WEEK OF JUNE 1, 1981

business insurance®

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

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update:

Reagan administration backs risk retention bill

WASHINGTON—The Reagan administration last week officially endorsed the Risk Retention Act.

"The problem of product liability is worldwide and it is time to get a good grasp of it. That's just what this act will do," said Malcolm Baldrige, Secretary of Commerce.

Two versions of the Risk Retention Act,

Continued on next page

Aetna's edict to raise rates stalls in field

HARTFORD, Conn.—Aetna Life & Casualty Insurance Co. regional offices are telling agents to expect higher prices for commercial and personal insurance, but the agents and brokers are still waiting.

A *Business Insurance* national survey of brokers, ranging from the largest broking conglomerates to small regional firms, reveals no change in Aetna's price competition. With few exceptions, brokers say Aetna continues to reduce rates on renewals, although the reductions may not be as large as those offered by other competing insurers.

"We haven't noticed any change in the way Aetna is doing business," said Gordon Gray, senior vp of Marsh & McLennan in Los Angeles. "I think Aetna was looking for followers, but they haven't found any."

This story is based on reporting by BI staffers Carol G. Blitzer, Margaret LeRoux, John Maes, John W. Milligan, Rhonda L. Rundle and Len Strazewski. It was written by Mr. Strazewski.

Rate reductions, however, seem conservative by the market standards of the past year. Aetna, according to several agents and brokers, is showing signs of "conservative underwriting" without dramatically raising rates.

"Aetna has never been one of the real swingers," explained a small Chicago broker who has tapped Aetna Life & Casualty for several years. "I have found it a very consistent market. Aetna doesn't seem to fly with the situation by reducing rates in easy times and raising them to the sky in hard times.

"When other insurers reduced rates by 20%, Aetna reduced them by only 5%," he said.

Exceptions to an overall policy of competitive rate reductions can be found, but it takes some digging. Jack Pereson, partner in the Houston brokerage Langham, Langston & Dyer, reported umbrella liability policy premium increases averaging 20% for the same coverage.

Continued on page 29



Photo: Bill Jurevich

Attorneys say the Tiderman award could affect the entire mobile home industry.

Product liability award shocks nation's mobile home industry

By RHONDA L. RUNDLE

PORT ANGELES, Wash.—A half-million dollar jury award against a mobile home manufacturer and dealer has catapulted formaldehyde toxicity into the big leagues of hazardous substance litigation.

A Clallam County superior court has ordered Fleetwood Homes of Washington Inc. and Olympic Auto & Trailer Sales to pay a plaintiff $566,500 in compensatory damages for respiratory ailments she claims were caused by a mobile home.

Maureen Tiderman says her bronchial asthma condition, contracted within weeks after moving into a two-bedroom mobile home, was caused by excessive levels of formaldehyde emitted by particle board and plywood into the interior environment.

The substantial verdict is sending shock waves through the mobile home industry. "All the dealers up here are scared to death to sell their product," said Paul Frouds, an attorney representing Olympic Auto & Trailer Sales.

The jury excused two other defendants, Willamette Industries Inc., manufacturer of the particle board, and Van Plywood Inc., manufacturer of the plywood, ruling they could not be held responsible

Continued on page 26

HMO bill threatens to hike employer costs

By JERRY GEISEL

WASHINGTON—The chances of an employee getting stuck in an insolvent health maintenance organization could increase and employee benefit managers' administrative burdens could rise if a House committee gets its way.

The House Energy and Commerce Committee has approved legislation, H.R. 3398, increasing the requirements on employers to offer HMOs to their employees.

The bill requires employers to offer their employees a choice of enrolling in one of two HMOs if one of the HMOs is controlled by an insurer or a Blue Cross/Blue Shield plan that also controls a "substantial" part of the health insurance market in the employer's area.

The future of the multiple-choice provision is uncertain. HMO legislation, S. 1029, passed by the Senate Labor and Human Resources Committee in May did not impose such a requirement (*BI*, May 11).

> 'This opens up the possibility of more employees enrolled in HMOs that could go under,' warns benefit manager Art Young of Hewlett Packard.

Under current law, an employer can satisfy the dual choice requirement of the 1973 HMO Act by offering employees an opportunity to enroll in an HMO if an HMO asks to serve employees and if the employer has more than 25 employees. It doesn't matter if the HMO is operated by an insurer or BC/BS plan.

But committee members say unless the dual choice requirement is broadened, HMOs may no longer serve as a competitive force to restrain health-care costs.

"If the insurance company has a substantial part of the health insurance market, and it also controls the HMO, it has a lock on the market," said a source close to the House Energy and Commerce Committee. "If the insurer also controls the HMO, the potential for no competition is great."

Insurers that own HMOs deny any control of market that would make their HMOs subject to a broader dual-choice requirement. But Blue Cross/Blue Shield, with 70 HMOs around the country and strongholds in certain markets, estimates the new requirement would affect employers in most areas of the country.

Benefit managers worry that the multiple-choice requirement will boost administrative costs because another health insurance plan will have to be offered to employees.

"From an administrative standpoint, you don't like to offer a lot of different health insurance plans where there are few employees in an area," said Art Young, employee benefits manager at Hewlett Packard Co. in Palo Alto, Calif.

Experts also are concerned that the second HMO employers may be forced to offer could be financially weak, increasing the risk that employees could get stuck with unpaid medical bills if the HMO goes bankrupt.

The recent rash of HMO insolvencies makes some employers more comfortable offering an HMO backed by an insurer or a BC/BS plan with more assets than a small, independent HMO.

The new multiple-choice provision would force some employers to use more than only an insurer- or BC/BS-backed plan. "This opens up the possibility of more employees enrolled in HMOs that could go under," Mr. Young said.

Employers offering an HMO sponsored by a health insurance company, such as Prudential or INA, probably would not have to offer a second HMO. The health insurers do not exceed the informal

Continued on page 30

NEWSPAPER

INSIDE:

Judge rejects notion of DES conspiracy
Page 3

PRIMA conference
Pages 21-24

update:

Reagan backs risk retention bill

Continued from previous page
which would allow companies to pool product liability risks without coming under strict state laws, are pending in the Senate.

Allianz fills strike coverage hole

LOS ANGELES—At the moment of decision, the major league baseball club owners' strike insurance package was intact.

A weakness in the $50 million plan was patched last week as Allianz Insurance Co. replaced reinsurance on its $19.5 million share of the excess coverage. Allianz had thought the coverage was completely reinsured by Switzerland General Insurance Co. of New York, but the intermediary who arranged the plan lacked authority from the Swiss reinsurer (*BI*, April 6).

The new reinsurance, placed mostly with Lloyd's of London, will not cover the full policy limits, however. Allianz will retain a small portion of the risk, said Benn Prybutok of Allianz.

The remainder of the strike package, which covers the baseball club owners for business interruption losses during a strike, is led by Lloyd's. The coverage, which picks up after a $15 million retention, will cost the major league club owners less than $3 million if it is used. Only half the premium is charged if there is no strike.

Flood insurance pays in Texas

AUSTIN—Responding to floods that killed at least 10 and did millions of dollars in damages to homes and businesses, the National Flood Insurance Program has set up a claims office here.

Heavy rains May 24 caused the passive Shoal Creek to overflow, flooding about 50 businesses and 500 to 600 homes. It is estimated that 10% of the damage was to commercial structures. Businesses have 60 of the 1,300 flood policies in the Austin area.

In emergencies, the federal government limits commercial coverage to $100,000 for the structure and $100,000 for contents and home coverage to $35,000 for the structure and $10,000 for the contents.

Claims against Iran to be retried

WASHINGTON—Three insurers with claims against Iran will get another day in court.

The U.S. Court of Appeals remanded suits by three insurers against Iran to a U.S. district court here for a rehearing. Continental Corp., American International Group and Insurance Co. of North America are seeking some $35 million from Iran to cover their interests in subsidiaries lost during the Iranian revolution.

The rehearing will protect insurers in case an international commission set up to arbitrate claims doesn't work (*BI*, May 18).

Abortion coverage debated

WASHINGTON—A House-Senate conference committee this week will decide whether abortions should be covered under health insurance plans for federal employees.

The House earlier tacked onto an appropriations bill an amendment by Rep. John Ashbrook, R-Ohio, that bars federal health insurance plans from paying for abortions (*BI*, May 25), but the Senate refused to accept the Ashbrook amendment.

St. Regis bids for insurer

NEW YORK—St. Regis Paper Co.'s offer last week to acquire Drum Financial Corp. for about $60 million accelerates the paper company's plans to diversify into the insurance business.

Drum is an insurance holding company specializing in consumer credit-related insurance and fronting plans licensed in 49 states.

St. Regis began its diversification into the insurance business when it purchased Angelina Casualty Co., a workers compensation underwriter in Texas. Its Bermuda-based insurance subsidiaries also are included in the diversification plan (*BI*, Oct. 27, 1980).

Competition hits Arizona comp

PHOENIX—One insurer has finally deviated from bureau workers compensation rates in Arizona, crossing a long-standing noncompetitive price line, according to Arizona Director J. Michael Low.

Argonaut-Midwest Insurance Co. filed for and received a 10% rate cut for all workers compensation classifications. Argonaut and all other workers compensation insurers in the state previously had used National Council on Compensation Insurance bureau rates.

Mr. Low has been an outspoken proponent of competitive rating for workers compensation and chairs a state commission researching legislation necessary to change the rating law. The rate deviation was approved under temporary powers given to the insurance department while the study is in progress (*BI*, Feb.9).

index

Around the states	8	**Products & services**	13
Benefit beat	4	**Washington**	12
BI ticker	31		
Classifieds	28		
Comings&goings: buyers	29		
Comings&goings: industry	14		
Datebook	24		
Editorial opinions	6		
Insurance services guide	30		
Legal briefs	20		
Letters	6		
Management	20		
Markets	30		
Perspectives	19		

Vol. 15, No. 22—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611. Copyright 1981 by Crain Communications Inc.

Lloyd's may be forced to vote on divestment

By STACY SHAPIRO

LONDON—Lloyd's of London must either begin the time-consuming task of asking its members to accept separation of broking and underwriting or risk losing Parliamentary approval of its reform bill.

Lloyd's Chairman Peter Green will announce the decision this week.

The choice became clear when Michael Meacher, chairman of the parliamentary committee considering the bill designed to overhaul Lloyd's self-regulatory system, said, "We are of the opinion that the bill ought to be amended so as to provide for complete divestment as between brokers and underwriters."

Members agencies must also be divested, the committee said, a decision that no one expected.

The four-man House of Commons committee said the Lloyd's bill should stipulate that brokers be divested from their underwriting agencies within five years of the formation of the new governing council.

"We therefore ask the promoters (Lloyd's) whether they are prepared to seek an additional provision," Mr. Meacher said.

Lloyd's would have to petition some 20,000 members for permission to add the divestment provision because it extends the scope of the bill approved by the members last November, Lloyd's legal counsel said.

The members at that time voted to allow the proposed Council of Lloyd's to deal with the complicated and controversial issue of divestment.

Without petitioning its members for approval of the divestment addition, the bill could be thrown out, the Lloyd's attorney said. But the petition will delay action on the bill at least a few months, if not until Christmas.

The committee made its decision after hearing 2½ weeks of testimony from Lloyd's and petitioners against the bill.

Continued on page 26

Losses force Texas Blues to raise rates

By STEVE SHERWOOD

DALLAS—A $45 million loss in 1980 nearly twice as much as first determined, will drive up rates charged by Blue Cross of Texas, one of the state's largest health insurers.

Blue Cross which collected $900 million in premiums during 1980, originally reported losses of about $24 million. But an independent audit by a Dallas firm showed losses of more than $45 million.

The bigger loss, reducing capital and surplus, will force higher rates, which in hindsight should have been increased last August, said John Justin, Blue Cross of Texas chairman.

"Where rates are too low, they have to go up," Mr. Justin said, declining to predict what the increases will be. "We will continue to deliver services cheaply as we can," he said.

Incurred claims reserves missed by the company's internal audit surfaced in the independent audit to produce the larger loss for 1980.

A new computer system caused some confusion, Mr. Justin said.

"We didn't have good actuarial figures," he explained. "We switched to a computer system in March and it was a bigger job than expected. Claims stacked up and we let things get away from us."

Even before the computer was put on line, work was beginning to pile up because of an increase in business, he said. "Claims piled up and were not taken into consideration when prices were set."

In addition, some claims were

Continued on page 30

Liz misses curtain call and Lloyd's pays $216,000

NEW YORK—Elizabeth Taylor's return to the stage last week in the Broadway production of "Little Foxes" is delighting the theater community, but it brings a special sigh of relief from Lloyd's of London underwriters and the play's producers.

Lloyd's had to pay $216,000 in nonappearance claims to Foxes Venture, the partnership that produced the play scheduled to run until early September at the Martin Beck Theater, according to broker Robert A. Boyar who placed the coverage.

Miss Taylor missed eight performances between May 15 and 23 due to an upper respiratory infection.

The policy has a $27,000 limit per performance and a $2 million aggregate limit. But each sold-out show yields $37,000 so the producer still lost $80,000.



Photo: Wide World

High court upholds varied premium tax

WASHINGTON—States with a low premium tax may slap out-of-state insurers with higher taxes, the Supreme Court ruled last week.

In a 7-2 decision, the court upheld the right of California to tax an Ohio insurance company at a rate equal to the taxes imposed on California firms by Ohio.

The decision is a victory for most insurers and buyers. The presence of retaliatory taxes discourages a state from raising premium taxes for fear that other states may "retaliate" against its insurers.

"If the court had struck down retaliatory taxes, the cost of insurance would have increased," said Walter Vinyard of Alston, Miller & Gaines.

The case involved a suit filed by Western & Southern Life Insurance Co. The Ohio-based insurer was subject to California's retaliatory tax because Ohio imposes a higher premium tax—2.5%—on insurers than Cali-

Continued on page 28

BI names 2 associate editors



Steve Tarnoff

Two new associate editors who will report on risk management and employee benefit developments have joined *Business Insurance*, Editor Kathryn J. McIntyre announced.

John W. Milligan, 28, holds a master's degree in journalism from Ohio State University and was a general assignment reporter at the Times Leader in Martins Ferry, Ohio, for 1½ years before joining *BI*. He will be based in *BI's* New York bureau and can be contacted at 212-210-0141 in the new Crain Communications Inc. offices at 220 E. 42nd St.

Stephen Tarnoff, 31, comes to *BI* from Pioneer Press in suburban Chicago where he was a general assignment reporter for 4½ years. He received his law degree this spring from John Marshall Law School in Chicago and was admitted to the bar in April. He will be based in the Chicago office and can be reached at 312-649-5482.

One of Mr. Milligan's assignments will be the regularly featured Benefit Beat column. Readers can notify him of changes in their company's benefit plans.

Changes in personnel in risk and employee benefit departments should be reported to Mr. Tarnoff.



John Milligan

No DES conspiracy: U.S. judge

By JERRY GEISEL

COLUMBIA, S.C.—Critics of expanding product liability for manufacturers are hailing the most recent decision in a DES case as a singular victory with national significance.

A federal court judge not only dismissed the suit but also criticized recent rulings extending liability to all manufacturers of a product when the specific manufacturer can't be identified.

DES manufacturers did not "conspire" to license, manufacture, promote or sell the cancer-linked drug, relieving them of liability as a group when plaintiffs can't identify the specific manufacturer, U.S. District Court Judge Robert Chapman ruled in Columbia late last month.

His ruling considered but rejected a New York Court of Appeals decision that DES manufacturers could be sued as a group because the manufacturers allegedly pooled product information 40 years ago (*BI*, March 2).

"The history of stilbestrol (DES), far from showing joint conduct, demonstrated an independent, competitive response to a widely acclaimed medical discovery," Judge Chapman said.

He also rejected the California Supreme Court's theory in the Sindell case. That court had ruled that when a specific manufacturer cannot be identified, liability will be based on a DES manufacturer's share of the market (*BI*, March 31, 1980).

Judge Chapman's analysis of conflicting theories in DES litigation will be considered in future litigation, experts predict.

"It is the most thorough discussion of all the theories since Sindell," said Victor Schwartz, an attorney with Crowell & Moring and Washington counsel for Eli Lilly.

"The court rejected one by one all theories advanced recently that have dramatically increased manufacturers' liability," added Walter Taylor, assistant general counsel at Eli Lilly in Indianapolis.

Judge Chapman refused to accept the plaintiff's arguments that DES manufacturers should be held liable collectively because they engaged in a joint enterprise.

"The expansive notion of vicarious liability represented by the enterprise concept—which would render every manufacturer an insurer not only its own products: but of all generically similar products made by others—is repugnant to the most basic tenets of tort law," Judge Chapman said. The case involves a 1977 suit filed by Nancy Ryan against Eli Lilly and six other DES manufacturers. Ms. Ryan said she developed

Continued on page 26

Pasadena may limit pension increases

By RHONDA L. RUNDLE

PASADENA, Calif.—Voters in the Rose Bowl city go to the polls this week to decide whether to cap cost-of-living pension benefit increases for city police and firefighters.

The proposal calls for a 2% lid on annual increases applied to benefits earned after next July by active safety officers. Pension benefits already earned would not be affected.

City firefighters and police are strongly opposed to the plan, which reduces their future pension benefits. They are threatening to take their cause to court if the ballot measure passes.

Since 1969, Pasadena's Fire and Police Retirement System has tied cost-of-living increases to the local Consumer Price Index with no upper limit. This has resulted in adjustments of 16% this year, 11% in 1980 and 7% from 1977 through 1979.

At the present rate of increase, the retirement system will be bankrupt in 15 to 25 years, says Molly Munger, a member of the city charter study committee that worked on the ballot proposal over the past two years.

The system will build up a $60 million deficit over the next 70 years if changes are not made, she explains. And that estimate assumes a 5% inflation rate and investment earnings of 7%—more favorable than the system has experienced over the last decade.

Proponents of the proposal admit that it is not a total cure for the system's fiscal problems—but it could reduce the eventual deficit by half. The pension fund's lifetime ends in about 70 years because safety officers employed by Pasadena since 1977 are enrolled in the state Public Employees Retirement System.

There is no new blood entering the retirement system to pay cost-of-living benefit increases, says Harry Lathrop, a city accountant and secretary to the retirement board. Out of the 500 people enrolled, 40% are active, 45% are retired and 15% are widows.

Employees pay 1% of salary, which is matched by the city, to fund the cost-of-living benefit increases. Only active members pay into the fund but the benefits are distributed to all retirees and widows.

For the past two years independent auditors Touche Ross & Co. have qualified the retirement system's financial statements saying that its present $25.8 million in net assets is inadequate to fund obligations.

"Without pinning the blame on

Continued on page 27

Burned: Tanning salon safety plans peel away policy problems

By EILEEN NORRIS

CHICAGO—A bright idea in loss prevention is dazzling operators of tanning salons who are burned up over injury claims.

They can trade in their old, more powerful sunlamps for bulbs that are less intense and watch their insurance premiums drop.

But cheaper insurance isn't helping tanning parlors stay in business. Demand for their services is fading around the country from two years ago, when tanning was a hot business.

Business is at best lukewarm in the Sun Belt, where climate creates peer pressure to be bronzed, report insurers, brokers and underwriters.

Many have stopped underwriting insurance for the parlors as customers disappeared, but those that still offer coverage do so only after carefully analyzing the risk.

Western World Insurance Co. in New Jersey, one of the first to offer insurance to tanning salons, had frequent losses in the early stages of the game, said Ted Ziffin, underwriting manager.

Western World suspended its coverage for parlors last summer when the company realized that it was time to find out what was causing the abundance of claims. Mr. Ziffin said many stemmed from customers who stayed in the tanning booth longer than recommended.

"We found that people were going in the booth for two minutes (with one minute being equal to one hour of natural sunlight in some cases) and then coming out to find that they hadn't had enough. They would go back in and burn themselves even more," he said.

Policies were rewritten to give operators a discount if they used a weaker tanning lamp in

Continued on page 27



Photo: Mary Cairns

Air controllers demand larger pensions

By EILEEN NORRIS

WASHINGTON—Air traffic controllers are demanding an average 25% increase in retirement benefits, citing job burnout before age 55, as they threaten a nationwide strike for June 22.

The 15,000 members of the Professional Air Traffic Controllers' Organization also are negotiating for a say in accident prevention. Now they only participate in crash investigations.

The threatened walkout could paralyze air traffic because FAA supervisors would only be able to handle about 15% to 20% of the nation's normal commercial flight traffic.

PATCO, which represents all but 2,500 of the nation's 17,500 controllers, is demanding full retirement benefits after 20 years of work at 75% of a member's highest gross annual salary.

Traffic controllers currently are guaranteed a retirement benefit of 50% of the average of their three highest salary years, said FAA spokesman Dennis Feldman.

"As it is now, controllers get preferential treatment because they can retire after 25 years or after 20 years if they have reached age 50," said Mr. Feldman. "That's better than the rest of the civil servants in the federal government," he said.

PATCO also wants benefits to increase 2% for each additional year over 20 that a controller works, said Marsha Feldman, PATCO press officer.

"The issue is not one of age," she said, "because very few of the controllers reach age 55 in this job." She said 89% of the controllers retire for medical reasons before 55.

But Mr. Feldman of the FAA said that many of the controllers transfer into administrative work with the federal government rather than retiring altogether.

The FAA isn't ready to give in to PATCO's request for more input into air safety, either, Mr. Feldman said. He said the FAA could not give away the responsibility it has for directing planes to the controllers. The union is frequently asked for its opinion on any new equipment or policy change, he noted.

Air traffic controllers counter they deserve more say in preventing air traffic accidents than representation on National Transportation Safety Board investigations of plane crashes, Ms. Feldman of

Continued on page 30

Budget delays Iowa risk management plan

By JOHN W. MILLIGAN

Money—just what Craig A. Hoeman is trying to save—is delaying his risk management plan for the state of Iowa.

Budgetary problems and resistance from departments afraid of losing turf are hog-tying his recommendations for more self-insurance with fewer people administering the claims.

In 1978, the state Legislature created a Risk Management Division in the Department of General Services to apply sound risk management principles to the great variety of risks found in state government. Mr. Hoeman, who was hired in January 1980 as the state's first risk manager, was told to prepare a report detailing how the risk management program should operate.

His recommendations, which would significantly change the method in which Iowa's risk exposures are handled, were presented this January. They include:

- Giving the Risk Management Division total responsibility for the administration and settlement of all property, liability and workers compensation claims in the state.
- Creating a self-insurance fund with an initial appropriation of $7 million, expanding risk retention limits for all state risks to $100,000 to $2 million per occurrence and canceling all primary insurance coverage.
- Purchasing "high-limit, broad property and liability insurance coverage" in excess of the state's retention program, with limits of $100 million to $150 million per occurrence.

The Legislature will not act on Mr. Hoeman's report at least until the 1982 session begins next January.

Continued on page 25



Craig Hoeman

City workers get free family coverage

Police officers and firefighters in Sonoma, Calif., have accepted a 2½-year contract with city officials that includes health and dental insurance coverage for workers' families.

The city pays for hospital, major medical, outpatient and dental coverage for the employees' families under the new package, said William Thomas, city administrator. Employees had been paying $30 a month for family coverage.

Workers also received a 6% salary increase, retroactive to Jan 1.

Retiree programs

The Equitable Life Assurance Society has begun a part-time work program for retired employees. The Retiree Service Program gives retired employees the opportunity to work about 15 hours a week while providing the company with trained personnel.

Under the program, Equitable retirees can work up to 780 hours per year in clerical, technical or professional jobs. The participants, who retain full retirement benefits, are paid an hourly wage determined by the work performed.

A retiree applies for a job by filling out a notice of availability and listing his skills and work preferences.

More than 170 applicants have expressed an interest in the program since it began last February, according to William T. McCaffrey, vp and personnel director.

benefit beat

Dental care

State employees in Rhode Island are covered under the Delta Dental program from Blue Cross.

The program provides 16,000 state workers with Level 1 coverage that includes two annual checkups, X-rays, teeth cleanings, annual fluoride treatments for people under 19, fillings, one root-canal treatment, simple extractions, denture repairs and emergency treatment up to a maximum monthly payment of $500 per year.

The plan costs the state about $5.30 a month per employee.

Beginning Jan. 1 the state will provide employees with a family plan covering periodontal treatment.

Benefits increased

Members of United Food and Commercial Workers Union Local 1262 ratified a three-year contract with Big V ShopRite supermarkets that includes increases in healthcare, pension and retirement benefits.

Workers won a beefed-up health insurance plan administered by Blue Cross.

Eye-care benefits were increased to an annual $75 allowance for a pair of prescription glasses, an increase of $35.

Retired employees will receive monthly payments of $16 per year of credited service under the new contract. Current retirees will receive the new rates retroactive to their retirement.

Retirees with more than 15 years of service will also receive full health and welfare coverage.

Big V ShopRite supermarkets, located in northern and central New Jersey, employ about 500 people.

Dental coverage

Employees at Marquette University in Milwaukee will be covered under a non-contributory dental assistance plan beginning July 1.

The plan, covering employees and family members, will provide 100% coverage for checkups, X-rays, laboratory work and emergency treatment under Class 1 of the plan.

Under Class 2, which includes fillings, root canals and periodontal treatment, a 20% co-payment is required. Classes 3 and 4, major dental surgery and orthodontics, will require a 40% co-payment. There will be a $50 deductible for individual coverage and a deductible of $150 for the family plan.

Employees will receive annual coverage up to $1,000.

The plan is underwritten by Connecticut General Life Insurance Co. of Hartford.

Federal pension price may double

WASHINGTON—The cost of federal pensions will more than double in the next five years unless the program is overhauled, a new study says.

By 1986, annual civil service pension costs will be more than $30 billion, up from $14.7 billion last year and only $2.7 billion in 1970.

The bulk of this soaring increase is due to the automatic cost-of-living increases added twice a year to the pension benefits of federal retirees, according to the study by the Congressional Budget Office.

Costs also are climbing because of the growing number of federal workers who are retiring. Between now and 1986, 462,500 new retirees are expected to be added to the federal pension rolls. Currently, about 1.8 million people draw civil service retirement, disability or survivor benefits.

To put the lid on costs, the budget office suggests that cost-of-living increases be pared to once a year and that increase be limited to 70% of the rise in the Consumer Price Index.

The budget office also recommends a gradual increase in the age at which a federal worker could retire and collect a full pension benefit.

A worker could retire with a full pension at age 65, but the benefit would be reduced 10% for a worker retiring at 60 and 20% for retirement at 55, under the proposal.

Currently, a federal civil service employee can retire with a full pension at age 55, a provision rarely found in private industry.

Although federal workers would protest such a cutback, the 20% maximum benefit reduction for early retirement would still be less severe than annuity reductions required by private pension plans.

Many private plans reduce benefits by about 4% for each year before age 65 that a person retires, and Social Security reduces benefits by 6.66% for each year down to age 62.

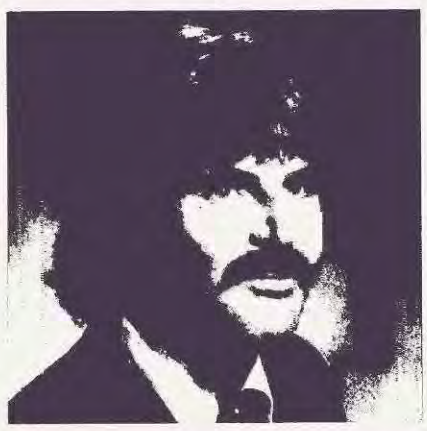
The Congressional Budget Office says the savings in costs from a cutback in federal pension benefits could be used to reducing the federal budget or to fund a greater increase in pay for active federal workers. ■



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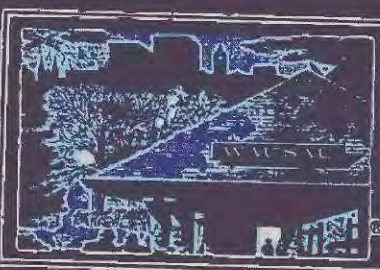
Wausau's exceptionally flexible dental program, the SMILE Plan, is a good example. It can be tailored from narrow, inexpensive employee-only coverage, to comprehensive full-range benefits for employees and families.

But in *every* form, the SMILE Plan provides a unique escalating feature that motivates the employee to help control costs. It works like this: benefits can start at anywhere from 50- to 70-percent coverage.

Then — *so long as a regular schedule of dental care is followed* — coverage increases by increments to an upper limit, as much as 100-percent. This program of good dental maintenance can dramatically lower long-range costs.

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editorial opinions

No more HMO mandates

The Reagan administration's just announced support for the Risk Retention Act was won partly because the act doesn't create any new federal regulations or bureaucracy. We hope this aversion to regulation will be as strong if the Reagan administration is presented with a bill pending in the House that would saddle employers with new mandates on offering employees membership in a health maintenance organization.

As described in a story in this week's issue, the bill approved by the House Energy & Commerce Committee would force employers to offer employees more than one HMO if the available HMO is owned by a health care provider dominating the geographic area of the employer. The committee reasons that competition between HMOs and indemnity insurance plans is thwarted when the HMO is owned by the same concern underwriting most of the health insurance in an area.

Competition could be lessened under these conditions, but we doubt it. The managers in charge of the HMO and indemnity plan underwriting in an area could be hotter competitors than unaffiliated concerns, with each manager vying to prove his or her operation is the more successful.

But even if our scenerio doesn't always play out, we oppose any more federal regulations forcing HMOs on employers and employees. The problem with this bill and many other so-called health care competition bills is they force too much administrative work on employers.

Few employers will relish the idea of being forced to handle the paperwork of offering a third health care plan to employees.

The second HMO an employer is forced to offer also is likely to be less financially stable than the employer's first choice. Given the current problems with members of bankrupt HMOs fighting liability for unpaid bills, this is no small concern.

And this bill could cut off a source of funds for struggling HMOs: The insurers and Blue Cross/Blue Shield. They won't want to expand their interests in HMOs if the federal government will force this kind of competition when they are successful.

The benefits of the strong financial resources insurers and Blue Cross/Blue Shield bring to HMOs far outweigh any feared reduction in competition between HMOs and indemnity insurance plans. The House should kill this unnecessary piece of legislation.

Thanks for the support

We thank the Public Risk & Insurance Management Assn. for its support of our annual Risk Manager of the Year and Risk Management Honor Roll competition.

PRIMA set aside time during a banquet at its annual meeting in Denver last month for the publisher and editor of *Business Insurance* to honor Bob Bieber as a member of the first Risk Management Honor Roll. Mr. Bieber was presented a plague naming him as a member of the 1981 Risk Management Honor Roll recognized for outstanding achievements in performing the job of risk management for a public entity.

Mr. Bieber's accomplishments as the risk manager for Westchester County, New York, were detailed in the April 6 issue of *BI* in which we announced the 1981 Risk Manager of the Year and members of the new Risk Management Honor Roll.

We were delighted to join the growing number of public risk managers active in PRIMA during their annual conference. Their sign of support for our annual competition, designed to heighten professionalism and awareness of risk management, is appreciated by us and all those involved: Those who put so much time into preparing the nomination, the 10 judges who pour over the nominating statement and the final winners.

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Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 220 East 42nd St., New York, N.Y. 10017 (212-210-0100); Suite 1253, National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Calif. 90048 (213-651-3710); 5327 N. Central Expwy; Suite 200, Dallas, Tex. 75205 (214-528-3561). $1 a copy. $30 a year in U.S. Canada and all other foreign add $14 for surface mail. Europe and Middle East only add $32 for air delivery. First-class mail to Canada only, add $36. WILLIAM STRONG, *vp-circulation*. BARBARA RANDICK, *circulation manager*. ROGER DiGREGORIO, *fulfillment director*. Circulation dept.—*Chicago* (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.

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Reagan's proposal is viable

To the editor: Your article, "Labor blasts Social Security plan" (*BI*, May 18), reiterates the controversy that the Social Security system, a system that has awaited a long-overdue remedy, has been involved in for some time.

Now that the Reagan administration has come up with the remedy that it believes will help solve the problem of how to get the system back on its feet, short-sighted opposition springs up from all sides. Yes, the proposed changes are a bitter pill to swallow for many workers nearing retirement age. I would probably "howl like a pet coon" too if I were planning to retire next year and I found out that my benefits were going to be cut. But, if things remain as they are now, it will not be long before there are no Social Security benefits for anybody.

The proposed alternative solutions to the problems are varied and disagreed upon as being politically unpopular. However, in this case, it is not a matter of doing what is popular, it is a matter of doing what has to be done.

The Reagan plan offers a viable approach to solving some of Social Security's short-term problems and also takes a step in the right direction toward making the system economically sound in the long run so that benefits will be provided for future generations of workers.

J.T. Hobbs III
Insurance representative
Alabama Gas Corp.
Birmingham, Ala.

Not very accurate

To the editor: Your article, "Thieves robbing jewelers of riches, insurance market" (*BI*, April 27), did not exhibit your usual accuracy.

Wm. H. McGee & Co. is not a general agent for The Baloise Insurance Co. We are managers for them. Further, The Baloise is not Scottish but is an American corporation owned by Swiss interests.

The Baloise has no connection with Royal Assurance Exchange of America Group and is not owned by Guardian Royal of London.

Kenneth G.T. Drysdale
Wm. H. McGee & Co. Inc.
New York

■ *Our apologies. Our source of information was one of your clients.*

Criticism was unsporting

To the editor: I was the moderator of Mini Seminar Number 33 at the Risk & Insurance Management Society Conference: "Safety, the risk managers most important tool." Jim Tye, director general of the British Safety Council is in error to state that there was no safety expert on the panel as he stated in the article "Penny-wise but safety foolish" (*BI*, April 6).

There were five panelists, two are members of ASSE, one of which has the professional designation. One has completed a portion of his doctorate on the subject. The panel, as a group, has had safety risk management experience with more than a dozen major corporations. The panel, as a group, in addition to undergraduate degrees, also has three master's degrees, a juris doctor degree and a CPCU designation.

I can fully empathize with Mr. Tye's desire to place safety in the spotlight because of his position. It is extremely important, but the RIMS Conference is a broad-based education experience. The object of our seminar was to provide a participatory session to raise questions and perhaps suggest some paths to the many-faceted accommodations that are available.

To criticize before the presentation, not after, seems to be a bit unsporting.

Sheldon H. Staubitz
Risk management director
Tyco Laboratories Inc.
Exeter, N.H.

Agents have nothing to fear

To the editor: It is proper that insurers play down the effects of mergers with stockbrokers as was reported in "New financial giants digest service scope" (*BI*, May 4). History is on their side, but once again the insurance industry is displaying its short memory.

Several years ago American Express Co. acquired Donaldson, Lufkin & Jenrette. A few years latter, DL&J was spun off as a dividend to stockholders. Why should the acquisition of Shearson produce any different result?

The fear or belief that anyone can sell their product is insurance agents' biggest flaw in their claim to professionalism. If anyone can do it with equal proficiency and expertise, then insurance is not a profession. Of course, as long as agents deliver only on the basis of lowest price, perhaps anyone can do it. Agents who remember their job is to buy insurance for their clients, not sell them insurance, have nothing to fear from stockbrokers.

Agents might also bear in mind that stockbrokers do not compete too well in selling an uncomplicated product for which the prices are publicly quoted.

Agents who worry about their ability to defend their professional turf should be in some other business. They might consider switching to stock brokerage.

Garrett Redmond
President
G. Redmond Inc.
San Francisco, Calif.

Open-rating cry

To the editor: The voluble and continous cry of some self-insurers for open rating in workers compensation forces us to read between the lines. Their magnanimous offers to rejoin the flock on their own terms are underwhelming. One is reminded of the child who whines for a toy until he gets it, discovers it doesn't work, then whines for something else to replace it.

Small business has always, and will always, subsidize big business in property/casualty insurance. Though this hasn't fully extended to workers compensation, many legal and quasi-legal dividend plans reflect the principle.

Whether or not open rating for workers compensation is inevitable, it would be a refreshing change to see everyone's motives honestly expressed.

Richard P. Muzinich
Ernie Busch Insurance
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Illinois BC/BS wins 48% rate increase

CHICAGO—Blue Cross/Blue Shield of Illinois has been given approval to increase its rates by an average 48%, but not without a few stipulations from its regulator.

The Illinois Insurance Department approved the hike—the first rate increase for the company since 1977—providing that BC/BS develop new health-care cost-containment measures for its members.

BC/BS has until Oct. 13 to come up with 16 new saving plans for its 74,000 individual and group members. It also will be expected to continue a series of cost-containment seminars it has started for small businesses, said Richard O'Connell, vp of public affairs for the company, which is regulated by the state as a not-for-profit entity.

around the states

The increase approved last week was 90% of the 53% increase the group had sought, Mr. O'Connell said. He said it's likely BC/BS will have to ask for an additional rate increase before too long.

"It's more of a 'catch-up' increase than anything," he said.

"There's no way to look at this increase as anything but large," said Philip O'Connor, director of the state Insurance Department.

"But," he said, "it is the first increase in four years so it is really more like a 10.5% increase per year. That's well below the annual inflation rate."

The new rate is effective July 1.

Blue Cross has been helping employers develop cost-containment programs for health benefits, but the company will intensify its efforts, Mr. O'Connell said.

Some of the new cost-control measures will concentrate on re-evaluating guidelines used in contracting for services with hospitals, said Robert Nellis, a spokesman for the Insurance Department.

"BC/BS plans to exert some pressure on hospitals to make sure their rates are held down, " Mr. Nellis said.

The 48% increase was approved by Dr. Kenneth Tannenbaum, an independent hearing officer, with the requirement that Blue Cross follow through on its cost-containment measures for member companies. He had turned down BC/BS's two earlier requests for increases in 1978 and 1980.

Workers comp

HARRISBURG, Pa.—A bill that would have accelerated the appeal process in workers compensation claims has been narrowly defeated in the state Senate.

Senate Bill 388 would have authorized compensation referees, rather than the state appeal board, to hear appeals in claims involving termination of benefits to widows, lump-sum settlements to survivors in death cases, approval of 5% discounts for lump-sum settlements, approval of trusts for installments of benefits and appeals where employees refuse voluntary physical examinations.

In other legislation, a bill to increase the 2% gross premiums tax on out-of-state casualty insurance companies to 3% is being studied by the Senate Banking and Insurance Committee.

The additional revenue that S.B. 629 would provide would be used to increase the pensions of former policemen whose local governments have police pension funds that as of Jan. 1, 1982, agree to adjust benefits to equal the average changes in the state's Consumer Price Index.

Work comp rates

ATLANTA—Georgia Insurance Commissioner Johnnie L. Caldwell has approved a 26.6% average increase in assigned risk rates for workers compensation in that state.

Mr. Caldwell also denied an 11.1% rate hike request for the commercial workers compensation market since the National Council on Compensation Insurance, which filed the rate requests on behalf of its member companies, did not furnish the commission with individual insurer expenses related to standard premium and voluntary market loss experience in Georgia, investment income or policyholder dividends.

Panel named

TALLAHASSEE, Fla.—A 10-member study committee to investigate alleged inequities in Florida's workers compensation ratings has been named by state Insurance Commissioner Bill Gunter.

The committee will focus on analyzing the effect of over- and under-reserving claims on employers' future experience modification calculations and review the eligibility requirements for experience rating.

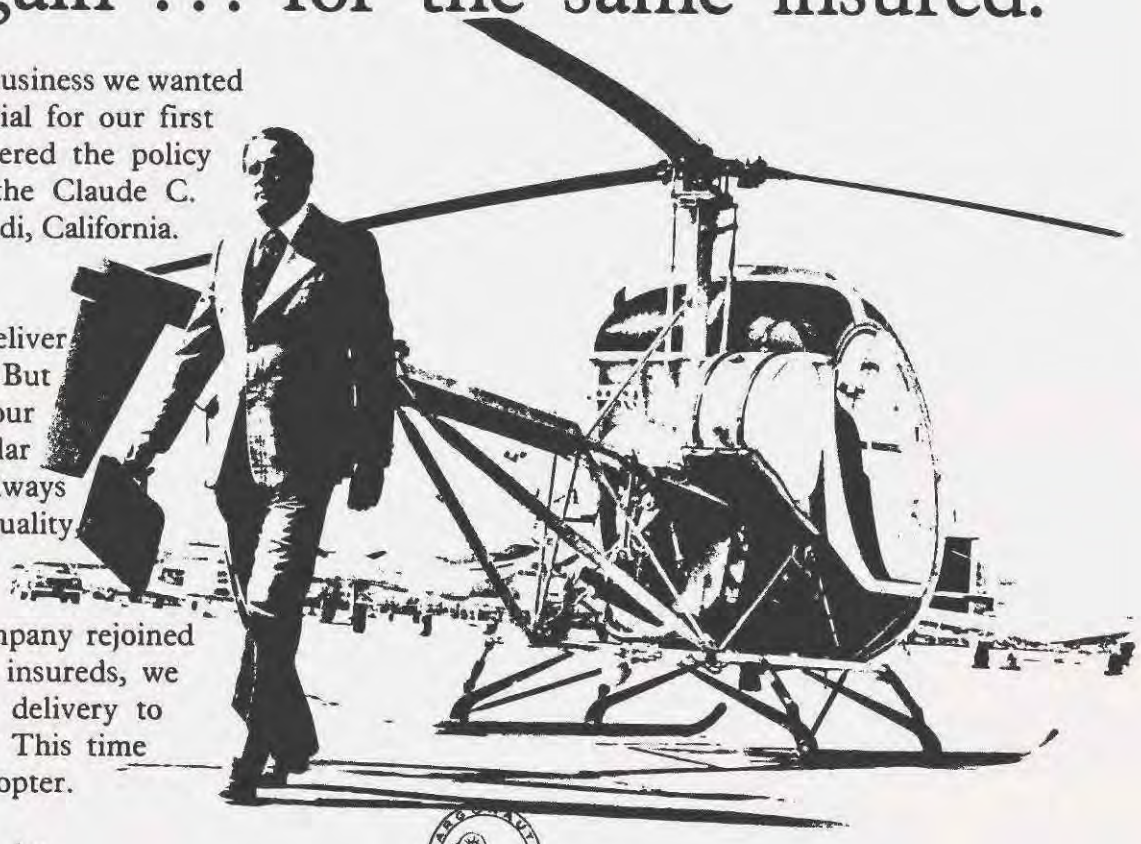
Mr. Gunter also has asked the committee to investigate deficiencies in the current workers compensation rating plan and to analyze alternatives to experience rating.

Members of the committee are Robert Freedman, Winter Park; Robert L. Hilton, Birmingham, Ala.; Jack E. Krogdahl, Atlanta, Ga.; Claude Lilly, Tallahassee; Bruce Martin, Winter Park; Robert S. Smith, Tallahassee; Richard I. Sumpter, Hartford, Conn.; Bill Thompson, Fort Lauderdale; Harry Touby, Miami; and John Weichel, Bradenton. ■

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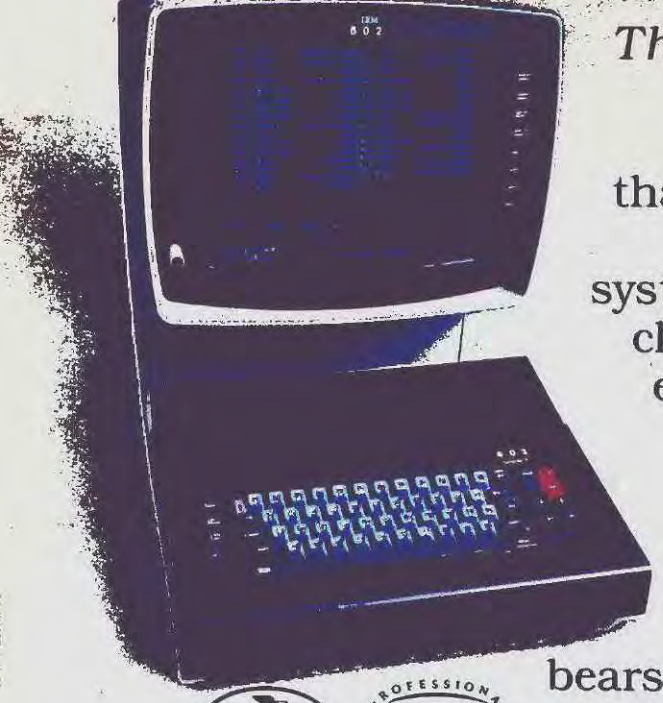
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Pension fund is sued for low-interest loans

washington

WASHINGTON—In the first suit of its kind, the Labor Department is suing trustees of a Fort Lauderdale, Fla., pension plan for allegedly loaning pension funds to plan participants at below-market interest rates.

The suit, filed in U.S. District Court for the Southern District of Florida, charges the trustees of Operating Engineers Union Local 675 with violating ERISA.

The department contends that the loans, which were used to supply cut-rate mortgages to some plan participants, were illegal because the below-market interest rates were unfavorable to the plan.

Under ERISA, trustees are required to invest plan assets on terms that benefit all participants, not just a selected class.

The suit, filed May 20, names 10 trustees as defendants. Three of the defendants, Dennis Walton, A.F. Chandler and Joseph Gagne, also served as officers of Local 675 during the time of the alleged violations.

Social Security

The Reagan administration now says it is willing to compromise on its faltering proposal to slash Social Security benefits.

There are 13 elements in the plan, and "they're all negotiable," said Health and Human Services Secretary Richard Schweiker before the House Select Committee on Aging.

"We're all reasonable men," Mr. Schweiker told the committee chairman, Rep. Claude Pepper, D-Fla. But if Congress refuses to make changes in the program, checks won't be mailed out next year when the money to fund the program runs out, he said.

Meanwhile, the Aging Committee released a report that says the president's Social Security package would slash benefits for 18.1 million people between 56 and 61 who retire during the next five years. They would face an average 10% cut in basic benefits because of the proposed changes.

Reagan's plan would change the benefit formula so that Social Security would replace 38% of salary, compared to the 41% wage-replacement index now used.

In addition, 7 million workers who claim early retirement benefits would suffer "cuts equal to one-third of promised benefits," the report said.

PBGC plans

The Pension Benefit Guaranty Corp. last week mailed thousands of premium payment forms to pension plans that are required to pay termination insurance premiums by July 31. About 40% of PBGC-covered plans have July 31 premium due dates.

Annual premiums for single-employer pension plans are $2.60 per participant. Annual premiums for multiemployer pension plans are $1.40 per participant.

Benefit managers or pension plan sponsors that failed to receive copies of the 1981 PBGC-1 premium form can obtain them from PBGC Branch of Control, Attn.: 540 OPO Room 53004, 2020 K St. N.W., Washington, D.C. 20006.

New trials ordered

The U.S. Court of Appeals in Washington has ordered new trials in the cases of three Vietnamese orphans who were awarded nearly $2 million in damages for injuries suffered when a Lockheed C5A transport crashed in 1975 in a Vietnamese rice paddy while carrying the children on a mercy flight to the United States.

The cases were the first of 25 lawsuits filed on behalf of orphans aboard the plane who are now seeking damages for their injuries.

The new trials were ordered because of procedural errors made by a lower court judge. ■



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products & services

A new form of business interruption insurance for offshore oil and gas producers is available from Houston-based excess/surplus lines broker J.H. Blades & Co. Inc.

The new policy covers loss of offshore oil and gas production income, which has been a very expensive risk to insure.

"Underwriters have historically priced this product out of the market because they say they do not have the benefit of a broad spread of business upon which to base their economics," said Bob Quinn, Blades chairman. Onshore producers have been able to buy the insurance.

The new Blades policy for offshore producers will be underwritten by U.S. Fire Insurance Co., a subsidiary of Crum & Forster, and heavily reinsured in the London market. Blades is also a subsidiary of Crum & Forster.

Prices for the insurance had ranged from 1½% to 2% of the property exposed, which oil and gas producers considered too high to pay for the coverage, said Blades President John Molbeck. Blades is pricing the new policy at one-third to one-half of the old price.

Blades' clout as the largest excess/surplus lines broker for other offshore energy production insurance policies helped convince London underwriters to reinsure it.

The basic coverage limit is $20 million, but excess layers can be arranged, the broker says.

The loss-of-income policy will reimburse a producer for income lost when an offshore producing oil or gas well is shut down for a wide variety of reasons.

Claims will be paid on the basis of the average production of the well during the last 45 days before the production is disrupted, multiplied by the product price at the time of loss less an allowance for royalties and non-continuing expenses.

Deposit service

A new electronic direct deposit service is now available to group retirement plan clients through Connecticut General Life Insurance Co.

Called Electronic Funds Transfer, the service permits direct deposit of retirement benefit payments into retiree bank accounts. EFT is similar to a service now offered by the Social Security Administration.

The service will be provided through participating banks and other financial institutions.

Alarm components

Alarms Technology Inc., Bellingham, Wash., will design and manufacture security and fire-alarm control panels and related equipment.

ATI's initial activity will involve the manufacture of several control panels for Western Security Products. By the end of this year, the company hopes to have a full line of some 15 ATI products available to security products distributors across the nation.

Contact Alarms Technology Inc., 1414 Kentucky, Bellingham, Wash. 98225.

Answers provided

RIMCO Risk Management Inc. of Dallas has introduced a new hotline service for immediate telephone or written answers to insurance and risk management questions.

The hotline is designed to provide insurance agencies and buyers with quick information on difficult coverage, rating or other insurance and risk management problems.

Annual subscriptions to the hotline service are available for a deposit of $500, held as advance payment on services. Subscribers are then billed at standard hourly rates when the hotline is used.

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Business Insurance, the national newsweekly of loss prevention, risk financing and benefit management.

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Kemper Group promotes Landolt

Randolph F. Landolt has been named president of the national insurance companies in the Kemper Group. He was formerly senior executive vp.


Landolt

Mr. Landolt, 58, started work at Kemper in 1949 as a claims adjuster in Philadelphia. He was elected senior executive vp in 1979.

Other insurer changes:

James Morton, 54, named president and chief operations officer of John Hancock Mutual Life Insurance Co. effective Jan. 1. He had been executive vp of corporate operations. He replaces **John G. McElwee,** 59, who will become chairman and chief executive officer upon the retirement of **J. Edwin Matz** at the end of the year.

Thomas H. McAboy elected executive vp of The Travelers Insurance Co. He had been senior vp.

Charles R. Griffith promoted to group department vp at Provident Life & Accident Insurance Co.

Richard R. Collins elected president and chief executive officer of American Life Insurance Co., a member company of the American International Group Inc.

John M. Griffin named to head the Philadelphia branch office of the U.S. Insurance Group, a Crum & Forster subsidiary.

Vic Merolla joined EBI Cos. as executive sales representative for the San Francisco area.

Edmund J. McDevitt joined The Life Insurance Co. of Virginia as assistant vp of group claims.

Paul D. Thomson elected resident vp of the western New York branch of Reliance Insurance Co.

comings & goings: industry

Other suppliers

Thomas W. Knaup named president of Risk Management Inc., Pinehurst Corp.'s captive/self-insurance division. **George M. Powers** was named chairman of the division.

Richard H. Busilla appointed assistant vp of CU Special Risks, a division of Commercial Union Insurance Cos.

Alan Chaplin named to head the international division of William M. Mercer Inc.

Reinsurers

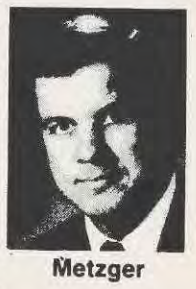
American Re-Insurance Co. has announced a series of promotions: **Robert T. Mobyed** named vp and western regional treaty production manager; **John Tornquist** named vp of treaty production and manager of the San Francisco office; **Otto G. Schulz** named vp of treaty underwriting; and **Albert J. Calfano** named assistant vp of treaty underwriting.

Ross B. Bloom named assistant vp of Constellation Reinsurance Co.

Agents/brokers

David E. Kimball named president of Fred S. James & Co. of Connecticut and manager of James' Hartford office. He was formerly executive vp.

Michael C. Metzger named vp and general sales manager of Oliver/Pilcher Insurance Inc. in Phoenix, Ariz.


Metzger

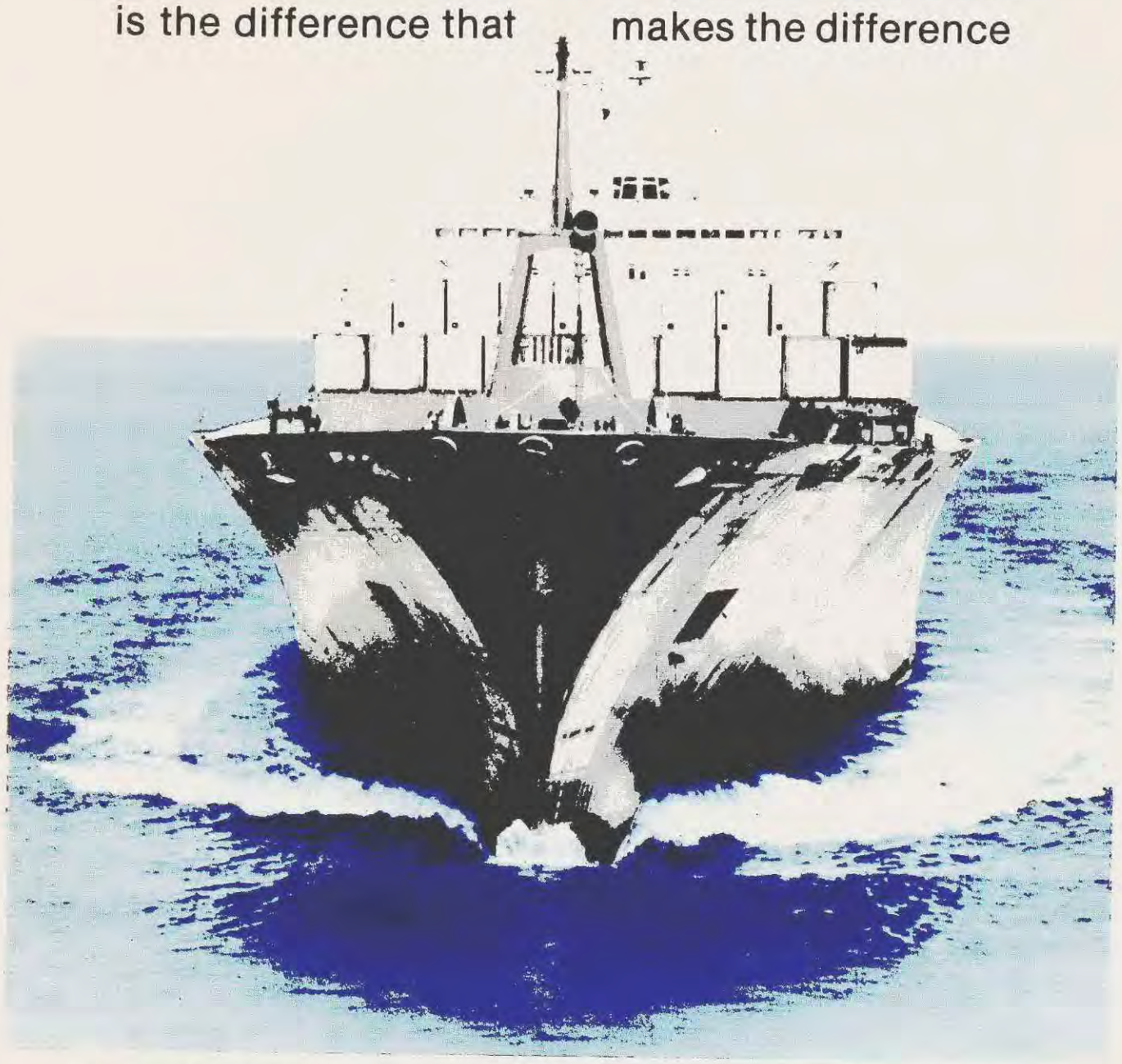
Hugh Vinson named managing vp of the Shreveport office of Alexander & Alexander of Louisiana.

Harry Zwieg named manager of loss-prevention services of Raleigh, Mann & Powell Inc.

Bill Carrington named manager of the new office of the Rhulen Agency Inc. in Murfeesboro, Tenn. ■

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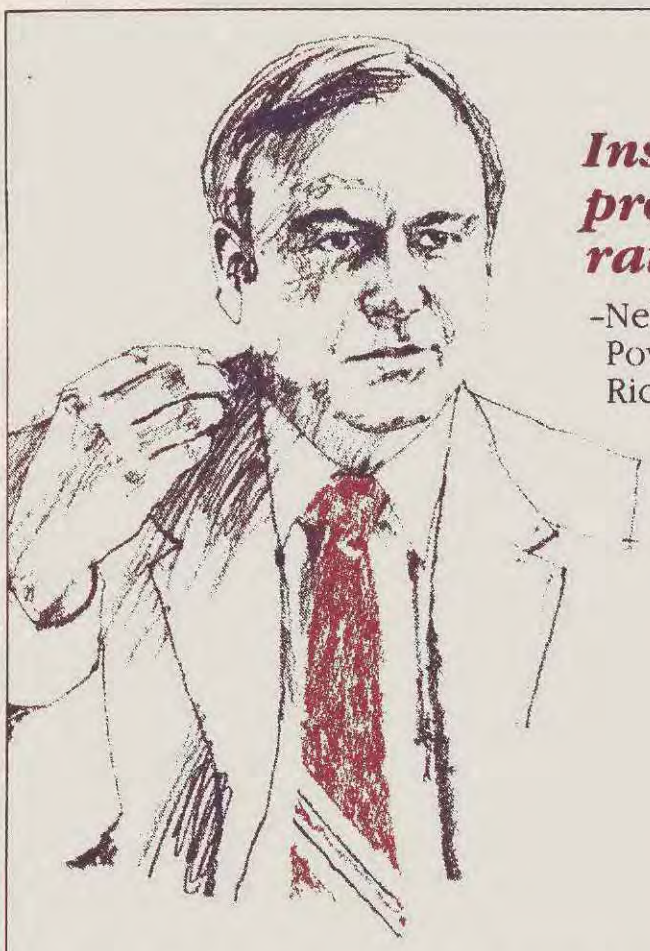
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Insuring to protect our rate-payers.

-Nebraska Public Power District's Richard Grennan

As a major provider of electric power in the state, the Nebraska Public Power District (NPPD) is constantly seeking ways to hold down its customers' rates.

"One of my responsibilities," says Richard F. Grennan, NPPD's risk and insurance manager, "is to protect our $3 billion in physical assets for the lowest possible cost."

While the huge dollar value of the utility's power supply system rules out complete self-insurance, NPPD's large deductible keeps its property premiums under control. One reason for the program's success, notes Grennan, is the loss control expertise of INA Specia. Risk.

"INA's engineers are involved in plant design," he explains, "particularly in the area of fire protection. They critique architectural drawings, consult during construction, and make regular inspections once the plant is on line."

Working closely with NPPD's own fire protection engineer, INA regularly advises Grennan on innovative loss control procedures being used in other parts of the country, as well as on the financial structure of other large utilities' coverage programs.

INA also provides property insurance for NPPD's various electric system facilities under a single, unified policy. "The all-risk policy gives us $500 million of coverage," notes Grennan, "with a $250,000 per occurrence deductible. Our loss control program makes the deductible feasible and keeps premiums down. And the policy limit is high enough to keep a catastrophic loss from adversely affecting our rate base."

Generating revenues, and savings, offshore.

-Tidewater, Inc.'s Victor Koock



"Ten years ago, our marine group experienced several losses at the same time P&C rates were on the rise," recalls Victor Koock, director of insurance for Tidewater, Inc. "In order to avoid doubled premiums, we had to find a new coverage approach."

For the $300 million operator of the world's largest fleet of supply vessels serving the offshore oil and gas industry, the most viable solution was to form a captive.

This "route," according to Koock, had three advantages. First, a captive would have direct access to reinsurance

markets not available to Tidewater. There would also be strong financial incentives to install comprehensive safety and loss control programs. Finally, a successful captive would create cash flow gains for Tidewater.

The strategy proved effective on all counts. In Koock's opinion, part of the credit for this goes to INA, the captive's major reinsurer over the past decade. The captive-INA relationship includes marine hull and liability protection for Tidewater's 400-vessel fleet, as well as cargo coverage and longshoreman's and harbor worker's comp insurance.

"The decision was financially sound," concludes Koock. "Besides reducing our insurance costs, we no longer face the uncertainty of widely fluctuating premiums caused by market conditions or an unusual loss."

Underground storage of hydrocarbons–in depleted oil and gas fields, salt domes and excavated caverns–has long been a standard practice of domestic energy companies.

"Historically, the owner of the hydrocarbons self-insured against losses from storage," notes Terry Girardot, vice president of the Dallas-based insurance broker, Crump-Davis, Inc. "But today's rapidly escalating petroleum prices have made it all but impossible to maintain adequate self-insurance reserves."

Coverage for underground energy stores.
-Crump-Davis' Terry Girardot



As the market value of oil and gas increases, a company's stored product comes to represent a larger and larger part of its total corporate assets. If rising prices leave such inventories under-protected, a catastrophic loss may upset a firm's overall financial stability–and expose its top management to suits brought by shareholders.

"Current market conditions," says Girardot, "have made commercial insurance a necessity for companies that store petroleum products underground." But, because of the huge exposures involved, insurance carriers traditionally shied away from underwriting storage risks.

Then, in 1978, Girardot began working with INA Special Risk to develop expanded coverage for his clients, as well as an all-risk policy for such perils as flood, earthquake, explosion and collapse.

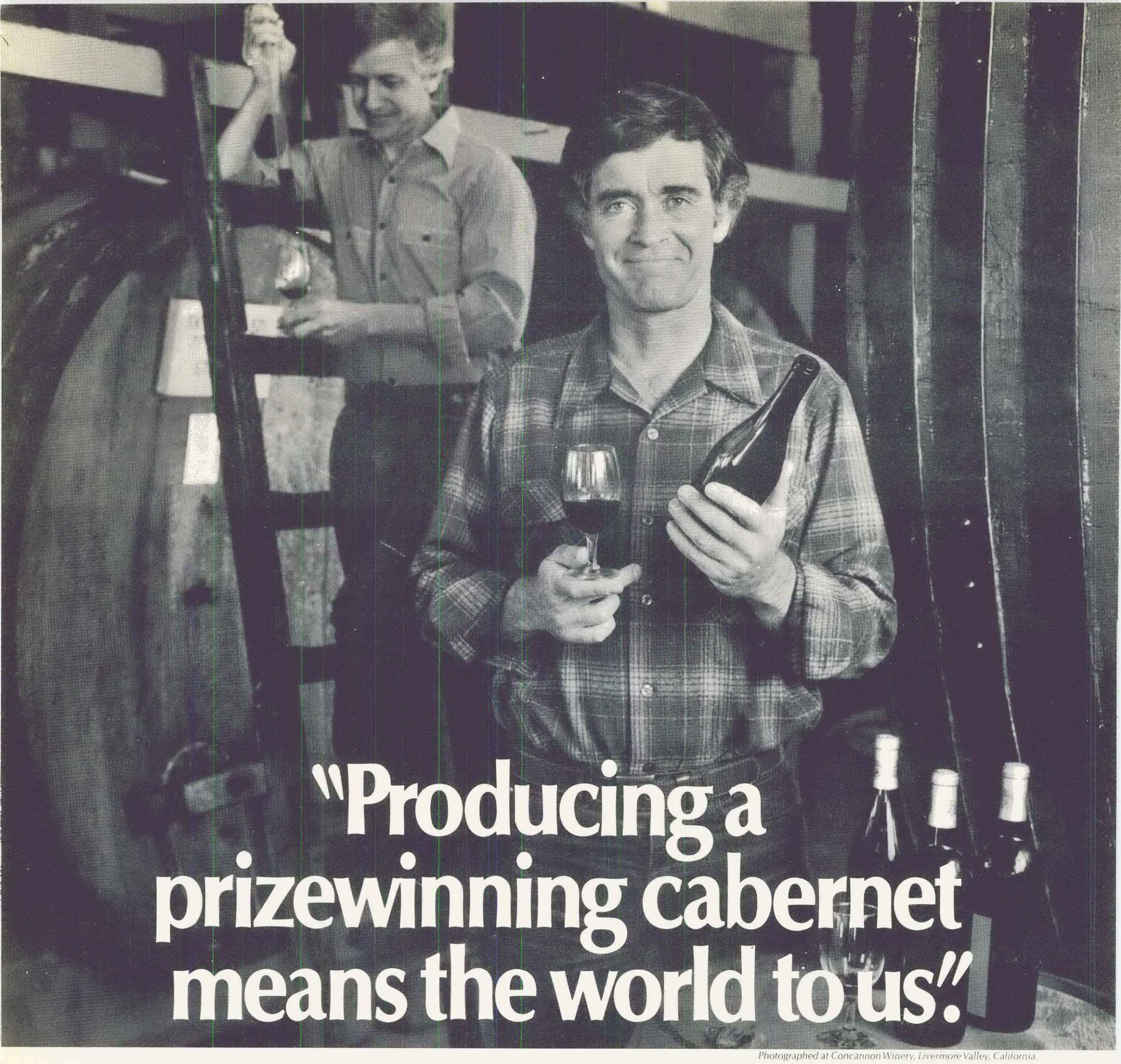
"We're providing broad, cost-effective insurance to companies that face potential losses of several million dollars," comments Girardot. "Now, they have somewhere to transfer those risks."

Decision-making in business insurance has never been more complex. And the financial implications have never been greater. Today, devising cost-effective insurance programs requires knowledge, experience, capacity–and a complete range of products and services. Flexibility and the willingness to innovate are also essential.

INA's ability to combine these elements can assist you in developing practical solutions, new approaches, and better strategies. Consult the professionals. Write directly to John Cox, President, INA Property-Casualty Group, 1600 Arch Street, Philadelphia, PA 19101 or call (215) 241-2729.

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Photographed at Concannon Winery, Livermore Valley, California.

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THE HARTFORD

perspective

Liability: Risk managers can help directors prevent lawsuits

By Susan J. Alt

A CORPORATE RISK manager is seldom in a position to tell the chairman of the board what to do. How, then, can a risk manager lessen the company's susceptibility to lawsuits and claims against directors and officers?

In the area of D&O liability, every corporation needs a a specialist who counsels top management about areas of corporate activity particularly prone to major exposure.

Some of these exposures are obvious. Mergers and acquisitions are sparking numerous lawsuits against directors and officers of acquiring companies.

The risk manager must become a special adviser to the board, suggesting steps to anticipate D&O risks and provide for defense and prevention of lawsuits. Before you race into the chairman's office, however, stop and think about who your allies are.

The general counsel, of course, is one. Ideally, you'll discuss your ideas, then jointly develop a kind of "white paper" for the board to discuss issues and opportunities.

You're likely to run into some hostility on the part of corporate officers and directors if you try to assert your right to sit in on board meetings. Taking an indirect approach will most likely generate the best response.

Whatever the approach, risk managers can certainly do more than they're presently doing. Few appear to have taken any initiative to identify potential problems, and fewer still have approached management with ideas for ways to control them. Even the most subtle, but authoritative, effort can only enhance the risk manager's stature.

The roles of directors, along with the responsibilities of executive management, are changing. In part, this is because more people are suing to enforce their rights in the face of corporate activities, and in part because courts and regulators are holding individual directors and officers accountable for the effects of corporate operations. Rising shareholder expectations are the basis for much of the litigation.

As Arjay Miller wrote in The Wall Street Journal not long ago, the watchdog function of board members is becoming increasingly important, particularly for the outside director. He suggested that a tool he has found useful to assure that board members will act responsibly—and anticipate future legal developments—is the so-called TV test.

"Don't do anything you would not be willing to explain on TV," he advised. His comment on the usefulness of this test was that "most of the actions business is being criticized for would not have occurred if those responsible thought that their actions would one day become public."

Not only is Mr. Miller giving sage advice, he is also defining a risk management technique that he has found "clears the air."

Anticipating legal developments and future sources of D&O claims is the hardest part of loss prevention. Lawsuits against directors and officers over the past 10 years have most commonly grown out of the following activities:

- Mergers and acquisitions.
- Issuance of stock.
- Marketing and sales activities.
- Employment and personnel procedures.

As the 1980 survey on directors and officers liability by The Wyatt Co. indicates, suits most frequently allege:

- Misleading representations.
- Collusion or conspiracy to defraud.
- Antitrust violations.
- Improper expenditures.
- Breach of duty to minority stockholders.
- Civil rights denial.

Continued on next page



Photo: Mary Cairns



Susan J. Alt, CPCU, ARM, is former editor of Business Insurance and senior risk management consultant with The Wyatt Co. in Chicago.

Does your corporate risk manager advise the board of directors on potential directors' liability?

Outside directors should let independence influence them

WILLIAM E. KNEPPER, a leading legal expert on directors and officers liability, recommends that an outside director's independence should be the distinguishing characteristic.

Most important in today's environment are recommendations that corporate boards:

- Contain enough outside directors.
- Establish an active audit committee consisting of outside directors.
- Review corporate policies and procedures to determine their adequacy for purposes of complying with legal and regulatory requirements of the Securities and Exchange Commission, the Environmental Protection Agency and other bodies.
- Investigate the operations of divisions or departments having financial problems.
- Assign outside directors to review the performance of key executive and operating officers.

An advisory memo to the board is likely to be more valuable if it includes a "refresher" list calling attention to the full range of activities in which directors commonly are involved:

- Authorizing major corporate actions.
- Advising and counseling management, particularly the chief executive officer.
- Providing effective audit procedures, including establishing an audit committee consisting of outside directors who confer independently on a regular basis with outside auditors.
- Acting as a mechanism for input to corporate decision-making by people other than management personnel.
- Reviewing corporate investments, developing guidelines for investment activity, reviewing and approving transactions.
- Monitoring management's performance, setting objectives and measuring results.
- Selecting and removing the chief executive officer.
- Assuring that the corporation has an adequate and effective accounting system.
- Establishing and implementing policies with respect to conflicts of interest.
- Assuring compliance with antitrust laws.
- Slating nominees for directorships.
- Approving annual budgets.
- Making major appropriations for facilities.
- Deciding on mergers and acquisitions.
- Deciding on new lines of business.
- Providing for adequate product research and market research on which to base decisions.
- Choosing major contractors.

—*Susan J. Alt*

management

Joe's problem: lack of judgment

By Kenneth P. Shapiro

PITY MY FRIEND Joe, and all the Joes like him who don't know when they need help.

A few years ago, Joe, a 33-year-old Ivy League graduate and a superstar employee benefits manager was the "man-most-likely" at a growing industrial company. Not only was Joe an expert in a very technical field, he was articulate and got along well with both senior management and colleagues.

As a reward for his performance, Joe was given a choice promotion. His first task was to assemble and coordinate a team of risk managers, personnel professionals and lawyers to create a new strategic planning department.

It was then that Joe's troubles began. Unable to judge the abilities and personalities of subordinates, Joe hired the wrong people for the wrong jobs. The whole project collapsed around him.

Although the Joe in this story is not real, the situation we find him in is. How many times do managers fail because they base important hiring and promotion decisions on pure intuition or the cold facts on a two-page resume?

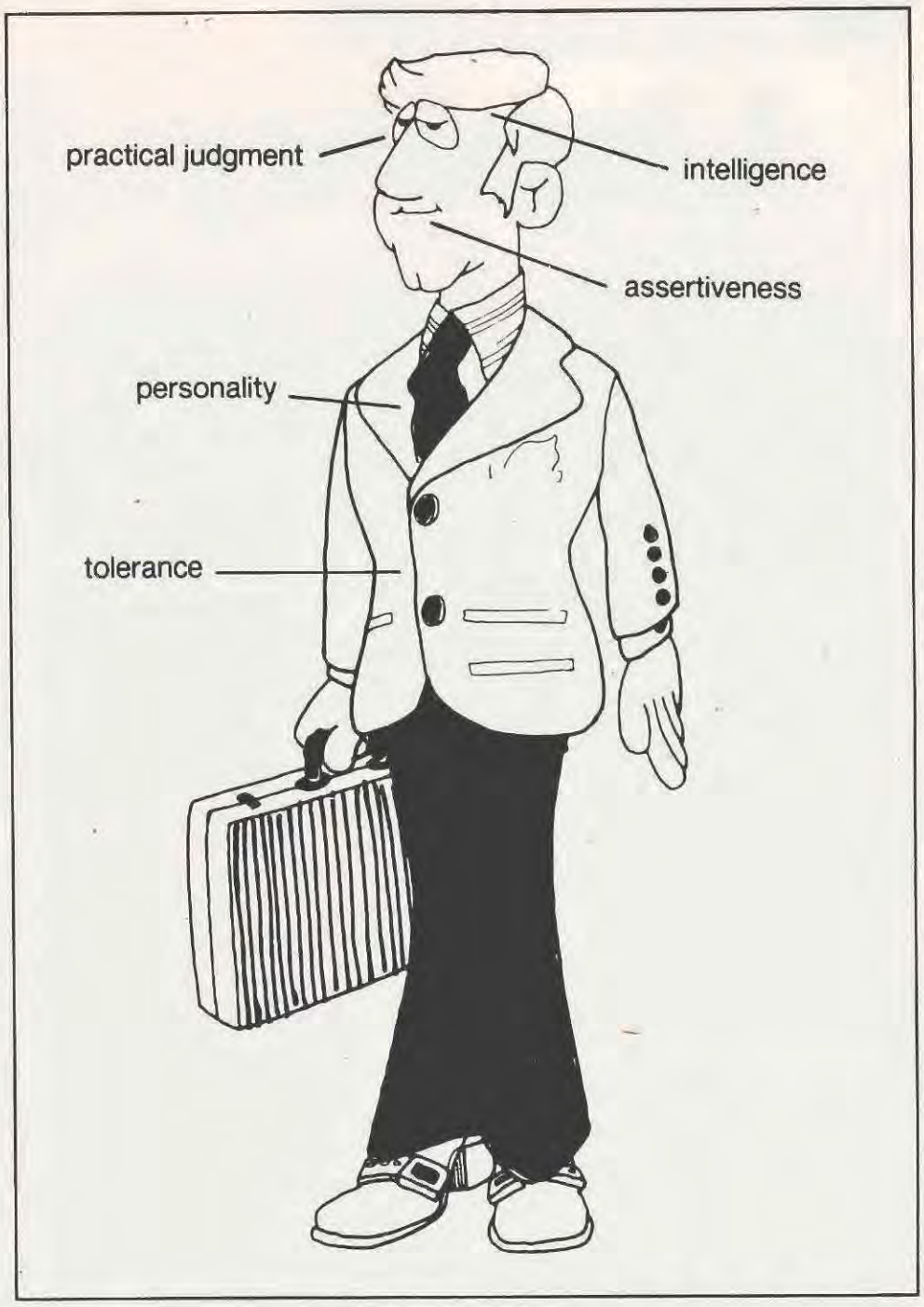
A solution to Joe's problem, unknown to him, was assessment. Good psychological assessment techniques can evaluate such important individual characteristics as intelligence, practical judgment, assertiveness and tolerance for stress. In Joe's case, he also could have used a group appraisal that would have shown how well his people would work as a team.

Of course, assessment is not a guarantee that an employee or group of employees will succeed. Although it is a valuable management tool, assessment results should never be the only basis for a hiring or promotion decision. But assessment can be very useful, especially when it is geared to a specific position in a specific unit or organization.

For instance, if Joe had conducted a full assessment of his new team members, he might have learned that many of them worked better in a less-structured environment. He also might have discovered assertive personality traits in some of his people that made them effective in "one-on-one" situations, but overbearing in sensitive group sessions. And he might have learned that several of his team were not very good in pressure situations.

There are two lessons that can be learned from the story of Joe. First, just as each job has different technical demands, each also requires different personality characteristics—depending on such factors as the work situation and the corporate climate. Second, a sound program of psychological assessment can help avoid hiring/promotion disasters, while increasing the probability of a correct "job fit."

Readers of this column are encouraged to participate by sending either specific questions regarding management or a management topic that you'd like to see addressed in a future column. Correspondence can be sent to Business Insurance or directly to Ken Shapiro at 229 S. 18th St., Philadelphia, Pa. 19103.



A good risk manager will examine important character and personality traits of applicants before he or she is selected.

Risk manager should help board avoid suits

Continued from previous page

- Conflict of interest.
- Failure to honor an employment contract.
- Irregularities in securities issues.
- Interference with contractual rights.

Executives and directors have found themselves increasingly on the receiving end of suits filed by shareholders, government, employees, customers, prior owners of acquired companies, competitors and contractors. Although large public companies are more often the targets, none are immune, least of all small and medium-sized closely-held companies.

One answer is to set up a forward-looking committee of the board, as Dayton Hudson Corp. did when directors established a social responsibility committee. This committee involved the corporate risk manager by requesting a research report on the company's and the industry's historical experience with department store fires, including an analysis of evacuation procedures throughout the company. The outcome was a plan establishing a seven-point safety program that became the basis for annual internal reviews of each division and each store.

The plan provides incentives for managers at every level to improve their safety systems. It also helps the board anticipate and correct potential problems.

Dayton Hudson's approach suggests a risk management technique that would be worthwhile for companies in any industry. Directors, in tandem with management teams, could regularly assign studies of issues involving large potential risks, such as equal employment opportunity, public, production and workplace safety, along with pollution/environmental impairment.

In publicly held companies, consideration should be given to whether or not there are enough outside directors. Even closely held private companies are frequently adding outside directors today.

Every company having outside directors should provide them a formal orientation program. Orientation sessions give directors the chance to discuss their responsibilities, to become familiar with essential procedures and operations and to meet managers. Existing directors should use these programs to refresh their knowledge every few years. A shocking number of large companies don't do this, which forces new directors to attempt crash programs of self-study about company operations.

The risk manager and general counsel should suggest to board members that asking questions and participating in the decision-making process is not only a right but a duty. ■

legal briefs

Contractor's casualty coverage upheld

A Texas appellate court ruled that a general contractor was in possession of and occupied a school building until the contract was completed for the purpose of clauses in a casualty insurance policy excluding coverage for damage to property "owned or, in case, custody or control" of the general contractor.

A contractor entered into an agreement to construct a junior high school. Steel construction was subcontracted. While the subcontractor was setting a precast tee on the building, disaster struck. Some tees fell and damaged the walls and door frames stored on the ground.

The contractor's casualty policy, issued by Twin City Fire Insurance Co., excluded coverage for damage to property in the care, custody or control of the insured or as to which the insurer was for any purpose exercising physical control. The insurer denied liability. A trial court ruled for the insurer.

On appeal, the contractor argued that the property damaged—the door frame on the ground and the walls that had been erected—was property belonging to the school district, and therefore was not excluded from coverage.

But the court was satisfied that until the construction was completed, the contractor was in possession of and occupied the building. The court said that the policy insured the contractor against liability for damages other than to the building itself. *McCord, Condron & McDonald vs. Twin City Fire Insurance Co.*, Court of Civil Appeals of Texas, Nov. 13, 1980 (*BI*/04/Ju.-$5).

This abstract was prepared by Cases Unlimited Inc. The decision may be obtained by sending a check for $5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

PRIMA:

Small accidents can grow into big ones

By EILEEN NORRIS

DENVER—Accidents don't just happen. They build up in stages and masquerade as minor injuries, insists Darrel Barnes, director of safety for the city of Colorado Springs.

For every 300 accidents that require medical treatment of a minor nature, there are 29 more serious but still minor injuries and one major disabling injury that results in lost time from the job, Mr. Barnes told Public Risk and Insurance Management Assn. members last month interested in initiating loss-prevention programs.

"You can actually see an accident building up before it happens," said Mr. Barnes, who said his daily prayer is "Dear Lord, don't let me die until I'm dead."

"In the safety business, it's not management by organization like most other fields," he said. "It's management by crisis because many times no one pays attention until there is a fatality or major injury.



You can see an accident building up, says Darrel Barnes.

"Those 300 little injuries should tell a safety manager that a major injury is building up."

Accidents on the job can be prevented if managers consider each of their workers for particular job assignments and put up roadblocks that will help employees prevent injuring themselves or other fellow workers, he said.

Checking an employee's health background for vision and hearing problems and looking at his current behavior—such as whether the person daydreams on the job—can also help to put the right person in the job.

"You don't want the kind of guy who punches in physically and checks out mentally," said Mr. Barnes, who also teaches safety at Pikes Peak College.

Unsafe conditions in the workplace account for 10% of all accidents and unsafe acts contribute to more than 85%, he said.

"Many factors play into making an accident happen and if one of those factors comes into play, you see the others tumbling down in a domino effect," he said.

Physical exams for employees can help determine if the worker has the right job assignment, he said. The personnel department is crucial to the safety manager, who is faced with selecting the proper employee for the job, he added.

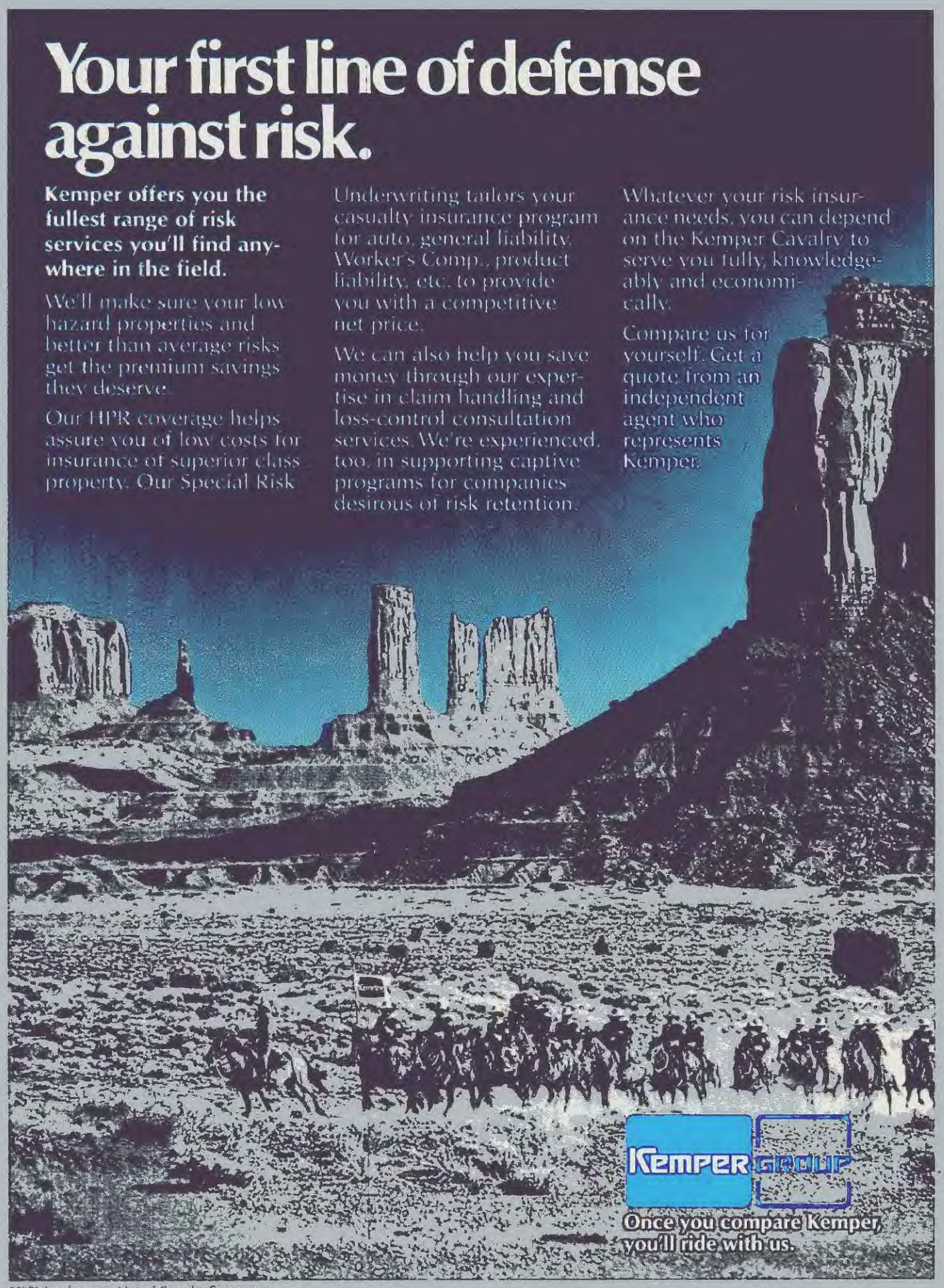
But how does a manager control accidents? He begins by insisting that workers feel comfortable in reporting unsafe conditions. He also spells out how a worker is expected to perform in his "shop," Mr. Barnes said.

But one of the most important barricades to accidents—one that might not prevent an accident but certainly will go a long way in reducing the severity of an injury—is to have strict standards on protective equipment, he said.

"The kiss of death for any safety manager is showing up on a job site without your own protective equipment when you expect the worker to have on his hard hat or protective eyeglasses.

"A safety manager can dodge responsibilities, but you can't dodge the consequences. What you're really aiming to do in the job is prevent those 300 minor accidents from becoming that one major fatality or serious injury.

"Everytime there is an accident, it's a failure, in part, of the supervisor or the safety manager who failed to explain, or train or reprimand a worker," he said. ■



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Look before leaping into pool: Consultant

By EILEEN NORRIS

DENVER—Only a fool would jump into a swimming pool not knowing which was the deep end. The same thing can be said for diving into group self-insurance. The pool can be very dangerous if you don't know what to realistically expect.

A survival kit for getting a pool off the ground should be in hand if a public entity attempts to form a group pool, advises Thomas J. Wander, senior consultant with the Risk Planning Group Inc. in Darien, Conn.

Insurers will be reluctant or perhaps refuse to provide information and loss records for fear of losing the account, said Mr. Wander, who spoke at a Public Risk and Insurance Management Assn. conference session last month.

"The results so far are excellent," says Thomas J Wander.

If a governmental body cannot get cooperation from the insurance company, the city's risk manager should enlist the support of the state's insurance commission, he said.

"Then, there's a problem in analysis," Mr. Wander said. "A public entity should have a minimum of three to five years of credible data by line of coverage and include uninsured losses.

"A lack of or questionable loss reserves also contribute to the adequacy of the data that has to be collected," Mr. Wander told PRIMA members.

Once an insurer knows a client is thinking of self-insuring with a pool or by itself, a risk manager can expect some typical arguments against making the switch, Mr. Wander warned.

Some of the responses from agents might be that "pools are unsound, both politically and technically, and they would irreparably damage the present health marketplace for municipal insurance in this state," Mr. Wander said to the group.

"But that is a quote from a report of the Professional Insurance Agents of New York State to its 11,000 members," Mr. Wander explained.

Public entities also will be told that government should stay out of the private sector, he said. But pooling allows public bodies the option of retaining the amount of risk deemed prudent, insuring where appropriate and purchasing the necessary ancillary services, he said.

A third argument against pooling is that "obviously most risk-sharing pools have failed, or the commercial variety of insurance would not exist today."

"That is obviously not true," Mr. Wander said.

"The results so far are excellent. I know of a pool that sustained big losses in its first year and still had a 44% loss ratio," he commented.

Insurers, who have a strong interest in retaining services with large municipalities, also will tell pool enthusiasts that a pool can't expect to save public bodies money when underwriting results have been poor.

But Mr. Wander said that even though 1980 saw the property/liability insurance industry suffer its worst underwriting loss—$3.4 billion—in history, the industry still earned $11.2 billion in investment income and some $6 billion in realized and unrealized capital gains.

Scare tactics by opponents of group self-insurance can be fought off with a little knowledge and research, he said.

For instance, if a pool sustains catastrophic losses, it would still be protected because the pool members normally purchase excess insurance (specific and/or annual aggregate) to protect against one or several catastrophes, Mr. Warner said.

"It is possible that a pool could become insolvent, but it would be unlikely since pool members usually are responsible for their individual liabilities and the pool broker should provide the desired coverage either on an individual basis or through a safety group," he said.

"Pools in the public sector also would have the last resort of increasing taxes if a pool became insolvent," Mr. Wander added.

Once the risk manager has some of the typical arguments against pooling in hand, he should investigate the state law to see it allows pools.

Once a pool is approved, its members probably will be required to meet with the insurance department, Mr. Wander said.

A feasibility study, actuarial review, minimum premium volume and a contingency reserve might be required.

An annual report and audit, based on an actuarial analysis, will continue a risk manager's role with the insurance department or administrator of the pool, he said. ■

Virginia pool's head above water

DENVER—Less than one year ago, The Virginia Municipal League started a group self-insurance pool with 10 members. Today it has 50.

And that number will double fairly soon, predicts Bradley Harmes, deputy director of the league.

But the league had some uneasy moments getting the pool off the ground, he admits. It decided to provide workers compensation coverage soon after a change in the state's law allowed associations to pool their risks.

"A lot of regulations had to be met," Mr. Harmes said.


Harmes

Being the first such pool in the state was a sort of mixed blessing in that the league had to map out its strategy and convince the state Insurance Bureau to circumvent some rigid requirements it has for private employers, he said.

The league did agree to provide the department with a monthly financial statement instead of the stricter financial requirements it mandates from the private sector.

"And, luckily, we didn't have a lot of political dynamics to deal with," he said.

The league now is trying to convince its regulator that it shouldn't be involved in approving every new member to a pool.

"It's an administrative nightmare for the Bureau of Insurance," Mr. Harmes said.

"And there's one other problem. We still have interested potential members that want to wait until the pool is a success before they join in."



Government pools should be regulated, INA president says

DENVER—The trend for governmental leagues to form group pools to self-insure municipal risks will give competition a needed shot in the arm, but those pools should be regulated, says John Cox, president of Insurance Co. of North America.

Public entities, who often have relied on a sovereign immunity defense, are rapidly being stripped of that protection, said Mr. Cox, who spoke to about 200 Public Risk and Insurance Management Assn. members last month.

"Sovereign immunity is a defense fewer risk managers can count on," he said. "By the end of 1979, 27 states had abolished the immunity—a trend that is continuing," he said.


Cox

This erosion comes at a time when public entities' exposure to losses is increasing, Mr. Cox explained.

A municipality can now be held liable for everything from a fireworks display to a drug-abuse program, he added.

Many government bodies are tackling increased risks by developing their own programs to self-insure some or all of the exposures. Some 16 state leagues now operate group pools for everything from workers compensation coverage to group health insurance, Mr. Cox said.

He warned PRIMA members that it is too soon to rely on self-insurance through pooling to solve a government's financial dilemma because the alternative is still too new and does not yet have a solid record.

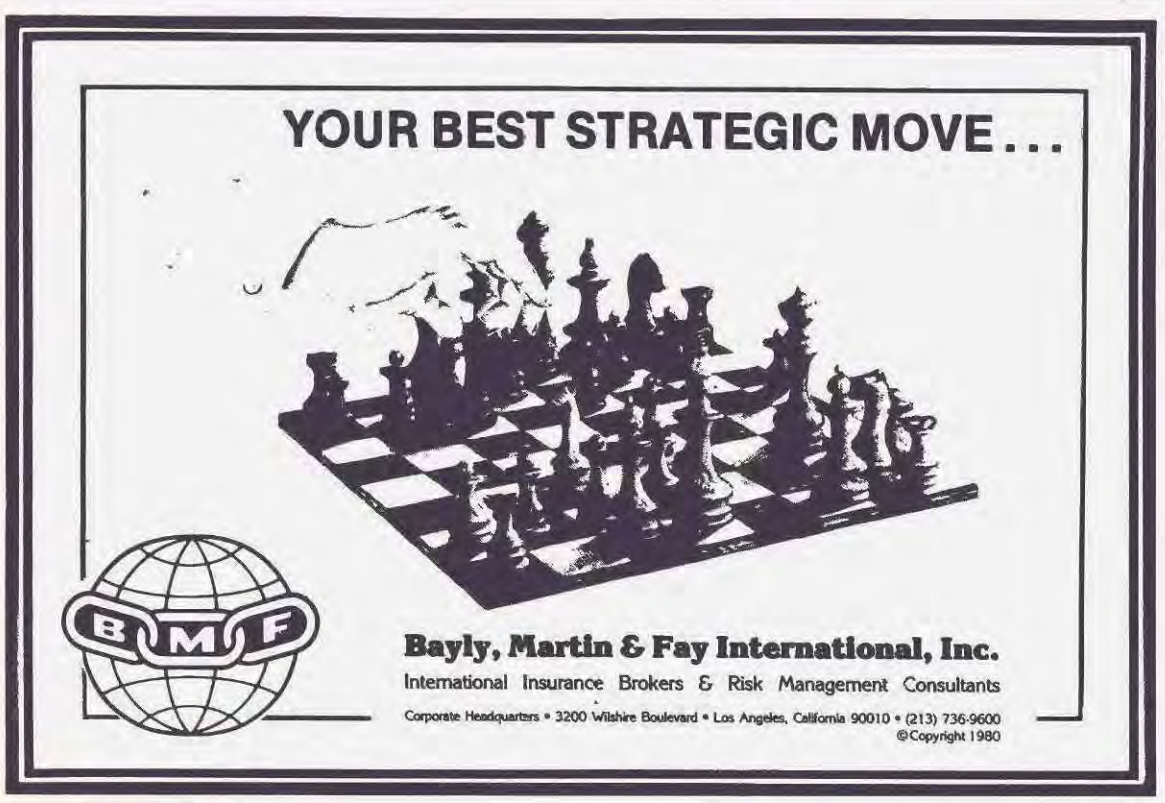
"Data bases have yet to be built," Mr. Cox said. "It's just too early to tote self-insurance as the answer."

While he favors a healthy competitive market where self-insureds, group pools and private insurance companies make their services available to the buyer, he stresses that government pools should be regulated in some form.

"Pools should be regulated any way that prevents one group from ruining a pool," he said. "It doesn't matter whether the state regulates the public pools or a public actuary or something else—just as long as they're regulated.

"If an unregulated pool fails, it's unlikely others will bail it out," he said.

But above all, competition needs encourgement. "It's healthy and even necessary," he said. "The public should have the options. The choice then frees funds that can be used for other needed service." ■



Colorado forms PRIMA's maiden regional chapter

DENVER—The Public Risk and Insurance Management Assn. last month celebrated the birth of its first chapter. Its name is Colorado.


Magnie

PRIMA risk and safety managers in the state wanted to form a local chapter because they felt they had so much in common, especially in the way of problems that needed to be worked out, said Lloyd Magnie, chapter president and risk manager for the city of Longmont.

The idea of forming local chapters is catching on with other members who belong to the national organization that is based in Washington, D.C., he added.

The Colorado chapter meets once a month to talk over similar concerns, covering everything from how claims of damaged vehicles can be handled to litigation that is pending in the state, Mr. Magnie said.

Announcing the new chapter to PRIMA's 200 members at the group's second annual conference was especially important since the conference was held in the Denver area, Mr. Magnie said.

Information about PRIMA can be obtained by writing to executive director Natalie Wasserman, 1140 Connecticut Ave. NW, Suite 210, Washington, D.C. 20036. ■

Weeding out poor drivers cuts costs

DENVER—Put a polite, gracious person behind the wheel of a car or truck and you can watch that person become ugly and ornery, says Roger D. Fortney, a loss-control specialist for the ARMCO Insurance Group.

"There's a 180-degree turnaround for many people when they get in a car. It's attitude," said Mr. Fortney, who spoke before a PRIMA session on "Putting the Brakes on Fleet Losses."

Very few people, he said, are hired to drive, yet many employees in the public sector spend a good portion of their day making their rounds in a squad car or driving a maintenance vehicle.

"Driving appears to be an incidental part of the job, but it's not," he said.

"Some employees just don't care about the property of a municipality or town," he said. "I'd say 75% of our driving problems today are a result of that poor attitude."


Fortney

Governmental entities, which are faced with the liability of a worker while on the job, can work at changing attitude habits of employees, he added.

Public bodies can work at weeding out poor drivers even before a person is seriously considered for employment by checking a person's driving record, administering a driving test and requiring the applicant to have a complete physical exam, he said.

"You need a good interview with a job prospect to get at that attitude, too, besides just checking on a person's background," Mr. Fortney said.

A well-structured safety program for both part-time and full-time employees also will go a long way in reducing damage to public entities' equipment and lawsuits that result from injured workers, he said. ■

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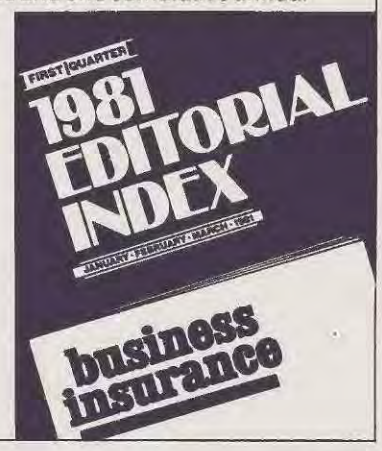
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the Crowther People

Police need protection from lawsuits

DENVER—Police officers have to be taught when they can look to their governmental entity for protection from civil suits charging negligence, excessive force or false arrest, one public safety official says.

Whenever a police officer takes any action, on or off duty, he subjects himself to a possible suit, says Edward J. Camp, director of public safety for Longmont, Colo. He spoke at the Public Risk and Insurance Management Assn. conference in Denver last month.

Because police civil liability has become a major concern since the civil rights movement of the 1960s, police actions involving citizens and their rights are becoming a growing area of concern, he said.

Some states, like California and Colorado, require the employer to provide legal counsel to an officer who has been sued.

But that protection is only provided if the officer was acting within the scope of his employment and no malice, fraud or corruption is involved, Mr. Camp said.

If a suit against an officer is successful, codes usually require that his employer pay for the plaintiff's general damages (pain and suffering) and medical costs, he said.

The employer, however, is not liable for any punitive damages awarded.

At first the rules appear simple enough, but it is difficult to determine whether an officer was acting within the "scope of his employment" when the alleged injury or property damage occurred, he said.

"It has been legally stated that an officer acts within the scope of his employment when he or she is 'furthering the purpose of his employer.'

"In most instances, an officer will be found to be acting within the scope of his employment while on duty within the municipality he or she is employed by," Mr. Camp said.

"An on-duty officer involved in a traffic accident while on routine patrol is within the scope of employment, and the employer is required to provide him or her with legal counsel and pay the total judgment rendered, except for punitive damages."

The law gets tricky when an off-duty officer, working within his jurisdiction, has another job "moonlighting" as a security officer or some other non-security job or when an officer becomes involved in apprehending a suspected criminal while off-duty, he said.

An off-duty officer moonlighting as a security officer will have to look to the private employer for protection from liability, Mr. Camp said.

"Then there is even a grayer area when a private employer hires an officer for a job that on the surface involves non-security duty but underlying does. An example would be the bank hiring an officer as a teller assuming the officer would function in his law-enforcement capacity as the need arises.

"In situations like this, an officer should discuss liability responsibility with his employer," Mr. Camp said.

Especially questionable, he said, is a situation where the off-duty officer takes police action outside his employer's jurisdiction.

"When an off-duty officer takes action, his employer should scrutinize the facts of the case to determine whether it will assume liability for the actions taken," he said.

"A public entity is not required to provide a defense and damages for an officer who engages in police activity while in a non-duty status."

And most off-duty personal involvements are not, as a rule, job-related. "When an officer becomes involved in a personal encounter, he or she is in the position of a private citizen," he said.

Mr. Camp offered three options to the public employer who has to decide whether to defend a case:

- Provide a defense because the act was clearly within the scope of employment.
- Defend but reserve the right not to pay the judgment should the court determine the officer acted outside the scope of employment.
- Refuse defense because the officer acted outside the scope of employment or engaged in criminal conduct. ■

How to avoid police liability problems

DENVER—There are at least two things public employers can do to curb police liability problems: Hire the most qualified candidate for the job and offer the latest in police training.

- First, a quality recruiting drive must be launched to attract the most qualified candidate, says Edward J. Camp, director of public safety for Longmont, Colo.
- Second, written exams must be impartial and not culturally restrictive.
- Third, an open interview board should be utilized and, if at all possible, minority officers should be intermeshed with majority officers to give a wide spectrum of personal evaluation.
- Fourth, certified physical qualification testing should be conducted and followed through with continued testing based on age groupings. Programs can be obtained from the American Physical Qualification Testing Corp. in Cedar Rapids, Iowa, and from the San Jose Police Department in California.
- Fifth, a public entity should give aspiring police officers polygraph tests if the use of the test is not prohibited by law or regulation.
- Sixth, a one-on-one psychological exam between the applicant and a certified psychologist or psychiatrist should be conducted.
- Seventh, a thorough background check must be made on each qualifying candidate.

"These seven steps are basic to me and are what I am moving toward in my own organization as the bottom line to hiring," Mr. Camp said.

Two areas that require specialty training are cultural sensitivity and domestic conflicts (where about 25% of today's police officers are killed in the line of duty), he said.

In addition, stress management courses are a must for today's officer, he said.

"The police officer of today is in a much more stressful job than the police officer of 10 years ago. These kinds of courses are confidence builders. And an officer needs self-security and confidence that he can do the job."

Civil liability courses also are important so an officer knows what to expect, Mr. Camp said.

Departments should offer some kind of citizen/officer positive contact program, he said.

The city of Longmont has a citizen ride-along program that gives the officer and the citizen a chance to view each other in a positive setting, realizing that their differences are really very minor, he said.

"Our program has been in operation since September 1980 and averages about 35 citizen ride-alongs each month," Mr. Camp said. The citizen signs a liability waiver and the officer drops off the citizen in a safe locaton if the officer has to answer a call that could be considered dangerous.

One of the most important types of training a public employer can give its police officers is a quality field training program, he said.

"By August of this year, we will have a 14-week program modeled after the Fresno Police Department in Fresno, Calif., that will give us one of the best training programs in the country," he said.

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JULY 13-17. Basic Safety Management conference in Houston, Texas, sponsored by the International Safety Academy; $535; $485 for three or more participants from the same organization. ISA, Box 19600, 10575 Katy Freeway, Houston, Texas 77024; 713-932-9400.

JULY 19-22. 1981 Institute for Fund Advisers program in Monterey, Calif., sponsored by the International Foundation of Employee Benefit Plans; members, $360; non-members, $435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 20-21. Government Risk Management seminar in Ann Arbor, Mich., sponsored by the Public Risk & Insurance Management Assn.; members, $160; non-members, $200. PRIMA, 1140 Connecticut Ave. N.W., Suite 210, Washington, D.C. 20036; 202-828-3614.

JULY 28-30. Industrial Fire School in Marinette, Wis., sponsored by The Ansul Co., $595. Also **Aug. 11-13** in Marinette. The Ansul Fire School, One Staton St., Marinette, Wis. 54143.

AUG. 20-21. Personal Injury Cases seminar in San Francisco, sponsored by the Practising Law Institute, $250. PLI, Dept. RWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

AUG. 31-SEPT. 3. ASIS 27th Annual Seminar & Exhibits in New Orleans, sponsored by the American Society for Industrial Security; members $195; non-members $260. ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

SEPT. 13-18. Fundamentals of Money Management workshop in Philadelphia, sponsored by the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania; members, $600; non-members, $725. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

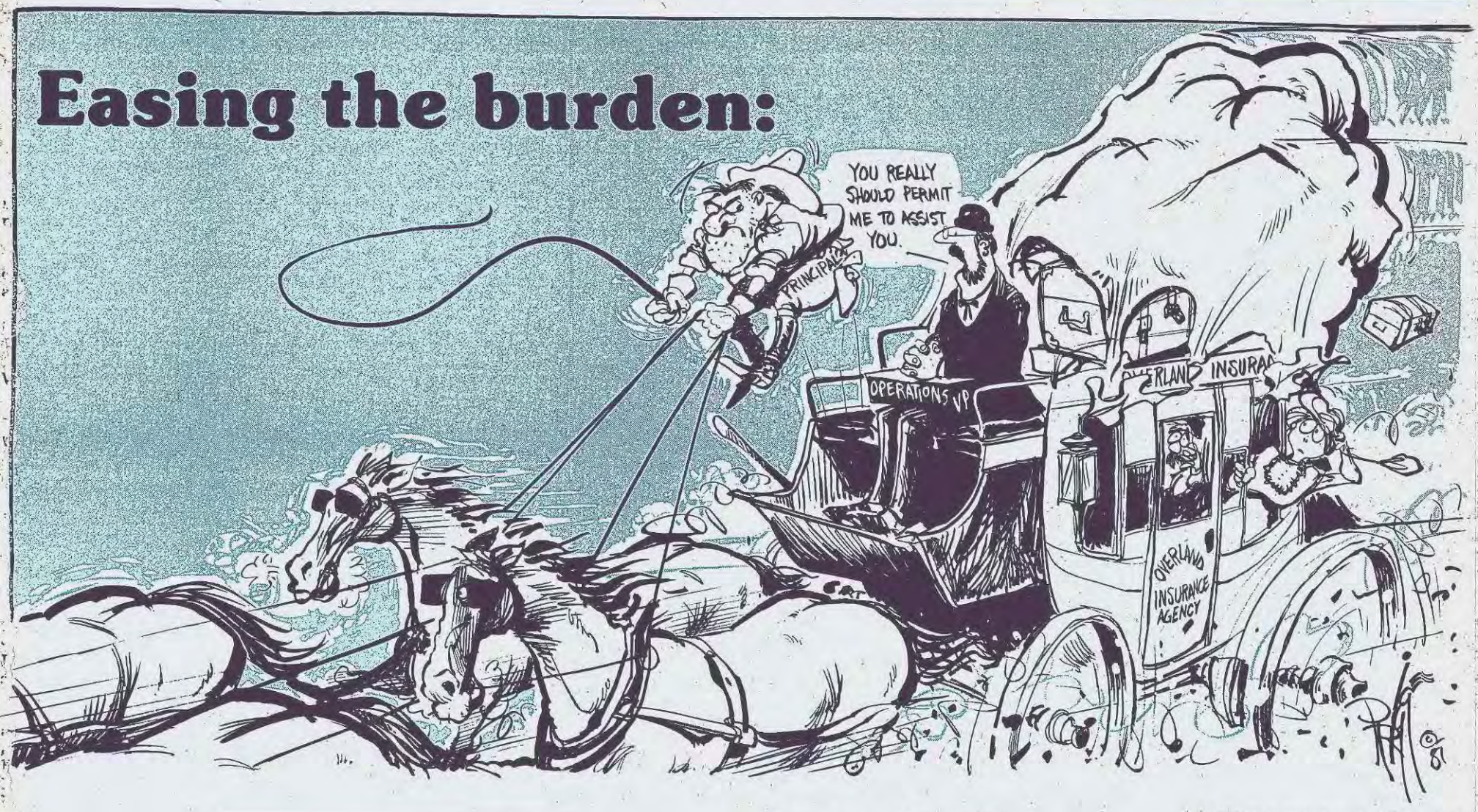
SEPT. 14-15. Reinsurance Management conference in Chicago, sponsored by Interforum Group Inc.; $495. Interforum Group Inc., 69 William St., New York, N.Y. 10005.

SEPT. 14-16. Risk Insurance and Employee Benefits conferences in New Orleans, sponsored by the American Management Assn.; members, $350; non-members, $405. American Management Assn., 135 W. 50th St., New York, N.Y. 10020.

OCT. 21-24. International Employee Benefits seminar in Montreal, sponsored by the International Foundation of Employee Benefits; members, $440; non-members, $515. Barbara Wesener or Jordan Fox, IFEBP, Box 69, Brookfield, Wis. 53005; 414-786-6700. ■

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS



Tired of being both super producers and managers, many owners are hiring specialists to relieve administrative woes and relieve salesmen.

By Dave Galanti

CHICAGO—Most agencies start their lives with a small staff of jacks-of-all-trades. But firms that have grown to medium-size or bigger find generalization doesn't work anymore.

Increased staffing, paperwork and household details in agencies with 15 or more employees are causing many of these firms to separate the producers from support and clerical staff. They're hiring general managers or operations vps to handle the non-sales details.

At Nahm, Turner, Vaughn & Landrum in Louisville, Ky., the 135-employee regional agency hired an agency manager about three years ago to handle management details ranging from personnel management to making sure the rent is paid on time.

Vp Dick Stewart says the firm couldn't exist without him.

"Like a lot of other agencies, we started small and grew over the years," Mr. Stewart says. "In the beginning, we never thought of management details. Somebody just seemed to do them.

"The complexity of these tasks grew as time went by," he adds. "We ended up having a lot of people doing small pieces of this type of work. But as the complexity grows, you really need a specialist who can really think about what's going on in management."

So NTVL hired a seasoned administrator from General Electric, Raymond Sommers. Mr. Sommers' goal was to establish good administrative and personnel management systems. As he neared retirement, Mr. Sommers was to train a successor to keep the system up and operating.

"Our top people are salesmen," Mr. Stewart says. "They've never had the type of training that is necessary in administrative management. Today, we have to worry about employee relations and government regulations. We had no experience with that. There are also housekeeping details like handling company cars, lease arrangements and so forth that would be better handled by one person."

NTVL is not alone in hiring such managers, notes James Gatza, director of management education of the Insurance Institute of America/American Institute for Property & Liability Underwriting. Mr. Gatza says that the skills that make a good manager aren't always the same as those that make a super producer.

Managing an insurance agency, he says, is significantly different from selling and servicing insurance programs.

Managing an agency, he adds, means achieving results though the efforts of other people. It means delegating, surrendering control, teaching, negotiating, taking financial risks, handling disturbances and resolving disputes.

It also means some solitary deskwork in planning, budgeting and reviewing performance data as well as listening, counseling, advising and motivating. A producer's work centers on a craft, not on his colleagues, Mr. Gatza says.

Although some principals can handle both jobs well, Mr. Gatza says firms of 20 or more employees should look at hiring an agency manager.

Managers, he says, can save agencies money by providing thorough agency planning, financial and clerical management and personnel functions such as setting wage scales and performance appraisal systems.

The manager can also save the agency money by freeing the super-salesman principal or producer to go out and sell.

Mr. Gatza also recommends that agencies look outside the insurance industry for their candidates. Insurance knowledge can be taught, so the firm should concentrate on

Continued on page 24B



Give agency paperwork to a franchisor, says The Walsh Co.'s Daniel Walsh.

Franchise offers agents paperwork relief

PHILADELPHIA—Small, one- or two-producer agencies can't afford to hire an office manager or operations vp, yet the burdens of administration and paperwork lean heavily on them, too.

Some agency principals put up with the burden, working mornings in the office with the afternoon devoted to production. Others hire part-time clerical staffs to ease the paperwork burden.

Others, however, either throw up their hands and sell out or, increasingly, hire a larger firm through a franchise or financial agreement to take the paperwork and policy marketing burdens away for good.

"To understand this process, you first have to think about why the average producer decides to go out on his own," says Daniel J. Walsh III, executive vp for The Walsh Co., a Philadelphia brokerage which is actively seeking to provide such help.

"Producers leave larger firms to do two things," Mr. Walsh continues. "First, he or she wants to do their own thing. Secondly, the person is probably sales oriented and doesn't like the compensation deal at the present employer.

"So the person goes out on his own, but as the business grows, so do the management problems and paperwork," he adds. "The producer finds he is spending less time doing what he does best—selling. Somehow, the producer has to find a way to get back to what he or she wants to do."

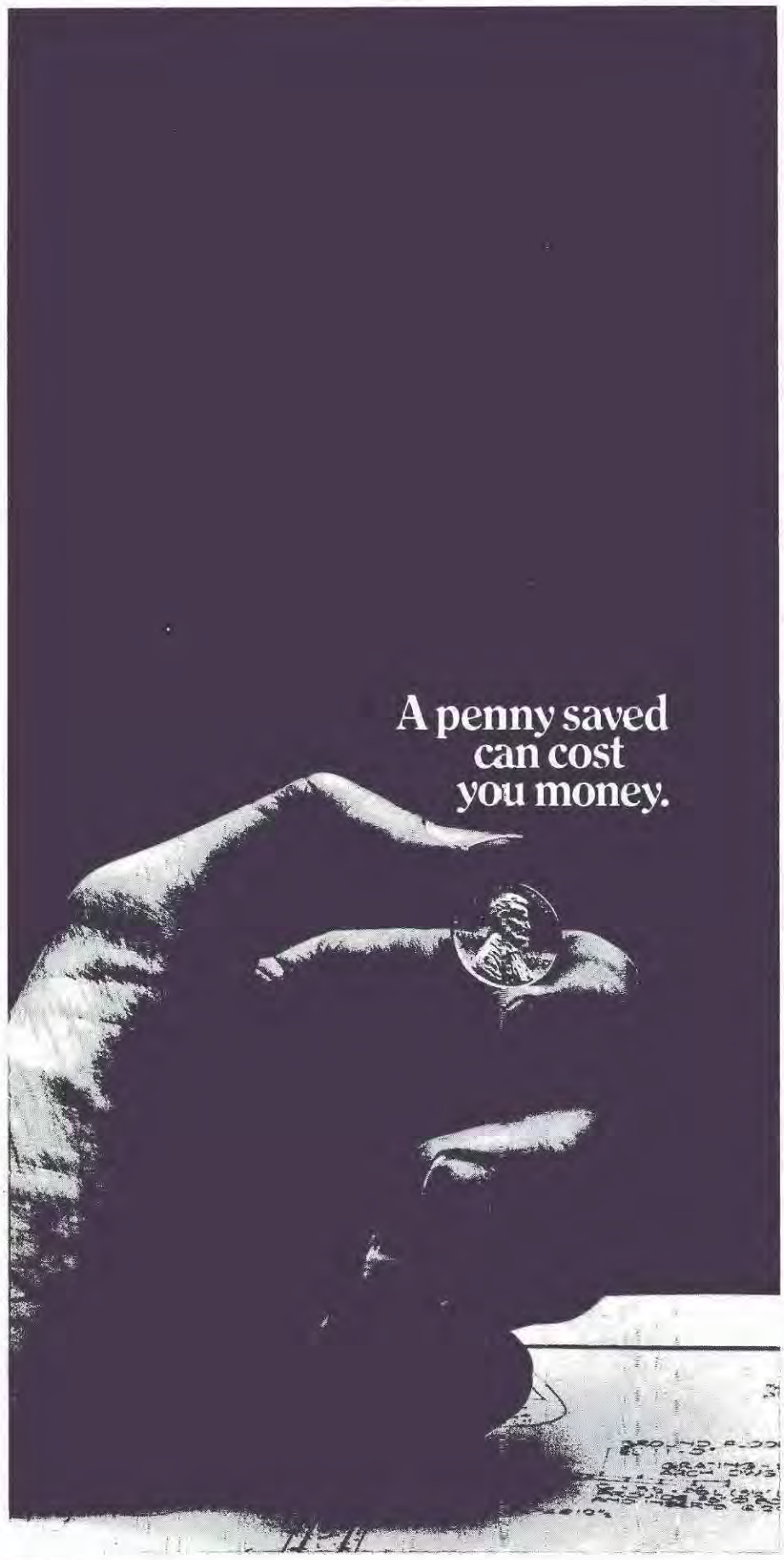
What the Walsh Co. offers is to sell its services in handling administrative details, marketing policies, or both—in exchange for from 50% to 65% of the producer's commissions. The arrangement is flexible, Mr. Walsh says, with the services provided and cost to producer varying from case to case.

In effect, the agency becomes an independent producer and the 17-employee Walsh Co. becomes the support facility. The agency-producer agrees to place all its business with the company, but retains rights to expirations and ownership of the agency.

The Walsh Co. has made such affiliate arrangements with two producers and is talking to five others.

"Of those people, one is nearing retirement and is looking for a way to ease the burden he faces so he can gradually prepare for those days," Mr. Walsh says. "Another is younger, but feels that paperwork is killing him and his business. A third is thinking of leaving a larger insurance agency, but wants someone to handle the paperwork and marketing loads for him, at least until he gets his feet on the ground."

The arrangement can be temporary, with the producer terminating the arrangement and going back to doing the administration and marketing. However, Mr. Walsh says his firm hopes to be so good that producers stay because of the profits, increased volume and contingency income it brings the Walsh firm.



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Staffs need extra skills from boss

Continued from page 24A

experience in management skills.

"You're looking for past success as a manager," he says. "Look to see what management positions the candidate has held in the past. For many firms, about five years experience should be enough. Determine whether the candidate has enough experience so he or she has had an opportunity to see results from his or her personal solutions to problems.

"In some management jobs, such as school administration, this might take years. In some industry jobs, it might take months."

Dick Bowie, finance and administration vp for Fred C. Church agency in Lowell, Mass., agrees. His background was with a packaging firm that was later bought by the firm that is now Kraft & Dart.

"To a good manager, it doesn't really matter what the product is," he says. "There are some differences from my former job. I have to more day-to-day things to do because the company is smaller and can't afford many layers of management. But a lot of the insurance rubs off on you by repetition."

Sandy Elsass has been operations vp at MacIntyre Fay & Thayer in Newton, Mass., for about two years. Though his background was not in insurance, MF&T hired him to provide day-to-day management of personnel and finances.

"Our principals knew that our organization at that time was top-heavy with salesmen," Mr. Elsass says. "They were doing the management in their spare time. Everything was being done by committee in early-morning and late-evening sessions.

"They needed a person to handle relations with people outside the firm, provide broad marketing theory, analyze losses, set compensation levels and give the management system structure."

Mr. Elsass feels that the key to a successful agency lies in good management of people combined with good salesmen. These will bring the growth that provides an agency with a good reputation, he adds. In 1978, MF&T's problem was that it wasn't doing as well as it could in people management.

"The firm the principals hired to do an analysis of the situation said we had to find someone to give management a structure," he adds. "They felt management cared, but there was no corporate responsibility to determine goals for the firm

Continued on page 24G

Photo: Dave Galanti



If done correctly, management shouldn't take up more than 20% of any principal's time, says Indianapolis consultant Vinnie Manaktala.

Don't hire agency manager only for management tasks

INDIANAPOLIS—If you're thinking of hiring a general manager or operations vp only to eliminate your management load, don't.

That's the advice of Vinnie Manaktala, a local consultant who says efficient management is easy—if you have the right tools.

Management shouldn't take up any more than 20% of any principal's time, Mr. Manaktala says.

"Basically, there are three things to manage in any agency: people, money and technology," he says. "If any manager is confident of the people underneath and sets up a good logical management system, then that manager should spend no more than 20% of his time in management. A manager, in my opinion, has to contribute more to the agency than that."

He or she has to use the rest of the time to produce business, provide technical expertise or do some other duty, he explains. The big problem is that most agency principals don't want to delegate authority to allow them to do those more productive tasks.

Mr. Manaktala is a believer in what he calls management by exception. In this system, the top agency principal manages directly only crucial tasks. The rest should be delegated, he says.

Agency operations managers or general managers are the wave of the future for larger firms, he admits. For smaller agencies who can't afford one, however, he offers his services to firms throughout Indiana as part of a program sponsored by the Independent Insurance Agents of Indiana.

Mr. Manaktala's organization, Personal Development Services, Inc., works with agencies to provide many of the services an operations manager would perform, including goal setting, budget planning, personnel policy making and pay scale planning.

Working with the agency leadership, he trys to provide the basic building blocks of organization so that principals do management tasks efficiently in 20% of their time.

"In the average firm we start to work with the four or five problems that always stand out," he says. "First, there is usually no system of goals. Everyone says they want to grow 15% or some such number, but there are no details on how to get there. They also don't monitor that progress.

"Second, there are usually no established career paths or career development plans for the staff. There is no way to develop the staff into something better than it is," he adds.

"Third, there are no performance appraisal systems. Salaries are often based on the principal's generosity. If the principal feels good, bonuses are given out. If not, no such luck.

"Finally," he adds, "in firms with five to 30 employees, there is often no solid chain of command. Everyone is unclear about whom they report to."

Personal Development will do a one-shot consulting job, but Mr. Manaktala says the firm prefers to work with an agency over a period that could last up to two or three years. It takes that long to establish a goals system and follow up properly, he says.

The service isn't cheap, about $600 a day, but Mr. Manaktala claims that a good management system operated properly will earn the agency added efficiency and growth. This will more than offset the weight on the bottom line for the average eight to 10 days a year an agency would need his on-site services.

"The average agency was once a one-person show that has grown to 15 or 20 people," Mr. Manaktala says. "Because the principal has always run the show, he believes that he has all the management skills he needs to run a bigger show. That isn't always the case.

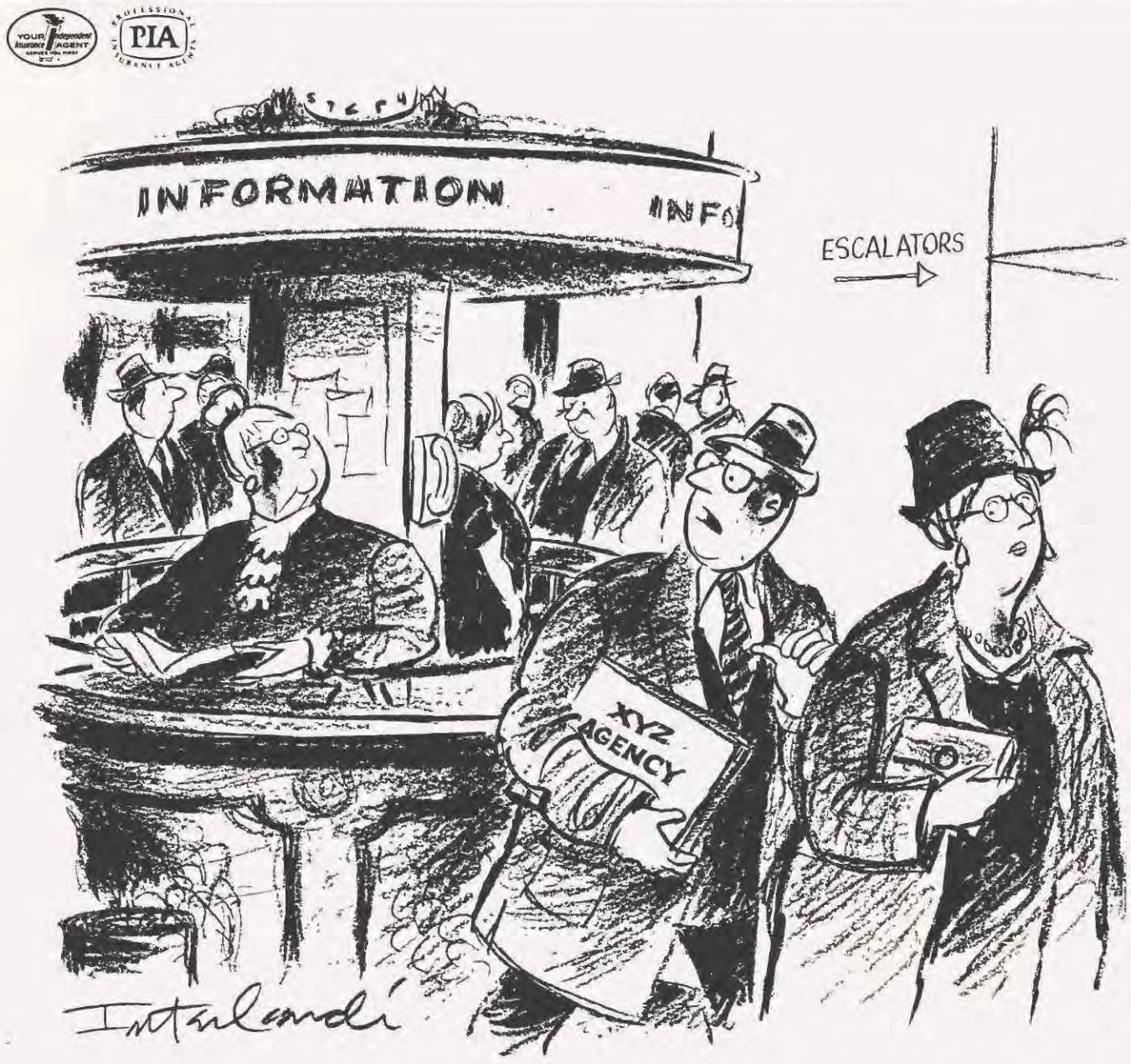
"With a smaller firm of 10 or so employees, you don't need sophisticated management techniques; you can get by with common sense," he says. "The larger firm, however, has to get a management system or it can run into big trouble."

Mr. Manaktala says the principal has four choices: be a salesman, be a manager, be both, or be neither. You can do both, he says, only if you are disciplined enough to hold the planning and control functions at 20% of your time.

"But too often, there are cop-outs." he says. "The principal grows soft and goes out to play golf. It's too much like work, so he ends up doing neither selling nor managing well."

A big failure faced by many agencies is a lack of goal planning —never stopping to think about where the firm is going, Mr. Manaktala says. The key is to limit goal setting to four or five specific plans so the tasks are not impossible to

Continued on page 24F



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Gallagher hires its own

ROLLING MEADOWS, Ill.—National brokerages can hire specialized managers for many technical roles within their firms, but they still have the problem of finding good sales managers.

Some brokers go outside for these managers, but Arthur J Gallagher & Co. finds its unit supervisors among the cream of their in-house producers.

"A brokerage like Gallagher is fundamentally a production operation," says George McWeeney, director of training for the nation's ninth largest brokerage. "Unlike a smaller agency, we have separate administrative departments which are run by professionals in each of those fields.

"When it comes to sales management, however, we must decide whether or not to use our producers."

At Gallagher, the decision almost inevitably is to hire current producers to assume those sales management, or unit manager, positions. The reason, according to Mr. McWeeney, is that the places from which Gallagher initially recruits its producers are fertile territory for employees with management skills. He adds he doesn't need to go outside the firm or the industry to hire unit managers.

"Whether or not you can hire your own producers to become good, effective managers is really influenced by the produers you have on staff and where they came from in the first place. Where you hire your producers from tells you a lot about the skills they may have besides selling insurance plans," Mr. McWeeney says about the process.

Gallagher hires its producers from three distinct sources, he says. The first is the broker's college student summer training program, in which students take paid internships with Gallagher to learn the broker's business. The second, commonly used among all agencies and brokerages, is to hire producers away from other firms. The third is to hire producers from outside the industry, although Mr. McWeeney says this is the most chancy option.

Each source presents Gallagher with different skills.

"In all cases, when we look to hire a producer, we are looking only for proficiency in those skills we think will make a good producer. We don't look for management skills," says Peter J. Durkalski, a producer who took on the role of unit manager 18 months ago.

"The evolution into a managerial role, if it takes place at all, may not come up for five years," Mr. Durkalski adds. "Initially, we have to hire for the job at hand. Of course, we look for in a producer some of the same skills that would make a good manager. For instance, we look for the professional that can handle the competition of producing business.

"Our producers also have more responsibility than at some other brokerages. We don't have a marketing department, so the producers have to market the risks themselves. They also have to have a well-rounded background."

These backgrounds give Gallagher a surplus of producers with the management techniques needed to move up to a supervisory role, Mr. Durkalski says.

"Unlike some people, we at Gallagher don't feel that the skills of manager and producer are mutually exclusive," Mr. McWeeney says. "Now, you can't just look at the top person on the production list and decide immediately that he or she will make a good manager, but there are plenty of people here that combine the two. In fact, we have more people vying for the jobs than we have openings."

But what about producers who want to remain producers? Are they forced to compete with those producers more inclined towards management roles simply to get ahead?

"That can be a problem," says Mr. McWeeney. "That's why

Principals set goals and sell

Continued from page 24D

achieve.

"Turning in a report each week isn't a goal," he says. "You set goals to do those types of things and before you know it your employees have 346 different tasks to monitor and control. They'll go nuts, and you won't benefit."

Principals also have to consider their employees' goals. If the agency goal matches with the staff's goals for self-improvement, advancement or more money, the agency can just about be assured the employees will be stimulated to achieve them.

"Some goals are logical, but don't motivate employees," Mr. Manaktala says. "If you don't set goals that motivate the staff's sense of greed as well as benefit the firm, you're not going to gain."

All principals should put a "THINK" sign over their desks, he says.

"Most agency principals don't take time to put their feet on the table and just think," Mr. Manaktala says. "Producers got where they are today by doing.

"But now as managers, they have to think," he continues. "In order to fulfill their role as agency manager, they have to spend 20% of their time reviewing the past, present and looking to the future in terms of their agency growth goals."

All too much to worry about? Then Mr. Manaktala offers this simple advice:

"Some people feel that $600 a day is too much to pay for my advice. So I tell them this at no charge to start them off with a simple, but good management system," he says.

"Each year, have each employee write down the three greatest things about the agency, the three worst things, their three greatest personal joys and their three greatest frustrations. Tell them that their names are optional.

"But remember, you will raise expectations about what you are going to do. If you don't plan to follow those notes up with action, don't do it.

"But if you do this little exercise each year and use their comments to set up goals for the agency and for the employees, you will have more well-thought-out goals that you could possible use. You will have started towards setting up a good management system." ■

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Lawson L. Swearingen
CU Chairman & Chief Executive Officer

for sales manager posts

re have set up three different ways a producer can achieve a rst-level promotion. The first is to become a unit manager nd enter a sales management role. The second is to become a nior account executive—that's a created position for the per producer with added perks and benefits attached. The ird is to head or work in a new branch we might establish rside of Chicago."

The choice of career track is left up to the producer and the oducer's manager. Each make their own evaluations.

"I think our producers know their options here at a pretty rly stage," he says. "At the same time, our managers find r very fast who has quick reactions and imagination. We n't have a marketing department, and a producer's work in at department is a clue to his or her managerial skill.

"We also try to let good people emerge," he adds. "You can ll who is self-directed and who wants to work with others d teach. Again, it's not just a function of the production t."

That doesn't mean the firm would promote a person who asn't meeting his or her own production goals, however.

"If you are looking at a person who isn't a success in his or her role as producer then I don't think the name would come up for promotion, no matter what management skills that person might have," Mr. McWeeney says.

"It's pretty hard for a producer to take stock and try to clone success of a person who hasn't already done it well," agrees Mr. Durkalski. "All of our managers haven't necessarily come from the top ten in production, but all have met the personal goals the company has set for them."

In his personal career, Mr. Durkalski says he has been able to create new challenges for himself as a producer, moving first from smaller to jumbo accounts, then working on special programs. Soon, he adds, he would like to work on a captive plan.

"You gain a lot of internal pecking order with that type of advancement, even though the title account executive is still on the card," he adds. "There's always pressure to take the usual managerial route—mom wants you to and dad always hoped you would be a doctor—but we think we have set up a plan so that the super producer can get his challenges and internal dues.

"So why did I decide to try a more managerial role? I don't know, it wasn't a sudden decision," he says. "A year or so ago I just decided it was something I wanted to get into. One thing is for sure, you can make a lot more money with fewer hassles in pure production.

"You're like a nursing mother in management," he continues. "Your time is not your own. But on the other hand, you contribute to decision making and that feels good for me. And my production doesn't stop. I used to have 50 accounts by myself. Now I have to share about 300."

Some days, Mr. Durkalski says, he feels like "a real failure." Others he feels great. Every day, however, has been an eye opener for him.

"During the transition period, I wondered whether I was making the right decision," he says. "But now I'm happy. You do find out, however, that management isn't as simple as it looks from below. You learn there's a big forest beyond the couple of trees in your unit."

It's definitely not the decision for all producers, he concludes.

"It depends on the person. Here, we have had people who were sales managers elsewhere and have come here as just producers. Many of them don't miss it a bit. They're happier than hell just to produce business."

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Automation
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Revolutionary new methods of rating policies where controllable risk factors exist.

Marketing/Advertising
Professional marketing support and creative, personalized advertising aimed at building agency image and selling selected products.

Authority
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Managers add skills to staffs

Continued from page 24B

and what was going to happen if we didn't achieve those goals. Salaries were arbitrary and a comfort threshhold existed that had to be overturned."

The shakeout brought added turnover initially, he admits, but made the organization more efficient. When he took the job, the firm employed 64 people; it now employs 58.

Peter Woodsmall of Woodsmall, Frick & Innis in Kansas City, Mo., went against the trend of hiring outsiders. He hired a regional manager of an insurer to handle his administrative tasks.

"We wanted a person with accounting and computer experience," Mr. Woodsmall says. "The person we hired had neither, but he has made an effort to learn. We have found the insurance background to be very valuable.

"It pays dividends because that guy got the immediate respect of our producers. Sales people can be very suspicious of staff people who come into strong agency positions from the outside. A manager needs respect to establish rules that might not be as digestible as our employees would like."

Ellingson & Jones in Santa Rosa, Calif., is a much smaller firm—only 15 people. It has conquered its problem of separating administration and production by making one of its principals, Kenneth Brenk, general manager.

Because E&J is a small agency, Mr. Brenk also does some of the large-policy marketing, but mostly his duties are very similar to Mr. Elsass'.

He has a production background in personal lines, but has also worked for a retail firm. Now, he leaves the production work to the other two principals.

"Most of the decision-making is in my hands," Mr. Brenk says. "Everyone except the producers report to me. We find the separation of church and state important. We don't want our production staff worrying about anything but selling.

"The results have far exceeded our expectations. We've virtually eliminated turnover in the office, instituted incentive plans and opened the doors of communication. I think we have also taken the mystery out of the review process for our employees, so they know when they can get a raise, how much to expect, and how they can earn it," he adds. ■



W. R. Murphy wants to bring national recognition to agents.

Ads bring business

Century 21 fate fires franchisor

SOUTH HAVEN, Mich.—Tell some agency franchise group principals that they are imitating Century 21 real estate operations and they would get angry.

Not W.R. Murphy, however. He and his Eagle 2000 franchise group would take it as a compliment. Mr. Murphy says he would be satisfied to repeat the success of the national real-estate agency franchisor.

Century 21, he says, brought name recognition to thousands of small real estate firms across the country. Eagle 2000, he believes, can do the same for more than 10,000 independent agencies and bring back business lost in recent years to direct writers.

The Eagle 2000 approach is two-fold: In exchange for a $5,000 up-front franchise fee and a yearly tab of six percent of the agency's commissions, Eagle 2000 will provide primarily an image and advertising program along with sales training and recruiting

Apparel, cut-rate office equipment and a suggested office decor plan round out the current package.

"The first thing the average independent agent needs is to get a national recognition program," Mr. Murphy says. "The second thing the agent needs is to learn how to sell. Insurance knowledge they can get from organizations like the National Association of Professional

A/BT

Insurance Agents or a university, but these people have to learn good sales techniques like the direct writers have mastered."

Like other franchisors, Mr. Murphy says the independent agency system is doomed if it doesn't adapt to marketing pressure.

If no changes are made, he says, firms like Allstate and State Farm will increase their edge in personal lines coverages while attacking the independent's commercial lines mainstays

"There's no way around it. The direct writers do a good job," he says. "I spent a couple of days in a friend's State Farm agency recently. I watched what went on and I talked to my friend when he wasn't busy. Let me tell you, nobody goes in there and buys only one policy. They may come in for only one, but they leave with two. Those people know how to sell.

"Independent agencies can benefit from the lessons the direct writers teach," he adds. "First, the personal lines business can be very profitable and good business. Eagle 2000 wants to bring this into perspective. It's a $40 billion a year business. I think any agency or brokerage that kicks that much business out the door is crazy."

Eagle 2000's target firms—small to medium-sized agencies—can really benefit from personal lines expertise, Mr. Murphy adds. He estimates the average U.S. agency receives $700,000 in premiums per year, 50% in personal lines.

"Many people think that the direct writers beat the independents on personal lines pricing, but that's just not true and we can prove it," he says. "In our area, we compared independent insurers with the direct writers in 37 different categories. In 35 of those categories, we found an insurer who could beat Allstate and State Farm.

"Of the other two, they beat us by $14 on a $500 premium on one. On the other, they beat us $6 on a $1,400 premium. If we can't sell our product with that kind of differential, we aren't very good salesmen."

All the independent agent needs to do is to get potential business in the front door, he says. That's where a national advertising campaign like Century 21 is needed, Mr. Murphy adds. Smaller agents just can't match the name recognition and marketing tie-ins provided by the direct writers.

"Century 21 spent about $23 million last year on advertising," Mr. Murphy says. "State Farm, I think, only spent about $26 million. That shows what the little guy can do if he bands together with other little guys. Advertise a professional image—that you are a agent who can clarify the maze of insurance for the average person. Then you tie that image to a recognizable symbol."

Advertising campaigns like the Joint Agency-Company Marketing program sponsored by the Independent Insurance Agents of America don't fit that last bill, he claims.

"They're spending a lot of money on a national campaign, but they are promoting a symbol that isn't prominent," he says. "The 'Big I' symbol is usually somewhere down on the lower part of the door at most agencies. To my mind, that money is 100% wasted. The only people who listen are the officials of the organization and agents who want to feel good about themselves."

What really scares Mr. Murphy, however, is that if independent agents continue to forfeit market share to the national brokerages and direct writers, the traditional agency insurers will be forced to find other distribution systems. He says he feels the Insurance Company of North America's 1-COMPAR program, in which an agency is tied only to INA products, is a result of this search.

Insurers today are finding that consumers recognize their products but don't know where to go to buy them, he adds.



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"A lot of franchise groups will try to provide a lot of different things to agents," Mr. Murphy says. "But we feel the only thing Eagle 2000 can provide them that they don't already have is national recognition. They can attend insurance classes or hire (consultants like) Don Eve or Gary Holgate. But they can't afford a national advertising campaign by themselves. We'll spend half of the agency's fee (three percent yearly of commissions) on advertising for them."

Mr. Murphy admits that his plan, like that of Century 21, will mean a decrease in agency identity for its members. That is the price they must pay for national recognition, he adds.

"In our little town, the Century 21 office opened up from scratch four years ago. Now it is the largest in town," he says. "Now, the real estate office's actual name is Tala Real Estate. But if you ask where Tala Real Estate is, nobody will know. But I'm sure the guy who owns it doesn't care. He's just smiling from ear to ear."

Mr. Murphy says he plans to start soliciting agencies full-time about July 15. At that time, the office decor plans, logos, advertising campaigns and the like will be ready to go, he adds.

The nation has been split into territories, with the Eagle 2000 group (started by Mr. Murphy and L.W. Seidman with $40,000) managing five and selling the franchise rights in another 16 regions. This is necessary to gain national scope quickly, he adds.

Like the real estate franchisors, Mr. Murphy says he expects his group may be looked down upon as gimmickry by some insurance industry people. He says he doesn't care.

"I know I'll be hated by some CPCU groups," he says. "Sometimes, however, I think our industry gets too wrapped up in its CPCUs and other designations.

"I'd like to be known as a Century 21 imitator," he adds. "People may see Century 21 firms and real estate salesmen as fast talkers with suede shoes, but that's OK. Century 21 has 10% of the real estate market. We'd be pretty happy with that—it would be really fun at the regional meetings.

"Heck, if we are that successful, I could probably even get our agents to wear suede shoes themselves." ■

PIA conducts agency school

WASHINGTON—An agency management school covering topics from agency financial management to mergers and acquisitions will be sponsored August 16 to 21 by the National Association of Professional Insurance Agents.

The school will be held on the island of Kiawah, a resort community off the coast of South Carolina.

Seminar topics and instructors include:

- Agency financial management, taught by Dr. E.J. Leverett of the University of Georgia.
- The common-sense approach to agency automation, by John D. Greiman, president of Brooker, Inc. in Rochelle Park, N.J.
- Mergers and acquisitions, by David Bakst of Morrison, Mahoney & Miller in Boston.
- Putting a lot of life into your agency, led by Dave Goodwin of Dave Goodwin & Associates of Surfside, Fla.
- What's in store in '84, by R. Cleve Folger Jr. of Cleve Folger & Associates in Fayetteville, Va.

Additional information can be obtained by writing the PIA education department at 400 North Washington St., Alexandria, Va. 22314. The phone number is 703-836-9340. ■



Harold Eberle of the IIAA is lobbying for the Senate bank holding bill.

Agents revive bank bill in Senate

By JERRY GEISEL

WASHINGTON—Insurance agents are renewing their 10-year battle to convince Congress to get banks out of insurance sales.

Last year, legislation (H.R. 2255) that would have severely restricted bank holding companies' insurance activities cleared the House of Representatives by a whopping margin, but died on the Senate floor—the traditional graveyard for the legislation.

Because of repeated defeats in the Senate, insurance agent trade groups are now concentating their lobbying efforts on that branch, says Harold Eberle, director of government affairs for the Independent Insurance Agents of America.

Mr. Eberle says support from 70 senators has been lined up for this year's bank holding bill (S. 207), introduced by Sen. George Mitchell, D-Maine. Other experts believe this estimate of support is high.

A Senate Banking Committee hearing this month on the bank holding legislation provided few clues on Senate sentiment on the legislation.

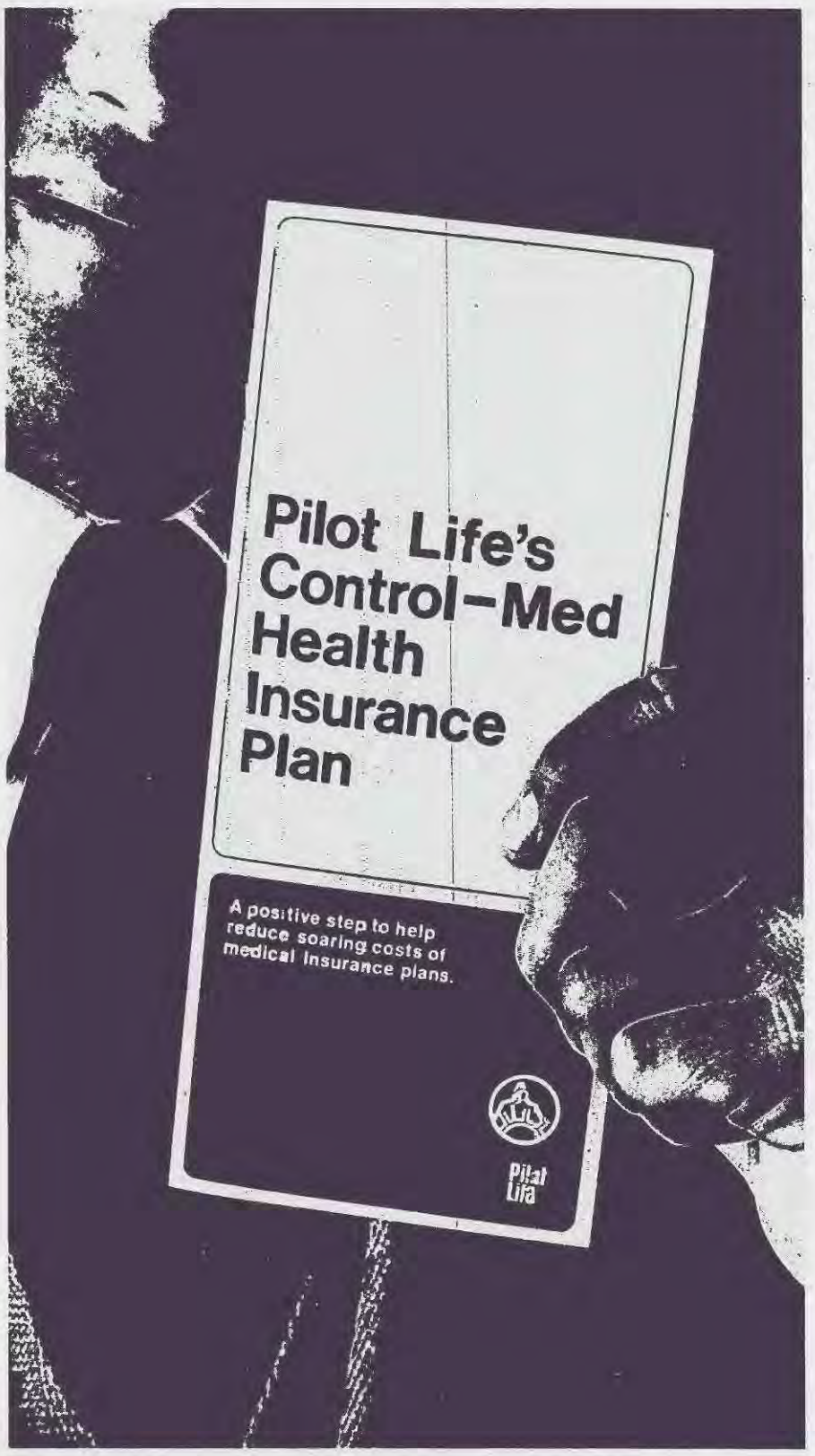
Only one senator—committee chairman Jake Garn, R-Utah—showed up at the hearing. Sen. Garn limited his role at the May 6 meeting to developing a record of views for and against the legislation.

However, the fact that only Sen. Garn attended the hearing does not indicate low Senate interest in the bank holding legislation, a spokeswoman for the National Assn. of Casualty and Surety Agents said. Attention was diverted from the legislation by President Reagan's budget cutting proposals .

Agent groups say Congress would have passed a bank holding bill last year except for two quirks. The November elections cut short the regular congressional session and, with the election of Ronald Reagan, Senate Republicans refused to consider controversial legislation during the post-election lame duck session.

The current legislation bans most large bank holding companies from selling property/casualty insurance. It would not affect bank holding companies with assets of $50 milllion or less or larger firms that began selling insurance before June 12, 1980.

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Broker uses insight to stabilize rates

WHITE PLAINS, N.Y.—Although the intricacies of a particular risk and its communication to underwriters are the stock of an agent's or broker's trade, too many agents just don't succeed.

John F. Keane, Jr. doesn't want to fall into that trap. As the young president of Capitol Risk Concepts Ltd. here, he and 22 other employees are basing a brokerage on technical knowledge of certain insurance lines and a willingness to use that knowledge to reassure client and underwriter alike that each is getting a fair deal.

This philosophy has led to business in the popular high technology and EDP risks and in such specialized areas as importing Argentinian beef and shrimp from India.

"We're about five years old now," says Mr. Keane. "One of the reasons we got together was to provide service to a size of account that wasn't getting it—the size right below where it would have to employ a risk manager. We felt we could combine the engineering and financial backgrounds of many of our staff with insurance knowledge to serve the quarter-million-dollar accounts." Most employees hold an engineering or financial degree or both.

"To play a broker's role well, you have to be able to perceive the physical risk and the financial aspects, then translate them to insurance," Mr. Keane continues. "In many cases, we have gotten accounts where the sole problem was that the other guys couldn't convey

A/B/T local leader

the risk to their underwriters.

"There's nothing unusual about what we do in that manner. We just want to do it well."

CRC takes on only risks it feels it has a background in, Mr. Keane says. The average account brings in about $70,000 in premium. Personal lines coverages are almost nonexistent. In the beginning, about 65% of its business came from ocean marine coverages. It has dropped to 35% today with growth in other programs.

In addition to the White Plains plant, CRC operates offices in Manhattan, Boston and Nashua, N.H. However, all policy marketing is done in the White Plains office.

CRC has developed a special program to serve high-technology risks.

"Some people comment that anyone can handle high-tech industry risks," says Mr. Keane. "But that's just not true. It's good clean business that provides us with few losses, but it takes a lot of expertise to do it well nonetheless."

The low losses (ratios of from between five percent and 26% with the three insurers CRC uses) allow the broker to bargain with insurers to give the buyer a good deal while still preserving the insurer's margin of profit.

"People should remember that these risks take up a wide spectrum of businesses," Mr. Keane says. "Many are relatively loss-free, but when you get into, say, instrumentation that is used in tests in factories and hospitals things change. In these areas, there is a wide range of pricing among different underwriters."

"These types of products can be used in different ways," agrees treasurer Eric Freeman. "In many cases, the manufacturer just warrants that the product will work. But the exposures still can't always be seen on the back end, because they may be used in so many different ways."

This is where CRC's technical background comes into play, says Mr. Keane. Once they have fully understood the risk using that background, it becomes easier to set a rate themselves and fight for it from underwriters. First, however, they must make sure that underwriters see CRC as full-fledged experts.

"When you come in with a price that is lower than a client has seen before, perhaps only because you do a better job of understanding and communicating the risk to the underwriter, you have a credibility problem. People ask you how you can be that low," says Mr. Keane. "But we know what we're talking about. We go out and make the necessary inspections. We know what the rate should be. We just ask the client why they paid the higher price before.

"We don't necessarily want to look at the present policy and see if we can beat the price. We want to ask the client to tell us what his products are, then tell him what the price should be. Then we should go out and get it."

"There was a real credibility gap for us when we started," says Mr. Freeman. "Brokers would call our insurers and say that they were crazy to write risks at the pricing we wanted. They would call the local underwriters and tell them they got swindled. It was crazy back then."

Maintaining relationships with underwriters is still not the easiest task the firm faces today. Changing personnel in underwriting slots makes getting and keeping markets strong a challenge.

"There have been times when I've gone crazy over it," says Mr. Freeman. "I'd walk into an insurer with information on a risk in hand and they'd say they didn't even want to talk to me. It was hard. The company we do a lot with today on EDP risks wouldn't talk to us at first. It took me a year and a half to find a guy to do it for me."

The best CRC can do is follow their three-point plan and hope for the best, says Mr. Keane.

"First, we try to eliminate the fire-sale approach to insurance," he says. "Then, we choose three insurers we want to work with. Then we go to one of them and give them the opportunity to write the business our way.

"You establish rapport by going to the underwriter and giving that person all the information needed to understand that particular risk. Then you give the underwriter a fair opportunity to tell you if he or she wants to write the policy. If the underwriter does, then you're in business."

"We don't go from company to company with an auction sale," says Mr. Freeman. "If one company will write the policy at our price, they've got the business. We don't go back and forth on price battles. We tell clients that we think we can get a certain rate. We

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Technical backgrounds have spelled success for CRC managers John F. Keane, Richard L. Kohlhausen, Eric Freeman and Peter T. Sutherland.

then ask them if they want us to proceed. If not, we then tell them to call us when they want us to."

Mr. Keane says he aims to be fair to both sides when pricing a risk. The temptation might be to tip the scales in one direction or another, but Mr. Keane says that would catch up with him soon.

"We're proud that we do a good job for our clients while still keeping our loss ratio low enough so that companies listen to what we have to say," he says. "You just have to educate the client on how this all works. Most clients want stability. So what we quote is that rate that we feel is the right rate—one that will go up or down only slightly based on the market conditions."

CRC will continue to have a centralized operation and rely on a limited number of specialties for the next few years, Mr. Keane says.

"We're looking for clean, low-claims frequency business that can be engineered," he says. "We've only scratched the surface of the high-tech business. We are into chemical risks in a highly segmented way. Then there's our ocean marine and food programs. We would rather have stable business that we don't have to go the fire sale approach with.

"We don't play golf and we don't take people to lunch," he adds. "We'd rather get business that comes through more business-like means because we feel we can keep that kind of business longer that way. If we can take someone to lunch, why can't our competitors?" ■

PIANJ holds annual confab

McAFFEE, N.J.—"Professionals In Action: Agent Power" is the theme of the 1981 convention of the Professional Insurance Agents of New Jersey June 14-16 at the Playboy Resort & Country Club here.

U.S. Navy Captain Gerald L. Coffee will be the convention keynote speaker, and motivation expert Dick Milham will head a presentation on business and personal stress.

The PIA-New Jersey convention program also includes a business show of products and services, education seminars and workshops, the association's annual business meeting and conferment of Society of Certified Insurance Counselors degrees.

The education program includes sessions on deregulation, money management and efficient agency development.

Information on the convention is available from the PIANJ at 518-434-3111. ■



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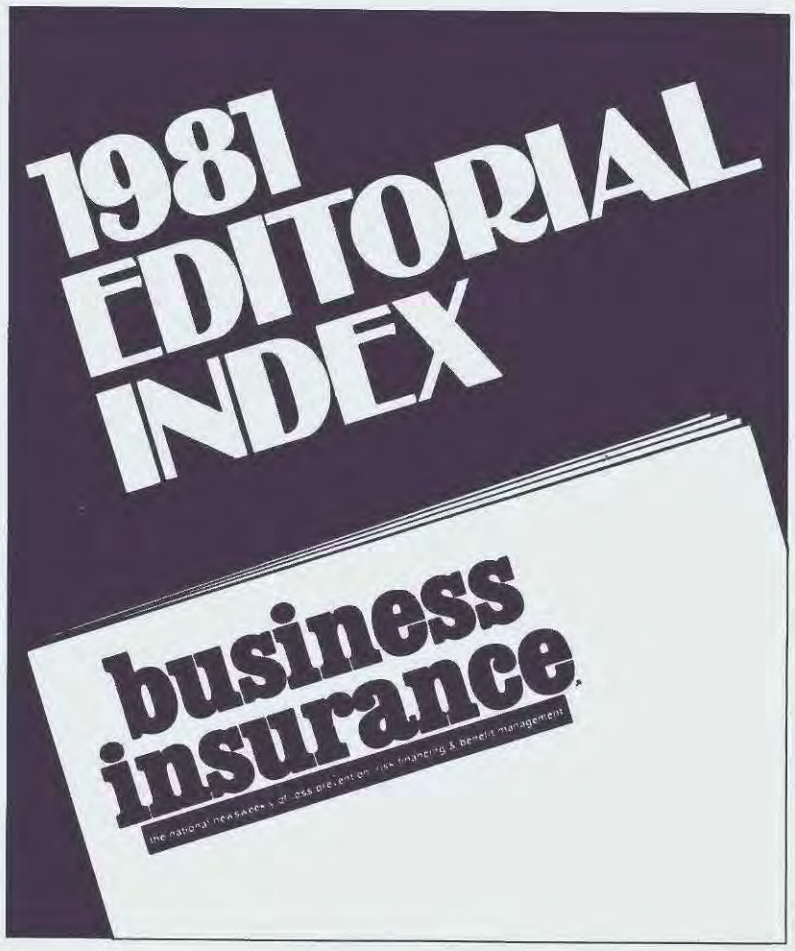
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Exchange alters plans

N.Y. agent turns to reinsurance risks

LYNBROOK, N.Y.—The David C. White Agency here joined the New York Insurance Exchange to place domestic surplus lines risks, but wound up in reinsurance.

As of early spring, agency president Walter S. Groden said he "hadn't done a dime of direct domestic business with the exchange." Instead, Mr. Groden had produced more than $750,000 in annualized reinsurance premium for the new market—almost all of it from London.

Mr. Groden, who had no reinsurance brokering background prior to joining the exchange, ventured into reinsurance after it became apparent that New York state laws creating the exchange prevented it from writing direct domestic business.

The exchange has become a new profit center for the agency which, like other excess and surplus lines brokers, is seeing premiums in traditional areas shrink due to competitive markets.

"It's one place where we've got to go up," Mr. Groden says.

Mr. Groden had placed $7 million in reinsurance premium in markets other than the exchange. Many markets he uses are parents of exchange syndicates that accept his security because it is accepted by the exchange, he says.

However, before he bound his first risk on the exchange, Mr. Groden spent weeks getting to know the new market underwriters and letting them find out about him.

> When Walter Groden joined the NYIE, he never knew he would end up with a base in reinsurance

"I've been developing contacts with every person who binds insurance on the exchange. I'm learning what their philosophy is and they're learning what mine is," he says.

"If you don't know something, say so and do a lot of listening," Mr. Groden maintains.

"I can't tell you how much I've learned about reinsurance during the past few months. If you start at Booth A and get answers to questions, by the time you get to Booth E they think you're an expert.

"The difference between being a managing general agent and being a reinsurance broker is I no longer have the pen. The job of the reinsurance broker is to bring the proposal to the underwriter to give him as much background as possible, to let him see, feel, touch, smell and get the flavor of the business.

"It's the decision of the underwriter whether he thinks he's going to make money."

Mr. Groden says he has started a "reverse flow" of business to the New York Insurance Exchange. The exchange, through which promoters would stem the flow of premium to London, is receiving premium from London due to his efforts.

"I've been in the excess and surplus lines business for 15 years, exporting business to London and the other states. Now, I'm demanding business from these markets. I tell them 'I want you to try me,'" he says.

The risks Mr. Groden picks up from London come from around the world, including the United States. A surplus lines broker from Illinois placed an umbrella liability policy with a London "fringe market" company that Mr. Groden reinsures "95% right here in this room (the exchange)."

Mr. Groden often finds exchange underwriters know as much about the business he is placing as he does.

"They can tell me about the London brokers I'm dealing with. Martin Jackson (of AIG Multi Line Syndicate) probably knows every underwriter in London personally.

"There's a lot of talent in this room. If they can't do it, they can call in their parent."

Risks now flowing to London from the U.S. and Canada will begin finding their way to the New York Insurance Exchange when London market capacity for North American casualty risks dries up, Mr. Groden predicts.

Some U.S. producers are already shunned in the London market because they have not been "tribunalized" or approved by the Committee of Lloyd's, he contends.

"When brokers learn they can't go to London, they'll come here."

Mr. Groden thinks U.S. and Canadian brokers will be better served by the exchange.

"I got frustrated with going over there (to London). I'd rather deal with Americans. It's here in New York and the pace is faster here.

"We have more expertise, skill and knowledge to cover casualty risks than London has, especially on North American risks. We're so used to suing each other and trending for casualty that we're naturals to write casualty business worldwide."

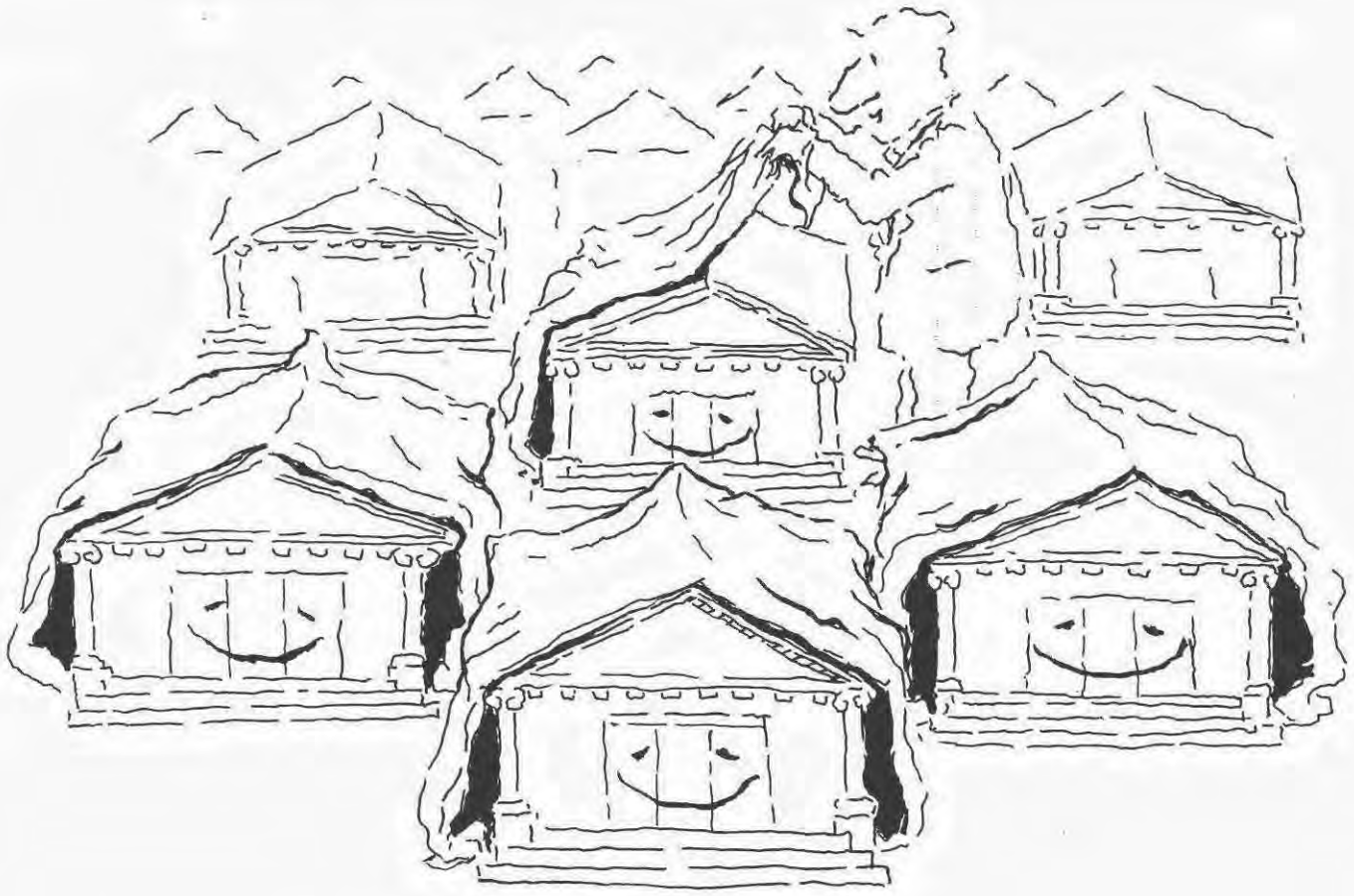
Mr. Groden says he still intends to produce direct business for the New York Insurance Exchange. Legislation to permit the exchange to write surplus lines risks in the 49 other states could give him the opportunity. But, even with that opportunity, he says, "I won't turn down reinsurance." ■

Nixon, Reamy gain PIAV offices

WILLIAMSBURG, Va.—Samuel H. Nixon Jr. was elected president of the Professional Insurance Agents Assoc. of Virginia and the District of Columbia at its annual convention here.

Elsie Reamy was re-named executive vp of the association.

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Budget cuts delay Iowa risk funding

Continued from page 3

"Right now the chances aren't too good (for this year) because of the monetary and budgetary problems they're facing," Mr. Hoeman said. "Just because of the budgetary problems, no one wanted to recommend a program with a $7 million fund, which I understand."

This fund would receive annual appropriations of $7 million until it reached $20 million.

But even if money were no problem, Mr. Hoeman's recommendations might still be delayed. His suggestion that responsibility for all loss exposure claims be handled his division bothers some.

When the department was first created, it was charged with the administration and settlement of all property and liability claims, but not workers comp claims.

The state self-insures its workers compensation risks and the state comptroller's office administers all claims. The Legislature also has before it a proposal to create a new Department of Personnel, which would include a benefits unit to administer all employee benefits and workers comp benefits.

But Mr. Hoeman wants his department to investigate, settle and administer all workers compensation claims. He says the state should treat workers compensation as a liability exposure, not an employee benefit.

The administration and settlement of such claims can lead to an "adversary relationship" between the state and a claimant, he points out. "There sometimes is a tendency to make over-generous claim payments in an effort to negate" this situation, he adds.

"While most claims could probably be handled smoothly, this adversary relationship should be kept out of the Personnel Department," Mr. Hoeman states in his report.

To move the responsibility to his department would require legislative action and some are opposed to such a move. "There already has been some expression that they're doing a good job where it is now (the comptroller's office), and there's no reason to move it to a separate department," Mr. Hoeman says.

Mr. Hoeman, however, has not had any problem selling the state on the self-insurance concept since Iowa already self-insures a large portion of its risks. His biggest concern, instead, is to convince the state to purchase high levels of excess insurance to cover the really big loss to which it is vulnerable.

Mr. Hoeman says that if the state's economy improves this year, the Legislature probably will look more favorably on the self-insurance fund when his recommendations are addressed in 1982.

He admits that Iowa's budgetary problems and their effects have been "frustrating," but at the same time says he enjoys the challenge of starting a new program from the bottom up.

The scope of his department is limited by law, but Mr. Hoeman has had some success in consolidating insurance coverages to save money.

Until July 1980, the state had six different auto liability policies on its vehicles. Last year, Mr. Hoeman combined two Department of Transportation policies with $500,000 limits written by Hawkeye Security Insurance Co. and Farm Vehicle Co. of Des Moines into a retro plan written by Employers Mutual of Des Moines with a $1 million limit and saved the state $150,000 the first nine months of this year.

The underwriter of the auto liability insurance is to come Wednesday morning.

The state also has four additional auto liability policies for its board of regents, but Mr. Hoeman said the board has indicated it will join the new plan.

"For the first time, we'll have all the state's vehicles under one policy," he said.

Mr. Hoeman started his insurance career in 1970 as an underwriter for the Aid Insurance Co. In 1973, he moved to the Preferred Risk Insurance Co. as an underwriter and supervisor. Mr. Hoeman, a graduate of Iowa State University, has CPCU and ARM designations. ■

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Parliamentary committee favors Lloyd's divestment

Continued from page 2

Among those supporting divestment of brokers from their underwriting agencies was Ian Posgate, the largest Lloyd's underwriter. The syndicates under Mr. Posgate, who helped finance the petitioners, are managed by Alexander Howden Underwriting Ltd.

"Divestment, unless arranged by Parliament, will never appear," Mr. Posgate warned.

Those supporting divestment outlined reasons for the the action:

- Large brokers dominate the Lloyd's underwriting industry, with 10 of the 11 Lloyd's committee members affiliated somehow with a broking group. This causes conflict of interests that could affect the policyholders.
- Managing agents owned by brokers collect 60% of the premium income at Lloyd's.

Divestment is the only issue delaying the committee's approval of the bill. The committee rejected petitioners' arguments a clause that would make Lloyd's partially immune from liability.

But some intend to keep the immunity clause issue alive. "I'm moving on to remove Clause 11 from the parliamentary bill," said Malcolm Pearson of brokers Pearson Webb Springbett (London) Ltd. The clause puts Lloyd's above the law and could weaken it by giving it immunity to stand behind, he said.

"It's better a right bill delayed than a wrong bill rushed," said Mr. Pearson, who also helped finance the petitioners.

The controversy over divestment, which had died down, is buzzing again with the House of Commons committee action.

Lloyd's should be able to discuss and decide its own destination, said Ronald Taylor, the chairman of Willis Faber & Dumas Ltd. He will "give the matter a great deal of study," he said.

Chairman Green is said to be disappointed with the ruling. He is chairman of the underwriting agency Jansen Green Ltd., a subsidiary of brokers Hogg Robinson Ltd., and sits as a director of the broking group.

"It's most unfortunate if it happens," said Alec Shaw, director of Reed Stenhouse & Partners Ltd. Stenhouse Holdings Ltd. just expanded its syndicate management business by purchasing the managing agencies of the troubled Christopher Moran Group for 3.1 million pounds. But Mr. Shaw doesn't expect any financial losses from divestment.

"If it does happen, we're not worried about our investment," he said. "We'll get our money back and we'll get a good price for it."

Mr. Shaw said merchant banks or anyone with enough money could buy the agencies, including underwriters like Mr. Posgate.

He said he lamented the public perception that there is a constant conflict of interest for a broker to own underwriting agencies.

The underwriting agencies under Stenhouse act independently, he said. They represent 5% of Stenhouse business at the moment.

"I think Lloyd's has done itself a fearful amount of harm bickering about issues in the Fisher Report," said Tony Benson, group risk manager of Arthur Guinness Son & Co. Ltd. and chairman of the Assn. of Insurance & Risk Managers in Industry & Commerce.

"If you take the control out of the hands of the big brokers, what hands do you put them in?" he asked.

Lloyd's has been working successfully on a delicate balance between broker and underwriter, he said. But a bank who buys an agency doesn't have to work in the spirit of the Lloyd's community, he said.

"They won't have a feel for the market," Mr. Benson said. "I think it's sad."

Woman receives $566,500 from mobile home firms

Continued from page 1

for the use of their products.

An attorney for Fleetwood Enterprises Inc. in Riverside, Calif., declined to discuss the case except to say an appeal is likely. A final decision will be reached by an insurance company and corporate executive, he added.

"This is the largest recovery to date in a urea-formaldehyde case," said Marc Kurzman of Kurzman, Shapiro & Manahan, the Minneapolis firm coordinating plaintiffs' litigation nationwide.

Some 400 formaldehyde cases are probably pending around the country, but only about four have gone to trial, Mr. Kurzman estimated. Besides the Tiderman case, juries in Alaska and Wisconsin have awarded damages of about $50,000 each.

In Minnesota, a mobile home manufacturer was acquitted of negligence charges, but paid $66,000 to the plaintiff rather than have the decision appealed, Mr. Kurzman said.

Cases not yet tried

"Most of the heavy injury cases have not gone to trial yet," he said. Lawsuits in Texas and Arizona seek damages in the millions of dollars. Plaintiffs also have settled out of court for amounts averaging $35,000 to $100,000, he said.

The Weyerhaeuser Co., manufacturer of wall paneling, particle board and many other wood products, is defending formaldehyde suits in seven states, said Peter Sipkins, an attorney handling litigation for the company in the Minneapolis area.

He does not believe the Tiderman case sets a significant precedent for formaldehyde suits. "It's a case of a runaway jury in which the amount of the award bears no resemblance to the injury claimed," he said.

Although the mobile home industry and its suppliers have been the primary target of formaldehyde suits, some actions name conventional builders who have used wood paneling, particle board or insulation materials inside homes.

Urea-formaldehyde is an adhesive resin used in hundreds of consumer products including wood paneling, particle board, draperies, carpeting and upholstery. In a tightly closed environment, the off-gassing of formaldehyde is believed to cause respiratory distress in some people.

Medical evidence supporting a link between formaldehyde and respiratory ailments is controversial, however. During the Tiderman trial, conflicting medical testimony was presented.

A University of Oregon medical expert testified that formaldehyde could not be a cause of chronic asthma—although it might trigger an attack, said Gerard A. Johnson, attorney for Willamette Industries Inc.

Ms. Tiderman's first attack did not occur in her mobile home, but 85 or 90 miles away, according to evidence developed during the trial, Mr. Johnson added.

But the jury apparently believed medical experts who argued that there is a causal relationship between respiratory illness and formaldehyde products. The manufacturer and dealer should have warned the plaintiff and other prospective purchasers of the known hazards of formaldehyde emissions, the jury ruled.

The defendants were found liable to the plaintiff under theories of negligence, breach of warranties, breach of contract and strict liability.

"I think this decision will bring to light a problem that mobile home manufacturers have ignored —that there is a health problem here—that serious illnesses may be caused by exposure to formaldehyde," noted S. Brooke Taylor, attorney for Ms. Tiderman.

"We're really talking economics here," he said. "How much more does it cost to make a safe Pinto gas tank? How much more expensive is it to take particle board, treat it differently and keep formaldehyde off-gassing to safe levels?"

Formaldehyde, which is used like glue in particle board, starts to decompose in humidity and high temperatures, Mr. Taylor explained. If the product is aired out for a few days or weeks before installation in a closed area, the problem is minimized.

"Judging from the response generated from the legal community, we appear to be plowing some new ground with this case," Mr. Taylor said. He has been asked to join the litigation group headed by Kurzman, Shapiro & Manahan in Minneapolis.

"We are in contact with more than 150 attorneys representing every state in the country," Mr. Kurzman said. Many attorneys are using a model complaint developed by Mr. Kurzman that names the mobile home manufacturer, dealer and component manufacturers.

At the outset of the Tiderman case, the four defendants agreed to withhold their cross-claims against each other until the jury rendered its verdict, says John DeVleming, representing Van Plywood Inc., a North Carolina company.

In a written hold-harmless agreement, Fleetwood Homes agreed to indemnity its local dealer, Olympic Auto and Trailer. But Fleetwood may still sue its component manufacturers for contribution to the damage award.

That would be difficult, Mr. DeVleming said, because the jury clearly distinguished between the primary defendants who had a duty to warn their consumers and suppliers who could not have known their product would be used in a tightly concealed environment.

Deadline for appeal

The defendants' motion for a reducton in verdict has been denied. They must file for an appeal within the next three weeks.

Van Plywood is insured for legal expenses only by the Travelers Insurance Co. Willamette Industries Inc. has product liability insurance exceeding $1 million provided by Safeco Insurance Co. Olympic Auto and Trailer Sales is insured by Mutual of Enumclaw Insurance Co. ■

Judge upholds DES manufacturers

Continued from page 3

adenosis, a non-cancerous vaginal condition, because her mother ingested DES sometime before her birth in 1953.

DES was prescribed during the 1940s through 1960s for pregnant women to reduce the risk of miscarriage. It was removed from the market in 1971 by the Food and Drug Administration because of a link to vaginal cancer in the daughters of women who ingested the drug.

Ms. Ryan was unable to identify which company manufactured the drug her mother took. Drug store records were destroyed years ago and no one at the pharmacy knew which manufacturer made the drug Ms. Ryan's mother purchased.

The failure to identify the manufacturer undermined Ms. Ryan's case. "While the culpable manufacturer may be before the court as a defendant, it is just as likely that it is not," Judge Chapman said.

"The plaintiff is therefore unable to meet the threshold burden of maintaining this action—i.e., identifying the manufacturer of the drug taken and thereby establishing causation in fact."

In attempting to circumvent the traditional requirement of identifying the specific manufacturer, Ms. Ryan said all manufacturers should be held liable because they "conspired" in the production of DES, Judge Chapman said.

"The collective efforts of all defendants resulted in a conspiracy to defraud and deceive by virtue of their active agreement to fradulently and deceptively misrepresent the alleged benefits of (DES)," the plaintiff's complaint said.

But Judge Chapman said there never was any cooperation among DES manufacturers in patenting and licensing the drug.

"Plaintiff has shown no meetings, no conferences, no telephone calls, no joint filings, no cooperation, no consolidation, no licensing —nothing that any two companies did together," Judge Chapman said. "No evidence supports plaintiff's allegations of ... concerted, conspiratorial action."

Judge Chapman also had tough words for the California Supreme Court ruling that when the specific manufacturer cannot be identified, liability will be divided among manufacturers based on each company's market share.

This "remarkable new burden-shifting theory" represents a rejection of 100 years of tort law that requires a "matching" of defendant's conduct and the plaintiff's injury before liability is established, Judge Chapman said.

The attorneys representing Ms. Ryan could not be reached for comment. ■

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turn to page 30

Tanning parlor safety peels away claims

Continued from page 3
their salon, as opposed to a slightly higher premium if the operator used a mix of both UVA and UVB lamps.

The difference in the two lamps is that the UVA bulb is not as intense as the UVB bulb, which gives off one hour of sunlight in one minute.

Tanning salon operators who use the weaker bulb are charged a rate of $2.50 per $100 of gross receipts, while those using the UVB bulbs pay $5 per $100 of gross receipts, said Maggie Moore of Bowes & Co., the Texas-based underwriter for Western World.

Both policies have a $100,000 limit. The deductible is $250 for operators using the weaker bulb and $500 for those with the more intense bulb, she said.

The insured salon operator could also opt to go with a mixed bulb, she said, which is underwritten at $2.75 per $100 through Bowes & Co.

The majority of parlors underwritten by Western World are in the South, Mr. Ziffer said. The company has a sprinkling of policies on the West and East coasts.

It will be three to four months before Western World will be able to tell if losses have stabilized or increased from 1980, he said.

One case that is still pending, according to Ms. Moore, is from a woman that went to a tanning parlor shortly after she delivered a baby.

The woman filed a claim against the insurer, charging that the lamps caused her to cease lactating.

The Food and Drug Administration says that it has received 40 formal complaints about tanning salons from its state offices. Twenty-one of those involved severe skin burns, 30 involved eye burns, five involved allergic reactions and two customers complained after suffering cuts when they fainted and fell into the tanning bulbs. (Several people complained of more than one injury.)

But Dr. Alan Anderson of the FDA's bureau of radiological health said that those cases represent only those that customers chose to report to the FDA, which is charged with the regulation of sunlamps and, more recently, tanning booths.

The FDA requires that a warning label be posted in a visible place on every tanning booth to warn the customer that overexposure can cause injuries and increase the risk of skin cancer and premature aging as publicized research has suggested. The FDA also requires that each booth be equipped with protective eye goggles, a requirement insurers also impose.

Surplus lines broker George F. Brown & Sons in Chicago doesn't have a special program for tanning salons, but places the coverage with general or professional liability insurance markets for retail broker clients trying to insure the parlors.

The coverage is generally provided under the traditional owner, landlord, or tenant contract, Ken Piller, assistant vp at Brown & Sons, said.

The surge in the market for coverage topped out last summer, Mr. Piller said, who added that it has been some time since he has seen new submissions for coverage.

However, Illinois Surplus Lines Underwriting Agency in Evanston, Ill., is still writing a good deal of policies, mostly from the West Coast, underwriter Linda Krueger said.

"I assume the people in that area feel they have a certan level of pigmentation which they must maintain in order to appear they are from the West Coast," she said. "In some places, they pipe in music so that the individuals can dance while they tan."

Illinois Surplus Lines offers a general liability policy with an incidental professional liability endorsement priced at a minimum premium of $600 at a rate of $2 per $100 of gross receipts. That policy has a single maximum limit of $100,000 and a $250 deductible.

Ms. Krueger says the second way the company can write the coverage is as pure professional liability with a $500 deductible for limits of $100,000 per occurrence to $300,000 aggregate, with a minimum premium of $550 to $600 at a $2 rate per $100 gross receipts. The type of bulb used in the tanning booth does not figure into the premium, she said.

Both forms of coverage do insist that goggles are provided to each customer, she said.

One thing is painfully clear about coverage for tanning parlors: the market is slipping.

Four major franchise operations on the West Coast that each had at least 150 tanning centers nationwide in 1979 are no longer in business. Some of the lesser-known tanning salons have incorporated another service with their once-bustling tanning business.

Northbrook Insurance Co. in Illinois says that many operators it had insured have gone out of business. "We wrote a lot of them, but it was a fad," said Edward Potteiger, managing general agent for the insurer.

"We had a lot of cancellations because the business was coming and going," he said. "We still write them (policies), but not without the money upfront," he said. ■

Cap urged for pensions

Continued from page 3
anyone, it's obvious that the system has been underfunded," Mr. Lathrop says.

"It is very unusual to get an uncapped COLA such as we have in Pasadena," Ms. Munger says. "It gives our firemen and police higher pension benefits than any other city we are aware of except Los Angeles."

Retirees and older active workers will continue to receive virtually all of the unlimited cost-of-living benefits they have accrued if the plan passes. Even younger workers probably will receive more benefits than new employees enrolled in the basic Public Employee Retirement System, she says.

Last year Los Angeles voters passed a proposal to limit cost-of-living increases for new employees at 3% per year. The drastic action was necessary, city officials said, to reduce the rapidly mounting debt Los Angeles owes its police-fire pension system.

Existing personnel continue to receive benefits under the old plan which links cost-of-living hikes to the Consumer Price Index in the Los Angeles area. ■

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27.		JUL 6	Jun 24
28.	PENSIONS & RETIREMENT PROGRAMS	JUL 13	Jun 30
29.		JUL 20	Jul 8
30.		JUL 27	Jul 15
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Supreme Court upholds retaliatory taxes

Continued from page 2

fornia, which imposes a 2.3% premium tax.

Between 1955 and 1971, Western & Southern paid $977,854 in retaliatory taxes in California because of the higher tax rate in Ohio.

Western & Southern paid the taxes but asked for refunds from the California State Board of Equalization. After being turned down, Western & Southern filed suit to recover the money.

A California Superior Court ordered a full refund of the retaliatory taxes paid, plus interest and costs. The California Court of Appeals, however, overturned that decision, forcing the insurer to appeal to the U.S. Supreme Court.

In upholding the appeals court, Justice William Brennan noted that California had a legitimate reason in imposing retaliatory taxes: to promote its domestic insurers by pressuring other states to keep their taxes low.

"It is clear that the purpose (of the California tax) is not to generate revenue at the expense of out-of-state insurers, but to apply pressure on other states to maintain low taxes on California insurers," Justice Brennan said.

The court cited a California Department of Finance study that revealed how retaliatory taxes have kept the lid on premium taxes.

"The home-owned companies in all but a half-dozen states are able to say 'Don't raise our taxes. If you do, we will have to pay more in other states.' The effectiveness of this barrier is demonstrated by the fact that ... only nine states have increased their insurance tax rates in the last 12 years," it said.

Currently, about 46 states have the power to impose retaliatory taxes. ■

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comings & goings: buyers

Transamerica names new risk manager

Judith M. Tornese, 38, has been appointed director of risk management of Transamerica Corp. in San Francisco. She was formerly insurance manager. Ms. Tornese joined Transamerica in 1971 as assistant to the director of risk management and also served as risk management analyst and assistant risk manager. She is also a vice president of the Northern California chapter of the Risk and Insurance Management Society and is the chapter's representative to the national organization.

* * *

Robert H. Libby has been named vp of administration and employee benefits at Shand, Morahan & Co. Inc. in Chicago. Mr. Libby joined the company in 1975 as an underwriter in the architects and engineers professional liability department. He became manager in 1978 and later that year assumed administrative responsibilities for all the company's underwriting departments.

* * *

Isaac Manjoe, 32, has been appointed national manager of cargo insurance and claims for Barber Steamship Lines. In addition to claims and vessel and cargo insurance, Mr. Manjoe's responsibilities have been expanded to include workers compensation and office liability insurance for the entire Barber Steamship operation throughout the United States. Mr. Manjoe began his maritime career with Barber in 1972 as a claims adjuster. He was promoted to assistant claims adjuster in 1975 and to insurance and cargo claims manager in 1977. Mr. Barber has earned degrees from both the College of Insurance and the New York Business School.

•

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Stephen Tarnoff, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5482.

70% of workers get benefits from employers

More than 70% of workers are covered by employer-sponsored benefit plans, according to a Labor Department study.

The study, which randomly surveyed 2,400 companies, found that 97% of the firms offered health insurance to employees, 74% life insurance, 36% long-term disability benefits and 21% short-term disability benefits.

Nearly 40% of employee health insurance plans maintained by small companies were started after 1974. On the other hand, some 98% of the plans provided by large employers had been started before 1974.

Copies of "Employee Welfare Benefit Plans and Plan Sponsors in the Private Non-farm Sector in the U.S. in 1978-79," are available from the National Technical Information Service, 5285 Port Royal Road, Springfield, Va. 22161. Specify No. PB81-180333.

The cost is $17 a copy. The study also is available on microfiche for $3.50 a copy. ■

Aetna's rate edict stalls in field

Continued from page 1

But, he added, Aetna has increased dividends paid to workers compensation policyholders, hoping to improve its competitive posture in the rigidly regulated Texas workers compensation market.

The insurer, however, denies charges that its announced pricing policy was insincere. "Everything is proceeding on schedule," explained a spokesman in Hartford. "Our regional offices have been meeting with agents and brokers to explain our new policies and explain increases where they are occurring."

Aetna notes it already has filed and received rate increases in many states for personal and commercial insurance.

"Of course, many of our increases have been in personal lines of insurance," said the spokesman, "but we have asked for commercial rate increases in several lines."

In commercial auto insurance, for example, Aetna has asked state regulators for dramatic increases in several states. In Michigan, Aetna received a 30% rate increase effective June 5. In Pennsylvania, Aetna asked for a a 24.9% increase and received a 24.5% hike.

In West Virginia and Tennessee, proposed rate increases were denied. Aetna had sought a commercial auto rate change of 28.2%.

"Basically, rate increase filings are being made constantly in all lines," said the spokesman, "except for commercial property insurance. For property coverage, we are sticking to Insurance Services Office rates."

ISO rates, where state regulators allow, have been abandoned by the most competitive insurers. Premiums of 20% less than what ISO rates would produce were common during the hottest competition of the last two years.

Though rate increases aren't being felt yet, brokers report tougher underwriting standards. Aetna seems less willing to negotiate additional premium cuts after a first quote.

"For any piece of business in which it was liberal in the past, Aetna is being more conservative," explained Bob Westley, principal of Westley Insurance Agency Inc. in Palo Alto, Calif. "It's holding last year's prices but making it more difficult to get the bottom-line price."

The Westley agency has made money for Aetna, usually a good negotiating tool. The agency wrote $500,000 in premium for the insurer with losses of $100,000. But the edge is gone.

Another West Coast broker reported that a disciplined underwriting approach. One major client received an Aetna bid for coverage that was $10,000 higher than the nearest competitior. Though Aetna was told it was high, it refused to negotiate further.

"They decided to bite the bullet, stay by the quote and lose the business," the broker said.

In one of the most competitive insurance lines, umbrella liability, Aetna still seems to be holding its own in competition, despite promised rate filings, brokers say.

The Texas report of umbrella premium hikes is not typical.

"We haven't seen any changes," noted Andrew Marx, executive vp of Schiff Terhune International in New York City. "Aetna is right in there with American International Group, INA and Commercial Union. The umbrella market is as soft as it ever has been. Even product liability rates are competitive. It's mostly a matter of asking for what you want."

Response to Aetna's original pricing policy announcement (*BI*, April 6) ranges from understanding to rage. Commercial brokers have been hit hard by falling rates that lower premium volume and the resulting commission income. A move to higher rates in the industry, led by Aetna, would've been welcomed by agencies feeling an economic pinch.

Other insurers, some observers said, would be fast to follow any Aetna price change to general industry satisfaction and buyer lament.

When Aetna increases didn't follow the announcement instantly, some brokers responded angrily.

"It's all a bunch of hokum," one New York broker noted. "Aetna expected a bad year so it wanted to let its shareholders know that it was doing something about it. But in practical competition, it's acting like always."

Other brokers speak in more moderate terms, but still doubt the sincerity of the Aetna announcement. "We don't do a lot of personal lines business so I can't speak for Aetna's personal lines policy, but I haven't seen any increases in Aetna's commercial accounts," noted William Schnieder, executive vp and chief operating officer of Rollins Burdick Hunter of New York Inc. "Aetna may be telling its field offices how it should be rating, but I imagine when the local underwriters see the competition, they go right back to their old ways."

"The screws must not be tightening in the field offices," added James Mummy, property/casualty marketing manager of Chicago brokerage Mack & Parker. "It's a big ship to turn around, that's for sure, so maybe it's just going to take some time. But from what I see, Aetna is still very competitive." ■

Aetna cancels Penn General Agencies

LOS ANGELES—Penn General Agencies Inc., the 11th-largest commercial insurance brokerage in the *Business Insurance* ranking last year, has been canceled by Aetna Life & Casualty Insurance Co., according to executive vp Chuck Jakso.

Contract cancellation for an insurance agency means it cannot bind risks to an insurer without making a formal request for a quote. Though limited placing is usually still available on a brokerage basis, a canceled contract from an insurer means that it does not want your business.

Penn General will only be allowed to market performance and surety bond risks to Aetna on a brokerage basis. Other risks will not be quoted.

Though Aetna was not a major market for Penn General clients, the news came as a shock, Mr. Jakso told *Business Insurance*.

"It was very unsual," Mr. Jakso said. "Usually a company will try to work with you to eliminate marginal accounts—not just cut you off without any warning.

"They told us it was mostly a matter of low profitability in personal lines and little activity in commercial lines," Mr. Jakso said.

Penn General's commercial insurance placement with Aetna has been unprofitable for three out of the past five years, Mr. Jakso admitted, but the brokerage's performance and surety bond business with the insurer has made money for Aetna.

The insurer is retaining the $150,000 in bonding premium with the agency, though other policies are not being renewed.

Though an Aetna spokesman did not respond directly to the Penn General cancellation, he said Aetna was not trying to cancel agency contracts wholesale to stop a flow of unprofitable risks.

"Of course, insurers are constantly reviewing contracts and relationships with their agents, but we have no general plans to cancel contracts en masse," he said.

A *Business Insurance* survey of brokers (see related story) found no other agents or brokers complaining of contract cancellation, though many brokers said Aetna had become a less-valuable market for them in recent years.

"There are no plans in our current policy to shift business to or away from major brokers," the Aetna spokesman said, "though we will continue to review agency contracts regularly."

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TURNING ON THE FUTURE FOR YOU

HMO bill could hike employers' cost

Continued from page 1
test set by the committee: 40% to 50% control of the market in any given area.

Prudential Insurance Co., the nation's largest health insurance company and the operator of several HMOs, said the proposed multiple-choice provision will not affect it.

"There is no place were Prudential or any other insurer commands 50% of the market," said Samuel Havens, senior vp at Prudential Health Care Plan Inc. in Newark, N.J.

"We oppose the provision because it is anti-competitive," said Lawrence Kugelman, president of INA Health Plan of California. "But it would not affect us."

But the proposed rule could pose problems for BC/BS, which operates more HMOs—70—than any other organization. Nationwide, BC/BS owns about 37% of the private market for people under 65, and in 17 areas where it operates HMOs, the Blues control more than 50% of the market.

If the bill establishes a lower threshold for control, BC/BS plans in most areas of the country could be affected.

BC/BS said the multiple-choice provision could discourage private investment in HMO development. It also says the provision is discriminatory.

"This provision is contrary to equity and to the lessons of the market," said Walter McNerney, BC/BS president. "We do not believe that the interests of the public or the HMO industry can be best served by overt discrimination against one class of sponsors."

Sources close to the committee contend the multiple-choice provision would affect a relatively small number of employers because:

- Many employers already offer their employees a choice of HMOs.
- Employers could continue to offer a single HMO sponsored by an insurer or BC/BS if there isn't another HMO in the area.
- Determining whether a second HMO must be offered would be decided on a case-by-case basis by the Department of Health and Human Services.

There could be cases where a second HMO would not have to be offered even if the insurer or BC/BS plan controlled a substantial part of the health insurance market in the employer's area.

Such a situation could arise if another insurer or another HMO also garnered a significant chunk of the health insurance market in the area, a government source said.

The controversy over multiple choice will have to be resolved by a conference committee after the full Senate and House clear their respective versions of a new HMO bill.

Blues' rates to rise

Continued from page 2
paid twice during the switch to the computer.

Even without double payments, "1980 was a devastating year for the health-care industry," said Eugene Aune, acting president of Blue Cross. "There were more people going to the hospital and more going to doctors. It all combines."

In this case it combined to shrink the capital and surplus of Blue Cross Group Hospital Service to $39 million from $85 million. The capital and surplus of the Blue Cross Group Life & Health Insurance Co. decreased to $1.2 million from $18.5 million.

Mr. Aune dismissed concerns about insolvency. "We are solvent and are paying claims right now, today. We are not in danger of bankruptcy."

A spokesman for the State Board of Insurance who confirmed the loss amounts said, "The Board does not think there is a threat of insolvency at this time or a hazard to the certificate or policyholders."

Blue Cross of Texas provides hospitalization and medical insurance for 3 million people and employs 4,000, he said. "We had a good year in 1979 and were a bit optimistic in our premium ratings during 1980. Last year turned out to be a bad utilization year. Everybody lost, but being the biggest, we lost the biggest."

"I hope we have this stopped," Mr. Justin said. "Everything felt fairly under control until we came up to the end of the year. The auditors didn't come in until then and found that changes were needed."

When the external auditing firm found discrepancies, Blue Cross called in the state Board of Insurance, Mr. Justin said. "The external audit ended in April and we refiled the annual statement."

The plan is tackling its problems under new management. Mr. Aune stepped into the acting-president position in March with the resignation of former President W.F. Hachneister.

"We still have some cleaning up to do, but are looking forward to a better year this year," Mr. Aune said. "Recovery will take some time. I'm realistic enough to know the public relations aspect will linger on with us, but we have a 50—year history of honesty, integrity and good service behind us. I'd hate to think people would forget those 50 years just because of one bad year."

If Blue Cross of Texas was the only loser in 1980, Mr. Aune said he would be more concerned, but he said the health group was in fine company. Blue Cross groups in Colorado, Oklahoma, Arkansas, Illinois and Michigan also lost money, as did numerous health insurance companies.

"I have to put it this way," Mr. Aune said. "Where were you when we made $25 million in 1979?" ■

Structured award granted

DETROIT—A 2-year-old Michigan girl and her parents will receive $1 million up front plus monthly payments for the rest of the girl's life in a structured settlement of a medical malpractice lawsuit.

JoAnn and Michael Taylor of Oxford, Mich., filed the suit against Crittenton Hospital in Rochester, Mich., and an obstetrician-gynecologist after their daughter, Nicole, suffered brain damage at the time of her birth. She is also a cerebral palsy victim.

In addition to the $1 million, the structured settlement calls for payments of $2,500 per month compounded at 3% annually for the rest of the girl's life. An additional $2,000 per month compounded at 3% annually will be given to Nicole at age 18.

James G. Smith, attorney for the Crittenton Hospital, said the hospital's primary insurer is Argonaut Insurance. Excess coverage is placed with New England Reinsurance Corp. He said the structured settlement was used because "it saved money."

The suit said that Mrs. Taylor was not examined for more than seven hours during the nine hours she was in labor before her daughter's birth on Sept. 5, 1978. A fetal heart monitor attached to Mrs. Taylor showed that she was suffering an anoxic episode during the labor, the suit alleged.

Also named in the suit was Dr. Bohdan Zarewych. He is insured by Medical Protective Agency Co.

A spokesman for the agency would not disclose the amount it will pay, but he did say that it is less than the company's $200,000 policy limit for physicians. Robert Miller, a vp of Medical Protective, added that the company was not a party to the structured settlement. ■

Air controllers

Continued from page 3
PATCO said.

Other issues holding up a contract involve watch schedule assignments, overtime and wages. The FAA has so far refused to discuss union proposals on these issues, the union says.

Federal employees are barred by law from striking, but PATCO has been without a contract since March 15 when talks broke off between it and the FAA.

The FAA has said it cannot grant pay raises unless approved by the administration, but PATCO's membership says the group is angry enough over stalled negotiations to walk off the job. ■

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Eleven insurers to share electronic claims system

The National Electronic Information Corp. has been formed in New York by 11 major U.S. insurance companies to contain rising administrative expenses in the health-care and health insurance industries.

NEIC will streamline the mutual claims submission and handling process between health-care providers and insurers through the creation and operation of a central clearinghouse for the electronic receipt and distribution of claim information.

The system will be operable nationally by January 1983, according to NEIC President Robert S. Bradley.

Participating companies are: Aetna Life & Casualty; Metropolitan Life Insurance Co.; Connecticut General Life Insurance Co.; Equitable Life Assurance Society of the United States; John Hancock Mutual Life Insurance Co.; Lincoln National Life Insurance Co.; New York Life Insurance Co.; Provident Life and Accident Insurance Co.; The Prudential Insurance Co. of America; and The Travelers Insurance Co.

markets

Rehabilitation

Gay & Taylor Inc., an insurance claims-adjusting and appraisal company in Winston-Salem, N.C., has established a new rehabilitation service in Atlanta.

It provides full-service delivery to insurance companies and self-insureds in compliance with Georgia's workers compensation laws. It includes a professional assessment of the employment potential of industrially injured or disabled persons who require vocational rehabilitation services to re-enter the competitive labor market.

Contact Don E. Borders at 404-329-1663.

Gay & Taylor Inc. has also established a catastrophe claims division to be headquartered in Providence, R.I.

The catastrophe unit will handle insurance company, government agency or self-insured claims pertaining to catastrophe situations.

Contact Don Keneshea, 1826 Post Road, 27 Airport Plaza, Providence, R.I.; 401-781-1120.

Aviation division

Stewart Smith Southwest Inc. has created a new aviation department to accommodate all types of aviation accounts and coverages.

Located in Dallas, the company serves producers in Texas, Louisiana, Arkansas, Oklahoma and New Mexico. The aviation department is headed by Bradley J. Lowrey, formerly a senior broker with the parent company in Chicago.

New company

Golden Bear Insurance, a new company specializing in commercial and hard-to-place casualty, excess and umbrella liability insurance, has been formed in Stockton, Calif.

The company is presently licensed to transact business in California only but plans to expand to other western states. Its offices are at 709 N. Center St., Stockton, Calif. 95204.

Agent named

Massachusetts Indemnity & Life Insurance Co. has appointed the A.C. Newman & Co. Insurance Correspondents Inc. as its exclusive national managing general agent.

A.C. Newman's services will include group travel and voluntary accident programs and individual accident and limited permanent and temporary total disability coverages.

Acquisitions

John M. Kemper & Co. has been purchased by the **Associates Insurance Group,** a service company of Gulf & Western.

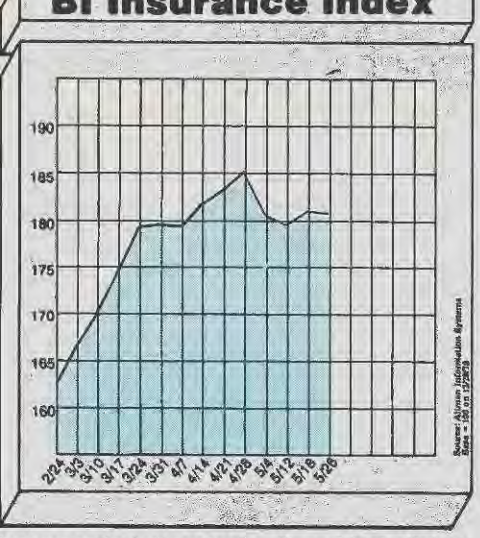
New offices

The Metropolitan Reinsurance Co., a subsidiary of the Metropolitan Life Insurance Co., has moved its New York offices to 125 Maiden Lane, Suite 1200.

Bierly & Associates Inc., self-insurance administrators in South Pasadena, Calif., has opened a Fresno office at 1850 North Gateway Ave., Suite 100.

Towers, Perrin, Forster & Crosby, international management consultants, is opening a Detroit office in the Renaissance Center. ■

BI Insurance Index



Insurance industry stocks dipped just slightly the week ending May 22 with the Business Insurance stock index falling 0.2 points to 181.7 from 181.9. Twenty-seven stocks posted gains, 32 declined and 11 were unchanged. Largest gains were reported by: Statesman Group Inc., 21.2%; Integrated Resources Inc., 7.8%; St. Paul Cos. Inc., 5.8%; Provident Life & Accident Insurance Co., 5.7%; and Appalachian National Corp., 5.6%. Largest declines were: Crum & Forster, 10.6%; Great West Life Assurance Co., 10.4%; SRI Corp., 8.1%; Northwestern National Life Insurance, 7.1%; and Aneco Reinsurance Ltd., 5.8%. The .09% index increase outperformed the Dow Jones 30 Industrials.

British Issues

5/26 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	157	10.7	15.45	9.8	158—	153
Eagle Star	235	7.8	15.00	6.4	232—	229
Genl Accident	298	7.2	19.29	6.5	302—	294
Gdn Royal Exch	285	7.3	22.14	7.8	293—	282
Phoenix	248	7.3	21.29	8.6	252—	246
Royal	368	10.2	34.29	9.3	365—	361
Sun Alliance	798	8.0	47.14	5.9	798—	784
Brokers						
CE Heath	240	9.4	15.00	6.2	250—	233
Hogg Robinson	118	8.9	8.14	6.9	121—	116
Alex Howden	118	8.4	10.00	8.5	125—	115
JH Minet	117	14.6	6.50	5.5	117—	115
Sedg Grp	127	12.1	7.14	5.6	129—	125
Stenhouse Hldg	88	8.4	6.64	7.5	92—	88
Stew Wrightson	225	15.5	17.14	7.6	227—	225
Willis Faber	322	12.1	17.14	5.3	325—	320

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Former president of Walton raising funds for new venture

By KATHRYN J. McINTYRE

THE PAST PRESIDENT of Bermuda-based Walton Insurance Co. Ltd. is trying to raise from $5 million to $40 million to start a new Bermuda-based insurance and reinsurance company.

Veere G.W. Palmer, who directed the development of the Phillips Petroleum Co. captive Walton into a commercial reinsurer, resigned last December as Walton president. He is now contacting Bermuda-based captives and other insurance companies, banks and insurance industry executives around the world with an offer to invest in the yet-to-be-formed Transglobal Insurance Co. Ltd.

A prospectus prepared for the private offering of 400,000 shares details the proposed operation of the company as:

- Involved in all lines and classes of reinsurance business, concentrating on property-oriented treaty business and business emanating from captive insurance companies.
- Underwriting $15 million in gross premiums and $10.5 million net in the first year, growing to $150 million gross and $105 million net in the seventh year.
- Earning underwriting profits in all but the first year, which combined with investment income will produce net income of $3.8 million in the first year, steadily increasing to $45.8 million in the seventh year.

Transglobal shares will be sold only in Bermuda, and each U.S. entity will be limited to a 9% ownership in the company to avoid becoming a controlled foreign corporation subject to income tax. The minimum investment is 500 shares at $100 a share for $50,000, half payable upon subscription and the other to be called by the directors not before June 1983 but before June 1984.

Names of investors to date have not been announced. The prospectus predicts that 20% of the owners will be from the United Kingdom, 40% from the United States, 20% from Western Europe and Scandanavia, 15% from the Far East and 5% from Bermuda.

Mr. Palmer, who is traveling around the world now, could not be reached for comment. But a proposed Transglobal director, H. Clayton Chambers, president of Venture Management Ltd. in Bermuda, said, "Mr. Palmer thinks he is in the last lap."

BI ticker

The first closing will take place, the prospectus says, when $5 million has been subscribed.

Two companies mentioned by other sources as potential investors are not interested in the company at this time. N.L. Industries, for example, decided against participating through its Bermuda captive N.L. Insurance Ltd. "It had nothing to do with Transglobal. We just weren't prepared to ask the parent for more capital for N.L. Insurance," said John Harrington, assistant treasurer of N.L. Industries in New York.

Los Angeles-based Allianz, purported by one source to be interested, is not considering investing, President Frank Raab said.

In addition to Mr. Palmer and Mr. Chambers, the prospectus names Alfred R. Beauman and William F. Delaney Jr. as proposed directors.

Mr. Beauman is president and director of the consulting firm of Beauman & Beauman Inc. of Melbourne Beach, Fla., and managing director of Beauman International Ltd. of Grand Cayman, which manages insurance companies.

His 31-year insurance career includes underwriting positions with Liberty Mutual Insurance Co., Insurance Co. of North America and CNA and brokerage positions with Johnson & Higgins and Alexander & Alexander, both in Texas. He said he is involved to contribute expertise on U.S. casualty risks.

Mr. Delaney, a reinsurance broker in New York, formed his own company in 1954 after becoming the New York reinsurance manager of Fairfield & Ellis. The Princeton University and Harvard Law School graduate also has served as general counsel for American International Underwriters Group and was an attorney for Irving Trust Co.

Mr. Chambers, whose company manages captives in Bermuda, has managed insurance company operations abroad, was a vp of Johnson & Higgins in New York and president of J&H Ltd. in Bermuda before he formed his own company.

Only Mr. Palmer, who will become chairman, managing director and chief executive officer, is raising money for the operation.

Mr. Palmer's credentials as stated in the prospectus include international managerial positions with insurers in various parts of the world and directorship of insurance companies including The Equatorial Reinsurance Co. of New York, an affiliate of American International Group, where he served on the executive and underwriting committees.

The prospectus dwells heavily on Mr. Palmer's experience at Walton, directing its growth during the 1970s from a captive to a commercial insurer.

It notes, for example, that in 1974, just 1% of Walton's $108,000 in premiums was unrelated risk business. The percentages grew under Mr. Palmer, to 18% unrelated business of $3.5 million in premiums in 1976, to 40% of $10.9 million in 1977, to 54% of $20.6 million in 1978 and to 68% of $36.7 million in 1979.

The underwriting, investment income and net income results for Walton reported in the Transglobal prospectus differ slightly from those in Walton's annual reports. In many cases it is a difference in rounding figures, but in two cases the results for net income are overstated: The Transglobal prospectus says Walton produced net income of $15.6 million in 1978 and $24.2 million in 1979 while the Walton annual report states net income for 1978 as $14.7 million and for 1979 as $23.1 million.

It also estimates Walton's net income for 1980 as $20 million; it was $18.6 million.

The Transglobal prospectus also doesn't identify the underwriting results on unrelated risk business compared with the results on Phillips risks. As with other captives entering the commercial reinsurance business, Walton is finding its parent company business is much more profitable.

Walton reports a 1980 combined loss ratio of 106% for unrelated risks and a 67.9% combined ratio on Phillips risks. The $6.9 million underwriting profit on Phillips risks still produced an underwriting profit for Walton in 1980 after covering the $3.1 million underwriting loss on unrelated risks.

Walton Chairman and President H.E. Tornquist noted in his annual report statement that the underwriting loss on unrelated risks included "substantial additions" to reserves for incurred but not reported losses.

"It was to no derogation of anybody else that I added to reserves," Mr. Tornquist told *Business Insurance* last week. Inflation alone requires reserves be reviewed and strengthened, he said.

Mr. Palmer would still be employed by Walton if he had desired to stay, Mr. Tornquist said. "I would have been happy for him to stay," said Mr. Tornquist, who became the first chairman of Walton in June 1980 while Mr. Palmer was president.

Financial briefs

Stenhouse Holdings Ltd.

Despite an 11% increase in insurance broking commissions and fees, London-based Stenhouse Holdings Ltd.'s operating income after taxes decreased 12.3% to 1.4 million pounds for the six-month period ending March 31 compared with the corresponding period a year ago.

A 15.2% increase in operating expenses to 38.9 million pounds took the biggest chunk out of brokerage income of 41.2 million pounds.

Stenhouse Holdings owns 54% of Reed Stenhouse Cos. based in Canada and various British subsidiaries involved in broking and managing Lloyd's syndicates.

INA and Paine Webber

INA Corp. plans to increase its ownership of Paine Webber Inc. to 25% from 21% under a tentative agreement announced last week.

The increased INA investment in Paine Webber, parent company of the nation's fifth-largest brokerage house, follows two big mergers of insurance-related companies with

BI Industry Stock Report

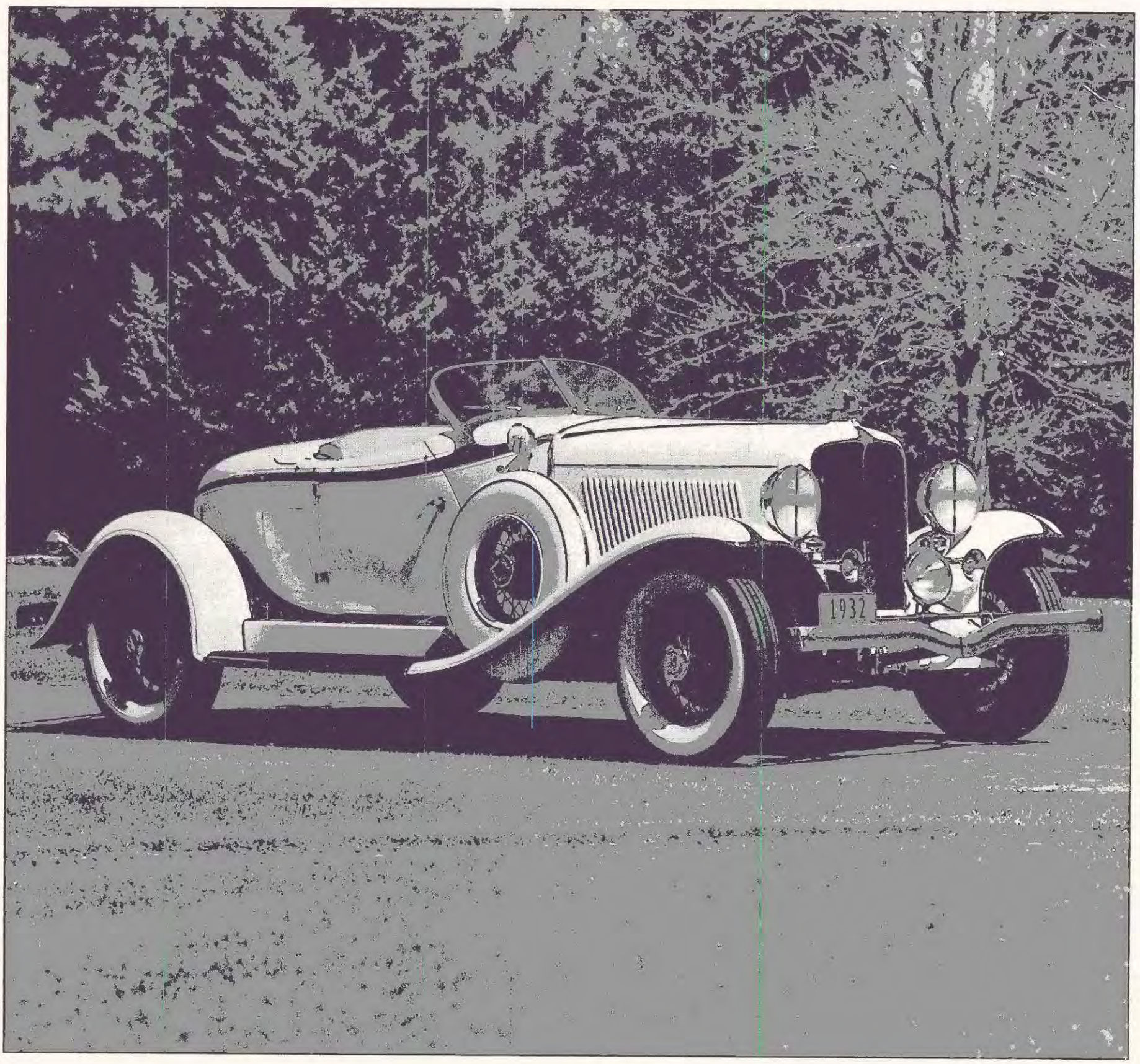
Insurance Cos.		MAY 26, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	5/19/81 THRU 5/26/81 High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	37.25	-2.0	6.2	2.32	6.2	38.13*	37.25	359.3
American Bankers Ins Group	OTC	7.25	-1.7	11.5	0.48	6.1	7.38	7.25	102.9
American Gen Ins Co	NYSE	44.13	2.3	6.8	2.00	4.5	44.13	43.38	210.1
American Indty Finl Corp	OTC	16.13	-1.5	6.1	1.12	6.9	16.25	16.13	7.5
American Intl Group Inc	OTC	88.00	2.3	11.2	0.60	0.7	88.00*	85.75	171.2
American Natl Ins Co	OTC	13.63	-2.7	6.1	0.68	5.0	13.88	13.63	39.3
American Sts Life Ins Co	OTC	17.50	0.0	5.8	0.72	4.1	17.50	17.50	1.1
Aneco Reins Ltd	OTC	4.00	-5.9	0.0	0.00	0.0	4.25	4.00	5.8
Appalachian Natl Corp	OTC	2.38	5.6	6.8	0.00	0.0	2.38*	2.25	1.8
Avemco Corp	AMEX	10.13	-2.4	8.6	0.50	4.9	10.50	10.13	11.3
Banks Iowa Inc	OTC	30.00	-1.6	4.9	1.44	4.8	31.00	30.00	0.1
Biteo Corp	OTC	40.00	-3.6	5.7	2.16	5.4	41.25	40.00	8.5
Carolina Cas Ins Co	OTC	8.75	0.0	5.6	0.32	3.7	8.75	8.75	1.9
Central Natl Finl Corp	OTC	10.25	-1.2	3.8	0.65	6.3	10.38	10.25	0.3
Chubb Corp	OTC	47.75	1.1	5.8	2.68	5.6	47.75	46.75	75.9
Combined Intl Corp	NYSE	21.25	-2.9	6.0	1.60	7.5	21.88	21.25	140.1
Connecticut Gen Ins Corp	NYSE	52.00	-0.5	33.8	1.76	3.4	52.50	51.75	145.2
Continental Corp	NYSE	25.25	-1.0	6.8	2.40	9.5	25.63	25.25	207.8
Crawford & Co	OTC	17.75	0.0	13.9	0.52	2.9	17.75	17.75	7.6
Crown Life Ins Co	OTC	110.00	-5.2	9.2	2.80	2.5	116.00	110.00	0.2
Crum & Forster	NYSE	31.50	-10.6	5.4	1.44	4.6	34.75	31.50	162.6
Employers Cas Co	OTC	37.75	2.7	5.7	1.20	3.2	37.75*	37.50	7.2
Equifax Inc	NYSE	23.50	-0.5	7.2	2.40	10.2	23.63	23.50	4.9
Excelsior Ins Co	OTC	15.75	-1.6	32.1	0.70	4.4	16.00	15.75	1.4
Farmers Group Inc	OTC	31.88	0.0	10.0	1.12	3.5	31.88	31.75	176.6
First Colony Life Ins Co	OTC	46.00	0.0	15.1	0.80	1.7	46.50	46.00	5.2
Foremost Corp Amer	OTC	27.50	0.0	8.5	0.80	2.9	27.50	27.25	11.6
Great West Life Assurn Co	OTC	224.00	-10.4	9.3	10.00	4.5	250.00	224.00	0.0
Hanover Ins Co	OTC	29.00	0.9	3.9	0.72	2.5	29.00	28.25	17.8
Hartford Steam Boiler Insptn	OTC	48.50	0.0	9.8	2.60	5.4	48.50	48.50	10.0
Jefferson Natl Life Ins Co	OTC	38.50	1.3	34.7	0.64	1.7	38.50	38.25	2.4
Kemper Corp	OTC	33.75	0.7	5.2	1.60	4.7	33.88	33.75	46.0
Lincoln Natl Corp Ind	NYSE	40.25	-3.0	5.7	3.00	7.5	41.38	40.00	55.9
Mgic Invt Corp	NYSE	36.13	-2.0	9.7	1.28	3.5	36.50	35.88	282.6
Mission Ins Group Inc	NYSE	46.75	0.3	8.8	1.00	2.1	47.50*	46.75	7.7
Nationwide Corp Ohio	OTC	24.13	0.5	6.9	0.70	2.9	24.13	24.13	4.1
Northwestern Natl Life Ins	OTC	27.88	-7.1	6.9	1.25	4.5	29.88	27.88	62.3
Ohio Cas Corp	OTC	41.25	3.4	7.1	2.04	4.9	41.25	39.88	35.6
Old Rep Intl Corp	OTC	16.38	-0.8	4.5	0.92	5.6	16.50	16.25	73.1
Pinehurst Corp	OTC	6.25	-2.0	0.0	0.00	0.0	6.38	6.25	3.4
Preferred Risk Life Ins Co	OTC	20.00	-0.6	6.7	0.80	4.0	20.25*	20.00	11.7
Provident Life & Acc Ins Co	OTC	47.00	5.6	7.0	2.20	4.7	47.00	44.50	18.9
Ryan Ins Group Inc	OTC	20.50	0.0	8.2	0.12	0.6	20.50	20.50	1.2
St Paul Cos Inc	OTC	45.75	5.8	8.6	2.32	5.1	45.75	43.13	175.0
Safeco Corp	OTC	40.00	3.6	7.5	2.00	5.0	40.25	39.00	61.3
Sri Corp	OTC	22.75	-8.1	5.2	0.80	3.5	23.00	22.75	21.4
Seibels Bruce Group Inc	OTC	20.88	0.0	11.2	0.80	3.8	20.88	20.75	27.0
Statesman Group Inc	OTC	6.75	21.2	5.7	0.15	2.2	7.16*	5.57	90.1
Tokio Marine & Fire Ins Co	OTC	167.38	-3.8	18.5	1.03	0.6	177.00	167.38	7.9
Travelers Corp	NYSE	48.25	0.8	5.6	2.88	6.0	48.75	47.13	158.9
United Fire & Cas Co	OTC	38.50	0.0	10.1	1.00	2.6	38.50	38.50	0.3
United States Fid & Gty Co	NYSE	43.38	0.9	5.7	3.20	7.4	43.50	42.75	59.9
United Svcs Life Ins Co	OTC	16.13	3.2	6.7	1.00	6.2	16.38	15.75	147.4
Uslife Corp	NYSE	28.88	-4.5	7.1	0.76	2.6	29.63	28.88	106.7
Washington Natl Corp	NYSE	26.00	1.0	7.7	1.08	4.2	26.00	26.00	87.3
Zenith Natl Ins Corp	OTC	17.25	0.0	10.1	0.50	2.9	17.25	17.25	15.6
INSURANCE COMPANIES	AVERAGE			8.1		3.9			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	34.00	1.5	11.3	1.84	5.4	34.00	33.25	135.8
Baldwin & Lyons Inc	OTC	34.25	0.0	5.9	0.80	2.3	34.25	34.25	0.6
Corroon & Black Corp	NYSE	23.50	2.2	10.9	1.76	7.5	23.75	23.00	11.0
Crump E H Cos Inc	OTC	11.25	4.7	10.3	0.40	3.6	11.25	11.13	34.0
Hall Frank B & Co Inc	NYSE	26.38	1.4	9.7	1.60	6.1	26.50	25.75	21.3
Integrated Res Inc	AMEX	17.25	7.8	7.8	0.00	0.0	17.25	15.88	39.8
James Fred S & Co Inc	NYSE	26.00	4.5	11.5	1.68	6.2	26.00	24.63	20.6
Marsh & Mclennan Cos Inc	NYSE	35.25	-1.7	11.6	2.00	5.7	35.75	35.00	239.4
Penncorp Fincl Inc	NYSE	5.75	0.0	6.5	0.16	2.8	6.00	5.75	255.2
Poe & Assoc Inc	OTC	10.75	-2.3	9.5	0.80	7.4	11.00	10.75*	0.8
Reed Stenhouse Cos Ltd	OTC	12.00	0.0	10.4	0.56	4.7	12.25	11.75	18.6
Rollins Burdick Hunter Co	OTC	24.00	1.1	12.5	1.28	5.2	24.00	24.00	18.7
AGENTS/BROKERS	AVERAGE			9.5		4.9			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	45.50	1.1	8.6	2.00	4.4	46.00	45.38	861.0
Anderson Clayton(Ranger/PanAm)	NYSE	22.00	0.0	6.0	1.20	5.5	22.38	21.88	21.9
Armco Inc	NYSE	33.75	-2.9	8.6	1.64	4.9	34.50	33.75	140.6
City Investing Co. (Home Ins.)	NYSE	29.25	4.5	8.2	1.60	5.5	29.63*	28.25	1,290.5
CNA Finl Corp (CNA)	NYSE	15.50	-3.9	6.1	0.00	0.0	16.25	15.25	8.7
Control Data (Comml. Credit)	NYSE	79.50	2.7	9.4	0.90	1.1	79.50*	78.13	395.4
General Re Corp	NYSE	72.75	1.0	9.9	1.76	2.4	72.75	70.75	161.3
Gulf Utd Corp	NYSE	23.13	0.0	8.4	1.28	5.5	23.88	23.13	82.3
INA Corp (Ins. Co. of NA)	NYSE	44.88	3.2	6.3	2.40	5.3	44.88	43.25	190.7
ITT (Hartford Group)	NYSE	31.00	-2.7	6.2	2.60	8.4	31.50	30.88	579.9
Reliance Group Inc	NYSE	77.50	-1.6	6.4	3.00	3.9	78.25	77.50	7.0
Sears Roebuck & Co. (Allstate)	NYSE	19.50	-2.5	9.9	1.36	7.0	20.00	19.50	1,721.8
S & H Co. (Bayly Martin & Fay)	NYSE	33.75	-0.4	14.5	1.00	3.0	34.38*	33.75	19.9
Teledyne Inc (Argonaut)	NYSE	161.75	7.3	9.9	0.00	0.0	161.75*	151.88	168.0
Transamerica Corp (Occidental)	NYSE	22.63	-1.1	6.1	1.28	5.7	23.50*	22.38	750.4
CONGLOMERATES/HOLDING COS.	AVERAGE			8.3		3.1			

*Record high/low since Jan. 1, 1981.

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