

business insurance

WEEK OF JULY 7, 1980

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California comp

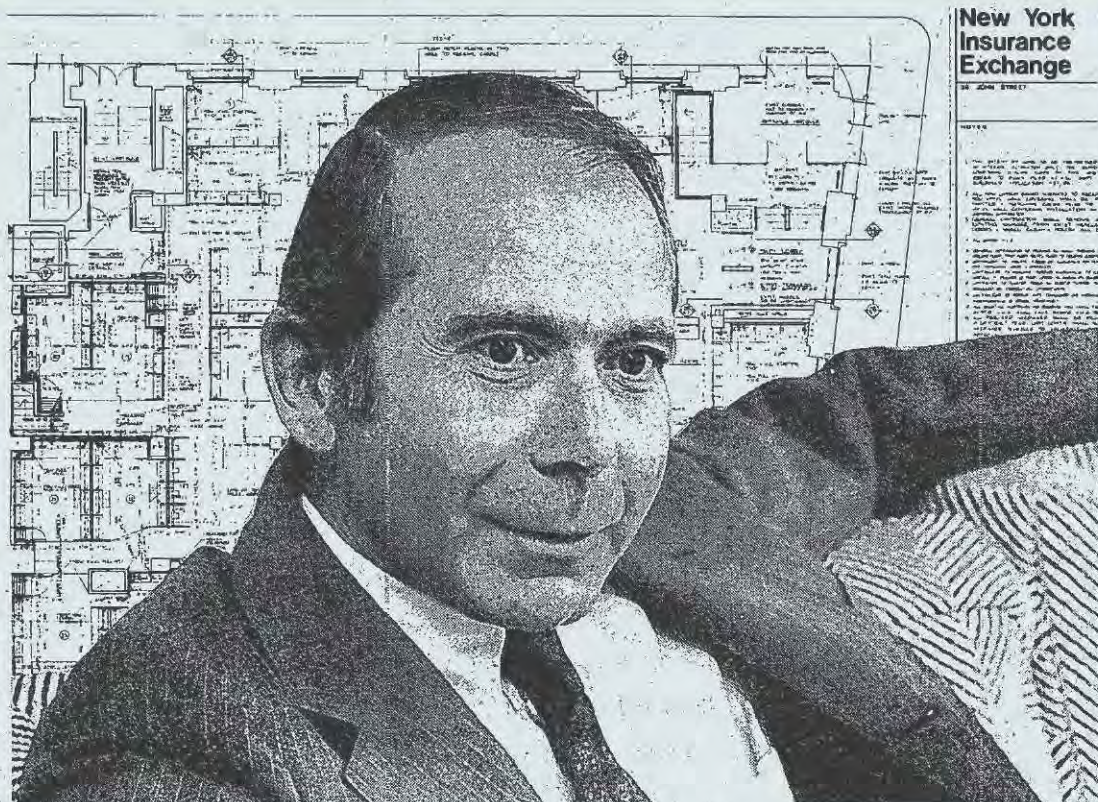
California employers demand four key changes before they'll back the state's new workers comp plan: **Page 2.**

Illinois exchange

The opening of the Illinois Insurance Exchange is on hold: **Page 3.**

IUD claims

A former product liability insurer is being sued to share the cost of claims over the Dalkon Shield: **Page 9.**



New York Insurance Exchange

"We've been supportive of the exchange all along," says Maurice Greenberg, president of American International Group, which is dominating the exchange.

AIG dominates exchange

By ELLIS SIMON
and KATHRYN J. MCINTYRE

American International Group is dominating the three-month-old New York Insurance Exchange with AIG-generated business.

- More than half of the nearly \$9 million in premiums written by the exchange is reinsurance for AIG-generated business placed exclusively with AIG-controlled syndicates primarily by AIG-affiliated brokers.

- More than 70% of the total business placed with the exchange is reinsurance of risks already written by AIG companies and mostly brokered by AIG affiliates.

AIG is also the dominant underwriter among Free Trade Zone insurers that get first crack at all

domestic risks seeking to be written directly by the exchange. AIG has written most of the \$23.9 million in premiums written by the Free Trade Zone.

AIG is pumping \$7 million in premiums into the fledgling insurance exchange to diffuse criticism of the Free Trade Zone impediment to placing direct business with the exchange, critics charged in interviews with *Business Insurance*.

"What kind of cockamammy logic is that?" retorted AIG president Maurice Greenberg when told of the criticisms. "We've been supportive of the exchange all along and will continue to support the exchange."

AIG is also the chief supporter of the Free Trade Zone. But the requirement that domestic risks

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New risk act wipes out fed's control

By JERRY GEISEL

WASHINGTON—A new Risk Retention Act, stripped of all federal regulatory authority, is being proposed as an 11th-hour attempt to get the product liability pooling concept through the Senate, *Business Insurance* learned.

The proposal eliminates all direct federal involvement in risk retention pools to overcome insurance industry opposition that the Risk Retention Act gives federal regulators a foot in the door to regulate the insurance business.

The new version of the bill was drafted over the last two weeks by the Senate Commerce Committee staff at the recommendation of Sen. Howard Cannon (D-Nev.). The Risk Retention Act, passed by the House, had been stalled in the committee.

Instead of the Commerce Department regulating risk retention groups as originally proposed, the new Senate version offers a unique way for businesses to pool their risks without violating state insurance laws.

Group-owned companies underwriting only owners' product liability risks that receive an insurance company charter in any state or foreign country would be permitted by the act to service members in all states.

The act would preempt state capital and surplus requirements and the need for the groups to be licensed in each state or use a fronting insurer to serve members. But unlike the original draft, the new act proposes that risk retention groups pay state premium taxes and participate in state guaranty funds.



A new bill was necessary to "have on the table an alternative approach," says Sen. Howard Cannon (D-Nev.), chairman of the Senate Commerce Committee where the bill waits.

The proposal doesn't permit these groups to underwrite any risk other than product liability and completed operations insurance for member-owners. The groups may not write insurance for the public. Policyholders must either be owners of the pool or members of an association owning the pool.

The bill anticipates that groups would secure insurance company charters in states with captive insurance company laws and foreign captive domiciles such as Bermuda and the Cayman Islands.

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State rebuff stalls county self-funding

By STUART EMMRICH

NEW YORK—Suffolk County's plans to self-insure its \$10 million employee benefit program are hamstrung by the state's refusal to release figures on the county's claims history.

The proposed benefit plan could save up to \$5 million over three years.

Officials of the populous Long Island county complain that the timetable for going self-insured has been put back at least a year and possibly jeopardized because

state insurance plan administrators say claims figures are not available.

"They have flatly refused to divulge our experience rating," said James Patterson, Suffolk County insurance manager of the state plan administered by Blue Cross & Blue Shield. "Everyone who has attempted to get this information from them has met the same rebuff."

The problem of trying to accurately predict future losses under a self-insurance program without prior years' statistics has made county officials wary of approving the plan, Mr. Patterson said.

"I think we have presented a good case for going self-insured, but our job would be much easier if we had the figures in front of us," he said. "If we had had the figures last fall, when we first started working on this, we could have gone self-insured last Jan. 1."

"By not getting the figures, we have been delayed by at least a year," he added. The earliest the county could now self-insure would be next January.

This administrative stumbling block is not unique to Suffolk County. Other counties around the state that have either gone self-insured or are trying to also have

complained they cannot get needed statistics on claims submitted by employees directly to the state plan (BI, Jan. 21).

"We just don't have those figures," said Sam D. Freeman, director of employee insurance for the New York State civil service department. "We don't keep records on the claims attributable to a specific agency. They all get lumped in together." The plan covers 447,000 employees of the state and 1,400 local government units.

Plan participants are charged premiums based not on loss experiences, but simply on the number

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D&O crash?
Page 3

for your information

Two men charged with taking illegal deductions for premium

CHICAGO—Two area businessmen have been indicted by a federal grand jury on charges they took about \$1 million in illegal business tax deductions for premiums paid to a Nassau-based captive insurer.

Indicted were Avery Z. Eliscu, 45, and James D. Middleton, 63. They are charged with filing false income tax returns for themselves and two shipping firms in which they were partners.

The two are charged with paying \$998,000 in premiums to the Nassau-based Cayman Assurance Co. and deducting the full amount from their personal and partnership income taxes. However, 90% of the premiums had been placed in trust accounts for their benefit at a Nassau bank, the indictment charged.

Workers comp reform passes

SPRINGFIELD—The Illinois Legislature is sending Gov. James Thompson a broad-sweeping workers compensation reform bill.

Approved in a House-Senate conference committee last week, the bill would freeze permanent partial disability payments for three years; limit fees paid attorneys retained by injured employees; establish standards for hearing impairments; reduce minimum benefits by 90% for certain injuries; limit the number of doctors who can be consulted by an injured worker, and eliminate employer liability for worker injuries suffered in recreational activities or in a drug or alcohol abuse program.

Court rejects benzene limit

WASHINGTON—The government can't impose new tougher standards limiting worker exposure to cancer-causing benzene, a divided Supreme Court ruled last week.

In a 5-4 decision, the court said the government failed to prove that a reduction in exposure to benzene would reduce the cancer rate of workers. Justice Lewis Powell said the cost of the standard was not justified by the benefits.

The OSHA standard would have reduced exposure levels to benzene by 90% and cost industry at least \$500 million.

Congress delays PBGC cover

WASHINGTON—Congress has delayed until Aug. 1 the date on which the federal Pension Benefit Guaranty Corp. must protect benefits of terminating multiemployer pension plans. Coverage had been set to begin July 1.

4 want bribery trial delayed

NEW ORLEANS—Four men who pleaded innocent to charges of trying to bribe public officials to obtain group insurance contracts in Louisiana want their trial delayed.

Seeking to have the July 28 trial postponed are Carlos Marcello; I. Irving Davidson; Charles E. Roemer II, former commissioner of the Louisiana division of administration, and Vincent A. Marinello, an attorney (BI, June 30).

Dental board backs Thompson

MINNEAPOLIS—A majority of the new board of directors for Minnesota Delta Dental support Onan A. Thompson, president of MDD who was convicted of forgery April 28 (BI, May 26).

Minnesota dentists elected the slate of 21, including board chairman William Johnson. The former board resigned after a split was created by the decision to allow Mr. Thompson to remain as president after his conviction.

The new board will have its first meeting July 15, the day Mr. Thompson petitions the Minnesota supreme court for a retrial.

Travelers asks to join suit

SAN FRANCISCO—The Travelers Indemnity Co. is attempting to join Johns-Manville Corp. in its legal fight to decide which of 27 insurers is liable to pay asbestos product liability losses.

Johns-Manville Corp. of Denver filed suit here in superior court March 31 seeking damages from The Home Insurance Co. for denying coverage and an order for insurers to provide coverage (BI, April 7).

The Travelers, not named in the original suit and Johns-Manville's comprehensive general liability insurer from 1947 to 1976, has filed a petition to intervene in the case to protect its own interests.

The Home Insurance Co., an excess insurer, is refusing to indemnify Johns-Manville for \$800,000 paid to claimants for property damages, charging The Travelers is liable.

The Travelers had previously argued that the coverage for the period at issue, 1963 to 1976, had been exhausted, but is now posing that liability be prorated among the insurers.

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Policy prescribes cure for drug liability rates

By JERRY GEISEL

STAMFORD, Conn.—A drug manufacturers trade association is prescribing a new group insurance program as the cure for feverishly rising product liability insurance premiums.

Under the program, members of the National Pharmaceutical Alliance will pay \$3 to \$5.50 per \$1,000 of sales for a \$1 million product liability policy supplied by Lexington Insurance Co. Each policy carries a deductible of \$2,500.

Since NPA members—who generally are small, privately held drug manufacturers—had been paying as much as \$14 per \$1,000 for similar coverage, the savings under the group program are substantial.

One drug manufacturer with annual sales of \$6 million had been paying a \$438,000 premium for a \$1 million primary policy and \$9 million of excess coverage. It now pays \$70,000 for \$10 million of protection, said Lawrence Smith, president of Colonial Insurance Agency Inc. here, which put the program together.

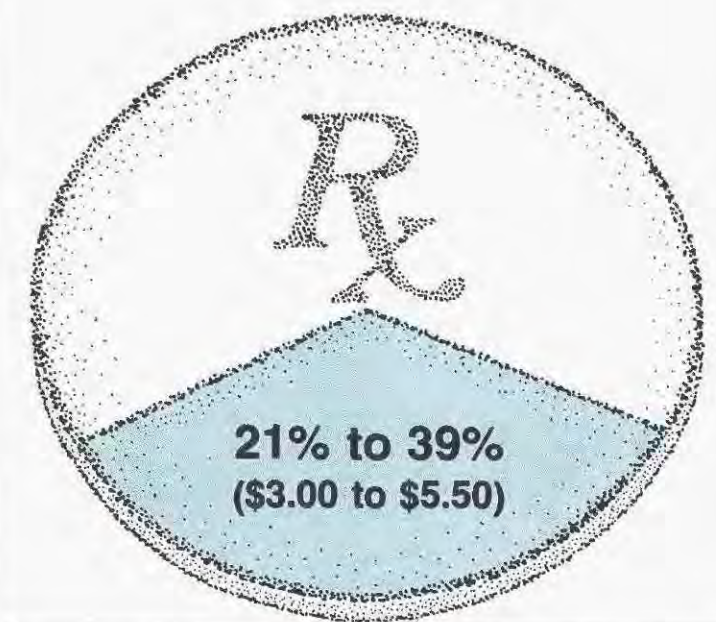
So far, 50 of the 120 members of the pharmaceutical trade association have joined the Lexington program, Mr. Smith said.

Premiums range from \$1,500 to \$50,000, with the average being \$15,000. Most members now pay one-half of 1% of sales for product liability insurance compared with 1% of sales before the program.

Mr. Smith, who acts as the drug trade group's insurance adviser and broker, began to explore new insurance alternatives when the drug manufacturer's product liability premiums began to soar in the mid-1970s.

Although the drug companies had once paid about \$1 per \$1,000 of sales for product liability insurance,

New Rate as % of Old Rate



the rates soared to as much as \$14 per \$1,000 of sales.

Other firms couldn't get their coverage at any price. At other times, their policies were slapped with so many exclusions that their value became questionable.

Earlier this year, Mr. Smith was able to put together a new group insurance program after gathering statistics revealing the drug companies had virtually no losses over the last several years.

Members of the pharmaceutical alliance generally are not research and development companies, but only manufacturers of products that have been tested in the mar-

ketplace for many years. As a result, the product liability exposures of the firms are substantially less than those of their bigger R & D counterparts, a point Mr. Smith successfully made with Lexington.

The program is open to all NPA members. Prospective participants, however, must have their loss records screened by the trade group's insurance committee. "We're looking for good risks," Mr. Smith said.

J. H. Blades & Co. Inc. of Houston is acting as managing general agent of the product liability program for the pharmaceutical association.

California firms demand work comp bill changes

By RHONDA RUNDLE

SACRAMENTO—Employers are demanding four key amendments before they will support the proposed overhaul of the California workers compensation system pending in the legislature here.

"As it stands now, most employers are opposed to the bill (S.B. 375) on the grounds of pure economics," said Ed Couch, insurance and employee benefits director for the California Chamber of Commerce.

An amended version of the bill is due out of a legislative subcommittee this week, which could answer employers' demands. But the bill might not make it to the assembly floor before Aug. 31 when the current legislative session closes, say sources here.

Employers dislike the measure's \$450 million annual price tag for temporary disability and death benefit increases and question the effectiveness of proposed procedural reforms in reducing litigation (BI, May 26).

Under the bill, maximum temporary disability benefits would increase more than 80% to \$280 from \$154 weekly. Death benefits would be set at a maximum \$200,000, up from \$55,000.

Many employers wonder whether the proposed disability evaluation bureau can reduce litigation enough to offset the sizable benefit increases.

Most employers are following the lead of the California Manufacturers Assn. and the California Self-Insurers Assn. Both have said they will support S.B. 375 with the following four amendments:

- A phased-in approach to increased temporary and permanent disability benefits in three increments over 24 months instead of the one-time increase Jan. 1, 1981.

- An increase in the maximum death benefit to \$100,000 or \$125,000 rather than \$200,000.

- Prohibition of commuting more than 104 weeks of death benefits into a lump sum. Without this prohibition, claimants might

request death benefits in a lump sum to live off the interest and retain the principal.

- Clarification and strengthening of the language requiring that questions of medical fact be decided on the bulk of the evidence, rather than in the light most favorable to the injured employee.

The two associations also have submitted 13 clarification amendments criticizing language in S.B. 375 that is vague, unclear or impractical from an administrative standpoint.

Employers are concerned especially about the time limitations for contesting a claim for permanent disability benefits. They argue that the 30-day rule does not allow sufficient time for an employer to review the treating physician's report and notify the disability evaluation bureau of intent to deny a claim.

Also, the proposed bill would require a prudent employer to deny liability for every injury because admitting liability might make all future allegations of ailments from an alleged injury compensable, the associations argue.

An employee twists an ankle, for example, and medical and temporary disability benefits are

Continued on page 27

errors & omissions

- The identifications of Robert and Jack Heffron, directors of the Employe Home Furnishings Assn., were reversed in the June 23 issue. Jack Heffron is on the left, brother Robert is on the right.

Questions cloud the D&O market

By RHONDA L. RUNDLE

CHICAGO—The directors and officers liability insurance market may be tottering, buffeted by widely different underwriting opinions and industry loss statistics that cloud rather than illuminate the issue.

- Premiums charged for this volatile cover appear dangerously low when compared with the frequency and severity of losses reported in The Wyatt Co.'s 1979 directors and officers liability survey, points out Thomas F. Sheehan, president of Thomas F. Sheehan Inc., an underwriting manager specializing in D&O insurance.

- "Rates are realistic," counters J.P. DeAlessandro, president of National Union Fire Insurance Co., the top underwriter of D&O coverage.

- Although the Wyatt Co. survey is generally recognized as the best data source available on D&O insurance, a consultant at Wyatt cautions that the wide discrepancy between reported premiums and



losses may be at least partially due to distorting factors in the survey.

The discrepancies make predictions about the stability of the market for this volatile coverage a hotly contested question among the executives who hold the future of the markets in their underwriting pens.

extended coverage

Current D&O liability rates may already be too low to pay for future losses, says Thomas F. Sheehan.

'We are seasoned underwriters who know how much premium we need,' says J.P. DeAlessandro of National Union.



ation, Mr. Sheehan argues that current rates may already be too low to pay for future losses. Much too low.

The directors and officers liability insurance market may even be headed for a crash similar to the medical malpractice crisis that

Continued on page 26

Firms hire fewer, postpone projects in safety cutbacks

By JOHN MAES

HOUSTON—Reduced hiring in entry-level positions and shelving of long-range projects are the first signs of recession-induced cutbacks in corporate safety departments.

"This is the first time in five years of teaching that all my graduates have not been placed," said Edmund Dorner, professor of safety and loss prevention at Illinois State University in Bloomington, Ill.

About 15% of the graduating class is still looking for jobs while the recruiting on campus is much less than in previous years. Among the Fortune 500 companies that have regularly recruited safety professionals but aren't this year are Ford Motor Co., IBM and Firestone Tire & Rubber Co., Mr. Dorner said.

Some companies' long-range safety programs are being shelved during the economic slowdown. Salt River Project, a Phoenix utility company, is delaying expansion of a safety training program, said safety director Bill Powell.

Elsewhere, however, safety managers report that the recession is only nibbling, not taking a big chunk out of corporate safety budgets.

Safety engineering is holding up quite well under the recession, said many attendees at the American Society of Safety Engineers conference in Houston late last month.

And if college-level recruiting is hurting, it was a different story at the conference where the message board was flecked with notices of openings for safety professionals.

A safety chief from a Midwest firm said his presence at the session proved his company is

not cutting corners on safety expenditures.

"Obviously, this is a very large expense for any company," he said.

Some companies are moving ahead with hiring and projects. "We have a staff of 47 and we've just hired six trainees," said Charles R. Dancer, safety director at Allied Chemical Co. in Morristown, N.J. Safety is one of the last places where a chemical company would want

to cut corners, he said.

Safety managers of large corporations with sizable loss prevention departments second Mr. Dancer's comments. In these firms, safety operations and expenditures have the full support of upper-level management, they say.

Another safety administrator with a large Massachusetts firm said he not only is unconcerned about cutbacks, but also is ex-

A report on other topics explored at the American Society of Safety Engineers conference is on Pages 22 and 23.

pecting his department to grow because the company is expanding.

At TRW Mission Manufacturing Co. in Houston, V.R. Sansotta, health and safety manager, says he doesn't expect cutbacks in operations now because his firm is in the oil business, which has not been hit by recession.

He did delay plans to add a central nursing facility to service two plants, but that is only temporary, he said. "Everything else is running pretty close to our projected deadlines," Mr. Sansotta said.

recession watch

Exchange: Syndicate approval delays Illinois start

CHICAGO—The July 1 opening of the Illinois Insurance Exchange has been postponed indefinitely until proposed underwriting syndicates receive formal approval and it accumulates the required \$4 million in capital.

First Management Syndicate, owned by the Bliss Group of Bloomington, Ill. is ready to begin operations with \$2 million in capital. However, approval of its underwriting manager is still pending, said James Skelton, the exchange's interim executive director.

The exchange could open its doors within a few weeks, Mr. Skelton said, but he couldn't pinpoint a date. A certificate of authority must be obtained from the state. This will happen when the capitalization minimum is reached. "It will move along

quickly if everything is in order," he said.

AVRECO and Reinsurance Co. of America also is forming an underwriting syndicate while Stewart Smith Mid-America Corp. has applied to be the first exchange broker.

Meanwhile, exchange officials are looking for an alternate computerized accounting and risk marketing system after Risk Exchange Inc. suspended operations June 30 because of insufficient revenues (BI, June 16).

Exchange organizers endorsed REX, a \$5 million computerized system for marketing facultative reinsurance risks, for basic accounting, record keeping and risk marketing. The computer system would have allowed an underwriter to evaluate a potential risk on a computer terminal screen when he

or she is away from the exchange floor. The Illinois exchange was to pay \$800 a month per terminal and 3% of the premiums collected by its underwriters.

Unless a comparable system can be purchased, syndicate underwriters will have to stay near the exchange floor to evaluate prospective risks. Records also may have to be kept manually.

REX officials suspended operations because competition in the reinsurance market was generating insufficient revenue, officials said. REX is owned largely by insurance and reinsurance companies. The firm is exploring other uses for the system, president Henry T. Kramer said.

The Illinois exchange lost no money when REX closed because an upfront investment was not required.

Trial HMO goes public

By MARGARET LeROUX

MARTINEZ, Calif.—The first publicly owned health maintenance organization in the U.S. will begin taking members from small businesses in Northern California this fall.

Contra Costa County is expanding its seven-year HMO experiment in cutting health care costs.

Kaiser Foundation Health Care Inc., the largest and best known HMO in the country, serves the same area, but the famous health plan doesn't market to small employers. The county health plan expects to capitalize on this unserved market to expand its membership.

Contra Costa, one of the fastest-growing counties in Northern California and ninth largest in the state, will also market its HMO to 6,400 county employees in competition with Kaiser Foundation Health Plan and Blue Cross.

By the end of 1980, the county health plan expects to add 200 new members to 1,100 recipients of Medicare and Medi-Cal (supplementary payments by the state for health care costs). Previously only Medicare and Medi-Cal beneficiaries had been serviced by the plan.

The plan uses the facilities of the Contra Costa County Hospital in Martinez, where the services of 60

staff physicians are available.

The county hospital has been getting more money for treating Medicare and Medi-Cal patients in the prepaid health plan than it has under fee-for-service care.

The HMO was established on an experimental basis in 1973 with the recommendation and guidance of Dr. Arnold Leff, county health director.

"By treating people on an outpatient fee-for-service basis, the county was reimbursed only 50% of its costs from Medicare and Medi-Cal," said Robert Kaplan, executive director of the HMO. "With the prepaid plan, the county was reimbursed 70% of its costs, a savings of 20%."

Mr. Kaplan attributed the savings to a reduction in paperwork and "in the long run having people treated on a prepaid, preventive basis cuts the need and cost of hospitalization."

The plan is not yet self-sufficient and received a \$200,000 contribution from the county board of supervisors "to get us to the break-even point, which we expect within a year and a half," the director said.

The county expects to have 4,000 enrollees, 50% non-Medicare or non-Medi-Cal recipients, within three years.

People here are familiar with

HMOs and what a preventive approach to health care is," he said. About 40% to 50% of Contra Costa County residents receive health care through a prepaid system, he estimated.

The benefits under the county HMO are almost identical to the benefits under the Kaiser plan, Mr. Kaplan said. But the county doesn't consider itself in competition with Kaiser because Kaiser doesn't serve Medicare and Medi-Cal patients and doesn't market to small employers.

The county HMO, which negotiates its rates annually with state Medi-Cal and Medicare officials, is currently quoting enrollment fees of \$44 per month for a single member, \$77 for a couple and \$107 for a family.

Contra Costa County pays 80% of the premium for employees in Kaiser or Blue Cross plans, negotiating contributions with unions representing clerical workers, sheriff's deputies, firefighters and other employees.

Approximately 4,400 county employees are in the Kaiser plan and 2,000 are covered by the Blue Cross plan.

For the largest union group, the county pays \$39.68 a month for a single employee in Kaiser and \$96.45 for a family. It pays \$64.76 for a single employee and \$114.41 for a family with Blue Cross.

Firms pick up tab for most plans: Poll

MOST MEDIUM-SIZED and large firms provided employer-paid life and health insurance, disability pay and pension plans in 1979, the Bureau of Labor Statistics reports in a pilot survey covering 21 million professional-administrative, technical-clerical and production employees.

According to the survey:

- Sick leave plans covered 80% of professional-administrative, 83% of technical-clerical and 37% of production workers. Plans ranged from two or three days leave per year to six or more months of benefits. The most common fully paid leave was five to 30 days annually.

- Accident and sickness insurance covered two-thirds of employees. Fifty-five percent of production employees were covered by

benefit beat

plans basing benefits on either a proportion of earnings or a flat dollar amount; nearly 90% of the other employees were covered by such plans. More than 80% of employees were covered by fully employer-paid plans.

- Nearly one-half of all employees were covered by an employer-sponsored long-term disability plan, and more than 75% of them received a benefit equal to 50% to 60% of wages. Nearly 80% of participants were covered by fully employer-paid plans.

- Health insurance plans at least partly employer-financed covered 97% of the workers. Nearly all participants were insured for hospital

room and board, surgery, X-rays and physicians' hospital visits. One-half had some dental coverage and almost one-fifth had vision care insurance. Seventy-three percent of participants were covered by fully employer-paid plans.

- Eighty-seven percent of the employees participated in pension plans with either specified retirement benefits or unspecified benefits based on employer contributions. The survey did not include profit sharing, stock purchase and savings plans.

About 96% of the professionals participated in pension plans; other groups average about 10% less. Fully employer-paid plans

covered 83% of the professional workers and 83% of the other groups.

- Nearly all workers were provided with life insurance, but the amount varied by earnings and occupation. Sixty-three percent of all insured workers received life coverage related to earnings; a flat amount was provided to most of the others. Eight percent of the participants were provided life insurance at no cost.

Deferred comp

Delaware state employees have a new high-interest investment option in their deferred compensation plan.

Under the new thrift plan option, effective July 1, John Hancock Mutual Life Insurance Co.

pays a minimum of 10.65% annual interest for five years. Interest rates may be higher if market conditions change between July 1 and the date a deposit is made.

Employees who participate in the deferred compensation plan contribute, via payroll deductions, into one of several investment options, including mutual funds and the guaranteed interest thrift plan. They pay no income tax on their contributions or the investment earnings until the money is withdrawn. An employee may withdraw money when he leaves state service, retires, dies or proves a hardship need for the money.

The deferred compensation plan is managed by the state treasurer's office, but policy decisions are made by the deferred compensation council. Although the plan has existed for nearly a decade, only about 4% of the 25,000 eligible employees have signed up, said state treasurer Thomas R. Carper. A different version of the Hancock savings option has been available for several years, but paid lower interest.

City self-insures

The city of Charleston, W. Va., is self-insuring its group medical and life insurance plans after pulling out of the plan operated by the state public employees insurance board July 1.

The city's studies have indicated Charleston can self-insure the benefits for less than it paid the board, said William Lively, assistant city manager. McDonough-Caperton Employee Benefit Program was awarded a contract to administer the payment of claims from a trust fund, after bids for an administrator were taken in May.

Charleston was paying out more than its claims were costing, and the city couldn't get a clear picture of its loss experience, Mr. Lively said. "We felt we had good experience," he added. Charleston will pay McDonough-Caperton \$2.20 per employee per month compared with the \$2.40 it paid the board, he said.

The city had participated in the state plan since 1977 and had 825 employees and 58 retirees enrolled. The state board also has a self-insured program, with claims processed by The Equitable Life Assurance Society.

Symphony policies

The New Orleans Philharmonic Symphony and Local 174-496 of the American Federation of Musicians will be playing in harmony this fall under a new contract upgrading health and life insurance benefits.

Under the three-year pact, the 80 symphony musicians will receive a new \$300 supplemental accident benefit and unlimited payments for major medical care, said symphony manager James D. Hicks. The medical coverage, underwritten by John Hancock Mutual Life Insurance Co., includes a \$250 deductible per family, with the insurer picking up 80% of the remaining costs until a policyholder pays \$1,000 a year out-of-pocket. John Hancock then pays 100% of expenses.

Players with one through four years of experience in the New Orleans Philharmonic will now receive a \$10,000 straight life policy, while players with five or more years will receive \$20,000 straight life. John Hancock also underwrites the life coverage.

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

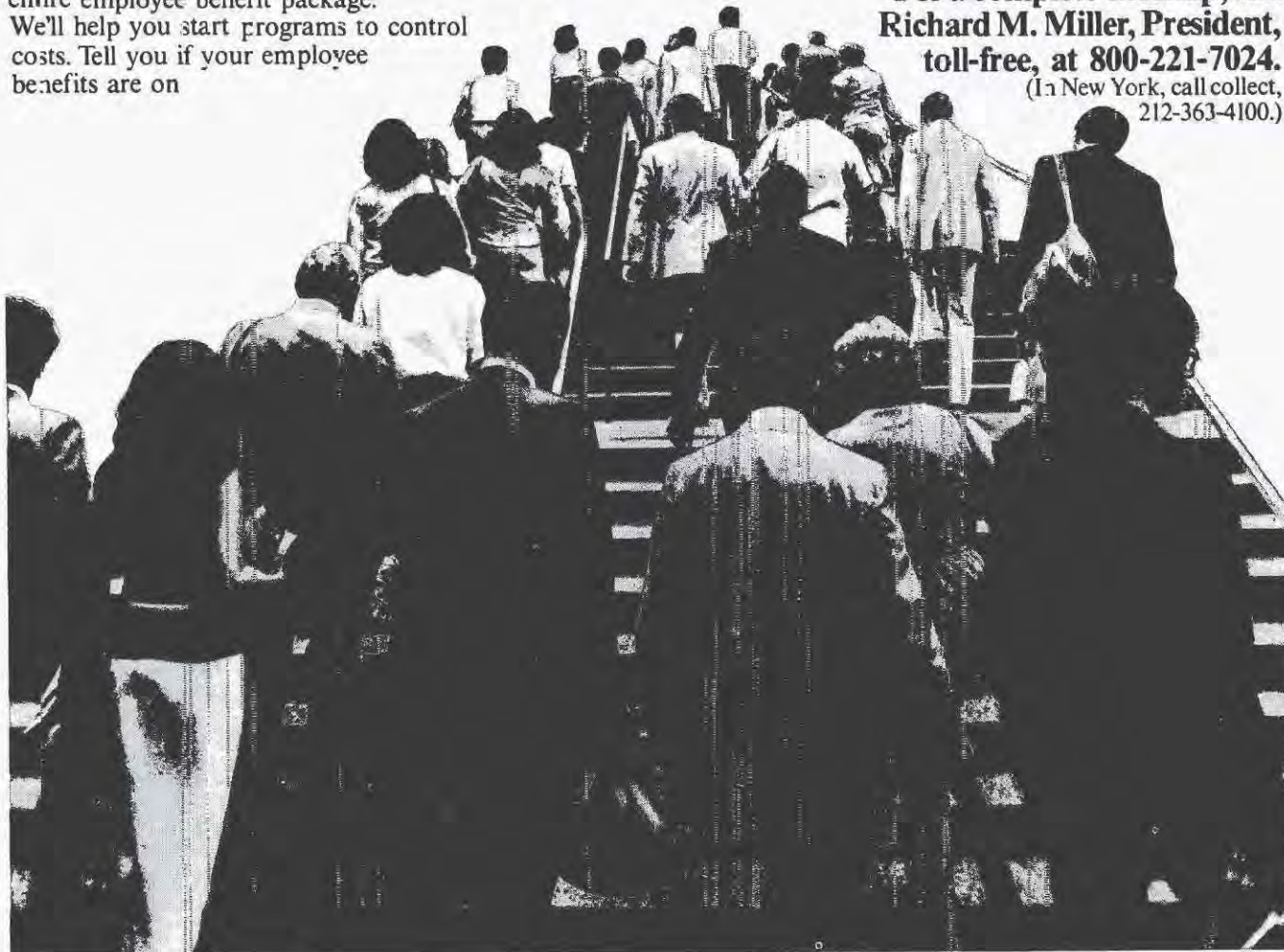
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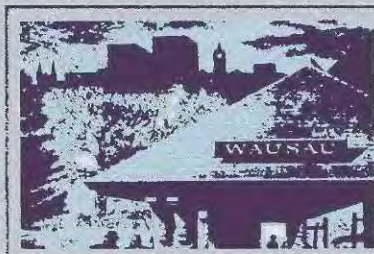
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TELL YOUR broker to tell his Lloyd's broker to tell his underwriters to lobby the Committee of Lloyd's to adopt reforms recommended by the Fisher Working Party.

Commercial insurance buyers will reap benefits if Lloyd's adopts these reforms.

The codified set of rules set forth by Fisher will provide the framework for a smooth-functioning market that buyers can put their faith in not only to be there to pay claims, but to also handle their business professionally and efficiently.

Lloyd's recent troubles, especially with the Sasse Syndicate, raised questions about its ability to deal with unscrupulous business people.

But the reforms recommended by Fisher promise to provide the 300-year-old market with a system to control and solve future problems.

Tighter control over how and to whom Lloyd's underwriters delegate binding authority will protect the market from agents who might feed it bad business. Measures to protect Lloyd's names from losing their shirts—as they literally can—preserve the market for good business.

Divorcing Lloyd's brokers from underwriting agencies will remove suspicions that a Lloyd's broker can be influenced by his company's financial interest in marketing a risk. It also sets the broker up as representing only the buyer, not the underwriter, in claim disputes.

Procedural changes will speed the delivery of Lloyd's policies to buyers. This will be a welcome development because the major complaint from buyers using Lloyd's is that it can take months for the policy to be delivered. This expected delay in policy delivery has also allowed fraudulent brokers to pocket premiums undetected on business supposedly placed with Lloyd's.

The strengthened hand of the Committee and new Council of Lloyd's to discipline members would give them the power to quickly evict anyone who breaks the rules and jeopardizes the name and vitality of the market.

The increased opportunity for Lloyd's names to participate in governing Lloyd's and the introduction of non-Lloyd's members to its governing council also would encourage greater scrutiny of operations.

We commend the Fisher Working Party

for its comprehensive blueprint for change at Lloyd's.

We also commend the Committee of Lloyd's for publishing the document without sanitizing passages of criticism.

Now we encourage the committee to go about the business of implementing the recommended reforms, getting a bill before Parliament for the needed authority.

Blueprint

THE FISHER Report is also relevant to development of syndicate markets in the U.S. Every group shaping and governing a similar market in the U.S. should study the report for guidance.

Consider what Fisher has to say about controlling the size of syndicates:

"The several markets at Lloyd's depend on there being a reasonable number of syndicates competing with each other on more or less equal terms, sharing risks between syndicates and quoting competitive rates. Dominance of a market by one preponderant syndicate is seen as inconsistent with a real competitive situation and tending toward monopoly. The power of the dominant syndicate would be too great and the other syndicates in the market would become weakened."

Fisher concludes that the new Council of Lloyd's should have the power to impose a limit on the size of syndicates.

We don't suggest that the New York Insurance Exchange governors try to limit the size of American International Group syndicates now dominating business on the new exchange. We commend every buyer, broker and insurer that has put business into this new market.

We do, however, urge the New York Insurance Exchange board of governors to publicly call for an amendment to the legislation creating the exchange, freeing it to compete in the marketplace for domestic risks on a direct underwriting basis.

The New York Free Trade Zone should not be permitted to skim the best U.S. business from exchange underwriters.

Opening the exchange to direct underwriting of domestic risks would provide other syndicates on the exchange, hungry for risk submissions with enough business to compete with AIG and balance syndicate size.

letters

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

No free lunch

To the editor: Re: "Health plan would pay the non-user" (May 26). Fragmentation of group health insurance plan enrollment is of increasing concern to health insurance professionals. Despite government subsidies, minicomputers and innovative financing plans, there is no free lunch.

William Hembree proposes to skim the cream of the risk for his HPO to reward those who stay well and charge higher premiums to those who don't. This sort of scam can only result in redistribution of premium on a totally random basis in line with the incidence of illness among the population at large and individual group plans in particular.

This HPO approach reminds me of some of the other "stay-well" incentive plans which purport to reward those who don't get sick. Some people will get sick and other people won't get sick. I'd like to see some statistical data proving that economies are in fact available in the aggregate under these types of plans and that the pig in the poke is not just redistribution of premium outlay.

Would Mr. Hembree have such statistics available?

Thomas S. Sher
Vp, Joseph H. Sher Co. Inc.
San Francisco, Calif.

• Mr. Hembree replies that such statistics are not available now, but his HPO pilot study will provide data on this question.

Informative issue

To the editor: I found your June 23 issue on excess and surplus lines both interesting and informative and wish to thank you for helping the insurance buyer better understand our segment of the insurance business.

The points in your editorial "Check out the players" are well taken. Although no association can guarantee the honesty and integrity of all of its members, we feel that the requirements for membership in the American Assn. of Managing General Agents indicates that our members have the qualities that both the insurance buyers and retail producer are looking for in an insurance wholesaler. One of the AAMGA requirements is the firm must have represented two companies for three years as a managing general agent. This means he has had the "pen" of these companies. This trust is not freely given.

I noticed that next year you are going to ask the year each firm was established. We recently made a

membership profile which showed 96% of our members were established before 1975 and 85% of our members have been in business 10 years or more, a good indication of the lasting power of members.

David F. Anderson
President
American Assn. of Managing
General Agents
Pasadena, Calif.

Nobody 'canned'

To the editor: I was greatly dismayed to read "Amerace Corp. canned the No. 2 risk management..." in the June 23 issue.

When I consented to a telephone interview, I expected that my recent experiences would be covered inconspicuously in an overview story. I did not expect to find my name on the front page beneath a caption that includes the slang term "canned." People are "canned"; positions are "eliminated." Having my name appear in a spotlight article under a caption that has very negative connotations is potentially damaging to my reputation.

I feel that a clarifying paragraph should be inserted in a location that is equal in prominence to that occupied by the article. The paragraph ought to explain the reasons for highlighting this particular staff reduction, as well as reiterate that a position was eliminated—nobody was "canned."

Alan W. Friedlander
Crane Co.
New York, N.Y.

Encourage concept

To the editor: I was most interested in your article "Aluminum workers pay more for care" (Benefit beat, June 9).

The important issue that was discussed was that the aluminum workers agreed to have their deductible increased from \$50 to \$75. This is a concept that should be more encouraged. Actually a \$100 deductible of about eight years ago is twice as easy to accumulate now as it was then. If it was \$200 today it would be its contemporary equivalent. I hope that this method of increasing deductibles would become more acceptable in reducing the cost of medical coverage.

One final comment: The title of the article was a bit misleading. I would have presumed by the label that the aluminum workers were going to be asked to pay more in premium costs rather than through a larger deductible.

Richard P. Duffy
The Equitable Life Assurance
Society
White Plains, N.Y.

business insurance

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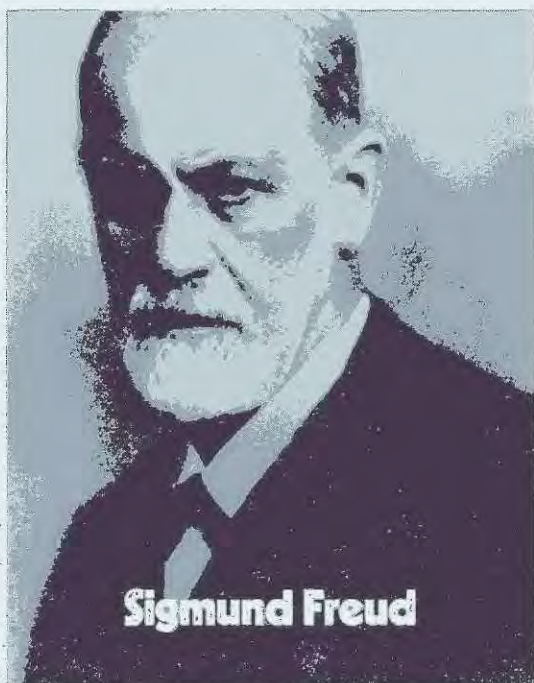
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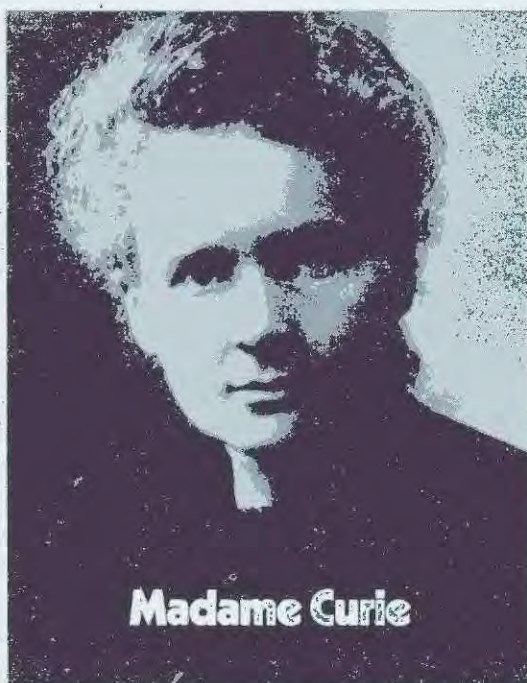
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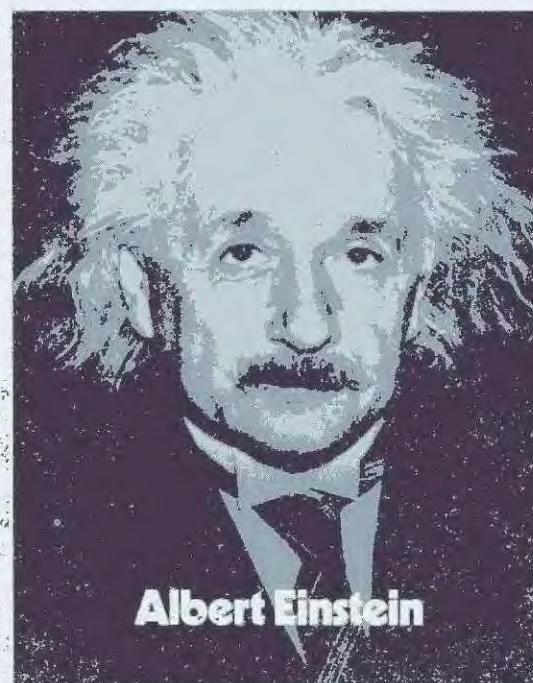
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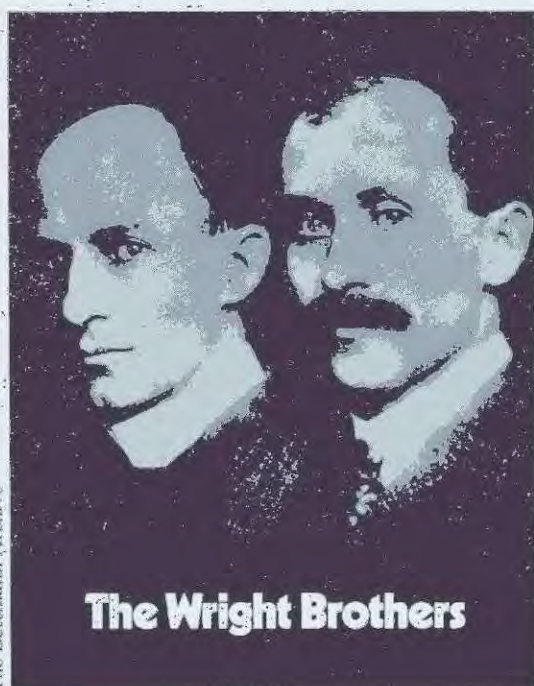
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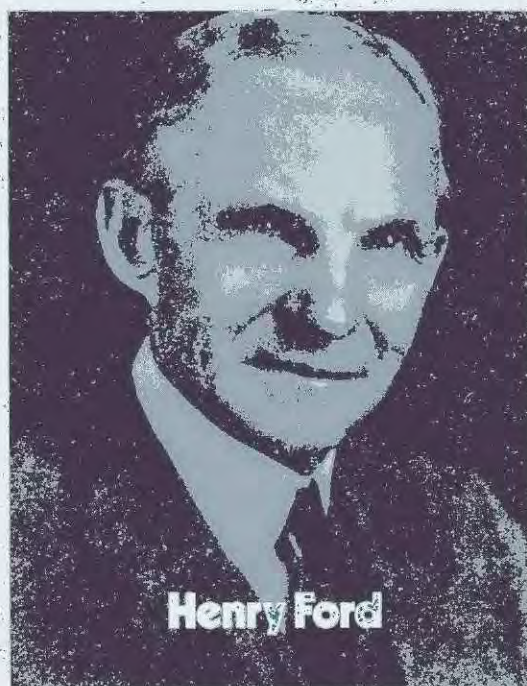
Madame Curie



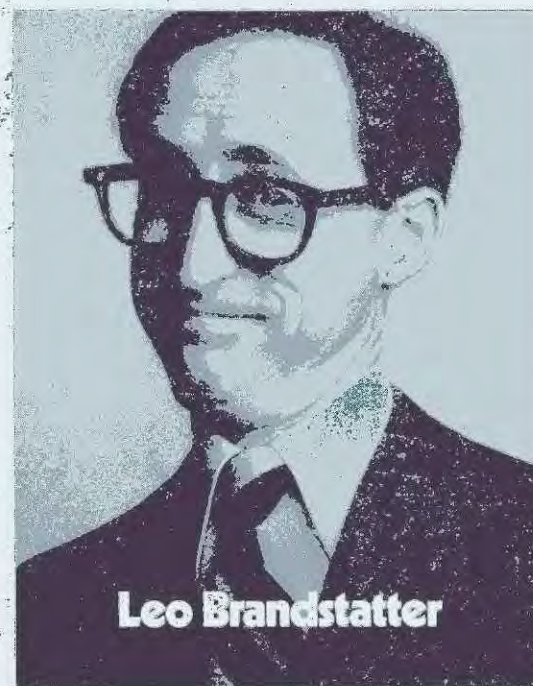
Albert Einstein



The Wright Brothers



Henry Ford



Leo Brandstatter

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First there was Freud.
Then Madame Curie.
Then Einstein, the Wright
brothers, Henry Ford and Leo
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Leo Brandstatter?

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London broker gave false data: Italian broker

By JOHN MAES

NEW YORK—An Italian broker charged by London broker Stewart Wrightson with issuing phony policies is countering that Stewart Wrightson provided inaccurate information on the risks.

Stewart Wrightson is suing London & Continental (Insurance & Reinsurance) Brokers Ltd. in London and Italian broker Roland Pardo, principal of Adolph Pardo Associates in Italy, for \$1.3 million in marine hull claims (BI, Feb. 4). The suit charges that Mr. Pardo is-

sued phony policies and that London & Continental was negligent in taking over the accounts from Mr. Pardo.

Through New York attorney Kenneth A. Lapatine, Mr. Pardo said he placed hull coverage on some Greek-owned ships with two Italian insurers, Compagnia di Assicurazioni S.P.A. Comar and Navale Assicurazioni S.P.A. (Naval).

The coverage was canceled because of improper documentation of losses, distorted loss records and nonpayment of premiums, Mr. Lapatine told *Business Insurance* in a letter.

Stewart Wrightson provided erroneous information on claims between 1974 and 1976, he said. Stewart Wrightson said claims through November 1974 were \$140,150 when true figures were 11 times greater, Mr. Lapatine said. Claims through Nov. 14, 1975, reported by Stewart Wrightson to be \$2.2 million, exceeded \$5.4 million, Mr. Lapatine further charged.

Adolph Pardo Associates and Continental also contend Stewart Wrightson breached guarantees given to APA that the vessels insured were Greek owned and managed when some of them were not.

APA never assumed liability to Wrightson on the policies in question, Mr. Lapatine contends. It acted only as agent of the insurers and reinsurers involved, he said.

In taking over the account, London & Continental never agreed to assume the liabilities of APA, Mr. Lapatine said. London & Continental contends it doesn't owe Stewart Wrightson the \$1.26 million claimed in the original suit. ■

Trade group plan covers product risk

PEORIA, Ill.—One hundred twenty members of the 1,400-member National Fertilizer Solutions Assn. have opted for a \$500,000 combined single-limit product liability policy underwritten by Cranford Insurance Co. and brokered by Alexander & Alexander.

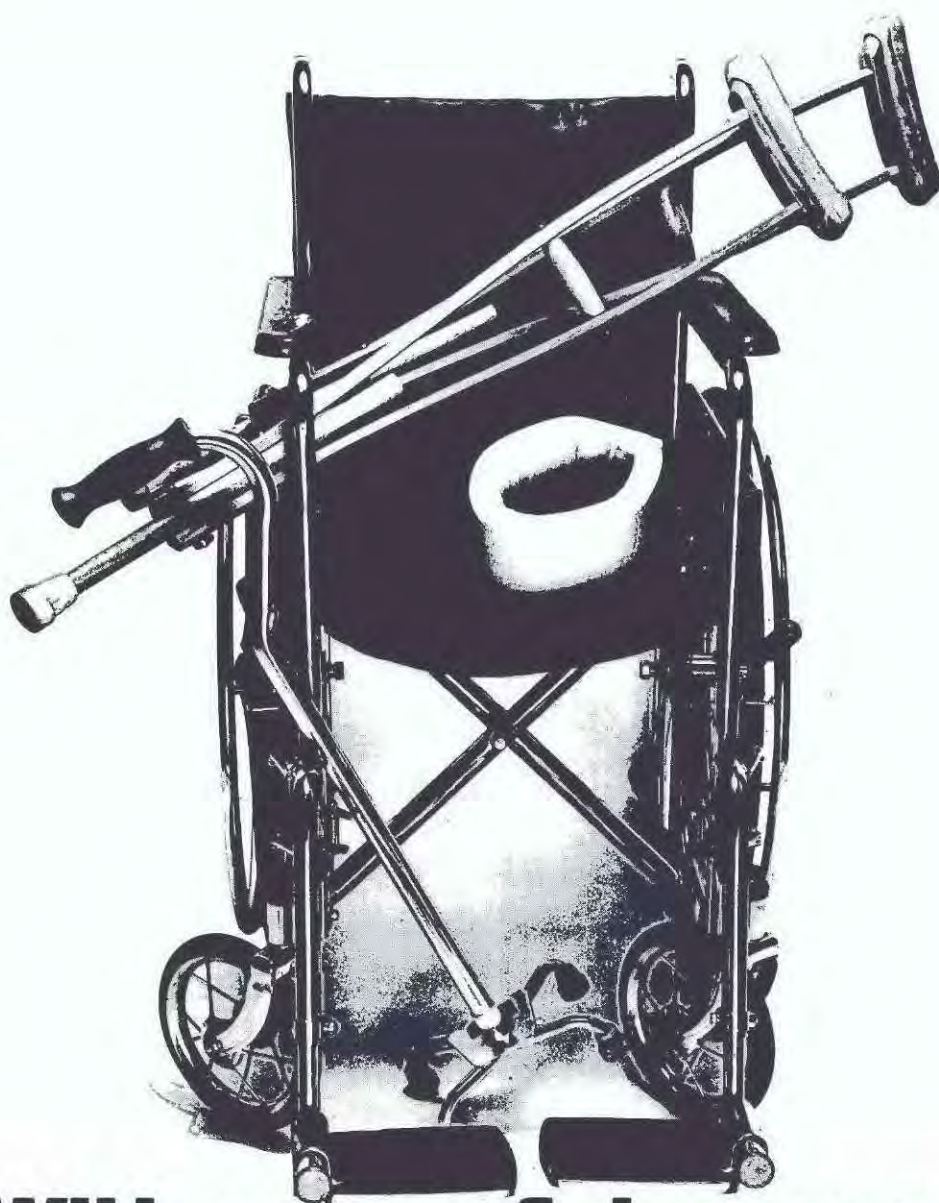
"We hope this program will serve our members by providing continuous coverage at lower costs," said Carlene Mehlenbeck, insurance administrator for the trade group.

In addition to a basic \$500,000 primary policy, NFSA members, which produce various agricultural chemicals, can buy an additional \$5 million in coverage through an umbrella package available through A&A.

Premiums will be based on the annual sales and the types of products a company manufactures. Companies with less than \$5 million in annual sales will have \$1,000 deductibles, while higher deductibles are available for larger firms.

Companies that accept higher deductibles will receive premium credits. For example, a firm that doubles its deductible will have its premium sliced 10%.

All claims will be defended vigorously, Ms. Mehlenbeck said, noting some members had complained that their insurers were too quick to settle. ■



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Policy years at issue

IUD maker wants former insurer to pay for claims

By MARGARET LeROUX

RICHMOND, Va.—A.H. Robins Co. wants its former product liability insurer to share the cost of paying liability claims over the Dalkon Shield contraceptive.

More than 3,500 product liability claims have been filed against Robins by women charging the intrauterine device caused harmful side effects including infections, sterility, perforated uteruses and even death.

Robins has reportedly spent more than \$60 million defending the claims.

Now Robins is suing Aetna Casualty & Surety Co. in circuit court here to determine whether Aetna is liable for claims made after Robins' product liability policy expired in March 1978.

Robins has been self-insured since that time.

"It's a question of which policy years should the claims against Robins be assigned to," said a

'It's a question of which policy years should the claims be assigned to,' says a spokesman.

spokesman for the pharmaceutical company.

At issue is whether the occurrence basis of Robins' product liability policy applies to time of insertion of the IUD, time of alleged injury or time the claim was filed.

Attorneys representing plaintiffs in Dalkon Shield cases compared the Robins-Aetna dispute with the lawsuit filed by the Johns-Manville Co. against its insurers over payment of liability claims made by victims of asbestosis (BI, April 7).

Johns-Manville filed a suit in March against 27 excess insurers, asking the court whether insurers should respond to claims on an exposure theory or manifestation theory.

In the Dalkon Shield case, more than 2,600 claims and lawsuits were settled as of March 31. Some 670 are pending in state courts and 310 are not settled. Only 11 claims have been brought to trial, with three verdicts against Robins.

The most recent jury trial award of \$600,000 in compensatory damages and \$6.2 million in punitive damages to a Colorado woman was upheld on appeal last month. Robins said it will appeal to the state supreme court.

Compensatory damages in the Colorado case are covered by Aetna. Colorado law prohibits insurance coverage of punitive damages, the Robins spokesman said.

In the two other verdicts against Robins, a Kansas woman was awarded \$10,000 in compensatory damages and \$75,000 in punitive damages and a California woman was awarded \$600,000.

Although Kansas law also prohibits insuring punitive damages, an attorney connected with the case said the amount was paid by a single check from Aetna.

"I'm assuming division of the payment (as to punitive and com-

pensatory) was negotiated by Robins and the insurance company," the lawyer said.

The dispute over Aetna coverage will mean "cases that could have been settled cheaply will be a lot more expensive for them, but it is going to take a lot longer for claims to be settled," New York attorney Paul Rheingold said. Mr. Rheingold writes a confidential newsletter on developments in Dalkon Shield cases. ■

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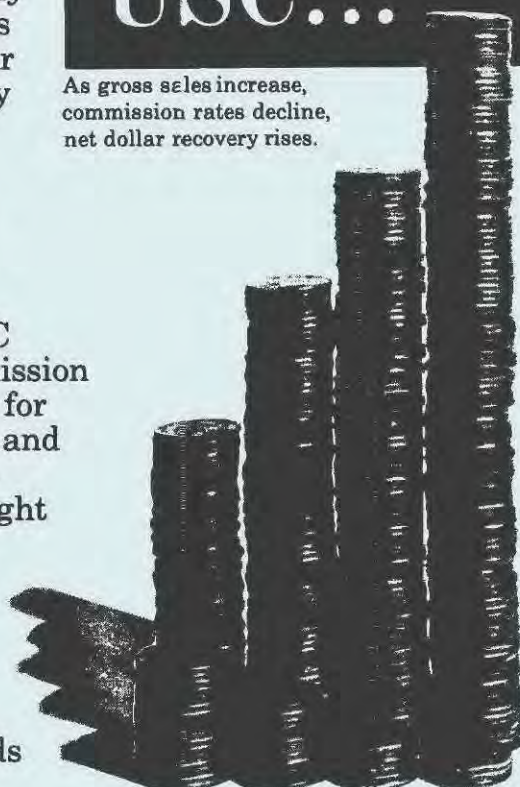
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Standards for entry

Seamen health guides may cut costs

By DAVID SPERLING

NEW YORK—Swamped by the rising costs of shipboard illness and injuries, U.S. maritime employers are hoping a proposed set of health standards for seamen will help bail them out of rough financial waters.

The guidelines are the result of an unprecedented two-year collaborative effort between the maritime industry—both management and unions—and various governmental organizations including the Coast Guard and Public Health Service.

Under the administrative auspices of the PHS, the guidelines will establish for the first time a set of entry-level health standards for maritime employees.

"Historically, there haven't been any health standards," said Dr. C. J. Urner, cochairman of the Seafarer's Health Improvement Program, the group that drafted the proposed guidelines. "In 1954, the Coast Guard and the Public Health service devised an elaborate system of standards, but they were so elaborate no one could use them and they died."

Dr. Urner pointed out, however, the guidelines probably won't have much initial impact because they apply only to entry-level positions. But, he added, "Guidelines will be developed in the future for seamen already in service."

The evolving set of standards, he said, will result in a healthier crew, which might help reduce the high cost of liability coverage. Meanwhile, the guidelines will be "very effective and needed" in controlling costs, he added.

The Coast Guard, which issues seamen's papers, will probably adopt the proposals in a year, said Dr. Urner, who is also medical director of the Lykes Brothers

Steamship Co. in New Orleans.

Although the guidelines themselves are not binding, the Coast Guard action will give them the full force of law.

The proposed guidelines would bar applicants with a history of alcohol or drug abuse, communicable diseases, epilepsy and diabetes, among other ailments. Those suffering from hearing, speech or visual impediments would also be excluded from maritime duty.

Insurance industry sources expressed enthusiasm over the guidelines, but reserved comment on whether liability rates would be affected.

The guidelines will be 'very effective and needed' in controlling costs, says Dr. C.J. Urner, cochairman of the Seafarer's Health Improvement Program, of the proposals.

"Anything that reduces the incidence of illness and injury will reduce the shipowner's cost of operation," said John Buzhee, senior vp at Marsh & McLennan.

The inordinately high costs associated with illness and injury on

board have plagued the U.S. deep sea maritime industry for years. A declining job market, which plunged to a new low in 1979, boosted the average age of merchant seamen to more than 52 years.

According to statistics compiled by the Marine Index Bureau in New York, an average of 72 injuries and/or illnesses are reported for every 100 jobs each year.

In addition, maritime employers are liable for benefits uniquely available to the seafarer. Unlike non-maritime employees, whose illness claims are limited to occupational diseases, seamen can be compensated for virtually any illness or injury.

The concomitant increasing costs, which have provoked great concern in the U.S. maritime industry, led to the establishment of the physical qualifications work group of the Seafarer's Health Improvement Program.

WHEN YOU START PINCHING PENNIES ON HEALTH CARE COVERAGE, MAKE SURE YOU PUT THE SQUEEZE ON THE RIGHT COSTS.



Widow asks for autopsy in Ford case

DETROIT—The widow of an auto worker who died of cancer in 1974 is seeking to have the body exhumed for an autopsy to determine whether arsenic in the workplace contributed to his death.

Marcia Lyons contends her husband never smoked but died of lung and testicle cancer on Jan. 20, 1974. Larry Lyons worked as a mechanic at Ford Motor Co.'s Sterling Heights plant at the time he contracted the cancer.

Ms. Lyons believes her husband was killed by exposure to arsenic in heavy-duty batteries and other toxic gases given off while the batteries were being recharged in the vicinity Mr. Lyons worked.

The woman, who is involved in a workers compensation case over the death, has been joined by two other widows of Ford workers who contend their husbands died of the same exposure.

The three women have reportedly refused \$6,000 apiece in settlement offers from Ford.

Ms. Lyons has said she wants the body autopsied in hopes it will save other workers from the same fate. Her request is currently being considered by the Wayne County medical examiner's office.

Arsenic is one of 20 chemicals being regulated by the Occupational Safety and Health Administration as potentially cancer-inducing.

Vermont passes 'consent to rate' law

MONTPELIER—Vermont businesses may face higher rates for certain risks under a "consent to rate" law recently signed by Gov. Richard Snelling.

The law allows a risk that is unacceptable to be covered at filed rates to be written at rates above those filed, either on a risk or a coverage basis.

For example, a business wishes to purchase a coverage package. The risk is acceptable as standard business except for the vandalism coverage. The vandalism coverage may be consent rated.

Or if a business wants to purchase coverage for several buildings, one of which is unacceptable as a risk, the unacceptable building may be eliminated from the policy and the policy will be written at standard rates.

around the states

The consent to rate form may be filed by the insurer or its agent with the approval of the insurer. The agreement to allow an agent to file the consent need not be in writing.

If the consent to rate procedure is used for a risk eligible for coverage under a risk sharing plan, a statement on the form must advise the policyholder of its eligibility for that coverage and the premium rate for the risk sharing plan.

Payroll reports

COLUMBUS—Some Ohio employers soon will find it easier to submit semiannual payroll re-

ports to the state workers compensation bureau, thanks to a simplified report form designed for companies whose employees work in only one job classification.

About 145,000 of the 236,000 private firms paying premiums into the state workers compensation fund will be eligible to use the new form. Most of the information on the form, including the premium rate for the appropriate job classification, will be preprinted.

All the company must do is put in the size of its payroll and multiply it by the premium rate. Employers also can figure the amount their premiums will be reduced by a 15% credit granted to all private

firms for payrolls reported in July and August.

Payroll reports should be submitted by July 31.

Wrongful life'

LOS ANGELES—The California court of appeal has ruled that a child born genetically defective can bring a "wrongful life" suit against laboratories whose tests allegedly indicated the parents were not carriers of Tay-Sachs disease.

The suit was filed by Shauna Temar Curlender, through her father, Hyam Curlender, against Bio-Science Laboratories and Automated Laboratory Sciences. The case was the first in California in which a court has ruled that such a suit can be brought. "Wrongful life" suits in other states have almost univer-

sally been barred.

"The reality of the 'wrongful life' concept is that such a plaintiff both exists and suffers, due to the negligence of others," wrote presiding Justice Bernard S. Jefferston.

"The certainty of genetic impairment is no longer a mystery. In addition, a reverent appreciation of life compels recognition that the plaintiff, however impaired she may be, has come into existence as a living person with certain rights."

More self-funding

MADISON—More Wisconsin corporations are self-insuring group health plans, according to Susan Mitchell, state insurance commissioner.

The trend is a matter of concern because self-insurers are not regulated under the state insurance code, Ms. Mitchell said in a report to state legislators.

A survey by Ms. Mitchell's office of the 54 largest private and municipal employers in Wisconsin showed 63% either fully or partially self-insured group health plans. The 54 companies employ 192,695 people or 10.8% of the employed population in Wisconsin.

National data for 1977 showed 11% of employees receiving group health benefits were covered by self-insured plans.

"When coverage for certain items such as alcoholism and skilled nursing care is required for group contracts, and the requirements vary by state, compliance becomes extremely difficult for large companies operating in several states," she reported.

"In addition, mandated benefits are costly and reduce the amount of money available for other benefits which may be preferred by employers and employees. Self-insured groups are not required to provide mandated benefits and thus are free to spend their fringe benefit dollars in other ways."

Trust regulation

HARRISBURG—Group insurance policies sold by out-of-state trusts would be regulated by the Pennsylvania insurance department under a bill (H.B. 2605) introduced in the state house.

Many group policies, especially for health insurance, are sold by companies that have registered group trusts in other states. Policies in the name of that group can then be sold in any state. Under current law, such policies are exempt from Pennsylvania regulation.

"This legislation is extremely important because of the problems that have developed over the years with out-of-state trusts," said James R. Farley, acting state insurance commissioner.

JUA refund

COLUMBUS—Ohio hospitals and physicians not insured for medical malpractice by the Joint Underwriters Assn. as of June 16 will receive about \$27 million in refunds from the JUA's stabilization reserve fund, says Robert L. Ratchford, director of the state insurance department.

The SRF was established in July 1975 as a trust fund to pay claims if the JUA operated at a deficit. All 18,000 physicians and hospitals in Ohio, even those not insured by the JUA, were required to make payments to the fund.

In the past five years, JUA membership has decreased to 200 physicians and hospitals from 4,000, Mr. Ratchford said. He added that he hopes the remaining 200 will leave by the end of the year.

The cost of health care coverage is actually two costs. The retention costs (which cover everything from administrative costs to reserves). And the cost of benefits. All too often, only retention costs get much attention.

THE EXPENSIVE ASSUMPTION.

Some buyers make the assumption that the cost of benefits will always be the same. After all, the same people will get sick and incur the same costs, no matter who the carrier is. So how can there be a difference?

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Nearly \$480 million loss

U.K. insurers suffer worst year in '79

By JOHN MILLER

LONDON—U.K. insurance companies writing both life and nonlife business reported the worst underwriting results ever in 1979, with overall losses nearly \$480 million, according to figures released by the British Insurance Assn.

The 325 insurers suffered \$220 million in losses from domestic business including theft, auto and fire. Insurers lost \$44 million from U.S. business and \$215 million from business elsewhere in the world.

Weather losses and low premium rates are blamed for the results. Investment income, however, soared by 20% to \$2 billion, enabling the industry to net a surplus of \$1.6 billion.

"Inflation will be a serious threat to us because it will affect both expenses and claims," said Geoffrey Bowler, chairman of the British Insurance Assn.

Disease damages

Workers at a U.K. plastics plant who suffered sex disorders and other health problems after being exposed to deadly vinyl chloride fumes have been awarded \$1 million in damages by a Yorkshire County court.

Twenty-two claims were filed initially against the firm, but most were settled for \$60,000 to \$80,000. Claimants charged they suffered impotency, bone disease or breathlessness after working on vinyl chloride products 10 years ago, and many are now unable to work.

"The treatment of vinyl chloride disease is still in its infancy, and its long-term effects are still not known," said Christopher Rose, attorney for the plaintiffs.

Meanwhile, the U.K. Health and Safety Executive is calling for a probe into charges that more than 40 workers are suffering liver impairment after being exposed to the effects of the deadly chemical dioxin. They were employed at the Coalite Products plant in Derbyshire between 1968 and 1971.

Dioxin was released from the Italian Seveso Plant of the Swiss chemical group Givaudan in 1976. The chemical caused fears of large-scale pollution and birth defects. More than \$50 million in compensation has been offered to the Italian authorities by the parent company, the Hoffman-La Roche phar-

Confab seeks security papers

PHILADELPHIA—Persons active in the security field are invited to submit papers to the second Symposium on Security Technology set for April 9-10, 1981, here. The symposium is sponsored by the committee on security systems and equipment of the American Society for Testing and Materials.

Symposium presentations may lead to development of new standards and guidelines for security threat analysis and security systems design and technology.

Prospective authors are requested to submit abstracts, titles and an ASTM paper offer form by Oct. 1. Forms are available from Kathy Greene, ASTM publications division, 1916 Race St., Philadelphia, Pa. 19103; 215-299-5414.

For further information, contact Harvey Schock, P.O. Box 130, Haddonfield, N.J. 08033; 609-428-7236, or James DeMartini, ASTM standards development division, 1916 Race St., Philadelphia, Pa. 19103, 215-299-5560. ■

london line

maceutical organization.

Drug liability

Drug manufacturer Schering A.G. of West Germany, already facing two damage suits in the U.K. over the use of the drug Primodos, may face as many as 780 suits filed in the U.K. and other countries.

Court authorities in London have been told 180 lawsuits are planned by an association of British parents whose children were born deformed after their mothers were given the drug in pregnancy

tests. Another 600 cases are pending throughout the world.

Some observers believe the Primodos cases will have wider implications for Schering and other drug manufacturers than the thalidomide product liability cases that began 20 years ago and ended with heavy settlements and court awards.

The Primodos cases will be strongly challenged, said Schering's U.K. attorney Roy Beldam, because the firm is "held in high esteem throughout the world" and its contraceptive pill contains hor-

mones like those in Primodos.

The drug had been marketed in 90 countries since 1958 but has since been withdrawn from sale.

The first U.K. trials are set for October 1981 because of the need for extensive legal preparations.

Fewer accidents

U.K. industrial accidents dropped last year to 318,765, more than 34,500 less than 1978's figures, report government safety experts.

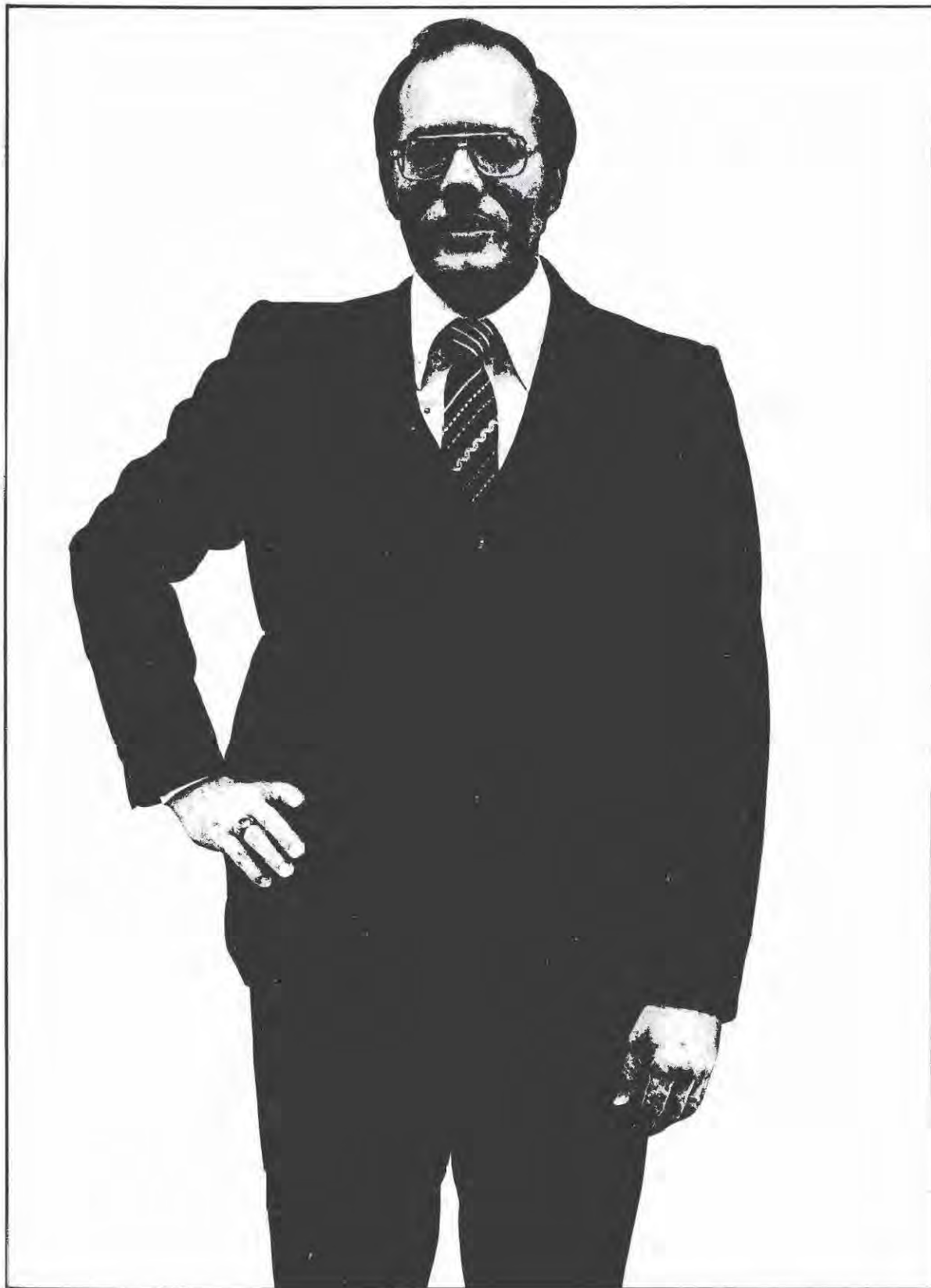
The improvement was spread over most classes of industry. Fatal accidents were slightly higher than in 1978, however, and most accidents were in mining, quarrying and construction.

Railroad fined

The government-owned British Rail corporation, the U.K. equivalent of Amtrak, has been fined \$22,000 by an Edinburgh court for infringement of local occupational safety rules leading to the deaths of two workers.

The men were entombed when a 133-year-old tunnel caved in last year during repair work. The railroad was charged with failing to make a geological study of the tunnel before beginning repairs.

The railroad has had to spend more than \$3 million to bypass the section of track on the main route from London to Scotland that will no longer be used. ■



Book explains self-funded work comp

I read with interest articles in *Business Insurance* that review the different ways insurance people are handling the workers compensation exposure. Where can one get more details about some of these innovative methods? Is there any good material that has been published or are there any seminars being given? I am especially interested in ways of self-insuring workers compensation.

Robert Phelan
President
Phelan, Bazzano & Co. Inc.
Torrington, Conn.

There are two ways to self-insure workers compensation, says Gil Waters, vp of Associated Self-Insurers of Florida. With individual self-insurance, a large corporation

action line

may take the workers compensation risk and reinsure itself while also hiring risk managers. Sears, the utilities and other Fortune 500 companies do this, Mr. Waters says.

A company also can join a group self-insurance plan through a nonprofit insurer, Mr. Waters says. Premiums, claims and management are handled by the nonprofit plan for its member self-insurers who are sharing their risks.

Company officials must check state laws, however, before self-insuring workers compensation, Mr. Waters warns. Does the state permit self-insurance? Does it permit group self-insurance? Does a state

regulatory agency control self-insured workers compensation?

These questions are answered in the "Analysis of Workers Compensation Laws" prepared by the U.S. Chamber of Commerce. It says companies in Connecticut are permitted to self-insure workers compensation.

For further information, contact the U.S. Chamber of Commerce, 1615 H St., Washington, D.C. 20062; 301-468-5128. Cost of the booklet is \$6.

To find out who self-insures workers compensation and how it is regulated in your state, contact your state insurance department.

The International Assn. of In-

dustrial Accidents Boards & Commissions sponsors "oodles of seminars" on workers compensation, says Phillip T. Bork, executive director. If interested in learning more about them, contact Mr. Bork at P.O. Box 2917, Olympia, Wash. 98507; 206-754-3793.

The IAIABC also will discuss self-insuring workers compensation at its next international convention Sept. 7-11 in Detroit, Mr. Bork says. Cost for the three-day seminar is \$190 for nonmembers and \$120 for members.

Now showing

In the May 1 issue of "Bulletin to Management" is an article about 20-minute lunchtime movies distributed by a company called Efforts Group. I believe the

original article is in the April 14 issue of *Business Insurance*.

I would appreciate any information you might have regarding these movies.

Becky Sanderson
Personnel department
Mary Kay Cosmetics Inc.
Dallas, Tex.

I would like to learn more about "lunchtime movies," which was covered in the April 14 issue of *Business Insurance*.

Frank R. Ballo
Employee relations manager
The F & M Schaefer Brewing Co.
Allentown, Penn.

We are interested in the movies that are supplied by the Efforts Group.

John F. Hodgson
Manager of industrial relations
Gould Inc.
Electric motor division
Lexington, Tenn.

There are three categories of movies to show your employees during lunch hour, says Ken Baugh, Efforts Group vp. There are 20-minute condensed versions of major motion pictures such as "The Bridge on the River Kwai" and "African Queen." Or employees can relax with old comic classics such as Abbott and Costello. The final category is specials: sports flicks such as the World Series or the Superbowl, or horror movies.

You can learn more about the choices and cost by contacting Efforts Group, 3736 Eubank N.E., Albuquerque, N.M. 87111; 505-293-6600.

Action line will answer readers' requests for information. Have a question regarding insurance or your professions? Write Action line, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

datebook

AUG. 4-6. International Reinsurance Seminar in San Francisco, sponsored by The College of Insurance; \$475. Robert W. Strain, dean, The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111.

AUG. 7-8. Product Liability Decisions for Executive Officers of Manufacturing Companies Workshop in San Francisco, sponsored by the University of California Extension, Berkeley; \$350. Continuing education in engineering, University of California Extension, 2223 Fulton St., Berkeley, Calif. 94720; 415-642-4231.

AUG. 18-21. Reinsurance Buyers Seminar in San Francisco, sponsored by The College of Insurance; \$595. Robert W. Strain, dean, The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111.

AUG. 20-22. Self-Insurance and Risk Retention Course in New York, sponsored by the American Management Assns.; \$510 for members, \$585 for nonmembers. Also Oct. 15-17 in Reston, Va. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-246-0800.

SEPT. 3-5. Financial Analysis for Risk Management Seminar in New York, sponsored by the Wharton School of the University of Pennsylvania; \$685 per person plus \$50 registration fee per company. Also Oct. 29-31 in Los Angeles. The Business risk education center, Vance Hall/CS, University of Pennsylvania, Philadelphia, Pa. 19104; 215-243-8230.

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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.

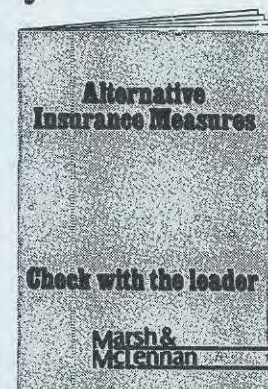
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For more information on controlling your company's insurance costs, write for a copy of our booklet "Alternative Insurance Measures" to: Mr. Robert Clements, President, Marsh & McLennan, Incorporated, Dept. 10 BI, P.O. Box 839, Radio City Station,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



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Dismissing D&O suits

Committee can nip litigation in bud

By Joseph F. Troy

**extended
coverage**



Corporations may have a committee appointed in case a claim arises.

will bring. Plaintiffs lawyers argued, however, that there must be an exception to this rule for shareholder derivative actions—actions brought by minority shareholders on behalf of the corporation against some or all of its officers and directors.

Plaintiffs lawyers argued the board could not make an impartial business decision on behalf of the corporation with respect to any suit against their fellow officers and directors.

The Supreme Court disagreed. "(T)here may well be situations in which the independent directors could reasonably believe that the best interest of the shareholders call for a decision not to sue, as, for example, where the costs of litigation to the corporation outweigh any potential recovery (441 U.S. 471, 485).

Of the six major cases coming down on this issue since *Burks*, five were decided in favor of the right of the independent directors to dismiss non-frivolous shareholder derivative actions. *Lewis vs. Anderson*, 615 F. 2d 778 (9th Cir. 1979), held that California law permits such dismissal. *Auerbach vs. Bennett*, 47 N.Y. 2d 619 (1979), held that New York law permitted such dismissal. *Abbey vs. Control Data Corp.*, 603 F. 2d 724 (8th Cir. 1979), cert. denied, 100 S.Ct. 670 (1980), reached the same conclusion as to Delaware law.

Maldonado vs. Flynn, No. 4800, slip op. (Del. Ch., Jan. 11, 1980), reached a contrary conclusion, indeed is the first Delaware case to address the issue directly, but the Delaware supreme court has agreed to hear an appeal of that decision. The whole case may be rendered moot as a result of a recent motion for dismissal on procedural grounds, which was conditionally granted by the chancery court.

Nevertheless, because the Supreme Court left the way open for a case-by-case determination of the issue of whether state law permits independent director dismissal of shareholder derivative actions, we can expect this question will be debated in the courts for years to come.

An essential ingredient of a loss pre-

vention program following *Burks vs. Lasker* is the presence on the board of independent directors sufficient in number under the applicable state law to make a valid decision for the entire board on the dismissal of the action.

Most states permit a committee consisting of only two or more board members to take action on behalf of the entire board. Thus, in the light of *Burks vs. Lasker*, whenever a corporation becomes aware of an actual or possible claim against officers or directors, the board should establish a special litigation committee, consisting of nondependent independent directors, with full power to investigate the matter and determine whether the corporation should join the suit or oppose it. Some corporations may even decide to have a committee appointed in advance and ready to activate if a claim arises.

The full board should establish a charter of the committee vesting it with all of the powers of the full board to investigate and determine the appropriate action to be taken on the claim or controversy. The committee's determination should not be subject to review by the full board.

The committee members should be directors who have no personal interest in the outcome and who were not involved with the transactions in question. Moreover, they should have no

personal or business relationship with the defendants and should have the experience, reputation and skills necessary to handle such a controversy.

Upon receipt of notice of any claim, the committee should promptly retain independent counsel that reports directly to the committee. With the assistance of counsel, the committee should then investigate and determine whether it is in the best interest of the corporation to bring or terminate suit against the directors or officers in question.

Some of the grounds or factors the committee may appropriately consider in deciding to seek dismissal of an existing derivative action, and which have received implicit judicial approval, include the following: The claim lacks merit; the costs outweigh potential recovery; the defendants had no personal profit from the transactions in question; litigation would impair the board's ability to manage; the corporation is obligated to indemnify the defendants anyway for their costs of defense; litigation would impair the corporation's relations with employees, suppliers or customers; the possibility of recurrence of the violations is slight.

If the litigation committee determines that an existing suit is not in the best interests of the corporation or its shareholders, it should instruct its counsel to file, on behalf of the corporation, a motion to dismiss the suit.

Then, under *Burks vs. Lasker*, assuming state law permits such a dismissal, the court should grant the dismissal immediately, without a hearing on the merits of whether the committee decision was correct or reasonable.

By this procedure, the corporation can resolve claims against its management internally, without the expense and delays of court action. It can cut existing litigation short and may even deter incipient litigation from ever beginning. Thus, this procedure has the potential for saving the corporation and its insurers substantial sums.



Dual goals

Loss prevention programs for D&O liability must be aimed at not only preventing the ultimate liability, but also at forestalling or eliminating litigation, says Joseph Troy.

VIRTUALLY ALL major public U.S. corporations now have officers and directors liability insurance. D&O insurance has been gaining in both acceptance and availability over the years. The industry's growing sophistication with the use of D&O insurance can be expected to result in the development of loss prevention programs to assist policyholders.

Loss prevention programs for D&O liability insurance must be aimed not only at preventing the ultimate liability did not seem very realistic. The practitioners of corporate strike suits against officers and directors are relatively rare; the expense of litigation is the principal exposure and loss.

Until recently, the chances of preventing litigation as opposed to liability—did not seem very realistic. The practitioners of corporate strike suits had been generally successful in forcing their corporate targets into litigation sufficiently protracted and expensive to exact large settlements, even when ultimate liability seemed remote.

In the past year, however, the Supreme Court has put its stamp on a new means for terminating such litigation at its beginning at a relatively low cost. The case in question is *Burks vs. Lasker*, 441 U.S. 471 (1979), and the technique employed in that case to prevent litigation should be a cornerstone of any loss prevention program for D&O insurance.

The question presented in *Burks vs. Lasker* was whether independent directors may terminate a shareholder derivative action brought against other directors for alleged breach of their statutory, contractual and common-law fiduciary duties to the corporation.

The company's officers and inside directors were sued for mismanagement and waste in purchasing Penn Central notes. The independent directors, who were not joined in the litigation, retained independent counsel, conducted a full investigation, determined the suit was not in the best interests of the company and filed a motion to dismiss it.

The U.S. District Court granted the dismissal before any trial or hearing on the merits of the plaintiffs' claims. The 2d Circuit Court of Appeals reversed. Ultimately the Supreme Court reversed the 2d Circuit, holding that the federal laws in question do not prohibit outside or disinterested directors from terminating even a nonfrivolous shareholder derivative action.

All corporate statutes give the board of directors the ultimate power to manage a corporation's business. Thus, the board has the implied power to determine which litigation the corporation

Joseph F. Troy is a senior member of Troy, Malin & Pottinger, a Los Angeles law firm.

perspective

Protecting boilers

Inspections determine policy cost

By Lou Smilor

ONCE A RISK manager decides his organization should assume the boiler and machinery risk, he faces many decisions, the first being how the jurisdictional inspections of pressure equipment need to be handled. Many states, cities and counties require periodic inspections. The regulations, however, are a hodgepodge. Not all jurisdictions require that the same equipment be inspected. Some areas require permit fees. Others require inspection fees.

Once the buyer identifies the equipment requiring inspections, he then must decide whether the inspections will be used as a loss prevention tool or only for obtaining the necessary certificates. The answer will tell the risk manager how inspections should be handled.

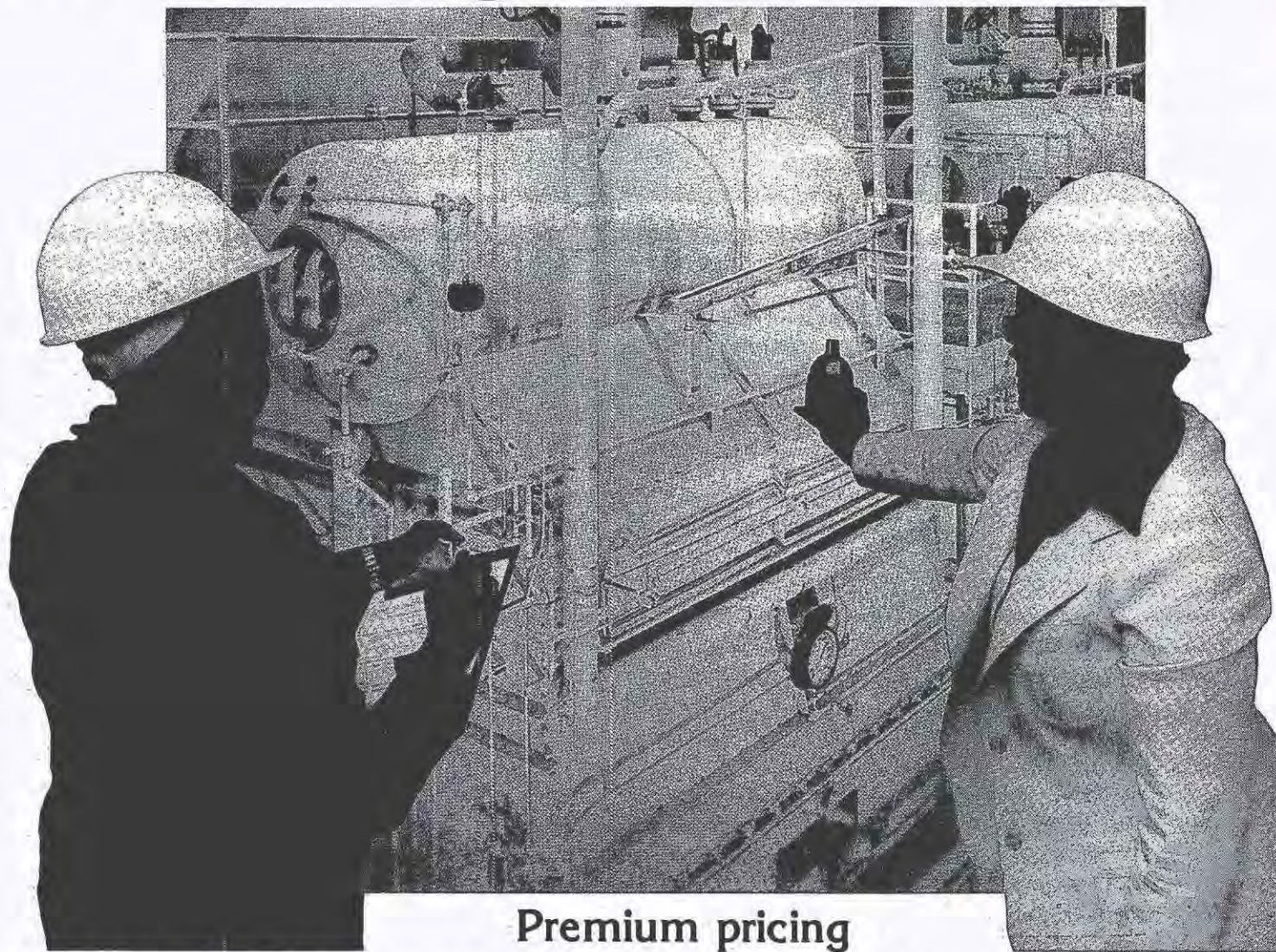
Only two options are available. First, let city, county or state inspectors make the necessary certificate inspections. Or purchase an insurance policy for the sole purpose of inspections.

The purpose of the inspections—whether for permits or as a loss prevention tool—should have a major influence on the choice. The primary purpose of a jurisdictional inspection is to see that equipment meets codes or regulations. That's not always enough. For example, an internal inspection of a boiler may show it meets local regulations. However, a large hole in the fire-box wall is allowing flue gas to escape into the boiler room, creating a very dangerous condition that could lead to death of the boiler operator.

A boiler inspector could properly issue a certificate for his boiler because it meets jurisdictional codes. If the inspection were being made as a loss prevention activity, however, the inspector would not "pass" the boiler until repairs were completed.

Once the policyholder decides to obtain a boiler insurance policy for inspections and as a loss prevention tool, the risk manager still has more decisions to make. Does his organization operate any other critical equipment? Would the operation of that critical equipment benefit from third-party inspections?

How in-depth an inspection is desired? Are only dangerous conditions to be noted? Is the inspector to report on desirability of operating practices? Are written inspection reports to be made on all objects inspected, or only on those objects that require recommendations? All these questions need



Premium pricing

The largest variable expense in boiler and machinery rates is inspection costs. Costs include inspection, travel and report writing time.

answers before the risk manager goes to the insurance broker.

The actual rating of an inspection policy can be handled two ways. Once the rate is established, there are several ways the premium can be paid.

The easiest is to apply the boiler and machinery manual rates to the location/equipment list supplied by the risk manager. A deductible credit is normally applied to the equipment. The total would be the annual premium.

There are some disadvantages to this rating approach. First, all B&M object rates include a load for payment of losses. Any premium computed using this technique would still contain "loss dollars." Second, the individual characteristics of the firm's inspection requirements are not taken into account.

A buyer who wanted only certificate inspections and a policyholder that wanted loss control inspections of pressure equipment would end up with inequitable premium charges. The first policyholder could pay far too much premium, while the second would be badly undercharged.

The most equitable pricing technique is to break the rate down into its components. These parts could be described as fixed expenses, variable expenses, reinsurance, jurisdictional fees and profit.

Fixed expenses are such things as home office administration, regional and branch administration costs, and other costs that will not vary on a pol-

icy-to-policy basis. Variable expenses are acquisition expenses and inspection expenses. Although reinsurance is a variable expense, it is listed separately because some insurers will charge inspection policies for reinsurance costs while others will not.

Jurisdictional fees are listed separately because they are normally a "pass through" expense. The insurer will, in some jurisdictions, collect the appropriate fee from the policyholder and pass it on to the city, county or state.

Profit is usually a fixed percentage of the total rate makeup and is usually quoted on a pre-tax basis. The goal of most insurance underwriters is to end up with a 4% to 5% after-tax profit on inspection policies. Thus, depending on the insurance situation for an individual company, the pre-tax profit percentage will range from 10% to 20%.

The largest variable expense is inspection costs. This cost is determined by the amount of time one or more inspectors spends on an account. Time usage is usually divided into three categories: actual inspection time, travel time and report writing time.

Once an approximate annual premium has been established, there are several ways the premium can be paid. One method is to pay only for inspections received. A deposit premium based on the anticipated number of inspections is made at the inception of

the policy year. At the end of the policy year, the premium paid is adjusted according to the number of inspections actually made.

Another way is to pay for the number of objects inspected. A deposit premium is made at the start of the policy term based on the estimated number of objects to be inspected. At the end of each year, the premium paid is adjusted to reflect the number of objects actually inspected.

A third method would be to pay for the hours actually spent on inspections, travel and report writing.

A deposit premium based on the anticipated number of hours for the year is made at the beginning of the policy term. At the end of the year, the total hours used is multiplied by the predetermined hourly rate and the deposit premium is adjusted accordingly. Another method could be described as a total premium adjustment method. As in the three preceding methods, a deposit premium is charged. The deposit is based on estimated expenses and an agreed-profit load. At the end of the year, the deposit premium is adjusted to reflect the actual expenses incurred plus the agreed-on profit load.

Each of these methods has its advantages and disadvantages. The biggest disadvantage, common to all methods of payment, is that the deposit is based on estimate. If there is an error in the estimate, the deposit would face adjustments.

• Connecticut General is offering a report, **Planning for Group Dental Insurance**, discussing the rationale for dental benefits, plan design trends and claim delivery. A free copy may be obtained by writing to Ruth Jefferis, C-311, Group Insurance, Connecticut General Life Insurance Co., Hartford, Conn. 16152.

• Unionmutual highlights guarantees, "new money" rates and expenses in its new booklet **Pensions, an Eye-Opening Report**. Write John Gall, account executive, Unionmutual, 2211 Congress St., Portland, Maine 04122.

• Surveys of group health insurance policies recently written by 30 insurers are available in the **New Group Health Insurance** booklet. The report also compares trends in group plans from 1973 to 1979. For a free copy, write to the Health Insurance Institute, 1850 K St. N.W., Washington, D.C. 20006.

• Worried about arson? A five-piece **anti-arson kit** emphasizes arson prevention through recognition of arson's early warning signs. A limited number of kits are available free, from Phyllis Shafer, creative services, corporate communications (D-A), Aetna Life & Casualty, 151 Farmington Ave., Hartford, Conn. 06156.

• **Communication Tips** covers the 10 most commonly asked questions about giving a speech or presentation. For free advice on the techniques of becoming a better communicator, send a self-addressed, stamped envelope to Communication Tips, The Executive Technique, 19th floor, 625 N. Michigan Ave., Chicago, Ill. 60611.

• A guide describing aspects of substantive and procedural law pertaining to **product liability claims against overseas manufacturers and distributors** is available for free. Write Sol Kroll, Kroll, Killarney, Pomerantz & Cameron, 500 Fifth Ave., New York, N.Y. 10036.

• Be aware of steps your employer must take to correct health hazards. Order a free copy of **OSHA: Your Workplace Rights in Action**. Write OSHA Publications Office, Room S-1212, Department of Labor Building, Washington, D.C. 20210.

• Three new publications can help you with human resources development. **Tell It Like It Is!** describes what a total employee communications program can accomplish. A review of mandatory retirement legislation and its resultant effect on costs is discussed in **Ready Or Not! Attacking An Old Bugaboo** details how a total employee communications plan can improve employee morale and performance. For free copies, write Loretta Nichols, Hay Associates, 229 S. 18th St., Rittenhouse Square, Philadelphia, Pa. 19103.

• The Ohio bureau of workers compensation is offering a publication entitled **An Employer's Guide for Protection for You and Your Employees**. The guide describes how to control workers compensation costs without denying legitimate benefits to injured workers. For a free copy, write publications center, Bureau of Workers Compensation, 246 N. High St., Columbus, Ohio 43215.

• **International Insurance**, a booklet from Arkwright-Boston Insurance is for risk managers of multinational corporations. The booklet describes such international services as loss prevention

engineering and loss control seminars, as well as available coverages including blanket, contingent and GAP. For a free copy, write advertising manager, Arkwright-Boston Insurance, 255 Wyman St., Waltham, Mass. 02154.

• An updated version of the **OSHA Handbook for Small Businesses** guides employers through a seven-point program to improve occupational safety and health in their companies. The 51-page booklet includes a sample checklist for a workplace self-inspection and describes sources of no-cost help available to those wanting to improve safety and health on the job. Information on OSHA's free onsite consultation program is included. For a free copy, write OSHA Publications, Room S-1212, Department of Labor Building, Washington, D.C. 20210.

Coming Up!

Agent / Broker Profiles

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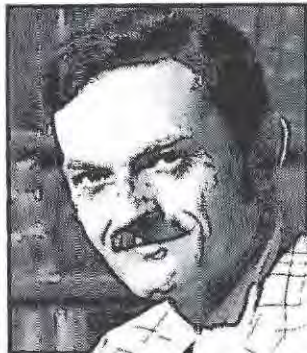
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October 26-29, 1980
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Speaker to discuss benefit legal issues



"Employers get burned,"
says attorney Robert W.
Ridley.

CHICAGO—A terminally ill employee buys a life annuity when receiving his pension benefit because the employer's benefit handbook is so poorly written the employee didn't understand what he was buying.

The employer is a prime target for a lawsuit over faulty communications, says attorney Robert W. Ridley, a partner with Forster, Gemmill & Farmer in Los Angeles.

"Employers get burned and into legal trouble when communications are faulty," Mr. Ridley said.

To help employers avoid these legal problems from faulty em-

ployee benefit communications, Mr. Ridley will discuss the legal aspects of benefit plan communications during the annual *Business Insurance* Communicating Employee Benefits Conference here Oct. 26-29.

Mr. Ridley's speech "Clear Communications: The Law & Lawyers," on Wednesday morning, will discuss:

- Legal traps to watch for when designing an effective communications program.
- Disclaimers and whether they serve as a defense in court.
- Specific cases where the courts examine corporate communications programs.
- How to simplify legal communications without losing effectiveness.

Also at the conference, 11 other communications specialists will show conference participants how to prepare effective packages for communicating benefits to employees (BI, June 23).

They will show:

- How clear, clean graphics can improve the message.
- Specific ways firms can deal with a more diverse and demanding workforce.
- How to tailor the message to new and longtime employees.

Kicking off the conference on Sunday evening will be the film "Medisense," which will be discussed by Tylie Jones of Tylie Jones Communications. The film on health care costs provides insight into the techniques of handling a complex and often misunderstood subject.

Among the conference sessions will be three concurrent mini-sessions. A conference participant can attend two of the sessions:

- Designing benefit programs to benefit employees, with William J. O'Connor, executive vp of Source/Inc., and David A. Williams, president of Williams Communications.
- Pacing your message, with John G. Willard, acting relocations administrator for Rockwell International.
- Tools, tactics and timing with Terry T. Toth, director of communications services at Buck Consultants Inc.

The 1980 awards for the first-second- and third-place winners in the annual *Business Insurance* employee benefit communications competition will also be presented during the conference at a special dinner on Tuesday. Some of the entries will be reviewed during lunch Monday.

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

Hotel reservation forms listing preferred rates for conference attendees will be provided with the registration confirmation letter.

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

A 10% discount is offered for additional persons if they register from the same firm at the same time.

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Good earnings bolster M&M's financial outlook

By STUART EMMRICH

BI ticker

INSURANCE INDUSTRY analysts are waiting for Marsh & McLennan's stock price to drop as a result of its merger with C.T. Bowring, but good earnings results this year continue to bolster the company's position.

The latest selling price of \$60.75 listed on the June 30 BI ticker, although a drop from the high \$72 of the past year, shows a gradual improvement from a low of \$56 in early May.

At that point, the stock had been slipping from week to week as publicity about the unfriendly takeover of Bowring dominated the industry's financial news and analysts warned the merger might not be an initially beneficial one.

But in mid-May, reports from M&M that it had increased its first-quarter net income by 14% and revenues by 15% helped offset the negative impression made by the merger.

These strong figures, despite what continues to be a soft insurance market, have somewhat tempered analysts' assessments of M&M. They still contend the merger will not be a smooth one, but concede it may ultimately prove profitable.

"The drop in short-term interest rates and a closer analysis of C.T. Bowring's prospects prompt us to raise our earnings estimates to \$6.20 per share for 1980 and \$6.80 to \$6.90 per share for 1981 from the \$6.15 per share and \$6.60 per share previously," said First Manhattan analyst Leonard Wilson.

"We have assumed that Bowring will register earnings growth of 7% to 8% in 1980 and 12% to 13% in 1981. Bowring's earnings are likely to benefit in both years from the infusion of M&M business previously serviced by other U.K. brokers and in 1981 from firmer marine and aviation rates, both quite important lines," he added.

Mr. Wilson contends M&M will experience flat earnings growth the rest of the year and into the first quarter of 1981, mainly because of reduced interest income and what he expects will be an earnings dilution from the acquisition of the British broker.

"We think that it is unrealistic to expect meaningful earnings growth until the third quarter of next year," he said. "By then, commercial premium growth in the U.S. should be in the process of stabilizing, interest income should resume its growth and the year-to-year dilution from Bowring will have run its course."

INA Corp.

Directors of INA Corp. have declared a regular quarterly dividend of 55 cents per share on the company's common stock. The dividend is payable Aug. 15 to shareholders of record July 18. Shareholders of INA's cumulative convertible preferred stock also will be paid a regular quarterly dividend of 47.5 cents.

Hartford Steam

Shareholders of the Hartford Steam Boiler Inspection & Insurance Co. will be paid a regular quarterly dividend of 55 cents per share on July 30.

E.H. Crump

E.H. Crump Cos. Inc. has pur-

chased all outstanding capital stock of Central Arkansas Agency Inc. Its insurance operations will be combined with the present Crump affiliate in Little Rock. That company is E.H. Crump of Arkansas.

The acquisition further expands the Memphis-based company's position as one of the largest insurance conglomerates in the South. ■

Coming Up!

Pensions & Retirement Programs

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Secondary fire sources need careful attention

HOUSTON—Secondary sources of fire, where the devastation of a plant or building really begins after an explosion or other violent force, must be carefully examined, advises a safety expert.

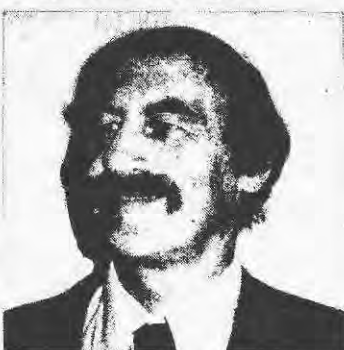
Corporations should remember it is not the explosion alone that touches off the fire, but the ignition of flammable substances disrupted by the blast, said Harold Brode, vp-strategic programs for the Pacific Sierra Research Corp. in Santa Monica, Calif.

"The question that companies should ask themselves is, 'Where are the potential sources of fire if there is this type of disruption?'" Mr. Brode said.

The mere position of an automobile can be a secondary fire risk, he explained. When an explosion occurs, the force could tip the car over, igniting its gasoline tanks.

"Primary sources can be taken care of, but the secondary sources can be a little tough," he said. Power lines, hot fluid containers, boilers, open flame and heaters are other potential secondary fire risks.

Mr. Brode suggested safety administrators inspect corporate facilities and, where possible, move secondary fire sources to areas where they would be more insulated against the force of an explosion and, consequently, less prone to ignite.



Fire sources have to be identified, says Harold Brode.

American Society of Safety Engineers conference

Computer can assist in safety decisions

HOUSTON—The successful safety manager of the 1980s will use the computer to make management decisions.

"The safety manager should create his own data system and turn data into information," said Guyon Saunders, president of Corporate Systems in Amarillo, Tex., a risk management and insurance consulting firm.

"And it's not just information for information's sake, but it's information that will help him make decisions," he told the conference of the American Society of Safety Engineers last week.

Through computers, safety administrators can do loss forecasting and budgeting, make allocations to operating units based on loss experience, monitor the safety performance of corporate divisions and more easily compare expected losses to actual losses at year-end.

Computerizing the safety department is not hard or expensive, he said. A firm already computerized only has to tie the safety director into the system and provide a



The safety director can establish his own data base by feeding vital statistics on the company into a computer.

terminal.

Programming can cost \$25,000, but that's not a large expense compared to the cost of the computer systems in some companies, a Corporate Systems spokesman said.

A safety director does not need to be a skilled computer programmer to use the system, but some programming knowledge helps in developing more sophisticated informational systems, Mr. Saunders said.

If a company doesn't have an electronic data processing department or the expertise to do the programming, the vendor can do it, Mr. Saunders said. Once the system is in place, all the safety director does is use the video display terminal with its typewriter-style

keyboard to insert or review desired information.

Some systems allow the safety chief to fill out a workers compensation claim form on the VDT screen. The information is stored in the computer.

To establish the data base, the safety director feeds in all accident reports and information on corporate property values, payrolls and the use of vehicles.

General Telephone Co. of California's electronic system already has helped the company's six-point safety program, said James T. Beck, safety director. The system has helped target employee groups for refresher training, evaluate individual worker safety records, investigate claims and audit.

Hazardous waste disposal requires planning: Exec

HOUSTON—Public outrage over such chemical catastrophes as Love Canal demands companies develop comprehensive policies for hazardous waste disposal to keep environment damage, public anger and liability exposure at a minimum, a safety director warns.

"I don't think a company can ever eliminate the liability that would come from disposal problems, but good management can help to minimize it," said John M. Galat, safety manager for the pharmaceutical research division of Schering-Plough Corp. in Bloomfield, N.J.

The government and public will keep a critical eye on the way industry handles its chemical and toxic waste, he said. "Industry has a greater responsibility than just to put something in the ground and afterwards warn some people about it."

Safety directors in companies that generate toxic waste must formulate a policy on disposal if a firm does not have one and make sure its provisions are observed if there is a policy.

The director should ensure that a disposal program complies with all local, state and federal law.

The policy should tightly control procedures for segregating the material and packaging, labeling and

removing it from the work site. Only authorized personnel should be allowed to handle it, he said.

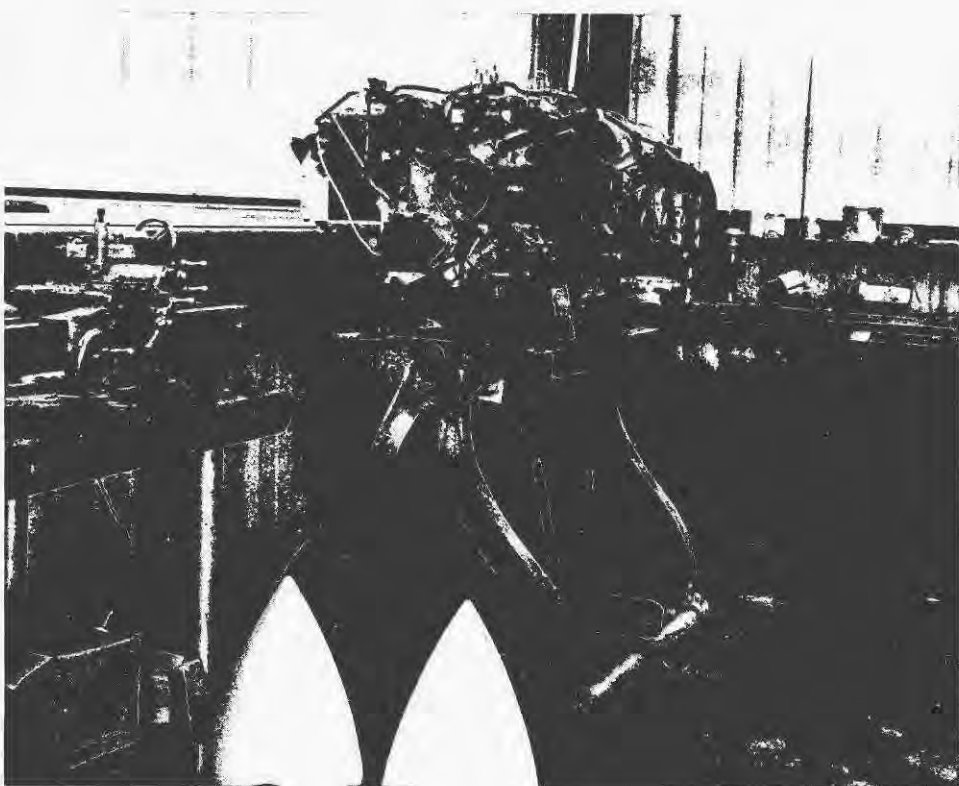
The policy should also govern transportation of the material to the disposal site, record-keeping for all related functions, a training program for those involved in the process and an auditing procedure to determine whether employees are complying with the policy, Mr. Galat said.

If a company uses the increasingly popular method of hiring an outside contractor to dispose of a waste load, the safety director should see that the contractor's track record and competency is thoroughly checked out before hiring, Mr. Galat said.

The safety administrator should know exactly what services the contractor will provide, the licensing requirements, whether a certificate of destruction is needed and the type and amount of insurance carried by the contractor.

The disposal site should also be inspected as well as the contractor's vehicles and its vehicle maintenance program.

"Waste disposal is a complex problem, but with careful planning, good management and compliance with the law, you can reduce liability and damage," he said.



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OSHA ignores industry view: Execs

HOUSTON—Safety directors don't want OSHA out of the picture, they just want it to focus more on industry's needs.

Safety professionals interviewed at the American Society of Safety Engineers conference here last week said OSHA is the friend and foe of U.S. industry.

They support OSHA the act because it promotes worker safety and induces companies to act when they might otherwise lag in safety reforms.

But they strongly criticize OSHA the agency, saying it is unresponsive to industry's viewpoint, emphasizes punishment at the expense of education and generally promotes an adversary relationship between itself and corporations.

Russell DeReamer, safety and industrial hygiene manager for IBM System's products division in White Plains, N.Y., said that although he supports the legislation, "The way OSHA's administered is bad news."

Many safety directors hold the agency in contempt, saying it is pro-labor and anti-industry, Mr. DeReamer said. He accused OSHA administrators of turning a deaf ear to industrial safety directors in solving problems.

"OSHA has been the adversary of management, and if you want to achieve results, you have to have a team effort between the two," Mr. DeReamer said. "I believe we could have a lot of success in accident reduction if OSHA would listen to our point of view."

Similar sentiment was voiced by Charles R. Dancer, safety director at Allied Chemical Corp. in Morristown, N.J. "Every place Eula Bingham (OSHA administrator) talks she talks down industry and says the unions are always right. The government should really be neutral," he said.

Also critical of the agency was Gawain Bonner, loss control director at Tenneco Inc. in Houston. OSHA's punitive approach to correcting industry safety problems actually is counterproductive, he said, because it creates unnecessary employee relations problems.

Concern over whether the firm will be fined for a minor safety vio-

lation also distracts the safety director from planning long-term employee safety programs that would tackle the problem at its roots, he said.

Instead, OSHA should ease its policy of fines so that a minor violation would be only noted by an inspector who would allow time for correction, Mr. Bonner said. If the safety hazard is not corrected by a certain date, the firm then could be fined, he said.

With some exceptions, safety administrators generally support the OSHA reform legislation proposed by Sen. Richard Schweiker (R-Pa.) that would exempt companies with good safety records from inspections.

The legislation has some "good points," said Mr. Dancer of Allied

Chemical, but he objects to the proposed use of workers compensation claims to determine which firms would be inspected. Such data is an inaccurate yardstick because some workers compensation cases are the employee's fault, not the company's.

A better measurement would be incident statistics that include all accidents, not just workers compensation cases, he said.

Also favoring the Schweiker bill, Mr. Bonner of Tenneco said reduced inspections would take the pressure off large corporations that already have good safety programs and allow inspectors to concentrate on companies with less sophisticated safety programs.

He does not believe exempted companies would become lax in

their safety policies.

Not all agree the Schweiker bill is a good idea. The idea of exempting some companies from safety inspections is "nonsense" said Mr. DeReamer, no matter how good

the safety record.

Edmund Dörner, professor of safety and loss prevention at Illinois State University, said passage of the bill would be "like throwing the baby out with the bath water."

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33.	AUG 18	Aug 6
34. PROPERTY/LIABILITY: THE YEAR AHEAD	AUG 25	Aug 12
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OSHA plans role change

OSHA will become more of a consulting, research and educational agency and less of a "simple-minded policeman," said Basil Whiting Jr., OSHA deputy assistant director.

The agency will work to raise the technical competency of inspectors and personnel, he said. It will stress research and education of industrial safety workers.

"We're going to try over the next year and a half through a variety of programs to foster a degree of cooperation between labor and management," he said.

OSHA intends to hire more doctors, hygienists and economists to fulfill its new role.

Safety directors can look forward to less paperwork, Mr. Whiting said, adding OSHA's safety standards will be fully revised, updated and simplified.

"OSHA was a stumble-bum agency for the first five years of its existence and merited many of the criticisms that were made," he said. "But there have been improvements."

Newly created position

Minneapolis taps Purcell for risk post

ROBERT C. PURCELL has been named to the newly created position of risk manager for the city of Minneapolis. He previously worked in the city coordinator's office eight years and was director of the housing and redevelopment authority 14 years. Mr. Purcell, who reports to G. Stephens Barnard, assistant city coordinator for administrative services, has a master's degree in public administration from the University of Minnesota.

Corporate risk manager **Daniel E. Hilder** has taken on the added responsibilities of assistant treasurer at The Signal Cos. Inc. in Beverly Hills, Calif. Mr. Hilder, corporate risk manager since June 1978, will continue to be responsible for all of Signal's insurance coverages and also coordinate insurance activities of the subsidiary companies. Before joining Signal, he was director of insurance for UOP Inc. in Des Plaines, Ill., a Signal company. He has a bachelor's degree from Roosevelt University in Chicago and reports to David H. Skinner, company vp and treasurer.

May & Speh Data Processing Center Inc. in Oak Brook Terrace, Ill., has named **Carol C. Kennedy**, 39, to the newly created position of

comings & goings: buyers

personnel administrator. Ms. Kennedy will be responsible for benefit administration, training and recruiting programs. She will report to Albert Speh, president and chairman of the board. Previously, Ms. Kennedy was personnel administrator at First Chicago Data Corp., a subsidiary of First National Bank of Chicago. She attended Olivet College in Kankakee, Ill., and is an active member of the Society of Personnel Administrators, Chicago chapter.

J. Robert Copenhaver has been named to the newly created position of vp of operations for Chem-Spec Insurance Ltd., a subsidiary of Chemical Specialties Manufacturers Assn. in Washington. Mr. Copenhaver, who reports to CSMA president Ralph Engel, will be responsible for the company's product liability insurance program. He has been with Chem-Spec for the past four years, most recently serv-

ing as director of the department of administrative and membership service.

Travenol Laboratories in Deerfield, Ill., has promoted **Thomas O. Lenhart**, 42, to director of risk management. Mr. Lenhart has been with Travenol for five years, most recently as manager of risk management. That position was upgraded to director. He has a B.S. degree in engineering from the Illinois Institute of Technology in Chicago as well as a CPCU designation. He continues to report to Travenol's treasurer Tom Hodson.

Monsanto Co. in St. Louis has promoted **Georgene F. Grimm** from insurance analyst to property insurance supervisor and **David A. Stryker** from liability insurance supervisor to liability insurance manager. Both positions have been vacant for some years. Ms. Grimm has an A.B. degree from Washington University in St.

Louis, and Mr. Stryker has a juris doctorate from the University of Iowa's law school. Both report to Robert E. Toth, director of risk management.

Emmet Monaghan has been promoted from director of insurance management and administration to director of risk management and real estate at Kaiser Aluminum & Chemical Corp. in Oakland, Calif. Also promoted because of a merger of the corporate real estate and insurance departments were **Richard Kostyrka**, the new manager of real estate, and **Blaine Trunnell**, the new risk manager.

Mr. Kostyrka is replacing **Robert Skinner**, who retired. Mr. Trunnell was formerly manager of property insurance. Both report to Mr. Monaghan. The staff of the new department will be responsible for managing company real estate, purchasing insurance and operating two of the corporation's insurance subsidiaries.

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

Quebec group chooses officers

MONTREAL—The Quebec Risk & Insurance Management Assn. has chosen its officers for 1980-81.

Elected are: president, John M. Pearson, Celanese Canada; first vp, Georges Balcer, Consolidated Bathurst; vp-advisory committee, Eckart Russell, Alcan Aluminum; vp-finance, Shelton C. Prichard, Alcan Aluminum; secretary, Robert J. Kudzman, Royal Bank; past president, Gerard Montas, La Societe du Devel. Ind. du Quebec; national director 1980, William E. Randell, Petrofina Canada, and national director 1981, Ben M. Eisen-

stat, Dominion Textile.

Also: chairman-interassociation liaison, Claire Winyard, Bell Canada; chairman-program, Gilbert Badul, Seagrams; chairman-membership, Paul Godin, Sintra Inc.; chairman-legislative, Laurian Rioux, Marine Ind. Ltd.; chairman-publicity, Andre Padanyi, Canadair Ltd.; chairman-events, Joseph Antony, The Mercantile Bank; chairman-education, Raymond Lafontaine, Consolidated Bathurst, and coordinator-Canadian & RIMS conferences, Pierre Blais, government of Quebec.

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AIG leads exchange

Continued from page 1

can only be written on a reinsurance basis by the exchange unless first rejected by Free Trade Zone insurers has been criticized for limiting commercial buyers' access to the exchange and inhibiting growth of the exchange.

The exchange's board of governors is expected to recommend after its July meeting that the Free Trade Zone impediment to free flow of direct domestic business onto the exchange be lifted, *Business Insurance* learned.

"It's a wash," said one broker of AIG's business on the exchange, complaining AIG wouldn't spread the reinsurance of its risks around with other syndicates.

"It's incestuous," added another broker, who like everyone criticizing AIG's motives on the exchange refused to be quoted by name.

The Free Trade Zone entrance to the exchange for direct business was to be considered by the exchange's board of governors at its meeting last month. But Mr. Greenberg, one of the governors, could not attend the meeting.

As the sole known proponent of the Free Trade Zone's control among the exchange governors, Mr. Greenberg must be present for the governors' discussion, one governor told *BI*.

Another source close to the board of governors said if a vote on the Free Trade Zone question were held now, it would be 11-1 with Mr. Greenberg being the sole supporter of retaining Free Trade Zone control over direct risks.

State Sen. John Dunne, who chairs a senate task force studying whether legislative changes are needed to aid the exchange's development, has said he would not introduce amending legislation unless he had the backing of the board of governors.

Mr. Dunne's task force is expected to issue its report in a week.

Of the \$8 million to \$9 million in premiums written by syndicates on the exchange, \$6.5 million to \$7 million has been reinsurance on risks written by AIG companies. Of AIG's nearly \$7 million of business placed with the exchange, close to \$5 million was placed with AIG Multi-Line and ANEX Syndicate, AIG's two syndicates on the exchange.

AIG Multi-Line is wholly owned by AIG; ANEX syndicate is owned by Exxon and managed by AIG. The two syndicates evenly split AIG-generated business.

Martin P. Jackson, underwriting manager for AIG's two exchange syndicates, defends AIG's use of the exchange.

Giving AIG-managed syndicates a large participation in AIG's reinsurance treaties will allow the two syndicates a sufficient spread of risk to become more flexible in writing heavy exposures and unusual classes, Mr. Jackson says. "We want to do this type of business from the outset, rather than have to build up to it."

This approach should give AIG syndicate underwriters a competitive edge within the exchange and an opportunity to become leaders on the floor, he maintains.

AIG has used this business approach to start another company. It heavily ceded reinsurance to Transatlantic Reinsurance Co., a joint venture of AIG and Metropolitan Life Insurance Co.

AIG is not placing reinsurance exclusively with its own syndicate, he added, pointing to about \$2 million in facultative reinsurance premiums AIG placed with other syndicates.

Cedar Pine Brokerage, an AIG affiliate that has placed most of AIG's exchange business, has produced 50% of the property facultative reinsurance and 10% of the casualty facultative reinsurance of J&H/W-F Syndicate A, notes Wil-

liam Conway, underwriting deputy in charge of the Johnson & Higgins/Willis-Faber-managed syndicate.

Cedar Pine does not work exclusively on behalf of AIG, Mr. Jackson noted.

Heavy use by AIG of its own syndicate could be in line with its business strategy, says Alexander & Alexander senior vp Gerard F. Curtis. "It could have been done for pure profit. He (Mr. Greenberg) boasts he wants to expand the business by 20% each year and he goes about it every way possible.

"If he has a new business operation, he wants the syndicate to make a contribution this year rather than be a loss leader."

As president of AAMET Inc., A&A's marketing arm to the insurance exchange, Mr. Curtis has found little need so far for it. AAMET has placed only about \$100,000 in premiums.

A&A has had little involvement in reinsurance until now and is not using the exchange for direct business.

Mr. Curtis has used the exchange to complete limits on excess property and casualty lines on a facultative reinsurance basis.

Business at the exchange has picked up in recent weeks, but still is slow. "Now we see four to six submissions a day. Before we were seeing one or two and sometimes none," said Vincent Villani, underwriting manager for the Pan Atlantic Group.

Limited capacity has hampered use of the exchange. Marsh & McLennan vp John Belcher said he has sought to obtain up to \$10 million capacity on a single line, but can only get about \$2 million.

"The exchange is typically putting down \$150,000 to \$200,000 commitments," said broker John Mannix, vp of Eagle Intermediaries, a joint venture of Schiff Terhune and Wigham-Poland. "The individual syndicates are looking for better frequencies on smaller risks."

But with reinsurance from elsewhere, Mr. Mannix says he has placed close to a \$5 million risk with the exchange. Most of his firm's placements have been normal domestic facultative excess of loss business. The firm has worked on financial guaranty, war risk and cancellation and abandonment coverages. Often this business originates in London.

Walter S. Groden, executive vp of David C. White Agency Inc. of Lynbrook, N.Y., says he has placed more than \$250,000 of London-originated business on the exchange. The London business is from his Lloyd's correspondents. "I tell them I now have facility and want some back flow."

The exchange will probably develop good capacity in six to eight months as syndicates set up their own reinsurance treaties, predicted Pan Atlantic's Mr. Villani.

Essex Syndicate Inc. capitalized to \$3.75 million by Prudential Reinsurance Co. and three foreign insurers, was approved for membership.

The board of governors also approved Thomas A. Greene & Co. Inc., an Alexander & Alexander subsidiary, Rollins Burdick Hunter of New York Inc. and John F. Sullivan Co. as broker members. Bell Nicholson Henderson Inc. and Calvin-Miller International were admitted as associate brokers.

John B. Ricker Jr., chairman and president of The Continental Corp., was approved as an underwriting governor of the exchange, replacing Joseph F. Murphy, retired executive vp of The Continental Corp.

Storming the gate

Getting a certified rejection from Free Trade Zone insurers to place domestic risks directly with the exchange is "difficult and grueling," says broker David Wielgus of Hirsch-Wolf & Co. Inc. in Brooklyn.

"Nobody knows what they're doing (in the Free Trade Zone) and the classifications (of exotic risks) are not clear," complained Mr. Wielgus, one of the few brokers to place domestic business directly with the exchange. "To get a rejection, the risk must be classified and sometimes there are risks that don't come precisely within a particular class."

Mr. Wielgus's direct placements of domestic risks include earthquake coverage for properties in Manhattan and coverage for the deductible portion of jewelers' block policies for diamond messengers, which he writes on a program basis.

In addition, he has obtained a quote from the exchange for precious metals importers' errors and omissions.

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THE SPECIALISTS

Experts disagree

Questions cloud future of D&O market

Continued from page 3

rocked the industry five years ago, he warned. But if there is a crisis, it might be three or four years off, he added.

It could take that long before deteriorating insurance company loss ratios reach critical proportions. New policies are generating substantial premium that is masking real underwriting performance, he believes.

Some discrepancy

Mr. Sheehan's predictions, however, are based on the Wyatt study and data that may not be a reliable yardstick of the directors and officers liability exposure.

According to the 1979 Wyatt Co. survey, a Fortune-listed company can expect a D&O claim once every nine years. Data furnished by 1,669 participating U.S. companies suggests the average claim cost is \$903,229.

Computed on an annual basis, this means that among Fortune

1,300 companies, the average D&O loss per year is about \$100,000. Since insurers typically add an expense factor of about 35% over actual losses, the policyholders annual premium should be about \$150,000.

Actual premiums paid by corporations participating in the Wyatt study were a fraction of that figure. Premiums reported averaged about \$36,000 for \$5 million of coverage and about \$65,000 for \$10 million of coverage.

Several factors, however, might at least partially explain the discrepancy between low premiums and high losses reported to The Wyatt Co., observes William H. Gill, a consultant at The Wyatt Co. in Chicago.

Many of the companies canvassed in the survey are not insured, he noted. Their loss experience may be significantly worse than that of insured companies because selective underwriters pick out the better risks.

Mr. Gill also claims a "gut feel-

ing" that "the survey develops information about claims in which there is a clear demand action," so the survey may pick up a disproportionately high number of claims for which high losses are likely or anticipated.

Average inflated

This phenomenon inflates the per claim average cost, because the insurer may get reports of many potential claims that are settled at no cost. Many such incident reports may not be reflected in the Wyatt survey, he explained.

There are also indications the survey may report loss data conservatively, Mr. Gill cautions. A 1975 Wyatt analysis of 1974 data suggests the survey is skewed in the direction of companies with favorable loss experience, he explained.

But the Wyatt survey firmly states that there are more and bigger D&O claims. Insurers do not dispute this finding.

"Shareholders today are more educated to the role of directors and officers in the corporation," noted Mr. DeAlessandro at National Union. "They are more sophisticated, more outspoken and more prepared to take legal action against the corporation's top people."

A series of recent U.S. Supreme Court decisions, however, narrow the circumstances under which D&O suits may be brought, speculates Joseph Troy, an attorney specializing in directors and officers law at the Los Angeles firm of Troy, Malin & Pottinger.

The rate adequacy controversy about D&O liability insurance might be set to rest quickly if insurance companies were required to reveal details about their loss experience, note several industry observers.

When the bottom dropped out of

the medical malpractice line in 1975, the National Assn. of Insurance Commissioners did require loss data from insurers, recalls Mr. Sheehan. Aggregate loss ratios were even worse than insurers realized.

Lesser threat

A similar survey of directors and officers liability insurers should reveal a similar problem, though not quite as catastrophic, he says.

If a D&O crisis does develop, it won't be as serious as the medical malpractice catastrophe because hefty premium increases would not seriously cripple major corporations, notes Mr. Sheehan.

"D&O is just a small item in their total insurance portfolio and could increase many times over before it becomes threatening," he explained.

The expense of litigating D&O claims can be avoided through planning: Perspectives, page 17.

S&H launches new special risk insurer

HARRY DEGNER will head a new special risk and excess insurance company subsidiary of the insurance services division of The Sperry & Hutchinson Co. to be called Universal Security Insurance Co., *Business Insurance* has

learned.

Mr. Degner, who recently resigned his responsibilities as president of the Comstock Insurance Co., a subsidiary of the Fremont General Corp., will act as president and chief executive officer of the new S&H company to be domiciled in California.

Universal Security Insurance Co., with an initial capitalization of \$5 million, is awaiting its certificate of authority from the California insurance department. An application was filed in October and, barring unforeseen difficulties,

markets

should be finalized this summer.

Other S&H insurance subsidiaries include Bayly, Martin & Fay International, American National General Agencies Inc., S&H Insurance Cos., Imperial Industries, Reinco Intermediaries Inc. Reinco Intermediaries Management Co., Bily, White & Lee Inc. and Risk Treatment Services Co. Inc.

New reinsurer

The Galaxy Reinsurance Co., established by Swiss Union General Insurance Co. Ltd. of Geneva, Switzerland, and Constellation Reinsurance Co. of New York, is seeking to be licensed in New York. The company anticipates it will write all lines of domestic treaty reinsurance by Sept. 1.

Although Swiss Union is the major shareholder in the corporation, Constellation Re, through its wholly owned management company subsidiary Constellation Reinsco Inc., will undertake all underwriting and management responsibilities under the direction of Galaxy's board of directors.

Galaxy will have an initial policyholders' surplus of \$5 million.

Division splits

The oil and gas division of William Rigg Co. of Fort Worth, Tex., has split off its parent to become the independent insurer Carson, Luebbehusen & Burk Inc.

The firm provides risk management services and insurance broking nationally to oil operators and drilling contractors through domestic insurers and Lloyd's of London.

Principal owners are Robert L. Carson, Phil Luebbehusen and Bill R. Burk.

Unigard unit

Unigard Insurance Group's marketing and underwriting divisions have established a mass or group merchandising field support unit for large commercial lines.

Bill Ellis, marketing manager-large lines, and Fran Hogan, managing underwriter-large lines, will team up in the Seattle home

office to expand Unigard's capacity for acquiring and servicing larger lines of commercial business and group accounts.

Rate reduction

Some new and renewal nonparticipating workers compensation policyholders are receiving a 12% rate reduction from Georgia Insurance Co. of Atlanta.

The company has enjoyed a loss and expense ratio significantly lower than the industry average, the company says.

New offices

Wausau International Underwriters, a subsidiary of Wausau Insurance Cos. in Wausau, Wis., has opened a new office at 135 S. LaSalle St., Suite 2037, Chicago, Ill. 60603; 312-781-0003.

Grupo Seguros La Comercial has opened a branch office at 1 State St. Plaza, 20th floor, New York, N.Y. 10004; 212-635-0373.

Harold J. Smith Adjusters Inc. has opened an office at 245 Waterman St., Providence, R.I.; 401-273-8030.

A.S. Hansen has opened a New York regional office at 71 Arch St., Greenwich, Conn. 06830; 203-622-1740.

Towers, Perrin, Forster & Crosby has opened its 25th office, at 800 Sixth Ave. S.W., Suite 465, Calgary, Alberta, T2P 3G3; 403-269-4813.

Acquisitions

Dependable Insurance Service Inc. in Chicago has been acquired by Insurance Brokers Service Inc.

The board of directors of American General Insurance Co. in Houston has authorized a plan to merge with Lincoln American Corp. Completion of the merger is targeted for mid-August.

INA Healthplan Inc., a subsidiary of INA Corp., has acquired the Ross-Loos prepaid health care plans in Southern California. The transaction has a value of about \$30 million.

Fred S. James & Co. Inc. has completed the acquisition of In-

surex International Inc., a brokerage firm headquartered in Tulsa, Okla. The firm provides risk management services for retail stores and the motor transportation industry. Insurex's facilities in Tulsa, Little Rock and Dallas will be combined with James's.

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New York's refusal to release statistics stalls self-insurance

Continued from page 1

of employees enrolled in the plan. Everyone pays the same rate, Mr. Freeman said. Therefore, he explained, there is no need for the state to keep a costly accounting system that would identify the individual loss experiences of the local governments.

He also admits a more crucial reason why the state does not keep these figures. They might be an impetus for the good risks to pull out of the plan, leaving the state insuring those with heavy losses.

"These would become public records and there would be nothing to keep independent insurance agents from coming in and picking off the better groups," he said. "It would be like asking a private insurance company to publish a list of its better clients."

But county officials scoff at these explanations. They say it is their right to know how their loss experience stacks up against others in the plan. They want to know whose good ratings are offsetting the bad ones.

Chenango County, in upstate New York, has been involved in a fruitless battle to get its figures for the past three years. Other counties have started talking about instituting a class-action suit against the state plan, Mr. Patterson said.

Without these figures, counties considering self-insuring have had to use other methods to calculate the potential cost of pulling out of the state plan.

Suffolk County is using Onondaga County as a model. The upstate county has been self-insured for the past three years.

By making adjustments for the number of employees (Suffolk County has 13,000 to Onondaga's 5,000) and for the higher cost of medical care on Long Island, Mr. Patterson said his office has computed the most likely cash flow benefits of being self-insured. Included in the estimates is the assumption that excess insurance would be purchased to put a cap on potential losses.

Under the worst circumstances, which means a volume of claims far beyond what the county thinks is likely, the most Suffolk would lose by self-insuring would be about \$500,000, Mr. Patterson said. If everything went perfectly, the county likely would save \$5.5 million, he said.

Even if the county paid as much in losses as the \$10 million it now pays in annual premium, it would still be better off self-insuring, Mr. Patterson said.

"We would be the master of our own fate, not subject to the caprices and whims of the state," he said. "We could add and subtract coverages as we saw necessary. We could respond to new problems more quickly and efficiently. And I think we could get just as good a deal, if not better, from local hospitals by promising them a faster pay period than the 90 days now followed by the Blues."

Mr. Patterson will meet with consultants over the next few weeks to write a final proposal for county officials.

Rewritten risk pool bill eliminates fed control

Continued from page 1

Some group-owned captives now operating offshore could qualify as a risk retention group under this new proposal. Many others, however, also write other risks for members and some underwrite risks for unrelated parties and could not qualify.

The new draft appears to have appeased insurance trade groups, which vowed to resist any new federal regulation of insurance.

"I'm very encouraged that there has been recognition that the market is working and that federal intervention is not necessary," said Tom O'Day, government relations officer of the Alliance of American Insurers, which opposed the original Risk Retention Act.

The American Insurance Assn., another powerful group opposed to the original bill, is concerned about preemption of state law. But, the measure "sounds like a significant improvement over the creation of a federal bureaucracy," said Dennis Connolly, AIA counsel.

Support for the new bill came quickly from the business community. The National Assn. of Manufacturers, which endorsed the original bill, said it probably would back the new bill.

The National Assn. of Wholesaler-Distributors said it was not wedded to the old bill, which had been drafted by the Commerce Department, and would support the new bill because it offers buyers an insurance alternative.

The Risk & Insurance Management Society, the nation's largest organization of insurance buyers, is very encouraged by the proposal, said Reg Beane, governmental affairs director.

The Commerce Department,

which drafted the bill that cleared the House last March, also accepts the compromise.

"The most important thing is not how many risk retention groups are created, but that an alternative be available to ward off panic pricing in the future and to ensure that rates and premiums be set on a competitive basis," said Victor Schwartz, the federal government's retiring product liability expert.

"If this can be done without creating a federal bureaucracy, so much the better," he said.

A new bill was necessary to "have on the table an alternative approach," Sen. Cannon told *Business Insurance*. Sen. Cannon, Commerce Committee chairman, is awaiting public reaction to the proposal, which he wants by July 18.

A key factor in keeping the Risk Retention Act alive after it stumbled during a Commerce Committee hearing was the decision last month of the National Assn. of Manufacturers to endorse the original bill (BI, June 9).

"NAM's decision to endorse was a sign that the Risk Retention Act was not just backed by a handful of small business lobbyists but had enormous support in the business community—a sign that impressed Sen. Cannon greatly," a source said.

Sen. Cannon hinted at his thinking on the Risk Retention Act last month at an Insurance Information Institute briefing when he assured insurers that "we won't create a new regulatory bureaucracy," but action would be taken to ensure employers "reasonable" product liability insurance options.

Over in the House, Rep. John LaFalce (D-N.Y.), Congress's leading product liability expert, told *Business Insurance* that the new Senate draft bill was a "reasonable compromise" and that he could "live with it."

However, Rep. LaFalce said that he hoped the section that would give a risk retention group authority to operate in the United States if it were chartered in a foreign country would be eliminated. "I'm troubled by that arrangement," he said.

"I don't think it is as good as the house bill," Rep. LaFalce said. "But it will accomplish the necessary objectives."

The Risk Retention Act was drafted by the Commerce Department in response to the product liability insurance crisis of the mid-1970s. Then companies were complaining of huge premium hikes, arguing that their individual loss experience wasn't bad enough to warrant the increases.

If insurers once again panic-price, businesses will have a new source of insurance, reason supporters of the act.

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Comp changes demanded

Continued from page 2

furnished. But six months later the employee alleges the twisted ankle resulted in arthritis in the hip, pain in the low back and traumatic neurosis.

The employer did not deny the claim immediately following the injury and, therefore, all subsequent allegations may be considered compensable under the proposed legislation, suggests the California Self-Insurers Assn.

When the reform package was introduced by Sen. Bill Greene (D-Los Angeles) this spring, many legislative pundits called it a shoo-in because it boasted the support of Gov. Jerry Brown, organized labor and the insurance industry.

Proponents were unprepared for the powerful opposition of applicants' attorneys and forensic physicians who stand to lose millions of dollars in professional fees if the bill passes.

Employers are very concerned about the added cost of the new benefit increases, but many are willing to pay them for the other reforms contained in the package. Especially attractive to employers is the promise of reduced litigation, although they question the cost savings.

"We do not see a zero balancing by any stretch," said Joseph Markey, legislative advocate of the California Self-Insurers Assn. "We do believe the proposed reforms will significantly reduce litigated claims, and the association is supporting the bill with amendments."

Paul Bayer, corporate manager-workers compensation at Crown-Zellerbach Corp., believes the bill is the price employers must pay to ensure the benefit dollars they contribute end up in the right pockets. "There are too many lawyers and doctors raping the system, jacking up employer costs and eroding benefits to workers," he added.

Ford Motor Co., however, opposes the legislation in its present form on the basis of "the general economic condition of our industry," said Richard Dugally, government affairs manager in Sacramento. Increased benefits in the bill would cost the automaker \$500,000 a year at its San Jose plant alone, Mr. Dugally said.

"We don't believe the reforms offered by S.B. 375 offset these benefit increases," he added.

"More reforms are necessary to streamline the existing system." With 30% of Ford's work force on indefinite layoff, this is not the time to undertake costly new workers compensation obligations, he said.

Indeed, many of the industries hardest hit by the recession are those with high wage bases that translate into maximum workers compensation benefits. Increases in temporary disability and death benefits cost these industries substantially more than the 13.1% average increase estimated by the California workers compensation insurance rating bureau.

"We're looking at a 42% increase for disability and death benefits

right off the bat," said Michael Craig, insurance manager at Transcon Lines. Most of the motor carrier's employees are members of the Teamsters Union and are entitled to top-dollar compensation benefits, he said.

Mr. Craig is also skeptical of the proposed procedural reforms for reducing litigation. "I've seen too many changes put into operation that promised but failed to help the employer," he explained.

Bethlehem Steel Corp., which recently laid off 300 workers in Los Angeles, is registering its opposition to S.B. 375, but will support the measure if the CMA-CSIA amendments are made, said D.J. Smith, district manager for public affairs.

The steel industry, he added, is disappointed that the issue of cumulative trauma is not addressed in the reform package. He estimates that 25% to 30% of his company's workers compensation costs are cumulative trauma-related claims, compared with the statewide average of 7%.

The Canners League of California, representing about 33 member companies and 80% of the California industry, also concurs in the CMA-CSIA amendments. "Without those changes we will oppose the bill," said Gerald Upholt, vp and manager of legislative affairs.

Because many seasonal workers are paid at minimal levels, however, the increased maximum disability levels will have little effect on the canning industry, Mr. Upholt said.



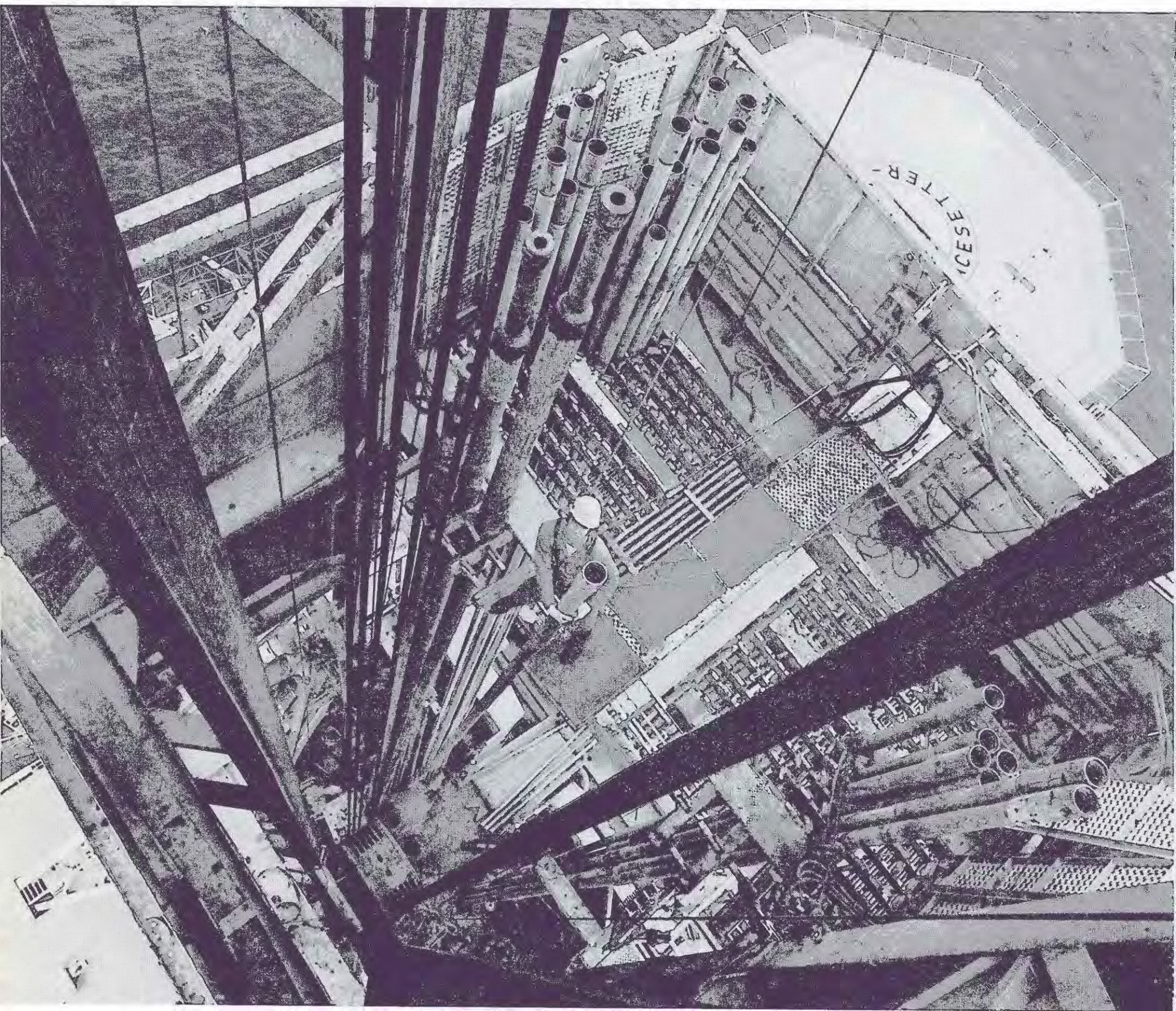
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But this insider's vantage point gives A&A the best view of the risks involved in offshore drilling. It's the frame of reference that enables our loss control consultants to be sticklers on safety for any corporation with high hazards. Ferreting out hot spots from loss data banks. Casing the carrier's services. It's how we create comprehensive safety programs that work. And stay on top of them, ever alert to changing conditions, new hazards, new operations, new technology.

Every industry is unique. Each has different needs. For insurance, for risk management, for human resources management, for financial services. That's why A&A works from a client's point of view. Only by working as partners, by solving business problems together, can we be sure a company gets the most comprehensive, cost-efficient programs possible.

We think our dedication to forming a close alliance with our clients is a big reason why A&A has become one of the biggest and most trusted insurance brokers worldwide. Each of our 120 offices here and overseas has the facilities, expertise and strength to meet the needs of any company, large or small, in any industry. Because we work the same way with every client. From the client's point of view.

Alexander & Alexander

From the client's point of view.