

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Amusement Parks have been a phenomenon in the U.S. since 1800. For a view of how insurers handle these special risks, see page 76.

U. of California names new brokerage firm to handle its huge account

BERKELEY, CA.—The University of California recently named Risk Management Group (RMG) the sole broker for the entire university system, choosing the firm over its previous broker, Fred S. James, and nine other brokers.

The other top contenders for the business which includes \$18.3 million in insurance premiums were Johnson & Higgins and Bayly, Martin & Fay.

Fred S. James has been the designated broker for the University of California since 1970. However, under the university risk management policy, the brokerage firm is reviewed every six years.

A five-member committee representing the university and the George M. Betterley consulting firm, retained by the university to aid in the selection of a new broker, witnessed full presentations by the four finalists. After the presentations, the members independently rated them.

Cost did not play a role in the selection, Mr. Betterley said.

"We're operating strictly on a fee basis," a spokesman for RMG said. "There's no commission involved."

RMG is a new company formed by Gordon H. Beamer, president

and chairman. Charles E. Hiatt of The Hiatt Co., a risk management, actuarial and employe benefit consulting firm is vice chairman. Other service partners of RMG are: The Claims Management Co., Asset Control Inc., Profitect Inc., The FPE (Fire Protection Engineering consulting firm), Worldwide Facilities Inc., an excess and surplus lines wholesale broker and B. E. Gutmann Co.

The University of California, which operates several teaching hospitals, pays \$16 million in malpractice premiums and is insured with the California Hospital Assn. However, the anniversary date of the policy is July 1.

"We will begin exploring alternative funding techniques," the spokesman for RMG said, using a mathematical model system to determine the expected losses for the next five years.

One of the techniques proposed is the Econometric Risk Analysis (ERA) system. The system uses a computer to generate random possibilities.

"We propose to analyze the demographic and geographics as well as the doctor and patient population," the RMG spokesman said.

Urges 'definite change' in McCarran's shelters

By PAUL R. MERRION

NEW ORLEANS—Reforming the McCarran-Ferguson Act, which for over 30 years has exempted the insurance industry from antitrust laws, would bring about the benefits of more competition and less regulation for industry and consumers alike, a top Justice Department official said here.

For several months, under orders from the Ford Administration, the Justice Department's antitrust division has been studying the impact of changing the law as part of an overall effort to loosen the reins on heavily regulated industries, including trucking, air and rail transportation, and insurance.

"Today there is a growing consensus that economic regulation, absent a natural monopoly, is injurious to the public interest," said Jonathan C. Rose, deputy assistant attorney general in the antitrust division.

Speaking here earlier this month at the American Bar Assn. national institute on regulation of the insurance industry, Mr. Rose repeatedly said that he still has no clear indication of when or how the McCarran-Ferguson Act should be reformed, but that the evidence thus far indicates that some change of the law is definitely needed.

California's regulatory system, based on "open competition" since 1947, is an example of what the Justice Department may some day seek in the way of deregulation, Mr. Rose said.

The McCarran-Ferguson Act, passed in 1945, required state reg-

ulation of insurance rating bureaus in order to obtain exemption from the federal antitrust laws. Most states subsequently adopted "prior approval" laws which left the power to change rates in the hands of the rating bureaus with some public supervision.

The immediate benefit of removing antitrust exemption from the insurance industry would be more competition and less regulation, especially in states now requiring "prior approval" of changes in insurance rates, Mr. Rose said. He added that evidence gathered on automobile insurers shows that reform of the regulatory system would bring about independent pricing, a smaller proportion of uninsurable risks to be subsidized, more industry innovation and less volatility in loss ratios.

In conducting the studies, the Justice Department compared the experience of "prior approval" states and those in which a more

competitive climate exists because insurers are able to adjust rates more easily.

While results of the studies are tentative, and so far limited to auto insurance, Mr. Rose said statistics gathered by the Justice Department show that "to the extent rate regulation produces inadequate rates, it also results, as one insurer asserts, in either limiting the amount of business we will write in those states or...tightening our underwriting standards, or both."

The studies have found that in two major "prior approval" states, about one-half of the top 30 auto insurers use rates set by the state rating bureau, despite the easing of rules prohibiting independent filings, Mr. Rose said.

One possible explanation is the rigidity of the rating mechanism. "Under these regulatory conditions, efficient insurers may adopt

Continued on page 8

Fat City: Earn \$2 benefit for \$3 pay

NEW YORK—Fringe benefits for municipal workers cost New York City \$2 for every \$3 dollars of base pay, a report by the Temporary Commission on City Finances found.

What the commission proposed to remedy the problem is essentially a suggestion that municipal

employees work more for less compensation.

The commission is recommending five major cutbacks in fringe benefits designed to save \$97 million. In addition, it would make three cuts in leave benefits which would effectively add 9,000 workers to the city's labor force at no extra cost.

These recommendations were made public as negotiations were about to begin for new labor contracts covering most municipal workers in New York City.

The study found that the average annual base pay for all city workers is \$16,091 and that fringe and leave benefits cost \$10,616 a year more bringing the total yearly average cost per employe to \$26,707.

The most controversial step recommended by the commission was for the city to stop paying \$105 million a year to union welfare funds, but to provide the same benefits directly to city workers at a saving of \$30 million.

The city is spending \$292 million this year for the most extensive employe health program in the country, the report revealed, and it continues to pay health benefits after retirement even in the cases of people young enough to start a second career which also provides

Continued on page 8

Risk Management SERVICES

What's the name of the game in the insurance business? Service, of course. Underwriters still provide policies, and brokers still sell what the insurers underwrite. But services are where the action is—services to control losses, services to administer benefit claims, services to counsel on pension reform law compliance, services to protect properties, services to clean up oil spills, services to help set up and manage your own insurance company. In fact, there are even specialists (consultants) to evaluate the services you get for your dollar. In this special issue, we've taken a close look at the providers and users of services. See pages 13 through 42 for the details.

\$500 million loss in dam collapse—p. 2

Dam collapse creates loss, liability worries

By MARIE KRAKOWIECKI

IDAHO FALLS, ID.—The Teton Dam, which burst June 5, was uninsured for its own value and for the estimated \$500 million in property damages caused by the resulting flash flood, according to the government agency which designed and operated the dam.

The Bureau of Reclamation of the Department of the Interior is one of two federal agencies which builds dams, the other being the Tennessee Valley Authority. A spokesman for the bureau said federal dams as a rule are not insured.

"Teton Dam was 97% complete and was still in the hands of its two contractors when it broke," a bureau spokesman said. Seven persons were known dead.

He identified the contractors as Morrison-Knudsen Co. of Boise, Idaho, and Peter Kiewit Sons Co. of Omaha, Nebraska.

Neither firm's insurance director was available for comment

about what kind of builders' risk insurance coverage they carry which might apply in a disaster of this magnitude.

Richard C. Feddersohn of Morrison-Knudsen would divulge only his title, which is director of insurance.

J. Hawekote, insurance manager of Peter Kiewit, left his office after being contacted by *Business Insurance*, and his assistant did not return subsequent inquiries.

However, it was learned that the Seattle office of Marsh & McLennan is broker for the Morrison-Knudsen coverage.

M&M account executive Evan Sorby handles the business. He was unavailable at press time, and his office said it had been instructed not to comment on the Teton Dam break because M&M was "in meetings regarding it right now."

The federal government will provide disaster relief to the victims of the flood. Its Federal Dis-

aster Assistance Administration (FDAA) was busy setting up emergency centers at press time. The centers would function with a "supermarket approach" in providing one place victims could go to file a variety of claims with different government divisions.

The FDAA said that its first rough estimates of commercial damage in the area, made from a helicopter survey, indicate some 200 businesses were wiped out.

Probably none of these businesses were covered by commercial flood insurance policies, according to the Allied Mutual Insurance Co. in Boise.

Allied Mutual acts as a subcontractor for the National Federal Flood Insurers Assn.

"Idaho is one of the states which carries the least amount of flood insurance," explained Peter Kramer, director of research for the association.

He said information phoned to the association that morning last week showed that the worst hit areas of Idaho were the least insured. Sugar City, which had 200 houses leveled, for instance, had only five flood insurance policies on record.

And in the whole of Madison

County, the most severely devastated area, there were only seven policies. Rexburg which had damage to more than 1700 structures, had only two flood policies.

There were 149 policies written for Idaho Falls, the state's third largest city, but the damage was not as bad there, Mr. Kramer said.

He contrasted the situation with Tulsa, Oklahoma, itself the scene of a flood causing \$12 million in damages a few weeks ago. That city had flood coverage for about \$6 million of the damages, or about 50%, compared to Idaho's sparse flood insurance.

"Unfortunately, the best advertisement for flood insurance is a flood," Mr. Kramer added.

The FDAA was not able to provide any figures on how much it would cost the federal government to help the victims of the Teton Dam flood.

"We don't go in with a bag full of money and when it runs out stop making payments," a spokesman said.

"The law establishes eligibility. But," he remarked, "we consider insurance to be prime."

He went on to explain that anyone who had insurance coverage for damages sustained would not be eligible for government assistance for those losses.

He said the American Insurance Assn. had signed a letter of agreement with the FDAA to send representatives to the emergency relief centers to help give advice and assistance in filing claims.

Although the question of builders' risk liability in the case of the contractors working on the Teton Dam, remains unanswered at this writing, there is apparently no architect or engineering liability coverages involved in the

Teton Dam break, because the facility was designed by the Bureau of Reclamation's own Dam Design Construction Center in Denver, Colorado.

The dam, which was situated on the Teton River north of Idaho Falls, was a controversial project from its inception. Approved by Congress in 1964 and begun in 1971, the 300-foot dam was attacked by environmentalists who said it was being built in a fault zone.

Three groups, the Sierra Club, the Idaho Environmental Council, and Trout Unlimited sued to block the project in 1973, claiming the project's environmental impact statement was inadequate.

The court ruled against them, and the U.S. Court of Appeals upheld the decision in late 1974.

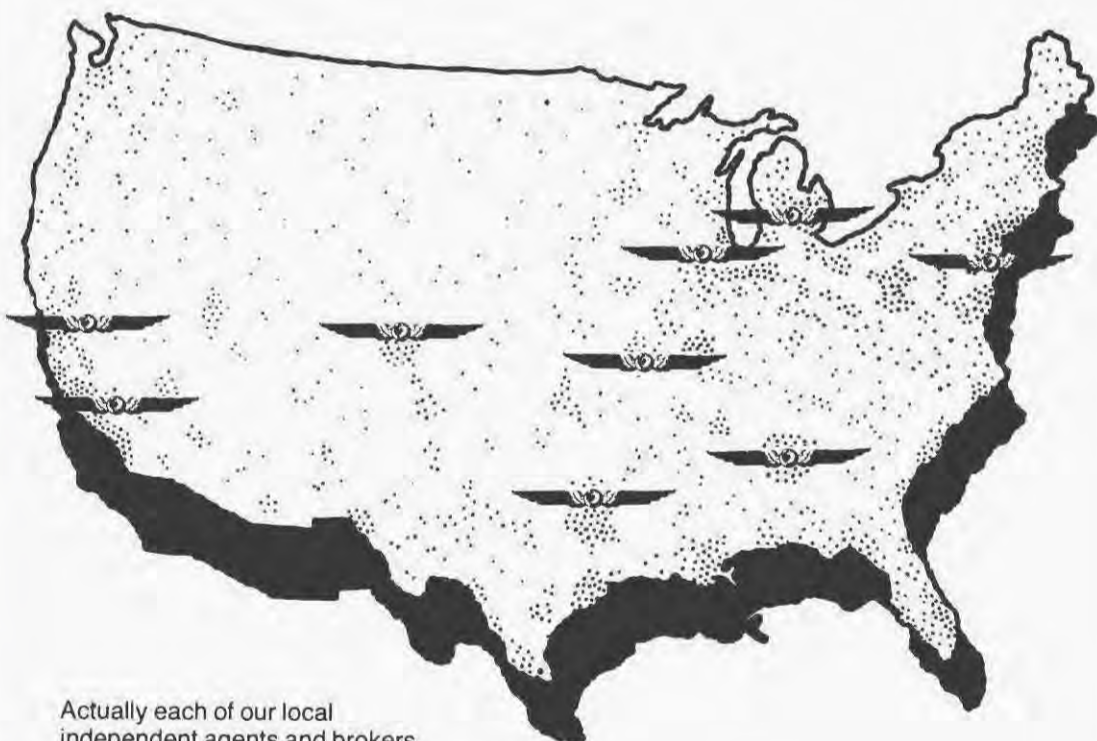
"This dam was supposed to take care of all future flood problems around here. That's one of the reasons why there was very little flood insurance purchased," said a source at the Boise office of Allied Mutual.

GUIDE TO FEATURES

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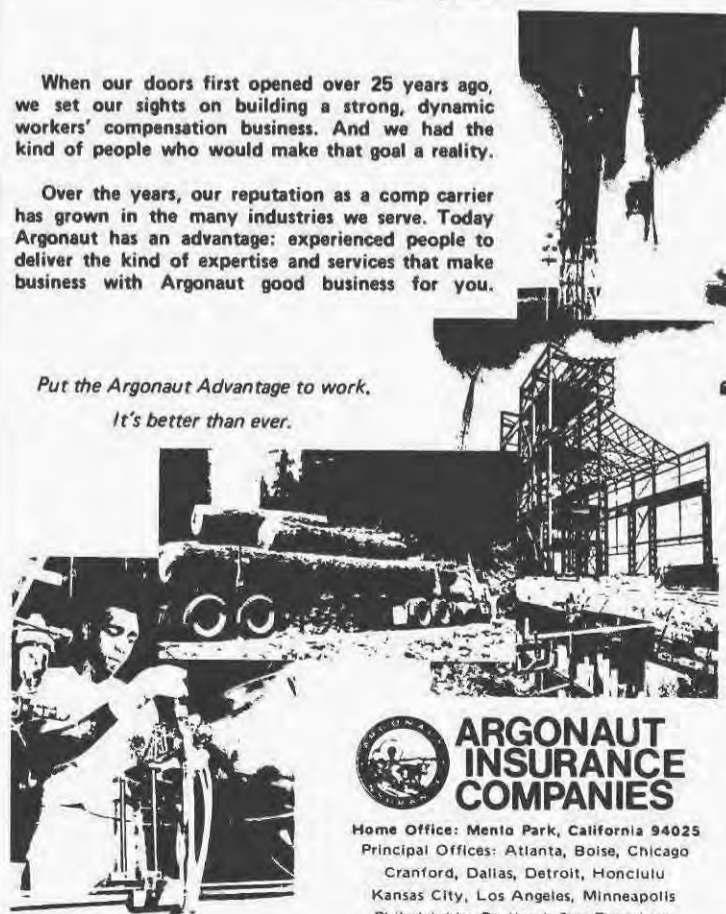
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Another board to rule on insurance accounting

By PAUL R. MERRION

WASHINGTON—A congressional watchdog agency is trying to define how insurance costs should be accounted for by federal defense contractors.

Self-insurance, premium refunds, and allocating costs of centrally purchased insurance among a firm's government and non-government entities are the major issues to which the Cost Accounting Standards Board (CASB) recently asked 1,000 contractors and trade groups to respond.

The CASB, established in 1970, develops guidelines for another Congressional agency, the Defense Contract Audit Agency, which oversees \$16.5 billion in negotiated defense contracts annually. The CASB said that annual insurance costs allocable to those contracts are estimated to be \$350 million.

About three-fourths of this \$350 million represents employe group insurance plans, and the rest includes workers' compensation, liability and casualty insurance, the CASB said. "Self-insurance appeared to be utilized extensively for other than employe group insurance," the agency added.

The study is only in the information-gathering stage, and a proposed standard won't be issued for about 10 months, according to Robert S. Straith, associate director of CASB.

There were 70 replies to the rather complicated survey, out of 1,000 corporations, individuals and trade groups that were asked to respond. "It's not an issue everyone is excited about," Mr. Straith said.

The ho-hum reaction from industry is partially due to the relative insignificance of the insurance costs that would be subject to an accounting standard. "We replied to the questionnaire, but we question the need for an insurance cost accounting standard," said Philip Blattau, project officer for the Council of Defense and Space Industry Assn.'s cost accounting standards task group.

"When you take out the three-fourths that goes for group insurance, and when you consider that a significant part of the balance won't be affected either, how much is open to dispute," Mr. Blattau said. "Our experience with other standards is that in the long run, there are more arguments created and more cases come before the Contract Appeal Boards."

The CASB staff is currently writing an informal draft standard, he said, which will then be sent out to the 1,000 members of the survey for their comments.

The informal standard will then be revised into a proposed standard, which will be published in the Federal Register. Then comments will be accepted for 60 days. If all goes well, a final standard will be forthcoming in about 1½ months, Mr. Straith said.

The CASB's objective is to provide increased uniformity and consistency in cost accounting practices of defense contractors. In the last year, the board has developed final regulations on accounting for costs of compensated personal absence, depreciation of tangible capital assets, and accounting for acquisition costs of material.

"A number of troublesome accounting problems in connection with both purchased insurance and self-insurance plans" have cropped up in several Board of Contract Appeals cases and court cases, according to the CASB.

"For example, portions of premiums, refunds, or dividends are allowed to remain on deposit with insurance companies as 'reserves' for various purposes," the board

said. "The sizes of the reserves are not actuarially determined and are frequently very large.

"Contractors retain an interest in the reserves, yet the existence of the reserves is not disclosed in the contractor's records nor are reported insurance costs correspondingly reduced," the CASB said.

In the area of self-insurance, the board is particularly concerned with two funding methods: accruing a "reserve for self-insurance" by a systematic charge to expense in each accounting period, and assigning the cost of the loss to the period in which it occurs.

Prior to the issuance of Financial Accounting Standards Board (FASB) standard No. 5, which limited current-year expensing of self-insured retentions to losses that are probable or that can be

reasonably estimated, federal contract auditors relied on government procurement regulations which were interpreted to require a formal accrual on the financial statement to provide evidence of a reserve.

"However, because FASB No. 5 now forbids such accruals," the CASB said, "the audit agencies have advised us that they will accept the evidence of provisions in memorandum records maintained for this purpose."

The problem with self-insurance that the CASB sees is that by sharing directly in the contractor's losses, the government becomes, in effect, his "insurer."

It thereby exposes itself to losses without the opportunities to control risks that commercial insurers have.

In the area of premium re-

funds, with respect to retrospectively rated insurance policies, the CASB is concerned about the method of accounting for the "premium deposit" and the refund or adjustment.

The problem lies in determining what period to which the premium refund should be allocated. In the past, contractors have used the current period, the policy period on which the refund was computed, and the earliest cost accounting period on which final settlement has not been reached with the government.

However, the amount of work that a contractor has with the government can vary yearly.

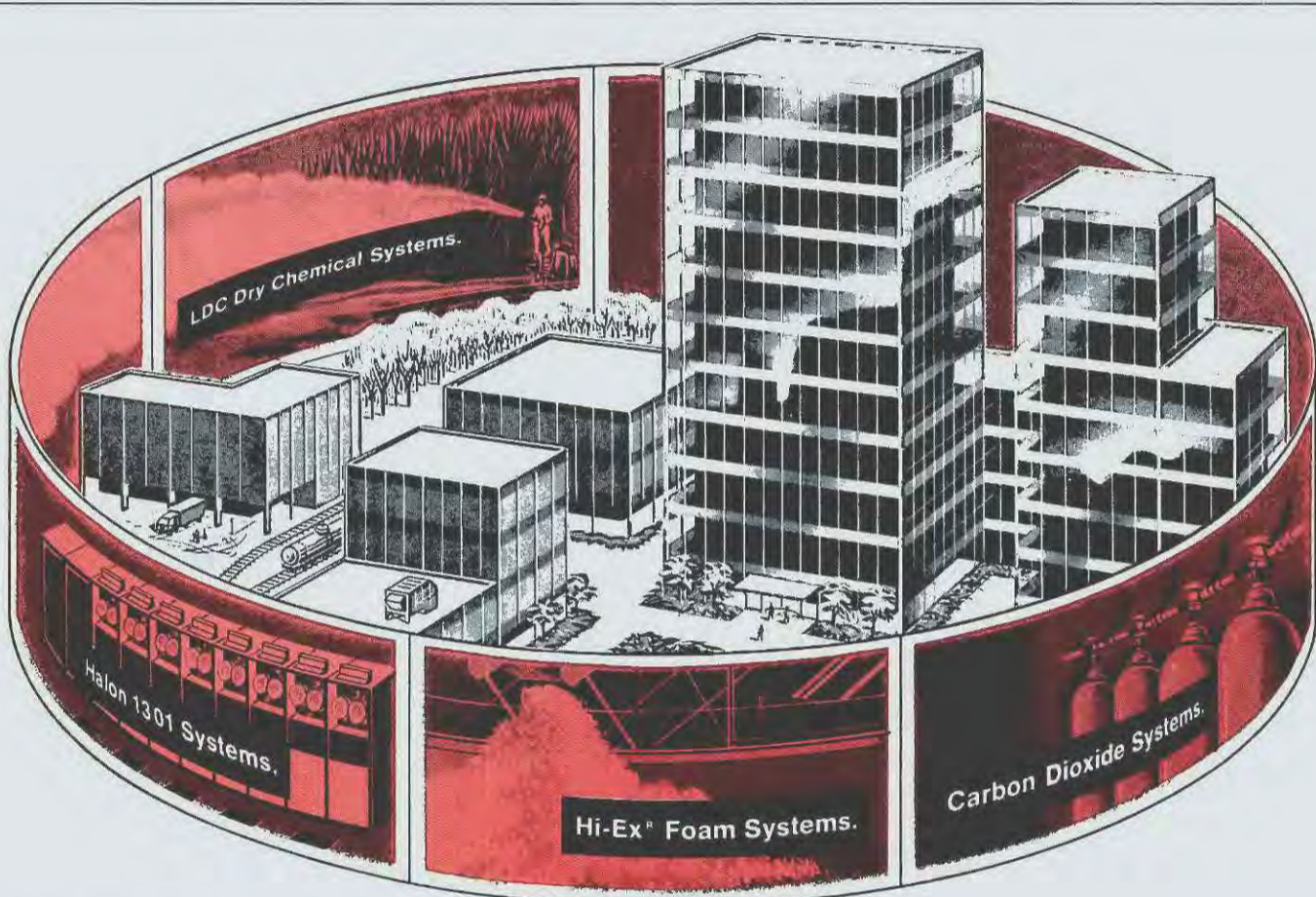
Therefore, the amount of credit allocated to the government would often depend on the period used.

On the question of allocating in-

urance costs to various segments of a company that does government work, the defense contract auditors are charged with making sure that pooling premiums does not result in an overcharge to the government.

Especially in aircraft product liability insurance, there are discrepancies in loss experience for government and non-government work, the CASB said.

"The amount of claims which would normally result from the failure of a commercial aircraft tends to be much higher than the amount which would result from the failure of a government aircraft, and it appears that the premium on such commercial business may be as much as 10 times as great as that on comparable government business," the CASB said. ■



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Employers Insurance of Wausau
Wausau, Wisconsin

City of Newport News, numbed by premium bill, self-insures auto risks

By PAUL R. MERRION

And fortunately, the penalty for early cancellation was set at \$17,000. The reduction in the penalty

insure their vehicle risks.

Newport News had 950 city vehicles as of fall 1975. Mr. Thomas

in the retro plan," Mr. Thomas said.

"But really, a retro plan is just a cost-plus plan," Mr. Thomas said, "and it's the plusses that get you."

Savings this year were projected to be \$204,900, but Mr. Thomas said if current loss trends continue, savings could reach \$285,000.

Mr. Thomas estimates that it will

Routine claims will be handled out of the city attorney's office, and non-routine claims will be handled by Crawford & Co. at \$80 per accident, unless the mishap involves a school bus or some other complication.

The city's self-insurance plan gives the city attorney and his staff the authority to settle claims up to

6/business insurance, June 14, 1976

Product liability hearing to be held this summer

WASHINGTON — Fact-finding hearings on product liability will be held by the Senate Small Business Committee either late this month or sometime this summer, according to a committee staffer.

The arrangements are tentative, and no witnesses have been confirmed. But the committee's chairman, Sen. Gaylord Nelson (D-Wi.) is "very interested" in the problem and he wants to hold hearings, the staffer said.

"The product liability problems of big companies are magnified for small companies," she said. "Insurance is becoming astronomical."

The hearings will not center on a specific bill because it is a select committee and it will not have

legislative powers until the next session of Congress. Rather, the committee is seeking to collect testimony for the use of its members, who serve on other committees.

"The product liability problem cuts across the jurisdiction of quite a few committees," the staffer said.

Meanwhile, the Senate Labor and Public Welfare Committee has not yet scheduled hearings on a product liability bill introduced in April by Sen. Robert Taft.

The bill would ease the product liability problem, its supporters claim, by allowing an override of exclusive remedy provisions in state workers' compensation laws.

Under current law, injured

workers cannot sue their employers but they can sue the maker of the machine on which they were injured, charging that the machine is defective. The inability of machine manufacturers to countersue the worker's employer.

Sen. Taft's bill, S. 3317, is an amendment to the Occupational Safety and Health Act, which has not been changed since it was passed in 1970.

The bill would allow countersuits against employers who violate an OSHA provision or other safety law, in addition to being able to use the employer's negligence as a defense.

An aide to Sen. Taft said hearings have not been scheduled because the committee's calendar is crowded with other measures. However, the bill is picking up support, he said. Three more senators have agreed to co-sponsor the legislation, in addition to the five who originally put their names on it. ■

RIMS to poll members on liability insurance

NEW YORK—As part of a long-range effort for tort reform, the Risk & Insurance Management Society (RIMS) is planning to survey 2,200 of its members on their problems with product liability and other scare lines of insurance, according to Paul Kipp, vp-public affairs.

The approximately eight page survey questionnaire is being finished now, Mr. Kipp said, and RIMS is hoping to mail them soon and have the results tabulated by the end of the summer.

The Department of Commerce's interagency task force on product liability is not associated with the RIMS survey, Mr. Kipp said, although "we did talk to them to find out what they're interested

in." A RIMS spokesman at headquarters here said, "it goes without saying that we'll send them the results."

Details for funding the study have not yet been worked out with the prospective co-sponsor, which is a major magazine, the RIMS spokesman said. Time and Fortune magazines have sponsored RIMS studies in the past. "It adds validity to have another sponsor," the spokesman said, "and it adds impact."

The product liability survey will serve as the basis for a RIMS task force on tort reform, Mr. Kipp said. "After we develop information on tort reform, we'll decide what we'll do," he said. "It could be active or passive."

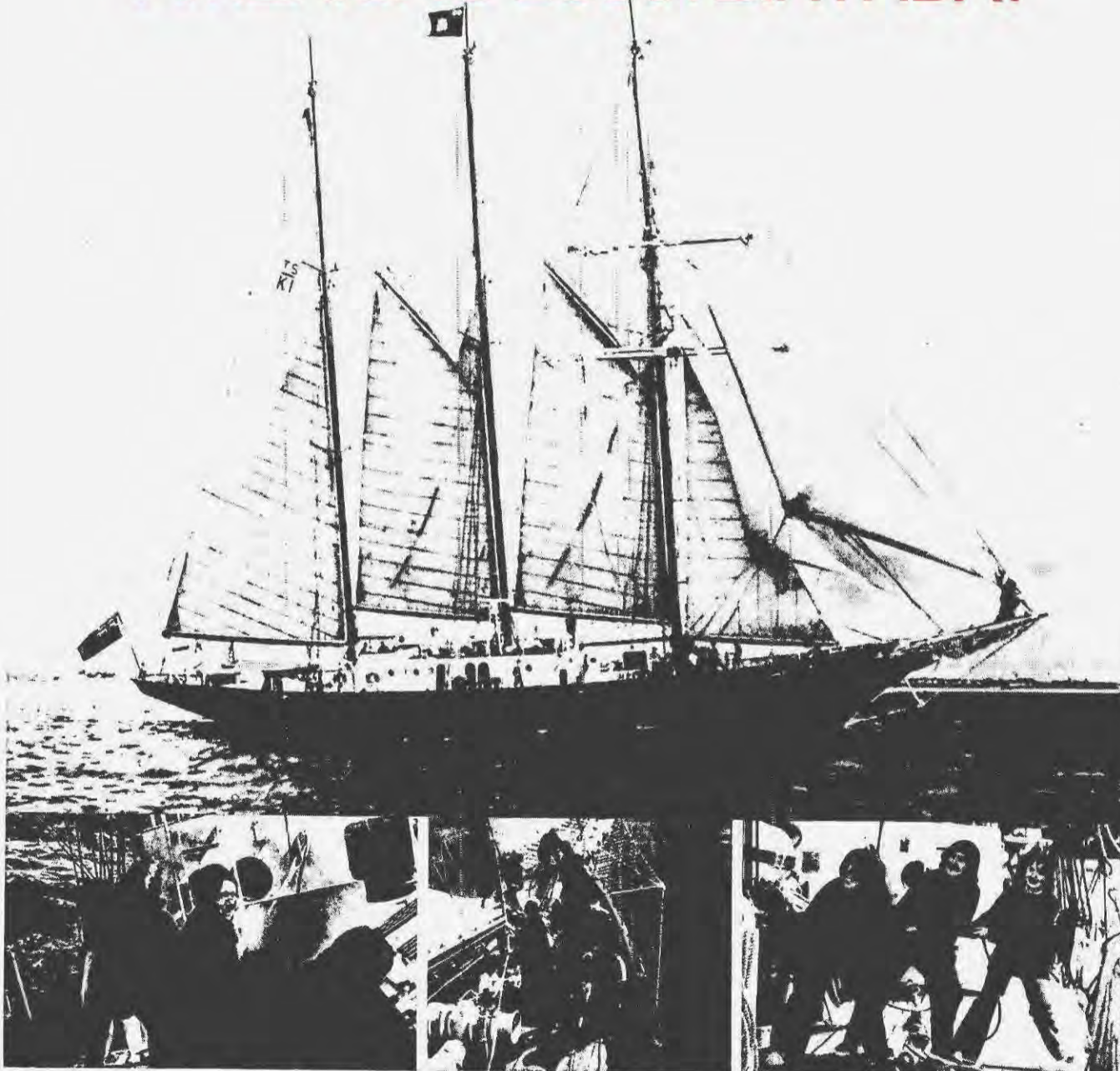
"You have to have a good feel of the problem," Mr. Kipp said. "You have to see where your support is."

The RIMS survey will ask broad questions, "so no matter what industry (the respondent belongs to) we can get input," he said. The questions will be multiple choice to make the survey easier to fill out and to facilitate computerization.

The survey will, in general, ask three questions, Mr. Kipp said, including: Is there a product liability problem in your industry? Do you yourself have problems with product liability insurance? And what is the best solution? ■

A Marine Salute to

AMERICA'S 200th BIRTHDAY



From the Sir Winston Churchill and her all-girl crew.

Britain's famed 135-foot sailing ship, the Sir Winston Churchill, will take part in the Transatlantic Tall Ships Race. Then, on the Fourth of July, she will join 225 vessels from all over the world in a spectacular Parade of Sail through New York Harbor and up the Hudson River, climaxing Operation Sail 1976 festivities.

Royal-Globe Insurance Companies are proud to be sponsoring the Sir Winston Churchill's participation in this historic event hailing our nation's Bicentennial. We also take pride in pointing out that our own history in serving the insurance needs of the public in the

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Both fidelity, surety lines in red for '75

NEW YORK—Estimated statutory losses in 1975 amounted to 20% in the surety insurance line and 6% in the fidelity line according to the Surety Assn. of America.

The association's general manager, Elver Pearson, said rate increases have been proposed in both lines. Rate changes in the fidelity line have been proposed for each of its two components—commercial fidelity and financial institution business.

A 5% rate increase is proposed in the commercial fidelity business and an approximate increase of 12% for the total fidelity line, Mr. Pearson said.

"Financial institution business has been something else. Substantial increases are called for on commercial bank, savings bank and stock brokerage and investment banking house blanket bonds," he said.

It was the first time in 12 years that both fidelity and surety lines lost money in the same year. ■

Congress to tax options

Executives would lose special tax treatment for one of their favorite fringe benefits—qualified stock options—under a tax reform bill pending in the Senate Finance Committee.

Under the bill, which has already passed the House, qualified stock options granted after May 20, 1976, would be subject to the same rules as non-qualified stock options.

This means that the difference between the price of a stock option when it is granted and when it is actually exercised would be treated as ordinary income, rather than a capital gain.

A Finance Committee amendment to the provision allows an exception for small or new firms.

The cost of living goes up every year.

Today, people have a better chance of recovering from an automobile accident or an industrial injury. Because of continuing advances in modern medical science.

But sophisticated diagnostic equipment like this is very expensive. To keep pace with such rising medical costs, the price of protecting you or your business against liability for accidents or injuries has to go up, too.

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**CRUM & FORSTER
INSURANCE COMPANIES
THE POLICY MAKERS.**

NYC employes . . .

Continued from page 1
health benefits.

Uniform allowances are made to 93,000 city employes, many of whom do not wear uniforms. As The New York Times pointed out after the commission released its report, even 11 puppeteers on city payroll get \$105 a year for uniforms.

The city's unions, led by Victor Gotbaum, executive director of the largest, District Council 27 of the State, County and Municipal Employes, were furious over the com-

mission's report and called Raymond D. Horton, staff director of the group, "an inveterate liar," and "antilabor" according to reports in the Times.

Mr. Gotbaum offered data to show that workers in other cities were doing better than those in New York.

The proposals made by the commission which raised the unions' ire included recommendations that:

- Employes should contribute 25% to the cost of their basic health insurance, which they pres-

ently receive for free.

- The city should provide health insurance to retired employes when they turn 62 instead of immediately upon retirement.

- Health insurance and union welfare funds should be integrated under a city administered system.

- Union welfare funds for retired employes should be discontinued.

- Uniform allowances should be given only to employes who actually wear uniforms.

- The work week should be increased from 35 hours to 37.5 hours for an effective increase of 5,000 workers.

- Vacation benefits should be reduced to bring them in line with those given by state and local governments instead of a four week vacation to start.

- Sabbatical leaves should be eliminated for the board of education. Those for the higher board of education should be limited to 50% of pay. ■

Monsanto to establish two captive firms

ST. LOUIS—Monsanto Co. is presently engaged in establishing two captive insurance companies—in Bermuda—one for domestic U.S. risks and one for international exposures—to be managed by Marsh & McLennan, *Business Insurance* learned.

The captives have been authorized by Monsanto's board of directors but are not yet operational. The captives are expected to be in use by yearend, sources said. It's not known exactly what insurance the captives will underwrite, although property insurance for Monsanto's worldwide assets will almost surely be provided, with AFIA reportedly acting as fronting company.

Monsanto officials declined to comment. ■

Rose: competition . . .

Continued from page 1

the bureau rates, both because independent pricing may result in protracted delays, and because that rate represents the average performance of companies which vary greatly in size, efficiency and underwriting policy," he said. "An efficient company whose costs are below the rating bureau average will, of course, reap significant profits."

Subsidization of poor-risk-drivers by making insurance available through mandatory pooling arrangements is much less of a problem in an "open competition" state such as California than in states with the greatest rate regulation, Mr. Rose said.

For the years 1972 and 1973, participation in the assigned risk plan in California averaged about 3% of written car years insured, a figure which appears to reflect long range experience there, Mr. Rose said.

However, participation in assigned risk pools can run as high as 25% in states with the greatest rate regulation, and about one-

fifth of the states have 6% participation, or about double the participation in California, according to Mr. Rose.

Mr. Rose said debate is needed on how much of a subsidy should be provided for bad drivers, although he agreed that some kind of subsidy is socially desirable. "We merely question whether the prevailing method of subsidization is either equitable, since the burden is placed on one segment of the public, or appropriate, since the subsidization may seriously impair and disrupt the pricing mechanism in the voluntary market, leading to further market dislocations."

Mr. Rose had high praise for innovations that have flourished in California's regulatory atmosphere. Among them he listed the safe driver insurance plan, the multiple peril policies, the broad coverage fire insurance policies, and the all-purpose homeowners' insurance policies.

"There are greater incentives and fewer risks for an insurer to implement new products or services where the regulatory climate permits insurers to respond generally to changing market conditions," Mr. Rose said.

Studies of volatility in loss ratio experience also point to the need for deregulation, he said. Comparing loss ratios of several major auto insurers in California and two "prior approval" states, the Justice Department found the ratios to be substantially more volatile in the highly regulated states over a 10-year period.

One "prior approval" state, Mr. Rose said, had a volatility approximately double that shown by the same companies in California. The difference is explained by the time lag between changes in loss trends and adjustments of rates. "There are more frequent and smaller price adjustments in California than in the regulated states, contributing to a more stable loss ratio experience."

Mr. Rose said these findings "suggest that a system relying on competition to control the price level produces greater stability in the operating performance of the insurers than at least some systems of state rate regulation."

Furthermore, many of the economic premises of the McCarran-Ferguson Act—that competition would produce rate wars, or excessive prices, or bankruptcies, or unfairly discriminatory rates on insurance—are no longer valid, Mr. Rose said. "It also seems reasonably clear that the insurance industry generally performs better in those states providing the greatest amount of competition, such as California," Mr. Rose added.

"Competition provides the greatest pressure on firms to be efficient in administering their organizations and in delivering the best possible services to consumers. It encourages responsive and flexible pricing and appropriate responses to changing economic conditions.

"What remains uncertain is the degree to which competition can work beneficially in the insurance industry and the speed with which more competition should be introduced.

"There is also an obvious political problem inherent in urging substantial deregulation of insurance at a time when inflation and unanticipated loss experience are likely to push rates upward by leaps and bounds," Mr. Rose pointed out. ■

Shirt-Sleeve Forum

How Can "Fringe" Costs Be Kept Under Control?

By Dinner Levison

(Asked in the financial district)

Robert Karr, Insurance Broker
220 Bush Street, San Francisco

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Another board to rule on insurance accounting

By PAUL R. MERRION

WASHINGTON—A congressional watchdog agency is trying to define how insurance costs should be accounted for by federal defense contractors.

Self-insurance, premium refunds, and allocating costs of centrally purchased insurance among a firm's government and non-government entities are the major issues to which the Cost Accounting Standards Board (CASB) recently asked 1,000 contractors and trade groups to respond.

The CASB, established in 1970, develops guidelines for another Congressional agency, the Defense Contract Audit Agency, which oversees \$16.5 billion in negotiated defense contracts annually. The CASB said that annual insurance costs allocable to those contracts are estimated to be \$350 million.

About three-fourths of this \$350 million represents employe group insurance plans, and the rest includes workers' compensation, liability and casualty insurance, the CASB said. "Self-insurance appeared to be utilized extensively for other than employe group insurance," the agency added.

The study is only in the information-gathering stage, and a proposed standard won't be issued for about 10 months, according to Robert S. Straith, associate director of CASB.

There were 70 replies to the rather complicated survey, out of 1,000 corporations, individuals and trade groups that were asked to respond. "It's not an issue everyone is excited about," Mr. Straith said.

The ho-hum reaction from industry is partially due to the relative insignificance of the insurance costs that would be subject to an accounting standard. "We replied to the questionnaire, but we question the need for an insurance cost accounting standard," said Philip Blattau, project officer for the Council of Defense and Space Industry Assn.'s cost accounting standards task group.

"When you take out the three-fourths that goes for group insurance, and when you consider that a significant part of the balance won't be affected either, how much is open to dispute," Mr. Blattau said. "Our experience with other standards is that in the long run, there are more arguments created and more cases come before the Contract Appeal Boards."

The CASB staff is currently writing an informal draft standard, he said, which will then be sent out to the 1,000 members of the survey for their comments.

The informal standard will then be revised into a proposed standard, which will be published in the Federal Register. Then comments will be accepted for 60 days. If all goes well, a final standard will be forthcoming in about 1½ months, Mr. Straith said.

The CASB's objective is to provide increased uniformity and consistency in cost accounting practices of defense contractors. In the last year, the board has developed final regulations on accounting for costs of compensated personal absence, depreciation of tangible capital assets, and accounting for acquisition costs of material.

"A number of troublesome accounting problems in connection with both purchased insurance and self-insurance plans" have cropped up in several Board of Contract Appeals cases and court cases, according to the CASB.

"For example, portions of premiums, refunds, or dividends are allowed to remain on deposit with insurance companies as 'reserves' for various purposes," the board

said. "The sizes of the reserves are not actuarially determined and are frequently very large.

"Contractors retain an interest in the reserves, yet the existence of the reserves is not disclosed in the contractor's records nor are reported insurance costs correspondingly reduced," the CASB said.

In the area of self-insurance, the board is particularly concerned with two funding methods: accruing a "reserve for self-insurance" by a systematic charge to expense in each accounting period, and assigning the cost of the loss to the period in which it occurs.

Prior to the issuance of Financial Accounting Standards Board (FASB) standard No. 5, which limited current-year expensing of self-insured retentions to losses that are probable or that can be

reasonably estimated, federal contract auditors relied on government procurement regulations which were interpreted to require a formal accrual on the financial statement to provide evidence of a reserve.

"However, because FASB No. 5 now forbids such accruals," the CASB said, "the audit agencies have advised us that they will accept the evidence of provisions in memorandum records maintained for this purpose."

The problem with self-insurance that the CASB sees is that by sharing directly in the contractor's losses, the government becomes, in effect, his "insurer."

It thereby exposes itself to losses without the opportunities to control risks that commercial insurers have.

In the area of premium re-

funds, with respect to retrospectively rated insurance policies, the CASB is concerned about the method of accounting for the "premium deposit" and the refund or adjustment.

The problem lies in determining what period to which the premium refund should be allocated. In the past, contractors have used the current period, the policy period on which the refund was computed, and the earliest cost accounting period on which final settlement has not been reached with the government.

However, the amount of work that a contractor has with the government can vary yearly.

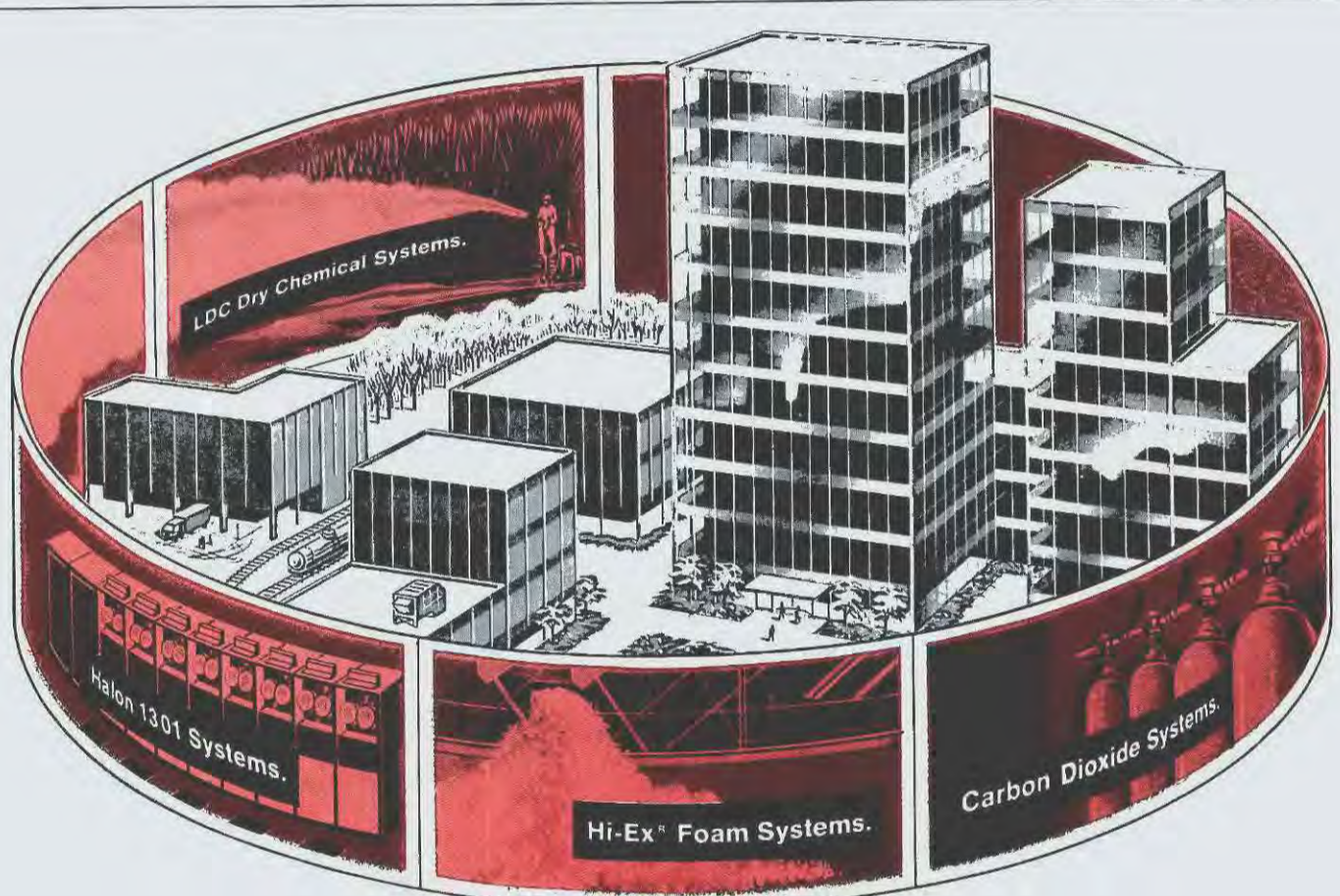
Therefore, the amount of credit allocated to the government would often depend on the period used.

On the question of allocating in-

urance costs to various segments of a company that does government work, the defense contract auditors are charged with making sure that pooling premiums does not result in an overcharge to the government.

Especially in aircraft product liability insurance, there are discrepancies in loss experience for government and non-government work, the CASB said.

"The amount of claims which would normally result from the failure of a commercial aircraft tends to be much higher than the amount which would result from the failure of a government aircraft, and it appears that the premium on such commercial business may be as much as 10 times as great as that on comparable government business," the CASB said.



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City of Newport News, numbed by premium bill, self-insures auto risks

By PAUL R. MERRION

NEWPORT NEWS, VA.—A 65% premium increase and a much lower than expected retro cancellation penalty convinced the city council here last December to go full speed ahead on self-insuring automobile liability.

The plan had been to start the program in 1977, after the retroactively rated policy expired, because the tentative estimate of what it would cost to break the contract was \$100,000.

But when Hartford Accident & Indemnity Co. handed the city its premium bill for 1976, it was \$425,000, which was \$125,000 higher than expected and a \$163,000 increase over the previous year.

And fortunately, the penalty for early cancellation was set at \$17,000. The reduction in the penalty and the increase in the premium resulted in a "swing" of \$246,000 in the figures, which made self-insurance "extremely attractive," according to city attorney Avery A. Thomas.

It took Mr. Thomas and his staff only 15 days to implement the self-insurance program, mainly because the city's loss experience in this area had already convinced him that self-insurance was the logical step to take.

Previous to December, Mr. Thomas had flown out to Los Angeles County and Seattle, Wa., to see how those municipalities self-

insure their vehicle risks.

Newport News had 950 city vehicles as of fall 1975, Mr. Thomas said, including 230 cars, 250 school-buses, 400 trucks and 11 motorcycles.

For the five years that Hartford had insured the city, losses were consistently much lower than the ever-increasing premiums. According to Mr. Thomas, 1975's projected losses were only \$84,000 against a premium of \$262,097, while in the previous year the premium was \$283,087 and losses were \$187,351. In 1972, losses were at a five-year low at \$75,613, yet next year's premium increased by \$56,000, bringing it up to \$199,300.

Hartford had told the city that the surpluses would "show up later

in the retro plan," Mr. Thomas said.

"But really, a retro plan is just a cost-plus plan," Mr. Thomas said, "and it's the plusses that get you."

Savings this year were projected to be \$204,900, but Mr. Thomas said if current loss trends continue, savings could reach \$285,000.

Mr. Thomas estimates that it will cost \$238,100 to run the self-insurance program, including expected losses of \$150,000, which is the average over the last five years.

The rest of the cost goes to the cancellation penalty, the excess insurance premium (\$41,000), claims adjustment ("a very generous" \$20,000) and court costs and other miscellaneous expenses.

The excess cover is provided by the Admiral Insurance Co., of Hartford, Ct. Coverage begins at \$300,000 and stops at \$1 million. The only restriction is that in determining the first \$300,000 of aggregate losses, no single occurrence can be considered in excess of \$100,000.

Routine claims will be handled out of the city attorney's office, and non-routine claims will be handled by Crawford & Co. at \$80 per accident, unless the mishap involves a school bus or some other complication.

The city's self-insurance plan gives the city attorney and his staff the authority to settle claims up to \$7,500. A yet-to-be-formed risk management committee will recommend settlements above that figure but below \$15,000, and the city council has to approve all payments above \$15,000. According to Mr. Thomas, 85% of the claims fall into the first category, and less than 3% are expected to reach the city council level.

In addition, the city attorney's office will handle all damage suits in the courts, without adding to the staff.

The money set aside for self-insurance is put into a separate trust fund, administered by the city treasurer. The city council passed a special ordinance to declare that the fund is "for the sole purpose and use of self-insurance," Mr. Thomas said.

The fund is expected to reach \$1 million in five years, Mr. Thomas said, at which time it will be "frozen" and the excess coverage will be dropped.

He plans to spur some safety consciousness among the city departments by charging the department that has the accident with the cost of replenishing the fund.

Mr. Thomas said that self-insuring automobile liability is "only the tip of the iceberg" of what he hopes to do. He plans to move "as quickly as we can" into revamping the fire insurance coverage, at least going to larger deductibles.

And part of the self-insurance program will be the hiring of a full-time risk manager within the next few weeks, Mr. Thomas said, preferably someone who is a specialist in safety.

He also plans to form a seven-person risk management committee, composed of local citizens with insurance expertise. He hopes to include a safety manager from one of the nearby shipyards as well as a lawyer experienced in damage suits.

Mr. Thomas also wants to experiment with putting the city's insurance policies out to bid. Currently, Newport News uses a system common to many cities, in which the business is handled by a group of local agents. The agent who actually handles a particular policy gets 50% of the commission, and the rest of it is shared by the other agents. "It's not the best way to do business," Mr. Thomas said.

In drawing up the self-insurance program, Mr. Thomas called on nearly 20 years of experience in insurance. He began in 1958 as an insurance adjuster, then went to law school in 1962. When he graduated he worked for Dowding & Thomas, a law firm specializing in the defense of insurance companies until he became city attorney nearly two years ago.

The 43-year-old city attorney feels very comfortable with the five-month-old self-insurance program. "I think we've done everything right," he said. "There are many, many dollars to be saved by municipalities by using self-insurance."

Malpractice fund

The state of Utah may create a medical malpractice insurance fund, Gov. Calvin L. Rampton said last month. The governor said a state-run program could cut acquisition costs by 30%. Speaking before an independent insurance agents convention, Gov. Rampton said his primary concern was "to guarantee public access to an operative health care system."

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Product liability hearing to be held this summer

WASHINGTON — Fact-finding hearings on product liability will be held by the Senate Small Business Committee either late this month or sometime this summer, according to a committee staffer.

The arrangements are tentative, and no witnesses have been confirmed. But the committee's chairman, Sen. Gaylord Nelson (D-Wi.) is "very interested" in the problem and he wants to hold hearings, the staffer said.

"The product liability problems of big companies are magnified for small companies," she said. "Insurance is becoming astronomical."

The hearings will not center on a specific bill because it is a select committee and it will not have

legislative powers until the next session of Congress. Rather, the committee is seeking to collect testimony for the use of its members, who serve on other committees.

"The product liability problem cuts across the jurisdiction of quite a few committees," the staffer said.

Meanwhile, the Senate Labor and Public Welfare Committee has not yet scheduled hearings on a product liability bill introduced in April by Sen. Robert Taft.

The bill would ease the product liability problem, its supporters claim, by allowing an override of exclusive remedy provisions in state workers' compensation laws.

Under current law, injured

workers cannot sue their employers but they can sue the maker of the machine on which they were injured, charging that the machine is defective. The inability of machine manufacturers to counter-sue the worker's employer.

Sen. Taft's bill, S. 3317, is an amendment to the Occupational Safety and Health Act, which has not been changed since it was passed in 1970.

The bill would allow counter-suits against employers who violate an OSHA provision or other safety law, in addition to being able to use the employer's negligence as a defense.

An aide to Sen. Taft said hearings have not been scheduled because the committee's calendar is crowded with other measures. However, the bill is picking up support, he said. Three more senators have agreed to co-sponsor the legislation, in addition to the five who originally put their names on it.

RIMS to poll members on liability insurance

NEW YORK—As part of a long-range effort for tort reform, the Risk & Insurance Management Society (RIMS) is planning to survey 2,200 of its members on their problems with product liability and other scare lines of insurance, according to Paul Kipp, vp-public affairs.

The approximately eight page survey questionnaire is being finished now, Mr. Kipp said, and RIMS is hoping to mail them soon and have the results tabulated by the end of the summer.

The Department of Commerce's interagency task force on product liability is not associated with the RIMS survey, Mr. Kipp said, although "we did talk to them to find out what they're interested

in." A RIMS spokesman at headquarters here said, "it goes without saying that we'll send them the results."

Details for funding the study have not yet been worked out with the prospective co-sponsor, which is a major magazine, the RIMS spokesman said. Time and Fortune magazines have sponsored RIMS studies in the past. "It adds validity to have another sponsor," the spokesman said, "and it adds impact."

The product liability survey will serve as the basis for a RIMS task force on tort reform, Mr. Kipp said. "After we develop information on tort reform, we'll decide what we'll do," he said. "It could be active or passive."

"You have to have a good feel of the problem," Mr. Kipp said. "You have to see where your support is."

The RIMS survey will ask broad questions, "so no matter what industry (the respondent belongs to) we can get input," he said. The questions will be multiple choice to make the survey easier to fill out and to facilitate computerization.

The survey will, in general, ask three questions, Mr. Kipp said, including: Is there a product liability problem in your industry? Do you yourself have problems with product liability insurance? And what is the best solution?

Both fidelity, surety lines in red for '75

NEW YORK—Estimated statutory losses in 1975 amounted to 20% in the surety insurance line and 6% in the fidelity line according to the Surety Assn. of America.

The association's general manager, Elver Pearson, said rate increases have been proposed in both lines. Rate changes in the fidelity line have been proposed for each of its two components—commercial fidelity and financial institution business.

A 5% rate increase is proposed in the commercial fidelity business and an approximate increase of 12% for the total fidelity line, Mr. Pearson said.

"Financial institution business has been something else. Substantial increases are called for on commercial bank, savings bank and stock brokerage and investment banking house blanket bonds," he said.

It was the first time in 12 years that both fidelity and surety lines lost money in the same year.

Congress to tax options

Executives would lose special tax treatment for one of their favorite fringe benefits—qualified stock options—under a tax reform bill pending in the Senate Finance Committee.

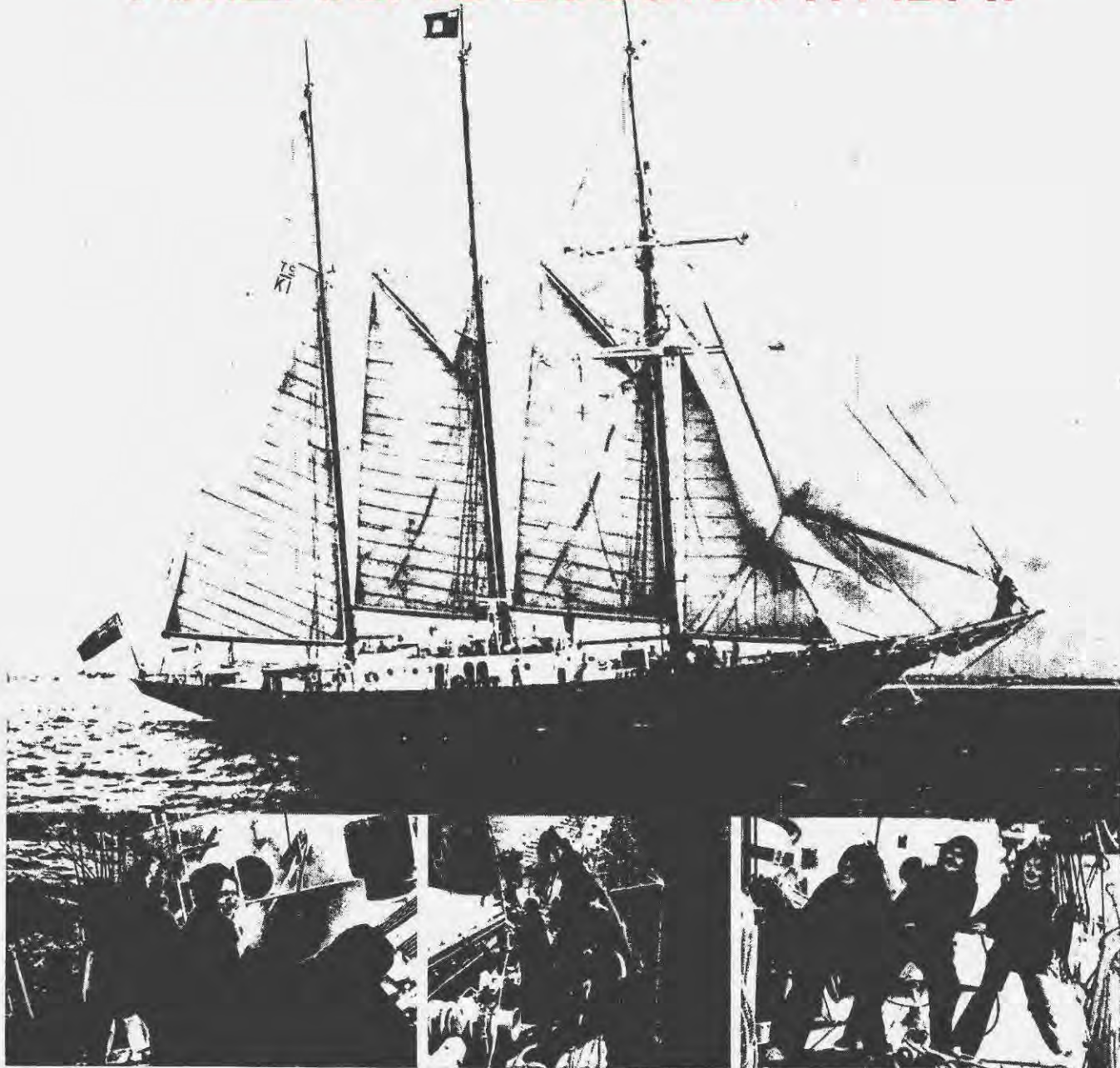
Under the bill, which has already passed the House, qualified stock options granted after May 20, 1976, would be subject to the same rules as non-qualified stock options.

This means that the difference between the price of a stock option when it is granted and when it is actually exercised would be treated as ordinary income, rather than a capital gain.

A Finance Committee amendment to the provision allows an exception for small or new firms.

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Britain's famed 135-foot sailing ship, the Sir Winston Churchill, will take part in the Transatlantic Tall Ships Race. Then, on the Fourth of July, she will join 225 vessels from all over the world in a spectacular Parade of Sail through New York Harbor and up the Hudson River, climaxing Operation Sail 1976 festivities.

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The cost of living goes up every year.

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NYC employes . . .

Continued from page 1
health benefits.

Uniform allowances are made to 93,000 city employes, many of whom do not wear uniforms. As The New York Times pointed out after the commission released its report, even 11 puppeteers on city payroll get \$105 a year for uniforms.

The city's unions, led by Victor Gotbaum, executive director of the largest, District Council 27 of the State, County and Municipal Employes, were furious over the com-

mission's report and called Raymond D. Horton, staff director of the group, "an inveterate liar," and "antilabor" according to reports in the Times.

Mr. Gotbaum offered data to show that workers in other cities were doing better than those in New York.

The proposals made by the commission which raised the unions' ire included recommendations that:

- Employes should contribute 25% to the cost of their basic health insurance, which they pres-

ently receive for free.

- The city should provide health insurance to retired employes when they turn 62 instead of immediately upon retirement.

- Health insurance and union welfare funds should be integrated under a city administered system.

- Union welfare funds for retired employes should be discontinued.

- Uniform allowances should be given only to employes who actually wear uniforms.

- The work week should be increased from 35 hours to 37.5 hours for an effective increase of 5,000 workers.

- Vacation benefits should be reduced to bring them in line with those given by state and local governments instead of a four week vacation to start.

- Sabbatical leaves should be eliminated for the board of education. Those for the higher board of education should be limited to 50% of pay.

Monsanto to establish two captive firms

ST. LOUIS—Monsanto Co. is presently engaged in establishing two captive insurance companies—in Bermuda—one for domestic U.S. risks and one for international exposures—to be managed by Marsh & McLennan, *Business Insurance* learned.

The captives have been authorized by Monsanto's board of directors but are not yet operational. The captives are expected to be in use by yearend, sources said. It's not known exactly what insurance the captives will underwrite, although property insurance for Monsanto's worldwide assets will almost surely be provided, with AFIA reportedly acting as fronting company.

Monsanto officials declined to comment.

Rose: competition . . .

Continued from page 1

the bureau rates, both because independent pricing may result in protracted delays, and because that rate represents the average performance of companies which vary greatly in size, efficiency and underwriting policy," he said. "An efficient company whose costs are below the rating bureau average will, of course, reap significant profits."

Subsidization of poor-risk-drivers by making insurance available through mandatory pooling arrangements is much less of a problem in an "open competition" state such as California than in states with the greatest rate regulation, Mr. Rose said.

For the years 1972 and 1973, participation in the assigned risk plan in California averaged about 3% of written car years insured, a figure which appears to reflect long range experience there, Mr. Rose said.

However, participation in assigned risk pools can run as high as 25% in states with the greatest rate regulation, and about one-

fifth of the states have 6% participation, or about double the participation in California, according to Mr. Rose.

Mr. Rose said debate is needed on how much of a subsidy should be provided for bad drivers, although he agreed that some kind of subsidy is socially desirable. "We merely question whether the prevailing method of subsidization is either equitable, since the burden is placed on one segment of the public, or appropriate, since the subsidization may seriously impair and disrupt the pricing mechanism in the voluntary market, leading to further market dislocations."

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We cover the country, but Texas is home.

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Cut in worker deaths won't justify OSHA rule

WASHINGTON—The cost of complying with OSHA's proposed coke oven emissions standard is not justified by the expected decrease in worker deaths, according to an analysis by the Council on Wage and Price Stability.

The standard will cost between \$160 million and \$1.3 billion to implement and is estimated to prevent the deaths of, at most, 36 workers per year, the Council's analysis showed.

According to an inflation impact study (IIS) by the Occupational Safety and Health Administration, the closest estimate of what the standard would cost is \$173 million per year of annual costs plus \$451 million of capital costs, which amounts to \$241 million when expressed on an annualized basis.

OSHA's inflation study also estimated the cost of the "strictest possible interpretation of the proposed standard" to be \$1.28 billion.

"The numbers are important only because they strongly suggest that there may be less costly ways of reducing the risk of death or that for a given expenditure more lives could be saved," said Dr. John F. Morrall, senior economist for the Council at a May 4 OSHA hearing on the IIS.

"Our analysis concludes that, at a minimum, this standard would cost \$4.5 million per life saved," said Dr. James C. Miller, assistant director of the Council on Wage and Price Stability.

"Whether to accept such costs is a matter for OSHA's judgment," he continued. "We note, however, that this figure is extremely high, considering the amounts spent in other health and safety areas. If we were to spend \$4.5 million per cancer death in an attempt to save all lives lost to cancer, we would commit ourselves to an annual expenditure roughly equal to our entire gross national product.

"Since we obviously cannot spend that sum, it is very important first to be sure we understand why society is being asked to spend \$4.5 million per life saved in this area of cancer prevention to the exclusion of other areas of cancer hazard," Dr. Miller said.

The two Council representatives also attacked OSHA for not considering less expensive alternatives to its proposed standard. Specifically, they suggested studying the benefits of limiting a worker's exposure to coke ovens to five years. They also suggested a fuller study of the benefits of requiring

the use of respirators at all times.

The proposed standard on coke oven emissions was first issued last summer and the inflation impact study was published in March 1976.

The proposed regulation sets a maximum concentration for an eight-hour time-weighted average of 0.3 milligrams of particulates per cubic meter of air. The standard also requires the establishment of regulated areas, exposure measurements, respirator protection when the performance standard is not met, the furnishing of protective clothing and equipment, provision of certain hygiene facilities, medical surveillance of employees, employee training and recordkeeping. ■

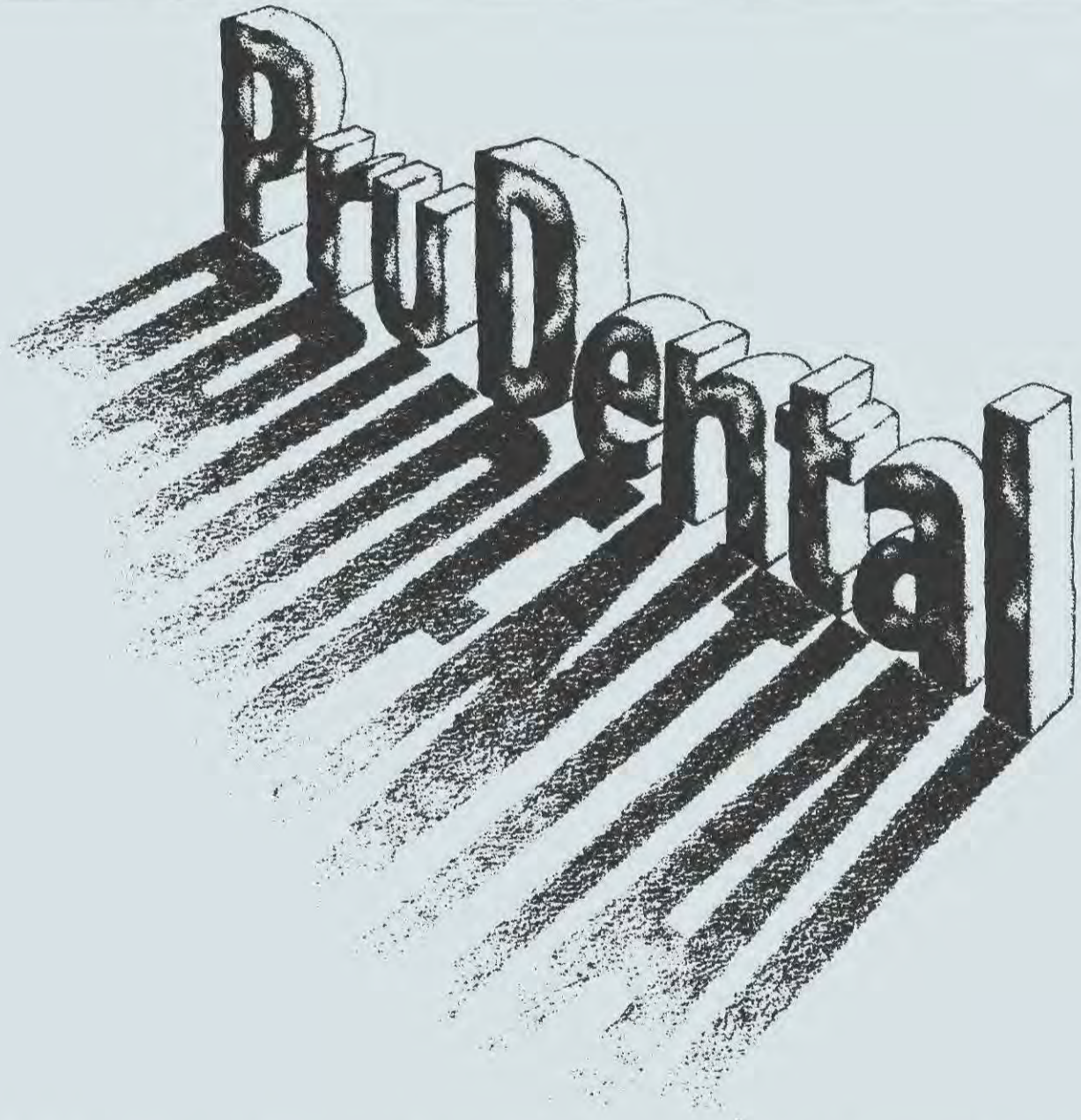


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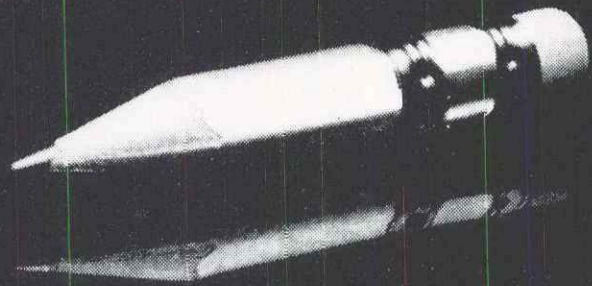
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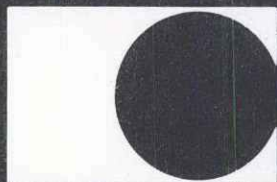
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The blizzard of paperwork accompanying changes to comply with ERISA is encouraging administrative services suppliers.

Risk Management SERVICES

The pension law is boon for those with benefit expertise

By ELISABETH M. WECHSLER

CHICAGO—The cost of bringing a plan into compliance with the Employee Retirement Income Security Act (ERISA) can cost as much as \$20,000 or \$30,000 for a medium or large company and can require several months' work, one consultant estimated.

After that, the administrative nightmare begins. The ongoing need for interpretation of regulations and information about implementing them properly, not to mention the additional personnel, time and data processing equipment required, have produced a burgeoning industry of ERISA-related consulting services.

Aside from the nationally known actuarial and employee benefit consulting firms, large insurance brokerage firms and insurance companies, some new faces have appeared in the wake of the pension reform act.

One such newcomer riding the crest of the boom is Continental Illinois Bank & Trust Co. which developed a plan administration service to take over many day-to-day operating responsibilities for clients.

This "stand-alone" service,

which officially began accepting clients in January, assumes the explicitly-named functions of the plan administrator listed in the law, as well as "some implicit functions for day-to-day management of the plan," explained Dale F. Smith, manager of the bank's new service.

As far as he knows, no other bank or firm has entered this area of specialization which he believes complements a bank's established fiduciary role.

"Other banks laughed and said you don't know what you're getting yourself into," Mr. Smith said, recalling when the idea was first discussed in late 1974.

Fifty client plans, with an average of 250 employees each, were using the service as of late May. "Another 50 or so clients have signed our agreement but we won't sign them until their plans are essentially in compliance," Mr. Smith said.

"We don't want to be in the position of bad interpretation of the law," he explained, adding that potential compliance problems are turned back to the client's legal counsel.

Although Continental Bank originally planned to market the

service to its 1,000 trust clients, Mr. Smith emphasized that the service can be purchased separately.

Client companies are larger than originally expected, Mr. Smith noted. He had anticipated attracting companies with 50 to 1,000 employees because they probably would not be large enough to have internal staffs to "sufficiently encompass all economies of scale" to execute the plan administrator function, he believes.

One company on the service has 2,500 employees spread over six different plant locations, each of which would have required its own plan administrator, he explained.

Mr. Smith would not reveal the amount of the bank's capital investment in the service, but said it is "not in the millions of dollars." The primary investment was in systems design and staff overhead, he noted.

The service for a defined benefit plan costs \$2,905 in fixed fees the first year plus \$13.65 per active participant, he said. In the second and succeeding years, the fixed cost is \$1,505 plus \$9.15 for each active participant. If the defined plan is not already a trusteed account, an additional \$400 to \$500 is charged to prepare Form 5500 because the information is not already in-house, he explained.

A defined contribution plan has a fixed cost in the first year of \$1,740 plus \$9.90 per active participant, he continued. In the second year, the bank charges a fixed fee of \$340 and \$5.40 per active participant. Again, this schedule assumes that the plan is already a Continental Bank trust account; otherwise the fee is somewhat higher.

Event reports are not included in the fees listed. They refer to forms that must be filed if the plan is amended, as well as to required communication with employees about the plan changes. "If it's a minor change, there's no charge, but if the vesting is changed, then there would be a considerable extra fee," Mr. Smith explained.

Time and motion studies were conducted on all the functions to be performed for this service during 1975 in order to arrive at a firm fixed fee, he said. The fixed fee is higher the first year because plan and summary description forms must be completed.

"I feel if the trust situation doesn't have \$100 million in employee benefit plan assets, it would not justify the investment to put together an efficient (plan administrator) service," according to Mr. Smith.

Commenting on the clarifications, interpretations, and sometimes reversals that continue to come out of Washington, Mr. Smith said he believes that as long as the service "operates within the intent of ERISA, we can't be hung. I don't believe it's the intent of governmental agencies to lop off heads because of an inadvertent omission. We can't sit back and wait until ERISA is

Continued on page 20

Two brokers neck-in-neck; gaining on Reiss

Firms managing captives in fast race

By MARGARET LeROUX

NEW YORK—In the highly competitive field of captive insurance company management, two major U. S. brokers are gaining on the lead independent management groups in the race for clients.

International Risk Management Ltd. (IRML), subsidiary of American Risk Management Inc., maintains the top position with an estimated 55 to 60 captives under management.

American International Co. Ltd., one of the American International Group (AIG) companies, is second with approximately 40 clients under its direct management. (American International also claims to be involved in "servicing close to 100 captives.")

However, Joansca & Higgins (J&H) with 35 captive clients and Marsh & McLennan (MM) with 34 are fast closing in on the lucrative offshore captive management industry. Some \$2.5 billion in premiums are now thought to be flowing through Bermuda captives, according to Risk Management Reports published by Business Insurance and edited by H. Felix Klorman, an independent consultant.

Captives provide 14% of Bermuda's gross national product, noted David Vaughan, managing director of Marsh & McLennan (Bermuda) Ltd. in an interview. "We see more and more corporations getting involved in captives for sound business reasons," Mr. Vaughan said.

Captive managers point to the

shift from the pure captive concept to the profit center approach, underwriting third party risks unrelated to the parent company, as spurring new interest in captives.

The Ford Motor Co. is currently involved in what is believed to be a landmark case involving use of a captive (BI, Dec. 1, 1975). The company is involved in litigation with the Internal Revenue Service (IRS) over an assessment of premiums paid into the captive.

"It's a good time (for captives) to get into the market," said William T. Dunn, Jr., senior vp and director in charge of J&H's special projects group that manages the firm's captive clients. "With the commercial (insurance) market declining and prices rising, captives can probably get a good book of business," he believes.

BI talked to captive management groups and risk managers alike to determine what services are available and what risk managers look for when seeking and choosing a manager for the company captive.

Risk Management Reports notes there are more than 30 management firms in Bermuda offering a wide variety of services to organizations having subsidiary or mutual insurance companies. The firms range from single person offices to large staffs with computer operations.

Most captive management is provided on a fee basis. Fees vary depending on the amount of service required. Risk Management Reports cites a minimum fee in the \$10,000 range for most of the top

captive management firms.

Services range from IRML's pooling approach—the majority of its clients participate in Hopewell Co., a reinsurance captive—to American International's emphasis on its underwriting capabilities. The company, through its association with American International Group (AIG) can issue policies in almost every country in the world.

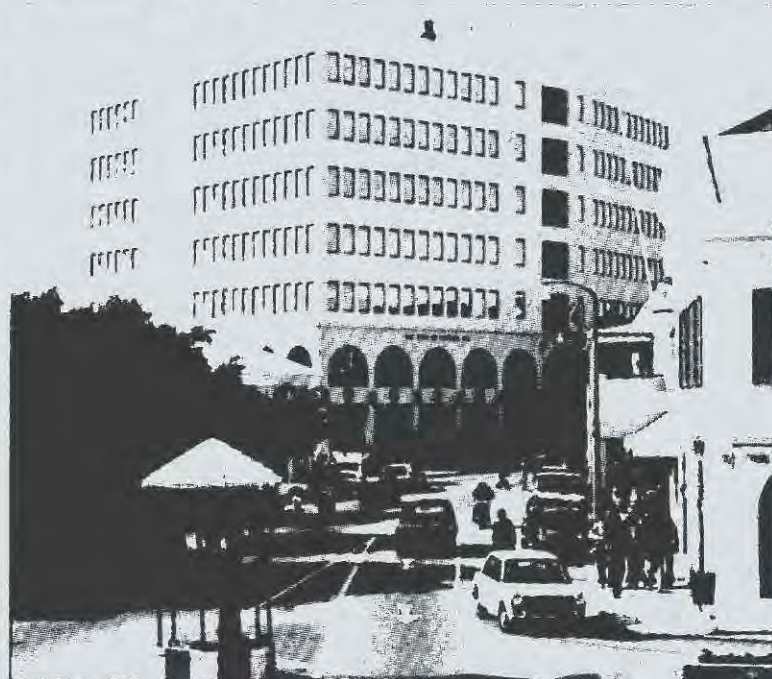
As for the brokers, the basic difference between them and other management groups, they say, is

objectivity.

"There's a certain objectivity in using a broker as opposed to a single supplier," contends Philip J. Brown Jr., executive vp and head of M&M's technical services. "We consider captives as one of a number of (risk management) approaches."

M&M's president L. Patton Kline explained that the firm follows the direction of each single captive under management, "rather than the fleet approach of International

Continued on page 16



A view of the Bank of Bermuda in Hamilton, where many letters of credit are supplied for capitalization of captive insurance companies.

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Captive services . . .

Continued from page 13
Risk Management Ltd."

However, this summer M&M is activating an insurance company for its captive clients that is similar in structure to Hopewell, IRML's reinsurance captive (see related story, page 43). M&M currently uses a treaty arrangement with a pool of world underwriters for captive reinsurance, as do the other brokers providing captive management services.

J&H, too, is investigating establishment of an insurance company for its captive clients. "It would be a joint venture among the captive owners," Mr. Dunn said, "although the matter is still under study at this time. Nothing definite has been settled yet."

The M&M technical services group with some 400 employees is headquartered in New York. The

Bermuda office, headed by Mr. Vaughan, has a staff of 17.

In contrast J&H has "captive experts" in each of 17 major branch offices in the U. S., Mr. Dunn said. The Bermuda office, J&H Ltd., is headed by H. Clayton Chambers and includes a staff of 17. In addition, J&H stresses the involvement of the individual account managers in the captive management process.

"The account manager is the focal point of the interplay between the technical staff and the client," Mr. Dunn said.

A client of IRML explained why he favors the independent supplier over captive management by a brokerage firm.

"Brokers are shoppers," he noted. "When you're going into a captive arrangement, you've got to

understand it's a long-term investment and relationship, not just a search for another market. You don't just move in to burn a market, then move out. I wonder if brokers understand this."

A brokerage firm would have to keep its captive management service completely autonomous, the risk manager continued, "to develop their own credibility and relationship with the reinsurance market."

What to look for in a captive management service is a question that evoked a variety of responses from risk managers.

"Find out who their reinsurers are" one risk manager asserted. "I can't stress enough the importance of a very reliable reinsurance system."

He advised a thorough study of a prospective captive management group's reinsurers, asking: "What's their image in the market—are they good names?" and "What has been the past experience of the re-

insurance system? How does this stack up against my own particular situation?"

The next important point is the service capabilities of the captive management firm, the risk manager continued, including engineering, loss control and accounting.

"The captive management firm's ability to offer me an opportunity to participate in good quality premium volume is another important consideration," the risk manager said.

"When considering cost," another risk manager advised, "you have to look at the captive management firm's operations. Are they on the lean side, with high quality, competent people?"

"Also look for a certain amount of morality," the risk manager continued. "Reinsurance is such a personal situation."

"A good accounting staff—when you get right down to it, that's the

most important thing to look for in a captive management firm," another risk manager noted.

All of the risk managers surveyed agreed on the importance of a personal visit to prospective captive management firms.

"I made it a point to go to Bermuda and talk to every potential firm," one risk manager said.

"You've got to do a hell of a lot of looking, see the actual shop and know the shop before you sign on the dotted line," another risk manager said.

Formation of U.S. captives on rise, too

NEW YORK—Not all the action in the captive management industry is offshore. And it's not just corporate captives that are seeing the action.

"The market for domestic captives has quadrupled since last September," the head of one domestic captive management firm told *Business Insurance*.

The malpractice crisis has created demand for captives for physicians and hospitals.

In recent months captives in New Jersey, California and Pennsylvania have been activated to provide professional liability coverage for physicians and hospitals in those states.

In Massachusetts, 11 hospitals and physician groups associated with Harvard University formed a captive in the Grand Cayman Islands although the captive paid \$250,000 in excise taxes to the state. The Massachusetts Insurance Department ruled the captive was legal even though it violates the spirit of the insurance law.

Johnson & Higgins, through its subsidiary, Casualty Insurance Services Inc. manages two California captives, NORCAL Mutual Insurance Co. and the Southern California Physicians Insurance Exchange.

In Colorado, the captive management industry is dominated by Hall Management Co., a subsidiary of Frank B. Hall. Hall currently has seven captives operating in Colorado and several "incorporated but not yet active," a spokesman for the company said.

"Regulation of captives by the Insurance Department in Colorado is a positive aspect," the spokesman explained. "A captive is a more bona fide operation in this state," he contended.

AIG Risk Management Inc. services four captive clients in Colorado. A spokesman for the company, while acknowledging increased interest in domestic captives in recent months, concluded there is no trend in sight.

"The determination to go offshore or stay onshore with a captive is a result of an analysis of the individual situation and makeup of the corporation," he said.

Alexander & Alexander's Anistics division also manages several Colorado captives through its office in Denver.

Increase auto rates

Rising hospital costs, rising auto parts costs, and the number of claims has caused Nationwide Mutual Insurance Co. to increase its Ohio auto insurance rates June 1 by an average 16.8%. Part of the rate increase is due to an Ohio Supreme Court decision making it possible for passengers in an auto accident to collect for damages from the driver of the car in which they're riding, according to the insurance company.

How to stay alive in the jungles of ERISA

Let's face it. The Pension Reform Act of 1974 (sometimes known as "The Lawyers Full Employment Bill") is a nightmare. A jungle of ambiguities — a morass of contradictory opinions — a tangle of technicalities. ERISA country is dangerous. Scary. Filled with the nightmare of uncertainty — the knowledge that by law, you are personally liable unless you are properly protected. How do you stay alive in this jungle? By following these simple procedures:

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2. Get your attorney to give you his opinion on your policy — *in writing*. This is a very complicated act, and only a well-qualified attorney can analyze it and tell you whether or not your coverage is sufficient within the measures of the law.
3. Ask the experts. The Professional Indemnity Agency, direct Lloyd's of London correspondents, is one of the very few insurance underwriters which is fully qualified to make sound recommendations. Fiduciary liability is our business — our only business — and we've been at it longer than anyone. Because we do not deal directly with insured, we will be happy to make our facilities available to your agent or broker.
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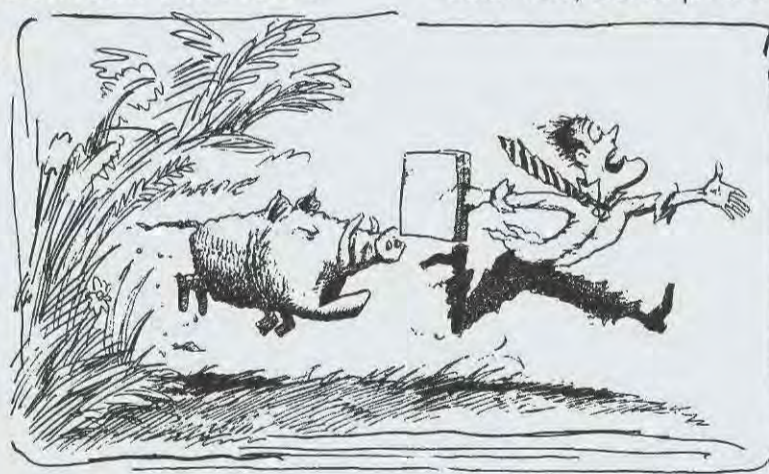
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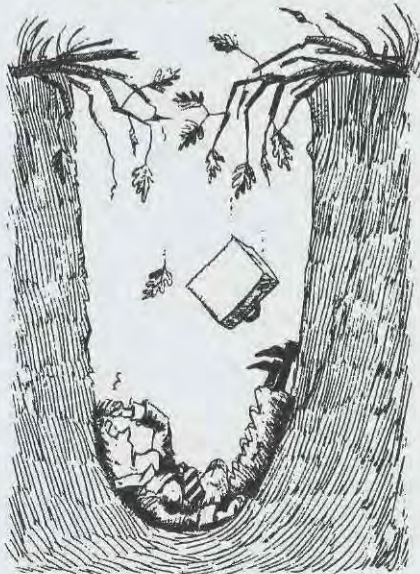


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'Using a captive has many advantages'

Brunswick enjoys 'unbundled' plans

By SUSAN ALT

CHICAGO—Brunswick Corp. has successfully shifted all its public liability insurance to a program using a Bermuda captive insurance company managed by International Risk Management Ltd., a firm affiliated with American Risk Management of Englewood Cliffs, N. J. Marsh & McLennan formerly was Brunswick's broker on all coverages for property and liability risks, and M&M retains the insurance brokerage portions of the program not involving the captive.

Brunswick is paying premiums of approximately \$3 million a year to the captive for workers' compensation insurance, comprehensive general liability insurance,

auto collision and third party liability, and product liability coverage. The subsidiary, Centennial Assurance Ltd., reinsures primary coverage which is with Northwestern National Insurance Co., Milwaukee. The captive retains all losses up to \$1 million per occurrence in the four exposure areas.

Umbrella liability policies over the captive's retention extend to \$20 million in two \$10 million layers with Affiliated FM through Allendale Mutual Insurance Co. (first layer excess) and Northbrook Insurance Co. (second excess layer).

Brunswick's Ed Sigler, risk manager, and Ron Bokowy, assistant risk manager, worked for over a

year to establish the captive program and to move it into the operational stage in early 1976. Mr. Sigler, says Ron Bokowy, "nurtured it along and really got it going."

Liberty Mutual Insurance Co. formerly underwrote all casualty insurance for Brunswick, under a one-year retro program. "Liberty Mutual knew that we were contemplating using a captive when they took the business. Their handling of the account that year was more than adequate, but the feasibility of the captive simply ruled out going any further with anybody, including them," he said.

The Brunswick managers look back now and conclude their timing couldn't have been better. "It

turned out to be very timely, because just at the time we did the feasibility study and implemented the captive, and management accepted the idea, the excess casualty markets fell apart," says Mr. Bokowy.

To make certain that the captive operates in the black for the first few years of its life, until it starts generating substantial investment income, Brunswick is using an aggregate stop loss feature which cuts off losses at an amount equivalent to the "standard premium," the expected annual losses, with this insurance certificate coming from IRML.

In time, Brunswick intends to join Mr. Reiss's Hopewell reinsurance pool of captives, although the prerequisites are that the captive is in the IRML program for over a year and that premiums reach a certain level.

As Mr. Bokowy sees it, primary advantage of having the captive is

to achieve flexibility of services. "Our captive unbundles all the services that would normally be in a carrier's total insurance package. Centennial has the domestic fronting company writing policies and filing all the necessary papers in states where we do business. Centennial has engaged General Adjustment Bureau (GAB) to handle loss adjusting and claims administration. Centennial uses Natlso, a division of Kemper Insurance Co., for safety and loss engineering.

"This is far more flexible than what you can get from any insurance company," Mr. Bokowy is convinced. "We did this because if we are dissatisfied with any service, and part of the program, we can engage another firm without disturbing other segments of the captive program. We have better control over our own destiny. Besides, this procedure made the suppliers of services competitive."

Initially at least, Brunswick isn't viewing its captive as a profit center. The purpose was to upgrade the overall casualty insurance and risk management program.

The competitiveness of the services suppliers and the unbundling of the casualty program's components achieved savings, of course, although Mr. Bokowy says that was really not a key objective.

"Normally an insurer will charge about 11% of losses for loss adjusting services. Under our arrangement, we pay 9% of losses to GAB . . . that's on total losses, paid plus reserved. Right on down the line, you can save a point or two that way."

Captive management services are also competitive. Brunswick called in four or five firms—including Marsh & McLennan and Mr. Reiss's organization—to make proposals on the captive project. "We sifted the field pretty carefully," Mr. Bokowy says. "We really looked them over." The deciding factor in favor of Mr. Reiss's IRML was "that no one else has—to the same magnitude at least—the Hopewell pool, which provides the residual capacity to fall back on."

IRML is paid a brokerage fee based on premiums of about 2% of Brunswick's premiums, which Brunswick believes is "very competitive." Mr. Reiss's firm is also "very flexible" when it comes to deciding on fees versus commissions, says Mr. Bokowy, noting that IRML originally proposed a percentage commission but that Brunswick negotiated it down to a fixed annual fee equivalent to about 2% of premium.

Tax benefits of the captive weren't even part of the considerations, relates Mr. Bokowy. "We are paying all U.S. income taxes on all investment and underwriting profit generated by the captive."

There were some other benefits, though, that Brunswick thought initially were incidental to the captive program, but which have turned out to be important advantages. "Namely, there's the fact that we can now offer each of our divisions a guaranteed cost program. The reason this is so important to the operating divisions is that it allows the division controllers to budget ahead" instead of adjusting costs at the end of the year, as under a ratio program.

There's been no decision yet whether to eventually put other risks into the captive. "If the incentive is there economically, we'll fold in other lines of coverage. Why not?"

Brunswick has about 25,000 employees worldwide. Auto liability coverages encompasses about 1,000 vehicles including passenger cars, buses, vans and a fleet of long-haul trucks. The company also sells annually some \$800 million worth of consumer, recreational and industrial products. ■



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ERISA compliance . . .

Continued from page 13
finalized," he said.

Although Continental Bank prepares individual benefit statements as part of its plan administrator role, it doesn't want to cross the line between communicating benefit alternatives and actually making recommendations. "We don't do retirement counseling," Mr. Smith said. "We will only explain the options and make sure the participant understands his or her rights and benefits."

One Continental Bank client, a hospital, reportedly likes the fact that the bank is serving as its plan administrator because its medical malpractice problem already gives it enough to worry about. "We aren't afraid of the fiduciary role," Mr. Smith said.

But other consultants who supply ERISA-related services feel differently about increasing that responsibility.

"We don't want to make the benefit payments," commented David L. Hewitt, vp and director of Huggins & Co. Inc., Philadelphia, an actuarial and employee benefit consulting firm. "We assist clients with the technical back-up needed for the plan's administration. This is one step short of being administrator itself."

He believes the "fine print regulations" involving administration and communication aspects of ERISA are making "the crunch of compliance bigger this year" than last year.

Huggins, whose stock is owned primarily by Hay Assoc., successfully bid on a contract to provide the Pension Benefit Guaranty Corp. (PBGC) with advice on developing a case processing manual. The project involves setting up a system for categorizing and processing cases of plan terminations. Huggins' fee is about \$136,000.

Former PBGC director Steven E. Schanes opened the doors to his namesake consulting firm in Washington in May. For a cool \$600 a year, the Schanes Memo Service provides periodic updates (about every 10 days) on ERISA regulations and offers a WATS line for subscribers to use for questions they have on filling out ERISA forms. If time is "critical," clients are telephoned about breaking developments, according to Vicki Dungan, director of communications at Schanes Ltd., and preparer of the memos.

More than half the 50 subscribers on the service (by the third week of May) were consulting firms themselves, Ms. Dungan said. Others include law firms, multiemployer funds and large corporate clients.

Schanes Ltd. does employee benefit consulting with individual clients, sometimes in the capacity as coordinator of other consultants working for large corporate clients. Project costs are based on hourly fees.

Huggins & Co. also publishes bulletins for clients because reinterpreted government requirements leave "so many issues in flux," Mr. Hewitt said. There is no charge for the service if clients have retained Huggins for actuarial, administrative or communications services.

Huggins' fees are based on hourly rates ranging from \$14 to \$80, depending on the training and experience of the consultant, he said.

A.S. Hansen Inc., Lake Bluff, IL offers actuarial and consulting assistance and charges hourly rates ranging from \$100 per hour, explained a spokesman.

Summary plan descriptions, summary annual reports, accrued

spokesman hastened to point out that Hansen "doesn't practice law."

A tailor-made administrator's guide to reporting and compliance recordkeeping as well as procedures for day-to-day operation is available from A.S. Hansen for about \$4,000 to \$8,000. The spokesman emphasized that all consulting work is based on the actual amount of time charged: "There are no set fees."

The "critical variables," those

which can add substantially to ERISA-related service fees, are the number of plans, the type of plan, the degree to which the plan is out of compliance, the number of employees (for communication services) and the condition of employee records.

"A manual and not-very-accurate set of records is obviously going to make it more expensive than a computerized, accurate set of records," the spokesman for

A.S. Hansen said.

Insurance companies conduct a compliance review of their own plans for a fee ranging from \$300 to \$2,500, said Mel Banks, and employ benefit consultant with Corporate Policyholders Counsel Inc., based here.

"They're losing money on this but they don't know they're making so much on (pension fund services) otherwise, they don't mind," he said. For one thing, most corporate pension plans must

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add more people to their plan eligibility lists, and this "increases the insurance companies' revenues substantially."

A manufacturing company client of Corporate Policyholders had 73 employees in its insured pension plan before ERISA was passed. After its actuarial review, the client had to add 52 people to the plan, bring the total to 125 participants. The annual cost for this defined benefit plan insured

under a deposit administration contract went from \$94,000 to \$226,600.

Another client, a hospital, had a contributory defined benefit and because of ERISA was forced to bring this plan into compliance as a qualified plan. The cost went from \$34,000 a year to \$232,000 a year, he said.

Both clients paid their insurance companies about \$2,500 for the actuarial review. Corporate Policyholders does most of its con-

sulting on insured plans after this review has taken place, Mr. Banks noted.

"We present a report on the pension alternatives," he said. The normal consulting charge is \$50 per hour, and the total tab averages "in the ballpark of \$5,000."

One alternative is changing the plan from a defined benefit plan to a defined contribution plan or to a thrift plan, which Mr. Banks calls "the least expensive bene-

fit on the market today."

Other options include tax-sheltered annuities, which are most suitable for educational or non-profit organizations, or Individual Retirement Accounts (IRAs).

"I've only recommended plan terminations to implement thrift plans," Mr. Banks noted. "Consultants look at pension plans not only from the participating employee's viewpoint, but primarily from the financial viewpoint of the corporation," he said.

"Companies are trying to fend for themselves to complete the disclosure requirements," he observed. "The problem they're concerned with is not just the cost of new eligibility but the cost of administering the plan's changes."

William M. Mercer Inc., a wholly-owned subsidiary of Marsh & McLennan, charges a fee for its ERISA-related consulting, according to Lloyd S. Kaye, vp.

"If we receive insurance commissions in the course of a project, they offset our fee," he said, emphasizing that Mercer's benefit clients are often unrelated to its parent company's brokerage clients.

The employe benefit and actuarial consulting firm, which claims to be the largest in the U.S., charges from \$25 an hour up to \$150 an hour. Services include pension planning, plan design, actuarial, administration and communication services.

Hewitt Associates, Deerfield, Ill., provides consulting services on an individual basis and charges "competitive" hourly fees, though a spokesman declined to be more specific.

One type of consulting revolves around ERISA program evaluation and plan design. Hewitt will help bring a client plan into compliance and offers an objective-setting service as pension alternatives are examined.

"Most clients don't just comply with ERISA," the spokesman continued. "They consider where they want to be in the long run."

He sees the outlook for ERISA as "less severe a crunch" than last year. "We see an emergence of work in executive compensation and wage/salary administration programs. ERISA is just one example of the legislation that may come down the line one of these days," he noted.

Other national consulting firms such as Kwasha Lipton Inc.; Towers, Perrin, Forster & Crosby; and Wyatt Co. offer ERISA-related services similar to those already described. ■

\$20,000 for consulting on 6 of 39 plans

NEW YORK—The benefits manager at a large company here told *Business Insurance* he is trying to cut down on consulting costs for ERISA-related matters.

His company, which requested anonymity, paid about \$20,000 over 10 months in 1975 to review six of its 39 plans affected by the pension reform act.

"We will use these as models and try to do the rest internally," he said, shuddering at the \$80 to \$100 per hour fees charged by his primary consultant, Hewitt Associates. A. S. Hansen Inc.; Towers, Perrin, Forster & Crosby; and Metropolitan Life Insurance Co. also have been retained for "spot consulting work," he said.

This benefits manager believes his counterparts at some large companies may regret it now if they reacted quickly to the early wave of ERISA regulations. Other companies seem to be adopting a wait-and-see policy and aren't anxious to further liberalize their plans" beyond compliance, he noted.

"Sometimes, we would get three different opinions from three (consultant) sources," he lamented. "Then we'd decide it's so unclear, we'd turn it over to our legal advisers, which could be a fourth opinion. Often management made the decision to bide time." ■

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Marine salvage 'services' can often instigate legal battles over claims

By MARIE KRAKOWIECKI

NEW YORK—"If you should run her up on a reef, just sit there. Don't take a line from the first vessel that comes along and offers to tow you. Once someone does that, they're entitled to a third of the value of your boat under the laws of marine salvage. And then you'll owe us a lot of money."

There was some nervous foot-shuffling from the vacationing sailors at this opening briefing from their yacht charterer's guide. Somehow it had not crossed anyone's mind that a passing rescuer might be a ship bounty hunter, and the idea did not seem an auspicious beginning for a 10-day cruise.

But because of this catch under marine salvaging conventions, the outfit which was renting out its fleet of 41-foot cruising sloops in the Grenadine Islands in the Caribbean mentions this to its customers to help cover its potential liabilities.

Risk Management SERVICES

It is sharply aware that a few years ago in the Virgin Islands a pleasure craft owned by a rival chartering firm was accidentally run aground by the people chartering it. When they allowed a local ship to tow it free, the salvager proceeded to haul the ship

to his own mooring and lay claim to it. That case is still being fought in the courts.

This was the situation described to *Business Insurance* by Robert Van Ost, office manager at Caribbean Sailing Yachts Ltd., which has headquarters in the unlikely location of Tenafly, N.J.

Caribbean Sailing Yachts, known widely as CSY, owns a fleet of 94 yachts in three different locations: the Virgin Islands, the Bahamas, and the Grenadines.

The fleet is insured by The Home Insurance Co., Mr. Van Ost said. He did not reveal the limits of the coverage, but estimated the average value per issue of each vessel at about \$30,000.



Salvagers are needed for vessels beached by storms.

It is highly unlikely that all 94 of the CSY boats would be run aground and claimed at least in part by salvors, but at those val-

ues, the potential loss could approach \$3 million.

In the Grenadines, a small chain of islands south of the Virgins and the Bahamas and northeast of Venezuela, Mr. Van Ost says CSY does not hire any formal outside salvaging services.

It protects itself against scavenging salvors by equipping each of its boats with radios. Vacationers chartering the sloops are instructed to contact CSY agents for help if they run around rather than accepting the assistance of native vessels.

Most of the CSY vessels that are run aground or up on coral reefs do so near Union Island, a popular anchorage. Just across the way is tiny Palm Island, and it is there that CSY turns for its only outside marine salvaging "service."

John Caldwell, a former Australian accountant turned island developer, helps the New Jersey chartering business when it needs assistance in towing a reefed sailboat.

"We gave Johnny a chase boat to keep at Palm Island, and occasionally he'll use it to work with us when one of our boats gets stuck," Mr. Van Ost said.

"In the Grenadines this is more of a critical problem than in our other locations because there are many more coral reefs."

He could recall only one total loss suffered by a CSY boat, off the island of Antigua. But the charterer's underwriter took care of settling the claim, and no salvaging service was hired by CSY.

Although the CSY situation for the most part does not parallel the experience of commercial fleets with potential salvaging losses, its reliance upon its underwriter to handle total loss situations is a sort of microcosm of what happens in larger operations.

For instance, the foremost user of the services of the United States Salvage Assn. has historically been the American Hull Insurance Syndicate, the U.S. pool of insurers who share risks on domestic and foreign hulls in ocean and Great Lakes shipping.

U.S. Salvage Assn. is an independent national organization that performs vessel damage surveys, hull and tow inspections and related salvage and technical services. Since its incorporation back in 1921, it has expanded its customers to include brokers, steamship companies, shipyards, construction firms, research organizations, certain branches of the petroleum industry and various governmental agencies in addition to underwriters.

Although the word "salvage" is in the association's title, its more frequent service to marine interests is conducting inspection surveys.

It also will go to the scene of a marine casualty to ascertain the

Continued on page 26

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editorial opinions

Clients get more service as brokers sweat it out

ANALYSTS FOLLOWING the insurance industry are looking for continuing improvement in underwriters' revenues and profits as a result of underwriting selectivity and quantum leaps in rates. These same analysts predict more competition in the insurance markets by yearend 1976 and early 1977, although no one seems to be looking for a return to the aggressive underwriting environment of the late '60s and early '70s.

This is despite severe tightness in some insurance markets which exists right now. Brokers don't seem to foresee any easing, either; they complain that there are commercial clients looking for renewals whose risks can't be placed anywhere.

This all adds up to mean a mixed bag of blessings and perils for brokers, who initially at least were the beneficiaries of higher premium rates and tightening markets. Brokerage revenues have soared in the last six months, as have profits, in concert with rate hikes. Furthermore, corporate clients worrying about pending gloom and doom predicted in all quarters, were appreciative of renewals at any cost.

Take a look at another side of this coin. Some brokers who've been in the business for years are saying they always thought the business was fun before; but there's no fun left in it now, they grumble. The reason for their plaint: There's a horserace underway right now among brokers. What was thought to be a boon (tighter markets) is turning

into a nightmare, and the nightmare is caused by the same market conditions that brokers felt would make them indispensable to their clients and more appreciated than ever.

Scenarios run like this: Broker A has a commercial client with a problem risk, say, a product liability exposure for which several million dollars insurance is needed. Broker A can't find markets for the coverage needed by renewal time, even after searching for many frustrating hours. Broker B comes along and says to the company needing insurance that Broker B's firm, having a long-standing relationship with certain insurers, can place the insurance, all right, but the premiums are going to soar in any case. Thus, the account changes hands.

It's not a price market any more, with brokers winning new business by engineering the best price deals for commercial clients. The horserace seems to have turned into a matter of winning business just by being able to place risks, at any price. Accounts are reportedly moving around with more alacrity than they ever did, thanks to the highly competitive nature of the insurance brokerage business.

Brokers who've always thought the business was great fun, with unlimited markets and the chance to do some price shopping, are finding they're working harder than ever to keep their accounts. Buyers of insurance are getting better service for their commission dollars than they've ever obtained, we've heard it said.

In 'captive' field, competition and innovation

OUR THIRD RISK Management and Insurance Services issue illuminates for insurance and benefit directors the firms offering technical services.

In the past year, tight markets and higher rates—coupled with unavailability of any kind of insurance at any price for some kinds of risks—forced greater self-insurance. A trend toward alternative loss funding methods discernible for 10 years or so was accelerated.

Along with bigger risk retention programs came more captive insurance companies, and greater demand for the various services which go along with formation of a captive: feasibility studies, legal services, management services, reinsurance brokerage.

As a story in this special issue points out, competition is lively among the 30 or so firms which manage captives. One of the oldest firms in the business, American Risk Management headed by Fred Reiss, until recently was far and away the biggest captive management firm, in terms of the numbers of captive insurers managed under one umbrella. ARM's lead spot was usually attributed to Mr. Reiss's superior knowledge of reinsurance markets, his established Hopewell captive reinsurance reciprocal, and his strong contacts in London.

ARM has some tough competition these days, though, with Johnson & Higgins and Marsh & McLennan breathing down its neck to win captive clients.

What is happening in the field of captive management is indicative of a phenomenon occurring in other fields of insurance-related services as well. Although premium rates

for insurance are continuing to climb, it's invigorating to see the healthy competition in the services field.

■ The lines separating insurers from insureds, and insurance brokers from insurers are no longer clearly drawn; and they're getting fuzzier.

According to another story in this issue, Marsh & McLennan is getting into the underwriting business with its own Tower Hill Insurance Co., established in London to reinsure the business of captives managed by M&M as well as participate in outside business. Tower Hill pulls together U.S., Japanese and Finnish insurance companies for this purpose.

It's becoming commonplace also for U.S. brokers to have employees who are members of Lloyd's.

The question that comes to mind is this: How does the relationship between a broker and the insurance markets change when a brokerage firm, or its employees, enters the underwriting business? Or is this relationship affected at all?

From the standpoint of added underwriting capacity, the captive reinsurance pools organized by captive management firms such as M&M and American Risk Management are valuable.

Brokers like M&M might have a difficult time convincing insurers they've traditionally worked with, though, that there's no inherent conflict of interest when a broker begins underwriting the very policies that brokers have sold and placed in outside markets all along.

Maybe this is just normal vertical integration. We'll be interested to see how insurance companies respond.

letters

Letters are welcome. Address letters to the Editor of Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Definitions required

To the Editor: I read your editorial, "A Cavalier Attitude" in the issue of May 17. In it you state:

"... The way the American system of law works, when a person is injured through someone else's fault, the person causing the injury is made to pay."

In the interest of equity, some definitions are required. What do you mean by "fault?" Industrial machinery is neither everlasting nor self-restoring. When an accident occurs in an employer's plant on a press which has changed hands several times and was shipped thirty years ago, is it the original manufacturer's "fault" when an injury occurs? Common sense says that the user of the equipment has the responsibility for plant environment and methods of operation as well as maintenance of the equipment. Recent judicial decisions in Minnesota and Michigan support this concept, and Congressman Sarasin's new bill to permit counter-suit by a supplier against an employer who fails to observe OSHA standards is another indication that the definition of "fault" is not a simple one.

As for who really "pays," perhaps the words of Kenneth C. Tyler, past president of Western Insurance Information Service are the most apt. "... What they ignore is that the money to pay for these 'advances' does not come from the insurance companies or the defendant—it comes from the public. An insurance company is simply a device for collecting premiums from thousands of people to pay the losses of the relatively few who have them."

E. H. Rosenberg

President, RETORT Inc., Franklin, Ma.

Benefits specialist

To the Editor: Regarding the article on the Certified Employee Benefit Specialist (CEBS) program being established in cooperation with the University of Pennsylvania and the International Foundation of Employee Benefit Plans, we at Corporate Benefits feel that the term "specialist" is too restrictive. It does not reflect the full scope of the benefits professional responsibility. We suggest the designation CMEB, "Certified Master of Employee Benefits." We would be interested in knowing what the rest of your readers think, too.

Joseph J. Buss

Corporate Benefits Coordinator, Hanes Corp., Winston-Salem, N.C.

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Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Pensions & Investments, Industrial Marketing, KEITH E. CRAIN, secretary-treasurer; M. A. HARTENFELD, executive vice president; D. J. CLEARY JR., senior vice president; ALFRED MALECKI, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, ROBERT W. KRAFT, vice presidents; MERRILEE P. CRAIN, assistant secretary; JAMES M. FRANKLIN, director of finance and administration. Cable address: CRAINCOM

Published biweekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices at 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). 50 cents a copy. \$12 a year in U.S. Elsewhere \$4 a year additional. WILLIAM STRONG, circulation director. ROGER DiGREGORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, Business Insurance, 740 Rush St., Chicago, Ill. 60611



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Marine casualties require salvage...

Continued from page 22

suitability of various vessels to proceed either under power or in tow to another location—trips which may cover very great distances from the scene of the damage to a repair yard in another part of the world.

Repair cost analysis is the job of the U.S. Salvage Assn.'s special estimating section which conducts a worldwide repair-cost gathering operation about every three years.

The results are used by the Maritime Administration of the U.S. Commerce Department to provide the prime information on which operating differential subsidy determinations are made.

A huge flow of marine casualty reports comes in to the association every year, providing a source of data for analysis. In one such pro-

gram of analysis, the association discovered a high incidence of surging and striking damage to hulls at dockside.

This led to suggestions of improved mooring equipment and procedures and additional maneuvering power. The association then makes such information available to naval architects, shipbuilders and owners for guidance in avoiding specified types of extensive damage in the future.

Other organizations which engage in similar inspection services which fall under the general heading "salvage" include the London Salvage Assn., a technical auxiliary of the British marine market; Murphy Pacific Marine Salvage Co., New York; and J. K. Tynan International Inc., New Orleans.

Hull & Cargo Surveyors Inc., an affiliate of the Marine Office—

Appleton & Cox (MOAC), New York, initially received most of its business from MOAC and other insurers.

But today, the firm's 34 surveyors work increasingly as direct consultants and independent marine surveyors for energy-oriented and other industries. Salvaging operations play a big role in its services offered to risk managers.

Robert Wehna of Hull & Cargo Surveyors' San Francisco office, for example, went to the Strait of Malacca, off Singapore, to assist in the salvage and recovery of a grounded supertanker and to handle potential pollution problems.

"If there's a marine casualty occurring anywhere in the United States, we'll probably be involved in working with it in some way," said the firm's president, Captain William F. Warm.

For a risk manager to most effectively make use of a good salvaging service after a casualty, it is necessary to move fast.

Captain Warm told of one instance last spring when high winds in the Berie Basin Terminal in Brooklyn caused a problem with vessels docked in the breakwater.

Within a short time of each other, all the involved parties called Hull & Cargo Surveyors to ask the firm to represent them. Captain Warm accepted the job from the first caller, Moran Towing and Transportation, but soon afterward had to reject requests from Port Authority of New York and New Jersey and from the Maersk Steamship Line because they came in too late.

Hull & Cargo Surveyors principal surveyor, R. H. Smith, had this advice for risk managers faced with a marine casualty and in need of hiring salvaging services: "Get someone who knows what

they're doing out there right away. You have to act quickly. If the expert says your loss is a total one, see what you can sell the vessel for, and sell it quickly.

"If you don't there will be nothing left in a short time, as the weather or vandals get to the vessel. The whole idea in a salvaging operation is to act promptly." ■

Levi's foreign risks put into offshore sub

SAN FRANCISCO—Levi Strauss & Co. has activated its new Bermuda captive insurance Co., named Zenith International Insurance Ltd., and is using the captive for all international property and casualty risks.

In the works for two years, the captive is targeted to provide initial substantial premium savings of 10% to 20% for Levi Strauss, for coverages on its operations in 26 countries worldwide, including Canada.

The Bermuda captive is being managed solely by Marsh & McLennan, which has handled at least part of the Levi Strauss international account for about two years.

The program uses AFIA as the fronting company and achieves Levi Strauss's objective of having a more fully admitted insurance program in its overseas locations. Insurance is being purchased locally and risks are reinsured in the captive. The company had used non-admitted insurers in some countries.

Some savings will be derived from the fact that with the captive, Levi Strauss won't be so strictly confined by local tariff rules. It sees an advantage in obtaining bigger deductible credits, often ranging from 10% up to 50% of premiums, than those available under a conventional insurance program.

Levi Strauss is reportedly using manuscript insurance forms for local insurance coverages, to replace the coverage it formerly had under a worldwide difference in conditions policy. These coverages will now be endorsed onto a property insurance form for each location and will be locally admitted.

In Canada, Levi Strauss is using Allendale Insurance Co. of Canada, a member of the Factory Mutual System.

Levi Strauss, it is said, does not plan to use its captive insurance company for domestic risks. The captive was designed primarily to be used as a vehicle to promote international loss control activities and to more effectively allocate expenses to divisions based on protection costs and loss experience.

The people involved with the captive at Levi Strauss declined comment on the changes in the insurance program. ■

Affirmative action plan

Morton Norwich Products Inc. transferred about \$9 million of group life insurance coverage for its employees to North Carolina Mutual, the country's largest black-managed insurance company.

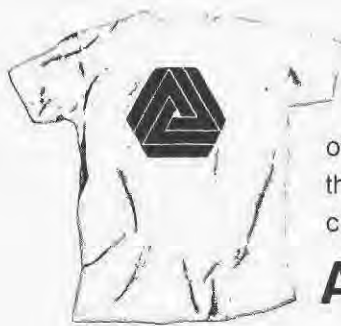
The reinsurance agreement "demonstrates Morton-Norwich's corporate commitment to affirmative action in helping minority companies play a larger role in American business," believes R. J. Gruenwald, corporate vp-administration.

The primary carrier for Morton-Norwich's group life program is The Prudential Insurance Co. of America.

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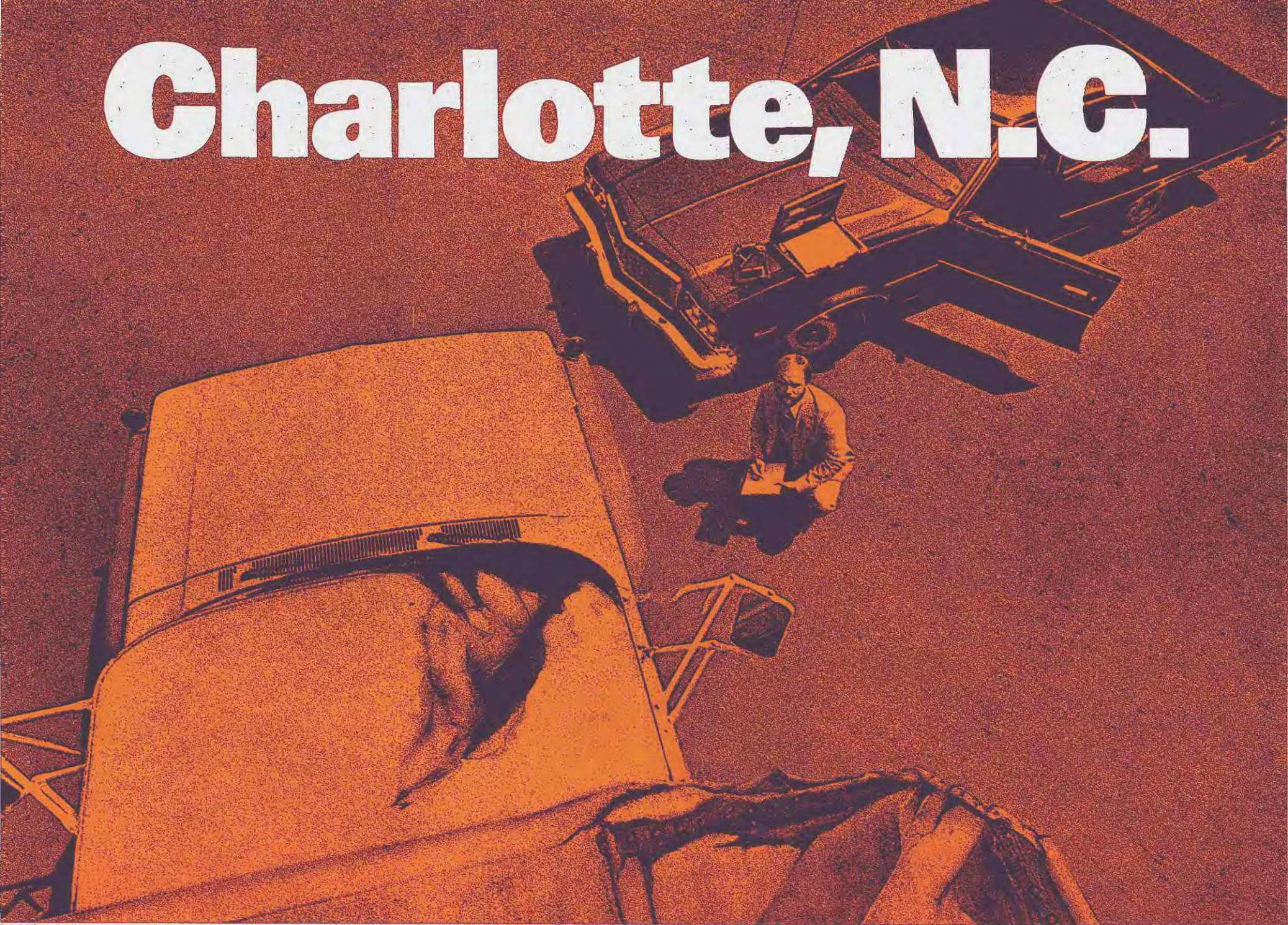


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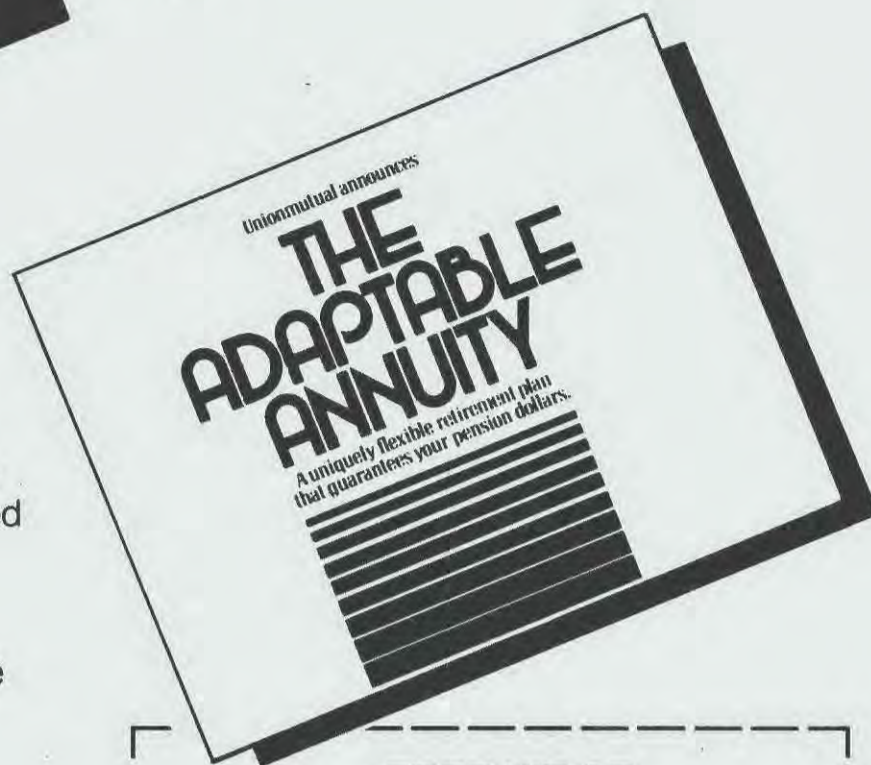
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2. The minimum interest guarantee is 4% in New York.
3. The Adaptable Annuity is not yet available in all States.

Says home health care can reduce premiums

By MARGARET LeROUX

KALAMAZOO, MI.—James Bischoff has a solution for employe benefit managers who are engaged in a budget battle with rising hospital costs. It's home health care and it can decrease group health insurance premiums by reducing lengthy and costly hospital stays, Mr. Bischoff, national insurance program director for Homemakers Upjohn, said.

Homemakers Upjohn, a subsidiary of the Upjohn Co. is the largest proprietary health care service in the U.S.

"Compared to hospital costs, home health care costs are one-third less," Mr. Bischoff said in an interview.

Cost savings realized by two employe benefit plans that utilize home health care services add sta-

tistics to support his statement.

At Eastman Kodak Co., home health care insurance benefits resulted in an average reduction in hospital stays of 21 days per patient which subsequently saved the company approximately \$160,000 per year in health care costs, according to Martin B. Bael, director of corporate benefits.

Risk Management SERVICES

The Upjohn Co. also uses its subsidiary for home health care services. A study done by the pharmaceutical company showed that average hospital stays were reduced by 4.74 days and an average savings of \$325 was realized in each of 19 cases where employes or their dependents took advan-

tage of home health care benefits. The study represented a 12 month period ended June 30, 1975.

In a report to the U.S. Senate special committee on aging, the National Assn. of Home Health Agencies noted that if the hospital stay of one patient in 20 was shortened by only one day at a daily cost of \$70, the total hospital cost to the American people would be reduced by almost \$100 million.

A home health care program sponsored by Associated Hospital Service of New York and covered by Blue Cross achieved reduced costs of \$3.6 million for the first 3,000 cases.

The total figure includes patient savings of \$2.1 million and Blue Cross savings of \$1.3 million. The aggregate hospital stays for the 5,000 cases was reduced by more than 113,000 days.

Combined hospital and home care averaged 90 days at a per diem cost of \$10.24. The average per diem Blue Cross payment for the in-hospital portion of the combined care was \$31.28; for the home care portion, \$3.05.

Yet despite the cost savings, companies that have home health care included in their benefit plans report it is underutilized.

Physician resistance to the idea of home health care was cited by one benefit manager as a reason why "the idea is not exactly catching fire."

A report by the Health Services Administration in New York notes other obstacles to home health care. Among them are: Reimbursement policies by third-party payers that encourage hospitalization; Medicare and Medicaid pay-

only a part of home health care costs and restrict the service to those who need skilled nursing; and a trend away from home service and a tendency to treat patients at a central facility or in a physician's office.

Home health care services don't always include registered or practical nurses. A range of domestic services such as housekeepers, home managers, to handle shopping and meal preparation and babysitters are also available.

Homemakers Upjohn is among the largest for-profit home health care service organizations with 217 offices in the U.S., 16 in Canada and a staff of 52,000 employees. Medical Personnel Pool, headquartered in Ft. Lauderdale, has 90 offices in the U.S. and is second in size. Home health care services are also provided by Staff Builders Medical Services and Olsten Temporary Services Inc., both in New York. Other home health care services include the Visiting Nurses Assn. and the U.S. Public Health Service.

Mr. Bischoff explained that Homemakers Upjohn generally contracts for services with insurance companies, though they also contract directly with corporate benefit plans.

The company published a cost analysis of home health care late last year which noted the dilemma of "too many people requiring care, not enough manpower and not enough money."

The home must be re-established as the center of care so that resources will go where they can do the most good for all," the report stated.

A study by Blue Cross-Blue Shield of Greater Philadelphia based on 10 years' experience with a home health care program coordinating nursing, therapeutic and ancillary medical services reached several favorable conclusions. Among them:

- Physicians services can be expanded to more patients when this level of home care service is available;
- Hospitals can increase the use of existing facilities and enlarge their services to the community without a corresponding capital investment;
- Blue Cross subscribers can be provided a broader range of benefits for medically required health care services without a related increase in subscription rates. ■

Lloyd's must pick up now

SAN FRANCISCO—The California court ruling that Aetna and Harbor insurance companies have exhausted their limits as primary carriers for Union Oil Co. and that Lloyd's of London and British insurance companies must now assume primary responsibility for defense of Union in litigation over settlement of the Santa Barbara oil blowout of 1969.

At the time of the blowout which covered Santa Barbara beaches with oil, Union had coverage with Harbor for 50% of any loss in excess of \$50,000 with a limit of \$475,000.

Underwriters at Lloyd's had 50% of any loss over \$50,000 and up to \$475,000 and the total U.K. market underwrote excess coverage of approximately \$21 million.

Under the court of appeals decision, Aetna will recover \$242,974.20 from Harbor and, when all litigation against Union Oil has been resolved, costs will be pro-rated. ■

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• **Introducing the Top Security Policy: The Unpackaged Package** is a brochure outlining the features of Zurich-American's multi-peril policy. The "unpackaged" policy allows agents and brokers to meet the particular needs of many businesses. For a free copy, write M. Montgomery, Zurich-American Insurance Cos., Communications

Department T, 111 West Jackson Blvd., Chicago, Ill. 60604.

• **Insurance In Brazil** is now summarized in this brochure prepared by the Citibank including property damage covers, business interruption, employee benefits, and reinsurance. For a free copy, write Henry C. Whitney, Mgr., Citibank

Corretora De Seguros S.A., Caixa Postal 770, Rio de Janeiro-RJ, Brazil.

• A new in-house discount offering or benefit is now available in the form of a **Medical Emergency Information Kit**. The kit contains a laminated card, bracelet, decals, and stickers designed to reduce the severity of accidents by providing vital medical information and authorizations for treatment of unconscious victims. The cost in quantity is \$2.50 each, plus the bracelet at \$1.50 when necessary. For more information and brochures contact Dr. Pickar, Medical Emergency Information Inc., P. O. Box 13124, Orlando, Fla. 32809.

• The Nuclear Regulatory Commission has issued new **Fire Protection System Guidelines**, part of its Standard Review Plan used by the NRC to review applications to build and operate nuclear plants. The guidelines will be used after

July 1 to evaluate fire protection acceptability of designs and procedures in construction permit applications. Single copies are available by writing to the Director, Division of Systems Safety, U.S. Nuclear Regulatory Commission, Washington, D.C. 20555.

• The **National Crime Prevention Assn.** is offering free its pamphlet explaining the new organization's purposes, program and membership information. For copies write the National Crime Prevention Assn., 1750 Pennsylvania Ave., NW, Washington, D.C. 20006.

• How to use life insurance and variable annuities in deferred compensation plans for employees is the purpose of INA's **Deferred Income: Some Professional Considerations**. The 12-page booklet is available free from INA, 1600 Arch St., Philadelphia, Pa. 19101.

• **Closing in on GAAP**, from Washington National Insurance Co., describes the principles used by them to develop their financial statements. The booklet is designed to show how one company derived its reported earnings on a GAAP (generally accepted accounting practices) basis. For a free copy write R. N. Whiteside, public relations Dept., Washington National Insurance Co., 1630 Chicago Ave., Evanston, Ill. 60201.

• **Health Benefit Cost and Quality Control**, published this month by Health Application Systems, describes costs and controls similar to loss engineering for managing other corporate insurance programs. Controls are based on "patterns of treatment" computer programs. Data sheets will be provided with detailed information about systems functions. For a free copy, write Lynden N. Kendrick, Health Application Systems, 1633 Bayshore Highway, Burlingame, Ca. 94010.

• The Health Insurance Institute has published the **1975-76 Source Book of Health Insurance Data**. It reports the number of persons in the U.S. with private health insurance protection, amount of health insurance premiums received and benefits paid. Single copies are available free by writing to the Institute at 277 Park Ave., New York, N.Y. 10017.

• **Do You Value Life . . . Insurance Enough?**, a pamphlet prepared by the Prudential Insurance Co. of America in September, suggests many employers may be taking their group life insurance plans for granted. The brochure recommends that employers review their plans to make sure they take full advantage of every benefit dollar spent. For a free copy, write Director of Group Insurance, Prudential Insurance Co. of America, 3 Plaza, Newark, N. J. 07101.

• **A full spectrum of services for business, insurers, agents and brokers** is a brochure that describes the many aspects of the Insurance Service Division of the INA Corp. INA companies that provide services in management, marketing, financing, and risk management are listed, along with a brief description of each and the address. For a free copy write to the Insurance Service Division, INA 1600 Arch St., Philadelphia, Pa. 19101.

• **Financial Statements of Member Companies** documents the underlying capacity and stability of Improved Risk Mutuals. A table in the brochure shows percentage of participation, date of establishment, admitted assets, liabilities and surplus to policyholders for each of the 17 IRM member companies. For copies write Advertising Director, IRM, 15 N. Broadway,

White Plains, N. Y. 10601.

• **ESIS/Loss Control Services** is a brochure detailing ESIS Inc.'s services, including OSHA-oriented inspections and total loss control systems. For a copy of the brochure or more information, contact: Stanley A. Greene, vp, ESIS Inc., Two INA Plaza, 13th Floor, 1600 Arch St., Philadelphia, Pa. 19101.

• **Let's Clear the Air About Respirators**, a brochure from the Willson Products Division of ESB Inc., is designed to help the worker and industry understand the need for on-site personal respiratory protection. Written in question-and-answer format, it outlines the problem of respiratory hazards, offers the essentials of a comprehensive protection program, explains how respirators fit into safety programs and shows the types and functions of respiratory devices available. For a free copy, write to Stephen A. Neimiller III, Willson Products Div., ESB Inc., P. O. Box 622, Reading, Pa. 19603.

• Many a tax dollar may be saved by knowing tax codes that affect insurance proceeds, involuntary conversion, replacement, directors and officers reimbursement, etc. and by recognizing when to call tax counsel. **Taxes and Risk Management Decisions**, available from Practical Risk Management for \$7.50 a copy, is obtained by writing: Ros McIntosh, editor, Practical Risk Management, 680 Beach St., San Francisco, Cal. 94109.

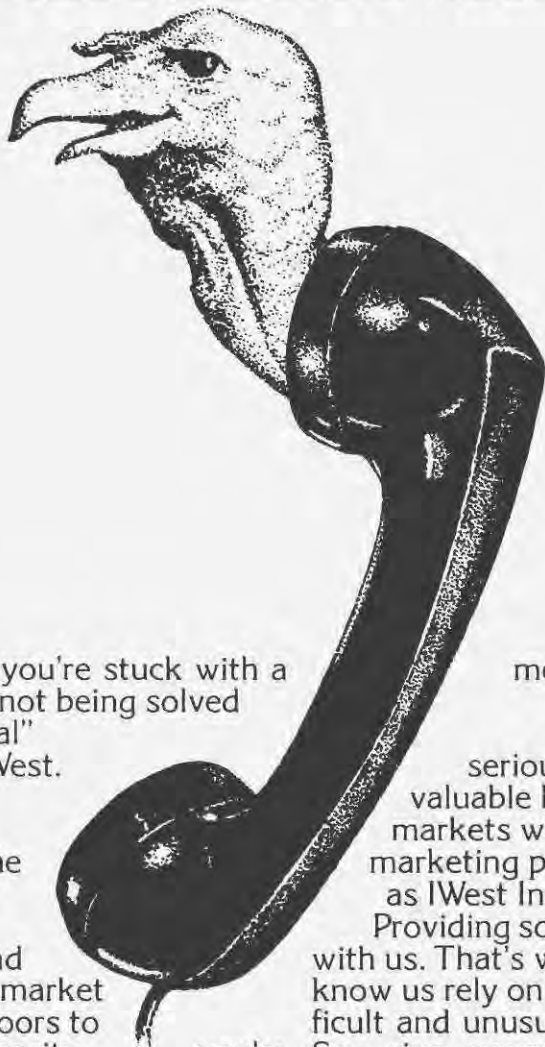
• Obtaining information in products liability cases is made easier with a questionnaire guideline available from Insurance Co. of North America. The questions refer to appropriate chapters and sections of a leading products liability legal reference service. For a free copy and a description of the Consumer Products Safety Act, write Stanley A. Greene, director of marketing, Consumer Protection Services Division, INA, 1600 Arch St., Philadelphia, Pa. 19101.

• Four out of 10 businesses never reopen when their records are destroyed by fire, says Mosler Safe Co., on the cover of its brochure describing **Record Safes**. The booklet presents information on how to make a decision about what kinds of safes are needed for specific kinds of businesses and locations. The brochure describes different kinds of time-delay combination locks, and various kinds of construction providing protection against very hot fires or explosions. For a free copy, write Mosler Safe Co., 1561 Grand Blvd., Hamilton, Oh. 45012.

• Marshall and Stevens, multinational appraisers, have prepared a concise folder, **How To Insure Your Insurance**, that points out some of the "traps" in the corporate insurance policy. The folder digests more than 40 years of experience helping clients make sure they are covered, current and ready in case of fire. For a copy write to Marshall and Stevens, 1645 Beverly Blvd., Los Angeles, Ca. 90026.

• **The Winning Safety Team: Buyer, Broker, Underwriter** is a pamphlet available from Johnson & Higgins. Written by A. J. Sluyter, a member of Johnson & Higgins' loss control department, the pamphlet was originally a paper presented at the Insurance Buyers Assn. of Pittsburgh in 1961. Updated to include federal safety legislation, it shows how the combined effort of buyer, broker and underwriter can successfully reduce casualty insurance costs. For a free copy write Production & Coordination Dept., Johnson & Higgins, 95 Wall St., New York, N. Y. 10005.

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● The National Fire Protection Assn. is offering a **Catalog of Publications and Visual Aids**. The 52-page catalog contains more than 600 titles—books and booklets, films, training courses, posters, speakers' aids, and educational material for employees, firefighters and the general public, plus the current edition of each NFPA standard and code. Free copies are available by writing, National Fire Protection Assn., 470 Atlantic Ave., Boston, Ma. 02210.

● Safety First Products Corp. is offering its **Safety First Fire Protection Folder**, which contains literature on portable fire extinguishers, wheeled and stationary extinguishers, automatic dry chemical restaurant systems, automatic dry chemical industrial systems, automatic Halon 1301 systems and completely mobile dry chemical systems. Copies are free, available by writing to Safety First Products Corp., Advertising Dept., 3684 Meadow Lane, Cornwell Hts., Pa. 190200.

● **Valuation of Business Enterprise, Capital Stock, Intangible Assets, Equity Securities, Debt Securities** outlines complex business problems for which financial valuation might help find solutions. The booklet is published by Valuation Research Corp. and discusses the degree to which factors other than income alone in a business create wealth for owners and shareholders. For a free copy write to: Michael Colhoun, Valuation Research Corp., 250 East Wisconsin Ave., Milwaukee, Wis. 53202.

● Western Safety Equipment's 44-page catalog illustrates and describes 62 eyewashes and more than 100 emergency drench showers. Special emphasis is on portable eyewashes, free-standing showers, and lab installations. All OSHA approved. For a free copy, write to P. M. Lindley, Director of Advertising, Western Drinking Fountain, Box 47, Glen Riddle, Pa. 19037.

● Underwriters Adjusting Co. is offering **Employers' Liability**, an examination of worker's compensation policy in regard to the actions of an insured employee. The liability of an employer to a defendant who has been sued by an injured employee is one of the most rapidly developing areas in the field of contribution and indemnification. For a free copy, write to Underwriters Adjusting Co., Sylvia T. Jurkovich, Director of Communications, 224 S. Wacker Dr., Chicago, Il. 60606.

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● Because many companies do not know **What To Do About the Employee With a Drinking Problem**, Kemper Insurance Cos. are offering a booklet which shows how to help reduce costs and retain valuable employees by initiating a positive response to this problem. For up to 50 copies free of charge, write to the Advertising and Public Affairs Dept., (D-1) Kemper Insurance Cos., Long Grove, Il. 60049.

● **Risk Management by Mandate** provides a chronology of federal safety and health legislation from the beginning of workers' compensation laws through the enactment of the OSHA Act of 1970. Included are chapters on consumer and product liability and environmental and health risks. Copies are \$5.95 plus shipping and handling. Write: Management Research & Development Institute Inc., 321 E. William St., Wichita, Ka. 67202.

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Preventing bank hold-ups in robbery capitol of US takes tricky maneuvers

By JOANNE GAMLIN

LOS ANGELES—Smaller banks and savings and loan institutions are more apt than are their giant competitors to observe a relationship between devices to foil hold-ups—such as cameras and fake money packets—and their banker's blanket bond insurance.

This is true, in part, because the 'take' in bank robberies is peanuts compared to monetary losses from other sources. The Trust Co. of Georgia, in Atlanta, for instance, had four robberies in 1975, for which the total loss was \$2,800. Losses from external fraud, forgeries and cash dispensing units, however, came to more than

\$200,000 in 1975, Brooke Blake, director of security, told *Business Insurance*.

Furthermore, while the average loss in a bank hold-up averages between \$6,000 and \$7,000, banks of medium to large size have huge

Risk Management SERVICES

per occurrence deductibles on their banker's blanket bond coverage. A Seattle bank, for example, boasts a \$250,000 per occurrence deductible on its banker's blanket bond coverage, according to a spokesman.

The security officer for the same bank disclosed that the false

money packet, installed in branches with the most critical robbery exposures, has aided in the apprehension of about a dozen robbers in the 12 months it has been installed in these units. Word of the trick packets seems to have leaked to the "street," he added; at least, he said his bank has suffered fewer hold-ups this year than had been anticipated.

"There is a deterrent effect," the security officer affirmed.

Evidence for such an impact was posited by Mr. Blake who recalled that in one instance the false money packet, which The Trust Co. of Georgia buys from ICI of U.S. Inc., a subsidiary of Imperial Chemical Inc., London, facilitated the recovery of \$12,000.



Employees are trained to foil the robber's instructions so detection of foiling devices isn't always possible.

The robber abruptly dropped the money when the packet did its trick by emitting a cloud of pink smoke and tear gas as he was racing toward his get-away car after

leaving the bank.

"In every robbery where the teller has given out the packet, the criminal has been caught," declared Mr. Blake.

He concurred, nonetheless, with other bank spokesmen who maintain that the false money packet has had little impact on their banker's blanket bond coverage. For the Trust Co. of Georgia, that coverage comes with a comparatively low \$25,000 per occurrence deductible.

One reason for the absence of any impact, proposed Mr. Blake, is that underwriters demonstrate little or no interest in a bank's security program.

"In the eight years I've been on this job, I have yet to see an insurance man reviewing our security program," he said.

"Naturally, if robbery losses become astronomical, I would get involved," agreed Norman S. Winemute, assistant vp, Bank of America. "But as it is, most if not all of our hold-ups fall into the range of the deductible on our banker's blanket bond."

Both insurance managers and bank security officers theorize, nevertheless, that hold-up foiling devices do exert a deterrent effect on the would-be criminal.

The insurance manager of a major California bank which uses a fake money packet manufactured by U.S. Currency Protection Corp., Scottsdale, Az., in about 15% of its branches, said he hopes the device will turn away enough hold-up men to enable the bank's robbery losses to be contained, if not actually reduced.

"All I want is for the robber to go someplace else," he said. "If these devices do that job, I am satisfied."

California banks would appear to be ace targets for hold-up protection services due to the state's celebrated reputation for bank robbery crimes, and not just those perpetrated by Patty Hearst. Los Angeles, for example, is known as the "bank robbery capital of the U.S." and Lt. Frank Mullens, head of the Los Angeles police department's bank-robbery squad, pointed out that hold-ups rose 20% in the first quarter of 1976.

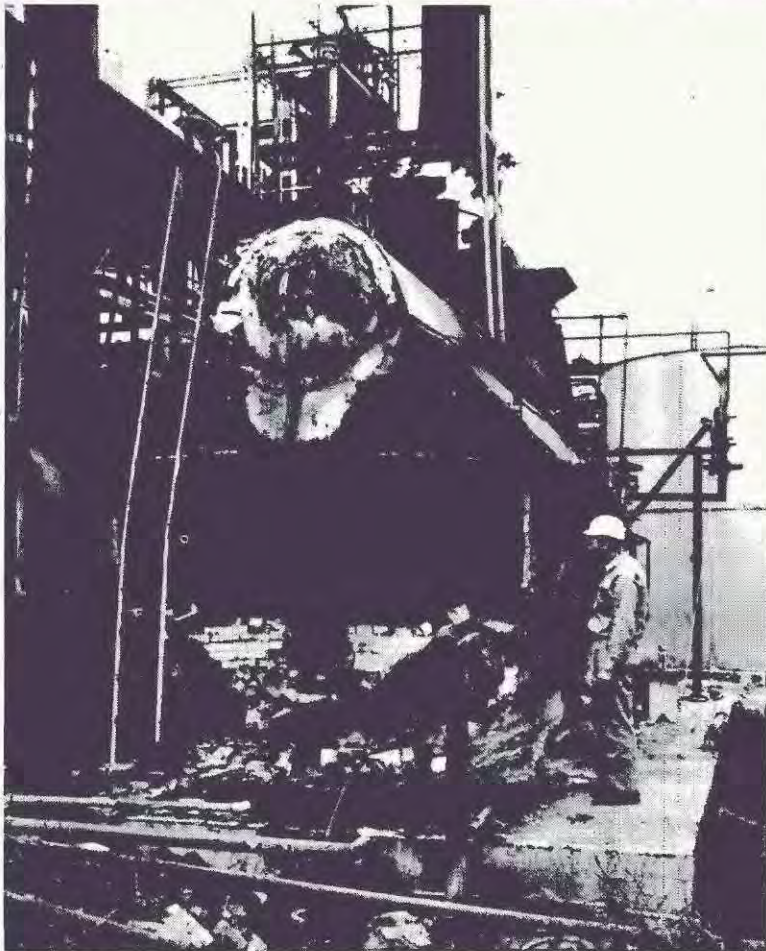
Lt. Mullens said that in his view surveillance cameras, rather than the fake money packets, create the most powerful deterrent effect on potential criminals.

Surveillance cameras, which are usually installed near every primary exit in a bank, cost between \$500 and \$600, including installation.

Lt. Mullens pointed out that a major California bank was a prime target for hold-ups before it installed cameras in all its branches. Since the coming of the cameras, according to Lt. Mullens, the bank has benefited from a "drastic decrease" in robberies.

However, that same bank is currently putting in false money packet devices in all of its units, according to a company spokesman.

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HARTFORD STEAM BOILER INSPECTION AND INSURANCE

who stressed that the bank does not wish to be identified. He said the bank is buying the devices from both U.S. Currency Protection Corp. and from ICI of the U.S. Inc. The cost, he added, is about \$1,600 for packets for six tellers.

Some banks—such as The Trust Co. of Georgia—are not shy about having it known that they use the false money packets.

Paul Keniston, director of marketing, U.S. Currency Protection Corp., said that institutions which buy fake money packets from his firm are the recipients of a guarantee which states that if the bank does not get its money back within 30 days, U.S. Currency Protection will re-imburse it up to the cost of the original investment in the system.

Mr. Keniston explained that his company's device, called "currency guard," bears the appearance of a packet of \$100 dollar bills. The bills are coated with an invisible chemical. In addition, there is a tiny receiver hidden in the currency which is activated by radio frequency by a transmitter in the bank's door—when and if the robber makes his exit through the door. The packet is timed to emit gas and dye.

Harold Robeson, who owns the patent on the packet device produced by ICI of the U.S., said that the ICI unit usually contains tear gas.

"Generally, the thieves will abandon their cars and give up the money when the smoke and gas goes up," he explained. Some banks reportedly are nervous about using the fake money packets for fear of litigation from drivers injured in accidents which conceivably could occur if a stunned robber rams another vehicle.

Mr. Robeson went on to say that although the tear gas in his units is calculated to make the interior of a car "unbearable" if all the gas gets out, "a good number of robbers will continue their escape."

Still, he pointed out, "money in our units is stained red and so even if the criminal gets away, the chances are that the stained money will be spent rapidly and

Fire losses down

Estimated losses from fire in the United States total \$335 million, down \$6 million from the March 1975 total the Insurance Services Office reports. The rating organization, using company reports of insured losses, said the figure represents a 2% decrease from 1975.

eventually returned to that bank that was robbed."

He asserted that the apprehension rate of banks and S/L's using the ICI device runs close to 60% to 65%. The dollar recovery is about 64%, he said.

"Out of \$1,715,287 taken in hold-ups last year, we figure that \$1,700,271 was recovered, he related.

Besides the Trust Co. of Georgia, Mr. Robeson said that the First National Bank, Columbia, S.C., First Pennsylvania Bank of Philadelphia and the First National Bank in Louisville all use the ICI device in at least some branches.

Lt. Mullens of the Los Angeles department said that while the recovery of money through the use of the fake packets has been good, criminals are growing wise to the devices. He said they now may emphatically resist when a teller brings a trick packet forth in response to a hold-up gun.

GRAVENS, DARGAN

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Pinkerton's the professionals

Environmental services burgeoning and baffling

By JANE WINEBRENNER

CHICAGO—Environmental consulting services and their fees have become as complex as, well... Environmental Protection Agency rules and regulations.

For the risk manager who has not had much experience with environmental consultants, there are several ways to find a way through the maze of over 2,500 consultants listed in the 1975 Environmental Science and Technology yearbook put out by the American Chemical Society.

William L. Stiens, loss control manager of Borg-Warner Corp., which uses many consultants, gives some basic advice before contracting with a firm:

"To start, work with the engineering people at your plant; consult with them and then with the trade associations to find people who have been working with environmental consultants.

"Some are good but some are not so good. The only thing you can do is check the track record very carefully of environmental consultants—see who they've worked with and check with those companies to see if they're satisfied," Mr. Stiens advised.

Borg-Warner, a multinational firm with about 60 plants, purchased its own environmental consulting firm two years ago. The firm, Kem-Tech in Baton Rouge, La., which specializes in chemical and petrochemical consulting, serves Borg-Warner and others.

Mr. Stiens said, however, that Borg-Warner's volume of environmental consulting services is great enough that they use both Kem-Tech and outside consultants. He said they have been buying such services for the last 10 years.

The need for environmental consulting apparently has not slackened, even though less public attention is focused now on pollution and polluters. Mr. Stiens said his need for consultants "may have increased" over the years.

"The big problem we found is in the proliferation of regulations. We've had a bit of problem in the past where a state regulatory agency goes far beyond federal recommendations," he said.

While the need seems to have increased, several environmental consultants said their business has leveled off as companies cut back on environmental measures because of the recession. In addition, more corporations are using in-house consultants and engineers.

For companies that still must go outside for assistance, however, there are no easy rules to follow in trying to determine prices for the consulting.

Most consulting firms offer initial environmental impact statements, pollution monitoring services and proposals, charging on an hourly basis. Beyond that, there are no easy generalizations.

Consulting services can be provided by an insurance carrier for policyholders, by insurance company or broker-affiliated firms, or by a completely independent, technically-oriented firm.

Among the more well-known insurance company offshoots are NATLSCO, a division of Kemper Insurance Cos.; ESIS, a wholly-owned subsidiary of INA, and Aetna Technical Services.

Marsh & McLennan offers as one of its technical services Clayton Environmental Consultants, Southfield, Mi. Other large insurance brokers, such as Alexander and Alexander, Fred. S. James, Corroon & Black, and Johnson & Higgins, do no environmental con-

sulting. Instead they go on a case by case basis, and either advise the client to use environmental consulting or help to arrange for consulting services.

Sid Blackman, vp of loss control at Corroon & Black, said his department makes arrangements to do studies on a request basis.

Risk Management SERVICES

A. L. Anthony, vp of Johnson & Higgins said his company does not get into environmental consulting, in an effort to avoid duplication of services. "We try not to compete with underwriters with whom we work," Mr. Anthony said.

Dan Benevich, vp of NatlSCO, said they are connected to Kemper only through claims handling.

"From the standpoint of a consulting service, we don't discriminate between clients as to policyholder or non-policy holder."

NatlSCO, with headquarters in Long Grove, Ill., does all consulting work for a client, short of purchasing and construction. Cost for senior consultants who do most of the work, can run between \$30 and \$45 an hour, depending on the type of consultant working on the case, his seniority, and the type of equipment used. A computer analysis, for instance, is more expensive and is usually associated with noise pollution studies.

Robert Soule, vp and laboratory services director at Clayton, said their costs vary from \$25 to \$50 an hour. For an average-size company wanting a one-shot monitoring sample done, for example,

about two weeks worth of work would cost from \$6,000 to \$10,000.

At Clayton, all types of environmental consulting are done: air, industrial hygiene, water, solid waste and energy conservation. Among Clayton's services are evaluation and solution of environmental problems feasibility studies, research, field studies and analysis.

Radian Corp. in Austin, Tx., does impact statements, research and development as well as prototype development and marketing and leasing of pollution monitoring systems, among others. A subsidiary of the Hartford Steam Boiler Inspection & Insurance Co., Radian has been in existence about seven years, according to Neil Kocurek, vp of the technical staff.

He pointed out that customers

have included government and municipal bodies, utilities, paper companies and refineries. Radian, like most consultants, bases its fees on the number of persons used on a project, the time it takes, the overhead and equipment costs. The scope of the project usually determines its end cost.

Radian also uses "firm fixed price" fees if the customer wants; this means a figure is set, usually more costly, and the consulting firm works within that budget.

Some environmental projects can last two years or more. In these cases, fees are still charged on an hourly basis but monthly billings are sent out to the corporation. According to Mr. Kocurek and others, it is difficult, if not impossible, to generalize on the cost



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A professional engineer in the Environmental Sciences Division of NATLSCO, charts a sound level contour map for an industrial plant.

and time involved in various pollution projects.

Dan Olson a consultant with the independent national firm of

Woodward Clyde Consultants, based in Clifton, N. J., said the environmental consulting business is highly competitive, with about 25 major firms vying for business. He said the number of firms bidding on a corporate project will depend on the location in the country (more consultants are in the West) and what kind of project is undertaken.

The procedure usually followed for engaging a consultant is that the client gives the consultant background information on the problems; on-site inspection (with the client sometimes paying travel expenses) is done; and then the consultant makes his recommendations, with an estimate of time and money it will cost to implement them.

Western Environmental Services of Portland, Or., charges a fee of \$200 plus expenses for environmental impact statements.

It may be that there are as many opinions of consultants as there

are consultants. Some risk managers swear by them, others swear at them, and one said he has not used any of them even though his company is involved in a complex legal battle over pollution.

G. E. Jacobs, insurance director at Reserve Mining Co. in Silver Bay, Mn., said his insurance brokers and carrier have not recommended any outside consulting. Reserve Mining is presently being sued for dumping wastes from its iron ore plant into Lake Superior. Mr. Jacobs said, "At this point, we would not go out and get outside advice."

Mr. Stiens of Borg-Warner has found, however, that the majority of environmental consultants are "satisfactory."

"A bad consultant is one who does not do a proper evaluation and his recommendations are not efficient or accurate," Mr. Stiens warns.

He also said he prefers to

use specialized consultants—those that concentrate their efforts in one area such as air or water pollution.

"They are more familiar with regulations and techniques in that one area," Mr. Stien said. "It also pays to use a consultant located in the area where the problem is. They know the regulations of that state and area."

St. Regis Paper Co. of New York used several insurer-affiliated environmental consulting services in the past but found them "lacking," according to the company's insurance director James Sheehy. He now prefers to use unaffiliated, highly technical consultants.

He said that while he had not arrived at an exact cost for his consulting services, he said it was about 50% to 75% more expensive to use private environmental consultants, rather than rely on insurance company consultants.

"We have found that several of the companies have good people but they have little depth. We find that the professionals in the consulting business have skimmed off the cream of the scientists," Mr. Sheehy said.

Clayton's Robert Soule, after he emphasized his separateness from Marsh & McLennan, agreed with Mr. Sheehy's statements. "Insurance carriers do a quick and dirty type of survey—their inspectors do a walk-through type, not in depth," Mr. Soule said.

As for the future for environmental consulting, Mr. Benevich of NatlSCO feels the need will not slacken, but its direction will change.

"In time, the major motivation for corporations will be the financial benefits rather than the fear of regulations. Identifying and eliminating hazards will mean fewer injured employees, lower medical costs and lower workers' compensation rates," Mr. Benevich said.

\$2 billion deficit

A property and casualty insurance underwriting deficit of \$2 billion in 1976 was forecast at an Insurance Services Office seminar last month. President John Savage estimated the corner would be turned and insurers would return to profitability in 1977. A panel of insurance executives said that among measures needed to minimize losses were: loss prevention, consumer education and more statistics. The panelists said liability exposures in the future will remain insurable but will be increasingly expensive.

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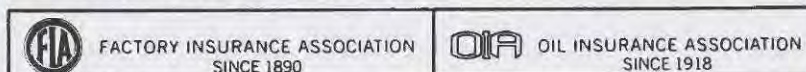
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SEE OUR AD ON PAGE 26

Nuclear advisers and services are multiplying with energy needs

By MARIE KRAKOWIECKI

NEW YORK—In February about 500 people interested in nuclear insurance received a short newsletter. It announced, among other things, that a surcharge was being imposed on nuclear policies in New Jersey, and that the captive which provides insurance for nuclear utilities was cutting its rates by 10%.

The sheet, put out by Nuclear Insurance Consultants (NIC), a technical service division of Marsh & McLennan, was brief, free, and probably one of the most visible evidences of M&M's current dominance in providing risk management services to the nuclear energy industry.

At least in terms of numbers of nuclear clients advised, M&M's nuclear consulting services are the most widely used today, even its competitors agree.

Lawrence G. Cummings, the M&M vp who heads up Nuclear Insurance Consultants, estimates

Risk Management SERVICES

that the division advises about 50% of nuclear reactor facilities and perhaps 75% of related industries like suppliers of nuclear reactor fuel.

NIC sends its newsletter out regularly at no charge to anyone who requests it. The firm has been

printing the newsletter since 1969.

Most recently the broker's nuclear staff put together a two-day conference to demonstrate to about 70 risk managers the practical and legislative considerations involved in handling nuclear exposures.

Marsh & McLennan's biggest competitor in providing insurance-related nuclear risk management services is Johnson & Higgins.

J&H's technical service division, Nuclear Advisory Group, is coordinated by vp C. W. Mathers. It consults about 20% to 25% of nuclear facilities in the United States, all of which are J&H insurance clients.

Unlike Marsh & McLennan's NIC staff, the J&H nuclear advi-



Frank B. Hall's specialists in nuclear services in front of cooling towers at a nuclear power station.

sers will not do any nuclear consulting on a fee-for-service basis for companies which are not already its own insurance clients.

J&H appears to be the only broker to take this posture as a matter of company policy. Most other large insurance brokerage houses with personnel in the nuclear risk management field said they would consider doing fee-for-service work for non-client firms.

Almost all the major insurance brokers have the capabilities to provide loss control services for insurance-related aspects of nuclear risks, according to one nuclear industry expert.

Some of the firms involved in providing these kinds of services include Synercon, Fred S. James, Frank B. Hall and Alexander & Alexander. Aside from M&M and J&H, most of the other brokers seem to have only one person or at least very small staffs working in this area.

At Frank B. Hall, for example, nuclear services are handled primarily by assistant vp James McVey. (Even between rival companies it would appear the people working to provide nuclear consulting services comprise a familiar fraternity. Hall's Mr. McVey used to work for Marsh & McLennan's Mr. Cummings in the nuclear field, and they speak highly of each other.)

At Alexander & Alexander, nuclear consulting is headed up by Francis X. Boylan, vp of the foreign credit division. Mr. Boylan is the former president of the Nuclear Energy Liability Insurance Assn (NELIA) which later became part of Nuclear Energy Liability-Property Insurance Assn. (NEL-PIA), a pool of over 100 nuclear insurers.

"The biggest single problem (in providing nuclear risk management consulting) is trying to educate suppliers to the industry about where they stand with respect to liability," Mr. Boylan explained.

His remarks highlighted what is perhaps the most common risk management service offered by brokers who do nuclear insurance consulting: Counseling clients, particularly in nuclear component industries, about what the exclusions are on broad form nuclear energy liability insurance policy endorsements, and what the clients' subsequent liabilities could be in a given situation.

One nuclear expert at a major brokerage house who asked not to be identified said that while his firm and others like it are competent to provide insurance-related risk management services in the nuclear field, he would not trust any broker, no matter how big, to provide nuclear services of a scientific or technical nature.

He suggested that the broker's role would more appropriately be to hire outside scientific experts as subcontractors in providing a client with needed services.

Brokerage firms, he contends, are not the kinds of workplaces that attract top-notch engineers and scientific people needed for

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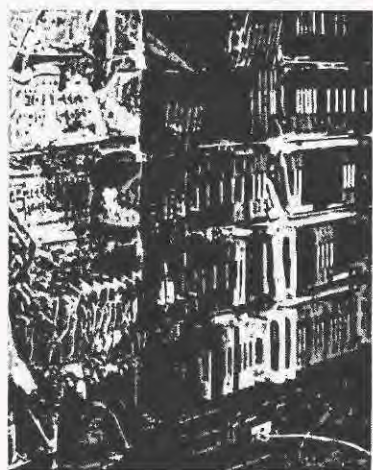
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professional expertise in specialized areas like nuclear contamination or radiation problems. For that, he advises hiring someone who works with those problems on a day-in, day-out basis.

There are literally hundreds of specialists who dispense technical design, construction, engineering, transportation, and waste disposal services needed by nuclear reactor exposures.

Some of them like San Francisco's EDS Nuclear Inc., have sprung up within the last five years or so to meet the needs of the fledgling industry.

A risk manager looking for a specialized service would do well to consult the extensive buyer's guide published by the American Nuclear Society (Hinsdale, Ill.) in its magazine, Nuclear News.

In some cases, the line separating insurance-related risk management and more scientific and technical nuclear risk consulting is not distinct. This is the situation, it seems, at New York based Ebasco Services Inc.

Ebasco Services does extensive design and engineering work for potential nuclear reactor sites, particularly in what it calls its nuclear standardization program.

But it also has a risk management affiliate, Ebasco Risk Management Consultants, which for all practical purposes operates as a separate entity, and at times works with nuclear clients.

Ebasco spokesmen were somewhat vague about how the two groups might interact on a given nuclear exposure. Generally it seems that the engineers from the parent company concentrate on design work for plants being built, and the risk management division works more frequently with the owners of existing reactor sites on fire protection and other loss control problems.

Right now Ebasco is working as the design contractor on a government-funded experiment to develop a commercially-workable nuclear fusion facility at Princeton University.

Princeton's assistant controller Harry E. Riddell, who is in charge of the university's insurance and risk management programs, explained that on the fusion project, he will be receiving advice from Johnson & Higgins about how to cover the university's exposures.

J&H, which has handled Princeton's insurance program since 1944, will set up guidelines for minimum amounts of conventional contractor's liability insurance that Ebasco must carry while working on the fusion project in order for Princeton to be adequately protected.

While a fair amount of such interface goes on between brokers and nuclear engineering firms working for the same clients, there are other kinds of nuclear industry service firms which seldom have anything to do with the broker.

This is particularly true of a firm which deals with non-nuclear risks that are nevertheless tied to the nuclear industry, such as the safe transport of a multi-ton piece of equipment.

A key example is Hull & Cargo Surveyors of New York, (See related story, page 40.)

Although the government,

through the Nuclear Regulatory Commission, regulates nuclear reactor sites, the major insurance brokers providing risk management services for nuclear exposures say their services supplement the regulation.

The bigger brokers will coordinate existing programs with NRC regulations and with recommendations made by the nuclear insurance pools concerning safety and loss control procedures.

Perhaps one of the most significant functions of all is that the nuclear services consultant can keep the reactor exposure from becoming too involved for the typical risk manager to handle.

Johnson & Higgins makes the point that once a program for a nuclear facility becomes too complicated, it becomes a hazard in itself.

That, apparently, is what most nuclear risk management consulting services are geared up to avoid. ■

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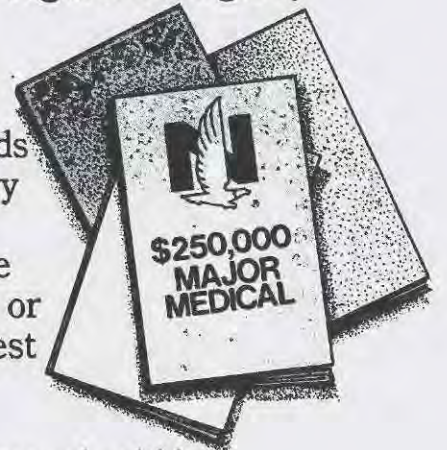
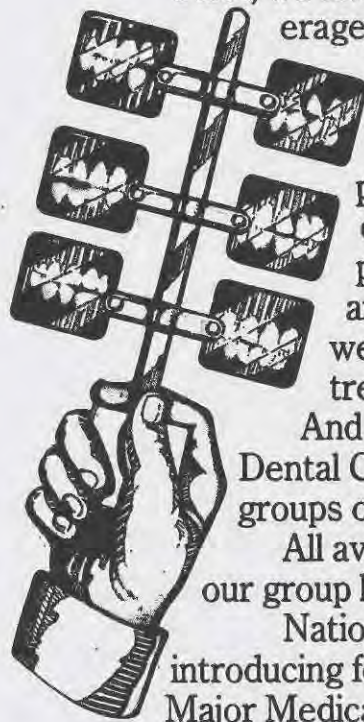
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Transporting nuclear parts—even without radioactivity—is special job

NEW YORK—In April, two brand new 225-ton nuclear reactor components were ready to be moved from their General Electric Co. plant in South Portland, Me. to the Millstead Nuclear Station in Waterford, Ct.

But before the components, known as MSR's (moisture separator reheaters), were loaded on to their barge for actual transport, months of risk planning and work preceded the move.

There was no actual nuclear exposure involved in moving the machinery. For all intents and purposes, the MSR's were no more threatening than hulks of metal. But they did pose special transport hazards just by their enormity. To deal with these, Stone & Webster Engineering Corp., the principal agent for Northeast Utilities Service Co. which was receiving the MSR's at Millstead, brought in the services of an outside company.

This was Hull & Cargo Surveyors, the largest U.S. organization supervising the loading, lashing, and discharge of nuclear reactor vessels and components.

Surveyors' president, Captain William F. Warm, explained that his firm began its review work for the move back in February, using barge blueprints to work out formulas for the adequacy of its structure to support the component.

The firm, which works with insurers, utility companies and risk managers like Joseph Chevarley of Stone & Webster, "nominates" a barge it believes will be appropriate for a particular move.

Its dozen surveyors who specialize in transporting nuclear components try to keep a running history of every barge. Before any move, they inspect the barge completely because the barge owner leases the vessel to the engineering outfit.

It is the engineering firm's responsibility to return the barge in just as good a condition to the owner as when it was leased. So in turn, it is Surveyors' job to give the engineering firm a complete report of the barge. By knowing its exact status before a job begins, the engineering company can prevent having damage claims filed against it by the barge owner later.

In the case of the reactors destined for Millstead, Stone & Webster received a complete report of the barge condition before the vessel ever left South Portland, Captain Warm said.

More importantly, the barge inspections and reports that proceed any transport of nuclear components have prevented accidents in some cases.

"It's our unwritten law here that every single inch of accessible area on a barge must be gone through," Captain Warm said. Of a very hot Monday in April while a barge inspection was taking place in New Orleans he explained:

"The inside of that barge was like blazes. Our guy in New Orleans was debating whether to go into the last compartment, since everything else checked out satisfactorily.

"Well, he thought about it and went in, as hot as it was. And there up under the stern there was a hole big enough for him to put his head and shoulders into. We corrected that.

"But if that hole had gone undetected and the barge hit heavy weather with a component on board, there could have been an

unstable load hazard."

In another case, Surveyors recommended to the principals in a move of some nuclear components along inland waterways that the barge be inspected at every holding place. There were many stops along the way, and the principals at first did not want to do this.

But Surveyors went ahead, and when it inspected the barge at its stopping place at Paducah, Kentucky just before the barge went up the Ohio River, the firm discovered that during its journey the barge had had three plates sheared off, and one end was open.

"These things are terribly valuable," Captain Warm said of the nuclear components Surveyors moves.

"Even though there's no radioactive substance inside, the machinery alone runs from about a quarter of a million dollars anywhere up to \$10 million. When they're moving, you have to be keyed to protect them."

The biggest single heavy move Hull & Cargo Surveyors was involved in was a 750-ton Collandria Shield for a reactor tank which was moved from Montreal to Point Elgin, Ontario, and which was worth about \$7.5 million.

Captain Warm has been in the business for 23 years, and has worked on about 25,000 jobs. He is happy to volunteer that Hull & Cargo Surveyors has never lost a nuclear component in all its moves.

Its standard fee is \$240 per surveyor per day, and \$30 an hour per surveyor for overtime work.

A typical way in which the company (an affiliate of the Marine Office—Appleton & Cox Corp.) becomes involved with working with risk managers would go something like this.

A power company in the center of the country needs a barge to transport a nuclear reactor component. But located where it is, the company is not familiar with the hazards of water transport. So the risk manager would routinely contact the firm's underwriters, who might in turn call Hull & Cargo Surveyors.

Captain Warm would then sit down with the power company risk manager, the underwriters, and the engineers, and would put together a presentation to show what is needed to make the move.

In other cases, Surveyors comes on a job in the middle of things. The risk manager may have start-

ed the move without using an outside service, only to be informed the insurance coverage is not sufficient for the risks involved.

"A utility may have \$5 million in coverage, but the underwriter doesn't want too much exposure in one spot. On a barge 172 feet long, you have a vessel lashed which is worth \$10 million and the underwriters get nervous. They'll have more underwriters called in, and along the way, we will be called in as well."

Despite the firm's affiliation with MOAC, its services are not limited to working with MOAC clients Captain Warm said.

"We work with steamship agents, utilities, manufacturers. In effect, we are asked to represent every interest involved in moving nuclear components. Sometimes we even end up being opponents of our affiliate MOAC. We never really know what interests we will end up representing." ■

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Spilling pollution is drawing more clean-up experts

By PAUL R. MERRION

WASHINGTON—This fall, the liabilities of makers, transporters and users of dangerous chemicals will take a quantum leap when the Environmental Protection Agency issues final regulations on accidental spills of those substances.

The rules will be similar to those developed in 1972 for oil spills, which have led to both a reduction of damaging accidents and a proliferation of private firms and cooperatives to clean them up.

While the hazardous material clean-up business is currently in an embryonic stage, it won't be long before EPA's maximum penalties of \$5,000 per spill will have companies clamoring for clean-up contractors.

Yet the fine is nothing compared

to what it costs to remove these chemicals from the land or water, according to Frank Freestone, chief of EPA's Hazard Control Division.

About 300 chemicals have been identified by the EPA as dangerous and commonly transported in large enough quantities to cause problems.

Risk Management SERVICES

To get an idea of the enormity of the problem, Mr. Freestone gave an example of a recent spill in Seattle of 200 gallons of PCBs (polychlorinated biphenyls), a particularly dangerous chemical because it causes several serious illnesses in humans and it is non-biodegradable.

Cleaning up that spill cost about \$500,000, he said. Oil spills, on the other hand, normally cost \$1 to \$2 per gallon of spilled oil to clean up.

"Transporters and users of these chemicals are going to have to be more responsible for contingency plans and maintenance of facilities for dealing with the (clean-up) problem," said Marc Shaye, counsel for the Oil Spill Control Assn.

For instance, tank truck companies have a tremendous exposure in relation to the assets of the company because the hauler of the material is financially responsible if the accident occurs while in transit. Even though the forthcoming EPA regulations are expected to reduce the number of spills, "you're always going to have problems," Mr. Shaye said. "What if a

drunk driver forces a tank truck off the road?"

Hazardous material spills are costly because they are incredibly complex. With oil spills, it's largely a problem of containing the oil, getting it out of the water and cleaning up the residue on the water's edge and the wildlife. It's a messy, time-consuming job, but not inherently dangerous.

But with many chemicals, the prime concern has to be the protection of the clean-up people and nearby residents, especially if fumes are involved.

Also, the remedies are as numerous as the dangerous chemicals (EPA's list only covers the most hazardous and the most widely used substances). Sometimes, two chemicals will interact to produce a third, even more toxic,

hazard.

"Oftentimes, doing nothing is better than doing the wrong thing," said Keith Roberts, manager of Western Environmental Services, Portland, Or.

In some cases, it is sometimes better to neutralize the chemical rather than try to clean it up. For instance, lime or sodium bicarbonate can be used on an acid spill.

The different characteristics of chemicals have to be considered when cleaning them up. Some are toxic when swallowed, which means they must be cleaned up before they reach a water supply or seep into the ground and enter the water table. Some produce poisonous gas, which means clean-up crews must wear air masks and residents have to be evacuated. Some have low boiling points, which means they produce vapors at room temperature. Some are caustic and will burn the skin.

All this means that workers must be well protected. In addition, some chemicals are flammable, even when mixed with water, and some are water soluble, which renders conventional oil spill equipment useless.

The advent of hazardous material cleanup needs has brought about some improvement of clean-up technology, and more is likely to come.

The major researcher and developer in the field is the EPA, which funds the development of equipment and then makes available what it has learned to the clean-up industry.

One piece of equipment developed by the EPA is the Mobile Physical Treatment System, a fancy name for a 44-foot flatbed truck three huge carbon filters, three sand filters and the necessary pumps. It is kept at the EPA's hazard control division in Edison, N.J., and is available in emergencies by contacting the regional EPA administrator.

A similar although more extensive operation was recently begun by Western Environmental Services. In late May, the company finished putting in place seven tractor-trailers at various locations in the West.

Each 32-foot trailer truck is identical, and each is equipped to deal with a wide variety of hazardous materials.

Mr. Roberts of Western Environmental said the trucks are strategically located so that within an hour one of them can be on the road to an accident in any of 14 western states.

In addition, the firm has airplanes to fly a crew of six technicians and supervisors to the scene. "We're charged with being in the air with six men within one hour," Mr. Roberts said. "We can be 1,000 miles away within five hours of the alert."

Western Environmental, a five-year-old private contractor for cleaning up oil spills, has been in the hazardous materials spills business for only one year but its approach appears very sophisticated.

At the 1976 National Conference on Control of Hazardous Material Spills, held in New Orleans last April, Western Environmental presented a paper describing its program, and no one there had heard of a similar system, Mr. Roberts said. "As far as I know, there's no other system quite like this in the country," he said.

Because the technology needed to combat dangerous chemicals is so sophisticated, the equipment on each truck costs \$125,000, Mr.

Continued on page 42

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Oil spill clean-ups . . .

Continued from page 41

Roberts said. For example, all electrical equipment has to be explosion proof, which makes it very expensive. A small hand-held light costs \$330, he said, while a normal light of that kind can be bought in a hardware store for a few dollars.

One-third of the trailer is used for communications equipment. The six men from Western Environmental are supervisory personnel, and local employees of the spiller or from another labor source are used. Western provides walkie-talkies for all.

In addition, each truck carries a full reference library with case histories of other spills. "You can't afford to learn only from experience in this business," Mr. Roberts said. Information on hundreds of

chemicals, their dangers, and their treatments is carried in the library.

The other two-thirds of the truck is filled with routinely used equipment, which includes specially designed chemical transfer pumps that won't react to corrosive chemicals. "It's hard to find one that will handle all materials," Mr. Roberts said. The same is true for the hoses, which also have to be flexible and light. The firm uses a type of Teflon hose with a stainless steel mesh covering.

The next most important piece of equipment isn't carried on the truck. "You need something to pump the chemical into, which usually means a stainless steel railroad car or tank truck," he said. In an emergency, when one isn't available, it's sometimes possible to buy a stainless steel truck

from a nearby dairy farmer.

In a pinch, each truck carries a stop-gap measure: a 5,000 gallon bladder bag designed to hold any chemical on the EPA list for at least 72 hours. "It'll buy you time, but you have to use good judgment in using them because of the economics involved. Each bag costs \$2,200 and there are eight on each truck. Once it is used it cannot be used again," Mr. Roberts said.

The 16 square-foot yellow bags have a liner made of a patented material that is able to withstand 10% of the materials on the EPA list, and the cover, which is fabric impregnated with polyvinyl chloride, will hold the other 90%. They are manufactured by Kepner Plastics in Torrence, Ca., he said.

In addition, each truck carries four Scott Air Packs and four Acid King protective suits which will allow a worker to "enter any atmosphere without fear of ab-

sorption," he said. One of the suits is equipped with a radio.

Also, there are five high-pressure fire pumps on each truck, used not for fires but for "herding" chemicals into a contained area and then flushing the ground.

Several portable generators are on each truck to run the pumps and the lights. All electrical equipment has to be explosion-proof, Mr. Roberts added.

And that's not all. Conventional oil spill clean-up equipment is carried, as there are some chemicals on which they can be used. This equipment includes blotters which can pick up 1,000 gallons of substance, 800 feet of containment boom, and 50 six-pound bags of specially treated polyurethane foam which pick up oil but not water, with a total absorption capacity of 500 gallons.

And on top of it all, each truck carries two boats with outboard motors, plus spare parts for all equipment. Much of the equip-

ment, such as the pumps, are compatible and have interchangeable parts so that breakdowns will be kept to a minimum, Mr. Roberts said.

The supervisory team from Western Environmental consists of six men, specially trained in clean-up of hazardous materials.

There is a project supervisor who is responsible for overall direction of the task. He is familiar with the agencies that are called in on spills and is skilled in public relations, both with the press and local residents, he said.

A chemist who specializes in hazardous materials also goes along. He carries "elaborate" water and gas sample kits with him because the test chemicals they use would deteriorate if carried on the truck, Mr. Roberts said.

Also in the crew is a foreman, who knows all the tested methods and is skilled at adapting to new situations, or "imagineering," as Mr. Roberts called it. "There are a lot of unknowns in this business," he added.

Finally, there are three "equipment and methods specialists," who are responsible for keeping the machinery running. They also have the training to take locally recruited workers and direct them in some phases of the clean-up.

Western Environmental Services gets its financial support from retainer fees with four railroads in the western United States. In addition, it provides services on a time and material basis.

The company puts the emphasis on time. There is a radio telephone on the airplane for ordering materials and equipment while enroute to the accident, and the library on each truck contains sources of heavy-duty earth-moving equipment.

"The trick is to arrive before the agencies do, and show a good attitude by doing something about the problem quickly," Mr. Roberts said. "Fines are substantially mitigated in this way, and the public reaction is usually more favorable. It all tends to reduce costs." ■

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Who to call for bad spill emergencies

IN CASE of an emergency involving hazardous chemicals, there are three telephone numbers to know.

One is the regional office of the Environmental Protection Agency, which by law must be notified of a spill, "even if it's a pound or a pint," an EPA official said. In addition, the EPA's hazard control division in Edison, N. J., can be reached at (201) 548-3347.

CHRIS is the Coast Guard's Chemical Retrieval Information Service. It's a 24-hour, toll-free number: (800) 424-8802.

Chemtrek is a service provided by the Manufacturing Chemists Assn. that will get a spiller in touch with the company that manufactured the chemical, "which is the best advice available," one expert said. Phone: (800) 424-9300.

According to Dave Usher, president of the Oil Spill Control Assn., there are currently six firms with a sophisticated capacity for handling spills of hazardous materials.

They are: Western Environmental Services, Portland, Or.

Fondessy Enterprises, Toledo, Oh.

Coastal Services, Braintree, Ms. Metropolitan Petroleum Chemical, New York, N. Y.

Sealand Environmental, Milford, Ct.

Marine Pollution Control, Detroit, Mi. ■

Work comp claims help varies widely

ANAHEIM, CA.—Workers' compensation insurers vary widely in their ability to give their clients technical and claims assistance, according to Peter S. Ellis, vp, Republic Indemnity Co. of America, Los Angeles.

He was addressing a seminar on the subject of what services should the employer expect from the workers' compensation carrier, at the 23rd annual Western Safety Congress held at the Anaheim Convention Center.

Mr. Ellis said that insureds have the right to expect their workers' compensation carriers to give them assistance in reporting claims and in hiring and training managers and safety personnel.

On the other hand, he said that employers should not expect their workers' compensation carriers to keep their OSHA records or to perform their OSHA compliance. Other free services which employers should not anticipate receiving from their carriers, he said, are the providing of hard, permanent signs, first aid supplies and specific engineering equipment.

Mr. Ellis, during the question period, pointed out that the California Workers' Compensation Institute has published a small brochure which employers may give to employees who are injured. He noted that California employers are now compelled by state law to notify injured workers of their eligibility for benefits.

Some members of the audience, however, were quick to lambast the brochure, in particular a section which tells the reader that he can hire a lawyer to aid his case

before the state appeals board.

"That pamphlet is a license to steal," asserted Duane C. Slocum, industrial relations manager, sweeper division, FMC Corp., Pomona.

"It looks like it was produced by a union," he added.

Dave Marceau, safety officer for the city of Inglewood, said he reworked the pamphlet "to make it more personal." He also indicated opposition to the section stating that an attorney can be hired.

Mr. Marceau later told *Business Insurance* that in his version of the brochure all mention of hiring attorneys is omitted. "I would prefer employees see me before they learn about the possibility of hiring a lawyer," he said. ■



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M&M sets up London insurer for captives

NEW YORK—Tower Hill Insurance Co., "an underwriting vehicle by which our captive clients can assume a presence in the London market," will be activated by Marsh & McLennan (M&M) July 1, L. Patton Kline, president, Marsh & McLennan Inc., disclosed.

Premiums paid into Tower Hill will be available for reinsurance through captives, he explained.

Tower Hill will constitute an underwriting group consisting of U. S., Japanese and Finnish companies and will have its own staff in London. C. T. Bowring Underwriting Services Inc. is the underwriting manager.

Tower Hill will write non-marine risks upon its activation; aviation and marine risks will be underwritten as of Jan. 1, 1977.

The company does constitute an expansion of the London market, Mr. Kline noted. "It should add some market capacity."

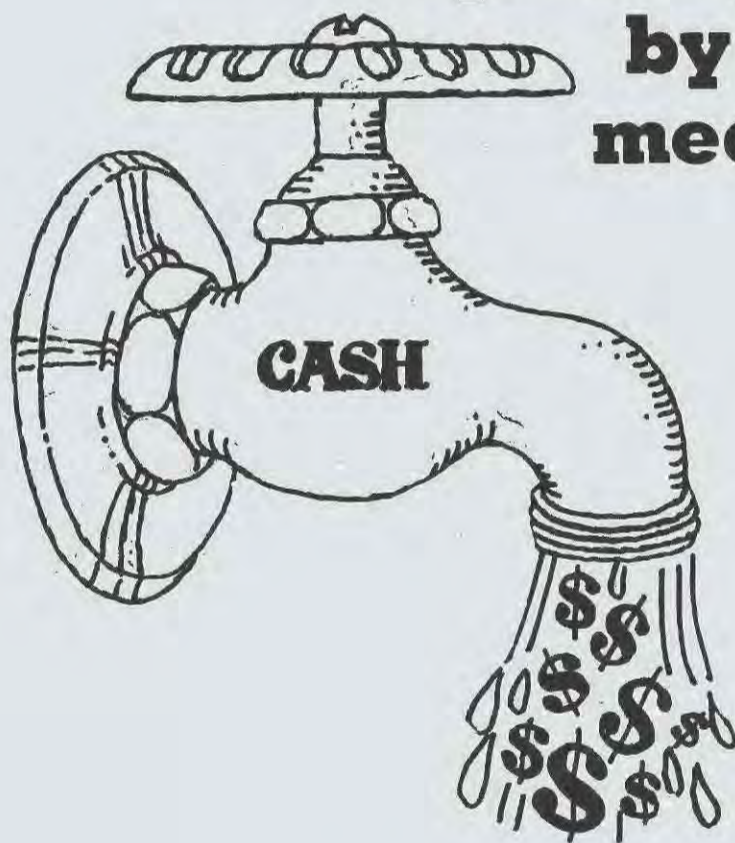
However, Tower Hill will not be the exclusive underwriter for M&M's captive clients, he stressed.

"It will be considered along with all other markets," Mr. Kline said, in marketing insurance for M&M's captive clients. ■

Establish new firm

The Frank B. Hall & Co. established a company called Adminco as a new wholly-owned subsidiary to service self-insured risks, starting in mid-July. Larry Solomon was named president, with Thomas Leonard as vp and manager of Northern California operations.

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Risk managers should be risk-takers: vp finance

By HARRIET KING

SEATTLE—"The most common error in risk management is that the risk manager is not confident in himself, he doesn't take the risks he should take. Some brag that they've never had an uninsured loss. If so, they're not aggressive enough in trying to maximize profit," says N. Stewart Rogers, senior vp of finance and risk officer for Univar Corp., a diversified industrial marketing company with annual sales near \$600 million.

"Risk managers have to understand how much they can lose. Many are aggressive at the wrong thing—making sure they minimize their losses instead of maximizing their profits," says Mr. Rogers.

Mr. Rogers' own risk and profit opportunities are increasing rapidly as the aggressive Univar, parent company for five firms, acquires new operations—at least three in recent months.

Present mainstays are Van Waters & Rogers, distributor of chemicals and products to commercial, agricultural and industrial users; VWR Scientific, distributor of lab equipment, chemicals and supplies; Centennial Mills, a miller of flour selling mainly to commercial bakers; Pacific Resins & Chemicals, manufacturer of synthetic and protein adhesives; Penick & Ford, producer of corn starches and syrups and potato starches.

Mr. Rogers unifies all coverages from Univar's Seattle headquarters. "We give each division a high degree of autonomy in doing its business in the field, but there are advantages to buying insurance centrally. You can certainly save some money in central administration and you can guarantee you're imposing a financial policy. Division heads must have access to someone who has the authority to say the corporation is willing to take this or that kind of risk or loss.

"For instance, one division had high-priced highway rigs for hauling chemicals. A loss of a rig might amount to \$50,000 or \$60,000 and the division managers decided it was too big a risk to chance an uncovered loss. But considering the premium and historical loss ratio of Univar overall, I might decide we could justify the gamble of no coverage. It's unusual when I don't agree with the type of insurance a division head feels he needs, but once in a while I do disagree," he says.

In the divisions, the insurance liaison is usually the controller "or someone in a related area." At Van Waters & Rogers—Mr. Rogers' father Nat S. Rogers was a founder of that company—the man who ties in safety activities, OSHA and Department of Transportation regulations "comes back and tells me what he sees as exposures."

Mr. Rogers also relies heavily on his broker, C. P. Grosenick of Seattle. "We do an extensive brokerage review every few years. It's expensive to change brokers, as it includes a lot of travel, expense and time, but periodically we ask two brokers—not our own, but who we'd be happy to do business with—to evaluate our program. But we tell them up front that unless they can find a really significant savings or program improvements that we won't change brokers.

"Once a company is our broker, they become our insurance department and work at the field level on claims and loss control."

Mr. Rogers has an assistant, an accountant rapidly learning the

insurance business, "who receives bills from the broker, makes cost distributions to divisions, maintains historical loss ratios, etc.

"As a result, I probably spend less than one day a month on insurance," says Mr. Rogers. His major responsibilities are in financial planning, control and policy-making and this is an advantage, he says. "Before an insurance department decides how it will insure, it must understand the financial and tax situation of the company. For instance, for property insurance, we must know if a building burns half way, how it affects our tax situation, our ability to borrow money, and so on."

Univar's approaches extend from "don't insure at all, to market value or replacement value," says Mr. Rogers. "Much of the prop-

erty, for instance, is simple. We have a system of modern, first class warehouse buildings. I can sit here in Seattle and determine that the cost to build is, say, \$14 a square foot. So we'll go with the market value, we're not trying to make money on a loss."

Property is covered by two packages: one domestic, one with Lloyd's of London. "This division of coverage has to do with the relative attractiveness of certain types of property to insurance carriers. Some companies are more comfortable with familiar types of risks," says Mr. Rogers.

"But sometimes book value may be meaningless and market value may be almost indeterminable. Consider the boiler and power plant in a 30-acre corn milling plant. We don't know how much someone might be willing to pay

us for that boiler so we don't know the market value. We do know that it might cost say \$30 million to replace it. So we have to insure it at the replacement value to be covered in case of a loss."

Univar does virtually no self-insuring. "Workers' compensation may seem like a logical area but we are so fractionated around the country that the cost of administration would probably eat us up. If we were centralized in a tower with 3,500 people it might be different—but we are not a smoke-stack type of business with one central unit."

Fireman's Fund Insurance Cos. underwrites the overall workers' compensation policy, excepting areas where states have monopolies such as Washington. "We prefer private coverage because we

can get more help on cost control that way. But in Washington, for instance, the state's help is zero. We're looking at self-insurance in Washington now, not because we want to administer it, but because costs are so high."

The price for achieving the simplicity of administration that Mr. Rogers now maintains is "We've given up a lot of sophistication. For instance, we have a blanket liability policy basically for administrative simplicity. I have no objection to deposit premium types but we haven't done this yet as it requires additional accounting and records."

But he has looked at it carefully. "The advantages are several. Assume in the liability area that the big problem is frequency. This implies that sooner or later, you'll have a major claim. To the extent

Our loss cost less than

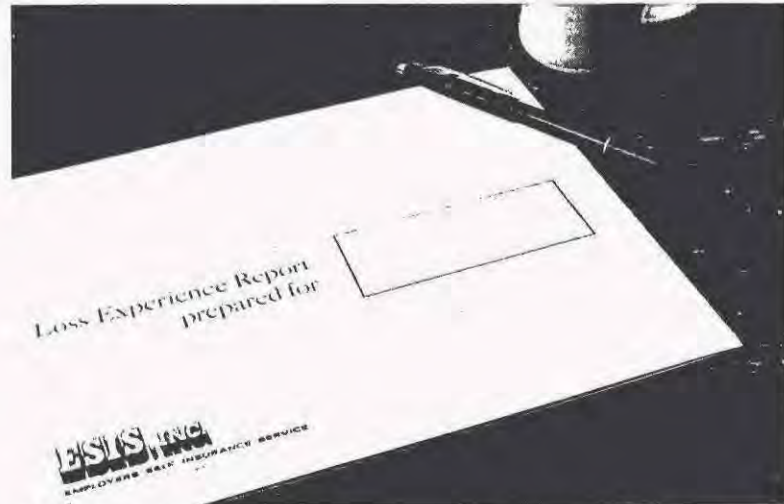
The cost of accidents has jumped tremendously in the last few years. Hospital care, doctor's fees, rehabilitation services are all expensive and getting more so. That's why loss control can make a major contribution to the success of your self-insurance program. Every accident that doesn't happen—that's prevented—means more dollars saved. Which is the very reason you're self-insured.

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that we cut down the frequency of what we insure, we improve the company's view of our risk.

"Also, the insurance company gets the money and feels more comfortable. The advantage to us is that we can direct insurance companies on how they will settle claims. Sometimes an insurance company settles a claim we feel is not justified. They have the right to settle a claim—but they may be setting a precedent in the market that we may not like.

"They may feel that win, lose or draw that it will cost a certain amount of money to go to court, so it's easier to settle. But with the claims-consciousness today, we eventually may have to take some guy on and say that we won't be blackmailed to settle inappropriate claims," says Mr. Rogers.

"The insurance industry has hurt itself over the long pull because they've traded current dollars to get rid of the suit. But sometimes, it's worth going to the

expense of court costs," he charges.

A major problem area for Mr. Rogers is "how much liability insurance is enough, considering that we deal with chemicals. While relatively few chemicals are inherently dangerous, we cannot predict how they will be used or misused, so this carries some risk," he says.

"So given the lack of predictability, it's hard to know how many millions are enough. When selling a chemical product in commercial usage to a company qualified to use it, "I feel no moral liability for those products, although we may have some tort liability," says Mr. Rogers, "considering today's social climate. If we sell to a qualified company and from there it goes on down the line and eventually someone may end up swimming in it, a lawsuit may go right up the line and name everyone connected, to those who distributed and manufactured it."

He says that Univar is "capable of carrying larger deductibles than we are carrying, but there is not the incentive to do it because of the pricing policies of insurers.

"It's frustrating that there is not enough break for the larger deductible. And the real problem of course isn't the larger deductible but in not getting enough for the first dollar coverages." He says the buyer doesn't get enough of a premium discount to warrant taking the kind of deductible he can afford, and those companies with large deductibles are subsidizing those buying first dollar coverage. "If the first dollar coverages reflected costs more accurately, the policies would probably be off the market—and that's where they should be," he says.

How about directors' and officers' insurance? "No one knows for sure what they're buying with D & O, but whatever it is, we buy it," he says. He notes that Univar

directors are kept well informed of the risks the company is taking "so our risks are low. We want to encourage intelligent risk-taking by business, so we want directors to do their homework. One way to encourage directors to take risks is to protect them. Otherwise, for the fees they receive, there is no way they'd ever recover from what could be a properly analyzed business risk that because it is a risk, will sometimes go haywire."

A captive will probably be operational within five years, Mr. Rogers says. "I'd hire management through a broker. I'd rather have him on the broker's payroll, with legal and financial responsibility tied to the guy who's professionally qualified to do it.

"The whole captive idea, of course is a function of what your markets are, and what we'd insure through a captive depends on our loss pattern, absorbing front end frequency, getting away from day to day excess coverage. We'd use it

for our difficult marketing problems," he says.

Loss patterns are low in scientific apparatus products, and in the manufacturing and when working with grains, flour, corn syrup and starch. "But where chemical distribution is concerned, we worry about the atmosphere we operate in rather than the errors possible. The atmosphere adds more than any single cost because the guy who makes errors won't be in business, he'll be weeded out.

"Fortunately, our losses haven't been little things, nothing major," says Mr. Rogers. "We had a loss at Penick & Ford last year—the company produces wet corn milled products like corn starches and syrups. The products are sold nationally to industrial users.

"Two identical trucks were loaded with syrup. The drivers jumped into the wrong cabs and delivered them to the wrong customers. Unfortunately, the consistency of the syrup was different so one candymaker got a lot of wilted chocolate turkeys. It was expensive in dollars, but not in terms of danger to consumers. It was a one-in-a-million type of thing that can happen," says Mr. Rogers.

"Other losses may involve, say, things like delivering a chemical that doesn't work. The manufacturer says—I did what I always do with my five ingredients—but it's your ingredient and your fault." We may say 'give us your formula.' We mix it up and discover they are adding A to B and chemically, should be adding B to A. Or they're using the wrong temperatures. Or, they asked for product A and didn't realize there are 15 grades of product A and since they're a food manufacturer, we sent what food manufacturers usually use which may not be what he needs. We can make mistakes, too. There are a million ways to gum up."

Growth doesn't change his insurance much, he says. "With our three new acquisitions, in two cases we're buying assets so we need to expand our coverage. In one case, we're buying stock and getting the company's insurance. So we tell the broker, insure one at replacement value until we understand the business better. Insure one at fair market value. The broker will go there, and then tell us how it differs from the rest of our business. The division will then follow up. This reduces the administrative burden and puts the technical expert where he should be."

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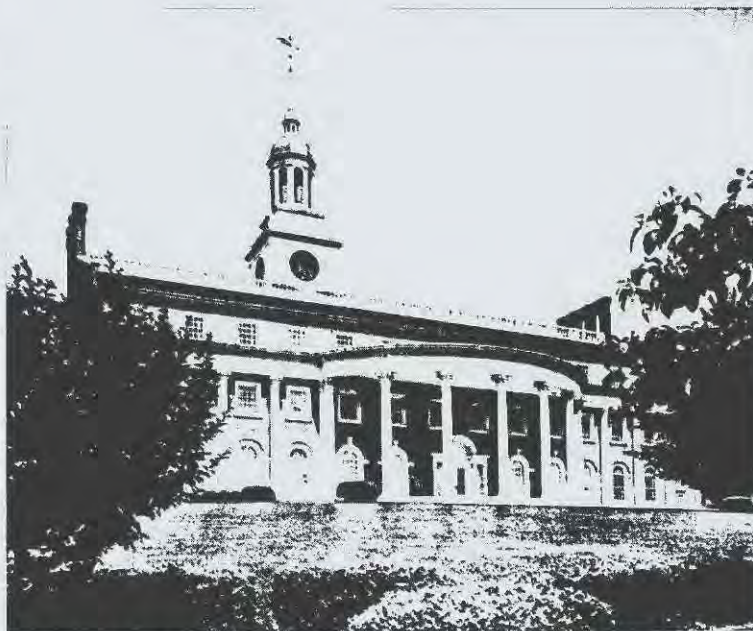
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SEE OUR AD ON PAGE 26

Data security for firms with EDP is no luxury; it's a necessity: Xerox

ATLANTA—Information security is no longer a luxury, Roger L. LaRue, director, information security for Xerox Corp. told a security seminar here late last month. Information is an asset requiring as much protection and attention as other assets, he stated.

Mr. LaRue spoke at the Southeastern regional security seminar sponsored by the Atlanta chapter of the American Society for Industrial Security and the Georgia Business & Industry Assn.

The very idea on which your product or service is based could be of more value to a competitor than the resulting end product, Mr. LaRue noted. He proposed a program of building awareness of security problems into a way of

working that rejects carelessness and slipshod procedures.

Basic to such a program, Mr. LaRue said is a statement of fundamental philosophy, "Any and all information is the property of the company and, as such, should not be disclosed by an employee to outsiders except as authorized, unless the disclosure is essential to the performance of the employee's job."

Some information, the security director noted, is so important that it has to be classified and controlled.

"Since all classification systems restrict the vital flow of information and require complex handling procedures, the number of classification categories should be

limited," he said.

At Xerox, he explained, there are two—the highest being Xerox Registered, followed by what is called Xerox Private Data.

Written policies on protecting information should be distributed as widely as possible within the company, Mr. LaRue continued. "We believe that at least every manager and supervisor should receive his or her own copy."

At Xerox the company information program is continued in a booklet called Xerox Information Protection and serves as a guide for managers in making decisions on information security.

Another part of Xerox's information security program is a Security Advisory Board of senior

representatives from operating units and headquarters.

At the managerial level of operating units are security coordinators, Mr. LaRue said. They are charged with insuring that employees in their units know and understand the company's security requirements and are complying with them.

A security evaluation review is important in the continuing assessment of the information security program at Xerox, the security director said.

"This is simply a periodic, though unheralded, inspection tour can be conducted by the company's security officer, the operating unit's security coordinator or an internal auditor," he stated.

"We often ask the employees themselves to form review teams to conduct such evaluations," Mr. LaRue said. "This not only takes away the 'top cop' flavor of the exercise, but also involves the

employees in the process and thereby builds even greater security awareness."

There are seven functions the company security office should perform in protection of information, Mr. LaRue said. These functions include: recommending and coordinating company policy on information security, identifying exposure risks and developing measures to reduce them, helping the operating units with their own action plans, providing guidelines and interpretation for classifying information, investigating disclosures of information, conducting security evaluation reviews and assisting security coordinators by providing them with appropriate tools and training.

The Xerox information security director outlined 12 control measures for information security programs. The measures include:

- responsibility for information security must be defined, assigned and broadly announced; it must be placed high enough in the organization so it has clout;
- corrective action where deficiencies exist and adequate follow-up are fundamental requirements;
- employees should be informed about the company's security policies so that they know the rules of the game and what is expected of them;
- employees must become familiar with and follow company procedures for handling classified documents;
- memoranda and other documents referring to new products or services should use code names rather than generic or descriptive names; these code names should not be referred to outside the company;
- when discussing classified material over the telephone, employees should be sure of the identity of the person to whom they are talking;
- a "clean desk" policy should be observed in unoccupied offices and locks on desks, files, cabinets and offices should be used.

Such measures, Mr. LaRue said, attack the root causes of information loss—lack of awareness and complacency on the part of your good, loyal employee. ■

AIA publishing digest

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SEE OUR AD ON PAGE 26

Predicts continued insurance tightness

CHICAGO—Tightening markets and high prices for casualty insurance which are not likely to change in the near future are forcing a restructuring of the role of insurance companies and brokers, according to one major broker.

J. Bransford Wallace, president of Armistead-Miller-Wallace National Accounts Division of Corroon & Black, said the "unholy trinity" of insurance carrier, insurance broker and risk manager may undergo a "dramatic restructuring of these balances."

"Primarily because of the combination of inflation forecasts and the disastrous stock and bond market of late '74 and early '75," he told the Chicago chapter of the Risk & Insurance Management Society, "I feel the carriers' cautious pricing and withdrawal from certain exposures entirely is going to be a reality for the foreseeable future."

"The very near collapse of such a huge industry has left deep scars, bringing me to feel that we have reached such a milestone in the insurance industry's underwriting attitude and it will be a long time, if ever, before we see a buyer's market in many areas of the casualty market again," Mr. Wallace said.

He told *Business Insurance* later that insurance companies in the future will select the risks they will underwrite "on their own terms" while self-insurance will become more prominent, with brokers providing quantitative services.

He said risk managers for corporations will have to examine the "trade-off between buying insurance or not buying it." Alternatives to traditional insurance coverage that he mentioned are: substantially higher primary risk retention, corridor risk retention, individual captive companies and industry captive companies.

"As brokers we must be prepared to assist you in the necessary quantitative analysis to make decisions both in primary and excess areas of coverage as to what your retention should be under varying conditions, whether or not you should join industry captives and, if so, under what set of ground rules that would be as fair for one member of the industry pool as it would be for another."

Settle claim for \$2 million

SACRAMENTO—Chicago-based insurance carriers for Spectrum Air Lines, Novato, Cal. subsidiary of the late William Penn Patrick, have agreed to pay \$2 million of a \$4 million settlement of claims arising from a 1972 crash of a Sabrejet into a Farrell's Ice Cream Parlor here. The crash killed 22 persons and injured 28.

The pilot was Richard Bingham, 41, Woodland, an employe of Spectrum Airlines. He survived the crash, which destroyed the Farrell's Ice Cream parlor near the runway of an airport here at which Mr. Bingham was attempting to land.

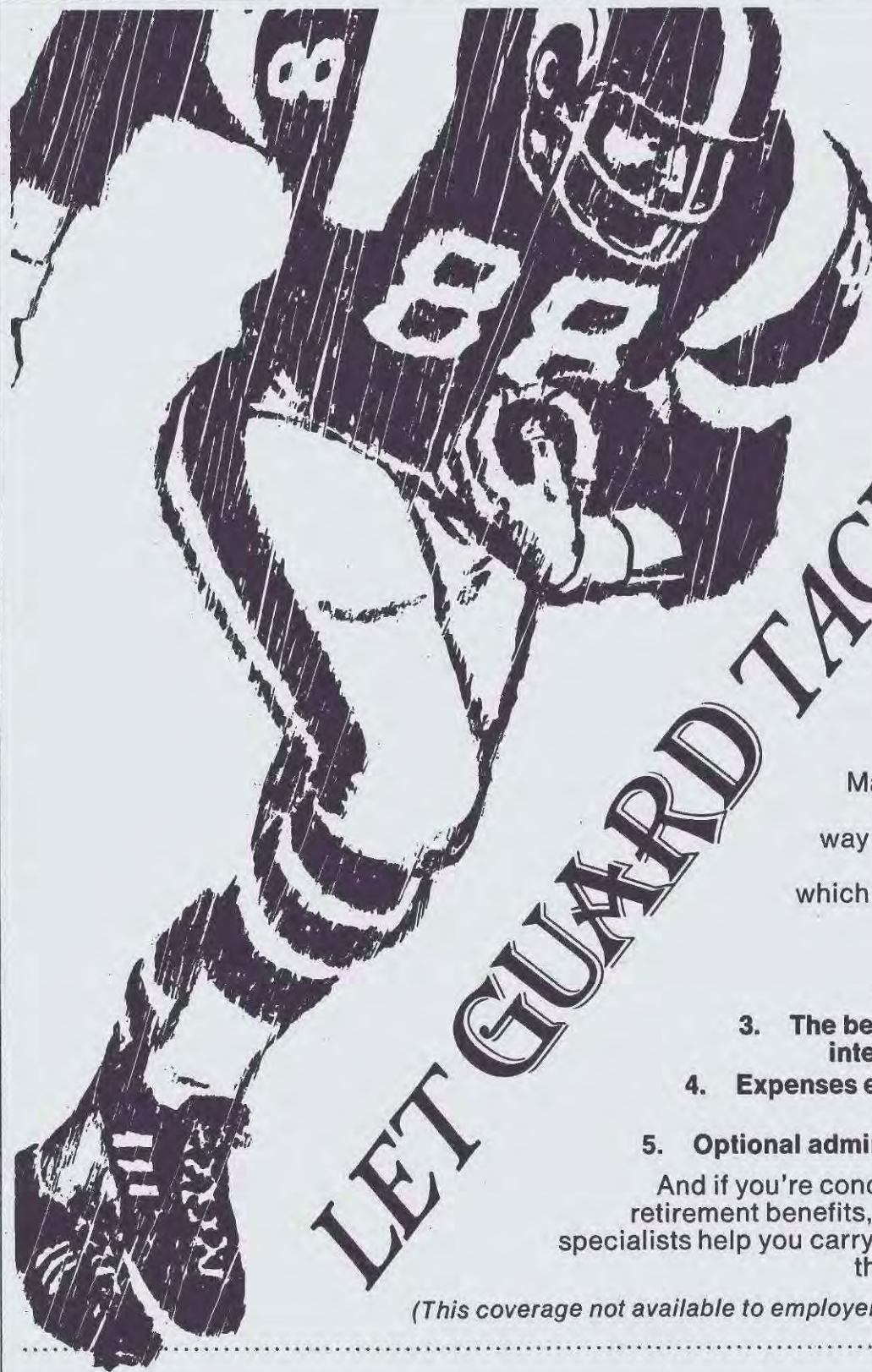
Developers of the Crossroads' Shopping Center where the ice cream parlor was located, will pay \$300,000 of the settlement. The city and county of Sacramento will pay \$200,000; sponsors of an air show in which Bingham was participating will pay \$100,000, Farrell's will pay \$100,000 and the state of California \$100,000.

Mr. Wallace also attacked "cash flow underwriting" on the part of insurance companies in the past—underwriting at a loss when investment profits were high enough to offset it.

"Obviously, the insurance companies themselves made a major (if not the major) contribution toward the near-disaster that we went through in late 1974 and early 1975. It is, therefore, not difficult to understand why they have been extremely cautious in their underwriting approach and in their willingness to commit resources when their premium levels are already dangerously high in relationship to surplus," Mr. Wallace said.

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Motor City looks to self-insure even more risks

DETROIT—The City of Detroit invests nine or ten times more annually for self-insurance and appropriations by the city council for protection than it spends on annual premiums for insurance, the city's risk manager told *Business Insurance*.

Annual premiums for purchasable insurance range from \$1 million to \$1.5 million. Self-insurance funds combined with appropriations total between \$9 million and \$10 million.

Risk management was centralized two years ago in Detroit's finance department. Department head Dennis Green explained the trend to self-insurance: John Collins, an accountant assigned to risk management, cited premiums increasing as much as 300% (for liability insurance), fewer bidders in the marketplace, and the need

to make insurance dollars work more effectively.

Mr. Collins discussed policies, problems and possibilities for the Motor City's insurance management practices. Although not designated as risk manager, he devotes full time to risk management. A 25-year city employe, Mr. Collins has had a wide range of experience with insurance coverages. He received a degree in business administration from Wayne State University here.

With Larry Solomon, city bond accountant to whom Mr. Collins reports, the two attended a governmental risk management seminar last fall that was presented at the University of Maryland on collective approaches by cities to insurance buying, loss pooling, and risk management.

The city of Detroit's finance de-

partment handles all insurance matters for the city's 47 departments. Some three-year policies have not come up for renewal. When they do, terms of three years or more will be asked. "We've almost always used the bidding process," Mr. Collins said.

"We're getting bids for one year on liability insurance," he remarked, but added that "We'll continue to ask for longer periods. Negotiations may be for three year contracts plus two additional three year periods." Bidders are allowed at least four weeks to develop a bid, he said.

Policies which have evolved in purchasing insurance are followed where it is expedient to do so. Decisions are sometimes dictated by the need to cover some areas not presently covered. Higher

premiums are forcing more self-insurance decisions, however. "We may be keeping bigger retentions—even up to \$1 million—if necessary."

Mr. Collins explained that in purchasing fire insurance "We insure on the basis of replacement cost, and on an agreed amount of insurance which is usually 90% of replacement value."

The annual amounts set aside and invested for self-insurance and appropriated for funded protection could go higher unless better ways and means are found to purchase more insurance, Mr. Collins suggested. "We would like to be in a position to self-insure more," he declared.

Current expenditures for self-insurance and appropriations break down this way:

- For workers' compensation—

\$3.2 million to cover costs, with more appropriated for fiscal 1975-76 than previously due to higher benefits. Mr. Collins observed that uniformed firemen and police are not paid workers' compensation.

- For damage claims from the general fund, \$3 million. This is a half million dollars more than last year because "people are more prone to file claims. Claims against police are increasing in numbers and amounts. Judgments are higher. This is where we are really vulnerable."

- For fire insurance and fidelity losses, a reserve fund of \$1 million. Until two years ago, the funded amount was \$500,000. One explanation for the increase is that insurable values are up and Detroit is using the fund to supplement high deductibles under purchased insurance policies, Mr. Collins said.

- For stop-loss insurance for the 4,400 vehicles (exclusive of buses) in the automotive fleet, \$500,000. No-fault insurance has resulted in a tremendous drop in losses, Mr. Collins said. This insurance is subject to a \$50,000 deductible per occurrence, he added.

The city is operating its 1,100 buses and service equipment without insurance and has designated \$2 million to meet claims against the Department of Transportation (DOT). In this instance, no-fault insurance has hurt the city. It recently got only one bid for needed vehicle coverage, which would have cost \$695,000 in premiums to maintain the same \$1.5 million per occurrence and \$100,000 deductible. This was three times the previous cost of \$223,000 for the same coverage.

Mr. Collins noted that if the deductible was raised to \$250,000, the premium would have been \$470,000. In this instance, a decision was made by the finance department to re-bid with higher limits of insurance—varying from \$1.5 million to \$10 million and with \$250,000 and \$500,000 deductibles because of the importance of covering DOT against liability claims. Results are not yet in.

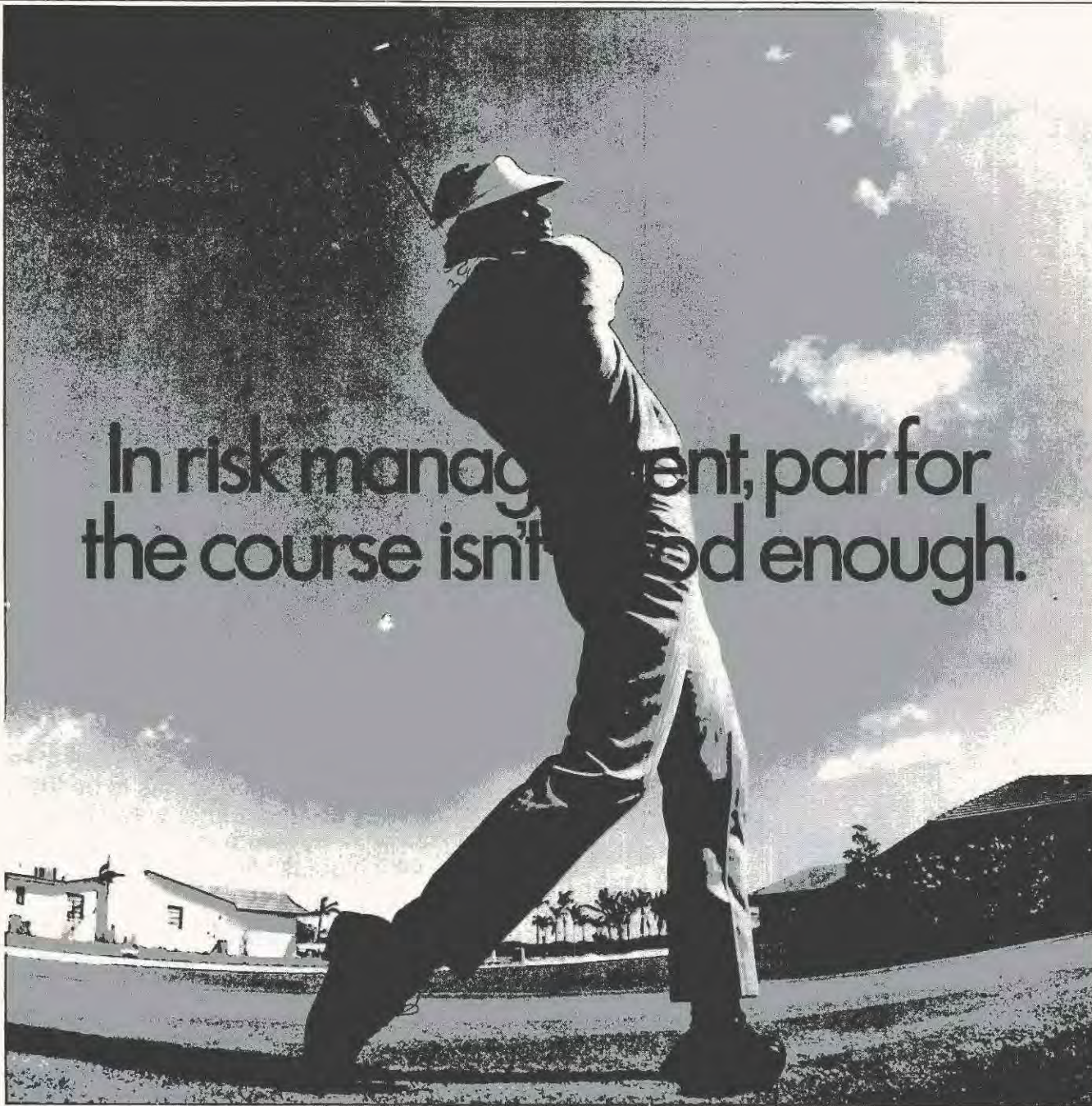
Mr. Collins stressed that "except for 1969-70, the DOT excess carriers have paid no losses and were not carrying any reserves. Detroit is affected by the huge underwriting losses suffered by the industry: \$4.2 billion in 1975 compared with \$2.6 billion in 1974.

"Most of the city's 47 departments are not covered by liability insurance," Mr. Collins said. "Where there is a big exposure to claims they are covered. Presently about 40 risks are insured for physical damage, crime and liability coverage. These include the City Airport, Civic Center, Housing (required by HUD), the Water Board, eight municipal parking structures, and the train in the zoo."

He noted that a review of all insurance matters will be undertaken this summer by an outside risk management consulting firm, Ebasco. Expected results would be coverage in some areas not presently covered by liability insurance, consolidation of coverages, higher deductibles, changes to or from self-insurance and possible premium savings.

Insurance on some of the city's best known properties was discussed: the Civic Center comprised of Cobo Hall (convention center), Veteran's Memorial Building, and Ford Auditorium is covered for \$115 million by fire insurance carried by 16 underwriters.

Detroit's Cultural Center (the Institute of Arts, Historical Muse-



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um, and main public library) is covered for \$96 million in fire insurance underwritten by eight insurers. Also, an all-risk fine arts policy (covering vandalism, theft, fire, etc.) for \$29 million is underwritten by 12 firms on the Art Institute. Fine arts policies are in force on the museum and main library, too.

One of the functions performed by the finance department as a sort of extra-curricular activity is taking bids on builder's risk and owner's protective liability insurance for the Detroit Building Authority, formed to build a new hospital in the city's Medical Center. This is not a City of Detroit project. The hospital is now under construction and is covered for some \$61.8 million.

The city is assisted in drawing up specifications for some of its properties by a committee of the Independent Insurance Agents of Greater Detroit that works without charge to help establish values and recommend insurance.

In discussing some of the major problems confronting risk management, he noted that hospital malpractice insurance on Detroit General Hospital, a 498 bed facility, expired Nov. 7, 1975, and has not been re-negotiated. The premium had been \$444,000 annually for \$10 million in coverage subject to \$25,000 deductible per occurrence, and the insurance was layered and underwritten by five companies. The city now self-insures this property.

The finance department has recommended that no action be taken at this time on becoming aligned with the Michigan Hospital Assn. Mutual Insurance Co. that is being formed with a minimum capitalization of \$3 million to cover malpractice insurance of participants. The charge to Detroit would be \$1,350 per bed for 435 utilized beds or \$587,250 a year plus about \$150,000 for capital contributions for \$1 million annual aggregate coverage.

Another area in which the finance department is involved is taking a hard look at the health insurance contributions the city makes to four or five hospitalization plans for city employes. These plans cost the city \$23 million a year. Mr. Collins noted that under current labor contracts "We cannot reduce benefits but we are exploring the premium-cost factor."

Maintaining insurance in force is another problem for the risk management department. On the Cultural Center's fire insurance, for example, one underwriter cancelled, so the city re-bid and got one bidder at lower rates.

Another problem of maintaining existing insurance arose with a decision about whether or not to re-bid coverage when the two carriers on the Civic Center's liability insurance doubled the premium for \$11 million coverage. The requested premium for a renewal of contract was twice the \$63,000 previously charged. Risk management explored higher deductibles but the premium savings didn't warrant that, according to Mr. Collins.

Liability insurance on the train in the Detroit Zoo has tripled for one-year coverage—from \$9,000 to \$27,000—Mr. Collins noted.

Some existing problems may have possible solutions, Mr. Col-

lins observed. "We're looking for excess insurance at an affordable price, taking a hard look at excessive premiums."

One possibility that may be explored is to put all 47 departments under one liability insurance policy. "The premiums would be high," said Mr. Collins, "but deductibles could be \$500,000 to \$1 million. While it may not be prudent or possible to buy or to pay the premiums for such a policy, we want to have a look at this."

The city might be interested in some intelligent approach of pooling with other Michigan cities, particularly for purchasing excess insurance with high deductibles, Mr. Collins said. He sees a need for a central director or risk manager if cities did join forces and also views the assessment of costs as a possible legal problem. "Detroit is interested in saving money," he said "and hasn't ruled out a pooling procedure." ■

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Benefit division grows

Compensation Systems Inc., Indianapolis, acquired through a merger of the pension division of G & A Associates Inc., the employe benefits division of Gregory & Appel Inc., Indianapolis. Compensation Systems is an employe benefits consulting firm. Roger W. Skinner will become vp of the joint venture.

Past practices on insurance drew criticism

N.J. road probe spurs risk manager search

WOODBIDGE, N. J.—A risk manager will be hired for the first time in the history of the New Jersey Highway Authority, the state agency which operates the 173-mile Garden State Parkway.

The position will pay between \$17,863 and \$26,823 annually, according to Commissioner Julius Hoffman, who made the recommendation to create the new post. Part of the impetus for creating the job came from severe criticism leveled at the Parkway for its insurance buying practices.

The Parkway's coverage was arranged through a politically-appointed four man board. Each member of the board is an insurance broker compensated by commissions on Parkway premiums.

Over the last year, the Parkway's liability insurance premiums have increased 135%. This compares to only a 26.8% increase for the same liability coverage written for another state roadway, the New Jersey Turnpike.

Both the Turnpike and the Parkway are insured for liability by the same carrier, the Home Indemnity Co., headquartered in Manchester, N. H. But for the last five years, the N. J. Turnpike Authority has had a risk manager to negotiate coverages, Charles A. Dupuis Jr., director of insurance.

Because of the discrepancy in the liability rate increases for the two roadways, the insurance buying practices of the Parkway were in-

vestigated by U. S. Attorney Jonathan L. Goldstein. The investigation did not uncover any evidence of wrongdoing, but called for the Parkway to drop the four-man board and go to competitive bidding.

Commissioner Hoffman's direction to hire a risk manager followed the investigation.

However, Frank Palombo, comptroller for the N. J. Highway Authority told *Business Insurance* that he and his staff were searching for a better way to handle the Parkway's insurance program long before the investigation took place.

He also noted that bids were solicited from 17 different insurance companies last year after Commercial Union announced it

would not renew the Parkway's liability coverage because of its decision to withdraw from state business in New Jersey.

Only two insurance companies out of the 17 approached would even agree to make quotes on the Parkway coverage according to Mr. Palombo, who handles the day-to-day details of the insurance program.

They were Hartford Insurance Co., which bid \$742,000, and Home Indemnity, which bid \$410,000 for the same amount of coverage.

The lower bid was accepted, and the policy went into effect on January 1, with Home Indemnity as the new underwriter.

The Turnpike is currently pay-

ing only a \$295,000 premium for the same type of liability coverage from Home Indemnity, even though it has 600 vehicles in its own fleet compared to the Parkway's 281.

However, the policy for the Turnpike is a renewal from Home Indemnity effective May 1, not a piece of new business.

Mr. Palombo said the Parkway pays about \$900,000 in annual premiums for its total insurance program, including workers' compensation, and that a number of insurance carriers besides Home Indemnity wrote the coverage. He stressed that reports in New Jersey papers that the Parkway was paying \$1 million a year in premiums just for liability coverage were incorrect.

He described the process he and his staff went through in trying to fashion a more efficient insurance buying program for the Parkway:

"Back in December we began looking in a number of different areas to see what was being done. We spoke to representatives of the Turnpike and the Port Authority of New York and New Jersey, and then to the New Jersey department of insurance for ideas.

"I made contact with the New Jersey chapter of the Risk and Insurance Management Society (RIMS) through chapter president Fred Molineux, and ultimately contacted Ron Judd." (Mr. Judd is executive director of the national office of RIMS).

"The work we were doing would have concluded in the same direction with or without the investigation of the Parkway by the U. S. attorney," Mr. Palombo said.

He said RIMS is cooperating with the highway authority in helping them to find a capable risk manager.

Although it will be up to the new risk manager when hired, it seems likely the four-man board of commissioners will be allowed to compete its term of office, and will then be phased out, the comptroller said. ■

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Doctor sues drug firm, wins \$1.2 million

SACRAMENTO—In a medical malpractice "man-bites-dog" sort of reversal, former Sacramento physician Dr. Gordon Runnels has won a Superior Court jury award of \$1.2 million damages from Astra Pharmaceutical Products Inc., Worcester, Mass., on charges that the company made an anesthesia, xylocaine, which badly injured a patient and forced him to quit his medical practice.

The jury decided the pharmaceutical firm was guilty of fraud. Dr. Runnels had asked for damages of \$6.55 million.

The incident occurred in 1968, when seven year old Kimberly Geringer was treated by Dr. Runnels at a hospital for bicycle accident to her leg. Dr. Runnels, unable to immediately locate an anesthesiologist, administered the xylocaine directly into the child's injured leg.

Attorneys contended during the six month trial that the child suffered convulsions because the xylocaine cut the supply of oxygen to the child's brain, thus causing him to suffer brain damage.

Astra previously had paid a damage award of \$550,000 to the child. Dr. Runnels, now a resident of Santa Barbara, sued the drug manufacturer as being responsible for the loss of his medical practice. ■

Reconsider ruling on severance pay plans

WASHINGTON—An outcry from employers on the Labor Department's definition of a severance pay plan has caused reconsideration of final regulations.

Employers told the regulation writers that defining a non-ERISA severance pay plan as a pension plan, and therefore subject to the pension law, would mean the curtailment of many of those plans in favor of having to fund, disclose and report on those plans.

"It's a step on behalf of the Labor Department to listen to employers," a benefits consultant said. "They have to decide where to draw the line, and they probably said, 'I think we drew the line a little too tight.'"

The proposed revision to last summer's regulation will extend the period and amount of payments that can be made before a severance pay plan is considered a pension plan.

Currently, only one year of final average salary can be paid under a severance pay plan. This will probably be increased to two years of pay, the Labor Department said.

Also, payments will probably be allowed to run for a year following normal retirement age or elected early retirement. The rules now say that payments can be made only for a year after they begin.

Some plans extend payments for 18 months, but this would be allowable after the rule is revised if an employee leaves before early retirement.

The proposed revision also liberalizes rules on supplemental payments to retirees. Such payments were not allowed to start for employees who retired after Sept. 2, 1974, the day ERISA was signed, but the proposed revision

will extend the cut-off date to yearend 1976.

Other restrictions on supplemental payments are expected to continue. These are: payments must come from general company assets, not the pension fund, and the payments must not be part of an employe benefit plan or communicated to employes before retirement.

Also, payments are limited to one year, the employer must be under no legal obligation to provide these payments, and employes must be informed in writing of these restrictions.

The Labor Department declined to say when the proposed revision will take effect as part of the final regulation.

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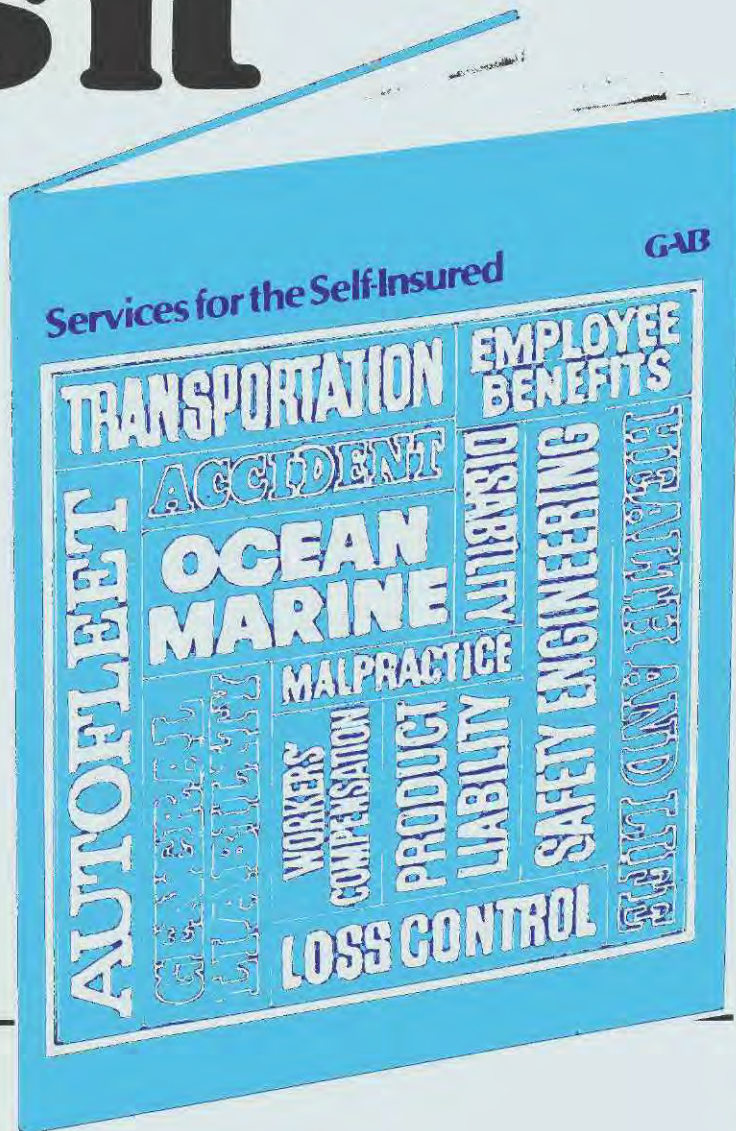
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Agents told to perform client audits

BOSTON—Agents and agency operations should perform complete audits for all their commercial accounts to improve their business and their client relationships, according to the president of the American Institute for Property & Liability Underwriters, Insurance Institute of America.

The audit should identify client risks and coverages for the client, and should include an audit report consisting of easily understood language, Dr. Edwin S. Overman, CPCU, told the New York State Assn. of Insurance Agents Inc. this month at the group's annual meeting.

Other areas where an agency can improve its operations include revamping internal operations and dealing more effectively with insurance companies.

With insurance companies, the agents should "assume an aggressive role when dealing with problems" and be honest with their companies.

In internal operations, the agency must plan for future growth and compensate producers fairly, Dr. Overman said. He added that owners should identify the components of their compensation system to see if all services are being performed by the producer.

"In this manner, you pay only for what's being done," Dr. Overman said.

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Anticipated losses still allocated by accruals

Accounting rules alter bookkeeping at 3M, but not view of risk retention

By SUSAN ALT

CHICAGO—"I don't see FASB-5 as the buggaboo that some people think it is," said Howard T. Weber, director of insurance for 3M Co. of Minneapolis.

Furthermore, he went on to say that "FASB-5 has not changed the extent to which our company goes to the commercial insurance marketplace for protection." In other words, 3M may have changed some of its bookkeeping practices, but the company hasn't changed its view of self-insurance practices just because it can no longer charge off against income its anticipated future losses by using accounting adjustments over a period of years.

This is attributable, at least in part, Mr. Weber said, to the fact that "FASB-5 came at a time when additional insurance is not readily available for catastrophes at reasonable costs. If FASB-5 had come in 1970 (when insurance markets were looser), we might have gone out and purchased more insurance," as a result of not wanting to self-insure as much. 3M has been a major self-insurer and has used a complex internal self-insurance accounting system since 1966.

"But if anything, we're accepting more risk post-FASB-5 than we did before," Mr. Weber told *Business Insurance*, because of the timing of the accounting standard and because of the "lousy condition" of the insurance markets. (The Financial Accounting Standards Board is the rule-making body for establishing records of publicly-owned companies.)

Insurance companies, however, have felt the impact already of not being able to accrue on their books the kind of catastrophe reserves they've previously been able to use to offset heavy losses in a year, Mr. Weber believes. "FASB-5 hasn't affected self-insurance nearly as much as it's affected the availability of high-risk insurance in the commercial marketplace. You can't find some kinds of errors & omissions or product liability insurance because the companies can no longer reserve for those big losses," he asserted.

Mr. Weber's comments were made at an American Management

Assn. meeting here late last month on the impact of the standard on accounting for contingencies, issued a year ago.

In its 1975 annual report, 3M noted that on Jan. 1, 1976 it reclassified as a result of FASB-5 and another accounting standard some \$33.6 million in reserves which had been accrued for various reasons. This amount includes, Mr. Weber said, the self-insurance reserves which had been accrued in previous years, although the amount was "immaterial to total operations," and did not require a separate disclosure.

Mr. Weber believes that there

are certain accruals that have been used by self-insurers in the past which can, and indeed should, continue. Since, under the FASB rule, immaterial items aren't affected, he noted that his philosophy, and it is in agreement with 3M's accountants, is, "if (accruals are) meaningful internally, but immaterial to the company's overall operations, keep on using the accrual system that you've used all along."

But, he added, this problem of materiality must be evaluated and judged separately for the operating statements and for the balance sheet, since items that may not be sizeable or material for one state-

ment may be substantial and very material on the other.

Although the ability to establish a more stable pattern of corporate earnings by using these accruals for self-insured losses is now impaired, "we have felt all along that the best way to value a business and present the condition of the ongoing operations, was to make accruals for reasonably foreseeable losses" in order to force the operating divisions of the company to recognize their risks of loss and build the costs of those risks into the prices of their products, said Mr. Weber.

"This is, of course, pre-FASB-5, but we still feel this way," he stated.

Mr. Weber said he has to agree with the FASB in establishing standard number 5 to the extent that the board was attempting to prevent the illusion of protection against losses when there really was none. "Your cash position is

exactly the same with or without an accrual," he pointed out to the group. "Self-insurance per se does not provide any protection of cash. I have to agree with the FASB that cash protection does not exist" with the practice of accruing for future uninsured losses.

Mr. Weber said he isn't bothered much by the fact that there no longer can be an adjustment of time periods to recognize losses on the books. "If our cash position is well enough protected that we could afford a (large) loss in a given period, then the fact that we're going to have to show an extraordinary loss on our P&L in one year (under the new rules) doesn't bother me that much," he said.

"True, those of us with facilities along the San Andreas Fault (in California) can't build up reserves against an earthquake catastrophe there, and against the loss of that property. But if Singer Co. can write off \$350 million in one year

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when it decides to get out of the computer business, I guess we don't have to worry much about our fluctuations in earnings" from self-insured losses, Mr. Weber quipped.

The purpose of buying insurance is to prevent significant changes in earnings or on the balance sheet, he pointed out. "To the extent that self-insurance accruals were sufficient to accomplish those ends, self-insurance could be used in place of insurance. But self-insurance never could prevent a change in cash on the balance sheet."

In Mr. Weber's personal opinion, there are certain predictable, and easily documented, and probable losses that are still accruable as in the past, such as self-insured product liability risks, which he considers traceable to an "occurrence" which is the sale of products. "In terms of recognizing in your product costs the remote loss exposure, neither FASB nor the

CASB (the Cost Accounting Standards Board, a government accounting body) prohibits reasonably allocatable charges. But reserving for those losses in any meaningful amount is prohibited by the FASB," said Mr. Weber.

He pointed out that the FASB rules now mandate that an accrual be made if an event has occurred that a company knows will give rise to a loss. "Occurrence can be the act of sale, for example, if you want to accrue for product losses," he believes. He included product injury liability losses in this category as well as product warranty type costs. "Since the insurance companies are always going to court over the time of an occurrence, how can the financial accountants say for certain when an occurrence is?" he asked rhetorically, indicating that in his opinion self-insurers have some latitude on judgments in this area.

"For instance, say you're a cosmetics manufacturer and you know

that one-tenth of 1% of all the users of your cosmetics are going to turn out to be allergic to them, and the historical experience shows that you'll incur bodily injury claims arising from those cases. As I understand it, this is an appropriate area for accrual and disclosure," said Mr. Weber.

Robert S. Gray of the Chicago office of Coopers & Lybrand, also a speaker at the AMA meeting, said he thinks incurred-but-not-reported losses can still be accrued for by self-insurers "because they can be reasonably estimated based on historical experience."

Further discussion during the seminar established that the questionable area when accruing for IBNRs is a company's ability to fully document the predictability and probability of the losses which supposedly have been incurred but not reported. Proof of the method of calculating the accrual and proof of historical experience seemed to

be an agreed determinant of a firm's ability to charge the loss to a current period.

Queries from those attending the session established that historical experience on IBNR losses could be gleaned from other companies with similar exposures in order for a self-insuring company to be able to document the amount of IBNR losses expected.

Financial statements for 1976, Mr. Gray said, will show more effects of changes in accounting practices following FASB-5. He indicated most companies had elected to wipe out reserves for losses during the 1976 year, instead of showing the changes during 1975.

Acceptable alternatives to accruing reserves for future anticipated uninsured losses under FASB-5, Mr. Weber noted, are to set up an excess depreciation account for accruals "if you've got historical proof to reasonably estimate the useful life of an asset," and to make allocations of retained

earnings for contingencies. "We have elected at 3M not to use either of the permissible systems because we don't see that it serves any useful purpose," he said.

Not enough people have thought about the problem of accounting for retrospectively rated insurance contracts as they are affected by FASB-5, said Mr. Weber. The problem, he continued, is with that portion of the premium paid to an insurer which is merely a deposit for which there is no actual transfer of risk and cannot be recorded as an expense against income on the operating statements under the FASB-5 rules. The rules say that only bona fide risk transfer premiums can be recorded as expenses on the books.

Charles R. Proctor, assistant vp of Marsh & McLennan's consulting division in New York, disagreed with this assessment of reporting premium expense for retro programs. He noted that accountants he had talked with have said a retro contract does involve genuine risk transfer and would fulfill the requirements for accruing.

Mr. Weber came back with: "If your retro premium payment system involves some advance payment for losses not already incurred, then there might be some adjustment required under FASB-5. Any portion of property or liability premium deposit paid to Allendale Insurance Co. or anybody else that is to be returned to you, if you don't have any losses or have fewer losses than expected in a period, has to be recorded for that period as a receivable. That's because it is due to be paid out by the insurer as an adjustment."

Mr. Weber also noted "the real hooker" in FASB-5 which refers to the rule not being applicable to employe-related losses, including workers' compensation. "I think the FASB ignored the fact that with workers' compensation there is a significant yearend contingency involved," said the 3M insurance director. "Our opinion is that we're treating work comp accruals exactly the same as we'd treat any other accrual for other risks under FASB-5, in spite of paragraph 7 in the statement," he said. ■

NFPA elects

The National Fire Protection Assn. elected William A. McAdams of General Electric Co. chairman of its board of directors. Also elected at its 80th annual meeting were Dr. John Bryan, first vice chairman; J. Armand Burgun, second vice chairman; Joseph Johnson, treasurer; and Alan Stevens secretary.

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3M's internal method of spreading self-insured costs uses new accounts

CHICAGO—3M Co. is continuing to use a system of internally accruing its predicted losses which are self-insured, although it won't be using the same system any longer for earnings reported to the general public, according to Howard T. Weber, director of insurance.

Several new bookkeeping procedures are being followed in the insurance department in order to allocate to operating divisions the anticipated costs of losses, in the wake of issuance of FASB-5, Mr. Weber said.

"We no longer have reserve

goals," he said, "but we are continuing to make accruals to the extent that we have predictable losses and adequate experience data." Since 1966 when 3M set up its self-insurance accounting system, the company has had established goals for the size of reserves it wanted to build up in each exposure area in order to cover losses when they occurred.

"Now we're saying, 'This is our exposure to uninsured losses,' and our accruals today are on the basis of proper allocation of costs from those exposures to loss. We will review these accruals reg-

ularly to determine if we are accruing at too fast or too slow a rate, but not with any reserve goal in mind."

The company is using these internal accounting procedures primarily for the purpose of properly allocating expenses to the operating divisions and building these costs into the price of products manufactured. Charges to divisions for uninsured property risks are based on fire rates plus a factor to translate the charge to all-risk protection basis products liability charges are by division. Workers' compensation charges are by department payroll plus an experience rating factor. Auto liability is charged by geographical area with an experience rating factor.

"We can't fully experience rate property self-insurance costs yet because we don't have enough data," said Mr. Weber.

3M requires that the operating

divisions pay for themselves the first \$5,000 of every physical damage property loss, and the first \$10,000 of every business interruption loss, with a 20% coinsurance provision applicable beyond those "retentions", Mr. Weber explained. The corporate insurance department then provides the divisions with financial protection for the 80% of losses over the retentions, provided any losses are unexpected, unintended and unusual, he added. 3M doesn't charge divisions for any deductible or coinsurance under its liability protection system.

"We're trying as best we can to act like underwriters," noted Mr. Weber.

3M's insurance department, which includes personnel handling all insurance and self-insurance accounting matters, maintains a set of ledgers called "memo accrual" books, as well as records of contingency accruals for inter-

nal purposes. Although entries in neither set of books are allowable under FASB-5 rules for public reporting purposes, they are used by 3M to internally justify the charges being made to the subsidiaries, eriment contracts under Cost Accounting Standards Board regulations.

"There's only a couple million a year going into our contingency reserve, so it's not material. We decided to adjust the reserving practices quarterly (under FASB-5), because we didn't want to get into a position of having built up a big reserve and then having to disclose any adjustment," Mr. Weber said.

Agents query on liability re: flood risks

JEFFERSON CITY, MO.—The question of an insurance agent's potential liability for making a wrongful determination of whether a client's property is within a certain flood hazard area is not fully determined yet, said the newsletter of the Independent Insurance Agents of Missouri in its latest issue.

A query to the U.S. Department of Housing and Urban Development about responsibility for determining flood hazards for properties elicited the response that the lending institution making a loan on the property is responsible for this determination, the newsletter said. The Mandatory Purchase Guidelines issued by HUD specify that the lender may not discharge this responsibility by obtaining a self-certification from the borrower.

The newsletter then went on to note that a staff attorney for the National Flood Insurance Assn. (NFIA) has said a lending institution may request that an insurance agent submit the certification that a property is not in a flood hazard area. If this is done, the bank or lending institution may rely on that agent's certification, although such a certification would "not relieve the bank of liability for making the property determination," the newsletter quoted the NFIA attorney as stating.

NFIA's attorney advised insurance agents to use their own judgment when asked for this type of certification because the question of the agent's potential liability for making an erroneous determination has not been resolved. ■



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No insurance problems for 3M commute-a-van

ST. PAUL, MN.—Nominal insurance losses and break-even costs have kept Minnesota Mining & Manufacturing Co.'s "commute-a-van" program rolling here.

House-to-house pick-up service for 800 3-M employees is provided by 75 company-owned and insured vans. The vans were started as a reaction to the energy crisis of 1973 but unlike other pooling programs, this one still is going strong.

According to 3-M's administration services supervisor, Mrs. Helen Sever, insurance amounts to \$40 a month for each van—or about \$36,000 a year for the fleet. Each passenger pays a flat rate in his monthly fare to cover the insurance costs.

Howard Weber, 3-M's director of insurance, said because they have experienced only nominal claims in the three years of the program's operation, the insurance cost, which is given an in-house experience rating, also has a low cost.

Insurance for the 75 vans and the service's 800 passengers is provided by a private carrier, which was not named, and is included under 3-M's comprehensive general liability program. Mr. Weber said the proportion of

the van insurance to total insurance is "insignificant."

Passengers in the 12-seat vans are picked up mainly in the suburban areas; the average fare is \$26.25 a month for a 50-mile daily round trip ride. Some employees commute as much as 140 miles a day.

According to Mr. Weber, the insurance charge included in the fee "never is more than 10%" of the fare, which is based on distance traveled.

The company's commute-a-van program recently won the Federal Energy Administration's first comprehensive energy award.

The total cost of the program is unavailable, according to Mrs.



Vans provide not only door-to-door transportation for 3M employees, but also time for a little chess.

Sever, but the operating costs are covered by the fares on a break-even basis.

The drivers of the vans also are

3-M employees who have received special training and have a special class of driver's operating license.

"There is a careful selection of who the drivers will be; we investigate things like their driving record," Mr. Weber said.

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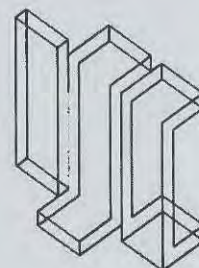
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'Emergency' coverage for state taxies

SAN FRANCISCO—Inability of California taxicab owners to find insurance carriers willing to sell them coverage against the normal risks faced in that business has been met by state Insurance Commissioner Wesley J. Kinder with an "emergency" amendment of rules governing the state's assigned risk plan.

Under Mr. Kinder's action, the plan will be permitted to write coverage for commercial vehicles of up to 16 passenger capacity.

The emergency ruling becomes effective upon filing with the California Secretary of State. California has been the only state which did not permit the assigned risk plan to provide coverage of public transit firms such as taxi companies.

Mr. Kinder's order also establishes rates at which the taxicab risks may be written in various areas of California and establishes a formula for use in determining the premium which can be charged for those various limits of liability imposed on public liveries under various circumstances. Under the ruling, the taxicab requests for insurance coverage will be assigned in "regular order of rotation" to any insurance carrier participating in the plan, which now is developing pooling arrangements for large risks.

The National Industry Committee on Assigned Risk Plans, meeting in San Francisco, adopted a resolution including general guidelines for the pooling of large risks through the plans.

San Francisco attorney Sidney Weinstock, who specializes in insurance law, received from the California Insurance Department a permit to raise funds for establishment of an auto liability carrier to write only public livery risks.

When it is established, Mr. Weinstock said, the new carrier will be known as Pacific Public Carriers Insurance Co. and it will be a stock company.

Fuqua adds to benefits with ESOP for employes

ATLANTA — Fuqua Industries Inc. is supplementing its traditional employee benefit program by setting up an employee stock ownership plan (ESOP) for certain of its employes, *Business Insurance* has learned.

The ESOP, which is designed to give Fuqua tax breaks for two years under the terms of the Tax Reduction Act of 1975, is already operative, but is awaiting final Internal Revenue Service approval.

Robert S. Spencer, vp of insurance, explained that even if the IRS fails to approve the new ESOP, it will remain in force as an employee benefit, but without the anticipated tax advantages to the company.

Fuqua set up the trust which

will maintain the plan by making contributions of cash which were used to buy blocks of Fuqua common stock from outside shareholders.

The shares purchased for the trust are publically traded and will be allocated to eligible non-bargaining Fuqua employes with one year of service.

There was no dilution of the value of the stock in the transaction, nor any splitting of shares, Mr. Spencer said.

The allocations have not yet been made, but will be based on employe earnings, with a \$100,000 cap.

"We fully anticipate to be going out to the market and buying more

stock for the trust in 1976," the vp of insurance remarked, indicating the company's plans to expand the ESOP in the future.

The impetus for initiating the ESOP came from chairman and chief executive J. B. Fuqua himself, Mr. Spencer noted, and the insurance department was involved in developing the project.

Mr. Spencer, who this year is first vp of the Risk & Insurance Management Society, is part of the three member committee of trustees for the ESOP.

It is the same group which acts as Fuqua's pension committee. In addition to Mr. Spencer, it includes Hiram Howlan Jr., Fuqua's secretary, and Lawrence Klayman, senior vp.

Employes participating in Fuqua's new ESOP will be fully vested after seven years.

But if they leave the employ of the company for any reason, they will be immediately eligible to receive their percentage of the

trust.

According to consulting firm Hewitt Associates of Chicago, "Tax Reduction Act ESOPs" have acted as the catalyst for much of the current interest in ESOPs overall as employee benefit plans.

This is the category to which the new Fuqua ESOP belongs. It is designed mainly to let the company obtain additional tax credits for contributions made to employes.

Under the Tax Reduction Act of 1975, companies can set up such ESOPs in order to give their employes a contribution of 1% of eligible capital expenditures instead of paying that amount in taxes to the Internal Revenue Service.

The law only applies such deductions through 1977, but Mr. Spencer said Fuqua anticipates that the provisions of the law are likely to be extended beyond that year. ■

Sees need for required pension plans

PHILADELPHIA—A management consultant has suggested employers be required to provide pension programs for employes as a means of keeping down Social Security's rising inflationary costs.

Preston C. Bassett, vp and actuary of Towers, Perrin, Forster & Crosby, advised the Pension Research Council symposium at the University of Pennsylvania that Social Security benefits be kept at a minimum and additional benefits be provided by private industry.

Mr. Bassett, a member of the Advisory Council to the U.S. Department of Labor on Welfare and Pension Benefit Plans, said the private pensions would provide an adequate standard of living after retirement.

"To bring benefits back in line," Mr. Bassett said, "I strongly favor a decoupling in some manner so that Social Security benefits are a function of the final pay of the employe, thus automatically taking care of the standard of living prior to retirement."

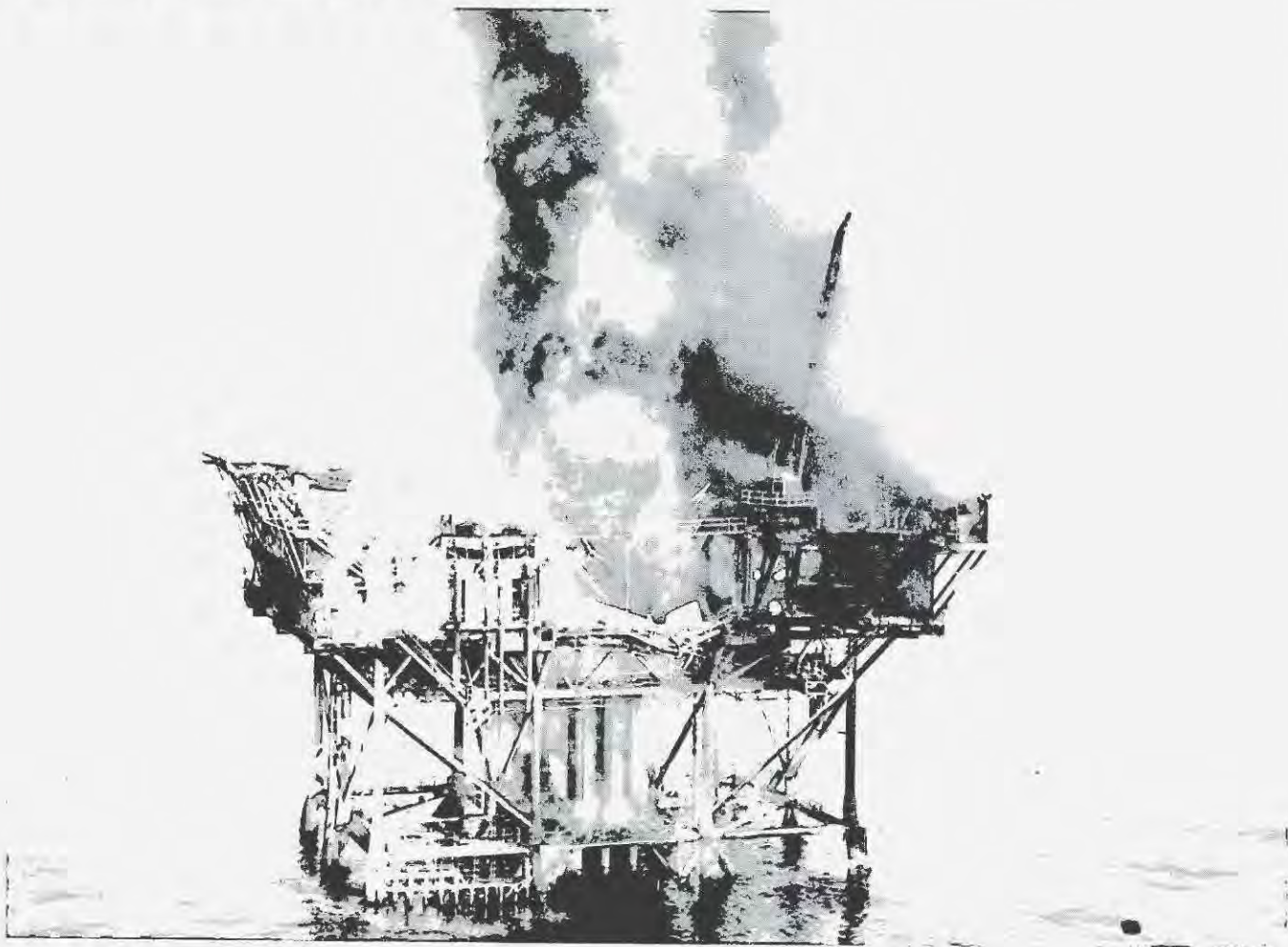
He also recommended that the retirement age be raised from the current 65 standard, established in 1935. He said persons are now able to work past 65 because health care has improved considerably and persons are now living longer. To encourage this, he suggested increases in Social Security benefits to employes who delay their retirement past age 65; the current 1% per year increase is inadequate.

"The time has come to consider requiring all employers to provide a minimum pension, just as they do a minimum wage," Mr. Bassett said. ■

Loss-control seminar

A loss-control seminar, sponsored by the Factory Mutual System, attracted over 100 persons from 50 companies and 15 countries. Among the U.S. companies represented at the conference, held in England, were: Alcoa, Borg-Warner, Caterpillar Tractor, Ford, General Electric, Gillette, IBM, ITT, Johns-Manville, Kodak, Mars, Parke Davis, Rank Xerox, St. Regis, Texas Instruments, Union Carbide, UniRoyal and Warner-Lambert.

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Services lend lucrative air to broker's bag of tricks

By SUSAN ALT

NEW YORK—Marsh & McLennan's technical services group, formed in mid-1975 under the direction of Philip J. Brown Jr., executive vp, now includes six divisions and well over 400 employees.

That's 10% of M&M's total brokerage rolls. But judging from the extremely fast growth and aggressive posture M&M's taken in seeking out services clients, the technical services group just might grow to a corresponding portion of M&M's total revenues within the near future. In fact, that's the plan.

Services income now accounts for an estimated 5% to 7% of M&M's revenues. Furthermore, while Mr. Brown doesn't like to talk about the services group's revenues relative to the total company, he is unequivocal about the group's profitability. "We are considered highly productive," he smiles, when asked about fees generated per employee, a commission benchmark which traditionally has been a sign of success in the insurance brokerage end of M&M's business. "And we are profitable," he adds quietly. But he believes the revenue and profit contributions are secondary to the need to provide strong technical services for M&M brokerage clients.

Each of the six services divisions is also managed as a profit center. The divisions include: Risk Management Consultants, Insurance Services Ltd., M&M Protection Consultants, Clayton Environmental Consultants, Nuclear Insurance Consultants, and Multinational Insurance Services.

Since Marsh & McLennan uses an account executive system to service brokerage clients, most of the technical services business is done through those same brokerage account executives.

In April, Mr. Brown separated the services divisions into two groups. One is called the risk management division, incorporating Multinational Insurance Services, Bermuda captive management services, and Risk Management Consultants.

In charge of that division is David Evans, who was vp in charge of European operations for AFIA.

The other group is called the loss control division and includes M&M Protection Consultants, Clayton Environmental, and Nuclear Insurance Consultants. Alonzo C. Rand is in charge of loss control services.

Harold R. Talbot's Multinational Insurance Services division was established most recently to "help us get at all that multinational insurance business, since the U.S. is the base of more multinational firms than any other country." Mr. Talbot's service sector specializes in knowing the intricacies of international taxation, admitted policy forms worldwide, use of differences-in-conditions policies for international exposures, and legal systems abroad.

Risk Management Consultants, under the direction of Anthony Demas who coordinates the centers in Chicago and New York, focuses on quantitative risk analysis and captive feasibility studies. The division now includes 25 people in the two cities. In New York, Charles R. Proctor is in charge of captive insurance company studies, and Jeff Isreeli is in charge of analytical studies, while in Chicago captive studies as well as analytical services are under Tom Tucker.

The Consultants division describes itself as having expertise in accounting, computer sciences, finance, insurance, legal matters,

operations research, statistics, and taxes.

As Mr. Brown points out, this Consultants group is proving very valuable in the current insurance environment, since M&M currently manages some 30-odd captives, 50% more than it managed a year ago. "We have captive projects underway for some 40 customers," notes Mr. Isreeli.

The risk analysis services portion of the consultant's work is devoted to several long range projects. One is a 10-year compilation of data which will enable Marsh & McLennan to build quantitative models in order to evaluate loss costs and insurance programs.

"We've already put in six years

of work on simulation and model building for risk analysis," says Mr. Demas, who points proudly to his list of computer programs used in audits and feasibility studies. They include: a cost of capital program, a linear regression model ("our own"), a multiple regression model ("not our original work"), an airline industry risk analysis model called AIM and a captive analysis model.

Another original program is on the drawing boards. It's being called Quantran until it gets a final name, and it's a generalized simulation model meant to be used for loss conditions applied to various property and casualty ex-

posures to project losses and apply probabilities of loss on a broader scale.

Captive management services in Bermuda are provided by a division of the technical services group which goes by several names—either M&M (Bermuda) Ltd., or Insurance Services Ltd. Both include the same staffs, same offices, etc. and are directed by David B. Vaughan. There are 18 people in the Bermuda offices. Why the two names? "It's up to the client which one is used. If the client wants more anonymity, the latter name can be used," says Mr. Brown.

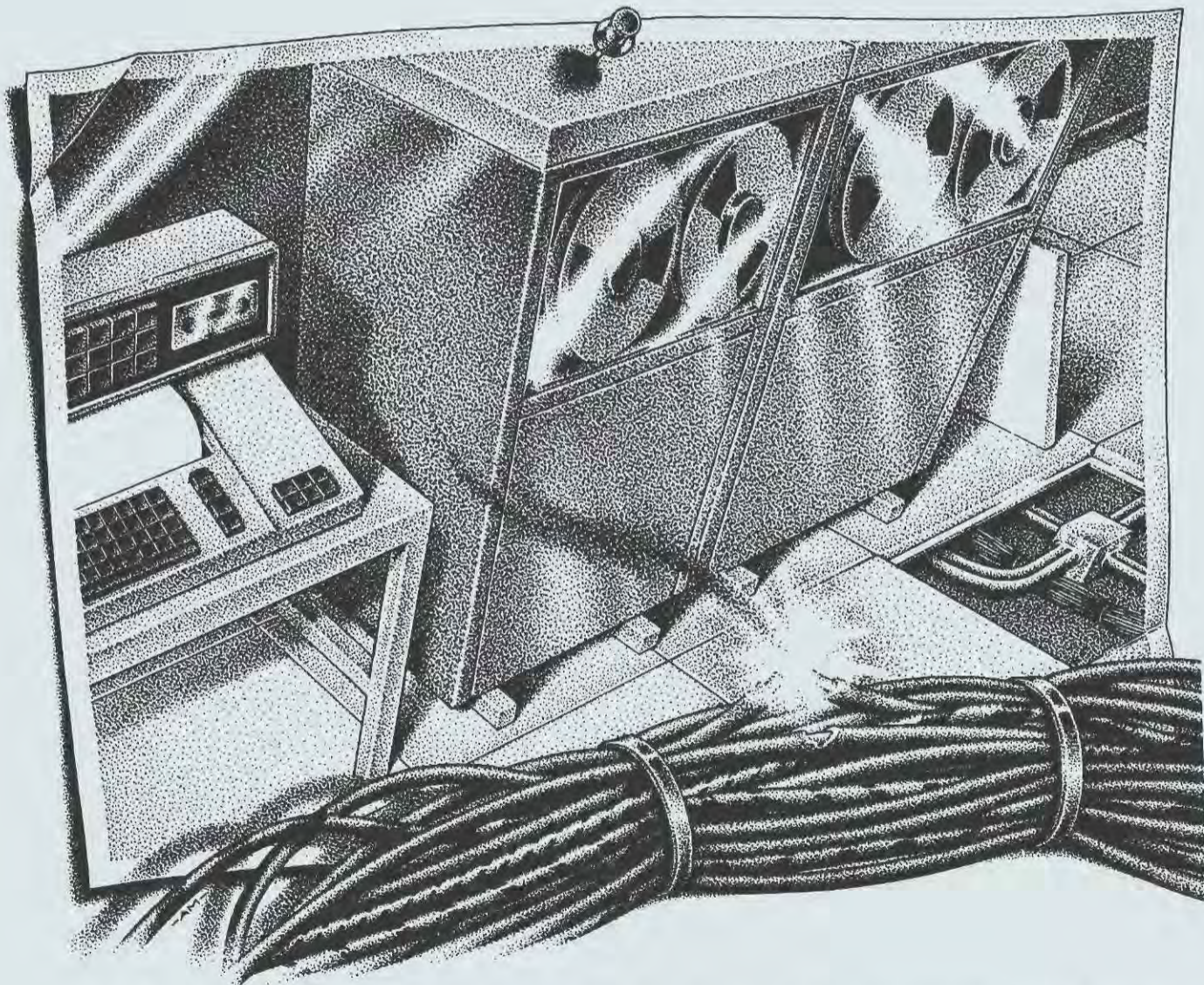
As of midyear 1975, Marsh & McLennan had registered premium volume of some \$55 million from

its captives under management, and generated another \$35 million in reinsurance for captives. As reported elsewhere in these pages, Marsh & McLennan is activating its own London insurance company—called Tower Hill Ltd.—to reinsure captives and get them into outside business, a change from the previous captive treaty arrangement it used for reinsurance.

"The people who are in the captive (management) business will have to get more deeply into the insurance business for themselves," says Mr. Brown, "with a vehicle for captives to use in diversifying their insurance programs."

THE CASE OF THE COSTLY COMPUTER

At first glance, the possibility of fire breaking out in their multi-million-dollar EDP center was totally out of the question. Then they took a second look. Potential fire hazards were everywhere. Electrical equipment can short circuit. What if a cable in the sub-flooring malfunctioned? How would they detect a fire or even get to it? Within minutes, it could all go up in smoke—computers, stored tapes, support equipment, everything. Instead, they had us install a fire suppression system using Halon 1301, a colorless, odorless gas that is safe for people and delicate electronic equipment. Now Ansul's Halon 1301 System is ready to react automatically, in seconds, to snuff out fire and avoid potential disaster.



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dates for buyers

June 17-19: BUSINESS INSURANCE and Computerworld magazines—Protection and insurance of computer risks is the subject of a seminar held in Chicago at the Drake Hotel. Speakers will include computer operations planners, risk management consultants and insurance specialists. Business interruption insurance, disaster recovery and security management are some of the topics covered. Registration is \$325. Contact Computer Protection/Insurance Seminar, Crain Educational Division, 740 Rush St., Chicago, Ill. 60611.

June 21-25: International Safety Academy—A loss control/advanced safety management conference for safety and loss control managers will be held in Orlando, Fla. at the Hyatt Resort House.

Among the topics are measuring safety program effectiveness, updating inspection programs, products loss control and hazard classification. The conference will also be held July 19-23. Tuition is \$395. Contact the International Safety Academy, P. O. Box 4365, 1021 Georgia Ave., Macon, Ga., 31201.

June 22-23: Baton Rouge Safety Council—A course for supervisors or foremen is offered at the Prince Murat Inn in Baton Rouge, La. The program schedule includes talks on development of safety attitudes; safety communications, OSHA and the supervisor; and personality factors in safety. Among the speakers are a safety consultant and advisor for Exxon. The registration fee is \$60 for Safety Council of Greater

Baton Rouge members and \$75 for non-members. Contact the Safety Council of Greater Baton Rouge, 1536 N. Foster Drive, Baton Rouge, La. 70806.

July 12-16: International Safety Academy—The principles and practices of safety management will be offered in this conference. Designed for newly appointed safety and insurance personnel, the course offers fundamentals in environmental health, designing programs, loss prevention and inspections. Other conferences will be held Aug. 23-27 and Sept. 13-17 all in Macon, Ga. Tuition is \$360. Write the International Safety Academy, P. O. Box 4365, 1021 Georgia Ave., Macon, Ga. 31208.

July 18-21: American Bankers Assn.—Risk management, coverages and markets for bank executives will be the topic of a seminar in Boulder, Co. conducted by bank insurance and risk management officials. Banker's blanket bond insurance, trust department errors and

omissions and safe deposit liability are among some of the subjects covered. Contact Edgar Armstrong, assistant director, Insurance and Protection Division, American Bankers Assn., 1120 Connecticut Ave., N.W., Washington, D.C. 20036, (202) 467-4048.

July 19: International Foundation of Employee Benefit Plans—A one-day program to define and interpret the requirements of all ERISA regulations will be held at the Plaza Hotel in New York; at the O'Hare Hilton in Chicago on July 20; and at the St. Francis Hotel in San Francisco on July 21. Administrative procedures and recordkeeping methods are some of the topics covered. The cost is \$60; \$80 at the door. Contact the International Foundation of Employee Benefit Plans, P. O. Box 69, Brookfield, Wis. 53005.

August 9-13: Business Seminars Institute, Inc.—Pension experts will discuss pension plan selection and design; sys-

tems and procedures for plan installation and administration; and legislative and regulatory developments in the pension field. The sixth annual Pension and Profit-Sharing seminar will be held at Fairleigh Dickinson University, Madison, N. J. For more information, contact Business Seminars Institute, Inc., 428 Old Hook Road, Emerson, N. J. 07630.

August 16-18: International Safety Academy—An environmental health management seminar for loss control managers and technical professionals will be held in Macon, Ga. Highlights include successful management of environmental health programs, laboratory services and monitoring. Tuition is \$295; if three or more from the same company attend it is \$250. Write the International Safety Academy, P. O. Box 4365, 1021 Georgia Ave., Macon, Ga., 31201.

Phone shock shocks GTE

SAN JOSE, CA.—Because he charges he suffered a 110 volt electric shock with resultant neck and back injuries when he got his quarter back from a pay telephone, Carroll Courtner, 54, Santa Paula salesman, brought a civil damage suit in Santa Clara County Superior Court here against Cal Western Telephone Co.

The shock incident occurred Dec. 3, 1970 in Novato, which is served by Cal Western, a subsidiary of General Telephone & Electronics.

Mr. Courtner is asking \$250,000 because, he contends, "when he asked for his quarter back, the operator pushed a control button that apparently let loose a direct current shock that knocked the plaintiff off his feet.

"A later search of Cal Western records," his attorney said, "disclosed two prior customer complaints of shocks at the same telephone booth."

Gene Raleigh of the California Public Utilities Commission speculated that "a short circuit in a light fixture in the booth probably grounded to the telephone. Only 28 volts are required to operate a telephone and the re-pay mechanism, and that's not sufficient to give anyone a shock." ■

Storm damage

Heavy claims from storm damage in the U.K., Northwestern Europe, and Canada are likely to cost the Royal Insurance group \$16 million on its 1976 business so far. Losses in the U.S., partly thru severe weather, in the first three months of this year caused underwriting setbacks of \$20 million to the group, which is still waiting for last year's rate hikes to have an appropriate effect on their results.



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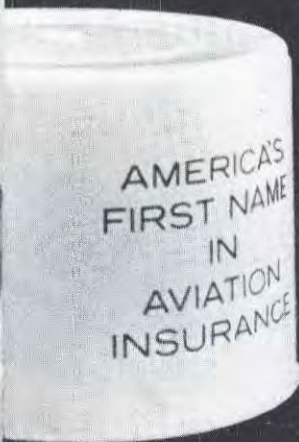
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Michigan hospitals form mutual insurer

DETROIT—Five hospitals have agreed to buy coverage from the new Michigan Hospital Assn. Mutual Insurance, formed as a non-profit organization by the Michigan Hospital Assn., with a \$3 million capitalization.

The Detroit General Hospital has decided not to become affiliated at this time, a spokesman said.

The Michigan State Medical Society formed the non-profit Michigan Physician's Mutual Liability Insurance Co., also at a capitalization of \$3 million.

Calif. cities get proposal for insurance liability plan

TORRANCE, CA.—Cal-Surance Associates Inc. and Fremont Indemnity Co. have teamed up to offer a claims-made municipal liability insurance program for cities in California.

The London market is providing reinsurance for the program, according to Michael Bogen, associate in risk management and vp, Cal-Surance Associates.

He told *Business Insurance* that the program will be marketed to California cities which are within a 100 mile radius of three cities in the state. They are Torrance, San Jose and Fresno, all cities where Cal-Surance maintains offices.

Cal-Surance is acting as the managing general agent for the program, continued Mr. Bogen, CPCU. However, agents from his firm will also be seeking to obtain broker-of-record letters from as many cities in the target areas as they can.

Mr. Bogen said that rates for the new municipal liability coverage are based on the Insurance Service Office (ISO) rates, minus credit. The three-year policies also contain mandatory self-retention requirements, he said.

"For a city, for example, that contracted all its services, the self-retention level would be \$2,500," said Mr. Bogen. The self-retention levels then rise from there to \$100,000.

"In addition, there is an aggregate stop loss provision in the policies to enable the cities to calculate their maximum losses," he noted.

He said that Cal-Surance Associates is prepared to offer loss prevention assistance to cities that become the insureds.

Cal-Surance will sponsor seminars on municipal liability problems and will provide monthly bulletins that report on legislative, municipal and other events that can affect a city's insurance program.

"If cities want to set up their own loss prevention programs, we will help them with that too," he added. ■

Plan has heavy loss

Health Applications Systems (HAS) will soon have to decide whether or not to terminate its \$405 million Medicaid contract with the state of North Carolina. A company spokesman told *Business Insurance* that the latest data received from a computer run showed that the number of eligible persons and the utilization pattern will result in a loss and not a profit as was anticipated.

erage due to high costs for the higher limits.

The physician's mutual goal is to insure 2,000 doctors. Its coverage provides a limit of \$100,000 per suit and \$300,000 maximum per year. A committee of four doctors examines each applicant and decides on full coverage, limited coverage or rejection, and coverage at much higher rates.

Also, a surgeon-physician may be offered coverage only for non-surgical procedures if his record of malpractice suits is found to be poor.

Michigan currently has a Brown-McNeely fund to insure doctors but the charges range from \$2,000 to \$12,000 annually and the dropout rate is 15%.

Doctors insured by Physicians Mutual will buy at least one of the surplus insurance policy certificates for up to \$2,000 and also pay \$1,450 to \$11,950 a year for coverage, depending on their specialty. ■

Seek alternate funding for group health plans

HOUSTON — Experience-rating problems in the group health insurance field has caused employers to seek alternate arrangements for funding their group health benefits, an insurance executive said.

John Burnosky of Aetna Life & Casualty Co. told the Society of Actuaries last month that there has been a "disharmony" between premium rates and refunds, due to unpredictable and drastic inflation in medical products and services.

He said among the alternate funding arrangements are minimum premium plans, administrative service contracts, and extended premium deferrals.

"Something must change," Mr. Burnosky said. "As insurance company actuaries, we must either in-

clude an adequate deterioration adjustment in our premium rates on a timely basis or make the needed adjustments in the level of contingency charges.

"The concept and practice of retention accounting, where surplus is refunded and deficits are carried forward to be recovered in the future, does not work well when sudden price changes alone cause experience deficits of as much as 15% during a year," he said.

Another problem, financial risk, occurs with arrangements for unfunded claim reserves, such as extended premium deferrals, because the insurer has the liability for the incurred yet unpaid claims but the assets have been loaned back to the policyholders. ■



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legal brief

What's a 'single accident' under this policy's terms? Insured asks

IN THIS CASE the insured brought suit to determine coverage by its insurers, the Travelers Indemnity Co. and the Aetna Casualty & Surety Co., for the loss suffered as a result of a products liability suit brought against it.

The insured had sold a defective chemical to a manufacturer and the manufacturer, in turn, had produced resins which were sold to its customers. The defective nature of the product was revealed after the chain of distribution to the ultimate consumers had been carried out, giving rise to widespread claims against the manufacturer.

The United States District Court for the Western District of Pennsylvania had to construe the word "accident" in light of the products liability hazard provisions of the Aetna policy containing a limitation of coverage for each accident. The court ruled that the claims brought against the manufacturer here did not each represent an "accident" under the policy. Rather, a single "accident" occurred when the insured allowed a contaminant to remain in the chemical.

Thus, the policy provisions limiting liability for a single accident were applicable, according to the

court, in determining the insurer's liability for loss suffered by the insured as a result of the manufacturer's products liability suit. *Union Carbide Corp. v. Travelers Indemnity Co.*, United States District Court for the Western District of Pa., August 4, 1975, Weber, J. 399 F.Supp. 12 (BI/04/My.-\$3).

Medical malpractice

Here a patient brought suit against a surgeon's insurer, St. Paul Fire and Marine Insurance Co., to recover for injuries allegedly sustained when a laparotomy pad was not removed during surgery. A

Louisiana appellate court ruled that where the pad was placed in the patient's body by a surgeon during surgery and was left there following surgery, the operating surgeon was negligent per se.

This appeal did not involve any factual dispute. St. Paul admitted that error was committed when the pad was left in the plaintiff's abdominal cavity during the sur-

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

gery. However, St. Paul contended that the surgeon should not be blamed for the damages sustained by the plaintiff because he had met the standard of professional care of the locality and exercised the degree of skill, care and judgment which is ordinarily exercised by similar practitioners in the area. Evidence to support this contention was presented in the form of testimony by experts which indi-

cated that the general practice in the area was to rely on the "sponge count" of the nurses and a visual inspection of the area.

In rejecting St. Paul's contention, the court cited as controlling a Louisiana Supreme Court decision in *Grant v. Touro Infirmary*, 223 So. 2d 148 (1969). In *Grant*, the supreme court was faced with the fact that a sponge had been left in the plaintiff's body following surgery. The fact that it had been placed there during surgery by the surgeon and not removed by him before closure constituted negligence per se on his part, according to the court. The fact that the surgeon had complied with the "community standard" in relying on the nurse's sponge count did not exonerate him.

The court here believed that it was faced with the same situation as in *Grant*. "A laparotomy pad was placed in plaintiff's body by the surgeon during surgery and was left there following surgery, and defendant (insurer) attempted to show that the procedure used by the surgeon to prevent leaving any sponges or pads in the patient was in complete accord with the community practice." Accordingly, the court concluded that *Grant* "requires that we find the operating surgeon negligent per se." *Builbeau v. St. Paul Fire and Marine Insurance Co.*, Court of Appeal of Louisiana, Third Circuit, December 24, 1975, rehearing denied January 28 1976, Cutrer, J., 325 So. 2d 395 (BI/05/My.-\$3).

Fire insurance

In a suit under a shopping center fire insurance policy, the U.S. Court of Appeals for the Second Circuit has ruled that the interpretation of the language "new building" in a settlement agreement was subject to more than one construction. The court thus concluded that a summary judgment entered for the insured was in error and that a trial was necessary to determine the issues.

Annette Heyman owned a shopping center in Westfield, Massachusetts insured under a fire insurance policy issued by Commerce and Industry Insurance Co. (Commerce). The policy contained a "replacement cost coverage endorsement" which permitted Heyman, in the event of fire loss, to elect to receive either "replacement cost" or "actual cash value."

Under the policy the election of replacement value limited Commerce's liability to the smaller of: a) the policy amount applicable to the damaged or destroyed property; b) the replacement cost of the property identical with such property on the same premises and intended for the same occupancy or use; or c) the actual amount spent repairing or replacing property.

In 1972 a one-story, 14,000 square foot, service station-warehouse located in the center was totally destroyed in a fire. Heyman submitted a claim of \$247,265 for replacement cost. The parties agreed on a settlement of \$187,500 for the construction of a new building to replace the destroyed building. The agreement provided for \$150,000 cash payment upon the signing of the agreement with the remainder to be paid when the construction of the new building reached a watertight stage—that is, upon completion of the walls and roof.

Commerce paid the \$150,000 but refused to pay the remaining \$37,500, despite notification that a new building was watertight. Commerce based its refusal on the fact that the replacement building contained an area of only 4,000 square feet and was thus not of comparable size and condition to the destroyed building. Heyman sued Commerce on the settlement agreement and was awarded a judgment by the court without a trial.



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On appeal Commerce contended that it was entitled to a trial to resolve what it asserted was an ambiguity in the settlement agreement with regard to the meaning of "new building." Commerce contended that the term "replace" in the policy meant restoring an object to its former condition rather than simply erecting a new building without restriction. The court agreed that the contractual language was susceptible to at least two fairly reasonable interpretations which were required to be resolved by a trial. *Heyman v. Commerce and Industry Insurance Co.* United States Court of Appeals for the Second Circuit, October 24, 1975, Kaufman, C.J. (BI/01/A.-\$3).

Boiler and machinery policy

The Supreme Court of Oklahoma has ruled that the malfunction of a "heater-cooler" unit on a reactor in a chemical plant constituted a "mechanical breakdown" of a "machine" within the meaning of a boiler and machinery insurance policy.

This action arose out of a catastrophe occurring in January 1969 at the Continental Oil Co. chemical plant in Lake Charles, Louisiana. A "heater-cooler" unit on the reactor malfunctioned allowing the liquid "batch" to escape and ignite upon contact with the air. A fire occurred resulting in fire damages of \$991,178.99, physical damages of \$678,419, and loss from business interruption of \$3,876,772.

Three insurers had issued four policies to Continental: National Fire Insurance Co. of Connecticut and Great American Insurance Co. (fire and extended coverage); Great American Insurance Co. (business interruption); and Maryland Casualty Co. (Maryland) (boiler and machinery policy covering physical loss, other than fire, and business interruption loss resulting from its covered risk). The trial court ruled that both National and Great American were liable on the fire coverage. A jury concluded that Maryland was liable for the physical damage and business interruption loss.

On appeal Maryland's principal contention was that under its policy it was not liable because the accident was an explosion caused by other than a "mechanical breakdown" to something other than a "machine." Relying on Webster's Dictionary, the court concluded that the heater-cooler was a machine and sustained a mechanical breakdown within the coverage of the Maryland policy. The court said that "In operation, the heater-cooler was an assemblage of parts . . . It was held together with the

simplest of machines, the screw . . . The internal pressure and the jackscrews generated stresses and forces moving against threads holding the head in place. This was a machine. That machine was alive and moving. It was capable of having a mechanical breakdown." Consequently, the court held that Maryland was liable for the physical damage, exclusive of fire, and for the business interruption loss. *Continental Oil Co. v. National Fire Ins. Co. of Conn.*, Supreme Court of Oklahoma, September 16, 1975, rehearing denied November 12, 1975, Lavender, J., 541 P. 2d 1315 (BI/02/A.-\$3).

Workers' compensation

The Supreme Court of Alaska has ruled that a wife's tort action against her injured husband's employer for "loss of consortium" was barred by the "exclusive liability" provision in the Workmen's Compensation Act. This provision fixes an employer's liability to that ex-

clusively available under the Act. On August 14, 1973, David Wright, an employe of the Action Vending Co. (Action), was injured in the course of his employment. He applied for and received benefits under the Act. In 1974 his wife brought a negligence action against Action seeking damages for loss of consortium resulting from the same injuries suffered by her husband. The trial court awarded judgment to Action on the ground that since Wright received workers' compensation, his wife's action was barred by the "exclusive liability" provision of the Act.

On appeal Mrs. Wright argued 1) that the "exclusive liability" provision bars only damages "on account of the injury" and did not bar her independent action for loss of consortium, and 2) that the provision discriminated against women in violation of the equal protection clause of the United States Constitution.

The court rejected both argu-

ments. With regard to the "exclusive liability" provision, the court noted that decisions from other jurisdictions "uniformly hold that a spouse may not bring a loss of consortium action after the injured employe has recovered workmen's compensation benefits." The court noted that the exclusiveness of the remedy, namely, limiting the employe to a single recovery under the Act, is the "keystone" of the legislation. According to the court, this enables the employe to gain a "sure" recovery. Because the "exclusive liability" provision applied equally to both a husband or a wife of an employe, the court concluded that it did not discriminate against women and, therefore, did not violate the equal protection clause. *Wright v. Action Vending Company, Inc.*, Supreme Court of Alaska, December 31, 1975, Connor, J., 544 P.2d 82 (BI/01/My.-\$3).

Jeweler's block policy

In this action an insured sought

to recover under a jeweler's block policy for loss arising out of a robbery of a jewelry store. The United States Court of Appeals for the Fourth Circuit ruled that the store had complied with an "iron safe" clause by recording the acquisition and sales price of each item.

At issue here was \$17,056.78, which represented the difference between the original cost of 306 items of diamond jewelry stolen from Brand Distributors Inc. and what it would have cost Brand to replace the items at the time of loss. The Insurance Co. of North America (INA) had issued a jeweler's block policy to Brand. The policy required the jeweler, under an "iron safe" clause, to "maintain a detailed and itemized inventory of . . . property . . . in such manner that the exact amount of loss can be accurately determined. . ."

The valuation section of the policy limited recovery for loss to the "actual cash value of the property
Continued on page 62

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Legal . . .

Continued from page 61

at the time of any loss . . . in no event to exceed the lowest figure put upon such property in the assured's inventory. . . . Brand's control cards, kept in compliance with the "iron safe" provision, mentioned only acquisition cost and sales price. The trial court awarded Brand \$67,861.82, which represented only the original cost to Brand of the stolen items.

On appeal Brand sought to recover an amount representing the increased value of the items at the time of loss. However, INA argued that the exact amount of the re-

placement cost could not be accurately determined from the control cards and that Brand's recovery was limited to the lesser of the two figures (acquisition cost) stated on the face of the cards. The court of appeals did not agree. In ordering that Brand be awarded a total sum of \$84,918.60, the court emphasized that the main purpose of the "iron safe" clause is to protect the insurance company against claims of loss for items which may never have really existed. The words "exact amount of loss," the court pointed out, referred to the number and nature of items lost and not primarily to their monetary value.

The court noted that to arrive at

replacement cost requires a "material deduction" and is pertinent only when loss occurs. "It is inconceivable," the court stated, "that an insurance company would accept a notation of its assured's conclusion of replacement cost made some time before loss." Consequently, the court held that the policy should not be construed as limiting recovery to acquisition cost unless such an intention was clearly stated. *Brand Distributors, Inc. v. Insurance Co. of North America, United States Court of Appeals for the Fourth Circuit, January 21, 1976, Widener, J. (BI/02/My.-\$3).*

Business interruption

A Florida appellate court has

held that an interpretation of the term "net sales value of gross production" in a standard Form 5 business interruption policy did not require attributing to it the technical definition of "sale" as defined in the state's sales act.

A partnership engaged in the manufacture and sale of maternity clothing brought this action against Travelers Indemnity Co. (Travelers), under a business interruption policy issued to it. The policy insured the partnership against a loss of gross earnings from business interruption and defined gross earnings from manufacturing operations as the "total net sales value of production" less certain items of expenses. The partnership also owned 40 retail stores to which it shipped its garments.

Transfers of merchandise from the manufacturing outlet to the retail stores were not recorded as sales by the partnership but as transfers of inventory. On August 1, 1971, the partnership's manufacturing plant suffered extensive fire damage and the manufacturing operations were stopped for 30 days. The partnership filed a claim with Travelers under the business interruption policy seeking maximum benefits of \$50,000. A disagreement arose over the extent of loss and the method to be used in determining the damages.

The partnership sued Travelers and they recovered a judgment for \$50,000.

On appeal, Travelers contended that transfers of merchandise manufactured by the partnership to their own stores were not sales and that it was improper to include them in the computation of the net sales value of production.

The court noted that the term "net sales value of production" in the standard Form 5 business interruption policy had never been interpreted by either Florida statute or case law.

Turning to decisions from other jurisdictions, the court concluded that "losses covered by this type of insurance should be determined in a practical way, having regard for the nature of the business and the methods employed in its operation. . ." Since there was an ambiguity or uncertainty, the court agreed that the policy should be "construed most strongly against the insurer and liberally in favor of the insured." Consequently, the court affirmed the \$50,000 award to the partnership. *Travelers Indemnity Company v. Kassner, District Court of Appeal of Florida, Third District, November 4, 1975, rehearing denied, December 3, 1975, per curiam, 322 So.2d 80 (BI/03/My.-\$3).* ■

(Copies of the entire decisions described in this column may be obtained by writing to Business Insurance, attention: Editor, 740 N. Rush St., Chicago, Ill. 60601. Please enclose a \$3 check made out to Cases Unlimited Inc. for each case, and specify the code number of the opinion, which is at the end of each brief.)

**Insurers buy into
Alliance Re group**

Lumbermens Mutual Insurance Co. of Mansfield, Oh. and The Dai-Tokyo Fire & Marine Insurance Co. Ltd. of Tokyo, Japan acquired a financial interest in Alliance Reinsurance Management Corp. of Los Angeles. Alliance Re underwrites treaty reinsurance assumed for the account of an international group of 25 insurance and reinsurance companies. It is now owned by Fremont Indemnity Co., New Providence Corp., Old Republic Insurance Co., Ranger Insurance Managers Inc., Societe Commerciale de Reassurance as well as Lumbermens Mutual Dai-Tokyo Fire & Marine.



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Arson seminar draws high praise for Seattle arson prevention plan

SEATTLE—An "unusual" year-old program of arson prevention was credited during a recent arson seminar with dramatically lowering incendiary fire losses in the Seattle metropolitan area.

"When Seattle's eight-agency Task Force on Arson was formed in June, 1975, the city had suffered \$904,552 in losses from arson-linked fires since the first of the year. For the same period this year, the loss is \$412,151, a reduction of 65.5%," Seattle's Mayor Wes Uhlman told more than 150 insurance company and agency representatives attending the seminar sponsored by the Washington Insurance Council.

Mayor Uhlman praised "the unusual cooperation and communication" between task force members representing city and county police and fire departments, insurance companies and agents and the news media for reversing "an accelerating increase in arson losses."

Seattle's known arson incidents had increased from 441 fires caus-

Award widower right to wife's survivor benefits

NEWARK, N. J.—A widower was awarded the right to his wife's survivor benefits under Newark's municipal retirement system in a court decision which will have a direct effect on other municipalities in the state with similar retirement plans.

Superior court judge Irwin I. Kimmelman ruled the 63-year-old Bloomfield widower was being discriminated against by the retirement plan's gender-based distinction that wives are dependent and husbands are not.

He struck down the portion of the state law governing Newark's retirement system which required John E. Palagonia, an employe at Pabst Brewery in Newark, to establish proof that he was dependent on his late wife's pension.

The city must pay Mr. Palagonia \$3,000 a year as a survivor of a municipal employe who had retired prior to death.

ing \$621,203 in losses during 1971 to 622 fires and \$3.2 million in losses for 1974—a five-fold increase in four years.

Panelists for the day long seminar included newspaper and television reporters responsible for documentaries such as "Fire for Hire—The Seattle Arson Epidemic," produced by Seattle's CBS-TV affiliate, for a five-part report on Seattle arson. One reporter cited a Stanford Research Institute study which says "the number of deliberate burnings in the U.S. has more than tripled since 1960 and has jumped 13 times the level of 1950."

In a second panel, Seattle's Fire Chief Frank Hanson and Richard

Hargett, commander of the department's arson squad, reviewed the success of the arson task force and detailed the importance of protecting the evidence in fires where arson is suspected. Chief Hanson credited the program's effectiveness to several factors including initiation of a fire investigators' training program, reactivation of fire prevention patrols of high-risk arson properties, detailing of police detectives to the arson squad, cooperation of the insurance industry, news media and prosecuting attorney's office.

Other panelists discussed assisting the criminal prosecution of the arsonist, civil action opportunities and industry association activity. The program concluded

with a coordinated, three-way approach to arson prevention involving company underwriters, agents and brokers, and claims adjusters.

Among the most significant recommendations were:

- Has the agent seen the property?
- What is the loss history of the insured?
- Be aware of the client's competition and of what happens when the market is exhausted.
- Know who the officers of a company are.
- Perhaps order an audited financial report.
- Know if the business is successful, because if so, the owner will have money for repairs and may not resort to arson.
- Consider the management attitude.
- Have loss control people analyze whether controls can be implemented.
- Over-insurance should be

avoided or "you have a beautiful reason for an arson fire."

• Is the property vacant? If so, any prospects for occupancy? If none, then why insure it?

Vance Fredrickson, WIC president and general manager of Mutual of Enumclaw, told participants "If the fire department puts out fires and nothing more, if the police department investigates arson and nothing more, if the insurance industry pays for those fires and nothing more, then we can certainly expect the continued, astronomical growth in arson losses.

"Sadly, what I have just described is the case in most states today. However, it is not the case in Washington and certainly not the case in Seattle. I think that this combined cooperative approach—insurance, government, public protective services, the news media—will ultimately prove as successful elsewhere as it has been here in Seattle."



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PERSPECTIVE

Motivating workers to play it safe means employing psychology

By KEITH BARENKLAU
 Director of Safety & Health Education
 International Safety Academy

“WHAT IS THE BEST way to promote safety within the workforce?” This question is frequently asked by loss control managers. Others in the organization, both line and staff, voice the same concern. “We do ‘this, that and the other thing’ but how can we be sure we are reaching our people?” Good question. It deserves some good answers.

As a first step in the quest for answers, things and actions that motivate people must be examined. Motivation is often a subject of management discussions. The early behaviorists concluded that once the basic needs of people are satisfied, they tend to develop “higher” needs. Basic needs are often defined as necessities of life—food, clothing and shelter. Once these needs are met, things such as mental security, acceptance as an individual, self respect, recognition, belongingness, self expression and others manifest themselves as needs. The effectiveness of safety promotion depends upon how well these “higher” needs are satisfied.

Safety professionals need not be social scientists. But as professionals, they must use the findings of those who are. Techniques developed by the behaviorist should be used in promotional efforts. Some of the findings will be discussed here.

One of the best means of promoting safety is through management example. Why should a worker be required to follow safety rules, for example, that management people ignore? Workers are very quick to notice the manager who does not abide by the rules. “If it’s not important for him to wear eye protection in this area, why should I be required to do it?” This question is frequently heard in a workplace where management personnel do not live by the same rules as the workers. It makes little sense to spend money promoting safe-

ty, and then not set the example. This fact was summed up rather well by a worker in the “literature” who said, “Your actions speak so loudly that I can’t hear what your words are saying.” Knowing that they should is not enough. Management people must set the example.

Media of all sorts have been used to effectively promote safety in the workplace. Tips for more successful use of media will be presented here, after worker response to various types has been examined. A few years ago, a large casualty insurer, Employers Insurance of Wausau, set about to study the views of the worker on various types of safety media. They published a booklet on their findings entitled, “When You’re Speaking of Safety, Is Anybody Listening?” In 1970, Insurance Co. of North America conducted a study in the Ambler, Pennsylvania area which dealt with reward (award) systems, among other things. Some interesting research was conducted in England with media effectiveness. Data presented here will be drawn from these and other studies.

What does safety mean to employees? Responses from workers in the Employers study indicate the following:

Conformity—we are required to do certain things in specified ways.

A mutual affair—it won’t work unless we all do it.

A status symbol—workers tended to regard serving on safety committees and in other capacities as personally satisfying.

Productivity is rewarded more than safety—a fact of life.

Unsafe behavior is “blowing off steam.”

These worker conclusions seem to state that example setting is not only desirable, but necessary. They also tell us that participation is a desirable technique in selling safety. Few would argue with their third conclusion. Productivity is extremely important in a free enterprise system, and therefore it is regularly rewarded. Do safe-



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FLAMMABLE DANGER



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RESPIRATOR



HEAD PROTECTION



EAR PROTECTION



EYE PROTECTION

Safety signs

Safety posters are widely used, and can consist of many types. These multi-message signs allow employers to cite the specific hazard and show what equipment is to be used to fight a fire caused by this hazard.

ty promotional activities provide an avenue for “blowing off steam safely?” The safety professional might do well to look into this concern.

Who do workers blame for accidents? Interestingly enough, they usually do not blame the company. Rather it is the involved worker’s action (or lack of it) that gets blamed. In the rather few times workers blame the company such things as poor housekeeping, improper training and defective equipment were singled out.

Workers classified their company’s safety efforts in three types: lively, overzealous and negligent. Workers liked the lively company, but not the other two. The lively company was one in which safety programs were organized and practiced by all personnel. Lots of things going on—lots of meaningful media being used. And workers were made aware of safety goals and standings. In short, the lively company was one in which promotional activities were planned and executed with the same forethought and precision as other programs. The overzealous company was viewed as one that spent lots of money on promotion, but had very small evidence of managing the effort. Lots of talk, but very little di-



rection. The negligent company only concerned itself about safety after a serious accident.

The studies cited earlier indicate that traditional types of safety and health media are generally all effective when used in a coordinated program of loss control. Lessons learned, however, suggest certain things be considered and done when employing various media.

Safety posters are one of the oldest and most used types of media. Studies show that certain rules should be followed in the use of them, if maximum effectiveness is to

Continued on following page

Looking at the 'track record' tells a lot

Key to finding a good HMO: Close scrutiny

BY DAVID A. DESCOTEAU
 Manager, Health Care Delivery Systems
 G. D. Searle & Co.

SOME SIX AND ONE HALF million people belong to health maintenance organizations (HMOs) or prepaid health care plans across the country. Most of these people have enrolled in HMOs through their place of employment. Employers who have made the so-called “HMO option” available to their employees have used varying measures of HMO acceptability and degrees of research. Some employers have closely scrutinized available HMOs before selecting or not selecting a plan(s). Other employers have made decisions on HMO participation with much less analysis.

There are 180 operational HMOs in the United States. More than 90 of them have been in operation for less than five years. During fiscal 1975, 157 organizations including consumer groups, hospitals, medical schools, physician groups, and private groups received federal money from HEW for feasibility studies, planning, development, and operation of HMOs. Other public and private organizations are also developing HMOs but without federal monies. By 1977, it is estimated that there will be close to 300 HMOs across the country; 200 of

which will have been in operation for less than five years.

It seems reasonable to expect that with this large number of newly formed HMOs in operation and expected operation, many employers will be approached for participation by HMOs which have little or no track record of performance. Such HMOs as the Kaiser Health Plans and the Health Insurance Plan of Greater New York (HIP) have established reputations because of their longevity. The track records of these “mature” HMOs can be used by employers to form a basis for deciding which plans, if any, to offer to employees. For newly formed HMOs, employers must rely on other means of evaluation. Though all newly formed HMOs are structured somewhat differently in the manner in which they operate, certain traits are common to all of them. The following represents some common traits that could be used by employers to evaluate newly formed HMOs seeking their participation:

Sponsoring Organization

The sponsoring organization is the entity which finances the development and operation of the HMO. In some cases, there may be more than one sponsor. A sponsor, in addition to underwriting the development of an HMO, may also manage its operation.

An employer should be interested to know about the objectives of an organization that decides to finance the development of an HMO. It could be of value to an employer to assess other HMOs in the area, if any, to determine which sponsoring groups have had the greatest degree of success.

Feasibility Study

A good deal of attention should be given to the HMOs feasibility study—the study which formed the basis for a “go” or “no go” decision to proceed and develop a plan. The study should be available from the sponsoring organization. At a minimum, the employer should evaluate four basic feasibility areas. They include: legal, marketing, provider, and financial.

Legal Section

The study should contain information on the various legal alternatives the sponsor considered in developing the HMO. This section should have information on the current HMO legal climate in the state where the plan operates. It should have considered all other legislation impacting upon the formation of the HMO, such as the certificate of need legislation which deals with health care facility construction and expansion.

Marketing Section

An outline of the area communities that

are to be served by the HMO. Community demographic data contained in this section should include race, age/sex breakdowns, income characteristics, employee resident patterns, as well as selected information on employer groups in the area. An important consideration is to compare the premium contribution split between the various employers and their employees for health insurance coverage. It is also of great importance to examine the current level of health insurance in the area, that is, the current level of health care benefits generally offered in the HMOs target area and the premiums being charged for these health care benefits.

Provider Section

The study should contain information on the availability of health resources in the HMO service area, including physician location, physician age distribution, and specialty distribution. There should also be information on available hospital services and their location as well as the availability of other health related facilities such as mental health, home health care agencies, dental services, and pharmaceutical services. The employer should evaluate the extent and scope of communication between the plan’s representatives and the providers of care.

Continued on following page

PERSPECTIVE

Choosing an HMO . . .

Continued from preceding page

The sponsoring organization should have considered various HMO models in discussions with the physicians and hospital administrators to best gain insight into their likes and dislikes toward different arrangements.

Discussions with providers should have included such things as differing contractual arrangements between the HMO and the physicians and the incorporation options open to physicians participating in an HMO. An employer should be certain that the sponsor selected the HMO model which most closely paralleled the interests of the provider community.

Financial Section

This section should contain information on the projected premium rate for the HMO and information on a break-even point for the plan. There should be exhibits displaying cash flow projections given certain assumptions on both use of care and projected enrollment during the first few years of operation. There should also be information on the cost of planning and developing the HMO. This period begins with a decision by a sponsor to evaluate entering into the HMO business and extends to the point where the plan actually begins to deliver services to its members. This period can range, depending upon the HMO prototype, from as little as one year to as many as three or more years.

Planning and Development Phase

An employer should obtain from the sponsor the results of the planning and developmental phase of the HMO. It is in this phase that the sponsor begins to refine and act upon the data information collected in the feasibility phase. The development of contracts and negotiations with various organizations participating in the HMO, such as employers and providers of care, should begin during the planning and development phase. A specific marketing plan should have been developed as well as the management information systems needed for efficient operation of the HMO.

Actuarial Procedures

In evaluating an HMO, an employer should be aware of the methods and assumptions used to develop the HMO premium. The computation of the HMO premium is based, to a great extent, upon the anticipated health care utilization of the members—both in medical and hospital services. For the hospital portion of the premium, for example, the employer should compare the average number of inpatient hospital days per/thousand population in the area with the figure used by the HMO in computing its premium. If, for instance, the average ratio in the HMO service area for the general population is 1,000 days per/thousand population, the employer should challenge a newly formed HMO using an estimate of 300 days per/thousand population to develop its premium.

It has been statistically shown that persons who belong to an HMO utilize health care services differently than do similar persons who receive their care in a non-HMO setting. For this reason, it is important to find out if the HMO under consideration relied upon local area health care utilization statistics exclusively to develop its premium, or, upon local HMO utilization data. HMOs using the latter method may be more apt to accurately forecast health care utilization of its enrollees.

Employers should be sensitive to the escalation of health care costs in the HMO area. If the participating hospitals' semi-private room rates, for example, have increased significantly since the premium of the HMO was formulated, the employer might anticipate that the HMO will raise its premium at the end of the contractual period to compensate for the increase.

Of major importance is the quality of physicians participating in the HMO. The employer can gain insight into this area by examining such factors as the age breakdown of the physicians, the length of time the physicians have been in practice, general reputations, and the breakdown of board and board eligibles in the HMO. An employer should find out why the physicians

elected to participate in the HMO and the extent of each physician's financial and risk involvement in the plan.

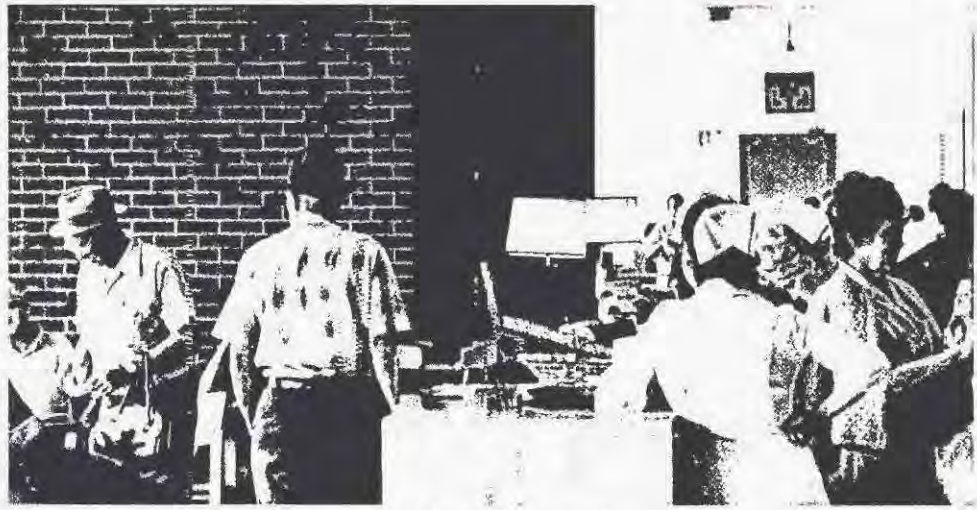
Quality of Care Programs

An employer should review the HMO quality of care programs or peer review programs in effect in the HMO. If it is a federally qualified plan and/or operates in a state where there is a state HMC law requiring quality of care programs, the employer should make certain that the HMO is complying with such standards of care.

Marketing Strategy

An employer should examine the way in which the HMO markets its product. There are two major ways in which an HMO can sell its services—either by relying upon existing health insurance carriers in the area, or, by using its own inhouse marketing staff. There are pros and cons to each method. A major advantage in using existing insurance carriers is that the HMO gains rapid and greater access to employer groups at the outset of operation. A major disadvantage can be the lack of commitment on the part of insurance companies to actively seek enrollment in the HMO. Insurance salesmen generally do not receive additional compensation for selling an HMO package.

Statistics show that successfully marketed HMOs use marketing representatives who have strong beliefs in the HMO concept. An inhouse marketing staff can be hired on the basis of personal commitment to the HMO system and be trained in proper selling techniques. The decision to hire marketing representatives or to use existing insurance



More outpatient care facilities and HMOs will be starting up as the trend accelerates toward preventive medicine and as the "HMO option" becomes more widely available.

company representatives is a difficult one for a new HMO. The employer should closely scrutinize the marketing arrangements of the HMO with the foregoing observations in mind.

Grievance Procedures

The HMO should have a formalized grievance procedure for the hearing and resolution of complaints by HMO members. An employer should review the established procedures.

Ambulatory Facilities

The employer should assess the ambulatory sites of the HMO. For example, does the facility(s) remain open 24 hours a day and 7 days a week or must members go to local hospital emergency rooms after normal business hours for medical treatment. The distance and time that must be traveled for health care are important considerations also. A distance of over eight miles from the medical facility or over forty minutes trav-

elling time could prove to limit health care accessibility greatly.

Hospital Facilities

An employer should make a review of the institutions that will be providing inpatient services to the HMO. If the HMO is a prepaid group practice model, there will probably be one or two general hospitals used for inpatient care. If, on the other hand, the HMO is an individual practice association model, the number of participating hospitals probably will be much larger. An employer should evaluate the hospitals and extended care facilities participating in the HMO in such areas as accreditation, services offered, and plans for expansion, etc. This kind of information can be obtained from the hospitals themselves. If the HMO is a prepaid group practice model, an employer should also be aware of the current occupancy rate of the participating hospitals. If, for ex-

Continued on following page

Safety . . .

Continued from preceding page

be realized. For example, a poster should do two basic things: Define a problem (opportunity) and tell what to do about it.

Workers say that if a poster will do these two things, they will heed and learn from it. On the other hand, the poster that says, "Safety First" or "Work Safely Today" is likely to be ignored. Many firms spend a good bit of money each year on posters. Those wishing a return on their "poster dollar" should insist that the criteria above be met before making the purchase.

What about movies? Workers like them. Their prime concern seemed to be that "only the foremen get to see them." In a media study, workers were asked which movies they remembered seeing that dealt with safety. In the list of "best remembered" films, certain of the impact films, such as "Signal 30" and "Death on the Highway" were recalled. When asked which films taught them the most, the list changed. They recalled films that, like posters, defined a problem and gave them a prescription for dealing with it. Certain of the Disney films were high on the list, such as "How to Catch a Cold," and "How to Have an Accident at Work" were mentioned. Impact type films certainly define a problem, and the problem, by its nature, usually suggests what to do about it.

Are color films better than black and white? It depends upon the desired effect of the film. Dr. Glen McVey at the University of Wisconsin conducted several studies on the effects of color vs. black and white. For instructional purposes, no differences were found.

In-house closed circuit TV seems to have real promise. Since the pictures are of the employee's own workplace, realism is high. In future months, much more data on this form of media should be appearing in the literature.

Many firms make various types of printed matter available to employees on safety subjects as well as upon other matters. Little research has been conducted upon its effectiveness. Some facts, however, deserve mention. In a study at a large midwestern meat packer some years ago, printed matter was found to be a popular item with employees. Among the most popular pieces of printed matter were the athletic schedules.

This firm found that schedules of sporting events disappeared from reading racks at a rapid rate. They became so popular that later they were printed in-house with room left for safety messages upon them. This firm counted pieces of discarded literature and compared the count with the total items presented in their reading racks, and found that employees were discarding less than 20% of the printed matter.

Does knowledge gained from media carry over into real world situations? Most conclude that it does. Insights into this inquiry can be gained by examining an experiment conducted in 1972 in Arillia, Ontario. St. John's Ambulance, a fraternal service organization, gave one adult member from every family in the city of Arillia a multi-media first aid training course. The purpose was to determine if such training would affect home accident rates, and if it did not, at least there would be a person trained in first aid in every household.

Results were startling. Not only did home accidents decrease, but also job accidents and highway mishaps. Results were carefully checked and measured. Apparently there was a great deal of educational carry-over from this multi-media effort. Based upon the "Arillia Study," effectively employed media have a measurable effect upon loss prevention activities.

How effective are incentives and awards? They appear to be very viable if properly applied. Proper application involves several factors. Workers view awards as meaningful if: They have to do something to earn them; they are presented if won.

Whether awards are large or small, both of the factors above appear to apply. Large awards, such as a trip to Europe for an employee and his wife, can not only be used as incentives, but also as safety teaching devices. One firm used a large

award to teach departmental safety rules. The award, which would be given at the end of the period, was a fine trip for two people. In order to be eligible for monthly drawings, and finally the trip drawing, employees had to obtain an entry blank from their supervisors and write one of their departmental safety rules on the blank.

In addition, they had to tell what they intended to do to comply with it. Employees could enter as many times as they wished, using another safety rule each succeeding time. Monthly drawings of five names were made, and those were publicized. Media encouraged employees to enter often. At the end of the contest, some nine months from the start, the trip drawing was made, and the award was taken to the home of the worker by the plant manager, and presented personally. The company claimed more than 85% participation in the contest.

Smaller awards can be just as effective if the above criteria are followed. Presentation of awards is very important. They should be made by the highest operating executive available. A fleet safety director reported a useful technique which might well be adopted by others. When drivers came forward to receive their safe driving awards, he had the wife stand for a round of applause.

How can safety media be improved? This question was asked employees who participated in the Employers study. Their answers are noteworthy: "Make it realistic," "diversify it," "Make it sophisticated," and, "Coordinate it with company activities."

These computerized responses speak for themselves. Realism is important in all media—perhaps more so in safety. Nobody likes to see or hear the same thing in the same way over and over again—hence, diversity. Workers today are better educated today than the managers were a generation ago. There is little reason to fear "talking over the workers' heads." The coordination statement harks back to the difference between the lively and the overzealous companies. Production, quality and cost control have to be coordinated to be effective. The fourth major concern, loss control, needs the same treatment.

Most promotional activities cost money. The task of the manager in today's economic situation is to get the most return possible for the dollar spent. Attention to safety promotion, in accordance with the tips set forth, will assist in getting the most from every promotion dollar. ■

Keith E. Barenklau is director of safety and health education for the International Safety Academy.



Prior to joining the Academy, he was safety and health services manager for a large casualty insurance company. Mr. Barenklau has a Ph.D. in the field of industrial safety, is a licensed psychologist and has conducted and served on numerous safety committees and safety conferences.

HMOs . . .

Continued from preceding page

ample, the participating hospitals currently have occupancy rates in the mid-ninetieth percentile, the capability to admit additional patients, which may result from the HMO could be seriously limited.

The employer should review the arrangements between the hospitals and the HMO. Examples of such arrangements can include complete ownership of hospitals by the HMO to different contractual arrangements, such as, a prepaid capitation payment for guarantee of beds to per diem rates and/or rate guarantees for the HMO. The last category, guarantee of rates, will be sought at a minimum by most newly formed HMOs in negotiations with the hospital(s). A reason for this is that without such rate guarantees, the hospitals could increase their inpatient rates during the course of the contractual period with the HMO. Unlike many traditional indemnity plans, which have retrospective clauses, the HMOs premium and income is fixed for the contractual period. HMOs cannot, therefore, rely upon additional income at the end of the contract like many insurance companies if health care expenditures proved higher than forecasted. Thus, if the

hospital rate paid by the HMO is allowed to fluctuate during the course of the contract, the HMO, whose viability depends on accurate forecast of utilization and expense, may be disrupted.

A hospital, on the other hand, may be reluctant to offer any kind of preferential treatment to the HMO during the first few years of operation. The reason for this is simple. The hospital usually has no way of accurately gaging whether its patient census will increase or decrease because of the HMO.

Sources of Financing

The development, implementation, and initial operation of an HMO can prove to be a very expensive endeavor. An employer should review the financial capability and commitment of the sponsoring organization. Employers should know whether the HMO has other sources of financing available to it, such as private foundations, HEW, or others. The employer should make a comparison of the HMOs financial projection needs with that of the actual dollars available to the HMO during the difficult first few years of operation.

Benefits Offered

As a basis for comparing the benefit levels between HMOs, an employer may find some value in comparing the benefits required under the HMO federal law with

that of the HMO seeking its participation. The benefits required under the federal act are considered generally to be very comprehensive in nature. At a minimum, the HMO should offer inpatient and outpatient hospital services. Physician services should be covered both within the hospital and on an outpatient basis. X-ray and laboratory services in addition to emergency health services and mental health services should also be offered as basic benefits. Such outpatient benefits as well-baby care, routine immunizations, routine physicals, and health education should also be provided.

There is an important consideration to keep in mind here. An HMO must compete in the marketplace for enrollment. To do this, it must be competitive with other insurance indemnity plans and Blue Cross plans in the area.

Out-of-Area, Emergency, and Catastrophic Cover

If the HMO seeking participation is federally qualified, federal law sets limits on the amount of insurance, e.g., out-of-area/emergency coverage and reinsurance, e.g., stop-loss coverage the HMO may purchase from insurance companies. The employer should be aware of the catastrophic provision of the HMO—that is, the outer limits of liability of the plan for each HMO enrollee. More and more indemnity carriers

are offering catastrophic coverage up to \$250,000 for each insured individual. An employer should closely examine the liability limits of the HMO to its members. Out-of-area/emergency coverage will vary by HMO.

Community Rating, Pre-Existing Conditions

At this point in time, if an HMO is federally qualified there must be a community rating system in force and there can be no pre-existing condition limitations for individuals wishing to enroll in the HMO (amendments to the HMO Act currently before Congress could alter the community rating provision). A community rating system means by simple definition that the HMO must charge with some limiting exceptions, the same premium for individuals and groups of the same age and sex compositions. Premium rates cannot reflect the health care experience of the individual or group. In effect, in a pure community rating system, enrollees with good health care utilization experience subsidize those individuals with poor health care utilization experience. The employer may wish to ask the representatives of the HMO what kind of rating system is in effect. Current operational HMOs utilize different combinations of experience and community rating for their enrollees.

Risk consultants should be asked for detailed proposals

By WILLIAM S. McINTYRE
President
RIMCO Inc.

IN A RECENT POLL of the nation's risk managers, it was the majority opinion that greater use of outside risk management consultants and services would be evident in business and industry in the next five years.

This is understandable, since it is becoming quite common for one executive to suggest to a co-executive, "Frank, our insurance costs keep rising and I'm downright scared that we may have some loopholes in our existing coverage." Or, "we may be buying too much insurance. There may be some ways in which we can reduce our risks or reduce the possibility of loss."

Often, the above comments lead to a discussion about retaining an outside consultant to review the corporation's risk management program.

Virtually everyone will agree that some outside advice which is independent, unbiased and competent can be very handy at times.

So the decision is made by the corporation to hire a risk management consultant. That's great, but how do you decide whom to retain and what to ask them to do? While the old saying, "You get what you pay for" may be correct, the correctness of the statement is not comforting when you expect to receive and pay for a hundred foot barge but end up receiving and paying for a thirty foot barge or sail boat, or vice versa. The success of any consulting engagement is directly related to an understanding by all parties as to what is the scope of the engagement and what services are to be rendered. Many times, it merely boils down to getting things in writing and understanding the duties and responsibilities of all parties.

In requesting proposals from professionals, the word "bid" should be avoided if at all possible. It often infers that a decision will be based more on costs rather than the quality of service. However, a proposal should determine what costs will be generated and what services received in consideration.

The following are some of the more important points to be examined when considering the services of a risk management consultant:

1. It is very important that the risk management consultant not be in a position to sell insurance to you after the engagement.

Such a situation can be avoided by retaining a risk management consulting firm which does not sell insurance or, if an agent or broker is retained, making it clear to the agent or broker that he will not be considered as a potential producer within five years of the engagement. In addition, the agent or broker used as a consultant should not utilize personnel also involved in the production of insurance. Otherwise, their approach to risk management and self-insurance may be colored by the "typical insurance solutions."

2. Some consultants quote "fixed fees" while others quote "perhour rates." The per hour rates can vary substantially. The matters comes down to the amount of money being paid to employees as well as the number of hours being billed by these employees. Therefore it is quite important that a breakdown of the hourly rates be made scheduling salary expense, other expenses and profit.

Base salaries of the consultants involved should be no secret. Based on 1,500 billable hours, the consultant's base pay should represent 35% to 45% of his billable rate. In addition, some firms bill only for senior members while others bill for all personnel levels, such as staff and clerical.

Fixed fee arrangements can be unsatisfactory to both parties. While the client is protected from an open-ended arrangement, the consultant may take short cuts when he begins exceeding the fixed fee. The consultant is placed in a position of conflicting interests in that he may have to keep performing to benefit the client even though it becomes economically damaging to him. Most clients want consultants to make a reasonable profit, yet want to avoid an open-end arrangement. We suggest that arrangements be made to the effect that an estimated fee is quoted and the quote will not be exceeded unless prior approval is given by the client.

3. Interim billings can be quite important. The engagement should be structured in such a way that the consultant will render monthly statements outlining in detail all actions taken during the past month and time and expense involved. We suggest that the client then pay 80% to 90% of the amount billed, retaining the remainder to be paid at the end of the engagement. In this way, the client can monitor the work of the consultant and evaluate progress to date through fees earned to date.

4. Personnel of a firm is obviously im-



Consultants can be used for advice on the risk management aspects of new properties.

portant. Detailed biographies should be obtained from members of the firm involved in your project. While some emphasis should be given to experience in your particular field of endeavor, a greater emphasis should be given to the innovativeness and the creativity of the consultants.

5. Many consultants can be destructive rather than constructive. Any time an individual or a firm's work is reviewed anxiety may be created. Therefore, the consultant must be aware of the relationships which are necessary in maintaining a viable risk management program. This includes relationships between the corporate officers and operating subsidiaries as well as the corporation and others providing insurance services.

6. A consultant must have adequate data to prepare an accurate proposal of his services and costs. You should be sure to provide documents such as annual reports, 10K's, financial data, and a summary of your thoughts as to the risk management objectives and problems of your corporation.

7. Some consideration should be given to the consultant's errors and omissions coverage. If the consultant is unable to buy errors and omissions insurance, there may be a good reason. If he can buy the coverage and is unwilling to do so, it may mean that he's not substantial enough to care about the consequences of his actions. Don't be too bashful to ask for a copy of his financial statement.

8. Too many people equate quality with size. That is often not the case. Many times, the larger the firm, the less personal the service. Many smaller firms can provide excellent services, to a limited clientele.

9. The holding producers should not be considered for a risk management review, since it is most difficult for even the most professional to be completely unbiased. In addition, one of the main reasons for a risk management review is a fresh perspective.

10. A sample of the consultant's past work is desirable. Otherwise, you could be buying a pig in a poke. In addition, by having a sample of the consultant's work, you can compare it against the final product to see how much "boiler plate" has been used.

11. A list of all of the consultant's clients

should be obtained. This should not be limited to a certain geographical area. If you only ask for three clients references, you may get three of the four clients he has satisfied in his career.

12. Beware of the consultant who quotes on your project without visiting your office and reviewing certain data. Any organization of any size has its own peculiar personality and problems. For a consultant to make a proper evaluation of services and time required in an engagement of any size, it is almost necessary for him to make a visit to perform a feasibility study. If the project is substantial, and the submission of invitations is limited to a small number of well qualified firms, some consideration might be given to paying the time and expense of a day of the consultant's time to make the feasibility study.

13. Request copies of articles and professional papers written by the firm. This will give you an idea of the consultants' innovativeness.

14. Travel plans should be well defined and all trips other than to the home office should have prior authorization. While some on-site inspection is necessary for the consultant to prepare a proper exposure survey, you want to avoid unnecessary trips.

15. While there are many areas to be treated in a risk management report, one of the more important ones deals with the question of self-assumption limits. This is one area that you should carefully review with the prospective consultant.

In summary, if you select your consultant carefully and there is a meeting of the minds, you will "get what you pay for".

William Stokes McIntyre founded Rimco, Inc., Dallas-based risk management firm, in 1967 and has served as its president and senior consultant since. A graduate of Abilene Christian College with a BS in accounting, Stokes is also president of the Insurance Consultants Society, and a member of the Assn. of Risk Managers.



Court rule seen spurring product liability actions

By JOANNE GAMLIN

ANAHEIM, CA.—Product liability lawsuits in California are due for a substantial boost, according to an attorney who addressed a seminar on the subject at the 23rd annual Western Safety Congress held at the Anaheim Convention Center.

Thomas V. Girardi, senior partner, Girardi & Keese, a Los Angeles law firm, told the seminar that a 1975 California Supreme Court decision in the case of Ault versus

International Harvester should enable plaintiff attorneys such as himself to come out on top in a lot of product liability lawsuits in the state in the future.

The California Supreme Court decision, he said, ruled that for the first time plaintiff attorneys can use in their arguments the fact that the defendant made subsequent improvements in the product causing the accident described in the lawsuit.

Noting that until this decision California courts had always held

fast against the introduction of evidence regarding subsequent improvements, Mr. Girardi said that the state Supreme Court approved of the argument for product liability cases—but not for negligence cases.

"However, this is a hell of a boost for plaintiff lawyers," he declared bluntly.

The Ault versus International Harvester case involved a faulty gear box, he said. The argument that won the approval of the Su-

preme Court was that malleable iron was substituted for aluminum 380 in the manufacture of a gear box three years after the accident that triggered the lawsuit.

"With this argument, plaintiffs' attorneys can point to guards, screens or whatever protective device a manufacturer installs after an accident," he said, "and argue that if it had been put up before the accident, the injury in question would not have occurred."

Indeed, Mr. Girardi indicated that the fact that the defendant took steps to make subsequent improvements in the product causing the injury can be presented to juries as a tantamount admission of guilt by that defendant.

The Ault versus International Harvester decision was not the end of the bad news which Mr. Girardi had for the seminar, however.

He said that the argument that the manufacturer should foresee misuse of his product is "coming to the fore in California."

He pointed out that he successfully used the argument in a product liability case involving a manufacturer of a common type cement mixer.

A workman for a manufacturer of fake marble inserted his hand into a mixer from this manufacturer to check on a solution of marble resin and suffered the loss of a portion of that extremity.

"The injured workman could have sued his employer, but we decided to go for a product liability case against the cement mixer manufacturer who first sold the product in 1953," the attorney related. His winning argument, he said, was that the cement mixer manufacturer should have foreseen the misuse the workman made of his product. A \$100,000 verdict was returned, against the defendant.

Mr. Girardi went on to observe

that "you would be amazed at how many companies manufacture products in violation of safety rules." Juries tend to assume that a product is defective if it was manufactured in violation of industrial safety rules, he said. Yet even if a product is made in careful accordance with industrial safety rules, a manufacturer could still be hit with a lawsuit.

Advertising, too, must be carefully scrutinized for pure accuracy, the attorney went on to advocate, noting that many cases are won on the basis of puffy advertisements.

"Few juries will turn down a plaintiff if the defendant's advertising contained unrealistic promises," he said.

Mr. Girardi also noted that contributory negligence is not admissible in product liability lawsuits.

One mistake which many companies make, he added, is to send their lowest level underlings to testify at product liability trials. This person often ends up blowing the case for his employer.

Instead, a company served with a product liability lawsuit should tap its best safety people and send them to do battle with the likes of Mr. Girardi in Los Angeles.

Defense attorney Ryan C. Knapp told the group that product liability cases are being won in California despite the "overwhelming odds" created by the California Supreme Court.

Mr. Knapp indicated that a recall campaign can sometimes be helpful in defending a product liability case.

He said that a long lapse of time from the date of manufacturer and a change in the art of manufacturing a product can "sometimes work" in a defense action . . . but not necessarily.

"If an oil derrick stands in place for 18 to 20 years and then one day collapses on someone, the manufacturer can be judged to be liable," he asserted.

Probably what does work the best, he said, is for the manufacturer to take an immediate interest in the lawsuit investigation and to compile a mountain of valid defense evidence, including photos and data on the machine charged with causing the injury.

Gordon B. Lemke, vp, safety and health services, Employers of Wausau, also warned the group to watch their advertising closely. All such literature must be kept up to date, he added.

AIA calls for insurers pools for cab fleets

NEW YORK—The American Insurance Assn. issued a report calling for the creation of joint underwriting associations (JUAs) to insure taxicab fleets, public vehicles and other commercial risks entering the residual market.

The association said these risks complicate efforts to improve state automobile insurance plans. JUAs are the preferred mechanism for the residual market in auto insurance, the AIA said. Where they are not suitable, the report said the association will support the reinsurance facility concept.

Other activities by the association, according to the report, are monitoring of legislative proposals to aid the Maryland Automobile Insurance Fund (MAIF) and forming an industry group to study alternatives to proposed Pennsylvania regulations.

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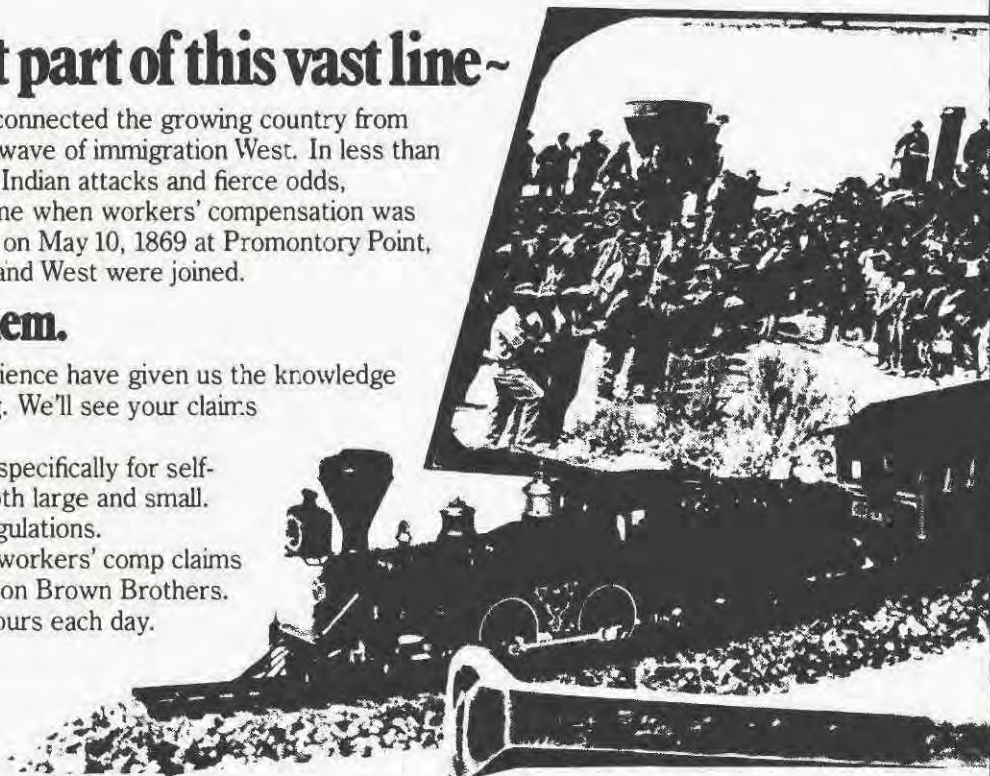
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Government finds poor security, various risks at computer facilities

By PAUL R. MERRION

WASHINGTON—Slipshod security at U.S. government computer facilities could lead to immeasurable losses of equipment and data, affecting millions of Americans and costing billions of dollars.

A report by the Comptroller General last month scored federal agencies for lackadaisical protection against natural disasters and terrorism, and recommended appointing one person at each location to be solely responsible for computer security.

The report also called for the use of risk management techniques to determine the protection needed and to develop contingency plans for when a disaster occurs.

A General Accounting Office study team visited 18 domestic and 10 overseas computer facilities operated by the U.S. government, and they found fire and flood hazards; susceptibility to sabotage, theft and misuse; and a lack of contingency planning at many of the locations.

Ten of the domestic locations were found to store paper supplies and magnetic tape in the same room as the electronic data processing equipment, thus subjecting them to substantial risk of fire from combustible materials.

Three U.S. computer rooms had only portable fire extinguishers to combat a fire, and one foreign lo-

cation did not even have that kind of minimal protection.

Ten of the domestic facilities were exposed to flood risks where overhead water or steam pipes existed without any kind of drainage possible in case they burst.

The study team found that vendor service personnel were not supervised in seven of the domestic locations, and in-house service personnel were not supervised in five of the domestic computer rooms.

The study noted one case of misuse of a government computer in which the government paid \$100,000 to bogus fuel firms for aircraft fuel that was supposed to be delivered to Kelly Air Force Base in San Antonio, Tx.

A government worker at the base who had helped write the computerized fuel accounting program managed to bill the government for fuel that was never delivered by the phony companies he set up. He was later arrested and sentenced to 10 years in prison for criminal acts.

The GAO study team found that five of the 28 facilities were in operation without internal safeguards in the computer programs to detect any misuse.

Only 13 of the 28 facilities were found to have contingency plans for use in case the computer system shut down for some reason.

Continuity of operations is es-

sential, the report said, because the potential impact on individuals and organizations could become a catastrophic problem.

Overall, the study team found great diversity in security measures used by federal agencies. "These practices ranged from minimal physical protection given to computers operated in an unguarded warehouse not designed for certain data processing centers," the report said.

Security was usually found to be the responsibility of the local manager of the computer center, "even though the data processing assets and activities involved all facets of the organizations."

The report said that security measures were typically instituted with little or no evaluation of what protection was needed. "Some installation managers were not sure whether or not their installations were over- or under-secured," the report said.

The only government-wide guidance that exists is a set of guidelines issued by the National Bureau of Standards during 1974, at the same time GAO was conducting its survey.

The GAO report generally approved of the NBS guidelines which cover security analysis, natural disaster, supporting utilities, system reliability, procedural measures and controls, offsite facilities, contingency plans, security awareness and security audit of operations.

However, the report found the guidelines lacking a clear definition of responsibility for security, and when and where the guidelines should be used.

The guidelines are intended mainly for the planning of security, the report said, and they "do

not direct much attention to the day-to-day job of seeing that the security program is properly maintained."

Also, the guidelines apply only to new computer facilities or improvements to existing systems, and the GAO report said they should apply to all computer operations.

NEL-PIA pays refund

Over 350 nuclear facility operators who purchased liability insurance in 1966 from the Nuclear Energy Liability-Property Insurance Assn. (NEL-PIA) and the Mutual Atomic Energy Liability Underwriters (MAELU) will receive over \$1.6 million in premium refunds. Both organizations said there were few liability losses, amounting to only \$600,000. The refund is part of the Industry Credit Rating Plan which retains premiums for ten years to build a reserve fund in case of serious loss. The \$1.6 million refund represents 94% of the premiums placed in reserve in 1966.



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Gondola mishap at Vail has far-ranging impact

VAIL, CO.—The insurance industry, the Colorado Tramway Safety Board and the United States Forest Service are each continuing their separate investigations into the cause of the tragic gondola accident that occurred at

the Vail ski resort here in March in which four persons were killed and eight others injured.

"We've all spent a fair amount of money individually to find out the cause of the accident; it's likely that we'll come to the same con-

clusions," says Graham Anderson, broker with USI-Pettit-Morrey Co. in Seattle which placed Vail's insurance coverage with Lloyd's of London.

Mr. Anderson, who says it is "premature" to discuss possible

liability claims until all reports are in, calls the action "unforeseeable. Vail did everything it was advised to do," but three cable strands, each made up of dozens of individual wires, broke.

Vail Associates Inc. reported that employees made weekly cable inspections. In addition, daily inspections were made of control launching devices, the braking system, and other parts at the gondola terminals.

No suits have yet been filed. Vail's president Richard L. Peterson has said that on the basis of the investigation to date Vail Associates believes it is adequately protected against possible claims arising out of the accident.

Meanwhile, ski area operators nationwide fear that even though they may or may not be insured by Lloyd's, their rates will increase in the already tight market.

Barringer & Williams Inc., insurance plan managers for many ski resorts in the U. S., have indicated that the market for insurance covering ski areas is tight and few carriers—just a handful—participate. Ski area managers nationwide have already received substantial rate hikes in the last few years in spite of often impeccable safety records. The effects of the Vail tragedy, it is feared, will be felt in the excess as well as the primary markets.

This is the first major lift-related accident in the Vail ski resort's 14-year history. The accident was unprecedented in the 26-year operating history of this type of gondola system throughout the world. Vail says that it has operated for nearly 14 seasons, had over five

million skier visits and over 40 million lift rides without a major accident. The morning of the tragedy, the gondola ran almost an hour before the tragedy occurred at approximately 9:30 a.m.

After the accident occurred, Vail also shut down a second gondola since it was of the same manufacturer—Bell of Switzerland—which in recent years has dropped the skiing end of its business.

Vail managers have also said that as a consequence of the gondola crash, Vail will not operate its ski lifts for tourists this summer and will instead embark on a \$2.1 million lift and trail expansion program and also replace track cables on the two gondola lifts. The main track cable in the gondola involved in the accident was seven years old and has a life expectancy of 20 years, according to Vail Associates.

In a preliminary report issued by the USFS just days after the Vail accident, chief investigator George Tourtillott indicated that although there was then a lot that the USFS did not know, it appeared no irregularities with the gondola's safety mechanisms have been found. But Mr. Tourtillott gave the following sequence:

"There was a section of frayed cable, some 100 feet long, just downhill from Tower 4. The accident, where the cars fell, actually took place just downhill from Tower 5. It appears that car No. 25 (eventually to be the first car to fall) came into Tower 5 and jammed into the tower mechanism. The power cable 'popped' loose from the car and continued on. It appears this very hard cable, in effect, through a sawing action, severed the car (No. 25) from its carriage and it fell. The second car (No. 60) came up and jammed into the still-suspended truck mechanism from car No. 25 and it stopped. A third car, No. 67, came up, hit car No. 60 and knocked it off. Car No. 60 landed upside down and was the car in which the fatalities occurred."

Mr. Tourtillott said that another "interesting point," was the discovery that a car further up the line was also partially derailed. Two cars between this partially derailed car and the accident site at Tower 5 appeared to be riding normally on the track cable.

Before the accident was reported to the top gondola lift terminal, passengers unloading from the gondola reported to lift operators what looked to them like a piece of lift cable unraveling, according to Vail Associates. Two of the operators immediately pushed the stop button. Their action "almost certainly" prevented further damage and injury, said spokesmen.

The first patrol member on the scene of the accident radioed that a major medical emergency had taken place and requested all available doctors and additional help to the scene. The accident occurred near the 10,000 foot level, or at about two-thirds of the way up the mountain. The ski patrol removed five of the injured persons by toboggan the more seriously injured were removed by snowcat to the ambulances waiting at the Forest Road slope access.

The gondola car immediately behind the two cars that fell was secured with ropes and a chain. Evacuation of the six adults in that car began immediately. Physicians from the Vail Valley Medical Center immediately joined in treating and evacuating the injured persons from the mountain to the medical center. Passengers were then evacuated from 69 other gondola cars.

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Thieves are hot on the trail of CB equipment

OLYMPIA, WA.—On the heels of a report that one out of every three CB radios is stolen—on the average, after only 25 days when left in a car. Washington's insurance commissioner has notified all companies writing policies in the state that coverage for radios cannot be denied under a common exclusion originally applicable to tape decks.

In his ruling, Commissioner Karl Herrmann noted, "Theft of citizen band radios is an extremely serious problem in Washington state, as it is throughout the nation. Some companies have faced the problem by denial of claims for such thefts under homeowner's policies in reliance upon an exclusion, applicable to unscheduled personal property, reading substantially as follows:

"This coverage excludes... any device or instrument for the recording, reproduction or recording and reproduction of sound which may be operated by power from the electrical system of a motor vehicle, or any tape, wire, record disc or other medium for use with any such device or instrument while any of said property is in or upon a motor vehicle..."

"We do not agree that the above language includes radios and thereby excludes them from coverage, nor do we think the courts of our state would accept such interpretation."

Mr. Herrmann contended that "while a radio engineer or an electronics specialist might agree that, technically, a radio reproduces sound transmitted to it through electrical waves, the insurance buying public is not required to have such knowledge. And the rule is that the language of insurance policies should be in-

terpreted in accordance with the way it would be understood by an average man purchasing insurance.

"Moreover... it seems clear to us that the quoted language of the policy was intended to apply to devices that record and store sound, not to devices that instantaneously receive or transmit sound. We do not think the language sufficiently describes a radio to the average man... If an exclusion of "radios" was intended, the policy could easily have said so. ■

Must correct all hazards

WASHINGTON—Any employer with the ability to correct a hazardous situation at a multiemployer construction site would be required to do so, regardless of who has immediate responsibility for the hazard, under a proposed guideline from the Occupational Safety and Health Administration (OSHA).

In determining ability to abate a hazard, OSHA plans to consider whether the employer has control over the workers, materials and equipment necessary to abate the hazard, or whether the employer has authority to order the abatement of a hazard created by another employer.

The proposed rule would make a general contractor responsible for any safety violations at a construction site, even if the general contractor's own employees are not exposed to the danger. ■

errors & omissions

• In the May 31 issue of *Business Insurance* it was stated that Mr. Rick J. Morrissey was hired as president of Medical Trust Fund Group. The company is a new one, formed by Mr. Morrissey.

• At least one insurance manager for a major U.S. corporation, which requested anonymity, has been able to renew its directors' and officers' liability insurance with Lloyd's of London without having a new exclusion automatically applied. The exclusion which this corporation did not want applied, and was able to negotiate its way around, is the one applying to claims arising out of commissions, bribes and payments made overseas. This clarifies a story in the April 19 issue that may have created the impression that Lloyd's was successfully adding the exclusion to all D&O policies being written or renewed.

• An article in the May 17 issue of *Business Insurance* about Unionamerica's possible sale of its insurance group, contained an inaccurate headline which said Unionamerica's creditors were demanding the sale of the insurance group. Unionamerica says this was blatantly untrue. Any such implication in the story or the headline is incorrect, although the story, which Unionamerica says was accurate and fair, stated that the sale may take place in order to satisfy Unionamerica's commitments to its consortium of creditors.

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Battelle establishes a 501(c)(9) for benefits

COLUMBUS, OH.—Battelle Memorial Institute recently established a 501(c)(9) trust for employee medical and long term disability benefit plans for just under 3,000 of its workers.

The trust, called a VEBA (voluntary employee benefit assn.), was established in lieu of the insured health plan with Teachers Insurance and Annuity Assn. and a 501(c)(3) trust formerly used for LTD. Both plans previously used were available only to tax exempt organizations, for which Battelle qualified until recently, said Paul R. Langdon, assistant treasurer or the large research institute.

McElroy Minister Co., a Columbus insurance brokerage firm which handles Battelle's other insurance matters, administers the 501(c)(9) trust and provides health and medical plan claims administration. The broker is paid on the basis of a negotiated fixed annual fee, said Mr. Langdon. McElroy Minister has a full-time representative on the Battelle premises for claims administration.

The long term disability portion of the program is handled under an administrative-services-only contract with Prudential Insurance Co., with whom Battelle also

Hall and AIG win IMC's casualty plan

LIBERTYVILLE, IL.—Frank B. Hall & Co. won the International Minerals & Chemicals Corp. casualty account, generating annual premiums in the seven-figure range, estimated to be well over \$1 million a year, *Business Insurance* learned.

All primary public liability insurance, including product liability, and auto liability coverage was involved in the broker change, a spokesman for Alovio Corp., contract insurance managers for IMC, confirmed. Umbrella liability coverage was not involved.

The previous broker was W. W. Rice Agency, Chicago, which had the account for several years. Continental Insurance Co., part of the Continental Group, New York, was previously the underwriter. American International Group's National Union Fire Insurance Co. is the new underwriter for the policies.

Numerous brokers were involved in the evaluation of IMC's liability insurance program, said the Alovio spokesman. Limits of coverage were not changed, although the spokesman said "there was a reorganization in the primary coverage."

Indications from knowledgeable sources outside the company were that retentions had to be substantially increased under the new program. Rice is said to have lost the business because it could not find markets to write the needed coverage for IMC, because Continental was reportedly hesitant to provide continued coverage for exposures in the workers' compensation, products and general liability area for IMC's risks created by its explosive manufacturing and agricultural chemicals operations.

IMC is in three basic businesses—agricultural materials and phosphates, industrial chemicals, and ore operations—and has sales of about \$900 million a year. ■

has its life insurance plans.

Battelle is paying over \$1 million a year into the trust for the two benefit plans, with about 80% of that for health and medical benefits.

"From the cost standpoint there is a decided advantage," said Mr. Langdon, noting that total benefit costs under the VEBA are "much lower than we were paying. And the earnings on the reserves are ours," he noted as another advantage.

Battelle doesn't use any kind of stop-loss insurance for either the medical plan or the LTD plan. "The reason we don't have one on medical is that I think it's highly unlikely that we would ever have a loss that exceeds our sick leave

plan, and we have a pretty generous sick leave plan. Our benefit plan provides a maximum of \$100,000 medical benefits per employee," said Mr. Langdon.

McElroy Minister advises Battelle from time to time on modification of benefit plans, he added, noting that the medical maximum was recently raised to \$100,000 from \$50,000 on the broker's advice. Furthermore, Battelle is currently looking at the trend toward using higher (employee) deductibles and covering more catastrophe-type claims, Mr. Langdon noted.

Another minor change recently implemented was that Battelle decide to provide coverage for all medical claims up to \$100 for emergency care in a hospital emergency room or in a doctor's office. Formerly these emergency treatments are covered only if the employee was treated in a hospital facility. ■

Small firms aren't well represented: Schanes

NEW YORK—U.S. employers and the employees of small companies lack adequate representation in Washington, the former head of the Pension Benefit Guaranty Corp. said last month.

Dr. Steven Schanes told the 10th Annual Employee Benefits Conference that, "Less than 100 of America's largest industrial companies are well represented when it comes to the pension area. The rest of the country's employers are represented in the capital by a number of people, but none of them address the pension area during the crucial periods when policy is being formed."

Employees of smaller companies have similar pension problems because few organizations advance

their interests during the early phases of governmental policy making. He said it is important to act on their views early rather than react after the interpretations are made and policy adopted.

Mr. Schanes, now an independent pension consultant, said it is unlikely that the Employee Retirement Income Security Act of 1974 (ERISA) will be amended allowing pension plan administrators to report to only one agency.

"By allocating responsibilities among three prime agencies—the Department of Labor, the Internal Revenue Service and the Pension Benefit Guaranty Corp.—Congress has made it hard for interest groups to focus on one agency as the place to bring pressure." ■



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Modern boom in amusement parks has insurer spinning special covers

SAN FRANCISCO—Some time later this year, hundreds if not thousands of "young-at-heart" Americans in Georgia and Texas will be pulled upwards to a height of 175 feet, at a speed of 15 feet a second, to gain the "thrill" of a 28 second free-fall to the ground below.

They will, of course, be harnessed to one of a dozen parachutes attached to huge steel arms stretching out in a circle from the summit of a new \$1.5 million Swiss-manufactured parachute drop tower, at Six Flags Over Texas (and Georgia) amusement parks.

"The initial drop," explains Six Flags general manager Dan Howells, "produces a sensation much like that which I imagine would

result from jumping off the roof of a three story building!"

The screams of terror or sheer pleasure that may ring out over the Georgia and Texas amusement parks will go uncovered by any insurance.

However, should anything go wrong or should a parachute "jumper" decide to sue Six Flags for damaged nerves and attempt to prove his or her case in court, the park's legal liability will be in the hands of Fireman's Fund American Insurance Cos. here.

Amusement parks have been a phenomenon in much of the world for many years and in the United States since 1800. Some, such as New York's Coney Island, have

gained international fame and the last few years have brought a resurgence of interest and construction.

"Some 30 years ago," explains Michael Mottola, who as resident secretary of Fireman's Fund's excess and special risk department at Newark, N. J. coordinates all of the carrier's amusement park coverage in the U. S., "an amusement park might have as many as a dozen rides costing \$10,000 to \$20,000 each.

"Today," Mr. Mottola points out, "many parks have double that number and rides can cost \$100,000 or more to design and manufacture. Typical of such cost are the parachute drops developed for Great Southwestern Corp., which



Today's amusement parks, with their dozens of sophisticated, expensive rides

owns Astroworld as well as the Six Flag parks."

Insurance coverage of amusement parks started about 40 years ago, when the American Automobile Insurance Co. began underwriting such risks. That company was absorbed in 1956 into the American Insurance Co., which was purchased in 1962 by Fireman's Fund.

"In the intervening years," Mr. Mottola reports, "amusement parks have become a multi-million dollar industry and currently Fireman's Fund insures about 40 such parks throughout the U.S., covering all kinds of buildings, exhibits, shows, vehicles and rides, to protect park management against a great variety of risks."

Fireman's Fund records at San Francisco headquarters are replete with the history of amusement parks. In 1940, the total insurance premium generated by this market was \$200,000 for Fireman's

Fund; today it is up to \$4 million a year.

Parks had their American origin, it seems, when larc developers saw profit in replacing itinerant medicine shows, circuses and county fairs with permanent amusements reachable via streetcar lines. "Many, if not most of America's early amusement parks," Mr. Mottola said, "were actually built and operated by owners of trolley car lines anxious to gain riders. They constructed their parks at the end of streetcar lines and promoted them to build week end use of the trolleys."

Such ventures, Fireman's Fund files show, reached a peak of popularity after World War I and then began a decline that lasted until the 1940s. When Walt Disney developed his amusement park concept and opened Southern California's Disneyland in 1955, the modern "boom" in amusement parks was underway.

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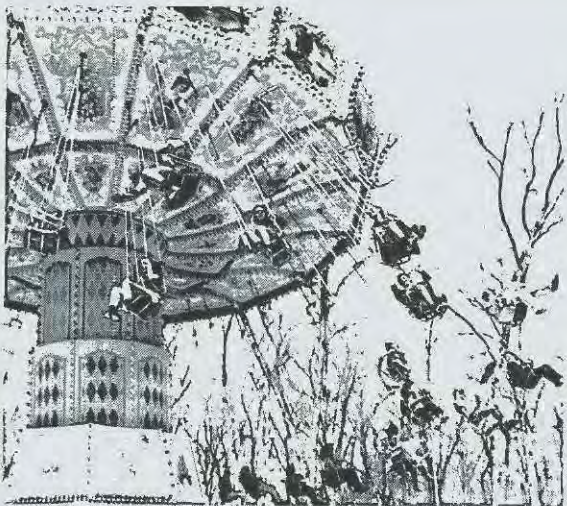
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uch as those above at Great Adventure in Jackson, N. J., require more expensive insurance, as well. Fireman's Fund is the leader in this market.

litigation began to develop, a greater-than-ever-before need for liability insurance resulted. With Fireman's Fund having pioneered the business, the boom in amusement park construction increased the carrier's premium writings in this market "tremendously." The company has long been considered a leader among the large insurance carriers which write amusement park policies.

Policies cover physical injury to any person entering an amusement park, as well as damage to the patron's property and personal injury. Policies even extend to situations where a park patron may feel libeled, slandered or unlawfully treated at a park.

These days, there's hardly an amusement park around that doesn't buy liability insurance for at least \$1 million of losses. Very small operations may still buy limits of only \$300,000 or \$500,000, but limits for the very large, sophisticated amusement facilities run to \$25 million.

Premiums can be as low as \$200 for insurance covering a single ride in a shopping center park. But the average premium cost annually for amusement park liability insurance runs between \$40,000 and \$600,000 indicating hefty rates applied to limits in the low millions.

Fireman's Fund contends it's the only carrier now having loss control specialists who work in the field to serve both the underwriters and the park policyholder. The procedure for insuring an amusement park, as described by Mr. Mostola, is "simple, but specific and carefully thought out." First step is for a broker to present an underwriter a request for a premium quote.

The underwriter then sends Fireman's Fund's loss control unit a survey request, which must be completed in 10 working days. Loss control specialists obtain data on owners of the park and the managers for evaluation of proficiency in park operation and awareness of safety responsibilities.

"Our loss control people," Mr. Mostola explains, "will list each ride in the park, its capacity and physical condition, to determine its safety. They check the park grounds, picnic and entertainment areas and they prepare a detailed report for the underwriter." The underwriter then uses these reports as well as records of prior loss experience and claims to prepare for the broker a premium quote.

This is the manner in which Great Southwestern became one of Fireman's Fund's bigger policyholders, protecting elaborate amusement park operations, the oldest of which is located midway between Fort Worth and Dallas. That park, opened in 1961, to date has recorded more than 27 million visitors, all of whom have paid a substantial admission fee. Once inside, however, all of the more than 100 attractions are free of charge.

Ted Payne, Fireman's Fund's loss control manager, and loss control technician Peter Black assist the park staff in keeping 30,000 to 40,000 visitors a day "as safe as is humanly possible."

"This even extends," Mr. Payne points out, "to writing the speech used by the conductor of an antique steam engine train, with language intended to keep guests in their seats until the train has come to a complete halt."

"In addition," he reports, "the boilers on that steam engine are checked at regular intervals during every day it operates. We even participated in the design of the asphalt surface of the depot loading dock, to assure that it would provide firm footing even in rain storms."

"Each of the 2,000 park employees," Mr. Payne said, "is carefully trained in safety techniques which we have helped to develop, and each of the operators of the 20 rides in the park undergoes equally intensive safety-training sessions."

All of the rides in all amusement parks covered by the insurance carrier are equipped with standard but ultra-modern safety devices as well as backup devices designated and installed by engineers on the Six Flags payroll.

"Once a month," Mr. Payne continued, "a safety committee meets with me. This consists of representatives from the park's maintenance, operations and security divisions. With Pete Black helping me,

we discuss every aspect of safety problems.

"Pete and I make surveys of the park almost constantly and we pass along to the management our suggestions for improvements and elimination of any safety hazard. We consider ourselves as being on call 24 hours a day."

The new parachute drop is a good example of the extent to which the insurance company's loss control experts participate in park decisions and operations. Each of the dozen parachutes used is under control at all times, even during the "free-fall" stage. "We will be present during the actual installation of this ride," Mr. Payne said. "And, if we think it necessary, we'll make suggestions for additional safety measures."

A nearly identical parachute drop is being constructed for the Six Flags park in Georgia, where the roller coaster is described by the Guinness Book of Records as the longest and highest in the world (with more than 17 tons of bolts, 4 tons of nails and 750,000 feet of lumber in its construction).

The parachute drops now being installed at both the Georgia and Texas parks are a 1976 modernization of the parachute drop used in the mid-1940s by more than 35 million visitors to Coney Island. The new parachute ride was the concept of Errol McKoy, Six Flags vp and general manager of the park at Atlanta. "I got the idea," Mr. McKoy said, "when I was researching the roller coaster which

rises 105 feet above the ground and speeds over a 3,800 foot winding track at speeds up to 57 miles an hour."

That ride is checked for safety maintenance every day by the Fireman's Fund loss control manager at Atlanta, James Miller, who inspects track, framework, chains and cars for any possible safety hazard. A technician also "walks the track" every morning before the park opens to check on the wood and metal portions. The metal is also x-rayed regularly to detect any stress problems.

The Six Flags over Mid-America park just outside St. Louis was the last to be built by Great Southwestern Corp. Fireman's Fund loss control manager at St. Louis, James Lengyel, was actively involved in all stages of the park's construction. The San Francisco insurance firm carried the builder's risk and workers' compensation policies on the park while it was being built.

All three of the corporation's parks, as well as Astroworld across the street from Houston's Astro-dome, are now covered by a single amusement park liability policy which was formulated by William Sunderland, Los Angeles resident secretary for the carrier's excess and special risk department. The policy was written out of the Fireman's Fund office at Los Angeles, where Great Southwestern has its headquarters. The policy was placed through Frank B. Hall & Co.

Continued on page 78

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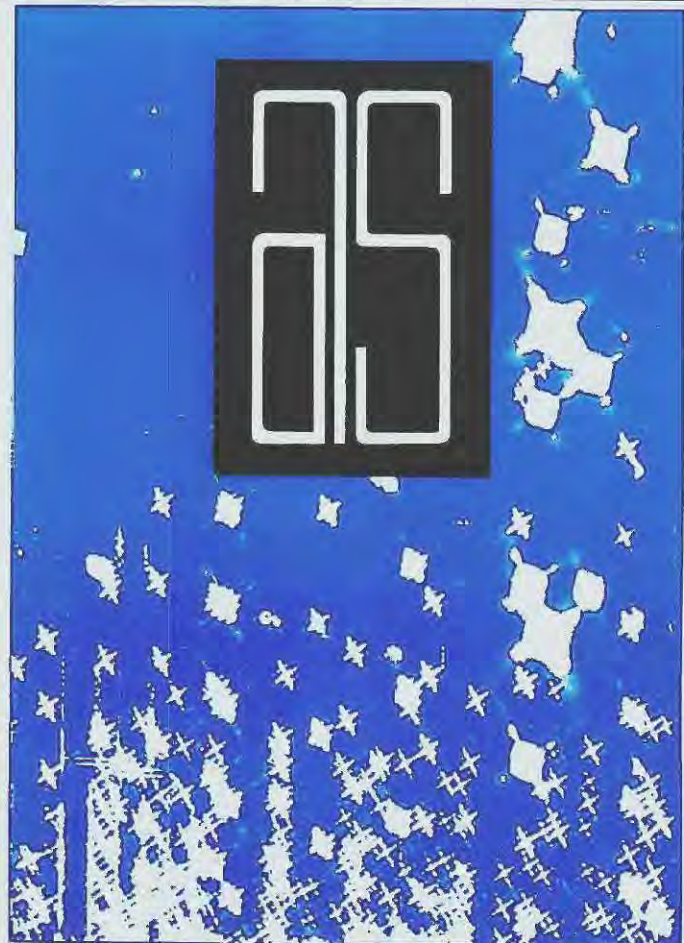
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Beatrice Foods to get new risk mgr. on July 1

Leo Milota is understood to be joining Chicago-based Beatrice Foods Co. effective July 1 in the position of risk manager. At press-time, company officials could not be reached for comment about whether this involves a restructuring of the Beatrice corporate insurance department. Donald H. Klein, assistant secretary of Beatrice, serves as director of corporate insurance and employe benefits. Rodger A. Cochran, assistant corporate insurance manager, has been handling property and casualty insurance matters for the company for several years. Mr. Milota has for three years been risk manager for Chicago-based CF Industries, a large manufacturer of chemical fertilizers cooperatively owned by 19 regional agribusiness cooperatives in the U.S. and Canada. A replacement has not yet been chosen at CF Industries.

J. Lawrence Fiedler, 50, was named director of risk management and insurance for the Carter Hawley Hale Stores Inc., Los Angeles. Mr. Fiedler was formerly corporate insurance manager for the May Co., St. Louis, and was reported in the May 17 issue of *Business Insurance* to be joining Johnson & Higgins in St. Louis.

At Carter Hawley Hale, Mr. Fiedler reports to Howard N. West, vp and treasurer. Mr. Fiedler replaces James R. McLees, who left the retailer to join C. F. Braun & Co. in Alhambra, Ca. as assistant risk manager as reported. Mr. Fiedler began his insurance career in 1952 as underwriter with Continental Insurance Co., St. Louis. In 1966 he joined Alexander & Alexander in Tulsa as manager of the commercial underwriting department, a post he held until joining May Co. in 1969.

Eugene Marinelli was named director of risk management for IU International Corp., Philadelphia, reporting to the vp, taxes and insurance. Mr. Marinelli was formerly assistant director of risk management at IU International. Gerald M. Brown, who was formerly the IU director of risk management, left the company and joined Alexander & Alexander.

Donald E. Maller was named risk manager at Monumental Properties Corp., Baltimore, responsible for property, casualty and group insurance. He replaces R. H. (Ros) Crosier Jr. who left the company after seven years to join Maury, Donnelly & Parr Inc. in Baltimore,

the city's oldest insurance agency. Monumental Properties is a real estate holding company which owns and operates about 15,000 apartments, shopping malls and office buildings with about \$1 billion in assets. Mr. Maller reports to the vp of finance at Monumental, and manages a three-person department. An attorney, he was formerly risk manager for Munford Inc. in Atlanta. Before that he was in the insurance departments of Rollins Inc. He attended the University of Illinois and DePaul University law school.

W. Ballard Powell, 37, was named director of corporate insurance for Munford Inc., Atlanta, which operates supermarket chains and other retail outlets as well as warehousing facilities and cold storage operations generating about \$250 million in sales. Mr. Powell replaces Donald E. Maller, who left to join Monumental Properties Corp. in Baltimore. Mr. Powell was formerly with Marathon Oil Co. in Findlay, Oh. where he was manager of domestic and international property and casualty insurance. At Munford, he is responsible for property and casualty coverages and group insurance, reporting to the vp of administration. He has a degree in insurance from Georgia State University. At one time, he was assistant to the president, Savannah Machinery & Shipyard Co. in Savannah, Ga., where he was also responsible for risk management and insurance. Mr. Powell's responsibilities at Marathon Oil were absorbed by Richard F. Edelbrock, workers' compensation coordinator.

Tricky risks on roller coasters . . .

Continued from page 77

The rating plan for the single policy was designed to provide incentives to Great Southwestern to keep losses at a minimum. The safety performance at each park has a direct relationship to the insurance cost.

Adventureland, on Long Island, N. Y. is a small amusement park with 19 rides, a game area and food concessions on 10 acres. It is owned by Al Cohen, who developed a somewhat similar safety program with Lou Pisapia, Fireman's Fund's loss control manager at Garden City.

Ride operators at Adventureland are required to fill out "trouble" reports at the end of each day. These are used the next morning by maintenance crews which "solve the prior day's safety problems" during the three morning hours prior to park opening.

It was Mr. Pisapia for example, who suggested that the animals on the Adventureland carousel have stirrups for the small children who use the ride. Straps also tie around the riders' waists to prevent falls.

Fireman's Fund has been insurer for Adventureland since the park opened 15 years ago, and Mr. Pisapia has been its "loss control manager" since the first day.

Another large amusement park insured by Fireman's Fund is Dorney Park, at Allentown, Pa. This park is now 92 years old, founded in 1884 when the first mechanical rides were installed. Safety at Dorney Park is supervised for Fireman's Fund by Joseph Bodor of the Philadelphia office.

Robert Ott, current president of Dorney Park, is a third generation member of the Jacob Plarr family which has managed the park since 1901. Dorney Park, in addition to its rides, also operates a restaurant and a variety of food-dispensing facilities for visitors. Fireman's Fund insures the park for liability against illness resulting from food consumption, under a products li-

bility policy.

This policy is in addition to the amusement park liability coverage, which the park has purchased from Fireman's Fund for 30 years. The original policy was issued in the 1940s by American Automobile Insurance Co.

Dorney Park does have one attraction not covered by the liability policy. This is stock-car racing, held every Saturday night in season. Injuries to the drivers are not covered, although the policy does cover injuries to spectators watching the races.

At the new Great Adventure

theme park in Jackson, N. J., vp Ed Gadberry and safety director T. C. Freeman took a Fireman's Fund safety suggestion during construction and all the pebbles around the hundreds of trees which line the main street of the park were glued down, to prevent visitors from slipping on them.

Each of the 30 rides at this park, where the Giant Wheel is the biggest ferris wheel in the world, is given a test ride before the park opens each morning. Mr. Freeman also personally checks each ride every night and a third shift does preventive maintenance after the park closes.



Peter F. Johnson, 27, was named loss prevention engineer at B. F. Goodrich Inc., Akron, a newly created position under Spencer J. Traver, director of risk management. Mr. Johnson was formerly with DeSoto Inc. in Desplaines, Ill., where he worked in environmental and pollution controls. The creation of this engineering position represents a "beefing up" of Goodrich's internal engineering staff so

that the company can better work with its insurance markets.

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Texas hospital exchange receives final approval

AUSTIN, TX.—The Texas Hospital Insurance Exchange is now ready to issue hospital professional liability policies to any of the 600 member hospitals of the Texas Hospital Assn., after final approval was received for its insurance rates and rating procedures from the State Board of Insurance.

The reciprocal, however, is still searching for greater limits of reinsurance. Currently, excess coverage is being purchased through the Joint Underwriting Assn., with limits of \$300,000 for single incident coverage and \$300,000 for multiple incidents.

These limits bring the total excess coverage to \$450,000 for a single incident and \$800,000 for multiple incidents, when combined with what THA will underwrite itself.

"Despite all our problems, we're still optimistic," said O. Ray Hurst, THA president, concerning the reinsurance question. Negotiations

are still underway and reinsurance could be granted at any time.

"Perhaps the American Hospital Assn. may turn its captive in this direction," said Mr. Hurst, considering another possible source for reinsurance.

The newly approved rating formula will analyze over 25 variables in each hospital to determine the premium cost for each hospital. Such variables include: scope of patient service, the volume or number of patients treated, the complexity of treatment procedures and prior professional liability claims experience.

The results of a study conducted by the THA over a five year period concerning claims experience of its members were used to help determine the new procedure.

"Hospital cooperation and participation in a comprehensive hospital loss control program" will be a major requirement of hospitals participating in the program.

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