

# business insurance

Week of June 16, 1980

## Phony policies

Regulators in New Jersey and Florida have put out of business three of four companies that handled bogus policies: **Page 2.**

## Mr. President?

Presidential candidates sharply disagree on commercial insurance issues: **Page 8.**

## The markets

Watch insurers' return on equity to predict the next downturn in the market: **Page 26.**

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$20 a year Entire contents copyright 1980 by Crain Communications Inc. All rights reserved.

### Bright outlook

Micom's new package is forward-looking, says personnel analyst Sheila Lewis, left, with Mary Harrell, administrative assistant.



Photo: Sharon Watson

## Benefit redesign helps firm compete

By SHARON WATSON

DALLAS—You have 30 days to design and market an employe benefit program that will:

- Lure employes to your company from other firms known to have generous benefit packages.
- Raise employe contributions for the increased benefits without making current employes unhappy.
- Contain the benefits you'll want to offer knowing the firm is growing rapidly.

Micom Data System here was presented with this prob-  
*Continued on page 22*

## U.S. lawyers solicit oil rig disaster suits

By JOHN H. MILLER

OSLO, Norway—U.S. attorneys are trying to take over some of the costly personal liability claims emerging after the tragic loss of the French-built oil rig Alexander Kielland in the North Sea March 27 (BI, April 7).

So far they have been rebuffed by the Norwegian trade union federation Landsorganisation, which is hoping to achieve \$200,000 settlements for each of the families of the 96 Norwegian workers killed.

Similar settlements are forecast for the families of 27 Britons, Finns and Swedes who also were drowned, bringing to \$25 million the total liability bill faced by in-

surers in the U.K. and elsewhere.

Adding the cost of the lost rig, the insured loss is now estimated at \$60 million to \$70 million.

"Certainly some U.S. lawyers have been in contact with bereaved families here with the promise they can get better judgments in the U.S.," Karl Nandrup Dahl, senior legal executive for the Landsorganisation, told *Business Insurance*.

"We prefer to do things according to Norwegian law and feel that this compensation level is suitable in the circumstances."

The U.S. lawyers are assuming that Phillips Petroleum, which op-

*Continued on page 22*

## DES makers fight group liability rule

By RHONDA L. RUNDLE

INDIANAPOLIS—Eli Lilly & Co. and at least one other DES drug manufacturer next month will ask the U.S. Supreme Court to review California's landmark decision against them that greatly expands the scope of product liability.

The California supreme court ruled March 20 in *Sindell vs. Abbott Laboratories et al* that cancer victims can sue DES makers as a group when the plaintiffs don't know the manufacturer of the drug causing their injuries (BI, March 31).

Liability for damages among DES (diethylstilbestrol) makers must be determined by their market share for the drug, the court reasoned in its 4-3 decision.

Already "nearly all plaintiffs are now citing the *Sindell* opinion" in their cases, said John Leahy, staff attorney for Lilly.

"We intend to argue in the Supreme Court that the principle of industrywide liability violates the 14th Amendment guarantee of due process and equal pro-

tection under the law," he said.

Lloyd's of London and The Home Insurance Co. of New York insured all of Lilly's liability for DES until 1969, said Raymond E. Rauch, senior counsel for the drug company. Subsequently, Lilly set up a self-insurance program.

The private insurers neither concede nor deny responsibility for claims, Mr. Rauch said. "Technically they have reserved their rights so that coverage issues are currently unresolved," he said recently in a report confirmed by the company.

Four other drug company defendants in the two California DES cases, *Sindell vs. Abbott Laboratories et al* and *Rogers vs. Rexall Drug Co. et al*, will probably join in the appeal, says a legal source close to the case.

So far, however, only Rexall definitely intends to petition the Supreme Court, its attorney says. Abbott Laboratories and E.R. Squibb & Sons are still considering the action, company spokesmen said. The Upjohn Co. declined to discuss its

*Continued on page 27*

## Agreed-value policies stem inflation's threat

By ELLIS SIMON

NEW YORK—Risk managers must keep policy limits floating on the rising tide of property values or be swamped with an underinsured property loss.

Inflation has driven commercial property values up more than 50% over the past five years. This year's increases could be 15% to 16%, says Ed Moran of Marsh & McLennan Protection Consultants.

A company that has neglected to increase its insured values over the past five years could recover only half the replacement cost or less if a loss occurred today.

Ask the owners of eight offshore oil rigs that were lost in the last year. They were insured for a total of \$152 million less than the replacement value, said Roy Williams, president of AIG Oil Rig.

Accurate property values and a good valuation system are also needed to secure agreed-value coverage from insurers. Agreed-value coverage, which can be written into both replacement cost and actual cash value policies, eliminates the coinsurance feature of property policies and is the policyholder's best life jacket against inflation, experts say.

If current trends continue, property values will rise at ever-increasing rates. Building values rose 8% to 8.5% during 1977-78 and 11% last year, Mr. Moran said. Machinery costs rose 9% in 1978 and 13% in 1977.

"Most large companies are hard pressed to keep track of their phys-

ical assets," said Wayne Crawford, vp of Industrial Risk Insurers. "Most have arranged a listing of items and values on computers and attempt to keep up with additions and deletions as they are reported by plant managers.

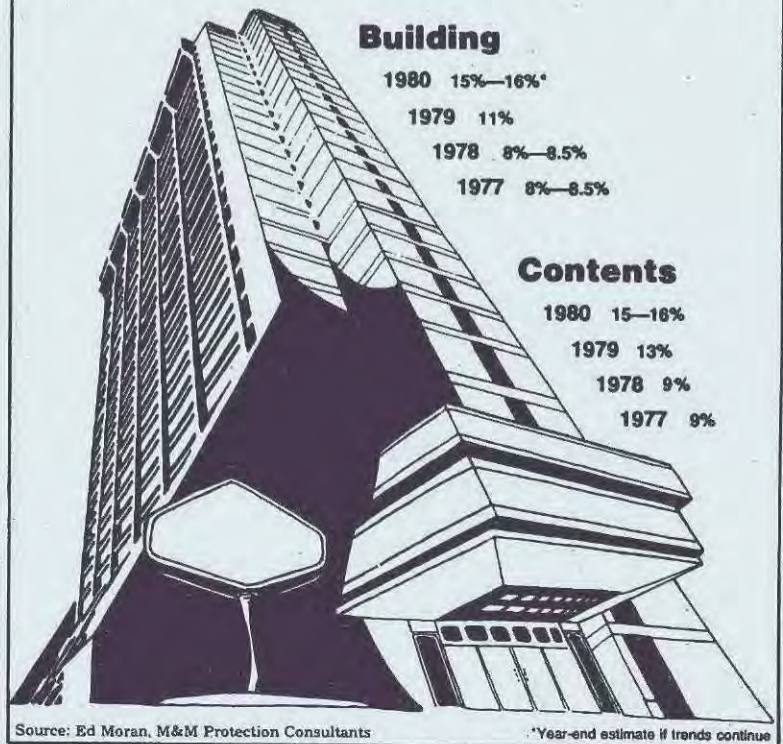
"To keep these values up with

inflation, most corporations rely heavily on their property insurance underwriters to supply average value factors."

Keeping property values current is one of the "most voluminous tasks" a risk manager faces in most

*Continued on page 27*

## Escalating Property Value



**REX suspended**  
**Page 3**

## for your information

### Chase Manhattan investigates \$20 million in loan losses

NEW YORK—Chase Manhattan Bank is investigating \$20 million in allegedly fraudulent loan transactions that may involve bank employees.

If the loans are found to be noncollectible because of employee dishonesty, losses can be recouped under fidelity coverage provided by Chase's bankers blanket bond.

The fidelity coverage is "several times \$25 million" underwritten by several companies, a bank spokesman said. The bank's coverage starts after a \$2 million deductible.

Among the insurers are The Hartford Insurance Group, which underwrote 30% of the cover, and Aetna Life & Casualty, which has an undisclosed portion of the risk.

If the loss is not the result of fraudulent acts by employees, a loan loss reserve in excess of \$400 million would be tapped.

### Cayman director convicted

GEORGETOWN, Grand Cayman—John W. Ray, former director of Cayman Underwriters Services Ltd. here, is appealing a June 9 conviction in Cayman court for forgery and obtaining property by deception.

Mr. Ray was convicted of forging on a \$30,000 check the signature of Kent Winford, senior vp of Trenwick Ltd., a Bermuda-based reinsurance company.

The check was drawn on the account of St. Ives Insurance Ltd., a Charter Oil Co. captive insurance company managed by Cayman Underwriters. Cayman Underwriters is also a subsidiary of Charter Oil.

Mr. Ray testified that he signed Mr. Winford's name to the check, but that he did so on the telephoned instructions of Mr. Winford.

Mr. Winford testified that St. Ives did not owe Trenwick \$30,000 and that he never instructed Mr. Ray to sign his name.

Dave De Marco, former president of Cayman Underwriters who resigned from the firm this spring just after Mr. Ray (*BI*, April 28), testified that Mr. Ray had drawn a proper check.

### Conn. to appeal BC/BS ruling

HARTFORD—The state insurance department will appeal a superior court judge's ruling that an 18-month-old decision to bar Blue Cross/Blue Shield from entering the life insurance field is erroneous.

The judge's decision stated that the ruling (*BI*, Feb. 5, 1979), issued by insurance commissioner Thomas C. Mike, is erroneous only because it is based on an interpretation of the wrong state law.

The commissioner had the authority to deny the application under one state law, but he erroneously based his denial on another state law that delineates activity and power granted the specially chartered health services corporation, the judge ruled.

Blue Cross will not try to acquire the dormant American Professional Life Insurance Co. of New Jersey until the appeal is resolved, a spokesman said. The \$180,000 purchase of the life insurance company requires state insurance department approval, said state assistant attorney general John Haines.

### Riot losses near \$250 million

MIAMI—Losses from the recent race rioting here are almost \$250 million in property damage and missed sales, local officials now estimate.

Insurance companies with policyholders in the area are still sifting through claims to see what their exposures will be, but Miami city manager Rob Parkins said many of the losses—particularly those involving business interruptions—may be uninsured.

### 1st Amendment claim filed

NEW YORK—An upstate New York newspaper's fight to cover a closed hearing in a murder trial has created the first claim for First Amendment insurance underwritten by a Bermuda captive.

The Binghamton Evening Press has notified the Mutual Insurance Co. Ltd., its First Amendment policy insurer, that the paper will pursue legal action against the judge's order closing the preliminary hearing.

The policy, offered only to members of the American Newspaper Publishers Assn. six months ago, provides up to \$1 million of coverage for court cases involving the First Amendment rights of the press (*BI*, Oct. 15, 1979).

Although the preliminary claim has been filed with Mutual, newspaper officials say they doubt the captive will have to pay any losses in this case.

The cost of the hearing to try to open the preliminary proceedings of the murder trial will "not come anywhere near the deductible" of \$10,000, said Binghamton executive editor Sal Devivo.

Approximately 300 newspapers around the country have signed up for the insurance and another 100 are in the process of filing applications, said Arthur Hanson, general counsel of the ANPA.

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# Officials shut down bogus policy dealers

By LEN STRAZEWSKI

LEXINGTON, Ky.—State insurance departments here and in New Jersey shut down two of three brokers and an insurer that handled bogus truck physical damage policies sold to long-haul coal truckers.

The New Jersey insurance department has revoked the license of Stanley Siebenberg of S&L Associates in New Jersey for placing insurance with unauthorized insurers.

The Kentucky insurance department this week takes Highlands Mutual Insurance Co., operated by Robert R. Campbell, into liquidation proceedings after closing it for not paying claims. Transportation Insurers Inc., Mr. Campbell's former brokerage firm, closed its doors after being ordered by the Kentucky insurance department not to take any new business.

*Business Insurance* reported exclusively (April 14) that an Eastern District grand jury and U.S. postal inspectors were investigating Mr. Campbell and his firms—Transportation Insurers and Highlands Mutual—for selling fraudulent policies to long-haul coal truckers.

Global International Underwriters in Coral Gables, Fla., a brokerage link between Mr. Campbell and Mr. Siebenberg, has also been reviewed by Florida regulators.

Mr. Campbell's Highlands Mutual "might be able to pay about 70 cents on the dollar in claims and debts," said Jim Dickinson, chief examiner in the Kentucky insurance department. Repayment depends on how much of a \$50,000 debt Transportation Insurers can pay Highlands and how much premium is refunded by reinsurers, including Central Fire and General Insurance Co. of Jamaica.

"We have telegrams in the Highlands records that indicate it paid about \$106,000 in premium to Central Fire," Mr. Dickinson explained, "and we are now trying to get it back."

Mr. Campbell, also purchased some of the coverage from and paid premiums to Global International Underwriters, a Florida excess/surplus lines brokerage, Mr. Dickinson said. Premiums paid to Global were to be forwarded to Mr. Siebenberg, whose firm S&L Associates allegedly placed the coverage with London insurers, he said.

The U.K. insurers—Orion, Sovereign Fire & Marine and Turguem—later denied Mr. Siebenberg had the authority to negotiate the coverage. New Jersey officials, however, revoked his license for signing binders naming these companies because Orion and Turguem had not been licensed in New Jersey. *Continued on page 21*

# Truck deregulation bill opens policy debates

By STACY SHAPIRO

CHICAGO—As truck deregulation rolls in for a final vote this week in the House of Representatives, shippers and carriers prepare for the insurance confusion yet to come.

The hot issue: Freight insurance limits will fluctuate with deregulated motor carrier rates, says William Augello, executive director/general counsel for Shippers National Freight Claim Council Inc.

Carriers will institute deductibles, like \$100, that could increase pilferage, Mr. Augello says. "Who's going to go through the trouble of making a claim on a \$100 case of pizza?" he asked.

The Motor Carrier Reform Act of 1980, sponsored by Rep. James J. Howard (D-N.J.), will guarantee motor carrier liability regulation by the Interstate Commerce Commission. But it will also allow truckers to negotiate liability limits with shippers under ICC jurisdiction.

"There will be no uniform rules," Mr. Augello said at an SNFCC seminar on the liability changes in carrier liability. "Uniformity is disappearing in Con-

gress and the ICC, to my dismay."

Mr. Augello urged traffic and claims managers to protect their companies from major freight loss by checking their cargo insurance. "Ask your corporate risk manager what insurance you have on your shipped goods and the last time he

analyzed the value of your merchandise."

Shippers, carriers and even ICC employees from as far away as Alaska and Canada gathered here to listen to Mr. Augello explain the intricate web of common liability *Continued on page 25*

## Love's labor lost

Four racing dogs from Ireland traveled by plane to California via Miami. They died en route. The owner, grief-stricken, forgot to file a claim with the airlines until after the seven-day time limit issued by the airline under new deregulation. Who is liable for the dead dogs—the airline or the man who shipped them? Can he collect?

A trucker hauled 25 sheep to the slaughterhouse and on the way five died. But 10 lambs were born. Who pays for the dead sheep—the trucker or the owner? And who gains custody of the little lambs?

Two Americans died in Mexico and were flown home in



identical boxes to Dallas. Somehow the identification labels fell off and the airline didn't know which body was which. An attendant called the *Continued on page 25*

# Ohio attacks vision plan

By JOHN MAES

COLUMBUS, Ohio—The Ohio attorney general's office, charging Ohio Vision Services conspires to set rates and restrict competition, is suing to force the vision care plan to restructure its doctor-dominated board of trustees.

The federal antitrust suit asks for complete divestiture of the

board by the Ohio Optometric Assn., whose members now make up two-thirds of the 15-member OVS board. The attorney general also asks for an injunction barring further restrictions on price advertising and competition marketing by Ohio optometrists, said Charles D. Weller, antitrust section assistant to attorney general William J. Brown.

OVS is part of Vision Service Plan National, a nationwide insurer of vision care benefits. The national organization also coordinates Minnesota Vision Services, currently under investigation by the Minnesota attorney general and the state insurance department for suspected violations of state insurance laws (*Business Insurance*, May 26).

Ohio is trying to "nip in the bud" provider domination of vision care insurers as vision plans become a more popular employee benefit and competitive prices become more important to the consumer's interest, Mr. Weller said.

But attorneys for the optometrists group and OVS officials say the state won't be able to prove antitrust violations by OVS.

"The Ohio Optometric Assn. *Continued on page 25*

## errors & omissions

• Sargent Wobber & Co. Inc., a broker member of the New York Insurance Exchange, is jointly owned by Smyth, Sanford & Gerard Inc. and Adams & Porter Inc. A June 2 article said the firm was a subsidiary of Smyth, Sanford & Gerard.

• Because of a typographical error, Minnesota Delta Dental's revenues were misstated in the June 9 issue. The company's revenues for the first quarter of this year were \$6.49 million compared with \$5.47 million for the first quarter of 1979.

# Don't fight pooling, groups tell insurers

By JERRY GEISEL

WASHINGTON—Two major business groups are threatening to repeal support of the insurance industry's immunity from federal antitrust law if the Risk Retention Act dies in Congress.

The National Assn. of Wholesaler-Distributors and the National Machine Tool Builders Assn., two leading supporters of the Risk Retention Act, say a repeal of the McCarran-Ferguson Act may be in order if insurers continue to oppose the pooling legislation.

"We will look very seriously at whether a repeal of McCarran-Ferguson is necessary" if the Risk

Retention Act fails to pass, said Dirk Van Dongen, executive vp of the NAW.

"If a consensus can't be achieved on this modest proposal, perhaps another alternative may be in order," said James Mack, public affairs director of the machine tool builders. That alternative could include repeal of McCarran-Ferguson, Mr. Mack said.

The Risk Retention Act, passed by the House, is now bottled up in the Senate Commerce Committee.

Insurance trade groups, although concerned about the public threat to the McCarran-Ferguson Act, say the threat won't make them drop their opposition to the

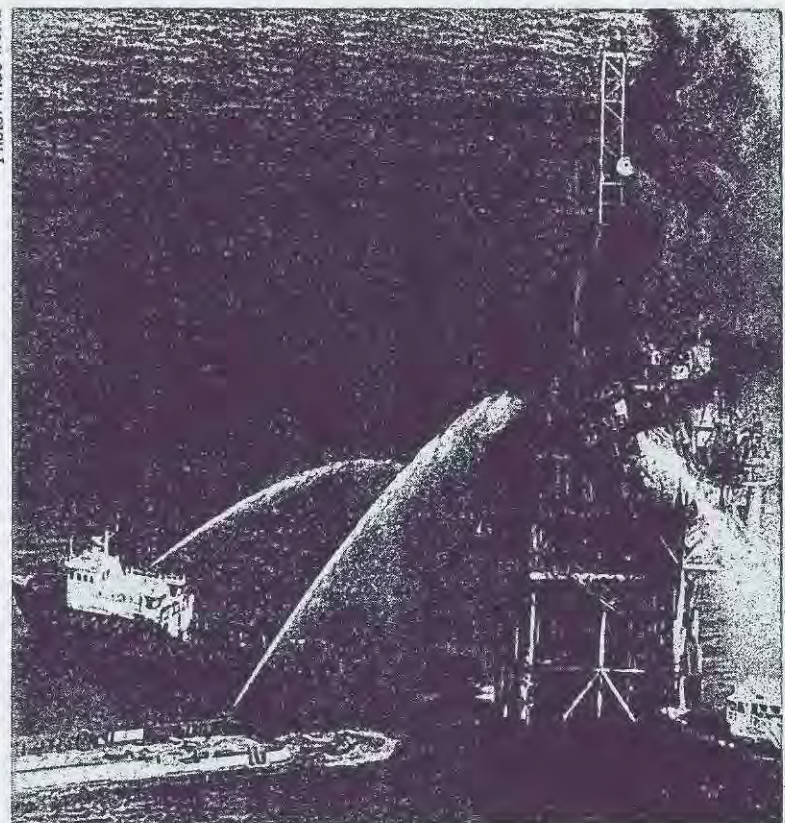
Risk Retention Act.

"We are not going to be bullied or threatened into changing our position on this issue or any other issue," said Tom O'Day, government relations officer at the Alliance of American Insurers, an industry trade group.

The American Insurance Assn., another large insurance trade group, also will continue to oppose the Risk Retention Act, counsel Dennis Connolly said. "Both issues should be addressed separately," he said.

Business groups supporting the Risk Retention Act issued their warnings to insurers about McCarran-Ferguson in the middle of in-

Continued on page 21



## Disaster probe

The U.S. Coast Guard is investigating whether a supply boat owned by Gulf Fleet Marine Inc. of New Orleans backed into a natural gas well line, causing an explosion and fire on this production platform operated in the Gulf of Mexico by Marathon Oil Co. of Findlay, Ohio. Gulf Fleet, which is insured in the U.S. for liability through broker Adams & Porter and managing general agent Talbot Bird & Co. Inc., denies such charges, saying its boat was docked alongside the platform at the time of the blast. Marathon is insured for property loss and well control by the oil industry captive Oil Insurance Ltd. of Bermuda. The loss is still undetermined, but could be from \$1 million to \$10 million, an insurance department aide said. An \$11 million drilling rig on board the platform, owned by Progress Drilling & Marine Co. of Houston, was believed to be a total loss. Progressive Marine Insurance Co., the firm's Bermuda captive, had a small participation in the loss, said Ed McGahey of Progressive Marine's insurance department. The balance of the loss is under a policy with Lloyd's of London underwriters.—Ellis Simon

# Competition kills REX

By ELLIS SIMON

OLDWICK, N.J.—Competition in the reinsurance marketplace put the Risk Exchange Inc., a \$5 million computerized system for marketing facultative reinsurance risks, on indefinite hold.

REX will suspend operations June 30, president Henry T. Kramer announced last Monday. Entry of new reinsurers into the market created highly competitive conditions in which REX could not compete.

"There's so much capacity today that an underwriter can sit at his phone and place a risk," said Maurice B. Baker, senior vp of Crum & Forster, one of 11 insurers

that owned REX. "REX never developed the volume to support the cost of the system."

REX users were to pay a monthly fee of \$800 to \$1,000 to rent computer terminals plus 3% of written premium as a service charge (BI, Feb. 19, 1979). The system was to streamline reinsurance placement.

In the current reinsurance market, "An underwriter doesn't have to gather his facts together and search for markets," Mr. Baker continued. "It's so much easier to do business over the phone than to go to a terminal."

REX will continue as a corporate entity and will explore other op-

portunities for use of its system, Mr. Kramer said. The company will resume active business when market conditions permit, he added.

Although REX was a well-thought-out system, it was dubious whether it would replace the traditional relationship between primary insurers and reinsurers, said James D. Koehnen, chief executive officer of American Reinsurance Corp., which did not participate in the system.

REX replaced the interactions between underwriters with the impersonality of a computer terminal, he said. It is doubtful whether complicated risks can be handled on that basis, he added. ■

## Cost of care

### Claims review firm monitors treatment

By JILL KAPLAN

CLEVELAND—Sirens screaming and lights flashing, an ambulance unloads an unconscious employe who is sent to undergo a battery of expensive and highly specialized tests.

But are all of the tests really necessary?

"Employers are spending hundreds of millions of dollars unnecessarily," contends Karl Bunkelman, president of a specialized claims review service. "Nobody's there providing an auditing function to monitor what's going on."

Fidelity Revenue Systems Inc., a six-month-old firm based in Cleveland and headed by Mr. Bunkelman, is a self-proclaimed "fiscal watchdog."

The firm boasts it can cut health insurance costs by an average of 5% to 10% by reviewing claims and examining medical records, with some employers saving as much as 14% on premiums.

"We're making sure retrospectively that the hospital did the right thing," Mr. Bunkelman said. "There is no kind of scrutiny of services like this in the country today."

Mr. Bunkelman dismisses professional standards review organization efforts at care review as ineffective and costly.

"They're too controlled by the people we're trying to scrutinize," Mr. Bunkelman said. "They have to go through three to four levels just to get a sanction and then have to report to Washington. It's the most laborious, drawn-out process I've ever seen."

FRS is results-oriented and refuses to pay up if there is no documentation, but PSROs merely make recommendations and hope better stan-

Continued on page 23

### PSROs only trim hospital use: Study

By MARY ANN MATLOCK

WASHINGTON—Employers may want to scratch review of hospital care from their list of ways to cut health care bills, based on a report from the Congressional Budget Office.

Professional standards review organizations, which look over doctors' shoulders to check the need for care and length of hospital stays, are barely reducing hospital stays and aren't cutting the cost of care, the report says. Using one formula, PSROs don't even pay for themselves.

Some employers around the country, anxious to cut hospital bills, have contracted for PSROs to review their employees' hospital stays.

PSROs reviewing treatment of Medicare patients cut hospital stays by just 1.5% in 1978, the study found.

PSROs' limited effectiveness at cutting Medicare patients' length of stay suggests the cost-control measure may not be as effective as hoped.

But the CBO hedges its findings somewhat by admitting its statistics fail conventional tests for significance and noting that it can't explain regional differences in the effectiveness of PSROs.

The Northeast, for example, reported the greatest reduction in hospital days (4.8%) while the North Central area had a 2.1% reduction and the West 1.4%. The South recorded a 1.9% increase in hospital days.

These regional differences are "difficult to interpret," the study explains, although they appear linked to the degree PSRO programs were implemented in hospitals in the geographic regions. In the Northeast, with the best results, the degree of implementation was highest: 83.3%. In

Continued on page 23

## Ill. work comp baffles exchange

By JOHN MAES

CHICAGO—The Illinois Insurance Exchange plans to underwrite workers compensation insurance when it opens July 1, but the coverage may have to be dropped under Illinois law.

Interim commissioners of the exchange were unsure last week what steps will be taken to resolve the workers compensation issue. Board chairman Donald Montgomery, chairman of Celina Group, said it may require a court ruling.

But on opening day, exchange syndicates will be allowed to underwrite the risk. If the business is found to conflict with Illinois law, it will be dropped, he said.

The potential conflict surfaced during a June 10 meeting of the interim board of directors as it reviewed authorized categories of business. Directors were told that even though the Illinois insurance code allows a syndicate to be authorized to underwrite workers compensation risks, state law requires workers compensation insurers to be licensed by the state to transact the business. Exchange syndicates will not be licensed insurers.

Board member Peter Van Cleave of Kemper Agency said the exchange should consider excluding workers compensation risks not only to avoid legal complications, but also to spare syndicates the expense of insuring the risk. "With the loss prevention and claims activity involved, I don't think we're

prepared to take it on," he said.

Other directors suggested placing a moratorium on the risk and asking the Illinois industrial commission to rule on the issue.

Under a revised draft of regulation  
Continued on page 21

## Fla. legislature approves bylaws of exchange

Florida's new insurance exchange will be named the Insurance Exchange of the Americas, following a state senate vote unanimously approving the constitution and bylaws for the market and the name change.

The senate vote follows a recent vote in the house of representatives, where approval was also overwhelming. The measure now awaits Gov. Robert Graham's signature.

An interim board of directors will probably be selected within the next two to three weeks, said Gary Guzzo, administrative aide to Florida insurance commissioner Bill Gunter.

Selection of a site, either Miami, Jacksonville or Tampa/St. Petersburg, will be the first responsibility of the 14-member panel, Mr. Guzzo said.

# Ariz. Bank puts money on self-funding

IN AN INITIAL move toward better cost containment, The Arizona Bank of Phoenix has switched its group health coverage from Aetna Life & Casualty to a self-funded plan.

"We felt we could do a better job from a claims standpoint and in cost savings," said John Welsh, benefit administrator for the bank. Expected cost savings are about \$100,000 a year, he said.

The self-insured plan took effect May 1. Galbraith & Green of Tempe, Ariz., is the contract administrator.

The switch will not mean any immediate changes in benefits for the bank's 1,800 employees. Employees earning less than \$10,000 a year pay a \$75 annual deductible with a maximum of two deductibles per family. Employees earning more

## benefit beat

than \$10,000 pay an annual deductible of \$100, also with a maximum of two deductibles per family. There is no dollar limit on benefits.

Although no benefit changes are being made at present, the bank will reevaluate its program at the beginning of 1981, taking a "long and hard look" from a cost-containment standpoint, Mr. Welsh said. As a result, outpatient coverage could be expanded to provide an incentive for employees to reduce their use of inpatient care, he said.

## Premium increase

Chesapeake, Va., city workers

will apparently have to pay 20% more for hospitalization insurance after a slated increase in city contributions was killed in a city council budget cutback.

The council cut \$100,000 that had been earmarked to pay for workers' premiums for dependent coverage. The Blue Cross/Blue Shield policy premiums are expected to increase 20% in July.

The city had planned to split the 20% increase with workers who purchase the family plan. If premiums are hiked as expected, the price of dependent coverage will increase to \$55.20 a month from \$46

The city presently pays the en-

tire cost of medical insurance for individual employees.

## Health bill

Federal, state and local governments will pay more than \$325 billion for health care by 1990, up from the current \$78 billion in 1978, concludes a recent study by the Health Care Financing Administration.

If the nation's health care system remains unchanged over the next decade, the nation's health bill will soar to \$758 billion by 1990, up from the \$245 billion this year, according to the Health Care Financing Review. Total per capita health care expenditures could exceed \$3,000 in 1990, from \$863 in 1978.

"A hospital cost containment bill offers us one of our best oppor-

tunities to bring down the overall rate of inflation," said HCFA administrator Leonard D. Schaeffer. "The cost of hospital care jumped from \$13.9 billion in 1965 to \$76 billion in 1978. If it continues unchecked, our projections show that this year's hospital costs will be \$97.3 billion, and costs could skyrocket to \$334.6 billion in 1990."

Factors cited in the rapid growth of health expenditures are:

- An expected increase in the ratio of physicians to the general population, which is likely to mean increased payments for physicians' services as well as hospital care and other doctor-ordered services.

- Third party payments, which increase consumer demand for services.

- Fee-for-service and cost-based reimbursement systems that reward health care providers with additional revenues from third-party payers.

## Blue Cross rates

Present subscribers to certain community-rated contracts and riders issued by Blue Cross of Western New York Inc. will pay 14.4% more as of July 1.

The rate increase, the first for the health service plan serving the city of Buffalo and neighboring counties since December 1977, was 4.8% less than Blue Cross requested.

Monthly increases for group contracts approved by state insurance superintendent Albert Lewis, which took effect May 21 for new subscribers, are:

- Standard contract for 120 days hospitalization: \$1.30 for individuals and \$4.80 for family subscribers.

- Standard contract with 80%/20% coinsurance rider: \$1.06 for individuals and \$3.88 for families.

- Standard contract with \$50 deductible rider: \$1.19 for individuals and \$4.25 for families.

## Pension changes

About 1,000 workers at four Ohio Edison Co. plants will benefit from pension plan changes under a new two-year contract between Ohio Edison and the Utility Workers Union of America. The contract is effective July 1.

The income percentage formula for calculating pensions for workers with more than 30 years of service was increased and a new "pop-up" retirement plan will be initiated. This plan, to begin Jan. 1, 1981, will allow a retired couple to receive a reduced pension payout until one spouse dies, at which time the surviving spouse will continue to receive full payouts.

The company will also investigate the establishment of a dental care plan to be paid for by employees. Details of such a plan are yet to be worked out.

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

## First CEBSs to be conferred

BROOKFIELD, Wis.—The first Certified Employee Benefit Specialist designations will be conferred Nov. 16 at the 26th annual educational conference of the International Foundation of Employee Benefit Plans in Honolulu.

As many as 100 to 125 persons may qualify for the designation after the final exam in the 10-course program June 18-20.

# Planning Ahead

That's what group pensions are all about. But just as you need a sound strategy to win a chess game, you need a strong team of experts to help you achieve your pension planning goals.

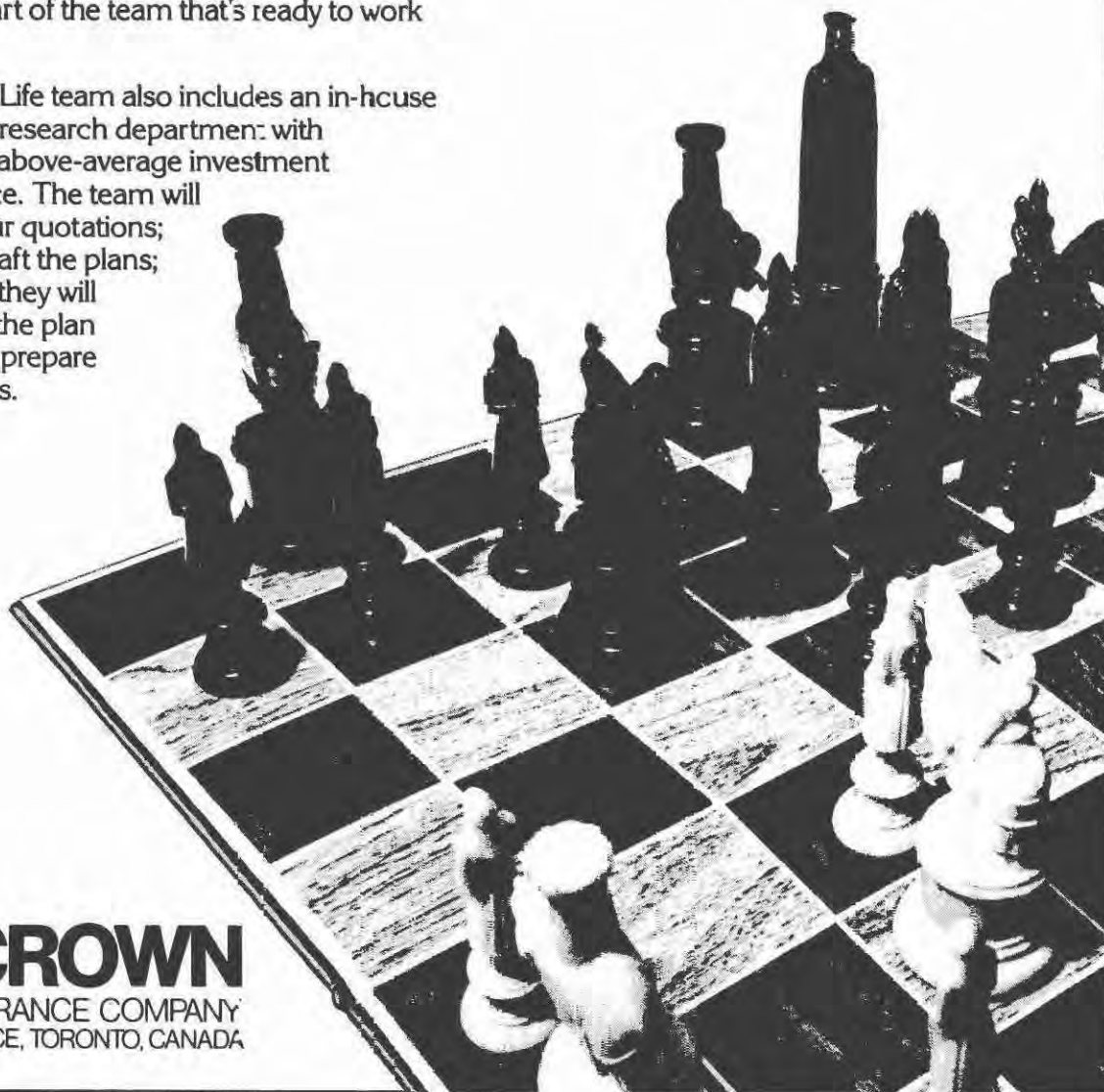
Crown Life offers a full line of funding arrangements to fit almost any situation and the team of experts you need to make your goals a reality.

Crown Life's Regional Group Pension Specialists live and work in the regions they service. They are aware of the specific problems facing their areas. They are expert in Group Pension and Profit-sharing Plans. They are part of the team that's ready to work for you.

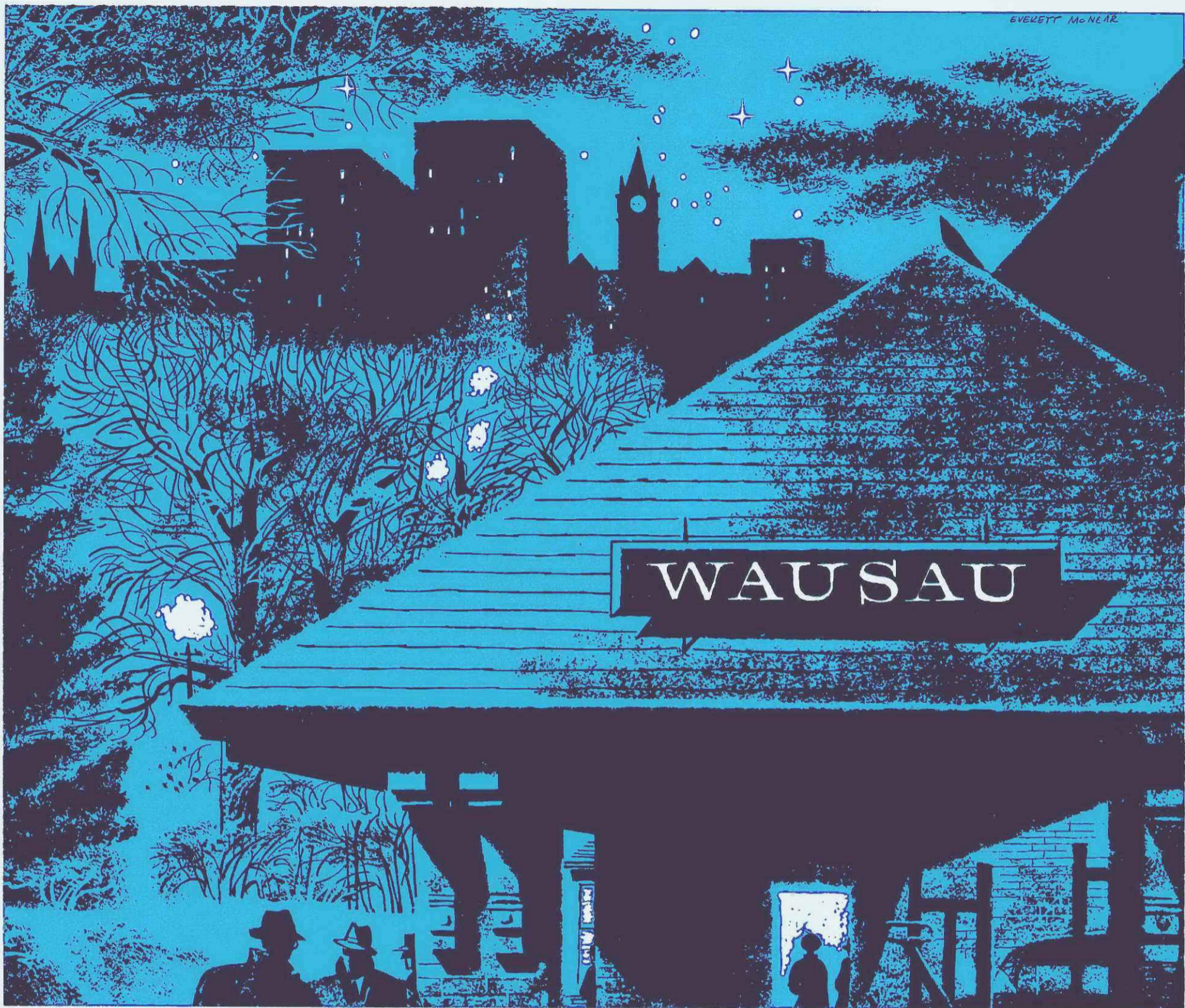
The Crown Life team also includes an in-house investment research department with a record of above-average investment performance. The team will prepare your quotations; They will draft the plans; If you wish, they will administer the plan for you and prepare all valuations.

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## editorial opinions

# Pull leash on costs

**N**O WONDER employers don't know which leash to grab to pull health care costs in line.

The proposed list of methods for capping health care costs is getting almost as long as the monthly claims payment print-out. And now we get the Health Care Reform Act of 1980 proposed by Rep. Richard A. Gephardt (D-Mo.) and Rep. David A. Stockman (R-Mich.), which we reported on last week.

The congressmen contend competition created among health care plans by their reforms will ultimately lower the nation's health care bill. While we hesitate to underestimate the power of competition to work wonders in the marketplace, we fear this reform suffers from a fatal flaw: encouraging employees to buy low-coverage health plans.

The congressmen reason that offering employees up to \$500 rebates for choosing inexpensive health care plans that require the individual to pay more out of pocket for care will lower the use of services and so lower the nation's health care bill.

But this philosophy is the exact opposite of health maintenance organizations, which also claim to control rising health care costs. HMOs preach immediate access to care for keeping people healthy and in the end reducing use of the health care system and lowering health care bills.

**W**e'd like to hear more from the medical community on this issue—assuming the medical community will judge the two philosophies of care without considering its own self-interest of high demand for its services.

Even if one were to accept that we should be discouraged from using health services until we hurt so much that our physical pain distracts us from the pain in our pocketbook, this reform bill creates other problems for employers.

We don't like another use of the tax law to force rather than encourage employers to contribute to some new social goal. Awarding tax deductions for money paid for group health insurance plans encourages employers to foot the bill for workers' health care. But limiting the employer's tax deduction to payments made to federally qualified health plans is more force than we can support.

There might not be enough federally qualified plans in some areas to offer employers the chance to get the tax deduction. Or there might be so many qualified plans for employees to choose from that the employer would be sending checks to a multitude of plans—more paperwork and more expense.

The employer could find this whole system so restrictive that it would stop providing health care benefits.

**W**e also don't like the prospect of the new federal bureaucracy that would be needed to administer this reform. How many bureaucrats would be needed to review the new and existing plans for federal qualification? How many would be needed to tend to consumer complaints and run the guaranty fund? How in the world is the federal government going to stay on top of the prevailing local premiums in order to set the maximum allowable tax-free health benefit?

We can imagine that any money saved in health care would be spent by the feds administering this reform.

In the face of seemingly uncontrolled rising health care costs, it's easy in a moment of frustration to throw up our hands and say: Redesign the system. But we think this action is premature.

As our June 2 article on employers' efforts to control health care costs said, there's little proof anything is working yet but there are many leashes available.

We encourage employers to keep experimenting with redesigned benefit plans that encourage outpatient care, second surgical opinions and reasonable deductibles. We encourage employers to form alliances to work with community health care providers to hold down the cost of care and keep the quality high. We encourage employers to beef up their review of health claims to avoid paying excessive charges or false claims. We encourage employers to share their experiences with others so we can analyze what works.

There's more to be done to discipline our existing health care system before cracking the whip to build a whole new one, as our two creative congressmen propose. But it's encouraging, at the least, to see that the cost of health care is attracting more attention on Capitol Hill.



WHO PICKS UP THE PIECES?

## letters

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

### Assorted blackmail

To the editor: Re May 26 editorial regarding Love Canal issue and other assorted blackmail.

The "Give away the Panama Canal, and pay them to take it, lest they riot" syndrome is very much alive and doing well. Don't let the truth prevail, but pay your way out of claims, no matter how fraudulent in nature or origin.

The entire editorial is an indication of a growing sickness, born in Washington, D.C., and now all-pervasive amongst the general American populace. It is an extremely poor editorial, without logic, truth or even a smattering of insight. The "love of money is still the root of all evil."

Austin Kellam  
Agent  
Box 366  
Binghamton, N.Y.

### 'It ain't broke'

To the editor: I have been reading a lot lately about how an insurance manager can take over loss-control functions and become a genuine, honest-to-gosh risk manager. The motives often seem to be purely self-promotional, not the professional consideration of benefiting his employer.

Quite often, the loss prevention function runs effectively separated from the insurance department and in those cases, the professional view is that suggested by a

bank president friend of mine: "If it ain't broke, don't fix it."

James R. Taylor  
Springfield, Pa.

### Another problem

To the editor: The article by B. Joseph Shelley ("More on the BAP," May 26) and others I have seen have not mentioned another problem of the business automobile policy.

Under the old policy, fire damage which resulted from a collision loss was clearly covered under the comprehensive physical portion of coverage. The new policy shows that coverage applies to "loss from any cause except collision," but collision is not defined and adjusters frequently choose to regard the collision as the proximate cause of the fire and deny coverage. This position is hard to defend because coverage for loss by fire insurance only does not exclude fire loss which results from a collision.

To most people, the wording with regard to fire coverage would clearly show that comprehensive coverage was intended to cover fires resulting from collision. However, too many adjusters look for reasons to deny coverage rather than properly pay a claim.

William W. Dintleman  
Vp  
Insurance Brokers  
& Consultants Inc.  
St. Louis, Mo.

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# Candidates clash in insurance arena

CHICAGO—All four major presidential candidates agree the states should continue to regulate the insurance industry, but differ significantly on other insurance issues, a survey by the Society of Chartered Property & Casualty Underwriters shows.

The issues of federal product liability legislation, minimum federal standards for state workers compensation programs and federal privacy laws cut across party lines, the survey shows. But Democrats President Carter and Sen. Edward Kennedy square off against former Republican Gov. Ronald Reagan and independent John Anderson (R-Ill.) on national health insurance proposals.

The survey's questions covered:

- Product liability. President Carter reaffirms his support of the



Reagan

Anderson

Photo: Mary Cairns

## Lack of consensus

All four presidential candidates agree the insurance industry should be regulated by the states, but they don't see eye-to-eye on other insurance issues.



Carter

Kennedy

Risk Retention Act. Rep. Anderson says he has cosponsored federal product liability legislation; the bill (H.B. 1677) would allow businesses to set up trusts to self-insure product liability claims. Mr.

Reagan says the matter should be left to the states. Sen. Kennedy would allow the states "reasonable time" to enact such legislation, but would agree to a federal law if the states failed to act.

- Workers compensation. Only President Carter favors legislation setting minimum federal standards for state workers compensation programs; the Administration is currently working with Con-

gress to develop such a bill.

Sen. Kennedy and Mr. Reagan believe the matter should be left to the states, while Rep. Anderson "would approach the question of federal minimum standards for state workers compensation programs very carefully. I am hesitant to endorse this course presently."

- National health insurance. President Carter's plan would limit a family's medical expenses to \$2,500 a year. In addition, it would establish a federal HealthCare program to provide improved coverage for the poor, elderly and disabled; mandate that all employers provide health insurance for full-time employees and dependents, and initiate cost containment programs.

Sen. Kennedy's program would provide universal coverage, comprehensive benefits, across-the-board cost controls and system reforms to promote disease prevention, HMOs and quality care.

Although Mr. Reagan and Rep. Anderson oppose national health insurance, Mr. Anderson supports some sort of catastrophic coverage. He did not outline any program, however.

Both the President and Sen. Kennedy envision a significant role for private insurers in a national health plan. Under President Carter's plan, the working population would primarily be covered by private insurers.

Sen. Kennedy would model federal benefit standards on current private plans. Unemployed persons would be able to choose from private plans, and only the Medicare program would be underwritten by the government.

Both candidates contend their programs would foster competition among health insurers.

- Privacy laws. All candidates except Mr. Reagan would recommend enactment of federal legislation guaranteeing the privacy of personal information handled by insurance companies. Mr. Reagan believes the matter should be left to the states.

## Arson hotline shows success

ATLANTA—The number of suspicious fires in some parts of Georgia has dropped as much as 65% since the initiation of the Georgia Arson Control Program in December.

The GACP's report "indicates that GACP's hotline program is helping to slow the growth of arson in this state," said Johnnie L. Caldwell, state comptroller general.

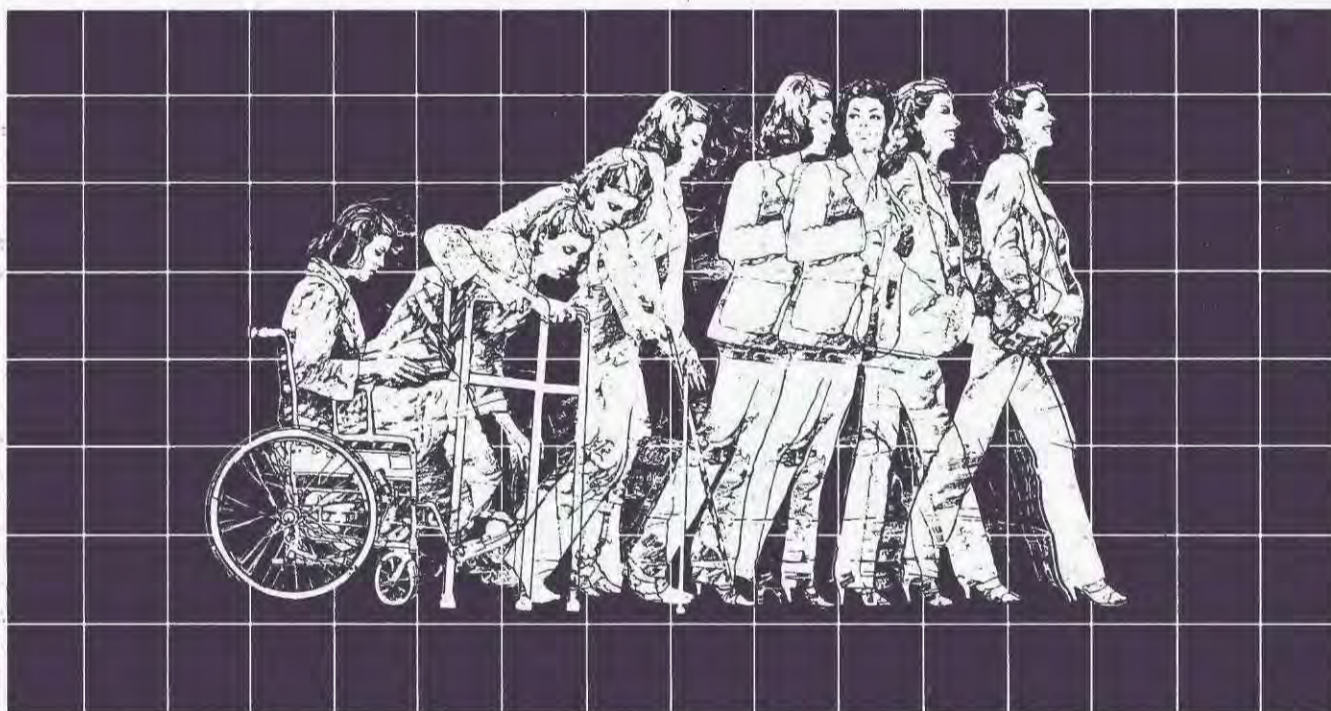
The GACP was established by a committee appointed by Mr. Caldwell. The toll-free hotline allows persons to anonymously furnish the state fire marshal's office with information on suspected arsonists.

GACP pays rewards of up to \$2,500 if information furnishes leads to the arrest and conviction of arsonists.

The hotline number is 800-282-5804.

## HOW IRA SAVES YOU CLAIMS DOLLARS:

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With the approval of the insurance company's Claims Supervisor, an IRA Rehabilitation Specialist began to plan a viable return-to-work program. Under IRA's guidance, Roberta B. was able to assume a new, permanent job as a full-time hospital telephone switchboard operator within six weeks.

store the worker to productive employment.

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

IRA statistics show that for every dollar spent on effective rehabilitation, a ten-fold savings in claims can be realized. IRA's "whole person" approach to worker rehabilitation has been employed successfully in over 60,000 cases to date. As a consequence, the potential impact of disability payments over the long term has been reduced or eliminated for the companies involved.

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

that is not possible, an IRA job analysis can reveal ways in which job conditions may be altered to suit the injured worker. In still other cases, we can help find a new job that makes full use of what an injured worker can do.

Now in its tenth year of operation, IRA has been providing rehabilitation services to self-insureds — as well as to insurers — longer than any other company; and with 50 offices across the country, we are able to offer rehabilitation services nationwide.

For more information, write: George Welch, President, International Rehabilitation Associates, 985 Old Eagle School Road, Wayne, PA 19087. Tel: (215) 687-9450.



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# Bill extends time to file pollution suits

ALBANY—Love Canal defendants would be prevented from using the statute of limitations to reject claims arising from that environmental disaster if the New York senate approves pending legislation.

The bill, passed by the state assembly earlier this month, allows lawsuits to be filed up to two years after discovery of injuries resulting from exposure to toxic wastes. It is uncertain whether the senate codes committee would act on the bill before the current legislative

## around the states

session ends, a committee aide said.

New York's statute of limitations applies three years from the time of injury. State courts have said the time of injury rule applies, even if the injury is not immediately discovered.

The bill would clearly make any current Love Canal claims timely, said Richard Lippes, a Buffalo

plaintiff's attorney representing many Love Canal victims.

Because symptoms of toxic waste exposure often take several years to become apparent, many Love Canal suits would have been disqualified under existing law. Chemicals leached from the landfill under homes and schools for several years before the dangers became known.

New York State has bought the homes of about 240 families living closest to the landfill, and 400 out of more than 700 families living nearby have accepted the federal government's offer of temporary relocation. The state wants the U.S. to buy the homes and permanently relocate the families, but so far Washington has refused to do so.

### Lawyer fees

TALLAHASSEE—Employers

and insurers who knowingly slough off paying workers compensation claims must pay the fees of lawyers hired to collect the payments, a 1st District Court of Appeals here ruled.

Dixie Packers Inc. and its adjuster Crawford & Co., two Tallahassee firms, could not plead ignorance of a claim to avoid paying the fees of a lawyer hired to track a neglected claim, the court said.

Dixie employe Lisa E. Smith hired the lawyer to track down an additional compensation claim for loss of eyesight. The companies had agreed to pay her benefits for 35% partial disability after an accident in 1978, but for more than one year ignored the woman's subsequent complaints that her eyesight was getting worse.

"The court felt that by its own action Dixie insulated itself from knowledge of the plight of the claimant," said department of labor chief commissioner Thomas Carroll.

The case will be sent to deputy commissioner A.S. Fontaine, who will determine the amount of fees to be awarded.

### Inmates comp

COLUMBUS—County jail inmates and probationers in work-release programs will receive workers compensation coverage under a new procedure adopted by the Ohio bureau of workers compensation.

The new program allows some counties to reestablish work-release programs that had been suspended. Without the protection of workers compensation coverage, counties could be subject to lawsuits and costly medical expenses if an inmate or probationer were injured while working.

Maintenance cost for a prisoner will be used instead of payroll to compute workers compensation premiums. Probationers will be considered to be paid a minimum wage for premium purposes, although they receive no pay for their work.

Fayette County, which played a key role in seeking the new procedures, is the first county to participate in the program.

### Rate hearing

ATLANTA—A public hearing will be held June 30 on two workers compensation rate filings submitted to the Georgia insurance department by the National Council on Compensation Insurance.

One filing, called a "benchmark filing," would use each insurer's actual claims and expense experience to determine the proper workers compensation rates to be charged. The NCCI says current rates should be increased 15.8%.

The other filing proposes that rates for assigned risks should be increased an average 20% more than the "benchmark filing." The assigned risks include occupational categories with histories of exceptionally expensive claims.

The hearing will begin at 1:30 p.m. in room 341 of the state capitol.

### Self-insurer unit

COLUMBUS—Self-insurance records as well as payroll and claim auditing units are now combined in a new division of the Ohio workers compensation bureau.

The self-insurance section was created to deal more efficiently with the 650 Ohio companies that self-insure workers compensation. New guidelines have also been set for payroll and claim audits of self-insurers.

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# ARSON.

The fastest growing crime in the United States isn't murder or armed robbery. It's arson. People setting fires for thrills, spite, revenge, or profit. Last year, the loss in terms of property came to more than one billion dollars. An increase of more than 500% in the last ten years.

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A group that pools anti-arson data and technical

know-how, and provides assistance to those working towards its prevention and control. At Arkwright-Boston, we're working hard to take the profit out of arson.

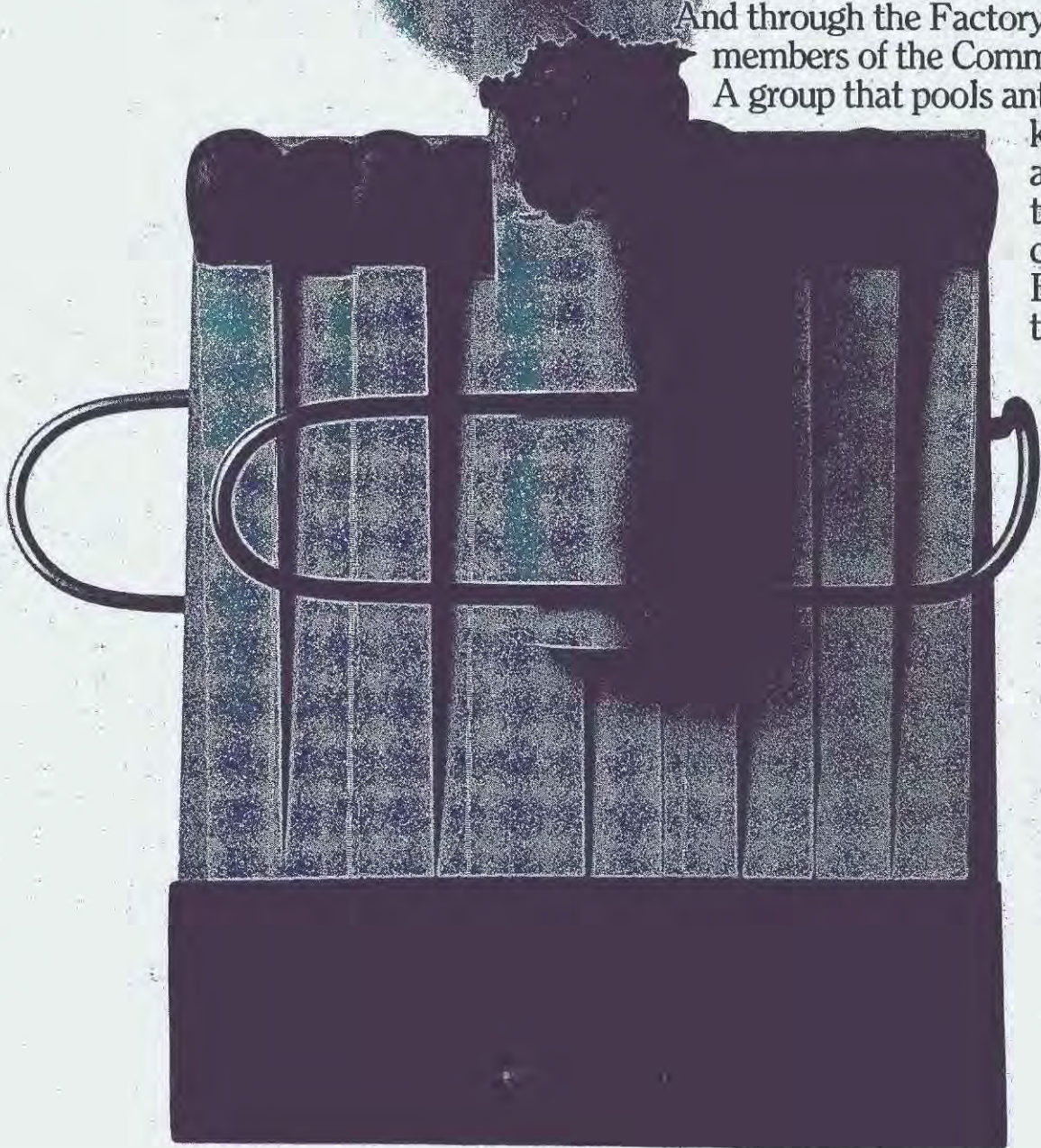
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# Captive's results exceed expectations

By JERRY GEISEL

WASHINGTON—With its first full fiscal year under its belt, Medical Device Mutual Assurance & Reinsurance Co. Ltd. of Bermuda says results dismiss the critics' doubts.

Premium flow, the number of participating companies and claims experience have exceeded predictions, says Jack White, vp-technical affairs for the Health Industry Manufacturers Assn. at the trade group's Washington, D.C., headquarters.

Two years ago when HIMA members began exploring the possibility of an offshore group-owned insurance company, critics scoffed that the plan would never get off the ground.

A multiple-owner captive would not work for a trade group whose members were so diverse in their size and products, they contended.

Annual premium flow is now up to \$2.8 million from 41 participating companies. Last year, MEDMARC began operations with a premium flow of \$1.7 million from 31 participants. The captive insurer expects to top \$3.5 million by the end of 1980, according to its annual report.

The captive saw no losses and only a few claims were reported, totaling less than \$100,000, Mr. White said.

"We have been successful in providing a stable insurance market for participating companies," he added.

It wasn't always that way. The product liability crisis of the mid-1970s hit medical equipment man-

## captives

ufacturers producing such devices as iron lungs, heart pacemakers and kidney dialysis machines especially hard. The crisis "brought notices of premiums that burgeoned the policies that disappeared," said W. Hunter Simpson, MEDMARC chairman of the board.

Meanwhile, there seemed to be little direct relationship between the ever-higher premiums being charged and loss experience; companies without a loss were slapped with major increases in premiums.

HIMA hired Risk Administration Services, a New York-based consulting firm, to look for risk management.

In March 1978, Risk Administration Services concluded that a Bermuda-based group-owned captive offered the best opportunity to keep premiums stable at a reasonable level.

Twenty-nine medical equipment manufacturers banded together and contributed \$30,000 each, including \$7,500 in cash and a \$22,500 letter of credit, to capitalize MEDMARC. It began operating Jan. 1, 1979.

MEDMARC members, each owning an equal share of the mutual insurance company, range in size from \$1 million to \$100 million in annual sales.

MEDMARC reinsures the National Union Fire Insurance Co. of Pittsburgh for a \$500,000 product liability primary policy. In return

for reinsuring the first \$500,000 of loss, MEDMARC receives about 75% of the premium.

The remaining 25% pays for administrative costs and the National Union commission.

Policyholders also can opt for an additional \$500,000 of excess liability coverage. Four unidentified U.S. and Bermuda-based insurers

reinsure 100% of the excess coverage.

Deductibles are negotiated individually and range from \$1,000 to \$250,000 per occurrence.

Annual premiums paid to MEDMARC range from \$5,000 to \$100,000, but average nearly \$40,000. Premiums are based on sales, loss experience and claims potential. Each participant is individually rated.

MEDMARC's underwriting stance is extremely conservative,

Mr. White says.

"There is no intent to hold out MEDMARC as a mere rate-cutting device," the annual report explains. "The current members are philosophically committed to achieving a long-term solution and to freeing themselves from the caprices of the cyclical insurance industry."

MEDMARC is managed by Johnson & Higgins. AIG Risk Management provides claims handling services.

## British department store chain sets up shop in offshore captive

By JOHN MILLER

Marks & Spencers, one of Britain's largest store chains, is setting up shop in an offshore captive to achieve tax savings.

The captive, MS Insurance, is capitalized with \$335,000 and will initially cover special risks, such as storm and flood damage, that are currently self-insured.

"We'll get tax rebates on our insurance premiums through creating a captive, and will also eliminate the peaks and troughs of claims that till now have gone through our corporate accounts," said Bob Rhodes, insurance manager.

With annual sales of more than \$3 billion and stock in its 251 stores worth \$230 million to \$250 million, Marks & Spencers ranks in the upper shelf of U.K. department stores.

If the captive achieves its tax savings,

Marks & Spencers may extend its coverage to other risks. But for now it is letting fire, third-party and theft coverage remain with Prudential Assurance in London, which has provided the coverage for many years.

"We're paddling before we take a deep dive and go swimming into further captive waters," Mr. Rhodes said. "We've been taking advice for several months on setting up a captive, and now want to see how it goes."

"Other insurance arrangements are unchanged, though naturally the executive board may revise its attitude in years to come. The business going through the captive will stay small for the time being, and it's a pure captive as we're not trying to run a full-scale insurance scheme."

The 178 Canadian department stores run by Marks & Spencers subsidiaries are not included in the captive.

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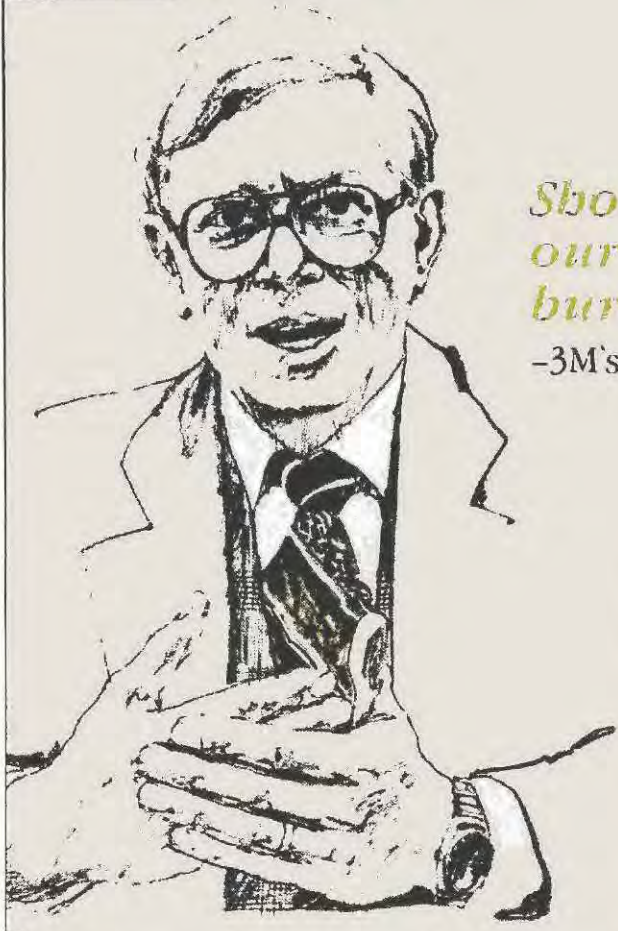
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# Financial Strategies In Business Insurance

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burdens.*

-3M's Howard Weber

For multinationals burdened with increased ocean marine premiums due to the necessity of purchasing coverages in separate countries, the solution can be a program of uniform, worldwide coverage.

One such program was successfully implemented by the 3M Corporation, a diversified manufacturer, whose overseas operations in 49 countries generate 40% of annual sales.

"Five years ago," recalls Howard Weber, Director of Insurance for 3M, "ocean marine cargo insurance was secured directly by all of our foreign subsidiaries at local-market rates." Costs were excessive because, individually, few of the subsidiaries had sufficient volume to be experience-rated in their respective countries.

Viewing the problem in an international context, INA's analysis revealed that 96% of 3M's total cargo risk was contained within predictable limits. Only 4% fell outside forecasting

parameters. The decision was reached to place all predictable risk with 3M's insurance captive and to reinsure the remainder through INA.

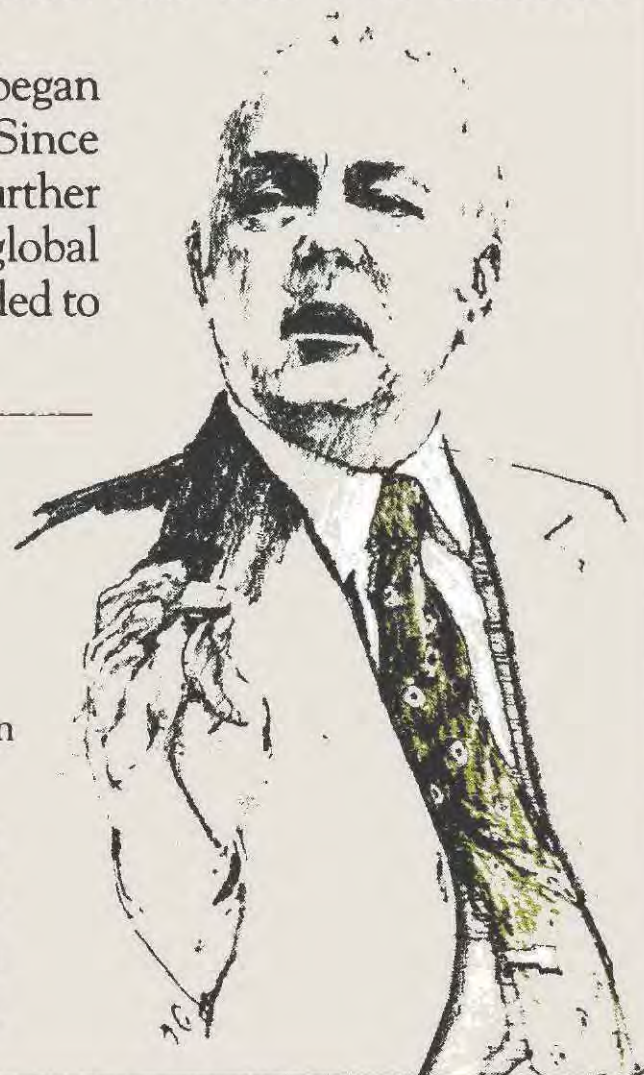
The financial results were impressive. In 1976, the program began with a 10% reduction in premiums for the overseas subsidiaries. Since then, two additional rate reductions have been applied, and further reductions are contemplated for 1980. "Only a carrier with global capability could have provided the services and experience needed to make this strategy work," Weber concludes.

The ever-increasing number of third-party liability suits, coupled with higher jury awards, have given rise to a new method of reducing the burden of claims settlement.

Describing this method, Structured Claims Settlement, Joseph E. Johnson, Senior V.P. of Frank B. Hall & Co., Inc., cites an accidental death case where an award of \$2.1 million was expected. Under the SCS approach, an immediate sum was paid to the surviving family. Also, an annuity was purchased to provide monthly

*Building  
downward  
interest  
to work*

-Frank B. Hall's  
Joseph E. Johnson



payments over a 30-year period. Total cost to the insurer: slightly over \$1 million, about half of the expected lump sum settlement.

Johnson comments: "Through interest accumulation, the annuity purchased from INA could actually bring the family income in excess of the total settlement originally anticipated."

Because SCS provides long-term protection for claimants and families, and avoids or shortens court cases, many states are considering making SCS mandatory. Johnson notes: "When claims are settled in this manner, legal costs go down and reserve requirements are reduced. The benefits of SCS show up on an insurer's or self-insurer's bottom line, and actually spread across many sectors of society as well."

The shutdown of a manufacturing facility can have implications far beyond business interruption for Medtronic, Inc., a major producer of sophisticated electronic medical devices. Entire markets can be jeopardized. Critical shortages of life-sustaining equipment may develop. "Under these circumstances," observes Donald Meck, Medtronic's Director of Risk Management, "insurance is never our only answer to risk."

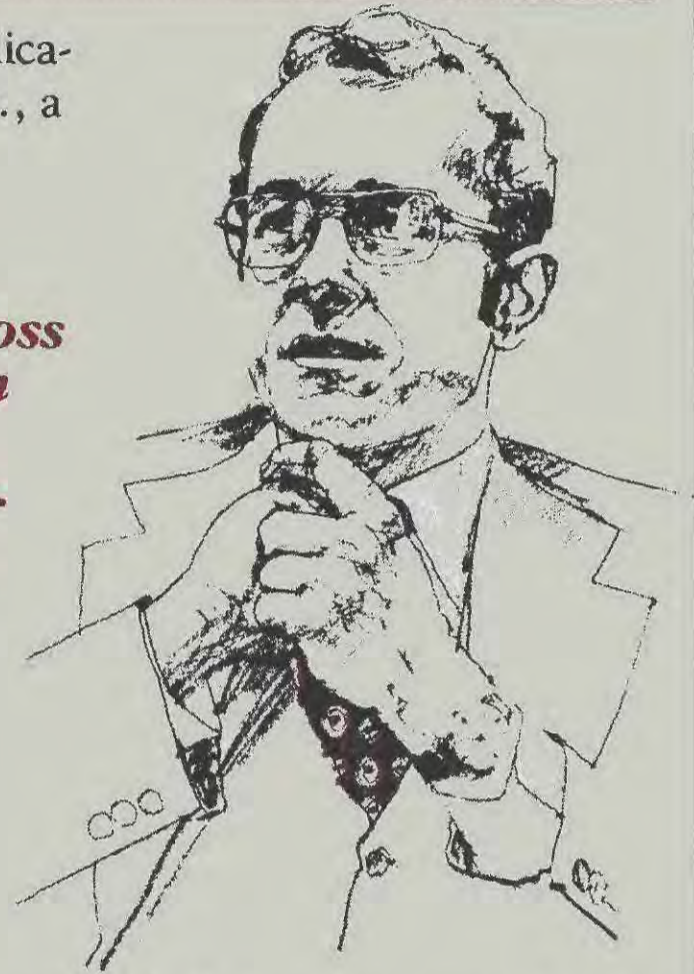
"In the U.S. and abroad," Meck continues, "Medtronic's practice has always been to invest in a full range of safety-engineering programs to prevent accidents from happening." This overriding concern for loss control was recently demonstrated when Medtronic expanded its largest overseas facility in Holland to meet a growing need in Europe for heart pacemakers.

Familiar with INA's long experience as an international carrier skilled in loss-control techniques, Medtronic called on the underwriter for assistance. From a nearby location in Europe, INA's safety engineers went directly to the Medtronic construction site and made recommendations on structural features, fire prevention, and employee training for emergencies.

To date, the factory's loss record has been flawless, thus satisfying Medtronic's corporate safety objective. A further benefit was insurance savings to offset loss control expenditures. Meck explains: "We expect to recoup the total cost of safety measures for our Dutch plant in only three years of premium savings."

***Building loss prevention into the blueprints.***

-Medtronic's Donald Meck



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## perspective

# Computing coverage

By William H. Rodda

**P**RACTICALLY EVERY insurer that covers commercial or industrial properties is covering electronic data processing equipment whether it knows it or not.

Special multiperil and businessowners policies cover the policyholder's business personal property. Policy wordings differ somewhat but the SMP wording is typical. Coverage applies to "business personal property of the insured usual to the occupancy of the insured, including bullion, manuscripts, furniture, fixtures, equipment and supplies not otherwise covered under this policy, and shall cover similar property held by the insured and belonging in whole or in part to others for not exceeding the amount for which the insured is liable."

This clearly covers electronic data processing equipment because it is business personal property of the policyholder. It also covers leased EDP equipment if the lease holds the lessee responsible for loss.

This coverage of EDP equipment under a business contents policy has not caused serious concern among underwriters up to this time, but it will in the future.

Relatively few ordinary businesses have had such equipment. Computers cost anywhere from \$200,000 upward. They have been used primarily for special applications. A business that bought or leased a computer was sufficiently aware of the extra cost so that the policyholder's agent or company usually was contacted and asked about coverage.

The situation has changed dramatically. The Mom and Pop grocery or hardware store can get a computer for \$15,000 or less that will keep its books, maintain a continuous check on inventory, keep records of accounts receivable and accounts payable, and even churn out the basic figures for the myriad government reports and annual income tax forms.

**S**uch a system is a good buy for the store because it may eliminate the need for hiring a bookkeeping service, as well as cut down on stock-clerk time.

We suggest a marine principle be applied. The insurance policy could provide for coverage adequate to replace the existing equipment with an identical system in case of loss. However, the amount of insurance would be limited to the market value of the equipment if it is not replaced with an identical system.

Technology in this field is changing so fast that today's equipment may be obsolete tomorrow. A market value coverage may help avoid a deliberate loss.

Vandalism has plagued computer operators. A powerful magnet not much larger than a quarter coin may be capable of destroying thousands of en-

## Special policy equips susceptible computer with broader protection

tries. Physical vandalism to the equipment has been a problem, both from employes and outsiders. Sometimes it is difficult or impossible to determine the source of the vandalism.

One insurer reported a case in which repeated malfunctions were found to have been caused by an employe whenever he desired to take off for a half or full day of unofficial vacation.

Security measures help reduce but have not eliminated vandalism losses. It may prove to be increasingly difficult to maintain security where computer terminals are located in many different spots instead of being concentrated in a single computer bank. We do not yet have loss experience for the minicomputers over a sufficient length of time to know whether there is increased or decreased susceptibility to vandalism loss.

**I**f an EDP operator chooses not to buy a special EDP policy, two results may adversely affect underwriting desirability.

The purchase of a computer, even at today's prices, adds substantially to the total value of furniture and fixtures. In the case of the Mom and Pop grocery store, it may double the value of the fixtures inventory. The policyholder needs additional coverage, either by increasing the amount of insurance on business personal property or buying a special EDP policy.

We are urging agents and insurers to alert buyers to a need for this additional insurance whenever EDP equipment is purchased or leased. We point out that the absence of such additional insurance may lead to inadequate cov-

erage, increased coinsurance requirements and the jeopardizing of replacement cost provisions by pushing the required amounts of insurance above those necessary for replacement cost coverage.

A second effect of the EDP purchase or lease is the addition of a damage-susceptible piece of equipment. We have already pointed out that we do not have full information regarding the susceptibility of the new minicomputers, but it appears they would be more susceptible to damage than ordinary tables, desks, shelving, counters or even electric typewriters.

Underwriting desirability of the line may be affected if the computer is not physically protected from possible damage.

Some relatively simple loss prevention measures may eliminate or alleviate the loss exposure. Water damage from leaking plumbing, for example, may be substantially controlled by shields or by judicious placement of the equipment. Electrical circuits should be checked to make sure there will be no overload to start a fire or interfere with adequate electrical supply to the computer.

**W**hat are the advantages to the buyer in buying an EDP policy instead of depending upon a business package policy? Three possibilities should be considered:

- Possible damage to equipment.
- Loss of or damage to the information in the equipment or information that has been stored from the equipment.
- Extra expense that might be in-

involved in continuing operations if the equipment is put out of service.

We have pointed out that the perils covered under an SMP type of business package insurance policy and those under an EDP policy are basically the same. Both policies cover loss from fire, lightning, the extended coverage perils and certain additional perils such as earthquake, interior water damage and vandalism.

Neither policy in its basic form covers damage from mechanical breakdown, computer malfunction or electrical damage other than lightning.

There are two probable advantages to the firm in buying a special EDP policy. The first is that the value of the equipment is more likely to be covered in full under a special policy than if it is lumped together with other equipment.

**A** second and important advantage in buying an EDP policy is that broader coverage can be secured. Many insurers are making available to their EDP policyholders the coverages of loss from mechanical breakdown, electrical disturbance and damage from artificially generated electrical currents. We note that several insurers require a substantial deductible when these broad forms of coverage are provided. Some insurers are reported to require a deductible of as much as \$10,000 on major installations.

This size deductible, of course, is not appropriate for a \$15,000 minicomputer, but a substantial deductible probably would be required by most for this type of coverage. Even so, the additional insurance is desirable in case of major damage.

It would be reasonable for underwriters to require a continuous power system for any major installation where mechanical breakdown and electrical disturbance other than lightning are to be covered. The type and complexity of the continuous power system would be subject to the nature of the equipment to be protected and its use.

### From a single keyboard unit . . .



Photo: SJV Corp.



### . . . to a complete system

An advantage of the EDP policy is that it offers broader coverage than a businessowners policy.

William H. Rodda is president of the Marine Insurance Handbook Inc. and a long-standing contributor to Business Insurance Perspectives.

## perspective

## Worksheet for confusion

By Howard C. Alper

WALTER DEAN, vp and insurance manager of XYZ Job Shop Co., received a business interruption worksheet report from his insurance broker. The broker, knowing that the policy anniversary date was near, had noted in a diary the need for such a form. So he sent it on to Mr. Dean, asking that he complete all the blanks and return it.

Mr. Dean, not being very familiar with this form and not understanding how to complete it, gave it to his accountant, Dick Brenner. Mr. Brenner was very comfortable with this form. He had a full understanding of the business, as part of his responsibilities were to be with the XYZ Job Shop Co. every Tuesday to make sure that all accounting and related matters were up-to-date.

It was a large company and an important client, so he diligently worked to this objective. He was also very qualified, being a CPA and a senior partner in his firm. He had completed the worksheet for many years, both for this company and other clients.

So he completed the form and sent it to the broker.

The broker forwarded the form to the insurer, which used the information as the basis for the next year's business interruption policy.

The only problem was that the report was completed with gross errors, because the accountant didn't understand the insurance-based questions. The result was that the XYZ Job Shop Co., instead of being insured 100%, was only insured 58%! In other words, they would only collect 58c for each dollar of loss. This was an unintentional error, and in fact produced no significant premium savings as the rates were very, very low. It does, however, point out several problems:

- Most businessmen do not understand the business interruption worksheet.

Howard C. Alper is president of Audit-Rate Inc., insurance cost reduction consultants in Chicago.



## Best solution

It is the broker's responsibility to properly understand the business interruption insurance he sells and complete the necessary forms to keep the coverage up-to-date, says president Howard C. Alper of Audit-Rate Inc.

- Most accountants do not understand the business interruption worksheet.

- Most insurance brokers do not understand the business interruption worksheet (which is why the broker sent it to his client in the first place).

Above is a sample of the business interruption worksheet, indicating the values as filed by the accountant and the proper values, with appropriate explanations of the significant errors.

In another business the owner received the business interruption worksheet and believed he was knowledgeable enough to complete

BUSINESS INTERRUPTION WORK SHEET (FOR USE WITH TWO ITEM CONTRIBUTION FORMS) (Manufacturing, Mercantile or Non-Manufacturing) THIS IS NOT A PART OF THE POLICY CONTRACT		
Name of Insured	XYZ Job Shop Company	
Location of Risk	Chicago, Illinois	
Key No.	Date December 31, 1979	
	COLUMN 1	COLUMN 2
ALL ENTRIES TO BE ON AN ANNUAL BASIS	Accountant	Proper
A. Total annual net sales value of production from Manufacturing Operations, and total annual net sales from Merchandising or Non-Manufacturing Operations, (Gross sales less discounts, returns, bad accounts and prepaid freight, if included in sales)	\$ 16,310,000	\$ 16,310,286 (1)
B. Add other earnings (if any) derived from operation of the business:		
1. Cash discounts Received	28,000	28,043
2. Commission or Reim from Leased Depts.		
3.		
C. Total ("A" plus "B")	\$ 16,338,000	\$ 16,338,329
D. Deduct only cost of:		
1. Raw stock from which such production is derived	6,141,000	5,931,447 (2)
2. Supplies consisting of materials consumed directly in the conversion of raw stock into finished stock or in supplying the service(s) sold by the Insured	573,000	522,681 (3)
3. Merchandise sold, including packaging materials therefor		
4. Service(s) purchased from outsiders (not employees of the Insured) for resale which do not continue under contract	787,000	1,563,710 (4)
5. Payroll Expense for Group II Employees (Ordinary Payroll) including insurance premiums and all taxes on said payroll	6,064,000	3,753,146 (5)
6. Cost of heat, light and power in excess of min. contract expense	239,000	201,585 (6)
Total Deductions	\$ 13,804,000	\$ 11,972,569
E. Business Interruption Value - Item 1 ("C" minus "D")	\$ 2,534,000	\$ 4,365,760
F. Amount of Insurance - Item 1. Take 80% or 100% of 1, Column 2, depending upon percentage Contribution Clause to be used ( 80 %)	2,027,000	\$ 3,492,608 (7)

(1) Use exact (not approximate) figures to reflect the Sales Value of Production, not Sales.

(2) Should reflect Work in Process and Finished Stock variations.

(3) Should include shop supplies and shipping supplies actually consumed in producing the product, but should not include office supplies.

(4) Commissions to Manufacturer's Reps (\$776,710) should be included.

(5) Not understanding the definition of Group II Employees, the accountant deducted too much payroll.

(6) Should use exact amount actually expended.

(7) Cumulative errors result in co-insurance penalty of 42%.

the form himself. He did so, and in the process left off a number of appropriate deductions. The result was that he purchased 40% more insurance than was necessary, at the same percentage of increased and wasted cost.

In still another example, the broker completed the form but took too many deductions. The major error was that all supplies were deducted, although only supplies consisting of materials consumed directly in the conversion of raw stock into finished stock could properly be deducted. In addition, deductions were not made

for perishable tools and inventory variations.

So what's the solution? We believe the broker has the responsibility of properly understanding the business interruption insurance he sells and completing the necessary forms in order to keep the coverage up-to-date. It is the business's obligation to provide whatever reasonable information is required by the broker, but the broker is obligated to interpret this information for the policy contract. If he does not, then he, rather than the business or its accountant, should bear the consequences of the error.

## Forego survivor option in life annuity plan

By Joseph S. Robinson  
Attorney-at-Law

NO MATTER what kind of pension is instituted for the benefit of employees, they usually receive a choice as to how it is to be paid out. Under ERISA, pension plans must offer participating employees the choice of a full pension that ends when the employee dies or a reduced pension that continues for the life of the spouse after the employee dies.

The rules require that when one payout provision is a life annuity, the plan must provide for a joint and survivor election. This guarantees a surviving spouse a lifetime income based on the value of the deceased employee's retirement account. Since the participant usually pays the price of reduced benefit payments at retirement, he or she

has election rights when an annuity payment is involved. The plan must give him or her the opportunity to elect in writing not to take a joint and survivor annuity.

In some instances, it makes sense to forego the joint and survivor option in favor of a full pension for the retired employee's lifetime. In such cases, part of the extra income from the straight life annuity can finance a retirement-type insurance policy on a worker's life to indemnify the surviving spouse for the loss of income.

Take the case of a 62-year-old executive about to retire. His wife is also the same age. The pension participant may elect a straight pension of \$21,000 per year or a joint and survivor annuity of \$14,000. By selecting the larger sum and applying a substantial portion of the difference—say \$5,000—to finance

## benefit tax slants

an insurance policy, the proceeds can be converted to a guaranteed income for the wife in the event of the retired executive's death.

What's the result? The retiree receives a larger yearly income than he would normally have under the joint and survivor option; his wife is protected with a continuing income as long as she lives, and should she die before the pensioner, the insurance proceeds could then remain for the heirs.

## Tuition aid

The National Manpower Institute, a public affairs organization in Washington, found that tuition aid plans are available to many workers but that only 3% to 5% of white-collar workers

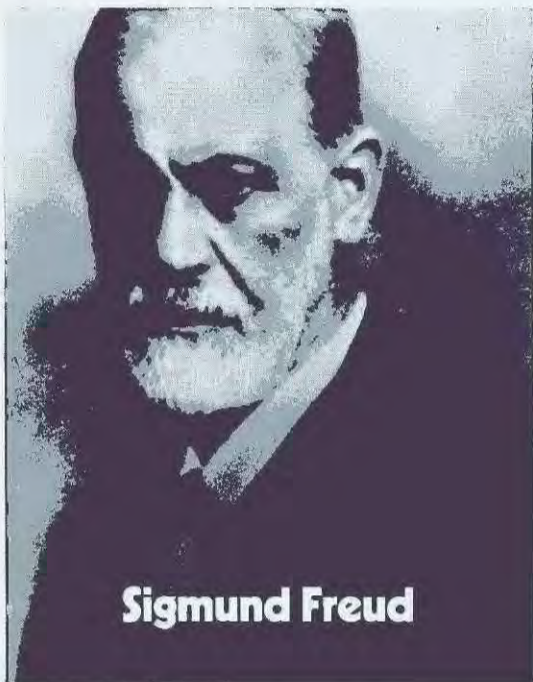
and a lower percentage of blue-collar workers take advantage of them.

Most tuition refund plans require that the courses be job-related, although employees working for a specific degree (either graduate or undergraduate) sometimes find companies take a liberal view. For example, a technician who wants a bachelor's degree in engineering or an accountant who wants an M.B.A. degree might get approval, even if the academic program requires some non-job-related courses.

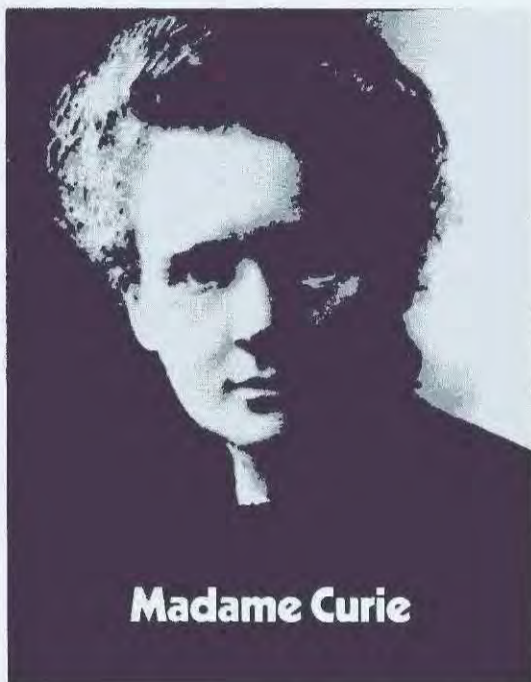
As a result of its studies, the National Manpower Institute has reached these conclusions about tuition aid programs:

Continued on page 20

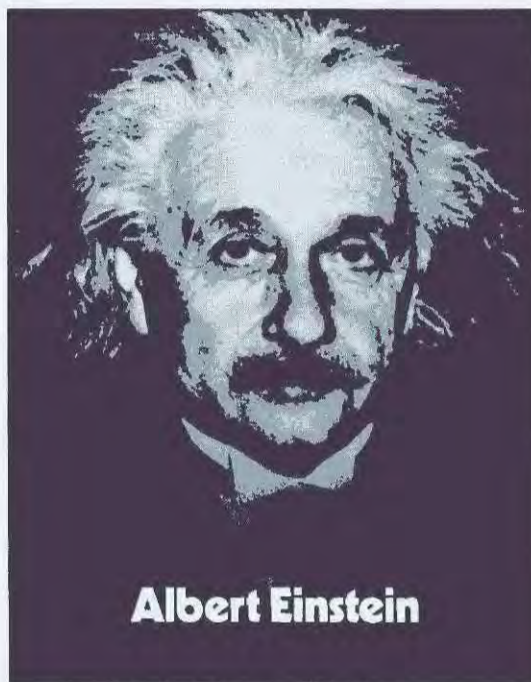
# Great problem solvers of the 20th century.



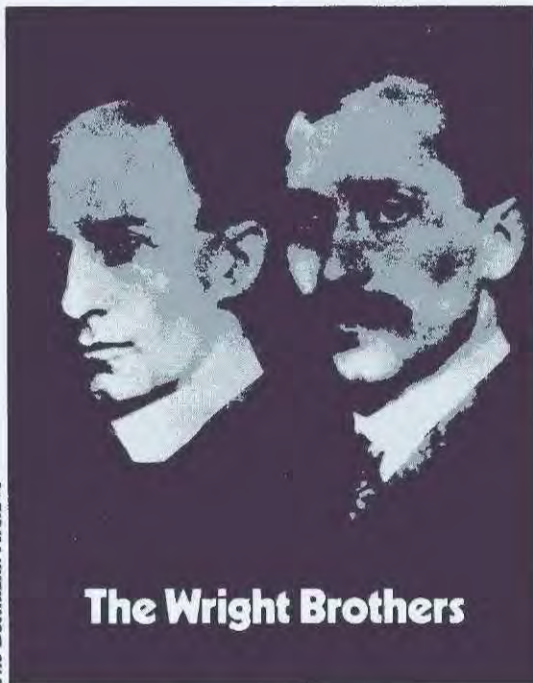
**Sigmund Freud**



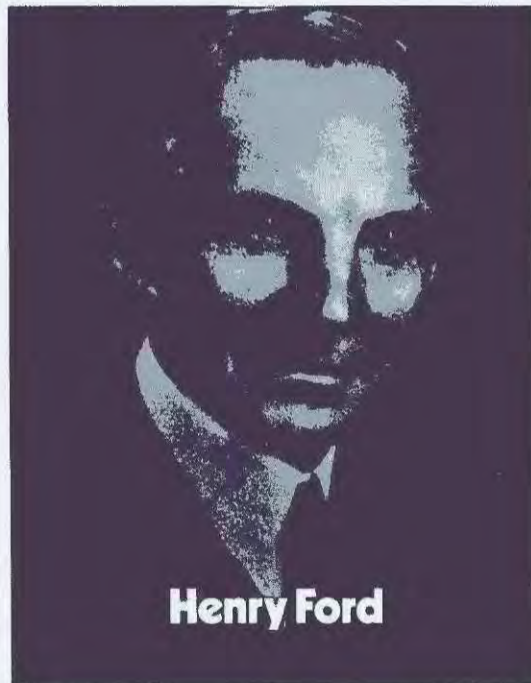
**Madame Curie**



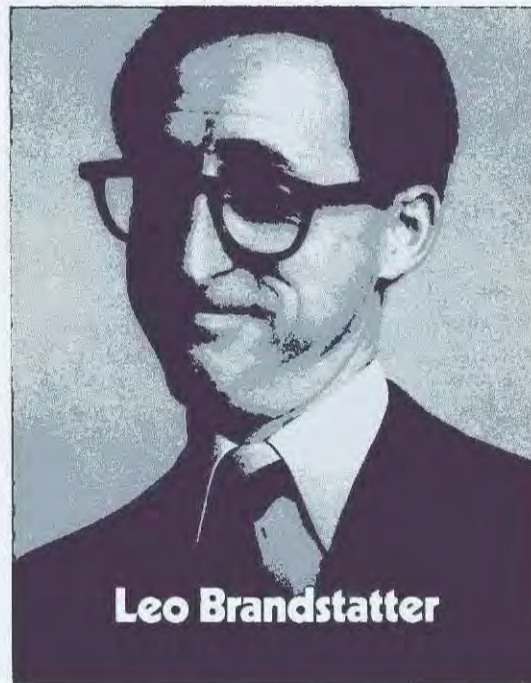
**Albert Einstein**



**The Wright Brothers**



**Henry Ford**



**Leo Brandstatter**

The Bettmann Archive

First there was Freud.

Then Madame Curie.

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

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# Simple safety solution?

## Supreme Court ruling on worker task refusal will have limited impact

By Roland Rueger

THE SUPREME Court with one decision has revolutionized the whole safety field by solving every past, present and future safety problem. The Occupational Safety and Health Administration, private safety and loss prevention programs, safety departments and all similar organizations have become obsolete. This will save millions of dollars and aggravation and should free billions for capital investments. The unemployed OSHA and safety people will have lots of employment opportunities.

The simplicity of the court's solution for all safety problems is absolutely brilliant. It makes all hazardous work voluntary. This changes the whole complexion of the working day. Employees start the day in good spirits because they know if it's dangerous they don't have to do it unless they want to.

So they can swagger into the boss's office and say, "Boss, I feel like doing something dangerous today," or "Not today, boss, I have a headache."

Since hazardous work is voluntary, an employer may run out of volunteers. So what we need are special employment agencies like "Daredevils Temporary," a union for such workers, special insurance coverage and advertising; in short, a whole new industry dealing exclusively with these volunteer workers for hazardous jobs.

This whole industry can be staffed by ex-OSHA workers and unemployed safety personnel.

Does the employer lose? No, because he does not have to pay the worker who does not want to perform the dangerous task, so with the money he saves he can pay the volunteer.

Does the worker lose? No, because

Roland Rueger is a lawyer by education and works as an insurance and claims manager.

he cannot be fired or discriminated against for not performing a hazardous task.

Now that employment has been found for all ex-OSHA workers, we must ask ourselves who will write new OSHA rules, regulations and standards?

The answer is we don't need them, they can all be rescinded and replaced by this sentence:

"Workers do not have to perform hazardous work and employers do not have to pay workers for hazardous work they refused to perform."

Or can they?

It is clear by now that the Supreme Court must have rendered one of its most monumental decisions.

OSHA chief Eula Bingham herself, who may find herself without an administration because of the court's decision, hails it "as ensuring safe and healthful working conditions for the nation's working men and women."

Douglas Fraser, United Auto Workers leader and Chrysler Corp. board member, not to be outdone by Eula, states, "Employers can no longer force a worker to choose between his job and his life."

May I add that by the stroke of the pen the worker now has the much easier choice between earning a living and his life.

It is absolutely amazing that *Business Insurance* did not publish the complete decision that so impressed OSHA's chief and an eminent union leader.

But we did learn the decision requires that the employee's refusal to perform a hazardous task be based on good faith.

In a reviewed case the judges were satisfied that the two employees in good faith refused the work as hazardous because one of their co-workers had been killed in the performance of the same work.

ble duty and provides alternate vesting procedures, one for length of service and another for permanent disability.

The IRS takes the view that a payout from the plan is taxable to the extent that the employee had vested rights based upon length of service. Thus, if an employee is 75% vested but receives 100% of benefits because he retires with a permanent disability, only 25% of the payments are tax-free disability payments.

This approach has failed so far in the courts.

In the latest case, the employee was

### Unforced labor

'Not today, boss, I have a headache' is a possible but not probable plaint in light of the court's decision.



The court apparently gave no indication what general criteria it would apply in the future. Does good faith require prior serious accidents or at least obvious dangers? Is it sufficient that the worker perceives the task as dangerous? It will take a number of additional decisions to answer these questions.

The decision also raises new questions the court eventually may have to decide:

- May an employer, instead of eliminating or reducing the dangers of a task, simply ask for volunteers to perform it? If the answer is affirmative, the goal of safe and healthy working conditions will suffer a very serious setback.

- If an employee has a right to refuse to perform a dangerous or unsafe assignment and does not exercise that right, is he or she assuming the risk of death or serious injury? If so, does this stop him or her from suing for damages?

- Is an employer discriminating against an employee if he assigns him or her various different hazardous tasks that the employee refuses to perform, thereby reducing his or her income by a substantial amount?

- Does an employee who enters inherently dangerous employment have the right to refuse specific dangerous tasks common to the particular type of employment?

- Does this decision go against the OSHA trend to force employers to eliminate all hazards at the workplace and EEOC rulings indicating that excluding certain groups from work that is only hazardous to them is discrimination?

These and many other questions clearly show that the impact of this Supreme Court decision is and should be limited to the three specific points on which the court ruled: OSHA's right to enforce the particular rule on refusal of hazardous tasks, the worker's right to refuse such work and the employer's right to withhold compensation for time not worked. Attempts to do otherwise could have rather unexpected and unwanted results.

The court's decision is reasonable, but it has none of the far-reaching effects that Ms. Bingham and Mr. Fraser try to read into it. Thus, OSHA will continue to regulate, safety programs will be maintained, corporate safety departments will not become obsolete nor will money be saved nor aggravations eliminated.

To add insult to injury, we can't even hope that government agency heads and union leaders in the future will temper their remarks when commenting on Supreme Court decisions. Finally, we confess that *Business Insurance* covered the court decision adequately.

## Few take advantage of tuition aid

Continued from page 18

- Younger workers use them more than older workers do.

- Women and men use them about equally.

- Participation increases with previous educational attainment.

- Professional and technical workers use them more than others.

### Profit-sharing

Although retirement payments are taxable, permanent disability benefits are tax-free. A controversy develops when one profit-sharing plan does dou-

100% vested but had to quit before the normal retirement age when he became permanently disabled. A U.S. District Court in Illinois rejected the IRS's attempt to tax the full payments. The court believed the IRS approach imposed a tax penalty on workers who become disabled late in their working careers after they are vested for years of service.

The event triggering the payout controls the character of payments; if the employee is permanently disabled, the payments are tax free. (See *Masterson*, 45 AFTR 2d 80-326.)

## Ill. exchange faces work comp conflict

Continued from page 3

tions, exchange syndicates can insure or reinsure such risks as accident and health, auto, liability, burglary and forgery, glass, fidelity and surety, livestock and domestic animals, fire, earthquake, war, riot, marine and transportation and property.

**Claims handling** methods outlined in the rules also were at issue during the directors' meeting. The draft states that the lead syndicate insuring a risk will be responsible for adjusting and settling all claims. But some directors questioned the procedure. If the lead syndicate does not hold the biggest portion of the risk, it should not be given responsibility for claims handling, they argued.

Directors asked the legal committee to discuss the matter and study the system used at Lloyd's of London, where all syndicates on a risk are consulted about claim settlements.

Directors also said the exchange currently lacks the funds to purchase the proposed Reinsurance Exchange computer system and will have to keep records manually until sufficient funds can be obtained.

In other action, the board announced that Chicago-based

## Officials close 2 brokers

Continued from page 2

law that will replace ICC regulation if truck deregulation is signed by President Carter as expected.

Instead of the uniform ICC regulations to guide shippers, "We're going to be thrown back to the common law—those thousands of court decisions," Mr. Augello said.

"Claims are primarily a fact dispute," he told the 91 claims representatives from 27 states. "But you have to understand what the rules of law are on your liability."

He urged his listeners to read the bill of lading they sign for each shipment and make notations on the original bill in case it goes to court. "The bill of lading is your contract, not the instructions on the carton," he said.

Mr. Augello also emphasized the importance of time on all shipments. "The date of movement is all important because legislation, changes in business, etc., are constantly changing."

It will also be necessary, he says, to know the common law governing motor carrier liability because "the courts do not want or can't understand the complicated transportation issues," nor can the corporate counsel.

"Your attorney is going to look at you as the paralegal in the claims/traffic department," he told the claims managers.

Motor carrier representatives attended the seminar expecting increasing litigation, said Patty Arrowood, claims manager at Tri-State Motor Transit Co. "More claims cases are going to go to court for decisions because of deregulation," she said, and she wants to prevent that.

Others attended to gain further insight into motor carrier liability rules. "I came here because claims regulations are so vague," said Dan Sherrell, an employe for the ICC who handles claim complaints.

Avreco Corp. has applied for permission to be the first underwriting syndicate. Mr. Montgomery said formal approval is still pending, but the firm has preliminary approval to begin setting up its operation.

The exchange needs one more syndicate in addition to Avreco's syndicate to obtain its certificate of authority from the state.

Illinois state Rep. Bernard E. Epton, sponsor of the legislation creating the Illinois exchange, has announced that he intends to join a group of investors in setting up an underwriting syndicate (BI, May 5).

Mr. Montgomery said he is confident other applications will be received shortly.

## Lobbyists wield clout

Continued from page 3

tense lobbying to get the Risk Retention Act passed, with the White House entering the product liability fray for the first time.

Stuart Eizenstat, President Carter's chief adviser on domestic issues, intends to lean on Sen. Howard Cannon (D-Nev.), chairman of the Commerce Committee. He will urge the powerful Nevada Democrat to get the bill out of committee, high-level government sources said.

Sen. Cannon is now undecided about the Risk Retention Act, said Commerce Committee staffer Michael Mullen.

Victor Schwartz, chairman of the Commerce Department's Task Force on Product Liability and Accident Compensation, which drafted the Risk Retention Act, met with Sen. Cannon last week to discuss the legislation. But even after the meeting, Sen. Cannon indicated he was not convinced of the need for the legislation, sources said.

The Risk Retention Act removes state regulatory constraints and allows firms to band together to self-insure their product liability exposures under

federal charters.

To try to sway Sen. Cannon and others on the Commerce Committee, the National Assn. of Manufacturers has begun a massive mailing to its members urging them to write committee members in support of the bill, said NAM staffer David Sloane.

In contrast, the Risk & Insurance Management Society, the nation's largest organization representing commercial insurance buyers, still won't back the bill, although it supports its concepts.

RIMS fears the Risk Retention Act could result in the creation of another federal bureaucracy, said Reg Beane, director of governmental affairs. "We approve of the concept, but we don't like the way the measure would be implemented."

The squabbles over the Risk Retention Act are yet another indication of the growing tensions between insurers and business trade groups on product liability.

The NAW, in particular, criticizes insurers for not reducing product liability rates in response to the wave of state tort reform that has taken place in the last three years, Mr. Van Dongen said.

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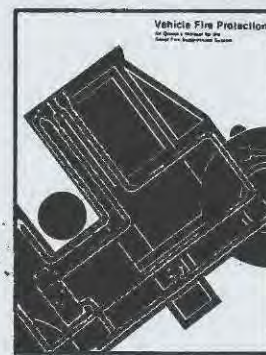
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## Recent redesign

## Benefit package helps Micom compete

Continued from page 1

tem last fall. The plan it came up with is young, attractive and forward-looking, says personnel analyst Sheila Lewis.

The only benefit not included yet is a pension or profit sharing plan, which is still being studied.

The development of a highly competitive benefit package was forced when the small but growing word processing equipment sales firm was given 30 days to come up with a working plan.

Micom had "inherited" a benefit program in June 1979 when North American Philips started financing the creation of Micom.

The parent company agreed to pick up most of the employee benefit package through Philips Electronics Ltd. in Canada until Micom "could stand on its own."

Micom was notified on Oct. 1, 1979, that its employees would be canceled out of the Philips Electronics plan Nov. 1.

Micom insurance personnel al-

ready had been working on a benefit "wish list" to attract employees to its small company. Its chief competitors for employees are firms such as Xerox, Wang and IBM, all known to have generous benefit programs.

"We knew the benefit package we had just was not attractive," Ms. Lewis said. The Philips plan lacked flexibility, dental and short-term disability insurance.

But since the parent company was footing the bill, the employees' cost of benefits was small, about \$5 per month.

## Wish list

The challenge was to raise benefit levels and options to attract new employees while keeping current employees happy.

Micom gave its benefit wish list to Johnson & Higgins, which marketed the plans.

By Nov. 1 the new benefit program was installed. Pacific Mutual

Life underwrites the short-term disability, medical, dental and life insurance. The Hartford Group underwrites long-term disability insurance and The Continental Cos. insures accidental death and dismemberment and business travel.

Micom pays 100% of basic premiums for its employees and offers additional insurance and dependent coverage at the employee's expense. Micom would not disclose its cost of benefits.

A creative feature is the declining premium contribution for dependent enrollment in the medical/dental plan.

The premium for the first three months of dependent enrollment is steep, about \$74 per month. After three months this premium is halved and after two years it is halved again, so that the cost of dependent medical and dental insurance to employees becomes about \$18 per month. After two years, as an incentive for employees to stay,

the company picks up 100% of dependent medical and dental premiums.

Those employed for fewer than three months on Oct. 31, however, were charged only \$18.45 for their first three months, easing the burden of the new costlier benefit plan.

## Medical provisions

The medical plan covers hospital room and board and miscellaneous extras after a \$25 per confinement deductible. There is 100% coverage for a semiprivate room and intensive care and 100% payment of reasonable and customary charges for surgery and in-hospital physician visits.

The plan pays \$50 per accident or illness for diagnostic X-ray and laboratory work and carries a \$500 supplemental accident benefit.

Under major medical, the plan requires a \$100 per person deductible or a \$200 family maximum deductible, but there is no limit on benefits paid. The plan pays 80% of costs until the employee has paid \$1,000 for an individual or \$2,000 for a family. Then the plan pays 100% of costs for the calendar year.

The outpatient psychiatric care benefit pays 50% of charges up to \$1,000 in benefits in a 12-month period.

A prescription drug plan written in conjunction with the medical plan pays 100% of reasonable and customary charges after a \$1 deductible per prescription.

The dental benefit program provides \$750 of reimbursement in a calendar year. It covers 80% of the cost of basic care after a \$25 lifetime deductible per person. Basic care includes one visit to the dentist each six months for diagnosis and routine procedures such as oral surgery, fillings and restoration (other than with gold), tooth extraction and root canal therapy.

Fifty percent of the cost of major dental care is covered by the plan

after a \$25 calendar year deductible per person. Major care includes inlays, gold fillings, crowns, initial installation of fixed bridgework and dentures.

The short-term disability insurance program provides two-thirds of base pay up to \$256 a week for five months. Benefit payments are effective the first day of an accident and on the eighth day of a sickness.

The long-term disability plan pays 60% of base salary to \$3,000 per month. Benefits begin after the fifth full month of disability and continue to age 65 if the employee is disabled before age 60. The benefit payment period is reduced for employees disabled after age 60 and LTD coverage ceases at age 69 and seven months.

## Life policy

The plan provides for subtracting Social Security disability and workers compensation benefits to prevent the employee from gaining more than 60% of base pay from the combined disability benefit plans. However, the LTD benefit will never be less than \$50 per month.

The life insurance program provides a benefit of two times the employee's annual salary. Additional coverage of one or two times salary is available up to \$50,000.

The voluntary AD&D plan costs employees 50 cents per \$10,000 of coverage, which is available to \$150,000 for employees earning less than \$15,000 a year and to \$250,000 for employees earning more. Spouses and children can be insured also for an additional 18 cents per \$10,000 chosen by the employee. The spouse's benefit is half the employee's benefit if only the spouse is covered; 40% if the spouse and children are covered, with the children's benefit 15%.

The business travel accident insurance policy provides a benefit of five times annual base salary. ■

## Attorneys pursue rig suits

Continued from page 1

erated the rig as a "floating hotel" platform through its Norwegian subsidiary, can be sued for damages in U.S. courts on the grounds its parent company is located in the U.S.

In London, U.S. attorney Melvin Belli has suggested up to \$500,000 in damages might be won in U.S. courts, but so far there are no signs that any U.K. families are taking him up on the opportunity. If Norwegian families go to U.S. courts, they will have to abandon the \$200,000 settlement offer.

But it is yet to be proven that Phillips Petroleum is to blame for the loss of the rig, which was actually owned by Stavanger Drilling Co. of Stavanger and built by Compagnie Francaise d'Enterorse Metalliques in 1976. The Norwegian judicial commission probing the cause has not yet determined blame.

Without admitting liability, Phillips Petroleum and Stavanger Drilling have helped negotiate the settlement offers, now being presented to the workers' families. If the companies are found to be responsible for the disaster, insurers at Lloyd's and in the U.S. and Scandinavia will bear the losses.

Stavanger Drilling has up to \$24 million excess of loss insurance placed in London by its protection and indemnity mutual, the Gard Club of Arendal, Norway, on top of a first-layer \$1 million held by the Club and Norwegian reinsurers. "We'll know the outlook better by end June, but we don't expect to take up all our excess of loss cover in London, in any event," said Nikolai Herlofson of Gard Club.

Phillips Petroleum is reported to have cover in both the U.S. and Lloyd's but will not reveal its insurance arrangements.

Efforts are also being made to reduce the losses on the overturned rig, which was towed to Stavanger for inspection. Marine experts believe it may be restored to operation.

The rig is insured for \$32 million with Lloyd's and U.K. insurance companies, with another \$19 million spread in the U.S. and Scandinavia. ■

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# Claims review service monitors care

Continued from page 3  
 dards will be adopted next time, the FRS president said.

The nation's 206 PSROs don't follow any consistent policy either, Mr. Bunkelman said. "Their scrutinizing process is not as in-depth as ours. We look at everything that relates to the appropriateness of care."

Clients pay FRS no service fee. The firm operates on a contingency basis and receives payment only when able to save a client money. FRS receives one-third of an employer's savings.

FRS reviews all claims and designs a course of action it believes should have been taken. When this differs from the treatment rendered, FRS staffers meet with hospital representatives to review procedures and adjust costs, if necessary.

"Things are done unnecessarily in hospitals," Mr. Bunkelman said.

## PSROs fail test: Survey

Continued from page 3  
 the South, where hospital length of stay increased, PSRO use was the lowest: 44.4%.

PSROs try to cut hospital use in two ways: by preventing admissions and by shortening lengths of stays. According to the CBO study, 90% of PSROs' effectiveness is in cutting the length of stay.

### Cost effectiveness

Comparing the effectiveness of PSROs with program costs, the study found "the gross resource savings resulting from PSRO-generated changes in Medicare utilization are about 60% less than the relevant PSRO program costs."

Basing the comparison on reimbursement savings rather than resource savings, the results are somewhat more favorable, but "even the most positive results show gross savings that are only slightly in excess of relevant program costs. The most favorable estimate indicates a net budgetary savings equal to 20% of PSRO program costs."

### Possibilities

The study, in examining various possible ways PSROs can be deemed cost-effective, concluded: "If the goal of the program is to reduce reimbursements by means of increased efficiency in the health care system, it has not succeeded. The measure of success in that case would be the total change in resources consumed by the system. That change is shown by the ratio of resource savings to costs."

"Since that ratio is less than 1 to 1 for the PSRO program, the net effect of the program has been to increase the system's consumption of resources somewhat—that is, it has made the system less efficient."

Despite criticisms of the program's ability to curb short-term costs, the study suggests savings may be achieved.

"If PSRO-induced reductions in hospital days of care are maintained, it should be possible over the long term for hospitals to eliminate even the portion of costs that are fixed in the short term. As fixed costs are reduced, costs that have been transferred in the short term will be eliminated and resource savings will increase." ■

"Tests are ordered, never given and the employer is still billed."

Fidelity Revenue Systems' staff of 10 core people and five consultants consists mostly of nurses and PhD.s, with an M.D. occasionally joining the ranks.

### Itemized charges

FRS makes sure pharmacy charges include an itemization of drugs used and that the drugs relate to treatment.

In addition to reviewing medical claims, FRS also handles the coordination of benefits and subrogation—areas with an equal savings potential, Mr. Bunkelman says.

"Some companies are saving 12% to 14% on their total health insurance premiums," he said. But most savings are around 4%.

FRS's clients are five Fortune 1,000 corporations, one medium-sized automobile insurance company in Cleveland and a trade association. Among the five corporations—all headquartered in Ohio—are self-insurers and companies that buy health insurance plans.

FRS is also beginning to expand its sights to other horizons.

The firm is now looking at the possibility of reviewing workers compensation and disability claims.

### Damm's program

Mr. Bunkelman, the 37-year-old president of FRS, left Damm & Associates in December 1979 to form his own company.

Damm performed feasibility studies costing \$10,000 to \$20,000 to

determine areas where corporations could cut hospital costs (BI, July 1, 1977).

"We couldn't get enough clients to continue to keep the thing moving," Mr. Bunkelman said. "Com-

panies were not interested in setting up the kind of data base we were presenting. Most benefit departments have very small budgets because they haven't been looked at as profit centers." ■

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Newly created position

# Deshe accepts risk post with Value

Ari Deshe, 30, has been named to the newly created position of risk and insurance manager for Value City Inc. in Columbus, Ohio. Mr. Deshe, who reports to company president Jerome Schottenstein, will be responsible for all liability and property coverages, loss control and risk prevention for Value City and its division Schottenstein Stores Corp. He previously was an underwriter with General Reinsurance Corp. Mr. Deshe has a B.S. degree in insurance and business and a master's degree in finance from the University of Alabama.

Midland-Ross Corp. in Cleveland, Ohio, has named David A. Duran, 29, to the newly created position of assistant insurance manager-property/casualty. Mr. Duran, who reports to Eugene A. Bulgrin, corporate insurance manager, previously worked as a supervisor in the Cleveland claim office of Liberty Mutual Insurance Co. He has a B.S. degree in business management from Penn State University.

Velsicol Chemical Corp. in Chi-

## comings & goings: buyers

Chicago has named John J. Fossett corporate safety manager. Mr. Fossett, who replaces the deceased Donald Ritter, will be responsible for coordinating safety and loss prevention programs at all Velsicol locations and chairing the corporate safety and health committee. Before accepting this position, Mr. Fossett was a supervisor of employee relations and safety at Allied Chemical Co. in Danville, Ill., where a replacement has yet to be named. He has a bachelor's degree from LaSalle College in Philadelphia and is a certified industrial hygienist, certified safety professional and member of the National Fire Protection Assn.

Joe P. Mayo, 49, has been named director of security at Argonne National Laboratory in Argonne, Ill., to replace William Shaw, who retired. Mr. Mayo, who reports to Robert Epstein, division manager of technical services, previously

worked on the Chicago police force for 20 years. He has a bachelor's degree in the administration of criminal justice from the University of Illinois and a master's in urban sociology from Northeastern Illinois University in Chicago.

Indian Head Inc. in New York has named Patrick Cahill director of risk management. Mr. Cahill, who reports to vp and treasurer Lawrence A. Johnes, was previously assistant director of risk management at American Standard Inc. in New York, where a replacement has not been named. He previously held managerial positions with Marsh & McLennan, The Hartford Insurance Group and Alexander's Inc. department stores. A graduate of Long Island University, Mr. Cahill holds a B.S. degree in business management.

Doris Ramsey, director of risk



Cahill



Ramsey

management at Rohr Industries Inc. in Chula Vista, Calif., has been elected president of Aircraft Builders Council Inc., an aircraft industry insurance organization. Ms. Ramsey, who has been on the ABC board of directors since 1976, has worked at Rohr for the past 30 years, 25 of them in the risk management area. She is a past president of the local RIMS chapter.

Ms. Ramsey replaces Martin Sherry as ABC president.

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**Carrier confusion**

# Deregulation opens debates

*Continued from page 2*  
Sovereign Fire & Marine are unauthorized insurers in New Jersey. State investigators say it is unclear whether or not Mr. Campbell or Global was paying adequate premiums to Mr. Siebenberg. Mr. Siebenberg also worked with Mr. Campbell directly by helping to negotiate the reinsurance contract between Highlands Mutual and Central Fire, Mr. Siebenberg told BI. Only Global International Underwriters remains untouched by the charges and investigations. No serious complaints have been filed against the firm, according to the Florida insurance department.

"We are monitoring Global's business, though it would be unfair to call it an investigation at this point," explained George Love, the Florida insurance department excess/surplus lines manager. "But recently, Global International is no longer writing excess/

## Love's labor lost in transit

*Continued from page 2*  
Dallas widow and asked her to come identify her husband, but she sent her brother-in-law instead. When the coffins subsequently were opened by the widows, the wrong husbands were inside. Both sued the airline for mental anguish damages. Is the airline liable? Common law is not dead under carrier liability deregulation, says William Augello, executive director/general counsel of the Shippers National Freight Claim Council Inc. He presented these and other actual cases to 91 shippers and carriers at a seminar last week in Chicago.

Mr. Augello was illustrating the "two-pronged rule" for proving when a freight carrier is liable under the Bill of Lading Act. A carrier must prove that the proximate cause of damage, loss or delay was one of five bill of lading exceptions, and he must prove it was not a negligent act on his part. Otherwise he is responsible for the loss and must pay damages. So what happened?

Is a dead dog damaged? The court said no, a dead dog is not damaged, lost or delayed. He's dead. Therefore, you don't have a time limit on the claim, so the airline has to pay.

And the dead sheep? The bill of lading called for 25 sheep. Nowhere did it say that the sheep must be alive, therefore the carrier was excused from paying damages. But the consignee said, "What about my lambs?" and the carrier replied, "What lambs?" Just to be nice, though, the trucker gave the consignee his lambs.

The widows of the dead Americans didn't receive remuneration from American Airlines for their mental anguish. The court held that the proximate cause of damage was the brother-in-law identifying the wrong husband.

The bill of lading is your contract, Mr. Augello told his audience, and "you must read the fine print."

—Stacy Shapiro

surplus lines. They are working in retail coverages only, because their surplus lines agent has left the firm."

Jose Pina, who held the excess/surplus lines license for Global and worked with Mr. Campbell and Mr. Siebenberg, recently left the firm and now works for another excess/surplus intermediary, Interstate Underwriters Inc. in Miami, Mr. Love said. Interstate Underwriters is managed by Carlos Pina, the brother of the former Global employe, he added.

Interstate has not been implicated by any investigators. ■

# Ohio attacks vision plan

*Continued from page 2*  
doesn't select the board members even though there is a lot of optometrists' influence on the board," said Columbus attorney Sheldon Taft, counsel for OOA. "But to say that control is the objective and that optometrists are working in concert to accomplish some conspiratorial end to increase rates and decrease competition is all speculation and will be proven untrue in the court record."

OVS, which collects about \$3 million in premiums as the third-party vision care provider for some 100,000 persons, says the state has no case. The board is a separate panel operating independently of the OOA, said Alan Henion, administrative vp for the insurer.

The board structure doesn't stymie price competition among providers, Mr. Henion argued.

Mr. Taft, pointing out that all sides will be anxious to avoid costly litigation, speculated the case could end in a pretrial settlement changing the composition of the board.

Delta Dental Plan of Ohio agreed late last year to reduce the provider membership on its board of directors after the state threatened a suit (BI, Dec. 10, 1979).

But Mr. Weller said the state will not be happy with a mere reduction of doctor representation; it wants doctors eliminated from the panel. "They should have no role in the board selection," he said. "We realize there's a need for certain technical expertise but for that they can hire and contract with a provider for the necessary technical input."

Provider dominance of health

care organizations is coming under increasing challenge. In addition to the current suit and Delta Dental case, Ohio's largest Blue Shield plan agreed to relinquish the 80% doctor control of its board. ■

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29.	JUL 21	Jul 9
30. AGENT/BROKER PROFILES	JUL 28	Jul 15
31.	AUG 4	Jul 23
32. Spotlight Report: Pensions & Retirement Programs	AUG 11	Jul 30
33.	AUG 18	Aug 6
34. PROPERTY/LIABILITY: THE YEAR AHEAD	AUG 25	Aug 12
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# Drop in return on equity can signal tough times

By STUART EMMRICH

**A**S COMBINED ratios for the property and casualty industry continue to climb above 100%, most insurance company officials and observers warn that higher prices and fewer choices are imminent.

But a couple of industry analysts, who agree that higher prices and tougher times are near, advise insurers and their clients to pay more attention to another figure that they argue has the most impact on the finances of the industry: return on equity.

And the news about that bottom line is not that good, say A. Michael Frinquelli and Samuel Liss, analysts with Salomon Bros. in New York, in a recent report.

Industry observers have long argued that when combined ratios go above 100%—at which level insurers are incurring more in losses and expenses than they are taking in through premiums—insurance markets will tighten up. But these analysts note it hasn't happened this way in the last year.

The 1979 industry combined ratio was 101.4%, according to preliminary estimates. It is expected to run up to 104.8% in 1980 and 108% in 1981. Still companies continue to follow "liberal pricing" policies.

"We start with the proposition that combined ratio is not a given, but is a derivative of another factor: return on equity," the report says.

The importance of the return on equity is even greater considering its influence on insurers' ability to raise capital in periods of financial difficulty.

To maintain this self-financing ability, insurers must keep a return on equity of about 15%, assuming premium/surplus ratios stay about 3 to 1, the analysts say.

But the industry's average return, which hit a peak of 24.4% in 1978, will probably dip to 14% in 1981, the lowest mark in six years.

"This indicates a relatively modest earnings decline over 1980-81," the report says. But the severity of the decline will be cushioned by continued strong levels of investment income.

## BI ticker

### PennCorp.

Earnings were down in PennCorp. Financial's first quarter and its stock prices have declined about one-third since the beginning of the year.

But PennCorp. is being enthusiastically touted these days by analyst Herbert Goodfriend of Bache Halsey Stuart Shields.

Why? The stock is undervalued by two-thirds, the recent drop in earnings was directly attributable to rapidly rising interest rates—a trend that has now reversed—and the company has the kind of firm financial history and management reputation that might lead to a lucrative takeover at some point, he says.

The signs of the company's strength were obvious in the recent first-quarter results. Although rising interest rates did hurt the earnings total, sales increased 46%, the largest jump in the company's history.

"New sales of health and life coverage have never been better and the latter, especially term coverages, spurred by a newly inked exclusive soliciting general agency relationship, were at record levels," Mr. Goodfriend said. "For those willing to forego income and look beyond the current transitional period to a revived financial complex, speculative commitments should prove rewarding."

PennCorp. underwrites life, accident and health insurance, has a general agency offering property/casualty coverage written by other companies and owns a chain of savings and loans institutions in Texas.

Among the fastest growing segments of its business in the past couple of years has been the general agency operations. Premium volume reached \$25 million in 1979 and net income from new business alone last year brought \$2 million into the company.

Although the division just makes up 8% of

the company's total earnings, it contributes 16% of pre-tax profits.

In recent years, the company has also tried to correct what Mr. Goodfriend sees as one of its major problems: disability income policies.

A great emphasis was placed on selling these in the 1960s and the company is still paying for that mistake, he said.

Pressures of rising unemployment and inflation convinced the company that it had better start downplaying that product and shifting its attention elsewhere, Mr. Goodfriend said. In the past four years, premiums from disability income policies have declined to \$58 million, 10% of the accident and health total, from \$66.5 million, or 30% of the 1976 total.

Life insurance is the company's newest major line, with \$60 million in written premiums and \$4 billion of business in force.

Mr. Goodfriend predicts a continuing strong sales and earnings performance from PennCorp. over the next year and a half.

Operating income should rise from 1979's \$58.4 million to \$62 million in 1980 and between \$77 million and \$79 million in 1981, he forecasts.

### ERC

Long wooed by Connecticut General Insurance Corp., ERC Corp. has instead found what it considers a more attractive suitor in Getty Oil Co.

ERC directors unanimously endorsed Getty's proposal to acquire all its outstanding shares for approximately \$570 million. The \$97-per-share price substantially exceeds the \$80-per-share earlier offered by Connecticut General.

"I welcome the Getty proposal and intend to recommend that the board vote to endorse the offer," said Stanford Miller, ERC's chairman. That's a substantially different position from his opposition to a takeover by Connecticut General.

Connecticut General president Robert Kilpatrick said his company would for now give up its attempts at an ERC takeover. CG would once again consider ERC if the Getty proposal fell through, he added, but not at the price offered by Getty.

"The price of \$97 per share exceeds what we regard as an acceptable price for Connecticut General to pay for ERC," Mr. Kilpatrick said. "Based on our analysis, the economic value of ERC to CG is not consistent with the price level offered by Getty."

### Orion

The Orion Capital Corp. of New York continues to battle a takeover attempt of its company by Shearson Loeb Rhodes.

Shearson raised its offering price to \$17.50 a share from \$16 a share and said the figure was simply a starting point for negotiations, but Orion officials refused to discuss it.

Alan Gruber, chairman and president of Orion, told stockholders unhappy with the rejection of the Shearson offer that he doesn't even want to discuss the matter further with Shearson.

"Apparently there is a fundamental misunderstanding," an Orion company spokesman said. "That is, it seems as though Shearson has been proceeding under the misguided notion that pressure can either mask or disguise what is both inadequate and inappropriate."

### American Bankers

American Bankers Insurance Co. of Florida and American Bankers Life Assurance Co. of Florida will become the principal subsidiaries of a new holding company, American Bankers Insurance Group Inc., upon approval of the shareholders and the Florida insurance department.

American Bankers Life markets group life insurance products through 23 Blue Cross and Blue Shield plans



Forty-four of the stocks on the Business Insurance Industry Index rose over the last two weeks, outpacing the declining prices of 20 others. Ten stocks remained unchanged. The index rose 3.02% to 141.933. (The base of 100 was at year-end 1978.) Biggest gains were registered by ERC Corp., up 31.5%; Aneco Reins Ltd., up 22.2%; Provident Life & Accident, up 17.3%; Republic National Life, up 15.5%, and PennCorp Financial and Ryan Group, both up 12.5%. Biggest drops were by Appalachian National, down 11.1%; Standard Life, down 5.4%; Ohio Casualty, down 4.4%; Reed-Stenhouse Cos., down 3.9%, and Alexander & Alexander Services, down 3.8%. The index rise over the two-week period surpassed the three other leading stock market indices.

British Issues					
6/10 Companies	Price pence	P/E	Div. pence	2 Week High—Low	
				Yield %	High—Low pence
Comml Union	133	6.7	14.00	10.5	133—127
Eagle Star	180	5.8	12.86	7.2	179—170
Genl Accident	248	6.0	17.14	6.9	248—238
Gdn Royal Exch	258	6.8	19.28	7.5	260—248
Phoenix	228	6.3	19.00	8.3	224—216
Royal	330	6.6	30.71	9.3	330—320
Sun Alliance	592	7.0	40.00	6.8	594—562
<b>Brokers</b>					
CT Bowring	167	11.1	8.57	5.1	168—153
CE Heath	195	8.7	13.80	7.1	197—187
Hogg Robinson	101	8.1	7.48	7.4	102—100
Alex Howden	102	7.0	10.00	9.8	102—99
JH Minet	96	9.1	6.38	6.6	99—94
Sedg Grp	108	8.8	7.14	6.6	108—102
Steinhouse Hldg	77	7.1	6.46	8.4	77—76
Stew Wrightson	202	7.1	17.14	8.5	202—195
Willis Faber	225	10.5	15.71	7.0	225—217

Source: Kitecat & Aitken, London

## BI Industry Stock Report

Insurance Cos.	JUNE 9, 1980					5/26/80 THRU 6/9/80					JUNE 9, 1980					5/26/80 THRU 6/9/80				
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)				
Aetna Life & Cas Co	NYSE	39.00	10.2	5.4	2.12	5.4	39.00*	35.75	1,030.2	Safeco Corp	OTC	35.25	4.1	4.9	1.80	5.1	35.50	34.00	150.4	
American Bankers Ins Co Fla	OTC	7.38	1.7	4.9	0.44	6.0	7.75	7.25	98.9	Sri Corp	OTC	19.00	2.7	3.4	1.00	5.3	19.00	18.00	87.4	
American Finl Corp Ohio	OTC	32.50	0.8	3.5	0.75	2.3	32.50*	31.25	48.0	Seibels Bruce Group Inc	OTC	14.25	-3.4	5.6	0.80	5.6	14.75	14.25	21.5	
American Gen Ins Co	NYSE	34.00	6.2	5.1	1.00	2.9	34.00	32.00	176.9	Standard Life Ins Co Ind	OTC	25.00	-5.5	14.3	0.44	1.7	27.50	26.00	2.7	
American Indty Finl Corp	OTC	15.50	6.9	4.5	1.12	7.2	15.50	14.75	21.8	Statestman Group Inc	OTC	4.88	2.6	3.9	0.15	3.1	4.88	4.75	31.6	
American Intl Group Inc	OTC	61.00	3.0	9.5	0.50	0.8	61.00*	59.25	404.7	Tokio Marine & Fire Ins Co	OTC	130.75	-0.9	13.9	0.00	0.0	130.75	127.00	9.6	
American Natl Ins Co	OTC	13.50	0.0	5.2	0.62	4.6	13.75	13.13	266.2	Travelers Corp	NYSE	41.25	5.8	4.6	2.48	6.0	41.25	39.25	535.4	
American Sta Life Ins Co	OTC	16.00	-3.0	6.6	0.64	4.0	16.50	16.00	5.0	United Fire & Cas Co	OTC	30.00	0.0	8.8	0.90	3.0	30.00	30.00	2.7	
Aneco Reins Ltd	OTC	5.50	22.2	42.3	0.00	0.0	5.50	4.25*	181.3	United States Fid & Gty Co	NYSE	41.25	4.4	4.9	2.80	6.8	41.25*	39.00	460.1	
Appalachian Natl Corp	OTC	2.00	-11.1	5.7	0.05	2.5	2.25	2.00*	1.3	United Svcs Life Ins Co	OTC	14.25	-2.6	5.1	0.96	6.7	14.63	14.25	17.3	
Avensco Corp	AMEX	11.00	6.0	7.3	0.50	4.5	11.25	10.38	15.4	USlife Corp	NYSE	23.13	-1.6	5.8	0.70	3.0	23.75*	22.38	259.2	
Banks Iowa Inc	OTC	23.00	0.0	4.4	1.32	5.7	23.00	23.00	0.7	Washington Natl Corp	NYSE	26.68	-3.6	5.5	1.50	5.6	27.75	26.50	24.7	
Bitco Corp	OTC	25.00	2.0	3.8	1.68	6.7	25.00	24.50	10.0	Senith Natl Ins Corp	OTC	13.75	-3.5	8.4	0.50	3.6	15.75	13.75	35.8	
Carolina Cas Ins Co	OTC	6.25	-2.0	3.6	0.32	5.1	6.38	6.25	2.0	INSURANCE COMPANIES					AVERAGE	6.4	4.0			
Central Natl Finl Corp	OTC	7.00	0.0	2.8	0.50	7.1	7.00	7.00	1.6	Agents/Brokers										
Chubb Corp	OTC	37.87	-1.6	5.0	2.40	6.3	38.25	37.88	211.9	Alexander & Alexander Svcs	OTC	31.50	-3.8	10.6	1.64	5.2	32.75	31.50	332.3	
Combined Ins Co Amer	OTC	18.13	-0.7	5.3	1.40	7.7	18.38	17.88	182.2	Baldwin & Lyons Inc	OTC	24.75	0.0	4.5	0.80	3.2	24.88	24.75	6.5	
Connecticut Gen Ins Corp	NYSE	38.25	5.9	5.8	1.52	4.0	38.25	35.75	420.0	Corroon & Black Corp	NYSE	23.62	8.6	8.9	1.72	7.3	23.63	21.63	39.9	
Continental Corp	NYSE	26.88	3.9	5.2	2.20	8.2	26.88	26.00	244.7	Crump E H Cos Inc	OTC	10.75	-3.4	9.9	0.36	3.3	11.25	10.63	29.7	
Crawford & Co	OTC	16.00	0.0	13.5	0.54	3.4	16.00	16.00	8.7	Ball Frank B & Co Inc	NYSE	25.00	0.0	8.3	1.44	5.8	25.38	24.25	155.6	
Crown Life Ins Co	OTC	62.50	0.0	45.3	2.40	3.8	63.00	62.25	1.7	Integrated Res Inc	AMEX	14.00	2.8	8.7	0.00	0.0	14.25	13.38	151.4	
Crum & Forster	NYSE	55.25	6.2	5.0	2.52	4.6	55.25	51.38	106.5	James Fred S & Co Inc	NYSE	23.25	2.8	8.5	1.40	6.0	23.25	21.50	86.1	
Employers Cas Co	OTC	27.00	-1.8	4.9	1.20	4.4	27.50	27.00*	4.5	Marsh & McLennan Cos Inc	NYSE	59.75	5.3	9.7	3.60	6.0	61.00	57.25	274.5	
ERC Corp	OTC	91.12	31.6	10.2	1.40	1.5	91.50*	70.25	1,908.7	PennCorp Finl Inc	NYSE	9.00	12.5	5.5	0.16	1.8	9.13*	7.50	948.3	
Equifax Inc	NYSE	21.75	3.6	6.9	2.40	11.0	21.75	21.00	8.9	Reed Stenhouse Cos Ltd	OTC	9.12	-3.9	7.0	0.48	5.3	9.63*	9.13	30.2	
Farmers Group Inc	OTC	26.75	1.9	8.7	1.00	3.7	27.00	25.25	534.4	Rollins Burdick Hunter Co	OTC	19.00	5.6	8.3	1.24	6.5	20.50	18.00	68.7	
First Colony Life Ins Co	OTC	30.50	-1.6	11.3	0.76	2.5	31.50	30.50	4.3	AGENTS/BROKERS					AVERAGE	6.1	5.1			
Foremost Corp Amer	OTC	18.75	6.4	7.6	0.60	3.2	18.75*	17.38	42.8	Conglomerates/Holding Cos.										
General Reins Corp Del	OTC	92.00	7.0	7.3	2.80	3.0	92.00	86.50	242.2	American Express (Fireman's Fd)	NYSE	34.13	-1.1	7.0	2.00	5.9	34.25	33.00	966.2	
Globe Life & Acc Ins Co	OTC	33.38	7.7	12.5	0.40	1.2	33.38*	31.25	156.6	Anderson Clayton (Ranger/PanAm)	NYSE	22.00	0.0	5.7	1.12	5.1	22.63	21.75	34.1	
Great West Life Assurn Co	OTC	145.00	2.8	7.2	8.00	5.5	145.00	141.00	4.0	City Investing Co. (Home Ins.)	NYSE	25.25	4.1	4.8	1.50	5.9	27.38*	24.88	4,554.4	
Hanover Ins Co	OTC	36.25	2.8	3.7	0.72	2.0	36.25	34.75	16.1	CNA Finl Corp (CNA)	NYSE	15.88	1.6	3.6	0.00	0.0	16.13	15.50	88.5	
Hartford Steam Boiler Insptn	OTC	27.50	1.9	5.8	2.20	8.0	27.50	27.00	11.3	Control Data (Comm. Credit)	NYSE	55.63	6.0	7.6	0.60	1.1	55.63	51.50	724.5	
Integon Corp	NYSE	21.75	0.6	8.0	0.48	2.2	22.50	21.00	69.5	DNA Corp (Ins. Co. of NA)	NYSE	33.87	7.1	5.2	2.20	6.5	33.88	30.88	571.1	
Jefferson Natl Life Ins Co	OTC	39.00	5.4	9.4	0.64	1.6	39.00*	35.00	12.9	ITT (Hartford Group)	NYSE	27.36	-2.7	7.7	2.40	8.8	28.00	27.00	1,162.2	
Kemper Corp	OTC	25.13	-2.4	3.6	1.40	5.6	25.63	24.25	92.0	Reliance Group Inc	NYSE	65.00	-0.8	2.7	2.00	3.1	66.88	65.00	170.9	
Lincoln Natl Corp Ind	NYSE	39.75	3.6	5.6	2.80	7.0	40.00	38.50	167.2	Sears Roebuck & Co. (Allstate)	NYSE	16.00	-6.6	7.1	1.36	8.5				

## Replacement vs. actual cash value

Risk managers disagree over the significance of replacement cost versus actual cash value coverage as a hedge against inflation.

Replacement cost coverage pays a policyholder the full amount needed to rebuild a facility at current construction costs. Actual cash value coverage, which is less expensive, reimburses the insured based on replacement cost, with a deduction for depreciation, that could be as high as 40%.

"We subscribe to a replacement cost policy across the board," said Robert P. Coda, risk manager for Dover Corp., a New York-based conglomerate. "Historically, it's been more beneficial in an inflationary environment."

Texaco Inc. in White Plains, N.Y. purchases replacement cost coverage when it's available at a reasonable cost, says insurance manager Robert L. Kreiling. "It replaces new for old."

"We don't use an insurance company as a cash supply to upgrade the quality of our

facilities," said the risk manager for a Midwestern chemical company that purchases actual cash value coverage. "We use it to take care of sudden and unplanned occurrences. As a company, we're willing to absorb the depreciation and we expect we'll have to make up the cash deficiency."

Replacement cost coverage is of less value to a firm with newer facilities, said Fred Gelderman, vp of Alexander & Alexander. The additional coverage is unlikely to justify the extra premium.

Lorne Palmason, senior vp of Marsh & McLennan, said choosing between the coverage forms is a business decision. Separate coverage for depreciation can be purchased from Lloyd's of London and other specialty markets, he added.

Whether one insures to replacement cost or actual cash value is not likely to affect one's defense against inflation because "actual cash value is a function of replacement cost," he said.

## DES makers fight group liability

Continued from page 1

with *Business Insurance*.

Although these five companies have been named in many DES lawsuits nationwide, more than 200 companies manufactured the drug between 1941 and 1971. All of them could eventually be held to share industrywide liability.

The drug was administered to pregnant women to prevent miscarriages. Later, it was established that DES may cause vaginal and cervical cancer in the daughters of the women who took the drug.

### New York case

Lilly also will appeal a 1979 DES trial court decision in which it is the sole defendant. In that case, *Bichlor vs. Eli Lilly & Co.*, a New York jury decided in the plaintiff's favor despite her inability to identify the manufacturer of DES.

It is impossible to estimate how many other DES actions are pending around the country because every day new ones are filed and others are settled, says Mr. Leahy of Lilly. Attorneys for drug company defendants estimate there are at least 25 suits in California.

Although nearly all plaintiffs are now citing the *Sindell* opinion, Mr. Leahy said, there is no way to predict how courts outside California will view that state's high court opinion.

Mr. Leahy anticipates a meeting of the various drug companies within the next 30 days to plan an appeal. It is not clear, he says, whether they will petition the Supreme Court jointly or separately.

Although it is unlikely the Supreme Court would review separate petitions, he says, the drug companies are sensitive to joint action because it tends to reinforce plaintiff presumptions of a concert-of-action among the defendants.

The manufacturers must file their writ of certiorari before mid-August, 90 days after the California supreme court's refusal to rehear the case.

The U.S. Supreme Court is expected to decide before the end of

the year, perhaps as soon as September, whether it will grant a hearing. If it consents to review the decision, its ruling would probably be announced before next summer.

### The 14th Amendment

The section of the 14th Amendment to the U.S. Constitution upon which drug manufacturers will base their appeal reads:

"... No state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any state deprive any person of life, liberty or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws." ■

### AIA officers

Jack Moseley, president and chief administrative officer of U.S. Fidelity & Guaranty Co. has been elected chairman of the American Insurance Assn. William O. Bailey, president of Aetna Life & Casualty, was re-elected vice chairman, and Waverly G. Smith, president and chief operating officer of The St. Paul Cos., was elected vice chairman.

## Agree-value policies stem inflation's threat

Continued from page 1

years, says Russell Drake, director of corporate risk management and insurance for Borden's Inc. A major corporation makes numerous building expansions and purchases during a year that must be added to property insurance policies.

But inflation creates additional

problems.

"Although inflation has been going on for a number of years, I can't guess the outcome in any particular year," Mr. Drake says. "Some plants with special equipment will see their replacement values go up remarkably in a given year," he explained.

For the firm with a good valuation base and a good reporting system for additions and deletions to its property inventory, keeping values current with inflation is relatively simple, says Lorne V. Palmason, senior vp of Marsh & McLennan Inc.

### Tracking prices

Indexes of construction and machinery expenses supplied by insurers, brokers and other sources can measure how much more money would be needed to replace plants lost today compared with last year.

Construction cost indexes track prices for materials and services in the building trades and by locality. One index, supplied quarterly by the R.S. Means Co. of Kingston, Mass., tracks 80 different construction materials, 24 building trades and nine types of equipment commonly rented by building contractors in 208 markets.

A company lacking a good valuation base can easily obtain one, but it's expensive: Hire an appraisal firm, Mr. Palmason said. The service is available from large brokers, insurers and independent firms.

For a company with \$50 million in real property assets, an appraisal would cost \$10,000 to \$50,000 depending upon the detail required, says Martin Grubanowitch, assistant vp of American Appraisal Co. headquartered in Milwaukee, Wis.

### Appraising value

An appraisal can be very detailed, listing every brick in a building, or can be performed on a "condensed basis" with detailed studies made of major sections and the rest of a building's value estimated on a square-foot basis, he said.

Insurance appraisals determine replacement value and reproduction value of a building based on cost information for the materials and labor that would be needed.

An older building is rarely insured on a reproduction cost basis because a modern building can replace it at much less cost.

For determining machinery values, American Appraisal maintains catalogs of equipment suppliers, Mr. Grubanowitch said. When custom-designed units are appraised, the values of their component units are obtained from these catalogs, he adds.

Firms like American Appraisal, the leading brokers and insurers, also provide annual valuations for firms not large enough to maintain valuations. American Appraisal annually services about 2,000 such accounts, Mr. Grubanowitch said.

These studies are less detailed and much cheaper than a full appraisal. Additions and deletions to property inventory and inflation's impact upon the total value are considered. A firm paying \$10,000 or more for a full appraisal could buy an update report for \$2,000 to \$3,000, Mr. Grubanowitch said.

With the right valuation, a risk manager can negotiate an agreed-value clause from an insurer to cope with inflation.

An agreed-value clause is the best form of coverage to have when contending with double-digit inflation, maintains Alexander & Alexander vp Larry Lassus.

### No coinsurance

With agreed-value coverage, the policyholder and insurer agree ahead of time on a property's value, instead of dickering after a total loss has occurred, says M&M's Mr. Palmason. The coinsurance requirement previously placed on policyholders is removed, he adds.

"The insured is interested in collecting at the time of a loss what it costs to replace the building," says James Jergensen, senior vp-marketing for Allendale Mutual Insurance Co., the largest member of the Factory Mutual System. Most Allendale accounts are written on an agreed-value basis.

"Most insureds are attempting to get carriers to waive the coinsurance feature of the standard fire contract because of inflation as well as fluctuation of values by specific location," said IRI's Mr. Crawford.

"IRI is willing to do this in most instances when value information is sound."

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