimed both at increasing workers' benefits and lowering businesses' insurance premiums, the Delaware bill's first target is raising the state's weekly wage benefit.

Under the bill, the maximum benefit an injured worker could receive would be raised to 125% of the average weekly wage from 66.6%. This would nearly double the benefit to \$328 a week from \$175, and it would be paid as long as the employee was out of work.

As in Florida, such an increase would be made possible by reducing funds now going to permanent partial disability claims and attorneys' fees.

"It's a trade-off, taking money from those who are going back to work immediately and giving it to those who can't," one source says. "There is still a scheduled lump-sum benefit if an employee suffers amputation, loss of an eye or serious disfigurement."

Figures from the Compensation Rating Bureau of Delaware show that 7.2% of total claims are in the permanent partial category, but they account for about 23% of total compensation dollars. Much of this goes out in lump-sum payments.

The proposed bill would reduce the lump-sum amounts, says Steve McGill, director of the compensation rating bureau. "At this time a worker who loses an arm is entitled to \$48,900. Should the bill pass, the benefit for a lost arm would equal 110 times the average weekly wage (presently \$293) or \$32,230."

Also, benefits now can be collected for permanent partial injuries resulting in a 20% to 30% disability, he says. The loss threshold, under the proposed bill, would be raised to 80%.

"Wage-loss would definitely decrease the total costs of workers compensation," Mr. McGill says. "Costs to employers wouldn't go down because of the increased benefits, which

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PBGC to loan miners' fund \$311,000

The Pension Benefit Guaranty Corp. will loan \$311,310 to the hard-coal industry's multiemployer pension plan to pay the July pensions of more than 10,000 retired anthracite coal miners in the Northeast.

The Anthracite Health and Welfare Fund ran into financial trouble in the spring when employer contributions to the fund temporarily stopped because of a strike.

The fund then notified the PBGC in mid-May that it might be unable to pay retirees their July pensions without financial assistance from the PBGC, the federal agency that guarantees workers' vested pension benefits.

Under the terms of the Multiemployer Pension Plan Amendments Act of 1980, the PBGC can provide aid to multiemployer plans that

benefit beat

cannot provide promised benefits. The agreement calls for repayment of the loan by August 1983.

Death benefits

Pennsylvania legislators are considering a bill that will extend the same death benefits to rescue and ambulance teams that are now enjoyed by police and firefighters.

Replacing a 1976 bill that covered only police and firefighters, H.B. 395 extends a \$25,000 death benefit to all emergency employees, including volunteers, who are killed in the line of duty.

In 1980, 37 Pennsylvania police officers, firefighters and rescue

workers were killed on the job.

Dental coverage

Some 1,800 government employees in Minnesota are covered under new dental plans that provide for diagnostic/preventive, restorative and prosthetic services.

Under coverage provided by the Delta Dental Plan of Minnesota, 1,018 employees of the Osseo School District 279 in Osseo receive 80% co-payment of diagnostic/preventive and restorative services. Prosthetic services are also covered at an 80% co-payment level except for replacement procedures, which are covered at 50%. Orthodontic

benefits are provided at a 50% co-payment level.

The school district's contract stipulates a \$1,000 individual annual maximum, with orthodontics having a \$750 lifetime maximum for dependents 3 to 25 years old. There also is a \$25 individual deductible with a maximum deductible of \$75 per family.

In Duluth, 718 city employees now receive 100% coverage of diagnostic/preventive services. Restorative services will be provided at an 80% co-payment level, and prosthetic services at 50%. Employees also have a \$750 individual annual maximum with no deductible.

Pension increases

Congress has agreed to reduce to once a year the current biannual

cost-of-living pension increases now given to retired federal and military personnel.

The cutback, which is part of the Reagan administration's package to slash government spending by \$35.6 billion, could save more than \$1 billion annually.

Since the mid-1960s, both military and Civil Service programs have automatically boosted benefits in March and September to compensate for any increase in the Consumer Price Index.

Maternity benefit

New mothers in Massachusetts are now paid by insurers to leave hospitals earlier in an attempt to cut obstetrical costs.

Designed to reduce the length of costly hospital stays, Blue Cross/Blue Shield of Massachusetts is offering financial incentives of \$100 to women who return home from the Melrose-Wakefield Hospital earlier than average.

The incentive plan applies to policyholders having normal, uncomplicated deliveries and is combined with the hospital's maternity day-care program that provides home care for five days following delivery.

It is estimated that the average cost of a single day in the hospital is \$300, while home care costs about \$70.

BC/BS increases

Because of soaring health costs and growing deficits, some cities in Virginia are facing Blue Cross/Blue Shield rate hikes as high as 72%.

The premium increases are the combined result of escalating medical costs that increased 20% this year and the practice of many municipalities to allow deficits to accumulate, says Suzanne Munson, public information director for Virginia's Blue Cross/Blue Shield.

Since smaller cities are limited in their ability to control rising health costs, they are cutting benefits and increasing deductibles in an effort to soften the rate hikes.

But medical costs are not the sole reason for the increases, she says.

Because of the necessity of setting a fixed annual budget, cities often choose modified cost-plus health insurance—a system of self-insurance in which cities pay administrative costs plus the claims paid by Blue Cross/Blue Shield.

This allows them to carry a deficit over to the following year, rather than paying fully for the current year either on a quarterly or an annual basis.

"We didn't raise our premiums as much as Blue Cross had recommended," says Lee Hollett, benefits manager for Portsmouth, which was saddled with a 72% rate hike. "It came home to us this year that we had a \$300,000 deficit. In a sense, we got hit with a double whammy: the deficit plus projected inflation of 20% for this year."

The city of Newport News was socked by a 69% rate hike. "If we had paid more attention to the indicators, we could have taken less of an increase," said Len La Cagnin, risk manager for Newport News. "But we didn't know it was going to blow up like it did."

Though Newport News has not yet cut benefits, other cities are trimming benefits to soften the blow of the rate hikes. The city of Chesapeake increased its deductible for hospitalization and limited its coverage for psychiatric care.

Made any benefit changes? Write John W. Milligan, Associate Editor, Business Insurance, 220 East 42nd St., New York, N.Y. 10017; 212-210-0141.



Cause: IMPROPER CUTTING & WELDING



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editorial opinions

Maybe next year?

PERHAPS THE \$1.1 billion workers compensation premium refund ordered in Illinois late last month will someday accomplish what reasoned arguments against price-fixing have not: Legislative action in Illinois to abolish prior approval of uniform rates for workers compensation insurance.

As Associate Editor Eileen Norris reported last week, Circuit Court Judge James C. Murray ruled on a lawsuit brought by employers that claimed insurers had not presented enough evidence to prove they needed a 24% rate hike granted in 1979.

How can lawmakers in Illinois continue to ignore the obvious conclusion to be drawn from Judge Murray's ruling?

That conclusion, of course, is that insurers didn't need the 24% rate hike and have been overcharging Illinois employers to the tune of an estimated \$1.1 billion by the end of 1981.

With that kind of abuse of the consumer, why did the Illinois Legislature, which ad-

joined its regular session last week, fail to pass a pending bill to eliminate prior approval of uniform rate requests by workers compensation insurers?

The prospect of refunding \$1.1 billion also should wake up insurers to their own self-interest in competing on rates for workers compensation insurance business. The system of rate approval that has protected their profits can just as easily be used to take them away, this ruling proves.

Insurers should realize that they are better off as guardians of their own individual rate and profit destiny.

Workers compensation insurers in Illinois and other states should compete in the marketplace, basing their rates not on the industry's overall loss and expense experience but their own fortunes and efficiency.

Perhaps when the Illinois Legislature reconvenes next year, they will keep all of this in mind.

An honorable solution

AFTER CRITICIZING insurers for their folly in defending uniform rates for workers compensation insurance, we must compliment some insurers for beginning to move on paying claims to policyholders caught up in coverage debates involving asbestos damages.

We would have preferred to see the industry reach a consensus on coverage with buyers instead of forcing everyone into court. But given the litigation over the question of what policies apply in cases of long latent injuries, insurers are acting honorably in at least establishing claims payment under one set of standards to be amended if the court changes the rules.

As West Coast Editor Rhonda L. Rundle reported last week, insurers are beginning to pay asbestos damage claims under the exposure theory. They are taking their cue from two U.S. Circuit Court rulings that the insurance policies in effect when a plaintiff was exposed to the asbestos are the only source of insurance funds for the companies that made the asbestos.

But the insurers who favor the manifestation theory—that the policies in effect when the injuries showed themselves should pay—are reserving their rights to pay under their preferred theory if it should win in court.

The coverage question here is one of the most important to confront the insurance business and risk managers in a long time. It not only needs to be resolved for past injuries and their resulting claims but also for current policies that may be subject to the same problem years hence when the injurious effect of another product becomes known.

Risk managers and their insurers should be wording policies today to answer the coverage question.

In the meantime, we compliment the industry for getting some money into the hands of manufacturers.

On the move

LOOK OUT risk managers.

The special interests of the commercial insurance industry are quickly staking out turf in Washington.

The National Assn. of Insurance Brokers has moved its office near Washington and the National Assn. of Insurance Commissioners is opening a Washington office.

Their lobbying efforts could be tapped to get the consumers' message across—except when their self-interest differs from that of the consumer. Then, risk managers better be poised to be heard, too.

letters

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

Don't control handguns

To the editor: Your June 8 editorial on handgun control does not reflect a perception of the real world that we face as risk managers. Laws against arson and theft do no more to eliminate these crimes than will laws involving gun control prevent crimes with handguns. Unfortunately, people do commit the crimes. Swift, sure and vigorous prosecution of people committing crimes with handguns will do far more to reduce the risk of occurrence of these crimes than any federal gun-control legislation.

I would suggest that your energies might more properly be directed to this area of risk reduction.

Donald E. Newman
Director of general service
Duval County School Board
Jacksonville, Fla.

To the editor: I totally disagree with your editorial opinion, "Handguns are bad risks," in your June 8 issue. Your article assumes that gun-control laws will keep guns out of the hands of criminals. This assumption is not true. Gun-control laws will keep guns out of the hands of our law-abiding citizens, but the criminal who needs a gun will continue to obtain them. Are you proposing outlawing matches because they start fires or outlawing cars because they create accidents?

In order to reduce risks from gun-related incidents, you should advocate the strengthening and enforcing of laws dealing with criminals who use guns while attempting crimes.

I suggest you change your stand if you truly want to reduce the losses from gun-related incidents.

Michale A. Qualen
Vp of finance and treasurer
Fingerhut Corp.
Minnetonka, Minn.

Open rating not the big problem

To the editor: The Minnesota legislative developments in workers compensation addressed in "Minnesota passes first open-rating law" (BI, May 25) are complicated.

Although the open-rating provision in the overall workers compensation bill met with little industry opposition as you noted, other elements of the bill were vigorously opposed by insurers, agents and their trade associations.

The cost of workers compensation has been and continues to be a difficult and emotional issue in Minnesota. Some of our critics said we should only be "financial scorekeepers" and stay out of the debate on changing the system to meet employers' demands for costs more competitive with those of the workers comp systems of surrounding states. Others said we should be advocates for change.

But the Legislature neither listened to what we said about what would reduce costs nor allowed us to keep the financial score of what those costs meant in the form of insurance rates.

The bill was publicized by its proponents as a major improvement in the heavy workers compensation burden of employers. It does contain some provisions that may prove to have merit and some that do appear to represent modest

improvement. It is possible there may be small cost saving to both self-insurers and premium payers.

However, the long-term cost savings will be far less than generally asserted and certainly do not justify the 15% reduction in rates mandated in the bill.

The net effect of reducing indicated rate levels 20% for investment income and 15% for alleged cost savings is to mandate any coverage that we write will be at a price below that of three years ago. Our analysis says this is inadequate by any kind of measurement.

A. Kent Shamblin
Vp of communications
& public relations
The St. Paul Cos. Inc.

One of the best

To the editor: Stephen Tarnoff's article, "Jury's out," in the June 15 issue was one of the best you have ever printed.

This problem of unreasonable contingent fees has and will continue to be one of the most influential of the upward pressures on rates in our business. However, can we knock good salesmanship?

David B. Kitterman
Account executive
Cook-Treadwell & Harry
Springfield, Va.

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Published by Crain Communications Inc., Chicago. ALFRED MALECKI, J.J. GRAHAM, S.E. COHEN, LOUIS F. DE MARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKINSON, ARTHUR E. MERTZ, JOE CAPPO, CHUCK LAUER, ERNIE ZIELASKO, vice presidents; JAMES M. FRANKLIN, vp-finance and administration; MERRILEE P. CRAIN, secretary; MARY KAY CRAIN, treasurer.

Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 220 East 42nd St., New York, N.Y. 10017 (212-210-0100); Suite 1253, National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Calif. 90048 (213-651-3710); 5327 N. Central Expwy; Suite 200, Dallas, Tex. 75205 (214-528-3561). \$1 a copy. \$30 a year in U.S. Canada and all other foreign add \$14 for surface mail. Europe and Middle East only add \$32 for air delivery. First-class mail to Canada only, add \$36. WILLIAM STRONG, vp-circulation. BARBARA RANDICK, circulation manager. ROGER DIGREGORIO, fulfillment director. Circulation dept.—Chicago (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.



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Panel approves pension write-offs

WASHINGTON—Congress has taken its first step toward giving employees new pension tax breaks.

The Senate Finance Committee has given final approval to the administration's tax-cut bill that would allow employees covered by pension plans to set up Individual Retirement Accounts and contribute \$1,500 annually to the IRA and receive a full tax deduction.

Or the employee could contribute up to \$1,500 per year to the employer plan and receive the tax deduction as long as the contribution is voluntary.

Current tax law does not allow an employee covered by a corporate plan to set up an IRA. In addition, employee contributions to an

washington

employer plan are not tax deductible.

The committee also agreed to lift the annual contribution limit to an IRA by people not covered by employer pension plans to \$2,000 from \$1,500.

At the same time, the measure would raise to \$15,000 from \$7,500 the deduction a self-employed person could take for contribution to Keogh plans, which are heavily utilized by professionals such as doctors.

The measure now goes to the full Senate.

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HMO office chief

Frank Seubold, a leading health expert, has been named director of the federal Office of Health Maintenance Organizations. Mr. Seubold, a former OHMO director, worked at the National Center for Health Services.

Mr. Seubold says the Reagan administration will continue to promote HMOs to increase public awareness and acceptance of pre-paid health-care plans.

Mine regulation

A new Labor Department regulation governing self-contained breathing equipment in underground mines went into effect late last month.

The regulation requires miners to be equipped with portable, self-contained self-rescuers (SCSRs) with one-hour oxygen supplies.

The SCSRs protect miners against gases in the event of fire, explosion or other accidents that threaten a mine's air supply. They replace existing self-rescue devices that protect only against low levels of carbon monoxide.

The new regulation is an outgrowth of a 1977 federal law that requires miners to have a self-rescue device providing at least one hour of protection.

OPIC president

Florida businessman Craig A. Nalen has been unanimously confirmed by the Senate as president of the Overseas Private Investment Corp. OPIC is the federal agency that provides political risk insurance to companies investing in less-developed countries.

Mr. Nalen was president of STP Corp. of Fort Lauderdale, Fla., and a vp with General Mills Inc. of Minneapolis.

Water spray

The Department of Transportation is undertaking a joint research project with the trucking industry to find ways to reduce hazardous water spray created by heavy trucks in rainy weather.

Wheel spray can create dangerous blind spots for motorists and can obscure the truck driver's rearward vision.

The department's National Highway Traffic Safety Administration will work with LCL Transit of Green Bay, Wis., to install, maintain and monitor the performance of three types of splash-reduction devices that will replace older types of mud flaps on more than 100 heavy trucks.

The traffic safety administration's Office of Heavy Duty Research will analyze the data and make the findings available to the trucking industry. The testing will be completed in April 1982. ■

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AUG. 7. One-Day Benefits Briefing in St. Paul, Minn., sponsored by the International Foundation of Employee Benefit Plans. Members, \$120; non-members, \$145. IFEBP, 18700 W. Bluemound Road, Brookfield, Wis. 53005; 414-786-6700.

AUG. 12-14. Cause and Origin of Fires and Explosions seminar in Chicago, sponsored by the National Assn. of Fire Investigators; \$125. National Assn. of Fire Investigators, 53 W. Jackson Blvd., Chicago, Ill. 60604; 312-939-6050.

AUG. 20-21. Product Liability Decisions for Executive Officers workshop in San Francisco, sponsored by the University of California Extension, Berkeley; \$395. Business and Management, Univ. of California Extension, 2223 Fulton St., Berkeley, Calif. 94720; 415-842-4231.

SEPT. 9-11. Fundamentals of Insurance course in Dallas, sponsored by the Risk & Insurance Management Society; members, \$295; non-members, \$395, additional participants with member, \$175. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

SEPT. 9-11. Techniques of Risk Management course in Toronto, Canada, sponsored by the Risk & Insurance Management Society; members, \$295; non-members, \$395, additional participants with member, \$175. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

SEPT. 14-15. Reinsurance Management conference in Chicago, sponsored by the Interforum Group Inc.; \$495. Interforum Group Inc., 68 William St., New York, N.Y. 10005; 212-269-2240.

SEPT. 21-22. Association Captives conference in New York City, sponsored by the Interforum Group Inc.; \$595. Interforum Group Inc., 68 William St., New York, N.Y. 10005; 212-269-2240.

SEPT. 24-25. Captives and Pools conference in Warren, Vt., sponsored by the Risk Planning Group Inc.; \$550; additional participants from

same company, \$475. Risk Planning Group Inc., Conference on Captives and Pools, 722 Post Road., Darien, Conn. 06820; 203-655-9791.

OCT. 12-14. Health-care Cost Containment seminar in Palm Springs, Calif., sponsored by the International Foundation of Employee Benefit Plans; members and non-members, \$360. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 22-24. International Employee Benefits seminar in Montreal, sponsored by the International Foundation of Employee Benefit Plans; members, \$360; non-members, \$435. IFEBP, 18700 W. Bluemound Road, Brookfield, Wis. 53005.

OCT. 25-28. Corporate Benefits Management conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 26-28. Product Safety Engineering course in Baltimore, sponsored by the Institute of Product Assurance; \$450. IPA, 9811 Mallard Drive, Suite 213, Laurel, Md. 20811; 301-792-0710.

NOV. 2-4. 1981 Benefits Processing Institute program in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; members, \$360; non-members, \$435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 15-17. Business Insurance Communicat-ing Employee Benefits conference in Chicago, sponsored by *Business Insurance*. The latest tips and techniques to effectively communicate benefits to employees. Registration fee includes Nov. 16 awards dinner honoring winners of the BI Benefits Communications competition. Valerie Adams, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 1-800-621-6877; in Illinois, 312-649-5242.

London reinsurers worried about underwriting security

By STACY SHAPIRO

LONDON—Reinsurers in London are increasingly alarmed by the lack of underwriting security in their industry, especially in the United States where 50% of their business originates.

Big reinsurers are frightened by the glut of small companies that are writing complex risks for small premiums and are depending on high investment income to stay in the black.

"There is a strong chance that sooner or later, and probably sooner rather than later, someone will be unable to meet his (underwriting) obligations," said Alan Preston, chairman of the Reinsurance Offices Assn. and director and chief executive of Victory Insurance Co. Ltd.

"There can be no real security until reinsurance underwriters recognize that their business must return to a sound foundation, that other income only serves to hide the unpalatable truth that foundations are not sound and that investment returns can be very volatile," he said.

london line

Reinsurers must adopt some new practices now to tighten their weak security, Mr. Preston said. But the regulations could be difficult to enforce.

"It may be time for the ROA to set standards, adherence to which would be a condition of membership," Mr. Preston said.

The organization, however, doesn't have the teeth to enforce such regulations, said one reinsurer. The only punishment that could be dealt out would be expulsion from the ROA, which would not matter to some companies.

Many say self-regulation is the only way to provide safeguards in the reinsurance industry.

"There is no control so effective as self-control, no regulation as good as self-regulation. To quote the bard: 'The fault, dear Brutus, is not in our stars, but in ourselves,'" Mr. Preston said.

Some companies have started to drop bad risks. But reinsurers point out that for every risk dropped by one company, there are dozens of other reinsurers ready to pick it up at lower rates.

But while the ROA may worry about bad risks, its own health remains quite sound. Membership has grown to 372 members from 357 in 1979, and assets have grown to 36,964 pounds from 22,295 pounds in 1979.

Employee sick pay

The British government wants to transfer the responsibility of paying employee sick pay to employers.

The Employers Statutory Sick Pay Bill will be introduced during Parliament's next session in November. It will require employers to pay for the first eight weeks of employee sick leave. Until now, the National Sick Pay Program has paid those benefits.

The government, as proposed in the bill, will assist employers in funding the sick-pay benefit through one of two methods. An employer could withhold half of what he pays out in sick benefits from his mandatory national insurance payments, the DHSS spokesman explained.

The employer's national insurance contribution would also be reduced to 13.4% of each employee's salary from the present 13.7%.

Another option would be to reduce an employer's National Insurance contributions to 13% of an employee's salary, with a reduction to 12.8% for small employers and those with high illness rates, the spokesman said.

The government, under either option, will continue to pick up the tab for sick benefits after an employee is ill for eight weeks, the DHSS spokesman said.

The government wants the new legislation to take effect by April 1983.

Hazardous cargo

An international meeting to discuss regulations governing the transportation of hazardous cargo may be held sometime next year.

Insurers most likely will be asked to supply information on compensation that must be provided when hazardous cargoes explode at sea or in harbors.

The meeting is being planned under the auspices of the U.N. Intergovernmental Maritime Consultative Organization. But any regulations that are formulated will

have to be ratified by various sea-going nations before they go into effect.

Although it could be several years before the regulations are approved, insurers are planning now.

The regulations' main impact will likely be on the bulk shipment of dangerous goods such as chemicals or liquefied gases. Oil shipments already are covered by an international agreement signed in 1969.

British marine insurer Keith Williams, who will be advising the International Union of Marine Insurers on the proposed diplomatic session that may be held next year in London, says: "The insurance market is looking at the situation from the standpoint of adequacy of capacity for covering the scheme."

"Many shipowners feel they are already carrying, with the aid of insurance, a very heavy burden of liability and that it is unfair to saddle them with a further burden," he said.

"But there is already a recognized basis of liability insurance available to them through the P & I (protection and indemnity) clubs, with reinsurance backing from the traditional insurance market."

Mr. Williams, who estimates that new requirements could mandate liability coverage up to \$100 million for catastrophes involving one or more vessels.

"Insurance cover will clearly have to be available worldwide, either on a direct basis or with heavy reinsurance support," Mr. Williams said.

Lloyd's bill

Not even Sir Henry Fisher, who led the team that wrote the report that resulted in the Lloyd's of London self-regulation bill, says he wants separation between member and managing agents.

"I believe that if it became possible for the same person, firm or company to act both as a managing agent and as a member agent so that it was no longer possible for managing agents to have direct names, standards of underwriting would decline and Lloyd's will suffer," Sir Henry said in a letter to *The Times*.

Lloyd's members are now voting on additional provisions to the bill that would divest brokers from managing underwriting agents and member agents from managing agents.

If members vote against the separation of member and managing agents as expected, Parliament will have to decide whether to kill the bill.

But Sir Henry said that this type of separation was never mentioned in his report on Lloyd's self-regulation.

"Names would be deprived of the freedom which they now enjoy to put their affairs in the hands of an agency which has its own syndicates," he said.

This issue also creates difficulty in carrying out divestment of brokers and underwriters, which the report recommended, Sir Henry explained.

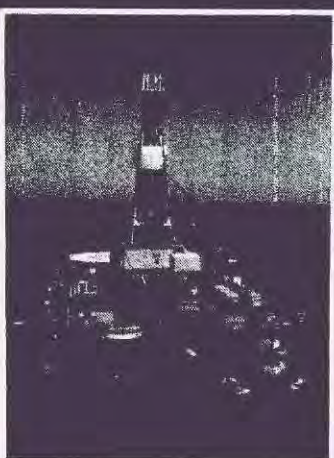
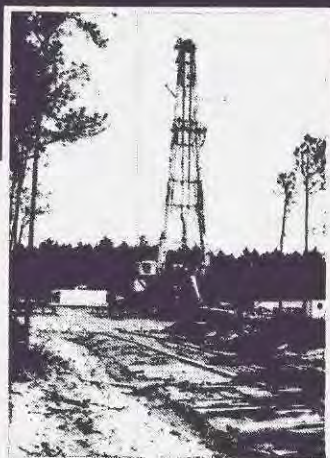
A Lloyd's spokesman said the controversy over the bill will postpone its enactment until at least next summer.

"Let's assume everything goes to plan from now on. Then we're probably talking about next spring, early summer," the spokesman explained.

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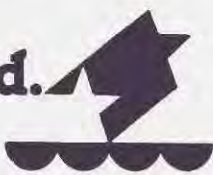
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Resolute Reinsurance licensed in New York

The Resolute Reinsurance Co., a subsidiary of the GEICO Corp., has been licensed to write non-life reinsurance accounts in the state of New York.

With an initial capitalization of \$15 million, the new company will write all classes of treaty and facultative reinsurance business—excluding life—from intermediaries worldwide. The company will pursue licensing in other jurisdictions throughout the United States.

Transportation cover

American National General Agency's Portland, Ore., office has been selected as a managing general agent for transportation coverages provided by Armco Special Risks of Dallas.

ANGA has binding authority for trucking coverages, which the company says will allow for quick response to local insurance agents' underwriting needs. Armco Special Risks writes automobile liability, physical damage and inland marine coverages.

Reinsurer

Interamerica Reinsurance Corp. is a newly licensed reinsurance company in New York.

The company is headed by President Clyde B. Baver Jr., who comes to his new post from Tre-Fac Inc. He has 25 years experience in underwriting and management activity.

The company is located at 161 William St., New York, N.Y. 10038; 212-732-1601.

Acquisitions

Mel Reynolds Co., Special Risk Adjusters, and Gilliland-McReynolds, three Dallas-based associated firms, have merged with Alexander & Alexander Services Inc. of New York. Mel Reynolds specializes in insurance for bank loan customers. SRA handles claims-adjusting for Mel Reynolds' clients, and Gilliland-McReynolds is a data-processing company that issues insurance policies for banks and insurance agents.

New offices

GAB Business Services Inc. has opened a service center at 1679 S. DuPont Highway, P.O. Box 1257, Dover, Del. 19901; 302-734-4456.

Johnson & Higgins Willis Faber Ltd. has opened an office in Halifax, Nova Scotia, to serve clients in the Atlantic region.

USC to present sampling course

LOS ANGELES—The University of Southern California will present a new five-day course entitled "Sampling Strategies" Nov. 16-20.

The course will provide training for industrial hygienists and others who are responsible for designing and implementing sampling procedures in support of an effective occupational safety and health program.

The course also covers the legal aspects of sampling, statistics fundamentals, quality control, long- and short-term techniques, employer decisions and a case-study workshop.

For information contact the University of Southern California Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523.

markets

J.H. Blades & Co. Inc. has opened a branch office at 9400 N. Central Expressway, Suite 209, Dallas, Texas 75231. Blades also has relocated its Denver office to Villa East II, Suite 209, 393 S. Harlan St., Lakewood, Colo. 80215. Metropolitan Reinsurance Co., a subsidiary of Metropolitan Life Insurance Co., has opened a branch office in Chicago at 100 S. Wacker Drive.

Spencer Douglass Insurance Associates, a San Diego-based bonding firm, is opening a new Southwest regional office at 4621 N. 16th St., Phoenix, Ariz.

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BM&F

Bayly, Martin & Fay/San Antonio
P.O. Box 17800
San Antonio, Texas 78217

Policy for auctioneers, appraisers introduced

A new professional liability policy for appraisers and auctioneers has been introduced by The St. Paul Fire & Marine Insurance Co.

The Appraisers' and Auctioneers' Professional Liability Policy covers losses caused by negligent acts and errors and omissions in the course of professional duties.

This new coverage is a claims-made policy, with a current-year feature that allows policy updates to keep pace with inflation. Single limit contracts are available with limits from \$100,000 to \$1 million. Write The St. Paul Cos., 385 Washington St., St. Paul, Minn. 55102.

Condo cover

Armco Special Risks Insurance

products & services

now offers condominium director and officers liability insurance.

Coverage is available in all 50 states, with limits up to \$1 million for up to 400 units in a complex.

Contact R. Max Williamson, Senior vp, Armco Special Risks, 1221 River Bend Drive, Dallas, Texas 75247; 214-689-8333.

Security guards

Security guard industry insurance is a new program offered by Stewart Smith.

The occurrence-form policy is available to professional agencies and companies. Limits up to \$1 million are offered with no aggregate limit except on errors and omissions.

For details contact your Stewart Smith office: Chicago, 312-236-7333; Dallas, 214-688-1051; Detroit, 313-963-7084; Los Angeles, 213-382-6201; New York, 212-964-2929.

Hazard signs

The Seton Name Plate Corp. has introduced new hazardous material signs. These new placards have four-digit identification numbers and are available for tankers, vehicles or railway cars.

The placards are bright orange and self-adhesive and conform to federal hazardous materials rules. Write Seton Name Plate Corp., 976 Boulevard, New Haven, Conn. 06505; 203-772-2520.

Escape masks

Alma International Ltd. is manufacturing a portable emergency escape mask. The mask provides 20 minutes of safe breathing in a smoke-filled atmosphere.

The mask fits adults and children. It weighs less than 11 ounces, is portable and comes with a carrying case.

The mask costs \$29.95, plus \$2 for postage and handling. For information write Alma International Ltd., 93 Main St., P.O. Box 386, Woodbridge, N.J. 07095.

Consulting service

Technical Management Consultants Inc. has introduced consulting services available to agents, brokers and plan managers for casualty lines.

Specialties include analyses of exposures, preparing risks for marketing, liaison on carrier recommendations and defense and subrogation support. These services are also available to offshore group-owned insurance companies and captives.

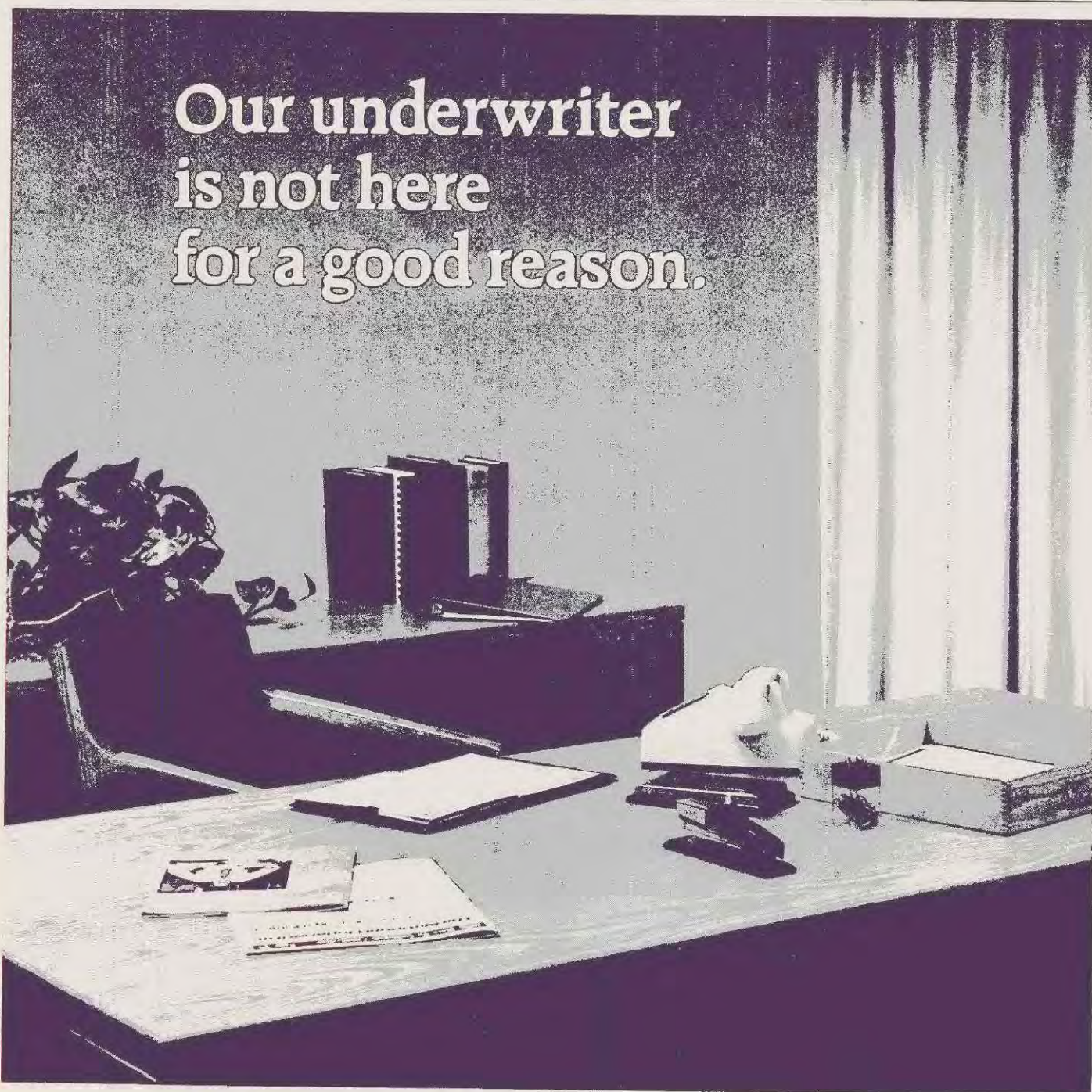
Write Charles G. Grady, Technical Management Consultants Inc., Box 2549, Satellite Beach, Fla. 32937; 305-777-5902.

Sprinkler system

The Viking Corp. has designed a new sprinkler system for intensive fires. The High Challenge sprinkler can be used in areas where extremely large fires are most likely to occur.

The sprinkler uses a double deflector to produce more water drops to help quickly extinguish flames.

It is UL-listed, FM-approved and available nationwide. For details contact The Viking Corp., 210 N. Industrial Park Road, Hastings, Mich. 49058; 616-945-9501.



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Member Stewart Wrightson Insurance Group, London
Excess • Special Risk • Surplus Lines • Liability and Property
Business accepted through specifically qualified surplus line brokers and reinsurance intermediaries.

Georgia eye-care insurers must now pay optometrists

ATLANTA—Newly issued or renewed health insurance policies that pay for eye care will have to provide for payment to optometrists under a new Georgia law that went into effect July 1.

The coverage will be in addition to paying for services rendered by a medical doctor (ophthalmologist).

Georgia Insurance Commissioner Johnnie Caldwell has notified companies that write health insurance in Georgia that the new law will apply to individual and group policies issued or renewed after June 30.

It will apply to only those services that come within the legal scope of the optometrists. They are not allowed to prescribe drugs for the treatment of eye disease nor perform surgery.

Deputy appointed

HARRISBURG, Pa.—J. Alan Lauer has been named Pennsylvania deputy insurance commissioner for rate and regulation.

He also will serve as chief actuary for the department.

Mr. Lauer, 48, served as an actuary for Penn Mutual Life Insurance Co. since 1969. Before that, he was employed as an assistant actuary with Provident Mutual Life Insurance Co. He is a graduate of the Wharton School at the University of Pennsylvania.

Insurer banned

TALLAHASSEE, Fla.—The Proprietors Insurance Co. of Delaware, Ohio, will stop writing insurance in Florida for now.

The insurer, hit recently with severe losses, has agreed to suspend operations in exchange for the lifting of an earlier cease-and-desist order issued by Insurance Commissioner Bill Gunter.

The order was based on a review of the Ohio-based company's financial statements for the year ending Dec. 31, 1980, and the quarter ending March 31. Approximately 90% of its Florida policies are with bowling alleys.

For the first quarter of 1981, the company's ratio of net premiums written to surplus was 16-to-1, and its surplus was less than \$1 million. Under Florida law, if net premium is more than four times the surplus, property/casualty insurance companies must maintain a surplus of at least \$50 million.

Mr. Gunter said a dramatic increase in fires at bowling alleys insured by Proprietors had reduced the company's surplus. To protect Florida policyholders, he concluded that the company should be prohibited from transacting insurance business in the state until its financial condition improves.

If Proprietors has not been authorized to resume its Florida business by a policy's renewal date, the holder of that policy must seek insurance elsewhere.

Pension coverage

Some 23.5 million Americans were covered by private pension plans administered by U.S. life insurance companies at the end of 1979, an increase of 1.8 million over 1978, the American Council on Life Insurance reports.

This figure includes retirees receiving pension benefits who left employment before retirement with vested pension credits and active workers.

Pension reserves backing these plans reached \$139.2 billion at the end of 1979, the council said. That was an increase of 17% over the year before.

around the states

BC/BS rate hike

NEW YORK—The New York State Insurance Department will have a public hearing July 8 to consider an application for a 21% rate hike by Blue Cross/Blue Shield of Greater New York.

The increase will affect basic hospital, basic surgical-medical, major medical, Medicare supplementary and student contracts.

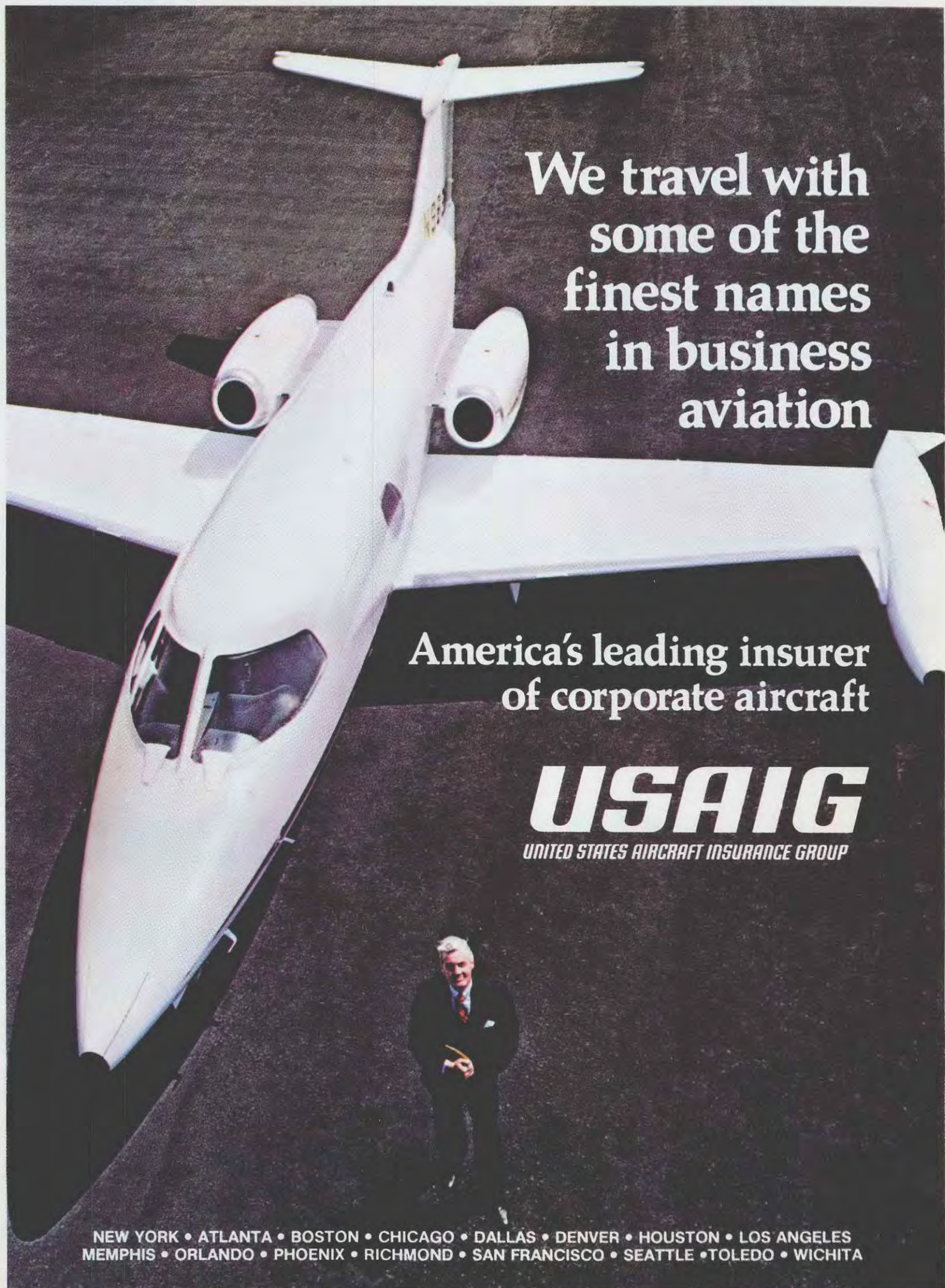
The proposed effective date of the increase is Oct. 1. Blue Cross/Blue Shield was granted a hike of 17.8% on Nov. 1, 1980.

business insurance

INSURANCE SERVICES GUIDE:

where buyers and sellers meet.

turn to page 26



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**If you think your premiums
are paying for your competitors' losses,**



check with the leader.

Controlling insurance costs can go a long way toward improving the bottom-line results of your company. As the world's leading broker, Marsh & McLennan can help you develop the most cost-effective method of administering your risk management program.

We can identify the areas of coverage where your loss experience is better than the average for other companies in your industry —and develop loss-sensitive programs based on your loss history

that give you credit for the quality of your operations and improve your cash flow. So you don't pay for your competitors' poor loss records.

Improving your loss record

High loss ratios not only ultimately increase insurance costs, but interfere with your company's productivity as well. M&M Protection Consultants, our loss-control specialists, develop hazard-control programs that are effective in reducing losses and which lead to lower insurance premiums.

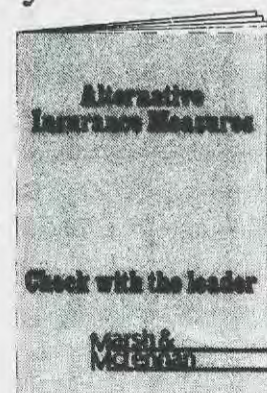
When a loss does occur, we can help you settle the claim through the most advantageous claims management plan.

More ways to control costs

Marsh & McLennan can help you reduce your fixed premium costs in other ways, too. For example, we can analyze your level of risk retention and recommend appropriate deductibles or risk-retention levels.

Altogether, Marsh & McLennan has the people, organization, experience and negotiating power in the insurance marketplace to provide the most cost-effective coverage for all your company's assets.

For more information on controlling your company's insurance costs, write for a copy of our booklet "Alternative Insurance Measures" to: Mr. Robert Clements, President, Marsh & McLennan, Incorporated, Dept. 10 BI, P.O. Box 839, Radio City Station, New York, NY 10101.



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- We are specialists with successful "hands on" experience managing Captives.
- We maintain management facilities in Bermuda and the Cayman Islands.
- We are part of a worldwide organization with many resources to draw from.

For information, contact Tom Miller.

SCOR RISK MANAGEMENT, INC.
P.O. Box 220032 • Dallas, Texas 75222
(214) 659-5891 • WATS: 800-527-5855

Jon Newsome to head Statesman subsidiary

Jon P. Newsome named president and chief operating officer of American Life and Casualty Co. of Fargo, N.D., a subsidiary of The Statesman Group Inc.

Other insurer changes:

Eugene F. Duflo has been promoted to senior vp at Alpha Aviation Insurance in Hasbrouck Heights, N.J.

Charles J. Pentis named vp of claims for the Michigan Mutual Insurance Co. in Detroit

Prudential Insurance Co announced three promotions: **Stephen R. Braswell** promoted to president of its Southwestern operations in Houston; **E. William Nash Jr.** promoted to president of South Central operations in Jacksonville, Fla.; and **Milan Resano-**

comings & goings: industry



Braswell



Nash

vich promoted to vp in the corporate finance department.

William B. Shapard appointed secretary of the Continental Insurance Cos.

Steve Martin appointed to the newly created position of program coordinator for the Fremont Indemnity Co. property/casualty department.

American International Group Inc. has announced three additions to its production staff. **Dorothy L. Coon** named production representative with AIG in San Antonio, Texas; **Roxanne Proper** named production manager for Syracuse, N.Y.; and **James D. Creasy** named production manager in Richmond, Va.

Michael R. Taillon named casualty manager for the Canadian operation of American International Underwriters, AIU Canada Ltd.

At INC Corp. in Philadelphia, Pa., **Joseph J. Talarico** elected a vp and **Edward A. Denker Jr.** elected assistant vp.

Reinsurers

General Re Corp. announced a series of promotions. **John C. Etling**, **Ronald E. Ferguson** and **Robert O. Shepler** named vps and group executives for the parent holding company and directors for General Re and General Reassurance Corp. **Ronald L. Bornhuetter** appointed vp of finance. **John E. Hollis** named vp of the London office. **Thomas C. Jones** promoted to second vp in the St. Paul, Minn., office, and **Diane V. Bistany** promoted to assistant vp in the Greenwich, Conn., office.

Matt J. Hanke Jr. appointed assistant vp of RFC Intermediaries Inc. of Los Angeles, a subsidiary of Continental Corp.

Carol Hirsch named a vp at Andrew Edwards & Co. Inc., a reinsurance intermediary and consulting firm in New York.

American Re-Insurance Co. announced new promotions. **Robert L. Fuller** and **Michael C. Felts** appointed assistant vps to the facultative staff in New York. Also at American Re-Insurance Co., **Peter F. Toy** promoted to assistant secretary, while retaining his position as casualty manager in the Atlanta office.

Excess/surplus

George W. Stone joined Baccala & Shoop Insurance Services as vp and property manager in the Chicago office.

Burns & Wilcox Ltd./Marketfinders Inc., managing general agents in Southfield, Mich., announced four promotions. **Gerald W. Horton** promoted to underwriting manager; **Steven C. Gales** appointed assistant underwriting manager; **John J. Janusz** promoted to senior casualty underwriter; and **George A. Cven-gros** was named assistant underwriter.

You've all been sterling.



Excess & Special Risk.

25

Few companies have had the opportunity to put on the silver to celebrate 25 years in the Excess and Special Risk business. Because few companies have had the support we've had. From our clients. From our brokers. From

our agents. From our employees. You've all been sterling. Now we'd like to thank all of you — as we go for the gold.

Here today. Here tomorrow. *Fireman's Fund Excess & Special Risk.*

Claims-made worries

Complexities pose problems in liability suits

By Kenneth S. Wollner

MOST OF US SUFFER from a very common ailment: accepting a term as meaningful without truly understanding its meaning. A number of years ago, long before the demise of policies written on an occurrence basis for many classes of professional liability, the term "claims made" was coined.

To many buyers, it seems obvious that a claims-made policy responds to claims first made during the policy period. Unfortunately, a claims-made policy is a much more sophisticated contractual instrument.

The case of Gereboff vs. Home Indemnity Co. in 1978 presents a good illustration of some of the complexities faced by claims-made policyholders.

Plaintiffs Samuel Gereboff and Ralph Northrup, both certified public accountants, brought an action for a declaratory judgment that the professional liability policies issued by each of three insurance companies afforded coverage because of an alleged accounting error.

This case typifies most professional liability losses. The date of the alleged malpractice, its discovery and the resulting claim were widely separated.

The plaintiffs were engaged by Frank and John Rao, partners in a wholesale liquor business, to prepare a balance sheet in July 1968. The plaintiffs relied on accounts receivable figures supplied by Eleanor Rao, a relative, their longtime bookkeeper.

The plaintiffs stated that they first learned in 1971 that Eleanor Rao had intentionally provided them with inaccurate data. They were advised by their clients that the misstatement was a family matter and would be resolved directly with Eleanor Rao.

On May 30, 1973, the plaintiffs were named in a suit brought by the executor of the estate of Frank Rao charging them with professional negligence in the preparation of the balance sheet.

Home Indemnity Co. was the insurer in 1968 when the alleged malpractice occurred. The policy afforded coverage for claims that are reported to the insurer during the policy period and offered the policyholder the option of purchasing an extension to cover claims reported as long as five years after the policy term expired. The court concluded that Home was not liable.

"The claim was not reported until more than four years after the policy had expired. That delay would not have been fatal had the plaintiffs exercised their option to extend the reporting period for up to five years after expiration. But they did

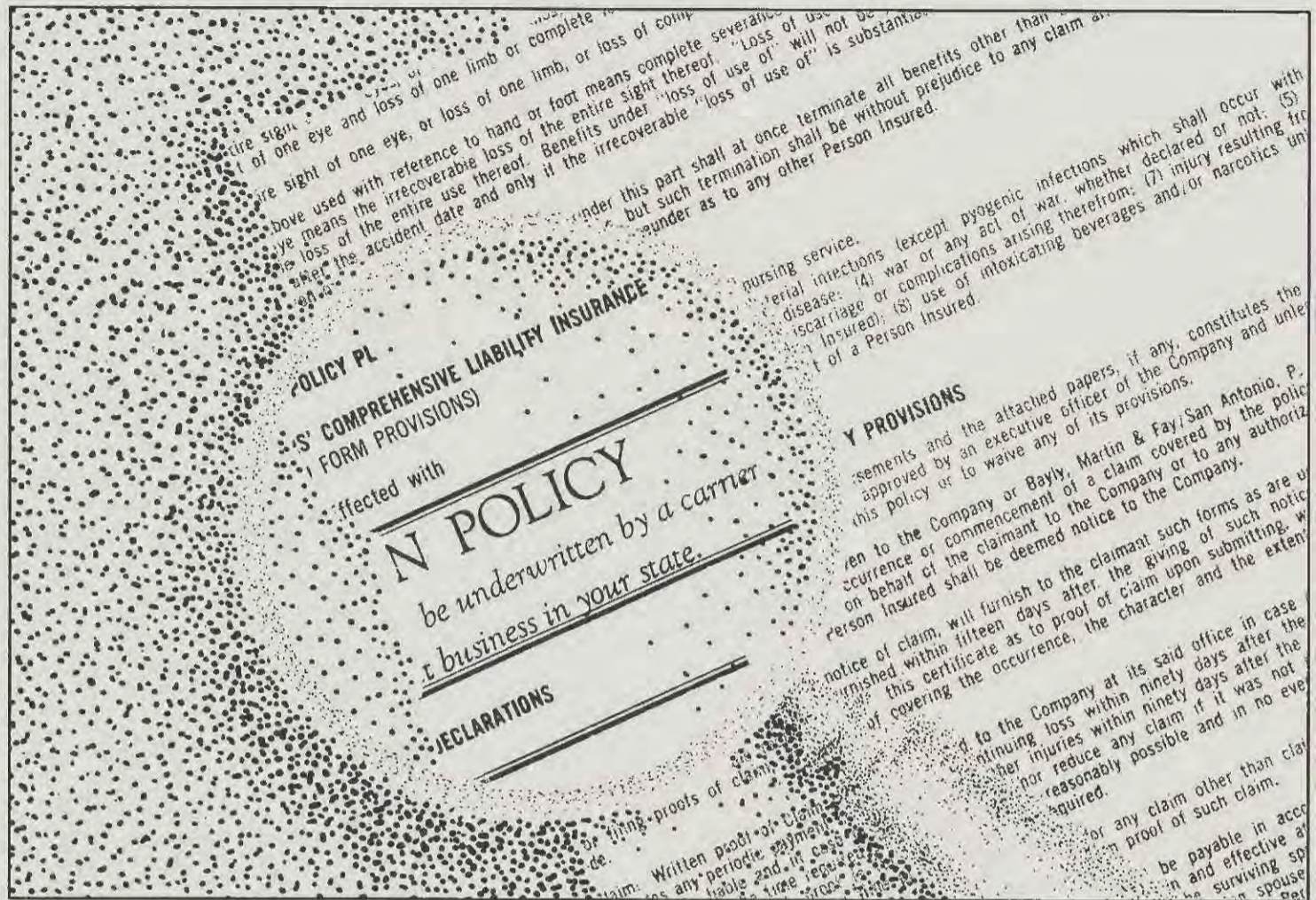


Illustration: Christine Perry

not, and, consequently, Home was obligated neither to defend this pending negligence action nor pay any judgment against the plaintiffs therein."

Of course, the plaintiffs had no control over when the claim would be made. They had to decide, on the basis of imperfect knowledge concerning the Rao situation or any other liability exposure when the Home policy was in force, if the five-year extension satisfied their requirements.

Here lies the fundamental argument against the claims-made policy: It does not provide financial security against exposures that may arise during the policy period. It is a deficiency that can only be rectified if the claims-made policy gives the policyholder the option to purchase coverage for a unlimited reporting period.

The problem created by claims-made policies containing this limited option did not arise in Gereboff because coverage provided by the Home policy was replaced by the St. Paul Fire & Marine Insurance Co.

This policy covered prior acts, including the alleged balance sheet error, provided "claim is made or suit is brought during the policy period."

St. Paul was the insurer in 1971 when the alleged misstatement in the amount of the accounts receivable was discovered by plaintiffs. Here the court, abandoning the "but for" rationale of the holding in favor of Home, ruled that the claims-made limitation was valid. Consequently, the St. Paul policy did not apply to the loss in question.

Consider the plaintiffs' situation. They first learned about the misstatement during the St. Paul policy period, but were informed by the Rao brothers, their clients, that the claim should be filed with

insuring agreement is quite specific in stating there is no coverage in this case. Under these circumstances, it is entirely plausible that the plaintiffs would surmise that they had nothing to gain by reporting the error to the insurer.

This line of analysis is wrong. Virtually all modern claims-made policies contain a discovery clause that provides that if the insured first becomes aware of an incident that may give rise to a claim and gives written notice to the insurer during the policy period, any subsequent claim is deemed made during the period.

The plaintiffs could have obtained coverage by notifying St. Paul in 1971.

In the typical claims-made policy, the discovery clause is buried in the fine print of the policy conditions where few would expect to find a provision that so fundamentally changes the scope of coverage. The illusion that a policyholder cannot invoke coverage until a loss has matured into a claim is created by the policy title and insuring agreement.

Also, it is reinforced by the notice that, pursuant to a 1974 California statute, must be prominently displayed on the policy face sheet. That notice generally reads as follows:

"Except to such extent as may otherwise be provided herein, the coverage of this policy is limited generally to liability for only those claims that are first made against the insured while the policy is in force."

There is considerable merit to the argument that this statutory notice obscures—if not actually conceals—the nature of the coverage. Policies with discovery clauses are more aptly described as "discovery policies." Recognition of the importance of promptly reporting any facts discovered

vital to the maintenance of coverage under a claims-made program.

In 1973, when the action by the Rao estate commenced, the plaintiffs were insured by American Home Assurance Co. An endorsement to this policy limited coverage to claims "arising out of professional services performed during the policy period ... and which are reported to the company during the policy period."

In other words, the American Home policy afforded protection only if a loss is incurred, discovered, claimed and reported to the insurer during the policy period—a remote possibility given the time lapse associated with accountants' professional liability insurance.

Nonetheless, the court stated that "the exclusion does not seem unreasonable" and ruled that American Home was not liable.

There is an additional reason, not mentioned in the court's opinion, supporting American Home's position. Under virtually all claims-made policies, coverage against of any act, error or omission that occurs before the policy period does not apply if the insured could have reasonably foreseen a claim at the policy effective date.

This exclusion underscores the importance of promptly reporting the discovery of facts regarding a possible loss. In failing to do so in 1971, the plaintiffs permanently lost coverage.

Claims-made insurance can provide a positive solution for both the insured and the insurer in the area of professional liability insurance by affording the parties flexibility in handling underwriting problems associated with long time lapses. On the other hand, regulation is desirable to

peter downes

Can you resist insurance ads?

By Peter Downes

DO YOU REMEMBER Pavlov's dogs? Pavlov, a behavioral scientist, would ring a dinner bell and his dogs would start salivating. This used to be called a conditioned reflex and probably it still is. Indeed, behaviorists tell us that each of us has been subjected to conditioning since birth and that we all react to signals the

way Pavlov's dogs used to respond.

I acknowledge, of course, that I am as conditioned as anybody else, but I have always thought it possible to resist a particular kind of conditioning. For instance, I have always prided myself on being resistant to advertising, but now I am not so sure. A short while ago I found, to my utter chagrin, that certain advertising may have had a subliminal effect on me.

...now,
new and
improved...



This all came to mind after I had watched a program on television one evening. Perhaps I should explain that until then I had not watched a commercial TV program for more than 10 years. Actually, the program was a bust, but I thought the advertising was fascinating.

Now, I have heard from time to time that some insurers advertise, but I saw none of their ads at that time. I thought this unfortunate, so I amused myself for a while adapting some of the commercials I did see to an insurance situation.

My first scenario involved a fender bender. After the crash, two drivers leave their cars and begin exchanging information.

"Ah," says the first driver, "I see you have automobile insurance with the Myopia Insurance Co."

"Not so," says the other. "I don't have automobile insurance with the Myopia Insurance Co."

"But this card you have given me clearly says Myopia Insurance Co."

"I repeat, I don't have automobile insurance with the Myopia Insurance Co. What I have is new, improved automobile insurance with the Myopia Insurance Co."

People who write ads can think up a thousand ways of telling how product A is better than brand X. The night I watched television, a car company played that game, and I thought an insurance broker might also play it. A well-groomed, young-looking, gray-haired executive type faces the camera and assures us confidentially that "We at Francis B. House knew that we were the best insurance brokers in the world and we decided to prove it."

"To do this, we asked an independent market research organization to find out how we stacked up against our nearest competitor, Jackson & Huggins.

"Jackson & Huggins is a fine old firm that prides itself on its conservative outlook and its choice of tried and true methods. We at Francis B. House are no newcomers either, but our pride lies in being as up-to-date as this evening's news. And you out there feel the same way.

"In our survey, 70% said that Francis B. House provided better service, 72% said that Francis B. House settles claims more promptly and 84% said that Francis B. House had the best rates. In every depart-

ment you rated Francis B. House as being better than Jackson & Huggins.

"If you wish to know more, let us send you our brochure. And remember our slogan, 'The House always has the edge.'"

This was perhaps too true to be good. Perhaps I ought to stick to the Everyprovince Insurance Co. and their offer to issue regular and king-sized policies.

I even thought of stealing E.F. Hutton's old ad and pretending it was by an insurance broker. Near the camera, one man says to another, "My broker is ..." The location is a funeral home, and the preacher stops reading the service, the mourners face camera, waiting to hear pearls of wisdom, and a bony arm slowly raises the casket lid—from the inside.

No, I thought, better stick to something original. So, let's run some quick shots of catastrophes such as a towering inferno, a train crash, an earthquake and a flood. And as the camera turns from the flood, we see a vast prairie over which a Conestoga wagon is slowly rolling toward us.

As it comes closer, a voice solemnly intones: "Do you feel that you are paying for everybody's insurance except your own? The perceived wisdom has always been that payments of small amounts by many are intended to pay the large losses of the few. We say that this conventional wisdom is as outmoded as the wagon now displayed on your screen. If you do not wish to pay for your competitor's losses, consider the services we have to offer ..."

I swear that I never consciously read advertisements, except when I am actually looking for something. However, a day or so later I was flipping through a magazine when an ad that caught my eye began, "If you think your premiums are paying for your competitors' losses ..."

Coincidence? Well, perhaps. From what I said at the time, however, an onlooker might have thought I believe my mother to have been one of Pavlov's dogs.



Peter Downes is manager of insurance for American Trading & Production Corp. in Baltimore. His industry satire appears regularly in *Business Insurance*.

benefit tax slants

Life policy transfer can lower death taxes

By Joseph S. Robinson
Attorney-at-law

WHEN AN EMPLOYEE assigns ownership interest in his group life insurance to his spouse or other beneficiary, he can sometimes save a lot of money in death taxes.

Should an employee die within three years, the death benefit will be included in the estate. Otherwise, the proceeds of the insurance will remain outside the taxable estate.

What happens if a group term policy is taken out and assigned more than three years before death? Is the annual payment of premiums an annual re-purchase or merely a renewal? That's the question on which the Internal Revenue Service was asked to rule.

Mr. Smith worked for a company that provided employees with coverage under a one-year group term insurance policy.

More than three years before his death, he transferred the policy to his wife, retaining no incidents of ownership.

The policy contained an option to renew for additional one-year periods without regard to the policyholder's health at the time of renewal. The policy also granted the assignee the right to convert the group term policy to an individual whole life policy when a policyholder either reached age 70 or terminated employment. The policy contained no provisions for cash surrender or loan value.

Did the premiums paid in the three years before the policyholder's death create a new insurance contract each year? Or was the insurance a continuing contract that was transferred before the three-year period?

The IRS determined the payment of renewal premiums for group term insurance within three years of death does not

include the value of the policy in the decedent's gross estate. "Under this group term policy, there is an option for automatic renewal upon payment of the premium. This renewal is accomplished without providing evidence of insurability."

"In addition, (the assignee) has the continuing right to convert the group policy to an individual whole life policy. Thus, the policy is one of a continuing nature. The rights and obligations of the parties continue without interruption from the policy's inception as long as the policy is renewed on each anniversary date.

"The renewal of the group term life insurance policy is not a purchase of a 'new' agreement."

Therefore, the payment of each renewal group life premium is not a transfer of insurance coverage (Letter Ruling 8034017).

Social Security

With ever-increasing Social Security rates, employees are complaining more and more about the amount they have to contribute each year. The maximum is now a shade under \$2,000 a year. However, if employees were alerted to the benefits afforded their family, perhaps their concern would be alleviated.

For example, take a typical 35-year-old executive who is married and has two small children. According to the projections of the Research Institute of America, a tax information service, here's what the benefits of Social Security can add up to:

Survivors insurance	
(i.e., life insurance)	\$318,551
Disability insurance	311,108
Retirement insurance	169,963
Total insurance	\$799,622

Start preparing your entry for annual EBC competition

It's time to prepare your entry for *Business Insurance's* ninth annual Employee Benefits Communication Awards Competition.

The contest gives your company a chance to see how its benefit information program stacks up against others, and it gives employee benefit managers a chance to grab a little glory.

Entries are now being accepted. The deadline is Aug. 15.

Entries will be judged for creativity and effectiveness in five categories: booklets, personalized correspondence, audiovisual presentations, special projects and total communication programs.

First-, second- and third-place awards will be presented at the *Business Insurance* Employee Benefits Communications Conference in Chicago Nov. 16 and 17.

Qualified judges from the New York metropolitan area are also needed. Directors of corporate communications, public relations people and employee benefit managers are invited to apply.

Last year, 139 entries were received. Twenty-seven employee benefit consultants were represented in the contest.

Tennessee Farmers Cooperative of La Vergne, Tenn., and American Can Co. of Greenwich, Conn., tied for first place last year in personalized correspondence. Baxter Travenol Laboratories Inc. of Deerfield, Ill., took the top spot in the booklet category.

S.C. Johnson & Son Inc. of Racine, Wis., won first place for special projects in 1980. Northern Natural Gas of Omaha, Neb., took top honors for its audiovisual presentation, while Miller Brewing Co. of Milwaukee had the best total communication program.

Judges for the 1980 competition were Mary Beth Gibbons, benefit analyst for Monroe, The Calculator Co. in Morris Plains, N.J.; James M. Franklin, vp of finance and administration at Crain Communications Inc. in Chicago; Thomas D. Meisner, benefit planning consultant for Merrill Lynch, Pierce, Fenner & Smith Inc.; George Tuccio, partner and a co-founder of Weltman Augay advertising agency in New York.

Quebec elects RIMS officials

Sixteen risk managers were elected to the Board of Officers of the Quebec Risk & Insurance Management Assn. in Montreal last month. The new officers will serve until May 31, 1982.

Those elected were: president, George Balcer, Cons. Bathurst; first vp, Phil Turcotte, Imperial Tobacco; vp/advisory committee, William E. Randell, Petrofina Canada; vp/finance, Gilbert Badoul, Seagram & Sons Ltd.; auditor, Shelton C. Prichard, Alcan Aluminium Ltd.; secretary, Patricia Sexton, The Royal Bank of Canada; past president, John M. Pearson, Celanese Canada Inc.; national director, Ben M. Eisenstat, Dominion Textile; chairman/education, Paul St. Denis, Bell Canada; chairman/events, Joseph Antony, Mercantile Bank of Canada; chairman/interassociation liaison, Jacques St-Amant, Teleglobe Canada; chairman/legislative, Laurian Rioux, Marine Industries Ltd.; chairman/membership, Raymond Lafontaine, Con. Bathurst; chairman/program, Andrew Padanyi, Canadair Ltd.; chairman/publicity, Paul Godin, Sintra Inc.; coordinator/Canadian & RIMS conferences, Pierre Blais, government of Quebec.

Also, Barbara A. Bauer, director of corporate communication for American International Group; Margaret M. Gagliardi, vp of employee benefits/U.S. at American Express Co. in New York; Jane E. Sayers, manager of domestic benefit policy, communication and training for Mobil Oil Co.; Susan Jacobs, manager of employee communications at North American Phillips Corp.; Kenneth H. Rabin, associate director of public relations at George Washington University.

Also, George W. Wallace, director of trade relations and merchandising for Reader's Digest; Paul E. Wish, head of corporate communications for the Atlantic Cos. in

New York; Robert J. Davis Jr., personnel director of the Bergen Evening Record Corp. in Hackensack, N.J.; Robert Rickner, specialist in advertising and sales promotion for Chubb Group Insurance Co.; and David Bart, manager of employee benefits at Avon Products.

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Global brokers facing many challenges

By JOHN W. MILLIGAN

NEW YORK—"Barriers to trade" and "protectionism" are significant forces that the international brokerage community must learn to cope with if it hopes to flourish, the head of the new Florida insurance exchange says.

Alan Teale, president of the Miami-based Insurance Exchange of the Americas and a former director of Lloyd's of London's policy-signing office, says international brokers also face challenges from the current state of the various insurance markets and the world's sluggish economy.

Mr. Teale, along with William M. Wilson, president and chief executive officer of Reed Stenhouse Co., discussed the international brokerage scene at the Sixth Annual Insurance Seminar held by the Financial Analysts Federation.

To avoid "real trouble" in the future, Mr. Teale said, the interna-

tional broker will have to adjust to economically motivated trade barriers and protectionism, which often follow periods of recession and political tension in various parts of the world.

This often results in delays and added expense for the buyer and detracts from the benefits of a "wholly free situation," he said.

In Western Europe, the European Economic Community has "really torn down barriers to trade," Mr. Teale said. U.S. brokerage firms doing business in Europe will have to "deal with and meet" the Common Market's rules, he said.

Mr. Teale said it is important for the international broker to be aware of such developments and their impact on business, no matter what area of the world is in question.

Another consideration is the current state of the world insurance market, especially the U.S. market,

Financial analysts sponsor seminar

NEW YORK—The Financial Analysts Federation, in cooperation with the Assn. of Insurance and Financial Analysts, sponsored its sixth annual insurance seminar June 17 and 18 in New York.

The seminar attracted 225 insurance and financial industry analysts and featured presentations on areas affecting commercial insurance companies, corporate risk managers and international insurance brokers.

which Mr. Teale described as soft and overcompetitive with "ridiculously low rates." He said the soft market is of no value to the broker, which instead needs "stability, credibility and a good atmosphere" to thrive.

"It must be righted soon," Mr. Teale said of the market, "because it can't be allowed to rest on investment income for very much longer."

The state of world trade and prosperity, particularly the sluggish international economy, is another obstacle that the international broker must negotiate. A worldwide business recession ultimately reduces the amount of capital available for insurance and reinsurance activities, Mr. Teale said. While international brokers are seeing a decline in available business, most seem to be holding their own, he said.

"Things change hands, but they change hands both ways," he said.

The emergence of new technology and energy industries has created new insurance needs, Mr. Teale said, and the international broker must be ready to provide the services that these new industries are demanding.

He also pointed to the emergence of new markets like the three fledgling insurance exchanges in the United States, which along with Lloyd's of London are of future major significance for international brokers, he said.

While the U.S. insurance industry is the world's largest with a tremendous capacity to absorb losses before looking abroad, Mr. Teale said that U.S. brokers have failed to take advantage of international opportunities.

The secret of success for brokers on both sides of the Atlantic is

flexibility, Reed Stenhouse's Mr. Wilson said. He predicted that international brokers will continue to be flexible.

In an era where the boundaries between international markets are dissolving and the world is looking upon a global insurance industry, Mr. Wilson said that attempts by insurance companies to increase their international business may be less than successful.

While many will try, he said, "strangely few of them have a wholehearted commitment, at every level of their staff, to writing multinational business."

To illustrate that the world insurance market is expanding, providing more opportunities for the international broker, Mr. Wilson pointed to the current position of the U.S. insurance market. While it is still the "single most dominant insurance market in the world," he said, the U.S. position has been slipping steadily.

The United States provided 63% of the world's premiums in 1965, but that figure has dropped to 50%, he said. "Or, in other words, America has provided 1% less annually over the last 15 years."

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THE SPECIALISTS

Brokers should increase services: Risk managers

By WILLIAM BOOTH

NEW YORK—As corporations become more adept at covering their own risks, insurance brokers must increase their services or face possible extinction, risk managers say.

Donald J. Davignon, risk manager for Seagram & Sons Inc., and William Mather, risk manager for Gillette Co., told a Financial Analysts Federation meeting that the traditional chain between risk manager, broker and underwriter is changing, largely because of the competitive insurance market and the increased sophistication of corporate risk managers.

These two factors, market changes and the ability of risk managers to do more than just shop for primary insurance, has changed the industry and forced brokers to offer new services, he said.

"The broker will change or he will wither," Mr. Davignon said. "We are now interested in services, not just the marketplace."

In the past, Mr. Davignon said, the "insured was represented by a somewhat unsophisticated insurance buyer who had limited professional insurance training and education."

But he said rising inflation and the increased complexity of corporate risks have brought a new type of insurance buyer: a risk manager who possesses the technical capabilities to directly communicate corporate exposures to reinsurance underwriters.

This relationship naturally developed into direct purchasing, eliminating the broker as middleman, Mr. Davignon said.

"Risk managers now do it all," Mr. Mather said. When scanning the market for primary underwriters, Mr. Mather said he considers quality, availability and cost as the main factors.

"And quality can't be offset by cost," he said.

"It's of no concern whether I purchase insurance from a broker or an underwriter, as long as quality is the same."

Mr. Davignon agreed that quality is the benchmark for choosing a reinsurer, too.

Cost is only half the problem, he said. If a company pays 8% and gets only 6% service, it is paying too much, he said. But a corporation is willing to pay fees of 10% when it gets an equal amount of service, he added.

When shopping for reinsurance for Seagram, Mr. Davignon said he considers the following criteria:

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TTE

Free care for foreigners cut

LONDON—Pack your medical insurance policy if you visit Britain next summer and make sure it covers overseas trips.

The Department of Health and Social Security has decided that foreign visitors should no longer be able to take advantage of the free medical service under Britain's nationalized medical care.

All British employees and private citizens are medically insured under the National Health Insurance Program and must make contributions to it. In exchange, they receive free medical treatment, although inefficiency has prompted some companies to offer private medical policies as a perk.

Anyone can now receive free care, but by next summer it will be necessary to establish a three-year British residency to get free treatment at a National Health Service hospital.

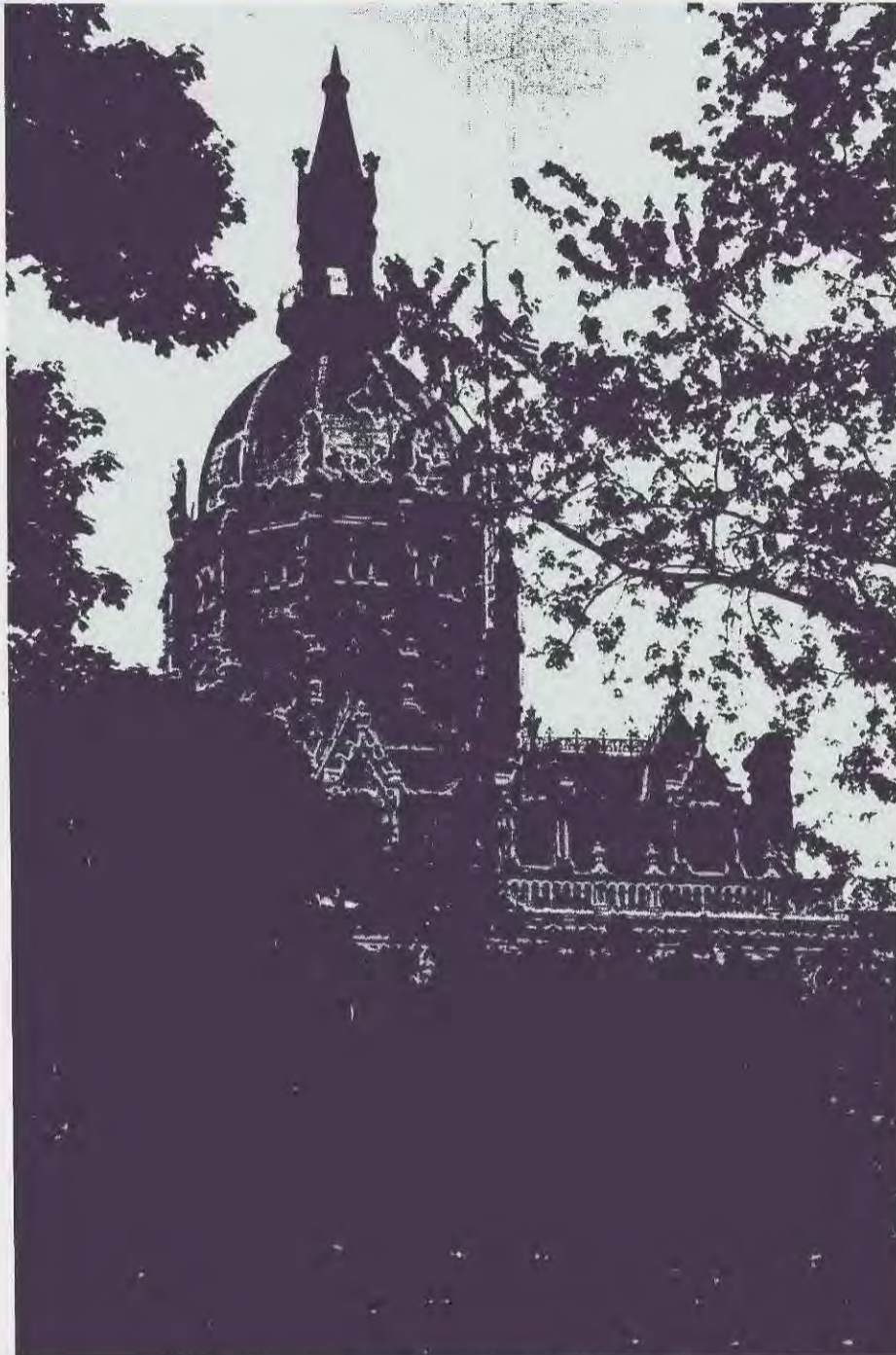
A foreign employee working for a foreign company but contributing to the national health insurance fund will also be eligible for free care.

In the past, many travelers who arrived in Great Britain pregnant, feeling ill or needing eyeglasses made a beeline to the nearest NHS hospital for free treatment, the spokesman said. He said this kind of abuse has cost an estimated 50 million pounds since the service began in 1948.

Patrick Jenkin, the British secretary of state, said well-heeled foreigners often abuse the National Health Service by receiving free treatment. He said the government hopes to have the rule prohibiting such abuse enacted by next year.

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS



HARTFORD

Insurance capital just another broker city

By DAVE GALANTI

HARTFORD, Conn.—The "Insurance capital of the United States" is just another town to commercial agents and brokers.

It's no Boston or New York, but several national brokerage houses have chosen to open offices here, and good independents remain. But brokers looking for big corporate risks should look elsewhere, despite the concentration of insurance company headquarters.

For the national brokerages, the Hartford scope of interest is Connecticut minus Fairfield County, the southernmost region of the state that is tied economically more to New York than New England.

Some Hartford brokers have Fairfield County business, but it is not an area of concentration for most offices.

Independent agencies have followed much the same pattern, sticking to the

commercial risks for most of their business.

"In Fairfield County, there are a large number of Fortune 1000 companies," says John Hall, vp of the 26-employee Marsh & McLennan office here. "In the rest of Connecticut, however, there are probably no more than nine or 10.

"The cross section here is medium-sized business—the levels below the Fortune 1000 to Main Street commercial. You can grow here by catering to accounts Boston and New York wouldn't relate to," he said.

The largest broker in Hartford is Alexander & Alexander. With 85 employees, the firm is a melding of three former independents. Some Hartford brokers claim the melding process was not always smooth. However, Managing Vp Val E. Nichols, who came to A&A from Johnson & Higgins three years ago, says his firm is poised to hold its Number 1 ranking in town.

isn't a Detroit, either," Mr. Nichols says. "Unemployment is relatively low. There is plenty of manufacturing, some large, some small. There is industry coming in because of a strong effort by state officials. Considering we're in the Northeast, it's pretty good around here.

"As for our business, we do some in Fairfield County," Mr. Nichols adds. "But my position is that we are not in Hartford to produce business down there. We should take care of our own back yard—Hartford, New Haven and western Massachusetts.

"We play on the fact that we're the largest and that we can handle a wide range of risks. We don't want to be tagged as a self-insurance expert or a compensation expert."

The A&A office does specialize to some extent, Mr. Nichols admits. A special unit handles small commercial accounts and similar risks are often united for team ef-

ample, are grouped together. But the production staff isn't isolated from one another, Mr. Nichols says.

"We write such a broad base that we would have to deal with a lot of a particular risk before we would be known as a specialist in any area," Mr. Nichols adds. "We want to be seen as a viable force in contracting, since I think brokers have been lax in that area, but I don't think that will get us known outside the area as a contracting house.

"As for having a nuclear or political risk staff (as does Marsh & McLennan-Hartford), for instance, I don't see the need to have any on staff here in Hartford. New York is very close, and we can always call on our experts there."

The Hartford Johnson & Higgins office, with 50 employees, relies on national accounts for its bread and butter, says presi-

Hartford locals search for medium-size risks

HARTFORD, Conn.—When R. Michael Curran joined Goodwin, Loomis & Briton here, he felt that the firm was in the middle of a shakeup.

"At that time, GLB was an established firm with a good reputation, but it had brought in some young people who wanted to be aggressive while maintaining that reputation," the agency partner says. "Many had achieved the Chartered Property & Casualty Underwriter or Chartered Life Underwriter designations."

Today, Goodwin, Loomis & Briton has completed that transition and operates out of a modern office on Hartford's historic Lewis Street.

It has 35 employees today, compared with 25 employees two years ago. Its commission checks have doubled in the last 2½ years by stressing employee benefit business as well as property/casualty lines in risks between \$25,000 to \$100,000 premium.

GLB, however, is only one of the Hartford independents preparing to war the national brokers in the decade ahead. Other firms, such as R.C. Knox & Co., Arthur A. Watson & Co., Inc. and Allen, Russell & Allen have also carved out their niche in Connecticut and western Massachusetts.

Mr. Curran says GLB has taken large accounts from the national houses, but has defined its premium base and geographic target areas to be most compatible with his firm.

Like other Hartford independents, he says his firm is more concerned with working with firms GLB can service well than battling the nationals.

His main goal, he says, is motivating his employees to do a good job.

"I used to speak a lot of motivating people," Mr. Curran says. "I think the way to succeed is to mo-

tivate and make people aware of what they can achieve within our firm. Our whole operation is based on a team structure—the participants vary on each account. We think that keeps us together."

GLB hopes to become a force not only in Connecticut, but throughout the Northeast, he says. There are many opportunities for his firm, he adds.

"I don't think it is as stagnant around here as you might believe," Mr. Curran says. "Today, we're having trouble handling the accounts we've bid for. We have to keep expanding. There will be opportunities overseas for us because we work closely with a Frankfurt, West Germany, broker.

"Locally, there are many firms that don't have the proper coverages, even though a lot of insurance education goes on around here," he adds. "There are smaller agencies that no longer can provide service to these firms and there are also companies that might have been with the nationals that we can give a little more service than the national brokers are geared for."

Mr. Curran sees much growth for his firm in employee benefits. Some 20% to 25% of his firm's commission comes from that area.

"We want to stay active in that area down the road," he says. "From a profitability standpoint, it has a tremendous ability to grow for us, especially considering the soft markets.

"We're conducting seminars in benefits and we use them to get the rest of a firm's account. We're committed to total account selling and this is a good entrance for us."

A. R.C. Knox & Co., president Herbert R. Bland says his firm in the past three years has switched from a partnership to a corporation to insure the perpetuation of the firm. Today there are eight principals, seven of those in production.

Total employees number 44.

"R.C. Knox was a family business at one time, although there isn't any of the original family in it anymore. The change from a partnership didn't really result in any internal changes, but we had to make the move for the future.

"For that future, we don't purport to specialize into contracting or such," Mr. Bland continues. "We have partners that lean one way or another, such as with doctors or financial institutions, but the premium levels are all the way up and down the line. We try to remain somewhat personal and avoid the super-salesman approach. We want our clients to be free to call any of us."

Knox's main market area is within 40 miles of Hartford, Mr. Bland says. Like other agents and brokers in Hartford, it has lost a few jumbo accounts when those firms were acquired by other, out-of-state firms. However, Knox & Co. finally decided to say no to a proposal by a national broker to buy the agency.

"We decided we were big enough to be competitive and we've enjoyed the independence," he says.

Arthur A. Watson & Co. is one of the few large agencies that is not located downtown. The agency owns its own building in Wethersfield, a Hartford suburb. Employees like the location because it eliminates the hassles of driving downtown, says president Charles S. Watson.

"We're heavily oriented toward association business," says Mr. Watson. "We don't have a big hunk of it at the moment, but it is a real opportunity for us and we're heading in that direction. With the things we have close to fruition we could increase the size of our firm by 25% to 30%.

"About 34% of our business is in personal lines, which has been



"We try to remain somewhat personal and avoid the super-salesman approach," says R.C. Knox president Herbert Bland.

good for us in the soft market," he adds. "We're also trying to gear up to provide unbundled services just as the national brokers do."

Mr. Watson says his firm made a decision two years ago to determine where the industry would be going in the 1980s.

That gave Arthur Watson & Co.

the impetus to increase the association and employee benefit areas, he says. It also caused him to look beyond the region to determine what other successful agencies were doing.

"The Northeast isn't as dynamic in running agencies as other regions," Mr. Watson claims. "We

Insurance capital just

Continued from page 20A

dent Thomas A. Clark Jr. The office does not handle personal lines risks, and is interested in very small commercial firms primarily if they are up-and-comers.

A medium account would bring J&H about \$25,000 in premium, Mr. Clark says.

"We're talking to firms with \$2,000 in premium, though, and we don't want to discourage growth in that type of business," he says. "We're interested in anyone with a bright future or a stable firm with premium."

"I think the buyer has to take a look at what is available in Hartford and evaluate each firm's people. We try to emphasize our capability to handle any size account. We don't have to go to other Johnson & Higgins offices, although sometimes it behooves us to do so," he adds.

Going after the large accounts in Hartford is different than pursuing the same accounts in New York, however, says Mr. Clark, who came from J&H-New York three years ago.

"It's a much more pleasant life here," he says. "Hartford is highly competitive like everywhere else and is fast-paced. However, it's just not as pressurized a situation."

Like A&A's Mr. Nichols, however, Mr. Clark doesn't want to specialize his office.

"We're not looking to satisfy any particular industry," he says. "We have a share of the real estate investment houses of the insurance companies here. We also have a number of insurance company accounts, as does our competition. But I don't see any one area growing more than others for us."

Direct writers provide stiff competition for Hartford agents and brokers, but Mr. Clark says they can be beaten. He looks for growth in employee benefit sales, because "you don't have Liberty Mutual or Factory Mutual locked into an account."

J&H can use benefits as an entry to take other, property/casualty business away from the direct writers, he says.

To pry other business away, brokers have to come up with a product that makes sense, he says.

"Maybe we can find something in the insurance program that is lacking. Maybe we can point to our engineering or claims handling. Direct writers control a lot of the workers compensation here and they do a good job. Who eventually wins depends on the ongoing services that each can provide."

Bayly, Martin & Fay handled its

first account in Hartford in September, 1978. It was a workers compensation policy for a Carvel ice cream store, says executive vp Richard C. Newman. The office now has nine employees.

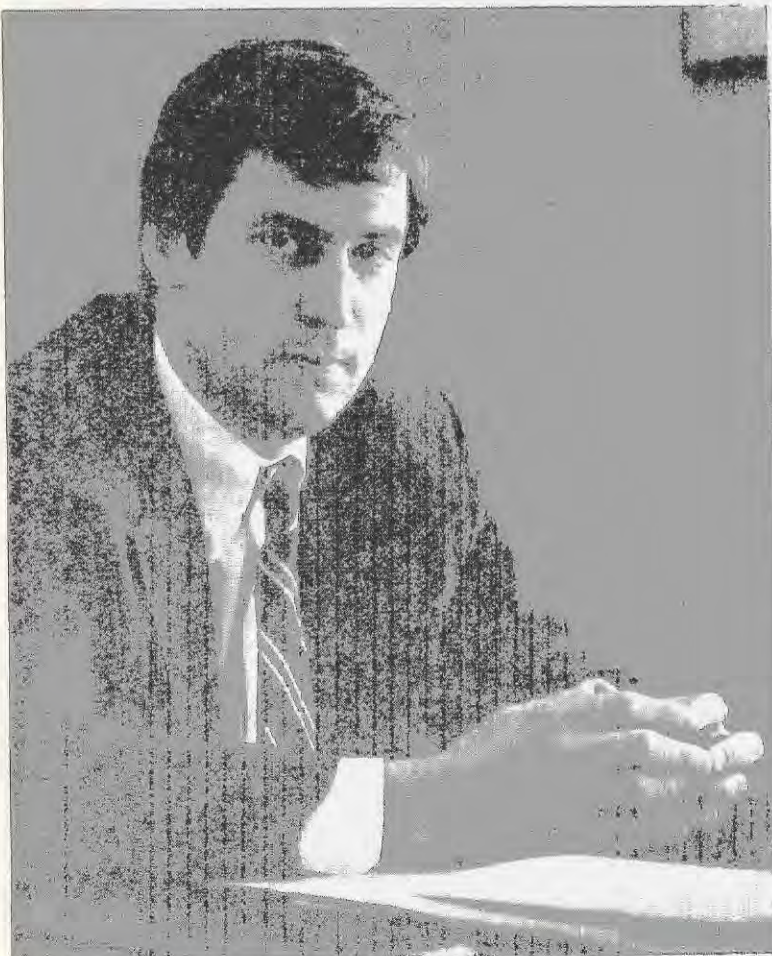
The beginning was rocky. A&A went to court against the BM&F management for violation of a non-compete agreement. A&A lost, however, and today the BM&F book contains very little former A&A business.

"It was a heck of a challenge to start out with no book of business like that, but I kind of liked it," Mr. Newman says. "At least the problems we run across are all ours."

"We started with the key objective of going after the middle market," he says. "If a risk manager—there are not too many around here—called up and said he wanted us to handle his business we could do it. But we're not going after the jumbo account."

BM&F's book of business leans to casualty insurance, Mr. Newman says.

"You target what you do best," he says. "We do casualty well. We also do some contractors and some steel work. We like firms with high product liability exposure. We also do a lot with a national ma-



"Hartford isn't an Atlanta, but then it isn't a Detroit, either," says Alexander & Alexander managing vp Val E. Nichols about his home.

Photos: Dave Galanti



Arthur A. Watson & Co. has an internship program that trains college athletes to become producers, says president Charles S. Watson.

can catch up, however. "I always felt that we were pretty up-to-date around here until I worked with our agent association and Assurex. Maybe we have been too tied to the thinking of the big insurance companies here."

To combat that, Mr. Watson will rely on targeting medium-sized accounts out of Hartford and a small New Haven office. Fairfield County is a possibility for growth, "if we are willing to work and are good," he says. The firm is also in the second year of an internship program that trains student athletes to become producers.

The agency has four men in the program this summer, all recruited from local colleges.

"We're not going to rely on stealing employees from elsewhere," he says. "We want to develop from within. The athlete knows how to win and lose and what it takes to win. That can be hard to instill in the non-athlete. Athletes are also used to grinding training to achieve one thing. We find they fit in well with us."

Interns go through the licensing process immediately, then are turned loose in the agency's personal lines department, Mr. Watson says. First year interns work from 7 a.m. to 5 p.m., with the first three hours devoted to reading and

study. The second year more emphasis is placed on sales, and the interns are more on their own.

Unlike many firms, Arthur A. Watson handles personal lines, but not small commercial accounts. Much of the bottom-end commercial business was sold to another agency recently.

"We tend to stay away from the small commercial account," Mr. Watson says. "We want to maximize what we have. We'll get back into the small commercial business in three years when our interns have spent two years in personal lines and are ready to go into small commercial business. But then it will be very structured business—association plans or the business owner's policy—not whatever is out there."

At Allen, Russell & Allen, the 40-employee firm has tried branch offices in the past but has found they don't work as well as they would like.

"We were too decentralized," says Philip A. Wilde, Jr. "In this state you can get around pretty well from Hartford."

The firm is 85% commercial and writes a generalized book of business, he says. The agency's aim is to frequently remarket business upon renewal while building a close relationship with buyers. ■

another place

chine tool association.

"We can take the crumbs off the table. Alexander & Alexander can bring in lots of big guns and try to impress the client. We're satisfied with the smaller risks."

Marsh & McLennan entered the Hartford area through the acquisition of a small agency in Bristol, Conn. Today, the office employs 26, including a small nuclear risks staff.

"Our business comes from all over the state, because there is no overwhelming city in Connecticut," says M&M's Mr. Hall.

"This office is a very adolescent office, and we take growth where we can get it," Mr. Hall adds. "In general prospecting, we target selected manufacturing accounts or specific industry problems that we can help solve, such as excess hospital coverages."

"All in all, however, it isn't as difficult to get new business here as I expected when I came in in 1979."

Mr. Hall admits that Hartford is not New York, but he says the future of firms like Marsh & McLennan lie with their Hartford-type operations.

"The growth of big brokerages will have to come from offices like this," he says. "The formation of big companies for brokers to serve

is almost nil. We can have a healthy economy in this area, but I don't see the biggies growing at a huge rate. That leaves it up to the smaller accounts and the Hartford offices to provide the growth for the brokers."

Fred S. James also arrived in Hartford via the acquisition of two brokers, one of which was a firm specializing in retailing risks throughout the country.

New president David E. Kimball today speaks the same "non-specialty" song as his competitors, but admits that the retailing base still accounts for 30% to 35% of the 40-person office's business.

"Our retailing business is national in scope, which might be a little unusual for agents and brokers in this area," says Mr. Kimball.

"We manage and maintain the accounts out of this office. Our successes have resulted from our ways of manuscripting forms plus a good national marketing program. It's designed to fit specific needs such as crime coverage, which is particularly difficult because of the large stock, many doors and customers in the retailing business."

"We handle a range of accounts, from chains of 300 to 400 stores down to a single location." ■

No special treatment by insurers: Brokers

HARTFORD, Conn.—It's not the premium volume that brings big brokers to Hartford, it's the status of being in Insurance U.S.A., some observers say.

That's not true, say many of those local brokerage leaders. Their professional relationships with insurance company executives are much the same as if they were located in Fort Wayne, Ind.

"You can reach the top people at the insurance companies better because you are here," says John S. Hall, vp of Marsh & McLennan here. "But we don't have much to do with them. You still have to deal with the branch office, and that can be harder than elsewhere because the home offices tend to pluck the best people from their Hartford branch because they don't have to pay to move them from somewhere else."

"In addition, we don't get any calls from the rest of the organization to run down the street and talk to insurance company executives," Mr. Hall adds. "The extent of our connection is that maybe someone from there will call us and ask us Marsh's opinion or stand on one issue or another."

Bayly, Martin & Fay's Richard C. Newman agrees.

"There's really no difference in being here or anywhere else on a day-to-day basis," Mr. Newman says. "You don't go higher than the branch office. I will not deal above an underwriter's head. You can't keep doing that and maintain a relationship with those offices."

The proximity to insurance companies doesn't help in personnel recruitment, either, claims Mr. Newman.

"You'd think there would be all kinds of insurance people around to hire for us," he says. "Not true. There are a lot of home office people, but those mainly are technical staff. There are not too many good agent/broker people around because that takes a broader expe-



Though Hartford is the home of several large insurers, including Travelers Tower above, brokers say they get no special treatment.

rience."

Val E. Nichols, managing vp at Alexander & Alexander, claims there are other benefits, however. He agrees that you can't go over the branch office underwriter's head on a risk. However, he says a local agent or broker can talk to the executives of the Hartford insurers and get a better feeling for what they will do in a particular instance.

"Anybody who says it doesn't help to be located here isn't telling the truth," Mr. Nichols says. "I've known some of those insurance company people since high school, and it really helps. Maybe it doesn't make a dollar's worth of difference, but it does make a dime's worth."

"In individual cases we think we can do a little better job with, say, The Travelers than a broker in Indiana, just as brokers in San Francisco can probably do a little better with Fireman's Fund. On occasion, knowing the top guys has helped us."

Philip Wilde Jr. of Allen, Russell & Allen says he feels most Hartford area agents do most of their business with Hartford insurance companies.

"Still, we represent 15 other insurers," Mr. Wilde adds. "We have developed a personal relationship with the local insurers and that's nice. But if a good program comes out of San Francisco, we'll use it."

Herbert R. Bland of R.C. Knox & Co. agrees.

"Years ago Hartford people wanted their insurance with local firms," Mr. Bland says. "That has gone with the wind. People here do socialize with insurance company people mainly because there are so many of them around. But we don't talk business socially."

"Back in the 1950s it wasn't uncommon to go over the branch's head. Today, however, you can't. The branches are more capable. It may work today, but it's not sound politically."

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NAIB: Group formulates plan for Capitol lobby effort

WASHINGTON—On the path of what association officials hope will be a rebirth, the National Assn. of Insurance Brokers will step up federal lobbying efforts here.

The NAIB is in a transition phase, said outgoing president Richard J. Rice, and must increasingly turn to lobbying efforts to present the commercial broker's side of insurance-related issues.

At the first open annual meeting of the association here, Mr. Rice told representatives of member brokers that NAIB had not kept

pace with the 1980s and had taken "a defensive position" in its outside relationships.

To combat this position the NAIB has raised its dues, reduced its governing board from 45 to 35, and instituted a more open posture.

"We have to change the NAIB from the trappings of a professional society to a true trade association—one that is run by professionals on a cost-effective basis," Mr. Rice said.

In the past year, NAIB has hired a new executive director, Donald L. Jordan, and almost completely revised its professional staff. The organization has hired two new lobbyists and moved its offices from New York to a location near Capitol Hill.

Mr. Rice told *Business Insurance* he felt the NAIB would succeed in its new goal to become a force in Washington.

"I think what has emerged here was a confirmation that something is different about our organization now," Mr. Rice said. "I think we have shown people that we now have a team here that can carry our organizational goals without daily direction from the brokers."

The time is ripe for commercial brokers to unify so their goals can be presented to regulators and legislators in Washington, he said.

"The brokerage business and insurance business has gone through a great deal of evolution," he said. "There has been a blurring of lines. The times demand that our member firms have a presence in Washington."

"We don't want to be a knee jerk organization," Mr. Rice added. "We want to be the group to come up with professional advice when asked and gain a reputation for shooting straight from the shoulder. We occupy a pivotal position between buyer and seller. I think that needs to be represented here."

NAIB, Mr. Rice said, will be an independent organization that will work with similar industry groups on many broad industry issues but might break from these groups on individual issues affecting commercial brokers.

"We have no desire to strike out at our other sister associations in the industry," he said. "But at the same time, our first instinct isn't to immediately join ranks with those organizations."

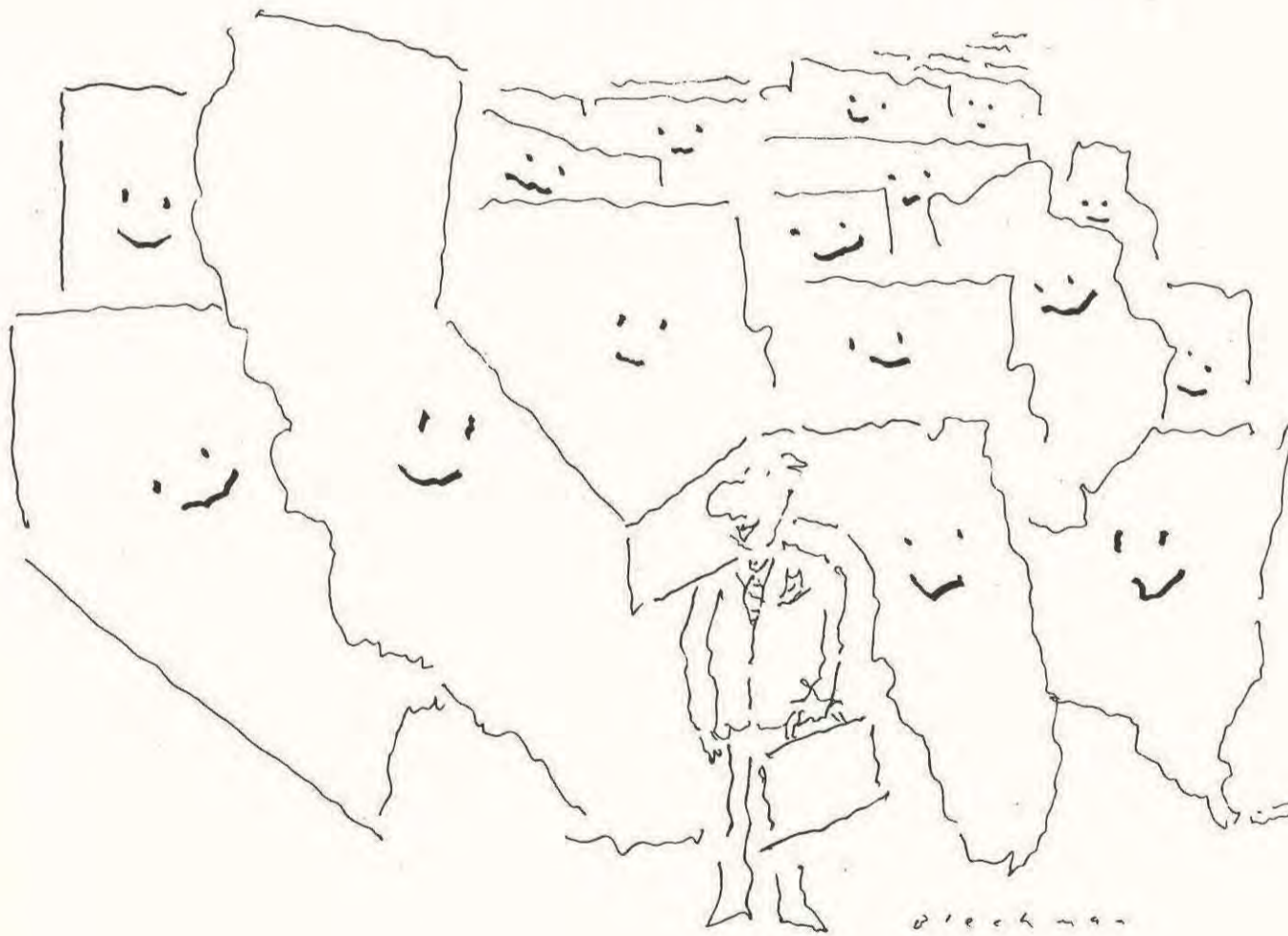
"Our members have different goals than members of other groups," added Mr. Rice. "That's why there is some disaffection of the large commercial agents and brokers with an organization like the Independent Insurance Agents of America. Their (the large brokers') goals may be different from much of what an IIAA wants to achieve. We don't want to get involved in personal lines legislation, for instance. Local agents may not be fighting for the same things that larger guys need to push for."

Although Mr. Rice and Mr. Jordan acknowledged that the NAIB is not the first insurance organization in Washington, both speculated that perhaps their participation there could not have come sooner.

"I suspect that a lot of what the other producer organizations (such as the IIAA or National Assn. of Professional Insurance Agents) did was concerned with revitalizing the American Agency System,"

Continued on page 20F

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NAIB is at a crossroads and hopes to increase its lobbying efforts, says outgoing president Richard Rice and executive director Donald Jordan.

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NAIB aims at greater lobby use

Continued from page 20D

Mr. Jordan said. "That brought them together here. I think with our larger membership in terms of members' revenues, we were not as concerned about whether we would be around tomorrow. Therefore, it took longer for us to get together."

"In addition, we found in doing our planning for the 1980s that brokers have grown in great strides in the '70s," said Mr. Rice. "With all that growth, you only get to catch up with yourself when you take a decade-long look at yourself. When the brokers did that, it was only natural that that introspection would lead to this new direction."

Mr. Jordan said a consultant hired by NAIB told the group that it would be about two years before the lobbying efforts would really be established.

He added he expects a certain evolution to occur in the services his Washington staff can provide members.

"Trade associations tend at first to be reactive because that is usually why they are formed—to react to some outside occurrence," Mr. Jordan said. "Eventually, we want to set up an agenda that works on issues with regulators before any legislation comes out. We want to work with them on the issues we would like to see become a part of national policy."

Another goal of the NAIB is to increase membership. Mr. Rice said eight or nine of the *Business Insurance* Top 20 brokers are not currently NAIB members.

"I think one or more of that number may be convinced to join us," Mr. Rice said. "We taped our annual meeting and we hope to come out with a 15-minute film showing the NAIB as we would like to be presented."

Unlike other trade associations, membership is by brokerage, not individual brokers. However, Mr. Jordan said there is plenty of room for individual participation.

"There can be a two-way interface between us and, say, an account executive in Oklahoma City," he said. "For instance, that person would live in Oklahoma and be able to contact his federal legislators there. Or the person may be an expert in a particular area of insurance that would aid us in the formation of certain legislation."

"Eventually, we would like to develop strong support through local chapters."

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Training, insurers top agenda

LAKE BUENA VISTA, Fla.—Producer training, agency efforts to revise Florida's insurance code, news about the national organization and an old-fashioned pep talk by Executive Vp Tom C. Johnson highlighted discussion at the annual Florida Assn. of Insurance Agents convention here.

• Steve C. Goodfellow, FAIA director of management programs, outlined a new program that will train 14 men to become producers at FAIA member agencies.

The new producers, recruited from schools, insurance companies and sales areas outside the insurance industry, will be put through a FAIA training program.

The producers will be pitted against another group of new producers without FAIA guidance for one year to see if FAIA educational efforts and goals make a difference, said Mr. Goodfellow.

• William G. McCue, FAIA legislative and industry relations director, said the association's report had been completed on revising Florida's insurance code, which is due to expire by a sunset provision July 1, 1982.

A consensus report, sponsored by the FAIA, 20 insurance companies and eight other insurance-related organizations, has been printed and has been offered to the Florida legislature for review.

• Executive Vp Tom C. Johnson told agents that after 11 years of lobbying, Florida agents are getting more competitive rates and products.

However, he warned that agents cannot take as long to solve the problems of the 1980s as they did to solve the problems of the 1970s.

In 1980, agents reversed the loss of market share, gaining one percentage point, he added. What made this gain possible was turning Florida from a loser in terms of loss ratio to a profit maker. The improvement was also a result of top insurer decision makers deciding to write a substantial volume of new business in Florida.

• Independent Insurance Agents of America president-elect Robert Treweek told agents that the national organization was ready to sign Raymond Barr as its new JAM advertising spokesman.

Mr. Treweek said it was time to change the present comedic approach of the program to one that gave facts in a serious format.

Mr. Treweek also said the IIAA has decided to move its mid-year meetings from "posh resorts" to Washington D.C. to help the organization's lobbying efforts.

Photo: FAIA



Frederick B. Karl, general counsel of the FAIA, asks a question to one of the 23 participants in an insurer-agent panel discussion on agency issues during the FAIA's annual convention at Walt Disney World.

FAIA:

Highlighted by a panel of 19 insurance company executives and four top Florida agents, more than 600 members of the Florida Assn. of Insurance Agents met at Walt Disney World to listen to updates that included suggestions for revising Florida's insurance code, new plans for the Joint Agency/Company Marketing Program and a new FAIA-sponsored producer training program.

Insurers, agents must cooperate: Panel

By DAVE GALANTI

LAKE BUENA VISTA, Fla.—Agencies and insurers must work increasingly together as competition from the national brokerages, direct writers and risk management alternatives threaten to take away market share, the Florida Assn. of Insurance Agents was told here.

Twenty-three insurance company, agency and FAIA executives told agents they must keep up the lobbying pressure in Washington to insure that their views on national regulations and legislation would be heard.

On cooperation, insurer executives such as John R. Cox, president of the Insurance Co. of North America, and Edward J. Noha, chairman and chief executive officer of CNA Insurance Cos., touted such recent agency programs as INA's 1-Compar program and CNA's Insight, which guarantee stable markets in return for production goals.

Guarantee programs are a good sign of cooperation between agents and their markets because they "put in black and white that we will be a partner for agents in good times and bad," said Mr. Noha.

Howard H. Ward, president and chief operating officer for Commercial Union Insurance Cos., said his firm's personal and commercial lines programs had resulted in growth levels better than the company average. The insurer has a waiting list to get into the programs, Mr. Ward said.

Automation is another area of increasing agency-company relations. Some panel members felt that instant automation was more important than others in the group, who warned that agents might be moving far too fast in this complex area for their own good.

For instance, FAIA agent Thomas Petway, vp of Gay & Petway Insurance in Jacksonville,

Fla., said he felt computer automation would be the key to many of the insurance agent's present problems.

Despite recently purchasing an automation system to sell to agents, however, Commercial Union's Mr. Ward said his firm wasn't so sure.

"We're not as convinced as some that automation alone will change the average agency much. We do think that automation plus underwriting authority plus good planning will change the future for agents," he said.

"Agents have to take a look at the whole situation. A lot of agents are buying computers for the wrong reasons."

Debate also centered on whether insurance companies should offer agency computer systems as a marketing tool. Several executives talked about their companies' systems, including William O. Bailey, president of Aetna Life & Casualty.

"We have a system, but at this time we admit we can't offer a system that can work as well with other companies as it would with Aetna Life & Casualty," Mr. Bailey said. "Many agents have bought our system, but they have the understanding that at least for the initial period it will be more efficient to use the computer in dealing with us."

That remark drew criticism from Robert R. Treweek, president of the Cannon-Treweek Agency in Gainesville, Fla., and the president-elect of the Independent Insurance Agents of America.

"The strength of the independent agency is choice," Mr. Treweek said. "The agent must be able to pick the right company for each client. If that is true, then to use automation as a marketing tool to tie agents to companies perhaps isn't in the long-range good of the system."

"There will be short-term gains, but to do this will eventually drive up the costs of doing business," he added. "The hardware expense alone

will get so prohibitive for agents that we won't be able to afford it. The threat is to be locked into two or three companies because of the efficiencies of automation."

Mr. Treweek also said it was time for insurers to join agents to "get the job done in Washington."

INA's Mr. Cox agreed, saying that the future in Washington is to take the offense in getting the bills insurers and agents want.

"One of the ways we can battle federal regulation is to serve the consumer well," added Robert J. Haugh, president and chief executive officer of St. Paul Fire & Marine Insurance Co. "Regulation will come more from regulatory agencies than the legislature. What regulations arise will result from our mistakes."

"The industry is going to see market failures again," said Commercial Union's Mr. Ward. "When that happens, government takes notice. We have to work together to combat these problems."

Besides market failures, agents and insurers also fear many new risk management techniques that bypass conventional insurance. Agents and insurers alike said they could not get back much of the business that has left via such means as self insurance and captives, but felt they must be more innovative in the future to stem the tide.

"When the idea of FAIR plans came up, the legislators came up to us and said a problem existed," said St. Paul's Mr. Haugh. "All we said was that it wasn't actuarially sound to price such business. So we got what we got. We can't take that approach again in the future."

"We can't put our head in the sand," agreed William A. Pollard, chairman of The Reliance Cos. "Business is going to other means of risk treatment. There are forces there and the consumer wants to be heard."



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Agents see market gain

LAKE BUENA VISTA, Fla.—An informal poll taken at the Florida Assn. of Insurance Agents convention here shows Florida agents are more and more satisfied with their insurers.

Agents attending a morning general session were handed special computer forms which could be tabulated on site before the session ended. Nearly 350 agency employees responded. About 260 were agency principals. Premium volume of agencies tallied ranged from less than \$500,000 to more than \$3 million.

The increasing satisfaction with markets was shown by a series of questions on whether agents felt they had an open market for auto, homeowners and small- and medium-sized commercial business that allowed them to consistently compete with direct writers.

In 1979, responses to the same question were 20% "yes" in automobile lines, 54% "yes" in homeowners and 47% "yes" in commercial lines. The 1981 survey found jumps in positive answers to 46% (auto), 68% (homeowners) and 80% (commercial). Agents were also strongly confident this year that their lead company would provide them with personal lines markets through a bad cycle.

Within the past 12 months, however, only 73 agents reported having more than a 15% increase in premium volume. All but 53 respondents had less than a 15% increase in commission income, despite an increase in customers for all except 48.

riskWatch

Brokers have chance to show consumers where they stand

By LEN STRAZEWSKI

Do brokers really represent commercial consumers or are their ties to the insurance industry too strong to make them buyer advocates?

It's an old and controversial question in the insurance and risk management business, and many a consultant has stirred the controversy by speaking to gatherings of risk managers on the subject of broker bias. Many a reporter has gotten an earful of complaints when a news source suggests that a broker may have a pet insurer. But the question has never really been answered.

Independent agents acknowledge the contractual link between themselves and the insurers they represent. By definition, an agent represents an insurer and sells that insurer's products. The large brokers consistently affirm that the buyer is whom they work for. Although in many states insurance salesmen must be agents, large national brokerage houses say their independence is still untouched because of the assortment of insurers they choose from. The buyer is the interest that sets the goals, brokers say.

In the coming year, we may see the test of that credo as the National Assn. of Insurance Brokers moves out of the job of brokerage trade club and into the role of lobbyist. The issues the NAIB chooses to take on may finally tell us who really controls the brokerage interest. If the brokers choose to represent buyers in regulatory battles, they run the risk of breaking with the industry that provides them with insurance markets and the insurance agents that brokers acquire to expand their business.

"We've got no desire to be Samson in the temple," explained Richard Rice, the NAIB's outgoing president and a vp at Johnson & Higgins. "But we are not making first priority to close ranks with anyone, independent agents or buyers. We feel that the times require some direct broker participation in the governmental process," he said.

"As the commercial brokerage interests intersects another group, we will work with them. As the interests are different, we will break ranks," he said. Most observers, however, feel that the NAIB will at least go through the motions of supporting buyer views, but the pressure to go in several directions at once is clear.

The Risk & Insurance Management Society, of course, will be pressuring on the side of the buyer. RIMS and the NAIB already have a liaison committee that was started more than two years ago by former NAIB President David Holbrook, a senior vp at Marsh & McLennan. Joint lobbying efforts were rumored but never took place.

Regulators and former regulators also are pushing for NAIB involvement in issues, but each has a favorite issue to hype. Victor Schwartz, one of the nation's leading experts on product liability and tort law and former head of a task force on product liability insurance, turned an NAIB panel discussion on regulation into a lecture on how the brokers could forge strong links between the insurance industry and commercial buyer interests (BI, June 29). On the Risk Retention Act, Mr. Schwartz's pet project, the NAIB played a central role in bringing buyers and insurers together, a key alliance if the bill is to pass.

Fellow panelist Philip O'Connor, the Illinois insurance director, took up the call and added his own request that the NAIB support state insurance commissioners in repelling threats of federal insurance regulation.

Insurance companies, armed with strong lobbying forces already in the American Insurance Assn. and the Alliance of American Insurers, will take any additional support they can get. Insurers already are leaning on brokers to cut back on the promotion of risk-funding alternatives and unbundled services and probably will demand legislative support as issues appear.

Despite these pressures, NAIB leaders say the group will choose its own direction and set its own priorities—with insurance buyers in mind.

"We endorsed the Risk Retention Act, but only after some careful study," Mr. Rice said. "We didn't want to be a knee-jerk reaction to anything. We want to be available in Washington and provide advice to members and legislators when asked—issue by issue. RIMS doesn't have a Washington office and so our staff might be very helpful."

The NAIB's current goals cut across a wide range of interests, according to Executive Director Donald Jordan, but the path seems middle-of-the-road. The group is actively participating in an all-industry committee that supports tax deductions for self-insured loss reserves. The brokers' association, according to Mr. Jordan, is researching a position on the general issue of compensation, including workers compensation, payment of special liabilities and retirement benefits.

"There's a lot involved in federal tort reform and, of course, brokerage clients are involved," Mr. Jordan said. "We must break these issues down and see what's going to happen to the market, from the buyer and insurer side."

That's a good position—for now.



Strazewski

Hospital captive eyes profit

Continued from page 3
be insured initially by Methodist Hospitals under the new arrangement to more than 2,000.

Mr. Nichols joined Methodist Hospitals in 1977 from Insurance Co. of North America where he specialized in medical malpractice and product liability claims adjusting.

He convinced the board of the fourth-largest private hospital in the United States to allow him to administer a self-funded program in-house. A self-insurance feasibility study by Corroon & Black had recommended the hospital use outside administrators.

The captive, which will underwrite only Methodist Hospitals' risks, and its commercial insurance venture grew out of the success of the self-insurance program.

Created June 16 with a \$750,000 letter of credit, the captive has received another \$1.7 million that had accumulated under the self-funded program. The captive will fund its subsidiary, United States Security Fire & Casualty Co., with \$1.1 million when it is licensed.

A marketing staff will hit the road in the next 45 to 60 days to promote the new insurer to hospitals in Arkansas, Mississippi, Tennessee and Kentucky.

"Four hospitals are literally waiting for our licensure," Mr. Nichols said.

"The majority of captives are financial arrangements and managed by others," he noted. "Our captive is set up to run as an insurance company with claims, loss-control, underwriting and marketing staffs," Mr. Nichols said.

The current staff of eight will be expanded in August with the addition of a senior vp of operations. As it develops, nurses and more loss-control personnel will be added.

Mr. Nichols projects that in the next five years the captive will underwrite \$4 million in premiums for Methodist Hospitals and the commercial insurance company will underwrite \$6 million in premiums.

Methodist Hospitals now spends about \$1.2 million annually on insurance and the cost of self-funded losses.

Quota share reinsurance is being negotiated for both companies. The chosen reinsurer initially will get 25% of the captive's risk and 95% of the commercial insurer's risk. These percentages will reduce to nothing on the Methodist Hospitals risk and 50% of the outside business by the third year. After the fifth year, the commercial insurer will retain all primary risks and only purchase high excess treaty reinsurance.

"I'm trying to decide whether to

use an intermediary or deal direct," said Mr. Nichols, who is being advised on the insurance companies' development by consultants Risk Management Inc. of Los Angeles.

The American Hospital Assn.'s captive, which acts as an intermediary, is submitting a proposal as well as Gerald Sullivan Associates in Los Angeles.

Under the previous self-funded program, Methodist Hospitals retained a \$1 million per occurrence and \$5 million aggregate self-insured retention, with \$30 million of excess insurance provided by American International Group.

The excess insurance program will continue over the retention levels now funded in the captive.

Originally, Mr. Nichols wanted to be part of a new association captive, but found there were too many obstacles to forming a new one.

"One, there's a natural tendency

on the part of other hospital administrators to wonder, 'What is Methodist up to?' Second, I would get the response, 'This sounds great. I'm interested. Let me talk to my broker.' And third, there is a natural conservatism among hospital boards against changing from conventional procedures, in this case insurance," Mr. Nichols explained.

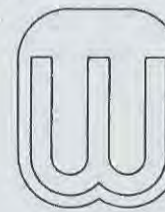
Besides insurance, Methodist Hospitals plans to enter claims administration and adjusting through the commercial insurer.

United States Security Fire & Casualty will enter into a joint venture with Los Angeles-based R.L. Kautz to offer multiple-lines claims adjusting services and claims administration for self-insurers of employee benefit plans in the Midlands.

Clients of the multiple-line claims adjusting services will include the United States Security Fire & Casualty, self-insurers and other insurers, Mr. Nichols said. ■

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Legislators defeat wage-loss proposals

Continued from page 3

will offset any possible premium decrease, but I strongly believe it would prevent any further premium escalation."

From July 1978 to December 1979, workers compensation insurance rates in Delaware increased 40%, Mr. Wyer says. Total premiums rose to \$44 million from around \$34 million. Since then, rates have risen less than 5% because the state's insurance commissioner wanted to see what the Legislature would do about wage-loss.

"Our bill would mandate an 18-month freeze on premiums with the idea that once it passed, we would lead the fight for decreases," he says.

The state's plaintiff bar dislikes portions of the legislation aimed at changing Delaware's compensation system from an agreement system to a direct-payment system, sources say. Presently, before a claim can be settled, an injured employee, the insurer and the state Industrial Accident Board must agree on the level of compensation the employee will receive. This leaves the system open to time-consuming and costly litigation.

Under the proposed bill, a direct-payment system would be set up. It would require an employer to pay an injured employee within 16 days or file reasons for denial within 21 days. A coordinator, or ombudsman, who safeguards the interests of both parties and manages an extensive rehabilitation program, would be appointed to oversee the system.

"We want to get back to what workers compensation was meant for in the beginning," says William Campbell, an attorney who drew up the bill. "If an employee couldn't work or get wages equivalent to what he had before the injury, he would get benefits. The concept of wage-loss is geared toward real economic loss."

Louisiana defeat

In Louisiana, the wage-loss idea was sold, but an effort to take contested compensation cases out of the courts and put them under the jurisdiction of a state commission killed the bill.

"Louisiana is unique because it has no state compensation administration," says attorney John Lewis of Baton Rouge, a proponent of the bill and former chief counsel of the National Council on State Workers' Compensation Laws.

"We went in with a proposed administration and a somewhat improved wage-loss compensation structure. There seemed to be an acceptance of the wage-loss concept, but not of the administration. That's what killed it."

Ed Steimel, president of the Louisiana Assn. of Business & Industry, which originated the bill, agrees.

"We are the only state in which all contested compensation cases must go through the courts," Mr. Steimel says. "Our bill would have set up a compensation and rehabilitation commission. We didn't quite sell the commission part of it. We were setting up a bureaucracy, which is not a popular thing to do."

Louisiana judges now decide to what degree injured workers are disabled and how much damages they should receive.

"You have doctors on one side saying a claimant is 10% disabled and on the other saying he is 70% disabled," he says. "The judge has to decide and it is a subjective decision made by a person who is not a workers compensation specialist."

This results in higher costs to the compensation system, he says. Mr. Steimel says National Council on Compensation Insurance figures

show the average compensation case in Louisiana in 1978 cost \$5,000. The next highest in the Southern region was Texas at \$3,000 a case.

"We also had the greatest percentage of cases declared permanent partial," he said. "Of 10,000 cases, 2,470 were named permanent partial by the courts. This is around 25%."

More than 50% of the total compensation dollars went to injured workers in this category, he says. "We need to save money there, which is why we attacked it this way. We need professionalization of the compensation process to get it out of the courts."

During 1980, Louisiana ranked seventh in the nation in workers compensation premiums paid, but 10th from the bottom in benefits. Premiums for that year totaled \$350 million to \$370 million. With self-insurers' costs added in, the total approached \$500 million.

"Premium rates are higher here than anywhere around," Mr. Steimel says. "During the course of the debates, we fought off mandating premium reductions, however, because we felt wage-loss would reduce premiums anyway."

Recommended reduction

Several actuaries said they would recommend a mandatory 10% premium reduction if the bill passed, he says. "My feeling is there would have been a reduction of closer to 25%, which would have meant savings (to employers) of more than \$100 million."

Benefits would have been raised by 13% across the board, he says. The current maximum weekly benefit, based on 66.6% of the average weekly wage of \$246, is around \$164. The reform bill would have raised this to 75% of the average wage, or \$184.

In addition, a one-year mandatory rehabilitation period would have been added to the law, requiring employers to retrain disabled workers for jobs that suit their capabilities.

The reform bill would have outlawed payment of lump sums except for certain scheduled injuries, such as amputation.

"We put those on a flat rate. The bill guaranteed \$20,000 for an arm, plus all benefits before and after healing until the worker returned to work," he says. The present schedule pays \$3,600 for a lost arm.

"The whole idea is not to pay for an injury. It is to help the injured worker sustain himself while out of work," Mr. Steimel says. "We added the flat rate feature because it didn't seem right to do away with it entirely. This was meant to replace lump-sum settlements."

Two opponents of the Louisiana bill, whose corresponding organizations have fought wage-loss bills in other states, were the Louisiana Trial Lawyers Assn. and the AFL-CIO.

"We don't like it," says Carl Crowe, a lobbyist for the AFL-CIO.

"In the first place, we are satisfied with the law in its present posture. Secondly, we don't think the wage-loss concept has been in existence long enough for us to decide if it would be to our advantage."

The union does not oppose true wage-loss, which he defined as total reimbursement of lost wages, he said. "This would mean \$600 returned to a man making \$600 a week. Industry wants wage-loss on a limited basis. We're against that, but have no objection if it is true wage-loss."

As for the state administration of workers compensation claims, Mr. Crowe says the AFL-CIO would never agree to it.

"We like it kept in the courts be-

cause judges are elected and the administrator wouldn't be," he says. "We also feel there would be too much power concentrated in the hands of one man."

Wage-loss was less of an issue than other portions of the bill, says a spokesman for the trial lawyers. "We are opposed to the bill primarily because of the way it was drafted, not necessarily because of the wage-loss concept. The commission system was not detailed enough. It didn't show exactly how it would work or where it would be located. This part was too sketchy."

The bill fell five votes short of a majority in the House, Mr. Steimel says. "We came close to passing it, but lacked time to get it fully understood. I think it will pass next year."

A workers compensation bill in Oregon, which included a wage-loss provision, was passed only after wage-loss was amended out.

"The whole bill was built around it, but there was no support for it," says Rep. Jim Chrest, the sponsor. "We were trying to lower costs to employers; that was the theory behind it. We felt there was potential for tremendous savings there."

The bill would have done away with awards for permanent partial disabilities other than for loss of limb, Mr. Chrest says. "There would have been an increase in benefits received, but those kinds of claims would not have been litigated. There would have been a flat schedule for them."

At this time, Oregon's compensation premiums are the highest in the country, he says. Employers pay a total of \$600 million to \$700 million a year for coverage. The weekly benefit is 66.6% of the av-

erage gross wage, for a maximum of \$226. The reform bill would have changed the formula to 85% of each worker's spendable income, to raise the maximum benefit to around \$400. This would give upper-income workers, who bring home \$400 to \$500 a week, a benefit closer to actual wages.

"Through our proposal, the benefit would have been closer to what they were making while working," Mr. Chrest says. "It was a more realistic figure."

The bill was heavily weighted toward rehabilitation and job-site modification to accommodate a worker's return, he said. "This would be mandatory, with the employer and employee maintaining contact so each knows what is happening firsthand and the employee knows he has a job waiting for him when he recovers."

Main opposition

As in Louisiana and Delaware, the main opposition came from trial attorneys and labor, Rep. Chrest says. "Labor supported wage-loss, except for doing away with awards for unscheduled permanent partial disability."

One major portion of the bill that did pass set up a file-and-use system for workers compensation ratings in Oregon.

A wage-loss bill in Maine, patterned after the Florida law, died in the House last month on a 83-61 vote.

The bill's main thrust was to cut workers compensation costs by putting partial permanent disabilities on a wage-loss basis, a legislative spokesman said. The bill would have put the burden on an injured employee to show lost

wages were due to work-related injury.

Right now, a person with a partial disability can recover compensation for life—it's an open-ended system and no distinction is made between permanent partial and permanent total disabilities, the spokesman said.

Maine's maximum weekly wage benefit equals 166.6% of the \$210 weekly wage. This increased to 200% July 1.

Washington's reform bill failed in the face of opposition toward allowing commercial insurers to cover workers compensation in the state. Compensation insurance is now provided by a monopolistic state fund. The Senate defeated the workers compensation bill 25-24 (BI, May 25).

"We have a state fund and are trying to get a three-way system," says Dough Bohlke, president of the Washington Assn. of Business, which originated the bill. "We were trying to break the state monopoly."

To make the bill more attractive to organized labor and thus easier to pass, wage-loss was added, he says. The wage-loss portion was similar to the Florida bill.

About 260 Washington employers are self-insured and an estimated 110,000 are insured through the state fund, Mr. Bohlke explained. "We think premiums are on the high side. Business has been trying for 15 years to open up the state."

The defeated bill has three main parts: an improved rehabilitation program, a wage-loss provision and a three-way compensation insurance system, he says. "We will probably take another shot at it in '82."

Pennsylvania scales down product liability reform bill

Continued from page 2

senior staff associate of the Pennsylvania Chamber of Commerce.

Not so, argued Bill Titelman, legal counsel for the Pennsylvania Trial Lawyers Assn.

"The legislation would do nothing to bring down the cost of insurance. It is a big front designed by big business and the insurance companies."

Several similar bills were introduced several years ago so battle lines already are well-established.

On one side is the state's business community led by the Pennsylvania Chamber of Commerce. It is fighting against what it believes are skyrocketing insurance premiums, greedy lawyers and a declining business climate in the state.

On the other side are the Pennsylvania Trial Lawyers Assn., labor unions and consumer groups, battling to defeat what they say are big business and insurance company efforts to take away the legal rights of consumers.

Mr. Holt said that recent judicial product liability decisions have created a legal environment that is not fair nor conducive to good business.

The rash of product liability suits in Pennsylvania has caused insurance rates to climb, he said. This added cost has an adverse impact on consumers and is a deterrent to business expansion in the state, he added.

Mr. Holt said Pennsylvania is becoming a haven for lawyers and product liability suits.

"It is easier to sue in strict liability here than it is in other states," Mr. Holt explained. "The legal cli-

mate is having a negative effect, not only on businesses, but consumers as well."

Despite the increased insurance costs Pennsylvania businesses have experienced, the main effect of the legislation would not be reduced rates, he said. But the bill would create "premium stabilization" for small businesses and reduce legal costs, he said. This will create "a better legal climate in which to do business."

It is no wonder, Mr. Holt said, that lawyers oppose the legislation.

"Our feeling is that they believe the Pennsylvania legislation is taking away the goose that lays the golden egg," Mr. Holt said.

The most vocal group opposing the bill is the trial lawyers association.

Mr. Titelman explained that the legislation would take away the rights of people seeking redress when injured and remove the obligations from those responsible for the injury.

Ohio cuts work comp rates

COLUMBUS, Ohio—Workers compensation rates for Ohio employers were reduced by an average of 3% last week by the state's Industrial Commission.

The rate reduction, the third cut in four years, is expected to save employers \$15 million if employment rolls stabilize, according to the commission.

At the same time, the commission announced that the state workers compensation insurance fund no longer has a deficit and

"It tends to greatly reduce the responsibilities of those who manufacture and sell goods to the public," he said.

"The attempt is a very short-sighted public policy on the part of manufacturers and the insurance industry. It might help in the short run but not in the long run."

Mr. Titelman said the blame for high insurance rates and the less-than-favorable business climate does not lie with laws governing product liability.

"Generally, there is not a product liability problem in the state of Pennsylvania," he said. "Studies indicate there is not a crisis in product liability laws."

The reason for rising insurance rates, he said, is that the insurance industry is "over-reserving and, therefore, running up the cost of insurance."

Mr. Titelman then suggested strong financial disclosure laws for insurance companies before tampering with the rights of plaintiffs. ■

has enough assets to pay future costs of all injuries and disabilities incurred before 1980.

The deficit had been as high as \$1.3 billion.

The rate reduction was made because of a decrease in the number of permanently, totally disabled claimants and a rise in investment income earned by the state fund.

Ohio is one of a handful of states that provides workers compensation coverage to employees through a monopolistic fund. ■

Minnesota group monitoring health costs

Firms push screening

Continued from page 1

will decide before admission if the patient is going into the hospital. "It isn't likely that it (admission) will be denied," Dr. Frey says, but if the work is usually done on an outpatient basis, the admitting physician will be notified. "It will be a reminder, a check-in process for pre-admission proceedings."

The second aspect is an "ongoing concurrent review" of the patient, Dr. Frey says. If the patient is hospitalized longer than necessary under normal circumstances, the physician will be consulted.

According to Dr. Frey, a three-month trial to work out bugs in the system began this month. During this time, the process will not be binding.

"There will be some variation as to how the corporation uses the info they get," he says. "That's their prerogative." Some, he says, will accept the pre-admission opinions on an advisory capacity before actually denying any benefits.

Dr. Frey said physicians are "not unanimously enthusiastic" about the program and that some have interpreted it as another layer of bureaucracy.

But he says the program is not constructed to interfere with the physician-patient relationship, and predicts that it will be accepted by the majority of physicians.

Perhaps one of the greatest values of the pre-admission screening will be to create a "radar effect" to spread the need and concern throughout the community to be as cost-effective as possible, Dr. Frey adds.

Employees covered by Blue Cross/Blue Shield or other commercial health insurance plans would be subject to screening. Those enrolled in health maintenance organizations would not be.

The corporations participating include the Carlson Cos., Control Data Corp., Dayton Hudson Corp., Deluxe Check Printers, First Bank System Inc., FMC-Northern Ordnance Division, General Mills, Honeywell, 3M Co., Marquette National Banks, North American Life & Casualty Co., Northwestern National Life Insurance Co., Pillsbury Co., and The St. Paul Cos.

It's too early to document any savings, but the Minnesota Coalition on Health Care Costs knows where it wants to go.

Formed about a year ago after a two-year study by the Minnesota Commission on Health Care Costs, the non-profit coalition includes participants in all facets of the health-care process: physicians, hospitals, insurers, businessmen, government and consumers.

The group monitors all aspects of rising health-care costs in the Minneapolis-St. Paul area to find ways to reduce costs.

According to Dr. James B. Kenney, executive director of the coalition, one of the most serious problems is the "cost-insensitivity" among hospitals, doctors and consumers.

In response, the coalition has formed three major task forces on incentives for change, education and health promotion.

The coalition wants to shift incentives so that economic rewards are not be automatically tied to providing more health care.

Under the current system, Dr. Kenney says, there are economic incentives for health providers to increase the cost of health care.

As an example, he cites hospitals receiving economic rewards for the more service they give, a notion that can be a disincentive.

"It rewards you for being inefficient," he says. "The system is not

geared to being cost-effective."

The problem can be attacked in several ways, including having a more market-oriented approach.

Such methods include influencing employers to be better purchasers on behalf of employees and to offer a choice of good plans.

A second thrust of the coalition is to educate physicians, employers and employees. Under consideration is a pilot program—concentrated in teaching hospitals—to make physicians more aware of medical costs.

For physicians already practicing, another effort concentrates on bringing information to community hospitals.

Physicians make more than 70% of the decisions resulting in health-care costs, Dr. Kenney says. The health coalition may not make them change their ways, but it is a step in making them more aware of rising health costs.

The coalition also hopes eventually to direct education efforts at hospital trustees, Dr. Kenney says.

The third effort will be promoting health programs in the workplace. "Our thrust is to consumer demand," Dr. Kenney says.

Besides emphasizing reduced costs and less service, attention should be given to the health-care user. "If we can prevent more illness, we can affect the demand for health care," he says.

What kind of effect the coalition will have won't be seen for a while, Dr. Kenney says. "It's too early to give the bottom-line results," he says. "It will take a concerted effort for a number of years."

Group life sales increase in April

April purchases of group life insurance set up under new or revised group contracts totaled \$11 million, compared with \$10.1 million in April 1979, according to the Life Insurance Marketing & Research Assn.

info

• **An Innovative Method for Protecting the Purchasing Power of Retirees—Pension Plus**, the June 1981 newsletter of Pension Planning Co. Inc., is now available. For a free copy write Communications Department, Pension Planning Co. Inc., 355 Lexington Ave., New York, N.Y.

• Insurance Co. of North America has published the 12th edition of **Ports of the World**, a desk-top guide describing conditions and facilities in more than 200 world ports. The 84-page, four-color guide contains descriptions of ports including discharge facilities, labor and cargo handling conditions, pilferage hazards and climate. The book also provides basic cargo loss-control methods, a packing guide and charts of marks and symbols. Free copies are available through agents and brokers representing INA or from SuperService, Insurance Co. of North America, Department R, Philadelphia, Pa. 19101.

• Pre-retirement planning is among the subjects discussed in the International Foundation of Employee Benefit Plans' recently published **1980 Corporate Benefits Management Conference Proceedings**. The 102-page book includes the texts of eight speeches presented last year at four corporate benefits conferences. The cost to foundation members is \$6 for fewer than four copies or \$5 for more than five. The cost to non-members is \$10 and \$9 respectively. Contact the IFEPP, P.O. Box 69, Brookfield, Wis. 53005.

• A four-page brochure describing the fire resistance of new **Pyrothane foam** developed by the foam division of Scott Paper Co. is now available to engineers and designers. The new fire retardant foam was created for use in institutional furniture and bedding. It can also be used in mass transit, aircraft and public assembly seating. To receive the free brochure, write Ronald Goldberg, Market Development Manager, Scott Paper Co. Foam Division, 1500 E. 2nd Street, Chester, Pa. 19103 or call 215-876-2551.

• A sample set of **risk management information cards**, including "Correct Lifting," "CPR" and "Choking," is available for \$2.50 from Darrell Heppner and Associates, 1120 E. 14th St., Suite FF, San Leandro, Calif. 94577.

• Two brochures, **Tips of Meet-**

ing Planners and Tips for Travelers, are part of a fire safety program launched by the Insurance Information Institute. They feature fire safety tips for those planning business meetings or gatherings in public places and for those staying in a hotel or motel overnight. Free individual copies or a set of the "Be Fire Smart" leaflets are available from the Insurance Information Institute, 110 William St., New York, N.Y. 10038. Additional copies are available at 5 cents each to member companies, subscribers and agents and 10 cents each to others. Call the institute's toll-free hotline at 800-221-4954. New York residents can call the institute collect at 212-669-9200.

• Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? *Business Insurance* will describe your material as an editorial service in the weekly *Info for Buyers* column. Simply send us a short description of the material to be offered, along with a cost and mailing address. Address all contributions to *Info for Buyers*, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611

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comings & goings: buyers

Houston Natural Gas promotes William Dahl

William J. Dahl, 44, has been named corporate risk manager for Houston Natural Gas Corp. Formerly manager of the company's insurance department, Mr. Dahl is also vp and a director of Gulf Co. Ltd., HNG's captive insurance company in Bermuda. He will report to Michael J. Peiri, senior vp and chief financial officer. Mr. Dahl has held various positions in the insurance and risk management fields and was district manager of Argonaut Insurance Co. before joining HNG in 1974. Mr. Dahl holds a bachelor's degree in business administration from the University of Houston.

Ann M. Raymond has been named insurance manager at Bliss & Laughlin Industries of Oak Brook, Ill., effective June 1. She will be responsible for all of the company's insurance activities. Ms. Raymond, 50, joined Bliss &

Laughlin in 1974 and has worked in various accounting and insurance capacities. She helped form the company's first risk management department. Ms. Raymond will report to Dennis W. Sheehan, vp, general counsel and secretary. She replaces **George Simpson**, who left the company in May. She is working toward a degree in business at Elmhurst College.

Katy Mariner, 43, has been named risk manager at Tandem Computers in Cupertino, Calif. Ms. Mariner previously was an insurance manager at National Semiconductor Corp. She also worked as assistant account executive at broker Rollins Burdick Hunter and as corporate insurance administrator for Waste Management Inc. in Oakbrook, Ill.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Stephen Tarnoff, Associate Editor, Business Insurance, 740 N. Rush, Chicago, Ill. 60611 or call 312-649-5482. We'd also like to receive pictures.

Rhode Island group monitors workers comp rate increase

Continued from page 3
large rate increase this year.

Mr. Lattanzio says that Rhode Island is one of the three highest loss states in the United States and that workers compensation insurers there have not made an underwriting profit for four to five years.

But Hugo Ricci Jr., the Rhode Island Consumers Council's legal counsel, says he will operate on the premise that the rate hike is unjustified until he sees statistics that show otherwise.

He says the 60% rate increase is money insurance companies are seeking to defend disputed workers compensation claims in court.

"I've asked the NCCI for a cost analysis that would spell out how many claims are filed against each insurer every year, how much they pay out, how many (claims) are outstanding, what it costs them to defend claims, but I have no answers yet," Mr. Ricci said.

He also asked the NCCI to include estimates of interest, salaries of employees and any other pertinent information that would help make the case for a 60% rate increase.

"If I don't get an answer, I may file a motion to dismiss this rate increase," he added.

RICOMP has not been as active in monitoring the hearings on the rate proposal as the group would like to be because the Rhode Island insurance commissioner ruled that RICOMP could not intervene in the case unless it was represented by legal counsel, Mr. Newquist said.

"We just don't have the resources to hire a legal counsel, but we have been active in monitoring

the hearings," he said.

RICOMP, instead, will concentrate on drafting legislation that would provide benefits to legitimate claimants—with less involvement of the legal system, said Mr. Newquist.

More hearings on the NCCI rate proposal will be held in the coming weeks, but a decision on the request probably will not be made until early fall.

Firm says more than 90% of hospital bills have errors

ATLANTA—More than 90% of 600 hospital bills studied by an administrative services firm contained errors.

The bills were audited for 99 insurance companies by Equifax Services Inc. The insurance companies included life and health companies as well as property/casualty insurers.

More than 60% of the bills contained charges that could not be substantiated as services actually rendered, Equifax said.

"Often these items are charged through human error," said J.H. Hudgens, an Equifax vp. "For ex-

ample, laboratory tests, blood or X-rays are ordered and later cancelled, but the charge slip is not withdrawn."

While the majority of the bills contained overcharges, 24% of the audited bills omitted charges for services rendered, according to Equifax.

Another area of unnecessary expense to insurers occurred when patients confined for a workers compensation injury ordered elective services, surgery or unrelated therapy, and charged the elective services to the insurer, Equifax said.

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Commercial Consumers Sub-total	22,078
Insurance Agents & Brokers	9,500
Insurance Carriers	4,213
Banks & Financial Institutions	343
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	1,985
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*Source: Business/Occupational breakdown of qualified circulation, Nov. 3, 1980 issue, Dec. 1980 BPA Publisher's Statement.

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It is a pleasure to announce that effective July 1, 1981, Mr. Martin S. Hodes, ARM, has been appointed a Divisional Vice President of this company. Mr. Hodes will be responsible for the new Insurance-Risk Management (IRM) Division.

IRM Division will be responsible for the recruiting, screening, and placement of Corporate, Insurance Company and Brokerage Insurance and/or Risk Managers and their Assistants, Safety, Loss Prevention, Industrial Hygiene, Employee Benefit, Pension, and Claims Managers and their Assistants. Attorneys with specialty or background in any of those legal oriented fields will also be represented by this new Division.

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Rehab debate centers on right route

Continued from page 1

wall is setting up rules and regulations under a mandate effective last January.

Everybody likes to recall the success stories of vocational rehabilitation such as those described above. But insurers and employers who self-fund workers compensation benefits complain that state delivery systems are inefficient and re-employment goals of professional rehabilitation counselors are unrealistic.

"The idea for the system is good, but I'm displeased with the way it's working," says Paul Bayer, manager of workers compensation at Crown Zellerbach Corp. in San Francisco.

State consultants, who must approve every vocational rehabilitation plan in California, tend to be affluent, middle-class college graduates who majored in sociology. Mr. Bayer says he wonders how they can discuss transferable skills with a blue collar-worker.

It's easy for the rehabilitation counselor to send an injured worker back to school. It's a greater challenge to arrange a modified job with the employer or to identify transferable skills to put the person back to work quickly.

"Rehab counselors want to take a ditch digger and turn him into a brain surgeon" is the way one state administrator describes the typical attitude of insurance companies.

Retraining can run up thousands of dollars in tuition bills, books and other materials. In addition, the employer must pay continuing temporary disability benefits. Apart from costs, employers argue that retraining is less effective than other alternatives.

"There's not enough emphasis on a fast return to work," stresses Clair Shaw, western region self-insurance manager at the May Department Stores Co. Retraining increases the odds of a litigated workers compensation claim and prolongs the injured person's time off the job.

Some counselors concede that their profession has been oriented toward maximizing the career potential of the injured worker, but they say the emphasis has changed toward returning the person to the

job market as soon as possible.

"It's a difficult philosophical adjustment for counselors to make—to realize that the employer's obligation is limited," admits Irene Sanchez, president of Emeritus Inc., a private counseling firm. She is also former chief of California's rehabilitation department.

Some private vendors are starting to use job developers who comb the local job market for opportunities suitable for injured workers with certain disabilities. This approach fills the need of employers and workers alike to find a new job, not merely train for it.

In California, where the rules and regulations governing vocational rehabilitation are the most complex and time-consuming for employers, more than 25,000 cases were reviewed last year, reports Thomas G. Abrams, who recently assumed responsibility for the department.

Twenty-seven professional consultants backed up by a 40-person clerical staff is far fewer than the bureau says it needs to handle its heavy caseload. Private vendors provide counseling services to injured workers, but state staffers approve and review plans, mediate disputes and educate all parties about the law.

In most other states, the reporting requirements to regulatory agencies are less demanding. In Michigan, for example, the vocational rehabilitation division reviews selective files but does not specifically approve every plan.

Understaffed government agencies are leaving more of the job evaluation and counseling to private-for-profit counselors, and that worries some people. The growth in vendor services is threatening to change the direction of rehabilitation, says Doug Langham, administrator of the vocational rehabilitation division in Michigan.

"Who's the client?" he asks. For private firms, it is really the insurance company or employer that retains counselors—not the injured worker, he says. That creates an inherent conflict of interest for the counselor seeking to serve the needs of a worker but retain the business of a client.

A number of California self-

Rehabilitation costs rising

California vocational rehabilitation plans cost an average of \$6,927 in 1980, a 64% increase over three years ago, according to a preliminary report furnished to *Business Insurance* by the California Workers Compensation Institute.

Approximately 51% of the total costs are paid to the injured worker as a maintenance benefit, 33% goes to private rehabilitation counselors and 16% is applied to tuition, books and other training expenses.

The study sample consisted of every fourth file closed by the rehabilitation bureau in June and July 1980. Incomplete files were eliminated, leaving 611 cases with a combined expenditure of nearly \$2 million in vocational rehabilitation benefits.

The California Workers Compensation Institute published the first comprehensive study of rehabilitation costs three years ago and is preparing to issue its second report soon. Other significant findings include:

- The largest relative cost increase was in private counselor expenses, but the percentage distribution of plan costs shows little change between 1978 and 1980.
- Use of formal schooling is declining, although

it still accounts for 35% of all rehabilitation plans and 51% of all plan costs.

- The most successful plans are the least expensive. Plan completion and return-to-work rates are inversely proportional to costs.

- The duration of the average completed rehab plan is 24 weeks, ranging from 97 days for modified or alternative work with the same employer to 226 days for formal schooling.

- Three of every four employees who begin a rehab plan complete it. Nearly 85% of those who complete a plan return to work.

- Some 53% of the employees who completed a rehabilitation plan returned to work at wages equal to or higher than pre-injury earnings.

- The average weekly wage of all workers who completed a plan and returned to work was \$247, about 5% less than pre-injury wages.

Employers, insurers and state agencies are hungry for hard data on the cost of providing vocational rehabilitation. Such data is not collected by state governments but is widely scattered among workers compensation insurance companies and self-funded employers that cooperated in the CWCI study.

insurers are starting to recognize vocational rehabilitation as an extension of the claims management function. Pacific Gas & Electric Co., Sears, Roebuck & Co. and Lockheed Corp. are among companies that have hired in-house coordinators to monitor the progress of rehabilitation cases.

"Those duties take up at least a third of my time," estimates Paul Dyer, workers compensation analyst for Standard Oil Co. of California. He says he believes the company needs a full-time person to do the job better.

The ideal way to return an injured employee to work is to find a job within your own company, Mr. Dyer says. But he is seldom able to do that because it's very difficult to sell a manager in another division on accepting an injured worker.

"They will hire the handicapped from outside the company, but they don't want to take on another manager's problem," he explains. What is needed is a high-level directive within the company strongly urging managers to employ injured workers, he says.

Some employers report inflexibility from unions that refuse to grant seniority to an injured worker who switches jobs. Senior employees will not be enthusiastic about an alternative job if they must accept entry-level wages and reduced benefits.

Another common complaint by employers is that many employees abuse the system to prolong temporary disability benefits they earn while they are retraining. In California, weekly maintenance benefits range up to \$175—in some instances close to the worker's previous take-home pay.

Recent data compiled by the California Workers Compensation Institute suggests, however, that the system is tightening up. State consultants and vendors are quicker to spot these welfare welters who are not genuinely motivated to return to work.

"Know your counselors on a case," Mr. Dyer urges. "When you find a good one, stick with them if they change companies." Hourly fees range from \$45 to \$55.

Early identification of potential

rehabilitation candidates benefits the injured worker and the employer, explains John Miller, an attorney in a workers compensation defense firm in Thousand Oaks, Calif.

If a person is off work for a considerable period of time, his physical and emotional condition may deteriorate. The sooner he gets back into the mainstream, the better off he is and the less costly the claim, Mr. Miller says.

One solution to vocational rehabilitation, viable at very large companies, is on-the-job retraining. General Motors Corp. operates 13 transitional workshops in Michigan and other states for injured workers to learn new skills. They perform productive jobs in the workshops.

Sixty full- and part-time job placement coordinators identify jobs within the company where re-entering injured workers can be hired. A longstanding arrangement with the United Auto Workers permits placement of the worker without any sacrifice of benefits in most cases.

Broken neck doesn't stop executive

Continued from page 1

Mr. D'Arcy. He was driving to a business appointment when his car was hit from behind at a stop sign. Thus his accident became a workers compensation claim.

"It's one thing paying for workers compensation and a salary continuation program so there's no financial burden. But the employer's responsibility doesn't end there," Mr. D'Arcy says. "My company made other accommodations to ease the emotional burden."

When meetings were held at the office, Mr. D'Arcy was included via telephone conference calls. A speaker phone was installed in Mr. D'Arcy bedroom immediately following his release from the hospital.

Mercer also gave Mr. D'Arcy the use of his assistant, who drove to his house as needed to take dictation, deliver reports and brief him on client developments. "People were surprised how well-informed I was with the office gossip," he adds.

Workaholics are unable not to work—they need it for psychological health. But less conscientious workers also can benefit from the kind of return-to-work campaign conducted by Mr. D'Arcy's co-workers.

"They didn't put any pressure on me—it was great," he says. But when he asked for work, they gave it to him. There's a lot that employers can do to encourage a sick or injured employee to return to work as soon as possible.

Hearing frequently from people at the office reminds the disabled employee that he is missed, he says. If an employee is inclined to malingering, he or she is going to start feeling a little guilty when he is reminded how others are working harder to take up the slack.

Mr. D'Arcy describes how good he felt to receive get-well cards from the office continuously throughout a three-month convalescence, not just during an initial burst. He also has a house full of plants sent by well-wishers.

If a sick or injured employee is unable to resume his full duties, maybe he can do something else until he has fully recuperated, he suggests. That prevents him from falling out of the work habit and from feeling less worthy or anxious about returning to the job.

Another thing Mr. D'Arcy learned firsthand is the aggravation of slow reimbursement on a workers compensation claim. His company's insurer—a major stock company he prefers not to identify

—soon rectified the problem and started checks flowing regularly.

But his first visit from the insurance company took place while he was in the hospital. Filled with pain-killing drugs at the time, Mr. D'Arcy recalls very little about the occasion. "I definitely recommend that visitors avoid important discussions with patients at such times," he advises.

Mr. D'Arcy was able to leave the hospital 12 days after his accident because he chose to wear a halo brace furnished by Ace Orthopedic Co. for three months. The alternative was eight weeks in traction in the hospital, strung up with weights, calipers and other gadgets, along with an astronomical hospital bill running into the tens of thousands of dollars.

"Being in the consulting business I am very cost-conscious," Mr. D'Arcy says. "My doctor was very good; he told me my options and explained them very well."

A close inspection of the halo brace, however, reveals why some patients prefer eight weeks in traction. It looks like a medieval torture contraption. Sharp pins screw into the skull to immobilize the head and hold it directly above the neck.

"It's really not that painful be-

cause it goes straight to the bone," says Mr. D'Arcy, who recently exchanged the brace for a neck collar but still shows deep wounds on each side of his temples where the screws pierced his skull.

"The thing that was painful was putting it on—but don't tell people that because they won't go that route," he urges. "They have to put it on cold, without painkillers, so you can help them put it on."

Mr. D'Arcy could not lie down wearing the brace. It took him five weeks to learn how to sleep sitting up. He took his first walk wearing the brace eight days after the accident and gradually was able to get out of bed more frequently.

"Going for that first walk was traumatic enough, but can you imagine what it would be like after eight weeks?" he asks. Physiotherapy would run up the costs, as well as more X-rays, other treatments and two months of hospital bed and board bills.

Most employees do not understand that they have alternatives in medical care, Mr. D'Arcy says. There is still a notion that the patient should listen to what the doctor says and follow his plan rather than ask about the options.

At a time of extreme trauma people don't think clearly so it is

important that they fully comprehend beforehand the practical considerations of medical care. Cost containment, for example, must be explained as part of a continuous communications process.

Before an employee needs to use the hospitalization benefit, he or she must be aware of any co-payment obligations. Twenty percent of a hospital bill can be a considerable sum. But explanations must be made before hospitalization occurs and in a very positive way.

"You don't want to leave employees with the impression that they shouldn't stay too long in the hospital because it's costing us money or it's wrecking our experience rating factor," Mr. D'Arcy cautions.

Besides the cost advantage of a shorter hospital stay, Mr. D'Arcy says, when medically possible, that it's in the patient's best interest. "Returning home is the first step toward getting over this sticky part of your life."

"There is a kind of spirit that is nurtured within some companies that people really count," he says. When that attitude prevails, employees perceive benefits communication positively—not as an employer plan but a way of living within the company."

California may limit workers' right to sue

Continued from page 2

posed legislation also would negate a ruling in which a jury awarded \$875,000 to an injured worker who was allowed to sue his self-insured employer, International Paper Co., using the argument that his employer, as insurer, failed to provide a safe work environment (BI, Jan. 19).

The bill would not apply to the type of lawsuit brought against Johns-Manville Products Corp. by employees who contended they contacted asbestosis or cancer when the employer knew about dangerous work conditions, Mr. Brokaw said.

"If employers know about a dangerous condition and hide it from their workers, the senator would be the first person fighting for their right to collect outside the workers compensation system," he added.

The bill was drafted after three controversial cases came to the attention of the legislator, his aide said. They include:

- **Douglas vs. E.&J. Gallo Winery.** An employee of Gallo fell off a scaffolding and received workers compensation benefits. He later sued Gallo for civil damages in a second capacity because the scaffolding equipment was also sold to the public.

- **Bell vs. Industrial Van Gas Inc.** One of Van Gas's employees suffered injuries when delivering toxic gases for the employer, who was a distributor of various gases. The court ruled the employer served in a dual capacity and awarded the plaintiff the civil damages sought.

- **Moreno vs. Leslie's Pool Mart.** This case involved a stockboy who accidentally mixed acid and chlorine together and was injured by the fumes. The court ruled that as manufacturer of the chemicals, Leslie's Pool Mart served in a dual capacity and was responsible for damages awarded by the court.

The Assn. of California Insurance Companies is gearing up for what they think will be a tough fight in the Assembly, said George Tye, executive manager of the group.

He said the California AFL-CIO and the state's powerful trial lawyers association are lobbying against the bill.

Asbestos suit award believed to be largest

Continued from page 2

Bond's death.

"There was no problem linking them. It was the only product he was exposed to," Mr. Hullverson said.

He said that the rare form of cancer that Mr. Bond died from is caused by exposure to asbestos, according to medical findings.

Mr. Hullverson said a structured settlement was not sought because more could be obtained with the cash settlement.

"The bottom line is whether you're getting the top dollar or not," he explained. "It strictly depends on what the bottom-line corpus amount is."

Under the terms of the settlement, both Turner-Newall Ltd. and A C & S agreed to pay

\$650,000. Distributor Armstrong Cork paid \$100,000.

A C & S was insured by Aetna Life & Casualty Co. No information on policy limits or the insurer for Turner-Newall in London was available.

Armstrong had two insurers, and it is still uncertain which will cover the loss, according to the company's St. Louis attorney, William Evans. "They paid the check themselves," he said. "But what insurer will reimburse them, I can't say."

Mr. Evans said that Aetna Life & Casualty insured Armstrong in the early 1960s when Mr. Bond was exposed to the asbestos. Liberty Mutual was reportedly the company's insurer when the disease became manifest in 1978. ■

Workers shun HMOs, report says

CHICAGO—Workers are not too eager to join health maintenance organizations despite efforts by employers to offer the alternative form of health care, according to a study.

Charles D. Spencer & Associates surveyed 170 companies with some 3.7 million employees. All but 23 of the companies offered the option of joining at least one health maintenance organization while 31 firms offered the choice of 11 or more HMOs.

But only 5% of the eligible employees joined an HMO, according

to the study.

Forty-one companies reported that fewer than 2% of their employees were HMO members, while 39 companies said 10% or more joined HMOs.

More than 30% of the employees who work for companies located in Minnesota joined HMOs, according to the study. Twenty-two percent of those living in California became HMO members.

For a free copy of the survey, write Charles D. Spencer & Associates, 222 W. Adams St., Chicago, Ill. 60606. ■

Court allows employees to strike for pension plan

Continued from page 1

By striking to force Amax to join the multiemployer plan, the union was illegally coercing it to accept the collective bargaining agent, Amax argued.

The National Labor Relations Board, a federal agency that mediates labor-management disputes, upheld the union's right to strike.

The U.S. Court of Appeals for the 3rd Circuit, however, overturned the board's decision. The appellate court agreed with Amax's contention that the strike was an effort by the union to coerce Amax in the selection of a collective bargaining representative, an unfair labor practice.

But in an 8-1 decision, the Supreme Court said the appellate court misunderstood the role of the employer trustee on a multiemployer plan.

The trustee named by management to a multiemployer plan is not one of management's collective bargaining representatives.

Instead, a trustee "is a fiduciary whose duty to the trust beneficiaries must overcome any loyalty to the interest of the party who appointed him," the court said.

As a result, the lower court's analogy to collective bargaining was incorrect, said retiring Justice Potter Stewart, who wrote the decision.

In the military pension case, the court struck down a California appeals court decision that found a military pension is "property" subject to division when a couple divorces.

Although the dispute concerned only one divorce, it will affect divorce settlements for thousands of military couples nationwide.

Richard McCarty, an Army colonel, and his wife, Patricia McCarty, were divorced in 1976 after 19 years of marriage.

Their divorce took place in California, where the divorce laws consider everything bought or earned during a marriage as "community property" to be divided between a couple. Seven other states have similar laws.

A state court awarded Mrs. McCarty about half of her husband's pension. The California Court of Appeals upheld the award, arguing that Congress did not intend to exempt military pensions from state community property laws.

But the high court disagreed. It said Congress established military pensions because:

- It is a personnel tool to encourage older soldiers to retire and create a "young and vigorous" military force.

- It is an incentive for people to join the military.

- It is a way to provide for retired military personnel.

These purposes would be frustrated by a soldier's knowledge that his military pension is not his exclusive property, the court said.

Women's rights groups blasted the decision and said it is now more important than ever that Congress pass legislation, H.R. 3039, introduced by Rep. Patricia Schroeder, D.-Colo., that would give military wives the right to claim a portion of an ex-husband's pension as part of a divorce settlement.

In striking down the punitive damage awards against cities, the court said punitive damage suits cause tax increases and reductions in public services.

Neither "reason nor justice suggests that such retribution should



Photo: Buck Consultants

The Supreme Court said a strike by Wyoming coal miners to force a company to join a multiemployer pension plan was legal.

be visited upon the shoulders of blameless or unknowing taxpayers," said Justice Harry Blackmun, who wrote the majority opinion in the 6-3 decision.

The decision is good news for city governments that over the years have watched courts strip away their traditional immunity from lawsuits, enormously increasing their liability exposures and insurance costs.

The decision still leaves city governments liable for compensatory damages. But compensatory awards, which cover actual damage suffered by a plaintiff, usually are substantially smaller than punitive awards.

The case involved a suit by a concert promoter in Newport, R.I., whose said he lost money because city officials tried to block the concert featuring Blood, Sweat and Tears, a rock group.

Newport officials were opposed to all rock concerts and revoked a license to Fact Concerts Inc. to stop the concert.

City officials later allowed the concert, but by then, radio announcements that said the concert had been canceled hurt ticket sales, the suit said.

Fact Concerts Inc. sued in federal court, charging violations of the First Amendment protection for free expression. A lower court awarded the concert promoter \$75,000 to compensate for lost revenues and \$200,000 in punitive damages.

Justice Blackmun, in stripping away the punitive award, said there are sound economic reasons for not allowing punitive awards against municipalities for civil rights violations.

If punitive damages were al-

lowed, juries might be encouraged to make excessive awards because of the prejudicial impact of the "unlimited taxing power of a municipality," he said.

Such an exposure "may create a serious risk to the financial integrity of these governmental entities," he added.

Justice Blackmun also noted that the threat of punitive damages against a city isn't a deterrent to official misbehavior since public officials don't have to pay the costs.

Finally, the Supreme Court let stand a federal appeals court decision that upheld a 1978 Occupational Safety & Health Administration regulation limiting worker exposure to lead content in the air.

The appeals court, in generally approving the OSHA lead standard, said the federal safety and health agency had to provide a more detailed explanation of the engineering steps the rule would force companies in 46 different industries to take.

The appeals court, however, did allow the new standard to take effect for 10 industries—including lead-smelting, printing and electronics and battery manufacturing—with the highest lead exposure.

For the 10 industries ordered to comply, the Supreme Court last December issued a stay that forced the companies to provide workers with protective breathing devices, but allowed the affected industries to delay any major engineering changes.

The high court's refusal to hear the case ends the temporary stay. OSHA now plans to issue a new schedule indicating when the industries have to make engineering changes to reduce the lead content in the air. ■

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Allianz gains hold in British market

By ALAN H. CLIFTON and PHIL V. OLSEN

SINCE OUR LAST update on the British insurance scene, much water, as they say, has passed under the bridge. Some generally poor first-quarter results have been released, and another of the large insurance groups has launched a major capital-raising operation. But more on these later.

The biggest development on the British scene has been the attempt of Allianz of Munich, Europe's largest insurer, to acquire Eagle Star Insurance.

Although the two companies apparently had friendly but formal talks last fall on areas of possible mutual cooperation, nothing was ironed out. Eagle Star, which derives some two-thirds of its business from Britain, was uninterested in expanding into Germany, whereas Allianz has been determined to gain a significant toehold in the British insurance market. The friendly approach having failed, Allianz forced its attentions on the reluctant British insurer.

It first bought 15% of Eagle Star common stock through open-market purchases at 23% above the quoted price and then made a tender offer a week later for another 15%. Despite a spirited defense, the promise of an increased dividend and an updated net asset value calculation, Eagle Star failed to convince its stockholders to spurn the Allianz offer. Thus the German insurer now owns 28% of Eagle Star, and the two companies presumably must learn to live together.

The whole episode is startling for a number of reasons. German insurance companies are normally the most conservative of institutions, yet Allianz's acquisition of a part of Eagle Star was very "high-profile." It was also surprising that a bid for almost 30% holding of Eagle Star could succeed on terms that represented less than two-thirds of asset value, especially considering Eagle Star's quite creditable past record.

And it was strange that Allianz should even select Eagle Star as the vehicle to gain entry to the British market. The German insurer has had a formal trading relationship with Commercial Union for some time, and Lloyd's broker Willis Faber has long written accounts for Allianz.

Whatever else it had on its side, Allianz certainly benefited from the disenchantment of British institutional investors toward British insurance stocks.

Unlike their U.S. counterparts, and notwithstanding their generally stronger capital bases, British insurers have unleashed a succession of equity offerings on British investors since the mid-1970s. As a result, insurance company paper has become about as welcome as an unexpected letter from the Internal Revenue Service.

A week before the Allianz move, Guardian Royal Exchange, which owns a number of small U.S. property/casualty insurance companies with an aggregate premium income of some \$110 million in 1980, launched a \$155 million offering. This issue sent all British insurance stocks lower and gave Allianz the opportunity to raid Eagle Star.

Finally, let's look at the first-quarter results. Royal Insurance, for once, has emerged with the best results with a combined ratio of 105.2%, followed by General Accident at 106.3% and Commercial Union at 109.4%. CU's underwriting losses were, indeed, large enough to push it into an overall net loss position. Against the market's minimal premium income advance, CU reported growth of 18%, thanks to its new personal lines products and its Independence Program for commercial businesses.

Elsewhere, premium growth was in the 7% to 8% range. The British insurers' view of the U.S. property/casualty market is that underwriting results are going to get worse.

In contrast to the pattern of investor disenchantment with British property/casualty

BI ticker

British Issues

6/30 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low	
					pence	pence
Comm Union	165	11.2	15.45	9.4	166-161	
Eagle Star	315	10.5	21.43	6.8	315-286	
Genl Accident	340	8.2	19.29	5.7	340-328	
Gdn Royal Exch	340	8.7	22.14	6.5	340-322	
Phoenix	286	8.4	21.29	7.4	286-274	
Royal	385	10.7	34.29	8.9	390-383	
Sun Alliance	904	9.0	47.14	5.2	904-884	
Brokers						
CE Heath	278	10.9	15.00	5.4	278-271	
Hogg Robinson	110	8.8	8.14	7.4	110-105	
Alex Howden	124	8.0	10.00	8.1	124-116	
JH Minet	132	13.2	6.50	4.9	132-126	
Sedg Grp	141	12.3	7.14	5.1	141-134	
Stenhouse Hldg	95	8.7	6.64	7.0	95-91	
Stew Wrightson	225	11.8	17.14	7.6	225-220	
Willis Faber	356	12.3	17.14	4.8	356-347	

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

dian dollars while other non-sterling currencies accounted for some 34 million pounds (\$79 million).

Providing the dollar's new-found health persists and the relative weakness of the pound against other major currencies continues, non-sterling revenues, particularly the dollar, will be worth a lot more to brokers in 1981. The average pound-to-dollar exchange rate in 1980 was \$2.33 while the average this year could be less than \$2.10. Thus the value of doing business in dollars might be, with no extra-effort, around 9 million pounds greater.

The important feature, of course, is that this would also be the increase at the pre-tax profit level. Additionally, brokers may be helped by increases in non-dollar overseas revenues.

If all other variables, apart from exchange rates, remain static in 1981, the seven Lloyd's brokers' 1980 pre-tax profits of 118.5 million pounds would increase in sterling terms by perhaps 10% to more than 130 million pounds in 1981.

But all the other variables will not remain static, and it could well be that this profit buffer will come in very handy. It is not going to be easy for brokers to curb the growth of expenses to a pace that equals revenue growth. Premium rate competition remains fierce, interest-bearing balances are being squeezed and correspondent brokers in the United States are placing more of their business in local markets.

New business has to be the brokers' focus, but, in the present climate, one broker's new business is most likely to be another's old business at perhaps half the rate and maybe double the expense.

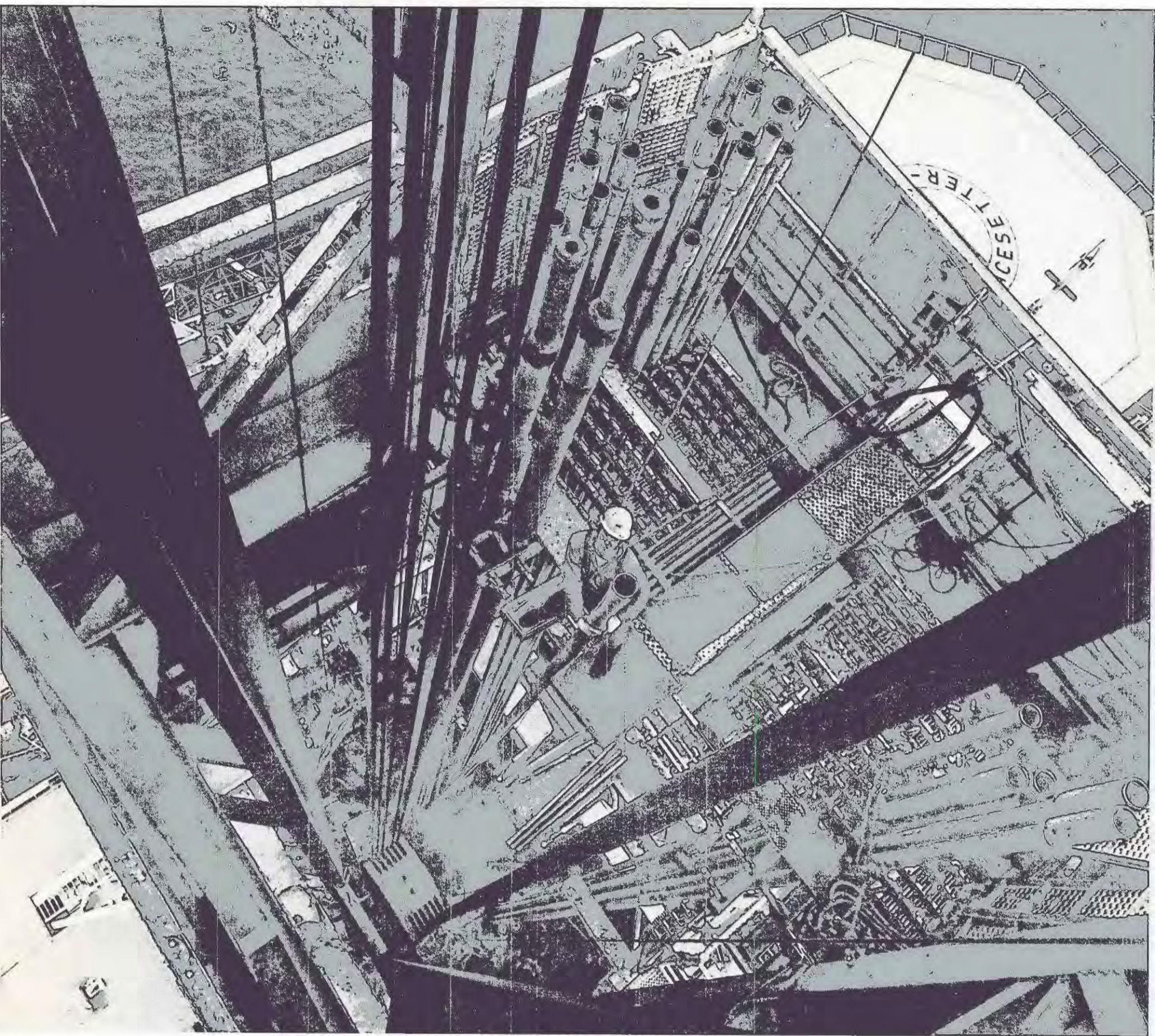
While the weakness of the pound has been doing positive things for the stock prices of Lloyd's brokers, the recent news that Lloyd's brokers may be forced to divest themselves of their Lloyd's managing agency interests has moderated gains. The financial effect on most brokers will probably be small, though the problem could be a little trickier for Alexander Howden, Hogg Robinson and Minet since their Lloyd's agency income (from both managed and members agencies) represents almost 25% of their total profits.

Alan H. Clifton, left, and Phil V. Olsen, right, are analysts with London-based Kitcat & Aitken. They report quarterly on the British insurance industry for Business Insurance, in addition to supplying weekly earnings reports on British companies for BI Ticker.

BI Industry Stock Report

Insurance Cos.	JUNE 29, 1981				6/24/81 THRU 6/29/81				Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
	NYSE	OTC	Price	% Chg.	P/E	\$ Div.	% Yld.	High								
Aetna Life & Cas Co	NYSE	39.75	-4.8	6.6	2.32	5.8	41.63	39.75	197.8							
American Bankers Ins Group	OTC	7.75	-3.1	12.3	0.44	5.7	7.88	7.75	68.1							
American Gns Ins Co	NYSE	45.38	-0.8	7.0	2.00	4.4	45.88	45.38	111.6							
American Indty Finl Corp	OTC	17.38	0.0	6.6	1.12	6.4	17.38	17.38	2.5							
American Intl Group Inc	OTC	61.00	-1.2	7.8	0.40	0.7	61.75	61.00	138.4							
American Natl Ins Co	OTC	14.00	-1.8	6.3	0.68	4.9	14.38	14.00	47.5							
American Sts Life Ins Co	OTC	18.50	5.7	6.1	0.72	3.9	18.50	17.50	2.6							
Aneco Reins Ltd	OTC	4.13	0.0	0.0	0.00	0.0	4.13	4.00	9.7							
Appalachian Natl Corp	OTC	2.50	0.0	7.1	0.00	0.0	2.50	2.50	0.2							
Avenco Corp	AMEX	11.38	-4.2	9.6	0.50	4.4	11.88	11.38	10.9							
Banks Iowa Inc	OTC	31.50	-7.4	5.2	1.44	4.6	34.00	31.50	2.2							
Bitco Corp	OTC	42.00	0.0	5.9	2.16	5.1	42.00	42.00	5.3							
Carolina Cas Ins Co	OTC	7.75	-3.1	5.6	0.32	4.1	7.75	7.75	0.0							
Central Natl Finl Corp	OTC	10.25	0.0	3.8	0.65	6.3	10.25	10.25	3.1							
Chubb Corp	OTC	48.75	-2.3	5.9	2.68	5.5	49.88	48.75	101.7							
Combined Intl Corp	NYSE	21.75	-4.9	6.2	1.60	7.4	22.63	21.75	31.4							
Connecticut Gns Ins Corp	NYSE	51.25	-4.2	6.6	1.76	3.4	53.00	51.25	69.9							
Continental Corp	NYSE	28.00	-3.9	7.5	2.40	8.6	28.50	28.00	117.0							
Crawford & Co	OTC	17.75	0.0	13.9	0.52	2.9	17.75	17.75	23.8							
Crown Life Ins Co	OTC	120.00	7.1	10.1	2.80	2.3	120.00	112.00	0.8							
Crum & Forster	NYSE	35.38	1.1	6.1	1.44	4.1	35.88	35.00	77.4							
Employers Cas Co	OTC	40.00	0.0	6.1	1.20	3.0	40.00	40.00	2.7							
Equifax Inc	NYSE	24.88	3.6	7.6	2.40	9.6	25.25	24.75	12.0							
Excelsior Ins Co	OTC	15.50	0.0	31.6	0.70	4.5	15.50	15.25	0.5							
Farmers Group Inc	OTC	34.50	-1.4	10.8	1.12	3.2	35.00	34.50	96.7							
First Colony Life Ins Co	OTC	38.50	-3.7	12.6	0.80	2.1	39.50	38.50	2.1							
Foremost Corp Amer	OTC	33.00	12.8	10.2	0.80	2.4	33.50*	32.00	27.4							
Great West Life Assurn Co	OTC	250.00	0.0	10.1	10.00	4.0	250.00	250.00	0.0							
Hanover Ins Co	OTC	33.00	0.0	4.8	0.72	2.2	33.00	33.00	4.2							
Hartford Steam Boiler Insptn	OTC	51.00	-1.0	10.3	2.60	5.1	51.00	51.00	1.4							
Jefferson Natl Life Ins Co	OTC	38.50	0.0	34.7	0.64	1.7	38.50	38.50	4.1							
Kemper Corp	OTC	35.25	-0.7	5.5	1.60	4.5	35.50	35.25	20.3							
Lincoln Natl Corp Ind	NYSE	43.50	-5.4	6.2	3.00	6.9	44.63	43.50	24.3							
Mtnc Invt Corp	NYSE	38.38	-4.4	10.3	1.28	3.3	39.88	38.38	142.4							
Mission Ins Group Inc	NYSE	46.75	0.5	8.8	1.00	2.1	46.75	46.25	37.7							
Nationwide Corp Ohio	OTC	24.75	0.0	7.1	0.70	2.8	24.75	24.75	1.1							
Northwestern Natl Life Ins	OTC	28.50	-0.9	7.0	1.25	4.4	28.75	28.50	38.7							
Ohio Cas Corp	OTC	45.13	-2.7	7.8	2.04	4.5	45.75	44.88	138.9							
Old Rep Intl Corp	OTC	16.38	-6.4	4.5	0.92	5.6	17.50	16.38	30.3							
Pinehurst Corp	OTC	6.38	-1.9	0.0	0.00	0.0	6.50	6.38	16.2							
Preferred Risk Life Ins Co	OTC	18.50	0.0	6.2	0.80	4.3	18.75	18.50	0.6							
Provident Life & Acc Ins Co	OTC	49.00	1.0	7.2	2.20	4.5	49.00	49.00	12.4							
Ryan Ins Group Inc	OTC	24.50	16.7	9.8	0.12	0.5	24.50*	21.50	8.1							
St Paul Cos Inc	OTC	45.13	-6.7	8.5	2.32	5.1	48.25	45.13	108.4							
Safeco Corp	OTC	41.00	1.9	7.6	2.00	4.9	41.63*	40.38	120.7							
SPI Corp	OTC	27.00	0.0	6.2	0.80	3.0	27.00	27.00	95.3							
Seibels Bruce Group Inc	OTC	22.25	0.0	12.0	0.80	3.6	22.25	22.25	12.4							
Statesman Group Inc	OTC	7.50	0.0	6.3	0.15	2.0	7.50	7.50	13.7							
Tokio Marine & Fire Ins Co	OTC	164.25	-0.3	7.75	1.03	0.6	169.38	164.25	15.1							
Travelers Corp	NYSE	48.00	-4.0	5.6	2.88	6.0	49.25	48.00	170.2							
United Fire & Cas Co	OTC	40.00	0.0	10.4	1.00	2.5	40.00	40.00	0.0							
United States Fid & Cty Co	NYSE	40.75	1.5	6.6	3.20	6.4	49.75	48.75	49.1							
United Svcs Life Ins Co	OTC	14.38	-6.5	5.9	1.00	7.0	15.38	14.38	35.5							
UsLife Corp	NYSE	26.38	-3.8	7.0	0.76	2.7	29.00	26.38	84.1							
Washington Natl Corp	NYSE	34.75	16.3	10.3	1.08	3.1	34.75*	29.75	253.8							
Zenith Natl Ins Corp	OTC	16.00	-1.5	9.4	0.60	3.8	16.00	16.00	11.6							
INSURANCE COMPANIES																
AVERAGE																
8.2																
3.8																
Agents/Brokers																
Alexander & Alexander Svcs	OTC	37.25	1.4	12.4	1.84	4.9	37.25	37.25	216.2							
Baldwin & Lyons Inc	OTC	34.25	0.0	5.9	0.80	2.3	34.25	34.25	0.0							
Corroon & Black Corp	NYSE	23.75	-0.5	11.0	1.76	7.4	23.88	23.75	20.0							
Crump E H Cos Inc	OTC	14.13	1.8	13.0	0.40	2.8	14.13	13.88	70.6							
Hall Frank B & Co Inc	NYSE	26.00														

A bottom line view of loss control



Oil rigs, like this in the Gulf of Mexico, typify high-hazard operations.

Every business has special perils needing special insurance broker solutions. How Alexander & Alexander looks at off-shore drilling, one of the riskiest, will help explain how we will look at your business. In this case, we study rig safety through a contractor's eyes. Scrutinizing the workers and the working environment. Probing the whys of injuries and the hows of accident prevention. Viewing down-time as dollars.

Client-tailored safety programming

Only by working from a client's point of view can we be sure a company gets the most comprehensive, cost-efficient programs possible.

This insider's vantage point enables our loss control consultants to be sticklers on safety for any corporation. Ferreting out

hot spots from loss data banks. Casing the carrier's services. Creating safety programs that work. And staying on top of them, alert to changing conditions, new hazards, new operations, new technology.

Each industry has different needs. For insurance, for risk management, for human resource management, for financial services. And each of our 120 offices here and overseas has the facilities, expertise and strength to fulfill the requirements of any company, large or small, in any industry.

We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view.

Alexander & Alexander

From the client's point of view.