



Firefighters douse the wreckage of American Flight 191.

Photo: Wide World

Week of June 11, 1979

business insurance

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DC 10 tragedy ignites a blaze of big lawsuits

By JOHN MAES

CHICAGO—The crash of an American Airlines DC10 here, the worst disaster in U.S. aviation history, threatens to embroil the airline, the manufacturer of the aircraft and component suppliers in an unprecedented maze of litigation that could claim \$200 million or more.

The first liability suit was filed here on May 29, just three days after the May 25 crash killed 274 persons, all aboard the airplane and two persons on the ground.

A malfunction of the airliner, resulting from its design, manufacture, maintenance or simply wear and tear, caused the engine to fall off the left wing during takeoff.

The plane's hydraulic control system apparently was cut as the engine fell off, forcing the craft into a steep left bank from which the pilot was unable to recover. The jet plummeted several hundred feet into a fiery crash northwest of O'Hare International Airport.

A string of defendants could be sued on product liability grounds, say sources close to the case, in-

cluding: McDonnell Douglas Corp., manufacturer of the jet; General Electric Corp., makers of the jet engine, and Rexnord Corp., whose subsidiary, Rockford Aerospace Products Inc., makes a bolt that is supposed to help hold the engine in place.

United States Aircraft Insurance Group (USAIG) is lead underwriter for hull and liability insurance for American Airlines. Associated Aviation Underwriters (AAU) shares a portion of the risk, but most of it is in the London market, brokered by Alexander & Alexander in the U.S. and C.E. Health in London. USAIG also insures the airline's workers compensation risk, said USAIG president John Brennan.

USAIG paid between \$35 million and \$40 million to American Airlines shortly after the crash for the destroyed aircraft.

The tragic crash and the predicted flood of lawsuits is not expected to soften the aviation market in London, according to industry sources. Much of the risk at Lloyd's of London is sure to be

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Asbestos claims deluge manufacturers and courts

By ELLIS SIMON

NEW YORK—The magnitude of asbestos litigation—suits claiming damages from contact with the white, fibrous mineral now known

to cause lung diseases—is growing so huge that a special arbitration program may be needed to resolve the 3,000-odd claims filed to date.

Defendants, insurers and some plaintiffs' attorneys agree that ju-

This is the first of a two-part series on asbestos litigation. Next, a look at new proposals to compensate victims, asbestos in schools and how the insurance industry is reacting to the massive litigation.

dicial litigation is not the way to resolve the claims, seeking billions of dollars in damages, but no one predicts an alternative will be adopted soon.

On the firing line are Johns-

Continued on page 111

Benefit pros cheer new 'age 65' rules

By JERRY GEISEL

WASHINGTON—A relieved benefit community salutes the final Labor Department guidelines on how much companies can reduce benefits for workers over age 65 for clarifying and liberalizing the earlier proposal.

"These guidelines are a distinct improvement over the initial guidelines," said Robin Rolloway, senior actuary at consultants Towers, Perrin, Forster & Crosby in Chicago. "Most employers will

find that they can design a reasonable benefit program."

"The Labor Department by and large did take into account the comments that were submitted and made changes that give employers more flexibility to provide benefits to workers over 65 in a way that is more meaningful," observed George Pantos, counsel for ERIC, a benefits lobbying group representing major U.S. companies.

"I compliment the Labor De-

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Risk Management Services

Beginning on page 17, a special section samples the expanded menu of services available to the risk and benefit manager. Computers revolutionize risk management (page 18). A researcher sells insights to workers' values to aid benefit designers (page 30). Lawyers teach employes the law to encourage safe product production (page 56).

Catering to the self-insurer is the specialty of a host of firms. Adjusters rush to fill orders (page 70). Hartford Steam Boiler sells its engineering expertise (page 72). Claims administrators thrive on workers compensation programs (page 82). A special directory to claims firms begins on page 85.



15 syndicates, 40 brokers sign up for N.Y. Exchange

By ELLIS SIMON

NEW YORK—Fifteen underwriting syndicates organized mostly by insurers and 40 brokers have applied for membership on the New York Insurance Exchange in time to be eligible to vote for the exchange's first board of governors.

Syndicate organizers and brokers had until June 4 to apply to be considered for membership before the first meeting of the exchange membership and election of its board of governors on July 9.

If all 15 syndicates are approved, initial capitalization of the exchange would be at least \$52.5 million. (Each syndicate is required to maintain \$3 million of surplus and contribute \$500,000 to a guaranty fund.) The exchange would have capacity of approximately \$135 million, based on a three-to-one underwriting ratio.

Although the deadline for early membership consideration has passed, the New York exchange will continue to accept applications and could process some late applications before the July 9 meeting if time permits, said Maurice R. Greenberg, chairman of the exchange's interim board of governors.

There could be 30 or more syndi-

cates approved by the time underwriting on the exchange begins, probably late this year, noted Donald L. Kramer, president of Kramer Capital Consultants and a member of the interim board.

Most of the first 15 syndicates were capitalized by insurance companies. Among the insurer applicants were: American International Group, Allianz, Chubb & Son, Crum & Forster, Continental Insurance Cos. and Insurance Co. of North America.

Numerous syndicate managers have also applied on behalf of their clients. Among them are: Johnson & Higgins Willis Faber (USA) Inc., for foreign and domestic insurers; Burt & Scheld Specialty Underwriters Inc. of Ormond Beach, Fla., for itself and foreign and domestic insurers; Continental Insurance Co., for itself and European companies; and KCC Syndicate Managers Inc., on behalf of the only syndicate capitalized by non-insurance interests. KCC Syndicate is a joint venture of Alexander & Alexander, Kramer Consultants and Shearson Hayden Stone, a Wall Street investment firm.

American Overseas Agencies, a subsidiary of Marsh & McLennan formed to manage syndicates on the exchange, has not filed any ap-

plications yet.

Syndicates created by existing insurance companies are expected to dominate the fledgling New York Exchange. Unanswered questions about such issues as the tax status of partnership syndicates have sidetracked that form of capitalization. Investors are also standing true to their traditional reluctance to back new ventures, with only one syndicate funded by non-insurance interests.

Processing applications from non-insurance company syndicates is also likely to take longer than applications from insurers because information on existing insurance companies is on file with state insurance departments, enabling quick investigation.

Several sources have criticized the applications for the "onerous" amount of disclosure information required and the short period of time in which to compile it. Mr. Kramer agreed that the requirements were stringent, but added that the number of completed applications was a "testament" to the concept's success.

Broker applicants were hampered by delay in getting a surety bond form from the Surety Assn. of America, reported Joseph Conroy, head of the insurance exchange information office. Broker applicants were permitted to post a \$40,000 surety bond in lieu of a financial statement to meet stability requirements. About one-third of the broker applicants chose to do so, Mr. Carey said.

errors & omissions

- The telephone number to call for information about the Safety Professional of the Year of the American Society of Safety Engineers is 312-692-4121, Dwight Esau. It was incorrectly stated in the April 16 issue.

- Figures from the U.S. Chamber of Commerce on the cost of employee benefit plans as a percent of payroll were incorrectly identified in a May 14 article as the cost of employee benefits to Squibb Corp. Robert E. Humes, vp and executive assistant to the chairman at Squibb, said that worldwide benefit costs to the company amounted in 1973 to about 54 cents per share on an after tax basis, but by 1978 these costs had risen to 96 cents per share, an increase of 42 cents per share or 75%.

- Mattel Inc. pays for first visits to a doctor for workers injured in industrial accidents, if treatment can be handled by a single trip to a physician, thereby holding down the company's ultimate workers compensation loss ratios, said assistant treasurer John Pinner at the RIMS conference. His comments were confused with product liability issues and were incorrectly reported in the May 14 issue.

In the same story, Mr. Pinner was incorrectly quoted on his remarks about Mattel's relationship with its principal broker, Johnson & Higgins. In answer to a query about brokerage fees and commissions, Mr. Pinner had responded that although J&H openly discloses commissions, the firm won't work for fees, "so to get your money's worth out of them you'll have to work the hell out of them."

for your information

Kansas City's arena insured for \$3 million roof collapse

KANSAS CITY—Damages of up to \$3 million at The Kemper Arena here from a roof cave-in are fully insured under a \$23 million policy with Great American Insurance Co., according to city officials.

High winds and heavy rains that pelted the area last Monday night caused the roof collapse over the main floor of the arena. There were guards and maintenance workers inside the facility at the time, but no injuries were reported, said Glen Hopkins, deputy city manager. Only 24 hours before the cave-in, there were 16,000 persons inside the arena for a concert, he said.

The city is investigating and will employ a structural specialist to determine which part of the roof failed and why, said Mr. Hopkins.

The arena is the home of the Kansas City Kings professional basketball team and was the site of the 1976 Republican National Convention.

First state heeds Commerce plan

HARTFORD—Connecticut has become the first state to enact the major provisions of the Commerce Department model product liability bill.

The measure limits the liability of manufacturers to only the "useful safe life" of their products and reduces awards by the amount of workers compensation benefits paid. Gov. Ella Grasso, who last year vetoed a product liability bill, has not decided yet if she will sign or veto the bill.

Further south, North Carolina's new product liability law, which was enacted last month, bars products suits 10 years after a product was first sold. It also gives manufacturers a defense if their products were altered or modified without their consent.

Elsewhere, the Texas and Washington legislatures failed to act on comprehensive tort reform bills, killing the measures.

1st quarter underwriting sees red

NEW YORK—The nation's property and casualty insurers registered a net loss on underwriting of about \$747 million in the first quarter of 1979, but investment income shored-up results for the quarter to nearly the first quarter combined results of 1978.

Although insurers registered a gain of \$210 million on underwriting in the first quarter of 1978 compared with a \$747 million loss in this year's first quarter, as estimated by the Insurance Information Service, investment income in the first quarter of 1979 was estimated at \$2.12 billion, up 27% from the \$1.66 billion in investment income in the corresponding period last year.

Combined results for the first quarter from all sources, after taxes, was estimated at \$1.29 billion for the first quarter this year, down 1.5% from the \$1.31 billion earned in the first three months of 1978.

The \$747 million loss on underwriting operations in the first three months of 1979 reflects a statutory underwriting loss of about \$360 million and payments of about \$387 million in policyholder dividends, the institute reported.

Museum recaptures Cezannes

CHICAGO—The three Paul Cezanne paintings valued at \$3 million discovered missing from the Art Institute of Chicago last Dec. 27 (BI, Jan. 22) have been recovered and a 28-year-old former employe of the institute has been arrested in the case.

FBI agents and Chicago police recovered the paintings May 23 at the Drake Hotel here. Two nights earlier, a man saying he represented a third party contacted institute president E. Laurence Chalmers demanding \$250,000 for the paintings. Mr. Chalmers notified authorities who accompanied him to the hotel where he had agreed to meet the caller to transact the exchange.

Arrested was Laud Spencer Pace of Chicago, a former employe of the institute. Pace was charged with theft by deceptive practice and unlawful possession of a weapon (a 9-mm. pistol). He is free on bond pending a court appearance.

One less pension report to file

WASHINGTON—Pension plan sponsors will now find paperwork burdens a little lighter.

The Labor Department no longer requires plan sponsors to file plan description forms (Form EBS-1) with the department as had been required under ERISA. Instead, plan sponsors only will have to file a summary plan description just as they always have done.

Insurer declared insolvent

CHICAGO—Reserve Insurance Co., the principal subsidiary of American Corp., has been declared insolvent by a circuit court judge here.

All policies written by Reserve Insurance are effectively cancelled, but policyholders will be covered for claims arising until June 29 by the Illinois Guaranty Fund.

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Two states imitate N.Y.

New York's efforts to create a Lloyd's of London style insurance exchange to operate on these shores is catching on in two other states: Florida and Illinois.

In Florida, a bill to create the exchange modelled after New York's was passed by both houses of the state legislature. A similar bill was also unanimously passed by the Illinois house of representatives and the senate is expected to act on it soon.

Florida's bill authorizes the insurance commissioner to organize a committee to draft a constitution for an exchange there. Unlike New York and Illinois, Florida does not have a free trade zone through which excess and surplus risks must be filtered prior to eligibility for the exchange.

Latin American nations are seen as the prime targets for the Florida Exchange, which is likely to be based in Miami, said Bill Sadowski, chairman of the House Insurance Committee.

Initial reactions to Illinois's exchange bill were somewhat subdued (BI, April 19). However, the bill's sponsor, Bernard E. Epton, expects the momentum to build after the Senate acts upon the legislation and doesn't foresee any problems in gaining the support of the state's insurance industry to operate the exchange.



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Inflation jeopardizes wage/benefit restraint

By STUART EMMRICH

ATLANTA—Employe benefit managers will probably have more freedom to recommend benefit plan increases because the government is ready to concede that wage and price guidelines are not holding down inflation.

Faced with union settlements that have strained if not broken the official wage increase limit of 7% set by the President and an inflation rate accelerating faster than last year, the government is weighing a move to loosen some restrictions on employe wage and benefit hikes.

"If we don't bring the inflation rate down by an appreciable amount by October, we will have to look at making some changes in the guidelines that will allow equitable increases in salaries," said Joe Talbot of the U.S. Council of Wage and Price Stability at a conference on collective bargaining here recently.

"To be perfectly candid, (the wage-price guidelines) are not working all that well," Mr. Talbot admitted.

Only about 50% of Consumer Price Index items are covered by the guidelines, Mr. Talbot said, and only those portions of the CPI are being held to 7% increases this year. The other half—housing, food, health care and other costs—is driving inflation to an annual rate of about 13%.

While government officials consider changing the program to reflect the shrinking buying power of salaries, a recent court ruling might hasten a complete overhaul of the guidelines.

A federal court judge has ruled that the President cannot legally withhold government contracts

from companies that violate the voluntary wage and price guidelines. The ruling, which is being appealed by the government, said President Carter was acting outside his constitutional powers by threatening to impose sanctions against employers who don't follow the standards.

Besides a long-range effect on the entire wage and price program, the court ruling should also propel negotiations between the striking United Rubber Workers and Uniroyal Inc. That month-long strike over a new contract had been attributed to the problems with the government's guidelines.

Even Mr. Talbot acknowledged to critics of the program that with out the standards "you wouldn't see a strike today by the rubber workers."

Critics of the guidelines who showed up at the two-day Atlanta conference charged that the government has been more zealous in keeping controls on wage increases than in clamping down on prices.

"These standards are causing a real inequity. The working people are being asked to bear an unfair burden," argued Ray West, director of the Oil, Chemical & Atomic Workers Union. "It is really impossible for the government to keep tabs on all price increases, but their job in keeping down wages is helped by employers, who are an ally in this area."

Mr. West complained that the government is now "an empty chair at the bargaining table," with employers using the guidelines to hold back on wage increases, while still being allowed to increase profits.

Employers, too, see flaws in the program.

This year's settlement with the Teamsters has been criticized for exceeding the 7% limit set by the government. The recent pact with employes of United Airlines also has provoked objections from some employers that the guide-

lines are being ignored.

One method proposed by the government as a way to protect workers against inflation—wage insurance—seems dead for this year, Mr. Talbot conceded.

Wage insurance would have allowed employes held to the government standards to get a tax rebate for each percentage point of inflation above 7%. But the measure never got out of a Congressional subcommittee this year. ■

Government benefit mandates intrude on labor negotiations

ATLANTA—Union wage and benefit settlements in future years might be influenced more by government laws and policies than by negotiations between management and labor, some critics predict.

Pointing to an increasing number of government regulations and court rulings concerning wages and benefits, company representatives and union officials both complained about government "interference" during a two-day conference on collective bargaining held at Georgia State University recently.

"Collective bargaining is here to stay; we haven't found anything better. But it will be severely tested in the 1980s. Hard times are ahead," said Reid Atkins, labor relations manager for Lockheed-Georgia Co.

"We are no longer enjoying free collective bargaining," echoed Georgia labor lawyer Lovic Brooks. "The courts and the government are constantly expanding what is considered related to wages and work contracts, two areas they are having increasing control over."

"A constant change in prece-

dents has been the single most important factor in the restriction of free collective bargaining," Mr. Brooks added.

Company spokesmen particularly criticized recent court actions that forced them to bargain over issues that they contend have little or no relation to wages and working conditions.

Among the most prickly issues cited was a recent Supreme Court decision forcing Ford Motor Co. to bargain with its employes over prices in the plant's cafeteria.

But while that was seen by some speakers as just an irritating example of how far the government can go in forcing employers to change the way they bargain, other changes in the laws were recognized as having greater consequences for the future of employe benefits.

Rulings designed to protect the rights of women are especially growing in importance, particularly relating to pension plans and pregnancy benefits.

A 1978 Supreme Court ruling that women cannot receive lesser monthly pension payments than their male counterparts "is going

to cause problems" for employers who haven't taken steps to change the way those pensions are funded, warned Donald Stacy, an Atlanta lawyer.

Because companies can't charge women more to participate in a pension plan or give them smaller monthly checks—based on actuarial findings that women live longer—companies may instead decide to give both men and women equal lump sum payments at retirement age, rather than pay monthly benefits until death. Otherwise, Mr. Stacy said, a company may end up severely straining the finances of its pension plan.

Pregnancy benefits, which now must be provided the same as any other temporary disability benefits, will also strain company budgets not changed to reflect the new laws.

Employers are being forced to change their benefit plans so that pregnancy or maternity provisions don't require eligibility periods or pay out lower benefits than for other disabilities. The pregnancy benefits also cannot be restricted to family plans, but must be made available to single women as well, Mr. Stacy said. ■

the benefit beat

Big nine steel firms forge study of health care costs

The nation's nine biggest steel companies have hired the Washington accounting firm of Peat, Marwick, Mitchell to determine how the health care dollars the companies spend are being used.

A spokesman for U.S. Steel, one of the nine companies, declined to describe the study, calling it a "private matter." The study may be completed by the end of the year, he said.

Peat, Marwick hired Zachary Dyckman, a former official with the Council on Wage and Price Stability, the executive agency that monitors the Administration's wage and price guidelines, to help on the steel health study.

New legal plan

The 54-member Excavating Tractors Owners Assn. in Sacramento, Calif., began June 1 offering its members a prepaid legal insurance program.

Designed by the Los Angeles law firm of Melvin & Baron, specialists in mass marketed legal programs, the plan provides legal counsel over the telephone on a wide variety of issues, from breach of contract to divorce.

The program will cost association members \$60 a year and will be paid out of membership dues, according to an attorney representing the group.

The legal program is only the second insurance program that the group offers its members; disability insurance is the other.

County self-insures

Santa Barbara County, Calif., is self-insuring medical plans for its 2,900 employes and 400 retirees, using U.S. Administrators in Los Angeles on a one-year contract to administer hospital, medical and dental claims.

Santa Barbara had insured its employe benefits with CNA Insurance, said Jeff Samsom, assistant administrative officer. The county went self-insured in February because it wanted to put a lid on the \$1.7 million it spent in 1978 for employe benefits for workers and retirees, he said.

Santa Barbara hasn't projected the savings to expect under self-insurance. But it expects to save money because U.S. Administrator's administration charge is lower than CNA's and because it anticipates the claims procedure used by the firm will reduce claims costs.

Second opinions

Almost half the participants in Connecticut General's second surgical opinion program elected to avoid undergoing surgery during 1978, the first full year of the program's operation. As a result, the company saved more than \$110,000 and eliminated approximately 117 weeks of potential disability time.

Connecticut General offers the second opinion program at no cost to insureds in Connecticut, Western Massachusetts and Greater Denver.

Of the 79 persons who sought second opinions last year, 48% chose to avoid surgery or seek an alternative treatment. Most of these were Connecticut General employes who were involved in a pilot program begun in June 1977.

Use of the second surgical opinion program has increased dramatically in recent months, with approximately 35 insureds using the feature during the first quarter of 1979. At that rate, the company expects utilization during 1979 to double 1978.

However, the insurer has no plans to expand the second surgical opinion program at this time.

New pension option

Members of the Retail Bakers of America can buy a group pension program from Modern America, a subsidiary of CNA.

About 13,500 bakeries, which employ an average of nine workers, are eligible for the pension benefit fund, said William Roche & Associates of Park Ridge, Ill., brokers for the Retail Bakers.

The program will use a flexible premium annuity with a pre-retirement death benefit as an option. Employes who chose to use the fund will have the option of joining a profit sharing, pension or IRA account.

CNA, through its Modern America subsidiary, currently provides group life and medical benefits for the Retail Bakers.

Sears studies pensions

There may be increased pension benefits in the offing for retired employes of Sears, Roebuck & Co., but how much is

still a question.

At an annual meeting recently, board chairman Edward Telling said a pension study is being conducted by the company. Mr. Telling made the disclosure in response to a question raised by a retiree who asked what Sears planned to do about depreciation in retirement benefits, which the questioner said have depreciated 120% the last seven years.

GM pension payments

Pension benefits totaling \$492.9 million were paid in 1978 to 144,642 retired General Motors Corp. retirees or their surviving spouses, according to figures released by the United Auto Workers.

Of that amount, \$388.6 million was paid as regular pension benefits to retirees and spouses and \$104.3 million in supplemental allowances to those who retired early due to permanent disability. The supplemental allowance is paid to bring the current pension benefits up to \$700 a month before age 62 and \$430 a month between ages 62 and 65 when reduced Social Security benefits are available, the union said.

The pension plan has provided a total of \$39 billion in benefits to General Motors employes since 1950.

HMO rates up

A 15.5% rate increase on group contracts with Westchester Community Health Plan, a federally qualified health maintenance organization in White Plains, N. Y., has been approved by the New York Department of Insurance.

On two-tier group contracts, monthly rates will increase to \$31.99 from \$27.68 for singles and to \$88.24 from \$76.50 for families. Monthly rates for three-tier contracts will increase to \$31.83 from \$27.68 for singles, to \$70.62 from \$61.41 for two persons and to \$96.05 from \$83.53 for families.

Benefit Beat keeps risk managers and employe benefit managers abreast of changes in plans around the country as well as other important developments. We'd like to know if you've made any changes or know of any significant developments. Write Kathryn J. McIntyre, Business Insurance, 740 N. Rush St., Chicago, Ill., or call (312) 649-5286.

Minn. plants seeds of work comp savings

By MARY ELLEN McKEE

ST. PAUL—A bill recently passed by the legislature here and signed by the governor that totally revamps the administration of the Minnesota workers compensation system isn't expected to lower costs for at least two years.

The bill, which leaves benefit levels unchanged, incorporates 49 of the 57 recommendations submitted by a Minnesota legislative study commission in March (*BI*, March 19), including mandating rehabilitation benefits. The reforms are to provide the state's employers with at least a 10% savings in a few years, says the bill's author, Sen. Steve Keefe (D-St. Paul).

"The system is not set up to bring automatic results," he admits. It is

a system whose value and importance can only be seen after at least two years in effect," Sen. Keefe emphasized.

The promises of a 10% savings down the road bring a little comfort to Minnesota employers, however, since the insurance industry filed for a 38% rate increase a few days before the bill was passed.

Minnesota Governor Al Quie signed the bill last week and congratulated the state's legislators for acting so promptly on an issue causing extreme financial strain on Minnesota business.

Minnesota is the second state to enact a major workers compensation reform bill in the past month, following on the heels of Florida where a bill overhauling the administration and benefit structure

of the entire workers compensation system was recently signed by the governor (*BI*, May 28).

Unlike the unusual coalition of top management and labor groups which hammered out the details of the Florida bill and then pushed it through the legislature, the Minnesota reform effort was carried out by legislators. Most of Minnesota's employers and insurers aren't sure what the bill mandates and if the mandates will slice costs and provide adequate benefits to the state's injured and disabled employees.

Howard Weber, risk manager of 3M Co., who struggled through 11 pages of the 74-page bill in three days, called the bill a "mishmash" of everything and very confusing. But the state's industry should "give the bill a chance," he said.

"Improvements in the system seem to be long range in nature so it is very difficult to say whether the bill will bring relief to the state's employers and insurers," Mr. Weber noted.

On the other hand, William Cain, risk manager for Dayton-Hudson Corp., finds that the bill puts in too much reform with too little study. "Most of the changes look cosmetic, but then it really is too early to make any definitive comments," Mr. Cain said. He admitted that he needed more time to review the bill more carefully to sort out its convoluted language.

Two other major employers contacted by *Business Insurance* had not seen a copy of the bill but said the legislative study commission's recommendations had missed

what they consider the real problem with worker's compensation in the state: excessive benefit levels.

Employers of Wausau, Liberty Mutual Insurance Co. and the Travelers Insurance Co., the three major workers compensation underwriters in the state, have not had an opportunity to review the bill in detail. At this point they don't intend to increase underwriting in Minnesota, where the workers compensation market is restricted.

One of the major provisions of the bill, and the one firing the most opposition from both insurers and employers, is the formation of a state workers compensation reinsurance association. The association is designed to deal with the long tail on compensation claims and remove the uncertainty of the long tails that affects reserves and premium levels. The association is considered a private rather than a state organization and will be run by four insurers, three employers and two employees.

Funding the association is still an unresolved matter, but the bill places the responsibility for the funding decision with the insurance commissioner. The commissioner has a choice between funding the association by assessing insurers and self-insurers who are members of the association or merely by charging them a premium every year.

Expanded responsibility for the commissioner of insurance is granted by the bill. The commissioner must create a detailed and formal procedure for rate-making and plotting the mechanics of the judicial reviews.

The court of appeals is expanded in the bill from three to five representatives, three of which must be attorneys. The new law also mandates second surgical opinions, and medical fee reviews, and specifies the internal organs covered under the permanent partial disability schedule.

The provision sparking the most support from employers and insurers is the comprehensive rehabilitation program created by the bill. In essence, the bill creates a new subdivision of the government, explained Sen. Keefe. Any employee must be placed into rehabilitation counseling if he has a permanent partial disability preventing him from performing the job he held before the injury.

All the vocational rehabilitation services should return the individual to a job related to his former employment or at least in a nonrelated job which produces an economic status close to that enjoyed before the injury, Sen. Keefe noted.

The director of labor and industry will supervise the delivery of all mandated rehabilitation services. He can approve, modify or disapprove a rehabilitation program submitted to a review panel on which he and his designated employee sit with representatives of labor, employers, insurers, vocational rehabilitation professionals, physicians and medical specialists.

"Tough problems are never solved overnight," said Sen. Keefe, "and if the employers and insurers will be patient they will see Minnesota's workers compensation system working for the employer, insurer and the employee." ■

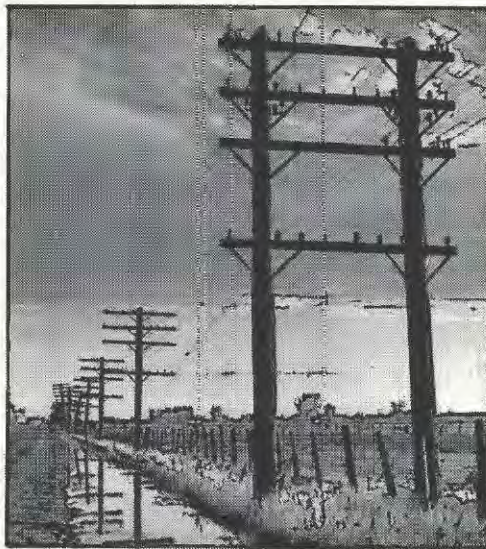
Group life purchases

March purchases of group life insurance set up under new or revised group contracts totaled \$10.9 billion.

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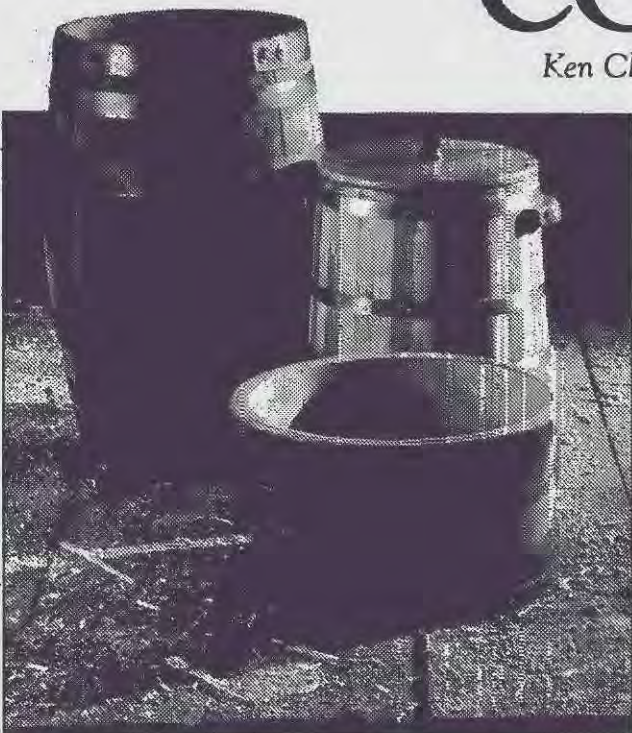
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Foreground, Ken Chicoine. At desk, Employers Insurance sales representative, Lorin Heimerl.

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WAUSAU STORY

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been steady and constant. While we've 'gone to the market' many times to test the value of our insurance carrier, we've always stayed with Employers. We've assigned four lines of business insurance to them and their work in loss control stands out like a big beacon. In the past five years our mutual efforts have been especially productive."

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Left to right: Don Ryder, Safety Consultant, Employers Insurance and Allen Stinchfield, Vice President, Land and Timber, Menasha Corporation, on policyholder's land near North Bend, Oregon.



Menasha Corporation President, Richard L. Johnson.

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Buyers reserve judgment on risk pool plan

By JERRY GEISEL

WASHINGTON—Insurance buyers won't commit themselves to a Commerce Department proposal to create a new risk funding alternative until they see it, but insurers continue to fight the concept.

The proposal to permit federal chartering of business-sponsored insurance cooperatives organized to cover product liability risks is stuck in the Office of Management and Budget (OMB). Insurers, meanwhile, are continuing their attack on the proposal.

The National Assn. of Manufacturers, the U.S. Chamber of Commerce and the Risk & Insurance Management Society all say they are now evaluating the proposal, but they won't make a commit-

ment one way or another until the plan is officially unveiled.

At the same time, five other business groups—the Machinery & Allied Products Institute, the National Machine Tool Builders Assn., the Rubber Manufacturers of America, the Materials Handling Institute and the National Assn. of Wholesaler-Distributors (NAW)—say that the concept of federal chartering of insurance captives may have merit, but they are holding off full endorsement until full details of the plan are known.

"We are looking at it very seriously," said Lee Gosnell, director of government relations at the NAW. "As far as I can tell, the small business community is looking at the proposal quite favorably."

In addition, Consumers Union, a

consumer group that has lobbied against tort reform, endorses the plan contending that it "should force insurers to be more responsive in setting premiums."

Victor Schwartz, chairman of the interagency task force on product liability and accident compensation, said there will be "overwhelming" business support once the plan is released.

The Commerce Department, however, refuses to release the complete proposal. Mr. Schwartz says the Commerce Department can't publish the proposal until the Administration endorses the plan. And the Administration won't act until the Office of Management and Budget gives the proposal its blessings, which the agency isn't prepared to do yet.

OMB policymakers have not

completed their analysis of the plan. Questions that OMB staffers are mulling over include: Is the proposal really necessary? Is it really compelling for us to act in this area? What does this proposal say about the proper federal role in insurance?

While OMB continues to ponder, The Hartford Insurance Co. has lashed out against the plan, calling it, in the words of its government affairs consultant Melvin Stark, "a monstrous proposal... that is an attempt to circumvent state regulation... and will be fought hard by the insurance industry."

The two major insurance industry trade associations, the American Insurance Assn. and the Alliance of American Insurers, already have blasted the plan (BI, May, 14).

Kemper and Crum & Forster won't take a position until the proposal is released.

The National Assn. of Insurance Brokers remains non-committal, but speaking for Marsh & McLennan, the nation's largest insurance broker, outgoing NAIB president David Holbrook took a swipe at the Commerce plan. "We are not in favor of a layer of federal regulation of the industry and this is a kind of backdoor way of getting in," said Mr. Holbrook, M&M senior vp and director. "The manpower and mechanisms necessary to set up the regulatory system would be horrendous."

Drafted by the Commerce Department, which has been studying the nation's product liability problems since January 1976, the proposal would allow firms to band together to form insurance cooperatives or "risk retention groups," pooling all or a portion of the participants' product liability exposures.

These risk retention groups would be exempt from state insurance regulations and instead would be regulated by the Commerce Department.

Before deciding whether to allow a risk retention group to operate, the federal government would review the group's assets, reserves, loss prevention efforts and management expertise.

Premiums paid into the risk retention groups generally would be tax deductible so long as there was sufficient spreading and sharing of risk to satisfy Internal Revenue Service requirements.

The Commerce Department believes state regulation, with its high capitalization requirements, has blocked businesses from uniting to cover their product liability exposures through pooling arrangements.

By tailor-making insurance regulations to meet the needs of businesses forming their own insurance cooperatives and allowing the same deductions companies now are given for purchasing insurance from commercial insurers, the Commerce Department believes more competition would be injected into the insurance market. The department also believes that instead of setting up captives offshore, companies would form risk retention groups here.

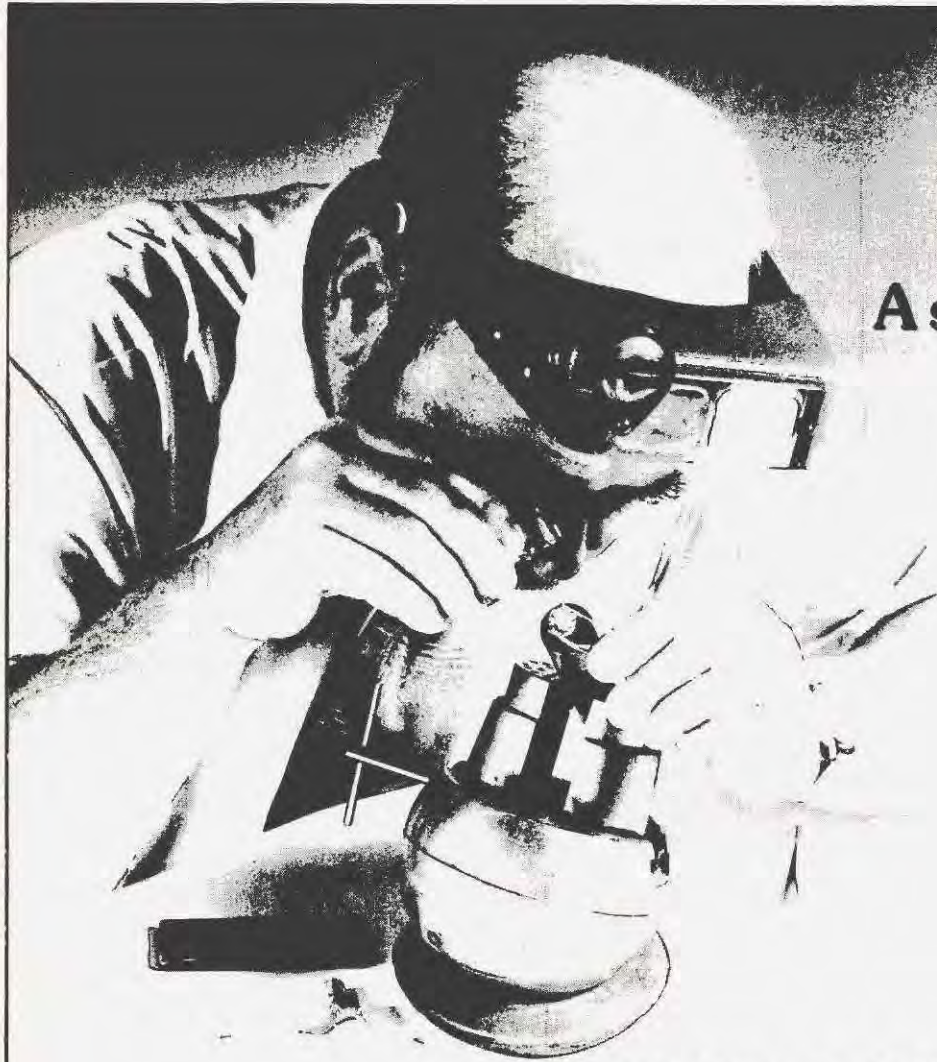
But others doubt if federal chartering of insurance cooperatives would significantly effect the offshore captive movement. "I don't see this as an attractive alternative to an offshore captive," said M&M's Mr. Holbrook. "The risk act would give certain tax advantages, but it imposes a layer of regulation and ignores all the other advantages of an offshore captive," he said.

Charles Derr, senior vp at the Machinery & Allied Products Institute, counters that the proposal offers an alternative that could be of great use, particularly to smaller firms with high deductibles.

One government official observed that even if the Commerce Department proposal fails, the threat of new federal regulation might encourage states to liberalize insurance regulations to make it easier for businesses to set up insurance companies in their jurisdiction.

Agency merges

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editorial opinions

Customers deserve accounting

THE OLD fees-versus-commissions argument haunts not only the insurance brokerage industry but legal eagles as well. At stake is not so much fees or commissions but the unbundling of services and disclosure of exactly what charges are being levied for specific services performed.

Steven Brill, legal columnist for *Esquire* magazine, wrote in the May 22 issue that many law firms traditionally have charged for services in lump sums, periodically billing such handsome sums as \$60,000 or more for "services rendered."

Legal clients are becoming more demanding, however, just as they are in the insurance and risk management field. Twentieth Century Fox Corp., for example, recently responded angrily to just such a bill, asking for a detailed accounting from the law firm handling an antitrust case. The firm has always been unwilling to provide the necessary details, prompting the client to retort that "other than your firm, no other firm has suggested that itemization was beyond the comprehension of our in-house counsel," according to columnist Brill.

The upshot has been a new Fox policy that it will not retain any law firm in the future not willing to comply with Fox's billing procedures. Fox wants to know basically how many lawyers worked on each aspect of a case and how many hours each one worked.

Not an unfair request, certainly. It's the client's money and who's to know whether the supplier is providing your money's worth without such a breakdown?

Most law firms of any size, like accountants and consultants and any number of service professionals, keep detailed records of time spent on accounts for internal purposes. And many service professionals bill on a time and expense basis, itemizing work done, people involved and hours spent on individual accounts. But brokers, like many lawyers, have been a privileged class, resisting such breakdowns and bullying clients into feeling

sheepish or guilty for having asked about the details of work done for the client.

Conversations with numerous executives of brokerage firms have convinced us that for some firms, no detailed internal records are kept as working papers for billing breakdowns. But most of the larger commercial brokers keep pretty good records of who's doing what, when and how. Some of the largest firms have computerized internal records, in fact, of time expended on accounts to be able to measure productivity. Despite this, recordkeeping in most agencies and brokerage firms isn't as good as it could be.

This may have to change, to meet risk managers' demands for an accounting of the performance of account executives. Brokers don't have to switch to fee-based billing; they simply have to be willing to account for the work they do for a client.

As Mr. Brill said of legal firms' practices, "such (lump sum) billing practices do encourage abuses." No one is questioning the integrity of brokers any more than corporate clients question the honesty of lawyers. Such breakdowns are necessary merely to enable a client to properly supervise the management of an account, be it legal advice and research that's needed to handle litigation, or insurance brokerage work needed to place risks and handle claims administration.

Responsive

INSURERS ARE fortunate to have such articulate and knowledgeable pundits, as John J. Maes, whose perceptions about the boiler and machinery insurance business appear in our Perspective section. He praises and defends the business while acknowledging that it's far from perfect, shedding a good deal of light on the critical issues raised in this publication April 16.

We applaud not only his response and rebuttal of some critical views espoused, but his suggestions for better practices by both buyers and insurers.



Lawyers on the wing . . .

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.

Low clearance

To the editor: In the April 30 issue of *Business Insurance*, you published an article about the ABC insurance department's experience in picking a route to truck a giraffe.

Several years ago we purchased mortality insurance on a giraffe being trucked which carried a condition that the route used to transport the giraffe across approximately 600 miles would have no low lying bridges or underpasses. We chuckled at first, only to learn that a claim had been paid because someone had not been astute enough to check such a route.

Phillip H. Babcock
Director, Office of Grants and Risk Management, Smithsonian Institution, Washington, D.C.

Life insurance values

To the editor: I read the analysis which appeared on page 93 of your April 30 issue of *Business Insurance* showing a comparison of individual life insurance with group term insurance. Although some of the subjective comments were reasonable, I am surprised that a magazine of your quality would print the methods of financial comparisons between these two products which were used in the article.

Certainly, any illustration of the cost of these two products which ignores the value of money (i.e., interest earnings) would be laughed at by any competent financial officer today. Even several state insurance departments have realized that this elementary type of comparison is very misleading and require that interest-adjusted figures be used in policy comparisons.

Charles G. Thacher
Principal, C.G. Thacher & Associates Inc., New York, N.Y.

A most useful issue

To the editor: Re: Issue of May 14.

I'd like to extend my congratulations on an excellent issue. It's usually my duty to read *Business Insurance* and point out to the mem-

bers of our staff those items which absolutely must be read by everyone. I think I hit a new record in this issue with seven. This is absolutely the best issue yet.

Is Peter Downes saying that I ain't got no sophistication?

Charles A. McAlear, CPCU
President, McAlear Associates Inc., Grand Rapids, Mich.

State monopolies

To the editor: Re: "Ohio Agents Oppose Work Comp Restraints" April 30. I read this article with great interest. Minnesota is struggling with the issue of a state fund at this moment. It seems very strange that there are people such as the OMA (Ohio Manufacturers Assn.) who can defend any monopoly and still claim to be free enterprise under a competitive system for its own members.

It seems rather obvious that a competitive situation would tend to lower premium costs (excluding the legislated increased benefit costs and normal inflation!). There is virtually no incentive to lower losses in a state fund state. There is no responsibility to hold benefits when there is no maximum limit the fund has to spend.

In order for the private insurers to make a profit they will have to insure risks with low loss ratios and in order to do this over a period of years the insured risks must maintain excellent safety and health programs. The cooperation between the insured and the agent can and often does result in a mutual benefit—lower cost to the insured and a profit to the agent due to a low loss ratio. Commissions really are not a question—if loss ratios are bad the risk is gone—if they are good everyone wins.

I suggest that the private industry do a better job of educating the public about cost and service. There is simply no way that the government can do a better job than the private sector and this is proven time after time. Yet, we have government correctly stating that it can re-shuffle costs to the public—who pays the price any-

Continued on page 114

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What every self-insured risk manager should know.

As more and more risk managers choose to self-insure their companies' primary liability exposures, the question of what type of coverage in excess of SIR best serves their corporate interests becomes a key one.

And once the facts are known, more and more of these companies are choosing a claims-made policy for this purpose, rather than an occurrence-type. The reason is that with a claims-made liability cover over primary self insurance, a risk manager can better estimate the amount of dollars needed for his own liability loss fund. Large reserves need not be tied up for years for this purpose. (An important tax consideration since these funds are not currently considered deductible.)

Losses Incurred But Not Reported (IBNR) are not a major problem with a claims-made policy, as they are with occurrence policies. Thus a claims-made excess cover lets a self-insured transfer unneeded reserve dollars from one year's loss fund to the next's with greater confidence. And possibly reallocate surplus dollars to more profitable uses.

This is because with a claims-made Excess of SIR program, a self-insured has no need to "hedge" dollars against claims not yet known or reported—each year he *knows* where he stands and can allocate his reserve funds accordingly.

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Some different approaches to surplus lines.

Frank B. Hall audit finds revenue mess in Texas subsidiary

By SUSAN ALT

BRIARCLIFF MANOR, N.Y.—A long, internal investigation by auditors at Frank B. Hall & Co. disclosed that \$3.8 million recorded as revenues by the broker should have been paid to insurers or not billed to clients at all, said John McCaffrey, executive vp and head of Hall's domestic operations.

Frank B. Hall admitted in its recent 10-K report to the Securities & Exchange Commission that possibly illegal business practices had

inflated the company's revenues over a three-year period (BI, May 28).

About half of the \$3.8 million will be returned to insurance companies, primarily Empire Insurance Co., which underwrote specialty coverages placed by Hall's San Antonio office, acquired in 1975 from Mendel S. Kaliff.

The internal audit of improper collections and remittals to insurers by that office uncovered discrepancies for the years 1976 through 1979. Premiums and inspection service fees not remitted to insurers comprised these improperly retained funds.

The other half of the funds consists of fees collected from Hall's clients to cover things like bad debt expenses, built into the account billings. These amounts will be returned to clients, said Mr. McCaffrey.

"In some states it is perfectly all right to collect fees like this, and to build in charges for overhead that are in addition to the pure insurance, but in Texas you can't collect commissions and fees simultaneously," Mr. McCaffrey said. "Our office in San Antonio overlooked this rule and the clients weren't properly notified of the charges and the breakdowns," he explained.

Underwriters didn't experience any bad loss ratios from the business Hall produced through its San Antonio office, he explained. The San Antonio operation, which employs about 60 people, specializes in handling over 1,000 clients in the carnival and entertainment business, the majority of whom are insured with Empire.

No one working for Frank B. Hall achieved any sort of improper personal gain from the questionable bookkeeping or billing practices, Mr. McCaffrey said.

A \$2 million letter of credit posted by Mr. Kaliff to repay the bulk of the money consists of his own personal funds, Mr. McCaffrey noted.

When Hall discovered that billings hadn't been handled properly, it notified the Texas insurance department of the problem. The company is now waiting for the department to approve Hall's plan for returning the funds to clients and to the insurers involved. Mr. McCaffrey expects this approval process and the subsequent repayments to take about two months to complete.

Although some fees were improperly built into clients' insurance charges for specialty placements, the prices they were charged for placements overall were "highly competitive," maintained Mr. McCaffrey. The specialized San Antonio operation employs people with "superior abilities" in handling specialty risk, he said.

Hall hasn't lost any accounts yet because of these improprieties, Mr. McCaffrey added. "Not all the clients involved have been notified yet. Only those firms have been told whose renewals have come up since we discovered this several months ago," he said.

Mr. McCaffrey attributed the financial problems to some "unwise moves" on the part of administrators in the San Antonio office. "It was amateur hour. It was just plain unsophisticated" administration and billing, Mr. McCaffrey observed.



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GM to appeal \$6.5 million judgment

By JERRY GEISEL

WASHINGTON—General Motors Corp. will appeal a \$6.5 million judgment rendered against it by a federal court jury in connection with a product liability suit.

A Washington couple claimed damages in connection with a 1975 car accident that left the woman permanently paralyzed from the neck down.

The jury found that a rear universal joint failed on the 1975 Buick Electra the woman was driving, sending the car off the road and into a field where it smashed into a tree. GM had argued that the driver was at fault in the smash-up in which the woman's neck was broken.

The huge award, one of the largest personal injuries awards ever handed down in the Washington area, is the latest in a series of major jury verdicts involving the nation's automakers.

In February 1978, a California jury found Ford Motor Co. liable for a record \$128 million award to an 18-year-old youth who was severely burned after the 1972 Pinto he was riding in was struck from the rear, rupturing the fuel tank and igniting a fire that engulfed the car. The award later was reduced to about \$6 million and Ford is appealing the case.

Later that year, a Los Angeles jury found Ford liable for an \$11.5 million award to a college student who suffered brain damage when his 1966 Lincoln Continental crashed following the alleged failure of the car's brakes. Ford is appealing the verdict.

The Washington case goes back four years when Georgia Hall, 52, and her husband, a 42-year-old taxi cab driver, bought a new 1975 Buick Electra. Mrs. Hall, however, soon had problems with the car and took it back to the dealer complaining of "vibrations," according to her attorney Allan Kamerow.

Four months after she bought the car, Mrs. Hall was driving on a Washington parkway when the rear universal joint broke. "The vibration that Mrs. Hall heard was an indication that the joint was not properly manufactured or installed," Mr. Kamerow argued. "With 4,000 miles on it, the fatigue finally got to it and the joint gave out. It just disintegrated."

The failure of the universal joint caused the drive shaft to drop from the car, resulting in a loss of power steering and causing the car to go out of control, Mr. Kamerow said.

The car ran off the road, plunged down a field, struck several objects and was briefly airborne before smashing into a tree.

General Motors, in a three-page statement, said the car was not defective, noting that the "police accident investigative team which investigated the accident could find no physical evidence on the highway indicating that any such failure in the automobile occurred there."

General Re expands

General Reinsurance Corp. has established a management company in Bermuda, General Re Services Ltd. The new company will have underwriting authority on behalf of the General Re Group. It will produce and underwrite captive, facultative and treaty business transacted in Bermuda, both USA and foreign. The Bermuda Office will also handle other captive insurance company related services, other than management of captives and investment. George W. Lee, most recently senior casualty underwriter of the London office, has been named manager.

During the three-week trial, each side brought in a battery of expert witnesses. GM experts contended that driver error caused the car to veer out of control while the plaintiff's experts charged that a defect in the universal joint precipitated the accident.

After listening to the testimony and watching a 20-minute film

showing Mr. Hall feeding, bathing and changing his wife's bags that collect her urine, the jury awarded \$5 million to Mrs. Hall for medical costs, housekeeping care and pain and suffering. Mr. Hall was awarded \$1.5 million for loss of consortium, or sexual relations with his wife.

Plaintiff's attorney Mr. Ka-

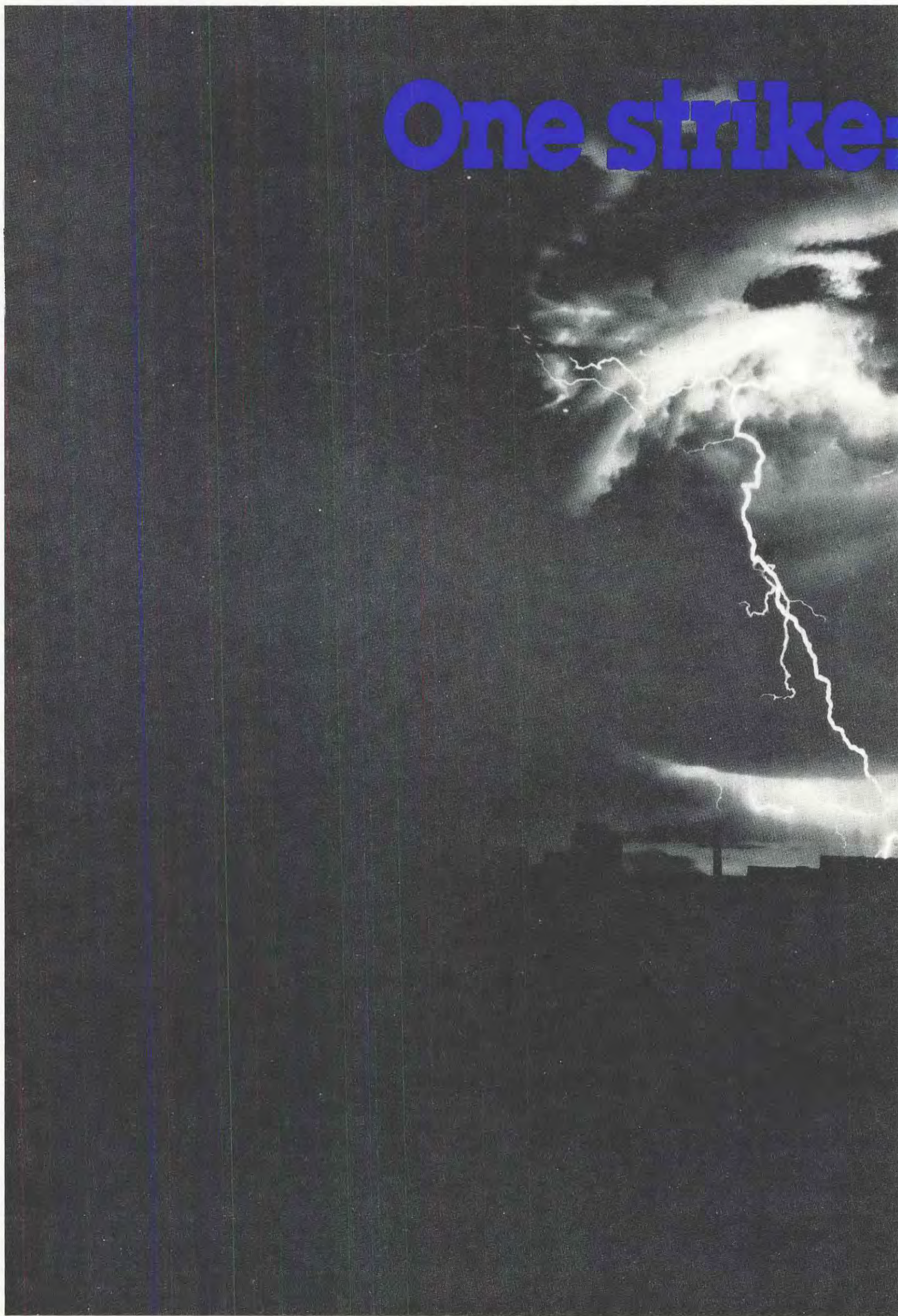
merow said the award "is not out of line," considering "what a quadriplegic is, what a quadriplegic suffers and has to go through in a lifetime and what a quadriplegic's expenses are."

GM attorney Aubrey Daniel wouldn't comment on the award, but noted that the automaker would file papers "directed to that

issue" when it appeals the verdict.

GM also declined to comment on its insurance arrangements. The company carries a high deductible for product liability, a source connected with the case said.

Prior to the trial, the Halls reached an out-of-court settlement with an Arlington, Va., car dealer that sold them the car. The amount of that settlement, believed to be around \$700,000, will be subtracted from the GM award if the jury verdict is upheld. ■



One strike

Firms buy LTD plans for prestige: Survey

CHICAGO—Nearly half the companies buying long term disability insurance are just keeping up with the Joneses, though nearly as many realize it's a bad buy at an average 7.1% loss ratio, a survey of benefit buyers reveals.

Only 14.1% of those answering the survey said their companies

buy LTD insurance because numerous disabilities created a real need for it. A hefty 42.2% admitted to buying LTD insurance to keep up with the Joneses. Union pressure was cited by 4.7% as the reason for offering the benefit while 39.1% cited myriad "other reasons" for buying the coverage.

Peter B. O'Brien, president of Johnson & Higgins of Colorado, surveyed 100 buyer-attendees of a seminar he conducted on long term disability insurance at the RIMS conference here last month. A crusader for improved benefits under long term disability plans, Mr. O'Brien believes many LTD

plans today fail to deliver promised benefits and cost too much for the level of benefits delivered. "It's the biggest rip-off in the benefit business," he says.

Benefits paid under LTD plans today are most often integrated with a host of other benefit plans, meaning that benefits paid under

Social Security, workers compensation, pension plans and group life policies are all subtracted before the LTD plan pays a cent. "In some cases, the worker is zeroing-out," getting no benefit at all under the LTD plan, Mr. O'Brien complains.

He campaigns for LTD plans that raise the benefit to 80% of salary if there is benefit integration or for no integration with other benefits at a 60% benefit level. Or the plans should promise to pay 20% of salary regardless of what other benefits are received by the disabled worker, he says.

Mr. O'Brien surveyed benefit managers at the RIMS conference to see if they agreed that so little is ever paid out under LTD plans that LTD is, what he calls, the "phantom benefit."



LTD is the "biggest rip-off" of benefit plans, says broker Peter O'Brien.

Only 5% of the 69 benefit buyers answering the question said LTD is "a sham," but 57% said they consider it "somewhat" of a phantom benefit. Thirty-eight percent said "not at all" to the question, "Do you think LTD is a phantom benefit?"

Respondents to the survey buy plans covering 3,841 employees, 17.42% of whom are blue collar workers. The average rate paid for the plans is 53.66 cents per \$100 of coverage, with employees paying an average of 38.97% of the premiums.

The most common waiting period is 180 days (61.5%), with only 7.7% of the companies imposing a full year waiting period and only 1.5% going to the opposite extreme of providing the insurance after 30 days of employment.

A benefit of 60% of salary is most prevalent (50%). Another 24.2% of the plans promise a disabled employee will receive 50% of salary. The remainder of the companies provide benefits of 65% of salary (9.7%), 67% of salary (11.3%) and 70% of salary (4.8%).

A whopping 72% of the plans integrate benefits with primary Social Security benefits and 54% of the plans subtract family Social Security benefits before paying claims. This supports Mr. O'Brien's contention that after so many other benefits, including rich Social Security benefits, are subtracted, the LTD insurer doesn't pay out much in benefits.

Indeed, the LTD buyers answering the survey reported an average loss ratio of just 7.1%, paying \$6.7 million in premiums and getting \$471,800 back in paid claims.

Fifty-two percent of the buyers reported their insurers say they make money on LTD policies. But, a significant 33% of the buyers reported their insurers claim to be breaking even and 15% said their insurers claim to be losing money on the benefit plan.

Aetna Life & Casualty, Insurance Co. of North America and Unionmutual were the most popular LTD insurance underwriters among those surveyed.

132 claims

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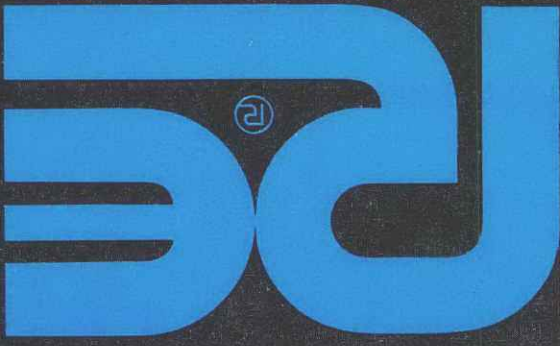
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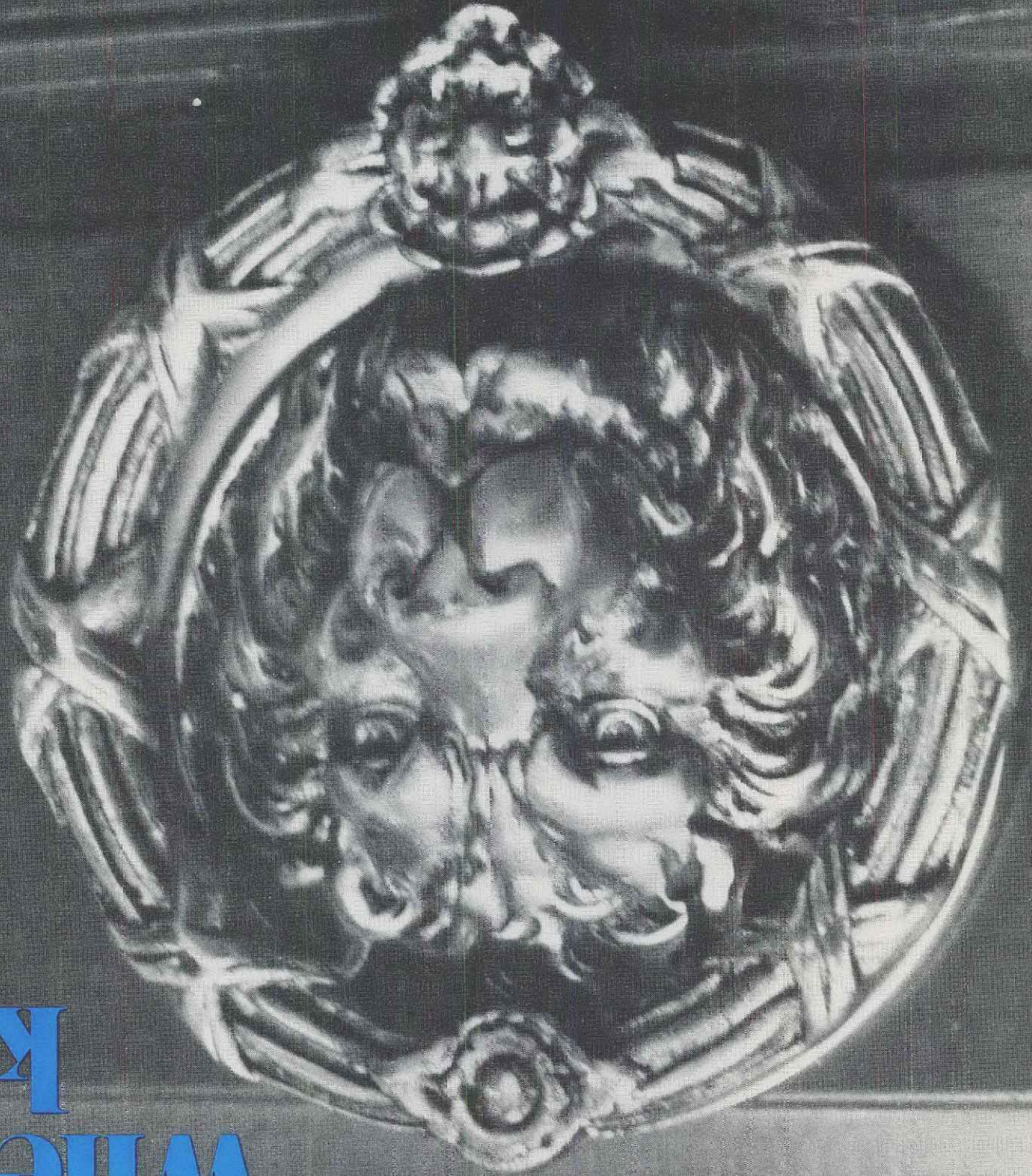
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When you knock

Risk Management Services

Vendors spread program smorgasbord for services-starved risk, benefit execs

CHICAGO—A smorgasbord of services is at the beck and call of a risk manager or benefit manager hungry for help.

Corporate dismissal of the insurer in favor of self-insurance has created demand in corporate America for the topping that has traditionally accompanied insurance policies. And the vendors of services are more than willing to deliver the goods ala carte.

Independent firms, insurers and brokers are queuing up to take the managers' orders for safety/security assignments, risk management and benefit consulting chores, risk analysis programs, adjusting and salvage operations and claims administration tasks, staples in many risk management programs.

Caterers to the needs of risk and benefit managers are also trying to entice them into tasting new wares.

A Cleveland attorney, for instance, believes companies can reduce their risk to product liability losses if they educate their employees about the legal theories of liability and the company's responsibility for manufacturing safe products.

A research organization believes its analyses of Americans' changing values and lifestyles will help companies design better employe benefits programs.

Hardly an appetite for a service will go unsatiated in today's market in which the service firms seem ready to whip up a program to order.

White collar crime a problem? Companies spiced with ex-FBI men promise to sniff it out. In need of boiler and



machinery inspection talent? Hartford Steam Boiler Inspection & Insurance Co. will take the job as long as no other insurer is brought in to insure the risk. Wonder how long the overseas operations will hold up in today's chaotic world politics? More companies are offering to predict the future and help corporations determine when the bot-

tom could fall out of a friendly foreign government.

While many risk managers at self-insured companies are picking and choosing their service providers, others, still insured, are sticking with the old menu. But for the most part, they give the insurers' loss control services good reviews, surveys of risk

managers find. There are, however, a few disgruntled customers, especially among workers compensation insurance buyers.

Business Insurance editors around the country sampled the array of services offered risk and benefit managers for this special report running through page 88.

Insurer safety services rate "OK": Panel

By SUSAN ALT

CHICAGO—A limited survey of corporate executives who participate in *Business Insurance's* Editorial Advisory Panel indicates they're generally satisfied with the safety and loss control assistance their workers compensation insurers provide.

That isn't to say, though, there aren't some pretty disgruntled risk managers out there who think insurance companies do a lousy job of inspecting and reporting safety flaws in their insured operations.

Based on a sample of 30 risk managers for organizations of varying size nationwide, insurers could do a lot better than they're now doing with loss control services. Moreover, it appears that nearly all insurance buyers and risk managers believe loss control and safety reports are an extremely important part of any insurance program.

Business Insurance sampled members of its Editorial Advisory Panel because an earlier study of insurers' safety and loss control services by Dan Otremba (*BI*, Oct. 2, 1978), as the basis for his master's thesis, was highly controversial in its findings that insurers' services fall far short of what's needed to

improve loss experience and save lives. Insurance companies defended their practices, saying they are better than adequate, and chiding Mr. Otremba for basing his criticisms on an inadequate sampling of opinions.

Of the 30 firms whose risk man-

agers and insurance buyers responded to the latest survey, 22 said their workers compensation insurance carriers provide them with loss control and safety services. Only two of the remaining eight who don't obtain services from insurers purchase these ser-

vices for fees from other contractors, such as safety consultants or administrative services suppliers. The other six apparently all have their own in-house safety specialists.

When asked to rate the overall quality of these services in the last

two years, 17 out of the 24 services "users" said the advice and services they've obtained have been satisfactory overall, leaving seven who have been dissatisfied.

We took Mr. Otremba's list of the five different specifications he de-

Continued on page 77

Property insurers deliver more: Execs

By JERRY GEISEL

WASHINGTON—Risk and insurance managers sing praises for the services provided by their property insurers, but some sound discordant notes when evaluating their casualty carriers' safety and loss prevention services.

Risk managers complain that their casualty insurers aren't doing as good a job in workplace inspections as they once did, that the insurers delay preparing safety reports and that they can't deliver effective safety recommendations.

"I'm disappointed that in recent years casualty insurers have put more of their load of safety onto the shoulders of the policyholders and have taken the opportunity to reduce...their expenditures for safety and loss prevention," said Bill Cain, director of insurance

and risk management at Dayton Hudson Corp. in Minneapolis. "I just don't see the time and effort that used to go into the preparation of inspection reports."

Other risk managers contend that when they want safety recommendations from their casualty carriers all they get is silence. "When I asked for ideas on how to monitor fumes to keep down potential occupational disease claims, I may have just as well been talking to the plant next to me," said Joseph Gullo, director of insurance at Richardson-Merrell Inc. in Wilton, Conn.

Other risk managers are satisfied with the services they receive from casualty insurers. "They give us inspection services which are geared not only to workers compensation, but also to spot all sorts of potential

losses," said Edith Lichota, assistant treasurer of the Carborundum Co. in Niagara Falls, N.Y.

William Park, risk manager at Northwestern University in Evanston, Ill., also gives high marks to the school's workers compensation insurer. "They've given us whatever we have asked for," he said. The workers compensation insurer, for example, supplies Mr. Park with safety reports after each inspection of the university's operations detailing potential safety problems.

Some risk managers have elected not to receive engineering and safety services from the casualty carriers. "We specifically negotiated out those services because we thought we could do it better ourselves," said Howard Weber, director of insurance at 3M Co. in St. Paul, Minn.

"We have felt self-sufficient for many years and haven't felt a need for insurance (casualty) services," Mr. Weber said. "As a result—and I don't mean to say that they (services) were without value—we just felt we didn't need them."

Firms that now self-insure their workers compensation often say they get better safety results than when their carriers provided services. "We like the present situation because our safety people are our own employees and thus have a better understanding of our own problems," said John Woods, insurance manager at Marriott Corp., the giant hotel chain which self-insures its workers compensation.

While some risk managers are critical of the services offered by their casualty carrier, they heap ac-

Continued on page 78

Hunger for risk data spurs new services

By SUSAN ALT

CHICAGO—Risk management decision-making will never be the same.

Computer technology has brought a metamorphosis in the process of quantifying, analyzing, and financing risk for a handful of the nation's largest companies over the last decade. And it is now rapidly enabling a wide range of corporations to avail themselves of highly sophisticated management information systems applicable to the specialized world of risk management.

Moreover, the big word these days is interactive systems. Split-second computerized communications and reports are sure to revolutionize the insurance buyer's negotiations with insurers, risk retention practices, discussions about reserving practices and internal allocation of insurance and self-insurance costs.

Brokers and independent suppliers of automated recordkeeping services are racing to one-up each other, adding new services, offering risk managers the opportunity to have computer terminals in their offices and providing more sophisticated analytical methods.

Alexander & Alexander's Alexsis division sports its new Risk Data Management Service (RDMS). Marsh & McLennan is pushing its new IRIS, which stands for Interactive Risk Information System, the brainchild of Tony Demas, who blasted M&M into the age of automation and simulation as an early member of the Unit X team, formed in 1970.

At the same time, Guyon Saunders of Amarillo-based Corporate Systems Corp. is adding to the capability of his computerized loss reporting system, updating it for self-insurers who want to use it for more decision-making tasks. And Joseph A. Destein is taking his recently-formed Risk Sciences Group along a route that puts him in direct competition with A&A's Anistics, a company he co-founded and now aims to pre-empt by staying a jump ahead.

Several other brokerage firms, including Corroon & Black, Fred S. James & Co. and Johnson & Higgins also offer analytic services to their clients, though the emphasis with new services seems to be on systems allowing risk managers to have terminals at their fingertips.

Corporate Systems Corp. has long been recognized as the grandparent of risk management information systems for self-insured or insured organizations. Founder Guyon Saunders has built what is basically a loss reporting system that enables some 1,100 companies to track claims, allocate premiums or self-insurance costs to operating divisions and streamline their budgeting processes.

Even Mr. Saunders is now adding to CSC's scope of services, stressing his system's new ability to perform claims development tasks, loss development, tending and forecasting.

CSC now limits its activities almost exclusively to putting out reports based on actual losses, but is beginning to provide loss development reports to several large corporate clients. Fully one-third of CSC's corporate (non-insurance industry) clients have acknowledged the usefulness of loss development analysis, said Mr. Saunders, who thinks all those clients will be receiving these added reports periodically by yearend. These clients represent the same firms who've been using CSC for IBNR and reserve analysis reports; the remainder of CSC's corporate

Risk Management Services

clients pay only for computerized loss runs for administrative purposes.

Marsh & McLennan put its first client on IRIS in September 1978 and now has about a dozen clients using the system's analytic capacity. About 50 or 60 M&M clients are using IRIS for claims management and loss reporting, but aren't plugged in to the full risk management information system. By yearend, M&M fully expects to have at least 50 clients on the full system, tripling that number by yearend 1980, says Mr. Demas. Already in the system, though, are data about 650 different facilities



James Y. Paulding, left, cofounder of A&A's Anistics and in charge of the Alexsis risk management services division, discusses some data on the computer printer in Atlanta with operator Jo Lynn Wallace. Computer operator Doug Cole, background, holds a tape from the tape library.

owned by M&M clients using IRIS.

Like the system set up by A&A, IRIS enables M&M clients to input new loss data instantly if they have a terminal handy, at which point the M&M broker or consultant on

the account has instant access to the updated information. Other Marsh offices also can tap into that data immediately by using a terminal across the country or two states away.

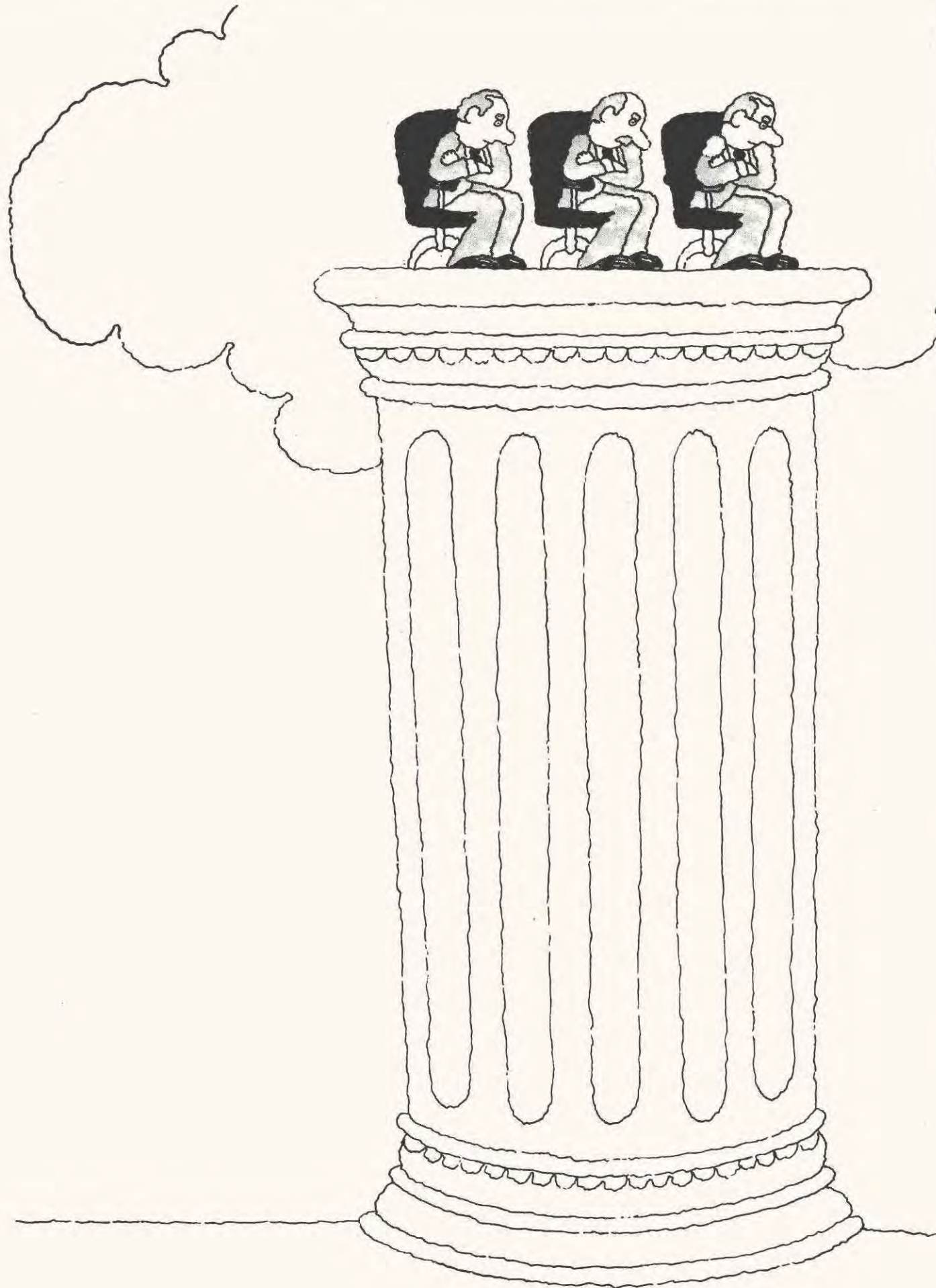
The point of having an interreac-

tive system is to literally eliminate the manual labor and the lag time that would otherwise be present during broker-client communications, especially when complex records and statistical analysis are involved.

M&M has invested considerably more than a million dollars in IRIS. That includes the cost of considerable computer resources, along with the talents of Larry Heimrath, hired away from A&A's Anistics just over a year ago to be M&M senior systems analyst, and 13 other computer heavies.

Of the 63 or so M&M risk management services people around the country, about 50 are directly involved with IRIS, in addition to some people on the claims management side also working with the system. (M&M contracts with Citibank in New York for computer time.)

For over a year, M&M people have been working to integrate all



the data from M&M's various service operations—the protection consulting division, Clayton environmental engineers, the nuclear consulting business—into IRIS, making it a conglomeration of subsystems with a broad data base from which to draw.

M&M hasn't yet put terminals in clients' offices, though it's planned. Eventually, all major M&M offices in the U.S. and Canada will have terminals hooked up to IRIS. Many M&M offices already have computer terminals for accounting purposes, which means these offices have only to dial a different phone number to tap into IRIS, using the terminal already available.

Beyond M&M's obvious broker-client and interoffice communications objectives with IRIS, the firm is working to build an aggregate base of information which will enable it, hopefully, to look at the claims history or rates or exposures of all clients as a group by type of business, location of facil-

ity, relative to state laws or by type of accident or loss.

Alexander & Alexander's RDMS operates with five mini-computer centers around the country, in Chicago, Los Angeles, Long Island, Atlanta and Dallas, with terminals in about 40 branch offices interfacing with four people at each of the five mini-computer centers. In addition, some Anistics people in New York and Palo Alto and some Alexsis people in Atlanta are working on the system, says Bob Gielow, senior vp in charge of A&A's services operations.

A&A quietly began using the system in January, but still is offering it only on a limited basis to about 30 large clients who need better loss reporting and premium allocation systems. A&A has about a million dollars worth of hardware alone in its system, revealed James Y. Paulding, a co-founder of Anistics who's vp of A&A and in charge of the Alexsis risk management

services division based in Atlanta.

A&A hopes to have as many as 250 of its clients using the RDMS system by yearend, either for claims management and loss reporting or for a broader range of risk management analytic services. It appears that RDMS was designed chiefly to facilitate better risk management accounting allocations using claims data, rather than being used for risk management forecasting and feasibility studies, services provided independently by Anistics.

A&A, too, envisions it will eventually install terminals in clients' offices, allowing for continuous updating of information by users, who can then perform some data manipulations on the terminal. Most risk information reports, however, will have to be ordered from the Atlanta office, or will require that data be transmitted to Anistics for analytical studies.

It appears this system will also enable A&A at some point to cut

back on the business it now does—over a million dollars a year—with Corporate Systems Corp., though Mr. Gielow denies that being in direct competition with CSC will necessarily affect the services A&A buys for clients from the Amarillo company.

Unlike M&M, A&A doesn't plan to use collective data from multiple clients for trending purposes or to determine industry averages. One of the first major users of RDMS was Bendix Corp.

For A&A, as for M&M and other brokers automating their data collection and communications systems, interoffice transmissions of data can now be accomplished without massive paper-handling activities necessary when, say, a claims manager on the West Coast needs to send information on loss experience to producers on the East Coast to service an account.

Joe Destein's Risk Sciences Group in Santa Monica has

worked for a number of months on a risk management information system involving an arrangement with National CSS Inc., one of the nation's largest computer timesharing firms. Risk Sciences Group provides the software designed to give risk managers analytical capabilities.

Mr. Destein's system is designed to include computer terminals at the client's premises from the outset. With a terminal, a client can create reports, run statistical studies and perform highly sophisticated manipulations like forecasts and simulations on a timesharing basis using Mr. Destein's programs.

Mr. Destein now has 15 users of the system, a leading one being Castle & Cooke, which has been using several different software packages offered by RSG since February. Esmark is also using the National CSS/Risk Sciences Group system. ■

Data systems' cost depends on the usage

CHICAGO—Risk managers can expect to pay anywhere from a few thousand dollars up to \$50,000 a year for the privilege of using the newest risk management information systems.

The cost ultimately depends on how many different fragments of information have to be entered, how much time it takes to put them into computer language and what kind of reports the company wants back from the computer.

Marsh & McLennan's IRIS has two cost components: The expense involved in coding, inputting and programming the historical data needed for the system, which can cost anywhere from \$3,000 to \$20,000 depending on the people and time required; and the ongoing cost of using the terminal, making queries, getting reports and using the system for analysis. The latter costs a minimum of \$21 an hour up to \$40 or \$50 an hour.

A&A expects to quote a job price to most clients based on estimated time and expense, figuring anywhere from \$20 to \$75 an hour for consulting time. Generally, costs for simple administrative reporting services will run anywhere from three-tenths of 1% to as much as 1% of an amount comparable to the standard premium a client would pay for an insured program.

This range is similar to the costs of using Corporate Systems Corp.'s services for claims analysis and loss reporting.

Generally the companies best utilizing systems from CSC, A&A, M&M and Risk Sciences Group have upwards of 1,000 annual events related to one type of exposure, such as auto collision or workers compensation.

National CSS charges \$8 to \$15 an hour for computer connect time and more for computer core usage, including software on which Risk Sciences Group earns royalties. Consulting time is charged on a time and expense basis, with hourly fees of \$40 up to \$110, averaging \$50 an hour for the computer specialists, said Joe Destein.

Charges for computer connect time can be misleading, though, because the cost of producing the same report can be different when using different systems with different software. It is more realistic for risk managers comparing alternative suppliers to scrutinize cost per record to be entered into the computer, which can range from about one cent per record to 40 cents per record. ■

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Fancy risk analyses don't always yield new risk programs

CHICAGO—Using a risk management information system to help make decisions about self-insurance, captives and accounting doesn't always lead to new ways of doing things.

Sometimes the system spews out reports indicating things have been done about right all along, as Castle & Cooke found when it began using the National CSS/Risk Sciences Group system early this year.

"We're finding out that we're doing what we should be doing, so it

Risk Management Services

has reaffirmed some of the approaches to risk management we've been taking," said Lawrence C. Girard, financial analyst in the risk management department.

Though Castle & Cooke's use of the system has been pretty limited so far, Mr. Girard said the department is planning to spend about \$10,000 this year for risk analysis, simulations and timesharing. With two terminals in the risk management department, Mr. Girard worked out loss distributions, used the risk analysis system to do computer modelling for forecasts and is using the risk analysis system again to analyze claims payout patterns in auto, general liability, workers compensation and farm properties.

Castle & Cooke chose the National CSS/Risk Sciences Group system over a system offered by Charles Hiatt of Hiatt Co. because the former was easier to use for Monte Carlo simulations, Mr. Girard noted. Castle & Cooke is also contracting with Risk Sciences Group for an overall consulting study of the risk management program, including a survey of the company's loss experience over five years to determine what the best risk management techniques will be for the future. The study, Mr. Girard, said, will cost about \$5,000 and should take about eight weeks.

The overriding goal of these projects is to determine for the present and the future the best self-insured retention levels for the corporation, said Mr. Girard.

In this, Castle & Cooke is no different from other firms using similar systems, though there's a wide range of applications.

M&M, for example, did a job costing \$5,000 to \$10,000 for a large self-insured corporation that wanted to analyze property losses and values back as far as the early 1900s, trending them to today's levels and tailor-making a program to give different locations a choice of deductible levels and corresponding premium charges and discounts. The project took about a month.

A technically-oriented conglomerate client of M&M embarked on a project that cost \$12,000 and took six weeks of work, to process 60,000 work comp claims for the last five years, do forecasts and an analysis of the insurer's reserving practices by location and by claims office of the carrier. The risk manager in this case wanted to be able to negotiate more competently with the carrier on reserves.

As Jim Paulding, vp of Alexander & Alexander in charge of the new risk management information system in Atlanta, says: "Negotiation of risk transfer and dealings with insurers are the most visceral elements of the risk management process. The risk manager needs better information."

"You can't perform the management process unless you have control of the right information, and you can't have control unless you have access to the necessary records." For a long time, insurers have held the keys to data files on claims, losses, exposures, hazards, incidents and accidents.

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machinery exposures we haven't identified and dealt with.

Fourth, our inspectors are better equipped than any others. For example, their worldwide experience is continuously pooled, thus creating a vast bank of boiler and machinery risk experience. This data is analyzed and updated to help you uncover and evaluate your exposures.

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Finally, our exclusive program of risk management services can assist you in developing meaningful plans in the following areas: risk analysis and exposure evaluations, development of equipment inventories, loss experience tabulations and projections, special inspection service, operating history and inspection reports, operator and supervisory training programs, quality assurance—expediting service, pre-

ventive maintenance programs, non-destructive testing, environment and energy controls, development of emergency procedures, and pre-emergency planning and recovery programs. When diligently applied, this program can help reduce the frequency and severity of accidents, giving you more value for your premium dollar.

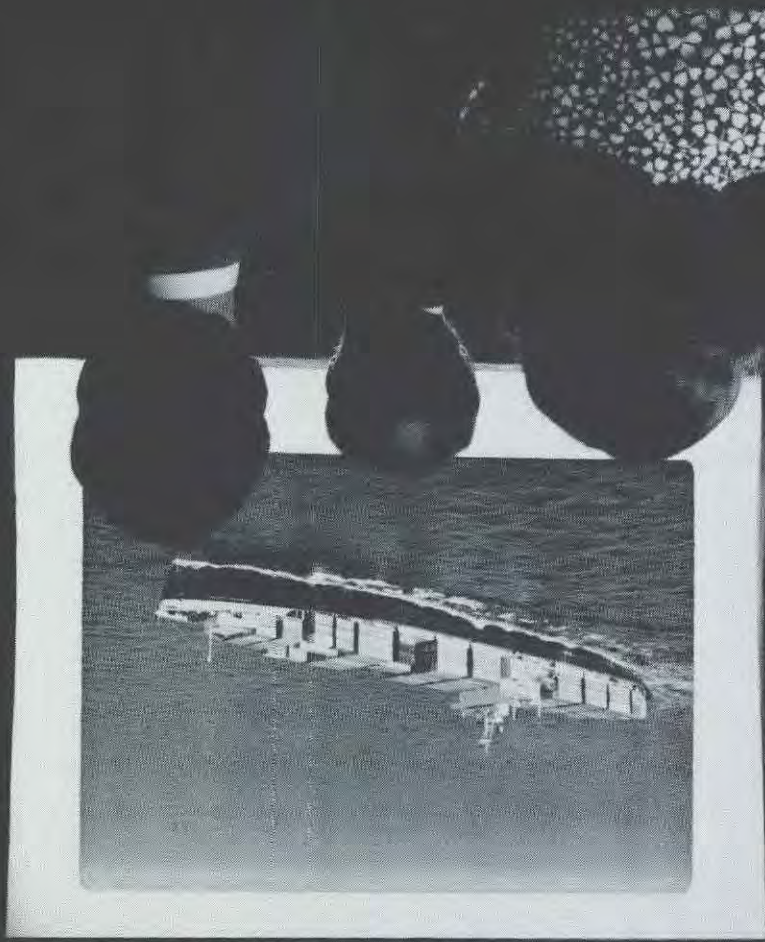
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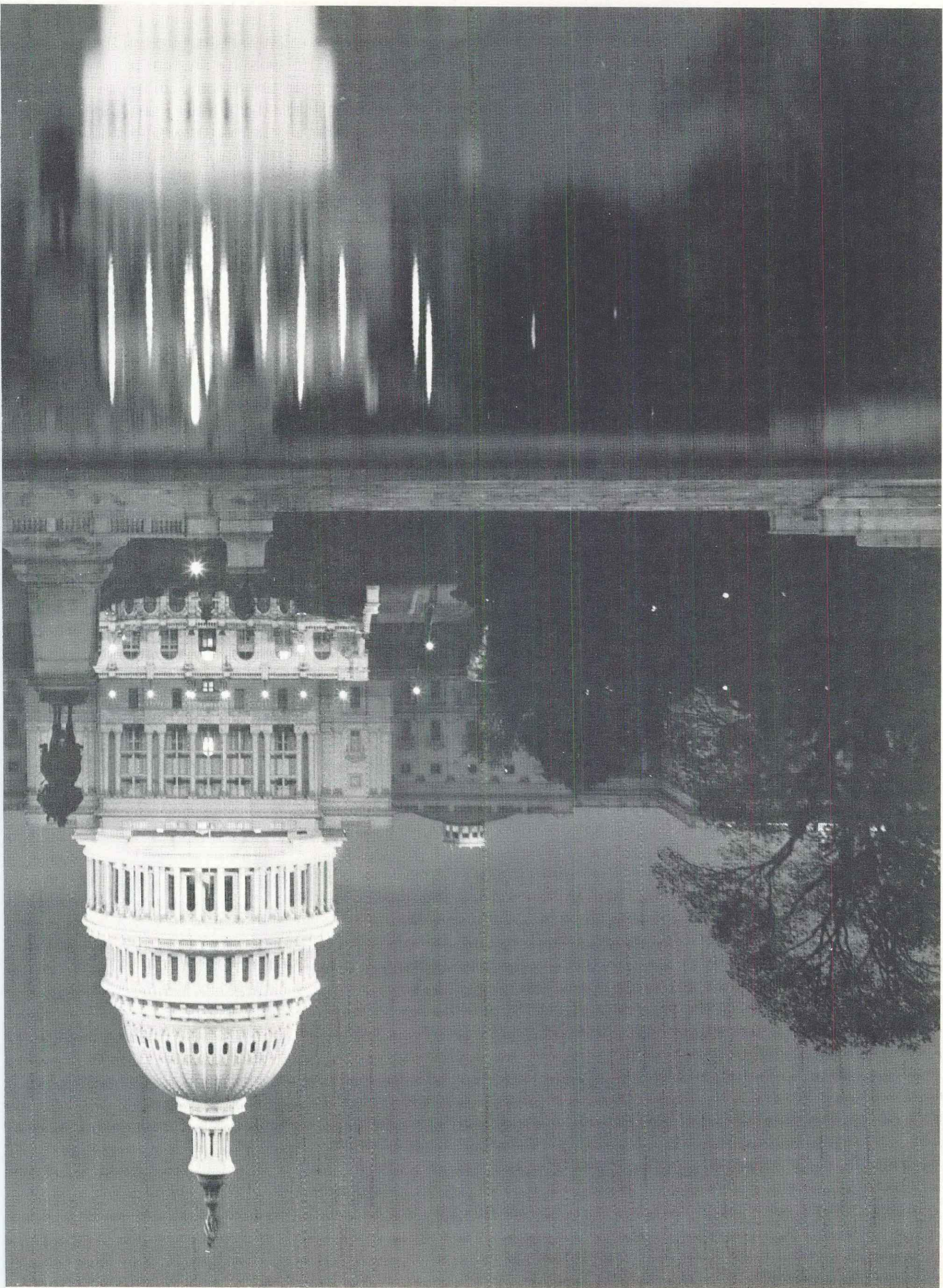
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Firms walk, not run to benefit braggers in ERISA aftermath

NEW YORK—Corporate benefit managers aren't running to benefit communications consultants for help to sell health care thrift and brag about federally mandated benefits. They seem to be only strolling in that direction.

"It's like ERISA," said Leonard Zimmerman, national director of communications at Hay Associates in Philadelphia. "When ERISA came out everyone thought there would be a rush for communications, but it happened gradually. People have gotten so tired

Risk Management Services

from ERISA that they're almost avoiding communications."

One communications consultant said companies are more concerned about complying with federally mandated benefits than communicating them to employees.

Some companies are mentioning pregnancy disability benefits in their benefit statements, but others are not, said Jay Marchant, vp at William M. Mercer Co. in New York. "The benefit has to be mentioned in the summary plan description, but not necessarily in the benefit statement."

Health care cost containment is creating opportunities for benefit communicators, but only the more cost-conscious employers are interested in communicating cost-saving options and other benefits to their employees, said Ila M. DeLuca of Tillinghast, Nelson & Warren in Atlanta.

"We haven't seen much new communications except from people who are real planners and who go in for total communications planning," she added.

Communications on ADEA and pregnancy benefits have been limited, noted George Heiring, benefit communications chief at Hewitt Associates of Lincolnshire, Ill. "Companies have not taken a leadership role in initiating communications except to say that they comply."

Alexander & Alexander's Benefits division in Baltimore sees increased demand for its retirement communications program, reported senior vp Robert Eilertson. "Clients think there is more at stake here than the pregnancy discrimination law."

The retirement communications program illustrates, for one, the benefit levels people receive if they worked beyond age 65. At most companies benefits do not accumulate beyond that age, he noted.

Interest has been even stronger on the issue of health care cost containment, observes Mr. Heiring. "A lot of companies do not know what to do." Hewitt has written a series of articles on cost containment issues for its clients.

As a communications tactic, Mr. Heiring recommended sandwiching "bad news" of introducing higher deductibles or coinsurance with "good news" of benefit improvements elsewhere.

Kwasha Lipton of Englewood Cliffs, N.J., may produce a film on health care cost containment to distribute to its clients, noted Richard C. Sears, chief operating partner.

Lee Carlson, executive director of Milliman & Robertson's BENFO subsidiary in Seattle, agreed that opportunities exist for communicators in the drive for health care cost containment, but added that few companies do an outstanding job of communicating cost containment or how to properly use health care facilities.

Well-designed plans and communications vehicles cut down costs by telling employees how to file claims, what is and is not covered and by reinforcing the idea that insurance is to be used and not abused, he added.

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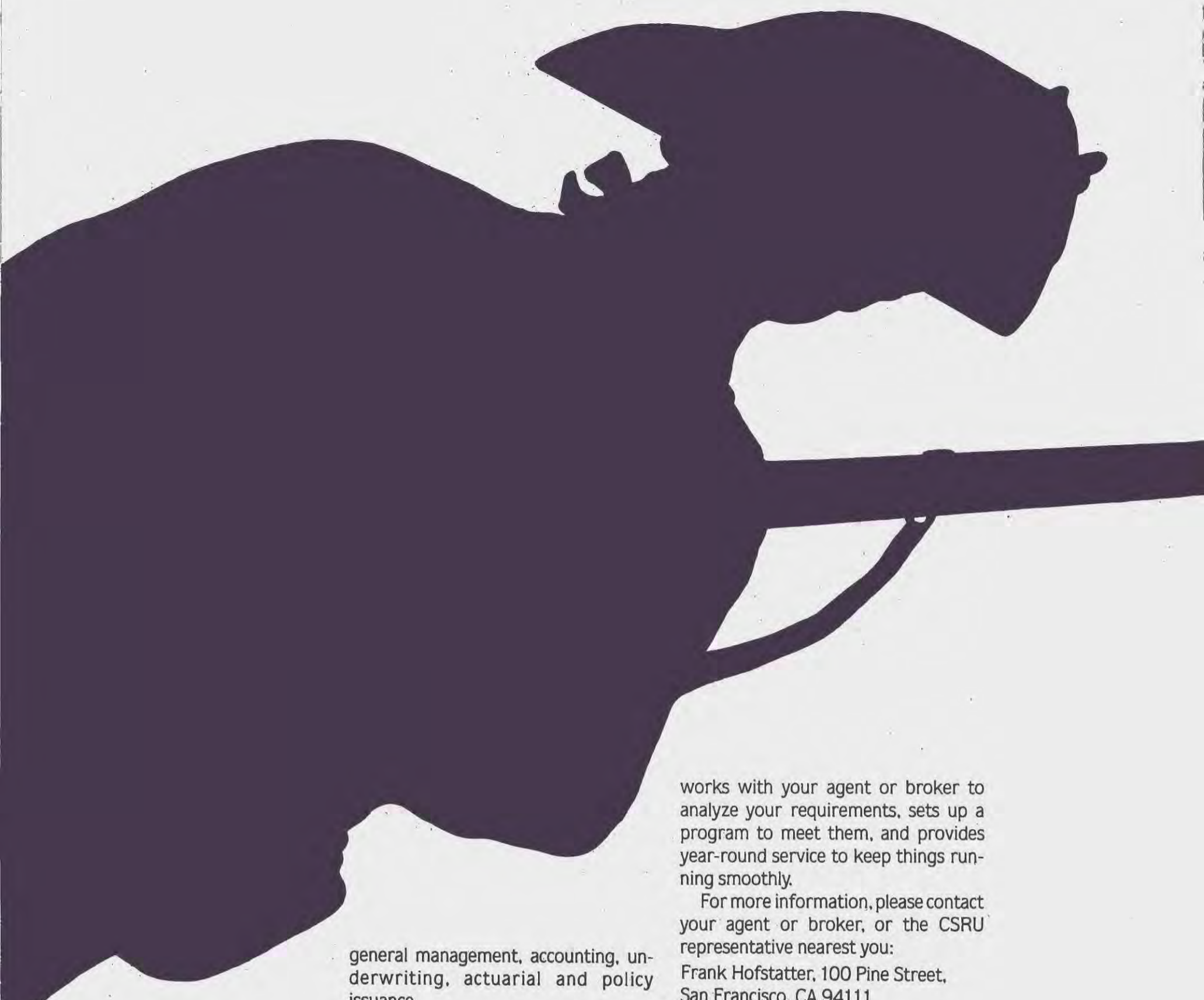
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Pension work ebbs; benefit consultants push new programs

By ELLIS SIMON

NEW YORK—With the boom days of the ERISA compliance era behind them, employe benefit consultants are trying to market new services to maintain their growth rate.

"Some of the firms may have over expanded during the ERISA years and are now having to contend with it," said Richard C. Sears, chief operating partner at Kwasha Lipton in Englewood Cliffs, N.J.

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"With the government situation (mandatory retirement, pregnancy benefits, wage and price controls, etc.) we are continuing to see fairly strong growth in the traditional things we do, but this may not continue in the future," said Phillip Turberg, president of Huggins Inc. in Philadelphia "We won't get the 30% to 40% kick like we did during ERISA."

In general, employe benefits and actuarial consulting remains a growth business, but the growth has stabilized. Some firms were reporting growth rates of 25%, 30% or more last year, but this year the figures are in the 15% to 20% range.

Services subject to the greatest growth have changed, however. With benefit plans no longer requiring redesign to comply with ERISA, the emphasis has switched



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Some consultants may have over expanded, says Richard Sears of Kwasha Lipton.

to consulting on investments, pre-retirement planning counseling and total and direct compensation.

Investment consulting is growing fastest, employe benefit consultants told *Business Insurance*. William M. Mercer in New York, Martin E. Segal in New York, George B. Buck in New York, Meidinger Associates in Louisville, Ky., Hay Huggins in Philadelphia, Hewitt Associates in Lincolnshire, Ill., Kwasha Lipton and Hazelhurst Associates of Atlanta all report strong growth in investment counseling.

Monitoring investment performance and advising on selection of money managers are common services in this field, but Mercer, Buck and Hazelhurst have also added analysis programs to measure the degree of risk and probability of variations from a pension funds' investment objectives.

"Assets and liabilities should be considered together," said Barnet N. Berin, director of professional standards at William M. Mercer.

Total compensation and executive compensation consulting were reported to be strong growth areas for firms known in the field, such as Hay Huggins, Segal and Towers, Perrin Forster & Crosby in New York. Meidinger Associates has also entered the field and Kwasha Lipton, which began its executive compensation services two years ago, has joined the competition. Johnson and Higgins en-

tered the field a year ago through a joint venture with Sibson & Co.

Although there had not been much interest in the past, Alexander & Alexander's human resources management division reported growing interest in executive compensation due to wage-price guidelines, changes in the tax laws and inflation, said vp Joseph Stahl in New York.

Within the past year, Mercer, Hewitt Associates and A&A's Benefacts division in Baltimore have become active in consulting on preretirement planning counselling. "This has been moved up to the front burner by companies because of the wide corridor of ages (50 to 70) in which people can retire," said Hewitt Associates vp George Heiring.

Several benefit consultants cited increased demand for self-insurance feasibility studies and administrative services on defined contribution benefit plans such as profit sharing, TRASOPs, ESOPs and thrift plans.

The self-insurance studies call for quantitative techniques to determine what level of cost and risk the client can assume, noted Ed Seitz, vp-marketing for Meidinger Associates' central division.

Clients are also becoming interested in total self-insurance as opposed to "hybrids," added Frank B. Hall senior vp Mike Reynolds in New York.

Hewitt Associates reported a "marked increase" in companies looking into flexible benefits plans. "It doesn't mean that companies are necessarily doing it, but they are viewing it as an opportunity to control costs and please more people for the same amount of money," said a Hewitt spokeswoman.

Buck and Frank B. Hall both reported increased interest in clients seeking consulting services on health care cost containment.

Not all consultants are diversifying their services in a time of slackening demand. Firms like TPF&C and Tillinghast, Nelson & Warren of Atlanta have chosen to continue offering programs in the area that they have been strong in.

"We haven't seen the need to follow into things like investment service," said TPF&C executive vp Jim Kielly.

Milliman & Robertson of Seattle is also trying to avoid areas that are not directly involved in employee benefits such as financial services, said president James A. Curtis. "We're trying to maintain the actuarial side of the business as opposed to using an account executive approach."

TPF&C has concentrated its development on its international business, opening new offices in Hong Kong and Sao Paulo. Wyatt Co. has also stressed international growth, signing a letter of intent to acquire Harris, Graham & Partners Ltd., a British actuarial firm with offices in Switzerland, Hong Kong and Malaysia.

Domestically, TPF&C grew as a result of its acquisition of Minneapolis-based Stennis & Co., giving the firm new capabilities in HMO consulting and insurance company consulting, said vp Jim Brennan. Future plans call for opening of a Pittsburgh office.

Wyatt Co. of Cleveland opened new offices in Memphis, Stamford and Halifax last year; Hay Huggins opened a Houston branch, and Tillinghast opened a Hartford office. In addition, A&A's benefits group got new business in the Kansas City and St. Louis area as a result of the merger with R.B. Jones.

Hewitt Associates plans to open a Houston office in mid-July and Milliman & Robertson has entered into an association with Eckler, Brown, Segal & Co. Ltd. of Toronto and Vancouver.

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Researcher markets findings as a guide to benefit planning

MENLO PARK, Calif.—A research organization here believes it can help benefit managers answer the ever-puzzling question of what employees want in their benefits packages.

SRI International, one of the largest non-profit research organizations in the nation, is selling information about Americans' changing values and lifestyles that it contends can help companies shape more effective employee benefit programs.

The values and lifestyles (VALS)

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program was initiated to familiarize companies with the impact of emerging values and lifestyles on business, particularly marketing and employee benefits," says Thomas C. Thomas, director of SRI International's center for the study of social policy.

Although not specifically marketed for employee benefit design uses yet, the program has 60 companies under three-year agreements, each paying \$9,000 annually for the information produced under the VALS program.

Each member of the program gets a comprehensive multi-client study on employees and consumers, eight analytical reports explaining the impact of the study's findings, three technical bulletins describing how to use the data and illustrations of how other companies used the VALS information. Newsletters update developments in the study.

Based on research begun in the late '60s by Arnold Mitchell, the current director of the new SRI venture, SRI International broke the American population into nine values-oriented market segments. Each segment has clearly defined needs and with some creative effort the definitions can be extremely helpful in benefit planning, according to Mr. Thomas. These market segments and the characteristics of each segment could provide companies with vital information to design employee benefit programs which are more meaningful for the workers they are trying to serve, Mr. Thomas explained.

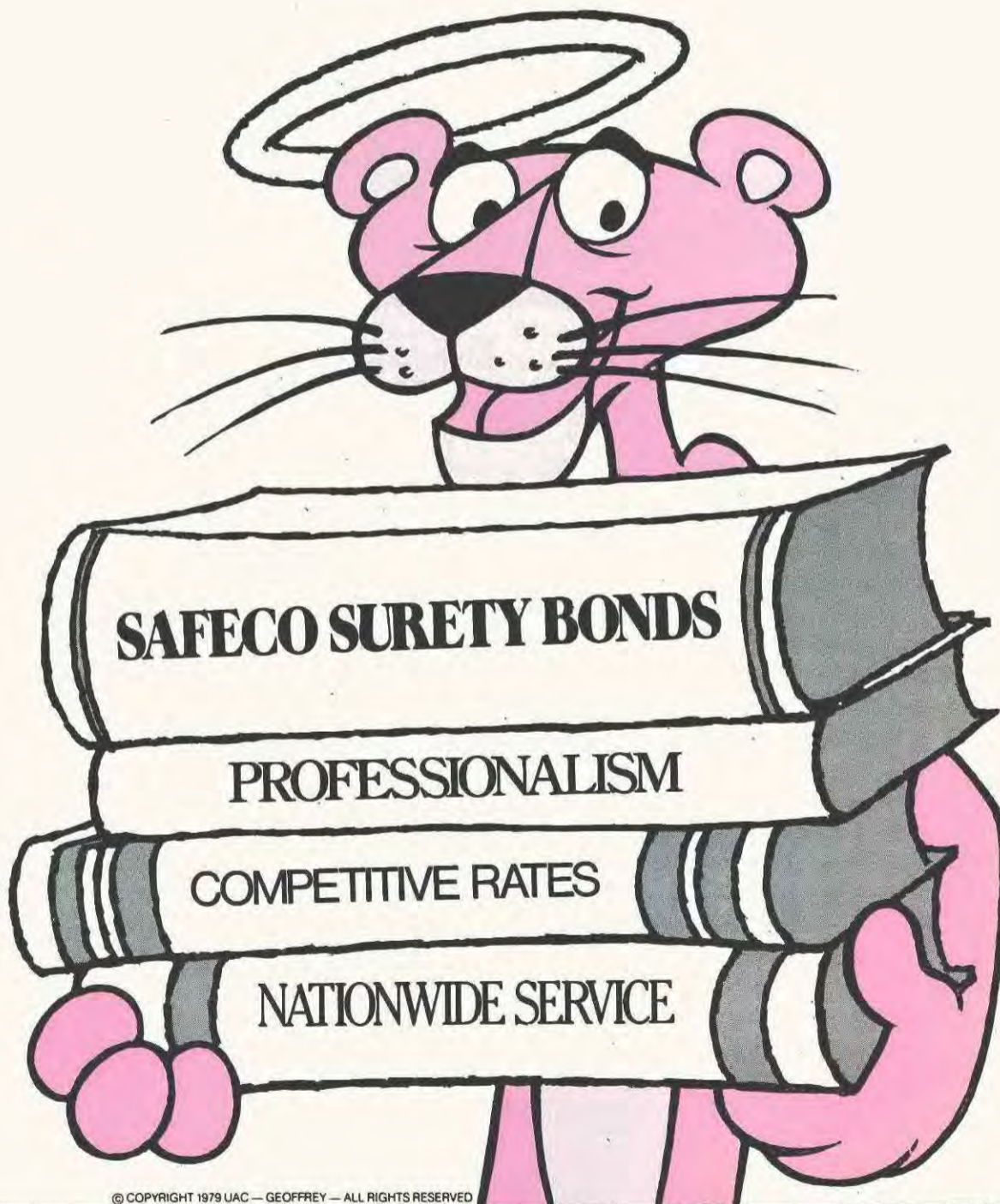
SRI is willing and very anxious to help companies apply the information to benefit design. "Most of our efforts at this point have been directed toward helping companies to translate values and lifestyles information into new and improved marketing goals," Mr. Thomas noted. "More aggressive efforts to increase company awareness of the usefulness of the VALS program in determining employee benefit plans were scheduled to come later in the program." However, the company is willing to push these plans ahead if response from companies dictated such a move, Mr. Thomas told *Business Insurance*.

"Traditional benefits in force today just won't hold the valuable employee in times of constantly changing values," Mr. Thomas remarked. He claims that by monitoring value and lifestyle modifications in the nine SRI market segments, a company will find how to attract and hold valuable employees with employee benefits that recognize the ever-changing characteristics of the population.

The American consumer and worker is either need driven, outer directed or inner directed, Mr. Mitchell's research found. The nine market segments are an expansion and a clarification of the three groups, Mr. Thomas explained.

Inner directed employees have been the most overlooked group in the U.S. work force, Mr. Thomas claims, but he predicts that in the

Continued on page 32



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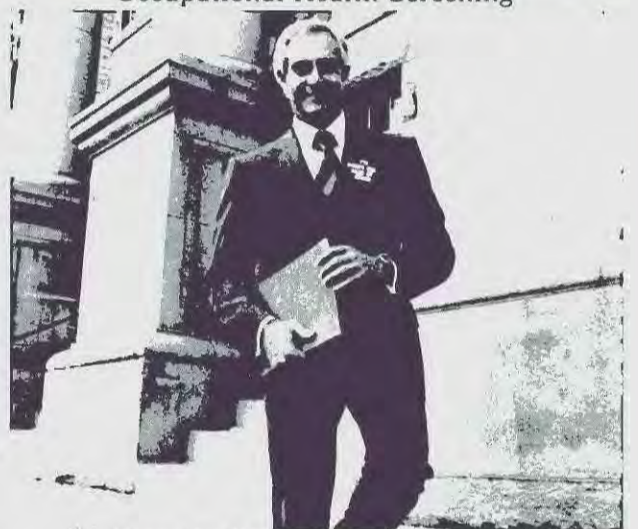
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Planning guide . . .

Continued from page 30

next ten years they will become a predominant factor in the work force. Of the nine market segments four fall into the inner directed category. They are:

- An "I am me" employe is fiercely individual, tends to be dramatic, impulsive, young and single. They find it harder than any group to adjust to rigid work hours and rules.

- The experiential workers avidly seeks direct experience above everything else. They are active, participative, artistic, vocal and under 40 years old. These workers enjoy valued tasks in their work day and heading off projects.

- Societally conscious employes are environmentally aware, have developed strong social commitments, are highly educated, of diverse age groups and are usually

fiercely dedicated to the job. Societally conscious employes believe in simplicity, live frugally with a strong emphasis on conservation.

- The integrated employe combines characteristics of the outer and inner directed group. They desire the material wealth, fame and status of the outer directed personality but not without a sense of inner growth. They have a good to excellent education, are psychologically mature and have a worldly perspective with a strong sense of where he or she fits into the business world.

Inner directed employes which make up approximately 17% of the U.S. population, according to Mr. Thomas, are the least understood by companies today. "These are the thinkers, innovators and technical whizzes and are invaluable to companies who need to keep up with changing world," Mr. Thomas added.

They find a benefits package which provides them with some freedom of choice to be the most desirable, Mr. Thomas said. They respond well to flexible time arrangements and special provisions for vacations which are similar to sabbaticals, he added.

Other market segments are:

- The survivor, a need driven employe, is on the bottom of the income scale, poorly educated and trained and leads a day-to-day struggle to pay bills. The survivor buys to meet basic, immediate needs and has little choice in occupation because of lack of training.

- The sustainer, also a need driven employe, is as poor as the survivor, but has a longer perspective on his or her life. The sustainer is at least looking for better opportunities in life and thrives on a sense of safety and security created by holding a job.

- The believer is an outer directed worker who is generally of low to middle income and a blue collar worker. The believer is a conformist and traditionalist whose primary concerns are his/her family or home.

- An emulator, another outer directed worker, earns a good to excellent income, is young and predominantly male with a strong sense of wanting to go some place in the company. The emulator is ambitious, often a show off and overall an upwardly mobile employe.

- The achiever, comprising 25% of the U.S. population, earns an excellent income, has a good education with strong business and political acumen. Fame, material wealth, comfortable surroundings, titles and recognition are the professional goals motivating the achiever.

SRI International invested \$1 million in the three-year VALS program because it believes that by defining values and lifestyles business can develop strategies dealing with a changing world to their advantage and the worker's advantage. ■

Skandia opens Bermuda firm

HAMILTON, Bermuda—The North American Zone of Skandia Group has formed Hudson Underwriting Ltd. in Hamilton, Bermuda, as a subsidiary of Skandia Corp. of New York, Skandia Group's North American holding company.

The president of the new reinsurance management and underwriting services company is Robert A. Baker, a resident of Bermuda who most recently was president of The Security Reinsurance Corp. Ltd. in Hamilton. ■

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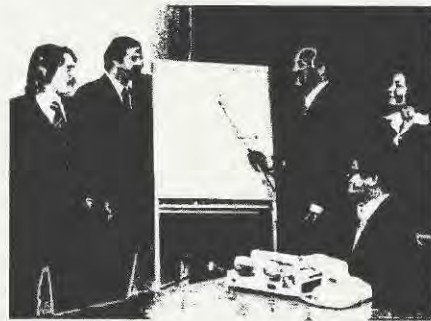
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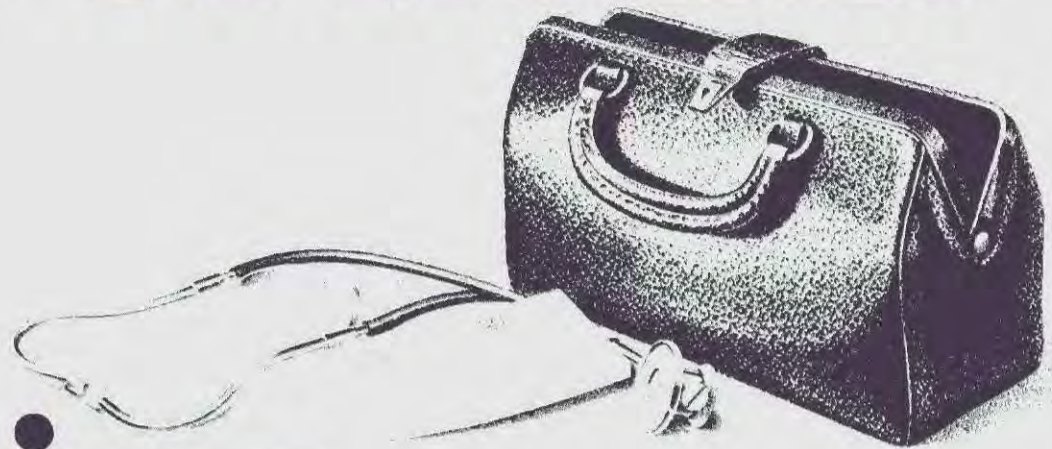
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New service treats injuries to the mind in work comp cases

Risk Management Services

NEW YORK—A bad accident can do more damage to the mind than to the body.

An employee, badly burned in an accident at the plant, spends two weeks in the hospital and a few more at home nursing his wounds.

Scarred in a few places, he is nonetheless physically able to go back to work a little more than a month following the accident.

But he can't.

He sits at home seemingly paralyzed by fear that the next time he goes to work the plant will once

again burst into flames. Or he looks in the mirror and turns away in disgust at the few marks remaining on his face, thinking that his co-workers will do the same when he shows up at work.

He could be written off by his employer and the workers compensation insurer as a permanent disability case, unable to go back to work. But, more firms now are realizing that there's a remedy for these cases to reduce the losses of manpower and money and to heal the worker.

It's called psychological rehabilitation counseling.

For years insurance companies provided their clients with physical rehabilitation for employees injured at work. They would bring in physical therapists to get them walking again. They would use special instructors to tone up injured muscles. They would work with the employees to get them to reuse limbs weakened from operations.

Now those same companies are realizing that a bad accident can do more damage to a worker's mind than it did to his body.

"We are finding that often the most difficult part about getting an employe back to work after he has been injured is convincing him that he can do it," said William Corkery, director of rehabilitation for Commercial Union Assurance Co., which has been offering psychological rehabilitation for more than six months.

"Fear that the same thing will happen again often keeps someone at home for much longer than they ought to be there. Our job is to help them put that fear of injury aside and go on to lead a normal life again," he said.

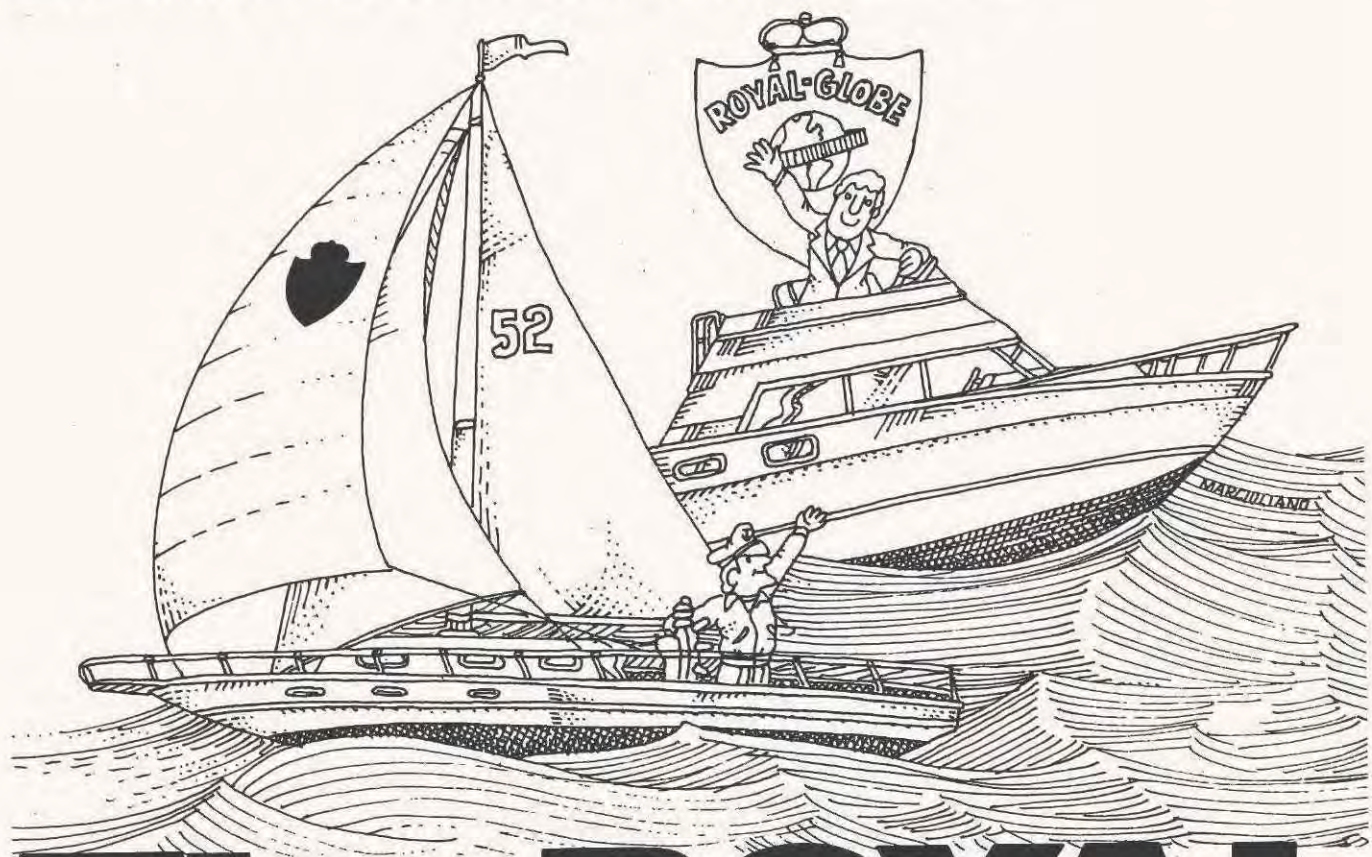
The psychological program, similar to ones recently started at other insurance companies, such as The Travelers, Fireman's Fund and Liberty Mutual, depends heavily upon group therapy sessions for the injured employe. At these sessions doctors may explain what the physical effects of the injury will be over a long period of time. Workers who have been similarly injured who are now back at work also attend the sessions to tell what their lives are like and how they overcame the long lasting effects of their injuries.

The service, which is covered in the workers compensation insurance package that Commercial Union sells to most of its clients, also includes some vocational guidance and individual counseling, if needed by the injured worker.

The program has had "pleasing results" so far, Mr. Corkery said. Although he did not have figures on how many clients use the services, he estimated a large majority do.

The program, while successful so far, isn't failure-proof, however. "If these employes don't have any motivation to return to work, no amount of psychological counseling is going to get them back on the job," he said. Any therapy program should be started as soon as possible after the injury occurs, he added.

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More risk managers are first to request a consultant's audit

BOSTON—Risk managers' bosses usually call in risk management consultants to audit insurance programs and risk management methods, but increasingly risk managers are the ones who contract with consultants for evaluations of the adequacy and efficacy of corporate risk management programs.

"Normally, the contract for an audit comes from the risk manager's superior," says Robert Self, president of Ebasco Risk Management Consultants Inc.,

Risk Management Services

who participated in a panel discussion by consultants at a recent seminar on consulting services sponsored by the Massachusetts chapter of the Risk & Insurance Management Society.

"Although most of our inquiries come from the risk manager's boss, we usually work most closely during the assignment with the risk manager," added Donn McVeigh, principal of San Francisco-based Warren, McVeigh & Griffin, another panelist.

Warren Brockmeier of Chicago-based Wyatt Co.'s risk management services division concurred. "Four-to-one, top management is the most prevalent initiator of an audit."

But each of the panelists cited more instances in recent years when the risk manager has been the one to ask the consultant to come in and perform an overall audit.

Audits constitute the bulk of the tasks risk management consultants perform, said Mr. McVeigh. An audit generally begins with in-



Four-to-one, it's still the boss who calls for a risk management audit, says consultant Warren Brockmeier.

terviews of the risk manager, the corporate financial officer and anybody else involved in insurance purchasing, safety or risk management at the corporate level. "Brokers should be interviewed as well," Mr. McVeigh advised, as part of the overall scrutiny of the insurance contracts and policies.

Audits should be performed every three to five years for most large companies, he believes. It's not efficient to have insurance and risk management audits more frequently than that, he added. "A client company has to be able to justify the cost of an outside consultant, which is often considerable," he said.

Audits usually require 60 to 90 days to perform, Mr. McVeigh said. Warren, McVeigh normally sends a draft of the final report to the risk manager or to whomever is the consultant's liaison at the client company before a final report is written. This is not for any editing of the consultant's opinions or final recommendations, but to give people an opportunity to correct any errors of fact that may have occurred or discuss any controversial recommendations, Mr. Mc-

Continued on page 40

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Consultant's audit . . .

Continued from page 36
Veigh said. Not all consultants work the same way, the consultants agreed.

Reviewing a risk management program as part of an audit involves evaluation of risk financing alternatives and the methods presently being used, risk management staffing, corporate risk management policy, risk management manuals, feasibility analysis of self-insurance, contract reviews, evaluation of loss control programs, insurance marketing programs and the company's relationships with brokers and underwriters.

At the low end, a consultant can cost as little as \$2,000 for an audit or a one-shot special project, several speakers agreed. Mr. Brockmeier noted that Wyatt Co. did an audit

not long ago for a wholesale grocer in Los Angeles with about \$20 million a year in sales, illustrating that a company doesn't have to be a giant to use a consultant.

The end result of the project for the wholesale grocer was a three-or four-page letter that sufficed as a brief report of Wyatt's findings, involving less than 10 hours of consulting time and costing the client less than \$1,000.

For a full-fledged consulting report, however, a corporation should expect to pay a minimum of \$2,500 to \$3,000 in most cases, the consultants agreed.

Consultants have sometimes been criticized for producing reports and recommendations to cli-



Consultants want to produce reports that are workable, maintains consultant Donn McVeigh.

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ents that aren't workable, noted a risk manager in the audience, asking the consultants to respond to that criticism. "No good risk management consultant wants to produce a report that's not workable, that can't be implemented," retorted Mr. McVeigh. Despite the criticism, many consultants often are in the position of working with a client company to implement the report's recommendations, so the consultant is keenly aware of making the report workable, he added.

The need to be able to implement a consultant's ideas is the key reason why Warren, McVeigh, for example, makes it a point to sit down with the risk manager and the brokers "to brainstorm about ideas and to talk about the specific operations and problems within the client company."

Consultants differ in the kind of work they do, the speakers pointed out. Ebasco, for instance, has about 120 continuing clients on a retainer, constituting the bulk of Ebasco's consulting business, while the remainder are special projects. About 95% of Warren, McVeigh's business consists of special projects, with only a few clients on a retainer basis. Wyatt Co.'s risk management business is mostly one-shot assignments as well, said Mr. Brockmeier.

There are four things a company should always do when trying to choose a consultant for a project, advised Mr. McVeigh, including: Send letters to a number of different consultants, ask them to come in for a discussion of what needs to be done, ask about fees and ask who will be doing the work on the project, and ask for names of former or present clients so references can be checked.

New oil risk market

Houston-based United General Insurance Co., specialists in oil industry insurance, has become licensed to write all lines of insurance in Colorado and Wyoming. The company is also licensed in Texas, Louisiana, New Mexico and Oklahoma.

Buyers shop around to choose actuaries, demand top quality

By MARGARET LeROUX

SAN FRANCISCO—A good actuary is as important as a good lawyer to self-insurers of benefit and retirement plans, say corporate managers.

Since the Employee Retirement Income Security Act (ERISA) was passed, "it's a toss-up as to who we use more, our attorneys or our actuaries," said the retirement plans director for a Northern California-based consumer products manufacturer.

The avalanche of paperwork generated by the pension reform act created increased demands for actuarial services and made statisticians out of benefit managers almost overnight.

And in the five years since enactment of ERISA, managers of self-funded plans have become more sophisticated and demanding of their consultants.

"We put in a lot of hours every week on our retirement plans," said Philip Langlois, pension manager for U.S. Industries in New York. "We're not about to let an outside consultant or actuary screw it up for us."

The most demanding clients are, for the most part, the most satisfied clients, *Business Insurance* found in interviewing benefit and retirement plan managers across the country about actuarial services.

Five different actuarial consultants were interviewed before an Oakland, Calif.-based manufacturer selected the services of a top national insurance broker. In the Midwest, a cereal company heard presentations from seven firms before choosing The Wyatt Co. to service the parent company's retirement plans and A.S. Hansen for subsidiaries' plans.

On the East Coast, Mr. Langlois, who has responsibility for 147 different retirement plans, rated the top five actuarial consultants according to service, professionalism and price. According to his ratings, they are: Hewitt & Associates; George Buck & Associates; Towers, Perrin, Forster & Crosby; The Wyatt Co., and Kwasha Lipton.

At Levi Strauss & Co. in San Francisco, Ernest J. Griffes, director of employee benefits, said he uses consultants, whether actuarial or benefits, according to "who is the best qualified individual irrespective of the particular firm."

"We use several different consultants for specific projects," he said, emphasizing the talent of the individuals in those firms are of utmost importance.

Among firms Levi has used are Olanie, Hurst & Hemrich and Hazelhurst & Associates. For Levi's international benefits survey, the consulting firms of Hewitt & Associates, George B. Buck & Co. and Harris-Graham were used.

Benefit and pension plan managers interviewed agreed there is negligible difference in price among the top actuarial firms. For special projects requiring the talent of a partner or director of the firm, an hourly fee in the range of \$150 to \$200 is common.

Other fees and services to large corporate clients by leading actuarial consultants include annual pension plan evaluations for \$600 to \$750 and certification of individual retirees from \$45 to \$60.

The differences among the lead-

Risk Management Services

ing actuaries are a matter of style and staffing, the pension and benefit experts said. They rate staffing capabilities first among qualifications sought in an actuarial consulting firm.

"The team who is assigned to your company makes an awful lot of difference among actuarial firms," Mr. Langlois said. "You run into weak as well as good offices among all the top firms."

"We looked at a lot of good firms but their people were stretched too thin," the benefit manager for a Midwestern-based food processor said.

His counterpart at a West Coast manufacturing company agreed. "The firm's staff could be outstanding, but if two people are handling 27 accounts, forget it."

It's important to know who some of an actuarial firm's other clients are, according to Mr. Langlois. "Ask several large corporations who they use. Large companies expect their actuaries to be professional and that's what you want."

Getting a list of an actuary's former clients is also important. "If you're considering hiring an actuarial firm, ask who's no longer a client. Then call (the client) and ask why," advised a Northern California benefits specialist.

A certain rapport is needed for a successful relationship between an actuarial firm and those whom they service. "If a person is brilliant, but comes off with a superior attitude or is obnoxious, we wouldn't use the firm," the benefits specialist continued.

The success or failure of an entire relationship with a consulting firm can sometimes be traced to the personality of the person handling the account, a pension plan manager noted. "We changed consultants for that very reason," he added.

"I can tell pretty fast if an actuary knows what he's doing," said a retirement plans manager on the East Coast, who is also a former actuarial trainee. "And if he doesn't, he better not come to my office again."

At U.S. Industries, however, Mr. Langlois commented, "I can live with anybody if they'll do the job for me."

An actuary's ability to communicate in layman's terms is important, another benefit manager noted. "We require an individual who's able to explain things to top management."

Actuarial consulting firms that have staff in Washington, D.C., to keep on top of pending legislation in the pension and benefits areas are given high ratings.

Time is another important element in a good working relationship with actuarial consultants. The lag between requests for figures and their delivery to pension or benefit managers was the major complaint of the dissatisfied.

"I need response capability," Mr. Langlois said. "If a union walks out over a benefit, I need an immediate response." He is satisfied with the computer capabilities of the major actuarial consultants. "They have run computers overnight for us and gotten the figures to us the next day," he said.

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Employe benefits

Research group seeks benefit-buyer support

WASHINGTON—Major corporations, some of whose employe benefit costs annually run into billions of dollars, are being sought as members of the recently formed Employe Benefits Reseach Institute here.

EBRI, a benefit think tank organized last September by 13 employe benefit and actuarial consulting firms, is seeking to expand its membership. In addition to benefits managers, EBRI is looking for other consultants, money managers, insurance companies, banks, law firms and accounting firms to join the group.

Risk Management Services

Its founders hope the institute will play a guiding role in the development of future benefits and future benefits legislation, according to Dallas Salisbury, executive director. The institute also plans to publish results on research in the employe benefits field and to be a clearinghouse on employe benefits research, he said.

To date, the institute has compiled a bibliography of current and past pension research and has prepared a summary of what work has been done in the field and where additional research is needed. EBRI will develop a plan of research projects that it will sponsor during the next 18 to 24 months, Mr. Salisbury added.

In addition, EBRI will participate in an international meeting on pension plan terminations scheduled for late June in Washington. Representatives of employe benefit groups in West Germany, Finland, Sweden, Japan and United Kingdom will also participate.

To carry on its activities, its members pay annual dues of \$25,000. The organization also offers supporting membership, with dues ranging from \$2,500 to \$12,000 depending upon corporate size, and associate memberships on a sliding scale of \$1,000 to \$10,000.

Through its activities, the institute hopes to "broaden public knowledge about employe benefits, promote employe benefits as a means of strengthening free enterprise and encourage freedom of action and choice in development of benefit plans," Mr. Salisbury said.

EBRI was an outgrowth of the "Big Nine," an informal gathering of chief executives from nine independent employe benefit consulting firms: George B. Buck, A.S. Hansen, Hewitt Associates, Kwasha Lipton, Martin E. Segal Co., Meidinger Associates, Milliman & Robertson, Towers, Perrin, Foster & Crosby and Wyatt Co.

These firms were joined by Alexander & Alexander, Johnson & Higgins, William M. Mercer and Tillinghast, Nelson & Warren as founders of EBRI. Favez & Sarofim, a Houston-based money management firm, joined earlier this year.

Fireman's Fund buys new device

SAN FRANCISCO—Fireman's Fund Insurance Cos. industrial hygiene laboratory services will use a new computerized chemical analysis device.

The instrument, an automated gas chromatograph-mass spectrometer, is used to analyze the chemicals in atmospheric and organic samples collected in the field for Fireman's Fund policyholders or contract clients. It can complete in minutes projects that otherwise take days of tedious testing and research, says Edward Ebersole, director of industrial hygiene.

Mr. Ebersole says the instrument will be used principally to identify pesticides or organic pollutants in water and air, and for analysis of combustion products of plastics, amines, and nitrosamines found in lubricating oils.

It will be operational in August.

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Iran losses trigger foreign risk analyses

By JOHN MAES

CHICAGO—The sudden and swift political upheaval in Iran this year, which cost multinational corporations millions of dollars in losses, promises to spark more interest in political risk analysis services.

But demand for the services may outstrip the supply.

The insurance industry currently does only a limited amount of analysis for firms investing overseas and largely leaves companies to do their own risk studies.

Insurers of foreign risks gather information on conditions in other countries, but mostly for their own underwriting purposes, not as a service to clients trying to decide whether or not to venture abroad.

"We get information on political and economic conditions as part of our underwriting facilities, but not

Risk Management Services

in an advisory capacity. That's not our business," said Joseph DeAlessandro, president of AIG's National Union Fire Insurance Co.

There may be some relief in sight for companies looking for risk analysis services. There are signs of enterprise in the field, both within the insurance industry and among private consulting firms.

Insurance Co. of North America (INA), for example, plans to begin insuring overseas risks later this year and will develop a political risk analysis service through its new subsidiary, INAMIC, (INA Multinational Investments & Contracts).

The company hopes to coordinate the service with the sale of its insurance, said David Avasthi, executive vp for the new firm. But services may also be offered to companies that don't purchase insurance.

No method has been determined yet for charging companies. It may be on a fee basis or worked into the premium structure, Mr. Avasthi said.

Nationalization of assets and facilities, inconvertibility of assets, contract repudiations, embargoes and damages due to war and civil strife are generally acknowledged as common multinational risks. "A lot of companies operating abroad have not come to terms with these risks, but we'll be advising them on where these risks lie," said Mr. Avasthi.

The company will gather information on economic and political conditions in various countries through INA's banking and investment affiliates abroad and will commission academics who specialize in foreign affairs. INAMIC will keep an information bank and will gather more detailed, specific data for companies requesting it, he said.

Alexander & Alexander's subsidiary Anistics Inc. is also making inroads into political risk analysis. Through its computer-fed "Delphi analysis" system, Anistics can perform a political risk survey on a foreign nation. The company can gather information on political and economic probabilities from panels of experts acting as consultants, said president Peter Densen.

So far, however, Anistics has not been asked to perform such a survey. But Mr. Densen said interest generated by the Iranian situation will probably lead to requests.

"I'm not sure the public understands these techniques can be brought to bear, but anytime something like this (Iran) happens, everyone's more interested in it, at

least for a while," he said.

Also entering the arena is a new firm, International Political Surveys (IPS) Inc. of Hartsdale, N.Y., formed in September 1978. Using computer models and consultants, the firm studies a nation's eco-

nomie and political climate in varying degrees of detail according to the client's wishes, said William Jones, director of marketing.

The company uses a research technique developed 10 years ago by a pair of experts who head its

research, said Mr. Jones. Its field consulting teams consist of recognized academics, a present or former government employe of the nation being studied and one of its nationals.

IPS publishes short and long re-

ports on five different countries each month. The short and more general reports cost \$180 per year and the more in-depth reports cost \$1,150 annually.

The reports forecast the probabilities of regime changes and the

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outlook for political turmoil, he said. "We've also put in what should be the normally expected rate of return on an investment."

Other IPS services include customized studies on a particular country and telephone consulting for up-to-date information on a nation, Mr. Jones said.

So far, IPS has built up a clientele of small investment groups,

insurance companies, libraries, banks and corporations, many of them in the Fortune 100, Mr. Jones said.

The turmoil in Iran caused business to "mushroom," he observed. Some of the interest, he said, "is just panic over front page news, but there's been a dramatic spark of interest in our service since the Iranian thing."

The Overseas Private Invest-

ment Corp. (OPIC), the federal agency that insures foreign investments, does a certain amount of political risk analysis. But its effort also is more of an underwriting tool than a service, said Gerald West, vp for insurance. "As underwriters, we have to decide whether or not to insure and if premiums should be at a certain level."

Effective analysis of a political

risk can be performed within the company itself, Mr. West said. "Most risk managers with an MBA degree are not likely to have taken course work in international topics, but business needs to devote additional study to political risk just as they do with other kinds of risks. A lot of companies just throw up their hands in frustration and don't pay it proper analytical attention."

Businesses using a consultant or researcher for a political risk study should be cautious, he counseled. "Since Iran, the number of charlatan consultants that has arisen is more numerous than mushrooms after a spring rain," he warned.

In London, Julian G.Y. Radcliffe, managing director of Investment Insurance International (Managers) Ltd., also predicted that more companies will seek political risk services to avoid the losses suffered by their multinational counterparts during the Iranian turmoil. "This service will become one day as important as the sprinkler and the fire engineer is to the fire underwriter," he suggested. Investment Insurance International, which specializes in brokering insurance for overseas investments, plans to step up its activity in political risk study for clients, but will steer clear of the consultant's role in the field, Mr. Radcliffe said. "We can never be 100% sure of what's going to happen."

Self-insurer can recoup part of loss

ELK GROVE VILLAGE, Ill.—Self-insured corporations can now tap the same salvage firm services that insurance companies use to dispose of damaged goods.

The Underwriters Salvage Co. has set up a risk management services department to work exclusively with self-insured corporations and captive insurance companies to appraise and dispose of damaged properties.

The department was established to serve the needs of a surge of corporations with high self-insured retentions who no longer turn over their damaged properties to insurers.

The need for the risk management department arose "because companies for the first time had to dispose of their properties and

Risk Management Services

they didn't know how to do it," explained George Fram, branch manager of the Chicago operations. "So they came to us because we're the experts in the field. We're constantly in the salvage market and we know where the goods can go."

Underwriters Salvage's working relationship with a self-insured client is the same as with an insurance company. "We take over the damaged property and dispose of it in the salvage market for the owner," said Mr. Fram.

Underwriters Salvage, owned by a consortium of major insurance companies, keeps 10% of the gross sale price the damaged goods fetch in the salvage market as its fee. In addition, the self-insured client reimburses Underwriters Salvage for the expenses the salvage company incurs in disposing of the goods.

Underwriters Salvage disposes of property with a value of only a few dollars to goods that are worth millions of dollars. It will dispose of raw materials as well as finished goods. High-tension insulators, fertilizers and grain damaged in silo collapses are some of the more unusual items Underwriters Salvage has sold.

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Small firms lease part-time risk execs as cheaper option

By MARIE KRAKOW

PRINCETON JUNCTION, N.J.—There's an alternative to hiring a full-time risk manager or retaining a consultant to handle risk management.

Rent a risk manager.

A handful of self-employed, multi-client risk managers around the country work on a permanent, but part-time, basis for several companies or organizations.

Typically they have a contract with each client that specifies a

Risk Management Services

yearly salary broken into monthly billings based on an estimated number of hours or days to be spent on that account.

Multi-client risk managers say their technique works best for small companies where the risk management function is usually handled as a minor sideline by a financial officer or for organizations where thin executive administration makes it impractical to hire a full-time risk manager.

Cost-conscious counties and municipalities have lately begun using multi-client risk managers, notably in California, home of Proposition 13. Los Angeles consulting risk manager Gordon Beamer, for instance, acts as risk manager administrator for a group of cities in Marin County, along with loss prevention specialist William Shideler.

In Minnesota, 17 counties use the services of Burdell Wessels, a former corporate risk manager who set up his own multi-client risk management company, Corporate Risk Managers Inc., in the Minneapolis suburb of Eden Prairie.

Schools and other non-profit organizations have also used multi-client risk managers. But the mainstay of this specialized group is corporate entities like contractors, hotels, real estate firms, food suppliers and manufacturers of products like luggage and x-ray equipment.

Not all corporate users are necessarily small, however. Gregory York, former risk manager for Northrop Corp. who recently set up shop in Princeton, N.J., as a consulting, multi-client risk manager, currently has three Fortune 500 clients.

They can easily afford full-time risk managers, Mr. York says, but big companies use him to help identify exposures and recommend coverages at the least possible cost. This "rent-a-risk manager" concept is justified for big firms, he claims, because among the Fortune 500 alone more than \$1 billion is wasted annually on unnecessary insurance premiums.

Mr. Wessels of Minnesota founded Corporate Risk Managers after working for 10 years as risk manager for Cargill Inc. and International Multifoods.

He got the idea in 1973 when International Multifoods was acquiring outside companies and he worked on the acquired firms' insurance problems. After that experience, Mr. Wessels said, "I thought I could manage insurance for a lot of companies who couldn't afford a full-time risk manager."

With his associates Fred Moen, a former insurance manager, and Tauna Strohkirch, ARM, Mr. Wessels serves 36 clients. He, Mr. Moen and Ms. Strohkirch are "staffed up like an insurance department," he says, and they work as a team for some of the accounts and individually on others.

Not everyone who calls himself a multi-client risk manager offers the same services or even means the same thing.

Gordon Beamer and Gregory York acknowledge that their work falls under the general category of
Continued on page 52

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Small firms lease . . .

Continued from page 51
consulting. Other multi-client risk managers staunchly insist that theirs is a management role and bristle at the suggestion that they are consultants.

Leonard Friedman of New York, who was probably the first person to define and popularize the multi-client risk management technique, is the most emphatic that his role is to be a bona fide corporate risk manager for each of his eight clients. He concedes there is a small amount of consulting work in the first phase of taking on a management job because it usually involves doing a survey for the prospective client.

Once Mr. Friedman has a client, however, he works strictly out of the client's own office and is usually supplied with a secretary and/or in-house staff to support the

risk management, he stresses. "The whole trick is to be inside," Mr. Friedman said. "This gets away from the feeling by management and other employees that you're a vender and not part of the team."

His clients give him decision-making authority, including the authority to select brokers.

Critics of the rent-a-risk manager concept complain that multi-client risk managers are not given enough information about each client and do not have enough decision-making authority to operate effectively. "If anything, small companies tend to dump everything in your lap and to over-delegate authority," Mr. Friedman countered.

The Risk & Insurance Management Society, however, is not convinced multi-client risk managers are indeed risk managers. RIMS recently formulated a policy that will probably exclude many practicing multi-client risk managers from RIMS membership.

"We just kicked a bunch of them out," declared Ron Judd, executive director of RIMS. The society now considers a multi-client risk manager to be a consultant, and therefore ineligible for RIMS membership, unless a strict set of criteria are met, he explained.

The multi-client risk manager may work only from offices within the client companies, for instance, because RIMS considers any other outside office to constitute the headquarters for a consulting operation. Additionally, each of the risk manager's clients must be a member company of RIMS.

"I'm personally disappointed," Mr. Wessels said when told about RIMS stern new policy that would take away membership for people like himself because they maintain offices outside their clients'. He has been a RIMS member since 1965 and a past chapter director.

"RIMS should look at what our duties are, not at how we're paid," he said.

Mr. Wessels and three other multi-client risk managers have already banded together to form their own club for sharing information about their work.

Unlike RIMS, neither of the two professional organizations for risk management consultants has taken any stance on multi-client risk managers. "The subject has never come up," said both Mary Lou Kirk of Crain, Langner & Co., the president of the Insurance Consultants Society, and Peter Norman of P.D. Norman Associates Ltd., president of the Institute of Risk Management Consultants.

Consultants, however, express reservations about the specialty.

Most IRMC members try to convince their clients to hire or to become their own full-time risk managers, since outsiders are frequently not given enough inside information to function effectively, said Mr. Norman. If a multi-client risk manager does get full information for each client, it could lead to administrative difficulties, he suggested. "I pity the poor fellow who has to keep all the data in his head for four or five companies."

There's an ethical problem, says another IRMC member, Charles Tagman of the Boston-based George Better Consulting Group. If the client company is successful, the multi-client risk manager will probably have to phase himself out of his job as the need for a full-time risk manager grows, he suggests. He questions whether a consulting risk manager would be willing to do this since it would cost him his business. ■

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Result: premiums keep climbing. Some companies even consider themselves lucky if they're paying only double what they were just three or four years ago for Workers' Compensation coverage.

But that's just part of it. The administrative work in handling claims takes time and adds still more to total Workers' Compensation costs.

If present trends continue, the burden on employers will continue to grow. New regulations and reinterpretations of

existing regulations are making benefits to workers increasingly generous. Also, new kinds of disabilities such as "cumulative trauma" are being added to the list of disabilities that qualify for benefits. An example is a former federal employee's claim for illness brought about by exposure to cigarette smoke during working hours.

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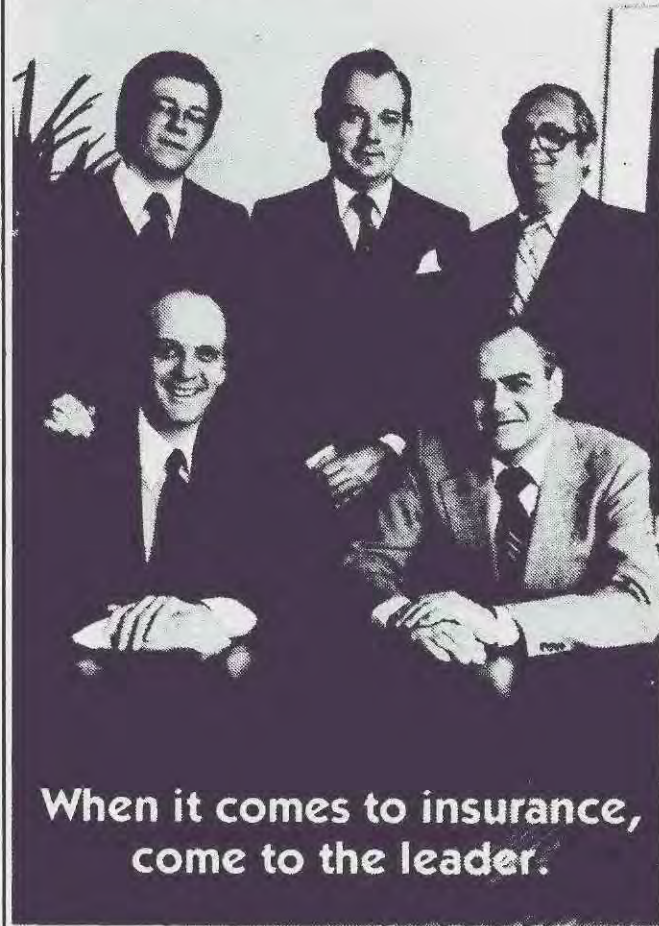
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Workers study law to learn to foresee product liability risk

By KATHRYN J. McINTYRE

DETROIT—"Nice job," the conveyor builders thought of their work at an auto plant near here—except that the newly installed conveyor created a safety hazard.

Positioned just five feet off the ground, the conveyor presented an obstacle course to workers on route to the rest room on the other side of the conveyor system. Winding his way through the maze, a worker could crack a skull on the conveyor and the conveyor makers

Risk Management Services

could get sued for product liability.

Move the rest room or build a walkway over the conveyor, the conveyor makers suggested to the auto maker.

The walkway was built.

A few years ago, the companies building such conveyers wouldn't have even thought of recommending the safety precaution. Their new safety awareness, the companies say, is the result of hiring American Legal Forum to teach their employes about liability and how it can be avoided and managed.

"Foreseeability—that's what we're trying to do," says Michael Gaskin, president of Taylor & Gaskin Inc. in Detroit, manufacturers of the conveyor system.

"American Legal Forum wants us to think about liability," adds Geri Martucci, chairman of the product safety committee at Broad Corp., the construction company that was on the conveyor job with Taylor & Gaskin.

For \$9,000 a year, American Legal Forum will send liability experts to a company to lecture monthly to employes about the theory of liability, a corporation's responsibility to produce safe products and how a manufacturer of safe products has little to fear in court.

American Legal Forum also offers hospitals a prescription for controlling their medical malpractice liability exposure, at a cost of about \$19,500 a year.

"Our underlying philosophy," explains American Legal Forum president Larry Brenner, "is that people who understand the law and are dedicated to quality of care or product can be motivated to treat people or make products to reduce risk.

"It's a somewhat different approach to risk management," he says, aimed at heightening awareness and to change attitudes that can compound liability problems.

"People become so cynical about the law and perceive no relationship between what they do and product liability or medical malpractice," says Mr. Brenner, an attorney.

Mr. Gaskin of Taylor & Gaskin realized there was an attitude problem at his company in 1977. Saddled with a \$200,000 product liability premium, compared with \$7,700 the year before, the president had decided to go bare rather than pay those prices for a company with a projected \$10 million in 1977 sales.

"But I had a kind of gnawing feeling in my stomach about being sued," he recalls. "And people in general in industry and my people in particular were frustrated by what they thought they could do to make a company more defensible.

... The pervasive attitude was that no matter what we do, no matter how safe our product was, if we were sued we were going to get stuck with it."

Mr. Gaskin confided in Mr. Brenner, an acquaintance in a private law practice, about these concerns, prompting Mr. Brenner to suggest that the employes attend a seminar to talk about liability issues and cases and "to convince them there

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are things they can do," said Mr. Gaskin.

The 1½-hour lectures started in December 1977, attended by department heads, shop and field people and employes from sales and purchasing.

Now, only 18 months later, Mr. Gaskin proudly tells the story of the conveyer installation at the auto maker's plant to illustrate how his employes' attitudes are different thanks to American Legal Forum. A safety committee was also organized, which inspects the company's product when installed, and the quality control staff was expanded at the company with now \$20 million in sales.

"We give our customers safer products and it also puts us in a more defensible position," says Mr. Gaskin.

At Broad Corp., where American Legal Forum has been lecturing for almost a year to a wide range of employes, similar results are evident. "Our employes know the company wants our products to be safe—to make a profit at no one's expense," says Ms. Martucci, division manager of the program machine system division.

At one job, Broad Corp. has put steel on a roof, making the roof into a work area when it never had been one. "But there were no handrails, so we told the company they needed handrails or signs or something to warn workers. That's nowhere near the full scope of our work, but when we see hazards we warn customers," said Ms. Martucci.

Ninety-nine percent of the time, customers welcome the safety suggestions and cooperate, Ms. Martucci noted. Once, however, Broad Corp. recommended that a plant designate a conveyer area a hard hat area. But the company argued that the whole place was so unsafe that if signs were put up in one area, the union would want them everywhere.

Both Taylor & Gaskin and Broad Corp. are insured through the Bermuda insurer NAMIC (North American Manufacturers Insurance Co. Ltd.), formed by members of the Conveyer Equipment Manufacturers Assn. The two companies are recommending that other NAMIC members hire American Legal Forum, too.

American Legal Forum's lecture series for employes from all areas of a company begins with a history of the theory of liability. "We first get them to perceive that the law isn't their enemy and get them to see they can use it to their advantage," explains Mr. Brenner.

"Then we get them to understand the consequences of their acts: foreseeability—to look at the product and see what it could do to injure people. We relate that activity to an improved corporate image; one devoted to standards, which makes a better company."

Discussions continue, says Mr. Brenner, around the themes of "law, justice and equity, that a quality product is a morally right goal and how the courts don't punish companies that make quality products."

The lecture series can run six to 18 months, monthly or semi-monthly. Special sessions examine court cases related to a company's product.

The result is hopefully not only changed attitudes, but also altered practices, such as setting up product safety committees as Taylor & Gaskin and Broad Corp. did.

"We teach the committee how to review products and how to document what they are doing to show good faith," says Mr. Brenner.

In hospitals, American Legal Forum strives for the same "behavior modification," but it also eliminates the traditional incident reports and adds a "data system."

Incident reports, in which doc-

tors and nurses report any incidents outside the realm of standard treatment and results, "pick up only 8.5% of all compensable events," says Mr. Brenner.

Instead, American Legal Forum has devised a concurrent review system plugged into a hospital's professional standards review organization (PSRO), which usually only focuses on cost control.

The system calls for review of all patients' charts while they are in the hospital to identify possible

compensable events. "If they find a patient with a compensable event, steps can be taken immediately—such as waiving the hospital bill—to cut costs of the incident," says Mr. Brenner.

The reviewers' findings are also plugged into a computer, assuring there will be constant monitoring of recurring problems.

American Legal Forum recently signed a one-year contract with AIG Risk Management to provide these services to AIGRM clients.■

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Anticipating and



Although the concept of loss control is universally accepted, in practice it often fails to receive adequate attention. But when loss control programs are professionally planned and managed, major cost reductions can be achieved.

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

Among the nation's numerous plants producing synthetic rubber, one in Louisiana has an unusual distinction. The accident rate at this plant was 85% lower in 1978 than the most recent national average for all plants in its industry, while the severity of those accidents that did occur, measured in terms of lost work days, was only 11% of the national average.

Was the plant just lucky? Not likely. Behind the statistics

is an impressive story of dedication to loss control – specifically to safety measures that protect employees from injury and their employer from financial loss.

In every category of risk today, loss control is becoming a professional discipline. In addition to occupational safety and health, it is being applied successfully to all kinds of property risks and to liability exposures in general, including such high-risk areas as product safety and

medical malpractice.

Taking infinite pains

Loss control has been said to consist largely of an infinite capacity for taking pains. It is true that a successful program is usually made up of thousands of details, each perhaps seemingly insignificant. Is the control valve on the water pipe for the sprinkler system kept open? Are the warning lights on a lift truck in operation? Has a new employee had a hearing examination? Should a guard rail be installed around a conveyor belt?

If such details are to be of concern to personnel throughout an organization, that concern must originate at the top, with management itself, and must be steadily maintained. The indispensable ingredient in successful loss control, specialists agree, is management commitment.

Most loss control programs start with a review of operations and the identification of actual

Preventing Losses

and potential hazards. Then goals are set up and comprehensive counteraction is initiated and monitored. Data is collected on all losses incurred and the results compared with earlier experience. At the synthetic rubber plant that achieved an exceptional record in occupational safety, all of these elements are incorporated in the plant loss control program.

For example, employee training is stressed. All supervisors are required to take a course in safety given by a safety engineer. Every new employee gets an overall safety orientation, followed by individual job safety instructions.

Active participation in the safety program is required at all levels. Each month, the safety engineer meets with a central safety committee made up of the seven top operating officials of the plant. Following that meeting, each department head conducts a departmental meeting with his supervisors.

In turn, the supervisors meet weekly with their work crews to discuss safety problems and take

whatever action may be necessary.

Inspections, inspections

No day goes by without its share of inspections to determine whether rules are being followed and safe conditions maintained. Each supervisor makes a daily informal housekeeping inspection, with observations and the corrective actions taken reported by memorandum to the department involved. Every week, formal inspection tours of each department are conducted by groups of hourly employees who work there. Every month, individual members of the safety department scrutinize all operations throughout the plant. And every quarter, the same kind of intensive examination is made by groups of salaried personnel in each department.

Thus all plant personnel, from the plant manager on down, take a direct, first-hand interest in seeing that loss control works.

And now, the payoff

In addition to the purely human benefits deriving from an

effective loss control program, the economic rewards can also be impressive. Every dollar gained through loss prevention goes straight to the bottom line.

Moreover, when loss control results in demonstrably lower risks, insurance premiums are also likely to be lower.

INA has been a major factor in the success of numerous loss control programs as part of its insurance operations. And ESIS, an affiliate, provides loss control and other services to companies with self-insurance programs, as well as sponsoring the International Safety Academy.

* * *

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

INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on current trends in loss control, write INA, 1600 Arch Street, Philadelphia, Pa. 19101.

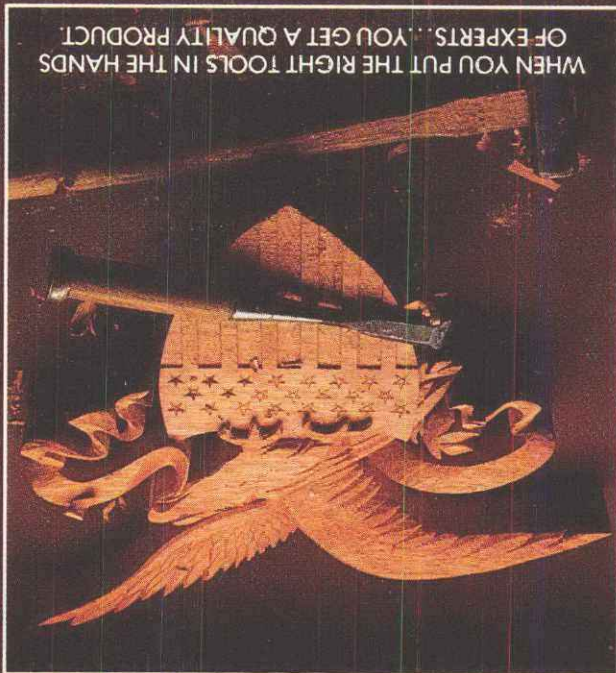
An industry committed to loss control



One example of the results attainable through loss control is provided by the U.S. airlines. By adhering to their own rigorous safety procedures, in addition to those called for by government regulations, the airlines have achieved steady reductions in their long-term accident ratios and have compiled an outstanding safety record.

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PERSPECTIVE

Buyer demands meld functions of brokers and risk consultants

By Robert Hughes

"HOW MUCH WOOD could a woodchuck chuck if a woodchuck could chuck wood?"

The answer to this old children's question is probably a lot simpler than the answers to some of the questions that are being propounded in the turmoil surrounding the role of consultancy and the consultants in the insurance and risk management marketplace. The controversy has raged for years and has swung all the way from genuine concern to ludicrous allegations.

The insurance consultant of yesteryear (yesteryear being within the last 20 years), when finding himself involved in almost continual conflict, often took comfort in the thought that eventually (eventually being about 1980) risk management consultancy would have reached a high state of professionalism and everyone would finally recognize who he is and what he does.

Surprise, surprise! The controversy ra-

geth still.

The controversy, from the consultant's point of view, was fanned a number of years ago when major insurance brokerage firms began to call themselves consultants and, of all things, provide services similar to those offered by consultants on a fee basis.

"Foul!" cried the consulting industry. "One cannot wear a consultant's hat while wearing an insurance salesman's hat." This matter has been lustily debated over a number of years. The parties to the debate range all the way from those consultants, whose pristine disdain of sales activities almost prevent them from selling even their own services, to cavalier insurance agents who make no bones about the fact that "risk management" and "consultancy" are only words used to disguise insurance sales activities.

Consultant debate

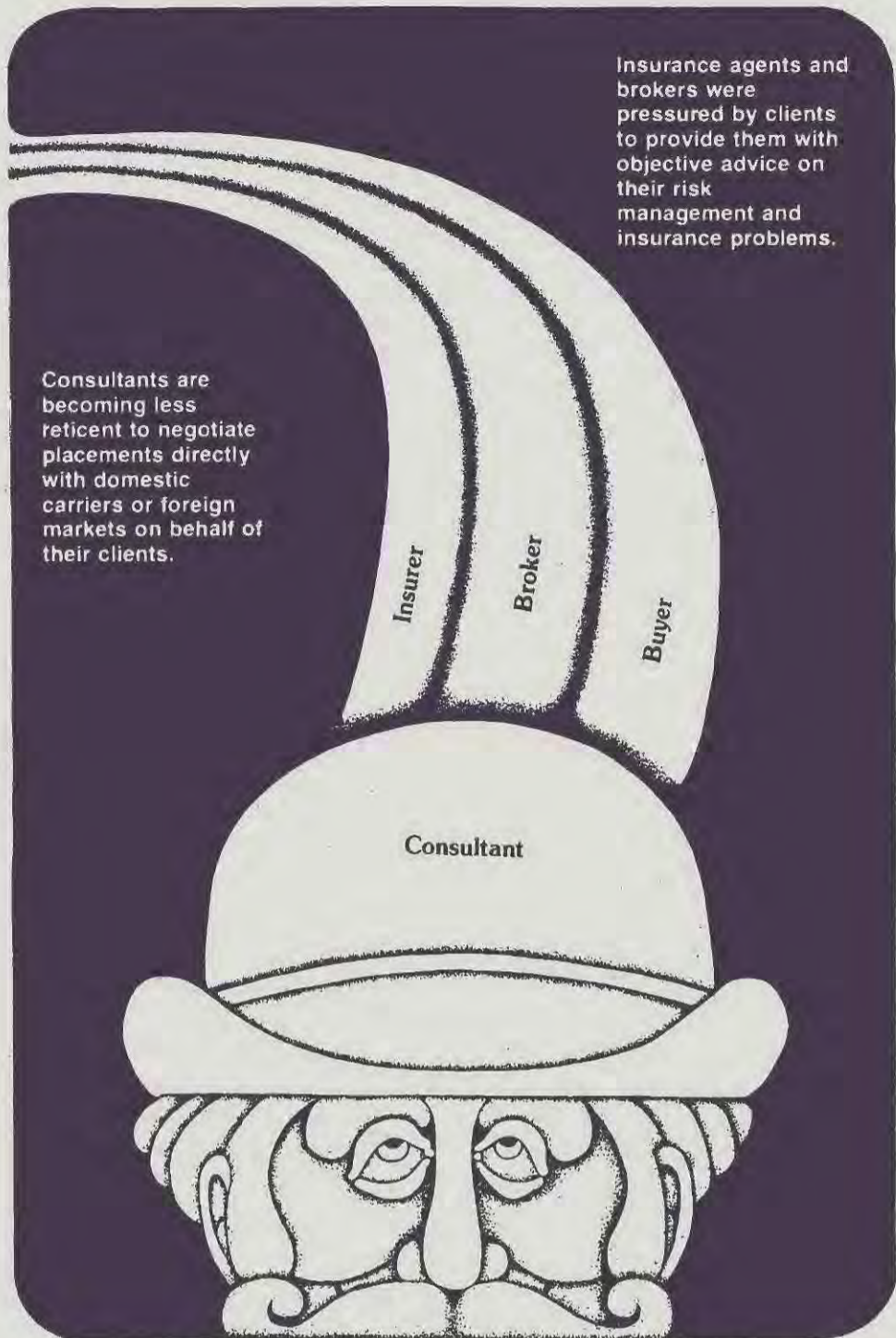
The debate in consulting ranks took on an aspect similar to the religious quarreling in the first part of this century which produced a proliferation of religious sects in the U.S. "Should a consultant work for an insurance agent?" "Should a consultant report to an insurance agent?" The rift in consulting circles (fueled by personality conflicts) resulted in the schism of the small fraternity into two even smaller professional societies.

Meanwhile, the giant insurance industry approached the problem with its time-honored trial and error method. National brokerage houses found their entries into the consulting business met with varying degrees of success. Many good professional brokers found themselves genuinely uncomfortable with a fee-basis arrangement. In order to avoid this, separate consulting entities were set up, but they then found themselves, in many cases, precluded from recommending self-insurance or other mechanisms which reduced the premium dollars to their parent corporations.

Meantime, in the late '60s and early '70s the stewpot continued to boil. Insurance agents and brokers found themselves under increasing pressure from their clients to provide objective advice. Major commercial clients began to flee in astounding numbers

Consultants are becoming less reticent to negotiate placements directly with domestic carriers or foreign markets on behalf of their clients.

Insurance agents and brokers were pressured by clients to provide them with objective advice on their risk management and insurance problems.



to the haven of captive insurance companies. Corporate risk management positions began to creep up the corporate ladder and with the increase of status came a corresponding increase in number and expertise. Aggressive, forward-thinking consulting firms became increasingly frustrated with the inability of their clients to implement their recommendations through normal channels.

By now, the agent-broker and/or consultant who 20 years ago felt the 1980s would herald a new era of clarity and understanding must be completely paranoid. "Where is it all going?" "What does my client expect me to be?" "Will the buyers become sellers and sellers become buyers?" "Will the cow jump over the moon?"

What will eventually happen in the insurance industry?
Continued on page 65



Robert Hughes has been a risk management consultant since 1972, and has recently established his own firm, Robert Hughes Associates Inc. in Dallas. Before that he was an insurance agent with his own firm for 12 years after receiving a degree in insurance from Southern Methodist University.

Practical loss control is realistic, thrifty

By Robert A. Wilson
CPCU, ARM

MANY PLANT OWNERS and staff engineers are regularly besieged by their insurance companies to improve plant safety and equipment maintenance. They want you to either guard your machines better or sprinkle the plant or...! It seems at times that there is no end to their requests.

This may be because the insurance company's loss control engineer often lives in an "ivory tower" atmosphere, untouched by the real world in which you live and operate. He simply wants to reduce the possibility of a loss as much as possible without regard to your costs or the benefits you may receive. You, on the other hand, may simply prefer not to make any changes at all, particularly if they are expensive changes.

There is, fortunately, a happy medium, a way in which a reasonable compromise can be reached. In the process, you should also be able to negotiate reductions in your insurance premiums for the current year and future years.

Robert A. Wilson is an independent risk management consultant with Corporate Risk Management Inc. in Hinsdale, Ill.

Here are the major areas of recommendations in which an insurance company may request or even insist on action on your part, and the benefits you should receive if you comply with the recommendations:

• **Control of Fires**—Loss control recommendations ask that you install adequate fire extinguishers, generally one 2½ gallon class "A" fire extinguisher for every 3000 square feet of plant area. The cost of compliance is relatively minor. This will result in a 5% reduction in your building and contents rates. We believe that this is a realistic recommendation, but rarely is it ever a mandatory item.

A second loss control recommendation is that you install approved, self-closing fire doors where new and effective fire walls can be created. If a true fire division can be created, the obvious advantage is to substantially reduce the possibility of a total loss by confining the fire to a limited area. In addition, depending on the construction of the building, there could be a significant reduction in your fire rate. This is normally a sound investment, but not always insisted on by the loss control engineer.

A third loss control recommendation might be to install an automatic sprinkler system. In many cases the major expendi-

ture for a system can be amortized in three to six years, depending on building construction, building and contents values and the type of manufacturing process conducted at the plant. We suggest you consider a variety of other factors if the premium savings period required to amortize the expense is greater than six years.

The other benefit of a sprinkler system is the substantial reduction in the possibility of a major fire loss. Conversely, the disadvantage is you now have the possibility of a loss caused by the accidental discharge of water, commonly known as "sprinkler leakage" and, of course, frozen pipes.

These problems can, of course, be reduced to a minimum and insurance purchased at a relatively low premium.

• **Workers Compensation**—An entire book could be written on the many recommendations (sound and unsound) that we have seen over the years. A few of the more common items are:

Install enclosure or barrier guards for punch presses, drill presses, saws and other power equipment as may be required in each individual case. Obviously you will reduce the possibility of an employee injury. This in turn will result in fewer injuries and a long term reduction in your workers com-

ensation premium. In addition, since there will be fewer injuries, you will have less shut down time or work stoppage by the injured employee and those employees in the general area that stop to help or simply observe. The insurance companies have generally insisted on the installation of guards if the equipment can cause major injuries.

Provide personal protection devices for all employees. This may include safety glasses, ear plugs, safety shoes and hard hats. The obvious benefit is the elimination of a wide variety of injuries to employees caused by metal chips in the eye, ear damage and injury caused by falling objects. In addition to the long term reduction in your workers compensation premium, you will be in a better position to comply with the requirements of the Occupation & Safety Hazard Act of 1974. We believe these items are essential in most plants.

Assuming that you have a generally acceptable paint spray booth, here are the usual recommendations you will encounter: Properly ventilate the booth; protect the sprinkler head by covering it with tissue paper and change the paper weekly; install explosion-proof light fixtures on all fixtures within 20 feet of the booth; and provide face masks for operators. The recommendations
Continued on page 65

PERSPECTIVE

Health care should match your needs for peak efficiency

By Michael Gallagher

OCCUPATIONAL HEALTH services, an industrial health care program at SwedishAmerican Hospital in Rockford, Ill., offers industry a modern alternative to the oftentimes confusing choice of medical and health care services.

Created in June 1977 to serve the employment community of Northern Illinois, OHS functions as a "triage" system by matching various employer needs to existing health care resources, including generalists and specialists from a wide range of medical fields. It's designed to foster complementary services rather than competing ones.

OHS services are multifaceted: providing care for occupational injuries and diseases; aiding employee placements according to physical, mental and emotional capabilities; guarding against hearing loss caused by excessive noise levels with its hearing conservation program, and treating those who suffer from chronic pain in the pain clinic are a few examples of the varied health care services available through OHS.

SwedishAmerican is one of the first hospi-

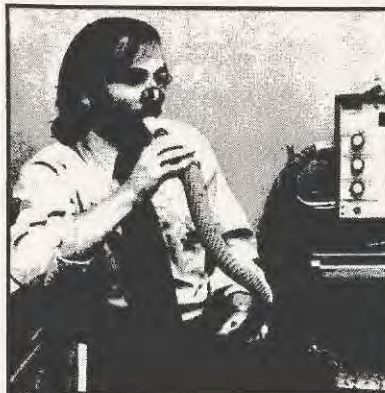
Michael Gallagher has been with Swedish-American Hospital for nine years, and is vice-president. He was formerly administrative director.

tals to actively involve its surrounding community in preventive medicine. Consequently, one company diminished the time loss usually needed for a blood testing by 75%. Federal regulations required that company to schedule 60 of its employees for annual blood tests for detection of possible radiation overexposure. The procedure formerly meant commuting to and from the hospital for taking the test, a loss of more than 60 man-hours. However, OHS nurses scheduled appointments and collected the blood samples at the plant. Each employee lost only 15 minutes, for a total loss of 15 hours.

OSHA laws

Stricter federal OSHA laws and higher health care bills and insurance premiums have forced many companies to re-evaluate their medical services. Nationally, one injury occurs every three minutes. Each year nearly \$18 billion is spent to compensate these work injuries, in addition to Social Security and welfare benefits that must be supplied to the workers. On the other hand, preventive medicine alleviates such costs, because healthy employees are less of an insurance claim risk.

Another preventive measure is to have employers scheduling pre-placement



Occupational Health Services aids employers in placing workers based on their physical and mental capabilities, in addition to providing specific testing and care of employees required by the employer. Testing time can be reduced by performing the tests

at the work site after scheduling appointments during times convenient to the employer.

Photos: SwedishAmerican Hospital

screening tests for new employees in order to detect health problems—or potential ones—at their onset. Thus, job assignments are more appropriate and employees are more attuned to their health status.

Centralized

OHS is efficient from an administrative perspective as well as a medical one. The centralized system allows employers to deal with just one source, telephone number and place of billing. Corporations in need of large-scale medical care find the system very practical, as do physicians who may utilize many OHS support services in pro-

viding a comprehensive occupational health program for their client firms.

OHS functions as a health care delivery 'brokerage house'. There are needs that must be met and OHS can provide the people and resources to service those varied needs. One of those needs involves treating patients who complain of chronic pain. This not only disturbs the work of peers, but the pain results in frequent work breaks and asking co-workers to take over simple tasks.

Such cases are not rare. Sometimes, months after an injury is sustained, patients still experience pain. Yet, because the injury has long since healed and no evidence of

Continued on page 64

Big fire risks demand heat/smoke vents

By Edward S. Naidus

THE LARGE LOSS at the Ford Motor Co. warehouse in Cologne, Germany, brings into focus for risk managers a problem that might otherwise be less sharply underlined in a less dramatic situation.

The warehouse in question was obviously improperly utilized from a fire protection point of view. The sprinkler system was no longer adequate for the type and quantity of combustibles. There had been no alteration either in the spacing of the contents or in the size or rating of the sprinklers.

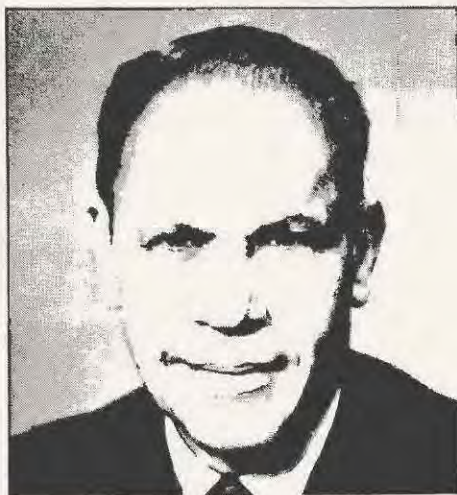
There is a reference in the article by Cynthia M. Shaler and Marion S. Snow (*BI*, April 2) describing the fire situation to "smoke pouring from the roof vents." It should be pointed out that these roof vents were actually power exhaust fans and not conventional thermally-activated fire vents. There were skylights on the roof as well, but these were glazed with a fiberglass panel that would not respond to the heat of a fire quickly enough to provide an opening for venting the heat and smoke.

Nowhere in the analysis by the authors is there any discussion of the protection flaw that appears obvious because of the absence of automatic heat and smoke vents in the roof.

Automatic vents

The use of automatic heat and smoke vents in a serious way dates back to the famous General Motors (Lavonia) fire in which the lack of roof venting prevented any fire fighting control due to the high smoke level within the building and the subsequent collapse of metal structures due to excessive heat. General Motors, in what is now the Illinois Institute of Technology, conducted a model study on the value of automatic heat and smoke venting and

Edward S. Naidus is chairman of the Fire Vent Industry Committee of the Skylight and Space Enclosure Division of the Architectural Aluminum Manufacturers Assn. He is also chairman of the board of APC Corp. in Hawthorne, N.J.



Sprinkler systems can be under-designed and under-perform in large fire situations, says Edward S. Naidus, APC Corp. chairman.

found that a substantial amount of the heat as well as the obscuring effect of smoke could be eliminated through the roof by appropriately sized and located vents. The result of this work and other experience gave rise to NFPA #204, a guide for automatic heat and smoke vents.

About 1974, during a period in which Factory Mutual and others were active in conducting rack storage tests with sprinklers of various design and rating, some of the observers of these tests came to the conclusion that even though no roof vents were present during the test, that automatic heat and smoke venting would be deleterious in the role of limiting fire loss in a sprinklered occupancy.

This conclusion was followed by a research report issued by Factory Mutual on a model study which included scaled-down models of the rack storage building and its sprinklers and what Factory Mutual believed to be automatic heat and smoke vents. Unfortunately, no manufacturers of listed heat and smoke vents was consulted or participated in this scaled-down study.

heat/smoke vents

—Speaking Out—

A review of the FM study indicates that automatic heat and smoke vents are particularly valuable in large fires, an opinion of the manufacturers of vents as well. It is our belief that in a well designed, well maintained and supervised automatic sprinkler situation, the automatic heat and smoke vents will rarely be called upon to function. The reason for this is that a fire that will activate only up to four sprinklers usually is small enough to be controlled by them and it is a rare event that such a fire will activate the conventional fire vents.

Sprinklers

However, when we examine the fast growing and large loss potential fire, invariably larger number of sprinklers are involved. This gives rise to the conclusion that the sprinkler system was under-designed or under-performing for the fire hazard. This is the kind of incident that can occur readily, as the Ford Motor Co. catastrophe demonstrates, when the occupancy changes without appropriate changes in the protection system.

The advantage of having automatic fire vents in the roof, however, is that their function remains constant in relation to the area rather than as a function of the increase in the amount of combustibles. It should be clear even to the over-zealous insurance salesman that the use of automatic heat and smoke vents represents an important protection back-up to high value occupancies even with well designed, well maintained and supervised automatic sprinkler systems.

The psychological hazard in these cases are that the use of the term "highly protected risk" leads to inappropriate assessment of the potential for loss. Frequently, much higher values are placed in such warehouses than can be properly justified by the original design of the fire protection systems installed.

Nothing of my remarks should be construed as implying that automatic sprinkler

systems do not deserve our greatest respect and admiration for the effective job that they do in controlling the growth of fires and avoiding catastrophes. Our concern, however, is with the very common and fairly destructive fires which have taken place because of some defect in the sprinkler system (arising from one or more factors, such as original design, the rating of the sprinkler heads, a deficiency in water supply, neglect, vandalism or arson). All of these factors are well recognized by professionals in the insurance field and are associated primarily with human failure.

It is our view that an appropriately designed automatic fire system would have limited the losses in many fires, including the Ford fire, by providing the normal functions of a vent in these circumstances: A great deal of the heat and smoke would have been eliminated early in the growth of this fire. This would provide two benefits:

- The heat that might cause damage and spread of the fire would be harmlessly vented through the roof. The smoke that would prevent effective attack of the fire at its base would be lifted substantially and most of it actually vented through the roof.

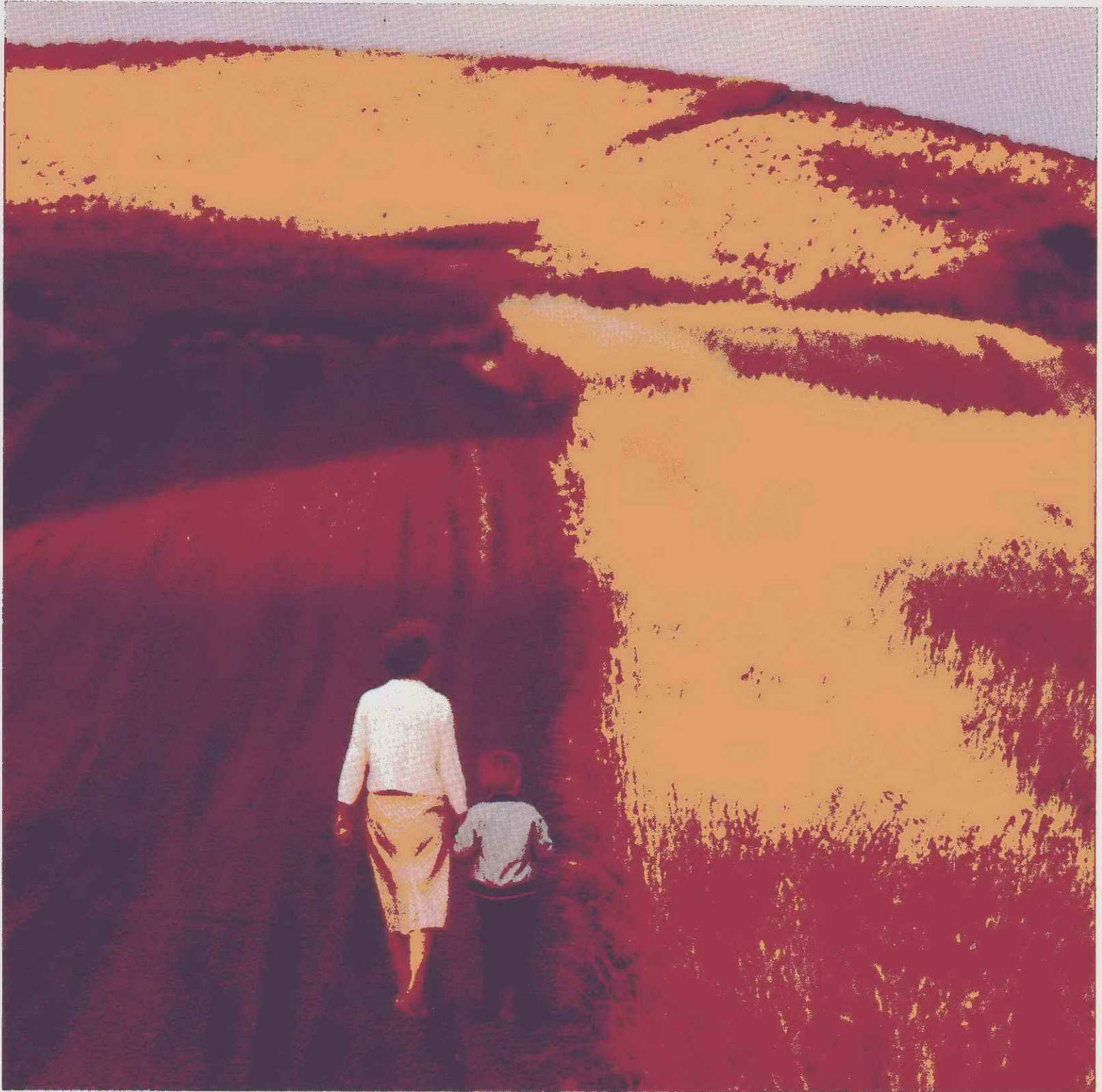
- The column of smoke emanating through a vent under such circumstances would provide the oncoming fire fighting personnel a direct clue as to where the intensity of the fire was greatest.

Cost benefits

We believe that a disservice is being performed for the risk management community by certain of the protection consultants who have not fully evaluated the nature of the risk, the nature of the loss and the cost-benefit aspects of automatic fire venting.

As a final constructive comment, I would like to compliment the large corporate users of automatic fire vents, several of the large insuring organizations and insurance consultants as well as the more progressive fire vent manufacturers for having formed a Fire Vent Research Committee. With their own funds, they are supporting a research program conducted by an I.I.T.R.I. group to help clarify user questions.

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Rethink boiler & machinery rate issue

By John J. Maes

THE BOILER AND MACHINERY insurance market editorial and perspective articles in the April 16 edition of *Business Insurance* interested me tremendously, since I am a former insurance company boiler and machine inspector, supervisor of a branch office B&M department, home office supervisor B&M department and assistant manager home office engineering department. I was also involved extensively with the claims department.

Being now retired after 30 years with three of the major B&M insurers, I no longer have any axes to grind. I have been through the mill with both the insurers (employers) and the insureds (not to mention the agents and brokers).

Your editorial lists what are called legitimate questions which need to be asked.

My answers are:

- I know not why B&M coverage is treated like, or referred to, as a casualty line rather than a property line. Perhaps it originated when B&M insurance was first written over 100 years ago. In those days the policy covered only steam boilers and then only for explosion.

Explosions of steam boilers in factories and on trains and riverboats were almost a daily occurrence due primarily to lack of sufficient knowledge in design, negligence in fabrication and almost criminal negligence in operation (like engineers gagging boiler safety valves in order to get more steam pressure).

The term "casualty" might well be derived from the fact that hundreds of people were killed or injured in these explosions.

I agree that B&M insurance is definitely a property coverage. The definitions, however, are immaterial to the question. Call it what you will. It has nothing to do with the rate structure. The rate is based on individual object exposure. The total rate is simply the sum of rates of all the objects insured (concededly oversimplified).

John J. Maes is a retired assistant manager of a boiler and machinery department, who lives in Skokie, Ill.



Price quotations by several boiler and machinery insurers that are virtually identical is surely no reason to suspect price fixing.

—John J. Maes

When losses occur in excessive frequencies and severity on an annual basis, the rates must go up.

Boiler and pressure inspection codes adopted by the various states have also helped to send service costs even higher.

Rate reasons

- Price quotations by several B&M insurers that are virtually identical is surely no reason to suspect price fixing. Where the quote is on the same account, and for identical object groups, the quotations should vary very little inasmuch as all B&M insurers use the B&M rating manual, at least to establish a rate basis. Quotes do vary even on small accounts and often vary considerably on very large accounts. Underwriters can use any number of variations to come up with lower or higher quotations depending on the desirability of the risk or vice versa, the influence of the producer, opinion of the engineering department or the amount of other line insurance already placed with the company.

B&M department inspectors usually make rating surveys from which the underwriter will make the quote. It is perfectly logical that if four knowledgeable inspectors rate objects for which insurance is requested in the manner prescribed by the rating manual, they will all come up with the same object sizes and types.

If the underwriters of the four companies

involved applied strict manual rating, the rate quote of all four carriers will be identical. Admittedly, in actual practice, this would be quite rare. For example, stock company B&M carriers and mutual company B&M carriers each apply their own variations when quoting.

- The direct implication that an "unwritten" but clear understanding of non-competition must exist between B&M carriers and property insurers because property insurers repeatedly use only certain B&M insurers as participants on standard multi-peril policies is hard to believe. Is it possible that there are corporate risk managers in industry who would suspect restraint of competition based on this premise?

Inspection help

There are a great number of large, medium and small, stock and mutual, property and casualty insurers (including groups of individual companies owned and controlled by a parent company) which have no B&M underwriting facilities. In order to provide this coverage as part of their multi-peril policies they have no choice but to contract with a B&M insurer to provide the inspection, underwriting and claim adjustment services. The logical providers are the B&M insurers writing the largest volume of the business. They have B&M personnel in most or all of their branch or district offices

throughout the U.S. and Canada. Their costs of servicing are therefore considerably less than smaller volume B&M carriers (less travel and lodging expenses—more available inspection time).

Actually, the B&M carriers enter into these arrangements mostly as an accommodation. The largest of all line carriers in the U.S. accepts no B&M business of this nature. To my knowledge, none of the B&M insurers—with one possible exception—actively solicits this type of business. Admittedly, however, stock property underwriters do favor stock B&M carriers. Mutual property underwriters favor mutual B&M insurers.

Sloppy service

- The contention by B&M insureds that sloppy servicing is being provided by B&M carriers is correct in some instances, but certainly not because of a lack of competition.

All insurance companies have their own unique problems and the carriers also writing B&M coverage have some additional ones. It should go without saying that so-called sloppy service work is common (in varying degrees) to all industry and commerce, including public utilities. This is very well brought out by Mr. Moreau in his article on the electric utilities' accident experience.

The insurance services of underwriting, claims adjustment and engineering do have these problems. The causes are varied and multiple such as:

- 1.) Hiring of some personnel inherently unsuitable for the job. This is often due to a relatively small personnel market. The insurance business is a specialty line. It is not taught outside of the business. It does not attract the degree to the extent that industry, commerce and other services do.

- 2.) Training is often too brief and often on a self-education level.

- 3.) The smaller insurance carriers do little, if any training. They prefer to buy trained people from other carriers.

- 4.) The underwriter promising higher frequencies of inspection than those experienced.

Continued on facing page

Health care services . . .

Continued from page 62

injury exists, doctors often conclude that the patient is "normal." The doctors tell such patients to learn to live with it. The OHS pain clinic staff teaches patients to live with pain. Physicians assure patients that the pain is not imaginary, but real and normal. They explain to patients that surgery corrects damage resulting from injury, but does not necessarily alleviate pain.

Although patients actually do suffer from pain, a psychological element often is involved. For example, a worker had strained his back while operating a forklift truck. Even after physical therapy he continued to complain of pain in his back. OHS pain clinic staff spoke with the patient and with members of his family. The result was the discovery that the man had been accustomed to other people depending on him, but after the accident had had to rely on others. Subconsciously, he enjoyed the attention but could not admit that he had dependency needs. The pain was real, though, and after OHS psychotherapy the man ceased complaining. He still suffers from occasional pain, but when asked about it will respond, "Yes, but I can live with it."

Personal stress

For those who would argue that psychological or personal problems should not be the company's concern, OHS medical director David J. Stinson, M.D., responds, "There is a fine line between work-related problems and those which are not." Dr. Stinson has observed many cases in which employees were performing poorly due to stress from unhappy personal lives.

Example: A worker arrives at work intox-

icated at least twice each week. The supervisor is his best friend and hesitates to report him. His co-workers and his work both suffer. Even before treatment for alcoholism can begin, the supervisor must be encouraged to report his best friend to initiate action.

OHS answers with its personnel evaluation and counseling services (PECS), helping employees cope and adjust to personal, environmental and vocational problems. PECS provides training and education to employers and employees to identify, refer and deal with problems. As part of treatment, OHS staff meet with employees to better resolve the problem. Then, feedback is provided to appropriate persons involved in the treating progress. Emotional, marital and family problems are treated and concerns of stress, alcohol and other addictions are attended.

OHS markets a three-level alcohol training package to industry: Upper management is informed of the cost of alcoholism and encouraged to sanction a program to treat alcoholics. Middle management is advised on "do's and don'ts" of dealing with alcoholic employees and employers are urged to assure employees they will not be fired if they admit they are alcoholics and undergo treatment. Alcoholics referred through industry have higher success rates than any other programs in the country, including private treatment centers, says Dr. Stinson.

Drug counseling

In another instance, OHS counseled a Vietnam veteran who had a drug problem which was leading to his termination as an

employee. Dr. Stinson pointed out that the OHS success in this case was accomplished by counseling the patient and having him inform his employer about his treatment program. This particular company recognized drug and alcohol addiction as actual diseases, so the employer agreed not to fire the veteran if he cooperated with OHS treatment. The patient's responsibility meant keeping appointments, involving himself in the therapy and being monitored. Three months later, the veteran was gradually phased out of treatments and he retained his job.

Dr. Stinson admits, however, that it is not very easy to convince employers that drug abuse or alcoholism are "respectable" diseases. It's difficult to educate people into realizing that it isn't beneficial to cover up alcoholics.

Hearing loss

Another dimension of OHS is its hearing conservation service, designed to deal with noise pollution. As a provider to OHS, Midwest Speech and Hearing Associates Inc. conducts comprehensive hearing evaluations to prevent employees from hearing loss. Management has discovered that when hearing losses do occur, they are of considerable consequence to both the employer and the worker.

We're attempting to convert the way health care is being delivered because the delivery of modern health care must be responsive to the needs and demands of employers and employees. We believe in developing a coordinated effort rather than maintaining a splintered approach.

Dr. Stinson recalls that the initial reaction of private physicians was not very positive. Many of them felt threatened, afraid of encountering new competition. Negative reaction also was expressed by physicians who

viewed OHS as the first step toward future controls on private practice. Then, doctors discovered that OHS helped them improve and expand services to clients, generating more than 2,000 additional patient days of activity, while still supporting the private practice philosophy. Today the doctors view OHS more favorably, in the realization that OHS provides a positive new approach to medical care that meets employers' growing needs.

Although OHS is a relatively new venture, companies have already recognized the benefits of having such a system. For instance, preventive health screenings have cut costs of potential workers compensation payments and premiums. In addition, prompt and specialized treatment of injuries lessens the possibility of severe after-effects, reduces time loss and increases productivity.

Moreover, the cost of hospitalization, surgical insurance claims, labor turnover, retraining and absenteeism decrease. OHS helps employers meet requirements of the Occupational Health and Safety Act (OSHA), National Institute of Safety and Health (NIOSH) and the Handicapped's Civil Rights Act.

OHS hopes to enlarge its service offerings by developing preventive health education and screening programs for delivery in the workplace, expanding the pain clinic into an industrial injury clinic and implementing a full service psychological assessment center.

Corporate management can improve relations with employees by demonstrating concern for workers' health and safety. In turn, psychological benefits as well as financial ones result, because employees gain job satisfaction. As employers expand their health services—out of both social responsibility and economic self-interest—they will call on the expertise of health care delivery agencies and the medical profession. ■

Buyer demands meld . . .

Continued from page 61

ance risk industry has been the subject of volumes of study and counterstudy. The fact is, however, what will happen is what has always happened: Ordinary people will continue to do ordinary things and extraordinary people will continue to do extraordinary things.

So who is the important player in the great game of risk management? Surprise again! It's not the doctor or the lawyer or the Indian chief, it's the butcher, the baker and the candlestick maker. It's not the broker, the agent, the consultant, the risk manager, or the insurance carrier. No, it's not the professionals. It's the client. It's the guy whose opinions never appear in print. It's the individual proprietor who happens to pay more of his bottom-line for insurance premiums than he does for income tax. It's the stockholders of the major corporation (as represented by their management) who wonder if the corporation is adequately protected and whether or not spiraling insurance costs are really necessary.

What then, in light of the dynamics of today's marketplace, is the future of risk management consulting in the United States? It is difficult to determine just how much total fee volume is being generated in the risk management consulting area by all the currently established firms. One leading firm is said to produce between \$3 million and \$3.5 million in fees annually. Several others appear to be producing annualized fees between \$750,000 and \$1.4 million.

In addition to the previously described firms, there are a number of smaller firms with incomes in the \$250,000 to \$400,000 area and another 50 to 60 individual proprietors working at lower fee levels. Altogether it is estimated that the current total fee volume in the United States and Canada for risk management consulting is between \$10 million and \$15 million per year.

Markets split

The larger risk management firms currently serve a market which consists primarily of commercial and industrial firms paying between \$100,000 and \$3 million per year for insurance and who do not have sophisticated in-house risk management departments. Although sophisticated risk managers do employ consulting services from time to time, this does not appear to be a significant part of today's consulting market.

The smaller risk management firms and individual consultants generally serve smaller clients on a continuing basis. In many cases, the services provided are little more than policy audits. In other cases, however, highly professional consultation is provided.

The consulting fee volume done by agents and brokers is almost impossible to identify. It would appear that although the services provided will continue to become more sophisticated, the volume of consulting by agents-brokers which is not linked to insur-

ance sales will continue to be an insignificant part of their income.

One area which could have strong impact on the risk management consulting business is the relatively unheralded move by major national accounting firms into risk management consulting. A number of specialized projects, such as captive insurance company consultation, are now being attempted by several of the "Big Eight" firms. There appears to be a high degree of client acceptability on the front end because of the accounting firms' presence in the corporation. The quality of product and subsequent client acceptance remains to be seen.

Competition develops

On the other hand, areas of competition are also arising for agents and brokers from the consulting ranks. Many consulting firms, frustrated by the inabilities of their clients to implement their recommendations or attracted to a huge commission income gained by some brokers with relatively little technical input, are modifying their traditional modes of operation. Consultants are becoming more mobile and less reticent to negotiate placements on behalf of their clients directly with domestic carriers or foreign markets. Some consultants are designing programs marketed through the agency system. The consultant's fee is derived from commission overrides. Others are finding it necessary in the captive insurance company field to provide full captive management services (which, by the way, will eventually include underwriting and probably broking).

It would also appear that there are a number of significant markets for consulting which remain untapped. These are such areas as high-level technological services to

risk managers, volume consulting to small and medium size businesses and industries, underwriter services (such as risk inspection), claims consultation and insurance certification for bank loans, etc.

We believe there is potential in existing markets for another \$10 million to \$15 million annualized fees and that the development of new markets could double or triple this figure. A portion of this market will be serviced by agents and brokers and a portion will be absorbed by the existing consulting industry (although very few have shown the inclination or the ability to organize for growth). The balance will be done by new consulting firms and newly established consulting arms of existing industries (such as accounting firms and banks).

Therefore, what is happening is exactly the opposite of what the armchair prognosticator of 20 years ago predicted. The situation is becoming more confused rather than clearer. The client is finding himself with more services available to him packaged (or unpackaged as the case may be) in an immense variety of ways. He is going to have more people to do more things for him in more ways, but it is going to become increasingly difficult for him to recognize and evaluate the capabilities of any one firm.

One thing is clear. Consultants are becoming a more recognizable factor in the risk management and insurance marketplace. As life becomes increasingly complicated for agents, brokers and insurance carriers and they find it is almost impossible to provide full and detailed services to all of their clients, the acceptance level of consultants seems to be rising. This trend will probably increase as the influence of some of the more strident consultants who view the insurance industry as "thieves praying upon their clients" decreases.

Loss prevention . . .

Continued from page 61

are just a few of the many that we have seen in connection with spray booths. They are generally mandatory as most not only relate to employe disease, but also to fire losses. If your booth is not in compliance with insurance company requirements you may not be able to obtain insurance in the regular markets with a competitive premium. Your insurance costs will, no doubt, increase.

• **Premises Liability**—This relates to claims for injury to third parties (not employes). You will see relatively few recommendations in this area. The most important and frequent relate to housekeeping.

You will be asked to improve plant housekeeping, including the removal of excess machine oils on the floor, daily removal of scrap and removal of ice and snow in parking lots or walkways. The principal advantages of a well maintained plant are: Reduced insurance premiums with a quality insurance company, reduced possibility of a liability claim, and increased efficiency of your employes.

• **Product Liability and Completed Operations**—Most everyone is aware of the major increase in rates in the past few years as well as the difficulty in obtaining proper coverage. We have seen more recommendations in this area just in the past two years than we saw in the preceding 20 years. The recommendations really depend on the type of product or class of operations.

A few of the common items are: Obtain Underwriters Laboratory approval; obtain appropriate governmental agency approval (for example, FDA); identify each batch of goods for possible recall; and maintain adequate records of purchases from your suppliers and sub-contractors.

If you fail to comply with the insurance company's recommendations, you may be faced with either policy cancellation or substantial increases in your premium. With the present attitude of the consumer and the courts, we strongly suggest that you comply, if practical, with the insurance company's loss control report. You should remember that a product liability claim may occur years after the product was sold, therefore your records must be in reasonable order so you can determine if the item in question was actually your product, and any other pertinent data that may be required.

• **Vehicles**—This can be an expensive

premium item in your insurance budget. However, there are steps you can take that may help you prevent losses and ultimately reduce your premiums. They are:

Selection of your drivers is a significant factor in operating a safe fleet. Each driver should be screened before employment. This should include your obtaining a Motor Vehicle Report from your state licensing department. In addition, you should have pre-employment physicals as well as annual physicals for each employe, if possible.

A driver training program should be implemented to train new employes and retrain existing employes.

A planned vehicle maintenance program should be included as part of your standard operating procedures.

It is only common sense that a well-trained driver operating a properly maintained vehicle will be less likely to be involved in an accident. Therefore your initial benefit will be fewer accidents, which in turn will lead to reduced insurance premiums. In addition, there will be less downtime for each vehicle as well as less lost employe time as there will be fewer injuries and fewer accident reports to complete.

Many of the recommendations apply to more than just one area of insurance. Therefore, we suggest that you start things out right and begin at the beginning: Senior management must make a firm commitment to safety. They must be committed to and involved in safety. Without their strong support you will not achieve a safe operation.

Once a commitment is made, a corporate safety policy should be established. This is essentially the company's philosophy and thinking in regard to safety. We suggest that it be more of a general statement rather than a comprehensive, detailed list of safety items. It should convey an attitude on the part of management that, "We care about our employes' safety and welfare."

Remember that everything must aim at the guy on the line.

If your company is large enough, you may develop a manual on safety. This should be prepared in cooperation with your insurance company, your insurance broker and if possible an independent consultant. The manual should outline management's attitude and approach to compliance with any recommendations established by the insurance company, and, if possible, the optimum cost-benefit ratio on implementing the improvements.

Boiler & machinery . . .

Continued from facing page

established by the B&M engineering department is either inexperienced or overanxious to write the business. Inspection frequencies are definitely set for the various groups of insured objects. The frequency depends on the object type, size, its importance to plant operations and the loss potential in the event of an accident.

It should be emphasized that the boiler and machinery policy makes no promise to inspect anything. The only reference to inspection in the policy is a statement that: "The company (insurer) reserves the right to inspect insured objects on the insured's premises at reasonable times and intervals." (Not an exact quote—I have no policy form).

All B&M insurers do inspect, however, at established frequencies for these reasons: To protect their own interests (this is, at the same time, a loss prevention service to the insured) and because almost all states now have adopted a Boiler & Pressure Vessel Code. All are abstracts out of the American Society of Mechanical Engineers Codes for design construction, assembly and maintenance of all types of boilers and unfired pressure vessels.

Each state has taken its own excerpts. Example: Illinois law applies to boilers of all pressures and was recently expanded to include certain unfired pressure vessels. In addition to the states, some cities have also adopted their own sections of the ASME code.

Regulatory demands

Code states have made periodic inspections mandatory. On passage of the law, they have charged all B&M insurers writing B&M coverage in the state to provide them with inspection reports on those insured vessels falling within the state code. In effect, the commissioned inspectors employed by the carriers are designated as special deputy inspectors by the states (without compensation) and are held responsible to the same extent as the deputy inspectors employed by the states. All of the boiler inspection departments set up by the various code states have only a minimum of staff consisting of a chief inspector and a few deputy inspectors.

Although the adoption of boiler and unfired pressure vessel laws is a positive factor in accident prevention and is supported by the B&M carriers, it has created a tremendous amount of additional paperwork for

the carriers without appreciably increasing their underwriting volume because each insured code vessel must be stamped or tagged with a state number by the inspector and with certain exceptions, the states require an individual inspection report for each boiler for certificate renewal.

The net effect for the B&M carriers has been significantly increased paperwork. Result: Higher inspection costs per risk.

My own views are that the insureds rather than resort to the gimmickry of charges of restraint of trade, stifling of competition, excessive rates, failure to provide adequate excess insurance and suggestions to separate risk-taking from service costs, should take a serious and in-depth look at their own loss prevention activities, otherwise known as "preventive maintenance programs." What are you really getting for your maintenance dollar? B&M insurance companies are not in the maintenance service. No B&M inspector (now loss prevention representative) should be held at fault for your own failure to properly maintain, monitor and record all operating conditions of your critical plant equipment. Scheduled periods of shutdown, dismantling and inspection should be set and strictly adhered to. This will largely reduce your frequency of unscheduled shutdowns (accidents).

Insurers advised

A program on paper only is not enough. It must be enforced. This means by top management. When this is accomplished, consider becoming self-insured if your B&M carrier still does not take notice.

To the insurers, I would give this advice:

- Rewrite and simplify your policy into understandable English. (Being done.)
- Consider value rating for all objects. (Now under consideration.)
- Write B&M coverage as part of a fire policy. (One major B&M insurer does.)
- Be more selective in hiring of loss control representative trainees.
- Training should include a complete course of at least one year in the entire property insurance field.
- Training should also include indoctrination in contact and communication with top management.
- Put your engineering and loss prevention departments on a par with underwriting, claims adjustment and legal departments in terms of authority, standing and promotion opportunities.

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Put safety with us, risk managers plea; safety execs recoil

By JOANNE GAMLIN

LOS ANGELES—Safety and security responsibilities naturally belong in the risk management department, maintain the majority of risk managers.

But safety/security directors are less inclined to agree.

"Being in the risk management department is the last place where the corporate safety directors should be," asserted the corporate safety director for a large Southwestern corporation. Risk man-

Risk Management Services

agement is as undesirable a place for people with his title as the personnel department, he says.

Equally emphatic, the corporate safety/security director for a large Midwest food processor believes neither safety nor security belong in the risk management department. The goals of each are worlds apart, he argues.

A safety/security director views losses and accidents in human terms and the risk managers regard losses almost solely in terms of statistics, he says.

Risk managers counter that they share with safety/security directors the common goal of reducing losses. Furthermore, risk managers are on the firing line with top management to cut losses but don't have the ammunition without the authority to manage safety/security operations, they say. Split functions can also result in duplication of efforts, they point out.

Of the 22 risk managers interviewed by *Business Insurance*, 16 said the safety function, if not security, should be part of the risk management department. Even among the six risk managers who didn't say yes, three hedged their responses, saying a number of variables determine where the safety/security director belongs on an organizational chart.

But only four of the eight safety/security directors interviewed agreed that risk management and safety/security should be integrated.

Safety directors who object to being placed in risk management argue for one that although the avowed goals may be the same, the two jobs are intrinsically different.

Risk managers don't yet have the perspective that is necessary to the safety directors job—making employee protection a prime mandate—says Marvin Scheunemann, safety director of Motorola Corp. in Chicago. "For this reason, my job fits the employe relations department better," he argued.

Ed Sawicki, safety director for Intel Corp. in Santa Clara, Calif., can't visualize himself in the risk management department for other reasons. "My job is under Intel's legal department," he explained, "and that is where I think it should be." Three advantages to being in the legal department, he says, are: working with people who possess an attorney's understanding of OSHA; gaining insight into the legal ramifications of lawsuits, and having "a pipeline to the executive suite."

Mr. Sawicki doesn't see any trend toward safety directors working for risk managers. Rather, he noted, safety directors are more often reporting to "overall" security directors, which he applauds because he thinks it will upgrade safety directors' corporate standing.

Risk managers argue an integrated risk management and safety/security department is the only way to put a lid on losses.

Separate but equal departments don't work as well, says Stephen D. Rades, supervisor of insurance for American Building Maintenance Industries (ABMI) in San Fran-



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cisco. "An operation with common goals needs a single head," he said.

If a safety director doesn't report to the risk manager, he most likely regards the operations vp as his boss, observes William G. Miller, insurance manager for Superscope Inc. in Chatsworth, Calif. "But if they are put under operations, they often are prevented from performing their safety function," he maintained.

Top management is constantly urging risk managers to reduce costs by chopping losses, "but then they don't give us the ammunition," complained Mr. Miller.

"We are tarred with the problem of soaring premiums, but without having safety in our departments, there is not much that we can do about it," agreed the risk manager for a Bay Area company whose safety director reports to the head of employee relations.

Duplication of efforts crops up when risk management and safety are separated, said Container Corp.'s insurance manager Jim Charpie.

A gap in efforts can also result when one party presumes that the other is taking care of a matter when the latter is not, he added. "Communications must be letter perfect if two separate departments are to act as one."

Durward Bolding, corporate safety director of Mostek Corp. in Dallas, Tex., is among safety directors who agree safety people should be positioned in the risk management department. It's the most logical place, he says.

He quickly added, however, the risk manager should be well up on the organization chart, at the vp level at least, if he expects to oversee safety.

That's important, he said, because safety/security people often get their noses into confidential material that can affect a company's future. Even more significant, safety men need to be able to get the attention of top management in order for their recommendations to be acted upon with dispatch, said Mr. Bolding, who reports to the vp-administration at Mostek.

Also proving there are safety directors who share the vision of most risk managers interviewed is the safety executive for a Northern California electronics company. He helped to persuade his firm to hire a risk manager and he is now making an effort to become part of that executive's department.

"If the risk manager sees safety as one of his tools to offset losses, then I think a safety director should be in his department," he said, asking not to be identified.

"Ideally, safety and risk management work hand-in-hand on common goals," agreed Brad Steingraber, director of safety for The Bekins Co., in Los Angeles. In Bekins' risk management department for two years, Mr. Steingraber indicated he couldn't be happier than where he is. When both parties share loss reduction as a central objective, coordination is not difficult, he says.

In companies where the two functions have been combined into a single, integrated department for some time, the fine-tuned coordinations of risk management and safety stand out and the argument of the majority of risk managers interviewed appears persuasive.

A safety director has been in the risk management department at ABC Inc. for about 20 years, says insurance director Edward L. Erickson. It's a superb arrangement when the safety manager is "a specialist who can address risk management questions," says Mr. Erickson, who is still looking for someone to fill the currently vacant safety position in his department.

Pacific Power & Light in Portland, Ore., also has had an integrated department for about 20 years, said a spokesman, who termed its development "a natural evolution."

"If there is a car accident and the risk manager and safety director are in different departments, the chances are the two will take different directions in investigating the incident," he illustrated. There are also cost advantages to integrated departments, he added.

Conrock Co. in Los Angeles has had an integrated department for six years. Assistant secretary and insurance manager Norman E. Horney does not contemplate changing the situation.

"We are in daily consultation—safety director, Ron Kordatzky and myself," he said. Things have not always been so good, he added, noting that before Mr. Kordatzky was hired six years ago, Conrock's safety man reported to the operations department. It was after ob-

serving that the safety director's recommendations were being ignored that Mr. Horney said he moved to have safety placed in the risk management department.

Dave Miller of Harrah's in Reno, Nev., is enthusiastic that safety became part of his department last year. It is logically favored to be in risk management," he said.

The gambling casino's large security department, on the other hand, will probably remain independent, he said.

A couple of other risk managers have solved the question of integrated departments by serving as combination risk managers and safety directors. Robert R. Duty, director of risk management for The Hyatt Corp. in Chicago, can boast both an MA degree in engineering with a specialty in safety and an associate of risk management (ARM) designation. With Hyatt since last July, Mr. Duty said he was hired precisely because he is

"Create a new department"

Corporations need to form a whole new department, says Bill B. Turney of Texas Instruments when analyzing the best corporate structure for risk management and safety management.

The Dallas-based corporate safety director would like to see a new department formed for officers in safety, risk management, legal services and medical services.

The title of the new department?

"Protection of group assets," says Mr. Turney.

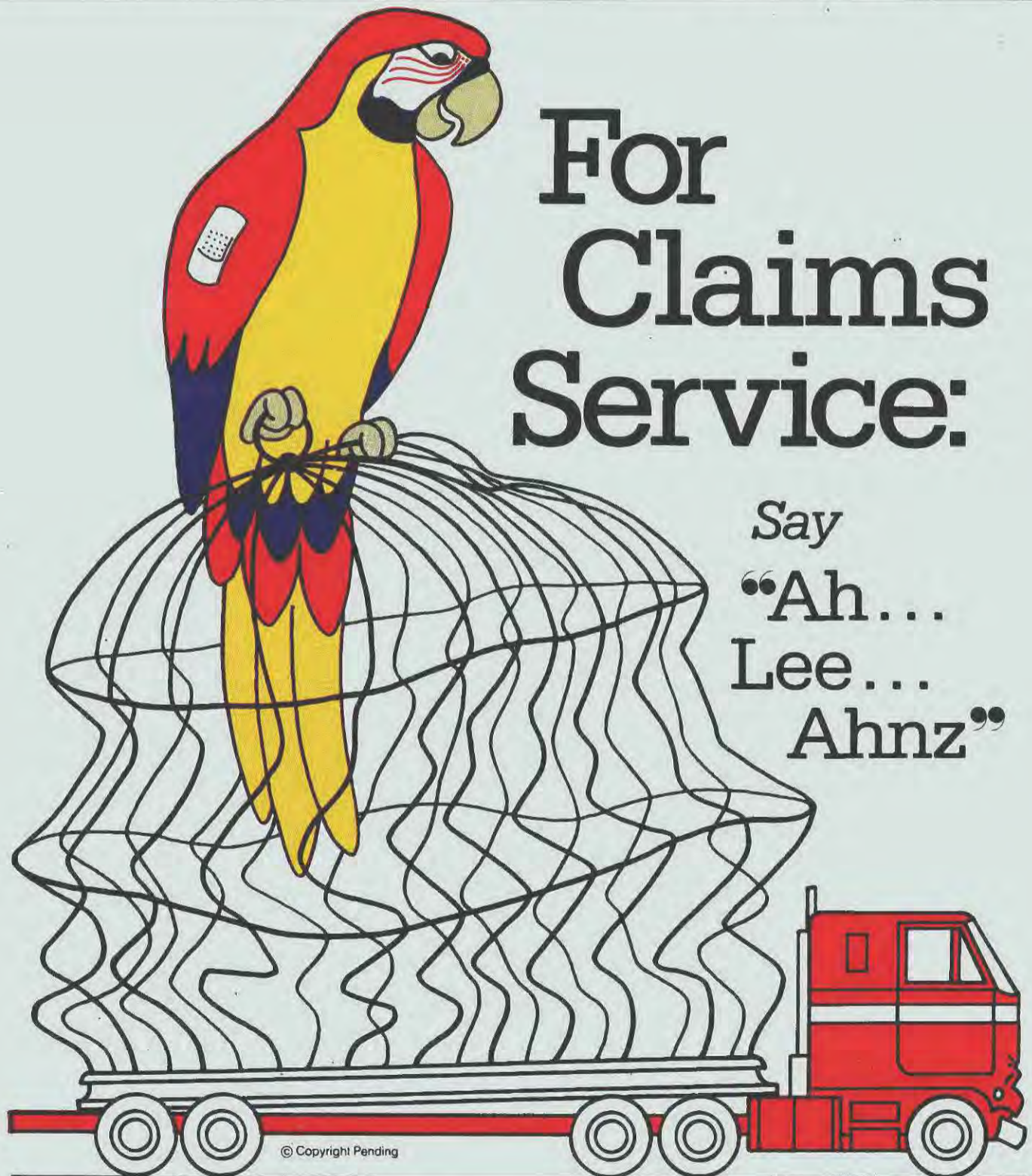
The department would command the attention of top bosses like no other arrangement he can think of, he says.

James P. Strong, corporate director of risk management and assistant treasurer of Northrop Corp. in Los Angeles, has a similar idea. He envisions a department embracing insurance, safety and financial matters, headed by a former risk manager skilled in financial management.

able to merge the financial aspects of risk management with the industrial relations side of safety.

There are, at the same time, a small number of risk managers who perceive strong benefits in

having the two functions in different departments, but on the same corporate level. Mattel Corp. assistant treasurer John Pinner, for example, said that keeping the two jobs apart works well for Mattel. ■



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The determination of a property insurance company to adapt its skills to changing conditions could, likewise, lead it down a path where few dare to tread. To walk such a line would take a great deal of flexibility. It would take the ability to provide coverage in situations that don't lend themselves to rule-book solutions. It would take the ability to be consistent whether the market was hard or soft. It would take, no less than it would to adapt to a career at 1000 feet above the street level, a specialist.

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the Fortune 500 and the Canadian Top 200 industrials; companies that have become and remained our clients because of their commitment to maintain acceptable loss control standards. In addition, several of the largest corporations in other parts of the world have chosen us for coverage.

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Adjusters rush to fill self-insurers' orders

By JERRY GEISEL

Risk Management Services

WASHINGTON—Going self-insured leaves holes not only in policy folders but also in services, like adjusting services needed when disaster strikes.

But the big national adjusting firms, as well as regional adjusters, can provide a broad array of services to the legions of companies self-insuring their property and casualty risks.

Underwriters Adjusting Co. of New York, which operates in all 50

states out of more than 650 offices, can adjust property, product liability, workers compensation and fidelity losses.

Gay & Taylor Inc. of Winston-Salem, N.C., with offices in all parts of the country except the far West, is renown for aviation and heavy marine loss adjusting. In addition, Crawford & Co. of Atlanta

and GAB of New York, both of which serve clients in all areas of the country, offer multiple lines adjusting services.

Why should a company hire an adjusting firm rather than add staff to a risk management department?

"If you hire a professional adjusting company you'll get talented people who know what they are doing," said Richard Maloney, vp-marketing at Gay & Taylor.

Adjusting firms are sensitive to recent criticism (BI, April 2) that

after five o'clock a risk manager can't get hold of an adjuster to get to the scene of a loss. UAC, along with its other national competitors, maintains 24-hour claims reporting service.

"We have a dial-a-claim service in which we have several operators working around the clock recording claims and their instructions are to immediately call an adjuster covering the area where the loss occurred," said UAC president Arnold C. Avitabile.

Adjusting firms do much more

than appraise a loss. Gay & Taylor, for example, through its risk management support services department, can furnish risk managers with statistical reports analyzing the causes and types of losses so a company can spot patterns of losses and take corrective action.

UAC will administer a fund to pay claims for a self-insured client.

Fees are set in various ways. The fee for adjusting medical malpractice claims might be based on the number of hospital beds, while the fee for adjusting workers compensation claims could be percentage of payroll. In other cases, such as property losses, the fee might be on the amount of time and expense an adjuster needs to appraise a loss. Hourly fees range from \$17 to \$29, representatives of several adjusting firms said.

Regional adjusting firms report a big increase in business from self-insured companies. "We now have



Photo: Crawford & Co.

Crawford & Co. adjusts property and other losses for self-insurers.

30 to 40 regular self-insured accounts, up from two or three self-insured accounts 10 years ago," said Robert Wills, president of Brown Brothers Adjusters, a San Francisco-based adjusting company which operates in seven Western states. Fifty offices are located in California, Washington, Oregon, Utah, Nevada, Arizona and Hawaii.

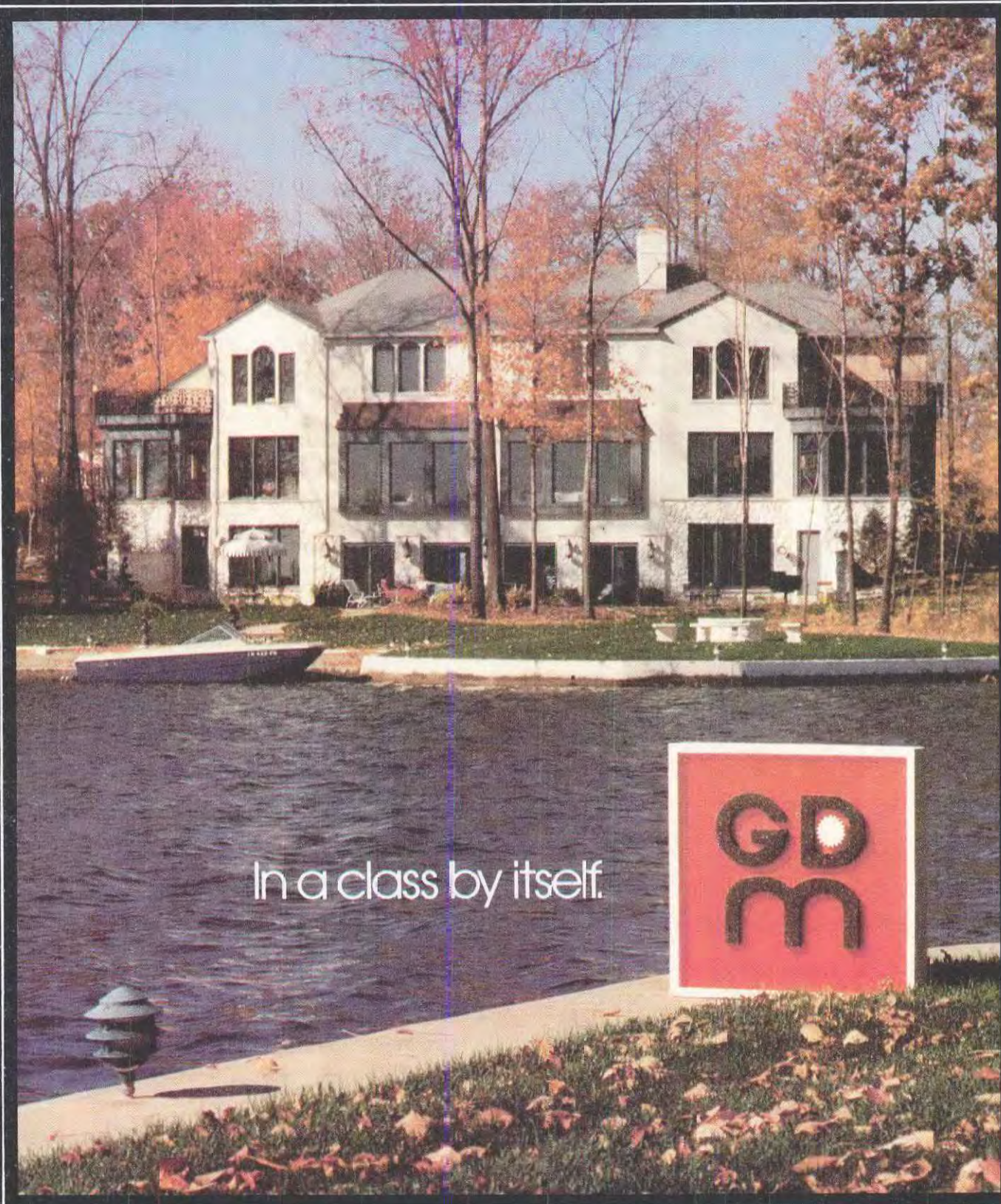
Mr. Wills asserts that there is a definite advantage working with a regional adjusting company rather than hiring a national adjusting firm. "We think we know the territory better and while a national firm might have 450 offices around the country, none of them have 30 offices in California as we do," he said.

Robert Irwin, president of Lindsey & Newsom Insurance Adjusters Inc. of Tyler, Tex., which operates in Texas, New Mexico, Oklahoma, Louisiana and Arkansas, argues that a regional firm can give more personal attention to accounts than the national companies.

But Mr. Maloney of Gay & Taylor counters that a regional adjuster cannot offer the scope of services at a national firm. "You have some very good regional adjusting companies, but they are limited in what they can do," he said.

Aside from the major and regional adjusting companies, there are hundreds of smaller independent adjusting firms. The National Assn. of Independent Insurance Adjusters in Chicago maintains a directory of 460 adjusting companies located in all parts of the country.

Adjusting firms do agree, regardless of their size, that they can do their best work if a self-insured client has the information available that is needed and "someone who is willing to give an adjuster a couple of hours," said Mr. Wills of Brown Brothers.



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Inspection is first at Hartford Steam Boiler

By ELLIS SIMON

HARTFORD—Just as "inspection" comes before "insurance" in its name, inspection comes before most else at Hartford Steam Boiler Inspection & Insurance Co.

"We're in the engineering business and we also happen to provide insurance," says vp Donald K. Wilson Jr.

The nation's largest boiler and machinery insurer won't even write a risk without inspecting it first. "I don't think you can," says John R. Eklund, director of marketing development.

"Our engineering people keep us out of trouble," adds Mr. Wilson.

The company's financial figures bear this out. Between 1973 and 1978, the firm's average loss ratio was 36.55% while the expense ratio averaged 60.6%. The typical property/casualty insurer had a 25.8% expense ratio in 1978, says Best's Reports.

Claims and adjusting expenses in 1978 were \$32.6 million on an earned premium of \$120.7 million. But the company probably spent about as much on inspection services as it did on paying claims.

Inspection costs run from 15% to 36% of premium, said vp James M.



Photo: Hartford Steam Boiler

Measuring stress on metal surfaces is one of the tests performed by Hartford Steam Boiler inspectors.

Thompson. The high risk accounts cost the most to inspect but a greater chunk of the premium of low risk accounts is spent on inspection, he said.

"Our emphasis on inspection is the key to our success," said Mr. Wilson. "Over the past 10 years we've averaged a 95% combined loss and expense ratio. If the loss ratio was higher, it would have meant that the inspection component had been less than effective."

Hartford Steam Boiler works at staying on the cutting edge of inspection technology. In recent years it has acquired such firms as Radian Corp., an environmental and energy research laboratory, D.B. Associates, an industrial hygiene firm, and Unitech Inc., an organization with manufacturing capabilities in signal physics.

Technology used includes ultrasonic equipment for measuring stress, infrared monitoring devices to measure heat loss that could indicate potential deterioration and radiography equipment to detect problems in welds and joints.

Despite the sophisticated technology employed, "eyeballing is the oldest, most widely used and best method of nondestructive testing," notes vp Earl L. Kemmler. "You need your eyes to read testing equipment and interpret the findings as well."

The company also has reorganized its staff to develop

specialists who concentrate on certain industries, such as utilities and pulp and paper. This was at the urging of the RIMS Industry Liaison Committee, which met with the insurer's officials in 1973 and 1977.

Self-insurers can buy Hartford Steam Boiler's inspection services but the company won't sell services to customers buying boiler and machinery insurance from a competing market. Some risk managers have criticized this, complaining the boiler and machinery market is dominated by too few companies.

Hartford Steam Boiler has the largest share of the domestic market: between 36% and 40% of the business.

But its inspection and engineering expertise is its competitive

Risk Management Services

edge, Hartford Steam Boiler believes. To share that would be to put itself at a disadvantage with the other 22 companies writing boiler and machinery coverage in the U.S., the company says. The market is highly competitive and rates have flattened out, says Mr. Wilson.

Revenues from selling engineering services have increased more than tenfold since 1973, to \$28 million from \$2.7 million. Acquisitions, such as Radian and Unitech, have contributed to this, as well as the market of Fortune 500

companies that self-insure or use captives.

The inspection services provided can be what Hartford Steam Boiler believes necessary to underwrite a risk, or they can go beyond that at the buyer's bidding.

If asked by a vender, inspectors will start their work where a piece of machinery is being made, assuring that a product meets engineering standards.

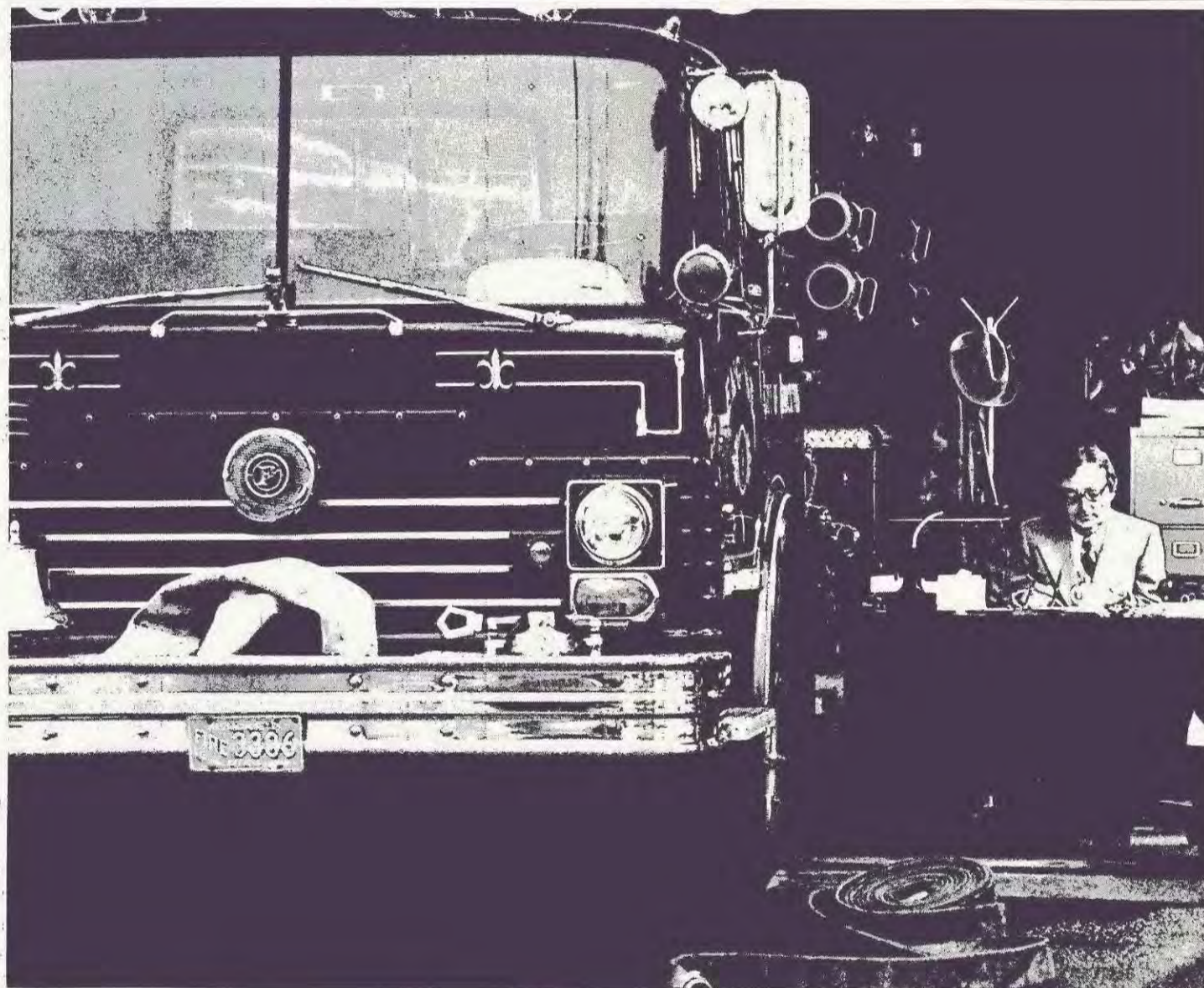
"Our inspector does not do actual testing on a piece of equipment, but verifies that testing was done and that calibrations of the testing instruments are correct," explained Mr. Eklund. "A customer may test a vessel. Our man verifies that test."

On behalf of the equipment purchaser, Hartford Steam Boiler may perform similar services at a

vender's plant through its special inspection services program. However, here a customer may desire enforcement of standards above and beyond those adopted by engineering societies and regulatory bodies.

Inside an insured's plant, "We inspect the entire plant exposure, and that often includes things we do not insure," said Mr. Kemmler. "For a utility, that means everything from the coal pile to the transmission lines."

The exposure analysis procedure and inspections begin with an orientation meeting with plant management and include analysis of the plant operations flow, surveys of utility systems and the effect of loss of services and audits of the number, size, age of boilers,



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Using a borescope, a fiber optic device, an inspector can see inside a vessel without dismantling it. Hartford Steam Boiler boasts of using the most advanced technology and equipment to keep it on the cutting edge of boiler and machinery engineering.

Photo: Hartford Steam Boiler

pressure vessels, transformers, turbine, generators and other large electrical and machinery equipment.

The inspectors determine the ap-

proximate replacement value of such equipment, make plans for obtaining an inventory of key parts and analyze the effect that stopping equipment would have upon

production.

"We don't come as experts on the manufacturing of widgets," said Mr. Eklund, "but, we know what can stop production of those widgets."

The objective is to determine which are the most critical pieces of equipment by studying the whole risk, said Mr. Kemmler.

Obtaining spares for critical parts is key to the loss prevention strategy since customers are not always aware of the lead time on replacement, noted Mr. Wilson.

In addition to the results of an inspection, a company's operating philosophy is a critical element in evaluating a risk. "One thing we like to see is having quality control people report directly to plant or corporate management, rather than production," said Mr. Kemmler.

"Too often, companies focus their attention on production and even though management may

have a good operating philosophy, it breaks down and the attitude compounds itself until there is trouble," explained Mr. Kemmler.

The boiler and machinery insurer can help point out problems since often less-than-top-management people do not have the clout to do so, he added. One of the tools Hartford Steam Boiler uses to increase top executives awareness of potential problems is photographic risk analysis.

Simply put, it means taking pictures that illustrate where the danger is. "Reports are a dime a dozen," said Mr. Eklund. "However, the impact of these photos is severe. They make management pay attention."

Increasing the reliability of a manufacturing facility is a key objective for Hartford Steam Boiler. "The customer doesn't want to lose market share, but we can't insure his market share," said Mr. Eklund. "We can insure his reliability to help him retain market

share."

When boiler and machinery losses do occur, market share is in jeopardy, he explained. A long down time means customers will go elsewhere.

The insured and Hartford Steam Boiler have a mutual interest in getting full production restored as quickly as possible. With the exception of utility equipment and turbines, business interruption coverage usually accounts for the largest part of a boiler and machinery loss. It is not uncommon for business interruption expenses to run \$100,000 per day or more.

To minimize the impact of a boiler and machinery failure, Hartford Steam Boiler has developed an emergency preparedness manual for clients to implement. "When the pressure of an accident is on, people do not utilize their best thinking," said Mr. Eklund. "By synthesizing what would occur in an accident, we can establish procedures to be implemented."

Critical equipment is marked with identification tags telling operators to consult the emergency manual before taking corrective actions. The insurer recommends that clients keep the manual in an accessible location, such as the plant engineer's office, and it not be locked away at night.

Expediting delivery of replacement parts and getting quick repairs are other ways in which Hartford Steam Boiler keeps a lid on claims cost. "Our inspectors know who can get things fixed," said Mr. Kemmler. "We have 1,000 people around the country and if we don't know where there is a spare, who can find it or who can fix it better and faster, than no one does."

Once the company cut the time needed for repairs in third by paying a \$25 daily bonus to each employe at a repair shop who worked through lunch and dinner, Mr. Kemmler noted. On another occasion, an inspector rode the caboose from Idaho to Massachusetts to insure that a critically needed turbine was not waylaid at a freight yard en route.

Hartford Steam Boiler is continuing to research machinery reliability. At its Radian Corp. facilities in Austin, Tex., it has established a failure analysis laboratory to study generic problems with a piece of equipment not solved in its manufacturer and design.

The lab relies upon photographic documentation, eyewitness statements, operating history, process records and corporate data to reconstruct an accident and develop a probable accident sequence. Analytical chemistry, materials science, process and control engineering and design engineering are used to determine the accident's cause and develop an accident prevention plan.

Occasionally these studies result in a safer product. "We don't look deliberately at reducing product liability exposure, but when we find something to improve a product, it often reduces the product liability exposure," said Mr. Kemmler.

The company also conducts boiler condition and useful life surveys. The results of nondestructive testing and metallurgical techniques to predict how many years of useful life a boiler has remaining; help a corporation decide whether to replace or repair a boiler as well as detect trends that could point to trouble in the future.

Broker acquisition

Corroon & Black Corp. has reached an agreement in principle to acquire Powers, Carpenter & Hall Inc., an employe benefit and actuarial consulting firm, in St. Louis, Mo., with an additional office in New Orleans, La.

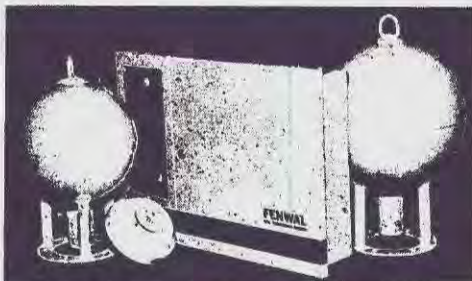
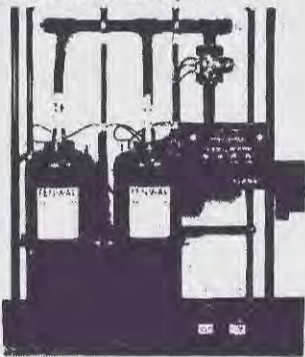
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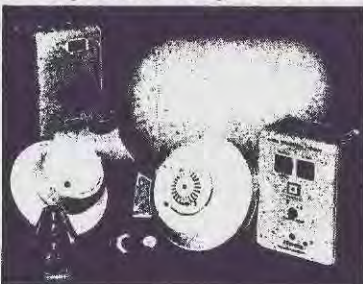
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Tests on fire systems determine if they work

By MARY ELLEN McKEE

CLEVELAND—The fire protection system looks great on paper. But does it work?

Short of waiting for the fateful day of the fire, 3,000 companies around the country have called on Automatic Sprinkler Corp. of America here to test their fire protection systems.

Insurance company inspections survey the loss prevention plans. Automatic Sprinkler inspections focus on the function of the fire protection system.

"Our company zeroes in on the nitty-gritty details of the fire protection system itself rather than the environment of an office,

Risk Management Services

building or warehouse," said Paul Jocek, chief inspector for Automatic Sprinkler Corp., a division of ATO Inc.

"An insurance company inspector goes into a company to evaluate how many people work in certain areas, if there are enough exits in a building, if any aisles leading to exits are blocked, if control valves are blocked and if there are enough sprinklers per square footage of the office space," Mr. Jocek explained.

Automatic inspectors, by comparison, check to see if the actual mechanics of the protection system are adequate in the event of a fire occurs. "Our inspectors simulate fire conditions, put the system to the real test," Mr. Jocek boasted.

In the test, Automatic inspectors use testing devices that can increase the temperature of a room or building to that of a fire. Then they observe how quickly the system detects the fire condition and how efficiently each component of the system works.

The company does not discredit the usefulness and importance of loss prevention analysis in fire protection inspections, Mr. Jocek emphasized. However, as more companies become more aware of the direct costs and production costs of a fire, they are channeling a great deal of money into improving and modifying their fire protection systems, Mr. Jocek says. "It automatically follows that the system should be appropriate to the company's needs and should function at maximum level of performance."

Automatic simply conducts inspections that can directly help a company protect its assets with regular evaluations of the system, how well it works and if it is appropriate in a particular company setting, Mr. Jocek added. "And we can do it at minimal cost to the company since Automatic has 46 district offices scattered nationwide." He could not quote sample costs, however.

In an Automatic inspection, three areas are examined, Mr. Jocek said. The inspectors check the condition of the fire protection system upon arrival looking to see if the system has been tampered with, if the system has been activated since the last inspection and if there has been any change in the system which may cut the hazards in one area but increase them in another.

The second step is the actual fire test. Following the test, the inspectors inspect all components, particularly noting the condition of the piping, the obstructions of the nozzle or any condition which an inspector thinks would hamper the overall performance of the system. Finally, the inspectors evaluate what the condition of the system is after the inspection.

Armed with the results of the tests, Automatic inspectors meet with the company's top management before they leave the premises. They may "approve" the system, make recommendations for modifications and discuss any discrepancies in the condition of the fire protection system.

A comprehensive report is compiled after the inspectors leave the company, documenting every procedure taken during the inspection and the results of the test.

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Insurers' services . . .

Continued from page 17

and asked risk managers to rate their insurers (and outside contractors) in each. The five tasks of safety and loss control specialists in the area of workers compensation are:

- Helping identify the loss-producing conditions.
- Developing improved loss control methods.
- Communicating this information to you, and to your top management when necessary.
- Assisting you in implementing safety and loss prevention programs.
- Engaging in a continuing evaluation and dialogue on safety and loss control efforts.

In each of the five areas, more Editorial Advisory Panel members rated insurers "adequate" than rated the services "excellent" or "lousy." (One participant abstained, from the ratings.) On the first point, more than half (13) of the survey participants said the services they receive are adequate, while six said they are excellent and four rated the service as lousy.

Presumably, risk managers were telling of their satisfaction with insurers' inspection services, a point borne out by the response to a later question in the survey.

We asked members of the panel how many times a year they think a safety or loss control engineer should inspect each facility, which drew opinions ranging from twice a year to 12 times a year, depending on the type of operation. Thirteen participants said once or twice a year is enough, while another nine said inspections should take place at least quarterly, and as often as 12 times a year.

Does this happen? we wondered.

Buyers offer service tips to insurers

CHICAGO—Workers compensation insurers could improve their safety and loss prevention services, say members of the BI Editorial Advisory Panel. Members of the panel commented:

- "We need better safety training programs and better-qualified (experienced) loss prevention representatives. Insurers should provide specialized audits where needed."
- "We have difficulty obtaining copies of investigation reports from our carrier, thus hampering effective administration of claims."
- "Safety is achieved through increasing employe awareness and this is not accomplished by periodic inspections. Rather, greater emphasis on employe training is needed—e.g. insurers should advise us on how training programs should be structured, training tools needed, methods of evaluating the training, etc."
- "We did an internal review and concluded the carrier was lousy. We drew up an action plan and met with the broker and the carrier. They accepted the criticism and designed a corrective program. It is now underway; I hope it works."

"The most effective method of providing loss control services is to contract with a consulting firm, outlining the quality, scope, etc. of the desired services, reports, etc. Insurance industry has allowed loss control quality to drop."

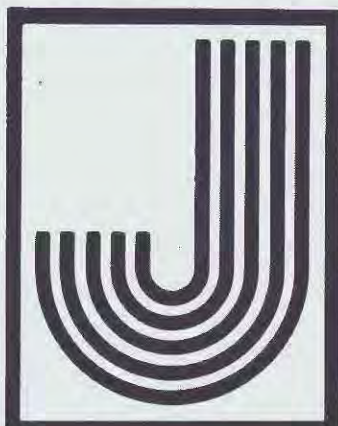
"We have been more fortunate than most . . . in our case, we have a good man assigned to the responsibility for the account. He makes things happen."

For 15 of the respondents, inspections are done as often as the risk manager thinks they should be done; but for nine survey participants, inspections don't take place as often as they should or as often as the insurer promises they will.

More than half also said they receive adequate help on developing improved loss control methods, while six said insurers do a lousy job on this score and another five said they do an excellent job.

Insurers didn't do so well on communications; only 10 risk managers said they receive adequate communications from insurers or other suppliers on safety and loss control, including inspection reports and recommendations for improved safety measures. Seven risk managers said insurers do an

Continued on following page



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Insurers' services . . .

Continued from previous page
excellent job of communicating to insureds, while six believe they do a lousy job.

In that same vein, we asked Advisory Board members whether they receive what they consider useful and adequate reports of inspections and recommendations from their workers compensation carriers. Fifteen said they do, while nine said they don't.

Insurers do an adequate job of assisting in implementing safety and loss prevention programs, said 11 risk managers responding to our questions. But seven think insurers do a very poor job, a larger

number than the five who think insurers do an excellent job.

Similarly, 11 risk managers rated their insurers as adequate when asked if their carriers engage in a continuing dialogue to evaluate and upgrade safety and loss control efforts. And, as on earlier questions, a group of six rated their insurers lousy on this point while another six said the insurance companies do an excellent job.

To try and refine this point a bit more, we asked panel members to tell us if their work comp carriers analyze with the insured the total dollar losses and the accident rates and causes to determine where better programs or safety investments are needed. Out of 24 responses, 16 said yes, while eight said insurers don't come through. Risk managers and insurance

buyers participating in our survey were more evenly divided on the question of whether the safety and loss control services insurers provide are too heavily oriented toward insurance and underwriting needs. We wanted to know how customers view their suppliers. Although the question may seem biased, we were trying to get a more accurate feel for the level of satisfaction and the feelings of the policyholders about their insurance companies.

In this instance, 12 participants responded that they think insurers steer clear of being "too insurance-oriented," and apparently have the interests of the client at heart. Another 12 risk managers said they think insurers' services on the safety side are clearly too insurance-oriented, meaning that they are perceived as serving the insurers' own purposes and not enough to help the clients.

Of the 30 companies participating in the survey, 17 are in the cate-

Risk Managers Rate Insurers' Services

	Excellent	Adequate	Lousy
Helps identify loss-producing conditions	6	13	4
Develops improved loss control methods	5	12	6
Communicates this information effectively to policyholder, and to top management (of policyholder's company) when necessary	7	10	6
Assists in implementing safety and loss prevention programs	5	11	7
Engages in continuing evaluation and dialogue on safety and loss control efforts	6	11	6

gory of large corporate accounts, 10 are medium sized companies

and three are relatively small firms.

Property . . .

Continued from page 17
colades upon their broker's safety programs. "We have a guy in our broker's office that is so involved (with safety) that he actually sits on our OSHA committee," said Richardson-Merrell's Mr. Gullo. "I'd put him up for inspector of the year."

Some risk managers have no complaints about the number of safety inspections performed by their casualty insurers. It's the quality of the inspections that bug them.

"They (the carrier) come around with what they call their audit procedure," said Dayton-Hudson's Mr. Cain. "They simply audit our program, rather than make suggestions. I don't think the two are the same."

But if you ask risk managers to evaluate their property insurers, a dramatically different picture emerges. Without exception, the 18 risk and insurance managers *Business Insurance* interviewed said their property insurers provide indispensable services.

"Their engineering services are absolutely outstanding," said Charles Scott, insurance manager at the Washington Suburban Sanitary Commission in Hyattsville, Md., of the Factory Mutual System. "They are really tuned in to the situation."

At Rouse Co., a Columbia, Md.-based shopping center developer, inspections by Factory Mutual engineers have improved loss control methods, said vp Steve Sachs. "They force us to look inward."

Most companies supplement their in-house safety programs with services from their property insurers. "We depend on ourselves for basic technology," said Mr. Weber of 3M. The insurance carrier acts as an "auditor," monitoring 3M's safety work. Such an audit role is important since company safety staff "lack the interplay of being directly familiar with other risks," Mr. Weber explained.

Risk managers said they generally receive the biannual inspections of major locations from their property insurers. At Rouse Co., inspections by FM engineers can last one or two full days. After each inspection, Mr. Sachs and plant managers receive copies of FM safety reports so top management instantly knows where the problems are and corrective action can be taken. ■

More tornado losses

Insured losses caused by wind, hail, tornadoes and flooding which struck scattered parts of Texas, Kansas and Missouri, May 19-22, are estimated at \$6 million by the American Insurance Assn. Major damage occurred in Parsons, Kan.; Springfield, Mo., and Houston, Tex. The damage estimate does not include losses covered under the National Flood Insurance Program.

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Security firms clean-up as crime wave roars

CHICAGO—As one consultant says, "There's only one other industry growing as fast as the private security field: Crime itself."

The ever-increasing demand for security services has triggered growth to where there are now some 10,000 privately owned security firms in the U.S. selling \$5 billion in services annually. Projections are that by 1990, the industry may sell as much as \$15 billion in services.

Uniformed guard services continue to be the mainstay of the industry but more and more companies are offering a broad range of services such as undercover investigations to solve internal thefts, electronic monitoring and even consulting services to companies that are interested in cutting down their vulnerability to crime.

Risk Management Services

In addition, many companies offer specialty lines and unique styles of services as the booming field becomes more and more competitive.

For example, the owner of the Chicago-based Lake Shore Detective & Patrol Service says about 40% of his business is retail store security, providing guards not only to walk floors in search of shoplifters, but also to keep a constant watch on inventory control.

The Wackenhut Corp., with 20,000 operatives worldwide, offers a strike and emergency sup-

port service to guard against building damages during strikes. The company also boasts the ability to move complete kitchen, laundry and dining facilities into a plant where employees are working around the clock during a strike.

Wackenhut has also developed a closed-circuit television monitoring system through its subsidiary, Wackenhut Electronic Systems Corp., which not only monitors, but also controls access to building elevators and doors. The Miami police department and the Kennedy space center in Florida use the system.

The company intends to place more emphasis in the future on integrating its guard service with the electronic system, a spokesman said.

The 25-year-old Wackenhut firm



Photo: Calif. Plant Protection

Uniformed guards continue to be the mainstay of the security industry, but more and more companies are offering a broad range of services such as undercover investigations to solve internal thefts, electronic monitoring and even consulting services to companies.

last year brought in nearly \$150 million in sales, three times its 1969 volume of \$48 million. "The private industry is more than double the

size of the public law enforcement sector. That gives you an idea as to how much it's grown in the last 10 to 20 years," the spokesman said.

Continued growth seems certain. A number of smaller cities, particularly those with smaller tax bases, are looking into contracting with private firms for fire services and police patrols rather than commissioning municipal forces, the Wackenhut spokesman said.

Another large firm, CPP security services in Van Nuys, Calif., expects 1979 revenues to total \$45 million, 25% more than its \$36 million in sales for 1978, according to Charles W. Colglazier, vp for finance and administration.

Most companies charge between \$4 to \$6 per guard hour depending on the type of job and whether or not the guard is to be armed.

Industry is by far the largest client of security firms, not only for guard services but also for undercover investigations of internal thefts, drug dealing, vandalism and compensation claims fraud, all of which are of growing concern to corporations.

"A lot of stuff is disappearing from the docks and the warehouses and companies have decided they must do something about it," said Wackenhut's spokesman.

Security companies that offer the service usually send in a skilled investigator to work as a dockhand or clerk to look for evidence of misconduct. The evidence is then turned over to officials of the client company.

Such investigations almost invariably turn up evidence of employee theft, said Vincent Ruffolo, president of A&R Security in Chicago. "I would say 95% of the time you uncover some type of theft. It may not be the theft you were looking for, but you always seem to discover some type of theft and pilferage," he said. "Industry is gradually realizing the importance of internal theft stoppage. Their profit margins won't tolerate it any more." ■

Captive manager spots new haven

GRAND TURK, Turks and Caicos Islands—This British Crown Colony southeast of the Bahamas is vying for a spot on the captive insurance industry map.

"The government is pushing it as a tax haven" says John Ray, managing director of Caymans Underwriters Service Ltd., which has just established a management company here also.

Colony Insurance Services Ltd. was formed last month and is already managing three captives from here, says Mr. Ray. One is Colony Insurance Ltd., wholly owned by Charter Oil Co., as is Caymans Underwriters Services. Colony will reinsure Charter's St. Ives Insurance Ltd. of the Caymans.

The Turks and Caicos Islands have a population of only 6,000. ■

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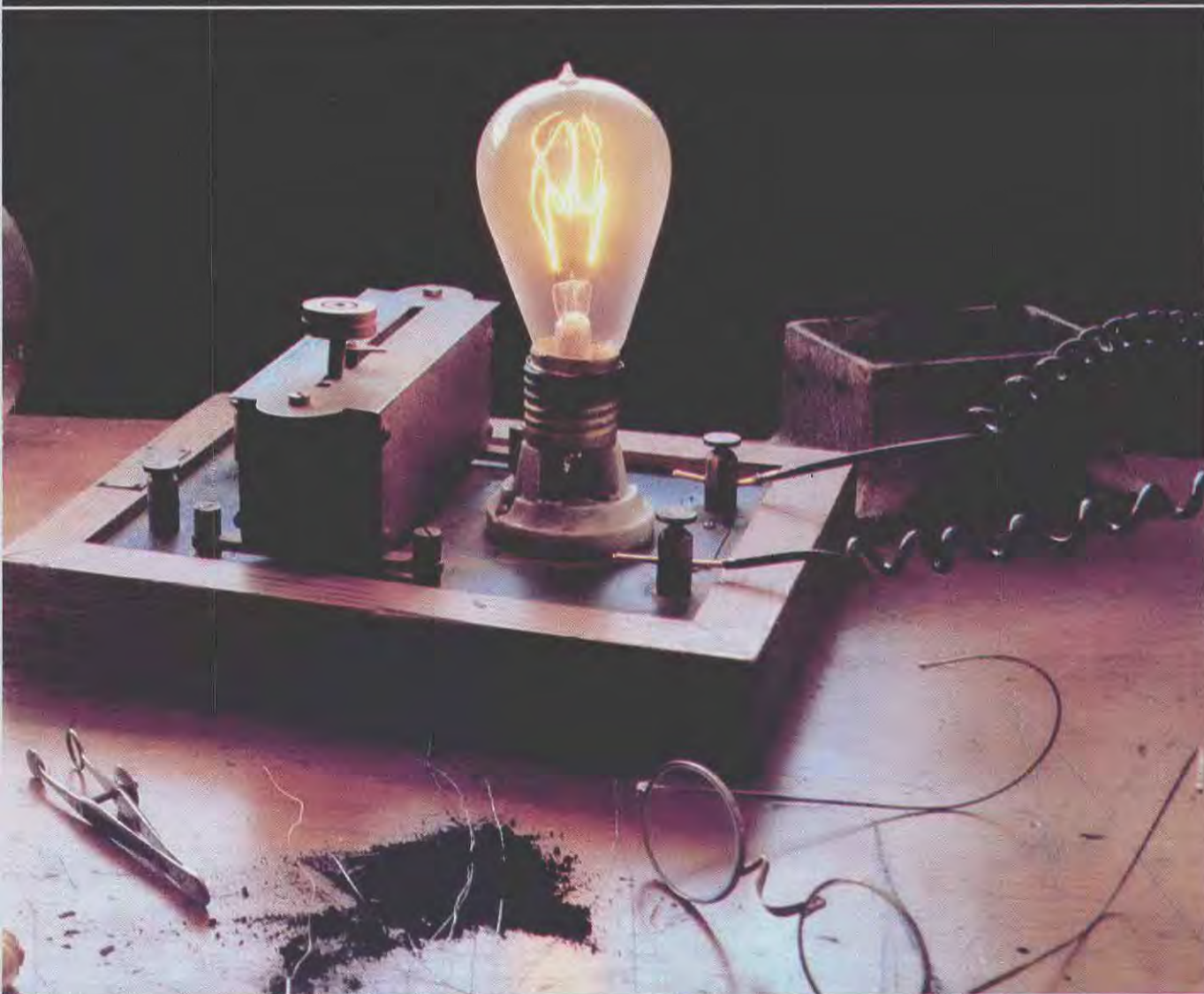
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Security firms guard contract promises; cut out guns, dogs

By JOHN MAES

CHICAGO—Security service companies are guarding their liability insurance budgets by eliminating the use of armed guards and guard dogs, only to find another insurance pest pop out of the dark: errors and omissions insurance.

In many contracts, security firms are assuming responsibility for stolen property, says Bruce Brownyard, vp of W.H. Brownyard Corp., a managing general agency specializing in security companies'

Risk Management Services

insurance.

"We are asking services to put into their contracts that they won't be responsible for theft of property," he said because if they do, the security firms set themselves up as insurers and open to suits if something is stolen.

But the booming security services business is cutting its high cost of liability insurance by cutting back on or eliminating the use of armed guards and guard dogs.

Most firms say they will accept a request from a client for an armed guard only if they find the request legitimate, while others say they have turned down business because a prospective client insisted on having armed guards.

"We try to avoid arming guards and we've turned down business for that reason, because we feel that if you need a gun, it's too dangerous for anybody to be there," said Charles Colglazier, vp of finance administration at CPP security services in Van Nuys, Calif.

"We don't want our guards to be policemen. If they see a fire they should call the fire department and if they see a crime, they should call the police department," he said.

"We're very insurance minded here," said Ira Lipman, president of Guardsmark Inc., a Memphis, Tenn.-based company. Only 2% of the firm's business involves armed guards and the goal is to eliminate arms entirely, said Hugh McCom- mon, vp/risk manager.

Guardsmark, which had \$33 million in 1978 sales, is self-insured for the first \$50,000 of its general liability and carries primary and excess insurance up to \$5 million.

De-emphasizing armed guards has cut liability insurance costs at A&R Security in Chicago by between \$12,000 and \$15,000 in the last three years, says president Vincent Ruffolo. "When you tell the underwriter you have less than 10% armed guards, you're going to make him feel better," he said.

The industry is still feeling the effects of a 1967 Rand Corp. report that took the security industry to task accusing it of shoddy practices, particularly in the training and use of armed guards, said Mr. Ruffolo. The report "scared" insurers into raising liability premiums and drove others out of the market.

Less use of armed guards however, is generating a "softening" in the market for security service insurance and rates have come down between 10% and 20% in the last several months, said Mr. Brown- yard.

Guard dogs, also declining in popularity in the security industry, pose a similar insurance problem, but some companies say the market demand for dogs is also on the decline. Some firms will still sub- contract for dogs if their clients want them but the majority don't use them at all.

One exception in these trends is Lake Shore Detective & Patrol Service in Chicago. Owner Henry Szura says insurance costs keep going up and he keeps using guard dogs because they are profitable. He pays \$600 to \$1,000 in liability insurance premiums for each of the 22 dogs his firm uses.

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Claims firms thrive on work comp business

By STUART EMMRICH

NEW YORK—In what may be one of the fastest growing and most competitive of the risk management services markets, claims administrators are falling all over themselves trying to scoop up new accounts from the growing number of self-insurers.

Claims administrators are apt to handle claims for such self-insured programs as health benefits, property and even product liability risks, but self-insured workers compensation programs provide the foundation of the claims administrators' business.

And with the hordes of companies turning to self-insurance of workers compensation, business is growing all the time. Today it's exploding into a billion-dollar indus-

Risk Management Services

try, with hundreds of firms scrambling for a share of the increasingly lucrative market.

Claims administrators have also sharpened their wares. What a few decades ago was just processing claims filed by employees has become a "full service" claims administration program. The new catch words encompass tasks from helping a company start a self-insurance program to tracking down that unscrupulous worker collecting a disability paycheck at home for one job when he is working at another.

Indeed, claims administrators offer just about everything an insurance company does—except a policy.

There doesn't seem to be any immediate slowdown in this highly competitive field, either, with increasing numbers of firms turning to self-insurance to cut business costs.

"Workers comp is one of the easiest things to self-insure, because the dollars are easy to see. When a company is thinking about self-insurance, workers comp is one of the first things it tries," explains James Schram, vp of marketing for Employers' Self-Insurance Services (ESIS), one of the oldest and largest firms in the business.

While more self-insurers are deciding that while they want the

savings that doing away with an insured plan may bring, they don't want the administrative hassles brought with them, the administrators say.

Of the 300 self-insurers in California 10 years ago, about two-thirds administered their own claims, said one official. Now there are about an estimated 1,350 firms and 900 public entities self-insuring workers comp; approximately two-thirds of them purchase outside services.

Services firms realized in the last decade how lucrative selling services to self-insureds can be. In California alone, 63 administrators are now licensed to do business in the state; 11 years ago, there were just 10.

Competitors in the field gener-

ally fall into three categories:

- Independents, such as Crawford & Co. of Atlanta and the New York-based General Adjustment Bureau (GAB).

- Subsidiaries of insurance companies trying to recoup some of their premium losses, such as ESIS (Insurance Co. of North America), National Loss Control Service Corp. (Kemper Cos.) and Underwriters Adjusting Co. (Continental Insurance Co.).

- Insurance brokerage firms that have realized this is one more potential area for profit. Among the leaders are Alexander & Alexander, Frank B. Hall & Co., Arthur J. Gallagher & Associates, Fred S. James & Co. and Marsh & McLennan.

Also in the field are hundreds of small, one or two-person firms that generally handle a few clients in one geographical area.

The brokerage firms now involved in risk management services are perhaps the most competitive. The older, larger claims management services firms—R.L. Kautz of Los Angeles, Crawford & Co. of Atlanta, Gates, McDonald & Co. of Ohio and ESIS—have already created their niche in the field and are basically trying to hold onto it.

But the brokers, some of whom just got into the field in the past decade, see limitless potential business.

"There is no doubt in my mind that risk management services is going to be the fastest growing part of our company in the next few years," says A&A's vp James Paulding. A&A has provided these services for about 10 years, Mr. Paulding said, but decided four years ago that "the demand is there, we might as well go ahead" with forming Alexis to handle the business.

Like his competitors in the field, Mr. Paulding sees other benefits from the business besides the revenues from handling claims. "We of course hope that our clients will like us so that they will go to A&A for their other needs. I think that is in everyone else's mind," he said. "We expect to see a payoff in a few years."

Mr. Paulding admits that Alexis can't go after the share of the market held by such giants as ESIS and GAB, but says he doesn't want to. "I may not be able to compete with the really big firms, but that is not important to me. What is important is that we are equal or superior to the companies who really are our competitors, Frank B. Hall, Marsh & Lennan and the others."

Brokers selling services to self-insurers generally agree the product will pay off in other areas and is a natural addition.

Marsh & McLennan's vp James Lee said all of his 12 clients have come through contacts with M&M account executives, usually because excess insurance is being bought through the firms. But he and others in the business stressed that there is never a mandatory tie between purchasing one service from the company and being obligated to purchase another.

However these companies get their business, they must be doing something right. Everyone reported that profits and the number of clients have substantially increased in the past few years, with no slowdown expected soon.

ESIS says its revenues approached \$5 million last year, an increase of almost 25% over the previous year. Frank B. Hall reported a growth rate of between 20% and 30% last year, as did Underwriters Adjusting Co.

And the profits weren't just be-

Continued on page 84

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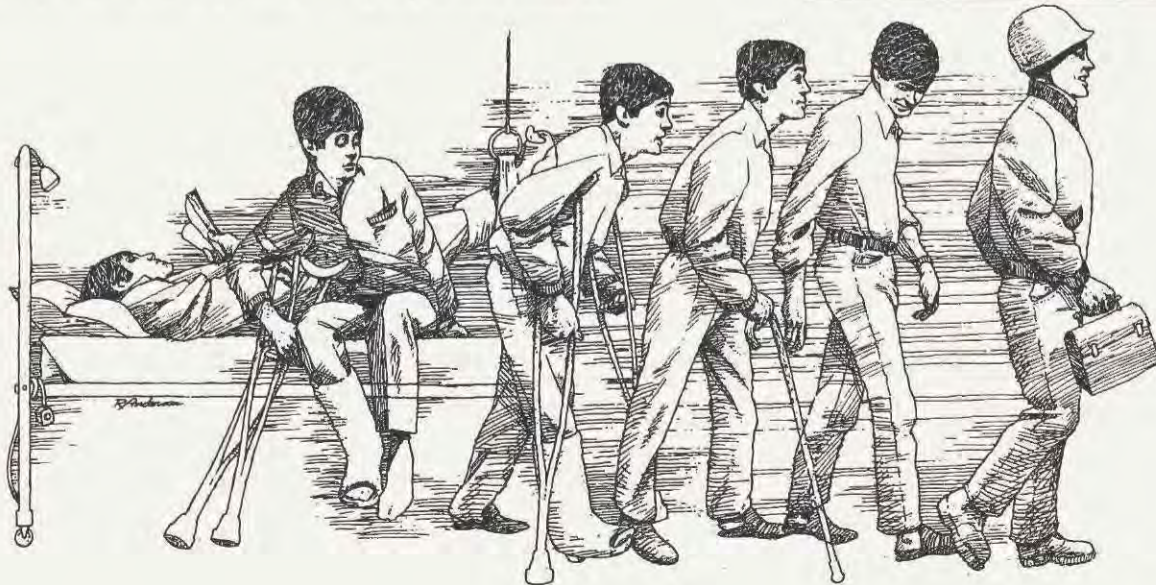
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Claims firms . . .

Continued from page 82
ing funneled to the big firms in the field. Hewitt, Coleman & Co., a small firm operating in the Southeast saw its business double in the past year. President Jim Lane says part of the growth is due to an advance selling job by advocates of self-insurance. "Self-insurance services used to be so hard to sell because no one ever heard of them, so they didn't believe they could be any good. Now they have heard of them."

The growing demand for claims services is so great, some company executives say, that firms sometimes have to turn away business.

"We grew between 50% and 100% last year, but we could have grown even faster if we had taken all the business that was available to us," says Mr. Paulding of Alexsis.

"In time the business is going to have to slow down and we wouldn't want to gear up and then cut back. We want to grow at a slower pace, just competing at the top

of the scale. We will lose some to get the ones we really want," he said.

All of the multi-state firms, small or large, usually offer the same broad range of services, with each trying to convince clients that its particular method of doing business is the best for their needs.

Fees can be charged in any number of ways: a percentage of claims paid, a percentage of payroll, an average price per claim handled, a percentage of normal premium, a fee per number of man hours spent on the claim or a flat fee for a range of services. Administrators wouldn't divulge their specific charges, explaining they varied from client to client.

Industry sources, however, note that the fees that claims administration companies charge self-insured clients to handle their workers compensation claims vary with the kind of service offered.

An administration company that provides loss control and safety engineering services may charge a fee equal to between 8.5% and 10% of the premium the client previously had to pay for workers compensation insurance. If only administrative services are offered, the fee might run between 4% to 5% of the premium.

Other administrative firms simply will charge a minimum fee and then tack on a surcharge of \$50 for a medical only workers compensation claim and up to \$140 for every claim involving lost time that it handles.

Most large companies that self insure seem to opt for the fee based on individual claims, with almost none going for the percentage of claims paid. They are reluctant to base their costs on how much the administrator pays out, for fear of providing an incentive for higher claim payments.

The smaller independents also offer a wide range of price schedules, but many seem to favor charging a percentage of what the insured premium would have been, especially for smaller clients.

Not many of the administrators favor a flat fee plan, although most municipalities, the fastest growing source of new clients, usually want to pay through this method because they must budget at the beginning of each year.

The administrators all claim special advantages. Kautz and GAB stress their years in the business and their heavy dependence on administering claims for their living. ESIS and UAC emphasize their ties with insurance companies, which they say gives them additional backup expertise. The brokerage firms such as A&A, M&M and Frank B. Hall, say they are introducing sophisticated techniques to the business.

But they all agree that their push to provide "full service" is what



Claims services don't have to sell themselves anymore, says Hewitt, Coleman president Jim Lane.

will continue to make them competitive. "If we don't do a good job in loss control, we won't have a client very long, no matter how good we are at paying out claims," said Hewitt, Coleman president Jim Lane.

"We're not just a service organization that pays claims; we do much more than that," said Fred Minchik, vp of NATLSCO. "We provide complete claims management services, including accident scene interviews and interviews with the doctors. We even go so far as a sub rosa technique of finding out about the guy who is collecting disability payments at home while out working a second job if we have to."

Administrators are also placing more emphasis on helping clients trying to cut losses by offering safety consulting services. ESIS even has a "safety school" in Houston. The school backs up such ESIS services as plant inspections, on-site educational programs about safety hazards and safety-training programs.

Administrators say the services they provide are just as important to the potential for saving money as going self insuring—if not more important in some cases.

"Many risk managers are interested in self-insurance for more than cash flow reasons," says James Lee of Marsh & McLennan. "Some have told me that they weren't getting what they needed from the carriers on workers comp."

"In workers comp, to handle a claim properly, you have to give it a lot of attention. You need contact with the doctor and the employee. When the doctor says the employee can go back to work, you have to make sure he does. Risk managers tell me that carriers just aren't working the claims like they should. The whole idea is to minimize the losses."

Edward Hollingsworth, vp at Frank B. Hall & Co., agrees. "When clients come to us they are surprised at the individual service we give them, how we tailor the program to their needs. They thought they were going to get the kind of standard treatment as they did from most insurance companies," he said.

Other competitors add that they have added business by emphasizing what some clients see as a difference between them and insurance carriers.

"We are small and flexible. We don't go on a time schedule as far as safety engineering goes—This account pays us so much money, so we can only spend so much time on it—for instance. We do it on a need basis. Some people get service from us two days a week, others just one day a month," said Bruce Buckler, president of Buckler, Irvin & Graf.

Scott Wetzel Services Inc. even goes so far as to assign a full-time person just to one account, if the volume is large enough to warrant it.

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Robert Hughes Associates Inc., a firm of independent risk management consultants, has been formed in Dallas by Robert Hughes, CPCU, ARM, a consultant formerly with RIMCO Inc. in the same city. Mr. Hughes was with RIMCO since 1972 and was executive vp of the firm when he left to form his own company. Also named officers of the new firm were: Robert R. Shaw, vp-operations, who had been a principal and senior consultant with another firm, after being a broker for several years, and Glen A. McCleskey, CPA, vp-finance, formerly risk manager for Lincoln Property Co. and a chief financial officer and controller for several other industrial firms.

Claims firms specialize in workers comp

Brief profiles of some of the major firms with operations in more than one state to process workers compensation claims for self-insurers follow.

Alexsis

3 Piedmont Center, Atlanta, Ga. 30305; 404-261-3400. Contact: James Paulding, managing vp.

A wholly owned subsidiary of Alexander & Alexander, this Atlanta-based risk management services company employs a staff of 300, a 10% increase over last year. They are scattered throughout 20 of A&A's 100 national offices, mostly in the larger cities east of the Mississippi.

Formed just four years ago, Alexsis brought in "between \$10 million and \$100 million" in revenues last year, according to Mr. Paulding, who would pin it down only to "closer to \$10 million than \$100 million." Two years ago, total revenues just reached \$2 million.

The firm now has approximately 200 clients, a rate that is increasing 50% to 100% annually, Mr. Paulding said. Most of the clients, including some auto manufacturers, electronics and aviation firms, are multi-state operations, he said.

Fees are negotiable.

Aetna Technical Services

151 Farmington Ave., Hartford, Conn. 06156; 203-273-3596. Contact: Robertson Mackay, president.

Chartered in 1972 as a wholly owned subsidiary of Aetna Life & Casualty, Aetna Technical Services has been offering claims services since 1974 in all 50 states. Besides a management staff of about 30 people, Aetna Technical also has a contract with Aetna Casualty & Surety Co. to use its 3,500 employees to do field work out of 260 offices.

Clients using the service for their self-insured workers comp programs number less than 100, Mr. Mackay estimated, adding that business is "growing substantially."

Most clients opt for a guaranteed cost program when working out fees, such as an average cost per claim, or a percentage of claims either incurred or paid. Aetna also offers an all-inclusive hourly rate at \$40 an hour, but Mr. Mackay said few firms choose this rate because it doesn't provide an easily identifiable "price tag."

Brown Brothers

545 Sansome, San Francisco, Calif. 94111; 415-392-2825. Contact: Orlo Hill, director of special risks division.

Although Brown Brothers has been handling workers compensation claims for 29 years, the company just formed a special division for that purpose in January. Approximately 10 employees in San Francisco and 20 in Los Angeles administrate claims for almost 30 clients based on the West Coast.

Clients include two transportation companies, a charitable organization and some public entities.

Rates are mostly based on a flat fee for medical only claims or an hourly fee for lost-time claims.

Business has been increasing at a rate of almost three new clients a month, according to the company.

Buckler, Irvin & Graf

48 Mt. Vernon St. Winchester, Mass. 01890; 617-729-4878. Contact: Bruce Buckler, president.

Handling only workers compensation claims for self-insurers, this company concentrates its opera-

tions in six New England states. Approximately 20 employees, up 10% to 15% over last year, work in the main office. They serve about 50 clients, also estimated to have increased 10% to 15% since last year.

Clients include Massachusetts General Hospital, K-Mart Corp., Exxon, Litton Industries and some local governments. Most pay this 50-year-old company a percentage of what they would have paid as premiums under an insured plan, although several opt for other al-

Risk Management Services

ternatives, such as a set fee for each claim handled or a percentage of claims paid.

Crawford & Co.

PO Box 5047, Atlanta, Ga. 30302; 404-256-0830. Contact: C. C. Lefler, senior vp of marketing.

One of the largest companies in the field, Crawford has 4,000 employees in 70 branches. Services are available in each of the states that allows self-insurance of workers comp.

Crawford has been offering claims management services for the past seven years and it is one of the fastest growing departments of the 40-year-old company, with 100% increase in business each of the past two years.

Fee structures are flexible, with options including a time-and-

expense formula, a flat rate for claims handled, a percentage of claims incurred, or a fixed fee for a broad range of services beginning with setting up the self-insurance program to investigating fraud.

Clients include a wide range of manufacturing firms, food service companies, fast-food chains, retailers and municipalities.

ESIS

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Claims firms . . .

Continued from previous page

Los Angeles, Calif. 90010; 213-480-4600. Contact: James Schram, vp of marketing.

One of the pioneers of claims administration services, ESIS, a subsidiary of the Insurance Co. of North America, has been handling workers comp claims since 1955. Besides its three regional offices in Los Angeles, Chicago and New York, ESIS also has 160 claims offices around the country, with an estimated 300 employees working in the area of workers comp.

Revenues reached almost \$5 million last year, an increase of between 20% and 25%, according to Mr. Schram, who predicted the same rate of growth to continue in 1980.

Clients include Ford Motor Co., Shell Oil, Borden, Green Giant and

the Dept. of the Army.

Fees are flexible depending on client's needs, but the most popular method is an average price per claim handled. The least used is a fixed fee cost.

Gallagher Bassett Insurance Services

10 Gould Center—East Tower, Chicago, Ill. 60008; 312-640-8555. Contact: John C. Campbell, president.

Formed in 1963, this wholly owned subsidiary of Arthur J. Gallagher & Assoc., handles workers comp claims for about 150 clients across the country. The staff was recently increased to 310 employees working in 56 offices, including five new offices opened this year.

Like most other firms, Gallagher Bassett offers property and casu-

alty loss prevention programs besides its workers comp services.

From just six initial clients 16 years ago, Gallagher Bassett has increased its business steadily over the past decade. Revenues have been going up at an annual rate of 40% the past five years.

Fees are geared to the clients' specifications.

Gates, McDonald & Co.

PO Box 1944, Columbus, Ohio 43216; 614-227-7211. Contact: Dave Parker, vp of workers comp.

Gates, McDonald, with 26 district offices and approximately 325 to 350 employees, is another leader in the field of claims administrators of workers comp. Its only weak areas are some Rocky Mountain states, with few clients there.

The number of employees and clients both grew at this company last year, with staff increasing by about 15% and clients climbing to about 750, a rise of approximately 60 over

a year ago.

Mr. Parker estimated that revenues in the area of workers comp claims were up almost 20% last year, accounting for about half of the company's total \$20 million revenues from claims services.

Clients cover a wide range of industries, with a heavy representation from governments. Claims handling fees are flexible at this 50-year-old firm. "We know what we need to handle the client," Mr. Parker said. "They can pay us through almost any method they want."

Gates, McDonald is owned by Nationwide Corp., an insurance holding company.

General Adjustment Bureau Inc.

123 William St., N.Y., N.Y. 10038; 212-964-3300. Contact: Irving Gray, self-insurance product manager.

Although not all of GAB's 5,200

employees work in the area of workers comp claims, enough do in the company's 650 offices so that services are provided in all states allowing employers to self-insure. There are also special workers comp regional offices in Austin, Tex; Los Angeles; Chicago; San Jose and New York.

Approximately 800 clients are handled by GAB, covering many different industries.

While asserting that his company is doing well in a very competitive market, Mr. Gray shied away from releasing figures about his company's revenues or fee structures. "I have found no advantage in doing that. People know who we are. We don't have to notify them," he said.

GAB has been handling workers comp claims since 1947.

Frank B. Hall & Co. Inc.

549 Pleasantville Road, Briarcliff Manor, N.Y. 10510; 914-769-9200. Contact: Hunter Long, vp.

This large brokerage firm has four subsidiaries handling workers comp claims in seven states, employing approximately 250 people.

The company has about 5,000 clients, but many of those are small employers, according to Edward Hollingsworth, vp. Many belong to associations or pools for their workers comp programs.

Business has been increasing between 20% and 30% this year, with no slowdown predicted in the next year. Clients pay on a system geared to their requirements, although most follow a cost-per-claim structure. Mr. Hollingsworth said only a tiny number of clients, the smallest ones, pay a flat fee for services.

The Hall subsidiaries that handle workers comp have been in existence anywhere from 2½ to 30 years.

Hewitt, Coleman & Associates

3311 Poinsett Hwy., PO Box 3665, Greenville, S.C. 29608; 803-242-4350. Contact: Jim Lane, president.

Although this 56-year-old company mainly works in the Southeast with four claims offices in South Carolina, Florida, and Mississippi, it does have some clients in the Midwest. About 2,000 clients are participants in employer associations, another 75 are independent firms that self-insure.

Business has doubled in the past two years, according to Mr. Lane, with more clients signing up this year.

Most of its customers pay a fixed fee worked out between the company and the client with Mr. Lane saying he tries to stay away from a percentage-of-claims-paid for structure.

About 90% of the company's revenues come from handling workers comp claims, Mr. Lane said.

Most of the group clients come from the lumber and construction industry; many of the individual clients are local and regional governments.

Fred S. James & Co. Inc.

230 W. Monroe St., Chicago, Ill. 60606; 312-726-4080. Contact: Bob Young, vp of self-insurance services.

Another large brokerage firm that got into the claims administration business in the past decade (1971), James has about 600 clients served by 225 employees in 30 regional offices around the country.

Business has increased about 15% in the past year, with even higher growth rate predicted for next year by Mr. Young. The claims services branch of James brings in about 10% of the

Continued on page 88



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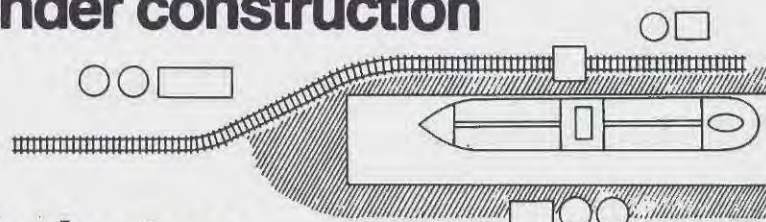


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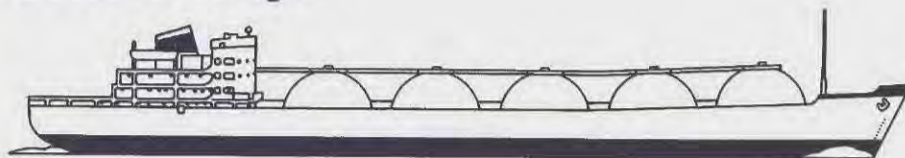
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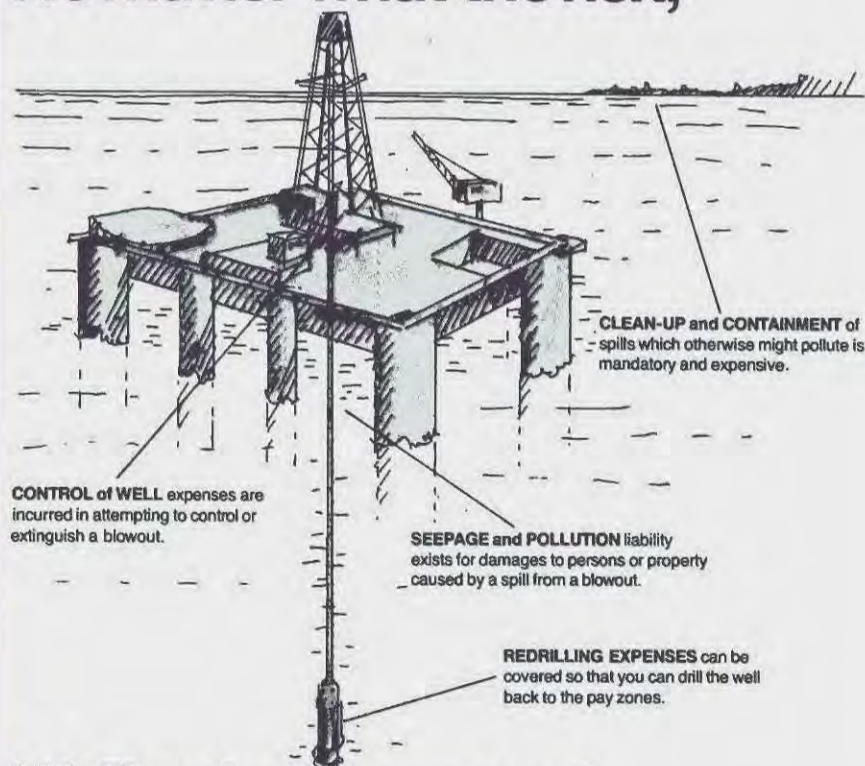
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Claims firms . . .

Continued from page 86

company's annual revenues, and Mr. Young expects that percentage to increase in the coming years. Claims services now bring in annual revenues in the "eight figures" range, he said.

Clients, most of whom pay on a cost-per-claim basis, include a \$2 billion paper company, a \$6 billion food company, a large hotel chain and the country's largest manufacturer of blue jeans, Mr. Young said.

R.L. Kautz & Co.

1800 Avenue of the Stars, Los Angeles, Calif. 90067; 213-556-1111. Contact: Al Schmidt, president.

R.L. Kautz has eight regional offices, most of them in California, handling about 500 clients. The firm employs 273 people.

Although the firm's clients are spread around the country, not many are located in the South. Clients include Xerox, Norton Simon, United Parcel Service, Bell & Howell, Folger Coffee and Fotomat Corp.

Fees are usually based on an analysis of three years' claims experience, with Kautz usually charging a flat fee for the first year of its services based on that analysis. After the initial year, the fee is then computed based on a percentage of normal premium for an insured plan, a percentage of payroll or some other method worked out by the client and company.

About 80% to 90% of the company's income comes from workers comp services.

Marsh & McLennan Claims Management Services

1221 Ave. of the Americas, New York, N.Y. 10020; 212-997-2000. Contact: James Lee, vp.

In percentages, M&M's claims services department is one of the fastest growing in the field, registering increases of 300% between 1977 and 1978 and 400% between '78 and '79. But the actual increase might seem a little less than that; only five new clients were added in the past 18 months, bringing the total to 12. M&M's base is relatively small.

Still, whatever measure is used to gauge M&M's growth in this area, the result is fairly impressive. Last year's revenues were \$1.1 million, compared with \$300,000 the previous year. There are now 12 employees in the company's New York headquarters handling workers comp claims, with an additional 14 in seven regional offices around the country. Mr. Lee said he plans to add three or four more employees before the end of the

year and about 15 more in 1980.

Clients include a large food market chain, a Southern fabric mill, a department store chain and Rutgers and Syracuse universities.

Rates are usually based on a fee-per-claim basis, although some clients with a large volume of claims are eligible for a fixed fee structure.

National Loss Control Service Corp.

Long Grove, Ill. 60049; 312-540-2000. Contact: Fred Minchik.

A subsidiary of the Kemper Cos., NATLSCO has about 400 to 500 employees working in 112 branch offices. Some share working space and staffs with Kemper, while others, servicing large firms or markets stay independent.

The company's overall revenues increased about 30% a year over the past three years, with the self-insurance services growing at a rate of about 20% a year during that

time. It is estimated that about 20% of the company's income comes from handling self-insurance claims.

Like other companies, the 11-year-old NATLSCO has a flexible fee structure, with the actual form and amount of rate based on clients' loss history and size of staff.

Rasmussen Agency

62 Halstead St., East Orange, N.J. 07019; 201-675-3940. Contact: William Small, vp.

The 45-employee agency works primarily in the New Jersey area, handling claims for state-based businesses, as well as national firms with New Jersey operations. But the majority of its business comes from handling workers comp claims for municipalities, including some of the state's largest towns. Rasmussen now handles claims for about 20 government entities, many of those added during the past year.

Underwriters Adjusting Co.

80 Maiden Lane, New York, N.Y. 10031; 212-374-2251. Contact: James McLain, vp of marketing.

UAC, a subsidiary of Continental Insurance Co. has about 30% of its 4,000 employees handling workers comp claims for about 150 clients. Claims are handled out of 300 service locations around the country, in all states except Alaska.

Business has been increasing at an annual rate of about 30%, although company officials did not disclose actual revenues.

Most clients, which include oil and gas companies, food industries, space and technology firms and computer companies, use a flat-fee-per-claim rate structure.

South-West Safety & Claims Services Inc.

PO Box 4014, Tulsa, Okla. 74152; 918-932-3641. Contact: C.A. Towne, secretary-treasurer.

This 29-year-old company mostly handles claims in the southern and western parts of the country, but the nine-person staff will soon be expanded to include a branch office in Arkansas.

About 50 clients brought in an excess of \$500,000 in revenues last year, an 30% increase over the previous year. Clients increased by 10% to 15%.

Fees are usually based on a percentage of normal premium for an insured plan.

Scott Wetzel Services Inc.

500 Pacific Ave., Suite 700, Brentmerton, Wash. 98310; 206-479-0200. Contact: Scott Wetzel, president.

Approximately 70% of the company's 360 employees in 17 offices handle workers comp claims. They cover 11 states, mostly in the West and Midwest. The Home Insurance Co. affiliate has about 220 clients, an increase of 120% since 1977. Some of the largest clients of the 37-year-old firm include Safeway, Sunbeam and Royal Crown Cola. Revenues have doubled in the past two years.

Scor Re joins joint venture

DALLAS—Scor Reinsurance Co. here and Dai Tokyo Fire and Marine Insurance Co. Ltd. of Tokyo, Japan, have formed a joint reinsurance venture known as Southwest International Reinsurance Co. (SIRCO).

Handling all lines of property and casualty reinsurance, SIRCO began business with \$2.5 million capital and \$6.5 million surplus, which is jointly shared by the two parent companies, Scor owning 49% and Dai Tokyo owning 51%. ■

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CNA enters limited libel/slander market confident of profits

By MARY ELLEN McKEE

CHICAGO—CNA Insurance Co. is venturing into the rather limited slander and libel insurance market with a new program, confident it can make money on the risk many fear to underwrite.

Already a dozen large, national companies have signed up for the program, boasts Richard A. Duer, account executive for CNA's associated property and casualty division who spearhead the new program. Most of the companies are publishers and three broadcasters are waiting to sign up when their renewals come up, Mr. Duer said. CNA wouldn't reveal the identity of its new clients.

The Chicago-based company is entering a market where there are few competitors, namely Employers Reinsurance Corp., Firemen's Fund, Seaboard Surety and Lloyd's of London.

"Admittedly, there are some scary factors about this kind of coverage," Mr. Duer said. "We have so few competitors because most companies are afraid to enter markets with so little data available." CNA's program offers flexibility for the insured to make it attractive, but also has controls to make it profitable, according to Mr. Duer.

CNA is restricting marketing in the first year of the program to individual accounts generating at least \$20,000 in premiums. "Since there is very little experience data and information about this kind of coverage available, we are being a little selective at the onset of the program," Mr. Duer explained. CNA intends to expand the program to smaller companies in the future, but "the larger the account the better now so we can spread the losses when the smaller companies sign up later," Mr. Duer noted.

The program offers liability limits ranging from \$100,000 to \$5 million. Deductibles on losses which also may apply to legal and investigative fees range from \$2,500 to \$250,000.

Policyholders are permitted to retain their own counsel and settle their own claims under the CNA program, a novel feature according to Mr. Duer.

"Publishers and broadcasters are justifiably protective of their first amendment rights," he said. "Sometimes they harbor the concern that their insurance company may pressure them into a settlement which they oppose on constitutional grounds. This program is set up to allay those concerns," Mr. Duer said.

"Our insured is completely free to defend itself as it sees fit," Mr. Duer emphasized. At the same time, the insured can call on the expertise of Media/Professional Insurance Inc. of Kansas City, underwriting managers for the program. Its president, Larry Worrall, is a 16-year veteran in the libel and slander field and former vp and senior claims attorney for Employers Re.

The major cost in libel and slander claims are defense costs and the long duration of most of the cases, Mr. Duer noted.

Larry Worrall and the Media/Professional staff can guide a company's libel and slander attorneys in various locations and work with the corporate attorney

to familiarize them with libel and slander considerations, eliminating these double costs, Mr. Duer said.

CNA will review three factors before underwriting the coverage for a publisher or broadcaster: management attitude of the company requesting coverage, especially the interaction between the corporate counsel and the risk manager; the ability of a company to police possible libel and slander exposures, and the legal environment in the states of operations.

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What's up in the industry

'Mega brokers' may upset traditional brokerage ranks

LONDON—This could be the year of the "mega broker" if U.S. jumbo brokers Marsh & McLennan Inc. and Alexander & Alexander Inc. complete their combinations with London counterparts, says U.K. insurance stock analysts Kitcat & Aiken.

In its ranking of the top 12 international brokers, the British financial analysts called the proposed combinations a "new force" in the industry and predicted brokerage revenues of well over \$500 million

and premiums of over \$3 billion for the largest combinations.

Marsh & McLennan Inc., which topped the Kitcat & Aiken rankings for 1978 with over \$421 million in brokerage commissions and fees, had previously announced combination or revenue pooling plans with the seventh ranked broker, C.T. Bowring. Bowring amassed an estimated \$125 million in commissions last year, according to the report.

U.S. broker Alexander & Alexander Inc., which placed second in the ranking with \$267.3 million in commissions last year, could take over leadership as the largest "mega broker" if the firm's intended combination with the merged Sedgwick Forbes/Bland Payne comes off.

The Sedgwick Forbes/Bland Payne group, whose merger was completed early this year, moved into the third spot of the Kitcat & Aiken ladder with an estimated

Top 12 Worldwide Brokers

1978 group broking commissions and fees

Marsh & McLennan	\$421.1
Alexander & Alexander	267.3
Sedgwick Forbes/B.P	200 (estimated)
Frank B. Hall	181.1
Reed Stenhouse	134.1
Fred S. James	129.2
C.T. Bowring	125 (estimated)
Corroon & Black	108.4
Stewart Wrightson	86.1
Alexander Howden	85 (estimated)
Willis Faber	70.4
Minet	67.1

All figures are expressed in millions of dollars.

combined commissions of about \$200 million in 1978.

The merged group has already caused a shake-up in the traditional order by bumping Frank B. Hall & Co., Reed Stenhouse and Fred S. James & Co. each down one notch from last year to fourth, fifth and sixth, respectively.

Johnson & Higgins, believed to be the third largest U.S. broker, was not included in the ranking of brokers, because as a privately held company, J&H is not required to publish comparable revenue reports as are the publicly held companies. But, according to Kitcat & Aiken, "if its figures were published, it would probably fall into third position in the table."

C.T. Bowring, whose proposed combination with the leader Marsh & McLennan has not been completed, remained in the seventh spot, "hard on the heels of both James and Stenhouse, afflicted, as is the latter by a weak domestic currency unit," noted the report.

Corroon & Black, still waiting on a proposed combination with Lloyd's broker Minet, held its eighth position, ahead of Stewart Wrightson, Alexander Howden, Willis Faber and Minet, which ranked ninth, tenth, eleventh and twelfth respectively.

The revenues of broker R.B. Jones, one of the top 10 in the United States until it merged with A&A last year, were not included with the commissions and fees report of Alexander & Alexander. The brokerage revenues of Jones are expected to secure the number one ranking for the Alexander & Alexander/Sedgwick Forbes/Bland Payne group upon completion of its combination plans.

By Len Strazewski

A Risk Management Program Without A Loss Recovery Contingency is Incomplete.



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Airline, rail deaths drop in 1979

WASHINGTON—While highway deaths are on the rise, the number of fatalities in other transportation modes is declining, reports the National Transportation Safety Board.

For example, 1,709 persons died in aviation accidents in 1978, a drop of 240 deaths from the 2,049 fatalities recorded in 1977.

Six hundred thirty-two persons died in railroad accidents last year compared to 644 fatalities in 1977. However, the number of persons who died in grade crossing accidents jumped to 1,064, up from 1,001 deaths in 1977.

In all, more than 55,000 persons died in transportation accidents in the U.S. in 1978, a 4% rise over the previous year. Highway accidents, in which 50,145 persons lost their lives, was the cause of the greatest number of transportation fatalities. Highway deaths jumped 5% from 1977.

legal brief

Policy covers doctor with lapsed license, Georgia court rules

A Georgia appellate court ruled that the fact that a professor of medicine's institutional license to practice medicine was permitted to lapse by a university school of medicine for a period during which he continued as a professor and saw patients did not prevent him from being a "physician" during such period within the meaning of a group insurance policy.

Edward Grenwald was treated by Dr. Richard P. Michael, an English physician, who held an institutional license to practice medicine under the supervision of a physician of the Emory University School of Medicine. Mr. Grenwald and his wife were treated during the period of June 1973 until February 1977.

Under Georgia law, institutional licenses were issued for 12-month periods to persons employed by medical colleges upon request of the dean. Somehow, Dr. Michael's license was allowed to lapse from October 1973 to August 1975.

However, Dr. Michael continued as a full professor and saw patients throughout this period. Mr. Grenwald was covered under a group Blue Cross insurance policy which defined physician as "Any doctor of medicine... licensed by the composite board of the state of Georgia

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

or similar board of any other state..." Mr. Grenwald sought reimbursement for medical bills submitted and which were refused by Blue Cross plus bad faith penalties and attorney fees. The trial court denied the penalties and fees but awarded Mr. Grenwald his medical reimbursement claim.

On appeal, Blue Cross insisted it was not obligated to pay any claims during the period in which the license was not renewed because Dr. Michael was not then a "physician" as defined in the policy. The court pointed out that Georgia law did allow medical school graduates to practice medicine under proper supervision. The court believed Dr. Michael was in compliance with that law. The court emphasized that Mr. Grenwald should not be "penalized through the too-technical construction of a licensing requirement over which neither he nor his doctor had any control."

While the court agreed that Mr. Grenwald should recover medical benefits under the policy, it denied any assessment against Blue Cross for bad faith because the question of law involved here was one of first impression in Georgia. *Blue Cross of Georgia/Atlanta v. Grenwald*, Court of Appeals of Georgia, Nov. 28, 1978 (BI/02/Ju.-\$4).

Punitive damages

In a case of first impression in California, a state appellate court ruled that insurance may not validly cover liability for punitive damages. Thus, the court held that an insurer under a general liability insurance policy was liable to its insured only for compensatory damages.

City Products Corp. was insured

with Globe Indemnity Co. under a general liability policy that provided coverage for damages payable to persons or organizations arising out of false arrest, detention or imprisonment, or malicious prosecution.

In a separate lawsuit, City Products was adjudged liable to a third
Continued on following page

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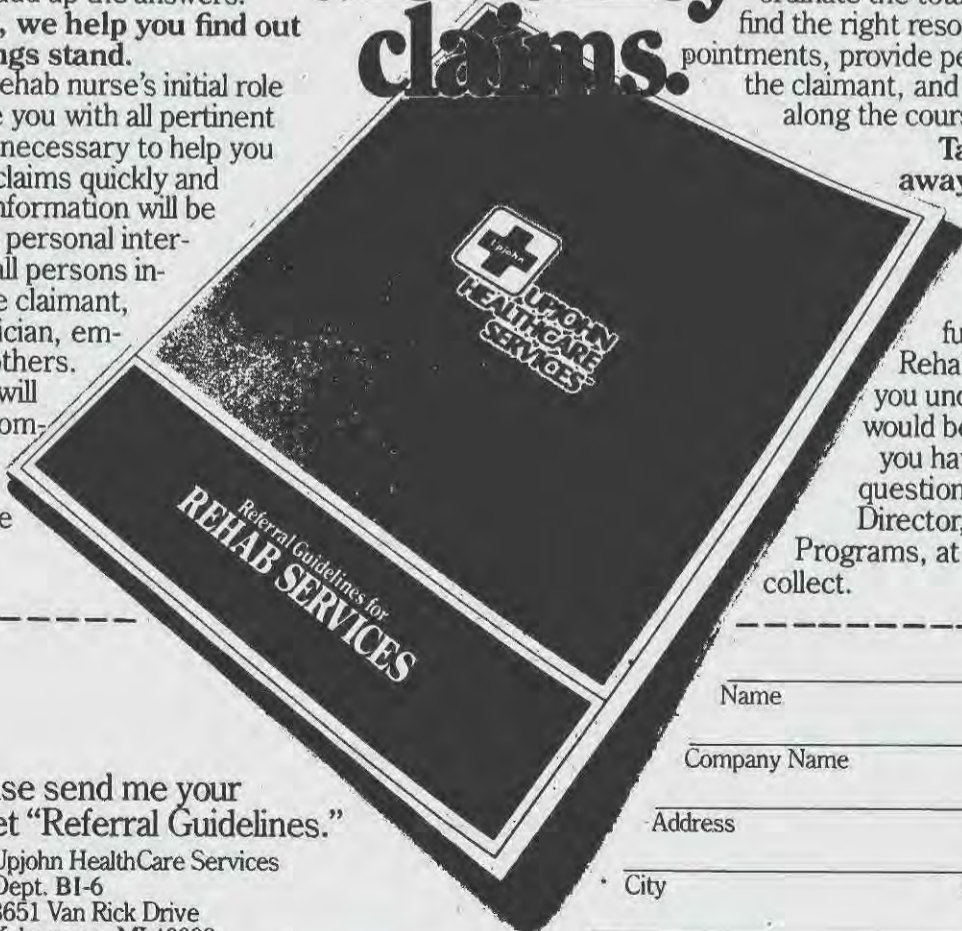
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Legal briefs . . .

Continued from previous page partly for malicious prosecution and damages were allowed in the amount of \$2,725 for compensatory damages and \$10,000 for punitive damages. Globe paid the compensatory damage but refused to pay the punitive damages. City sued Globe to recover under the general liability policy. The trial court dismissed the suit.

On appeal, the insurance company contended that an indemnity against punitive damages violated the public policy of the state. The court acknowledged that there was a sharp split of authority nationwide on this issue which had never been squarely addressed in any California appellate decision. The court said that the primary purpose of punitive damage awards is for "punishment and deterrence." According to the court, this policy "... would be frustrated by permitting the party against whom they are awarded to pass on the liability to an insurance carrier." *City Products Corp. v. Globe Indem. Co.*, California Court of Appeal, Jan. 4, 1979 (BI/01/Ju.-\$4).

Insurer's bad faith

Does an insurer's bad faith refusal to settle an insurance claim give rise to an independent basis for suit for breach of a duty owed to the insured?

The Supreme Court of Rhode Island ruled that there was no cause of action for the bad-faith withholding of a payment under a standard fire insurance policy.

The Aetna Casualty & Surety Co. issued A.A.A. Pool Service & Supply Inc. (AAA) on or about July 1, 1974, a standard fire policy in the amount of \$27,000 insuring a building it owned. About July 4, 1974, a fire totally destroyed the insured premises. AAA submitted a proof of loss to Aetna. Aetna refused to pay the claim.

AAA sued Aetna in the Rhode Island federal court seeking punitive as well as actual damages. The claim for punitive damages was based on the assertion that Aetna had acted in bad faith in refusing payment. Because neither the Rhode Island courts nor the legislature had specifically addressed this issue, the federal court sought clarification from the state supreme court.

The state appellate court recognized that there was differing opinion among the various jurisdictions that have considered the question. Some had held that the law of contracts ordinarily limits damages for nonperformance to pay a liquidated sum of money to the sum of the money itself. California, the court said, has led the way for the position that in insurance contracts, just as in other contracts, the parties impliedly agree to act in good faith and that an insurer who violates that agreement by unfairly and without good cause withholding payment of a claim is subject to a suit.

This court, however, chose to take the view that the unfair denial of a claim does not entitle an insured to sue its insurer in tort. The court believed that it was up to the legislature to include within the prescribed standard form policy a provision expanding the liability of an insurer. *A.A.A. Pool Serv. Supply v. Aetna Cas. & Sur.*, Supreme Court of Rhode Island, Dec. 29, 1978 (BI/03/Ju.-\$4).

Improper loans

Is a suit against the former directors of a failed bank and its directors and officers liability insurer to recover damages for their alleged actions in permitting a bank officer to make improper loans a negligence action?

In a case of first impression in Wisconsin, a federal district court held that it was. Therefore, the court ruled that under Wisconsin law the insurance company could be sued directly without waiting until the liability of the directors had first been established.

MGIC Indemnity Co. (MGIC) provided directors and officers liability insurance to the Algoma Bank and its officers and directors. Allegedly, Algoma's president made numerous improvident loans causing the bank's insolvency. The bank was closed and the Federal Deposit Insurance Corp. (FDIC) was appointed its receiver.

In this suit, the FDIC sought to recover from both the bank's former directors and from MGIC for the losses caused by the actions and omissions on the part of the

directors and officers of the bank, including negligent acquiescence in the misconduct of the bank's former president.

MGIC sought to have the suit dismissed arguing that a breach of fiduciary duty was not "negligence" within the meaning of the Wisconsin statute that allowed an insurance company to be sued directly. The court rejected the argument because, in its opinion, the suit clearly showed that all the necessary elements for negligence were alleged including a duty of care which was breached, a causal connection between the conduct and the injury, and an actual loss as a result of the injury. *Federal Deposit Ins. Co. v. MGIC Indem. Corp.*, U.S. District Court for the Eastern District of Wisconsin, Dec. 13, 1978 (BI/04/Ju.-\$4).

Employee defined

Is an employee who resigned from his position with his em-

ployer covered under a group health and life insurance policy where the parties agreed that thereafter the employee would be paid according to the amount of work that he performed for the company? A Texas appellate court held that there was coverage because the policy defined a full time employee as one who worked 30 or more hours per week.

John Steele served as executive vp of the Canal Rental Tools Inc. from 1971 until his resignation effective Sept. 30, 1973. However, Canal and Mr. Steele agreed that he would continue to be paid, but according to the amount of work he did for Canal. Thereafter Mr. Steele continued to devote far in excess of 30 hours per week for the betterment of Canal until his death on March 23, 1975.

Mr. Steele's brother filed a claim for benefits against the insurer, Mutual Insurance Co. of New York. Under the policy an employee was "deemed to be employed on a

full time basis if, his normal work week for the employer is 30 or more hours. . . ." A jury awarded benefits.

On appeal, the insurance company argued that the jury should have been instructed that to constitute one as an employee there must have existed between the parties the relation of master and servant. The court said that definition might have been appropriate had the group insurance policy not defined the class eligible for employee insurance in the manner set out above. According to the court, these terms were clear and unambiguous and could not be disregarded. *Mutual Ins. Co. of New York v. Steele*, Court of Civil Appeals of Texas, Aug. 9, 1978 (BI/04/A.-\$4).

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

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dates for buyers

JUNE 21-22. The Health Insurance Assn. of America will hold a seminar in Chicago exploring the financial future of public and private **disability insurance** systems. Cost is \$150. Contact Health Insurance Assn. of America, 332 S. Michigan Ave., Chicago, Ill. 60604; phone 312-939-0801.

JULY 9-13. Union College is sponsoring a mini-course on industrial product **noise control** to be held in Schenectady, N.Y. Theory, measurement and economics of noise reduction and the basic nature of sound and noise control, noise criteria, vibration control and noise signature analysis will be discussed. Cost is \$595. Contact Professor William C. Aubrey, Union College, Schenectady, N.Y. 12308.

JULY 9-13. The Third Annual National Symposium on **Workers Compensation** will be held at the University of Maine at Orono. Participants include members of organized labor, employers, insurers, doctors, lawyers, government officials and educators. Co-directors are J. Howard Bunn and Robert B. Collyer. Cost: \$300. Contact Charles Sumwalt, Program Coordinator, National Symposium on Workers Compensation, 1721 Pine Street, Philadelphia, Pa. 19103; phone 215-735-0205.

JULY 9-13. An **International System Safety Conference** in San Francisco will cover a range of topics including nuclear safety. Subjects to be discussed with risk managers and consultants in mind are safety program management, economics of safety and advanced techniques for hazard analysis, Space Shuttle safety program, product safety and product liability and applications in transportation. Registration fees vary from \$135 to \$185. Contact J. Tom Powers, P.O. Box 731, Cupertino, Calif. 95014; 415-257-4045.

JULY 10-13. A Guide to Product Safety and Liability is the name of a technical seminar to be held in Schenectady, N.Y., by Union College. The program will focus on the latest laws and government rules on **product safety and liability**. Cost is \$475. Contact Professor Raymond Eisenstadt, Union College, Schenectady, N.Y. 12308; phone 518-370-6171.

JULY 10-13. Regulations and the price of **safety** is the theme of the System Safety Society's fourth international conference to be held in San Francisco. Cost is \$250. Contact System Safety Society, P.O. Box 731, Cupertino, Calif. 95014.

JULY 30-AUG. 1. Risk Management/Self-Insurance for Hospitals is a seminar prepared by Aspen Systems Corp. to be held in Boyne Falls, Minn. The seminar will examine today's malpractice crisis and approaches to liability protection: self-insurance, risk management programs and claims management programs. Cost is \$350. Contact Registrar, Aspen Systems Corp., 20010 Century Blvd., Germantown, Md.; phone 301-428-0700.

AUG. 13-17. The Business Seminars Institute Inc. will present a **Pension and Profit-Sharing** School and Seminar at Fairleigh

Dickinson University in Rutherford, N.J. The first two-day course will cover basic pension and profit-sharing; the last three days offer a choice of two seminars: retirement plan administration or retirement plan sales. The five-day program costs \$425; individual seminars are pro-rated. Contact Bill Spencer, Business Seminars Institute Inc., 428 Old Hook Road, Emerson, N.J. 07630; phone 201-967-1220.

AUG. 22-24. The National Assn. of Fire Investigators will conduct a seminar in Chicago on the **Cause and Origin of Fires and Explosions**. Cost is \$100. Write Patricia Cesak, Executive Secretary, National Assn. of Fire Investigators, 53 W. Jackson Blvd., Chicago, Ill. 60604; 312-939-6050.

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New field office

INA International Corp., a subsidiary of INA Corp., has opened a new field office in Seattle. Located in the Denny Building at 2200 Sixth Ave., the office will serve the Northwest territory of the U.S.

benefit tax slants

Courts, Congress may permit attachment of pension benefit

By JOSEPH S. ROBINSON
Attorney-at-Law

One aspect of ERISA's protection of employe benefit rights is the requirement that benefits provided under a qualified pension plan may not be assigned or alienated.

This rule supersedes state law and guarantees that pensions are sheltered from the claims of an employe's general creditors. Notwithstanding this rule, a number of state courts have taken the posi-

tion that, regardless of ERISA, the divorced spouse and dependent children of a covered employe can attach his benefits for the purpose of support under state law.

Benefit managers have thus been torn between upholding their fiduciary responsibilities under ERISA or honoring the decisions of state courts that permit garnishment of employe benefits for family support. But now, a federal court of appeals has ruled that while ERISA prohibits the alienation of employe benefits, a state

court's decree of support and attachment of plan benefits is not inconsistent with the intent of ERISA. Here's the story:

After 19 years of marriage, Addison and Ann Merry obtained a divorce in Connecticut. The decree required Mr. Merry to pay alimony and child support in the amount of one-half his retirement income from his company pension plan.

Shortly thereafter, Mr. Merry moved from Connecticut and discontinued all payments under the Connecticut decree. Mrs. Merry re-

sponded by obtaining an order from the Connecticut superior court to garnish the pension interest of the employe for the delinquent payments.

The federal court ruled that a state court's order of garnishment against qualified retirement plan benefits was perfectly valid when the liability for payment is derived from an obligation of family support. Although garnishment of retirement benefits is specifically forbidden under ERISA, the Court decided that it was allowable under the special circumstances of a family obligation. According to the court, ERISA was enacted with the congressional intent to benefit employes and their dependents. Thus, it was not inconsistent with the purpose of the statute to garnish pension benefits when state law recognizes an obligation of alimony or support. To this limited extent, the court held that ERISA does not preempt state law.

What this decision means is that

at least in the second circuit (New York, Connecticut and Vermont), family support obligations are enforceable against plan benefits.

Meanwhile, Senators Harrison Williams (D-N.J.) and Jacob Javits (R-N.Y.) have included in their bill to revamp ERISA (S. 209) a clarification that it was Congress's intent to make retirement benefits accessible to an employe's entire family. The proposal would permit the attachment of pension benefits for alimony and child support. (*American Telephone and Telegraph Co., Ct. of App. 2d Cir., 1/9/79.*)

ESOPs for small firms

Chances are that Congress will make it easier for employes to purchase small businesses under Employee Stock Ownership Plans. Pending legislation to turn on the Small Business Administration and other government spigots to finance ESOPs is given a good chance of becoming law this year.

Insurance for charity

An employer may provide group term life insurance of \$50,000 to an employe without tax consequences to him. The employer is allowed a tax deduction for the premium but the employe recognizes no taxable income. To the extent an employer provides more than \$50,000 of insurance, however, the employe must recognize taxable income measured by the cost of the excess coverage.

A little-known exception to this general rule permits an employe to name a charitable organization as beneficiary of the insurance in excess of \$50,000 without having its cost taxed to him. This provides no contribution deduction to the employe, but he gains the satisfaction of making what is potentially a significant contribution at no cost to himself. (I.R.C. Sec 79 (b)(2)(B).)

PUPs

Executive pay got a strong boost last year from the exercise of stock options and from appreciation rights (payments that reflect the appreciation of a company's stock price and are granted in lieu of exercising a stock option). In some cases, such payments more than doubled an executive's base pay. Executives also benefited from newly created performance unit plans (PUPs), a form of incentive compensation that provides executives with cash or stock awards for attaining corporate profit goals.

Convention writeoff

Corporate deductions for the cost of an executive's spouse accompanying him or her to a convention hinges on whether the spouse's presence is necessary to corporate business (*BI*, March 19).

The IRS recently relied on the business-purpose requirement to bar a writeoff for convention expenses incurred by the wife of an insurance-company executive who trained field managers. She accompanied him to the company's annual convention.

The wife contended that the company expected her to be present and accounted for at conventions and she believed that it was her duty to do so. While at the conventions, she was with her husband and remained awake at all scheduled meetings and hosted any meetings at which he presided.

But an unsympathetic Internal Revenue Service merely noted that she "is not in the business of selling insurance. Her presence did not serve a legitimate business purpose; the activities that she performed were incidental." (Letter Ruling 7902008).



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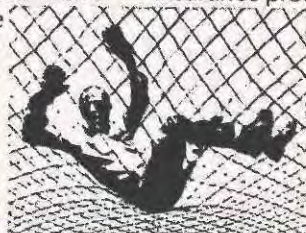
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London line

Winter storms land losses in London, spring reports note

By JOHN H. MILLER

LONDON—Major U.K. insurers were badly hit by severe weather in many parts of the U.S. earlier this year.

Commercial Union disclosed that claims from the U.S. and Europe rose by \$12 million for winter storm damage compared with last year.

Downward trends on property and auto lines led to a first-quarter underwriting loss of nearly \$15 million, on U.S. business, which had been profitable in 1978.

This is being interpreted as the first sign of the threatened decline in U.S. lines for many insurance companies in the coming year. The underwriting ratio rose for the first quarter to 105.6%.

Heavy storm losses in the U.S. also contributed to a \$40 million deficit by Royal insurance group on world business in the first three months this year. U.S. losses accounted for an underwriting loss of \$15 million, including involvement in the Harrisburg nuclear accident claim and severe storms in Illinois.

Anaesthetists' risks

Medical insurers are studying a report which says that children born to hospital anaesthetists are 60 times more likely to suffer from cancer than other children.

Breast cancer among women anaesthetists is 50 times higher than normal, according to a survey of anaesthetists in the West Midlands area of the U.K. who represent 10% of medicos engaged in this work in the whole country.

Lack of proper ventilation in hospitals is blamed for the chronic exposure to anaesthetics, which can affect the genetic system. Defects such as brain damage, cleft palates and bone disorders can develop in children of people suffering chronic exposure to anaesthetics.

The U.K. Health and Safety Executive will ask all hospital authorities in Britain to urgently review "pollution control" systems in their operating surgical centers.

Fatal fire

LONDON—Fire precautions in leading U.K. department stores are being checked after 10 people, mostly elderly customers, were trapped in a blaze that destroyed the whole furniture sales floor of F.W. Woolworth's main store in the populous city center of Manchester in Northern England.

About \$6 million in damages is believed to have been done, though company officials declined to confirm this figure. "We are adequately covered by insurance," they said.

Sprinklers had not been fitted in the 50-year-old store; they were not required under local township regulations. But now it's likely sprinklers will be demanded in stores.

Fire-fighting chiefs suspect that the blaze spread so quickly, killing the 10 people on one of the building's upper floors, because a special type of decorative paint had been used in the premises shortly before the blaze occurred.

The paint may have created a

layer of combustible vapor which ignited rapidly once the fire started. It then may have enabled carbon monoxide and hydrogen cyanide gasses to be released from fiercely-burning polyurethane foam used for some of the materials in the furnishing department. Scientists are testing for the type of
Continued on following page

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Continued from previous page
paint involved.

International benefits

U.K. insurance companies are aligning themselves on a growing scale with U.S. and other international insurers to provide employe benefit services for multinational businesses.

The latest scheme has been joined by Guardian Royal Exchange of U.K. in association with the Travelers Insurance Cos. and 14 other insurance companies in Italy, Japan, Holland, France, Switzerland and elsewhere.

They will provide a network of employe services in 64 different countries throughout the world, taking local tax laws and legislation into account.

Global costs for multinational

employe schemes can be reduced by coordinating the domestic know-how of companies in a multinational insurance arrangement, claims Ted Gascoigne, pension sales manager for Guardian Royal Exchange. "There's growing awareness of the value of pooling worldwide employe benefit schemes through a network such as this."

Clerical Medical and General Insurance Co., another U.K. group, has joined Aetna Life & Casualty and Assicurazioni Generali of Trieste, in a network for group life cover and other facilities for multinationals.

Vaccine scare

Scare stories about the effects of the whooping cough vaccine are being blamed by U.K. drug manu-

facturers for sharp rises in children's ailments in Britain.

The U.K. Government, in response to a "pressure group" of anxious parents, agreed last fall to provide between \$10 million and \$15 million in compensation from public funds for brain damaged children believed to have been affected by the vaccine in the past 30 years (BI Nov. 27, 1978).

But the campaign to help distressed children has had an unexpected consequence. Vaccination rates for infants under five against whooping cough fell more than 50% since 1973 and reported cases of the disease rose dramatically from 3,813 in 1976 to 65,892 last year.

"The result is that more children are now being harmed by whooping cough through the return of infectious epidemics than if they had been vaccinated normally in their early lives," claims the British Pharmaceutical Industries Assn.

It also points out that anti-polio

vaccination is falling and at the same time reported cases of polio are increasing. Drug makers are anxious that sales of vaccine for children's ailments should return to normal. The Department of Health, which admits that only 240,000 children under 16 were vaccinated against whooping cough last year compared with 550,000 in 1973, is watching the situation closely.

Medical experts insisted even when pressure for compensation was at its peak two years ago that only 1-in-25,000 to 1-in-50,000 children has suffered brain damage from the vaccine.

German products

Tougher product liability rules in Western Europe are leading to increased claims on German insurance companies, Herbert Schilling, director of the Gerling-Konzern insurance company, told an international insurance seminar

in Frankfurt.

Claims to his company have been rising 30% to 40% a year, with an average hike of 10% in those running to more than 100,000 Deutsche marks (approximately \$50,000).

A draft directive on product liability for the European Common Market area is unlikely to become law until the middle of the 1980s.

Industrial clients will expect greater risk management services from their insurers on an international basis, and insurers will have to improve their technical expertise, he predicted.

Marine market gloom

Predictions by Lloyd's Register of Shipping that orders for new ships are so low that they will fill only about 25% of the world's shipyards are being watched with interest by marine insurers.

The reverse side of the picture is an overflow of insurance capacity which has brought premium levels down to tremendously low levels. Thus, insurers fear this continued depression in the shipping industry will mean further gloom for marine underwriters.

New shipbuilding orders this year are likely to reach only eight million tons, compared with a world shipyard capacity of 30 million tons. There is increasing competition from the Eastern bloc for the present share of world shipping needs, according to Lloyd's Register surveys.

Robert A. Huskisson, chairman of Lloyd's Register, feels the current prospects for shipbuilding are disastrous. There have been faint signs of a revival in the use of existing shipping, which now exceeds 400 million tons. Mr. Huskisson hopes that next year will be a turning point in the world marine economy.

Offshore surveys by Lloyd's Register are increasing, putting the spotlight on marine safety by developing special methods of risk analysis, identifying high-risk areas in the design or operation of potentially dangerous ships and cargoes.

Iran cut off

The U.K. government's export credit insurance fund has suspended cover on new business for Iran, but will honor existing commitments with industrial firms. It has failed to recover \$40 million out of \$100 million settlements on Chilean business so it is also refusing medium-term credits for that country.

AIG expands foreign business

NEW YORK—American International Underwriters (AIU), a subsidiary of American International Group (AIG), has entered into a "cooperation agreement" to reinsure international risks located in Sudan and underwritten by Sudanese Insurance and Reinsurance Co. (Sudinreco).

The agreement will enable insurers in Sudan to comply with local regulations and enjoy local services while arranging terms and conditions with AIU, an AIU spokesman said. In addition, Sudinreco will, upon request, issue policies in major international currencies.

The two firms will coordinate engineering, reporting and claims functions and locally experienced personnel will compile underwriting information and assess regional exposures.

AIU vp Ken Nottingham said Sudan is on the verge of extensive economic development as a result of its agricultural and oil resources and is presently the U.S.'s largest export market in sub-Saharan Africa.



Jack Bogardus, president, tells how A&A works from a client's point of view:

"With Anistics, financial managers handle risks based on certainty rather than uncertainty."

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New flu shot plan cuts government's liability exposures

WASHINGTON—A new proposed public flu immunization program will sharply limit the liability of the federal government, a big departure from the ill-fated 1976 swine flu program when the government agreed to accept primary liability.

Under the proposed 1979 flu immunization program, the only liability of the federal government will be its duty to warn shot recipients of the risks of vaccination. Drug manufacturers, instead, will have to assume the liability.

The federal duty to warn obligation will be met by the development of an adequate informed consent statement that state and local health agencies participating in the program will be required to use, said Health, Education and Welfare deputy general counsel Peter Hamilton before a Senate subcommittee.

By contrast, under the swine flu program, the government was liable for the acts or omissions of any participant in the program—manufacturers, health agencies and health professionals, Mr. Hamilton said. However, the government did retain the option of suing drug manufacturers if it could prove the manufacturers were negligent in producing the vaccine.

The government, though, still has not decided what compensation system would work most efficiently to provide benefits to claimants in a mass inoculation program.

The scope of the new proposed flu immunization program would be significantly smaller than the swine flu program. When the swine flu program began in 1976, the goal of the program was the inoculation of the entire U.S. population. When the program was abruptly ended in December 1976 after an outbreak of Guillain-Barre, a rare syndrome that results in paralysis, some 40 million persons had been immunized.

The proposed flu program, however, would be targeted to immunize only persons most susceptible to prevalent flu strains, a total of about 12.4 million persons, Mr. Hamilton said.

Mr. Hamilton cautioned against using the swine flu program as a model for which to extrapolate estimates of what the potential liability would be in a mass inoculation program, noting that many claims filed under the swine flu program have been frivolous and will not be paid.

In one case, a truck driver filed a \$80,000 claim against the government, contending that he contracted Guillain-Barre after transporting swine flu vaccine in his truck.

As of March 23, a total of 3,624 claims asking for \$3.35 billion in damages had been filed. In virtually all of the claims, the plaintiffs have sought "grossly inflated" damages, Mr. Hamilton said. The record claim came from an 84-year-old man (BI, Jan. 8) who sought \$900 million from the government for loss of appetite. He later withdrew his claim.

Under special legislation accompanying the implementation of the swine flu program, the Justice Department reviews all claims and rules on their validity. If the department decides a claim is valid, it negotiates the amount of the settlement.

If the Justice Department decides a claim is not valid, a plaintiff can sue the government in U.S. district court. A plaintiff can seek only compensatory and actual damages; punitive damages are not allowed.

So far, between 40 and 50 claims or suits have been settled for a total of about \$1 million, according to Jeffrey Axelrad, Justice Department torts branch director. That figure is expected to rise in the months ahead as more suits are settled, he added.

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• A new 12-page brochure describing the range of Halon 1301 fire suppression systems and components is available from Fenwal Inc. A line of fire detection devices is described. For a free copy write 69 on the reader service coupon.

• Revised and updated, **GAB's** directory of personnel and services 1979-1980 is a comprehensive directory of addresses and telephone numbers for the more than 650 GAB branches throughout the

U.S., Canada, Carribean and Europe. The booklet—is available without cost by writing 70 on the reader service coupon.

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• The Landmark Insurance Group Inc. has updated its kit detailing **The Captive Insurance Concept** for risk managers and insurance agents. Discussions include structuring of insurance to suit particular needs, financial advantages, the ability to offer unusual coverages not normally available and tax flexibility. Havens available for the formation of captives both on and offshore are covered. For a free kit write 73 in the box on the reader service coupon.

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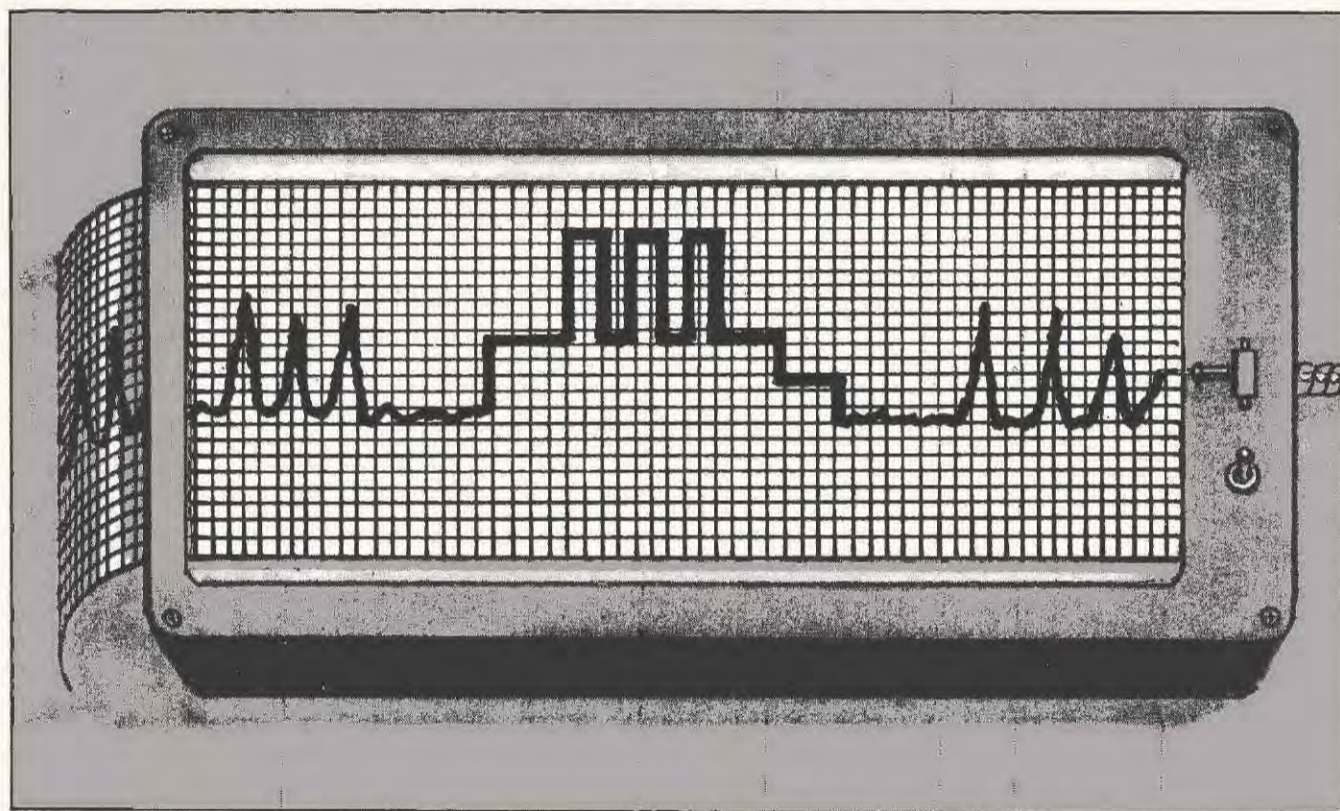
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ment program and develop a meaningful client-agency relationship. For a free copy write 79 on the reader service coupon.

- Have you ever considered using an insurance consultant? An article reprinted from *Highway & Heavy Construction—Why Use an Insurance Consultant*—may answer your questions. For a free copy circle 80 on the reader service coupon.

- Need information on the developments in **risk management, loss financing and employe benefits**? The newsletter *RIMCO Risk Report* intends to provide information to help the risk manager maximize protection while minimizing cost. Regular sections will cover marketing trends, rate changes and new coverages. For a free copy write 81 in the box on the reader service coupon.

- AIG Risk Management offers a brochure entitled **Going the Captive Route: It Isn't "Business As Usual,"** outlining AIGRM's insurance management capabilities in the captive field. For a free copy of this brochure write 82 in the box on the reader service coupon.

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- INSCO Systems Corp., an affiliate of the Continental Corp., offers a brochure highlighting the array of **data processing** systems and services that the company provides. For a free copy write 87 on the reader service coupon.

- **Guernsey as a Base for a Captive Insurance Co.** is the name of a booklet published by Hogg Robinson (Guernsey) Ltd. The booklet briefly outlines the advantages of Guernsey as a location for captive

insurance companies. For a free copy write 88 in the box on the reader service coupon.

- **Unlock Your Capital with Self-Insurance** is a promotional folder from Hewitt, Coleman outlining their self-insurance program and advantages. For a free copy of this folder write 89 in the box on the *Continued on following page*

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Continued from previous page
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• Johnson & Higgins has prepared a promotional brochure on its **nuclear loss control** technical service. The guide attempts to dispel some misconceptions about risk management of nuclear facilities, clarify some basic problems

and tell about J&H's services in this unique environment. For a free copy write 91 on the reader service coupon.

• **When Employment Screening is Vital** is the title of a brochure outlining an employe screening program, tailored to meet the needs of the nuclear energy field, available through Equifax Services. For a free copy of this brochure write 92 in the box on the reader service coupon.

• **SICK** is a Self-Insurance Claims Kit prepared by Johns Eastern Co. The claims adjusting firm explains its philosophy and how it handles claims. For a free copy write 93 in

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• **Is Self-Insurance the Answer to Rising Costs?** is the title of an article reprinted from Health Care Week. The author, Ralph Carne-secchi, a senior consultant with Ebasco Risk Management Consultants Inc., discusses establishing a self-insurance program, prefunding, the excess market and the advantages of commercial insurers and self-insurance. For a free reprint write 94 on the reader service coupon.

• A promotional brochure describes Hewitt, Coleman's services in workers compensation, general liability and self-insurance—**A Dialogue for Decision Makers**. For a free copy write 95 in the box on the reader service coupon.

• **ERMCI: A Participative Management Approach to Your Hospital's Insurance Program** is a

promotional brochure available from Ebasco Risk Management Consultants Inc. The firm's two key services—claims administration and risk control—are pinpointed for the risk control manager interested in self-insurance for his hospital. For a free brochure write 96 in the box on the reader service coupon.

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• **There Is No Insurance In Self-Insurance** is a pamphlet prepared

by Union Labor Life Insurance Co. outlining the risks involved in self-funding. The pamphlet looks at ERISA and the legal considerations, the estimated savings versus the guarantees, reserves and investment return, deficit forgiveness, stop-loss coverage, net dollar savings and the advantages of insurance company expertise. For a free copy write 98 on the reader service coupon.

• The Chase Manhattan Bank is offering copies of two articles by Ernest W. Ellis of Chase's risk control department which outline a risk management process for combating **white collar crime and terrorism**. For a free copy write 99 on the reader service coupon.

• **Risk Management: An Objective Approach to the Analysis and Coordination of Safety, Loss Prevention and Insurance Programs** is a brochure describing the services offered by an independent risk and insurance management consulting firm which does not sell any insurance. Risk Management Consultants serves medium and small companies and trade associations, including product liability problems, in U.S. and Canada. For a free copy write 100 on the reader service coupon.

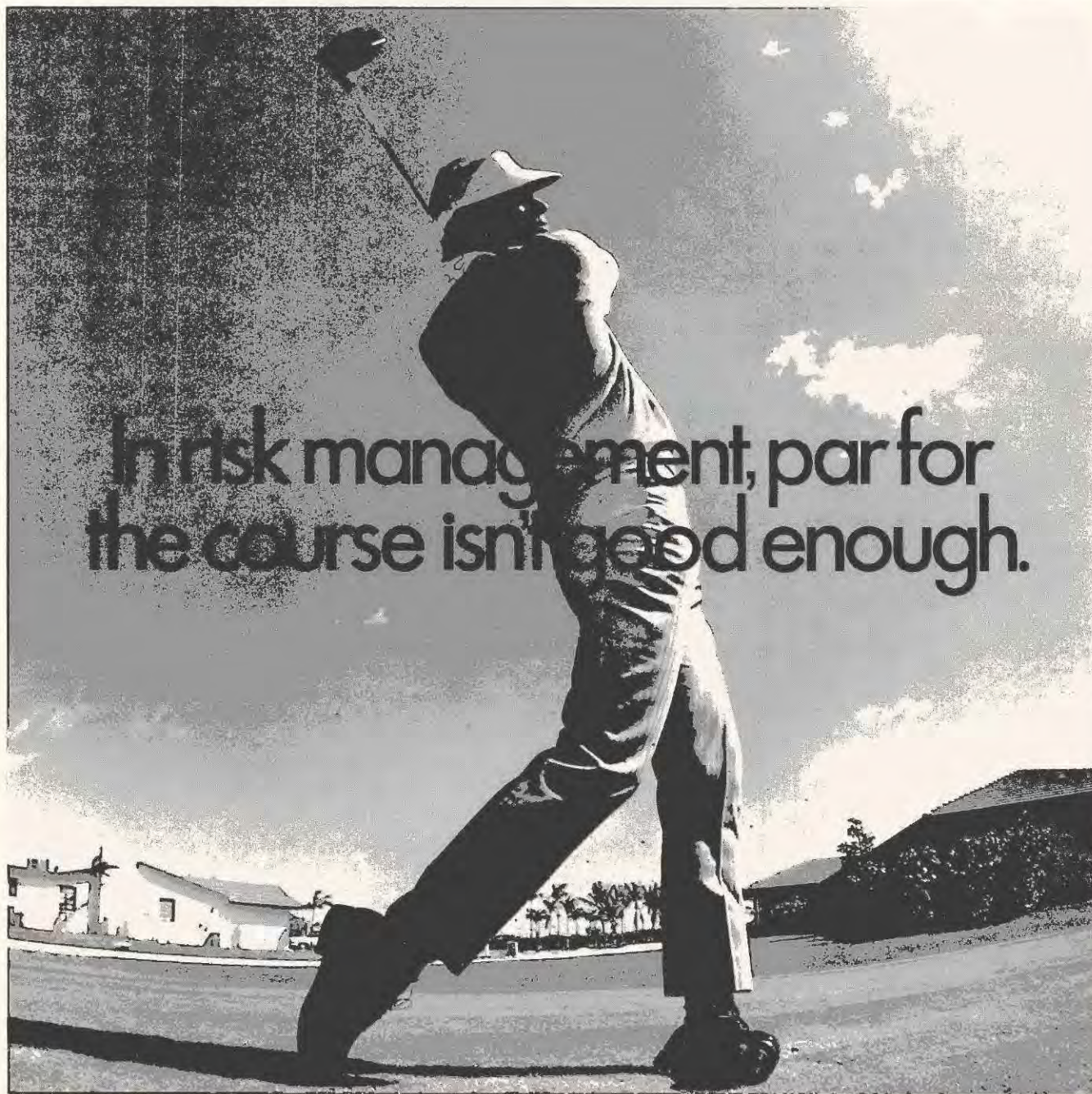
• The **Insurance Institute of Canada** offers an updated bibliography of general insurance literature. The 61-page publication covers all kinds of general insurance as well as marine. Books about agency management, claims, insurance law, the law of negligence, fire protection & prevention and risk management are listed. Cost: \$5. Write The Insurance Institute of Canada, 55 University Ave., Suite 500, Toronto, Ontario M5J 2H7.

• **Insurer's Liability for Safety Inspections** of an insured's premises is discussed in the lead article in the April issue of *For the Defense*, the monthly publication of the Defense Research Institute. Immunity, workers compensation statutes and statutes granting immunity to all insurers are covered in separate sections. Cost: \$2. Write Defense Research Institute, 1100 W. Wells, St., Milwaukee, Wis. 53233.

• Are you a security and protection officer of a financial institution? The insurance and protection division of the American Bankers Assn. has published **Computer Security Guide for Financial Institutions** with you in mind. The guide presents an overview of the major issues, threats and solutions to a wide variety of EDP security problems. The cost of the 74-page publication is \$12.50 for members and \$15 for non-members. Order #212400 from Order Processing, American Bankers Assn., 1120 Connecticut Ave., N.W., Washington, D.C. 20036.

• Are you a risk manager in need of evaluating the effectiveness of your **public agency's self-insured workers compensation program**? G. David Marceau & Associates offers a 23-page manual on it. The review is in outline form and costs \$11.95. Write David Marceau, G. David Marceau and Associates, 8294 Gould Ave., Los Angeles, Calif. 90046.

• The Machinery Allied Products Institute has prepared a 33-page booklet, **Company Programs to Reduce Product Liability: Some Matters to Be Considered**. The institute says this booklet is the product of 17 years of MAPI involvement in the growing problem of product liability. Single copies are available for \$5 for institute members and \$8 for non-members. Write Machinery and Allied Products Institute, 1200 Eighteenth St. NW, Washington D.C. 20036.



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Arizona consultant says:

County needs risk exec and self-insurance plan

PHOENIX—Maricopa County, which has 7,000 employes and includes the city of Phoenix, will probably have a new total insurance program headed by a risk manager some time next year.

County supervisor George Campbell said that a Wyatt Co. audit, critical of the way the county now buys its insurance, will prompt the county to overhaul its insurance program during the next 12 months.

Wyatt Co. said that Maricopa, which spends several million dollars a year on insurance, including employe benefits, is spending too much on insurance it doesn't need, such as insurance for glass breakage and for hospital pages.

The consultants advised that substantial savings are feasible, said Mr. Campbell, but recommended that the county first hire a risk manager and investigate self-insurance.

"The first thing we will do is to recruit a risk manager," asserted Mr. Campbell during a telephone interview. The risk manager will be paid between \$27,000 and \$33,000 and will be responsible for Maricopa's entire insurance program, including employe benefits and workers compensation, he said.

Raising deductibles and converting to a self-insurance program will not be difficult, he continued, because Maricopa received authorization to self-insure earlier this year.

Mr. Campbell concurs with most of the Wyatt Co.'s assertions that unnecessary insurance is being purchased. Maricopa spends \$350 a year on each hospital page to protect it against property damage; yet such coverage is not needed since the county has its own repair system, he noted.

"The Wyatt report indicated that we had adopted an insurance man's way of thinking about coverage . . . that we used our mental processes to figure out all the different insurance coverages that could be purchased," he elaborated.

The supervisor believes a risk manager would see it quite differently. Instead of naming all the coverages that could be bought,

the risk manager would ask himself what coverage could be done without, he suggested.

Local brokers who have been handling the county's account must not be faulted for the shortcomings enumerated by Wyatt, Mr. Campbell said. They were unable to utilize self-insurance, he noted, since it was authorized only this year.

Nevertheless, Mr. Campbell said he doubts the same brokers will be used in the future to buy insurance for the county, which this year will have a budget between \$220 million and \$230 million. ■

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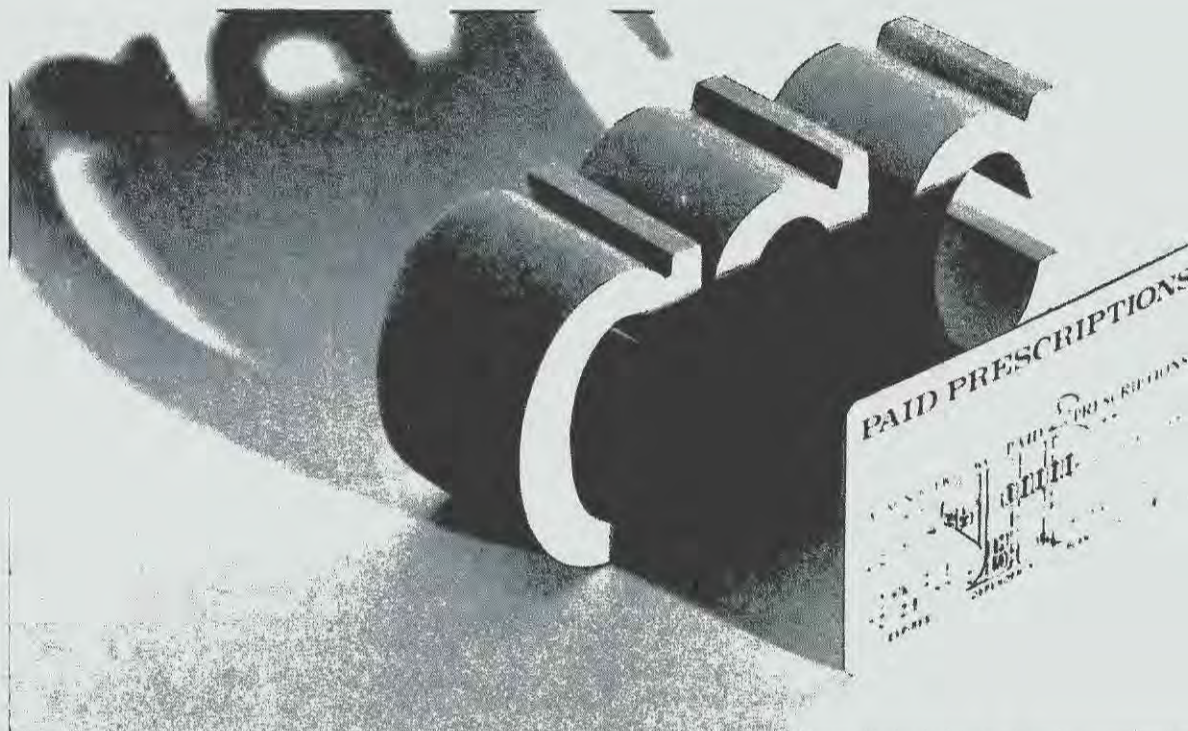
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Foundation offers conference text

BROOKFIELD, Wis.—The proceedings of the International Foundation of Employee Benefit Plans' 1978 annual educational conference, entitled Textbook for Employee Benefit Plan Trustees, Administrators and Advisors, has just been published by the Foundation. The hard bound book contains texts of 61 presentations given by 65 employe benefits experts last September at the Foundation's annual conference held in Atlanta. General topics treated include the federal role of ERISA, legal-legislative matters, funding problems in both public and private sectors, plan administration, investments, communications, benefit design and health care cost containment.

The book costs \$15.50 each for Foundation members (\$13.50 each in orders of five or more) and \$27.00 each for non-members (\$23.50 each, five or more). It may be obtained by contacting the International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005, (414) 786-6700. ■

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DO YOU FEEL

Risk exchange caters to lessors, guards

By JOANNE GAMLIN

HOLLYWOOD, Calif.—A new inter-insurance exchange is rolling

here for two industries in California that have had a tough time buying primary automobile liability coverage.

The new Interco Underwriters Exchange was formed to serve the rental/leasing industry and the security guard and private investigator field.

"To my knowledge, there is no California domestic insurer for the security guard and private investigator industry," said Roger W. Tippet, who with a couple of other individuals has been a prime mover behind Interco and is now president of the exchange's management company.

Interco just recently received its certificate of authority by the California department of insurance to issue policies, effective April 1. At the time of the insurance audit leading to a certificate of authority, the exchange had 129 signed subscribers and approximately 375

quotations outstanding, Mr. Tippet said. Now that it has its certificate, the exchange will issue policies for total limits, he added, "whether they be \$50,000 or \$1 million."

Reinsurance is being ceded to the North Star Reinsurance Corp. North Star will assume the risk of everything over \$50,000 net retention, said Mr. Tippet. The insurance department permits exchanges to retain risks equalling 10% of their surplus on their own, but Interco felt more comfortable with the lower \$50,000, Mr. Tippet said.

"We could have taken \$90,000 or \$100,000," he acknowledged. "But we did not want to jeopardize our surplus in our first few years."

Mr. Tippet's managing company is working on a spartan 17.5% expense/acquisition ratio which he figures is 10 to 15 points lower than similar ratios for stock insurance companies.

As a result, the exchange is a direct writer. At 17.5%, it cannot afford to deal with agents/brokers, he said.

Mr. Tippet refused to comment on whether he harbors plans to expand the exchange to companies not domiciled in California. He only noted that Interco is limited by state law to marketing in California for three years.

Calculating that between the two industries the exchange has a potential market of about \$50 million, Mr. Tippet said that one of the main inspirations for his vehicle are the five California medical malpractice inter-insurance exchanges. All are thriving, he said, and a few are paying dividends. One of them, the Doctors Insurance exchange, has become the largest physicians malpractice insurer in the state, he pointed out.

Better recognized inter-insurance exchanges in California are the Farmers Insurance Exchange and the Auto Club of Southern California, he said.

Many exchanges, after five years in business, have changed into stock insurance companies, Mr. Tippet noted. Often in these cases, the subscribers walk off with a lot of stock and become downright rich, he said.

Mr. Tippet first began to think of an exchange as an auto/liability insurance vehicle for the rental/leasing industry in 1976 when some of the medical malpractice exchanges were being formed because of a dearth of traditional in-

surance coverage.

He had been in the rental/leasing insurance field for 12 years, and was receptive when in 1976 he was approached by people in that industry who pleaded for help in finding a better way to obtain auto/liability insurance coverage.

The decision to form an inter-insurance exchange was firm by March 1977. Thirteen months later, Mr. Tippet and his colleagues had secured a permit to organize and solicit subscribers.

"Just before we filed for the rental/leasing industry, David Stoeffel, head of the California Assn. of Licensed Investigators (CALI) approached us and asked to be included in the exchange," he recalled.

Research quickly indicated that the pairing would work very well. The two industries complement each other, it was discovered. While the rental/leasing field has a high claims frequency but a lower severity rate, the security guard and private investigator industry, as might be suspected, has a high severity rate but lower claims frequency.

Mr. Tippet and his colleague B. Frank King, former executive vp for Pacific Employers and now chairman of Interco's board of governors, decided to go ahead and to comply with the law by acquiring at least 100 subscribers and \$900,000 of liability-free surplus.

Now that Interco has its certificate of authority, a potential subscriber becomes an exchange owner by purchasing a certificate of contribution in an amount equal to at least one-third of the subscriber's annual premium. In this way, the subscriber contributes to building capital and surplus and obtains a vote in the election of board of governors, not to mention a share in any profits. Mr. Tippet noted that after only two years, another exchange in the state declared a \$250,000 dividend to policyholders of record.

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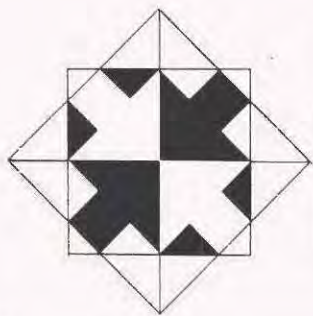
The managing company president figures that the approximate \$50 million market will keep them hustling. In California, there are 32,000 licensed security guards and private investigators; 1,300 members of the California Vehicle Leasing Assn. and 900 members of the California Equipment Rental Assn.

In addition to its Hollywood home office, Interco maintains a Northern California office in Tiburon where Robert E. Burke is district manager.

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Carrier sets survey team

SAN FRANCISCO—Fireman's Fund Insurance Cos. has reorganized its ocean marine survey and loss control operation to provide better surveys.

Marine surveyors, who previously reported to underwriting managers in regional offices, now report to the chief surveyor at the Fireman's Fund home office, said John L. Stewart, vp in charge of ocean marine operations.

"This reorganization will enable us to better coordinate efforts of our staff of marine surveyors," he said. "Our producers and policyholders will benefit because we can assure that the best surveyors are assigned where they are most needed."

Fireman's Fund surveyors are located in San Francisco, Los Angeles, Chicago and New York and can provide survey and loss control services worldwide, the company says. They specialize in loss control in areas of packaging, stuffing of containers and other phases of cargo handling.

around the states

Tex. 'killer bee' senators sting self-funded workers comp plan

AUSTIN—The "killer bees," a group of 12 liberal senators who walked out of the Texas statehouse to avoid voting on certain pieces of legislation, have killed self-insurance of workers compensation in the state.

The 12 liberals left the senate floor allegedly in protest of a bill that would have authorized split presidential primaries, preventing a quorum. They returned to the capitol three days before the session closed, but there wasn't time to bring the self-insurance bill to a vote.

Also killed was a product liability bill passed by the house.

Some speculate that these two bills, supported by business and opposed by the trial lawyers, partly motivated the walkout by the 12 liberals. Had the walkout not occurred, there would have been enough votes in both houses of the Texas legislature to pass the self-insurance measure, said the Texas Assn. of Business.

Advocacy advertising

HELENA—Plaintiff attorneys have the right to ask potential jurors during jury selection if they have read insurance company ads warning that big jury awards could result in higher insurance premiums, the Montana Supreme court ruled.

"When insurance companies inject the issue of insurance into the consciousness of every potential juror through a high priced advertising campaign... they threaten every plaintiff's right to an impartial jury," said the court.

The court noted that since psychological studies found that exposure to insurance company advocacy advertising "can dramatically lower the amount of award a juror is willing to give" it is only fair that plaintiff attorneys have the right to ask jurors if they have seen the ads.

Work comp discounts

PORTLAND—Argonaut Insurance Co. is offering a 20% discount on manual rates for preferred workers compensation risks in Oregon.

To qualify for the savings, insureds must pay annual premiums of \$50,000 or more and be willing to comply with safety engineering recommendations of Argonaut's engineering staff.

Risks under the U.S. Longshoremen's & Harbor Workers' Act and agricultural risks are not eligible for the discount.

Argonaut has made money in workers compensation in Oregon as a result of its engineering, claims handling and underwriting practices, said Roger L. Brown, Portland division manager.

Fire rates down

TALLAHASSEE—Commercial insureds in Florida will realize \$9.5 million in savings as a result of a 15.5% overall rate reduction on commercial fire and extended coverage insurance.

The reduced rates were recently filed by the Insurance Services Office of Florida.

Commercial fire insurance rates will be reduced by an average of 18.1% across the state, yielding a \$7.6 million savings. The rates will be reduced by 10.9% in Miami and

Tampa, 14.1% in Jacksonville and 19.7% elsewhere.

Rates for extended coverage, which includes windstorm, smoke damage, civil commotion and other disasters, will be reduced by 9.8% or \$1.9 million.

More aggressive fire investigation, successful arson prosecutions and better public awareness were cited by insurance commissioner William Gunter as contributing to the reduced rates.

Comp rates up

AUGUSTA—Maine employers are paying \$12 million more a year in workers compensation insurance premiums, 20% more than the \$60 million they paid last year.

Acting Insurance Superintendent Theodore Briggs announced he approved a 20% rate hike effective May 13. The bureau had rejected in January a proposal to boost Maine's rates by 39%.

The National Council on Compensation Insurance, which was granted a 20.9% rate hike in February 1978, blamed inflation, improved benefits, rising medical costs and the increasing number of claims filed for increasing costs.

Product liability

OLYMPIA—The Washington supreme court ruled that persons injured by dangerous products need not prove negligence by the maker to recover damages, but only that the maker gave inadequate warning of the dangers involved in the product's use.

The unanimous opinion upholds a judgment of a King County superior court judge in favor of Darlene Little, widow of a Seattle steel mill worker killed while using a cleaning solvent made by PPG Industries Inc.

The opinion reverses part of a court of appeals decision requiring a new trial on grounds that the jury in the case was improperly instructed.

No-fault repealed

CARSON CITY—The Nevada legislature has scuttled the state's no-fault automobile insurance law.

The legislature repealed the five-year-old law because the law apparently failed to hold down the number of lawsuits. Injured motorists collected damages under no-fault from their own insurer and then sued the other motorist and collected again. Second party lawsuits were allowed under the law if damages exceeded \$750.

Surplus lines regulated

MONTPELIER—Vermont, which previously had no laws governing use of surplus lines insurers, has passed legislation requiring non-admitted companies to maintain at least \$2 million in policyholders surplus to write business in the state.

In addition, alien insurers are required to maintain a \$500,000 trust deposit in a national bank or the Federal Reserve System and all non-admitted companies must file certified copies of their annual statements with the state department of banking and insurance.

Prior to enactment of the Non-Admitted Insurance Act, the only surplus lines laws in the state required that business be placed

with a licensed surplus lines broker and that a 3% premium be paid on all business written by non-admitted insurers.

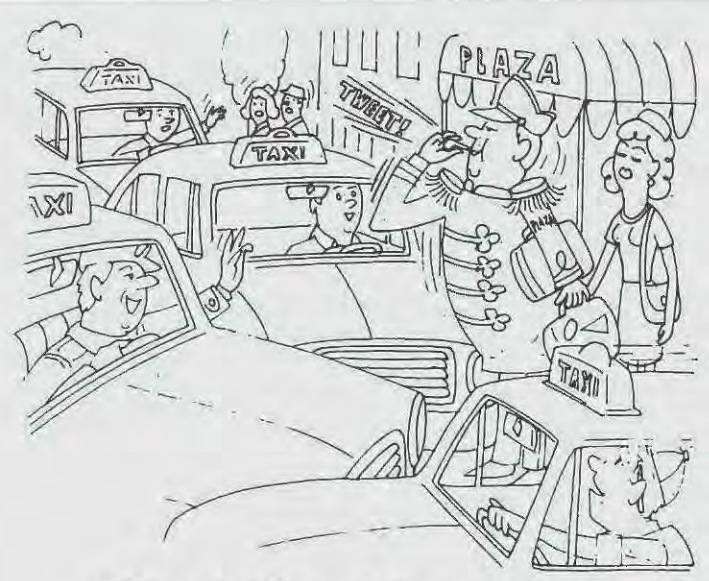
Approximately 40 non-admitted companies wrote Vermont risks in 1978 and it is expected to grow.

Coffee compensation

PROVIDENCE—A Rhode Island man who injured his arm in an attack on an uncooperative vending machine at work three years ago has won workers compensation benefits for the injury from the state supreme court.

Michael DeNardo, a Fairmont Foundry employee, injured his arm in April 1975 at work while pounding on a coffee machine that wouldn't dispense his coffee. The injury cost him 10% of the use of his upper right arm, according to a medical report.

The state's benefits commission denied benefits when he first tried to collect, maintaining he was working outside the scope of his employment when he belted the machine. But he won in the state supreme court, with the justice writing the opinion observing that his "confrontation with the balky coffee machine qualified him to join company in the Rhode Island workers compensation hall of fame."



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book review

Uncertainty doesn't sell insurance plans to skeptical buyers

By Z'EV KRONISH

Disaster Insurance Protection: Public Policy Lessons

By Howard Kunreuther with Ralph Ginsberg, Louis Miller, Philip Sagi, Paul Slovic, Bradley Borkan and Norman Katz

John Wiley & Sons, 400 pp., \$20.95

The irrational desire for first dollar coverage probably ranks as the most widespread and irritating insurance quirk. Protection against low-cost losses, which don't make a ripple in anyone's financial capacity actually interferes with the real need for coverage against disaster.

The damage from the recent flood in Jackson, Miss., which might top \$1 billion, effectively points up the folly of not insuring against catastrophe. Subsidized federal insurance sold through local insurance agents will cover only \$42 million (5%) of the destroyed property. Home owners went bare because the calamity was a very unlikely event—once in a century.

This valuable volume, a study of the public's response to flood and earthquake protection, provides a keen and refreshing insight into the insurance decision process.

A home represents the major outlay of a lifetime. Yet people jeopardize this asset by treating insurance as a good buy when the probability for recovery is thought to be high, even when the stake is small. If the odds for disaster are considered low, the study shows, insurance will be overlooked.

According to the authors, who conducted in-depth research through interviews involving the use of games, "the notion of insurance apparently has meaning only after there is tangible evidence that they (the buyers) would have reaped a return from investing (my italics) in a policy." Those who

choose not to insure are confident that they are unlikely to recover their expense.

The book focuses on the impact of perception and communication on the insurance-buying decision process. What makes the consumer buy or disregard insurance? Unless the hazard is practically imminent, the home owner turns off thought of risk. Inertia precludes pursuit of insurance information, the authors tell us. Something drastic has to happen or another person has to prime the pump. Neighbors play an influencing role only when the need for insurance begins to be discerned.

Some home owners think they're covered for a specific hazard when in fact they're not. Others are not alert to changes which make coverages available for the first time. The researchers found the flow of communication very inefficient—there was both a scarcity of information and plenty of misinformation. The fact that flood insurance was subsidized and sold through local insurance agents was not well publicized. People didn't know whom to turn to in the search for answers. Because the commissions were insignificant, the low cost was not promoted.

Experience and perception are intertwined in the insurance-buying decision process. Those who were alert to the risk of floods or earthquakes when they moved into an area thought the problem still merited concern today, the authors report, but the home owners who at the outset were ignorant of the potential danger also years later were inclined to minimize their exposure and need for protection.

Potential disaster victims are apathetic about taking measures to cut losses. A threat does not register as a priority until a threshold of awareness is reached. Steps that might reduce the loss are not high on the home owner's agenda at the time the property is purchased.

Communication with peers influences the decision to buy insurance. Policyholders had discussed their hazard concern with friends and neighbors; conversations reinforced the home owner's perception that floods and earthquakes were a threat to properties.

Mr. Kunreuther and his six collaborators have done an excellent job in describing the problems which surround decisions on risk from the home owner's perspective. They went into the field to examine first hand and in depth the "how" and "why" of people's protective positions. For the benefit of those involved in risk treatment, the findings should shed some light on the problems in obtaining the support of corporate officers.

This is as much a book about decision theory as about risk behavior, so the authors developed a concept which they call "sequential model of choice." The purchase decision proceeds in three stages: awareness that a risk exists; a realization that insurance is available and useful, and the act of buying or rejecting insurance.

The authors see the problem as market failure—there's a useful product but its prospects are bad. The reluctant consumer considers the premium a poor way to put money to work; the payoff is altogether doubtful. "More emphasis must be placed on the demand side of the market." People have to be sold on the value of risk transfer before they will buy insurance. It's not enough that insurance is available; the public must be induced is not coerced to accept insurance as a necessary protective measure. Has the time come, in the interest of the individual and society, to replace the luxury of option for home owners with compulsory coverage?

The government and banks have a greater role to play since the consumer's indifference comes home to roost when losses are incurred. As a partner, the insurance industry cannot remain aloof. The authors suggest insurers should automatically add flood and earthquake riders to a home owner's policy.

The findings challenge the expected utility approach—textbooks emphasize risk theory is built on this foundation—which says that people will go to great lengths to eliminate large losses because uncertainty is unbearable. The home owners' reactions to flood and earthquake hazards, as described by Mr. Kunreuther and his colleagues, pits real behavior against the economists' charts. ■

Insurer forms new unit to deal in surplus lines

NEW YORK—Ideal Mutual Insurance Co. has formed a downstream holding company named Optimum Holding Corp., which it expects will help to expand and diversify Ideal's operations.

The new underwriting unit established as part of Optimum will specialize in excess and surplus lines and reinsurance, while Ideal continues to be involved in underwriting primary special risk insurance.

Optimum will function as an underwriting pool in which investors such as conventional insurers and captive insurance companies will be invited to purchase \$25,000 "risk units," in order to build up a \$500,000 minimum underwriting capacity, said Ideal president Edward P. Lalley. Optimum is also a possible contender for participation in the New York Insurance Exchange, acting as an underwriting manager, said Mr. Lalley. Ultimately, he'd like to build Op-

timium's capacity to \$5 million, he said.

Ideal Mutual has already purchased three risk units, for a total of \$75,000, from Optimum, giving Optimum underwriting authority equivalent to 1% of Ideal's surplus, Mr. Lalley said.

All types of excess liability insurance will be underwritten by Optimum, with participants sharing in risks on an "each-and-every" basis.

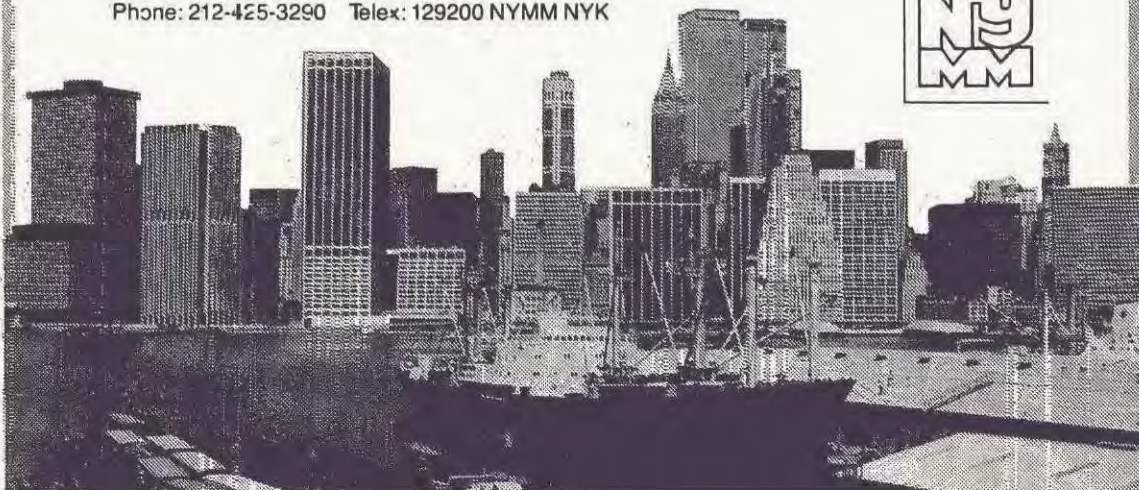
The new facility is comparable, Mr. Lalley said, to the firm of Capacity Managers International established by Jim Craig several years ago to act as an underwriting agency and pool for captive insurance companies including Midland Insurance Co., a subsidiary of Bush-Universal Corp.

Hired to manage Optimum's underwriting activities is Anthony N. Christian, former president of Frank B. Hall & Co.'s Union Treaty & Excess Co. ■

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Sambo's restaurants beef-up employe benefit plan menu

By JOANNE GAMLIN

SANTA BARBARA, Calif.—New employe benefit programs have been popping up at Sambo's Restaurants Inc. the last couple years almost as quickly as toast orders on a Sunday morning.

Instrumental in serving-up the new benefit plans—dental, vision, short term and long term disability—has been Tom Holgate, Sambo Restaurant's director of corporate compensation and benefits since April 1977.

And he doesn't seem ready to slow down. He's interested in adding a number of new features to Sambo's benefit program—namely, annual personalized employe benefit statements, a defined benefit pension plan, second opinion options in the group medical program, a qualified stock purchase program and, best of all, a cafeteria-style benefit program.

"To me, personally, adopting and implementing a cafeteria-style plan at Sambo's would be the most exciting activity I feel I could be engaged in," he told *Business Insurance*.

Of the programs he would like to implement soon, the annual personalized employe benefit statements and second opinions in the medical program appear most likely to materialize in the near future.

The qualified stock purchase program, a defined benefit plan and the cafeteria-style benefit program will take longer, according to Mr. Holgate, who was compensation and benefits director for two other companies—Litton Data Systems in Van Nuys, Calif., and Electronic Data Systems in Dallas—before joining Sambo's Restaurants two years ago.

Mr. Holgate's favorite project, the cafeteria-style benefits program, cannot be launched until Sambo's has converted fully to a new payroll system, a move it is making this year. "The new payroll personnel system will have the capability to administer cafeteria-style benefits," he said. He looks forward to the implementation of such a program, because to Mr. Holgate it's obvious that not all employes have similar needs.

"I am 41 years old and I have two teenage daughters and a young son," he elaborated. "I know my needs must be very different from those of a young, single person."

Like most of its competitors, Sambo's workforce is relatively young. The 22-year-old chain has 1,031 restaurants in 47 states, though it is currently scaling back in an effort to boost profits, which were down sharply last year. The restaurant chain had revenues of \$538.6 million last year, with profits of \$9.6 million.

Sambo's growth has been dynamic. When Mr. Holgate arrived in 1977, the chain employed about 30,000 people. Today, its work force is up to 52,000, about 2,500 of which are corporate employes.

Two years ago, Sambo's benefit plan consisted mainly of a basic group health program and major medical coverage, both underwritten for the most part by Sambo's Bermuda captive insurance company. Today the employe benefit coverage is far broader. Supplementing the underwriting and handling all claims is the Los Angeles office of The Prudential Life Insurance Co. Prudential has had Sambo's giant account since April 1, when it replaced Republic National Life of Dallas.



Tom Holgate hopes to start a cafeteria-style benefits program at Sambo's restaurants.

"One of the Prudential's strong points is that it offers regionalized claims handling," Mr. Holgate said. "This means it can tailor its claims processing to Sambo's regional configuration."

Claims turnaround time also will be greatly speeded, he said, estimating that claims payment should now take 10 working days at the most.

Prudential gained quite a plum when it captured Sambo's account, primarily an administrative services contract, Prudential reinsures most of the risk with Sambo's Bermuda captive and handles claims for group health, dental, vision and accidental death and dismemberment (AD&D) benefits. Mr. Holgate wouldn't reveal total premium volume, but indicated the cash flow generated by the group medical program alone is in the multimillion dollar area.

The only other group benefit insurer for the company is Standard of Oregon, which underwrites Sambo's long term disability plan.

This year the company appointed the Los Angeles office of Frank B. Hall & Co. as the benefit program's first major broker.

The chain has not one, but a number of employe benefit plans—three different ones for corporate employes and four separate plans for restaurant employes which vary by geographical area. Corporate employes include the staff in Santa Barbara plus all restaurant managers, district managers, territory managers and regional managers.

All restaurant employes have life and accidental death and dismemberment insurance and basic and major medical insurance. With a combination of basic and major medical coverage, the plans have limits varying from \$50,000 to \$250,000.

Mr. Holgate noted that the lifetime limits are really like 'per condition' limits, in that they can be reinstated as in the case, say, of a worker who suffers a serious illness and then returns to work.

The cost of prescription drugs is also covered up to 80% in Sambo's major medical plans.

The chain's plans are contributory only at the corporate level. While Sambo's pays the premium cost of life/health plans for its employes, workers ante up for the cost of covering dependents.

A number of these plans also have stop loss features, which Mr. Holgate calls 'neat.' He predicted more of his plans will have stop loss features in the future.

Any push for cost containment? Mr. Holgate is relying on Prudential's monitoring of reason-

able and customary charges. He said the insurer will utilize Prudential's computers to do claims and loss ratios for Sambo's, while the company relies on its own on-line, in-house computer system to track and bill premium costs by plan and by covered individual.

Second opinions on surgery is an idea that the benefits manager views as gaining momentum around the nation. Sambo's is likely to initiate a second opinion program later this year or next, he said.

Sambo's dental program, which covers corporate employes and some restaurant workers, is designed to be as simple as possible. It covers reasonable and customary charges on a coinsurance basis.

"The plans, which have deductibles, say Sambo's will pay X percentage of reasonable and customary charges for specified dental procedures," he illustrated. He believes scheduled dental plans are often confusing for employes who don't realize that the plan will not pay 100% of amounts shown on the schedules.

Long term disability benefits, new to some of Sambo's corporate level employes, were first launched in January 1978. On account of the unpredictable nature of LTD claims, Mr. Holgate said he cannot imagine anyone self-insuring LTD benefits.

For corporate staff employes, the company also offers a short term disability (STD) schedule, based on seniority. The plan is an extension of the seven-day sick leave in that an employe exhausting this benefit can move into STD if the illness dictates. The short term disability plan, funded on a pay-as-you-go basis, offers protection for two to 26-weeks, said Mr. Holgate. After that, LTD, counted from the first day of the illness, commences.

Maternity benefits under the new federal law are a concern to the compensation and benefits director, who heads a staff of five

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Investigators' target

White-collar thefts net \$50 billion yearly

CHICAGO—The private investigator is back in vogue, but the image is not the tough-talking, street-wise Raymond Chandler-style private eye of a generation ago.

Today's private investigator is likely to be a well-educated, high-powered professional who, instead of tracking down the missing relative of a wealthy socialite, will most often be found trying to solve white-collar crime or advising a company on how to minimize its exposure to thefts.

That's mainly because crime in the corporation, particularly at management and executive levels, has developed nationwide into a very costly and serious problem. In

turn, the problem has stimulated the growth of investigative firms and services to cope with corporate wrongdoing.

Statistics reveal the extent of the white-collar crime problem. The cost is over \$50 billion a year for misdeeds as embezzlement, fraud, bribery and kickback schemes, conflicts of interest, buyer manipulation and others, estimate the Justice Department and the U.S. Chamber of Commerce.

The qualifications of the forces combating this crime are impressive. Many investigations firms, headed by people with law enforcement backgrounds, are able to draw upon an array of skills of

staff members and advisers with expertise in accounting, auditing, insurance, economics, law and computer sciences. Some are former FBI and government investigators with companies that also do anti-kidnap consulting for their clients.

One company, Unitel of New York city, has an advisory board that includes former Treasury secretary William Simon and former San Francisco police chief Thomas Cahill. Another employs a woman with a travel agency background to audit travel expense accounts.

Many firms are the unknowing victims of internal and executive theft, but unfortunately only call for investigative services after substantial losses have occurred, several investigators said.

"Most of those who call us do so after the fire has been burning for a while," said Robert F. Royal, chairman of Royal-Schutt International Inc., an investigative company formed late last year.

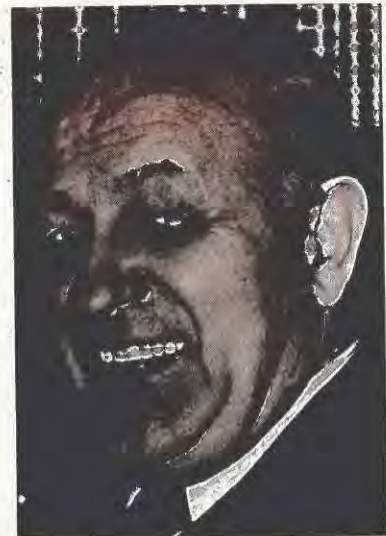
Royal-Schutt, like many others in the field, offers auditing and consulting services to determine if theft or wrongdoing is occurring at a company and what the "vulnerabilities" are to dishonest employees. Mr. Royal, a former FBI agent, said his firm's "overview" service will also advise a company on how to reduce its exposure to theft by changes in operating procedure.

In one such examination for a client, Royal-Schutt investigators found seven separate instances of suspected theft involving company executives, according to Mr. Royal. In addition, the investigators discovered 100 instances of "asset vulnerability" where company funds could be easily appropriated.

"We can look at a company's profile and tell them where they have the potential for problems, because once thefts go, they go big and it takes a long time to catch up with them," said Mr. Royal. In its review, the company studies such things as systems and procedures, personnel practices and contingency planning.

But employe theft is not the only thing they look for. Through a special audit of a company's purchasing programs, Royal-Schutt can tell a client whether or not its procedures are efficient enough to yield maximum return on spending.

The company also focuses on insurance. Executive vp Sanford E. Beck helps clients establish the value of crime-related losses and aids in the bonding claim process to assure maximum recovery. Mr. Beck, an insurance industry veteran, also performs "crime prevention audits," which include reviewing a client's insurance portfolio for possible deficiencies in cov-



Most clients call after losses have occurred, according to Royal-Schutt chairman Robert F. Royal.

erage and advising clients on ways to reduce criminal risks.

Many companies are greatly underinsured for crime risks, says Mr. Beck, even though crimes can cause losses equal to fires, accidents and catastrophes. "If you were to take a survey of company presidents and executives, 85% of them wouldn't know what it is they're trying to protect," he said.

Unitel of New York also zeroes in on insurance while probing an employe theft. The firm guides a client through its bonding claim to make sure all the rules and provisions of the bond are followed so a claim is not denied or reduced, said vp John Errett. A company's major concern after a theft is "being made whole" by recovering for the loss. "The insurance companies will give as little as they can and you've got to understand the limitations of a policy," Mr. Errett said.

Most suspected cases of white collar crime are investigated by outside experts through audits, interviews and polygraph tests. Undercover probes are becoming somewhat rare, but there are exceptions.

Unitel once hired a freelance reporter, who, under the guise of collecting information for a feature article, went to a horse breeding farm to investigate suspected financial irregularities, recalled Mr. Errett. "We used the reporter to get information we couldn't get any other way," he said.

Unitel, which has earned \$1 million in fees since beginning operations in October 1977, employs five full time operatives and can draw on a field of investigators who are commissioned on a case-by-case basis depending on the expertise needed for the job.

Investigating white-collar crime accounts for 15% to 20% of the investigations by Guardsmark Inc. of Memphis, Tenn., according to W.R. McGraw, division vp.

Guardsmark extensively uses security audits designed to ferret out employe dishonesty and is currently trying to increase its expertise to deal with computer fraud, a burgeoning form of white collar theft. "We're increasing our computer knowledge every day, but the best way for a company to fight it is in personnel selection. They should get more background and conduct pre-employment polygraphs," said Mr. McGraw.

"The opportunity is so great and you're talking about such big bucks that it takes some unusual measures to cope with it."

But the services can be expensive. Mr. McGraw says Guardsmark may charge up to \$1,000 a day for a security analysis. Royal-Schutt charges between \$600 and \$700 a day plus expenses for its consulting examination. Unitel of New York customarily charges between \$60 and \$100 an hour for its services.

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Sambo's restaurants . . .

Continued from previous page people. "We expect them to be significant," he stated. Nevertheless, he doesn't want to arbitrarily plug in higher premium charges for maternity benefits, but will monitor claims and loss ratios very carefully.

Annual personalized benefit statements are, as noted, a nearly certain new benefit feature at the corporate level for the future, says Mr. Holgate, who has an MBA degree from Pepperdine University in Malibu, Calif. and who gained a telecommunications background in the Air Force. He enthusiastically recalls his experience at Litton Data Systems with benefit statements.

"We did the annualized, personalized benefit statements ourselves at Litton," he explained.

"And we got a lot of mileage out of them." When Litton employes received their statements, they often reacted by phoning him and demanding that he sit down and explain the elements of the figures shown as total cost of benefits paid by the employer for the year. It is this kind of interest, believes Mr. Holgate, that makes annual personalized employe benefit statements powerful communications tools.

Moreover, a color videotaped employe orientation program will be finished soon, about 30% of which is devoted to employe benefits, he says. The 20-minute tape will be shown in Sambo's five regional offices and to the corporate staff. "We were able to produce the tape in-house in our training department which has a TV studio," he noted.

In the retirement area, Sambo's has an unusual combination of a profit-sharing plan and a TRASOP for corporate level employes, an arrangement Mr. Holgate regards as strong. The funding vehicle in Sambo's plan document allows either an ESOP or a TRASOP.

"So far, only the TRASOP has been funded," he said.

The profit-sharing plan has an eight-year vesting schedule. The plan is contributory, with workers contributing 1% to 10% of salaries. The decision about the amount of employer contribution rests with the board of directors. Mr. Holgate noted that the plan's growth sprang from earnings and forfeitures during the last two years, while employer contributions accounted for most of the plan's growth in the preceding period.

While he believes that a defined benefit pension plan is on the horizon, Mr. Holgate regards the current arrangement as quite competitive.

"If you are locked into a TRASOP and a profit-sharing plan, and you are a 15- to 25-year employe, your retirement benefit will be good," he contended.

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Unions demand workers see medical data

By MARY ELLEN McKEE

CHICAGO—Employees must be fully informed of hazards in the work place, but controls must be placed on access by others to employees' medical records, argue labor union leaders.

Even employees should be kept out of their medical records, contend some corporate executives.

The debate over employees' rights to information on hazards in the work place springs from a recent Occupational Safety & Health Administration (OSHA) proposal requiring employers to notify employees of harmful chemical levels and toxic substances in the work-place environment and the corrective action the employer will take to eliminate these exposures.

The proposal also requires an employer to allow an employee full access to his own medical records, to conduct thorough medical surveillance once potentially harmful exposures are discovered and to provide employees with all available safety standards and any information relating to the particular chemical level or toxic substance found in the work place.

At a roundtable session on social concerns of the industrial hygiene and worker safety industry at the annual American Industrial Hygienist Assn. conference here, corporate industrial hygienists and representatives from OSHA and labor unions discussed the pros and cons of the proposal which also mandates an employer's responsibility for employee safety and health.

The United Steel Workers Union supports the proposal in principle, says union industrial hygienist Michael Wright. But it is also worried that the wording about employee access to medical records and any other person's access to the medical records with the per-

mission of the worker is fuzzy and ambiguous. It could lead to widespread abuse of the privilege not by the worker, but by the employer, the union official said.

But an experience at a Midwestern plant convinced him that steps to expand employee accessibility to medical records must be taken cautiously and certain controls enacted to curb abuse, he told more than 300 people attending this special session.

Harmful levels of 1,2-dibromo-3-chloropropane (DBCP), which has been proven to cause sterility in laboratory rats, were found two years ago in the Midwestern plant employing 350 males, Mr. Wright said. When informed of the high DBCP concentrations in the plant, the union immediately requested that the company conduct a comprehensive sperm testing program, checking and monitoring sperm counts for all male employees.

"What surprised the union, however, was that all but three employees refused to cooperate in the program," Mr. Wright said. "Even more surprising was the reason they refused to cooperate in the program, despite five days spent explaining the dangers of high DBCP concentrations," he added.

The workers did not want to participate because they didn't want their supervisor to discuss their sperm count over lunch, he explained. "That was one of my earliest indications that the employee's medical records are not confined to the corporate medical library," Mr. Wright stated. "Apparently, supervisors, personnel staff and top management in that plant all had easy access to the employee's medical records."

Employee's have an undeniable right to know their work exposures and the impact the hazards will have on health, but an em-

ployee must be protected from the eyes of the government and the unwanted eyes of company officials," Mr. Wright said.

The industrial hygienists from Celanese Corp. and Hercules Inc. objected to the section of the proposal giving employees access to their own medical records because access to that kind of information is emotionally dangerous to the employee.

"An employee without any medical knowledge can jump to unsettling and incorrect conclusions about medical information in his file" according to Ernest Dixon of Celanese. He will fight any measures to force him to show an employee his entire medical record, he said.

"I have no problem with providing Celanese employees with expo-

sure data, such as OSHA inspection reports, sampling data and company exposure history," said Mr. Dixon.

However, Mr. Dixon believes by giving the employee access to the medical record, an employer violates the special relationship between the individual and the physician which relies on confidentiality.

"As long as a company informs the employees of exposure hazards and requires a physician to clearly explain the medical implications of an exposure, he is fulfilling his obligations to keep workers well-informed," he remarked.

Edward Christifano, industrial hygienist for Hercules Inc., says that he conducts a comprehensive health surveillance system at all of

the company plants. After each surveillance a report is issued to all of the employees detailing the findings including a medical analysis. "That is sufficient, Celanese has found, to foster a well-informed work force," boasted the industrial hygienist.

Three union representatives, however, blasted what they called the self-righteous double talk of the employers saying that confidential medical records of the American worker is a myth.

"Confidential medical information is passed from top management right down to an assembly line supervisor without hesitation," claims Stan W. Eller, director of safety and health for the United Chemical Workers Union. Hospitals, physicians, insurance claims adjusters and usually a company's personnel staff are constantly exchanging information from the files that company management insists are sacred and unfit for the worker's eyes, according to Mr. Eller. "When information is exchanged so readily, there is no such beast as confidentiality," he charged.

Mass hysteria isn't always of the mind, hygienists caution

CHICAGO—One hour after the first shift began at a Midwestern frozen fish packing plant, someone complained of a strange odor. Within minutes, 35 workers became ill. They complained of headaches, dizziness, general weakness and labored breathing.

Biomedical investigations of the plant failed to identify any toxicant capable of producing the symptoms.

Social scientists have labeled such phenomena as mass psychogenic illness, formerly known as mass hysteria. This leaves employers and labor unions once again playing an intense tug-of-war game over definitions of the illness, the cause, nature and frequency of the occurrences and their relationship to employee health and safety.

Mass psychogenic illness, as defined by the National Institute for Occupational Safety & Health (NIOSH), is a disease that strikes suddenly, spreads by contagion and has no readily identifiable physical cause. Until very recently, only isolated instances were thought to have occurred. But as awareness of the disease spreads, reports of outbreaks of mass psychogenic illnesses are skyrocketing.

In the last two years, NIOSH has had to investigate at least 200 suspected mass psychogenic illness cases, triple the number of suspected cases investigated the previous year.

Labor unions are wary of these numbers and fear that employers will use the mass psychogenic illness as a convenient excuse to forego a close scrutiny of toxic levels, equipment flaws and the overall work-place environment.

"The definition of mass psychogenic shifts all of the responsibility or blame for the occurrence on to the employee's shoulder rather than the employer," complained Michael Wright industrial hygienist for the United Steelworkers Union.

On the other hand, employers and NIOSH investigators insist that to rule out the possibility of mass psychogenic occurrences is to place all of the blame for such incidents on the employer's shoulder.

To illustrate the importance of examining all possible causes of an outbreak, Mr. Wright related the

case of a worker in a textile plant in West Virginia who started having violent outbursts accompanied by uncontrollable shaking and severe headaches. The problem was diagnosed as acute schizophrenia. Within three days 30 of his co-workers experienced similar symptoms.

Without properly investigating the source for the outbreak, the employer declared the unusual outbreak as a mass psychogenic illness, Mr. Wright said. However, one month later, after the insistence of a local union, the investigation was reopened revealing that all affected employees had carbon disulfide poisoning.

The consequences of such mistaken diagnoses are far-reaching, causing toxic chemicals to go undiscovered and creating a general loss of confidence of the worker in his company and the government, according to Janet Portinisan, industrial hygienist for the University of California at Berkeley.



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DC10 tragedy . . .

Continued from page 1
reinsured around the world.

Thomas Quinn, vp for tax and insurance at American Airlines, said the airlines' insurance is adequate to cover claims, but he would not disclose the exact amount of insurance. Claims could average \$250,000 and more from each of the 274 persons killed, according to London sources. Airlines usually buy \$500 million of liability insurance, presumably more than enough to cover its liability in a catastrophe such as the Chicago crash.

McDonnell Douglas Corp. is also being named in suits which are just beginning to be filed around the country by the families of victims of the crash. McDonnell Douglas is being charged with negligence in the design and manufacture of the DC10.

Structure probed

The National Transportation Safety Board has said it suspected structural problems in the ill-fated DC10 could have triggered the series of events that led to the crash.

A Turkish Airlines DC10 crashed on March 3, 1974, near Paris, killing all 346 persons aboard. The crash was later tied to a poorly designed cargo door.

St. Louis-based McDonnell Douglas carries \$450 million of product liability insurance, according to London sources, 80% of which is held in the London market. A company spokesman declined to discuss the insurance.

Lead underwriter on McDonnell Douglas' product liability is John Hewitt of Lloyd's of London, who also handled the company's claims in the Turkish DC10 crash.

The NTSB later suggested that faulty maintenance procedures could have led to the Chicago crash. The FAA last week ordered grounding and new inspections of engine mount assemblies on all DC10s. The craft had been inspected under an earlier order from the FAA after the crash.



The American Airlines DC10 crashed northwest of O'Hare International Airport, disintegrating in the explosion that followed impact. Two people on the ground were also killed. The plummeting plane fell short of a densely populated trailer park, but still destroyed one trailer.

Photo: Wide World

The earlier inspection order required removal and reinstallation of the giant engines which could have caused other damages if not done properly.

Maintenance employes for some airlines have not adhered to the McDonnell Douglas maintenance manual for the plane, which states that engines should be removed from pylons before either part is moved, the NTSB said. In the past, maintenance workers would sometimes lower the engine and pylon together, causing cracks in the pylon, the board said.

Cracks on the pylon assembly have been found on other DC10s operated by American, which the NTSB said were caused by faulty maintenance. These cracks were similar to the 10-inch crack detected on the pylon of the American jet that crashed.

Suits filed

The first suit filed in the Chicago crash, in Chicago on behalf of an Austrian businessman, Hans Jurgen Otto Kahl, 35, seeks \$5.25 million from each of three defendants: General Electric Corp., makers of the turbofan engine that fell from the craft; American Airlines, and McDonnell Douglas.

Among other suits so far is a \$1.08 billion action filed by attorney F. Lee Bailey in New York state supreme court on behalf of Jane Shatkin of New York City. The woman's son Lloyd, 29, and his wife Inez Perez, 27, were killed.

The suit charges American Airlines with causing the pair's death and McDonnell Douglas with sell-

ing the DC10 to American in a condition that was "dangerous, unsafe and defective." Of the total being sought, \$1 billion is punitive damages, said Aaron Broder, a Bailey associate.

The punitive damages request is a challenge to laws of most states that do not allow punitive damages in wrongful death cases. "It's never made sense to me that if a company kills someone that they shouldn't be punished for it," Mr. Broder said.

A \$1.5 million suit has also been filed in federal court in Los Angeles by the former wife and two children of Leonard Stogel, a rock music promoter. American and McDonnell Douglas are named defendants.

And a suit seeking \$1 million from McDonnell Douglas and American was filed by Corinne Plesa of Mount Prospect, Ill., a Chicago suburb. The woman's daughter, Eileen Plesa, 22, a secretary-receptionist en route to a vacation, was one of those killed.

Possible defendants

Attorney James Butler of Los Angeles, who represents several families of victims, said he plans to also file a suit naming Rockford Aerospace Products Inc., makers of the thrust link attachment bolt.

In Milwaukee, a spokesman for the Rexnord Corp. would not discuss the firm's provisions for product liability. The bolt at issue, manufactured by Rexnord's Irvine, Calif., subsidiary, is a "precision part produced to exacting specifications and subject to rigid quality control and inspection," he said. Rexnord officials are confident the NTSB investigation will show the crash was not the result of a defective bolt, he added.

The bolt was taken to the NTSB's Washington, D.C. laboratory to be examined to determine if its fracture was due to wear or "catastrophic" stress. Later, the NTSB said that the three-inch bolt does not appear to have caused the accident.

The U.S. government will also eventually be drawn into the litigation as soon as the mandatory six-month period for suing the government expires, according to Chicago lawyer John J. Kennelly, a noted expert in aviation crash litigation.

Mr. Kennelly said he plans to file suits on behalf of victims' survivors charging the Federal Aviation Administration with negligence for certifying the airworthiness of the ill-fated DC10.

He predicted that total claim payments will be well over \$100 million. "It will be the highest in U.S. history, not in terms of the to-

Memorial fund established

VAN NUYS, Calif.—A special memorial fund has been established in memory of Jeffrey W. Nordhaus, 21, who was among 274 persons killed in the crash of an American Airlines DC10 jet in Chicago May 25.

Mr. Nordhaus, son of agent/broker consultant George Nordhaus who is president of Insurance Marketing Services in Santa Monica, was a 1978 graduate of Pepperdine University and had recently formed a new firm, Nordhaus Co., with his father to distribute computers for the insurance industry.

He also co-authored with his father, a recently released manual on insurance agency promotion and advertising.

Contributions to the Jeffrey Nordhaus Memorial Scholarship Fund, for insurance students needing financial aid, may be sent to the California Insurance Assn., 14414 Victory Blvd., Van Nuys, Calif. 91401.

tal aviation history—Tenerife (the 1977 collision of two 747 jumbo jets in the Canary Islands that killed 583 persons) will stay the highest—but it will be well over \$100 million."

"Lloyd's List" an insurance periodical, quotes an airline executive as saying the total insured losses in the crash could run as high as \$500 million for "the whole shebang" including liability, life insurance, workers compensation and travel & accident coverage, said a Lloyd's spokesman. Lloyd's own estimates, however have been in the neighborhood of \$115 million "and up," he said.

Liability estimated

"Any estimate of the cost of this disaster has to be a guess," he said adding there is no way to tell what the size of the death awards will be in comparison with the amounts sought in lawsuits filed so far.

The average claim settlement in the Chicago crash is unpredictable, attorney Mr. Kennelly agreed. Awards in crashes have ranged from \$200,000 to \$5 million, he noted. The higher amount, the highest ever, was paid to the family Chicago business executive in 1977 who died in the crash of a twin-engine commuter plane.

Some large, individual settlements are likely, Mr. Kennelly said. Many killed were young businessmen with families at home.

The September 1978 crash of a Pacific Southwest Airlines 727 jet, which collided with a light aircraft in San Diego and killed 144 persons, also carried many young business travelers. It is estimated that settlements will total between \$60 million to \$70 million when all claims are paid. Before the O'Hare disaster, the San Diego incident was the worst in U.S. history.

Life expectancy, the number and ages of dependents, prospects for promotion and income of the victim are the main factors used to determine an award in litigation, said Mr. Kennelly.

He said he expects the airline to contend the passengers whose fi-

nal destinations were foreign cities are subject to the \$75,000 liability limitation under the 1934 Warsaw Convention treaty, adopted to foster international operations by air carriers. McDonnell Douglas is not insulated by the agreement, Mr. Kennelly noted.

Most of the lawsuits will be filed in Chicago and Los Angeles, in federal and state courts, the lawyer believes. The cases could be consolidated into one court jurisdiction, under an order from a panel of federal judges.

Some attorneys, himself included, will file suits in both states because, "there are certain strategic benefits," Mr. Kennelly said. In California, for example, a survivor can obtain pre-judgment interest on an award to prevent insurance companies from delaying payments. California courts sometimes also award punitive damages and no punitive damages are recoverable in Illinois, Mr. Kennelly said.

Rates stable

However, Mr. Kennelly said Illinois historically has had the highest verdicts, such as the \$5 million award in 1977. The first award to exceed \$1 million was also handed out in Illinois, a judgment rendered in 1967.

Despite the three tragic air crashes of commercial airliners in the last few years—in Tenerife, San Diego and now Chicago—industry sources say the premiums for aviation insurance will remain somewhat stable, at least for the time being, barring another catastrophe.

USAIG's Mr. Brennan noted that rates did not rise significantly after the San Diego crash, which followed by only about a year the Tenerife disaster. Another underwriter said the "tremendous capacity" of the aviation market would help hold rates steady.

London's rates will remain stable because most airlines and manufacturers have completely non-cancellable policies into 1980 and 1981, sources say.

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Asbestos claims . . .

Continued from page 1
Manville Corp. and its insurer of 30 years, The Travelers Insurance Cos. The insurer and a host of other excess insurers reportedly provided \$364 million of liability insurance to the company from 1946 to 1976. Punitive damages, however, are excluded under the coverage, threatening the assets of Johns-Manville should punitive damages be awarded in cases or if compensatory damages exceed the insurance coverage.

Other asbestos defendants include: Armstrong Cork Co.; Casiar Asbestos Corp. Ltd.; Celotex Corp.; Certain-Teed Products Corp.; Combustion Engineering Inc.; Eagle-Picher Industries, Inc.; General Dynamics Corp.'s electric boat division; Flintkote Co.; GAF Corp.; J.P. Stevens Co.; Mead Corp.; Metropolitan Life Insurance Co.; Owens-Corning Corp.; PPG Industries; Raybestos-Manhattan; Rock Wool Manufacturing Co.; Unarco Industries Inc.; Union Asbestos & Rubber Co., and Uniroyal Inc.

In addition, the federal government and the tobacco industry could be tapped to compensate victims. It's now known that the combination of inhaling tobacco smoke and asbestos fibers increases the chances of damage to the lungs. The federal government has been one of the main users of asbestos, especially in naval shipyards.

The problem is likely to worsen as public knowledge about the dangers of asbestos increases. There might be as many as 10,000 cases yet to be filed, said Leonard Andrews, publisher of Asbestos Litigation Reporter, a news service that keeps attorneys and others advised of court rulings and filings in asbestos cases.

"It's not possible for the U.S. judicial system to hear all the cases," said Robert E. Sweeney, a Cleveland-based plaintiff's attorney. "What we have to do is get insurers, the industry and claimants' counsel together to develop a reasonable, sound and fair arbitration process. It would be a considerable achievement."

"Any process allowing for orderly disposal of these cases would be OK," said Thomas A. Harnett, senior vp of Travelers Insurance Co. "As reasonable people, we'd use any reasonable approach. But, we don't want a mixture of the judicial system for discovery and arbitration for settlement."

Tobacco smoke

Johns-Manville is willing to participate in a program to provide additional compensation to its employees beyond workers compensation benefits, provided that the government accepts responsibility for persons injured in work areas it controlled. And it's willing to participate in a joint program with the government to provide compensation for victims who fit neither category.

But the company also wants tobacco manufacturers to compensate victims, arguing that 97% of those who contracted lung cancer from asbestos would not have done so if they were non-smokers.

Asbestos causes asbestosis, a non-malignant scarring of the lungs, and mesothelioma, a cancer of the linings of the chest and abdominal cavities. Exposure to asbestos also increases the risk of lung cancer.

However, these diseases usually do not manifest themselves until 20 to 30 years after exposure and it wasn't until the 1960s that research proved the harmful effects of inhaling asbestos. Many of the victims worked in naval shipyards during World War II and only within the past decade have suits been filed.

Plaintiffs also include insulation workers and employees of asbestos factories and mines. Even the spouses of some asbestos workers have filed suit, claiming to have contracted disabling illnesses from shaking asbestos dust out of work clothes.

Approximately 800,000 tons of asbestos are used annually in the United States; Johns-Manville produces more than 700,000 tons.

If asbestos remains trapped within piping or other containers, as it is now used, there is no risk of

harmful exposure. However, when the container is damaged or deteriorates, asbestos fibers can escape into the environment, presenting a potential health hazard.

To date, the asbestos litigation score board has been spotty. Johns-Manville and other defendants have won and lost suits, said Mr. Andrews of the Asbestos Litigation Reporter. Johns-Manville has won the last six out of eight cases that went to a jury, the company says, with juries finding that Johns-Manville had not been negligent in failing to warn of the danger of asbestos.

Claims score board

Of 419 asbestos-related suits involving The Travelers closed in 1978, almost half (221) were settled without payment, said Mr. Harnett. Another 221 were settled out of court, the defense won seven and one case was won by the plaintiff.

The average payment to claimants in these cases was \$9,335, driven up by the one case won by the plaintiffs. The jury had originally awarded \$750,000 in June 1978 in the suit involving the death from mesothelioma of an insulation worker at an Amoco refinery in Yorktown, Va. The award was later reduced to \$275,000.

A Florida jury in mid-May found Keene Corp. liable for a \$450,000 award in an asbestos-related case, the highest award since the June 1978 award. Fourteen other defendants had settled with the plaintiff, an insulation worker suffering from asbestosis, for a total of \$175,000, which will be subtracted from the jury award. The Hartford Insurance Co. insures Keene Corp.

Class action suits have not been successful; to date, none has been won by the plaintiffs. One of the largest, seeking \$1 billion on behalf of 5,000 workers at the Todd Shipyard and Long Beach Naval Shipyard in Southern California, was effectively dismissed in late April when a Los Angeles superior court judge sustained a defense motion to demur the case.

Class actions

In another class action suit, McDaniel et. al. v. Johns-Manville Sales Corp. et. al., U.S. district court judge Alfred Y. Kirkland ruled in late April in the Eastern District for Illinois that a class action could not be allowed since the plaintiffs were not victims of a "single mass accident" such as an airplane crash or fire.

Punitive damages have yet to be awarded in an asbestos case. In two cases in Tennessee and one in Illinois, judges disallowed punitive damages, holding as a matter of law that no one would be entitled to them.

Johns-Manville president John McKinney believes "it is highly unlikely Johns-Manville will ever pay punitive damages, much less any substantial compensatory damages. There simply is no fault of Johns-Manville in the asbestos and

Raise age for pensions: Official

WASHINGTON—With the continuing rise in life expectancy, consideration should be given to raising the minimum age at which retired workers can collect Social Security benefits, a top administration official said.

"In the future, we ought to think about moving that early retirement age (now 62) back in the right direction, that is, up," Health, Education and Welfare undersecretary Hale Champion said.

Mr. Champion noted that today life expectancy is 10 years longer than in 1940 when Social Security benefits first began and the average life span was 63.6 years.

health issue and in litigation that is the only thing being determined."

However, U.S. district court judge M. Joseph Blumenfeld in Hartford has indicated he might disallow Johns-Manville and other corporate defendants from maintaining the defense that they did not know about the dangers of asbestos.

Defense in jeopardy

The "state of the art" defense has been central to Johns-Manville's arguments, and an unfavorable ruling by Judge Blumenfeld could eliminate between 60% and 70% of the company's defense, said Mr. Andrews. This would leave the company with the defense of claiming that its products did not cause the injuries.

As early as 83 A.D., the Romans linked asbestos with illness. And Henry Johns, founder of Johns-Manville, died in 1898 from a lung condition that doctors now believe to have been asbestosis.

In the 1930s, Metropolitan Life Insurance Co. conducted studies at the request of Johns-Manville and other asbestos producers which indicated that asbestos represented a potential health hazard in the workplace.

Following publication of those findings, the president of Raybestos-Manhattan wrote to a Johns-Manville attorney, "I think the less said about asbestosis, the better off we are."

That letter and other documents have been cited by plaintiffs' attorneys seeking to prove that asbestos manufacturers conspired to withhold information regarding the dangers of asbestos from workers and the public.

If it can be proven that a manufacturer knew a product to be harmful and concealed that knowledge, the manufacturer can be held liable for punitive damages, said plaintiff attorney Mr. Sweeney.

Conspiracy charges

Johns-Manville and Travelers deny the conspiracy charge. "The documents relied on to demonstrate a conspiracy are dated a full 10 months after the publication by the U.S. public health service of the results of Johns-Manville-sponsored asbestos medical studies," noted Johns-Manville president Mr. McKinney.

Although it is "an adverse fact to be viewed in litigation," the exchange of information between Raybestos and Johns-Manville is not a cover-up, said Mr. Harnett of Travelers. "You can't prove a cover-up with that according to the rules of evidence. Where it has

been attempted to have been introduced, it's been a failure."

The findings of the 1930s studies were tenuous at best, argues Mr. Harnett. "Juries of today know medical information of the 1930s is not as sophisticated as today's research. Insurers were 'not misled by Johns-Manville. There was some indication of a remote danger, but not enough proof. As more information became available, Travelers decided not to write the risk."

Although the manufacturers maintain the early studies on asbestos-related diseases were inconclusive, the companies tried to improve the working environment. They introduced face masks and vacuuming, said Mr. Harnett, and they applied the knowledge they had at the time. But environmental control technology was not as sophisticated as today's, he added.

Johns-Manville doubts its state-of-the-art defense will be disallowed, said a company spokesman. At the time of injuries at issue, the 1930s and 1940s, the U.S. Navy was implanting asbestos in the lungs of submariners to improve their capacity to withstand long periods underwater, he said. The Navy also concluded in 1946 that insulation work was not a hazardous occupation.

"If the state of medical knowledge was so widespread and we should have known, so should the Navy," the Johns-Manville spokesman insisted.


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City self-insures to cut work comp costs

CARTERET, N.J.—The city government here has decided to self-insure its workers compensation program this year hoping to save \$78,000 in insurance premiums. The self-insurance program contracted through the Rasmussen Agency of East Orange will cost the city \$77,000 between now and March 1980. City officials estimated that a fully insured program would have cost \$155,000 in premiums over the same period, more than twice as much.

Under the program set up by Carteret treasurer John Florentino and Rasmussen official Dave Martin, the city's liability for each occurrence will be limited to \$150,000

and over a two-year period to an aggregate loss of \$369,000. The excess insurance to \$1 million per occurrence and \$1 million aggregate over two years is being purchased from Safety Mutual Casualty Corp. of St. Louis. The city, which employs 200 people, suffered \$45,000 in incurred workers compensation losses last year, \$37,000 the year before that and \$91,000 in 1976. Insurance premiums paid to United States Fidelity & Guaranty Co. cost the city \$120,000 last year and approximately \$185,000 the year before that, according to city officials.

Rasmussen will process the claims and handle all the details of the program for the city. Included in the \$77,000 cost of the self-insurance program is a \$18,400 contract fee to Rasmussen and \$27,600 for the excess insurance. The \$31,000 balance is budgeted to pay anticipated losses. Carteret is one of several New Jersey governments that recently turned to self-insurance for workers compensation. Others include Essex County, Trenton and Burlington County, all of which also contracted with Rasmussen.

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Continued from page 1

partment for facing the tough issues that they previously had avoided," added Leonard Mactas, partner at Kwasha Lipton in Englewood Cliffs, N.J., a national consulting firm. "They have met the issues head on now."

The key changes in the final guidelines include:

- Clarification that salary increases after age 65 do not have to be considered in pension benefit accruals.

- Clarification that group health insurance benefits for older workers can be reduced to the extent Medicare provides protection.

- Added flexibility for covering older workers' long term disability expenses.

The guidelines published late last month are designed to aid companies in complying with the new law raising the mandatory retirement age to 70. Companies want to cut benefits for older workers to reflect the higher costs of the benefits for older workers. The Labor Department with these guidelines agrees employers can cut back on some benefits for older workers.

Clarifications made

The guidelines supersede an earlier set of guidelines released last September (BI, Oct. 2, 1978).

In those guidelines, the Labor Department stunned the benefit community by not clearly answering whether employers would have to give credit in pension plans for salary increases earned after age 65. The credit for pay increases over 65 affects pension plans in which the final benefit is based on the average highest salary earned over a certain number of years.

In the final guidelines, the Labor Department has clearly stated that employers will not have to give benefit accruals for salary increases earned after a pension plan's normal retirement age, which usually is 65. As a result, pension benefits can be frozen at

Costs force holding risk: Exec panel

CHICAGO—Small corporations may be forced into self-insurance programs that they are not financially equipped to handle, warned a panel of Chicago-based risk managers at Chicago Insurance Day.

"The size of corporations that self-insure is determined by the markets," explained panelist Arnold J. Saret, risk manager of Interstate United Corp. "Operations with \$10 million in sales should not be in self-insurance, but may be forced into it by tight market conditions."

Product liability and workers compensation for small firms is becoming difficult to locate in Illinois, according to the panel, and workers compensation for small manufacturers tends "to wind up in the state pool," noted Mr. Saret.

Product liability tends to be covered under "unintentional self-insurance," noted another panelist, Lane E. Kohan, formerly risk manager of International IRM Inc.

Commercial insurance, in general, may be becoming unaffordable to small firms as a result of "the high deductibles and poor programs the markets are offering," Mr. Kohan continued.

Though a soft insurance market is said to be in full swing, Mr. Kohan reported only rumors of softening.

age 65 even though the employee keeps on working past that age unless the plan provides for continued accruals.

Most observers believe that the Labor Department had intended all along to allow plan sponsors to halt pension benefit accruals at age 65, "But they simply didn't know how to word it," the first time around, observed Janet Shephard, partner and consultant at Hewitt Associates in Lincolnshire, Ill.

Group health savings

At the same time, the Labor Department also confirmed that employers would be free to reduce group health insurance coverage for older workers as long as Medicare, which begins at 65, compensates for the reduction in employer-paid benefits.

However, the Labor Department said employers now would be expected to pay the older worker's Part B Medicare premium since the guidelines say employers cannot require older workers to contribute more for their benefits than their younger counterparts. Part B Medicare now costs \$8.20 a month per employee.

The guidelines, though, do not spell out whether an employer also is obligated to pay a spouse's Medicare premium if the company provides coverage for dependents, noted Ms. Shephard of Hewitt Associates.

Regarding long term disability insurance, the Labor Department had initially proposed that employers could halt benefits at age 65 for an employee who became disabled before age 60. For workers who become disabled after age 60, disability benefits could continue for up to five years, or until the employee reached age 70, whichever occurred first.

These twin alternatives remain in the final guidelines. The Labor Department has also added an option allowing employers to reduce LTD benefits to a level at which the cost of providing the LTD benefit to older workers does not exceed LTD costs for younger employees.

LTD, pension juggle

Furthermore, according to the final guidelines, employers will not have to pay pension benefits for workers over 65 who are collecting LTD benefits. In some cases this could reduce a company's benefit expenses since a worker's pension benefit may be higher than the LTD benefit, noted Kwasha Lipton's Mr. Mactas.

Taking a public policy point of view, one benefit consultant pondered if it wouldn't have made more sense for the Labor Department to say pension benefits and LTD benefits could be integrated so that an older worker would not

lose any salary replacement income.

The guidelines specify that group life insurance benefits can be reduced on the basis of age, in direct correlation to the age-based increase in cost.

Benefit consultants believe that most employers can live with the guidelines and will adhere to them. "The guidelines offer sufficient flexibility so that employers can maintain employees on the payroll after age 65 without having to bear abnormal costs," said ERIC's Mr. Pantos.

However, the guidelines do mean that employers will have to beef up their communication efforts with their employees. For example, if a company reduces its group health insurance benefits to the extent that Medicare kicks in, the company will have to explain to its older employees what Medicare covers and what the group plan now will cover, said Ms. Shephard of Hewitt Associates.

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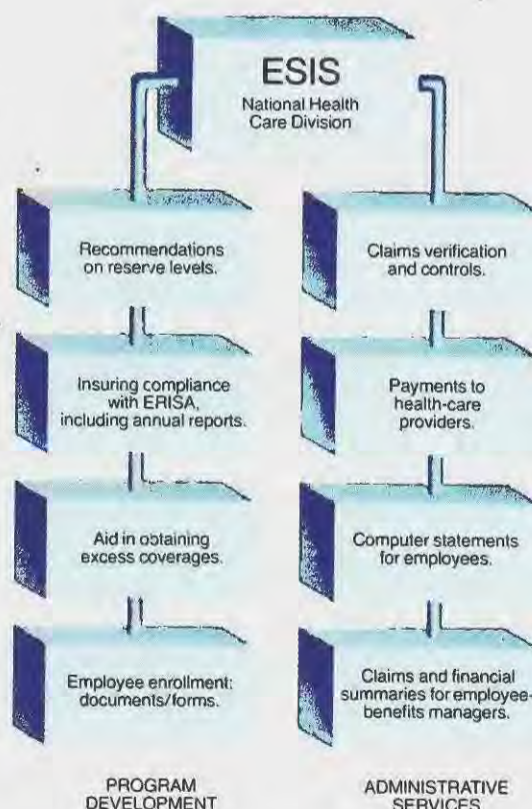
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Strang returns to Northrop as risk manager

James P. Strang, 38, has been named corporate director of risk management and assistant treasurer for Northrop Corp. in Los Angeles, replacing Greg York who resigned to establish his own risk management consulting business as reported. Mr. Strang previously had been in the Northrop Corp. insurance department from 1973 to 1977. For the last two years, Mr. Strang was corporate director of insurance for Tiger International in Los Angeles. At Northrop, Mr. Strang reports to James Willson, senior vp for finance. Mr. Strang has an MBA degree with an em-

phasis in risk management from Pepperdine University, Malibu, Calif.

Brant de Pierre has been named safety administrator for the city of Anaheim, Calif. It is a new position. Mr. de Pierre was formerly safety administrator for the city of Los Angeles, a position he held for the last eight years. Prior to that, he was safety administrator for the city of Santa Ana for seven years. In his new job with the city of Anaheim, he reports to Jack Love, risk manager.

Several changes in the risk management department of the Birmingham-based Vulcan Materials Co. have resulted in three promotions there. **Robert W. Lee**, 50, has been promoted to vp of compensation and risk management from his position as director of risk management and employe benefits. **Benjie W. Bumpers**, 37, has gone from his position as manager of corporate casualty insurance and claims to the newly-created one of manager of corporate risk. **H. Glenn Carnathan**, specialist in employe benefits, has been named manager

of that area, replacing Jim Neasor, who left the company. Mr. Carnathan is 27.

Two new positions at the Atlanta-based Grand Union/Colonial Stores have resulted in a promotion and a hiring there. **Eben L. Jones**, 30, has been named claims and safety coordinator, supervising claims under the company's self-insurance program and its Bermuda-based captive, Chalfont Ltd. He was most recently a claims supervisor at Liberty Mutual in Atlanta. Promoted to the new position of pension administrator is **Robert Lebo**, 42. Mr. Lebo, who previously was corporate tax manager for Colonial Stores, will be in charge of the day-to-day administration of the pension program. Both men report to Al Friday, vp of Grand Union/Colonial Stores.

Greg Halldin has been named to the newly created position of insurance manager for National Car Rental's lend-lease program. Mr. Halldin, 31, has been with the St. Louis Park, Minn., company for 6½ years, most recently as claims

supervisor for corporate car rentals. He reports to Rolland Krefall, director of insurance. Mr. Halldin has a BS in business administration from Mancato State University.

Joe Mania has been promoted to assistant treasurer/risk management at Standard Brands of New York. In the newly created position, he will retain his previous duties as risk manager and assume additional responsibilities in loss control and the financial accounting for employe benefits. Mr. Mania, 50, has been with Standard Brands for seven years, and reports to H.F. Powell, vp and treasurer. He has a BA from Rutgers University.

Robert L. Wood, 40, has been elected a vp of Athlone Industries Inc. of Parisippa, N.J., retaining his duties and title as director of corporate insurance. Mr. Wood, who reports to company president Harold J. Miller, has been with Athlone since 1974. Before that he was assistant insurance manager with Simmons Co. He has a BS degree in business administration

from C.W. Post College.

Robert A. Reeves, 34, vp-insurance of Hospital Corp. of America (HCA) and president of HCA's wholly owned subsidiary, Parthenon Insurance Co., has been named to a three-year term on the board of directors of Ideal Mutual Insurance Co.

James G. Edmonds, 31, has joined GAF Corp.'s risk management department as property loss prevention administrator. Mr. Edmonds was staff fire consultant for the mid-Atlantic division of the Kemper Insurance Cos. In his new position, he reports to R.S. Gyory, risk manager. Mr. Edmonds holds a bachelor's degree in engineering from the Stevens Institute of Technology.

We'd like to report on staff management or employe benefits department. Just drop a note to Stuart Emmrich, Business Insurance, 708 Third Ave., N.Y., N.Y., 10017 or call 212-986-5000. We'd also like to receive pictures of those involved.



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Letters column...

Continued from page 10

way. The cost will be three to 10 times the amount but the employes will be paying lower premiums—the public simply pays higher taxes!

We have too many people believing there really is a Santa Claus providing something for nothing. Ohio deserves applause for even attempting to look at a "loss leader" fund and ask the question—why not compete?

Robert D. Jensen, CLU
Vp, Anderson Agency, Minneapolis

Individuals only

To the editor: Congratulations on an exceptionally well written article about the new Florida workers compensation law based on the wage-loss concept, May 28.

So that there can be no mistake in the minds of your readers as to the guarantee fund, perhaps you ought to point out that the guarantee fund required under the new law applies to individual self-insurers, and not to self-insurance funds.

To quote the specific language, "On or before Jan. 31, 1980, the division shall adopt rules creating a guarantee fund for individual self-insurers authorized under this paragraph, and said self-insurers, other than individual self-insurers

which are public utilities or governmental entities, shall participate in such fund. Said guarantee fund shall become effective on July 1, 1980."

The absence of clarification in your original article resulted in some participants in the Associated Industries of Florida Self-Insurers Fund calling to inquire about their potential obligation for a guarantee fund. Under the new Florida law which takes effect July 1, 1980, there is no obligation on the part of members of self-insurance funds to participate in the guarantee fund mandated for individual self-insurers.

C.C. Dockery

Administrator, Associated Industries of Florida Self-Insurers Fund, Lakeland, Fla.

Another searcher

To the editor: Our firm was not listed in your directory of risk/benefit executive recruiters April 30.

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Thomas C. Amory
Chairman, William H. Clark Associates Inc., New York, N.Y.

No list

To the editor: Re a recent response in the Letters to the Editor section of *Business Insurance*. In your reply to Frederick W. Griffin

of Burpee, Griffin & Perkins of Manchester, N.H., you advised him that the American Society for Industrial Security maintains a list of security consultants. Several years ago ASIS did publish such a listing. However, it has not been updated in over three years and is no longer available. At this point there are no plans to.

The address and phone number you listed for ASIS is incorrect. The correct address is 2000 K St. N.W., Suite 651, Washington, D.C. 20006; (202) 331-7887.

Patricia L. Rivers
Executive secretary, ASIS, Washington, D.C.

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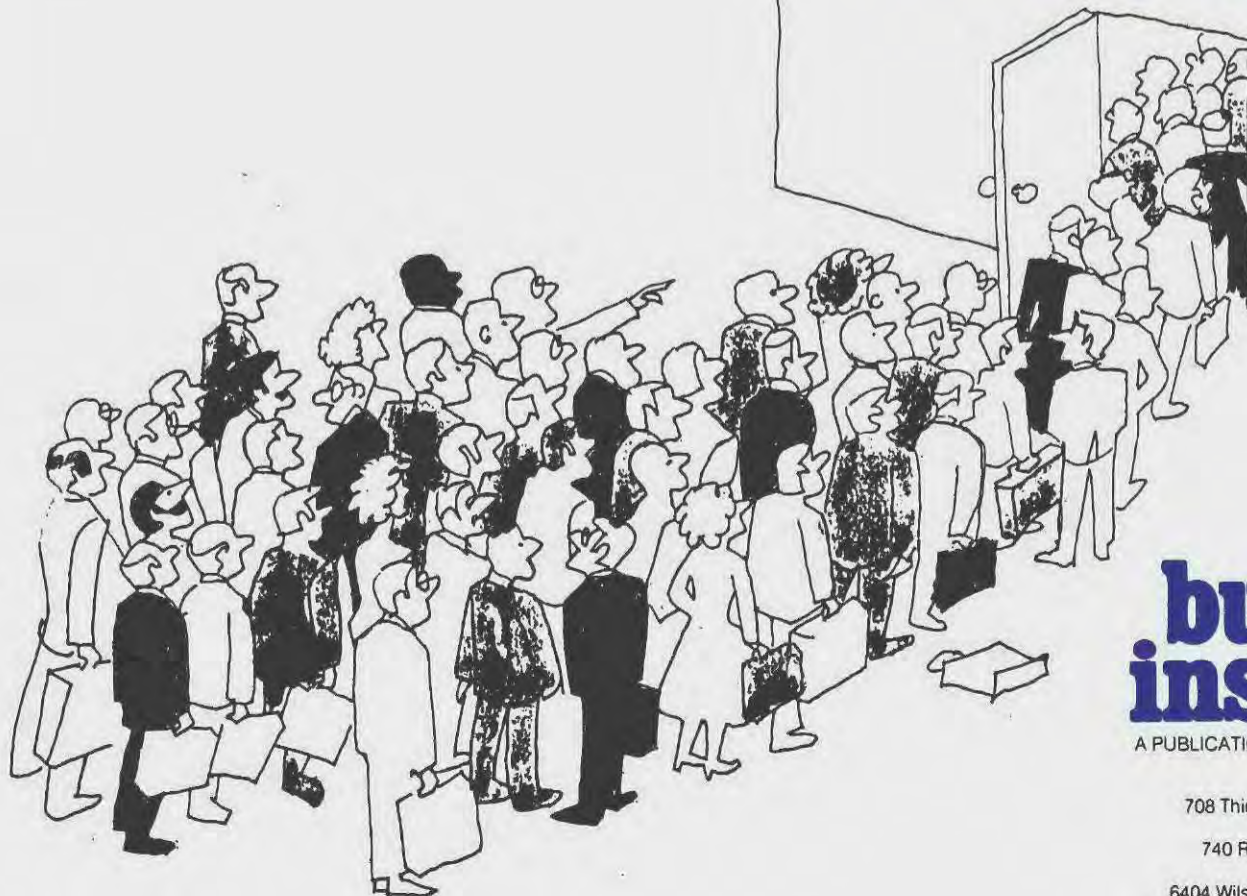
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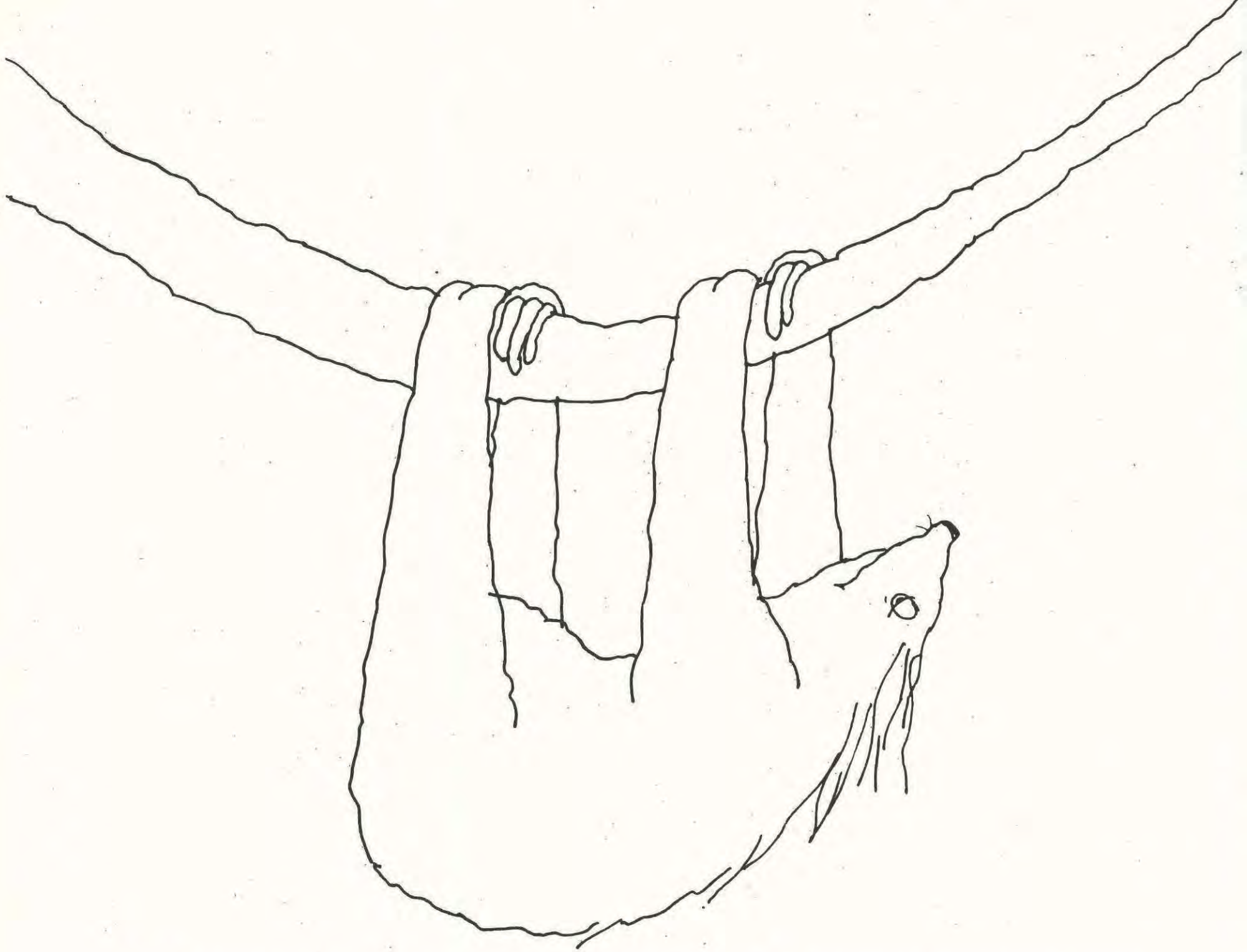
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