Week of June 25, 1979

business insurance

the national newsmagazine of loss prevention, risk financing and employe benefit management

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NATIONAL CONFERENCE ON WORKERS COMPENSATION

Confab wrestles rates, regs, rehab

Workers compensation rates, regulation, the resources of rehabilitation and more are scrutinized by experts and attendees at the second annual *Business Insurance* National Conference on Workers Compensation. Ratemaker, broker, buyer, insurer and lawyer take different stands on the fairness of rates **(page 37).** Federal standards for workers compensation are stalled, which delights many **(page 37).** Captives are hailed as the cheapest way to fund losses **(page 40).** Pre-placement health screening slashes work comp costs at a West Coast firm **(page 41).** Florida delays switching to the wage-loss compensation concept **(page 42).** The Department of Commerce reconsiders the role of workers compensation and tort liability for work place accidents involving faulty products **(page 43).** Serious injuries demand quick response from adjusters and rehab specialists **(page 45).**

Elsewhere:

- Risk managers favor the current state regulation of insurers over more federal regulation. **Page 10.** But a senator proposes repealing the McCarran-Ferguson Act and the federal government expands its role in the insurance marketplace. **Page 11.**
- Liability premium increases hit small towns and counties the hardest, a survey finds. **Page 19.**
- State regulators draft a model bill designed to stir competition among insurers. **Page 24.**

Carter's health plan draws poor prognosis

By JERRY GEISEL

WASHINGTON—The huge $24 billion price tag on President Carter's national health insurance plan and intense opposition from business and hospital groups will likely doom the long-awaited proposal.

"I don't think the plan is in the ballpark of political reality," said Michael Bromberg, executive director of the Federation of American Hospitals. "There will be a lot of hearings and rhetoric, but I doubt seriously if Congress is going to consider a bill that costs that much money."



President Carter's health plan is too expensive to pass Congress, most interests agree.

A national health insurance plan that only provided protection against catastrophic health care costs and carried a lower price tag would have a much better chance of winning approval, observers say.

Under the Carter proposal, to take effect in 1983, employers would have to upgrade their group health insurance packages to cap an employe's annual out-of-pocket payment for family health care services at $2,500. The Administration has estimated this would add an additional $6.1 billion to the $42.6 billion employers will pay in 1980 for private health insurance covering health care expenses over $2,500.

The real expense of the Carter proposal, however, is the overhaul of public medical insurance programs for the poor, aged and disabled. That overhaul is expected to cost an additional $18.2 billion to be paid out of federal revenues.

"Any bill that is going to cost $24 billion is not going to be attractive to the business community," warned Jan Ozga, associate director of health care for the U.S. Chamber of Commerce.

Congressional preoccupation with energy-related issues is also likely to put the Carter health insurance plan on the back burner, observed Willis Goldbeck, director of the business-backed Washington Business Group on Health.

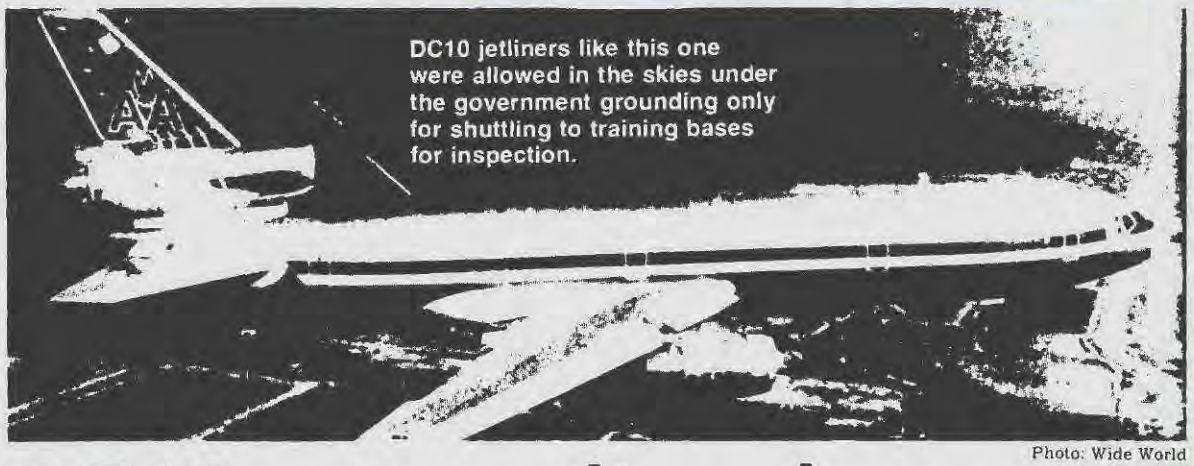
Observers believe, however, there is growing support for legislation that would only provide benefits for catastrophic illness, such as a bill proposed by Sen. Russell B. Long (D-La.). His bill would require employers to purchase insurance from either private insurers or from a public plan covering an employe's medical and hospital expenses over $2,000 a year.

The Long proposal would cost about $6 billion, or roughly one-fourth of the $24.3 billion price tag on President Carter's plan, because Sen. Long isn't overhauling public health programs and his bill sets a flat $2,000 annual deductible. His bill could be approved this month by the Senate Finance Committee.

Although employes under the Carter plan could be forced to pay $2,500 out of their pockets each year for health care services, this $2,500 deductible would not apply for prenatal, delivery and infant care benefits for female employes and their babies. Employers would have to pay the full cost of such benefits with no cost-sharing requirements.

Employers could continue to purchase health insurance cover-

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DC10 jetliners like this one were allowed in the skies under the government grounding only for shuttling to training bases for inspection.

Photo: Wide World

DC10 grounding losses catch airlines off-guard

By JOHN MAES

CHICAGO—U.S. and foreign air carriers whose DC10 jetliners sat idle most of this month may have to swallow what could be hundreds of millions of dollars in lost revenues because they don't have insurance against the grounding and apparently can't recover their losses from the manufacturer, McDonnell Douglas Corp.

"We may have to eat it," said one airline executive of the revenue loss estimated at $7 million a day for all U.S. airlines each day the DC10s are grounded.

Meanwhile, estimates of the total payout to families of victims of the Chicago DC10 crash are climbing to $200 million from the $100 million first predicted.

No domestic airline reports having insurance against the rare event of an FAA ordered grounding. And McDonnell Douglas, manufacturer of the DC10, includes a clause in its sales contracts that waives any manufacturer's liability for an airline's loss of use of an aircraft.

Aircraft manufacturers routinely include such clauses in sales contracts but still buy insurance against the risk as part of their product liability programs lest the contract clause fail. But McDonnell Douglas buys only $4 million of grounding insurance in its $450 million product liability insurance program, *Business Insurance's* London correspondent learned.

Associated Aviation Underwriters, which handles a portion of McDonnell Douglas's product liability program, would not confirm the $4 million figure. "There is grounding coverage under their policy," is all AAU president Robert M. Lowd would say.

A $4 million limit on grounding

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Small firms chomp into dental benefits

By MARIE KRAKOW

PRINCETON, N.J.—Dental insurance isn't just for big unions anymore; small employers are taking a bigger bite of dental benefits.

So many small companies are now buying dental insurance for their employes that some experts say the benefit is finally being accepted at the "grass roots" level, similar to the pattern established by major medical coverages 20 years ago.

"This market is just getting off the ground, because smaller firms have to find something new besides giving life and health insurance," says one insurance agent. "People are asking their employers for dental insurance because they can understand it as a positive benefit they will be guaranteed to use during the year," not like life insurance which is "viewed as a negative benefit because the employe knows he has to die to make it work."

Historically, the major impetus for dental plans came from large labor union negotiations, especially in the automotive, steel, aluminum and communications industries. Most of the approximately 20% of the population covered by dental plans belong to public employe organizations or labor unions like the United Auto Workers.

Now, insurance companies and dental care providers across the nation report "phenomenal" growth in dental insurance among small employers, particularly those with between 10 and 50 employes.

One major dental insurer, Connecticut General, said its annualized 1978 premium volume for dental sales to small employers nearly doubled that in 1977. One out of every four new accounts included dental insurance for the 10-to-50

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The people column page 50

Malpractice co-op members sue founder over trust fund

By JOANNE GAMLIN

LOS ANGELES—Seven physicians and surgeons, all former members of a medical malpractice cooperative created in 1975 in the heat of California's medical malpractice crisis, have resigned and are suing the founder and chairman of the group charging improprieties in the management of the cooperative and in its trust fund.

Chief defendant is Kuwait-born Sabri Mustafa El Farra M.D. He is president and chairman of the board of The Cooperative of American Physicians Inc. (CAP), a noninsurance funding vehicle organized under a provision of the California corporations code, and of the Mutual Protection Trust (MPT), an approximate $33 million fund which pays medical malpractice claims of CAP members out of its investment income.

Also named in the suit are several physicians and officers of CAP as well as seven enterprises—including five that are Kuwait-connected and said in the suit to be controlled by Dr. El Farra or his family.

The suit raises questions about alternative funding vehicles not regulated by insurance regulators and created when the commercial insurance markets can't meet demands. Although the state auditor general's office has given the corpus of the trust a clean bill, competitors are taking this opportunity to question if the co-op could sustain itself over the long term without resorting to heavy assessment of its members.

The complaint charges that Dr. El Farra and several other defendants "knowingly and maliciously conspired and agreed among themselves to loot the assets of CAP and MPT for their own private financial gain." The lawsuit alleges that Dr. El Farra obtained salary and expense reimbursements for far more than he merited and that he obtained these sums without the authorization of the board of directors.

Several of the seven physician plaintiffs were members of the board of directors of CAP, which is organized on the cooperative concept. Members make one-time deposits to the trust fund which are deposited with a bank or a savings/loan institution. Medical malpractice claims and administrative expenses are paid from the investment income of the trust fund.

CAP charges its approximate 1,500 members $200 for CAP membership and $100 a year in dues. MPT then charges them $500 a year plus a flat contribution of from $17,500 to $22,500, depending upon risk classification. Under a management agreement between the two bodies, CAP collects MPT dues in behalf of MPT.

"The MPT dues and interest income from the trust assets are to be sufficient to cover the cost of claims against members of MPT as well as the cost of administration services to be provided by CAP for MPT," states the lawsuit. However, if claims and administrative expenses exceed available funds, CAP/MPT participants are subject to personal assessments of unlimited liability.

The seven physician/surgeons in the complaint demand that the defendants be removed from their positions and that a receiver be appointed for CAP and MPT. In addition, they ask for $1 million in exemplary damages against Dr. El Farra and $50,000 against the other individual defendants.

The defendants deny most of the allegations in the complaint and have filed a cross-complaint asking for $7 million in punitive damages and for compensatory damages "to be proved at the trial, but in the case of MPT a sum no less than $155,000." Their suit charges interference with business relations and violations of the insurance code section 1280.7, which deals with business defamation.

The defendants have also put together a booklet that examines the charges and refutes them. It states, for example, that "payments to Dr. El Farra were fully justified and approved by the boards of CAP and MPT."

The booklet may have been prepared because the resignations and lawsuit have created a fight for management of CAP/MPT. A management election is slated for June 23.

"To my mind, the whole thing is nothing more than a proxy fight," asserted an attorney for CAP. However, the attorney for the plaintiffs, Marshall Grossman, said that the issue does not boil down to a proxy fight. "My people included those who were on the board of directors and they resigned in disgust," he said. "If they were interested in control, they would never had quit."

Mr. Grossman, who expects the lawsuit to result in a trial, explained that another group decided to challenge Dr. El Farra after the lawsuit had been filed.

The suit also triggered an investigation of the health of the trust fund by the state auditor general's office in Sacramento. Its report concluded that the corpus of the MPT fund is intact and that the fund has not been used for any unauthorized purposes.

The main thrust of the lengthy lawsuit is the allegation in the complaint that "since August 1977 Dr. El Farra has caused CAP to pay him or to accrue for his benefit an amount of money which is as yet unknown but which is in excess of $545,000 without authority from the board of directors or CAP members. . . ."

It says that beginning in January 1978 Dr. El Farra "caused CAP to pay him a monthly salary of at least $10,000, without any accounting for verification of time being spent on CAP or MPT matters." It also states that in 1978 he caused CAP to pay him an expense allowance of $500 per month, again, without "any accounting for or verification of any expense being incurred." The suit states that Dr. El Farra did not have unreimbursed expenses approaching $500 a month.

The booklet put out by Dr. El Farra says he received $88,703.95 as expense reimbursement and $289,427.78 through April 15, 1979, as compensation for services.

Dr. El Farra is reported to have been a key force in the move in Sacramento in 1975 to write a law permitting the establishment of a medical malpractice co-operative, a law which was first vetoed by Gov. Jerry Brown and then passed without his signature and over his and the state insurance department's vocal opposition. ■

Banks buy INA policy against kidnap, ransom

NEW YORK—Members of the American Bankers Assn. are buying kidnap and ransom insurance under a new program underwritten by an INA Corp. subsidiary.

The month-old program offers limits of up to $20 million per occurrence against a kidnapping or extortion of bank employes. The policy also covers property extortion attempts, such as when a caller phones in a bomb threat and demands money.

The policy is written under the name of INA, but is actually handled and underwritten by the Life Insurance Co. of North America, another INA Corp. subsidiary.

Don Heth, chairman of the life insurance company, said the policy is handled through his company because it is coordinated with employe benefit managers rather than a bank's treasurer's office. The reasoning is that kidnap insurance comes under the heading of what a company does to "take care" of its employes.

An average company signing up for the policy usually takes a deductible of around $25,000 and limits of $5 million per occurrence, said Richard Francisco, chief underwriter. Individual policy limits and deductibles may vary widely depending on the client, he continued.

INA officials would only say "a number" of clients have already bought the policy or have expressed interest in doing so, refusing to be more specific.

The program is probably the most extensive in this area that INA has offered since first going into the kidnap insurance market a year and a half ago. It was prompted by a request by the ABA that INA try to develop a program that it could promote to its members, explained Mr. Francisco. The policy is brokered through Wright & Co. of Washington, D.C.

The expansion of INA's involvement in the kidnap insurance business is just one example of how the market has grown in recent years. "This is a very competitive area right now," Mr. Francisco said, acknowledging that INA's chief competitors in the field are Lloyd's, Chubb & Son and the American International Group.

Syndicates at Lloyd's of London were the only underwriters of kidnap insurance for years, he said, but then a rash of kidnappings in the early 1970s, both here and abroad, combined with the Patty Hearst incident, made U.S. companies more aware of the possible vulnerability.

"All of a sudden the demand was there and other companies were jumping into the marketplace. That's when we decided to get into it," he said. "We had a number of requests from clients about what we could do for them in this area."

The ABA request for the new program came because it "felt that their members had a particular need for this sort of coverage," Mr. Francisco said. ■

errors & omissions

• Crawford & Co., claims adjusters and claims administrators, has 700 offices around the country. The number was incorrectly stated in the June 11 issue.

for your information

Lloyd's policyholders draw $5.4 million to settle suits

KANSAS CITY—Lloyd's of London syndicates will pay some $5 million on a directors and officers liability policy written for ISC Financial Corp. as part of a settlement that will allow Old Security Life Insurance Co. and its parent firm, ISC, to pay thousands of policyholders' claims and dividends to shareholders.

Old Security is being liquidated and ISC is going bankrupt following a cluster of lawsuits involving the Teamsters Union Central States Health and Welfare Fund, which lost $7 million in insurance premiums in 1976 allegedly due to a fraud involving Old Security.

Under a special multi-party agreement to settle suits, $3 million of the Lloyd's payment will go to Old Security. The insurer will use $1.7 million of it to pay claims and will pay $800,000 of it to the Teamsters and $575,000 to ISC. Another $1.5 million will be paid under ISC's D&O policy to the Teamsters and $500,000 has been reserved to pay attorneys fees.

The Teamsters also had an errors and omissions policy with Lloyd's which will pay the fund $400,000.

Stock concern cans merger

TORONTO, Ontario—A potential negative effect on Pinehurst Corp. stock was a major reason why the California-based insurance services firm and international broker Reed Shaw Stenhouse & Partners agreed to break off merger discussions last week.

Pinehurst was more interested in the short-term quality of its stock than in the long term heavy investment of capital Reed Shaw required, according to John Riley, Reed Shaw Stenhouse & Partners director.

"We parted friends," he said, "and when our operation is more solvent we might re-open discussions. We still plan to expand in the U.S., though we will probably go the acquisition route rather than open new offices."

Reed Shaw Stenhouse has been heavily financed by Reed Stenhouse Cos. Ltd. profits from outside the U.S.

Sprinklers faulted in Macy's fire

NEW YORK—An apparently malfunctioning sprinkler system is being blamed for aggravating a fire at Macy's here that is estimated to have caused well over a million dollars in damage to the huge department store.

One firefighter was killed and 10 firefighters and four customers were injured in the June 14 blaze, which spread to several floors in the block-long building and forced evacuation of the daytime shoppers.

The fire, which burned out part of the fifth and sixth floors and sent clouds of smoke throughout the rest of the building, is still under investigation by the city fire department and Macy's officials, who have refused to discuss the blaze.

The fire department, however, said the "extent and severity" of the fire "was essentially due to the lack of sprinkler protection in the fire area." The department had been notified the day before that the sprinkler system was not working in parts of the store and firefighters were prepared to supplement it with hoses when they arrived at the scene, the department said.

Macy's officials would only say the contention that the sprinklers were not working is "under investigation." They refused to reveal the insurance arrangements.

Accounting rule open to revision

STAMFORD, Conn.—The Financial Accounting Statements Board may reevaluate statement No. 5 on accounting for contingencies. The board has agreed to assess whether reconsideration of No. 5 is necessary, after related projects are completed.

The FASB had invited written comments on FASB statements in effect for at least two years. Statement No. 5, which regulates reserves for self-insured programs, drew the second most response.

Oil rig losses jeopardize rates

NEW YORK—Three major oil rig losses in less than two months could boost now competitive rates for hull and machinery insurance on offshore drilling rigs, according to a leading underwriter.

No losses for 21 months and a loss ratio better than for marine insurance as a whole attracted a lot of "innocent capacity" to the market, driving rates down to half of what they were a year ago, observes Roy Williams, president of AIG Oil Rig, the largest American syndicate.

The publicity of the losses could make reinsurers "a bit more reluctant" to write drilling rigs, he said, reserving judgment on the long term effects of the losses.

SEDCO 135, a semisubmersible rig operating in Campache Bay, Mexico, was the latest casualty. It capsized earlier this month after a blowout. No one was killed and the rig is still afloat, but the damage could be enough to have the rig declared a total loss. The rig was insured for hull and machinery 50% in London, 25% with AIG Oil Rig and 25% with All American Marine Slip. Insured values were $16 million for hull and machinery and $4 million for increased values (additional equipment).

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Insurers recoil in wake of asbestos claims

By ELLIS SIMON

NEW YORK—Complain to an underwriter about the high cost and limited availability of product liability insurance and he's apt to tell you the horror story of asbestos.

Plagued by a massive amount of litigation over injuries to asbestos workers, most insurers have stopped underwriting the troublemaker and, once-burned, are taking a harder line on other product risks, especially hazardous materials.

"Hopefully, we've learned the lesson that insurers have to learn," said John J. Dwyer, national account director for Aetna Life & Casualty. The lesson: Definitive data can, because of something external to the insurance relationship, be thrown off.

Besides providing a dramatic example of how insurers respond to an onslaught of litigation over a product, the asbestos experience could:

- Set a precedent for determining what insurance policies must respond when the damage done by a product isn't known for years.
- Demand that the government step in and establish a compensation board if the courts are unable to process all the suits.
- Grow worse, if it's found that in addition to asbestos workers, the public has been harmfully exposed to asbestos used in building construction and consumer products.

This is the second in a two-part series examining the explosion of litigation involving the harmful effects of asbestos.

"Ten years ago we seldom had product claims from someone covered by workers compensation," said Aetna's Mr. Dwyer. "But new medical data, research, press coverage and notices to retirees from the Department of Health, Education and Welfare have helped change that. These types of things have happened before and they will happen again."

Asbestos "is not entirely different from other things such as the pharmaceutical area," said Fireman's Fund senior vp Creighton White. "Long, delayed actions had been a stranger to the insurance industry and all these kinds of situations must be telling insurers they have to do a better job of anticipating the ultimate results 20 years in the future."

Twenty and 30 years ago many of today's asbestos claimants were exposed to the fibrous, white mineral that is now known to cause asbestosis and mesothelioma, a cancer of the chest linings. The claimants worked in asbestos plants, as insulators and in shipyards during World War II.



Research continues into the possible health hazards of exposure to asbestos. The Battelle Memorial Institute has measured and analyzed the emission of asbestos dusts during the processing, normal use and removal of a variety of products containing asbestos as a reinforcing material, such as pipes.

Photo: Battelle

Jury awards to these claimants have gone as high as $450,000 and as many as 10,000 claims might be filed in addition to the approximately 3,000 currently in litigation.

"Asbestos focuses that anything that is a possible carcinogenic will be avoided as underwriting risk," said Thomas Harnett, senior vp of The Travelers Insurance Cos. "What will be covered will reflect what scientists and engineers learn."

Evaluation of such risks will require greater use of industrial hygiene specialists and environmental testing units, noted Fireman's Fund's Mr. White.

Test results have become an important factor in deciding what products to underwrite, said Charles Scheid, product liability manager at Continental Casualty Co. Items that have been identified as hazardous materials are looked at very carefully, he added.

"If a product is handled by professionals, we can expect them to handle it correctly," he noted. "But, if such a product is used in the consumer area, there is greater likelihood that it will be misused and that's where people experience the greatest amount of bodily injury."

Hazardous materials cannot be underwritten if they are certain to result in injury, noted Mr. White of Fireman's Fund. "It would be like writing life insurance on a guy about to jump off the Empire State Building. It's a sure thing that he'll die when he hits the ground."

"If a product risk can't be controlled, it can't be written except on a cost plus basis," said American Home Assurance Co. vp Dennis Busti. The ultimate impact of the asbestos experience is difficult to determine now because product liability markets are soft compared with previous years, he added.

Many insurers, though, are shying away from asbestos and other hazardous materials. The Travelers Insurance Cos. stopped underwriting asbestos. Kemper Insurance Cos. will only write an asbestos or hazardous substance exposure if it is a minor part of a large account. At that, the policy includes a deductible or penalty clause on the hazardous substance portion of the risk, said underwriting vp George Kasbohm.

AIG is currently reassessing its position as it evaluates the current asbestos situation. The recent

Continued on following page

the benefit beat

Garment workers sew up pension plan increases

Pension fund contributions by employers will increase to 8.75% from 6.75% of payroll over the life of a three-year contract between the International Ladies Garment Workers Union and apparel manufacturers in the Northeast.

The pact, covering approximately 130,000 workers, calls for a 1% increase in pension fund contributions immediately with an additional 1% hike next year.

Contributions to the union's health and welfare fund will increase by 0.5% to 10.5% over the life of the contract. The pension and health and welfare funds are noncontributory plans. According to union officials, the increased funding is not expected to result in benefit improvements but will maintain current benefit levels.

Hourly wage minimums for sewing machine operators will rise to $4.50 from $3.80 and for floor workers to $4.40 from $3.65.

New legal plan

Minnesota Indemnity Inc., a wholly owned subsidiary of Blue Cross & Blue Shield of Minnesota, is offering a prepaid legal program, initially targeting the state's teachers' unions.

Teachers can choose between low option coverage for $7 a month or high option coverage for $13 a month. Unlimited hours of advice and consultation are provided under both low and high option coverage.

Low option coverage for office work is subject to an annual three-hour yearly limit; high option coverage provides a six-hour maximum. Defense coverage in the low option entitles an employe to a six-hour yearly maximum and high option provides an eight-hour maximum. The same hourly limits apply to plaintiff actions but they are subject to a $100 deductible.

When full coverage for defense and plaintiff actions runs out, supplementary service is paid at 80% of the cost subject to $100 annual deductible. Litigation expenses, including costs of filings and witness's expenses, are paid at 80%, also subject to a $100 deductible.

Teachers unions have not officially entered the program, but most of the state's teachers' unions are negotiating the benefit in their benefit packages for next year.

Pension insurance delay

President Carter has signed into law legislation to defer for 10 months the date the Pension Benefit Guaranty Corp. (PBGC) must guarantee benefits to members of terminating multiemployer pension plans.

Under the legislation, which was earlier approved by the House and Senate, the PBGC will not have to insure multiemployer pension plans until May 1, 1980. The PBGC had been slated to begin mandatory coverage of multiemployer plans July 1.

The delay in mandatory coverage will give Congress more time to review PBGC's long term solutions for guaranteeing benefits of collapsing multiemployer plans.

Under PBGC's proposal, which Congress now is considering, premiums the agency charges multiemployer plans for termination insurance would be gradually raised over a five-year period until they hit $2.60 per participant annually. The current annual premium is 50 cents per participant.

Participants of terminating multiemployer plans would be guaranteed 100% of the first $5 per month per year in vested benefits and 60% of the next $15 per month per year in vested benefits. Currently, the PBGC has discretionary authority to pay monthly benefits of up to about $1,000 to participants of a folded plan.

Meanwhile, PBGC executive director Matthew Lind is leaving the federal pension agency at the end of the month to join The Travelers as a vp in the company's strategic and operational planning. A successor for Mr. Lind has not been named yet.

Ford supports minorities

Four minority owned insurance companies will reinsure $500 million of the Ford Motor Co.'s employe group life insurance plan under a Ford program to support minority businesses.

The primary insurer, John Hancock Insurance Co., has agreed to Ford's request to reinsure 3% of the total company paid group life insurance for Ford salaried employes with the four companies—Atlanta Life, Chicago Metro Mutual, North Carolina Mutual and Supreme Life.

Self-insurance services

The Los Angeles Department of Water & Power has awarded a two-year contract to U.S. Administrators in Los Angeles to administer its self-insured comprehensive hospital and medical program covering 5,000 full-time employes. The $200,000 annual contract was effective June 1, 1979.

Blue Cross of Southern California previously provided the coverage.

U.S. Administrators will also administer a supplemental program for 14,000 Department of Water and Power employes for hospital and medical benefits that are currently insured by The Equitable.

Social Security bill

The House Ways and Means Committee has approved legislation that would slash Social Security disability benefits by 15% and save the government more than $1 billion by 1984.

Under the legislation a disabled worker with two dependents whose previous annual earnings were $12,650 would receive $8,109 in disability benefits. Under the current law, the disabled worker would receive $9,546 in benefits, a difference of about 15%.

Similar cutbacks would apply to disabled workers in other income groups.

The measure now goes to the House floor for action.

Public grades health care

Americans have few gripes about their access to or the quality of the health care system, but find the cost of that care alarming, a Health Insurance Institute survey reveals.

Of the 57% of the people surveyed who saw serious problems in the health care system, 52% blamed medical costs or excessive fees for the problems; 15% accused doctors of being too interested in money.

Of the 1,500 American adults surveyed, 40% are very satisfied with their health insurance coverage, but 36% are dissatisfied. Seventy percent are pleased with the prompt payment of health insurance claims and the same proportion are satisfied with the chunk of medical costs paid by the health insurer. But an equal 70% consider the price of health insurance too high for the average family to afford, compared to 67% in a similar survey conducted in 1977.

The survey also found that 37% of the public favored national health insurance program accompanied by a tax increase, 20% were opposed to national health and 42% had no strong opinion.

More HMO participation

A Bureau of National Affairs survey of 162 companies scattered nation wide shows that more than one-half of those companies are aware of available HMO services in their area. And two-thirds of the companies, once informed about the area's HMO, offer the option to their employes.

About one-fourth of the surveyed companies have some employes enrolled in an HMO. That figure is double the figure reported in 1974 when 23% of the companies were located in an area with an HMO and less one-third of the companies offered their employes that option.

Most of the surveyed companies offering an HMO report 4% of the employes elect the HMO; one-fourth of the companies show 1% and less of their employes opting for the HMO. Only four of the 162 companies have 20% or more of their employes enrolled in an HMO.

The BNA survey also reveals heavy HMO enrollment among the clerical staff of non-manufacturing business, educational institutions, hospitals and government agencies.

Most employes of the manufacturing companies surveyed contribute 25% toward the cost of individual health insurance, most non-manufacturing employes contribute 26% to 50%, while non-business employes pay a little less than 50% of their health insurance costs.

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

Insurers recoil . . .

Continued from previous page
$450,000 award to a Florida insulation worker and the possibility that a decision in a pending case will say asbestos manufacturers knew of the dangers of their product have raised the insurer's concerns, said Mr. Busti.

Also of concern to product liability underwriters is the case pending before the 6th Circuit U.S. Court of Appeals in Cincinnati where insurers are trying to determine whether a disease "occurrence" is defined to be the period of exposure or the time of manifestation or discovery. A lower court ruled in favor of the "exposure" theory and an appellate court ruling is expected sometime this fall.

The exposure theory places responsibility for claims with insurers writing the risk during the period that the plaintiff was exposed to the cause of illness. With industrial diseases such as asbestosis, often the result of several years of exposure, several policies could be involved in payment of claims. An insurer on a risk for two years out of a 20-year exposure period would have to pay 10% of any award to a claimant.

Should the manifestation theory hold, responsibility for claims would fall to the insurer on the risk in the year of manifestation. As a result, primary limits would be used up faster and excess underwriters would more quickly become involved as claims approached upper layers.

Several insurers, including The Travelers, Northbrook Excess & Surplus, Liberty Mutual and Kemper support the exposure theory while INA and Aetna Life & Casualty are among those favoring the manifestation approach.

Even Lloyd's of London is split on the question; some syndicates are retaining counsel in support of the exposure theory while others interpret the liability policy to be based on the manifestation theory.

Insurance Services Office, the major insurance ratemaking organization in the U.S., is studying the debate but hasn't decided what form its policies will follow, said Michael Ruback, ISO manager of industry relations.

The asbestos claims could eventually be removed from litigation if a compensation board is established to handle future claims as proposed by U.S. Rep. Millicent Fenwick (R-N.J.), whose home district includes a major facility of Johns-Manville, the nation's largest asbestos producer.

Under Ms. Fenwick's scheme, the government would pay asbestos claims from the time the law is enacted through the end of that year. The government could then sue the manufacturers for claims paid during that interim period, explained Lawrence Rosenshein, her aide.

Future claims would be paid by the compensation board from funds collected from asbestos producers, manufacturers of products containing asbestos and the tobacco industry, since smoking increases the likelihood of someone exposed to asbestos contracting asbestosis or other disabling diseases.

For asbestos producers, the fund's assessment would be 2% of sales for the corresponding quarter 15 years prior. Manufacturers of products containing asbestos would be assessed 1% of sales and there would be a levy of three-tenths of 1% of sales against tobacco manufacturers.

Johns-Manville and the AFL-CIO support the proposal, but critics, including California congressman George Miller, whose district includes another Johns Manville's plant, claim the bill call for unreasonable use of taxpayer money.

A Johns-Manville spokesma countered that many of those ex posed to asbestos were working o government projects that specifie use of the mineral.

Asbestos litigation might not en with resolution of claims by pe sons who came in contact with th mineral in the work place. Expo sure of the public to asbestos i buildings and from consume products hangs on the horizon as new potential threat.

Asbestos was regularly used i school construction between 194 and 1973 and it is used in the manu facture of some 3,000-odd con sumer products.

The New York City Board of Ed ucation expects to spend $35 mil lion to correct asbestos exposur problems in approximately 17 schools, according to Anthon Smith, executive director of the board's division of schoo buildings. Although it is unlikel that anyone has been exposed t harmful amounts of asbestos, the board wants to insure that there i no unnecessary exposure to the hazardous substance, he ex plained.

But already one New York teacher has sued the school board city and Johns-Manville claiming that exposure to asbestos in a school caused her to contract lung cancer.

Mr. Smith said it is premature to say whether the city would seek reimbursement from Johns-Manville and other asbestos producers fo the cost of the physical plant improvements.

Rep. George Miller (D-Calif.) has introduced legislation to fund similar programs for schools around the country. As originally proposed the bill would have required asbestos manufacturers to contribute $30 million for asbestos detection. But, this provision was defeated in committee and the bill now calls on the attorney general to investigate the possibility of recouping the cost of removing asbestos from asbestos manufacturers.

Portable hair dryers manufactured with asbestos fiber insulation have also been the subject of governmental concern. The Consumer Product Safety Commission has advised the manufacturers to recall all such units, which 11 manufacturers have done.

Asbestos fibers must be released into the environment for there to be potential for harm, said Dr. David Shapiro, assistant director of toxicology for the National Cancer Institute. "If asbestos remains intact, it won't get out. But if the container has been damaged, the possibility of getting out exists."

The risk of low level exposure to asbestos can not be quantified, according to Dr. David Rall, director of the National Institute of Environmental Health Sciences, but, plaintiff's attorney Robert E. Sweeney said there is no safe level of exposure. ■

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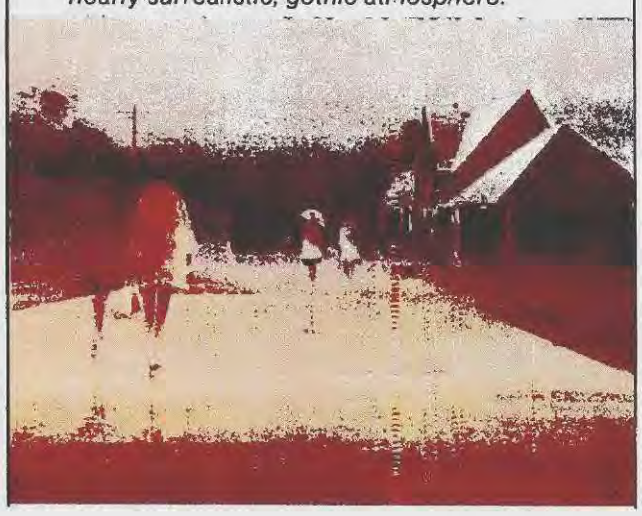
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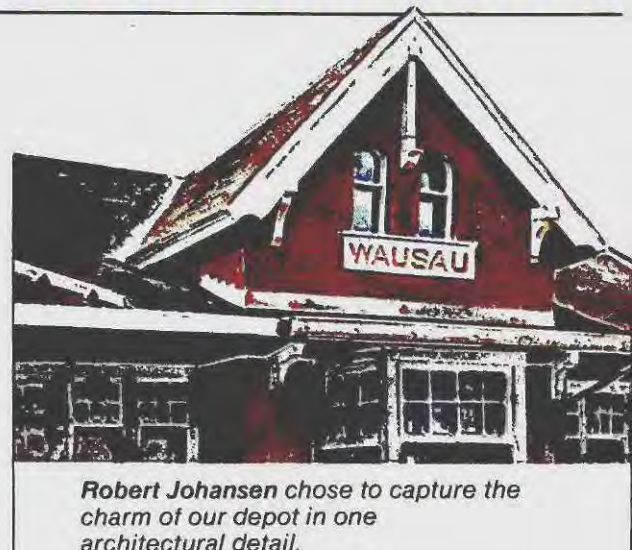
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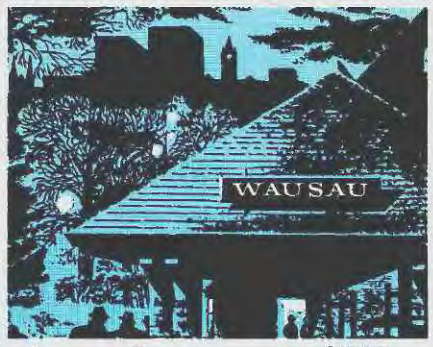
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Expect no public pension relief: Ex-official

By STUART EMMRICH

NEW YORK—General tax revenues will probably cover about a third of the cost of Social Security within the next 15 or 20 years, predicts a former official with the U.S. Social Security Administration.

But that won't lighten the payroll tax burden on employers and employes—now the sole source of Social Security funds—says A. Haeworth Robertson, now a vp with William M. Mercer Inc. The additional revenues will be needed to pay for increased costs of the program.

It's estimated by the government that payroll taxes will grow from the present 6.13% of salary to about 8% in the year 2000 and to 12% by 2025. The maximum salary to which these taxes apply will also increase from the present $22,900 to $29,700 in 1981, after that rising in proportion to average wages.

By the year 2030, there will be one Social Security beneficiary for every two workers, instead of the present one for every three, it's also estimated. The boom in the elderly population will result because more than half the present population was born after 1946.

That expected boom should induce employers to consider changing their employe benefit programs now to deal with future needs, Mr. Robertson said at a Mercer conference held recently on the future of employe benefit programs.

"Flexibility will be the byword of the future in employe benefit programs," Mr. Robertson said. 'It is incumbent on the employers to deal with the changes" in laws and society that might pose future problems.

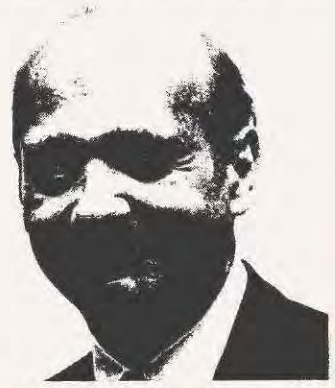
Potentially the most influential factor in changing benefit plans is the predicted end of mandatory retirement, which several speakers said would come as soon as 1982. Not only compelled to keep older workers who want to work, companies will also find they need the older employes to fill in gaps left by the declining number of young people, the speakers said.

Pension plans, as a result, will decline in importance as retirement programs, predicted Mercer vp Lloyd Kaye. Companies will instead offer partial retirement opportunities so employes could either work part-time after a certain age or perform less strenuous tasks. The employes would then collect half-pay and use what would ordinarily be a pension plan to provide some sort of income maintenance protection.

"The day will come—and it will come before the end of the 1980s—when you realize you need older employes and you will treat them better," Mr. Kaye said. Employers will have to start redesigning their programs, predicted Mercer vp Lloyd Kaye. Companies will in-

Most benefit plans are now set up for the employe who is a male, head-of-household with a nonworking wife and several children, other speakers noted, but that stereotype will represent only 20% of the labor force in 1985, its believed. Estimates show that 45% of the labor force will consist of a husband and wife both working, 24% single employes with no dependents and 10% single employes with dependents.

Considering these statistics and others that show a high rate of remarriage, companies should con-



The payroll tax burden on employers won't lighten soon, according to Mercer vp Haeworth Robertson.

sider changing the way employes' death benefits are handled, it was suggested. Rather than the prevalent system of paying survivors a lump sum death benefit of two or three times the employes' annual salary, Mr. Kaye advocates a monthly survivorship income be paid until the beneficiary dies or remarries.

This survivorship income plan will be especially useful as companies realize they should provide the same life insurance benefits to retirees as they do to working employes, Mr. Kaye said. ■

'Cafeteria' idea to grow: Consultant

NEW YORK—Despite the tendency of some employe benefit managers to still tag cafeteria plans as novel, the concept will probably grow more important and popular, predicts William Mercer vp Howard Risher.

A combination of economic and social factors will probably make the choose-your-benefits plans more attractive to employers in the next decade, the compensation expert said at a recent Mercer seminar here.

The successful cafeteria plans at three companies—American Can, TRW and Educational Testing Services—is proof the concept has merit, Mr. Risher asserted.

The plans, which stress choice for employes and flexibility for employers, are the product of many factors which have hampered benefit programs. Mr. Risher cited legal challenges and benefit directives, demographic changes in populations, escalating costs, wage controls and employe demand for greater participation in benefit planning.

Perhaps an even more important reason for change is the excessive benefits that some companies think they have to give employes, Mr. Risher said. One company pays a death benefit of 11 times annual salary, he noted.

Cafeteria plans can vary in what benefits are offered and to what limits, but they all must meet certain requirements. They must be non-discriminatory in benefits and eligibility; they must offer employes a choice of two or more benefits and they must exclude deferred compensation.

The largest disincentive to firms adopting cafeteria plans is the unknown quality of them; with so little experience, many employers are wary of trying something new, Mr. Risher said. ■



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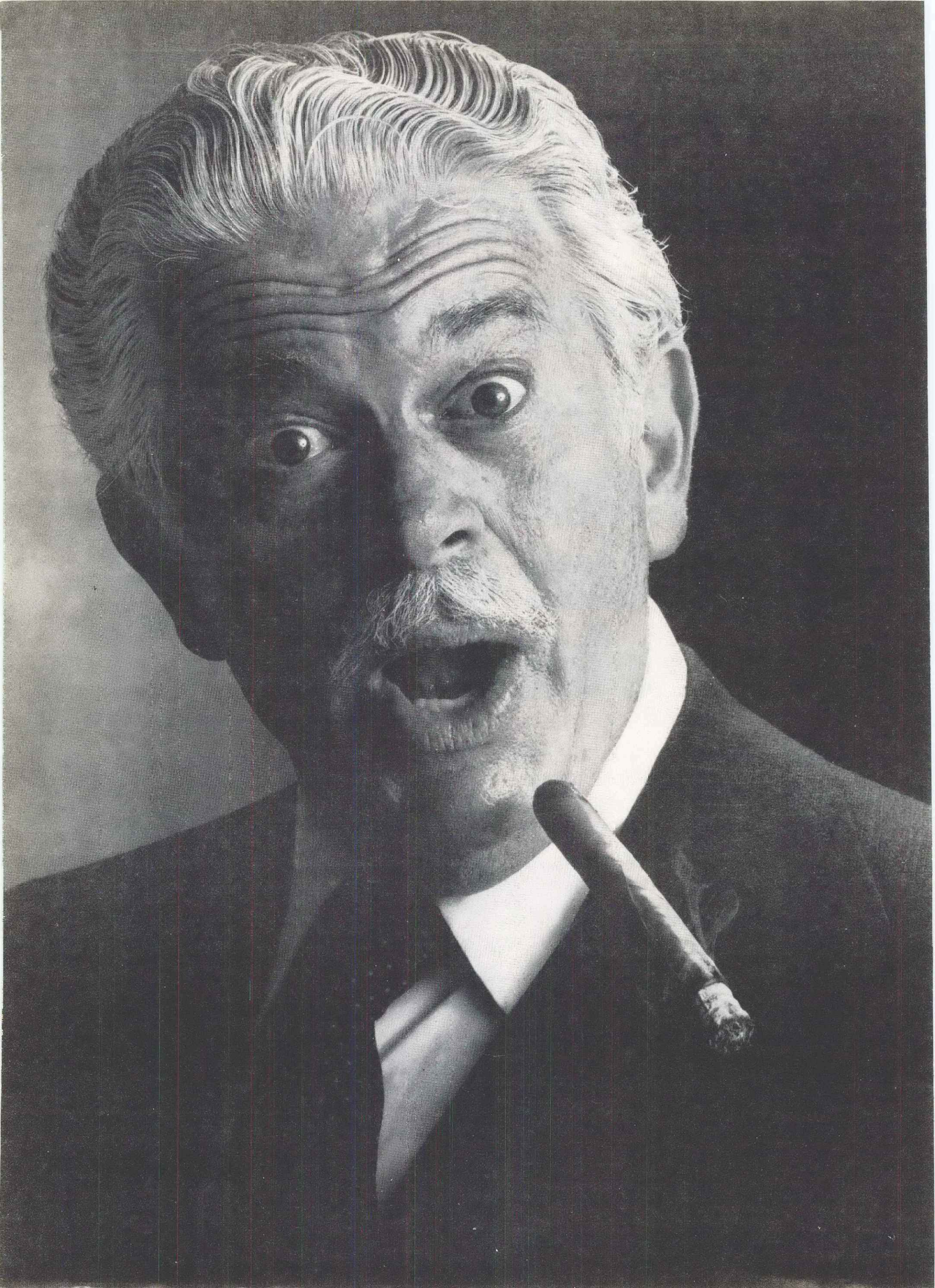
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around the states

Nev. OKs self-insured work comp plans

CARSON CITY—Nevada employers can start self-insuring workers compensation risks beginning in January 1980.

A bill (AB 84) passed by the legislature and signed by Gov. Robert List earlier this month makes Nevada the 47th state to allow self-insurance of workers compensation.

Texas, North Dakota and Wyoming are the only states that still prohibit self-funding the statutory exposure. The Texas legislature killed a proposal this year to allow self-funding in that state.

Self-insurers will have to deposit with the state insurance commission either money, securities or a bond equaling 105% of the anticipated annual cost of claims or a minimum of $100,000. In addition, the insurance commission can require some evidence of excess insurance or reinsurance to handle potential catastrophes.

The heavy financial requirements are expected to limit self-insurance to between five and 15 of the state's largest industries, including the utilities, some hotels, casinos and banks, an insurance commission spokesman said. These industries were the most interested in getting the bill passed, he added.

Design liability

AUSTIN—The Texas supreme court in a landmark decision has ruled that General Motors Corp. and a car dealer must pay $1.14 million in damages to a man paralyzed in an accident that was not caused by any defects in the car he was driving.

The court said a manufacturer can be held strictly liable for a defective design that causes an injury even if the defect did not cause the accident.

Robert Turner of Pearland was driving on a farm road in southeastern Texas in April 1971. Suddenly, he swerved his car to avoid a collision with a truck. His car overturned and his vertebra was crushed when the roof of his 1969 Chevrolet Impala caved in on the driver's side.

Attorneys for Mr. Turner, a former school superintendent, contended that his injuries could have been prevented if GM had built a stronger roof on the Chevy.

But General Motors countered that the Impala was the strongest car it had on the road in terms of roof strength and that it was 2.5 times stronger than federal safety standards.

The court, though, said "the public interest in human safety requires the maximum possible protection for the user of the product."

Work comp rates

DOVER—Workers compensation insurers in Delaware are back again for a rate hike, this time for 11.5%.

A rate hike of 16.8% had been approved effective Feb. 1 by insurance commissioner David H. Elliot. Insurers had requested a 25.6% rate hike in September 1978, but Mr. Elliot rejected it as too high.

An actuary will be hired to scrutinize the latest rate hike request, Mr. Elliot said.

Meanwhile, the commissioner approved an average rate decrease of 6.2% for medical malpractice insurance for hospitals underwritten by Aetna Casualty Insurance Co.

No-fault repeal

CARSON CITY—Nevada Gov. Robert List has signed legislation repealing the state's no-fault automobile insurance law.

Nevada is the first state in the nation to scuttle a no-fault law. The state now returns to the fault system that existed prior to the passage of the 1973 no-fault legislation.

Wash. self-insurance

OLYMPIA—The Washington legislature gave last-minute approval to legislation that allows governmental entities to self-insure their liability risks (H.B. 56).

The bill now goes to Gov. Dixie Ray who is expected to approve it.

Tougher arson law

TALLAHASSEE—Florida's new arson law, signed recently by Gov. Bob Graham, gives the state "the toughest arson law in the country," according to insurance commissioner Bill Gunter.

The new law expands the arson statutes to include as first degree felonies fires set to occupied or unoccupied residences as well as fires set to the contents of the buildings.

"Arson costs Florida taxpayers and insurance consumers about $100 million a year," said Mr. Gunter, "and causes greater estimated property loss than any other major property crime such as robbery, burglary, larceny and motor vehicle theft."

Conn. arson law

HARTFORD—The Connecticut legislature has approved a measure (H.B. 158) that would sharply increase penalties for persons convicted of arson-related crimes.

The bill calls for mandatory life imprisonment with no parole for any arson-related deaths. The measure eliminated a call for imposing the death penalty for arson. ■

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Expose the phantom benefit

LONG TERM DISABILITY plans are increasingly viewed as valuable benefits for employers to offer their workers and are considered all the nicer because they seldom cost the employer much. Frequently, the employe shares in the cost of the benefit or pays the entire bill, doing so without complaint because the salary continuance benefit is perceived as worthwhile.

Now comes a new view of LTD, however, from Peter O'Brien, a benefit specialist with Johnson & Higgins in Colorado and president of the J&H office there. Buyers would do well to consider Mr. O'Brien's opinions when they next set out to negotiate an LTD renewal or to find a new carrier.

As the result of a limited, but very revealing, survey of 69 benefit managers conducted at the May RIMS Conference, Mr. O'Brien thinks LTD plans are pretty expensive, considering what he found to be an exceptionally low loss ratio of only 7.1%.

LTD plans, he thinks, often fail to deliver promised benefits and cost too much for the level of benefits delivered. Integration of LTD benefits with a host of other plans—workers compensation, Social Security and pension programs—often means the LTD plan won't have to pay a cent to replace a given percentage of a disabled worker's salary. This is bad for the employes, but it's also bad for employers, who usually pay the lion's share of the bills for insurance programs unlikely to be drawn upon.

Mr. O'Brien's survey of benefit managers buying LTD plans covering nearly 4,000 employes found the average rate for LTD plans at 53.66 cents per $100 of coverage. Not terribly high, but no bargain, either.

Mr. O'Brien thinks LTD plans might just be the phantoms of the benefit field. The June 11 story about the results of his survey point to the need for scrutiny by buyers of what they're getting for their bucks.

You can't fool fire danger

THE LOCAL FIRE INSPECTOR pulls up in front of a small factory, located on the outskirts of a booming metropolis of 150,000 people. He visits the plant once a year, generally giving it a clean bill of health, writing a report saying there aren't any fire violations, after being hosted around for several hours by the plant foreman and the division vice president.

A week later the plant burns down, killing a couple of workers and injuring several firefighters. The insurance adjusters flock to the scene of the million-dollar loss, uncovering a half-dozen major fire violations. Fire doors routinely left open; fire walls with openings in them after remodeling; faulty electrical connections; flammable construction materials where the code requires fire-retardant construction.

Is this atypical? One consultant we know says not.

Listen to this: "I continue to be amazed at the poor quality of local building inspector fire violation checks and the reliance that risk managers place on having passed these checks," the consultant wrote.

"This past week I went for a 10-minute walk with a client through a portion of his premises and found easily a dozen violations. Yet, the local building inspector had given the place a clean bill about 45 days earlier. This is nothing new, nor is it an isolated incident."

He found stockrooms stacked to the ceilings with no clearance for sprinklers, doors nailed shut, inactivated sprinkler systems, high-heat office equipment in small rooms with no ventilation, multiple electrical connections running off a single outlet using a three-way tap and fire doors with automatic controls circumvented.

Seems like a good trick to be able to fool the fire inspector or the engineer from your insurer. But a loss will negate the feeling of victory you experienced when an inspector went easy on you.

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Nuclear risks

To the editor: Several inaccuracies were contained in the article "Nuclear accident fuels liability limit fight" in the May 28 issue of *Business Insurance*.

The maximum liability of both nuclear energy liability insurance pools (American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters) in connection with the incident at Three Mile Island is $140 million, not the $160 million figure given in the article. (The $140 million is the pools' commitment for the primary layer of insurance and does not include their contingent liability exposure in the secondary financial protection layer.)

The $140 million limit applies because the event began prior to May 1, 1979, the date that the Nuclear Regulatory Commission required operators of nuclear power reactors to provide proof of financial protection in the amount of $160 million.

Of the $140 million total limit, the ANI members' maximum liability is $108,500,000; MAELU's $31,500,000.

After reinsurance, the net liability of the pools would be approximately $74.58 million ($57,800,000 and $16,780,000 ANI and MAELU respectively).

The $75 million mentioned in the story represents the result of a program under which approximately 70% of the liability premiums collected by the pools each year for the last 22 years is held in a reserve fund which can only be (1) used to pay incurred losses or (2) returned to the insureds after a 10-year experience period.

While Stuart Emmrich's statement that all but $58 million of ANI's liability is reinsured is basically correct, he omitted MAELU's $16.8 million net retention. Also, he is in error when he indicates that (I presume) if a maximum limit loss should occur. . ."Even the $58 million would be paid out of a built up reserve of $75 million. . ."

Instead, for any loss greater than the amount in the reserve fund, each ANI and MAELU member and reinsurer would be called upon to pay its share of that portion of the loss exceeding the reserve fund. Additionally, if there were subsequent losses before the reserve fund could be replenished, the pools' members and reinsurers would be called upon to respond on a first-dollar basis.

Charles R. Bardes
Vp, liability underwriting, American Nuclear Insurers, Farmington, Conn.

D&O in Canada

To the editor: I had the pleasure of reading your article in the *Business Insurance* of May 14, 1979, (Personalized policy follows D&O expert to INA).

However, I have to take issue with your statement that Canadian companies will be obliged to carry D&O insurance by 1981. To my knowledge, there is no law which imposes such obligation.

Possibly you were thinking of Section 119 of the Canadian Business Corporation Act of 1976, which states:

119 (4): "A corporation may purchase and maintain insurance for the benefit of any person referred to in this section against any liability entered by him under paragraph 117 (1) (B) in his capacity as director or officer of the corporation."

Section 117 (1) (B) of the same act defines the liability of a director and an officer:

"Every director and officer of a corporation in exercising his powers and discharging his duties shall exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances."

Your article could leave the non-initiated under the impression that companies have the obligation to maintain D&O coverage. I wanted to clarify the point.

Gilles Nadeau, c.a.
Vp, Gestas Corp. Ltd., Montreal, Quebec

Don't whine

To the editor: For the first time in 200 years women are not subjected to official, legal, financial discrimination when they are pregnant and want to carry to term.

We never paid less for insurance because one major health and hospital need, for the reproductive system, was ignored and/or denied. We were allowed to pay for insurance coverage for all of men's needs, based on their own decisions, and 20% of our needs, also based on men's decisions. The other 80% of women's health and hospital needs (pregnancy to term, abortion, sterilization and/or hysterectomy) were covered on a rigidly controlled, bare bones basis, or denied.

So now the government won't let employers deny coverage on one portion of women's health need and *BI* prints a half page of whining.

I invite you to think about the needs of women for comprehensive health care based on their own decisions and aimed at keeping them in the work force, not putting them out.

Elizabeth Tower
Detroit

A correction

To the editor: In regard to the article in the "People" column of the May 28 issue of *Business Insurance* concerning the staff changes at The Great Atlantic & Pacific Co. Inc., (A&P), there appears to be a factual error.

Contrary to what was published in the aforementioned article, my responsibilities do in fact include "pension investments."

Richard R. Luther
Director of insurance and pension investments, A&P, Montvale, N.J.

A collision

To the editor: First page story (May 28) on the mid-air crash about who is paying the claims, has in my opinion a glaring distortion: The last sentence of the third paragraph says "the small airplane that collided with the PSA jet."

In fact, the investigation showed that the PSA jet overran the Cessna and collided with it, even though the PSA crew told the controller they had the Cessna in sight. Later in the article you did clarify this, but first page impressions are lasting.

Edward F. Martz
Edward F. Martz Inc., Madison, N.J.

B&M gains

To the editor: We at Utility Services enjoyed reading the April 16 issue of *Business Insurance* and the boiler and machinery articles which it featured. Thank you for

Continued on page 50

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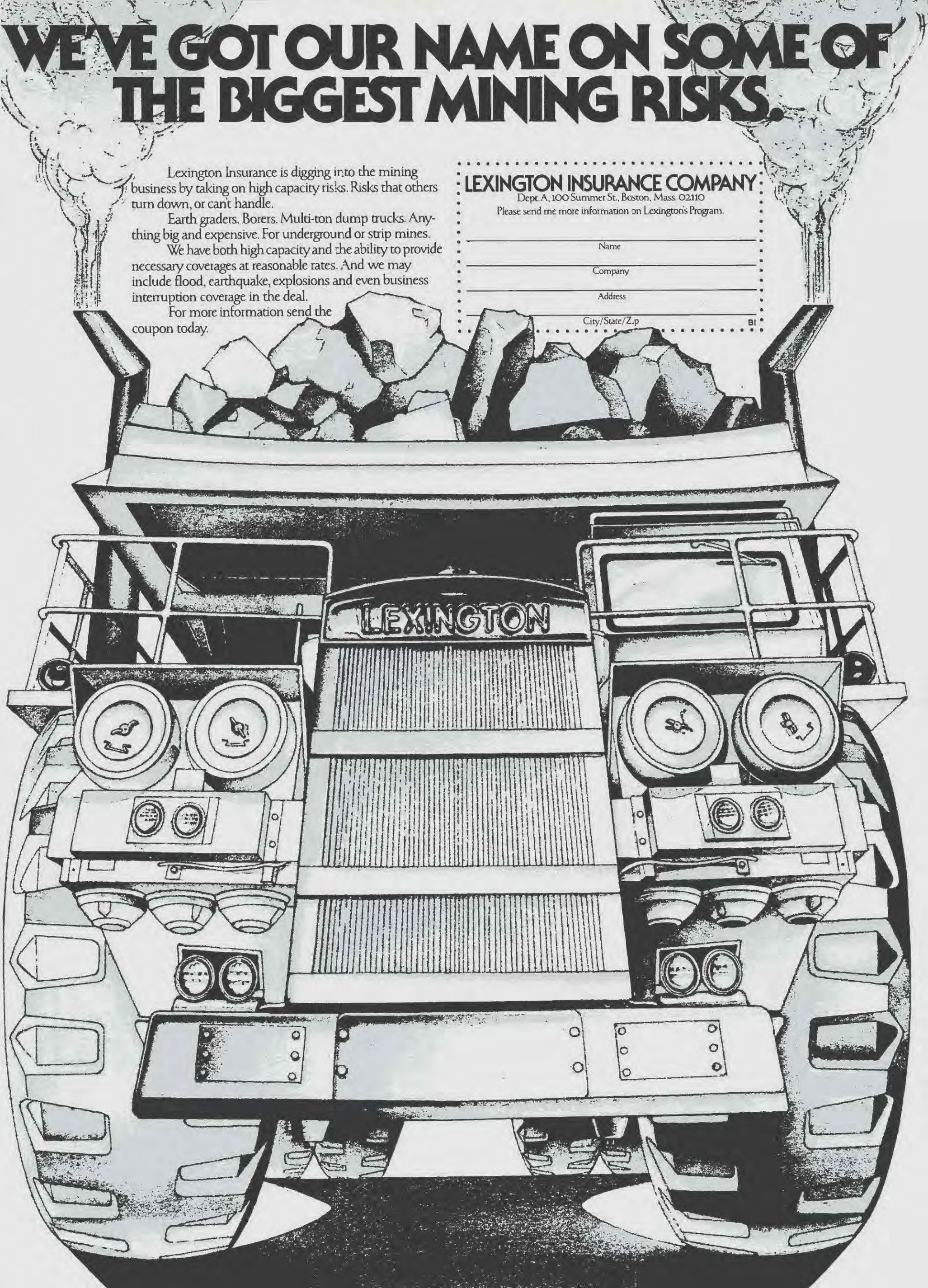
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Reinsurance pools for captive growth spark controversy

By ELLIS SIMON

NEW YORK—A leading broker recommends that captives tap reinsurance pools to get third-party business, but an underwriter for an insurance company that evolved from a captive calls the pools "risky business."

Any third-party underwriting can drain a captive's surplus, warns another captive expert.

By joining a reinsurance pool, the captive operator can easily restructure his book of business to satisfy IRS requirements, said Richard J. Rice, vp of Johnson & Higgins, at the Financial Analyst Federation insurance semina here.

Through a reinsurance pool, cap tives can share with each other th most predictable losses by partici pating on the lowest levels of cover age, rather than "grafting" onto outside business with higher expo sure levels and less predictability he explained.

The recent tax court decision ir the Carnation case (*BI*, Jan. 8) un derscores the need for captives tc write third-party business if paren companies want to tax deduct pre mium payments, he noted. Accord ing to tax law specialist Sidney Pine, Mr. Rice added, a captive wil probably have to write at least 20% outside business to satisfy the IRS that it is a bona fide insurance com pany.

Captive managers in Bermuda report continuing interest and ac tivity in third-party underwriting among captives.

However, captives going com mercial must be careful, warned Richard W. Rogers, manager of special accounts for Bellefonte In surance Co. Bellefonte, formed as a captive of Armco Steel Corp., in 1953, earned 99% of its 1978 net pre mium of $260 million from unre lated risks.

Hiring an underwriting manager or forming reinsurance pools with other captives can be risky, Mr. Rogers warned.

Instead, he recommended align ing with a reputable risk-bearing organization that shares in the losses.

Providing captives with the op portunity to participate in reinsur ance treaties provides additional market capacity, noted Richard Williams, vp of American Interna tional Co. Ltd., AIG's captive man agement facility in the popular cap tive haven of Bermuda.

But, captives should only accept outside business from a party if the intermediary is taking a "meaning ful share" of the risk and commis sions are tied in with the business's welfare and profitability in mind, he suggested.

Participation in captive reinsur ance pools and accepting business from other insurance companies are both valid ways for captives to get third-party business, Mr. Wil liams noted.

Reinsurance pools can be an ex cellent vehicle provided that par ticipating captives have similar loss ratios, he said. However, the exposures must be similar; office buildings and petrochemical plants do not belong in the same pool.

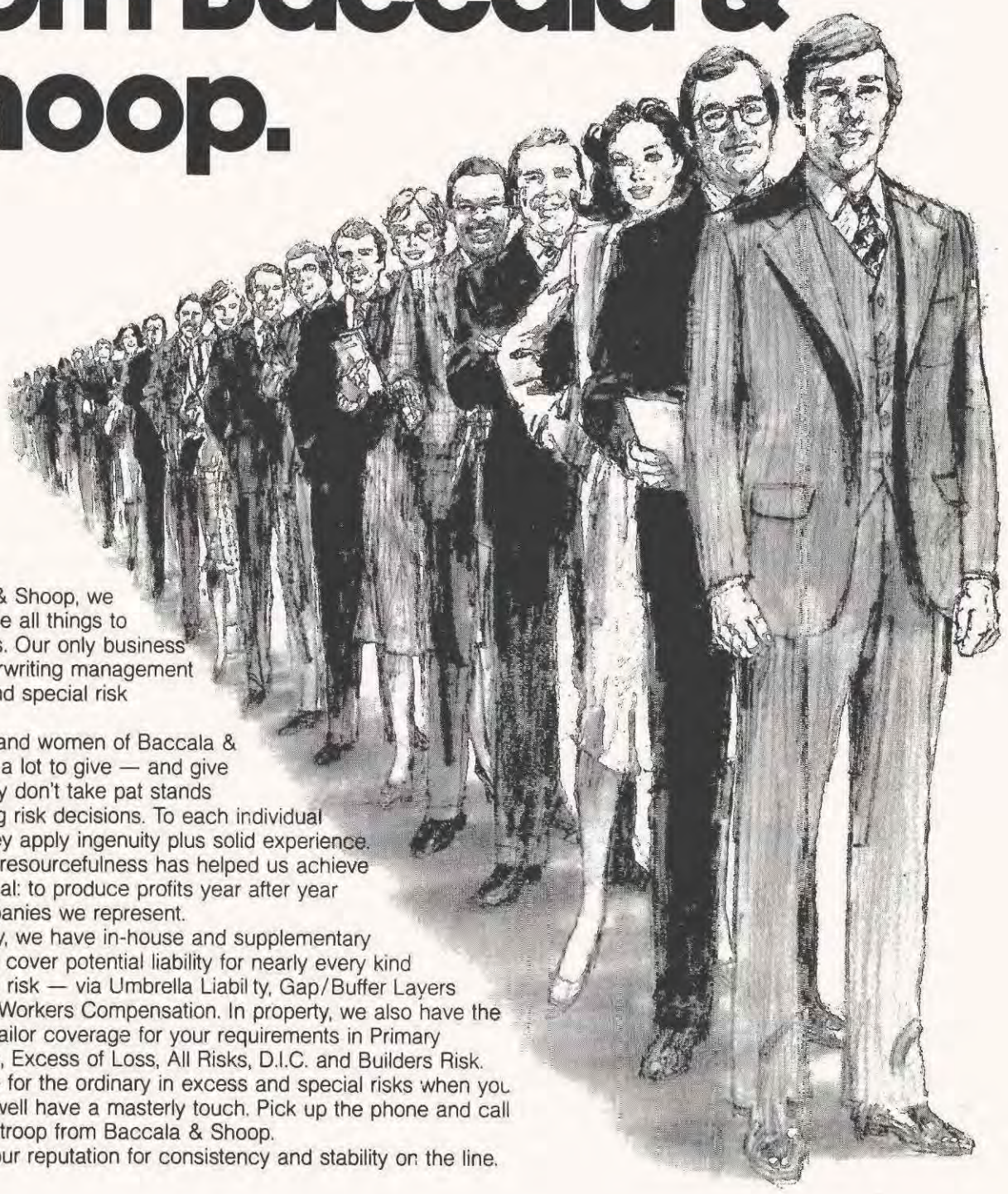
Mr. Williams warned that third party business could be the "Achilles heel" of the captive movement. Many parent compa nies are not aware of the nature of this business, particularly where long-tail liability might be in volved, he said.

Captives could fall into financial trouble as a result of third-party business and parent companies might not be willing to pump money into a captive to pay third party losses, Mr. Williams contin ued. "They will let the captives go under," he predicted.

"If a few captives get into finan cial difficulty, stricter regulations will have to be imposed on every one else," he said. "It would be just like the groundings of the DC10s." ■

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Premium hikes hit rural towns hardest: Regional cost survey

By MARY ELLEN McKEE

DETROIT—Defying old notions that large, urban areas are hit with more drastic premium hikes than small, rural areas, preliminary results of a survey of municipal insurance costs reveal the exact opposite is true.

And liability insurance was the biggest headache of all insurance lines, a study conducted by the Insurance Services Office and the Municipal Finance Officers Assn. also shows.

The highest liability premium hikes during the years 1975 to 1977 were suffered by areas with a population of 2,501 to 5,000, up an average of 224.5% compared with premium increases of an average of just 28.5% in communities of over one million.

The ability of larger communities to retain more risk is part of the reason smaller communities were hit with larger premium increases, suggested Nestor Roos, professor of insurance at the University of Arizona, who interpreted the preliminary survey results at a meeting in Detroit of the Municipal Finance Officers Assn.

He warned, however, that "it is difficult to make definitive, sure-fire conclusions from data runs with little breakdown." Still, the preliminary results provide some interesting insights into possible trends in municipal insurance, he said, and may point to some solutions to problems.

Of the 2,200 surveys mailed to municipalities around the country, 826 were returned, making the response rate 40%. That's generous enough to provide important and useful information, said Mr. Roos.

The survey reveals that composite premiums paid by the responding municipalities rose steadily from 1975 to 1977. Total premiums paid in 1975 of $333 million rose to $445.7 million in 1977 and exceeded $500 million in 1977.

Next to communities with populations of between 2,501 and 5,000, areas with a population of 5,001 to 10,000 saw the biggest liability premium increases, averaging 170.1% over the three-year period. Following, the next largest areas also saw the next largest liability premium increase an average 120.1% in communities of 10,001 to 25,000. In communities of less than 2,500 liability premiums rose an average of 93.3%.

In larger communities, the premium increases were less dramatic. Areas with 50,001 to 100,000 residents experienced an average liability insurance premium increase of 91.5%; areas with 100,001 to 250,000 saw premiums rise an average of 65.2%, and communities with between 500,001 and one million residents saw liability premiums increase an average of 40.9%. Finally, cities and counties with over one million residents were able to hold liability premium increases to an average of 28.5%.

The lowest increases in liability premiums were found in large, urban areas with a 41% average increase in premiums shown between 1975 and 1977. Industrial suburbs saw an average 112% increase. While residential suburbs saw a 79.3% increase. Liability premiums in rural areas rose an average 63.6% and resort areas reported an average increase of 45.4%. Mr. Roos cautioned, however, that these figures might be deceptive. A community can often view itself as a resort area and actually be something totally different.

On a regional basis, the New England states experienced the most extreme hike in liability premiums with a 121.4% jump in premiums between 1975 and 1977. In the South Atlantic states, premiums rose only 32.4%, while in the Midwestern states premiums jumped 111%. In North Central states municipal liability premiums rose 70.2%, in South Central 25.7%, in Mountain states 39.2% and in Pacific states 61.7%.

Municipalities in the Pacific states faired better with premium increases than the New England states, because most cities and counties in California, for example, have risk managers and risk retention practices are common, Mr. Roos noted.

Employee benefit premiums, according to the study figures accounted for 95% of the total premium in 1975, dropping to 87% in 1976 and finally dipping to 81% of the total premium in 1977. The percentage of liability premium costs in the total premium, on the other hand, rose 54.8% in a three-year period, according to the study.

"Three factors could explain the extreme jump in the premiums of liability coverage for cities and counties," Mr. Roos noted. In 43 states, government officers have lost the right of immunity which protected them for being sued by a party for any job-related activity. "Insurance companies were willing to write all the liability insurance they wanted as long as there was no liability," Mr. Roos gibed.

Most governmental units still do not have a risk manager or a risk management program, making control of liability costs impossible, Mr. Roos said, explaining another reason for the jump in liability premiums. "If you don't have one person assigned the responsibility of tracking loss exposures and trying to find, not the cheapest, but the most economical way to obtain coverage, rates will continue to skyrocket," Mr. Roos told his audience of 200 municipal financial officers, of which only 15 had organized risk management programs.

Another major factor in the increased ratio of liability insurance premiums in the total premium bill is the lack of safety effort initiated by municipal employes. "A few years ago that was due to the shortage of expertise and an unwillingness of safety people to work at the municipal level," Mr. Roos said.

But now, he sees a reverse in this trend among safety management graduate candidates at the University of Arizona. They are slowly moving toward government work, with three of the 35 candidates in the graduate program accepting safety jobs for municipalities. Mr. Roos urged his audience to use the young talent available to get their safety program rolling. ■

New Ore. office

Claims Management Services, a technical service of Marsh & McLennan Inc., has opened a new branch office in Portland, Ore. Claims Management Services, headquartered in New York City, offers claim service for self-insured companies, excess and reinsurance carriers and primary carriers. This is its sixth office and first on the West Coast.

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Reinsurers garner small profit margin, shows survey of 47

NEW YORK—The top reinsurance companies showed a slight underwriting profit in 1978, the second consecutive year since 1974, according to figures recently compiled by the Constellation Reinsurance Co. and obtained by *Business Insurance*.

The survey of 47 firms shows that the combined ratio of losses and expenses incurred to premium earned averaged out to 99.4—a profit of 0.6%. That compares with a ratio of 99 in 1977, the first year in four that the combined ratio of the surveyed firms dropped below 100.

The 99.4 figure is also substantially lower than the average combined ratio of the companies from the years 1974 to 1978: 102.1.

Alliance Reinsurance Management Corp., of Los Angeles turned the best combined ratio of the surveyed companies with a combined ratio of 90.7. It also had the best record over the five years between 1974 and 1978, with a combined ratio of 91.7 and a profit percentage of 8.3%.

In terms of profit dollars, General Re/North Star Re placed highest on the list, bringing in $15.7 million of profit on $655.7 million of premiums earned.

Investment income, on which reinsurers depend for their profits, was not addressed in the survey.

The figures in the survey reflect a more conservative reserving approach the companies have taken since they got burned during the mid-1970s, one reinsurance company executive said. Then the combination of unexpected high inflation and a generally bad investment market resulted in losses for reinsurers. Their combined ratio hit a five year high of 109.3 five years ago.

According to some industry experts, the reinsurers are now aware of what can happen during a period of high inflation and are beginning to reserve more funds than they normally would to prepare for future losses driven up by the reduced buying power of the dollar. For instance, only seven of the surveyed firms reported having a combined ratio below 100 in 1974, but last year 31 of them dropped below that mark.

But one can't judge a reinsurer's performance by just the combined ratio figures, say observers. "You shouldn't get all up in arms and walk away from someone who has a ratio of 101. Those numbers by themselves do not tell the story. Everything is relative," said one reinsurance executive, explaining that ratio figures are often tied to a company's management and reserving philosophy as well as its loss experiences.

Of course, companies that had a bad loss record last year will probably tend to be a bit more conservative in policies this year while a company that had a good year might be expected to continue its underwriting policy.

Based on the figures in the survey, the biggest losers last year were Alliance Mutual Re, which had the lowest profit percentage at −23.1%. Its five-year average of −52%, was also the lowest of the 47 firms.

The Excess & Casualty Reinsurance Assn. had the greatest profit loss of $4.7 million on $208.3 in premiums earned, but its combined ratio of 102.3 placed it 10 spots out of the cellar.

Besides Alliance Reinsurance Management Corp., the other nine companies with the best combined ratio, were, in order: FMH Reinsurance Dept., Fremont Indemnity, Northeastern of Hartford, Pacific Reinsurance Management, Scor Re, Ohio Re, Universal Re, Munich Re Group and Christiania/Switzerland Group.

No other company came close to General Re/North Star Re in premiums written, but other large firms include American Re ($356.6 million) Employers Re ($360.8 million), and North American/Swiss Re ($329.6 million). ■

Why employee benefit communications don't always communicate.

J&H points out some expensive mistakes.

Mistake 1: Confusing pieces with programs. Communications developed in the absence of overall plans often lack continuity and cost-effectiveness.

Mistake 2: Settling for off-the-shelf approaches. What works well for one firm may not work for you.

Mistake 3: Accepting one-shot solutions. An approach that considers only an immediate problem may have quite serious long-term weaknesses.

Mistake 4: Ignoring your in-house talent. You can lose time and money if you fail to utilize your own in-house talent together with that of your communications consultant.

Mistake 5: Equating expense with effectiveness. Communication programs cost money. But don't start with the price tag, start with the message.

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A group of J&H Communications Consultants at a videotape facility. Seated: Dennis McKoy, Vice President; Agnes Gioconda. Standing: Thomas Loughrey, Joan Korn and Robert Lang.

EMPLOYEE BENEFIT AND ACTUARIAL CONSULTING: RISK AND INSURANCE MANAGEMENT SERVICES THROUGHOUT THE WORLD

Benefit Board:

Premiums will be level into 1980

By SUSAN ALT

CHICAGO—Employe benefit managers, reeling from the impact of sizeable hikes in costs and premiums for group insurance plans in the last 12 months, are very optimistic that premiums will hold steady for at least the next six months and possibly the next year.

These are the indications of the latest survey conducted among *Business Insurance's* Employe Benefit Board, a panel of several hundred executives who volunteer to periodically answer queries about their practices and predictions.

Over 100 corporate benefit managers responded to a survey about benefit costs and premium levels, 70% of them telling *Business Insurance* their premium rose in the last year. Fully half the group said increases came in the basic health and major medical benefit plans, with hikes averaging 13.5%. The biggest increases were 40% and 45%, reported by benefit managers for two very large corporations.

Long term disability premiums soared in the last year, rocketing ahead an average of 22.8% for the 22 companies saying they paid between 5% and 100% more for coverage.

Dental insurance coverage was more expensive for 11 firms, said benefit chiefs, up an average of 13.6%.

And group life plans cost more for only eight corporations, with premiums up an average of 14.5% for those firms.

Ironically, not everyone suffered in the last year from rising premiums. Three companies out of the 30 reporting no increases said costs actually dropped, usually by 7% to 9%.

One company enjoyed lower group life rates, down 12%.

Optimism is at work in the employe benefit community, motivating 65% of the panel participants to say they don't expect any increases in group benefit costs or premiums within the next six months.

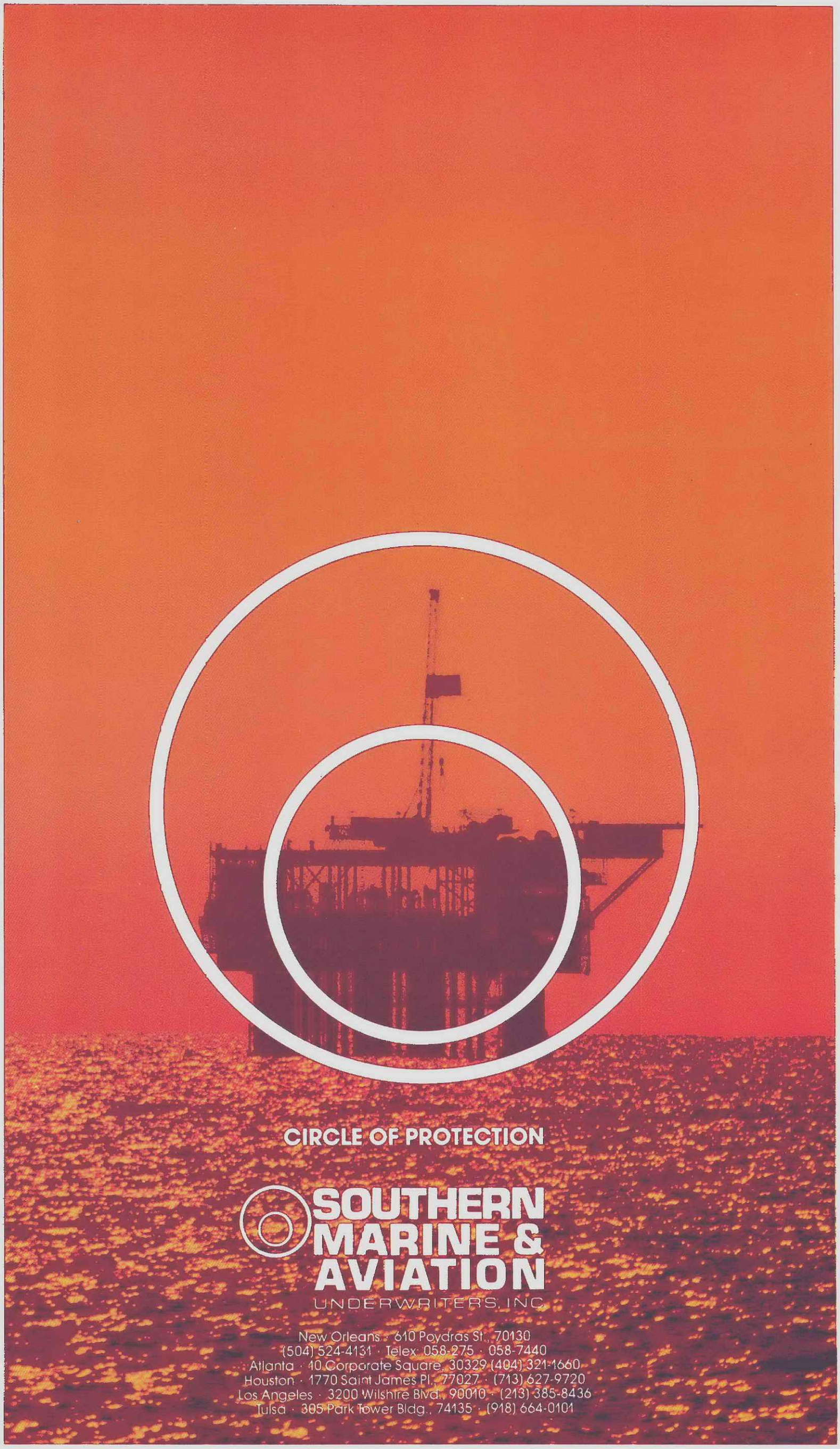
Of the 35% who do foresee hikes, the largest group is steeling itself against 7% to 15% increases in health insurance and major medical benefits. Another sizeable group forecasts 10% increases in long term disability costs, while tiny minorities think dental and group life benefits will become more expensive. ■

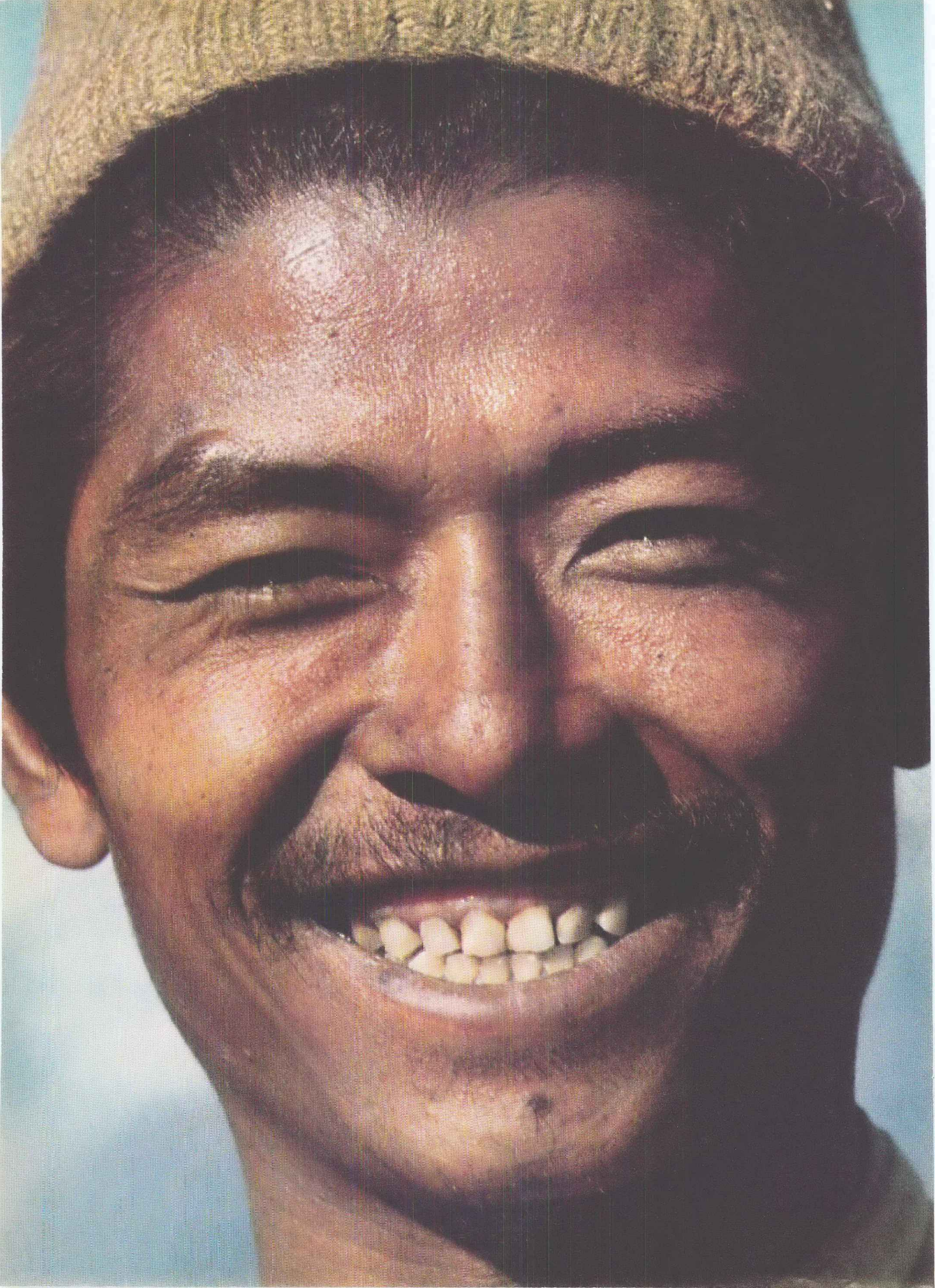
Safety society elects officers

PARK RIDGE, Ill.—Russell DeReamer, IBM Data Systems division manager for safety and industrial hygiene, has been elected 1979-80 president of the American Society of Safety Engineers.

Other officers elected include: John E. Russell, second vp of Maryland Casualty Co., president-elect; Donald J. Eckenfelder, manager, corporate loss control at Chesebrough-Pond's Inc., first vp, and Thomas H. McBrien, a consultant and account executive for Rollins Burdick Hunter in Boston, vp-divisions.

Six regions voted for vice president for two-year terms beginning July 1. Elected were: Robert T. Emmons of M&M Protection Consultants in Seattle; Jesse W. Locke of Texas Employers Insurance in Dallas, and Thomas J. Reilly of Schirmer Engineering, Niles, Ill. ■





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In today's industrial environment, the capacity to cover substantial risks is no less important than it is on the icy footpaths of the Himalayas. But to gain this capacity is no small task. It takes years of success in meeting the needs of a wide variety of insureds. It requires the ability to recognize and understand the particular perils that an individual company might, or will, encounter. It takes, in a word, a specialist.

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Regulators draft bill to stir competition

By JOHN MAES

CHICAGO—A model bill designed to stimulate competition in the insurance market by diminishing the role of ratemaking organizations and requiring insurance commissioners to monitor competitiveness is being developed by the National Assn. of Insurance Commissioners (NAIC).

A draft of the bill was adopted by the NAIC at its June meeting here.

The commissioners also voted to oppose the U.S. Commerce Department proposed Product Liability Risk Retention Act and called for a joint study of the workers compensation rating system during their week-long session.

While the model competition bill and studies of ratemaking for workers compensation would presumably benefit the buyer of insurance, the commissioners' opposition to the Commerce Department risk pooling proposal strikes another blow at a risk funding alternative that the buyers of insurance are still withholding judgment on (*BI*, June 11).

The model competition bill is an outgrowth of more than a year of study by the NAIC's competition subcommittee which has been looking into ways of promoting competition among insurance companies and bringing about fairer and more equitable rates, said NAIC president H. Pete Hudson, Indiana insurance commissioner.

All lines of insurance would be affected by the measure except life, annuities, accident and health, ocean marine, reinsurance and joint reinsurance.

Ratemaking organizations such as the Insurance Services Office would no longer be allowed to file rate increase requests with state insurance departments on behalf of numerous companies under the measure. "There are 1,275 insurance companies in Indiana and almost all of them file independently," noted Mr. Hudson.

Separate rate filing allows for rate variations among insurers depending on each insurer's cost of doing business instead of one rate being filed for all insurers in a state.

But the bill doesn't ask for any restrictions on the other operations of rating organizations, according to Mr. Hudson. On commercial lines, rating agencies would still be able to file "pure premiums," plans to develop rates for expected losses and expected loss adjustment expenses.

The proposed bill promotes the "file and use" system of rate increases unless the commissioner finds the market non-competitive. In those cases, prior approval of rate increases is recommended.

Even though prior approval would no longer be needed for a company to raise its rates, an insurance commissioner could deny the new rate if the market is non-competitive.

The bill also would require that insurance commissioners monitor market situations in their states to determine if competition exists in various lines of insurance. "Such activities may be conducted internally within the insurance department, in cooperation with other state insurance departments, through outside contractors or in any other appropriate manner," according to the draft bill.

Other requirements pertaining only to personal lines include providing consumer information on insurance availability and pricing and requiring insurers to accept all applications for lines underwritten by the company.

Arthur C. Mertz, president of the National Assn. of Independent Insurers, lauded NAIC efforts to stimulate competition and fairer rates, but complained some provisions of the bill work at "cross purposes" with its overall objective.

The NAII's major concern is that narrowing the role of rate organizations would cause a "serious hiatus . . . in trying to navigate ratewise vis-a-vis the federal antitrust laws. That hiatus would stem mainly from the elimination of rating and advisory organizations as known today and the attempted substitution of new instrumentalities of narrow scope known as 'rate service organizations,'" Mr. Mertz said.

Jack Payan, executive committee member of the Independent Insurance Agents of America, said the IIAA believes the bill lacks sufficient safeguards. The section empowering insurance officials to deny a rate increase in a non-competitive market should contain a provision to ensure the denial is made on an "objective basis according to standards prescribed in the statute," he suggested.

Five task forces have been appointed by the NAIC to refine the bill, said Mr. Hudson. A final draft could be ready in December for presentation to individual state legislatures early next year.

In other action, the insurance commissioners adopted a resolution objecting to the Commerce Department's proposed Product Liability Risk Retention Act. The proposal would essentially allow businesses to join forces to self-insure product liability in risk retention groups exempted from state insurance regulation. In addition, small businesses would be allowed to purchase group product liability coverage and receive the same exemption.

The NAIC said it objects to any proposal that "places regulatory supervision over risk retention groups in the hands of the federal government." The association also called the act, "an unwarranted and inadequate substitute for state regulation of product liability insurance."

Another resolution asks insurers and their rating agencies to conduct a joint study of ratemaking for workers compensation insurance, a topic of continuing controversy. The current system of rating and classification, determined on the basis of production methods, loss experience and the type of product manufactured or sold by an employer, raises questions about fair and non-discriminatory rates, the NAIC says.

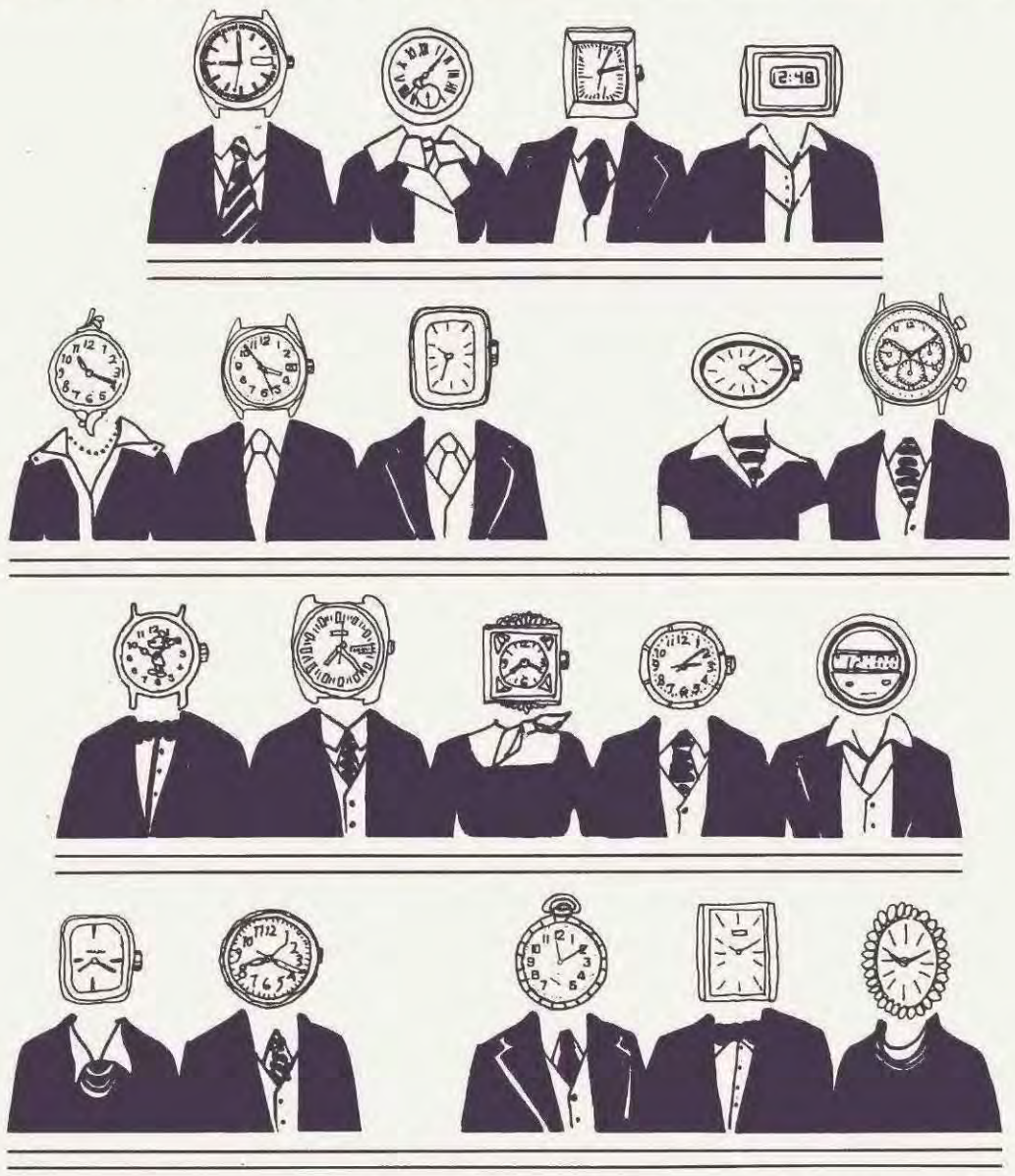
The resolution asks insurers and rating agencies to monitor the performance and gather data about local workers compensation insurance rates and claims experiences and look into "alternative systems" of rating.

In addition, statistics should be made available to allow insurers and groups of insurers to design their own rating and ratemaking systems, said the NAIC. This would offer the buyers "greater equity than might be possible from a single system based on a single set of plausible assumptions." ■

New A&A acquisition

Management Insurance Systems of Houston and Fort Worth has been merged with Alexander & Alexander of Texas Inc. MIS president Thomas Soriero has become a senior vp with A&A of Texas.

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Calif. city hedges bet on broker

ANAHEIM, Calif.—Under an unusual arrangement, the city of Anaheim has appointed Marsh & McLennan of Los Angeles as the broker of record for all the city's exposures except property.

However, the brokerage contract contains a proviso that for the first year of the two-year contract Alexander & Alexander of Los Angeles will be permitted to obtain a competitive quote for the city's comprehensive general liability coverage for the first $4.5 million over the city's $500,000 self-insured retention.

"The understanding is that if their quotation is more attractive than that produced by M&M, consideration will be given to appointing A&A as the broker of record," said risk manager Jack Love. "Then the contract with M&M will be null and void."

Mr. Love, noting that he is very pleased with the unique contract, said he anticipates significant savings on the CGL policy, which will be remarketed this summer.

The proviso was included in the contract with M&M because A&A told a four-person selection committee interviewing broker candidates that it had an exclusive arrangement for marketing municipal liability in Southern California with Granite State Insurance Co., part of the AIG group, said Mr. Love.

M&M was given the nod by the selection committee, headed by Nestor Roos of the University of Arizona in Tucson, because it emerged with a "slight edge" from the selection process, Mr. Love indicated.

M&M has accepted the contract on a fixed fee basis, he said. The fee is $30,000 the first year and $25,000 the second year, the city clerk's office revealed. That fee "is substantially less than what we had determined would be paid in commissions and fees to our past broker, the Continental General Insurance Brokers Inc. of Anaheim," he noted.

Anaheim's property coverage is insured by Allendale on a direct basis. Under the arrangement, Mr. Love said that M&M will be asked to obtain a competitive quote on the property insurance biannual basis.

The two risk managers on Mr. Roos's committee were Ralph E. Gentry, insurance manager for The Times Mirror Co. in Los Angeles and John Williams, risk manager for the city of Long Beach. ■

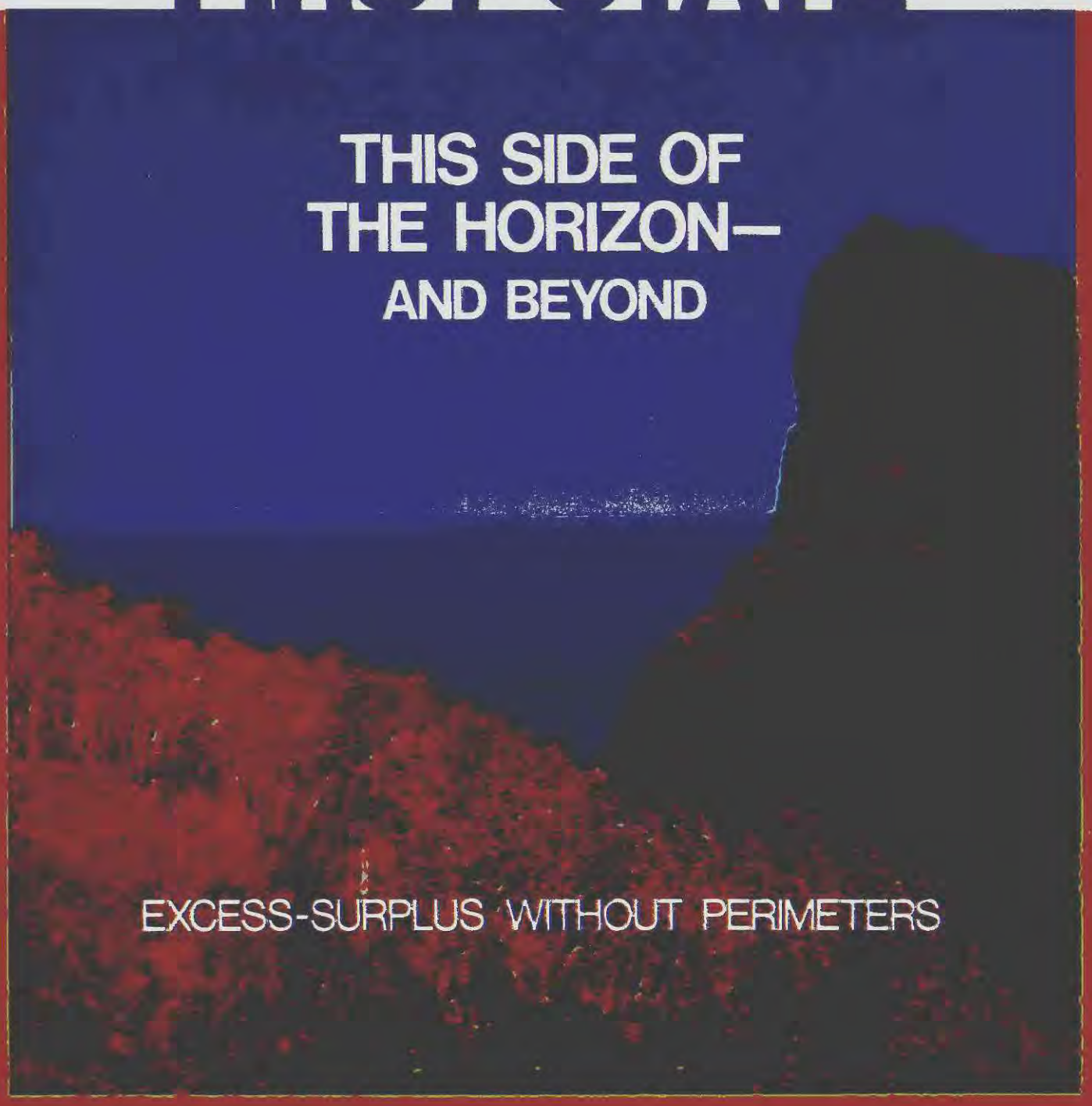
CICA elects new officers

CHICAGO—The Captive Insurance Cos. Assn. Inc., an organization of risk managers who use captive insurance companies, elected new officers.

Duane Allen, assistant treasurer of Hanna Mining Co., is president. Former CICA president Thomas Duffield of Archer Daniels Midland Co. was elected to the newly created office of chairman.

Other newly elected officers are: Richard Hackenburg, Allegheny Ludlum Industries Inc., vp-membership; Eugene Bulgrin, manager of insurance at Midland-Ross Corp., vp-program; Charles J. Eades, vp at Ingram Corp., vp-legislation. Continuing as treasurer is Edward P. Lalley, president of Ideal Mutual Insurance Co. A. Grant Whitney, executive vp of Belk Stores Insurance Reciprocal Inc., is secretary. ■

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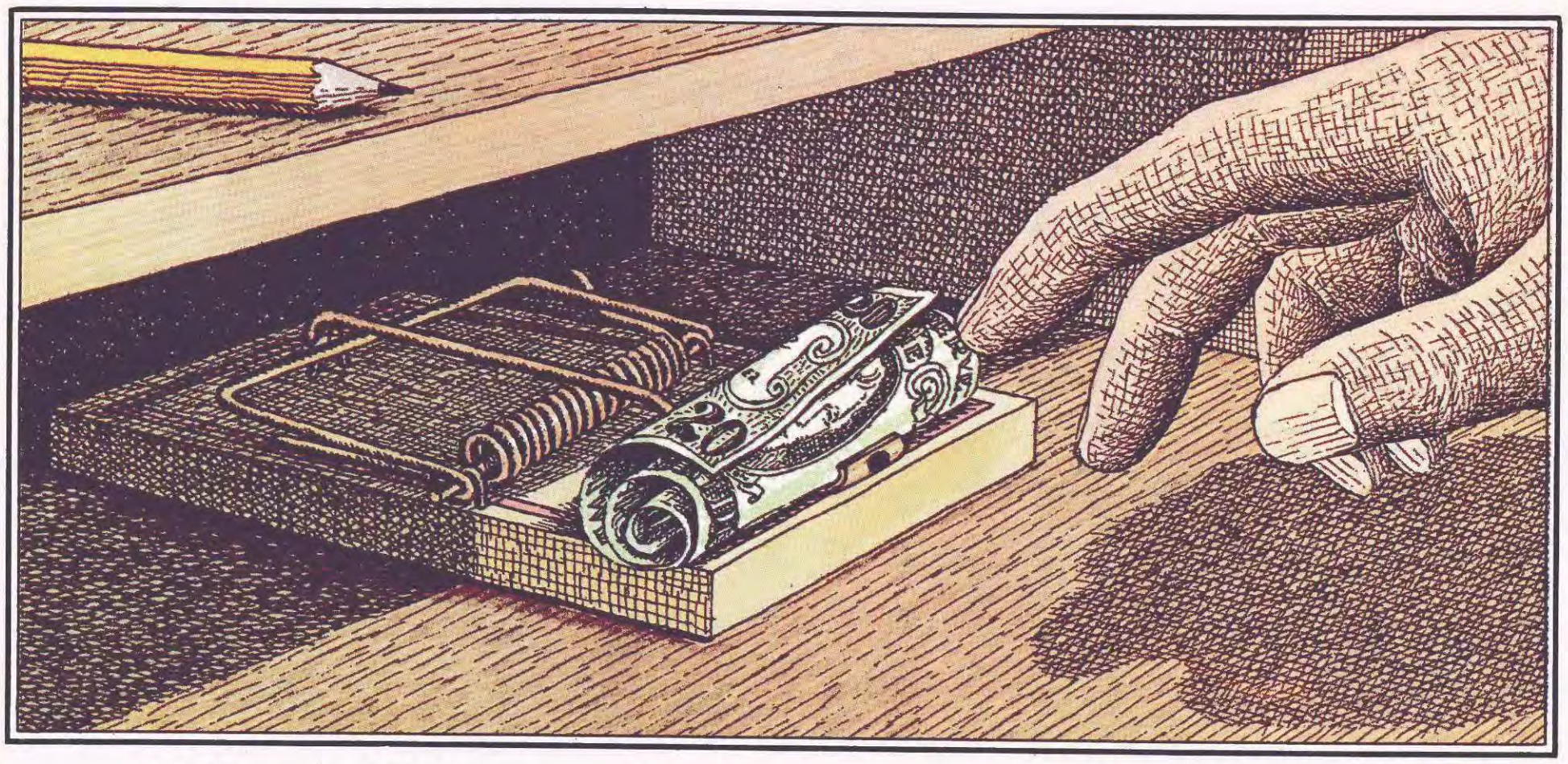
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Coping with White



Billions of dollars are lost by American business each year through employee dishonesty. Exposures to big, potentially damaging losses are increasing, but only a small fraction of all losses are covered by insurance.

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

An accountant looted more than $1 million from his company by entering higher payments for raw materials in the company computer than the firm actually paid. By taking a few dollars from petty cash daily for decades, an office worker stole nearly $40,000. A bank teller embezzled $1.5 million by manipulating computer account records through his teller terminal.

In these three examples of employee dishonesty, the frauds were eventually revealed and the guilt of the employees established. But even when such crimes are detected, most of the losses sustained are often not recoverable.

One reason is that coverage by employee dishonesty insurance, otherwise known as fidelity bonding, is likely to be inadequate or nonexistent, except for mandatory coverage of financial institutions. Large companies often underestimate and underinsure their exposures and only about 15% of small business firms bond their employees at all.

Meanwhile the exposures of business, particularly to large losses, have increased with the advent of sophisticated embezzlement techniques such as computer-aided fraud.

Negligence isn't dishonesty

What is honesty insurance? A fidelity bond is simply a guarantee that the insured firm will be compensated, up to an agreed upon amount and subject to agreed upon terms and conditions, for the loss of money or other property resulting from the dishonest acts of its employees. Such bonds are only intended to cover losses caused by deliberate and willful intent to defraud – not those resulting from negligence, incompetence or bad judgment.

There are many types of fidelity bonds, but all fall into two categories – those for financial institutions and those for all other kinds of organizations. Formerly most fidelity bonds were written to cover specific employees, either by name or by position. Most

Collar Crime

business firms today prefer to bond all employees on a blanket basis, both because it is usually more efficient and because of the broader coverage a blanket bond affords. Additional coverage can be specified for employees in positions of exceptional trust or responsibility.

Simply buying insurance doesn't solve the problem of the dishonest employee, however. A large number – probably the majority – of dishonest employee acts remain hidden, ranging from petty pilferage to successful schemes for siphoning off corporate funds. An effective internal loss control program is also needed.

Splitting employee responsibilities

After carefully analyzing exposures to employee crime in terms of potential frequency and severity, loss control procedures can be established and enforced. In addition to rigorous outside and internal audits (including frequent "surprise" audits), the principle of division of responsibilities should be followed wherever possible, so that no one individual has sole responsibility for vital areas of business operations.

For example, a person who orders goods and supplies should not receive them and should not issue checks to pay for them. Collusion between dishonest purchasers and suppliers is a frequent cause of large losses. By the same token, all checks should be countersigned and bank statements reconciled by responsible individuals not involved in the preparation of checks or deposits.

Division of employee responsibilities can also be vital in preventing fraud achieved through computers. Programming and input and output functions should be rigorously separated. And no one should ever have complete control of the recording of a business transaction, even in this day of on-line operations.

Most business employees are trusted – and rightfully so. But most dishonest employees are trusted, too – right until the time of revelation. Dishonesty loss control can protect the interests of the vast majority against the small minority.

Higher deductibles

Fidelity bonds aren't issued quite as routinely as they once were. The nationwide increase in white collar crime has resulted in higher loss ratios for insurers and consequent higher premiums. And deductibles with fidelity bonds, unheard-of a decade ago, are fairly sizeable today and are tending to get larger.

Nevertheless, a company's loss control procedures, as reflected in its actual loss experience, can remain a determining factor in setting its premiums. The Insurance Company of North America, a leader in fidelity and surety bonding, can be of assistance in advising on such loss control programs.

* * *

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

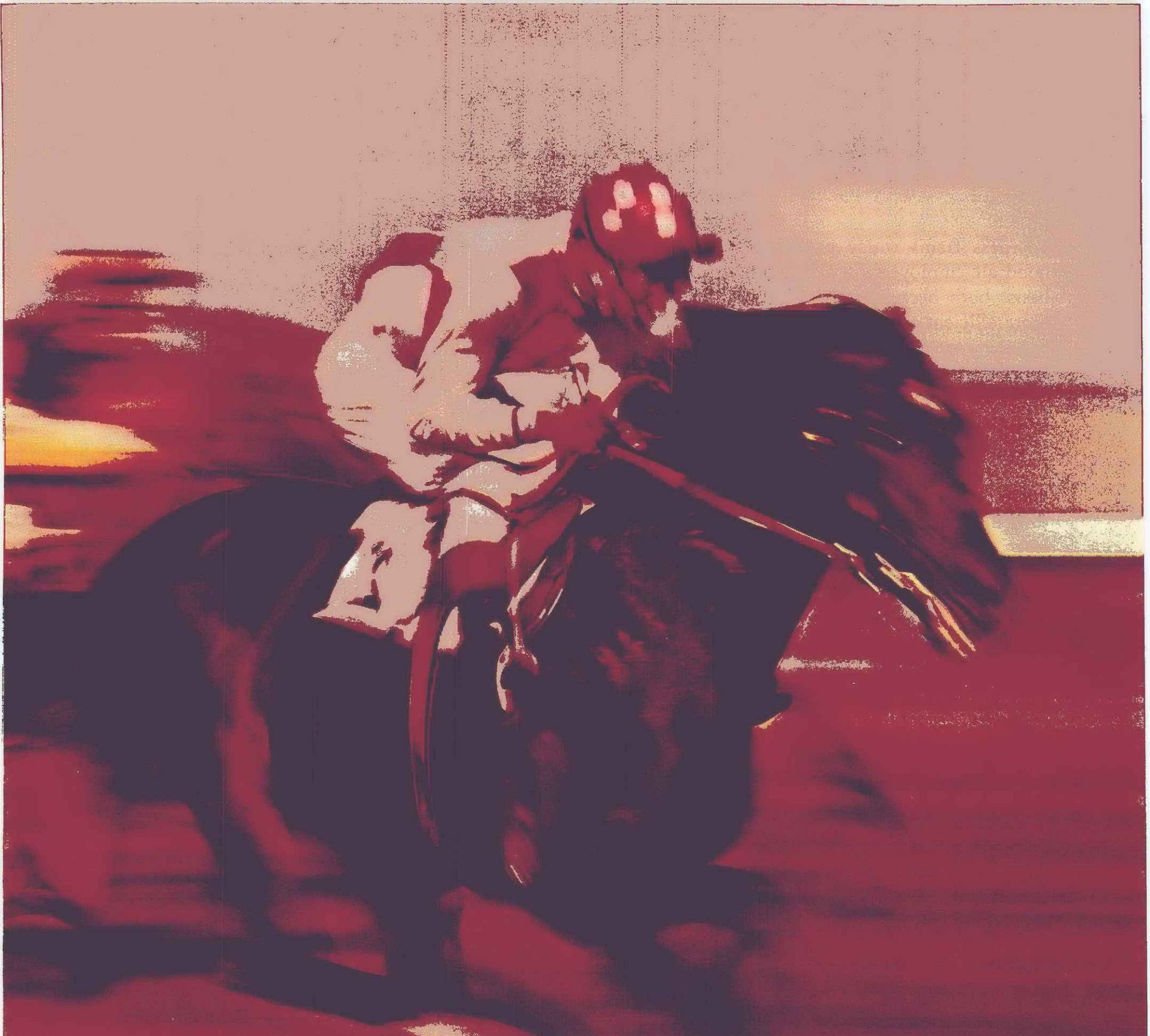
INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on fidelity bonding, write INA, 1600 Arch Street, Philadelphia, Pa. 19101.

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The "I'll show 'em" syndrome



For a company acquiring another company, the period between the announcement of the acquisition and the time it goes into effect can be one of increased vulnerability to a loss of goods. Uncertain about whether they will retain their jobs, a few employees of the acquired business may be tempted to express their frustration by appropriating company property.



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PERSPECTIVE

Pregnancy benefit guidelines weave Catch-22 dilemma

By Alton E. Lutz

FINAL INTERPRETIVE GUIDELINES were published in The Federal Register April 20 on Public Law 95-555, The Pregnancy Amendment to the Civil Rights Act of 1964.

Coming out under Part VIII seems an appropriate coincidence to World War II vets, because Section 8 was the regulation under which the shell-shocked or other troubled military personnel were discharged. Questions and answers numbers 29 and 30 from the Equal Employment Opportunity Commission have shocked the employe benefit industry with all the fallout of a dirty atom bomb. Insurance companies, consultants, third-party administrators and tens of thousands of group insurance buyers are in a quandry and trying to present a united front to this latest insult by a federal regulatory agency.

In a grand act of reverse discrimination, the EEOC is trying to force everyone to make other benefits equal to pregnancy benefits, rather than vice versa, in apparent contradiction of the pregnancy amendment as passed by Congress. The hullabaloo may go on for an extended period, so what is the businessman to do in the meantime if he sincerely believes in trying to comply with the regulations, or if he wishes to avoid possible charges of willful noncompliance with the law?

Financial exposure

First, who is affected? If your group insurance plan, prior to Oct. 31, 1978, included special extended benefits for pregnancy, the EEOC now says you must provide similar extended benefits to employes terminated after April 29, 1979, for conditions that existed during covered employment, whether or not the employe is disabled when he leaves your employ. This would also include known conditions of dependents, if they were covered.

Since compliance on April 29 will permit you to reduce benefits after Oct. 31, 1979, (Q. & A. 32) you may then cut back this extremely broad extended benefits provision, or continue it or modify it. The financial exposure may be great, particularly if your old extension-of-benefits provision for pregnancy had no time limit (such as nine months) or if it had no dollar limit because you were already providing full benefits for pregnancy.

Like a Catch-22, Q. & A. 29 and 30 will cost the most to all those employers who already were providing the most pregnancy benefits, and were, in fact, in compliance with the new law on Oct. 31, except for the introduction of this interpretation. Call it "catch-29 and -30."

Conversely, the employer who had no pregnancy benefits in his plan, thus no special extended benefits for pregnancy, is off the hook of catch-29 and -30, and still comes out saving money and paperwork.

Second, what should you do? It is likely that your insurance carrier will try to talk you out of amending your contract and for good reason. Such an amendment would then cause you to have to amend your summary plan description, as required by the Department of Labor under ERISA regulations. The paperwork burden here is obvious, particularly if you plan to then cut back on Oct. 31 and go through the entire process again.



In a grand act of reverse discrimination, the EEOC is trying to force everyone to make other benefits equal to pregnancy benefits rather than vice versa, in apparent contradiction of the pregnancy amendment as passed by Congress. The hullabaloo may go on for an extended time, leaving employers in a quandry, says Mr. Lutz.

Photo: Hospital Corp. of America

29. Q. If an employer's insurance plan provides benefits after the insured's employment has ended (i.e. extended benefits) for costs connected with pregnancy and delivery where conception occurred while the insured was working for the employer, but not for the costs of any other medical condition which began prior to termination of employment, may an employer (a) continue to pay these extended benefits for pregnancy-related medical conditions but not for other medical conditions, or (b) terminate these benefits for pregnancy-related conditions?

A. Where a health insurance plan currently provides extended benefits for other medical conditions on a less favorable basis than for pregnancy-related medical conditions, extended benefits must be provided for other medical conditions on the same basis as for pregnancy-related medical conditions. Therefore, an employer can neither continue to provide less benefits for other medical conditions nor reduce benefits currently paid for pregnancy-related medical conditions.

Consult attorney

Of course, you should consult your attorney, who may suggest, as one viable alternative, that your corporate minutes reflect an acknowledgement of possible liability and an intention to comply, but only to the barest minimum. For example, if your extended maternity benefits paid a maximum of only $500, for that condition, any other condition would be payable up to the same limit, but no more.

If you become aware of any court cases against the EEOC, and they are almost certain to arise in regard to this matter, you might be able to defer payment of any such claims pending the outcome. Again, check with your attorney.

Any payments made to claimants under

Continued on page 30

Alton E. Lutz, CLU, FLMI, is a group insurance underwriter for The Independent Life & Accident Insurance Co. of Jacksonville, Fla.

Reinsurance can calm self-insurer's fears

By Frederick J. Manning

IN RECENT YEARS, the cost of providing group health benefits to employes has risen significantly. As a result, many employers are reviewing various methods of more effectively controlling the funds allocated for this purpose, including self-insurance.

In many instances, over 70% of a group health insurance premium is used to pay health claims of eligible employes. Although the cost of health claims has increased significantly, the rise has been relatively predictable, the direct result of inflation. Premiums for most groups of employes are usually based upon the claims experience of each group, i.e. experience-rated. Based on previous claims experience and future inflation estimates, insurance companies can reasonably project the health claims cost for groups and set group health premiums accordingly.

Most employers are actually paying the insurance company in advance of the time when claims must be paid. This delay is sometimes referred to as lag. If, for example, coverage becomes effective on Jan. 1, it is probable that few, if any, claims will occur until several days or perhaps even weeks later. The bill for treatment may not be rendered by the medical facility or physician until February and because of mail delays and claims processing time, may not actually be paid until March. The effect of this lag can result in an accumulation of substantial portions of the premium that the insurance company is holding for later payment of claims. This accumulation can be as much as 35% of the premium.

Two policies

Self-insurance can permit the employer to utilize this lag time and, in effect, use the money for other purposes until there is actually a check or draft drawn to pay for the eligible benefits. An employer may find this approach attractive, but still be concerned with the possibility of health claims far in excess of the expected. Excess group health reinsurance coverage can minimize or virtually eliminate this concern. There are two types of excess group health reinsurance, specific and aggregate.

Specific excess group health reinsurance can limit the risk on any one individual covered by the plan. If the employe has a catastrophic claim, specific excess group health reinsurance will pay the cost in excess of some predetermined deductible. Aggregate excess group health reinsurance establishes a predetermined limit on total loss experience for the group. If claims paid by the employer exceed a projected level, aggregate excess group health reinsurance reimburses the employer for claims that are more than the projected level.

The actual decision regarding appropriate deductible levels and the desirability of reinsurance will depend upon the size of the group, the details of the employe benefit plan and past claims experience.



The actual decision regarding appropriate deductible levels and the desirability of reinsurance will depend upon the size of the group, the details of the employe benefit plan and past claims experience.
—Frederick Manning

Services needed

If an employer decides to purchase excess group health reinsurance, the actual coverage and cost should be reviewed. The cost of this reinsurance should be evaluated in conjunction with other group benefit coverages

Continued on page 30

Fred Manning, a CPA and lawyer, is president of Celtic Life Insurance Co. of Chicago, a company specializing in excess reinsurance coverages and other insurance products including health conversion plans for self-insured group health programs. While Treasurer of The Marmon Group, Mr. Manning was responsible for risk management and for setting up self-insurance programs for group health, workers compensation and general liability.

PERSPECTIVE

Surplus lines team rivals the promise of N.Y. Exchange



The real competition for the New York Insurance Exchange isn't in Lloyd's of London's underwriting room, but in the established excess/surplus lines market in the U.S., says Mr. McAlear.

By Charles A. McAlear

BARGES, CANALS AND TOWPATHS, horses and coaches, flags, signal lamps and flares were the instruments of transportation and communication when a London coffee house turned mecca for brokers and underwriters. Because of the technical limitations of the age, a central location where broker and underwriter could be within earshot was essential to the accumulation of pertinent information and the creation of insurance contracts.

As continents and seas are spanned instantly by wire and wireless, as satellites reflect and amplify signaled words and pictures, as people and cargo switch continents in a matter of hours, an antique business, struggling to enter the 20th century, applauds itself on its efforts to establish a trading floor based on an ancient pattern.

This is accomplished just as a similar exchange in the same city devoted to the buying and selling of securities is pondering its obsolescence created by new means of communication and data management.

Only London noticed

Most importantly, this exchange is becoming a reality at a time when a marketplace that has already accomplished its avowed purposes is firmly established and has already proven itself.

Chuck McAlear is principal of the excess/surplus lines brokerage firm bearing his name in Grand Rapids, Mich.

Though spokesmen for, against or on the fence regarding the New York Insurance Exchange have studiously avoided mentioning that there was any competition but London, this is not the case.

For reinsurance, there are professional reinsurance companies in this country and abroad as well as reinsurance departments of various carriers who accept business directly or from brokers. For direct placement, there is a marketplace instantly available to every agent throughout the country, no farther away than the nearest telephone, linked electronically, allowing immediate utilization of the combined capacities of underwriters across the country and abroad. Through this network, a risk can be presented to dozens of underwriters, quoted, and bound while an agent or broker on a trading floor is queuing up to see if a single underwriter will assume 5% of a risk.

Firm market

Moreover, this is a market of firm quotes and instant binders, not plagued by "indications" which can prove to be only that or "subject to completion," which may take days or weeks. Nor does the market close down for weeks at a time when a lead underwriter takes a vacation.

It is a market where all of the underwriters assuming risk and their financial and business capabilities are fully disclosed with the quotation, so appropriate judgments can be made before a firm order is placed.

It is a market that operates legally in the various states, that reports of its activities to the appropriate commissioners and which pays its premium taxes to the individual states. It is a market of no surprises, where continued coverage does not depend on the economic well-being of individual carriers beyond the reach of regulatory authorities.

Yet, spokesmen on the subject of the exchange speak only of the city by the Thames. They have not mentioned Boston or Chicago or Los Angeles. How could Denver, Scottsdale, Haddonfield or Evanston harbor competition to a grand New York Insurance Exchange? Yet, this is the real competition. It is a group of companies who choose to accept business on a surplus lines basis from a network of brokers already in place who can provide immediate access for large agent or small to their capacities.

It is a market which is proven. While standard carriers cowered and London markets proposed forms to protect their underwriters more than the client, this market singlehandedly prevented the product liability panic from becoming a rout.

Devoted to underwriting

While underwriters from standard carriers, misled by data produced by their own publicity machines, were driven by fear and London solemnly pontificated, this band of carriers and brokers put their reputations and their money on the line. Had the standard wisdom trumpeted by the prophets of doom prevailed, these carriers would have long since been liquidated while their employes and brokers competed as door-to-door salesmen. A responsive government would have again made further inroads into a business more prone to emulate lemmings than lions.

Courage and convinction, knowledge and skill are the hallmarks of this market, now grown stronger and more assured. It has been tempered by the experience that, as it stood its ground, its peers, at home and abroad, formed an immense herd thundering to the sea. It proved that when the chips are down, the name of the game is underwriting.

Those who embrace the law of large numbers and small hearts had no place at the table when the danger and folly of underwriting product liability risks were being broadcast by self-styled underwriting experts. The success of the underwriting activities of the surplus lines carriers has created new respect for their capabilities and additional reinsurance support. They can meet new challenges.

No problem now

Now, as New York moves to solve a problem that no longer exists, the discussion is confined to the competition it will meet from overseas. If this were the only competition, the outlook for the success of the exchange would be far brighter.

The motivation for forming the exchange and its characteristics so far revealed might be examined in the light of a real world. As the present and successful system of providing access to markets is thoroughly democratic and independent, as the only key is the possession of an agent's license, as it serves the local agent as well as the national firm, the creation of an antique floor where access is strictly limited may be an attempt to achieve some exclusivity.

The effort may be to create a club, similar to Lloyd's, which numbers only the annointed. Nor would it be the first time that public links were scorned in favor of courses for the elect.

Allusions to a trading floor and constant references to Lloyd's would seem to indicate that the existence of many underwriters, each with a net line to offer, is proposed. It would follow that a broker would trek laboriously from one to the other until he finally completes his placement, which may or may not be competitive with other markets. Such activity would deny the value of the evolution of the reinsurance market where an underwriter secures his reinsur-

Pregnancy benefit . . .

Continued from page 29

this extended benefits provision will be tax deductible. The only hope for early remission is if the EEOC voluntarily retracts or modifies this requirement. The EEOC may hold fast and force the remedial process through the courts. That could take years. In the interim, you may urge your Senator or Representatives in Congress to clarify their intent and force the EEOC to back off.

That would be simple poetic justice, for it was in precisely that same manner that EEOC and other interested parties caused this all to happen in the first place. The law that was passed overturned a ruling of the Supreme Court. Perhaps the EEOC can be overturned as well.

One cautionary footnote: The EEOC can and does rely on details in the Congressional Record, as evidenced in the final interpretive guidelines. The House Committee Report included the following paragraph: "It must be emphasized in this regard that the one-year limitation in H.B. 6075 must not be construed as permission for employers who do not comply immediately to reduce benefits because . . . the time limit has run." ■

30. Q. Where an employer's health insurance plan currently requires total disability as a prerequisite for payment of extended benefits for other medical conditions but not for pregnancy-related costs, may the employer now require total disability for payment of benefits for pregnancy-related medical conditions as well?

A. Since extended benefits cannot be reduced in order to come into compliance with the Act, a more stringent prerequisite for payment of extended benefits for pregnancy-related medical conditions, such as a requirement for total disability, cannot be imposed. Thus, in this instance, in order to comply with the Act, the employer must treat other medical conditions as pregnancy-related conditions are treated.

32. Q. In order to come into compliance with the Act, may an employer reduce benefits or compensation?

A. In order to come into compliance with the Act, benefits or compensation which an employer was paying on October 31, 1978 cannot be reduced before October 31, 1979 or before the expiration of a collective bargaining agreement in effect on October 31, 1978, whichever is later.

Where an employer has not been in compliance with the Act by the times specified in the Act, and attempts to reduce benefits, or compensation, the employer may be required to remedy its practices in accord with ordinary Title VII remedial principles.

Reinsurance can calm . . .

Continued from page 29

to achieve the lowest net cost. If an employer must purchase group life coverage to induce a carrier to provide excess group health reinsurance, such a program should be compared with one where the excess group health reinsurance is purchased from one company and the group life is purchased from another. The employer should also verify that the proposed excess group health reinsurance will provide proper indemnification for all benefits included in the group health plan. The reinsurance agreement should adopt all provisions of the employe group health plan.

Prospective self-insurers must replace some services; mainly, claims administration (and preparation of necessary data for government filings) that have traditionally been performed by their insurance carriers. These services can easily be purchased from an independent third-party administrator. Well qualified third-party administrators are located throughout the country, some operating on a local basis, but many operating on a national scale. As with insurance companies, the quality and cost of their services vary. The proper choice of a third-party administrator is very important to the success of the self-insured program. The selection of the third-party administrator should be made with great care and only



ance well in advance of the opportunity, at which time he commits sufficient capacity to write the entire line or a substantial piece of it. When millions are waiting to be committed at the other end of a telephone line, trudging across a trading floor would seem to waste a good deal of shoe leather.

But there is no guarantee syndicates will use net lines. Some may line up substantial reinsurance and bid to write an entire account. Then, instead of cooperatively assuming risk, as is often the case with Lloyd's, underwriters may turn out to compete with each other. In such an atmosphere, premiums might be lowered temporarily but at the cost of profit margins and long term stability.

Intermediaries vital

Notable by its absence is a group of people that have been instrumental in the success of Lloyd's and of the American surplus lines carriers. No provision seems to be made for the intermediary who represents neither an applicant nor the underwriter, who is interested in writing business but whose long term livelihood is tied to the success of his underwriter. A broker or agent working on behalf of his own insured must necessarily see the exchange as only one market of many, whose long term success is less important to him than the continuing relationship with his client.

Without intermediaries whose bread and board depend on the success of the exchange, the role of underwriter will be even more critical. Where the law of large numbers can be relied upon, standard markets will continue to dominate, what is left to the exchange and its American and overseas competitors requires underwriting judgment.

While all acknowledge that capable underwriters are not a dime a dozen, little attention has been devoted to the scope of the problem. A convention attended by the entire world population of underwriters active in their trade, using analysis and judgment rather than data and prejudice, could be held in a provincial Holiday Inn and there would not be two seatings for lunch. Every American surplus lines carrier has been working for years to upgrade staff.

Timing and management expectations will likewise be critical. As the exchange opens in a soft market, any huge production success could spell an early end to the scheme. Excess capacity already in the marketplace is now driving rates for much business below loss-costs. Someone will pay.

This is not to say the exchange need fail. Though temporarily flush with capacity, the market will eventually contract, allowing opportunities for the astute underwriter. Even if the exchange does not attract new capital, it might arrange it more effectively to respond to certain insurance needs.

If members do maximize the use of reinsurance, they may become hypercompetitive with one another. If they do not do so, the exchange may be far too cumbersome to respond to individual accounts directly or to write facultative reinsurance. It could be adequate to handle treaty reinsurance, but its success in this line in this country may depend on its legal status in the other states. The key may be whether its members will become authorized carriers in the various states.

Other states

The exchange could also effectively function as a "binding authority" or program market. Brokers are authorized to underwrite, rate and quote, within broad guidelines, certain classes of business and to bind and issue policies. Success outside New York State will depend on the legal status of the exchange's members in other states. The habit of New York brokers to write out-of-state risks on a surplus lines basis and to pay taxes in New York has done much to enrich the coffers of that state at the expense of others. The publicity attending the establishment of the exchange may throw much light and more than a little heat on this practice. Nonetheless, if a legal status can be achieved and arrangements made for appropriate handling of taxes and other requirements, such programs may represent underwriting opportunities.

In conclusion, I believe:

- The concept of the exchange, though admirable, may be obsolete.
- The purposes the exchange has been created to serve have already been accomplished.
- Competition will be found among American carriers and reinsurers as well as overseas.
- There is a dearth of experienced underwriters. If the exchange members do not build staff slowly, profits may not materialize.
- Management must continually monitor the marketplace and adjust production goals and expectations to the adequacy of premiums available.
- If a good deal of reinsurance is utilized, exchange members may have to survive cutthroat competition among themselves. If it is not utilized, the exchange may not be effective in writing large individual risks and providing facultative reinsurance.
- In this country, success in writing treaty reinsurance may depend on members' legal status outside New York.
- It may be effective in writing programs or "binding authority" business, but unless the rights of the other states are carefully observed, it could earn the enmity of 49 insurance commissioners. ■

Critic responds

Check auto policies for new amendments

By Henry Salfeld

THE "DEFENSE" OF THE new auto policies by Carole J. Banfield (*BI*, April 16) of the ISO is perceptive and sufficiently important to require a restatement of some of the points in my analysis (*BI*, Dec. 25, 1978).

Ms. Banfield's opinion that individually-owned passenger cars used for business and insured under a business auto policy (BAP) with an individual named insured endorsement attached, must be rated according to the schedules of the personal auto policy (PAP) manual contradicts a statement previously made by a representative of the ISO.

If the "defender" were correct, why does the business auto manual contain rates for private passenger type automobiles for each state? Sec. I General Rules of the Commercial Lines Manual, Division One—Automobile sec. 3. B provides: "Classify and rate automobiles of the private passenger type according to the private passenger types section." No reference is made to the PAP.

Accident definition

Ms. Banfield refers to the substitution of "occurrence" by "accidents" and believes that "in the unusual case where bodily injury or property damage is not readily apparent, the policy provides coverage so long as the accident did, in fact, take place during the policy period." Ms. Banfield does not address herself to the cases where a "continuous or repeated exposure to the same conditions," which is included under the definition of "accident," extends beyond the policy period. If the ISO considers this unlikely, why did it change the wording?

The ISO allegedly dropped the previous important provision that partners and officers are automatically insured because it would be unlikely that an executive would not have the named insured's permission to use a covered auto and so be insured. The question asked in the original analysis, if such individuals can give permission to themselves, is answered by Ms. Banfield with a categorical: "Yes."

This raises the questions: Why then was the policy wording changed and, as Ms. Banfield's answer is neither binding on the ISO nor on its members and subscribers, why should they not be at liberty in the future to deny liability by alleging that no executive or partner can deal with himself?

Check changes

It is highly gratifying to know that the ISO has withdrawn the punitive damage exclusion from its advisory policy, although the previous withdrawal notice did not mention the BAP.

As to the loading and unloading provision, companies are issuing different endorsements to the BAP. Their conditions should be carefully scrutinized and compared with those of the insured's comprehensive general liability policy.

Removal of coverage for an executive who borrows an employe's car is being remedied, according to Ms. Banfield. Insureds should make certain that they receive a proper endorsement to a policy previously issued.

At some future time, Ms. Banfield may also address herself to the question why the ISO, under Exclusion 4 of the PAP, has now eliminated coverage for injuries sustained by domestic employes not only if worker's compensation is required but also if "available."

Without any notification of the public and producers this deprives insureds of liability coverage in states where compensation insurance for domestic employes is not compulsory but available on a voluntary basis. ■

Henry Salfeld was an insurance broker with Frenkel & Co. in New York, since 1935 and has been a consultant to that firm since 1974 when he retired as senior vp. He has written extensively on insurance.

after a thorough understanding of the services provided.

A self-insurer can duplicate virtually all the provisions included in an insured group health policy. For example, a self-insurer can purchase a health insurance conversion plan for terminating employes. This conversion has been compared to a guaranteed insurability provision so that terminating employes may purchase the converted health plan without submitting evidence of insurability. Traditionally, health insurance conversion plans have only been available in conjunction with other coverages, but recently, such conversion plans have become available on an independent basis.

Employers with 200 or more employes generally find it highly advantageous to self-insure their group health benefit plan. Employers with fewer than 200 employes may also benefit from self-insuring their group health benefit plan based upon their past claims experience. A self-insurer can expect to reduce group health costs by 5% to 20% and to reduce cash outflow by 25% to 35% compared with insured plans.

Self-insurance properly conceived and administered may well provide substantial cash flow to the employer, as well as increase the control over group health costs. Decisions whether or not to self-insure, whether or not to buy excess group health reinsurance and the choice of plan administrators should all be made after careful review, including thorough analyses of both the self-insured and fully insured choices available. ■

Understand your share before the loss occurs

By George Nordhaus

FIRST DOLLAR COVERAGE—especially for medium sized to larger insureds—is rapidly becoming rare. Higher deductibles and/or "self-insured retentions" are now the rule rather than the exception.



For many insureds, this is probably a good move. Too many insurance policies end up being maintenance contracts. Yet, despite our enthusiasm for insureds' assuming a greater degree of risk, there are a few warning notes we must sound. And, while we're at it, we'll explain the difference between a deductible and self-insured retention:

A deductible is where the insurance carrier handles the entire loss itself, and settles it, less the deductible amount. Usually the insurer pays the entire loss, and then bills the insured for the deductible amount. Nowadays, most deductibles are written on a "LAE" basis. LAE stands for loss and expense...it means the deductible amount applies to expense as well as indemnity.

There are all kinds of deductibles, for example, deductibles "per claim" and deductibles "per occurrence;" deductibles for property damage only, for bodily injury only, or a combination of both; and deductibles which apply to only certain types of coverage.

A self-insured retention is just what the words imply. The policyholder pays the self-insured portion of the risk. The insurer doesn't enter the picture until *after* the loss and expense exceeds the amount of retained risk.

Admittedly, this treatment is too brief for a highly complex subject. But the moral of the story is clear: Before the loss, understand how your deductible or self-insured retention works.

George Nordhaus is president of Insurance Marketing Services Inc. in Santa Monica, Calif. He writes a monthly insurance and risk management newsletter used by agents and brokers around the country.

london line

Lloyd's rockets against falling spacecraft

By JOHN H. MILLER

LONDON—Lloyd's is offering disaster cover of up to $5 million against space vehicles hitting the earth.

The policy was developed in response to fears that parts of the Skylab space station might fall to earth when the station falls out of its orbit. Anxiety over other space vehicles, such as those the Russians are launching, led to this special policy being structured for wider use than just Skylab.

Brokers F.W. Kininmonth, whose director Derek Lee was able to fix rates in association with specialist underwriters at Lloyd's, caught on to the idea after a Boston business firm sought protection against space risks. Alarm over the future of Skylab was growing at the same time, with its re-entry period from space getting nearer.

NASA officials announced special maneuvers to control the fall of Skylab, hoping it will hit either sea or desert. But there were scares when press reports hinted that there could be an unchecked trail of debris 4,000 miles long and 100 miles wide.

Lloyd's was alerted to the risk through several calls from the U.S. after it was realized some of the disintegrating lumps from Skylab could weigh up to two tons.

Derek Lee told *Business Insurance:* "The Boston firm wanted cover up to $3 million even though it was not in the line of the flight path, so we decided that we were able to service the U.S. market if there was a demand for this type of cover. We're informing our U.S. agents and brokers of the availability in good time for any domestic needs over Skylab, although naturally the cover is applicable to future space commitments if desired."

For property insurance, the premium will be $100 for $100,000 of coverage up to the $5 million ceiling, and for death only coverage, $25 per $100,000, up to a $1 million limit.

The risk has been placed in the marine market with two enterprising underwriters, Michael Spratt and Peter Wright. Mr. Wright is already involved in space shuttle cargo cover and Mr. Spratt, who is leading the risk, explained, "We came up with the rates after analyzing the risks involved and the chances of anyone being struck."

The brokers expect that if there is any claim, the Lloyd's insurers will still have recourse against NASA or any other government agency to meet their settlements. The value of insurance cover to business groups would be an immediate pay-out in the event of catastrophe.

Product controls

Product liability fears are being expressed by Dutch chemical manufacturers because of strict new rules proposed for their goods.

They are protesting the intention of the Netherlands Health Ministry to set up a registration program for new products, which they say exceeds the provisional Western European draft directives formulated by the European Economic Community.

The EEC plan is for new chemicals to be registered with the appropriate government authorities 30 days before marketing. But apparently the Dutch Government wants tougher measures which would apply to everything "from shoe polish to plastics," says the Assn. of Dutch Chemical Manufacturers.

New reinsurer

Reinsurance interests in China will share in a new reinsurance company started in Hong Kong by the U.K.'s C.T. Bowring broking and underwriting group and two other business groups with Far East connections, Jardine Matheson & Co. and the Hong Kong & Shanghai Banking Corp.

Insurance companies in France, Norway, Japan and New Zealand will have stakes in the new company along with Chubb Corp. of the U.S. The goal is to turn Hong Kong into a major international reinsurance center.

Lloyd's defended

In testimony to a government-sponsored committee under former Labor Prime Minister Sir Harold Wilson which is probing Britain's financial institutions, Lloyd's chairman Ian Findlay defended its traditional dependence on private investments.

"We have all the capital we need from the existing membership and there are positive reasons against any radical change," he said. "Increase in membership to the current 17,000 names is enough to meet most needs, though one could possibly argue there is not quite enough for some areas of non-marine business, especially in difficult liability areas in the U.S.

"But history shows that private membership at Lloyd's is the most suitable for a market insuring high risk products. This method of handling business has been pretty well proven and has remained like that for nearly 300 years."

Former Lloyd's chairman Sir Havelock Hudson held that the new three-year rule for settling accounts is a good one and that he would even like a five-year basis if possible since the "tail" on some risks is quite long and this would cut out uncertain liability factors.

Mr. Findlay later told the Insurance Institute of Ireland at its conference in Eire that Lloyd's is reviewing some of its existing rules for self-regulation, but he strongly believes there should be market freedom for its operations.

"We've all seen what happens when a market becomes over-regulated," he said. "It's not just the climate in Bermuda that persuaded U.S. and other insurance companies to start operations there. ■

Public entities policy

International Surplus Lines Insurance Co. of Chicago has revised its coverage for public entities in order to incorporate within the "wrongful act" protection: direct coverages for the public entity and coverage for all officials and employes, including part-time workers. In most cases, the restriction of coverage for members of the licensed and certified professions has been eliminated.

GROUP LIFE AND HEALTH AWARDS-1979

Recognizing: Production Excellence And Quality In Group Insurance



Group Office of the Year — Presented to the Regional Group Sales Office that has displayed outstanding production and persistent growth while maintaining a high degree of efficiency and effectiveness. This year's winner was the Denver Regional Group Office.

Edmund J. Lynch, Jr., regional director, *Patrica O'Connor-Pegg*, district group representative, and *W. James Kelley*, regional group manager from the Denver Group Office receive the 1979 Award from Bruce C. Anderson, vice president-group sales (left) and John C. Antliff, senior vice president-group insurance (right).

Robert C. McQueen Award — The recipient of this award has, as a Regional Director, demonstrated the highest degree of leadership and integrity throughout his career in accordance with ideals of the Mutual Benefit Life.

V. Paul Ricken, CLU, regional director of the Los Angeles Group Sales Office (left) receives his 1979 Award directly from Senior Executive Vice President Robert C. McQueen, CLU.





Group Man of the Year — This award is presented to an individual whose knowledge of product, service to policyholders and dedication to excellence embodies the spirit of the Mutual Benefit Life Group Insurance Field Force.

Guy W. Cox, II, regional director from Miami, Florida, receives the Group Man of the Year Award from Bruce C. Anderson, vice president-group sales (left) and John C. Antliff, senior vice president-group insurance (right).

Mutual Benefit Life

'80s medical malpractice crisis will break mutuals: Attorney

By JOANNE GAMLIN

LOS ANGELES—A severe medical malpractice crisis will hit in the early 1980s, throwing many new insurance vehicles for hospitals and doctors into bankruptcy, predicts an attorney for the California Hospital Assn.

James E. Ludlam looks on the bright side of this gloomy prediction though, explaining that a new crisis will finally prompt genuine tort reform, perhaps on a national basis, which will stabilize premium costs for a long time.

The "bedpan mutuals" may have been profitable up to now, but in business only since 1974-1975, they remain largely untested, says Mr. Ludlam. On average, it takes six to seven years for insurers to determine with any kind of assurance whether they have established adquate premium rates.

"As specialized carriers with only one line of insurance, these companies will not have the availability of other lines of insurance against which they can offset sudden losses," Mr. Ludlam pointed out.

When the next crisis appears, which he believes will be in the early 1980s, it will not only start from a much higher premium level and thus effect doctors and hospitals much sooner, but it could also lead to the insolvency of some, or possibly many, specialized insurers, Mr. Ludlam fears.

A contributor to the drafting of California's medical malpractice reform measure, Mr. Ludlam says he foresees a second medical malpractice upheaval in 1981 or 1982 for several reasons.

The plaintiffs' bar has figured out how to sue successfully despite the various tort reforms or civil practice reforms enacted by the states in the aftermath of the 1974-1975 medical malpractice difficulties, he said. "They are a very resouceful lot," he says.

He has also observed a rise in the frequency and severity of malpractice lawsuits in the last 12 months, a judgment seconded by another Southern California medical malpractice source.

Mr. Ludlam, who has 40 years of experience in the medical malpractice field, said that he believes the frequency pattern will visibly increase in another year, "slowly perhaps, but with increasing rapidity as the impact of publicity about liability wears off." The severity per claim is increasing at the rate of 10% to 20% a year as a basic inflationary factor, he said.

Beyond this, as doctors who once went 'bare' become insured again because premium cost increases have leveled off, "the old incentive to sue with the potential of boxcar judgments . . . will gradually return," Mr. Ludlam said.

"In addition, the standard of care within medical practice is continuing to rise so that the standard against which both doctors and hospitals will be judged will be higher, leading to more potential lawsuits," he continued. The potential catastrophic results from an error grow as methods are developed for saving the lives of persons who could have perished in a former period.

Although the new attention being paid to preventive medicine will probably work to reduce many types of claims, it may also increase liability exposures when certain types of situations are peventable and they are not prevented.

The bright side of all this, however, is the prospect of genuine tort reform, which would prevent premium rates from spiraling until, perhaps, the end of the century, according to the association attorney.

The current system of compensating malpractice victims is unfair, he contends.

"Only about 25% of the average malpractice premium goes to helping an injured party," he said. The rest goes for attorneys' fees, court costs, that is, to support the system.

A federal solution is more likely to emerge on the next round, he believes. "The next time we will be much deeper into government involvement through HSAs (Health Systems Agencies), PSROs (Professional Standards Review Organizations) and cost control legislation and it might be possible to achieve an acceptable federal solution without too many dirty tricks attached," he asserted.

"The advantages of a federal solution is that it could be uniform and could have a much quicker impact than a state-by-state approach," he added. ■

Mo. storm losses

Insured losses caused by wind, hail and flooding that struck portions of Missouri June 4-5 are estimated at $4 million by the American Insurance Assn.

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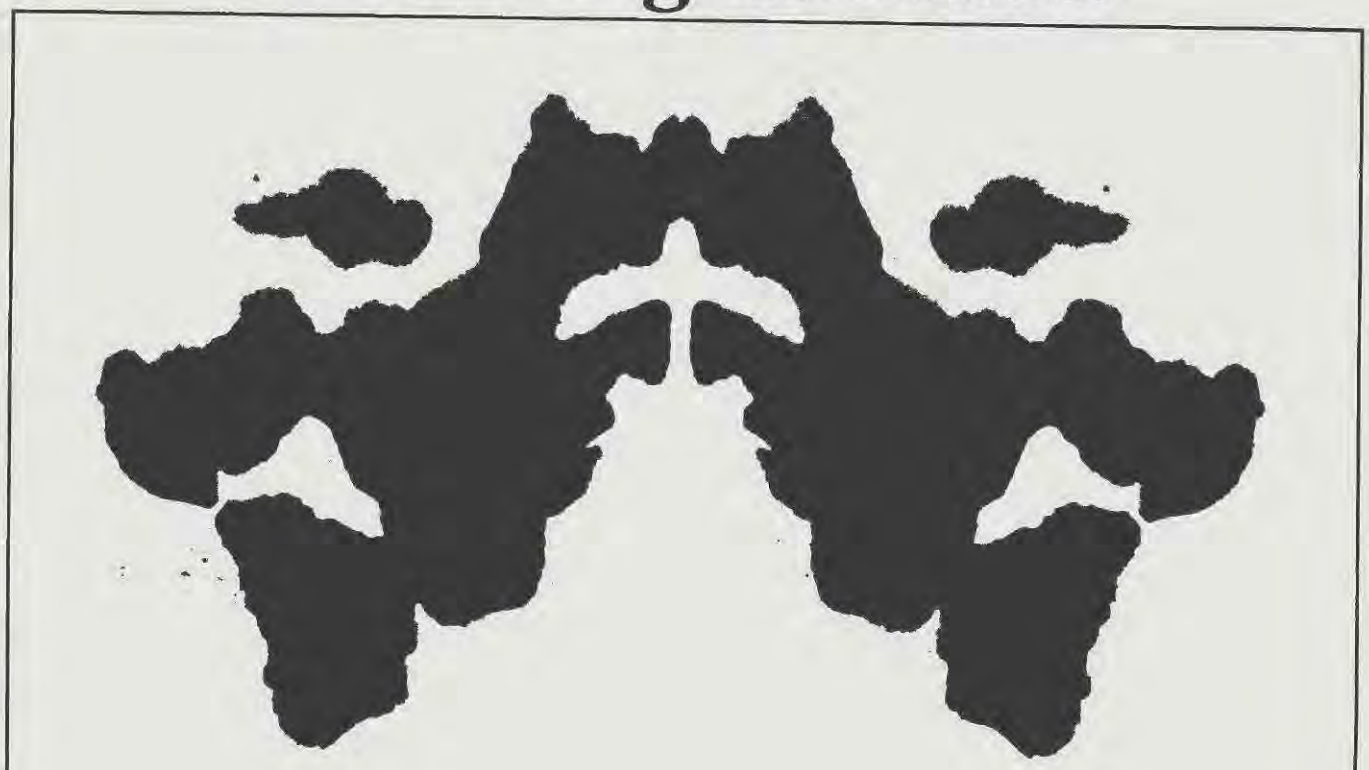
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info for buyers

• Are you mystified by the often shrouded world of **reinsurance**? A new 45-page booklet by Andrew Barile, president of Andrew Edwards & Co. in New York could help to explain the ins and outs of the reinsurance business. The guide costs $4.95 plus 55 cents for postage and handling. Write Interstate Service Corp., P.O. Box 1755, Oklahoma City, Okla. 73101.

• Extraordinary Times Demand Extraordinary Protection is the name of a brochure describing **kidnap and ransom insurance** available from National Union Fire Insurance Co. of Pittsburgh, a member of the American International Group. Lost ransom reimbursement and an emergency weekly income to families of kidnap victims are two items detailed in the brochure. For a free copy write Product Information, Corporate Communications, American International Cos., 102 Maiden Lane, New York, N.Y. 10005.

• As workers compensation costs rise, employers consider the importance of rehabilitating the injured or disabled worker. In response to this trend, INA has prepared a booklet detailing the insurance decisions involved in **rehabilitation**. Economic incentives and how the rehabilitation system should work are discussed. For a free copy write Dept. R, INA, 1600 Arch St., Philadelphia, Pa. 19101; detailed bibliography of source materials used in compiling the booklet is available upon request.

• The Department of Labor offers a pamphlet outlining the steps for filing a private **pension plan or welfare plan claim.** It also tells how soon a claim must be filed and what to do in case of claim denial. For a free copy write Pension and Welfare Programs, Labor-Management Services Administration, Rm. N4659, 3rd St. & Constitution Ave., NW Washington, D.C. 20216.

• Employes on strike or laid off and social misfits are posing an **incendiary problem** for U.S. plants and facilities. Based on a special analysis of in-plant incendiary targets, Factory Mutual is offering a five-page pamphlet listing steps that a plant can take to reduce the hazards. For a free copy write Resource Center for Loss Control, Factory Mutual System, 1151 Boston-Providence Turnpike, Norwood, Mass. 02062; specify data sheet 9-17.

• When You're All Alone Facing Risk is a promotional brochure describing RIMCO's services in the area of **hospital malpractice** and describing the insurance problems faced by hospitals. For a free copy write Charles Lenhard, RIMCO Risk Management Inc., 10300 N. Central Expressway, Dallas, Tex. 75231.

• Amerident is the name of a brochure prepared by American Trust Administrators describing a simplified pre-package approach to **dental insurance** for employers with 10 to 100 employes. Write American Trust Administrators, P.O. Box 87, Shawnee Mission, Kansas City, Neb. 66201.

• Creative Property Loss Prevention Engineering is a promotional brochure that describes the independent **fire protection consulting** services offered by Rm/i Consultants Inc. For a free copy write Harvey Sanders, President, Rm/i Consultants Inc., 49 S. Main St., Spring Valley, N.Y. 10977.

• Baby It's Cold Outside is the name of a brochure offering guidelines for a parent company to consider when placing third-party business in a **captive**, whether from pools, treaties, syndicates or individual companies. For a free copy write Trenwick Inc., 21 Charles St., Westport, Conn. 06880.

• There Is No Insurance In Self-Insurance is a pamphlet prepared by Union Labor Insurance Co. outlining the risk involved in **self-funding.** The pamphlet looks at ERISA and the legal considerations, the estimated savings versus the guarantees, reserves and investment return, deficit forgiveness, stop-loss coverage and net dollar savings. For a free copy write The Union Labor Life Insurance Co., 850 Third Ave., New York, N.Y. 10022.

GROUP PENSION AWARDS 1979

Recognizing: Production Excellence And Quality In Group Pensions



Pension Office of the Year — This award is presented to the Regional Group Pension Office which achieved the highest growth and sales results during the year. Donald I. Gregg and Kenneth A. Murray of Los Angeles won this award for the second consecutive year.

Donald I. Gregg, senior regional pension manager, and *Kenneth A. Murray*, senior group pension representative from the Los Angeles Group Pension Office, receives the 1979 Award from Robert Shapiro, vice president-pensions (left) and Edward J. Gaudette, second vice president-group pension sales (right).



Pension Man of the Year — The Company's highest pension award is bestowed upon a Mutual Benefit Life Group Pension Manager in recognition of both his superior sales accomplishments and high standards of service to clients. In 1978, the contributions of John J. Fishkind were recognized with this honor.

John J. Fishkind, CLU, senior regional pension manager, New York, receives the Pension Man of the Year Award from Robert Shapiro, vice president-pensions (left) and Edward J. Gaudette, second vice president-group pension sales (right).

Mutual Benefit Life

dates

JULY 9-13. Union College is sponsoring a mini-course on industrial product **noise control** to be held in Schenectady, N.Y. Theory, measurement and economics of noise reduction and the basic nature of sound and noise control, noise criteria, vibration control and noise signature analysis will be discussed. Cost is $595. Contact Professor William C. Aubrey, Union College, Schenectady, N.Y. 12308.

JULY 9-13. The Third Annual National Symposium on **Workers Compensation** will be held at the University of Maine at Orono. Participants include members of organized labor, employers, insurers, doctors, lawyers, government officials and educators. Co-directors are J. Howard Bunn and Robert B. Collyer, Cost: $300. Contact Charles Sumwalt, Program Coordinator, National Symposium on Workers Compensation, 1721 Pine Street, Philadelphia, Pa. 19103; phone 215-735-0205.

JULY 9-13. An **International System Safety Conference** in San Francisco will cover a range of topics including nuclear safety. Subjects to be discussed with risk managers and consultants in mind are safety program management, economics of safety and advanced techniques for hazard analysis, Space Shuttle safety program, product safety and product liability and applications in transportation. Registration fees vary from $135 to $185. Contact J. Tom Powers, P.O. Box 731, Cupertino, Calif. 95014; 415-257-4045.

JULY 10-13. A Guide to Product Safety and Liability is the name of a technical seminar to be held in Schenectady, N.Y., by Union College. The program will focus on the latest laws and government rules on **product safety and liability.** Cost is $475. Contact Professor Raymond Eisenstadt, Union College, Schenectady, N.Y. 12308; phone 518-370-6171.

JULY 10-13. Regulations and the price of **safety** is the theme of the System Safety Society's fourth international conference to be held in San Francisco. Cost is $250. Contact System Safety Society, P.O. Box 731, Cupertino, Calif. 95014.

JULY 30-AUG. 1. Risk Management/Self-Insurance for Hospitals is a seminar prepared by Aspen Systems Corp. to be held in Boyne Falls, Minn. The seminar will examine today's malpractice crisis and approaches to liability protection: self-insurance, risk management programs and claims management programs. Cost is $350. Contact Registrar, Aspen Systems Corp., 20010 Century Blvd., Germantown, Md.; phone 301-428-0700.

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS



Newport Beach photo: San Diego Federal

Orange County boom rocks Calif.

By MARGARET LeROUX

NEWPORT BEACH—It's a game with new rules and new players for local agents and brokers in Orange County. A boom in business development and a soft insurance market set the stage for lively competition.

As often as not, it's the big national firms the local agents compete against for accounts that have become more demanding and price conscious.

"It's an entirely different market today than it was five years ago," observed Robert A. Rieden, president of Republic Insurance Brokers Inc. in Santa Ana. "The cavalier attitude—not touching a colleague's book of business—is a thing of the past. Now we're all scrambling."

Republic's 1979 premium volume is estimated at $16 million, generating an income of $2.4 million, almost double that of a year ago, according to Mr. Rieden. A staff of 56 includes a branch office in San Diego that handles group health insurance for pilots of Pacific Southwest Airways.

The land on which the 12,000-square-foot, two-story Republic building now stands supported an orange grove five years ago. "I was offered $1.5 million more than I paid for the land a year after I bought it," Mr. Rieden said.

Indicative of the turn the insurance business in Orange County has taken is the association captive being planned by Mr. Rieden for owners of health spas and racquetball courts. Republic, which currently writes $1 million worth of health spa business, is negotiating with St. Paul Fire & Marine Insurance Co. to act as the front company for the captive, which will be domiciled in the Cayman Islands.

"We also have an association type program for independent auto dealers," Mr. Rieden said, "and we're going after water bed manufacturers. Now's the time to be aggressive," he continued, "with the market as soft as it is, you can't overlook anybody."

The most aggressive independent agency in Orange County is, by general consensus, Anderson & Anderson Insurance Brokers Inc. in Newport Beach.

The 26-year-old agency took off like a rocket shortly after young Bob Anderson, son of the founder, joined the firm in 1969. With an increase in gross premium volume from $1.8 million and six employes in 1974 to $12.5 million in premiums and 62 employes this year, the agency is the largest and fastest growing in Orange County.

Bob Anderson's plans include an annual growth rate of 50% for at least another five years, saturation of the market in California and national ambitions for the company before 1990. "We're miles ahead of most of the Orange County agencies in accounting, production and marketing," he boasted.

His competitors describe him as a hustler and an empire builder, but there's no denying Mr. Anderson's boyish enthusiasm for the insurance business (which belies the touches of gray in his curly brown hair) has made him a formidable presence in Orange County.

Other brokers in the county questioned how the Anderson agency can maintain such a rapid growth rate without sacrificing service to the new business they're soliciting. Mr. Anderson, however, counters that organization and a new computer system, which will be totally integrated by April 1980, have already made his 17 producers more efficient.

"Our whole approach is producer-oriented," said the agency president, who keeps involved in sales with a $3.5 million book of business of his own. Included in the well organized operation are three full-

Continued on next page

For more of our special focus on California's booming marketplace, turn to pages **34B, 34C, and 34D.**

Prospecting prosperity

The oranges have turned to gold and there's a rush on in Orange County.

Only it's business that's being prospected among corporate headquarters, western division offices and branches of national companies which are springing up in fields where orange groves thrived less than 10 years ago.

With corporate headquarters of companies such as Fluor Corp., Baker International, Pacific Mutual Life Insurance Co., Century 21 Real Estate and Denny's restaurants all located in Orange County, the area is fast shedding its provincial reputation as a tourist/resort community and home of Disneyland.

The county's pivotal location—35 miles southeast of Los Angeles and 90 miles northwest of San Diego—makes it the source of one-fourth of California's population gains since 1970. Estimated current population for Orange County is 1.8 million; it's seventh in size and disposable income of all metropolitan areas in the U.S. and sixth largest in retail sales.

People in Orange County complain about the traffic—six major freeways pour into the area—on sidewalks as well as highways. Roller skating has become the most hotly debated urban issue since Proposition 13.

The gasoline shortage is another frequently discussed problem among Orange County residents, though likely as not they're talking about the difficulty in filling up their power boats that line the slips along Newport Bay.

INSIDE

D.C. broker grows internationally

Washington broker Wright & Co. expands beyond federal accounts to new offices and clients in London and Saudi Arabia. **Page 34E.**

Agency's school grooms producers

Warner Insurance Group trains its producers in a six-month in-house school. Sales manager Dave Schmidt explains. **Page 34H.**

Agent/broker groups go political

The Independent Insurance Agents Assn. parades politically as the National Assn. of Insurance Brokers gets ready to march. **Pages 34J, 34K.**



David Schmidt

Broker pins expansion on newsletter

NEWPORT BEACH—Anderson & Anderson, whose president plans national expansion for the agency within 10 years, is testing the water with a newsletter sold to other agencies throughout the U.S.

With a minimum order of 1,000 copies per month at $250, the Anderson & Anderson newsletter is in direct competition with the Insurance Marketing Services newsletter produced by George Nordhaus (*BI*, Dec. 11, 1978).

"We felt the IMS newsletter oversaturated markets," Mr. Anderson said. "Our newsletter is being sold on a one year contract that guarantees exclusive subscription rights in a given area."

A direct mail promotion of the newsletter sent to 800 agencies resulted in 46 orders "without a single follow-up call from us. And we're still filling more requests," Mr. Anderson said.

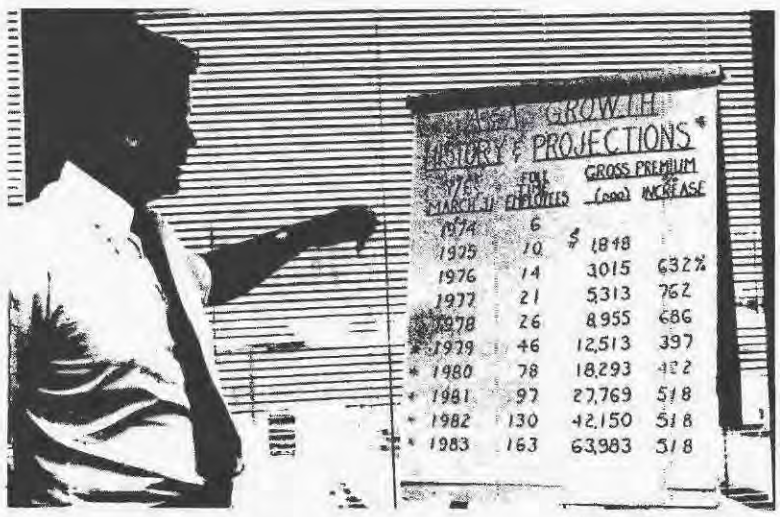


Photo: Margaret LeRoux

Anderson & Anderson projects accelerating growth boosted by newsletter prospects, notes president Robert Anderson.

Paul V. Porter, director marketing development, is responsible for the monthly production of the newsletter which carries the letterhead of each agency on the subscription list.

Mr. Porter reads "literally stacks of journals and insurance periodicals with an eye to what an insurance buyer wants to know," he said.

The newsletter originated as a means of contacting new business prospects and Mr. Anderson credits it with producing additional premium income of $575,000 in the first year.

Each copy contains information readers can send for without charge. Recent issues contained offers for booklets on the effects of federal maternity benefits legislation, how to save a choking victim and a consolidation of OSHA and Labor Department job safety standards.

Anderson's technique is to add the names and addresses from reply cards to its prospects file. In a follow-up call to inquire whether the requested material was received, one of Anderson's three solicitors also requests expiration dates on the buyer's insurance.

"Ninety days before the x-date, we send a letter enclosing the agency brochure and request an appointment to discuss renewal," Mr. Anderson said. "We've been 29% successful in obtaining appointments for our producers on these follow-ups."

Anderson has already subscribed agencies in St. Louis, Houston, Pittsburgh and San Francisco and a national network of subscribers could provide the base for the agency's plans to expand out of California.

"We targeted our direct mail piece on the newsletter at agencies with at least $3 million to $5 million in premium volume; those displaying a high growth rate," Mr. Anderson said.

Discussing plans for his own agency's growth, he noted a merger or acquisition of an agency similar in size to his own would be the most logical course of action.

For an agency to reap maximum benefits from the newsletter it has to be organized and oriented toward sales and marketing, something few of them are, he said.

As another outgrowth of the newsletter, he plans seminars on marketing for agencies. "The average broker has no conception of how to use a mailing list," he said. ■

National brokers hunt sales in Orange County gold rush

NEWPORT BEACH—Whether by acquisition or opening a branch office, the national brokers are making their presence felt in Orange County.

Within the past five years, Fred S. James & Co., Frank B. Hall & Co., Marsh & McLennan and Alexander & Alexander have opened or expanded offices in the area.

What was formerly the Peacock Agency was acquired by Hall; James bought the Lee Holmes Agency and last August the Lee Smith Agency became part of Alexander & Alexander.

The new A&A branch is managed by Charles Terry, managing vp, and Thomas Corbin, deputy managing vp, formerly head of Incentive Industries, which was part of Lee Smith Agency.

The A&A operation is so new that construction workers were recently pouring cement for the sidewalk to the building which shares a parking lot with Allstate Insurance in Santa Ana.

The A&A office occupies all but 4,500 square feet of a 17,000-square-foot suite of offices. "We expect to double our size in less than five years," Mr. Terry said.

With the benefit administrating capabilities, the A&A branch is going after the entire accounts of businesses generating premium volumes from $50,000 to $100,000, according to Mr. Corbin. The two managers estimated A&A's current premium volume at $13 million for property/casualty insurance and $42 million for group benefits.

Marsh & McLennan has been in Orange County for eight years, but only as a service office until two years ago. A major Orange County account, Fluor Corp. is handled by M&M's Los Angeles office.

Vp John Mulvihill, heads the M&M Orange County staff of 13 whose accounts include Pacific Mutual Life Insurance Co., the oldest occupant of Newport Center, an office park/shopping mall. Mr. Mulvihill estimated premium volume for the Orange County branch at $5 million to $6 million.

Orange County is ripe for good, light, industrial risks, he said. Since much of Orange County is planned communities where class



Photo: Margaret LeRoux

Alexander & Alexander is targeting group benefit accounts, says deputy managing vp Thomas Corbin.

A construction, landscaping and sprinklered buildings prevail, "it's good risks, but low premiums," and also low commissions.

"To stay in business you've got to grow as fast as everybody else," Mr. Mulvihill said. "We'll be taking a more aggressive stance in the future."

The surplus lines market is still asleep in Orange County, but when it wakes up Swett & Crawford will be ready. The subsidiary of Continental Insurance Group recently opened a surplus lines office of two producers in the Continental building in Newport Beach. "We're developing our office and staff, growing at a rate comparable to the area—establishing a presence," according to Swett & Crawford vp P. Kenneth Nitz.

The softness in the insurance market means "I'm seeing as many as five or six applications from agents on the same piece of business," said producer Roger Chaix. "We're seeing an increasing level of professionalism among agents and brokers," he continued.

"It's been the increased sophistication of the buyers that's been the catalyst," he concluded. ■

Orange County . . .

Continued from previous page

time solicitors and a file of 4,000 active prospects that "guarantees none of our producers ever makes a cold call—it's all by appointment," Mr. Anderson said.

A staff of eight handles claims and accounting with a system of estimated billing that keeps 76% of Anderson & Anderson's accounts receivable less than 30 days old.

Mr. Anderson is looking forward to the firm's move at the end of this year from overcrowded waterfront quarters to a new 18,000-square-foot building near Koll Center, an office park. "We'll miss the water and our great view and our lunches with clients aboard our company boat," which is moored nearby, he sighed.

Nearby nationals

Anderson's move is uptown, although Newport Beach doesn't have a financial district. Instead, Newport Beach has a series of office parks, which are interspersed with shopping malls and restaurants. The move will make them neighbors of their competition: Frank B. Hall & Co., Fred S. James & Co. and another medium size independent, Quinlan Insurance Inc.

These brokers are all located in Koll Center, a carefully landscaped office park housing a veritable showcase of modern architecture southeast of the Orange County Airport.

Quinlan Insurance president Al Quinlan, assisted by his wife Connie as associate manager, has been a fixture in the Orange County insurance market for more than 20 years. The Quinlans are coping with the problems of transition from a family operation to an agency "that's functioning more as a broker," Mr. Quinlan said.

"There's a place for the small to medium sized broker in this market," he continued. "You don't have to be a big name to build a strong team."

The Quinlan team consists of a staff of 35 (with one on maternity leave). Seven producers are each responsible for one of seven sales zones. The agency will realize a net income of $1.4 million on an approximate premium volume of $11 million this year.

The Quinlan agency recently acquired the exclusive franchise for the International Loss Control Institute services in southern California and has a professional engineer on staff for loss control services.

Mrs. Quinlan's goal is to manage underwriting and paperwork of the agency "so the producers are free to do what they do best—selling."

> The fast growing insurance market in Orange County has made it difficult to keep a qualified staff.
>
> —Al Quinlan, Quinlan Insurance

"Salesmen don't like detail work," Mr. Quinlan added, "and when you give them a lot, the growth of the business is hindered. That's why we rely on good support staff for the salesmen."

The fast growing insurance market in Orange County has made it difficult to keep a qualified staff, Mrs. Quinlan noted. "Our underwriters get two and three calls a day from recruiters who promise them everything from cash bonuses to trips."

Better salaries

As a result, underwriters in Orange County make good money. A trainee can expect to start at $1,000 to $1,200 per month while a senior underwriter commands $1,600 to $1,800 per month.

"The insurance industry is finally waking up to the fact that you've got to pay people well to get good people," said James G. Brakke, partner at Brakke Schafnitz & Associates Inc., a small nine-year-old group whose principals hold the designation Certified Insurance Counselor.

With a staff of 11, including five producers, Brakke Schafnitz has a current premium volume of $5 million and a five year goal of $20 million. The firm will move out of its suite in the Airport Industrial Park in August to more spacious quarters.

Another concern of Mr. Brakke's is the lack of professionalism in the insurance industry. "It's too damned easy to get into the insurance business," he complained. "I'd like to see it be as difficult as becoming a CPA or member of the bar.

Being a certified consultant lends a more professional status to a producer, according to Mr. Brakke. "When you're dealing with insurance, you're dealing with an element that could bankrupt a client if it's not placed correctly," he added. "That's more of a professional responsibility than what CPAs or lawyers do."

However, he noted "90% of our business is referrals from attorneys, banks and CPAs."

Another certified insurance consultant who heads a brokerage firm is Robert B. Milum, a veteran of the business who recently split from partner Tom Garvey to form Milum & Associates. The firm consists of two salesmen supported by a staff of four and has a current premium volume of $2.5 million. Accounts include the city of Newport Beach, the Rusty Pelican and Ancient Mariner restaurants and several general contractors.

Risk management

"Even though we're small, we're competing head to head with national brokers for business in Orange County," Mr. Milum said. "But our approach is not geared first of all to the bottom dollar. Unless a person's getting the right coverage, it doesn't make any difference how much it costs."

Stressing a risk management approach for small to medium sized businesses that don't have risk managers, but who need assistance, "we've been able to build relationships that are not just based on dollars," he added.

The five-year plan for Milum & Associates sets growth as its goal: "70 accounts generating about $300,000 annual commission that would be ideal," Mr. Milum said. "I'd like to get our overhead below 40% and with a good mix of risks between $10,000 and $100,000 in annual premiums, I think we could do it.

"I'd like to be able to work smarter, not harder," he concluded. ■

Pioneer recalls rebel days in California

Charts the future of Bayly, Martin & Fay

By JOANNE GAMLIN

A/BT

LOS ANGELES—There are probably few people in the brokerage business who can describe the insurance scene of 1913. And there may be fewer still who can recall the days when Marsh & McLennan was not the leading broker in the nation.

One person who can do both is William N. Martin, the chairman and founder of Bayly, Martin & Fay Inc. of Los Angeles, the nation's seventh or eighth largest brokerage firm.

He was a rebel in California insurance circles from the start. Mr. Martin was the 'young turk' who in the 1920s successfully challenged the comfortable arrangement between insurance companies and insurance agents in Los Angeles that helped to create California's highly applauded open rating system.

Mr. Martin, now 78, recalls when he was an office boy in the Johnson & Higgins San Francisco office in 1913. In those days J&H wore the crown marked number one.

"Marsh & McLennan was known at that time, but it did not have the status of J&H," he remembers. "The San Francisco Brokers Exchange was able to exclude M&M" on its first try to enter San Francisco.

Mr. Martin, who believes that his firm could be the fifth largest brokerage firm in the nation by 1981, made a rapid ascent in the insurance business after holding that entry-level-job with J&H. In 1918. he joined Continental Insurance of New York, and was quickly offered the opportunity to organize its West Coast engineering department, one of the first such departments in that part of the country.

"San Francisco was the Pacific Coast center of insurance then," he related. "Los Angeles wasn't anything at that time."

Because it was so important, San Francisco could boast that it hosted the West Coast office of every significant insurance company in the country. Consequently, Mr. Martin said that the city was "a little bit like London is now" in that he could walk up and down a few streets and sign up all the participation he needed for a given insurance line or he could walk a shorter distance and have a policy altered.

Continental's engineering department, he explained, had a rate schedule for every class of engineering in existence in the early part of the century. Along with basic schedules, there were schedules for lumber mills, oil refineries and the mercantile business and dozens of other specific lines.

"Blanket coverage came into existence in about 1920 and issue of manuscript policies emerged at about the same time," Mr. Martin said, noting that blanket policies, which at the time would usually have 50 to 60 companies in participation on, say, a $5 million line, leaped into popularity in a short time.

In 1923, he left Continental to form Bayly, Martin & Fay in Los Angeles. Of the three men, only Mr. Martin came from the insurance industry. Mr. Fay was a fruit and lumber industry man and a large property owner and Mr. Bayly was in investment banking.

Large general insurance agents dominated the city of the angels. If a broker wished to capture commercial accounts, he had first to court the appropriate general agent.

Embodying the power of the general agents was the Los Angeles Insurance Exchange, which had rules in 1920 that "if you didn't become a member of the exchange, you couldn't do business with general agents and if you didn't do business with the general agents, you could not do business."

From the first, the relationship between the fledgling brokerage firm and the powerful exchange was stormy. In fact, the exchange flatly refused to allow the brokerage firm to become an exchange member at first.

"So I went to the Board of Underwriters of the Pacific and had that ruling killed," he said, noting that he organized BMF while he was still at Continental.

Still, it was six months to a year before BMF was permitted to become an exchange member because in the beginning it was rejected.

Soon after it obtained membership, however, BMF was kicked out for "being too aggressive, competing with the agents and writing manuscript policies," said Mr. Martin.

But if the agents dreamed they were hurting the upstart firm, they were dead wrong, he avers. They actually aided Bayly, Martin & Fay by making its name known as an enterprise that dared to buck the establishment. Mr. Martin said that this growing reputation helped the young firm to take more business from M&M.

"M&M retaliated by telling an important account that we had been thrown out of the exchange, which was tantamount to being disbarred," he said. "So I took out the agents manual on how much pressure agents were bringing for higher commissions and showed it to the president of the account. His response was 'if you ever join them again, we won't do business with you.' "

The relationship between the exchange and BMF did not become warmer, however. Mr. Martin recalled that indirectly he convinced the assistant attorney general, then semi-retired, to threaten to bring an antitrust lawsuit against the exchange, challenging the agreement between it and the insurers. The exchange at that time was striving to compel BMF to qualify as an agent, not a broker.

The lawsuit threat slowed the exchange, and the passage of Public Law #15 collapsed the exchange's agreements, leading to the evolution of open rating in California in the 1940s.

The Los Angeles Insurance Exchange still exists, noted Mr. Martin, but it has been thoroughly shorn of its penalty powers. The Society of Insurance Brokers, an organization which he helped to found, is the one with class now, he said.

BMF really began to take shape as a major brokerage firm during

Continued on next page



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Pioneer . . .

Continued from previous page

the Depression, he continued. The firm was able to carve a place for itself during 1929 to 1934 because it could demonstrate to clients the ways they could save money on insurance.

Mr. Martin not only predicts BMF will grow to the fifth largest brokerage firm in the U.S. in two years, but he also believes that there will be many more than five—probably 12 to 14—major brokerage firms in the future.

He doesn't regret that his firm has never gone public, even though by not doing so it has had to rely on internal growth for the most part. Privately-held firms in those days paid higher salaries than those that were publicly held, he contends.

"We always paid better than our competition," he proclaimed. "We began paying bonuses in 1950."

One result of this has been low employe turnover. BMF's president and chief executive officer, Charles R. (Jack) Warde, has been with the firm for 39 years, his first employment venture.

A man who remembers the 1906 San Francisco earthquake as well as the insurance scene of 1913, Mr. Martin now encourages BMF's larger clients, those with premium volume over $100,000, to purchase insurance only for their excess layers and thereby conserve cash.

The future? It will be years before the New York Insurance Exchange rivals Lloyd's, he said.

As for the trend toward U.S. brokers to form ties with London brokers, Mr. Martin says, "We do not feel that any single Lloyd's broker has all of the specialists and ranking relationships essential to serve our diversified clientele." BMF therefore is sticking with a non-aligned brokerage position in London. ■

Calif. wholesaler offers jumbos' art to smaller agents

A/BT

ENCINO, Calif.—Small brokerage firms across the nation that bag a good-sized regional account only to be confronted with a demand for an unusual insurance program might reach for the aspirin and resign themselves to losing the client.

If the prized account demanded help in setting up a captive, a complicated fronting arrangement or even self-insurance, the small brokerage firm might throw up its arms and admit that it is not up to the challenge.

H&W Insurance Services in Encino, Calif., an excess/surplus lines brokerage firm with offices around the country, has seen this happen and wants to do something about it.

From its offices in nine cities, H&W expects to launch a package program for small retail brokers that will allow them to compete with the national brokers in providing programs in self-insurance, fronting arrangements and captives.

The first excess/surplus lines house in the country to spot the need and provide the package, H&W has signed an agreement in principal to be acquired by Insurance Management Corp., (IMC) of Richmond, Va. IMC provides a range of insurance services, including premium financing and self-insurance administration facilities through a network of affiliates in 10 states, all in the Northeastern part of the nation.

"We needed a monied partner if we were to realize our five-year plan," H&W executive vp David R. Hoskins told *Business Insurance*. The sale of H&W to IMC will be completed July 1. IMC is a division of Continental Financial Services Co., which is a member of The Continental Group Inc., part of Continental Can Corp.

H&W will continue its present operations with existing personnel after the merger, stressed Mr. Hoskins and his partner, Joseph F. Weckerle, H&W president. The affiliation with IMC is designed to expand their customer service and to realize their five-year plan.



Small agencies have to offer alternatives to big clients, says H&W's David Hoskins.

"As part of the plan, H&W intends to change the image of the excess/surplus lines broker," Mr. Hoskins asserted. By providing small retail brokers with packages that direct them in establishing the kinds of insurance programs enjoyed by the Fortune 200, H&W may create a name for itself as an innovator, he explained.

Small brokers are handicapped by an inability to offer larger accounts contemporary insurance services, he believes. "I have listened to enough clients state that the reason they switched brokers is that the firms failed to offer alternatives to conventional insurance," said Mr. Hoskins. Many small brokers have regional accounts that pay premiums in the range of $10 million a year, he noted.

These sized accounts, he contends, are most likely to look longingly at corporate giants and decide to emulate their insurance programs. "Thus by giving small brokers the chance to offer these sophisticated programs to their bigger clients, we are giving these brokers an opportunity to compete with the big 10," he said. ■

Bender ties Fritz to formal co-op

SAN FRANCISCO—Albert M. Bender Co. Inc., the insurance brokerage subsidiary of Bache Group Inc., and Fritz International Insurance Brokers have entered into a cooperative formal association.

Bender will provide property/casualty marketing and services for Fritz clients and Fritz, skills in marine and transportation. ■

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*Source: U.S. News & World Report "Small businesses as a market for insurance."

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D.C. broker walks foreign soil

A/B/T local leader

WASHINGTON, D.C.—Frank Wright needs his new Seiko clock that can be programmed to give the time in any place in the world.

With new offices in London and Judda, Saudi Arabia, Wright & Co. here does business in a lot of time zones.

"Our Washington, D.C., location lends itself to thinking internationally," remarked chairman Mr. Wright. "Most U.S. brokers think only of their own community. I try to have a broad outlook because our world today is quite small."

The firm's world was even smaller two years ago when *Business Insurance* first profiled Wright & Co., an independent retail and reinsurance broker. Most of the brokerage's business was in Washington, in contracts with the U.S. government and allied organizations, including the Organization of American States. Its international experience was forming a captive insurer, Wright International in the Cayman Islands, for a client.

Since 1976, business has been on the upswing, with 1978 revenues reaching $1.3 million, up from $950,000 in 1977. In 1978, Wright & Co. was the largest single producer for the INA international division.

London became the next logical place to expand into in 1979, according to Mr. Wright, as international accounts and reinsurance business continued to increase.

"We became the first American broker to set up its own office in London as a retail broker, not as a joint venture or a combination," he said. "When it became known that we were going to set up in London, four local brokers individually asked us to set up joint operations with them."

Though the new U.K. office will continue to deal with Lloyd's through traditional Lloyd's brokers, the office will actively pursue business in the United Kingdom, help pursue more international business and support the Grand Cayman and Saudi Arabia offices.

With its increased connections to Lloyd's and the London reinsurance market, the new office will bring Wright & Co. into more direct competition with the top 10 to 15 U.S. brokers, according to Mr. Wright. "We have been doing business with most of the top 10 brokers already," explained Mr. Wright, "as they come to us with coverage problems that we have control of."

Wright & Co. is the developer of the special coverage demanded by the Defense Base Act, which is workers compensation with very high limits for U.S. citizens working overseas on government sponsored projects.

Kidnap and ransom insurance has likewise become a specialty as Wright & Co., which enters the market for financial institution officers through a program promoted by the American Bankers Assn. and underwritten by INA Special Risks.

"Our key to success in competition with bigger brokers is taking the time to do a deeper study. We often find solutions to problems that other brokers haven't been able to solve or do anything about," Mr. Wright explained.

The solution can be using a combination of markets, he noted. Sometimes the firm's reinsurance connections allows it to plan the reinsurance to submit to the carrier along with the risk, proper bait for the carrier.

The Saudi Arabia office is the firm's operating headquarters for accounts in the Middle East, including North and East Africa and Asia's economically growing areas riding the strength of their oil production.

Storage tanks for gasoline and aviation fuels are risks Wright is handling in the Middle East, in addition to more standard commercial risks, including new shopping centers and hotels.

One juicy account has been a shipment of special building materials (mostly marble) for the construction of an oil prince's palace: a $20 million risk.

"Certain customs can be a problem in the Middle East," observed Mr. Wright. "In some interpretations, insurance works against the will of Allah. If a building falls or a storage tank explodes, it is because Allah has willed it. In other areas, the Koran is viewed with a growing interpretation and insurance is acceptable."

Working with foreign firms is not all that different from working with U.S. firms, according to Mr. Wright. "You still have to do it the way they want, but you have to educate your clients first. In international business you must do it the way the client wants, within the social mores."

More international business is coming; following the accounts will be more international offices. Wright & Co. is already planning offices in Munich, Germany, and Geneva, Switzerland. Paris is a likely location, too.

"We have been making our first tentative steps toward China, also" said Mr. Wright, "by working with a U.S./China expert. But it's going to be a long time in the works.

Personal lines, commercial insurance for Main Street Peking and life/health coverage for individuals are not on the study list. "People just don't have the money for that yet," said Mr. Wright. ■



A Washington, D.C., location helps in thinking "international," says Wright & Co. chairman Frank Wright.

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Move over actuaries, Hoodoo's here

By Len Strazewski



A/B T **len's lines**

THE LAST TIME I saw Hoodoo Harley, he was selling peanut butter and jelly sandwiches, horoscopes and life insurance from his dormitory room at business-oriented Midwestern University. He had been there seven years and had received no degree, though he had taken most of the required MBA courses.

When he called last week, I thought he was after the half a buck I still owed him for the sandwich I ate my senior year during my last final exam.

"Naw," he said, "I'll forget it if you do me a favor. I understand you write for an insurance magazine."

Right.

"Well, I'm in the business again as a consultant, considering my long years of experience. I do. . .uh. . .(a rustling of papers) risk management services."

Oh yeah? What do you provide? Employe benefit communications? Political risk analysis? What?

"None of that stuff. I got something better."

Peanut butter sandwiches?

"Nah. I predict the future. Companies always need to know the future."

Oh, you do actuarial consulting.

"What?"

Then I guess not.

"See, I do a horoscope for the companies and then I go into a trance and when I come out of it I know all the problems a corporation is going to have in the next 50 years. Then they can figure a way so they don't happen. After they pay."

Gee, Hoodoo, that's a great service, but you got the wrong desk. I write for agents and brokers. They sometimes provide risk management services, but they don't usually buy them.

"That's okay, pal. I can predict the future for agents and brokers. They have a future, too, I think. I'll call you back when I come out of my trance. When were insurance brokers born?"

I don't really know Hoodoo, but I think they are Scorpios.

"Groovy."

I couldn't really concentrate on other work while waiting for my old pal to call. He had a knack for being right in college and now that I think of it, was always in the insurance business.

He would cover students against loss of drugs, alcohol or female companionship due to invasion by the college housing authority. He placed the risk with a syndicate of the bigger illicit drug dealers on campus with some of the sorority houses sharing in the surplus lines.

I understand that later he sold his first informal commercial policy to the college, protecting a certain statue of the founder from theft or defacement, placing the coverage with a consortium of students with low grade point averages.

A 24-hour guard by campus security personnel lowered the rates substantially, he said, making it a "highly protected risk."

I found out some months later that he left school without a degree after not forwarding some premiums to one of his famous student syndicates, in this case, the football team. In a fit of financial pique, the football team won instead of throwing the game as was outlined in the policy. Both the team and the insureds were out to get Harley for a while.

The man had a knack for the business. A natural, one might say.

Even the ringing of the phone was exciting.

"Okay, Ace, I got it. The future of the agent/broker business."

And he told me. The predictions were fascinating and I think you should hire Hoodoo right away, but I told him I wouldn't reveal most of them.

But here are a few free samples at no charge:

- *Agency seminars.* By the year 2005, the energy crisis will be so bad that agent associations will hold seminars on Agency Humanization, or replacing computers with people to save electricity.
- *Captive insurers.* Underwriting standards will be so tight and complex that the only way to place many commercial risks will be at gunpoint.
- *Product liability.* Products coverage will be placed directly with the state court system, which will keep rates low because judges are sick of the cases. Premiums will be paid monthly in small bills.
- *Commissions v. fees.* Fees will win out, says Hoodoo, but brokers will accept payment only in gold. "This paper stuff will be only good for lighting cigars by then."
- *Corporate executives.* Large brokerage houses will be run by clones of the principals who were in charge in the year 1985 to save money on photographs for annual report brochures.
- *London links.* Several giant U.S. brokers will try to form revenue pooling combinations with Lloyd's of London brokers. This will be their 43rd try. They will strike out.

Good stuff. If you want to hire Hoodoo Harley for his special consulting services or throw some corporate business his way, you can reach him at Hoodoo Harley's Risk Management Services and Pawnshop, Atlantic City, N.J. ■

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Corroon & Black Corp. announced a regular quarterly dividend of 39 cents, an increase of 26% over the preceding quarterly rate. This increase marks the thirteenth consecutive raise.

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INA
The Professionals



Broker as consultant

RBH plans warranties for housing industry

PHILADELPHIA, Pa.—Warranty insurance, an outgrowth of the consumer's desire for a "no-risk society," is growing in type and number of policies, according to Richard T. Harris, president of Rollins Burdick Hunter of Pennsylvania.

RBH, which refined the Homeowner's Warranty (HOW) insurance program and placed the coverage with INA's special risks department, is designing similar programs for other associations in the housing field, he says.

Warranty programs require special broker effort.

"We were more of a consultant than a broker in our work with the HOW plan," he explained, "but when we took over the account four years ago we had to educate quite a few markets before we settled with INA."

The HOW program, administered by the Home Owners Warranty Corp., a branch of the American Home Builders Assn., provides 10 years of new home coverage, insuring HOW-approved homes against structural defects.

In the first year of coverage, HOW warrants the home to be free from defects resulting from noncompliance with the HOW building standards as well as structural defects. In the second year, the policy warrants that the home's electrical, plumbing, heating and cooling systems will perform according to approved standards.

Through the tenth year, only structural defects are covered.

Finding the right carrier meant more than locating the lowest price. The research taxed the resources of the whole RBH office, tapping all of 55-member staff at one time or another in handling the account.

"The program required an in-depth financial understanding, because the reserves can be quite substantial, so we knew we needed a carrier with a lot of excess capacity," said Mr. Harris.

Technical expertise was also a requirement, as development of housing standards still needed work.

"For example, we had to figure out what to do with problems caused by expansive soils that absorb a lot of water and may make one or more sides of a foundation of a home sink up to six inches," said Mr. Harris. "That's a special problem in the West and South."

Even after INA was chosen as carrier for its capacity and engineering strengths, negotiations between RBH and INA went on for nine months to bring the plan to fruition.

RBH's services are still required for actuarial and record-keeping. About 15% of new houses being built are covered by the Homeowners Warranty. In 1979, HOW expects to enroll a total of 400,000 homes representing $20 billion worth of housing. ■

A/BT

College surveys agency services

GLENMONT, N.Y.—Graduate business faculty from the state University of New York at Albany will survey the Professional Insurance Agents of New York (PIA-NY) to determine the range and costs of agency services.

Frank H. Reis, president of PIA-NY who contracted the study, told the 2,600 member agents that the survey would help the agent association defend the commission format for compensating agents.

The study will focus on regulated lines, but will look at both commercial and personal lines rates.

"The whole question of insurance pricing has become a political issue and in at least one state, a fixed per car ceiling has been set on auto commissions," said Mr. Reis. ■

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Agency's own school grooms producers

CHICAGO—If you want bright, young producers to pick up the sales load of your growing agency, the best way to find them may be to train them yourself.

That's what the Warner Insurance Group here did as it expanded its reciprocal insurance company for the food industry and added a general commercial lines agency division in 1976.

The in-house program has generated 12 account executives for Warner, providing just-out-of-college graduates with basic insurance training and the specific background required for working with the firm.

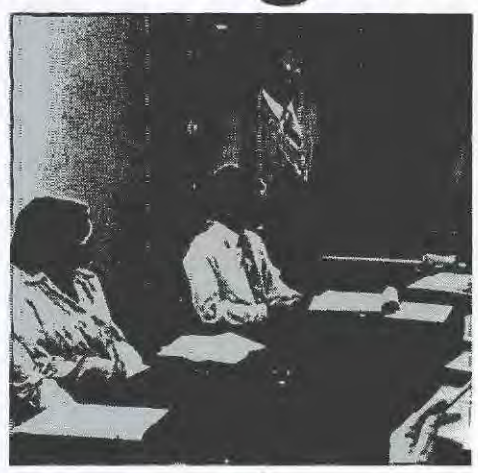
Like the training program of Arthur J. Gallagher & Co. (*BI*, May 28) all Warner Insurance Group trainees get a chance to work in every department from production

A/BT systems

to underwriting with required stints in safety and loss prevention.

Unlike the Gallagher program, trainees are already college graduates who have been hired as full-time employes, not summer-help college students testing the business.

The training sessions last six months. New account executives share the first three months in a basic insurance information program with Warner underwriter trainees. The group attends informal classes for half a day, every day.



A Warner Insurance Group executive lectures underwriter and account executive trainees in the firm's permanent training room. Video-tape players are also used for sales role-playing.

Photo: Mary Cairns

In the next three months, account execs get the opportunity to work in every Warner department, including the underwriting divisions, "to get on the job experience and basic product knowledge," according to David Schmidt, manager of direct sales.

Though many insurance agencies refuse to train their own producers, claiming that training takes too much time or costs too much, the Warner group finds in-house education essential.

"Warner is a small enough firm that there is no political difficulty for an account executive to go into the underwriting department and ask what's going on with a certain account," remarked Mr. Schmidt. "In fact, we encourage it. But it is important that they have the same background of product knowledge."

Knowing and understanding the limitations and freedoms of the coverage available from Warner is necessary because the firm is primarily a specialty agency and insurer. Its roots are in the original Canners Exchange, which was formed to provide canners, packers, dairies, bottlers and suppliers in the food and related industries with insurance coverage at cost.

The group expanded to include Warners Reciprocal Insurers to handle additional commercial risks and the Underwriters Insurance Co. to provide major casualty coverage and homeowner protection. Underwriters Insurance Co. currently writes nearly 25% of Chicago's homes.

The Warner Insurance Agency, founded in 1976, represents, among other carriers, Firemen's Fund, and is a separate profit center which also serves policyholders in the other Warner divisions.

Most potential account executives need the product training, but also need general study in the insurance field, according to Mr. Schmidt.

"We mostly hire recent college grads whom we think have the proper motivation and discipline required to make it in the insurance industry," he explained. "They are tested for both personality and math and verbal skills, but mostly we look for someone who has a competitive spirit and who is mature enough to work out of his home without much supervision."

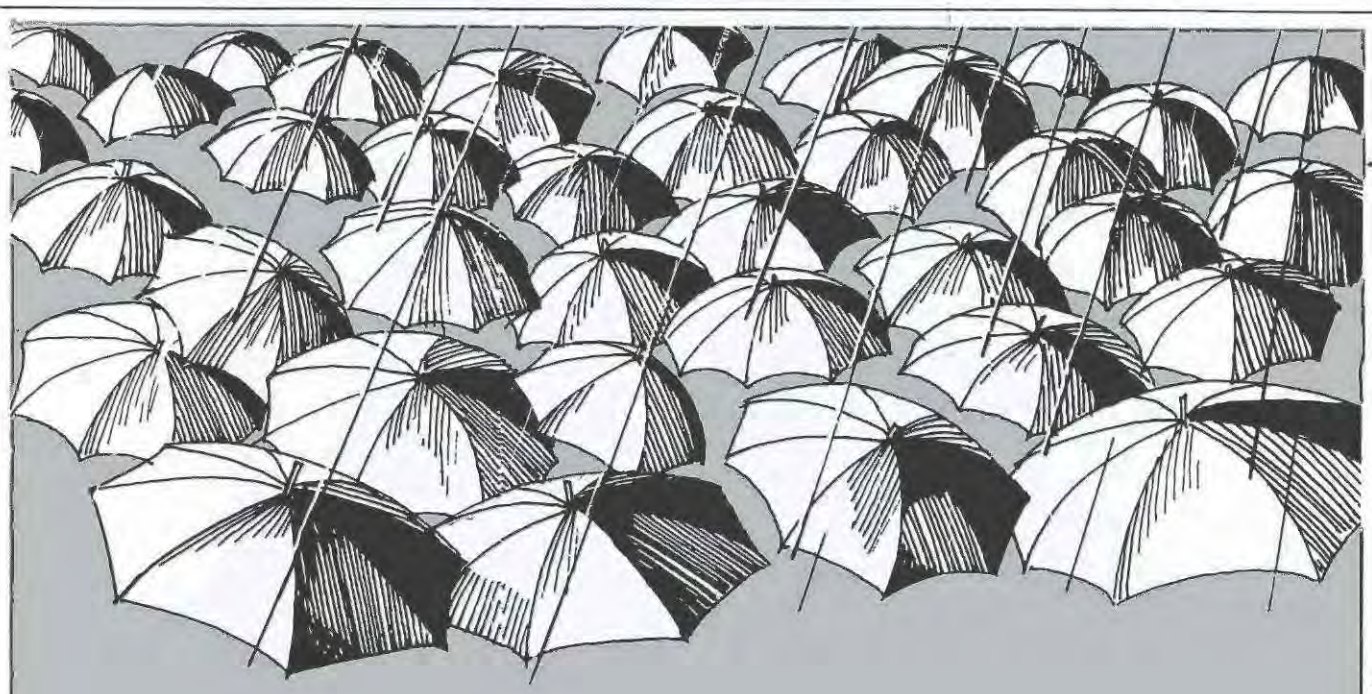
Most of the grads know "absolutely nothing about insurance" when they are hired and start training, noted Evelyn Bakke, a recently retired Warner executive who initiated the formal program. "We try to teach them the basics of commercial property and liability in the first three months and then let them use their knowledge in practical situations," she explained.

Texts for the initial training period are drawn from a variety of sources, including Independent Insurance Agents Assn. educational resources, question and answer textbooks from the Pictorial Publishing Co. and an operations manual developed by Ms. Bakke and other instructors.

"We try to keep classes very informal for the first couple of weeks and emphasize the student's participation," said Ms. Bakke. Group discussions about problems encountered during the practical side of their work is encouraged and audio-visual aids are used to stimulate discussion.

Good students whose participation indicates a certain competitive spirit may find themselves assigned to a Warner new business unit, working almost immediately with a regional manager and experienced account executives.

Not-so-good students may discover that they are not cut out for the insurance industry after all, according to Mr. Schmidt. "We have had instances in which, because of the detail work involved, some students discover that this isn't their



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Warner Program for Account Exec Trainees

I. Casualty—4 weeks
   - A. Policy forms and available coverages
   - B. Rating procedures and practice
   - C. Technical office procedure

II. Loss Prevention—3 weeks
   - A. Safety engineering basics
   - B. Safety inspection review

III. Casualty—4 weeks
   - A. Theory of underwriting casualty business
   - B. Practice of casualty underwriting at the Warner Insurance Group

IV. Exchange underwriting—6 months
   - A. Policy forms and coverages available
   - B. Technical office procedure
   - C. Quotation and rating procedure

V. Loss Prevention—6 weeks
   - A. Property damage engineering theory
   - B. Inspection (property) review
     1. Reading diagrams
     2. Recommendation procedures

VI. Exchange Underwriting—6 months
   - A. Theory of underwriting property damage business
   - B. Practice of this theory at Warner
   - C. Quotation preparation
     1. Review of submissions
     2. Underwriting of submissions

VII. Loss Prevention—4 weeks
   - A. 2 weeks for review of technical knowledge
   - B. 2 weeks for travel with an inspection to get on-the-spot experience

VIII. Warner Insurance Agency—1 month
   - A. Markets available
   - B. Placement procedure
   - C. Quotation procedure

IX. Practical field training—6 months

(The vp of direct sales should take the active leadership in this portion of the education process. This section entails the necessary training of selling techniques which have proved to be successful in the past.)

cup of tea," he said. "The underwriting training, for example, is very, very detailed and demanding and we have had people leave after a week."

Students don't get formal report cards, but they are evaluated, mostly on the basis of their personal participation in the program. Trainees whose work has slipped and need catching up are encouraged to keep trying. Regional managers and instructors are ready to work with them, says Mr. Schmidt.

Exercises are very real and may be real account problems. "If they are working a new property account, for example, the trainees may be asked to calculate the reserve fund, which we need to know about as reciprocal insurers, or work out the estimated savings," explained Mr. Schmidt.



Photo: Mary Cairns

"Students of insurance" make the best account execs, says Warner direct sales manager David Schmidt.

Some salesmanship is taught, but not through get-motivated hype sessions. Instead, account executive trainees are sent out to work with regional managers and at least two experienced account executives, usually in the general territory that they were hired for. Video-tape equipment provides some opportunity for in-house role playing and Warner also taps the Counsellor-Selling program designed and sold by Wilson Learning Group.

Hot salesmanship is not particularly effective, anyway, according to Mr. Schmidt. "We have found through experience that the successful guys are the real students of insurance rather than fast-talking salesmen. Knowledge is what we emphasize."

After training, account execs are encouraged with financial assistance to keep learning in IIAA or

Continued on page 34L

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IIAA president leads political parade . . .

NEW YORK—Lee Meyer may be the hardest working president of the Independent Insurance Agents of America (IIAA) in recent years with the worst case of jet lag.

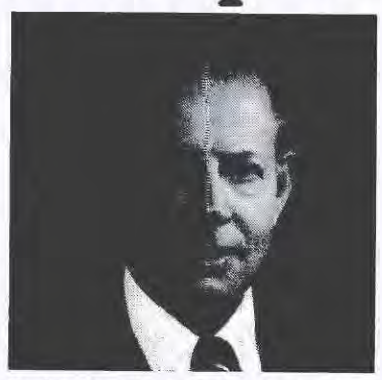
Barnstorming the circuit of state association conventions, Mr. Meyer has been preaching a gospel of political participation by state organizations and professional development among individual agents.

"If people in general don't get active in politics, they are going to have everything taken away from them," he contends. "We're the only ones who can tell the politicians what we want."

Fighting the repeal of the McCarran-Ferguson Act that mandates state control of the insurance industry is the IIAA's top political priority this year and Mr. Meyer affirmed the national organization's commitment to it.

A/BT

He warned that "bureaucratic government entities" are trying to gain control of the insurance industry by repealing the McCarran-Ferguson Act.



Federalization of the insurance industry may become a fact of life, says IIAA president Lee Meyer.

"We all know that the Justice Department, the Federal Trade Commission, the Department of Housing and Urban Development, the Commerce Department and many others in Washington are working constantly to obtain control of insurance regulatory activities," he said.

"Sooner or later, somewhere down the road, federalization of insurance could ultimately be a fact of life. But I am confident that when agents across the country realize what really can happen to them, you will see the most powerful, influential lobbying group that ever existed."

Repeal of McCarran-Ferguson would eliminate many of the pooling and cooperative activities of insurance companies, he claimed. And contrary to government suggestions, there is no evidence that insurance costs would be reduced or that there would be a better insurance product for the public, he said.

The end of the independent agent could be a direct result of McCarran-Ferguson repeal says Mr. Meyer.

"First of all, you would probably be forced to use only one company, or very few. In a sense, you would become a captive rather than an independent agent. The reason for this is that every company in your office would have a separate, complete manual; a complete, separate set of rates. The bureaus could not operate because they wouldn't have any data that was credible.

"If the companies could not get together and standardize their classifications, even if they pooled the experience, they probably would end up putting apples, oranges and bananas all in the same basket and nobody would know what they had.

"On top of that, in time we would have a different coverage or insuring agreement for each company for the same type policy holder," he continued. "We would most likely in time be unable to put two companies on the same risk because their policies would not be concurrent and their rates would not be concurrent either."

Big companies would just get bigger, he predicted, as those insurers with sufficient volume to do their own rating would become even larger until "business would be handled by captive agents, company employes or the like.

"There will be, of course, a time of uncertainity in the business. Expenses of doing business would increase. There won't be, for the time being, just federal regulation. We would have dual regulation, state and federal. I think you will find that the markets will become less stable and there will be terrific pressures on the small, regional companies and tremendous fluctuation of pricing, all of which will lead to insolvencies," he said.

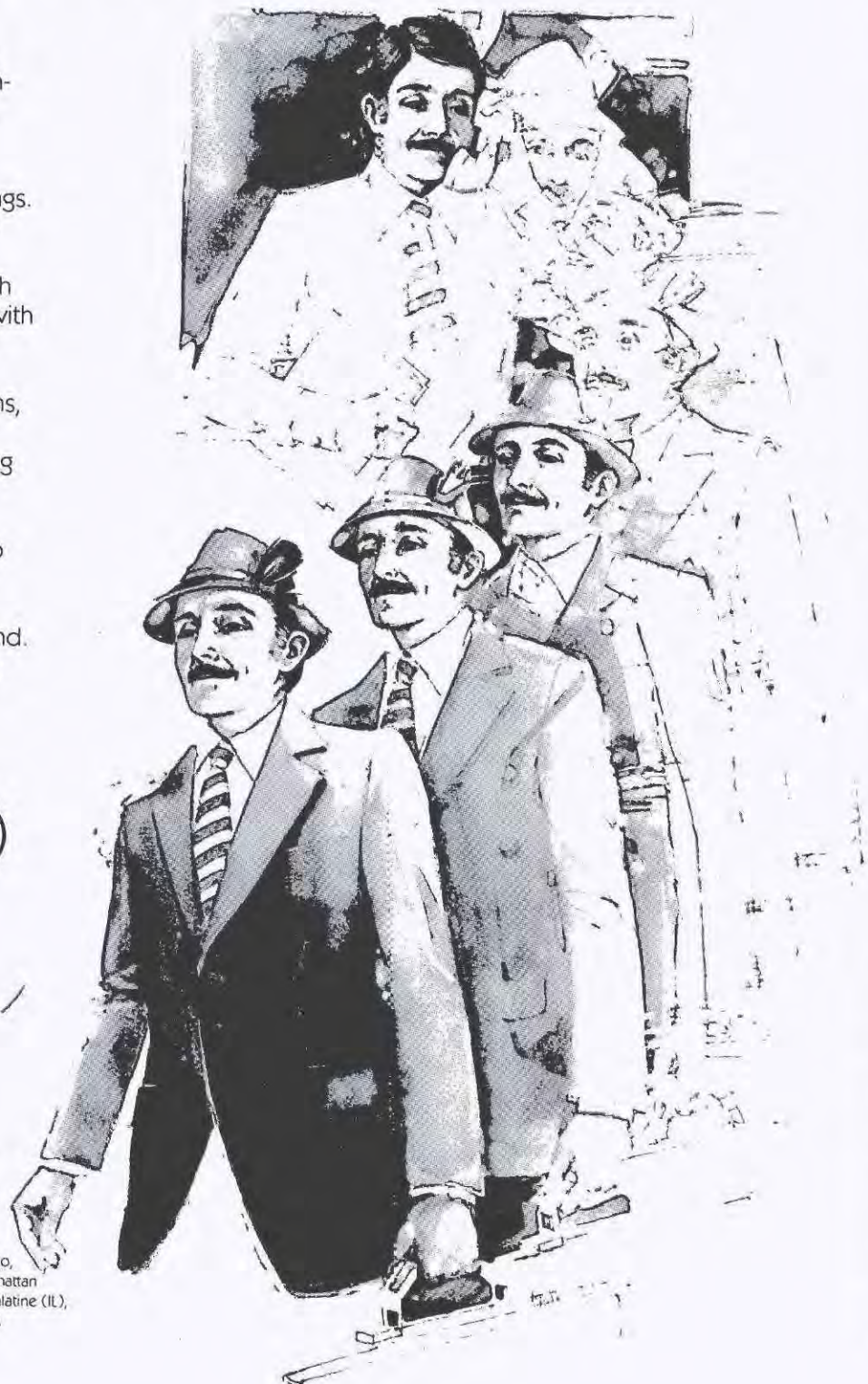
Individual agents need to get more professional, affirmed Mr. Meyer, who sold his first insurance policy in 1936 when he was still in high school. "There's just too many order-takers in this industry and not enough people who know what they are doing," he said.

"I don't mean that an agent has to be an expert on everything, but he must be able to recognize when someone needs specialized help, like in safety engineering, loss prevention or risk management, and then be able to get that help for them."

The ease of getting a life agent's license in many states rankles Mr. Meyer, especially when answers to the licensing exam are available in test preparation books. Principal of the Meyer & Rosenbaum Inc. agency in Meridian, Miss., Mr. Meyer says he has not sold a life policy in several years, but was able to score a perfect grade on the Mississippi licensing exam.

"Jackson, Miss., is two hours away from Meridian by car and I read the book on the drive up. They told me I passed with 100%. I don't know a damn thing about selling life. We have a life department to handle it," he commented. ■

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Regional offices stock flood plans

LANSING, Mich.—Applications for the National Flood Insurance program are now available in state commerce bureaus after a flood of requests for them.

In Michigan, one of the first states to make the forms available to local property/casualty agents through state offices, more than 400 communities and townships are eligible for the program.

The program, sponsored by the U.S. Department of Housing and Urban Development (HUD), makes low cost flood insurance available to property owners in designated high flood risk communities. It is available from any property and casualty agent. ■

. . . as NAIB hops on the bandwagon



NAIB needs more muscle in dealing with political issues, according to outgoing president David Holbrook.



NAIB will continue to support changes that will improve the system, new president Earl Nelson wrote to President Jimmy Carter.

NEW YORK—The National Assn. of Insurance Brokers is jumping into the political arena to fight the growing threat of federal regulation, according to out-going president David Holbrook.

Until NAIB took a corner, the major opponents of federal intervention into the insurance industry were the agents' associations.

"The federal government's determination to obtain greater authority over virtually all insurance affairs constitutes the greatest challenge facing the state-regulated private insurance industry in the next decade," said Mr. Holbrook.

"There is a critical need," he told the NAIB's board of directors, "for the entire insurance industry—including commercial insurance brokers—to reappraise its goals and its allocation of resources" if it expects to effectively contend with the "increasingly political attacks" of the 1980s.

The NAIB made its first political move last month when newly elected president Earl C. Nelson wrote to President Jimmy Carter on behalf of the association, urging him not to support the Williams-Javits workers compensation minimum standards bill "or any other proposal containing federal minimum standards for state workers compensation."

"NAIB will continue to support changes which will improve the system," Mr. Nelson also told President Carter. "However, we feel strongly the appropriate way to make changes is through state legislation and not by federally mandated minimum standards."

The efficiency of federal government administration of large-scale benefits is questionable, according to Mr. Nelson.

The NAIB is heading in the direction of more forceful political action, Mr. Holbrook later told *Business Insurance*.

"We realize that we need some more muscle in dealing with political issues. At this stage, we at least have a recognition on the part of the major brokers to represent ourselves and our clients," he said, a recognition that Mr. Holbrook worked for in his year as NAIB president.

A full-time broker lobbyist is not in the picture, he said, but the NAIB has made "a commitment to be more professional with our own political commitment for both the commercial broker and the commercial buyer."

No plans have been made to work in concert with either the Independent Insurance Agents Assn. or the Professional Insurance Agents Assn., but a joint effort with the Risk & Insurance Management Society "is certainly a possibility," said Mr. Holbrook.

Key issues for the association are currently being researched by the NAIB laws and legislation committee, according to a spokesman. The issues include state workers compensation plans, product liability legislation and national health insurance.

"These issues are not new," Mr. Holbrook explained. "Some of them have been discussed for many years and there has been little legislative action. However, Congressional hearings have served to develop a record to justify federal involvement in these areas.

"The case for dramatically increased federal action in the business of insurance has been slowly, but inexorably, developing. One broker familiar with the Washington scene has observed that it takes many years for concepts to develop into law. There are strong indications that our time in the legislative spotlight has come," he said.

Mr. Holbrook has recommended that the NAIB, in pursuing its own political action, "identify those issues which most directly affect our business as commercial insurance brokers and develop a legislative plan to deal with them; constantly reinforce the image of the commercial insurance broker as having an individual, credible identity separate from the insurance industry, and develop the resources or continuously and persuasively communicating our point of view." ■

Bender buys brokers

Albert M. Bender Co., Inc., the insurance brokerage subsidiary of Blache Group Inc., has signed a letter of agreement to acquire Farmin, Rothrock & Parrott Inc., an agency in Spokane, Wash. Bender has also acquired De Lanoy & Kipp, a New Jersey brokerage firm.

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Frank B. Hall elects Conroy senior vp

Robert K. Conroy has been elected senior executive vp of Frank B. Hall & Co. of New York and **William D. Pringle** has been named executive vp. Mr. Conroy will serve as chief operating officer and Mr. Pringle will also direct the firm's property and casualty division.

* * *

Rollins Burdick Hunter of Northern California has promoted **Douglas C. Vernon** to senior vp. Mr. Vernon joined Tittle & Jones, predecessor to the RBH division, in 1971. In the same office, **Norman E. Collins** has been promoted to vp and **James V. Burgess, Fritz B. Bodenheimer** and **F. Hugh Wiley** have been appointed assistant vps.

* * *

Philip J. Brown Jr., executive vp of Marsh & McLennan, has accepted the vice chairmanship of the United States Council of the International Chamber of Commerce's committee on insurance problems. Mr. Brown is in charge of M&M's technical and consulting services

* * *

Past-president of the Professional Insurance Agents of New Jersey, **Lee Braddock** has been appointed chairman of the board of governors of the National Society of Certified Insurance Counselors. Mr. Braddock is a graduate of Rutgers University and has been active in the association for 18 years.

* * *

John H. Johnston has joined Reed Shaw Stenhouse International Inc. as U.S. international marketing manager. He will be based in Washington D.C. and is a specialist in international insurance law, tax and coverage requirements and U.S. insurance procedures and techniques in foreign countries.

* * *

William S. Weiland was named assistant vp of administration of Fred S. James & Co. Inc. Mr. Weiland is a graduate of the Illinois Institute of Technology and previously served as manager of corporate accounting.

* * *

The Independent Agents Assn. of California has voted its Ronald Lee Wilson Award to **Donald E. Jones,** 32, of Berger & Jones Insurance in Oakland. Mr. Jones was given the award for "his outstanding work in both the insurance industry and local community activities."

* * *

Thomas K. Christie has been promoted to president of Newport-West Insurance Services of Santa Ana Calif. He formerly was a vp with Sundquist, Winterroth & Firth Inc. **Patty J. Wilson** and **Ronald W. Masters** were named vps.

* * *

Frederick J. Long has been appointed international vp of Pettit-Morray Co. of Seattle. He formerly was senior vp for Reed Shaw Stenhouse and had also been the marine manager of Marsh & McLennan.

* * *

A/B/T people



Repko



Giglio

A new subsidiary of Rollins Burdick Hunter Co., Rollins Burdick Hunter of Wisconsin Inc., has added **A. George Repko** as senior vp in the Milwaukee office. He is a graduate of Bradley University.

* * *

Johnson & Higgins has transferred **Victor J. Giglio** vp in the Cleveland Ohio office to the firm's Portland, Oregon operation. He will manage the Portland office, succeeding **William E. M. McDaid** who has assumed senior responsibilities at the Johnson & Higgins Seattle office.

* * *

Rhulen Agency Inc. of Monticello, N.Y., has appointed **Ralph Giordana** and **George Schrick** assistant vps. Both had been account executives and working for the firm over four years.

* * *

John C. McCutchen, formerly vp, treasurer and chief financial officer for Babb Inc. of Pittsburgh, Pa., has joined Warren & Sommer Inc. in Denver as vp of finance and administration. He will be responsible for company operations, including finance, personnel and data processing.

•

We'd like to report on staff changes. Just drop a note to Len Strazewski, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5393. We'd also like to receive pictures of those involved.

Agency's school . . .

Continued from page 34I

CPCU programs while on assignments in the field. The trainees chosen from three or four options, according to Mr. Schmidt, and are introduced to an area by a local account executive who may be moving into a different area or who is turning over a chunk of his territory to the new producer for more new business development. The regional manager and new account executive work out goals, some of which are based on production and some on personal skills development.

Who does better, home-grown producers or experienced account execs hired away from other agencies?

"Two years ago when we started to seriously expand our operations, it became necessary to hire a few account executives from the outside," noted Mr. Schmidt. "We gave them just a two-week orientation. In general, the experienced account executives did better faster, as well they should, but within two years there is really no difference. In fact, our own trainees do slightly better because of the commeraderie they have developed with the underwriters during their training."

No complete records of training costs have been kept, but expenses are minimal compared to the results, according to Mr. Schmidt. One full-time instructor is kept on the payroll to teach both the account executive and underwriter trainees.

"It's an investment for us and an important one at that," said Mr. Schmidt. "The expense occurs when the account execs get into the field and take some time to get started."

One problem with running a successful training program is that it gets recognized by the competition and competing agencies have tapped Warner for four of its home-grown executives.

"Yes, it has happened a couple of times that we have let slip our compensation and motivation and wound up doing the training for other firms," explained Mr. Schmidt. "Warner has gained quite a good reputation among other groups as I found out myself when I was job-hunting not long ago. Our name opened a lot of doors."

Warner Insurance Group also uses the in-house training for inside corporate mobility, encouraging employes who want to move into account executive or underwriter positions to get into the program. ■

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Pro	
40% - 60% discount on New York State group rates	• Requires 10 or more lives • Coverage terminates at age 70

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Work comp debate: Are prices fair?

By MARY ELLEN McKEE

CHICAGO—The fairness of workers compensation insurance rates could be added to the list of taboo topics for friendly discussion, right up there with politics and religion.

Experts who lambast the rates as unfair and the frustrated underwriters who defend again and again their reasoning for the rates agree only on a few reasons why rates are so high.

Panelists representing both viewpoints squarred off here at a three-hour debate on the subject at the second annual *Business Insurance* National Conference on Workers Compensation held June 11-13.

One speaker offered statistics to put the spirited debate into a broader context. Computing workers compensation rates based on a 6% inflation rate from 1972 to 1979 alone would have caused rates to jump 50%, according to Gerald R. Hartman, director of the program of actuarial science of the school of business administration at Temple University. A 15% inflation rate in medical costs, a major factor in workers compensation costs, would have caused rates to skyrocket to 299% or four times the cost, Mr. Hartman said.

These figures aside, a corporate buyer of insurance insisted that workers compensation underwriters are giving buyers a bad deal. "The cards are stacked against the employer," maintained William G. Cain, director of insurance and risk management of Dayton-Hudson Corp. "The insurance industry has devised a rating formula that even the most reasonable person finds impossible to clearly understand, making the actual ratemaking process one of the best kept secrets in the business."

Workers compensation is the highest insurance cost at Dayton-Hudson Corp., even though the former Schiff Terhune broker aggressively "negotiates a lower premium up front". The cost of all insurance for the company excluding employe benefits has reached 0.26% of the firm's billion in sales and workers compensation is eating up 0.11% of total sales.

Mr. Cain attributes this experience to several factors: Insurance companies charge inflated rates for services which include agent commissions, acquisitions and overhead expenses; expected loss rates are set too high, and many employers are placed capriciously into a certain industrial classification causing inequitable experience modifications.

"Its not uncommon for an employer with losses ranging from $600,000 to $800,000 to pay as much as $2.5 million for a product worth $1.2 million to $1.3 million," Mr. Cain said. "Insurance companies constantly sing the blues about the $5 billion underwriting loss, while they fail to mention the $31 billion in investment income making them money on the other side." Mr. Cain added.

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Insurance industry panelist Palmer App, president of Kemper Insurance Co.'s central division, spoke out of turn to immediately respond to Mr. Cain's accusations that insurance companies cushion premium rates to assure profits. "If workers compensation is so profitable, why don't we see other companies jumping into the business to get a piece of the pie?" he demanded of Mr. Cain. "And why have the assigned risk pools gone out of sight in most industrial states?"

A representative of the national rate making and advisory body for the state's workers compensation rating bureaus steadfastly maintained that rates are computed accurately, based on information filed by insurance companies with state insurance departments.

Based on information from the insurance companies, the National Council reviews premiums and loss ratios annually to determine if a rate increase or decrease is needed. When the actual benefit experience exceeds what the expected loss ratios are, a rate increase is warranted and at no other time, National Council actuary Richard I. Fein firmly noted.

In response to taunts from one panel member and members of the audience, Mr. Fein admitted that workers compensation premium rates are an unfortunate burden on employers, but he adamantly countered charges of inflated rate making.

"Theoretically, the methodology of ratemaking ensures that the insurance companies providing workers compensation coverage remain actuarially sound. I believe in the basic philosophy behind the methodology, but it is obviously not working today," he said. "Too many times we have been off: we set the rates too low and not too high."

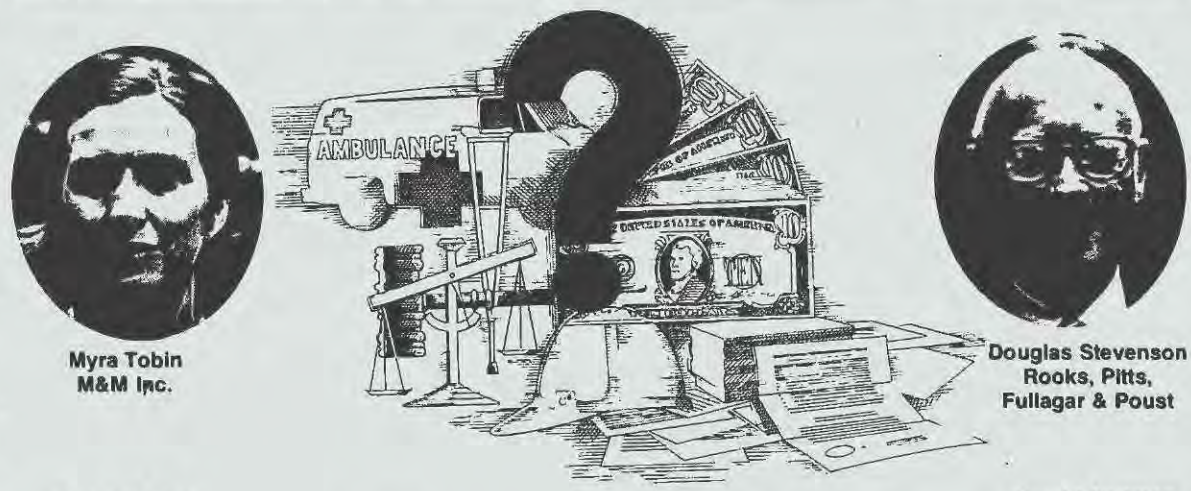
Myra L. Tobin, vp and senior casualty officer for March & McLennan, joked that she felt like the ping pong ball between Mr. Cain's viewpoint and the insurance company stance. Not aligning herself to either side, Ms. Tobin maintained there are important aspects to high workers compensation insurance rates that both employers and the insurance industry have yet to explore.

"As judicial expansion of benefits increased, the erosion of the profits of the workers compensation line began," Ms. Tobin noted. "The insurance companies still have not adjusted to the fact that a product which was very profitable for them for 20 years went sour," she said.

Although admittedly sympathetic to the uncomfortable position of the insurance companies, Ms. Tobin suggested the insurers' inability to respond automatically to such a drastic shift in the nature of workers compensation business caused some of the current problems in the system.

To illustrate, before attending the *Business Insurance* conference Ms. Tobin asked the claims people in her division to pull the files they felt best illustrated where workers

Continued on following page



Myra Tobin
M&M Inc.

Douglas Stevenson
Rooks, Pitts, Fullagar & Poust

Richard Fein
NCCI

Bill Cain
Dayton Hudson

Palmer App
Kemper

Gerald Hartman
Temple U.

Photos: Mary Ellen McKee

Federal impasse stalls minimum standards

By JERRY GEISEL

WASHINGTON—The Carter Administration and the Senate can't get together on a bill imposing federal standards for workers compensation.

Negotiations have collapsed between the Labor Department and staff members of the Senate Labor and Human Resources Committee aimed at hammering out a minimum federal standards workers compensation bill the Administration could endorse.

The two groups had agreed in April to work out a bill by the end of May after Secretary of Labor Ray Marshall told Sens. Harrison Williams (D-N.J.) and Jacob Javits (R-N.Y.) at a hearing (*BI*, April 16) that the Administration would support a minimum standards bill that it would jointly draft with the Labor and Human Resources Committee.

The Labor and the congressional committee met in a series of meetings over a month, but the meetings didn't bear any fruit.

"It was impossible to negotiate a compromise," said a member of the Labor and Human Resources Committee. "You can't compromise with someone (Labor Department) who doesn't have a position. . . . It was all very interesting, but it wasn't leading anywhere." The Labor Department declined to offer substantive comments on the breakdown in negotiations.

Despite the setback, staffers for Sens. Williams and Javits, who have introduced their own federal minimum standards bill (S. 420) are optimistic that full Administration support for specific proposals can be won.

"We are hoping that this is on track, even if the momentum has slowed down, and that the Administration will be back with specific proposals" so that negotiations can begin again, said Don Zimmerman, Sen. Javits's workers compensation aide.

There were reports that chief domestic policy adviser Stuart Eizenstat was prepared to recommend to President Carter that the Administration endorse a minimum standards bill, but this could not be confirmed.

Even if the Carter Administration does decide to endorse a specific minimum standards bill, questions remain as to how much support the Administration would give to the proposal.

One business lobbyist pointed out that business support for the SALT treaty, which the Administration is actively seeking, could evaporate if the Administration decides to make a major push for federal minimum standards for state workers compensation programs.

The Administration would be foolish to alienate the business community, whose support is so vital to get the SALT treaty through the Senate, by actively lobbying for a minimum standards bill, the lobbyist observed.

During hearings on the Williams-Javits bill, business groups denounced the proposal as inflationary and unnecessary, contending that the states have made dramatic progress in boosting workers compensation benefits. A coalition of more than 100 business and insurance trade groups are actively lobbying Congress in opposition to federal minimum standards in the Williams-Javits legislation and any other proposal.

Under the Williams-Javits proposal, injured workers would be entitled to two-thirds of their average weekly wage. For low-income employes, the benefit level would be no less than 100% of the statewide average weekly wage two years after the bill's enactment; it would be no less than 150% of the state average weekly wage five years after enactment of the minimum standards.

The bill only covers death and temporary total disability benefits. Sens. Williams and Javits have introduced similar proposals during the three previous Congressional sessions, but the bills never made it out of committee. ▪

Buyers, economist endorse state control of work comp

CHICAGO—Assurances that federal minimum standards for workers compensation will merely assure uniform benefit levels among the states is not softening opposition to the proposal.

An economist views the minimum standards as a deterrent to safety in the work place and a risk manager firmly believes businessmen can deal more effectively at the state level with the workers compensation problem.

An informal survey of 15 people who attended the *Business Insurance* National Conference on Workers Compensation also found only one half-hearted proponent of Sen. Jacob Javits workers compensation reform legislation. The others objected to the proposal, saying government interference would only mean higher costs to employers. All of them were also dissatisfied that no one, including the labor counsel to the Senate Labor and Human Relations Committee, would give a ball park figure of the cost of implementing such a system.

"The absence of any federal involvement today stands out as a major gap in the more than 40-year history of federal legislation to protect and better the employment conditions of American workers," defended labor counsel Don A. Zimmerman. "In each case, whether it be collective bargaining, unemployment compensation or minimum wages, the Congress acted to address these problems after the states had demonstrated an historical inability to do so them-

Continued on page 39

Work comp debate . . .

Continued from previous page
compensation dollars were going.

One man who had a heart attack while on the job and saw a doctor on Dec. 6, 1976, repeatedly failed to adhere to doctors orders and wound up in a hospital by Oct. 13, 1976. He turned a workers compensation claim reserved at $12,000. Twelve years later and in retirement he is still collecting benefits.

A fork lifter filed a workers compensation claim, arguing his job caused him additional stress. Even though the insurance company originally refused to pay the claim, the payout was $29,000.

Another employe who had a heart attack in a car shortly after giving a lecture finally settled at $95,000. A by-pass patient who filed a claim because an alarm that had sounded at the plant forced him to run up a hill, provoking a heart attack, won $51,000 before a workers compensation board.

In another case, the family of an employe who was forced to spend the night at work and was found

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murdered the next morning sued the company for not securing the building. The attorneys' fees excluding the workers compensation award reached $75,000.

Ms. Tobin suggested that employers, insurance companies and brokers have overlooked several factors that deserve closer scrutiny:

- Motivations of an employe who tests a system to its limits under which if a person is injured, someone pays.
- Ways in which the industrial relations department of a company and brokers could team up to pinpoint and then respond to the attitudes of the employe toward the workers compensation system and attempt to subvert the tendency to try to get all you can while you can.
- Record keeping systems, which have "grown like topsy in the past five years." Since all interest groups have their own set of figures to illustrate workers compensation woes, it is still a major problem to identify whether rate making is done accurately and fairly as the diverse views held by the panelists here indicate."

A boycott of the workers compensation insurance product is one way to draw attention, Ms. Tobin suggested. "Perhaps one of the only ways to alert your legislative representatives to the problem is to treat workers compensation rates as you would the prices of retail items."

Picking up the theme of horror stories, Chicago defense attorney Douglas Stevenson highlighted some of the problems Illinois employers are having with workers compensation rates which have risen "out of sight."

Manufacturing and other heavy industries have seen premium increases over the past three years ranging from 800% to 1,000%, he said. Workers compensation premiums for Caterpillar Tractor Co. increased 268% over the same time period; Chicago-based International Harvester workers compensation premiums jumped to 11 cents per man hour from four cents or a 275% increase since 1975. Meanwhile, premiums at A.O. Smith jumped to nearly $1.3 million in 1978 from $82,000 in 1975 and Northwestern Steel & Wire Co.'s premiums skyrocketed to $3.1 million in 1978 from $700,000 in 1975 for a 500% increase.

With these costs, employers avoid beefing up production in the state, Mr. Stevenson said. Less employment and fewer tax dollars paid by corporations ultimately taxes the consumer, he noted.

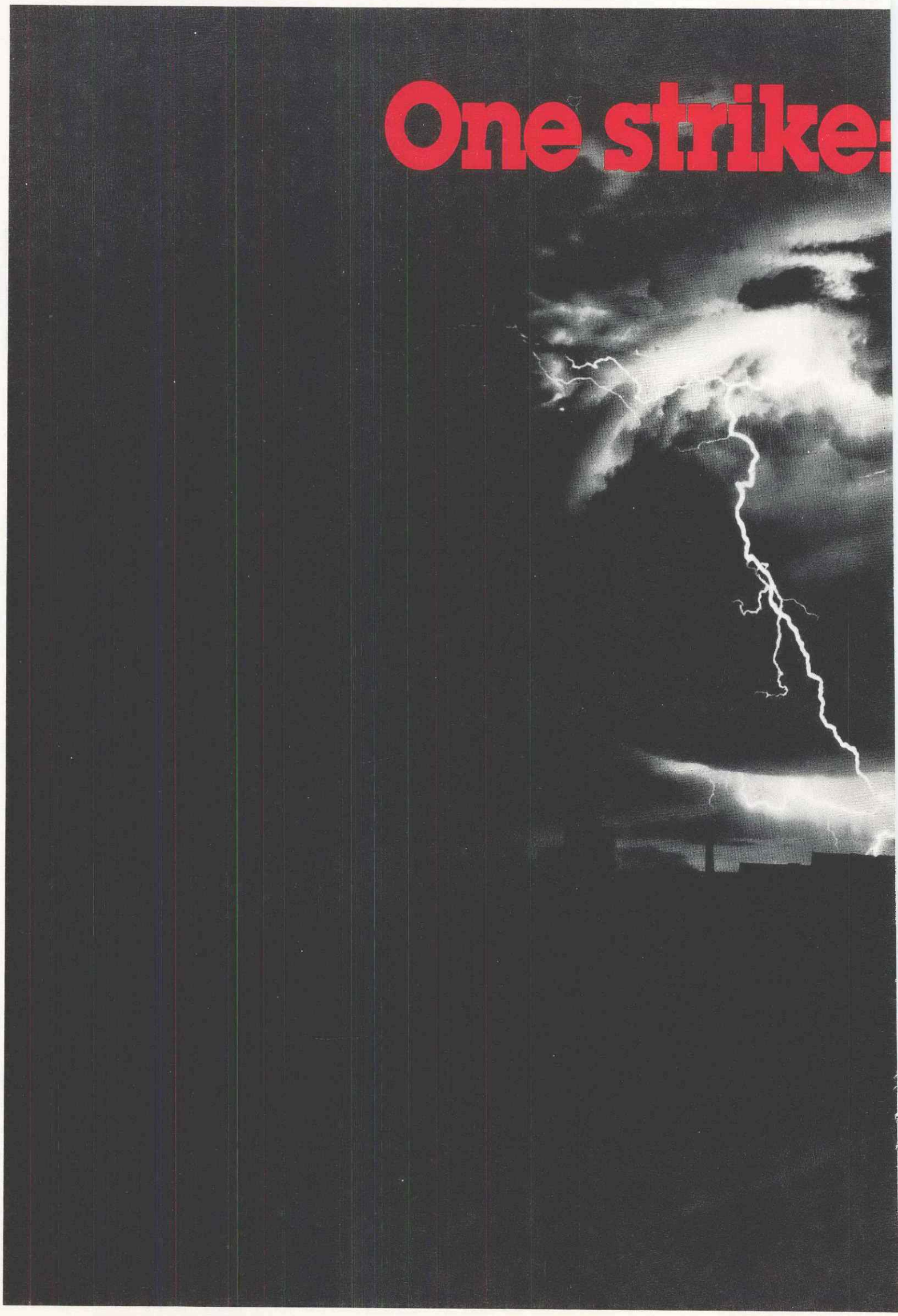
"The workers compensation system is also being applied in more and different ways," Mr. Stevenson said. Almost 25% of the cases with cartilage problems end up judged as loss of leg and Mr. Stevenson estimates that another 12,000 cases have ended up under temporary total and medical classifications over the last year.

"Rates are not fair as long as the ultimate burden of them is born by the consumer," Mr. Stevenson said. "Constant refereeing of labor and management and requiring insurance companies to justify rates on paper are two ways one can control workers compensation costs," he said. But the real problem is in the courts, Mr. Stevenson added. "Unfortunately, my own profession is largely responsible for the failure of the present workers compensation system to do what it was originally intended to do."

Mr. App of Kemper suggested that the audience drop by the corridor of Illinois industrial commission hearing rooms. He claimed that one could frequently find claimant with a cast on his leg before going into a hearing, but shedding it in his attorney's presence shortly after leaving the hearing room. ■

Allstate planning

Allstate Insurance Co., which recently entered the commercial insurance business, is researching a move into commercial mass-marketing. Trade associations are the firm's target, according to the researchers.



State control . . .

Continued from page 37

elves."

The workers compensation system has come to the point where it s not beyond federal responsibilty, either as a matter of social policy or the U.S. Constitution, Mr. Zimmerman argued.

That federal intervention could nean safety problems for employes and employers, countered Daniel Kasper, assistant professor of business administration at Harvard Business School. "Continuously increasing benefit levels create a potential conflict in safety incentives," he added. After some states followed the recommendations on increasing benefit levels proposed by the National Commission in 1972, work related accidents went up, Mr. Kasper said.

"The incentives really aren't there to prevent accidents when some workers can earn more than their weekly wage," he said. "A demand for accidents has been set by benefit schedules."

He pointed to unemployment compensation and Social Security as perfect examples of what happens after federalization: It adds a layer of administration which is difficult, costly and inefficient.

"The workers compensation system with high benefit schedules will undoubtedly lead to an increase in the number of claims because it has become worthwhile and brings a greater investment return than it did five years ago," Mr. Kasper remarked. "The average length of disability will also increase along with the number of work place accidents," he predicted.

"Eventually federalization of workers compensation and higher benefit schedules will be seen on the bottom line of some industries," Mr. Kasper said. For example, if the workers compensation experience in the steel industry is significantly less attractive than workers compensation in the aluminum industry, then there will be a shift in demand to steel from aluminum.

Workers compensation could even effect international trade, Mr. Kasper suggested. Countries such as Japan and Korea are quite advanced in construction, electronics and steel production without astronomical workers compensation costs to push up the prices, he added.

Reintroduction of the fault principle for work place accidents and bringing safety and compensation issues back to the bargaining tables are two ways industry could go to heighten safety incentives and lower workers compensation costs, according to Mr. Kasper.

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Howard T. Weber, director of insurance for 3M Co., however, suggested that legislation at the state level has been so dissatisfactory and off the mark because risk managers have not learned the art and importance of lobbying. "The only way that risk managers are going to come to grips with the workers compensation problem in their state is to become more actively involved in legislative activities.

"It's a time consuming job, so getting the support of your employer is essential," 3M's risk manager said. "Let him know that it is ultimately for the good of the company that you are becoming active in legislative matters. Tell him you'll be spending a great deal of time out of the office." Lobbying is a full time job, Mr. Weber warned.

"Study the law, get background information and study legislative legal language, court decisions and precedents," Mr. Weber advised. "Then find a power base—without one your efforts will be weak," Mr. Weber said. He suggested looking for that power base in a trade association, legislative committee of a local Risk & Insurance Management Society chapter, local Chamber of Commerce or an industry association.

"Workers compensation is a ripe subject for legislative reform in most states," Mr. Weber reflected. "It's a perfect target issue for risk managers to build their power base, refine their legislative finesse and formulate legislation that is in the best interests of the state, its industry and its employes." ■

Audit claims, experts advise

CHICAGO—Most insurers tend to overreserve for claims in anticipation of a turn for the worst, says a claims service specialist of Fred S. James & Co. of New York.

Risk managers can control this tendency, and their companies' workers compensation costs, by regularly auditing their insurers' claims files, the expert counsels.

"Just letting your carrier know you are involved has a psychological effect" on the insurer's reserving decisions, suggested Donald R. Czerniach, vp-manager of James's administrative claim service department. One risk manager in the audience of the *Business Insurance* National Conference on Workers Compensation who said he never found his insurer overreserving was told it was probably due to his involvement. ■



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Claim costs demand captives: Risk exec

CHICAGO—To hear Robert Reeves tell it, the cheapest and easiest way to fund workers compensation losses is by using a captive insurer.

Self-insurance and captive reinsurance are cheaper than buying insurance from a commercial insurer, says the vp of insurance at Hospital Corp. of America in Nashville. "Insurers are not noted for being efficient. The average property/casualty insurer takes 27 cents of each dollar to run itself, leaving the balance to pay claims," he explains.

Choosing between self-insurance and using a captive, Mr. Reeves opts for the captive because preparing self-insurance filings for state regulators "is a real pain. Captives are easier."

To consider using a captive insurer, Mr. Reeves says companies should be paying at least $750,000 annually in workers compensation premiums, and have frequent losses. "If you have only three losses a year that each exceed $1 million, this is not for you," he told attendees of the *Business Insurance* National Conference on Workers Compensation.

Severity of losses dictates the amount of stop-loss insurance a company would want to buy for its captive, he noted. But buyers should realize that reinsurers will want to set the stop-loss at a much higher level than the risk manager does, he added.

The number of states a company operates in also is a factor in choosing between self-insurance and a captive, Mr. Reeves says. "If you operate in just two states, and one is not Texas, be self-insured," he advised. Texas doesn't permit self-insurance of workers compensation; using a captive is the only self-funding alternative there, he explained.

Because workers compensation is a statutory line of insurance, a company using a captive should first buy a policy, either guaranteed cost or retrospectively rated, from a licensed insurer. Then the buyer negotiates with the issuing company an agreement for reinsuring some of the risk with the buyer's captive insurer. This arrangement is often called fronting, much to the dismay of insurers who stress that pure fronting—100% reinsurance of a risk—can be illegal, Mr. Reeves noted.

The captive could reinsure the first $100,000 to $1 million of every loss, leaving the higher losses with the issuing company. This could be the least expensive route if the issuing company's reinsurance treaties cost less than the price the captive would pay for facultative reinsurance on the higher losses.

Or, presuming the captive could find a better deal in the reinsurance market than the issuing company, the captive could take a low layer of loss, leave another low layer with the issuing company and take the excess, reinsuring the risk that the captive can't afford to take.

Mr. Reeves uses the second method with HCA's captive. "Reinsurers will deal directly with captives and like it," he noted, because the facts and premiums flow faster in a direct relationship.

A risk manager concerned about taking a loss in the captive can buy a retrospectively rated policy from the issuing company. That way, as costs go up, the premiums paid to the insurer and then to the captive go up, protecting the balance in the captive, Mr. Reeves explained.

Comparing the cost of an insured versus a captive reinsurance plan for a company with $780,000 in losses the first year, Mr. Reeves calculated an $83,367 savings using a captive, excluding the cost of any stop-loss insurance or investment income. Captive reinsurance would cost $1,011,651 compared with $1,095,018 under a retrospectively rated insurance policy.

A risk manager can expect to cut loss adjustment expenses by almost two-thirds of what it costs an insurer, he thinks. Another 10% savings should be possible on the insured costs of commissions, profit, audits and administration, which he recommends the risk manager take a strong part in.

The amount of investment income that a company can earn on reserves in its captive "will knock your eyes out," stressed Mr. Reeves.

Mr. Reeves reported his company's captive had investment income of 10.4% last month.

Some costs will remain the same under an insured or captive reinsurance plan, such as premium taxes and the boards and bureaus charges. But new costs are also created under the captive reinsurance plan.

The policy issuing company, for example, will require a letter of credit from the captive for the amount of reinsurance the captive accepts. The issuing company has to carry that portion reinsured with the captive as a liability because the captive is not recognized as an authorized reinsurer by state regulators. The letter of credit will offset the liability on the insurer's books.

Letters of credit are getting cheaper, due to more competition from foreign banks, speculates Mr. Reeves. While five years ago captives were usually paying one-half of 1% for a letter of credit, today captives can find them for as little as one-eighth of 1%, Mr. Reeves said.

The fee charged by the issuing company for issuing the policies and retaining some risk can range from 5% to 15% of premium, says Mr. Reeves. ■

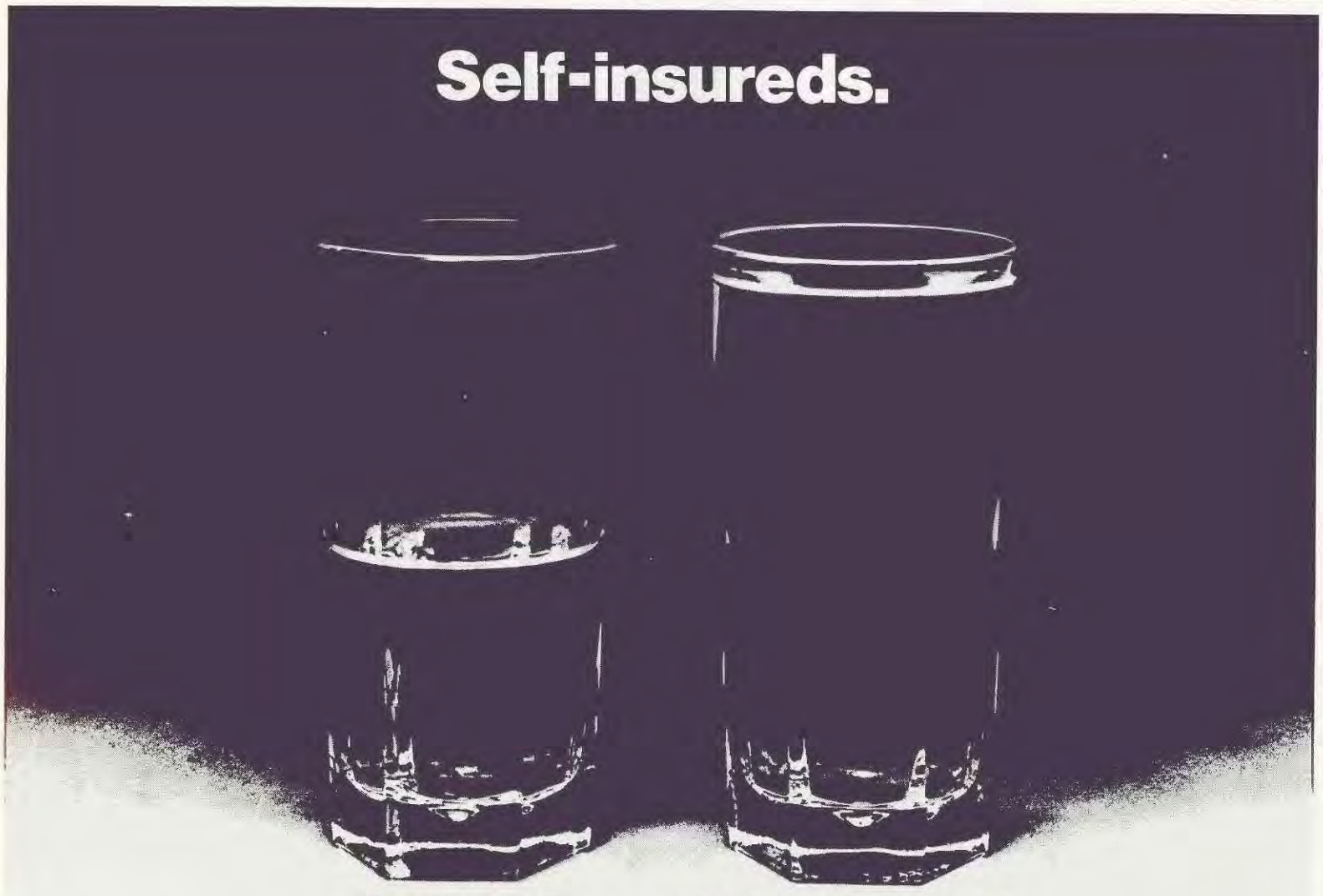
'Only states, brokers profit'

Listening to a debate on ratemaking and the increasing cost of commercial workers compensation insurance, risk manager Robert Reeves realized there's an unnoticed winner in the costly system.

"It appears the various states are to reap windfall taxes out of premium increases," suggests the vp of insurance at Hospital Corp. of America in Nashville. "No state is lowering the premium tax percentage," he said, which would seem to be warranted as rates skyrocket.

Increased workers compensation insurance costs also benefit brokers compensated on a commission basis, Mr. Reeves noted.

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Health tests slash firm's work comp costs

By MARY ELLEN McKEE

CHICAGO—A five-year-old pre-employment health screening program is slashing workers compensation costs and causing few legal problems at a California-based company.

"Pre-placement screening can reduce workers compensation costs and produce a safer work environment without serious ramifications," asserts Judith F. Stockman, manager of medical services and workers compensation administrator for the Weiser Lock Division of Norris Industries.

Putting job applicants through extensive physicals, collecting their medical history and analyzing the potential impact of job demands on their health has slashed the company's workers compensation costs by 75% per $1,000 of payroll for 2,000 employes, Ms. Stockman boasts.

"In that time, only three discrimination suits for medical reasons have been filed against the company, but none of those were upheld in court," she told a skeptical



Pre-placement screening reduces workers comp costs and produces a safer work environment at Norris Industries, says workers compensation administrator Judith Stockman.

Photo: Mary Ellen McKee

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audience at the *Business Insurance* National Conference on Workers Compensation.

Corporate managers often raise the question of possible discrimination suits when pre-placement screening is recommended.

The program is not that expensive either, Ms. Stockman assured her audience. Total costs of the program average $40 per person tested.

Top management support, highly qualified and receptive medical professionals and a good communications system are essential to the success of any pre-placement program, Ms. Stockman noted. "It doesn't pay to invest time and money into this type of program if exceptions are going to be made months or years down the line by an executive who wants to hire someone with a pre-existing illness. Exceptions only lead to the breakdown of the system," she warned.

Employers should also interview and evaluate the skills and competence of the medical personnel who will conduct the examinations just as carefully as they would screen a prospective company employe—looking for the best possible candidate, Ms. Stockman said. "Unfortunately, many companies cling to the belief that the entire medical profession is competent and forego taking that closer look at a physician, nurse or hospital facility. This leads to snap and often unwise decisions," she explained.

Learn to use the Occupational Safety & Health Administration (OSHA) to explain why the prospective employe must consent to a physical examination as a condition of employment, Ms. Stockman suggested. At Norris, the personnel department cites OSHA, telling each employe that the company is mandated by law to create and maintain a safe and healthful work environment. One way to do this is to see that a person is healthy enough for the demands of the job they are applying for, it's explained.

"Don't play games and be straightforward and honest with the employe," Ms. Stockman suggested. Nurturing good communications at the beginning of the process prevents troubles later, she said. "It's important that the employe understand the correlation between the specific medical problem and its threat to creating and maintaining a safe and healthful environment."

The medical department should inform the job applicant about the results of the examination, Ms. Stockman noted. "They can explain the medical problems and the health hazards which would arise if the employe were hired for the specific job."

If the prospective employe resists the explanation, he/she should be referred to personnel to see if transferable skills qualify him/her for another job, Ms. Stockman said. When a person simply won't accept any explanation, Norris will refer him to another physician or his family doctor, paying for the second opinion. There hasn't been a conflict yet.

"By putting out the money now, you can save tremendous legal expenses later," Ms. Stockman said.

A good pre-placement physical, Ms. Stockman emphasized, must also contain: a detailed and comprehensive statement of work requirements and demands from the supervisors of the company, personal medical history and the actual medical exam.

Norris's supervisor statement of work requirements includes information on the physical demands of the job, environmental hazards, protective equipment used, working conditions and job exposures. "This way a supervisor is keenly aware of what each worker does and holds them maximally responsible for what happens in the plant," Ms. Stockman said.

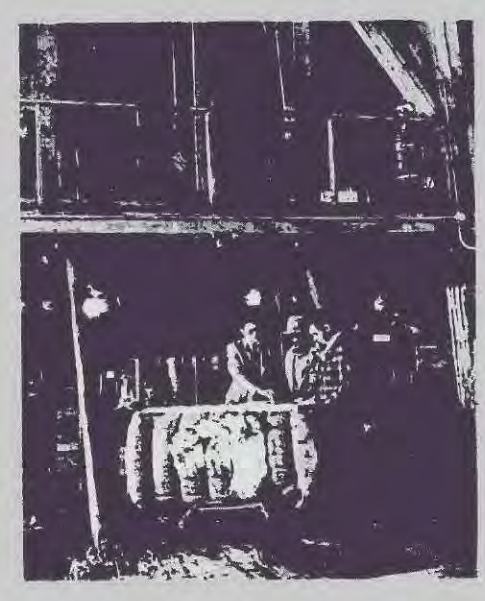
For each job demand, the supervisor must indicate whether the worker does these things occasionally (up to 25% of the time on the job), frequently (from 25% to 75% of

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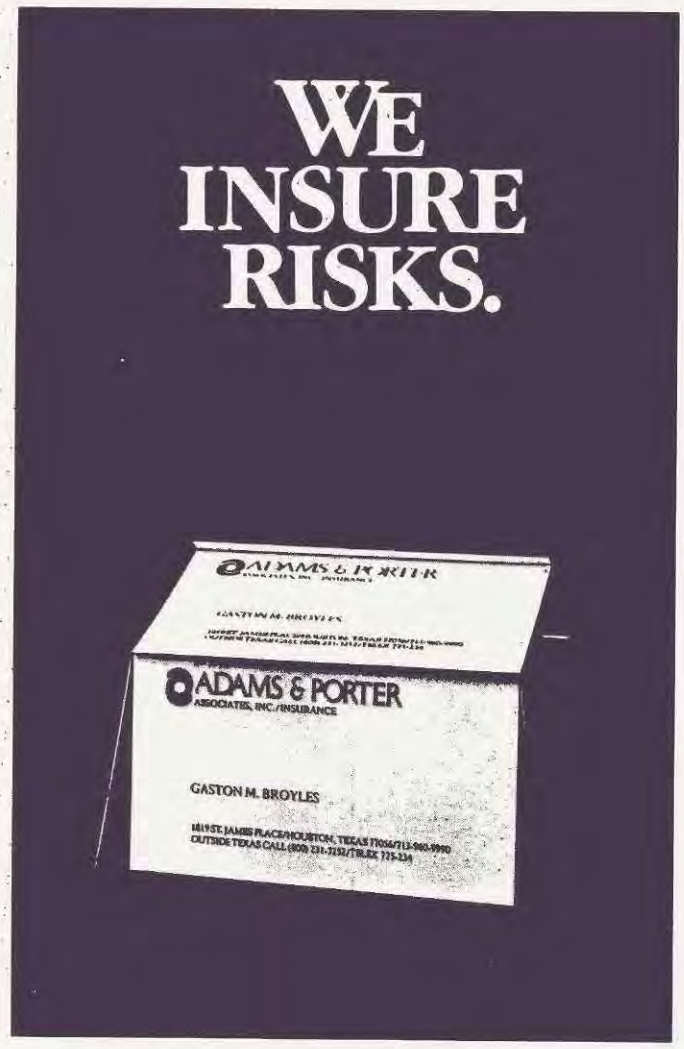
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Florida stalls switch to wage-loss plan for injury payments

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CHICAGO—Florida is delaying until August 1 its radical switch to the new wage-loss method of compensating injured workers.

The one-month delay was included in a bill passed earlier this month by the legislature polishing the overhaul of the workers compensation system signed by Gov. Bob Graham last month (*BI*, May 14).

"The governor wanted time to gear up administration and to have the opportunity to look nationally for possibly bringing in new people to the administration," said Florida wage-loss advocate John Lewis.

A strong administration, beefed-up in staff and budget as provided for in the new law, is as vital to cutting Florida's workers compensation costs as the wage-loss concept, maintains Mr. Lewis.

Indeed, the past problems of an antiquated administration system in Florida and other states is part of the problem of rising workers compensation costs, says the Coral Gables, Fla., attorney. States have improved benefit levels as suggested by the National Commission's 1972 report on workers compensation but ignored the commission's advice on improving administration, Mr. Lewis says. He concedes, however, the National Commission probably didn't make a strong enough recommendation on administration needs.

The National Commission also suggested that states tackle the issue of how to best compensate workers with permanent partial disabilities, Mr. Lewis noted. Compensation to this group of injured workers has cost Florida too much money and was the motivator to adopting the wage-loss concept, he said.

Under Florida's wage-loss law, a worker with a permanent partial disablement will not be compensated for the injury when he's back on the job unless the disablement costs more than a 15% drop in pre-injury earnings. Then the compensation will be 95% of the difference between 85% of pre-injury earnings and present earnings. Previously such workers were paid a benefit for the injury even if no economic loss was suffered. Now only in three extreme cases are impairment benefits to be paid.

"There are people who think the workers compensation system ought to do more than compensate for economic loss," said Mr. Lewis. Open debate in Florida on the issue led the legislators to decide that "dollars for permanent impairment were being wasted and we had to base the system on economic loss." Labor groups accepted that contention in exchange for improved benefit levels for time-off due to injury.

Mr. Lewis is concerned that Florida may have cut back too severely on impairment benefits but may have also adopted too generous a wage-loss compensation ratio. It will be two years before the record will speak for itself, he says.

The Florida law includes a number of safeguards against abuse, Mr. Lewis noted. Post-injury earnings for determining compensation will be based on what the worker could be earning rather than what he is earning. That calculation will be "simple compared to the current system of determining the percent of impairment and its future effects on the worker," Mr. Lewis said.

Other safeguards include making unemployment benefits the primary benefit and making the claimant pay attorneys' fees except in limited situations.

One safeguard not adopted was mandated rehabilitation benefits. Legislators figured the wage-loss concept was enough of an incentive to employers and insurers to rehabilitate the injured worker.

States looking to Florida for lessons in reform efforts should recognize that labor's dissatisfaction with benefit levels was very important to the success of the reform effort, Mr. Lewis noted. "If labor is satisfied, you'll have real problems" with a reform drive, Mr. Lewis said.

Other tips to successful reform offered by Mr. Lewis include:

- Develop factual material for legislators to study.
- Be reasonable in approach.
- Take the time needed to put together a legislative package that "won't be ripped apart at 5 a.m. sessions." ■

Health screening . . .

Continued from previous page

the time) or constantly (over 75% of the time).

A supervisor in charge of a work force that does lifting must inform the medical department whether that particular job requires a person to do heavy lifting (65 lbs.), heavy to moderate (40 lbs.), moderate, (25 lbs.) or light (10 lbs.). The supervisor must also note if the job demands a certain type of lifting occasionally, frequently or constantly, Ms. Stockman added.

Repetitive twisting and turning, walking, stooping, rapid mental and muscular coordination, exposure to fumes, noise levels, the temperature of the working area and the amount of overtime are just some of the elements of the job that Norris supervisors must rate in the pre-placement program.

Eighty percent of the pre-placement screening at Norris is the personal medical history completed by the applicant before the physical exam. Age, emergency notification, family doctors, and their addresses, date of last visit, previous employment, amount of exercise, alcoholic intake, medicines prescribed, allergies and smoking history are requested.

Often this form gives many clues as to whether a company would like to hire this person, Ms. Stockman said. For example, the applicant is asked to rate his/her alcohol intake and whether it consists mostly of beer, wine or whiskey. "If a person with a very red nose and blood shot eyes insists he is not a drinker, then you have a clue that this is not an honest person, therefore an undesirable employe."

Norris's medical exam includes audiometric vision tests, X-rays, extensive blood tests, Jamar grip test, tuberculosis testing, blood pressure measurements while sitting and standing, inhalation and expiration measurements, reflexes, spinal alignment and forearm circumference measurements.

The costs of tests are relatively little, she said. Vision tests can be ordered from outside the company for as little as $7 to $10 per person. The machine for in-house testing costs $600. Complete blood counts can average between $9 and $10; tuberculosis testing can be done as little as 10 cents for the materials for each person.

"It's foolish to complain about cost when the testing achieves so much." ■

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Commerce reconsiders hitch in product bill

By MARY ELLEN McKEE

business insurance
NATIONAL CONFERENCE ON WORKERS COMPENSATION

CHICAGO—The relationship of workers compensation and tort litigation rules in the Commerce Department's model product liability bill may be revised when the new bill is unveiled in July.

The proposed interaction between the two, which was criticized by insurers, blocks an employe from suing a product manufacturer for a work place injury 10 years after a product is first sold and shifts the liability burden to employers if they failed to maintain the product (*BI*, Feb. 5).

Insurers fear the radical change in the workers compensation system that this provision would cause.

Government officials have admitted that the section is weak and needs revision. Now the Commerce Department is considering different approaches to the unique interaction between workers compensation and tort litigation rules, according to Victor E. Schwartz, chairman of the Commerce Department's task force on product liability and accident compensation.

One alternative most favored by the Commerce Department is making workers compensation the sole



The model product liability bill could be changed regarding work comp, says Victor Schwartz.

source of recovery for work place accidents. But Mr. Schwartz noted that this approach is unlikely until all states improve their workers compensation benefit levels.

The search for an alternative solution is not an easy one, Mr. Schwartz said at the *Business Insurance* National Conference on Workers Compensation. The Commerce Department is still weighing the strengths and weaknesses of the American Insurance approach, the Dow v. Dole Chemical approach and sole source recovery which were all considered in making the first draft.

The American Insurance Assn. approach abolishes the workers compensation insurer's right of subrogation or recovery for the benefits that it has dispersed or will disperse to the injured employe. It also reduces the employe's recovery from the product manufacturer by the amount of the workers compensation benefit he has received.

The impact of this approach is to leave the injured employe with the same benefits he would have received under the present system while at the same time cutting off the ability of the workers compensation insurer to shift its liability, Mr. Schwartz explained.

The size of the claimant's attorney's fees are also reduced under this approach, because the award is reduced, Mr. Schwartz pointed out. The AIA contends that the remedy would also reduce overall insurance transaction costs since there would be no appointment of damages between employers and manufacturers.

Mr. Schwartz acknowledges the strengths of the AIA tactic, but fears it may result in the workers compensation system paying for part of the cost of an injury that is entirely created by the manufacturer of a defective product. For example, if a product manufacturer has negligently attached the guard to the machine and it comes off in the course of its ordinary use, the accident would be considered entirely caused by the product manufacturer. But, under the AIA stance, the workers compensation system would bear part of the cost of the injury that resulted. Secondly, the approach retains legal costs inherent in two separate claims to address a single injury, Mr. Schwartz said.

Another possible solution to the workers compensation and product liability problem is one taken by the New York court of appeals in the case of Dow v. Dole Chemical Co. and is presently used in both California and Illinois. Using a hypothetical case to explain, Mr. Schwartz said: "If a product manufacturer would be permitted a contribution claim against the employer in the product liability action, it would be a full contribution claim and the employer would be held liable to it if he was at fault in the accident. If the total damages in a tort claim were $100,000 and the employer were 50% at fault, he would bear half the cost."

This stance "implements an important goal of tort law: It places incentives for risk prevention on the party or parties who are best able to accomplish that goal," Mr. Schwartz said. "When an employer knows that he will bear tort costs for negligently maintained work place equipment, he is more likely to be careful with respect to those products," he said.

Forcing each party to bear the cost of an injury to the extent that his negligence or fault created the injury is the strongest aspect of this approach, according to Mr. Schwartz. "Since California, Illinois and New York are supporting the approach, we can expect to see it grow in importance in the not-too-distant future," Mr. Schwartz predicted.

The approach is not without its shortcomings, Mr. Schwartz warned. "The additional contribution claim may result in an increase in transaction costs which are a hidden but important part of the product liability problem," he explained. Of every dollar that is paid out in product liability claims, 35 cents is spent in defense costs, according to the product liability task force chairman. "Allowing a new and additional contribution claim

Continued on following page

Facultative Reinsurance

Questions & Answers #2

A conversation with Pete Greene, Manager of the Prudential Reinsurance Company's Facultative Regional Office in Houston.

Q: Do you write so-called "tough risks"?

A: Yes. Prudential Re is not shy about writing the tough ones. Right here in Houston, we cover most phases of the oil industry, including the particularly difficult liability coverage required under the U.S. Longshoreman and Harbor Workers Act. We also use our capacity to cover the property exposures, like builder's risks on offshore pipelines, and operating risks for inland drilling rigs. Prudential Re also covers a variety of risks on other energy-related projects. Of course, we welcome a wide range of normal risks, too.

Q: What ceding commission does Prudential Re pay on reinsurance premiums?

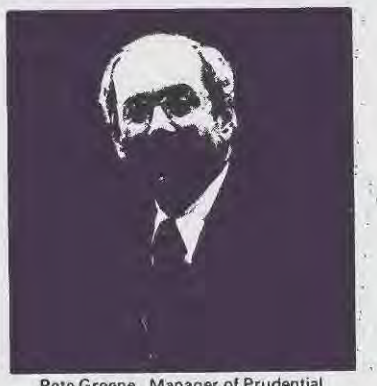
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Ceding commissions are designed to cover the insurer's costs.

Q: You do business directly with insurance companies. Do you also work with reinsurance brokers?

A: Yes. We do work with reinsurance brokers because Prudential Re recognizes that many insurance companies want the services brokers provide. Other companies prefer arranging their facultative reinsurance directly. So Prudential Re does business both directly and through reinsurance brokers. But there are some cases, like the unique, high-risk business handled by surplus line companies where we prefer a first-hand relationship.



Pete Greene, Manager of Prudential Reinsurance Company's Facultative Regional Office in Houston.

Q: What are the factors that help Prudential Re stand out from other reinsurers?

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Commerce rethinks . . .

Continued from previous page

can only serve to increase these costs," he said.

This approach also thwarts the central concept behind workers compensation: That an employer and an employe receive the benefits of a guaranteed, fixed schedule, no-fault recovery system, constituting the exclusive liability of an employer. The contribution approach allows through the "back door" what is prohibited through the "front door," Mr. Schwartz said. For example, the employe is not permitted to bring a tort claim against the employer, but the cost impact of such a suit occurs because of the contribution claim.

Drafters of the Commerce Department's uniform product liability law tried to combine aspects of the AIA and the Dow v. Dole approaches, Mr. Schwartz said. Under section 113, the product manufacturer is allowed a limited contribution claim against the employer up to the amount of the workers compensation lien. The principal benefit of this approach is that it allows the product manufacturer to shift at least a portion of the product liability burden onto the employer and preserves the employer's interests by not holding him liable for more than he would be responsible for under the workers compensation system.

Mr. Schwartz admits that this too has shortcomings. It does not reduce transaction costs and may even increase them.

Also, the employer will not necessarily bear a full share of the economic costs of the injury sustained by the claimant. He may be able to pass on some of the costs of that injury. Nevertheless, considering all the equities involved, it appeared to be the soundest solution apart from making workers compensation the sole source of recovery, Mr. Schwartz explained.

The Commerce Department, however, believes the best approach to the product liability problem is to make workers compensation the sole monetary source of recovery for workers injured in the work place by products.

Since the Department of Labor was developing federal standards for workers compensation standards at the time the Commerce model bill was unveiled, the Commerce Department decided not to take the sole-source approach. "We assumed that those standards would provide American workers with some additional benefits, at least in some states. These benefits might justify or serve as a predicate for workers foregoing their right to sue product manufacturers," he said.

"And the Commerce recommended that the federal workers compensation standards incorporate a means whereby product manufacturers contribute to the workers compensation award when the injury arose because of a defective product."

The Commerce Department has suggested that this be done in a post-accident arbitration proceeding, not in the workers compensation proceeding itself, Mr. Schwartz added.

If workers compensation benefits were the sole source of recovery, it would substantially reduce transaction costs and entirely circumvent the tort-litigation system, Mr. Schwartz said. "If the remedy is coupled with a post-workers compensation arbitration proceeding allowing the employer to recover against manufacturers of defective products, the approach will place incentives for risk prevention where they belong," Mr. Schwartz emphasized. "Neither the employer nor the product manufacturer will be able to externalize the costs of accident they may have created," he added. ■

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Rehab, annuities trim cost of injuries: Expert

By JOHN MAES

business insurance
NATIONAL CONFERENCE ON WORKERS COMPENSATION

CHICAGO—Instead of just doling out the money, employers can structure compensation payments to injured workers to cut costs and benefit the injured workers, advise an attorney and insurance broker.

A permanently disabled worker can be set up in private business, which can help the worker recover more quickly from injuries and to lead a productive life, says San Francisco attorney Gus E. VonBolschwing, who manages catastrophic compensation claims.

Using well planned rehabilitation services and annuities for payments can also help cut the cost of compensation claims, agreed Richard Carroll of San Francisco insurance brokers Carroll & Co.

"Therapeutic capitalization" is a compensation plan in which about one-third of the settlement payment is used to set the injured worker up in his or her own business, explained Mr. VonBolschwing. The other two-thirds of the settlement is put into an interest generating trust or high-yield stock, which will provide income if the venture fails or additional income to the successful business.

"We say to him, "You do this. Here's the capital and we'll all benefit,' " said Mr. VonBolschwing. "If the individual is involved in his own business, there's a return on the investment not only from an investment standpoint, but also from his own effort."

The concept has already proven itself. Mr. VonBolschwing cited the case of a Wisconsin man in his mid-30s who was paralyzed in 1973 and no longer able to work. He had an interest in guns and the purchase of a gun shop in the small town where he lived was capitalized with his settlement payments.

The man has built the business to net $25,000 yearly in profits compared with $15,000 to $20,000 at the time he bought it. In addition, he now holds a five-state distributorship franchise for specially-designed tricycles used by paralyzed persons.

Mr. VonBolschwing pointed out that not only has the venture saved in what would have been further medical treatment and therapy costs, but it also has taken the man into a rewarding new career.

"He's an active and contributing taxpayer," according to the attorney. "He says, 'I work 80 hours a week and I don't have time to think of my pain.' It's saved thousands (of dollars) in further operations and therapy and he's his own man again. That's the key. Incidentally, he doesn't have any medical expenses that I know of."

When spending "up front" money for the treatment and therapy of a disabled worker, the employer should not be too quick to cut costs by paying for less than first-rate care, advised Mr. VonBolschwing, because there may be added costs later. In ordering a less costly machine or device that is needed to rehabilitate the worker, "you may save 50%, but it's going to break down in three, four or five years and then you're not just talking about repair costs. So spend your money wisely," Mr. Von Bolschwing advised.

While the employer should not skimp on the quality of care, neither should he conduct the settlement of the case like a "giveaway program" either, the attorney said. The employer should fully explain to the worker what each particular payment is for and should communicate his expectations as to how the injured worker should spend the money.

Mr. Carroll agreed. "Funds that are not paid in a structured manner tend to be thrown away quite rapidly." He mentioned the case of a disabled worker who became affiliated with a religious cult and gave it his $500,000 settlement. "He later came to his senses and is now trying to get the money back from the cult through legal measures," Mr. Carroll said.

In some cases, annuity buyouts by life insurance companies have saved employers more than $100,000 in interest and reserve accounts, said Mr. Carroll. ■

Adjuster speeds rehab, settlement: Insurer

CHICAGO—Important strides in the rehabilitation of victims of spinal cord and brain damage are made and attorney involvement is often avoided if an adjuster acts immediately following an accident, insists Gayle C. Foster of General Reinsurance Corp.

The purpose of rehabilitation is to make life tolerable once a condition is stabilized, but the rehabilitation effort should begin as soon as the employe has been diagnosed as seriously and irreversibly injured, according to Mr. Foster, assistant secretary at General Reinsurance.

After a serious injury is reported, certain steps must be taken immediately, Mr. Foster advised at the *Business Insurance* National Conference on Workers Compensation. They are:

- Determine the extent of the accident and compile information on the insurance benefits for the victim.
- Get a diagnosis or description of the injuries. "If you are getting early notification of an accident, chances are slim that a diagnosis has been made, but a description of the injuries will alert you to a potentially serious injury," Mr. Foster said.
- Determine the location of an individual and the location of the nearest rehabilitation center. "Also, find out if the patient is in intensive care or has a private room, is allowed visitors and accepts telephone calls," Mr. Foster added.
- Get the names and addresses of the doctors handling the case, their areas of specialty and their reputation in their field. Find out who is in charge of the case and call immediately to determine the severity of the injury.
- Note the name and address of the family spokesperson or the person making the report.

business insurance
NATIONAL CONFERENCE ON WORKERS COMPENSATION

"It is imperative that the patient understand what the body did following the accident, what the body will do in the future and what the patient will have to do to maintain a nearly normal life," Mr. Foster remarked. "Take the mystery out of the medical problem for the patient and he will more quickly adjust to "a sometimes radically different lifestyle," Mr. Foster explained.

Equally important is the rehabilitation of the patient's family, Mr. Foster said. "Visit the family, ease their financial troubles by informing them of what they are entitled to by law, tell them to come to you (the adjuster or employer) for funds, foster a bond of trust between yourself and the family and try to find out just exactly how much the family knows about the injury and its impact on their future."

Transferring the patient as soon as possible to one of the 13 rehabilitation centers around the country is another important consideration of the adjuster and the company, Mr. Foster said. A rehabilitation center offers the patient an atmosphere which usually quickens the patient's reentry into society by encouraging him to participate in card games and watching television with other patients, he added.

Active participation of the adjuster or employer in the return home of a spinal cord or brain damage patient is also important, Mr. Foster advised. "And the insurance industry, up to this point, has been very silly involving spinal cord and brain damage cases," Mr. Foster admitted.

Often insurance companies refuse to make modifications in the home beyond those mandated by law, according to Mr. Foster. For example, an insurer denied one man's request that the insurance company cover expenses to widen the doors of his children's bedroom so his wheelchair would clear and he would be able to take care of them.

"It was an extremely foolish thing to do because that company denied the man's right to fulfill his role, in this case, as a father wanting to properly care for his children," Mr. Foster remarked.

An adjuster must also take part in the rehabilitation team conference which plots the specific rehabilitation program for the patient, Mr. Foster maintained. "In this way you are able to lobby for certain extras you think will be needed in the care of a patient and you are able to plan the reserves for financing the rehabilitation process," he explained.

Closely monitor all of the bills for a specific patient that cross the desk, Mr. Foster suggested. "Don't fret when costs rise, but worry when costs drop significantly below your estimates because these kinds of injuries cost a tremendous amount of money."

Costs dipping below original estimates, Mr. Foster said, may mean that the patient is being neglected. "Neglect simply leads to money which you are eventually going to pay and will definitely lead to involvement of an attorney bringing the cost burden way beyond the original estimate." ■

Safety plans gain visibility in risk staff

CHICAGO—A corporate safety department gains stature and respectability when it dovetails with risk management and helps keep a lid on workers compensation costs, says a safety director of a company which has tested this approach.

It works for Allegheny Ludlam Industries Inc., said safety manager James E. Dugan. Although he refused to cite figures, he insists placing the safety function in risk management cuts losses because it emphasizes that sloppy safety means lost dollars. "Frankly, the safety function works best when within the risk management department," Mr. Dugan said.

The arrangement more quickly gains and maintains top management support for safety, he says. The corporate safety policy is signed by the chairman of the board, the chief executive officer, the controller and the treasurer of the corporation.

"If extensive safety modifications or measures have to be taken, you have immediate accessibility of the top management of the company to approve the budgetary requirements for launching such a program and push for the changes," Mr. Dugan said. ■

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Small firms chomp . . .

Continued from page 1
employe category, compared to one-in-five a year earlier.

Delta Dental Plans, the largest dental insurer with combined dental premiums in-force of more than $600 million, also reported a big jump in sales to the small business market. In a nine-state Midwest region alone, 2,800 Delta plans were bought by companies in the 10-to-50 employe category compared to only 400 five years ago.

Not surprisingly, insurance companies have been scrambling over the last few years to create special "baby group" dental products, as they are called by John Goddard, senior vp of Equitable Life Assurance Society. In this way, insurers can meet growing demand by small buyers.

Besides Connecticut General and Delta Dental, insurance companies including Equitable, Prudential Life Insurance Co., John Hancock Mutual Life Insurance Co., Metropolitan Life Insurance Co. and The Travelers Group are vying for the small business market with specially designed dental products. Most report that their efforts have been rewarded.

But small employers still face a number of restrictions when they shop around for dental coverage, despite moves by insurers to cater to their needs.

High cost

Delta Dental Plans, the network of dental care providers which pioneered the benefit, and Connecticut General Life Insurance Co. will sell dental contracts to small groups without any strings attached. However, most carriers offer dental plans to small groups only as an option tacked on to major medical and/or life and health insurance packages. Most also insist that a business have at least 10 workers to be eligible for dental insurance at all.

The high cost of starting up a new dental plan could frighten many small businesses away from the benefit, even though employer contributions for group dental premiums are a tax deductible business expense and are not taxable to employes.

The insurance industry has traditionally estimated annual premiums on dental insurance at $200 per employe per year. This means an employer with 25 people in a plan would pay approximately $5,000 in annual premiums, while one with 50 employes would pay $10,000. But even this rule of thumb isn't likely to hold true for all plans.

Dental care costs have been steadily climbing faster than the cost of living. Some experts say that employers have been paying an average of 8% more each year just to maintain existing dental plans without liberalizing benefits.

Some smaller companies have postponed adding new dental plans because of uncertainty fostered by the Carter Administration's 7% wage and price guidelines, say insurance agencies handling dental coverages. But they say that even inflation has not halted the sales growth of dental insurance to small companies.

High reward

Why have small employers jumped on the dental bandwagon despite market restrictions and the benefit's high initial costs? Good employe relations appear to be the main reason.

"Small-group buyers are finding that dental care is a high need item," said one agent. "And there is great demand for it since employes have become aware it is not taxable to them as a fringe benefit the way an increased salary would be taxable."

"Dental benefits get more mileage in terms of goodwill than virtually any other employe benefit," said another agent.

Competition for good employes has also played a key role in small business's decision to buy dental insurance. Such firms are trying to keep up with the Joneses, even when the Joneses are giant corporations.

There are pronounced regional differences in the popularity of dental plans. The benefit first emerged on the West Coast and is still most prevalent there. Moving east across the country, it didn't take hold until the East Coast, the second strongest region for dental benefits, particularly in New York.

Dental benefits commonly gain popularity at medium and small companies in a geographical region in what one insurance executive calls a "fallout" pattern: After local labor unions in big companies have won dental benefits, employes at smaller firms become aware of the benefit and start asking their employers for it, too.

Most dental experts now predict the South will be the next big boom region for dental insurance among both large and small employers because of the recent labor organizing taking place there in places like textile mills. ■

A long delayed government report tells of dental plan use. Page 50.

Plan design can cap costs

PRINCETON, N.J.—Employers are commonly warned when they first start a dental plan that they will pay for years of accumulated neglect, since Americans frequently ignore their teeth.

People in this country are estimated to be walking around with as many as a billion untreated cavities.

To calm fears that small employers may have about footing the bill for high costs of major corrective work, many insurers have designed plans for small businesses that feature financial incentives for participants to take proper care of their teeth. One feature provides lower coinsurance rates if the participant follows an annual routine of regular professional care. By incorporating coinsurance, deductibles and certain other financial incentives into plan design, small employers can control dental insurance costs to a significant degree, it's believed.

There's just one caveat: Small businesses must be careful not to make deductibles or coinsurance levels too high or many participants will avoid having necessary dental work done until major corrective repairs are necessary—at a much higher cost to the dental plan in the long run.

The correct approach, suggests Marshall P. Stuart, senior vp of Clifton & Co., an agency which has been placing dental insurance for 15 years, is to select a plan design that pays all preventive expenses with no deductibles. The plan should introduce modest deductibles and a sliding scale of coinsurance for basic and expensive services, he says.

A $25 deductible, an 80% coinsurance rate for basic services (the participant pays 20%) and a steeper 50% coinsurance rate for expensive services like dentures and orthodontia, are recommended by Mr. Stuart. ■

DC10 grounding . . .

ontinued from page 1

isurance is considered low when mpared with the 20% of total liaility insurance customarily ought against the exposure by ther aircraft manufacturers, Lonon sources say. But McDonnell ouglas has successfully resisted ve prior court challenges to the xculpatory contract clause and pparently wants the coverage nly to handle the legal expense of ghting future claims, a source id.

All U.S. airlines were ordered on une 6 by the Federal Aviation Adinistration to ground their DC10s ending inspection and correction engine pylon assembly cracks. A imilar crack in the pylon assembly believed to have precipitated the ay 25 crash of an American Airnes DC10 near Chicago's O'Hare nternational Airport which killed 74 persons.

Foreign carriers using the DC10 rounded their planes soon after he FAA order.

The major U.S. airlines using the et, all of whom are without insurnce for the lost revenues from the rounding, are United, American, Northwest Orient, National, Westrn and Continental.

One foreign airline, Air New ealand, claims to have business nterruption insurance to cover the ost revenues from the grounding f its DC10s, but a spokeswoman vould not elaborate on the insurnce. Major foreign carriers whose DC10s are grounded and are without insurance for the lost revenues re Japan Airlines, Lufthansa and Laker Airways.

Laker, operators of the transAtlantic, no-frills Skytrain service, s particularly hard hit by the rounding (an estimated $700,000 day loss) because nearly half of its leet is made up of DC10s said John eear, a Laker director. "And if you alk to any broker you will find here is no cover in Lloyd's itself for his particular instance," he said.

Challenge possible

Whether or not the airlines mount another challenge to the manufacturer's contract provision depends on how long the grounding lasts and whether federal investigators determine the source of the plane's problem is due to faulty design or haphazard maintenance, attorneys say.

In addition, if a defect is found in one or more of the component parts, the subcontracting firms may be open to suits from the airlines, the lawyers say, because subcontractors, unless specifically named, are not protected from suits under the purchase contracts.

The legal department at United Airlines is studying the contract to see if there are loopholes that would allow them to recover lost revenues, but, "we presently have no intentions of suing anybody," said Edward Hoenicke, associate general counsel.

A case on appeal involving McDonnell Douglas could open the floodgates for suits against the firm in the DC10 grounding. In the case being appealed in New York, hull insurers of a Japan Air Lines DC8 are trying to collect the value of the jet from the manufacturer, alleging that faulty wing design caused the aircraft to crash in the Soviet Union in 1972. The original decision denied the insurer's claim.

Aviation underwriters say the reason airlines don't purchase loss of revenue coverage is because airplane groundings are so rare. The last commercial airline grounding occurred in 1946 when the FAA ordered the propeller-driven Lockheed Constellation out of the skies for about six weeks due to exhaust system problems that led to engine fires, an FAA spokesman said.

In 1963, the government ordered the Lockheed Electra, a four-engine turboprop, to fly at slower than normal speeds while a wing problem was studied that had caused two of the planes to crash. But the Electra was not grounded.

No market effect

No claims have been settled yet in the May 25 O'Hare crash, but some 20 lawsuits have been filed, most of them in Chicago, seeking damages from American, McDonnell Douglas and General Electric, manufacturer of the DC10 engine.

Still, the Chicago crash is not expected to harden the current soft market in London for aviation insurance where the bulk of American Airline's liability insurance is underwritten (*BI*, June, 11).

The flood of lawsuits and the number of attorneys involved so far has drawn criticism, however, from claims adjusters who say the litigation could drag the settlement process out for years and reap huge fees for attorneys at the expense of the clients.

U.S. Aviation Underwriters Inc., handling claims in the crash, has sent letters to each of the victims' next of kin asking them to avoid rushing into "precipitous lawsuits" that could mean large legal expenses.

Robert Alpert, vp for the firm, said insurers for the defendants are eager to settle claims as quickly as possible with "fair and just compensation" for those involved. "But there's no evidence to indicate in a situation like this you can achieve better results in a courtroom at a later time," he said.

When asked if defendants had set up a pool to settle claims, Mr. Alpert said, "There is an understanding between the defendants to accomplish settlement of all claims," but he would not elaborate.

In the Tenerife air disaster, a 1977 crash of two 747 jets which killed 583 persons, 597 of 644 possible claims have been settled. There were less than 200 lawsuits filed, Mr. Alpert said. "Never before, prior to Tenerife, has there been a major air disaster where more than one-half of the claims were settled within 12 to 18 months of the crash," he said.

Settlement estimates

So few lawsuits were filed after that disaster because adjusters were making settlement offers within 30 days of the crash, he said. The victims' survivors quickly responded to requests for background information necessary in evaluating the value of each claim, he noted, and many of the lawyers representing the plaintiffs thought the defendants' offers fair.

Some settlements in the O'Hare crash will be as high as $1 million; many others will average $500,000, according to Mr. Alpert.

But Philip H. Corboy, a Chicago attorney specializing in personal injury cases who has filed several suits in the case, said attempts to dissuade victims' families from suing is "reprehensible conduct" and is an infringement on the aggrieved families.

In other legal developments in the case, Mr. Corboy has filed a motion in support of an American Airlines request that all suits be consolidated in U.S. court in Chicago.

In addition, Chicago attorney John J. Kennelly has asked the federal court to require that American Airlines and McDonnell Douglas Corp. pay 10% interest from May 25 on all claim settlements. In addition, Mr. Kennelly has asked the court to rule American Airlines liable in the case, arguing the airlines' insurers have admitted liability in a recent letter to plaintiffs saying, "There is no contingency in this case." ■

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Carter health plan . . .

Continued from page 1

age from private carriers or self-insure under the Carter plan, or they could buy health insurance from the federal government to cover medical and hospital costs above $2,500. The government says the premium for the federal insurance would be 5% of payroll.

Companies would have to cover part-time employes who work at least 25 hours a week for 10 consecutive weeks. In addition, firms would have to offer health insurance benefits for former employes for up to three months after they left the company.

Employes could be required to contribute up to 25% of the health insurance premiums, though employers could increase the percentage of the premium they pay above the 75% mark.

Benefit consultants saluted the Administration for scaling back its original more ambitious plan: "They have come a long way in a short period of time," said Steve Schanes, president of the San Diego, Calif., consulting firm bearing his name. The initial plans that President Carter was considering were "totally unreal. Now they have taken a more realistic look at the world," Mr. Schanes added.

But some benefit managers question whether the federal government has the right to mandate benefits. "From a corporate viewpoint, (benefits) is a matter best left to collective bargaining," said Joseph Fromm, director of employe benefits at American Motors Corp. in Southfield, Mich. "Personally, I don't think the government should get involved in a situation, particularly at a time of high inflation, where it is spending more than it is taking in," he said.

Groups spanning the political spectrum also criticized the Carter plan, although for different reasons. The 6,400-member American Hospital Assn. lashed out at the plan, charging it would "threaten the quantity and quality of health care Americans have come to demand and expect . . . and put a squeeze on hospitals that would jeopardize patient care," according to AHA president Alex McMahon.

Kennedy says no

The National Assn. of Manufacturers said that "it is inappropriate and untimely for the Administration to be making a major commitment to a new federal spending program at the present," but United Auto Workers president Douglas Fraser labeled the Carter plan "a facade" that "won't accomplish the job that needs doing."

Sen. Edward Kennedy (D-Mass.), who has been battling for national health insurance for the last decade, criticized the Carter plan as "too inequitable" and said he would vote "no" on it.

Under the Carter plan, more than $18 billion in federal funds would go into merging the state Medicaid program, which provides benefits to the disabled and the poor, with Medicare, which provides benefits to the elderly. Benefits would be sharply improved under the new federal program to be called Healthcare.

Under Healthcare, the present hospital coverage limits imposed on the poor and elderly on reimbursement would be removed. Healthcare would be structured in such a way that out-of-pocket costs for participants could not exceed $1,250 annually.

Doctors' fees

The Healthcare program also would be available for the self-employed, but benefits would not kick in until the $2,500 threshold was reached.

In contrast to Sen. Kennedy's own health insurance proposal (*BI*, May 28) that would set in advance limits on physicians fees, the Carter plan only would impose fee schedules for doctors participating in the Healthcare part of proposal. This failure to impose total limits on physician fees could "bankrupt the nation," Sen. Kennedy charges. Sen. Long's proposal lacks any fee controls, making it most attractive of the three to the medical community.

The Kennedy plan, however, would offer a much broader array of benefits than the Administration's proposal. It also would cost employers about twice as much ($11.4 billion) as the Carter plan ($6.1 billion).

The Administration had reportedly considered offering a much more generous array of benefits during its early discussions of national health insurance. But a "womb-to-tomb" plan, like Sen. Kennedy's, was rejected because it had about as much chance as passage as "an elephant passing through a keyhole," Health, Education and Welfare secretary Joseph Califano said. ■

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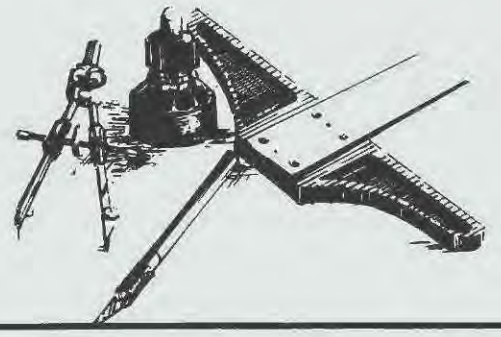
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Wallace Murray restocks risk staff slots

The risk management department at Wallace Murray Corp. in New York City, directed by Merlin Teed, is practically brand new after a series of hirings in the last couple months.

James Doumas has been named risk manager of the department, coming to the company from his position as head of the risk management office of MacCleans Corp. Mr. Doumas, 37, replaces Richard Male, who resigned to take a position with Davis, Dorland.

Sandi Stavenhagen has been hired to replace Linda Szychowski, who left her position as risk management analyst to join Bankers Trust, as reported. Ms. Stavenhagen, 22, is a March 1979 graduate of the University of Georgia, with a BA degree, specializing in risk management and insurance.

Paul Williams, 30, has been hired as a safety analyst, replacing Donald Gallone, who resigned in 1978. Mr. Williams was previously employed by the electric boat division of General Dynamics Corp. in Connecticut. **Peter Clark,** 37, has also been hired to fill a newly created safety analyst position with the company. Mr. Clark was previously with Commercial Union Hearex Occupational Health Services.

* * *

Donald E. Lange has joined Hiram Walker & Sons Inc. of Detroit as manager of risk and insurance. He replaces Bruno Whichmann, who died last year. Prior to joining Hiram Walker, Mr. Lange was the insurance manager of U.S. Industries Inc. industrial group. In his new position, Mr. Lange is responsible for Hiram Walker's worldwide risk management programs and is based in Windsor, Ontario.

* * *

Anchor Hocking Corp. of Lancaster, Ohio, has promoted **James M. Hill** to the newly created position of director of risk management. Mr. Hill, 37, previously was manager of the risk management department. In his new position, he will be responsible for all aspects of Anchor Hocking's property, casualty and employe group insurance programs. Mr. Hill was promoted to risk manager in 1977 after 11 years with the company. He has a BA in business administration from Franklin University. He reports to F.C. Hurley III, treasurer.

* * *

Joseph D. Farrell, risk manager for the Sacramento City Unified School District, has been elected president of the Schools Insurance Authority. The SIA is the first joint powers consortium for schools in California and manages the property, liability and workers compensation insurance programs for 17 school districts in several counties.

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Employers pay the premiums for most dental plans: HEW

WASHINGTON—Employers are footing most of the bills for prepaid dental insurance plans, a long-delayed, massive Department of Health, Education and Welfare survey reveals.

In a majority of the surveyed plans (64.4%), the employer paid 100% of the premium, while in 31% of the plans, the premium costs were shared by the employer and employes. Employes paid all premium costs in only 3.7% of the dental programs.

The HEW study, which has been delayed for more than two years because of printing problems, surveyed more than 5,500 dental plans that were in existence in 1973. Although much of the information in the report, "Survey of Dental Benefits," is six years old, an HEW spokesman said the trends found in the report remain valid today.

According to the survey, prepaid dental plans tend to be concentrated on the West Coast with 48.4% of plans found in five states: Alaska, California, Hawaii, Oregon and Washington. More dental plans (1,910) were located in California than in any other state. In 1973, two states, Maine and Vermont, lacked dental plans.

Most dental plans are small. About 75% of surveyed plans had less than 250 participants. Only 1.4% of the plans had more than 10,000 subscribers, while 2.5% had at least 5,000 members.

Commercial insurance companies insured the largest number (41.2%) of plans and insurers also tended to underwrite the largest of the dental plans.

Only 1% of all plans were self-insured, while 32.1% of surveyed plans were insured through dental service corporations. Another 21.4% of plans were underwritten through health service corporations.

Most plans (85.1%) offered comprehensive benefits to participants. for oral surgery, root canal therapy, space maintainers, crowns, inlays and fixed bridges.

About 20% of the plans required copayments and placed a cap on maximum benefits: 30% of plans had copayments, deductibles and maximum benefits features.

•

Copies of the "Survey of Dental Benefit Plans" are available at the Department of Health, Education and Welfare, Public Health Service, Health Resources Administration, Bureau of Health Manpower, Division of Dentistry, 3700 East-West Highway, Hyattsville, Md. 20782.

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Letters . . .

Continued from page 14

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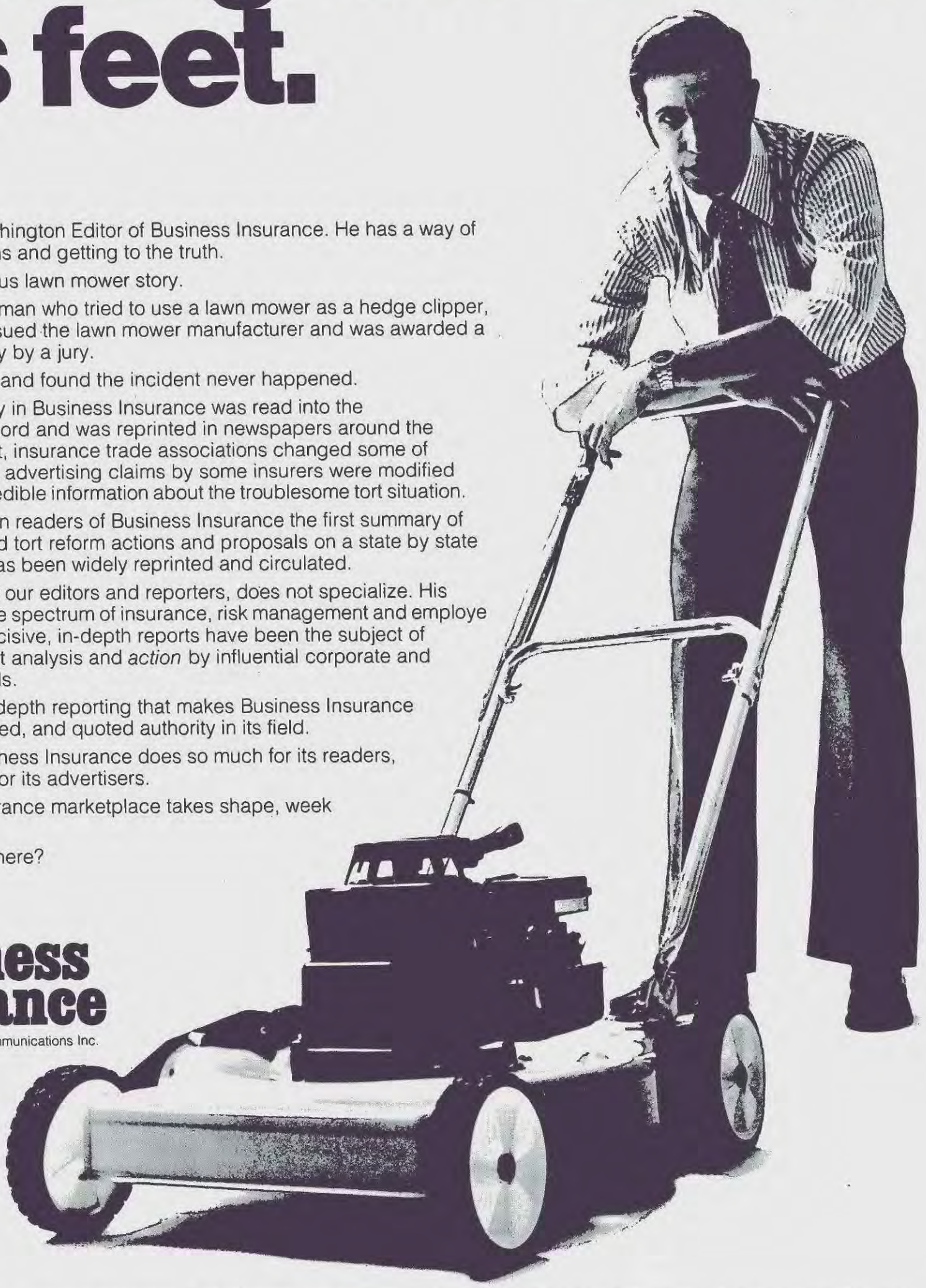
• A loss control program, through inspection of an insured's property by qualified engineers, was inaugurated approximately one year ago.

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Jerry Geisel doesn't let any grass grow under his feet.



Jerry Geisel is Washington Editor of Business Insurance. He has a way of mowing down myths and getting to the truth.

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The one about the man who tried to use a lawn mower as a hedge clipper, lost some fingers, sued the lawn mower manufacturer and was awarded a huge sum of money by a jury.

Jerry investigated, and found the incident never happened.

His front page story in Business Insurance was read into the Congressional Record and was reprinted in newspapers around the country. As a result, insurance trade associations changed some of their literature and, advertising claims by some insurers were modified to provide more credible information about the troublesome tort situation.

Jerry has also given readers of Business Insurance the first summary of product liability and tort reform actions and proposals on a state by state basis. This chart has been widely reprinted and circulated.

Yet Jerry, like all of our editors and reporters, does not specialize. His stories cover a wide spectrum of insurance, risk management and employe benefits and his incisive, in-depth reports have been the subject of discussion, earnest analysis and *action* by influential corporate and government officials.

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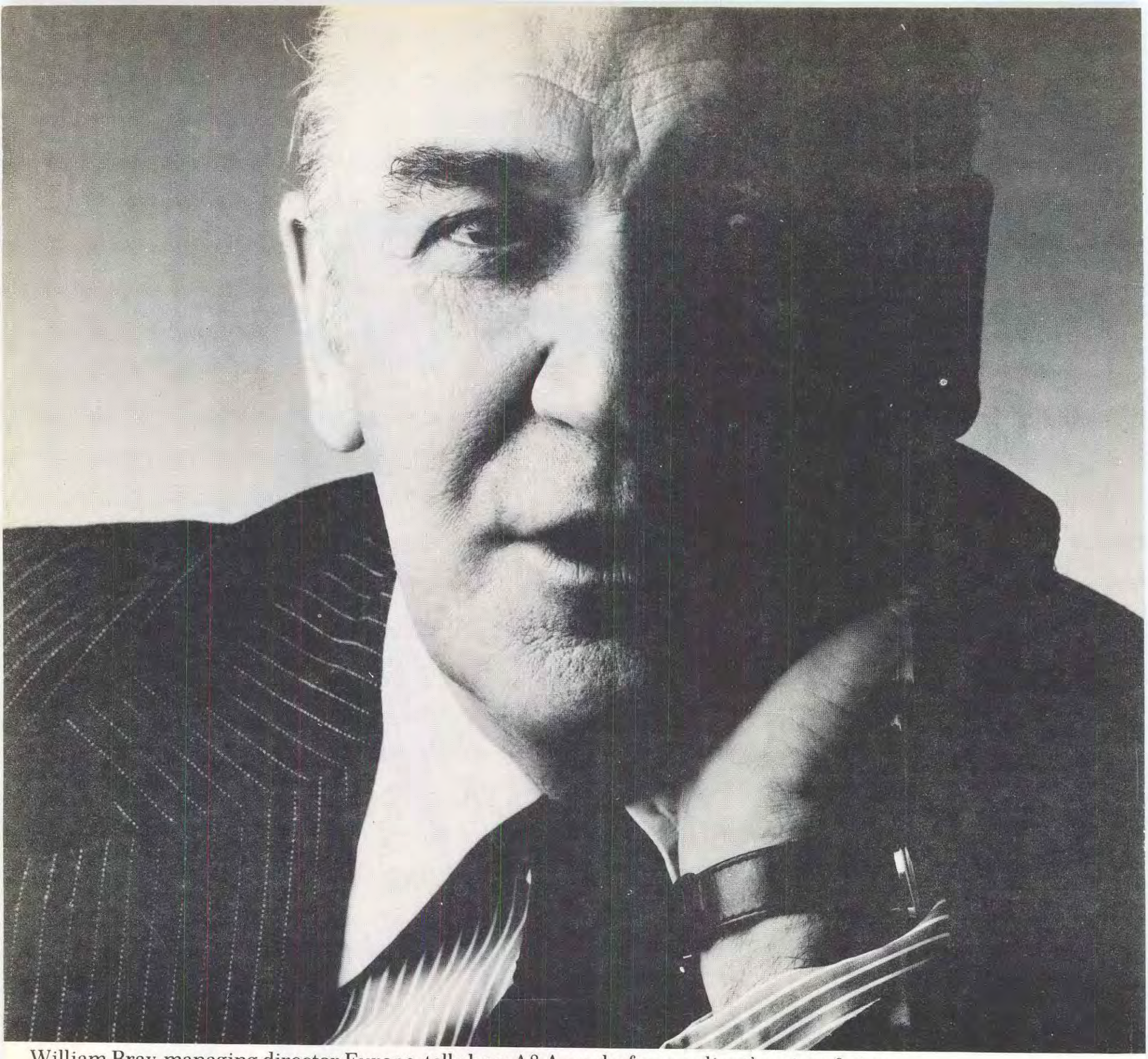
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