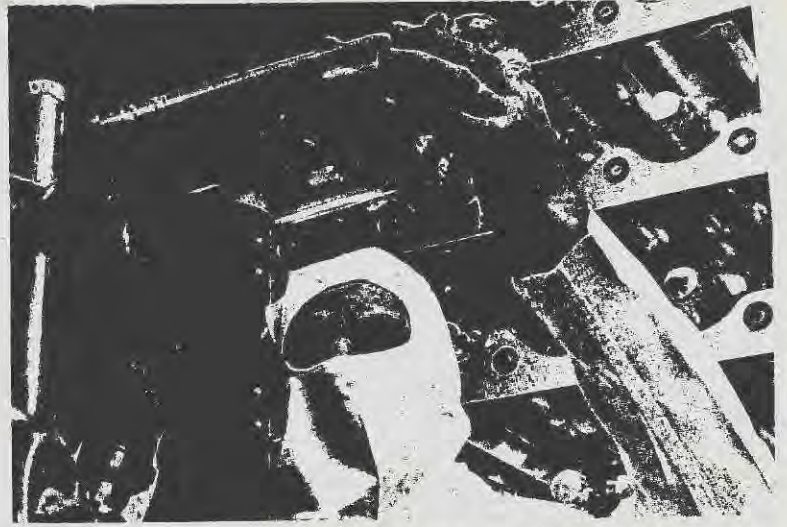


business insurance

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

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A Merck technician examines tissue culture in which viruses are grown.

Alternative seen for flu vaccine insurance

By MARGARET LeROUX

CHICAGO—The four drug companies manufacturing the swine flu vaccine could solve their problem of obtaining liability insurance by forming a pool among themselves, according to a spokesman for one of the companies involved.

"We may have to risk a couple million dollars apiece by setting up a pool," explained the spokesman, who asked not be identified, "but at this point there doesn't seem to be any other solution."

The drug companies have all

disclosed that their insurers will not cover them for any lawsuits resulting from the inoculation program. Merck, Sharpe & Dohme was the first to do so in late April (*Business Insurance*, May 3.).

Each of the four drug companies involved in the vaccine program—Merck, Warner-Lambert (through its subsidiary Parke, Davis & Co.), American Home Products Corp. (through its subsidiary Wyeth Laboratories) and Richardson-Merrell Inc.—already has a captive insurance company.

"Maybe we can set up a pool

using the captives," the spokesman speculated.

The possibility of Congress solving the drug companies' liability problem through legislation is "almost impossible," the spokesman said.

Congress has been asked to pass a bill submitted by the Ford Administration to indemnify the drug companies "against claims attributable to inoculation with the vaccine except claims for failure of the manufacturers to exercise due care in the manufacture or handling of the vaccine. . ."

The bill proposed as an amend-

ment to Section 311 of the Public Health Service Act, will be introduced in the House of Representatives by Rep. Paul Rogers (D-Fl.), chairman of the House subcommittee on health and the environment.

Rep. Rogers's committee began conducting hearings on the swine flu immunization program last week, and no action on the bill is expected until after the hearings are completed.

Other sources in the government expressed doubt that Congress would pass the necessary legislation in time.

Manufacturers are already behind schedule in the production of the vaccine. Further delays over the liability issue would set back HEW's plans to administer the vaccine to high risk groups by late August.

Delays caused by the liability problem are not the only impediments to the immunization program. At Merck, a spokesman complained that "There are a lot of unresolved factors . . . logistics of delivery and time haven't been set."

"We offered to give the govern-

ment the vaccine for free," a spokesman for another of the drug companies said. "We just don't want to be liable for an unlimited, multimillion dollar exposure."

Attorneys for the drug companies had negotiated with the Department of Health, Education and Welfare (HEW) with whom the drug manufacturers had contracted to produce the vaccine.

"What's at issue is a hold-harmless agreement," one of the negotiators explained. "And it is our attorneys' opinion that HEW doesn't have the authority to grant it. The department can't speak for the entire government."

Since the drug companies are selling the vaccine to the government, not directly to the public, they have no control over the administration of the vaccine.

"The government will be responsible for developing warnings about the vaccine and communicating them to the public," a source at HEW noted.

Public health officials began meeting the week of June 14 to discuss both inoculation problems for high risk groups and a schedule for starting the inoculations. ■

Union wants Blues to freeze exec salaries to control costs

By ELISABETH M. WECHSLER

DETROIT—The United Auto Workers (UAW) called for a freeze on top executive salaries at Michigan Blue Cross-Blue Shield to draw attention to the need for the health care supplier to curtail its administrative costs.

"Executive salaries paid by the Blues are already much too high, but I realize the impracticality of a roll-back," said Douglas A. Fraser, UAW vp and chairman of the union's Michigan Community Action Program. "A pay freeze is thus a viable alternative . . . on all salaries above the \$50,000 a-year-level as part of its cost containment program."

He noted that 32 vps at the Michigan Blues, which resulted in the merger between the Blue Cross and Blue Shield organizations in January 1975, earned an average salary of \$40,600 a year.

"The question is—do the Blues need 32 vps, whatever their pay?" he queried. "General Motors Corp., one of the world's largest concerns, has 37 vps to handle its far-flung, world-wide operations. Why then do the Michigan Blues need almost as many when it operates in only one state?"

The matter came up in early June when the three UAW representatives on the board of directors for the Michigan Blues voted against the salary increase for one top Blues executive. The raise was subsequently granted.

Later in the month, a spokes-

man for the Blues acknowledged that the proposed freeze on executive salaries involved only four persons earning more than \$50,000 a year.

"We were really trying to call attention to the problem," said a spokesman for the UAW. "I think that before they increase salaries again, they may think twice about it."

The UAW spokesman noted that the Blues do have the lowest administrative cost rate, 5%, compared with other private health care suppliers. Still, he pointed out, the organization is handling revenues of more than \$1 billion and its premiums have risen more than 15% in the last year.

BENEFIT CONTROLS

See Page 16 for cost details of a pre-surgical screening plan set by Blues, unions and Big Three auto makers.

A spokesman for the Michigan Blues emphasized that the 5% administrative cost "must be put in perspective." All advertising, education costs and salaries for 5,000 persons come out of this budget, he said.

"Costs are rising for everyone," he said, adding that the cost of the salaries for the 32 vps works out to be about 25 cents a year per Blues member.

"We have the largest Blue Cross-Blue Shield organization in the

country," the spokesman continued. "Sixty percent of the state's population are members. We need high caliber personnel to manage it," he said.

Hay Associates conducted a salary evaluation for the Blues and found the Michigan Blues to be below other Blues organization "considering the volume" of claims, the spokesman said.

"We call managers vps in some cases," the spokesman explained. Blue Shield needed high level titles to communicate effectively with doctors and other top health care professionals, he contended.

"Compared with local banks, we have fewer vps," the spokesman pointed out.

As a result of a savings program put into effect six months ago, the Michigan Blues plans to save \$80 million this year through various cost containment measures (*Business Insurance*, Dec. 15, 1975), the spokesman said.

In 1975, claims paid out by the Michigan Blues exceeded premiums by \$79 million, according to the spokesman. Premiums collected were \$1.26 billion in 1975, while claims paid out were \$1.34 billion. Operating expenses for the same period were \$73.4 million, the spokesman said.

"The idea of an executive having to forego a salary increase to control health care costs is a bit incongruous," the spokesman said, calling the issue "emotional."

"Saving pennies to payout millions won't even make a dent," he said.

The Blues spokesman explained that there is "not much financial tie in" between the Michigan Blues and the national Blue Cross-Blue Shield organizations, explaining that the automakers' health plan for workers in other states is centrally handled by the Michigan Blues.

Continued on page 2

European utilities study pooling plan

By MARIE KRAKOWIECKI

NEW YORK—Utility company risk managers from 11 European countries have joined forces to study the possibility of forming a captive insurance company to underwrite nuclear exposures to property risks. *Business Insurance* learned.

The captive under study would loosely resemble the captive set up by United States electrical utilities in 1973, Nuclear Mutual Limited (NML).

The European risk managers, however, hope to make theirs a little different in that it would parallel the existing nuclear markets in Europe rather than compete with them, as NML does with the U.S. pool of insurers that write nuclear coverages.

One Belgian risk manager who is part of the study group looking at the European nuclear captive traveled to the United States in June to attend a Marsh & McLennan workshop on nuclear insurance and indemnity and to pick up some pointers from NML's experience.

Albert Van Gulck, risk manager for UNIPEDE, a Brussels-based union of Western European industrial producers and distributors of electricity, showed up at M&M's

Nuclear Insurance Consultants two-day workshop, accompanied by one of his firm's brokers, Luc deWilde d'Estmael, manager of M&M's Brussels correspondent, Henrijean & Cie.

Mr. Van Gulck expressed a lively interest in remarks at the workshop made by William H. Manly, vp of Southern Services Inc., and a vp and board member of NML.

Like Mr. Van Gulck, Mr. Manly does risk management for utility nuclear exposures, since Southern Services subsidiaries include Alabama, Georgia Gulf and Mississippi power companies.

His report on NML's successful operation after a proven three-year track record encouraged his Belgian listener.

Mr. Van Gulck, who is also the manager of Intercom, a Belgian society of gas and electric concerns, said the group studying the captive began meeting in 1974.

It was sponsored by Sweden and Belgian utilities, which became the leaders of the study, and also includes risk and insurance managers from utilities in France, Britain, the Netherlands, Switzerland, Spain, Italy, Denmark, Finland and the Republic of Ireland.

London broker Sedgwick Forbes

Continued on page 2

BI's Computer Seminar—page 3

Utilities . . .

Continued from page 1
acts as the study group's advisor, Mr. Van Gulck said. Its final report is expected to be published at the beginning of 1977.

Like NML, the captive under consideration would be formed to provide access to property damage insurance of nuclear exposures not currently available from the European nuclear pools.

Mr. Van Gulck stressed, however, that its purpose would not be to compete with the pools, as is the case between NML and Nuclear Energy Property-Liability Insurance Assn. (NEL-PIA), but to provide parallel coverage with what the European pools offer.

The study group is considering coinsurance with the pools as an alternative in order to get lower premiums and more capacity.

Where the captive would be

domiciled is not known yet, although Bermuda has been ruled out, and it seems likely the company would be in an EEC country.

None of the governments of the countries whose risk managers are studying the captive are committed Mr. Van Gulck said.

But he pointed out a trend in Europe toward greater cooperation between countries in trying to work out common problems connected with nuclear energy. The study group for the formation of a nuclear insurance captive is a natural extension of this new spirit of cooperation, he indicated.

Mr. Van Gulck was especially enthusiastic about a motion passed at the last conference of UNIPEDE held in Vienna in May in which the member electric utilities recognized the absolute need for future energy resources and said they were prepared to become involved in the enrichment and reprocessing facilities of the nuclear energy cycle. ■

Product liability furor ranks as 'hot' topic at NAIC meeting; study begun

By PAUL R. MERRION

NEW ORLEANS—A "general deadlock" at the annual meeting of the National Assn. of Insurance Commissioners here earlier this month led to the postponement of a controversial proposal to require the separation of data on product liability insurance on the NAIC fire and casualty annual statement.

"There was quite a debate on whether there was enough justification at this point" to ask insurers to separate product liability data on the form they must file with state insurance commissioners, according to a NAIC staffer.

Those who opposed the measure pointed to its cost, the diffi-

culty of separating product liability information, and the question of whether the annual statements—which are used to check on insurer solvency—should be used to collect data on a problem line of insurance, the staffer said.

At the executive session of the NAIC property and liability committee June 9, the measure proposed by the availability of essential insurance subcommittee was debated until "time was running out," he said.

The part of the measure that set up a new supplemental report blanks subcommittee was adopted, and the part that would have required data on product liability insurance was pigeonholed into the new subcommittee. "It was a political compromise," said the NAIC staffer, who had supported both parts of the measure. "It wasn't thought out very well."

In other action, the committee approved the formation of a task force to study the product liability problem. Members of the task force will be named soon, the NAIC staffer said. The task force is charged with working with "all interested parties" to obtain data on product liability insurance.

According to a memorandum prepared in May by NAIC counsel David J. Brummond, the advantages of using the NAIC annual statement to collect product liability data are: the information would have a high degree of reliability; the system for collecting data is organized and dependable; the results obtained can be shown in a reasonably understandable format; and the cost of obtaining the information is not burdensome.

The disadvantages, according to the memo, are that the information would not be obtainable until March 1978 at the earliest (which will be even later now that the measure was postponed) and that there will be gaps in the information. It was expected that many insurers are not able to separate product liability data, and there would be no way to gather statistics on excess policies, reinsurance and self-insured retentions.

Product liability was one of the hottest topics at the NAIC meeting, with nine presentations by NAIC staffers and special interest groups at the meeting of the subcommittee on the availability of essential insurance.

Mavis Walters of the Insurance Service Office told the subcom-

mittee that the ISO is finalizing its study of product liability claims closed between July 1 and October 31 of this year. "Our objective is to capture information on approximately 30,000 closed claims which will provide more than adequate sample for analysis," Ms. Walters said. Results will probably be presented at the NAIC's next meeting in December.

The subcommittee also heard from Howard B. Clark on behalf of the federal interagency task force on product liability. He reviewed the set-up of the task force on the directive of the White House's Economic Policy Board, and said, "I think (the task force's) predilection will be to disturb existing institutions and practices as little as possible in arriving at sound solutions."

"The dimensions of the problem are clearly countrywide," Mr. Clark said, "and it is rather apparent that the short-term relief of local joint underwriting associations or insurance facilities typical of the medical malpractice crisis offer no great hope in the product liability crisis." ■

errors & omissions

• The Third Editorial Advisory Panel survey found that panel members most frequently purchase liability insurance having \$100 million limits. In other words, this was the mode of the liability limit findings from the 58 respondents. The figure in the May 31 story about this survey was wrong, due to a typographical error.

• The California Department of Insurance said there has been no approval by the department for medical malpractice structures described in a May 31 article as "self-insurance trusts" for physicians or for hospitals. As of this date, enabling legislation allowing establishment of malpractice trusts, which is proposed in at least one bill, has not been enacted. Under present law, such trusts in California must form an insurance company, because any pooling of malpractice risks is considered an insurance business, said a counsel for the California department.

• Gerard P. Howland, manager of pension plans for United Airlines, was identified incorrectly in the People column of the May 31 issue. Omitted in the list of personnel groomed to take over various responsibilities for retiring Waller B. Smith, director of insurance, were: Philip Schneider, staff representative-pension assets, and David B. Walker, manager of group insurance plans.

Blues . . .

Continued from page 1

"It's really only an association tie-in," he said. "The fees are modest and come out of the total 5% administrative costs."

The UAW spokesman noted that his union was preparing for collective bargaining with the Big Three automakers. The automakers contend the UAW will have made workers contribute to their health care plans because costs are rising at such a high rate.

According to the UAW spokesman, the automakers "have paid lip service (to health care containment) but so far they haven't come through."

"They voted for the salary increase (for the Blues executive). They said it's the going rate for corporate people," the Blues spokesman said, referring to the automakers management representatives on the Blues board of directors. ■

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Vol. 10 No. 13—Business Insurance is published every other Monday at 743 Rush St., Chicago, Ill. 60611. Controlled circulation postage paid at Brookfield, Wisconsin. Copyright 1976 by Craigm Communications Inc.

Human error is clearly the computer's biggest enemy

By ELISABETH M. WECHSLER

CHICAGO—"There's no way that dishonest people will ever be able to compete with the incompetence involved in everyday computer operations," claimed an electronic data processing (EDP) specialist.

"Errors and omissions tower over every other type of computer security problem," continued Robert H. Courtney, director of data security and privacy for IBM Corp. He made his remarks at a Computer Protection/Insurance Seminar here, co-sponsored by *Business Insurance* and *Computerworld* magazines.

"Damage can be extensive no matter how minor the accident," he said. For example, an operator who drops and dents a disc pack may not admit the accident but it could do severe damage when it is put into the computer. "These things happen over and over again," he noted.

COMPUTER PROTECTION INSURANCE SEMINAR

More stories will appear in the next issue.

The second major problem for computer security is dishonest employees or recently-terminated employees. "The vast majority are clerks and operating people, not high level officers from another office," Mr. Courtney said.

For this reason, he said, security systems designed to deny access to anyone except those who work in the facility may not be that effective. "Use them if it is economically feasible, but know that they're limited," he cautioned.

"Employees will misuse what you've extended to them to help them get their job done," he said, noting that this is why the reliance on passwords to limit access may be a poor security device.

Other major problems include fire and water damage, disgruntled employees and deprecation of computer equipment by strangers.

To solve these security problems, Mr. Courtney advised seminar participants to set up a risk assessment committee which would be led by an EDP manager and consist of various systems, operations, internal audit, physical security and risk management staff present. In addition, he recommended including members of the department whose computer security is being evaluated so they can explain their functions involved.

"Keep highly qualified people on the risk assessment team," he advised, "but make it a half-time commitment."

The methodology that should be pursued, Mr. Courtney explained, is a listing of all the types of data and the cost of each type of mishap that can occur. Then assign an order of magnitude to the dollar value and calculate statistical probabilities on the dollar values.

"The purpose of a risk assessment approach is to find the small percentage on which you have total and continuing dependency so you can control that," he said.

He suggested contracting with a similar computer system "so that you have continuing capability to be backed up" in case of a major mishap. "It must be a formal agreement," he warned, "and it must be tested from time to time."

"The risk assessment approach is full of surprises," he emphasized. "The important thing to

consider is the wide variety of things that can happen to data. Data is a major corporate asset—sometimes the most important asset. There is a need for a rational, systematic approach to data security," he said.

Once the risk assessment process is complete, you must be able to identify who uses the computer for what in order to hold people accountable, Mr. Courtney said. If necessary, use their fear of being fired to limit their inclinations of dishonesty or chronic errors and omissions, he added.

Technology is weak in the area of replacing traditional passwords for data access with other security procedures, he said. Finger and voice prints have been considered as identification measures, but "they're not practical," he said.

Credit card keys are perhaps the best security access device, he believes. "If employees need them for access (at several points), they won't tend to give them away to their co-workers."

"Don't use company logos or other obvious identification," he advised, and record "who you give them to. Tie it in with the employee's I.D. number. This further diminishes irregular access," Mr. Courtney explained.

"Journaling" or keeping a written record, whenever the system is accessed is "a very important" procedure to follow, he noted.

Also, protection against physical security risks to the computer facilities must be considered.

"Most fire problems connected with computer facilities are caused by putting fire detection and quenching systems in the wrong places," Mr. Courtney contends. "Usually they're installed where the dollars are (in terms of the value of the equipment) rather than where the combustion is."

He pointed to "an affinity between computer facilities and cafeterias, which results in a higher incidence of fire or flood." The affinity is a result of special electrical wiring that both need.

"It's not just the problem of losing one floor but the problem of the fire gutting several floors and losing other systems and backup," he warned. "Think through your dependencies," he emphasized.

The storage of backup data is better placed a few blocks away rather than 150 miles away on a mountain top, he believes. There's more chance of a clerk getting into an automobile accident trying to retrieve the backup data at 2 a.m. than the chance of nuclear holocaust, he said.

The disaffection of employees occurs over "a significantly long period of time," Mr. Courtney said. "Line managers have time to take corrective steps. It is a traumatic experience to admit that the problem of a disgruntled employee exists, but it must be handled," he said, pointing to the possibility of threatened computer security if it is ignored.

"There's no reason to think that wiretapping is a problem for computers yet," Mr. Courtney said, but asked the audience to let him know if they had trouble with their own systems.

"Don't spend \$50 million this year to avoid a \$150 million loss that you've calculated has a frequency of occurring once in 300 years. You can't justify spending more to prevent something from happening, beyond annualizing the cost of the risk," he said.

Mr. Courtney emphasized that a risk manager does not need to be familiar with EDP terminology in order to get involved in the risk assessment committee because computer security problems are too important to ignore.

After a risk has been fully evaluated, and you still can't tolerate the potential expense, buy insurance to cover the excess risk, he advised. "What type of insurance is the function of the type of risk that you're worried about," he added.

Don't neglect computer security just because problems aren't yet visible

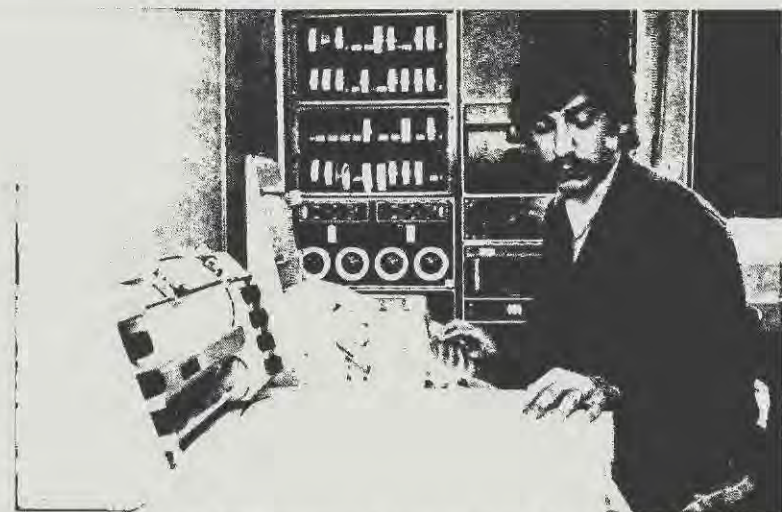
CHICAGO—"There is a tendency to mishandle threats which we experience less frequently than at 30-year intervals," commented Robert V. Jacobson, assistant vp, Chemical Bank, New York.

"Just because you haven't experienced (losses from) the exposures," he said, referring to computer security, "it doesn't mean you should ignore them. They are real exposures," Mr. Jacobson told participants at the Computer Protection/Insurance Seminar here, sponsored by *Business Insurance* and *Computerworld* magazines.

The main problem for the corporate risk manager, he explained, centers around the fact that data processing facilities represent "a high concentration of tangible value."

The contents of a typical office are generally valued at \$10 or \$15 per square foot, Mr. Jacobson continued. But for a computer room, it can range from \$500 per square foot up to \$2,500 per square foot. A tape library would be worth about \$400 or \$500 per square foot.

In addition, the consequences of interruption are high because the tape library is used daily and "may be one of those problems that



A company's own data processing personnel can be the main source of computer security problems and accidents caused by human error.

come under the 30-year law."

Mr. Jacobson advised risk managers to "write down everything that could go wrong and estimate the cost of the loss. Do your best guesses and set up priorities for avoiding risk," he added.

Reassuring the risk manager not versed in electronic data processing (EDP), Mr. Jacobson believes that "what the risk manager needs to know and understand to participate (in the risk assessment process) is easy to learn. Otherwise, it's just another form of risk management."

He recommended a brochure available from the Government Printing Office for \$1.35, entitled Federal Information Processing Standards (FIPS) Publication No. 31, which provides guidelines for the physical security and risk management problems of data processing facilities.

"Take security measures even if what you do does not achieve the perfect system," Mr. Jacobson said. "The declining expected loss should balance the security cost."

He advised a rigorous, quantitative approach to risk evaluation of computer security. But he acknowledged

that this concept "is not generally accepted" by top management in the way they order priorities.

"You may be able to dismiss a risk on the basis of a guess and you may discover a life-or-death risk."

"How you identify the individual at the other end of the wire... is the one step that has eluded us," Mr. Jacobson admitted. "Signature verification looks promising," he said, referring to a pressure profile analysis rather than to optical verification.

"The key technical problem is that mass production inspection techniques don't work in one-of-a-kind situations," he explained.

He said he plainly disagrees with another seminar speaker, Robert Courtney of IBM, about the extent of computer crime: "That segment of the population that can understand computers and can commit crimes is growing," he believes.

"It's not impossible to back up your EDP system," he noted. "But the cost may be great."

One suggestion he had was to divide the system and put part in another location to reduce the risk. He particularly cautioned against ignoring those threats which have a low occurrence rate but which have high loss potential.

In Mr. Jacobson's opinion, "security shortcuts show a bad attitude." Examples he noted were using a rubber band to hold a door lock or putting computers in a building near a roof with an easy access fire escape attached to it.

"Even if the potential loss is small, why put up with it if you don't have to?" he queried.

"The judicial system and law enforcement agencies don't perceive computer crime as significant," he said, noting the relatively short jail terms for stealing money through a computer as compared with holding up a bank.

For physical protection of computer facilities, Mr. Jacobson recommended sprinklers and halon protection in areas where there is storage and data processing. "Do it in response to your needs and exposures and consult a fire safety engineer," he advised.

"The potential damage of water to hardware equipment is overrated," he believes. "Besides, it's the least of your problems. You can easily get another computer."

At Chemical Bank, Mr. Jacobson said he communicates "frequently" with the bank's risk manager. "His concern is insurance coverage and my concern is data processing management and security. He can be instrumental in supporting good security practice and I can help spot the significance of problems he may not see." ■

Be prepared for worst possible EDP disaster

CHICAGO—"Go through and figure out the value of each (computer) program," advised a broker specialized in electronic data processing (EDP) risks.

"Determine the difficulty to reconstruct if there's a computer loss," said Paul W. Miles, executive vp, I. Berman & Co., Montgomery, Al. "The cost would be prohibitive. If so, put these records in a back-up system," he advised.

"We're appalled at the lack of disaster planning and the inadequacy of insurance protection designed to cover it," said David Warren, CPCU, a consultant and partner with Warren, McVeigh, Griffin & Huntington of San Francisco.

Both speakers addressed their remarks to a Computer Protection/Insurance Seminar here sponsored jointly by *Business Insurance* and *Computerworld* magazines.

"Business interruption measures the loss of profit at the end of the year," Mr. Warren reminded the audience. "If a loss can be substituted or made up, there is no business interruption. The extra expense involved in running a business after a loss is covered if it has reduced profit," he added.

"What programs must you have? Establish priorities," Mr. Miles advised. Most companies consider accounts receivable and inventory tapes "critical" but assign lower priorities to accounts payable and payroll, he noted.

"The data processing center is the heart of any business. When it goes, business stops," Mr. Miles continued. "There's no easier way to cripple a firm than through EDP impairment."

He believes that in order to minimize the risk, the EDP manager must figure out how long it would take to restore all sources of information on the computer file.

To build a recovery file, "start by imagining the worst thing that can happen to the data center," Mr. Miles said. "Come up with actual dollars for what the systems programs, systems pack and personnel can cost after a disaster. After you get the total, add 50% to 100% to cover the programming of a new system. I don't know of any that don't have big cost overruns," he advised.

"Be meticulous in figuring the cost and time for an emergency plan," Mr. Miles continued. "Go to

Continued on page 4

Disaster planning . . .

Continued from page 3

the insurance company and show them what you did. If you have a disaster plan and try to follow it, they can't second guess you."

Mr. Miles suggested finding compatible facilities. "You may need to back up your own systems pacs as well as your programs," he noted.

"The hardware manufacturer won't guarantee deliveries," Mr. Miles warned. "They'll cooperate and help but you must look at your maximum downtime and figure out all the direct and indirect costs."

If you want to set up the groundwork for your back up facilities in another area because of different power transmission, install air conditioning so that the wiring is ready for the computer equipment to save time, Mr. Miles

advised.

"Get some order in your emergency planning," he emphasized. Put people in charge of specific duties ahead of time. If there's no practice, people do crazy, impulsive things in an emergency. Have the contingency plan in writing and communicate it to key personnel. Conduct drills," he suggested.

Mr. Warren also mentioned the importance of trial runs for emergency plans. "Have written agreements" for contracting with an outside source for computer backup, he advised.

"One-tenth of 1% of revenues for unplanned losses can be withstood by most companies," Mr. Warren said. "If the estimated loss costs less than this, you probably don't need insurance."

He pointed out two ways to in-

sure data processing operations. One is to put data processing equipment, extra expense and media storage on business interruption with a property policy.

"It's good to include equipment in a master policy because it usually has high limits everywhere," he said. "It's a way to guarantee adequate limits."

The other way is to put the computer facilities on a separate policy. The problem is, "how do you tell what part of the data processing loss was the result of a fire in the building?" he queried participants.

For this reason, Mr. Warren advised including it in one policy. If that isn't possible, "use a special policy," he said.

St. Paul Fire & Marine developed a new form and is considered "the leader in this area," he said. Other active underwriters in the field are Chubb & Son, Phoenix Assurance of New York, American International Group, Home Insur-

ance Group, Appalachian (part of Factory Mutual), and Fireman's Fund. The latter underwriter was described as being "not enthusiastic" about these risks by Mr. Warren.

The components to be covered are hardware, media, extra expense and business interruption, he said. Blanket coverage or combination coverage for media and extra expense or media and business interruption coverage can be arranged, he added.

To determine the amount of business interruption coverage, Mr. Warren said: "Pick the figure you think you'll need and put it in the policy. They'll pay you that," he noted.

"Insurance won't cover all the possible risks, so make a risk analysis to figure out what's covered, what's not and what you are going to do about it," Mr. Warren suggested.

For fire protection, he advised a combination of sprinklers, carbon

dioxide or halon, and dry powder in computer facilities. "You rarely see adequate fire extinguishers in computer rooms," he said.

Mr. Warren said he had seen cases where sprinklers had been plugged up. "You shouldn't do this," he told the EDP managers present, "because you need that protection."

Mr. Miles advised against putting carpet on walls for noise abatement because of fire hazards.

Halon, a non-toxic gas, was described as expensive to install and refill, but "excellent" for computer facilities, Mr. Warren said. ■

Lloyd's eyes new cover for EDP losses

CHICAGO—Lloyd's of London is developing a new form of coverage that is designed to insure against the theft of computer data or computer time by non-employees, said Rees S. Himes, assistant vp, Marsh & McLennan Inc.

Although the coverage is "not yet available," Mr. Himes advised participants at a Computer Protection/Insurance Seminar here to "ask your insurance broker to pressure underwriters to provide the coverage."

The policy would "insure against financial loss arising out of the theft of property such as inventory (by using computers) or against financial loss arising out of the theft of computer time . . . by outsiders who are not your employees," Mr. Himes explained.

He specifically suggested contacting George Jones at Stewart Wrightson in London to request the availability.

The computer seminar was sponsored jointly by *Business Insurance* and *Computerworld* magazines. ■

St. Paul still 'in markets'

ST. PAUL, MN.—Objecting to reports suggesting the St. Paul Fire & Marine Insurance Co. is pulling out of the malpractice insurance market, a company executive told a meeting of the American Assn. of Clinical Urologists, "We're doing our utmost to stay with it."

Thomas H. Swain, vp and assistant to the president, said that as long as the claims-made insurance program appears to be working satisfactorily, "We have no intention of withdrawing from the market."

St. Paul had provided malpractice insurance in 43 states in 1975. It now markets the insurance in 30 states.

Of the 43 states where the insurer did provide a market, two have exclusive joint underwriting associations which prevent private insurers from selling malpractice insurance and five other states did not permit St. Paul to convert from occurrence policies to claims-made.

"Experience under claims-made is limited," he continued, "but what we've seen is favorable. It seems to be working."

Although claims-made does nothing to cure the underlying problem of frequency and severity, it solves the pricing problem.

Mr. Swain said there are relatively few physicians who are malpractice claims repeaters. Malpractice lawsuits still strike "the very best," he noted, "but there are still too many claims involving physicians and surgeons who shouldn't have been doing what they were doing when the incident occurred." ■

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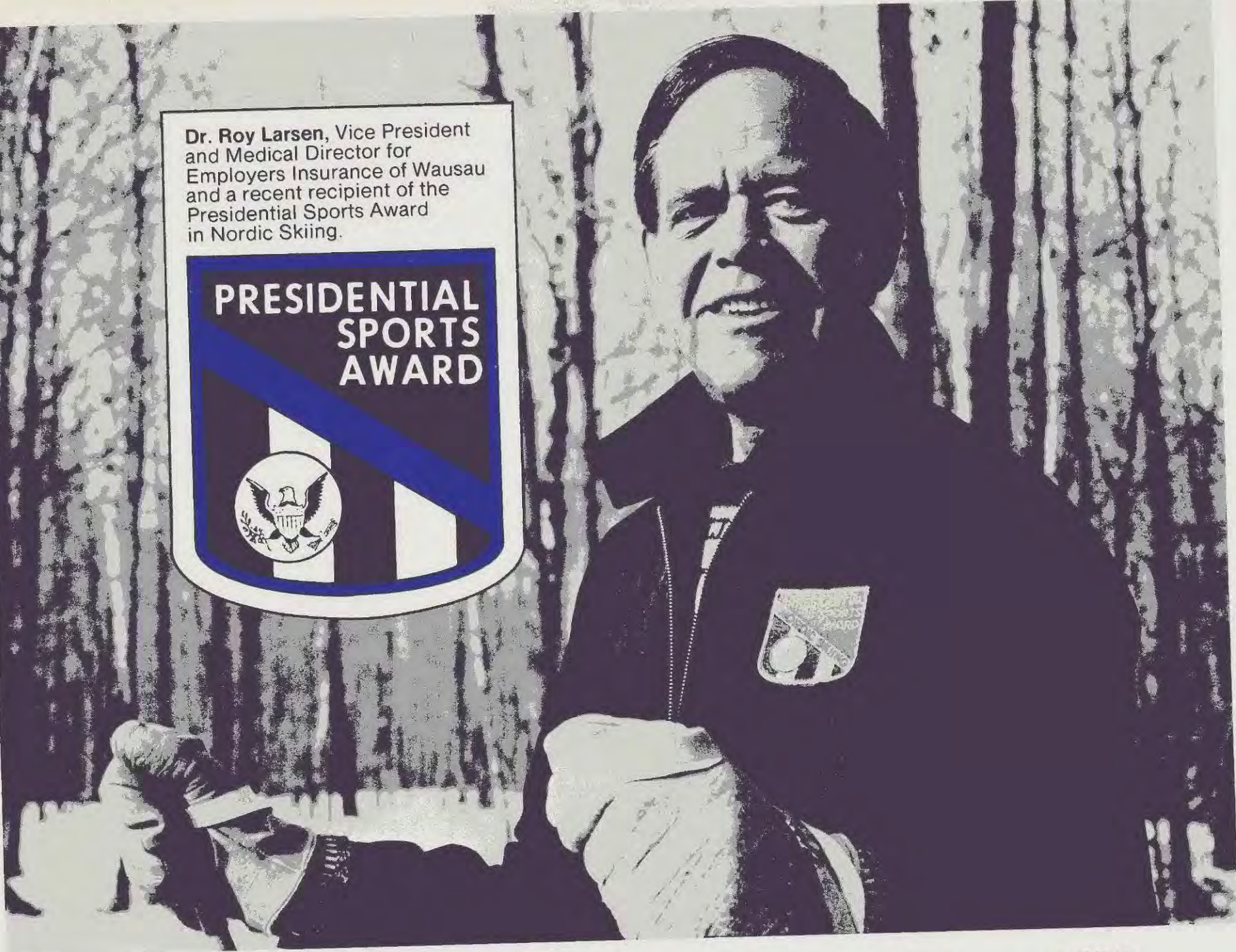
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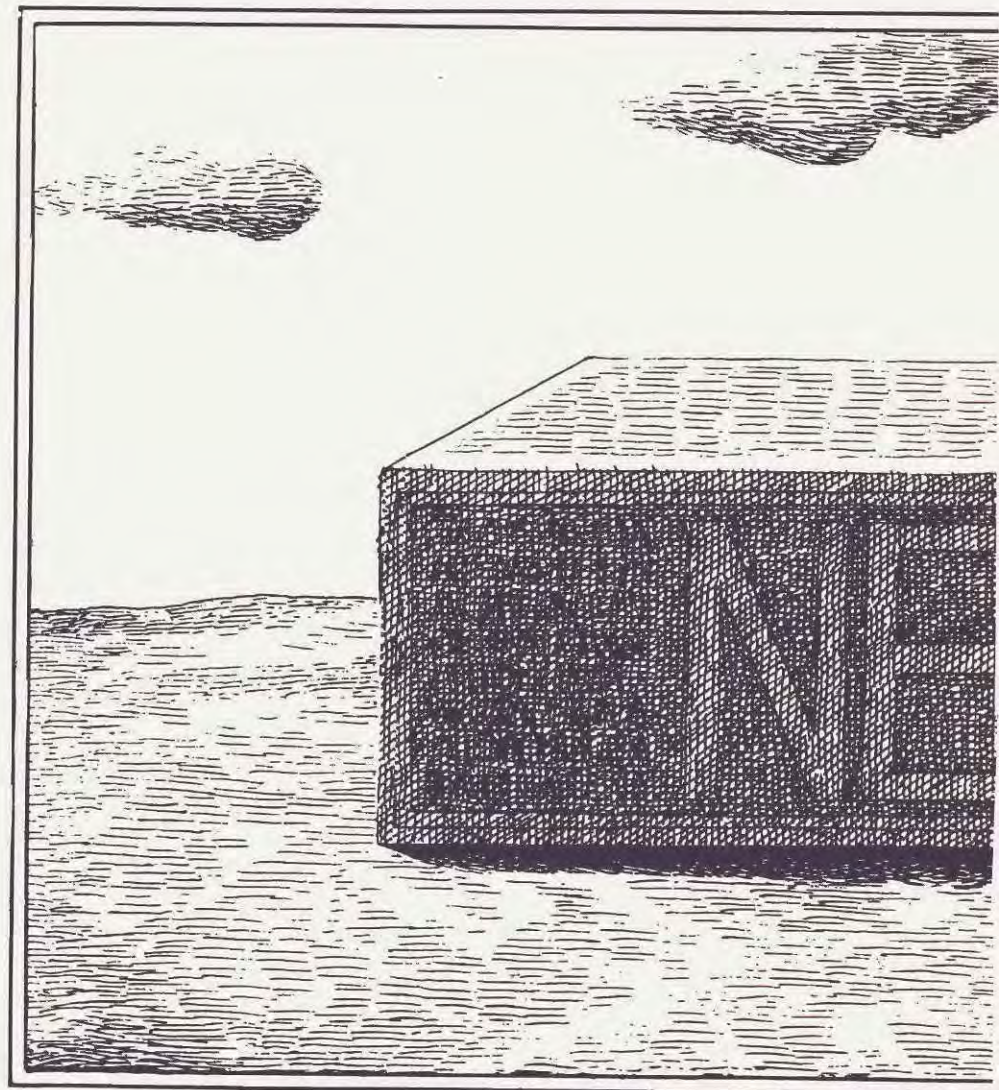
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Product

A surge of claims and lawsuits, greatly increased jury awards and broadened interpretations of product liability, have created severe problems for today's manufacturers.

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



Americans' concerns about the products they use, both at work and away from it, have increased rapidly in recent years. There is a growing expectation that goods will not be offered for sale unless surrounded by every possible safeguard against misuse and injury, and a greater inclination to seek legal redress when product related losses or accidents occur.

These attitudes are accompanied by heightened expectations of compensation for injuries connected with product use. As the number of insurance claims and lawsuits has soared, so has the size of awards in product liability cases.

At the same time, the concept of product liability has widened to take in situations where liability was formerly thought not to exist.

For example, claims have been made against manufacturers for products built and sold as long as 15 or more years ago, even though the products may have changed hands, gone through several modifications, or even been misused by their owners.

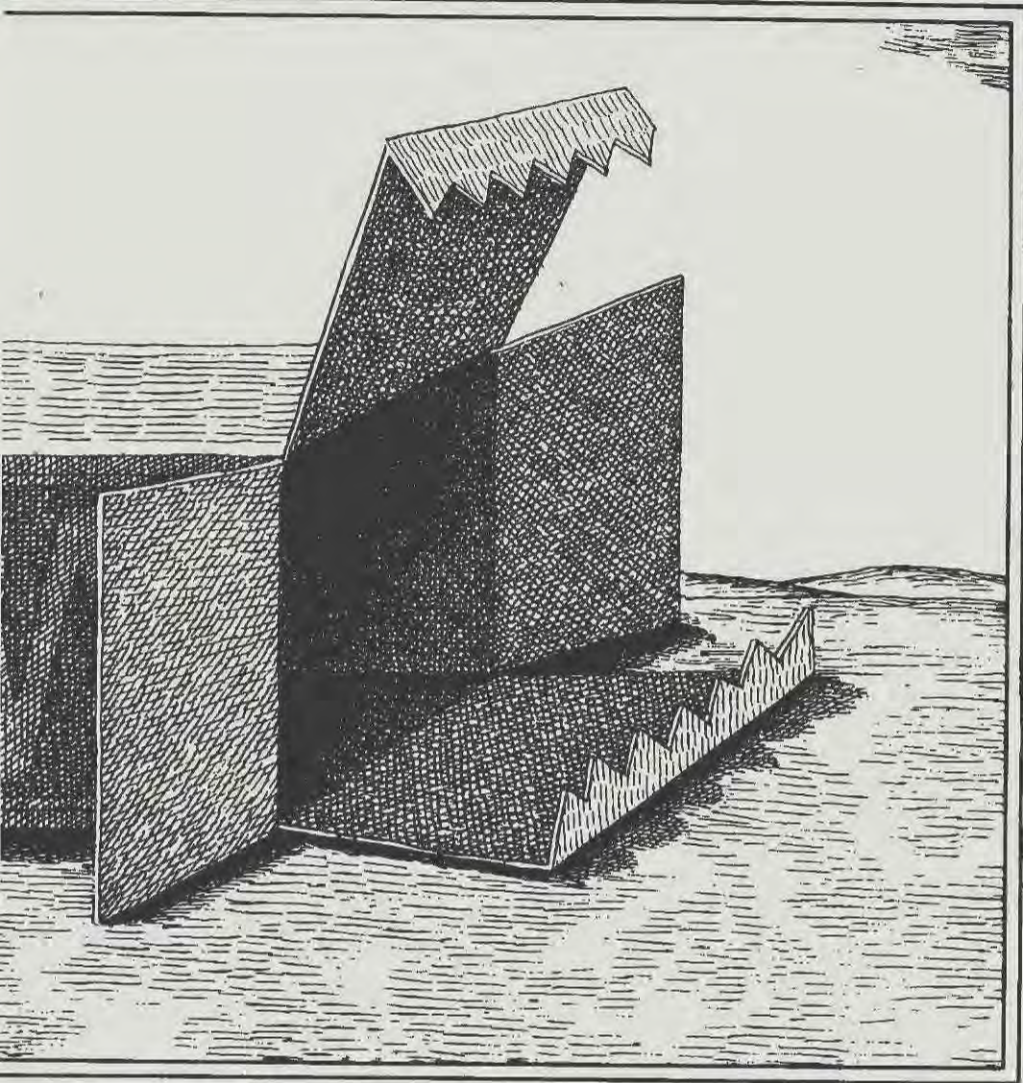
Before the upsurge of product liability cases,

there would have been little likelihood of such claims being made, and even less likelihood that they would have succeeded. Manufacturers and suppliers, in short, today are more accountable and face greater financial exposure for everything they make and sell.

The cumulative effect of these trends on the costs of providing product liability insurance has been predictable. In 1975, insurers incurred \$116 of losses and expenses for every \$100 they earned in premiums on miscellaneous liability coverages, much of which was product liability. Premiums have risen, resulting in higher business costs for manufacturers and suppliers. However, it is doubtful that the effect of future claims can be predicted either by insurers or insureds.

In some industries where product liability exposures and expenses are particularly high, such as the machine tool industry, several companies

Liability



have said they may be forced out of business entirely, because potential product liability claims could exceed their total assets.

What can be done?

The current trend of product liability awards threatens to outstrip all efforts to finance them, leading to a possible breakdown of the compensation mechanism itself. This has led to an urgent search for remedies by manufacturers, consumer groups, the legal profession and the insurance industry.

Proposals have been made for modifications in the existing legal system under which negligence, liability and subsequent awards for damage are determined, so that the financial burden on manufacturers, and indirectly on their customers in the form of price increases, may be lightened.

At the same time, many executives of manufac-

turing firms are focusing ever-increasing attention on tighter safety programs—both for established products and for new product development activities. Integral parts of such programs include extensive product research and testing before production, painstaking safeguards during manufacture, and thorough quality testing afterward.

Better quality control.

Many insurance companies provide professional product safety and quality control reviews as part of their underwriting service. By holding down insurance premiums, such reviews can be very much in the manufacturer's interest. In some cases, they have even resulted in substantial savings in production costs.

As a fuller discussion of product liability from an objective standpoint, INA has prepared a booklet entitled, "Product Liability: Some Professional Considerations." Copies may be requested by writing INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

* * *

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- The U.S. Labor Department explains **Coverage under the Employee Retirement Income Security Act of 1974** including compliance, statutory and regulatory exemptions, deadline dates and reporting and disclosure of plans and fiduciary standards. The non-technical, 12-page booklet is available free from The Office of Procurement, Labor-Management Services Administration, U.S. Department of Labor, 3rd St. and Constitution Ave., N.W., Room N-5432, Washington, D.C. 20210.

- **Risk Management: its relevance to business today** introduces the services of Commercial Union Risk Management Limited. A description of their methods, costs and technical services, such as fire loss control, security, safety and engineering, is included. For a free copy write Commercial Union Risk Management Ltd., P.O. Box 420, St. Helen's, 1 Undershaft, London, EC3P 3DQ, England.

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- The basics about the American economic system are now explained in easy-to-understand language. The 24-page booklet was prepared by the Advertising Council and the U.S. Department of Commerce to encourage economic understanding. Single copies are free from Economics, Pueblo, Co., 81009.

- A collection of articles on products liability, written by legal authorities and CPCUs has been gathered into **A Products Liability Monograph**. Included are articles on no-fault liability, recall campaigns as a defense tactic, and the Consumer Product Safety Act. The cost is \$6.96 per copy from the Society of CPCU, P. O. Box 566, Media, Pa. 19063.

- **A List of Worthwhile Life and Health Insurance Books** for 1976 is available for use as a buying aid and checklist. The topics covered are types of health insurance, life insurance, and company management information. The materials listed are currently in print from commercial publishers, the federal government and special publishers. For single free copies write the Institute of Life Insurance, Health Insurance Institute, 277 Park Ave., New York, N. Y. 10017.

- The National Fire Protection Assn. has issued a 152-page text on **Arson: Some Problems and Solutions** describing what is being done about arson, including technical advances. The soft-cover book contains 42 articles in all and costs \$5.75, with discounts beginning with purchases of 25 copies. Write NFPA Publication Sales Department, 470 Atlantic Ave., Boston, Ma. 02210.

- **Willson Hearing Protection** is a catalog sheet showing various

types of ear muffs and other hearing protection devices manufactured by the Willson Products Division of ESB Inc. For a free copy, write to Stephen A. Neimiller III, Willson Products Div., ESB Inc., P.O. Box 622, Reading, Pa. 19603.

- Eastman Kodak Co. has made available a descriptive brochure on its **New Recordak Reliant 450 Microfilmer**, a small- or medium-sized office microfilmer. For a free copy write Merri Lou McKeever, BSM Advertising, Eastman Kodak Co., 343 State St., Rochester, N. Y. 14650.

- Group Management Services will offer free its brochure **Dental Benefits**, outlining funding and plan design of employee group benefit plans. Write Brian T. Sinclair-Whitely, vp, Group Management Services, P.O. Box 1280, Nashville, Tn. 37202.

- **What Is Self Insurance?** is a compact brochure which defines the idea of self-insurance, its potential advantages and pitfalls, and the services available in the management of a self-insurance program. The brochure is published by the Transport Underwriters Assn. For a free copy write William B. Morrison, Vice President, Self-Insurance Admin., 3670 Wilshire Blvd., Los Angeles, Ca. 90010.

- **The RADA Advantage in Terminal Funding**, published by Small, Parker, Ackerman, Blossom Inc., offers a description of the computerized market search made of group immediate annuity contracts to obtain the most favorable purchase rates at normal and early retirement for participants under profit sharing and pension plans. For a free copy, write Small, Parker, Ackerman, Blossom Inc., 1201 North St., Peoria, Il. 61606.

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- **A Summary of the Employee Retirement Income Security Act** is available from Bayly, Martin & Fay Inc. The 19-page booklet restates the main provisions of the act for easy understanding. Free copies may be obtained by writing Mr. Jack Seiter, national vp, Bayly, Martin & Fay Inc., 3200 Wilshire Blvd., Los Angeles, Ca. 90010.

- **Cafeteria Compensation: Present Status and Future Potential** is offered by Towers, Perrin, Forster & Crosby. It describes the cafeteria approach to total compensation and discusses the impact of cafeteria compensation on the organization, design considerations and the need for effective communications of the concept. For a copy write Ms. Miriam Goldfine, Towers, Perrin, Forster & Crosby, 3 Penn Center, Philadelphia, Pa. 19102.

Product liability protection starts with 'very precise' field analysis

BURLINGAME, CA.—The starting point in any counterattack on the burgeoning product liability lawsuits in the machinery and engineering area must be a frank dialogue between corporate loss control engineers and their underwriters. Everything which is known about a product line must be thoroughly evaluated and every possible product misuse and abuse must be dissected.

That is the advice of Edward S. Charkey, manager, product liability division, Engineering and Safety Services (E&SS) of the American Insurance Assn., New York. He was speaking at a product liability seminar sponsored by the American Insurance Assn. held in Burlingame, Ca.

Mr. Charkey said that a field report from a loss control engineer must be "very precise" about what is known about a risk. "When an underwriter gets a field report, he should question the exact meaning of the analysis, but he should not be forced to read between the lines," he advised.

The extension of a product line into a slightly different area, he warned, "can prove expensive to the insurer."

"The principal danger is... that the engineering and underwriting consideration that made the original line profitable may no longer be valid for the new product. New products that are based on slightly different physical principals, new tooling or novel assembly techniques are in truth a completely new line of products," he said.

As a result, he asserted, it is vital for the engineering survey report to reflect this possibility so that the underwriter can realistically consider the product potential.

As an illustration, Mr. Charkey posited the case of the XYZ Television Co., a concern which he said had been successfully manufacturing TV sets since the early 1950's. He said that in the late 1960's, XYZ switched from a vacuum tube to the transistor.

"Of course, retooling was necessary and this point should have been a red flag to the underwriter," he continued.

Mr. Charkey pointed out that the new processing eliminated

hand soldering of components in favor of a dip soldering technique, a change which initially caused the rate of return of the company's TV sets to mushroom. Simultaneously, he said the XYZ converted to the solid state design in its line of industrial power supplies used in industrial controls. The problems with the dip soldering technique continued in this area, producing a series of subrogation actions against the company due to business interruption losses.

"If the field engineer had described this potential loss to the underwriter (the dip soldering technique problems), a better understanding could have been developed," he contended.

The adhesives industry suffered far more dramatically from failing to produce a complete usage description in its engineering reports, he went on. He said that the dangers of the flammable type of adhesives, used without serious problem in industry, encountered plenty of headaches in the consumer market. Although the consumer read the warnings on the can of adhesives, "he probably did not associate the caution statement concerning the elimination of open flame near the adhesives with a gas pilot light in his home," Mr. Charkey reasoned. He noted that an engineering report shows the product is flammable but the container bears a warning label which does not convey the full ex-

tent of the exposure.

"The usage of the product by uninformed consumers is the important item," he elaborated. "This fact makes effective loss prevention difficult and losses can be high."

Flammable adhesives are currently being reviewed by the Consumer Products Safety Commission and may be banned as a consumer item, he added.

The instrument and control field, he went on, contains "many inherent dangers."

The loss potential stemming from malfunctioning controls is vast, he stated, with exposures that range from a simple home hot water heater to an atomic power plant.

"One key item in the instrument spectrum is the control valve," he pointed out. "In most cases, it is simply used as an on-off device to relieve pressure. The hot water heaters used in most houses in-

clude a pressure relief valve. If this fails to work properly, the tank could explode causing the destruction of the building."

The prime problem for field engineers is to determine what the principle use of this valve has been and may be, during the life of the product, Mr. Charkey said. He said, for example, if the valve is supplied to a wholesaler there is no way to predict how the industrial consumer could use it.

"The prospective insured may be willing to open all records but still not know all the applications for the product. In the case of Zeringue vs. Maxon, a gas-air ratio valve malfunctioned, resulting in a boiler explosion that caused bodily injury and property damage of \$448,000," he illustrated.

Mr. Charkey reiterated that it should be exhaustively explained to an underwriter that an engineering survey cannot predict every application of a product. ■

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Home burns; city must pay

BOSTON—The city of Collinsville, Ill. must reimburse a resident whose property was destroyed by fire and who claimed the city did not properly repair a nearby fire hydrant.

The Illinois Appellate Court upheld the city's insurer, the Maryland Casualty Co., in its refusal to pay the city based on a clause absolving the insurance company of responsibility in cases involving "the installation, servicing or repair of appliances."

According to the National Fire Protection Assn. in the June, 1976 issue of its publication Fire Command, the Illinois court ruled: "It may be that in using the term 'appliance,' situations will arise where its applicability is unclear, but in the case before us we have no difficulty in determining that a fire hydrant is an 'appliance' to facilitate a particular water usage."

The city contended that the policy did not define "appliance" and the uncertainty should be resolved in favor of the insured. ■

editorial opinions

Economic facts of life

EFFORTS BY THE Big Three auto makers and their union employes to control health care costs are laudable. Just goes to show that even the toughest union with a hard-nosed bargaining posture can sit across the table from management and recognize the economic facts of life. From the tenor of many stories in *Business Insurance's* pages in recent months, the economic facts of life are that benefit dollars are inflating to the point where employers no longer have resources for other needs.

Inflation of health care delivery costs—translated to mean doctor fees and hospital bills—is adding so much to payroll costs that employers are suddenly balking at any talk of new or improved benefits.

The United Auto Workers hopefully set the pace and signal a trend in their plan to have members who work for the car manufacturers voluntarily obtain second opinions on recommendations for elective surgical operations. This is a step in the right direction. As a story in these pages recently pointed out, an estimated 2.4 million operations performed each year in the U.S. are unnecessary. One New York labor union found in a study that 17% of the operations recommended by the first doctor were discouraged by the second physician consulted.

We're not saying that this necessarily will be the experience of General Motors, Ford and Chrysler. But it may help hold costs down, and in a time of economic recovery, the country needs more efforts like this.

There are other steps which employers can take to control health and medical benefit claims costs. Several deserve mention.

■ According to a story in our special issue on Risk Management Services, the expense of hospitalization for illnesses can be substantially reduced by providing benefit plan coverage for home health care services. This could accomplish the same general objective that the trend toward using health maintenance organizations will spur: Increased emphasis on outpatient (non-hospital) care, and decreased emphasis on long, expensive hospital stays except in emergencies.

Doctors have apparently resisted the movement toward use of home health care services. This probably would make a doctor's job more difficult, indeed. Furthermore, physicians might not have all that expensive equipment handy in one place—one very expensive facility called a hospital—if people started staying home when they were ill. Nevertheless, home health care when provided in benefit plans has been found to cut hospital stays and, thus, cut costs.

Another benefit cost control technique that's been mentioned as effective is for corporate officials to become involved in regional and local hospital planning boards. Hospitals have had a tendency in the past to overbuild, overexpand, and overequip themselves, sometimes in response to a feeling of competition with nearby hospitals. The cost of this one-upsmanship has been higher patient costs. An unfortunate result, too, has been that numerous hospitals in a region or locality will duplicate each other's services and equipment in order to be able to say it has everything. This adds greatly to the hospital bills that employers pay under group medical

benefit plans.

We'd like to see more corporate benefit managers on regional and local hospital planning boards. Benefit managers understand the need for facility-sharing by hospitals, as well as the cost savings to be gained from having each hospital in an area provide a certain type of specialized service so that duplication is minimized.

■ We also have a nagging feeling that benefit directors for corporations should scrutinize their medical claims very carefully for fraud. So much scandal has surfaced in recent months involving Medicaid fraud that it's difficult to think the same doctor-kickback schemes aren't being used in the employe benefit plan field.

The latest Medicaid fraud documentation came in Chicago, where the Illinois Better Government Assn. and CBS (the broadcasting firm) found that medical testing laboratories and drug firms routinely set up plans whereby big dollars were kicked back to doctors and clinics providing medical services, based on the volume of business for which they billed the government. Such practices were found to be de rigueur.

The BGA and CBS pointed out in the course of a newscast about the investigation's findings that whenever there's a third party payer—that includes corporate employers with medical benefit plans, of course—there's an inclination for product and services suppliers to rip off that "anonymous" third party with the deep pockets by arranging kickback schemes.

Turn tables in court

AN OUTRAGED physician nagged by nuisance lawsuits filed by patients charging malpractice recently turned the tables, forcing a consumer to recognize that using the courts to make a buck isn't a game.

This Midwest doctor was sued for \$200,000 by a lady who charged he hadn't properly detected and treated a hairline bone fracture in a finger, and that she was injured as a result. The suit was dropped by this plaintiff as the facts clearly showed she had no case.

But the doctor's malpractice insurance premiums had skyrocketed as a result of the suit, even though there was no insurance claim or question of liability. The doctor decided he had been damaged by that lawsuit. He turned around and sued the malpractice plaintiff who had filed that suit, asking for a judgment equal to the amount of increase in his insurance premiums as a result of her court action. He felt something had to be done to discourage frivolous lawsuits.

The physician won. The court awarded him \$8,000 in damages; \$2,000 compensatory and \$6,000 punitive.

This is certainly one way of educating the public that misuse of the courts, and abusive assertion of legal rights will be paid for out of the public's own pockets over the long run.

The lawyers in this case were quoted as saying they'd think now about filing some suits they had planned. That's as it should be. Everybody deserves his or her day in court, but lawyers have the same obligation as doctors to exercise professional judgment in deciding whether a client's case is valid or frivolous.

letters

Address letters to the Editor of *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.

Endorsement form

To the Editor: The problem of excess insurance failing to follow the primary insurer relative to punitive damages (and also other coverages) may be avoided through use of a very simple endorsement form which I have recommended to my clients for some time. It should be used when renewal negotiations are entered into. It reads as follows:

"It is thereby agreed that, despite anything to the contrary, where underlying insurance as described in the schedule of underlying insurance attached to this policy provides greater protection or indemnity to the Insured than the terms and conditions of this policy, that insurance shall pay on behalf of the Insured upon the same terms, conditions and coverages which apply to the basic underlying insurance. Where no such broader underlying insurance exists this policy shall pay on behalf of the Insured upon terms and conditions and limitations of the attached umbrella excess form."

Justin S. Lencke

Insurance consultant, Marianna, Fla.

Big boys?

To the Editor: On page 63 of your April 19 issue, an unnamed "risk man" was quoted: "You're losing markets like Unigard, Argonaut, and the Signal Insurance Cos.—the ones that were keeping the big boys honest."

Argonaut? Signal? (For that matter, even Unigard.) Unless irony was intended, one has to conclude "honesty" was not the best policy.

Bob A. Hedges

Professor, Department of Insurance and Risk, Temple University, Philadelphia, Pa.

Cannot understand

To the Editor: In your May 31 issue an article entitled "Spiro, Who's Pension-Poor Pens Memoirs" appeared. I cannot understand what this article has to do with any form of insurance.

Every other article in your publication is directly concerned with insurance matters, and is of interest to people seeking information in this field. The article concerning Spiro Agnew, a convicted felon, who is extremely fortunate not to have spent any time in jail, only serves to publicize his books.

I hope that in the future you will refrain from such articles and not help those who have done the greatest dis-service to our country.

Murray Rosenthal

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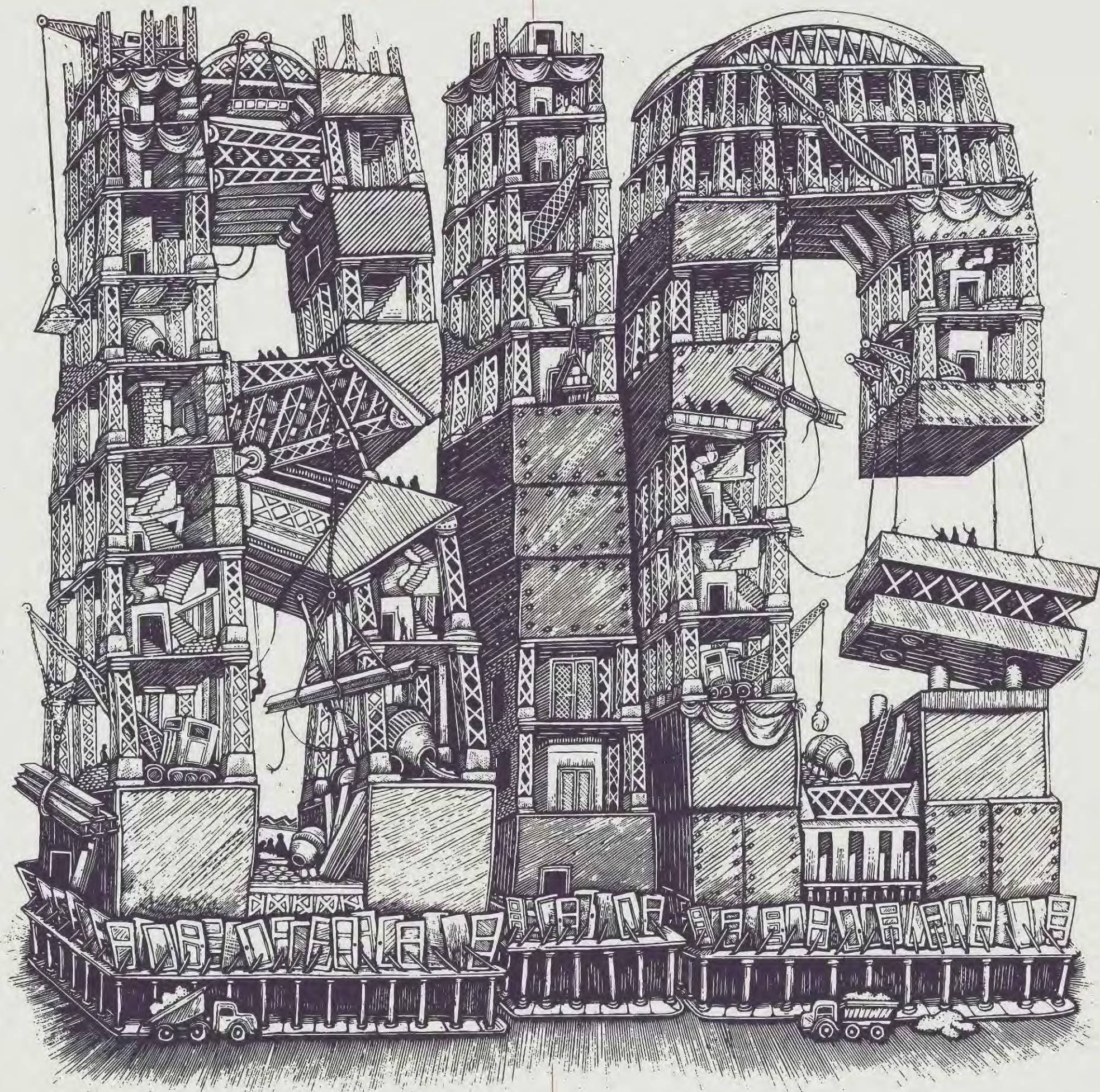
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Published biweekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices at 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca.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



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L.A. school district to self-insure workers' comp

By JOANNE GAMLIN

LOS ANGELES—The Los Angeles City Unified School District, which has 76,000 employes, will begin to self-insure its workers' compensation program July 1.

The district had anticipated paying workers' compensation premiums of approximately \$25 million for the 1976-77 period, up from nearly \$2,580,735 for 1969-70. As recently as 1975-76, the district paid only \$12,700,000 for workers' compensation premiums, according to Donald L. Reedy, assistant director of the contractual relations branch of the district.

"Now that we have obtained approval of the school board to self-insure our workers' compensation program, we believe we can pay claims and build reserves with about \$19 million," he said.

Mr. Reedy said the district began to seriously study the notion of self-insuring its workers' compensation program after calculating the impact of the doubled premiums for the 1976-77 period.

The district had been insured for workers' compensation by the Los Angeles office of the California State Fund. A spokesman for the fund said the loss of the district's business will have "no significant economic impact" on the office.

Mr. Reedy revealed that the district has contracted with Bierly & Associates, South Pasadena, to administer the new program. Bierly & Associates is a spinoff of the self-insured accounts business of Cypress Management Co., a part of Cypress Insurance Co. Cypress is a subsidiary of finan-

cially troubled Unionamerica Corp. Unionamerica is currently in the process of selling its entire insurance group, including Cypress Insurance. (*Business Insurance*, May 17.)

D. Michael Bierly, president of the firm that bears his name, said that his company purchased the division of Cypress Management that administers self-insurance programs. He said this includes "all former employes of Cypress Management, files, records and computer programs related to self-insurance."

The contract with the school district should generate annual fees of about \$615,000 from the administration of approximately 7,000 claims, up from about 6,750 in the 1974-75 period. The district has 1,700 locations.

Mr. Bierly noted that his firm,

which employs 14 workers from its days as a part of Cypress Management, will now hire 22 new employes to service the district's account.

Turning to the subject of the fledgling company's capture of such a huge block of business in its first weeks of existence, Mr. Bierly attributed the coup to two things: His firm's computerized statistical reporting system and its array of recognized clients which were brought in when Mr. Bierly was with Cypress Management, and which he expects to retain. Some of these companies are: Royal Industries, Coca Cola Bottling Co., Avery Products, MCA Inc. and Arrowhead Puritas Meters.

Donald L. Reedy of the school district said that the stunning

growth in that body's workers' compensation costs can be traced to three major factors: The rise in the statewide rate, the experience notification factor and the payroll from the period of 1969-70 to 1976-77.

He pointed out that during this period, the statewide rate climbed from 54 cents per \$100 payroll in 1969-70 to \$1.21 in 1976-77. Experience modification, at the same time, rose from 107% in 1969-70 to 252% in 1976-77 while payroll jumped from \$460.5 million in 1969-70 to \$825 million in 1976-77.

Workers' compensation premiums remained relatively stable in the period of 1969-70 to 1972-73. During this period, they rose from \$2.6 million to \$4.5 million. But in 1973-74, they began a steep ascent, climbing to \$6.3 million; and the next year, they advanced to \$8.6 million and then to \$12.7 million in 1975-76 and then to a projected \$25 million in 1976-77.

An 18-page booklet distributed to district employes thoroughly documents the dramatic escalation in the costs of the district's workers' compensation program. It says, for instance, that permanent disability benefits rose 33% from 1969-70 to 1972. It points out that total claims jumped 30.49% in the five years from 1970 to 1975. Moreover, the average cost per claim rocketed 134% in the same period.

The significant fact that at present about 60% of claim dollars go to relatively new disorders is pointed out by the booklet. These "comparatively new" maladies include psychiatric care, stress and strain, heart and trauma and accounted for only 5% of claim dollars as recently as 1969-70.

Assaults, too, are mentioned as a factor in the escalating costs of workers' compensation for the district. The booklet gives as the estimated medical and disability cost of a security guard, for example, as \$74,397.

Still another factor in the dismal picture, indicates the booklet, is the mounting litigation associated with workers' compensation cases. The booklet states that in 1974-75, 60% of all disability claims found their way into the courts, against 51.5% in 1970-71.

The national average for litigation of workers' compensation cases is about 34%.

To elaborate the litigation issue, the booklet says that of the 876 cases in litigation as of May 15, 1975, "50% were filed by attorneys before the district or the state fund had knowledge of the claims."

The potential cost of the 876 cases is \$17.5 million.

In a section titled "The Insurance Company Ripoff," the booklet notes that premiums for medical and disability risks for the 1970-71 to 1974-75 period were "less than the medical and disability claims by \$11.2 million. Although premiums for the period totaled \$25.3 million, claims amounted to \$36.5 million for a loss ratio of 144%."

Still, as grim as these figures are, the booklet goes on to make the further point that "most experts agree that the employer's cost of industrial injuries is at least three times the amount of workers' compensation premiums."

Added to that, the booklet predicts that pending federal legislation is sure to increase workers' compensation costs still more. Among the measures mentioned as being under consideration by Congress is a requirement that attorney fees be added to the awards and paid by the employer, even if the employer's case prevails. ■

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The numbers are impressive and growing. But in the face of runaway medical costs, we don't think numbers are enough. A way must be found to control the cost of health care in an age when equipment and manpower are more expensive every day.

WHAT WE'RE DOING NOW

- We actively support programs designed to restrain medical costs and improve the quality of health care.
- We support the expansion of professional standards review boards, to monitor the necessity for treatment and quality of care, not only for Medicare and Medicaid patients, but for everybody.
- We support programs which would require hospitals to justify their rates and charges year by year, to keep costs as low as possible, without damaging the quality of care.
- We support strong health planning for every community, to provide care without unnecessary duplication of services.
- We support the development of innovative health care delivery systems including the expansion of out-patient care centers, to provide a less costly alternative to hospitalization, with a strong emphasis on preventive medicine.
- We support community health education, to help people learn how to lead healthy lives, and to encourage them to seek early diagnosis and to follow doctors' instructions.

WHAT MUST BE DONE IN THE FUTURE

The private insurance business, the hospital and medical professions, and government must begin together to do what no one sector could do alone — assure quality health care for everyone while at the same time doing everything possible to

combat rising costs.

All this can be done. It can be done without enormous cost to taxpayers, by dividing the burden between the government and the private sectors. The private sector would offer the widest range of health care and coverage at the lowest possible cost. Government would set guidelines for the whole health care system, and continue to assume responsibility for the health care costs of the poor and aged. Thus, we can create a system which will adequately care for each American, while preserving the freedom of choice and dignity of each human being.

THERE IS A LOT OF WORK TO DO

By working together, we can make certain that each American will have available the treatment the health care system in this country has made possible, and the individual, personal service we in the health insurance business have worked so long to provide. In the private sector we have learned one thing — health care is not numbers. Health care is people, and all of us must be cared for as people, as individuals, each with different needs.

America is a rich and decent country. The 1,000,000 people in the private life and health insurance business believe that the time has come when every American can and must be saved from the fear of what it costs to be sick.

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The impersonal future? That's not our way of doing business.

Wide range in cost estimates for Blues experimental surgery plan

By JANE WINEBRENNER

DETROIT—A pre-surgical screening pilot program developed by Blue Cross-Blue Shield of Michigan, the United Auto Workers and the three major automakers could cost anywhere from \$387,000 to \$947,000, based on a detailed program outline released by Blue Cross-Blue Shield earlier this month.

The planning and development committee, with representatives from Chrysler, Ford, General Motors, the United Auto Workers (UAW) and Blue Cross-Blue Shield, agreed last month to set up a voluntary pilot program for second doctors' opinions on elective surgery.

The Program for Consultation on Elective Surgery (PROCES) will cost \$387,000 if only 5% of the 1.5 million eligible union members and their dependents utilize the program. Using a 20% utilization figure, however, the costs rise to \$947,000, according to the committee report.

According to Dr. Louis F. Hayes, group vp for professional affairs of the Blue Cross-Blue Shield of Michigan (BC/BSM), the automakers have agreed to pay for the consultative and diagnostic costs while the Blues will pay research and administrative costs.

"Benefit costs will be charged to the group's experience," the report states. "BC/BSM will spread de-

velopmental and administrative costs across all contracts."

The program will be limited to the tri-county area in and around Detroit, covering all active hourly and salaried employees and their eligible dependents. The Blues define elective surgery as that which is "necessary, and may be scheduled to be performed at the convenience of the doctor or the patient, is not an emergency and may be deferred."

The first two years of the five-year program, scheduled to start September 1, will be consultation work while the last three years will be a follow-up phase of patients using the second medical opinion.

One of the major objectives of

the PROCES program is to determine "cost effectiveness and cost containment potential." Blue Cross-Blue Shield of Michigan raised its 1976 medical, hospital and dental coverage costs 21% over the previous year at General Motors Corp. GM has said it will oppose any increase in health care benefit costs in its July 19 contract talks with the UAW.

The UAW and the automakers will cooperate, however, in this program to choose consultants, selected from university-affiliated and teaching hospitals which have a wide range of specialists.

The consultants will be paid \$50 per consultation and it is estimated another \$39 will be spent on additional diagnostic services ordered by the second doctor. Necessary lab and x-ray reports must be taken at participating independent, office or hospital-based laboratories.

To avoid conflicts of interest, a

physician cannot refer a patient to another surgeon in a group, association, partnership, clinic or professional corporation to which he belongs. Neither can a consultant be affiliated with the same hospital staff as the patient's first surgeon.

Blue Cross-Blue Shield of Michigan has broken down the costs into a developmental phase, an operational phase and post operational-evaluation phase. The first phase has a cost of about \$100,000, rising slightly as the percentage of participants increases; the evaluation phase has a fixed cost of \$16,200. The cost of operating the referral center, research, evaluation costs and physician fees goes up as the percentage participation does. For 5% patient usage, the cost is \$273,000; \$459,000 for 10% and \$830,000 for 20%.

Big claims expected for bus disaster

SACRAMENTO—Huge insurance claims as well as complicated and lengthy litigation are expected to result from a preliminary decision here by the California Highway Patrol that a failure in the brake system was the primary cause of the May 21 bus disaster that killed 28 Yuba City High School students and a chaperone.

The school bus accident, involving a 1950 Crown bus, also injured 23 other students and the bus driver. The crash already has prompted introduction of tough new legislation relating to school bus standards and maintenance.

Highway Patrol director Glen Craig said here that study of the bus wreckage "indicates a definite malfunction in a pressure belt which governed the primary air-brake system."

The pressure belt, Mr. Craig explained, "gradually wore itself down during the trip from Yuba City to the crash point on the Martinez bridge off-ramp. In addition, the evidence indicates also that certain gauges were not functioning properly.

"As a result," he added, "the driver of the school bus, leased for the trip by the Yuba City school district from Students Transportation Lines, was not aware that the brakes were inadequate as he left the freeway at about 50 miles an hour."

The 26-year-old bus had not been inspected for a year.

Mr. Craig added that Richard Ehtington, a student who survived the crash, had told CHP investigators "the driver put his foot on the brakes and nothing happened. He pumped the brake pedal and just before the bus left the ramp, he said, 'Oh, my God' and then the bus crashed."

The CHP estimated the bus speed just prior to the crash at 44.1 miles per hour although the posted speed on the off-ramp is 20 miles per hour.

"After traveling 72 feet atop a concrete barrier and ripping out the metal railing above the barrier," Mr. Craig said, "the bus still was traveling 32.91 mph at the point where it rotated to its left, flew 60 feet through the air and landed upside down to trap the passengers below the crushed top."

Insurance industry spokesmen at San Francisco said "we fully expect literally dozens of lawsuits to be filed, against the school district as well as against the owners of the bus and perhaps even against the state of California for its design of the freeway off-ramp.

"The claims," one insurance carries executive said, "may prove to be astronomical."

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agent/broker topics

Is 'raiding' the best way to recruit?

Shortage of qualified account execs to spur training plans

By MARGARET LeROUX

NEW YORK—"Highly professional and rapidly expanding urban brokerage firm has opening for qualified individual with heavy commercial experience including a high achievement track record. Must be aggressive, knowledgeable, innovative."

The above composite of several classified advertisements for account managers describes the ideal employe sought by insurance agencies and brokerage firms alike.

A number of these companies discussed how they find account managers and what they do to keep them.

Stealing from other firms is the most common source of good account executives, though most of those interviewed deplored the practice, "especially when it backfires on us," one brokerage firm executive quipped.

"There are just not enough good account executives to go around," an officer with a West Coast brokerage firm complained. "We caused the problem ourselves," he continued, "by not setting up programs to train our own people."

"I don't like the 'raid another agency' approach," Howard Miller, vp of Brokerage Resources Inc., a New York firm, said. "Our biggest success with inside people has been in hiring them away from insurance carriers."

Inside people, Mr. Miller explained, handle administrative aspects of accounts. They do no sales work.

"Direct writers are our source for outside people," he added.

"Word of mouth" is the most common approach used by Dale & Co. Ltd., a Toronto based firm, according to a spokesman. "We don't use employment agencies much."

"We have to know a potential account manager as an individual first before we approach him," J. W. Bowers, partner with the Ft. Wayne In. firm of Insurance & Risk Management, said.

"He's got to have at least 10 years in the business for us to be interested," Mr. Bowers continued, "but if he's not ready we'll tell him what he was to do to get ready."

"There's no set pattern to our hiring account executives," said W. L. Doherty, officer with the former Esso Insurance Services which recently merged with Alexander & Alexander. "Unless the account executive comes to us first; we're happy to talk to these people," he noted.

"We've done some hiring through employment agencies," Mr. Doherty added, "but it's usually a case that the agency comes to us with a prospect."

If an account executive has some attractive business that he'll bring with him, he's a likely candidate for hiring by most agencies and firms.

Another valuable credential is expertise in a certain area of insurance; for example, marine or aircraft.

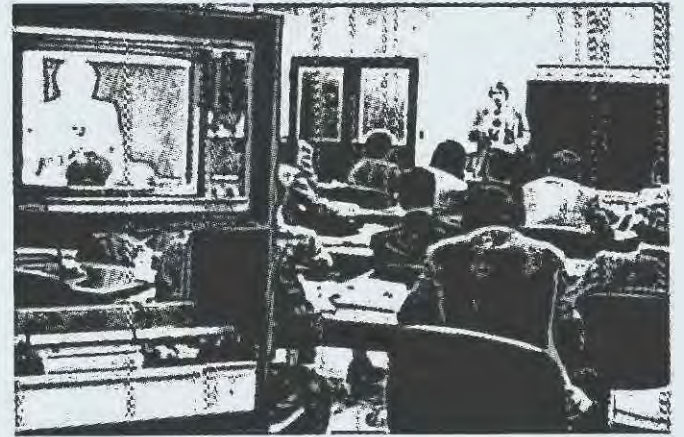
"A combination of sales ability and technical knowledge make a potential employe attractive," Jack R. Trainer, president, Walter P. Dolle Inc., a Cincinnati firm, said.

"If he had business that would come with him," the spokesman for Dale & Co. commented, "we'd be interested."

Many firms have a source for potential account managers in their management trainee programs for new employes who are college graduates, but who have



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The shortage of qualified account executives can be solved, some feel, by company training programs.

little or no experience in the field.

Most firms require a degree in business administration, or at the very least, an expressed interest in the business world by the college recruits.

Frank Schiff, president, Schiff Terhune, explained his firm's training program. Most college grads start as "runners," carrying such material as messages, and binders of insurance between clients and the firm, he said. This is followed by a series of six month stints in each of the firm's departments where the trainees learn "everything about the business, from checking policies to underwriting and marketing," Mr. Schiff said.

The next step, if the trainee shows interest and ability, is to

the level of junior account executive where the junior account person will assist with accounts generating less than \$20,000 in premiums.

Larger accounts come in time, Mr. Schiff said. "They don't have full responsibility right away."

At Financial Guardian Insurance Agency in Kansas City, recent college grads are put through a five year training program after which they can go into production or management, Jack Muma, president, explained.

The increasing number of women among recruits to the insurance brokerage industry has created a few problems for the training program, Mr. Muma noted.

"It's common that we transfer

the trainees to different branch offices to gain experience in different aspects of the business," he related. "The men usually have no trouble moving their wives along with them. However, if our women trainees are married, their husbands can't always leave their own jobs."

Spokesmen for two of the largest brokerage firms, Marsh & McLennan and Alexander & Alexander, said that since they hire people with every range of experience, training varies according to each individual.

Smaller agencies, too, follow the personalized approach for new employes with experience.

"Someone with experience is usually under the wing of the branch

Continued on page 16B

CPCU program seen making good people better

By ELISABETH M. WECHSLER

CHICAGO—The president of an agency here thinks the Chartered Property & Casualty Underwriter (CPCU) designation is so important he rewards his employes with a \$1,000 bonus upon completion of the five courses currently required.

"I pay my employes \$100 for each section they pass, and when they pass the whole thing, I pay them another \$500," said Howard C. Alper, president of The Alper Agency, Inc., and himself a CPCU. His agency reported premium volume of \$2 million for 1974.

He believes the CPCU designation lends "an increased degree of professionalism (that) is needed in our industry," adding that it is "more important for the commercial lines than for personal lines." The Alper Agency reported 95% of its 1974 business in commercial accounts.

Mr. Alper acknowledged that the salary differential between prospective employes of equal ability

could be as much as 10% to 20% extra with the CPCU designation.

Not everyone contacted in the informal nationwide sampling of agents and brokers agreed, however.

"Some CPCUs are super and many others are mediocre and just have a lot of book learning," claims William H. Ellsworth, a principal in the New Orleans insurance agency of Ellsworth, Mayeaux & Associates Inc. "It's the man that counts. A good man could be made better with CPCU."

None of the five brokers in the Ellsworth agency have the CPCU designation. "It wouldn't enter my mind to make the determination between two well-qualified people on the basis of a CPCU designation," Mr. Ellsworth said. "It can't hurt, but I wouldn't go out of my way to encourage it."

The Ellsworth agency reported 1974 premium volume of \$1.75 million, with 85% in commercial business. "Most" of its clients are general contractors, Mr. Ellsworth said,

and none have mentioned the CPCU designation as a criterion for doing business. Clearly, he believes that on-the-job experience is the best way to learn about insurance brokerage.

Robert A. Laubach, vp and secretary of Charles & Laubach Inc., Phoenix, takes issue with that contention: "Clients are more cognizant of what CPCU means . . . (especially) coming into a growth area like this."

"We feel it makes it much easier to serve our clients (and) it's definitely a factor in competing with larger firms," Mr. Laubach said, adding he believes his agency "can compete with anyone" because of the collective CPCU training. There are three CPCU's on the staff now and one other who is working toward the designation, he explained.

To help encourage employes, "we pay our employe's training cost. They come along that much faster (salary-wise) as a result," Mr. Laubach said. His agency reported 1974 premium volume of \$2.35 million, of which 87% rep-

resented commercial business.

"We have more CPCU's in our firm than in any other in Rochester (N. Y.)," claims Lester H. Leonard, chairman of Hatch-Leonard Inc., and himself a CPCU. "It shows we're dedicated to professionalism," he believes.

Mr. Leonard conceded that "you could be just as smart and dedicated if you aren't a CPCU," but he hopes that someday the CPCU designation will "have the same status as the AMA (American Medical Assn.) and the Bar Assn. do now."

At Hatch-Leonard, professional degrees such as CPCU are listed on the company letterhead rather than corporate titles, Mr. Leonard explained.

"I think we could get an audience with any risk manager in the country because of the CPCU designation," he continued, emphasizing that large national accounts are particularly aware of what the CPCU designation means because many of the insurance buyers or

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risk managers are themselves CPCUs.

Employes are generally sponsored by the firm in terms of time and money in working toward the CPCU designation, he said.

"The day of an insurance broker doing business on the golf course is coming to an end, we hope," Mr. Leonard said. "It should be based on professional knowledge. We'd like to have the greater professional status (that other professions have)."

He conceded that his goal is

Continued on page 16B

Hiring & training . . .

Continued from page 16A
manager," Financial Guardian's Mr. Muma said.

At Dolle, "sometimes we turn over accounts to new account executives," Mr. Trainer noted, "but we also hire account executives to start from scratch—produce their own accounts."

Salaries for account executives vary according to the amount of experience they have and also according to where they're located.

In the Midwest, salary levels of \$40,000 were quoted as benchmarks for experienced account executives.

In the Toronto area, salaries are "around \$25,000 for an account executive with 15 years experience," the Dale spokesman said.

In San Francisco experienced account executives can command

\$25,000 while brokerage assistants and underwriters start at \$1,000 to \$1,500 a month, according to an executive in a brokerage firm.

In New York college graduates starting a management trainee program make from \$9,000-\$12,000 and experienced account executives salaries range from \$20,000-\$45,000.

Besides salary (which includes commissions, many brokers indicated) and other benefits, employees of insurance agencies and brokerage firms most likely will be reimbursed for any additional business courses they take.

Executives in virtually all the firms interviewed said that programs resulting in CPCU, CLU or other insurance related business degrees are paid for by the firm.

At one firm, employees pay 50% of the cost of additional educa-

tion; when the degree is achieved, the firm reimburses them for the remaining 50%.

In Toronto, the Dale Co. spokesman said the firm pays for all courses offered by the Insurance Institute of Canada.

Asked if the possession of designations such as CPCU or CLU would make a potential employee more attractive, one executive replied, "Of themselves, I don't think the degrees mean that much, but it's the knowledge an employee gains while attaining the degree that's important." ■

Insurance Counsel meet

The International Assn. of Insurance Counsel will hold their 49th annual meeting, July 4-10 at the Greenbrier, White Sulphur Springs, W.V. The open forum session of the meeting will examine advertising in the legal profession and the trends in lawyers' liability insurance.

Designations . . .

Continued from page 16A

"long-range: We hope it will happen in a generation." The Hatch-Leonard agency reported 1974 premium volume of \$3.4 million, with about 65% of that from commercial business.

Mr. Leonard emphasized that on-the-job experience was important also. He believes that the way the CPCU courses are structured, with more commitment to a continuing education basis, makes the training that much better. "If you get all your education before you have any experience, it's not as valuable. When you're more mature, education is more purposeful," he said.

Three other agency principals said they favored the CPCU designation, but were similar in that none of them had received the designation themselves.

"I don't insist on new employees being CPCUs but I encourage it," said H. H. Hendren, president of Sacramento Valley Insurance, Sacramento, Ca. His agency with about \$5 million in property/casualty premium volume picks up the tuition tab for his aspiring CPCUs. He views the designation as "a symbol of professionalism, prestige and the knowledge it represents."

Mr. Hendren remarked that no client has ever asked if he was a CPCU. The agency has two CPCUs, according to William T. Armend, chairman and president.

"Even though I'm not a CPCU, I respect someone who has taken the time to study the insurance contracts, etc. necessary to become one," Mr. Armend said. "In our case, most of the boys have come up through the ranks and most have been here at least 20 years," he continued, adding that he has had 60 years of experience in the field.

"The fellows coming in today must come in with an education or a CPCU rather than learn from grass roots," Mr. Armend reflected.

Mr. Armend's firm reported 1974 premium volume of \$6.3 million, with about 77% of it from commercial business.

"I think the CPCU is very important because it means the agent has a better knowledge of the business and because the buyer has more confidence in an agent who has a CPCU," said W. C. Cohen, former president of an agency that was consolidated into Insurance Management Assoc. Inc., Wichita, Ks. "You are a professional when you are a CPCU," he added.

Mr. Cohen doesn't have a CPCU himself and excuses himself by saying he has been in the business for many years. "If a person doesn't have the CPCU, it doesn't mean they aren't competent," he emphasized.

He acknowledged that "a lot of clients, especially national accounts, know about the CPCU because a lot of the buyers are CPCUs." Insurance Management offers a tuition reimbursement system to its agents seeking the CPCU designation. In 1974, the agency reported premium volume of nearly \$7.6 million, 80% of which was from commercial business. ■

Study central EDP system

CHICAGO—In August, 18 insurance companies will decide if they will support the Independent Insurance Agents of America's (IIAA) plan for a nationwide, centralized computer system, linking those insurance companies with larger agents.

While both sides admit there are obvious advantages to the plan, such as avoiding unnecessary duplication of files and faster servicing of clients, insurance companies have had severe underwriting losses in the last several years.

According to John Blanchard, vp for information services at CNA Insurance Co., the estimated cost of the Electronic Processing Information Committee (EPIC) plan is \$50 million—and it still is not known who will pay.

Even if prices can be resolved, there is still serious antitrust and ownership questions that are currently being studied by EPIC's legal committee. All participating insurance companies would file their data into a single computer, which could then be tapped by any insurance agent with an EPIC terminal. ■

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Chicago agency looks to controlled growth, referrals as keys to success

By JANET M. CORRADO

CHICAGO—Byrne, Byrne & Co., in business since 1898, is conservative in today's insurance marketplace.

The firm does not promote for new business, but relies solely on referrals. It will not act as a brokerage house taking business off the street. Its growth rate is controlled, and from the largest account (a firm with \$200 million in sales a year) on down, the agency sells and keeps its clients by rendering personal service.

"When a prospect asked me who would handle his account after it was sold, the answer was that I would," said Richard Byrne, one of the two principals in the agency. That prospect, now a client, said later that's what sold him, Mr. Byrne explained, "along with the fact that I believed in the business" and wouldn't complain to him about the state of the industry.

With three full-time and one half-time producers, the agency's personal approach means measured growth.

"We simply don't have time to double our business by increasing the number of people we do business with," Mr. Byrne said, "and we don't promote new business because it doesn't pay to add a new producer.

"Of course," he added slowly, "if our accounts double in size, then we make more."

And Byrne, Byrne & Co. does make money. It has doubled its commission income in the past five years, about 8% to 10% a year not compounded. But, Mr. Byrne attributes the increase mostly to inflation—higher premiums.

"If we were making any attempt to add new accounts, a 50% to 60% growth rate would not be a terrific achievement," he said.

Mr. Byrne estimates commission income this year at \$450,000 or \$500,000, up from \$433,000 last year.

The agency is a partnership, with Thomas Byrne as the other principal. So agency expenses, which are about 56% of gross income, don't include the partners' draw. But if the agency was a corporation, and a fair market salary for the principals was loaded into the expense, Mr. Byrne estimates the agency would have a 10% to 15% profit.

Gross casualty premiums are about \$4.5 million, and group insurance premiums he estimates conservatively at \$2.5 million. Premium volume in 1974 was \$5.1 million.

Commercial accounts represent 90% to 95% of the agency's business, almost all of them manufacturers.

"We didn't concentrate on specializing. We aren't specialists," Mr. Byrne said, "but I guess we developed certain skills and referrals gave us the business."

The agency has a half dozen "prime accounts," and 100 to 150 small to medium sized policyholders.

It handles part of the insurance for its biggest account, and all the coverage for the next two largest, which have sales of \$120 million to \$150 million a year. It has one account in the \$100 million sales range, one or two in the \$40 million to \$50 million category, and "then they go down to where all the work is," Mr. Byrne said. About 50 to 70 clients, small contractors and supermarkets, do

about \$500,000 a year in sales.

Richard Byrne handles 12 accounts "of some size," Thomas Byrne less than that. John O'Hara, the only other full-time producer, has 60 to 70 smaller commercial accounts. Richard Byrne's son, Stephen, is working into the agency and spends about half his time in production, mostly helping Mr. O'Hara. The office staff numbers 12 to 15.

"I think a four-producer staff is kind of ideal," Mr. Byrne said. Mr. O'Hara thinks they could use one more, adding that the agency's personal service also means that all the producers are familiar with all the accounts so no client is left in the lurch because of illness or

vacations.

"We call ourselves brokers and counselors," Mr. Byrne said. "We will write for a commission, but for our largest accounts we will charge a fee," and it is not too unusual for them to get a commission and fee on the same line.

For example, he said, on a workers' compensation policy with \$200,000 premium, the agency could get 1% to 2% commission and a \$5,000 fee, functioning purely as a fee counselor and a broker at the same time, depending on the needs of the policyholder.

The agency has had a fee arrangement at least 40 or 50 years. Now, about 20% of its income is from fees, and Mr. Byrne would like to see it increase.

"A fee situation is most agreeable to the client and ourselves," he said. "It removes the suspicion from the client's mind that we may not be bargaining as closely in his interests because we're getting a percent of his premium increase.

"With a client whose insurance bill goes from \$15,000 to \$100,000, it's hard to convince him I'm not benefiting directly on a commission basis," Mr. Byrne said.

The agency places quite a bit of business with direct writers, like Employers of Wausau, which benefit too from the arrangement "unloading some work on us," Mr. Byrne said.

It places more fire insurance with Factory Mutual than any place else, but there are so many lines direct writers don't handle and that agency companies will handle, that it often uses both.

The only anomaly in the fee-versus-commission arrangement is

the contingent commission, but "if your integrity can't overcome the contingent commission, you're not doing very good business," Mr. Byrne said. "We try to relate our fees to what we would get in commissions," he added.

For new accounts, "we gather bids from insurers" and present the client with several options. It's the client's choice, Mr. Byrne said. "We don't care what he chooses."

Though there is some trend toward agencies representing fewer companies, Byrne, Byrne & Co. has had no change in the number or mix of insurers it represents in the last 20 years or more. It has agreements with seven companies: Aetna, INA, Fireman's Fund, American Motorists, Hartford, Transamerica, and Providence Washington. Five get most of the business.

"We don't need any more than that" with access to surplus lines and direct writers, Mr. Byrne said.

Continued on page 16D

WHEN THE ROOF FELL IN, Z-A WAS THERE FAST

Sunday evening of Memorial Day weekend with wind-whipped rain cascading down on a Detroit suburb. What a time to have an 80-foot oak tree crash through your roof.

It happened to a Zurich-American insured.

At 9 p.m. he called his agent. The agent contacted Z-A's claim service. Z-A's Detroit claim manager, Roger Rapelje, began to call contractors about repairing the damage. By 10 p.m. both the agent and Myron Starr, Z-A's property damage supervisor, were on the scene. And by 10:30 p.m. a

contractor started temporary repairs to prevent further damage to the home and its contents.

Several nearby homes also were damaged that evening. But only the Z-A insured got on-the-spot service. In fact, many claimants didn't hear from an adjuster until two days later.

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Personal, commercial lines tied to new business

By JOANNE GAMLIN

LOS ANGELES—Personal lines can be used as bait for new commercial insurance accounts. But no matter what its role, personal lines business must be thoughtfully developed and not allowed to shoot up by accident, California-based brokerage firm spokesmen say.

Bruce Moore, executive partner, Barney & Barney, San Diego, said that "our format has been to develop personal lines for key executives of a firm and then to turn this program into a selling tool for our commercial insurance business."

Barney & Barney, he said, has been able to rely on personal lines as a generator of property/casualty business because of two factors: It is an older firm and it is or-

iented to pursuing the coverage of the up-and-coming younger executive as well as the solidly-placed chief honcho.

Mr. Moore pointed out that although his firm has a personal insurance department that specializes in this type of coverage, he is, at the moment, mulling over the idea of whether or not it might be wiser to have the account executives of commercial accounts also service the personal insurance needs of the top men at those firms.

"We are doing this in a few instances at present," he said. Making the question a nagging one, he said, are the instances he has observed in which major insurance decisions are influenced by what happens to an executive in his personal lines experience.

Personal lines business may not be heavily laden with profits, he added, but it can stand as a powerful advertising vehicle.

To illustrate that point, he related that recently the trust officer of a huge California bank recommended Barney & Barney to a client apparently on the basis of the personal lines insurance work which the brokerage firm had performed for other bank customers.

Concurring that personal lines can contribute significantly to the prosperity of a brokerage firm, Don Martin, president, Cal-Surance Associates Inc., Torrance, said that the business must, however, be built carefully, "by a definite game plan."

"Most brokers make the mistake of coming into personal lines purely by accident," he observed. "They just let the business grow

and grow and end up asking themselves 'What have we got here?'"

Rather than allowing this to occur, brokers would be smart to set down a concrete plan of what they want to achieve in personal lines and to list the underwriters who can best bring them to these goals, Mr. Martin said.

He advised that personal lines underwriters be appraised in the light of the consistency of their track records in the line of coverage that the brokerage firm wishes to develop.

"If the game plan is to supply coverage for top executives of commercial accounts only, you must find an underwriter who is prepared to deliver steadfast, quality coverage," he amplified.

Offering personal lines coverage

to key officials of commercial clients, he added, is a business which is largely the province of larger brokerage firms.

Cal-Surance, he said, has a growing life/group department which generated over \$400,000 in commission income last year.

Estate planning, survivor care and auto and homeowners insurance are the areas of personal lines coverage that are important to Cal-Surance.

Investment planning, however, is an arena which Cal-Surance won't touch, Mr. Martin indicated, noting that few brokers are equipped to grapple with such a high risk specialty.

Estate planning, on the other hand, is a thriving segment of the agency's personal lines business, according to Mr. Martin, who said that in this area above all brokers must be sure to have high-salaried, high-quality staffers.

"No customer making \$40,000 a year," he said, "wants to listen to estate counseling from a man who earns \$10,000 annually."

At the same time, Mr. Martin said at this firm, women often are most skilled at handling personal lines coverage.

"Whoever does personal lines, however, must make it a specialty," he asserted.

Al Leatherby who heads Republic Insurance Brokers, Santa Ana, Ca., said that he wants his firm to become more aggressive in the personal lines arena.

"I've been told we have a gold mine in our files if we would only use it," he said, adding that the agency has at this point turned in a creditable performance in personal lines without really trying.

One move toward aggressiveness, he added, is the fact that as of January 1, Republic's casualty producers began to receive commissions, including production in the personal lines area. ■

Byrne . . .

Continued from page 16C

"Nobody needs 20 companies. You need four or five good ones, unless you are 10 times bigger than we are."

The agency has some policyholders of long standing. "Age gives you the chance to handle the little guy that might become a big feller," Mr. Byrne said. But there has been an 80% to 90% turnover in accounts since 1950, and all the accounts of any size are new in the last 20 years.

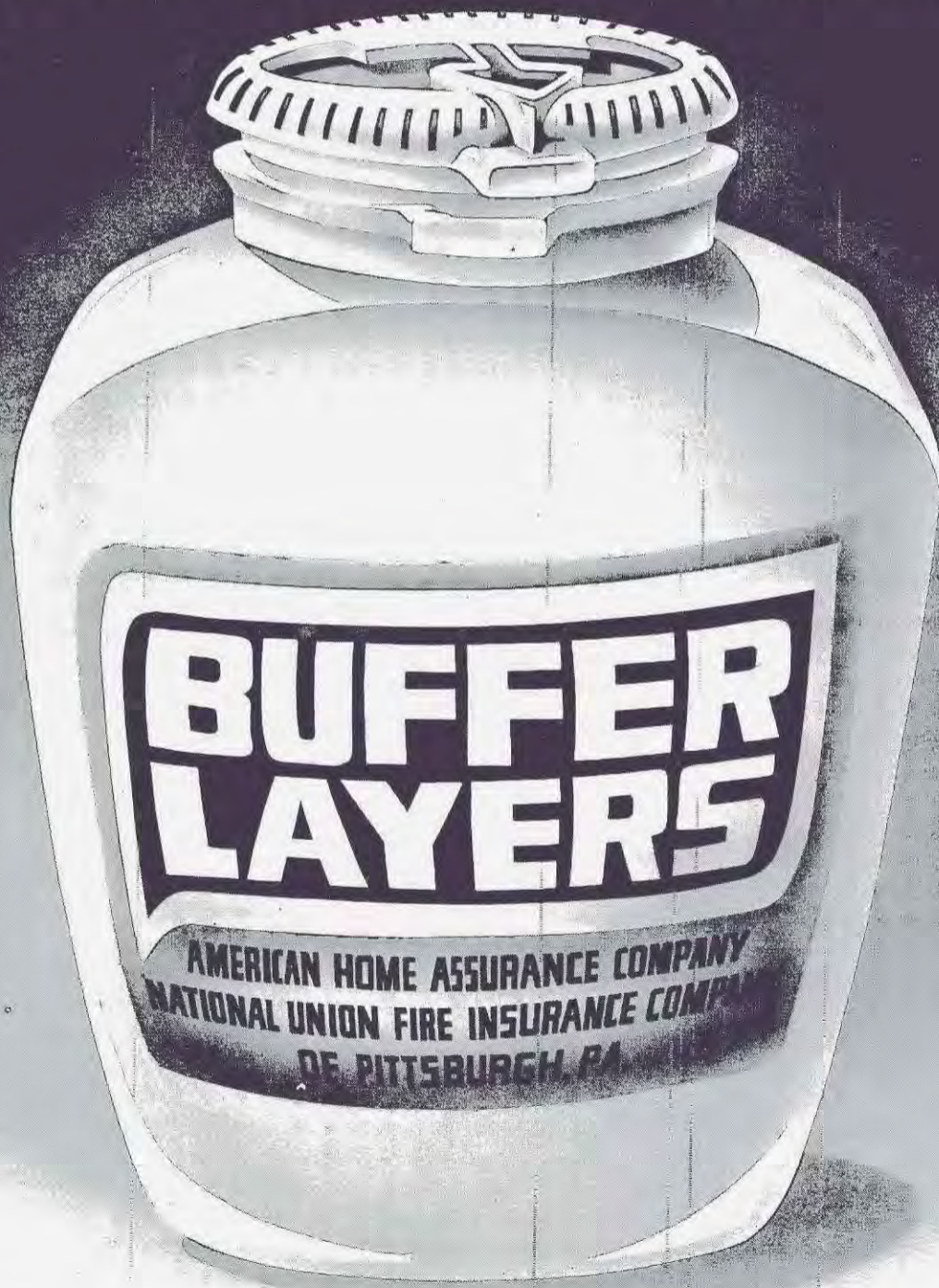
The agency's attrition rate is well under 10% a year, but, Mr. Byrne said, there seems to be a point between 10 and 15 years when a certain law takes over. It's mostly acquisitions of clients by other companies that brings change, he said, adding that it can work both ways, for or against a broker. He thinks overall that the agency has profited more than lost by acquisitions.

Personal lines, which represents about 5% in sales income, come from the agency's business accounts. There is no sales effort made, though "I have threatened to open a personal lines department," Mr. Byrne said.

"That's how the giants, like Allstate, got giant: On personal lines." Except for life insurance, 45% of all insurance sold in the country is auto, he reasons, and that's mostly personal auto.


Group insurance accounts are profitable for the agency because of the minimal service they need. An ongoing account only needs a once-a-year review. "For 20 or 30 hours work, we get \$10,000, which is pretty good," Mr. Byrne said. ■

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Problems of representing multiple insurers

Direct billing by insurers does not bring smiles to faces of producers

By PAUL R. MERRION

NEW YORK—When it comes to the daily nuts-and-bolts task of dealing with several different insurers, each with their own procedures and paperwork, most agents and brokers will agree that variety is not the spice of their lives.

And with the onset of direct billing, in which the premium is paid to the insurer without going through the agent or broker, a new set of rules and forms were necessary as each insurance company established its own method.

The problems of dealing with several different insurance companies is a concern of the Independent Insurance Agents of America (IIAA), whose members often use as many as eight markets to find coverage for their clients.

Already the IIAA has developed a uniform claims reporting form that is being used to report 95% of the claims to 31 participating companies, according to Charlie Kriss, IIAA's project operations director.

And currently, the trade group is implementing a project to make direct billing procedures and forms more understandable to producers.

Although the project is just in its infancy, Mr. Kriss said, 37 insurance companies have agreed to supply a uniformly written digest of their direct billing procedures that can be inserted in a loose-leaf three-ring binder available from the IIAA.

The eventual success of the project will depend on how many companies participate. At the Hely Agency in Margaretville, N.Y., for instance, only one company out of the five used by the agency is participating in the IIAA direct billing digest.

Nevertheless, Wayne Lawrence, an agent there, thinks the digest is useful. "It's more condensed and it's divided into specific categories," he said. "If you have a question you just flip to that section and it's there." He has been using the digest for six months, Mr. Lawrence said.

Mr. Kriss said 4,000 of the manuals, which also contain a guide on how to use them, have been shipped to agents and brokers around the country, and the association is hoping to send out another 6,000 manuals by the end of the year.

In addition, he said, one or two more insurance companies each month are agreeing to supply a digest of their procedures for the manual.

"This sort of thing just fuels itself," Mr. Kriss said. When producers start asking insurance companies for their procedures, the companies realize it would help to cooperate with our project, he added.

The problem began in 1969 when insurers started going to direct billing, Mr. Kriss said. Each company developed its own method of renewing and writing policies, with the result that there were as many systems of procedures as there were insurance companies. Under the previous agency billing system, there was only the agent's own system.

The IIAA's direct billing digest has several sections, such as "New Business" and "Policy Changes," Mr. Kriss said. The agent or broker looks up the company, finds

the appropriate section, and then finds answers to questions such as: Is cash required with the application? What forms should be used?

However, at least one agent has found that as market conditions tighten, insurers are changing their direct billing policies also, which leads to a potential problem with the direct billing digest.

"Companies are changing their procedures without making changes in their sections of the digest," said Ned Gaynor, vp, at Stanley Calkins Inc. in Cohoes, N.Y. "My special agent was looking through

the digest for Continental Insurance Co. and he found a mistake." He said Continental had raised quarterly or semi-annual premium installments from 25% or 50% to 25.5% or 50.5%, but the digest did not carry the change.

"What the companies say in the digest and what they do sometimes varies," he said, adding that he has used it for four months. "Being new, it's bound to have some bugs in it."

The official name of the manual is ACORD Direct Billing Digest. ACORD is the acronym for Agency-Company Operations Re-

search and Development, the project that started with the uniform claim reporting forms in the early 1970s, according to Mr. Kriss.

Some of the 31 participating companies are: "Big and little" Aetna, Chubb, Crum & Forster, Fireman's Fund, Kemper, Northwestern National, St. Paul, Travelers and Zurich-American.

Each company distributes its section free of charge, Mr. Kriss said, and the IIAA's binder and training guide cost \$5.

He said development of a standard claim reporting form was picked as the first project because it was "not as formidable" as other problems facing producers. The project has two goals, he said: solving the problem, and more importantly, proving that a cooperative effort between the trade group and insurance companies could succeed.

A small project staff was put together by the IIAA (formerly

known as the National Assn. of Independent Insurance Agents) and about eight claims personnel from participating companies worked with the project staff, at the expense of the insurers.

The claim reporting forms are available from the various bureaus of the Insurance Services Office, and Mr. Kriss said so far, about 150 million forms have been distributed.

Other projects in the works include a study of uniform certification, which is scheduled to be launched in the fall, Mr. Kriss said. It would, like the claim reporting forms, simplify paperwork by allowing use of one form for certifying the existence of an insurance policy, rather than using many different forms.

In addition, the IIAA plans to offer a uniform binder form by early next year, as well as development of standard procedures for determining residential replacements costs, Mr. Kriss said. ■

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In-house mini-computers gaining ground in agent automation race

CHICAGO—Now that large and small insurance agencies are catching up with insurance companies in the computer field, some insurance consultants and organizations are looking forward to a future of more computerization and less duplication.

Most insurance agents and brokers of any size have realized by now that computerization of administrative functions is a necessity, not a luxury.

But to take it one step further, a national, centralized system of computerization of claims handling, filing, and of standardized accounting services is now being planned by the Independent Insurance Agents of America through the group's Electronic Processing Information Committee (EPIC).

Another method of increasing computerized management is with the use of mini-computers—designed for those agencies requiring more feedback than a monthly accounting service can offer but perhaps cannot afford to buy or lease the large, elaborate computers.

While the national EPIC insurance computer hook-up is still three to five years in the future, mini-computers have been available to all business, especially insurance agencies for a year.

Insurance agency consultants such as Dave Hales, president of Hales & Associates of Chicago, believe mini-computers are the "thing of the future." They provide in-house service, immediate access and management information (such as which producers are doing well) which an insurance accounting service usually does not provide.

Two corporations marketing mini-computers, Burroughs Corp. and IBM, have both leasing and purchasing arrangements. Burroughs "L" series, for small agents with no more than 4,000 customers, costs \$19,000 plus about \$4,000 for programming according to a spokesman. The larger model, on the market for a year, starts at \$34,800 plus \$7,000 for program-

ming. It is designed for 5,000 to 40,000 customers.

IBM's General Systems Division has marketed its System 32 since early 1975 "for people who didn't know anything about computers." Costs for this system run from \$34,400 to \$44,400 to buy and \$840 to \$1,240 monthly for leasing. Maintenance charges start at \$165 a month.

By comparison, an IBM-3 computer cost one Indiana agent \$76,000 earlier this year, after he had leased it for three years.

According to Mr. Hales, mini-computers are "not for everybody" but he suggested that agents spending at least \$500 to \$700 a month in service bureau fees look into mini-computers.

Among the advantages of buying a computer over leasing it Mr. Hales said, are tax deductions and avoiding expensive financing charges. At IBM, programming can be done by insurance agents themselves using the Report Program Generator language. One of the attractions of mini-computers is that programs are written in conversational language that can be programmed by anyone who can type.

Another advantage of mini-computers is that they can "talk" to other, larger computers such as the ones insurance companies use and eventually, perhaps, to the national, centralized network of computers IIAA envisions.

The EPIC program is not science-fiction; several state chapters of the Independent Insurance Agents of America have already begun offering centralized accounting services.

EPIC has been talked about for two years according to the IIAA EPIC chairman Gerard TeBockhorst, but now both the agents and insurance companies are studying it.

Basically, the program would computerize all of the mechanical processes of delivery for agents, including accounting services. Ideally, there would be in-house

terminal services for every agent or at least, regional terminals for smaller ones, linking the agents to all participating insurance companies' computers.

According to Mr. TeBockhorst, the one terminal would do both accounting services as well as produce insurance company policies, store files, eliminate duplication of work between the insurance companies and the agents, and give access to company computers in rating and writing of policies.

Insurance companies are now studying the feasibility of their supporting the project, with their final report due in August. Mr. TeBockhorst said the EPIC project should begin before the various insurance companies and agents get "locked in" to their own separate systems.

Whether present computerized accounting services using different programming could tie in with any central network has not been determined yet, but he said such national firms as Systams, in Tampa, Fl. and ARC, in Bryan, Texas have been consulted.

The Independent Insurance Agents of Illinois (IIAI) just announced it will endorse a computer service firm for its agents in anticipation of the national EPIC program. Their endorsement is based on the cost of the service and how easily it will tie in with any proposed national system.

Other state associations have taken this step according to the IIAI executive manager, Roy Robinson, in Kentucky and Idaho. Georgia uses its own centralized computer programming for its agents he added.

Illinois member agents will be able to buy the service and in effect, each will use the same accounting system. The insurance companies who are studying the EPIC program include: Fireman's Fund of America, INA, Kemper Insurance Cos., St. Paul Fire and Marine; USFG, ONA, Reliance, Crum & Forster, Royal Globe and nine others.



SYSTEM DEVELOPMENT CORP.

Service bureaus quote varied prices: Survey

By JANE WINEBRENNER

CHICAGO—Though computer services for insurance agents and brokers are the most widely used form of computerization, there is little agreement on how to get the most for the money spent.

The service systems can either be strictly insurance agency oriented or a more general firm that does all types of small business accounting.

One insurance consultant felt that the bureaus specializing in insurance accounting were more expensive on a per item basis, but worth the extra money because of better accounting practices.

Each service defines its items differently but they mean basically the same thing according to Roy Robinson, head of the Independent Insurance Agents of Illinois (IIAI), which has just ordered computer services and endorsed a Houston firm.

Among the insurance-specialized computer services are ARC in Bryan, Texas; Systams, Tampa, Fl. and Rough Notes, Indianapolis, In. Rough Notes said it charges 19 cents per item and a minimum charge of \$100 monthly, plus \$100 set-up charge. Systams president Frank Bell refused to give prices or a description of their services

without a formal presentation.

Statistical Tabulating Corp. of Chicago handles all types of small businesses according to a spokesman, but has a specialized group of processors who do nothing but insurance agency work. Statistical Tabulating has a minimum fee of \$100 a month but declined to give the cost of items, saying the charge depended on the type of item.

One Chicago-area agent who uses Statistical Tabulating, however, said his item charge varies from 6 cents to 10 cents an item.

The firm said it differs from general accounting services in that it offers accounts receivable data, cash receipts, salesmen's commissions, and policy reports.

The Statistical Tabulating spokesman said their prices were set and not usually subject to negotiation. "The insurance agencies are a close knit group and we would lose our credibility if we offered one price to one agent on the third floor and another to one on the fifth."

Mr. Robinson, of the IIAI, recently endorsed the Independent Agent Center Inc. of Houston after soliciting bids from eight different insurance-specialized services. He was looking for one bureau that could easily tie in with a proposed national insurance computer system in the future.

Though he was given reduced, group rates for the Illinois agents, he still found a wide disparity in the prices quoted to him.

"All the bureaus perform basically the same functions and issue the same reports, and they all give the same information. It is a matter of services and price quotation," Mr. Robinson said.

The Houston firm, which won the state-wide project making their service available to Illinois independent agents, submitted a price that was about 20% lower than the others.

He found that the rate per item varied by only 1 cent or 2 cents, but said that this could add up over a long period. He said there was not much room for negotiation in this area. The Houston firm charged 19 cents per item.

The minimum monthly charge varied from \$90 to \$125 a month, with the Houston firm submitting the low bid of \$60, for the same services.

"Where there was room for negotiation was in how much the firm was going to charge to get on the automated system—the set up charge—and in the minimum monthly charges," Mr. Robinson said.

While the prices were cheaper because he was endorsing for a large number of Illinois agencies, it may be significant he found a disparity of prices for the same service.

PAYING PRODUCERS: HOW AND HOW MUCH?

BY DAVID HALES
Hales & Associates Inc.

SOME OF THE questions most frequently asked of us during our travels all over the country have to do with compensation—what form it should take, how much it should be for various functions and how should incentives be handled.

These are natural questions at a time when the pressures of the insurance business today are perhaps at an historical peak. Some companies are cutting commissions, technical expertise has become increasingly important to service larger risks and is harder to find, markets are hard to deal with, national brokers and captive agency companies are increasing their market penetration and some privately held firms are finding it necessary to combine with one another through merger/acquisition or loose associations in order to survive and grow.

Therefore, while members of the independent agency system have been used to a highly entrepreneurial business style where compensation has been simply so much commission for so much production, competition and economic conditions have forced the structuring of more formal business or-

ganizations and, consequently, the need for systems of formal compensation.

We'd like to be able to present some magic formula and say "here you are," but that's impossible. There are no hard and fast rules. What works for one could be a disaster for another. There are differences in the marketplace vis-a-vis the competition for people, the cost of living, the intangibles, etc. Further, what people are paid depends upon what owners want to have happen. If the stress is on new business, then a bonus plan should reward new production. If the stress is on servicing and keeping existing accounts, then the compensation should reward for that.

Further, there are differences in the operating style of insurance brokerage businesses. On the one extreme, some offices have the producer do everything—sell, rate, underwrite, place, handle claims and collect accounts. Obviously, that style does not allow for as much new business from a producer and should provide for a relatively high percentage of gross commissions in the salary structure.

The other extreme might be termed the unit system where one

executive has account responsibility but other people under his management do everything else. The unit might consist then of one producer, two associates who have regular day-to-day customer contact and two or three clerical support people. And in a larger agency, there typically will be several to many such units with administrative support furnished by a staff of people serving all production units. This system will be utilized in larger agencies concentrating on the sizeable commercial account. In each unit will usually be found some special expertise; i.e., property, casualty, bonding, boiler, benefits, etc., which expertise will be available throughout the organization where it is needed in a specific situation. Here the account executive can handle a much larger volume of business because his support staff is doing most of the nitty-gritty.

Then there is a hybrid between the individual profit center system earlier described and the unit system. In the hybrid, there will be a rating, underwriting and placement department as well as a claims and administrative department so that all producers use the same support facilities. As in the unit-type arrangement, the producer here can

handle a fairly large volume of business.

So, what should these people be paid for these various functions? I suppose our firm has evaluated in some depth well over 100 insurance brokerage firms during the four years we have been in business. While the reasons for our assignments have ranged from business combination evaluations to fair market value studies to simply an evaluation from an outside objective viewpoint, we have observed some rather common relationships between costs in the more successful of these firms.

First of all, we have seen in the more progressive organization a primary objective to obtain a stipulated pre-tax profit. Be it 10%, 25% or 30%, there is an objective. Let's use a goal of 20% to illustrate the point. Now, since costs other than payroll invariably run about 25% in most multi-producer offices, that then leaves 55% for payroll. So, if you can't spend more than this percentage for people, you will have a profit pool of about 20% to split up for bonus, special deferred compensation, shareholder return and retained earnings for future expansion.

Continued on page 16G

Compensation plan . . .

Continued from page 16F

Thus, the first rule of thumb we would offer is that fixed payroll before incentive compensation should be no higher than 55% of gross revenues. That percentage should include direct payroll, FICA and basic employe benefits. Public brokers seek that level. Looking back at the monthly reports we publish on the insurance brokerage business, we observe that Corroon & Black pays out a very low 41% of gross revenues for total compensation. Others are Frank B. Hall at 46%, Marsh & McLennan at 49%, Rollins Burdick Hunter at 51%, Alexander & Alexander at 52.6% and Fred S. James at 54%. The composite of these six large companies is 49.7%.

We have kept a running record of compensation as a percentage of gross revenues paid by commercially oriented, privately held firms whose numbers we have seen, and the composite of many companies is 52.4% before distribution of profits to shareholders and partners.

Fine. So one should seek about a 50-55% compensation to revenue ratio. How to get there, that is the next question.

Let's take the individual profit center system first. It's the easiest. From what we have observed, the total account responsible; i.e., selling and complete servicing by one individual, is worth about 35% of the commission dollar with clerical support valued at 15%. So, on a book generating \$100,000 in commissions, the producer might get \$35,000 and his two clerks would make \$15,000 between them. This then would leave \$25,000 for other expenses such as rent, phone, selling expense, etc., and \$25,000 for profit. If this is a one-person operation, then the proprietor will make \$35,000 as an employe and \$25,000 as an owner for a total of \$60,000. The production will be at 2.85 times the salary level.

Now, let's go to the other extreme—to the unit system where we might see an account executive, two assistants and three in direct clerical support. Here, we think that the pure production function should be worth about 15%. That is, the account executive should be responsible for about 6.7 times salary. The backup then should also be worth 15% of the revenues, split between two individuals. Then, the split between three clerical people would be 7.5% for direct support and 7.5% for indirect administrative facilities (billing, accounting, management) to make up a total of 45% for direct payroll. Benefits will run about 15% of payroll or 7% of gross revenues for a total compensation cost of 52% before distribution of pre-tax profits in the form of bonus or whatever.

To quantify this, let's say we have a unit doing \$300,000 in commission income. The account executive would get 15% or \$45,000. Two backup people would each earn \$22,500 and three clerks would make \$7,500 apiece. The cost of management and general administration allocable to the unit would be about \$22,500 and the benefits for the entire group representing \$300,000 in commissions would be approximately \$21,000. Adding it all up, one gets total compensation costs of \$156,000, which is 52%.

A hybrid system will have many producers relying on departmentalized support systems. Here, the account executive will have little or no management responsibility so he (or she) will have more time for pure production. Thus, the producer is enabled to handle more accounts than under

the other two systems, perhaps as much as ten times the salary level. Say you have five producers in an agency structured along these lines, and that the average producer salary is \$35,000. The total gross commission of the agency may then be as much as \$1.75 million with producers earning in the aggregate about \$175,000. Here support systems and management will earn in the aggregate closer to 40% of gross or \$700,000 in a \$1.75 million agency.

There will be more of a management structure because the account executive will not be responsible for the support units. All clerical will still be about 15%, technical support about 15% but pure management will require 10% or more.

Typically, both the unit and hybrid

systems will utilize a separate personal lines department. The commissions contribution per employe will depend not so much on the system, but rather on the mix of business between commercial and personal lines as well as the type of commercial account. The smaller the average account and the more items processed, the lower will be the revenue contribution per person employed simply because it takes more people to handle more paper. That's one reason why the national brokers primarily handling jumbo accounts have larger profit margins.

In summary then, what we are seeing in the most successful, growth oriented insurance brokerage firms is a pattern that values pure production at approximately 15% of commissions handled with technical support systems worth another 15% of business on the desk. When one person provides both, he or she is worth in the area of 30%. Clerical support is

worth 15% of commissions and fees with management participating in the results of each account executive plus other income and contingencies. Benefits run about 7% of gross revenues. This direct compensation configuration then leaves 25% for other costs of doing business and about 25% for bonus, profit sharing, income taxes and retained earnings.

When an agency has this kind of expense mix, we observe that it is being thoughtfully managed for corporate bottom line first and personal gain second. What one does with the bottom line is something else, and this subject is worthy of its own discussion.

Perhaps the plan is to make long term arrangements for perpetuation of ownership through establishment of a reserve of retained earnings or a warehouse of tax-sheltered cash through an ESOT to enable the corporation to retire shareholders interests for the benefit of minority stockholders and future key players. Or perhaps ownership wants to accomplish financial diversification currently and pays out the earnings to finance personal investment programs.

When agency ownership elects to distribute most of the earnings, using them to finance personal diversified investment programs, then ownership cannot expect the continuity of high personal income plus the same kind of value earned by a firm that plows most of its earnings back into the business. The very highly paid owner-employe is, in effect, taking out capitalizable earnings on a current basis while the organization that manages for the bottom line, retaining more earnings in the business, is willing to sacrifice some current personal earnings for future corporate worth. Is one approach better than another? Not necessarily, just as long as principals recognize the trade-offs. ■

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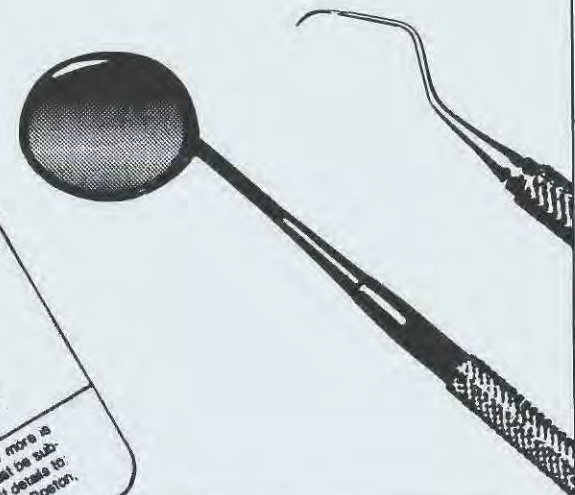
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F. B. Hall centralizes worldwide services in one unit

By MARIE KRAKOWIECKI

BRIAR CLIFF MANOR, N.Y. —As Frank B. Hall & Co. Inc. gradually passes out of its acquisition growth phase which made it the nation's fourth largest broker last year, it quietly began making some management changes designed to shift emphasis to new business as a means of growth.

One of the decisions the firm's management made earlier this year, much to the surprise of its international staff, was to combine the international services division located in midtown Manhattan with the national services division in Briar Cliff Manor.

There a single operating unit to be known as "Hall Services" would be created.

Although you could read the firm's annual report from cover to

cover and never find out that it had a separate subsidiary to run its international business, it did. With the creation of the new Hall Services, however, this separate subsidiary, called Frank B. Hall & Co. International Inc. was done away with.

In March, its employees were asked to leave their Madison Avenue offices and relocate to this upstate residential town where Hall is the only corporate citizen, and to become part of the new operating unit.

While most of the international staff stayed with the company, Eliot Pardee, its manager of international services, decided not to relocate. He accepted a position in April with the New York office of Fred S. James as an East Coast vp of its international department.

At this writing, his position at Hall has not been refilled.

By mid-June, Frank B. Hall had not yet publicly announced its combining of the national and international divisions in Briar Cliff.

However, A. Hunter Long, a Hall vp connected with the new centralization was intended to make the international department more effective, multi-faceted and better able to expand its business planning.

"We've had a great deal of success with the account approach in what was formerly our national services division," Mr. Long said, adding that this approach would now be extended to Hall's clients in nearly 100 foreign countries.

He said the switch would not affect service to any clients.

However, one of the key ele-

ments appears to be that responsibility for medium and small-sized international accounts will be increasingly directed to Hall's regional offices.

The Briar Cliff operation will concentrate primarily on the large accounts, acting as a "resource" center for regional offices needing assistance.

George E. Corde, recently made a senior vp at Hall, will be responsible for the management of large accounts, both international and national, in the newly-created Hall Services.

He reports to Colby Hewitt Jr., who has been elected executive vp with responsibility for national sales development and national technical services, in addition to remaining manager of Hall's northeastern region.

Under the old set-up, Mr. Colby, an account executive for Rockwell International and Union Carbide, and a top producer of new business for Hall operating out of Boston, also headed the international department.

The only trouble was, he had little daily contact with the New York operational staff since he was based in Boston, one insider remarked.

The idea originally was that Mr. Hewitt, described as an able manager and a "totally busy man" would spend a couple days every week in Manhattan to keep in touch with what the international services division was doing.

But because of his heavy schedule, this arrangement never materialized, and what was left was a communication gap between senior management and the operating staff.

With the move up to the Briar Cliff Manor offices, the international department is still technically under Mr. Hewitt, but it is George Corde who will handle the day-to-day responsibilities of the accounts.

Agency must be run like any business

BOSTON—A successful insurance agent must run his agency just like any other successful businessman and give individualized service, a million-dollar producer of American United Insurance Co. said in remarks prepared for the Million Dollar Round Table annual conference here.

Jon McClintock, whose average-size case with the South Bend, Ind. agency is \$75,000, told the Round Table: "It has been my experience that businessmen do business with a particular agent because they respect him as a businessman first, and as a life insurance salesman second. I spend a great deal of time with my banker and CPA, letting them know that I run my business sheet just like every other successful businessman."

This involves setting yearly goals, annual reviews, plans of action and up-to-date account servicing, said Mr. McClintock.

"I always have an agenda which goes into some depth showing him (the client) an outline of the planning that has been accomplished to date. It never hurts to re-sell a program, and to make sure that it still remains as viable today as it was a year or two ago.

"Interestingly enough, the very act of talking about planning that has been accomplished will lead you to additional sales because of changed conditions in regard his business and/or estate," he said.

The Million Dollar Round Table has as its members life insurance producers who have sold at least \$1.25 million of life insurance in a year and at least that much life coverage in each subsequent year to continue as MDRT members.

To find the markets that are ready for insurance, Mr. McClintock suggests that the man who runs a business for others and may run his own business someday is the "untapped" market.

To succeed in this, or any market, "we must know what motivates the business owner." To learn this, Mr. McClintock advises that the producer get the owner to relate what his priorities are because then "all you have to do is listen and then find a solution to his problems."

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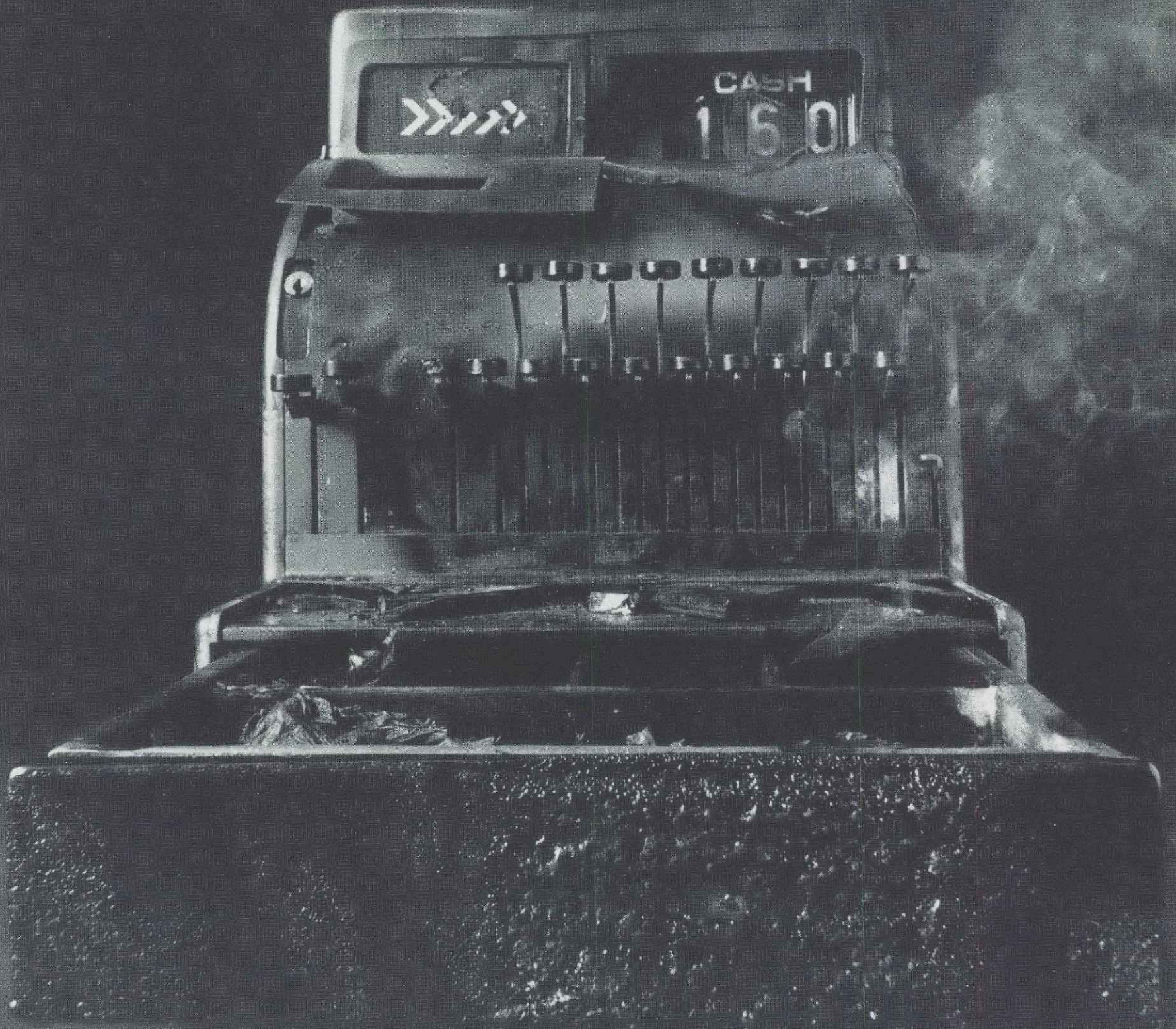
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PERSPECTIVE

FIDELITY INSURANCE: EFFECTIVE SAFEGUARD OR WASTE OF MONEY?



INSURANCE CO. OF N. AMERICA

"Unless a business knows the who, where, when, how and exactly how much relative to a theft, it probably will not be able to collect under its fidelity coverage."

By **FREDERICK E. HERNON**
President
Management Inc.

FIDELITY OR SURETY insurance was first introduced to the American business community during the latter half of the 19th Century. The first surety company in the United States was the Fidelity Insurance Co. of New York which commenced business operations on April 7, 1866. The company was formed for the purpose of insuring "the fidelity of persons holding positions of trust." Even though the Fidelity Insurance Co. of New York lasted only about a year before it closed its doors and ceased operations, there was a demand and need for fidelity insurance. That demand and need for fidelity insurance was met in the late eighteen hundreds by some of the following forerunners in this phase of the insurance industry:

- Fidelity & Casualty Co. of New York which started writing fidelity business in 1879 under the name Knickerbocker Casualty Insurance Co. of New York.
- American Surety Co. of New York commenced business on April 14, 1884.
- Fidelity and Deposit Co. of Maryland was formed in 1890.
- United States Fidelity and Guaranty Co. was formed in 1896.

Fidelity insurance has grown significantly since it was first introduced in 1866 as is evidenced by the table below. Even though the fidelity insurance field has grown significantly in the last century, it has not kept pace with the tremendous growth of American business during the 20th Century.

In 1974 alone it is estimated that over \$30 billion was lost by American business as a result of employee theft. A great portion of this 1974 business theft loss was covered by fidelity insurance. Yet in 1974 the 15 largest writers of fidelity bonds paid out in direct losses only \$123 million, an infinitesimal fraction of the total estimated theft loss. According to the booklet "Safeguards Against Employee Dishonesty in Business" published by the Surety Assn. of America:

"The fidelity bond, or honesty insurance, is a guarantee up to a certain stipulated amount against financial loss caused by employee dishonesty. The purpose of the bond is to indemnify the firm for loss of money or other property occasioned by dishonest acts of its bonded employees. The bond covers all fraudulent or dishonest acts including larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction or wilful misapplication, committed by employees acting alone or in collusion."

Now, the forementioned quotation sounds great, but it doesn't go on to say that financial loss caused by employee theft must

be proved beyond a shadow of a doubt. This is the hooker. In the vast majority of cases businesses don't know who committed the theft, much less where, when and how the theft occurred. Unless a business knows the who, where, when, how and exactly how much relative to a theft, it probably will not be able to collect under its fidelity coverage. Then why have fidelity insurance? "Safeguards Against Employee Dishonesty In Business" says:

"Insureds frequently bond their personnel not solely because of the reimbursement feature, but because, through their surety companies' records and investigation services, losses frequently are prevented from occurring, and the sureties save the employers time and money by uncovering the history of dishonesty of new employees."

As for the employees qualifying for bond, they know that they have the endorsement of the surety company which bonds them and consequently the increased confidence of their employer. They also are aware that if they default they must answer to an impersonal surety company for their defalcations, and this understanding has frequently deterred a bonded employee from taking his first misstep.

Adding up all these factors, the fidelity bond assumes an essential role, along with internal control and the independent audit, in proper management and in influencing efficient and honest employee performance."

Based on my experience, a company that depends upon a surety company's records and investigation services to do a security background investigation of a prospective employee may be just asking to hire a John

Dillinger. Take what—if anything—a bonding company gives in the way of a background investigation report, but do your own investigation if you want any meaningful information. The fact that an employee is bonded may be a deterrent to employee theft in one out of 100 cases, but I doubt it. Employees having to answer to "an impersonal surety company for their defalcations" is a joke. When there is even the slightest doubt of a dishonest employee's guilt, chances are the bonding company is going to be on the side of the dishonest employee to help break the case of the insured so that the insurance company won't have to pay the claim.

It might appear from the foregoing that I am opposed to fidelity insurance. This is not the case, except where a company has no or poor internal control and industrial security. In these instances fidelity insurance is an absolute waste of money. However, when a company has adequate or good internal control and there are reasonable prospects of detecting and proving employee dishonesty, then without question there should be fidelity coverage. In fact, in many instances the limits of fidelity coverage should be increased.

Shown below is what is said about blanket fidelity bonds by the Surety Assn. of America:

"If there are a large number of employees to be bonded, a blanket fidelity bond is recommended, of which there are two forms.

The commercial blanket bond covers all officers and employees collectively, and in the event of a loss, regardless whether one or more employees are involved, the aggregate amount collectible is the bond penalty. This bond is issued in a minimum penalty of \$10,000 and it has no maximum or ceiling.

The blanket position bond also covers all

employees, but in the event of a collusive loss the bond penalty applies to each identifiable employee involved in the loss. This bond runs from a minimum penalty of \$2,500 to a maximum of \$100,000.

Both forms of bonds automatically cover all new employees during the term of the bond without notice to the surety and without additional premium charge.

The principal advantage of the blanket position bond over the commercial blanket bond is its collusive loss feature. Obtainable in this form only, it permits recovery for the full amount of the bond on each employee identified as participating in a collusive loss. For instance, under a \$10,000 blanket position bond, where five employees acting in collusion create a \$50,000 loss, the full amount would be recoverable if all five were identified. If the guilty employees cannot be identified, recovery is still available in the amount of \$10,000 or the full penalty of the bond.

If on the other hand, a commercial blanket bond of \$10,000 were in force in this case, total recovery would be \$10,000 whether or not the employees are identified.

If a concern has a large employee exposure or could conceivably be subjected to a catastrophic loss from the dishonest acts of one employee or a group of employees, the commercial blanket bond is preferable in an amount estimated to cover possible losses. If the concern has a relatively restricted exposure and losses may be expected to run within a reasonably limited area, the blanket position bond appears the logical selection, particularly in view of its collusive loss feature.

While a blanket position bond may be sufficient for some firms and a commercial blanket bond for others, a combination of both forms may be arranged for larger firms with greater exposures. Where the

Continued on following page

LARGEST FIDELITY-SURETY WRITERS Calendar year 1974 (including direct loss experience)

Rank	Company or Group	Status*	Direct Premiums Written	% All Cos.	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio
1	Aetna Life & Cas.	A	\$ 22,836,451	11.2	\$ 23,100,155	\$ 8,515,515	36.9
2	Ins. Co. of N. Amer.	O	19,644,714	9.7	19,871,070	12,582,785	63.3
3	Hartford Fire Group	A	19,580,197	9.6	17,889,204	12,103,792	67.7
4	Fidelity & Deposit	A	15,012,406	7.4	13,643,110	7,903,482	57.9
5	Continental Corp.	A	11,316,892	5.6	12,925,466	8,773,058	67.9
6	St. Paul Cos	O	11,090,158	5.5	10,648,242	7,009,847	65.8
7	Chubb/Pacific	O	10,643,054	5.2	12,594,525	14,436,189	114.6
8	Firemans Fund Group	A	10,136,470	5.0	10,967,241	4,215,552	38.4
9	United States F&G	A	8,387,703	4.1	9,117,275	4,158,540	45.6
10	Cumis Ins. Society	O	6,449,797	3.2	4,373,933	2,400,080	54.9
11	Employers Wausau	O	5,021,135	2.5	6,798,961	6,813,892	100.2
12	Reliance Ins.	AO	4,317,815	2.1	4,357,737	2,920,137	67.0
13	Transamerica Ins.	AO	3,829,017	1.9	3,847,708	1,918,664	49.9
14	Western Surety Co.	O	3,755,576	1.8	3,654,715	116,649	3.2
15	Amer. General Group	A	3,391,321	1.7	4,144,797	1,685,010	40.7
TOTALS							
Association Rate Companies			\$119,418,085	58.7	\$120,326,879	\$ 62,526,194	51.9
All Others			\$ 83,986,778	41.3	\$ 87,397,287	\$ 60,411,063	69.1
All Companies			\$203,404,863	100.0	\$207,724,166	\$122,937,257	59.2

*A-Association Rate Company O-All Other

PERSPECTIVE

Fidelity . . .

Continued from preceding page

bond amount under a blanket position bond is \$10,000 or over, the larger firm would find advantageous a blanket position bond as primary coverage and a commercial blanket bond as excess. Thus, the blanket position bond provides basic protection against loss caused by employees acting in collusion; and if this proves insufficient, the commercial blanket bond would provide excess coverage for a larger loss, whether caused by one or several employees.

Where a number of employees are to be bonded, blanket bonds are made to order, since they offer the greatest protection for the premium dollar and compare favorably premiumwise with the more limited individual and schedule bonds. Furthermore, the danger of an unbonded loss is minimized since all eligible employees are covered to the full amount of the bond and there can be no possible failure through oversight to include individual employees under a blanket bond.

All premium rates are on an annual basis, but any fidelity bond may be written on a three-year premium plan. If fully paid in advance, there is a reduced term premium, thereby effecting a substantial saving in the cost of the coverage which is reasonable enough to begin with."

How much honesty insurance is required by a business? There are many ways to calculate the insurance requirement, but one good approach is to determine exposure by business function and job classification within the function. As an example, in a relatively good sized purchasing department there may be classifications such as clerical, expediting, assistant buyers, buyers, purchasing agents and director of purchases. What is adequate fidelity coverage for a clerk is in no way sufficient to cover the exposures in a direct buying position. The same thing applies in accounting, traffic, credit, EDP, warehousing, sales and so forth. If a company is going to purchase fidelity insurance, it should purchase it in sufficient quantity and as a result of a detailed determination of its requirements. Do not underinsure! The tabulation on this page points out the problem of underinsurance:

As in most contracts and agreements everything contained therein should be read and understood; the same applies to fidelity bonds. However, there are a few

clauses in fidelity policies that seem to require special attention. Some of these clauses that may require special consideration are as follows:

1. *Salvage clause.* It is suggested in most instances that "full salvage" be present in the fidelity policy. This will allow all "salvage" to accrue to the insured until the entire loss is paid.

2. *Notification by insured of defaulting employe.* Make sure the notification is "as soon as practicable." Otherwise a valid claim may be disallowed on this technicality.

3. *Insuring clause.* It is recommended that the coverage not be for specifically mentioned crimes, but rather "any dishonest or criminal act."

4. *Cut-Off clause.* The insured should negotiate a lengthy cut-off period such as three years. This will allow an adequate discovery period for defalcations.

5. *Automatic or temporary automatic coverage of new employes* is in most cases a good clause to have incorporated in the policy.

6. *Previous Dishonesty clause.* When an insured acquires knowledge or information that an employe has committed a dishonest or fraudulent act (past or present) then at the time of discovery fidelity coverage of that employe terminates.

7. *Continuity of Insurance clause or Succeeded Suretyship rider.* Make sure that one of these two elements are present whenever new or modified coverage is acquired.

When evaluating existing fidelity coverage or considering new fidelity coverage, the legal arm of a company should be consulted. Some of the cases a lawyer should consider reading when involved in this activity are shown below:

"Ciancetti vs. Indemnity Insurance Co. of North America, 355 Pac. (2nd) 1048."
"Maryland Casualty Co. vs. Clements, 1971 C.C.H. (Fire & Casualty) 1172."
"Lumbermens Mutual Casualty Co., vs. Renault-Bailey-Chechy Lumber & Supply Co., 1968 C.C.H. (Fire & Casualty) 518."
"Meyer Jewelry Company vs. General Insurance Co. of America, 1968 C.C.H. (Fire & Casualty) 545."
"Traders State Bank vs. Continental Insurance Co. 448 Fed. (2nd) 280, 1971."
"Gillette Co. vs. Travelers Indemnity Co., 365 F (2nd) 7."
"Gotcher Engineering & Manufacturing Co., Inc. vs. United States Fidelity and Guaranty Co., 12 C.C.H. (Fire & Casualty) 1338."
"Wall vs. National Surety Corp., 11 C.C.H. (Fire & Casualty) 1028."

There are many more cases that could

UNINSURED LOSS (by business and employe)

Business	Employe	Loss	Bond	Uninsured Loss
Wholesale Produce	Bookkeeper	\$ 185,820	\$ 25,000	\$ 160,820
Dress Manufacturer	Dept. Manager	43,000	20,000	23,000
Plumbing Supplies	Warehouseman	17,000	2,500	14,500
Retail Dairy	Office Manager	11,000	2,500	8,500
Furniture Dealer	Credit Clerk	22,000	5,000	17,000
Coal and Ice Co.	Bookkeeper	28,240	5,000	23,240
Wholesale Grocer	Salesman	29,345	12,500	16,845
Hospital	Chief Clerk	15,000	5,000	10,000
Paper Mill	Paymaster	45,000	10,000	35,000
Public Utility	Treasurer	99,139	25,000	74,139
Machinery Mfr.	Sales Manager	96,940	50,000	46,940
Export-Import	Bookkeeper	65,891	20,000	45,891
Department Store	Several	81,000	15,000	66,000
Meat Packer	Superintendent	43,404	10,000	33,404
Automobile Dealer	Distributor	98,700	50,000	48,700
General Mdse.	Cashier	22,000	3,000	19,000
Heater Mfr.	Manager	30,000	10,000	20,000
Refrigerator Mfr.	Cashier	20,810	5,000	15,810
Rubber Mfg.	Bookkeeper	126,700	26,000	100,700
Steamship Company	Asst. Cashier	65,000	1,000	64,000
Advertising	Billing Clerk	90,875	10,000	80,875
Auto Dealer	Bookkeeper	31,361	10,000	21,361
Department Store	Floor Manager	18,500	10,000	8,500
Foundry	Bookkeeper	36,000	7,500	28,500
General Mdse.	Manager	15,200	10,000	5,200
Grain Dealer	Elevator Manager	26,306	10,000	16,306
Hardware	Credit Manager	40,871	10,000	30,871
Mfr. Radio Tubes	Several	48,000	20,000	28,000
Novelty Mfr.	Shipping Clerk	34,696	12,500	22,196
Oil Drilling	Supervisor	30,882	10,000	20,882
Paper Products	Warehouseman	25,551	15,000	10,551
Rubber Products	Office Manager	150,500	25,500	125,000
Tobacco Products	Bookkeeper	43,000	10,000	33,000
Wholesale Grocers	Cashier	52,348	10,000	42,348
TOTALS		\$1,790,079	\$473,000	\$1,317,079

be cited relative to fidelity coverage, but the foregoing will give the lawyer a good idea of what and what not the company's fidelity policy should or should not include.

When it comes time to file a fidelity insurance claim with the carrier, be sure all the facts are known and properly presented; just as if these facts and their presentation had to withstand the scrutiny of a court of law. Remember, there must be a preponderance of evidence and not just suspicion. Know and understand all the terms and conditions of the fidelity bond. Otherwise the case could be thrown out by the

insurer on a technicality. In some of the larger companies there are experts who prepare fidelity claims frequently, and chances are they will never miss a trick in filing a fidelity claim. Where this expertise is not present in an organization, a company should not hesitate to employ attorneys, accountants and industrial security specialists who are experienced in this activity.

With the presence of good internal control and industrial security, fidelity insurance in the right amounts and in the right places is an excellent safeguard for the protection of assets.

RISK MANAGEMENT NOTES

What are limitations on public adjusters?

By WARREN, McVEIGH,
GRIFFIN & HUNTINGTON

risk management consultants
San Francisco—Newport Beach

A LICENSED casualty adjuster in Pennsylvania provided adjusting services for injured parties for a contingent fee of 10% to 20% of a settlement. He made investigations, estimated the damages, followed up with the tort-feasor, and negotiated settlements. He did this on the assumption that liability existed and when liability was contested, he withdrew in favor of an attorney.

The Pennsylvania Supreme Court decided that this constituted the practice of law and could be done only by an attorney. Some of their reasoning is as follows:

"Even when liability is not technically contested," an assessment of the likelihood that liability can be established in a court of law is a crucial factor in weighing the

strength of one's bargaining position. A negotiator cannot possibly know how large a settlement he can exact unless he can probe the degree of unwillingness of the other side to go to court.

Such an assessment, however, involves an understanding of the applicable tort principles (including the elements of negligence and contributory negligence), a grasp of the rules of evidence, and an ability to evaluate the strengths and weaknesses of the client's case vis a vis that of the adversary. The acquisition of such knowledge is not within the ability of lay persons, but rather involves the application of abstract legal principles to the concrete facts of the given claim. As a consequence, it is incapable that lay adjusters who undertake to negotiate settlements of the claims of third party claimants must exercise legal judgments in so doing."

The court then goes on to say:

"The conduct of litigation is by no means

all of legal practice. A lawsuit is but one process of settling an issue of legal right and wrong. Many are disposed of without suit. But the disposition of such issues for others, by advice and a negotiation, for hire, is as much the practice of law as though process and pleadings, with or without trial, were necessary."

The decision does not affect adjusters working for insurance companies, but if this reasoning is carried to its logical conclusion, it could affect adjusters representing companies self-insured in public liability. One reason for having skilled adjusters handle claims is to be able to act promptly with the exercise of judgment at the scene, with knowledge of all the human and practical considerations, which often outweigh legal aspects. Those familiar with liability claims adjusting usually prefer to negotiate settlements without attorneys because of the immensely greater complications and costs in-

involved in legal skirmishing.

No doubt there is need for the legal skills and knowledge of subtleties of the law that can be obtained only from an attorney. On the other hand, from a practical standpoint, a high percentage of cases can be well handled by skilled claims adjusters. A delicate balance is necessary between the more refined legal niceties necessary for the highest measure of justice and the practical necessity of achieving settlements without excessive cost or prolonged haggling. The contest is between those who wish expeditious settlement with minimum recourse to the law and the attorneys, who would like to see their greater sophistication in legal contests be more widely applied. In this contest, the decision is being made by one of the parties at issue—the attorneys.

It will be interesting to see how far this concept of claims adjusting will be followed. The case is that of Dauphin County Bar Association vs. Mazzacaro, 351 A. 2D 229. ■

benefit tax slants

Freeze trust for terminating workers to retain their favorable tax status

By JOSEPH S. ROBINSON
Attorney-at-Law

THE TERMINATION of an ever-increasing number of qualified retirement plans has caused employe benefit managers to reexamine the various methods for distribution to participants. The trouble is that when assets are turned over to the recipients at the time of termination, it usually results in the loss of tax deferred benefits to them. Consequently, alternative approaches are being explored which can retain favorable tax treatment for covered employes.

One way is to leave the trust "frozen" until employes retire at which time they can get a better tax break on payouts of their account. In this connection, approval of the Pension Benefit Guaranty Corp. should be obtained.

Another choice is to purchase nontransferable annuities with the "frozen" fund and distribute them to the plan participants. But the annuities must be a bonafide annuity contract—not a life insurance contract. Otherwise, the employe will be hit immediately with a tax.

An alternative route is to have the employe's vested account deposited in an IRA set up by the latter. There's a new law which allows the tax-free rollover from terminated retirement plans to an IRA even though employes receiving such payouts continue to work for the same employer. The new tax break applies to payments to an employe of his entire balance from a terminated qualified plan that has advised IRS that all contributions have been completely discontinued.

Medical reimbursement plan for officers of a closely-held company wins court approval. A corporation had a medical plan for its officers under which it paid more than \$200,000 in medical bills for its president over a six year period

Establish deductibles, extra layers

BALTIMORE—Product liability will shortly eclipse the medical malpractice of 1975 as an even more severe test of the tort liability system, a panel at the Insurance Services Office (ISO) seminar here earlier this month agreed.

George A. Stewart, vp, United States Fidelity & Guaranty Co. suggested as remedies the establishment of deductibles together with the marketing of additional layers of insurance coverage.

He also said the industry must pursue legislative proposals to cap jury awards, limit attorney contingent fees and eliminate punitive damages.

Charles P. Bundy, state-national director for the Independent Insurance Agents of Maryland expressed concern that over-reaction to the product liability problem might lead to further government encroachment into the voluntary market. Federal flood and crime insurance programs set up in recent years are examples of such encroachment, according to Mr. Bundy.

following a stroke. He and his wife, (the firm's vp), together owned 80% of the company stock. Their daughters owned the balance, but only one of them was an officer. The plan covered all uninsured medical expenses. Ten employes, other than the president, had a separate group insurance policy.

When the government sought to tax the medical payments made to the president as dividend income under the theory that this was no true plan for employes, the Tax Court agreed. However, a Court of Appeals overturned the decision holding that a medical plan can be

established for a class of employes such as officers. Thus the payments to the president weren't taxable income to him. (*American Foundry, Ct. of App. 9th Cir., 4/23/76*)

Dental insurance is the fastest-growing fringe benefit provided by employers today. This dramatic development has been confirmed in a recent survey by The Conference Board, a business research organization: Three hundred banks, insurance companies, manufacturers, and major corporations out of a total of 1,500 that were included in the study now have such cover-

age. In 1972, only slightly more than 100 of these same firms included dental insurance in their benefit programs.

The average cost per employe, according to the Conference Board survey, came to nearly \$11 per month. However, a dental plan need not necessarily be prohibitive; its costs can be shaved by placing limitations on coverage. Such cost-reducing items as coinsurance, deductibles, and maximum benefit ceilings will affect the overall rate.

An IRS survey finds the following most common reasons for holding up rulings on incomplete employe plan determination applications:

1. EIN missing; 2. three-digit plan number missing; 3. form not signed by applicant; 4. wrong form or no form used; 5. form not filed in duplicate; 6. Form 5302 (Employe Census) not attached; 7. line asking for total number of participants not completed. 8. restated

plan or working copy of plan not furnished where (a) plan has been amended for the first time to conform to ERISA participation and vesting standards, or (b) plan has been amended at least three times since the last restated plan was submitted; 9. specimen copy of formal announcement containing description of plan to employes not attached to application; 10. applicant failed to include evidence of compliance with one of the three vesting nondiscrimination tests.

The treasury wants the states to help regulate private pension plans. It doesn't feel up to the job of enforcing the new federal pension law and is saying so... especially to state tax administrators.

One state has already passed its own pension law. That's Georgia. IRS hopes you'll see a lot more states get into this new game. But it's doubtful that many employers are looking forward to the prospect.



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Fire-bombed firm back in business

SAN FRANCISCO—An arson-caused explosive fire which gutted the San Francisco truck terminal of Associated Freight Lines, target since May 3 of a strike by 15 Teamsters' Union locals in California and Nevada, will cost Los Angeles-based Atlas Assurance Co. some \$500,000, minus a \$1,000 deductible.

The fire also destroyed approximately \$30,000 in 40 shipments of

mixed interstate cargo, also insured by Atlas. Home Insurance Co. will pay the loss on seven fire-ruined truck-trailer rigs, five tractors and two flatbed trucks. Associated's deductible for vehicle insurance with Home is \$10,000 per loss.

Some 42 years of non-violent strikes in this city were blasted by the four-alarm Associated fire in late May, first reported 12:25 a.m.

by Associated's security guard after he had heard a "loud explosion" at the east end of the truck terminal.

San Francisco Fire Chief Andrew Casper and Fire Department Arson Inspector James Mahoney, both vehemently agreed that "this fire very definitely was arson. It will be thoroughly investigated as such."

Ray Talavera, president of Teamsters' Union Local 85, indignant and upset, said "we have just as keen an interest as the police and fire departments in finding out who was responsible for the Associated fire. We just do not condone things like that."

"Our strike against Associated," Mr. Talavera added, "has been very effective and there just is no need or justification at any time under any circumstances to pull a thing like that."

Associated, which grosses more than \$10 million a year hauling over 200,000 tons of general commodities, covers 7,000 miles of routes in Arizona, California and Nevada.

San Francisco police reported that the FBI had received information that "the company was going to be bombed over the weekend" just prior to the \$500,000 fire.

Cargo volume for Associated is now a third of what it was prior to the start of the strike. Associated previously did a business of about \$60,000 a day; it is down to about \$20,000. The company's loss for May, exclusive of the fire damage, was \$500,000 and, according

to president John A. Pifer, security costs alone have exceeded \$100,000.

In an unusual step taken "in order to remain in business," Mr. Pifer is now utilizing his long association with the two insurance carriers, Atlas and Home, in a widespread appeal for support of West Coast shippers.

"During the few brief negotiating sessions we had with the Western Conference of Teamsters," Mr. Pifer is now telling freight shippers, "it became obvious that the Teamsters were not interested in bargaining but wishes instead to simply force us into signing a national agreement."

"That is something to which we will not voluntarily agree," Mr. Pifer insists. "Associated is now back in business."

"All of the merchandise moving in our system is fully insured, with one of the nation's biggest and strongest insurance carriers, Atlas, and all of our vehicles are similarly insured, by Home Insurance."

(Some might consider it an amusing irony that one claim against the vehicle insurance was to pay for damages which occurred when a newly hired Associated driver, perhaps understandably nervous in his first day on the job, struck and slightly damaged a portable toilet the Teamsters had rented for use on its Los Angeles picket line outside the Associated terminal there. It was occupied at the moment of impact but the occupant suffered no injury.)

"In the interest of providing a safe place for our employees to work," Mr. Pifer continued, "we have assigned two men to each truck, with the rider carrying a camera and operating a two-way radio. Guards also are on duty at

each of our terminals.

"We also have engaged roving professional photographers, equipped with portable video tape devices, to help prevent injuries to our people, damage to our equipment or commotion at our customers' docks."

Mr. Pifer's appeal to customers, based on the "security provided by cargo insurance" was described by Dud Morgan, of Whitney & Baird, San Francisco insurance brokerage, as "gusty and innovative."

"In spite of the violence Associated has suffered," Mr. Morgan said, "and, now, the substantial claims the two insurance carriers will have to pay, the carriers, Atlas and Home, are far from running scared and we face no problems in continuing the insurance coverage."

Arranged for Associated by Whitney & Baird on a combined rate deal, the trucking firm's insurance premiums now approximate \$500,000.

Ben Joyce, Associated's manager of safety and claims prevention, is concerned only with the possibility that the San Francisco fire and "violence-caused losses" at other terminals may damage the extremely low claims loss ratio he has achieved.

"By the end of 1973, under normal operating processes," Mr. Joyce recalls, "the monthly average of claims had jumped to 425 and totalled \$184,000. That claims loss represented 1.53% of our 1973 revenue, slightly above the truck industry average of 1.5%."

"In the first quarter of 1974, when it jumped to 2%," Mr. Joyce said, "we went all out to institute loss control measures. We succeeded and the loss ratio by 1975 had been whittled down to 0.73%, which is less than half the industry average." ■

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Insurers study foundry explosions caused by alloy casting process

LONDON—Industrial plant insurers in the U.K. are waiting for further details of a safety survey into the risks of blasts at foundries where metals are being cast.

The survey will be of wider importance because there have been five catastrophes in the U.S. where aluminum plants have been wrecked.

Research into these explosions has been started at Aston University, near Birmingham, where safety experts have been probing the cause of explosions during the "continuous casting" process used for aluminum alloy materials.

Bill Simpson, chairman of the British government's health and safety commission, recently told plant operatives: "World interest is being shown in these catastrophic explosions. Till now many people thought that only aluminum was dangerous, because of its chemical reaction in certain circumstances."

"But continuous casting is a process which is now being used in various metal industries, including steel and copper, and there is more and more evidence that these violent blasts are physical in origin."

"It seems there is a risk of explosion when any two liquids of dissimilar temperature are mixed, if the hot liquid is above the boiling point of the cooler liquid."

"The preliminary findings are important, but there is a great deal of research work still to be done, so the Government will finance a further project into this problem in the hope of getting more details. There is a lot of research going on into this situation, especially in the U.S."

Problems which will hit the insurance market over the massive \$1.5 million award to the Kween children in the California DC10 lawsuit have been reviewed in Britain by one of the lawyers closely concerned with the situation.

He is Denis A. Marshall, of the law firm of Barlow, Lyde & Gilbert, which has been involved in the case from the British end on behalf of Lloyd's underwriters and other interested parties.

Contacts with the McDonnell Douglas legal team are also among his activities, so that he is able to analyse the future issues of product liability with detailed knowledge.

Summing-up the outcome for the aid of attorneys in the English Law Society, he commented: "It appears likely that where U.S.-made aircraft crash in future, claimants will automatically claim on the high scale applied by the U.S. courts."

"If this is so, underwriters will have to raise premiums to aircraft manufacturers to cover this liability. But wider questions flow from this. For if claims against U.S. manufacturers are going to be larger than, for example, U.K. manufacturers, merely by the chance location of the plant involved in producing a crashed aircraft, does this in any way constitute unfair competition?"

"Additional costs will fall on the manufacturer with the highest insurance exposure. But large as the capacity of the insurance market is, it is not unlimited. If several aircraft made by the same manufacturer crash in one year, there might be a shortage of coverage available for that firm. Who will then step in to help the victims?"

Mr. Marshall asked if it was

right that compensation should vary from one country to another, just because of the place where the aircraft was made. This was a question that must be resolved in the public interest, he said.

John V. Allen, legal adviser to the Society of U.K. Aerospace Cos., said both manufacturers and insurers are now facing an "open ended" exposure because of the California legal situation.

A U.K. manufacturer, for example, could now be joined with the prime manufacturer is a potential U.S. lawsuit just because he had made one component, and this

could lead to involvement in judgments far higher than he had expected with normal insurance cover in his own country.

The insurance market "might contract or disappear" if this happened, he predicted, suggesting it is time for governments to step in with catastrophe insurance protection.

Talks had begun in Europe along these lines, he added, in the hope of providing extra aviation coverage for catastrophes in the same way that various governments had agreed to provide additional nuclear cover in the event of major

disasters.

Roy Beldam, another British lawyer, expressed the view that if the DC10 lawsuit had been lodged in English courts, it would have led to a top award of \$80,000 being given to the Kween children under British laws, because they are far more restrictive than U.S. courts on compensation principles.

* * *

Efforts are being made to introduce no-fault auto insurance into Britain where lawyers still operate on a system of proving liability before claims are settled.

Parliament has been studying no-fault developments in many parts of the U.S. and has sent a government-appointed commission to study its workings in various states.

Though some M.P.'s have been demanding early moves to bring it into operation, it is now felt that it will be at least two years before there is any real chance of it being adopted.

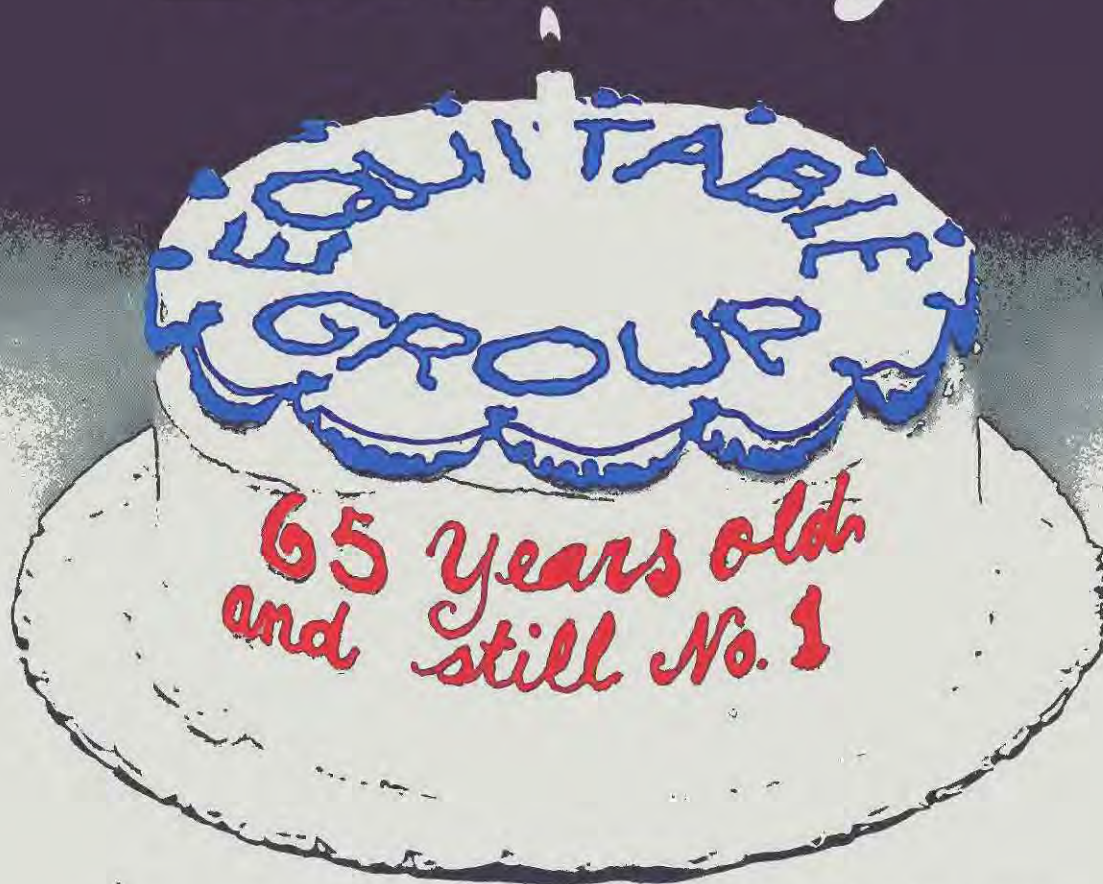
A report on its effects both in the U.S. and in Europe, as well as in Canada, Australia and New Zealand, will be presented to Parliament in 1977.

Then there will be a big debate on the merits of abandoning the traditional British system of litigation for liability, which has worked satisfactorily for so many centuries as there is no contingency fee scheme for lawyers in Britain.

Conservative M. P. Graham Page, however, believes there is a rising trend in auto liability claims which is costing \$80 million a year in court inquiries.

He has surprised insurance companies by arguing that no-fault would mean savings in many directions, but they oppose this on the ground that unlimited liability could run them into heavy losses. Underwriting profits of commercial insurance companies in Britain have been running at the low rate of only 0.4% on premium income of \$1 billion a year.

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Candidates express insurance views

Oppose no-fault, differ on health care

LONG GROVE, IL.—Contenders for the Democratic and Republican Presidential nominations oppose federal no-fault legislation but differ widely in their views on the need for national health insurance.

Responding to queries published by the public affairs newsletter of Kemper Insurance Cos., Jimmy Carter, the apparent Democratic front-runner, Ronald Reagan and President Gerald Ford expressed their opinions on a variety of insurance-related subjects.

All three favor state regulation of no-fault automobile insurance.

Mr. Carter said, "I believe that the decision on no-fault automobile insurance should be left up to the individual states."

A spokesman for President Ford said, "While the President is in favor of no-fault insurance, he is also in favor of more state regulation than federal regulation in this area."

"Without Federal intrusion, many states have been developing no-fault insurance laws, using a similar model no-fault law," Mr. Reagan noted. Others may not find the no-fault approach desirable. The matter should be left for the states to decide."

Mr. Reagan also voiced his opposition to federal workers' compensation legislation, noting, "The states should be commended for their own efforts at reforming workers' compensation laws."



James E. Carter

Mr. Carter said the question of federal workers' compensation legislation is now under study by a Carter task force on human welfare. When the recommendations of the task force have been reviewed by me," he continued, "I will make my position clear."

President Ford did not respond to the question on federal workers' compensation legislation.

Mr. Carter expressed support for a national health insurance plan, while both Mr. Reagan and President Ford voiced their opposition.

"I have not endorsed any proposals now pending before Congress," Mr. Carter said. "I have outlined my own proposal for national health insurance which includes: Universal comprehensive coverage; increased access to care; emphasis on preventative medicine; strong cost and quality controls."

Other aspects of Mr. Carter's proposal include: "Preservation of maximum personal interrelationships between doctors and patients and freedom of choice in the selection of a physician and treatment center."

"The program should be funded through a combination of general revenues and employer/employee payroll taxes," Mr. Carter believes. "We cannot realistically afford



President Gerald R. Ford

federally dictated national health insurance providing full coverage for all 215 million Americans," said the spokesman for President Ford. "The experience of other countries raises questions about the quality as well as the cost of such plans. But I do envision the day when we may use the private health insurance system to offer more middle income families high quality health services at prices they can afford and shield them also from catastrophic illnesses."

Mr. Reagan said he doesn't believe compulsory federal health insurance "would improve the quality and quantity of health care available to the American public."

"Nearly all Americans who want health coverage have it available by means of private insurance policies, group policies, Medicaid and a myriad of state and local health programs," Mr. Reagan said. "From our experience of federal involvement in the health care area through Medicaid and Medicare we know that health costs have skyrocketed as the government has intruded."

The candidates were also asked if individual communities should be forced to adopt stringent federal land use standards before residents of those communities can qualify for participation in



Ronald W. Reagan

the federal flood insurance program.

The spokesman for President Ford said the President "feels that state and local units of government could make better decisions as to land use than could the federal government."

"The federal flood insurance program should not be used to coerce communities into adopting federal land use standards," Mr. Reagan stated.

Mr. Carter has not taken a position on the issue.

All three candidates favor continued regulation of the insurance industry at the state level.

Mr. Reagan said that "by the nature of state regulation we end up with more diversity and opportunities to try various approaches to the insurance needs of consumers."

"The more competition that results," he concluded, "the better will be the quality and the variety of insurance for the consumer."

President Ford's spokesman stated, "The heavy hand of government has found its way into far, far too many areas of our national life. If there is one thing we must never lose sight of, (it is) that a government big enough to give us everything we want is a government big enough to take from us everything we have."

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OSHA sees advocate role emerging

ATLANTA—The emerging role of the Occupational Safety and Health Administration (OSHA) is that of an advocate and architect of balanced safety programming, emphasizing safety training in industries throughout the country. This view was expressed by Dr. Morton Corn, Assistant Secretary of Labor for OSHA at the Professional Development Conference sponsored by the American Society of Safety Engineers (ASSE) here earlier this month.

The creation of an occupational health paraprofessional corps and greater coordination of effort between OSHA and other federal agencies are major goals, Dr. Corn said.

Since taking office Dr. Corn's top priority has been to investigate and set standards regarding "well known hazards relating to chemical and physical agents which may effect employee health at work," he said.

In another session of the ASSE conference, James R. Jensen, manager of General Electric Lighting Institute blamed insufficient lighting as the cause of 5% of all industrial accidents each year.

Mr. Jensen said that figures from a recent National Safety Council report indicate that poor illumination and resultant eye fatigue play a part in an additional 20% of industrial accidents.

"Of all aspects of environment, there is evidence that lighting is one of the most important to people," Mr. Jensen said.

He suggested that it may be necessary to re-examine the OSHA recommendation of 1/2 foot candle level for safety lighting in certain areas.

"Tests have indicated that when employees are adapted and accustomed to a given light source they have no particular difficulty recognizing standard safety colors down as low as five foot candles. At the 1/2 foot candle level there is difficulty in identifying colors under some light sources," Mr. Jensen said.

Glare is another major factor in accident prevention, he continued. "Reflected glare or bright images reflecting into the eyes from shiny surfaces can be a problem in many industrial operations. The glare problem often results in seeing difficulty, eyestrain and fatigue and

accidents."

Although lighting may be adequate when initially installed, illumination often falls rapidly below safety minimums. "The lamps themselves depreciate in light output overtime; dirt accumulates on fixtures, lamps and room surfaces and outages occur."

"A simple periodic cleaning and maintenance program will assure maintaining an adequate light level with originally well designed systems," he concluded.

Adjusters to Guam

Nine adjusters from the United States have been sent to Agana, the capital of Guam, to handle losses from a typhoon striking the area. The Underwriters Adjusting Co. is coordinating claim assignments for insurers and brokers through Ernest Brinkman, assistant secretary, Underwriters Adjusting Co., 224 S. Wacker Drive, Chicago, Ill. The mailing address in Guam is Stan Posten, executive general adjuster, c/o Guarantica Inn, P.O. Box 144, Agana, Guam. Flooding and power outages have caused damage in the Mariana Islands.

\$1.5 million award results in bakery shut-down and suit against insurer

SAN FRANCISCO—Refusal of a world-renowned insurance company to approve a \$500,000 out-of-court settlement offer, which then escalated into a \$1.5 million award to a four year old child injured by a bakery truck, is blamed for the loss to San Francisco of a 78 year old tradition, Larraburu Bakery's sourdough French bread.

The bakery and the sourdough "starter" responsible for its international fame originated in 1898, when John and his brother St. John Larraburu opened their first bakery here.

Announcement nearly a year ago of the huge damage award to Terry Lee Spears, who suffered irreparable brain damage, paralysis and blindness in an April, 1972, street accident involving a Larraburu delivery truck, coupled with news that the bakery's insurance policies had limits of \$1.2 million, triggered a costly "creditor's run" on the company.

"The result," explains bakery president Harold Paul Jr., whose father, Harold Sr., 78, is board chairman, "was a series of financial pressures which finally became just too severe for us to withstand."

"Currently," Mr. Paul said, "we have no money, no flour, no bread sacks, no wrappers and no sources of financing and we must close down the business."

At the time of the 1972 accident, Larraburu's primary insurance was provided by Royal Indemnity Insurance Co., one of the worldwide Royal Globe companies. Excess coverage was provided by Mission Insurance Co., with a limit of \$1 million. In pre-trial conferences, attorneys for the injured child indicated that they would settle the case out of court for \$500,000.

"At that point," explains John W. Herron, attorney for Larraburu, "the primary carrier rejected the settlement offer, in spite of documented efforts by Mission Insurance to get Royal Globe to cede its interest."

Mission, it seems, was willing to pay half the suggested \$500,000 settlement. The most that Royal Globe would agree to was \$75,000. Just as the case was about to go to the jury in Superior Court here, Royal Globe indicated it would settle for \$250,000.

The jury came in with an award of \$1.5 million for young Spears.

On a motion for a new trial, the trial judge granted the motion, conditionally, and reduced the jury award to \$1.25 million which, with accumulated interest, amounted to \$1.5 million, was accepted by Spears' attorneys.

Royal Globe ended up paying a total of \$550,000 and Mission Insurance paid \$1 million.

Mission now has pending a lawsuit against Royal Globe, in an effort to regain at least part of the \$1 million it paid.

Larraburu also filed suit for \$25 million against Royal Globe, on the basis that "the insurance carrier's unwillingness to accept the earlier settlement offer and the resultant widely publicized jury award started our financial difficulties ending with complete liquidation of the bakery."

The Larraburu suit, seeking \$20 million in punitive damages from Royal Globe and \$5 million for loss of the business, will go to trial September 27 in U.S. District Court at San Francisco.

"There is a long-standing concept, recognized by law," explains Mr. Herron, "that inherent in any

insurance contract is a covenant of good faith and fair dealing. This means that policyholder and insurance carrier each must act toward the other with good faith."

Royal Indemnity is charged in the Larraburu suit with breach of this covenant in its failure to accept the out of court settlement offer.

"At the time of the accident," Mr. Herron pointed out, "the concept of contributory negligence was law in California but that concept did not apply to any injury party under the age of five."

"There were witnesses to the accident and police photos disclosed that stacks of bread could have obstructed the truck driver's

vision. It seemed obvious that attorneys for the injured child could make a good case in court.

"Thus," Mr. Herron continued, "it also was obvious that the pre-trial offer to settle for \$500,000 was reasonable and within the covenant of good faith and fair dealing. We contend that Royal Indemnity acted unreasonably in rejecting the offer."

Spokesmen for the insurance carrier at San Francisco have denied the Larraburu charges of "bad faith" and have indicated "we will fight out the case in court next September."

"We fully intend to fight every inch of the way for that \$25 million," Mr. Paul said, "which we will use when awarded and paid

to us to put Larraburu back into the business of baking our long distinctive French sourdough bread."

The bakery operated a fleet of 40 delivery trucks and eventually employed as many as 40 sourdough bakers.

In the 1960's Paul pioneered the idea of selling Larraburu sourdough French bread at local San Francisco Bay Area airports, for tourists to take home with them. The bakery made more than 200 air mail shipments a week, sending its French bread to Guam, Honolulu, Saipan, Tokyo, Frankfurt, Germany, London and even to Paris. Single shipments were made to every U.S. state and bulk orders often were filled for customers outside California, including some famed New York restaurants.

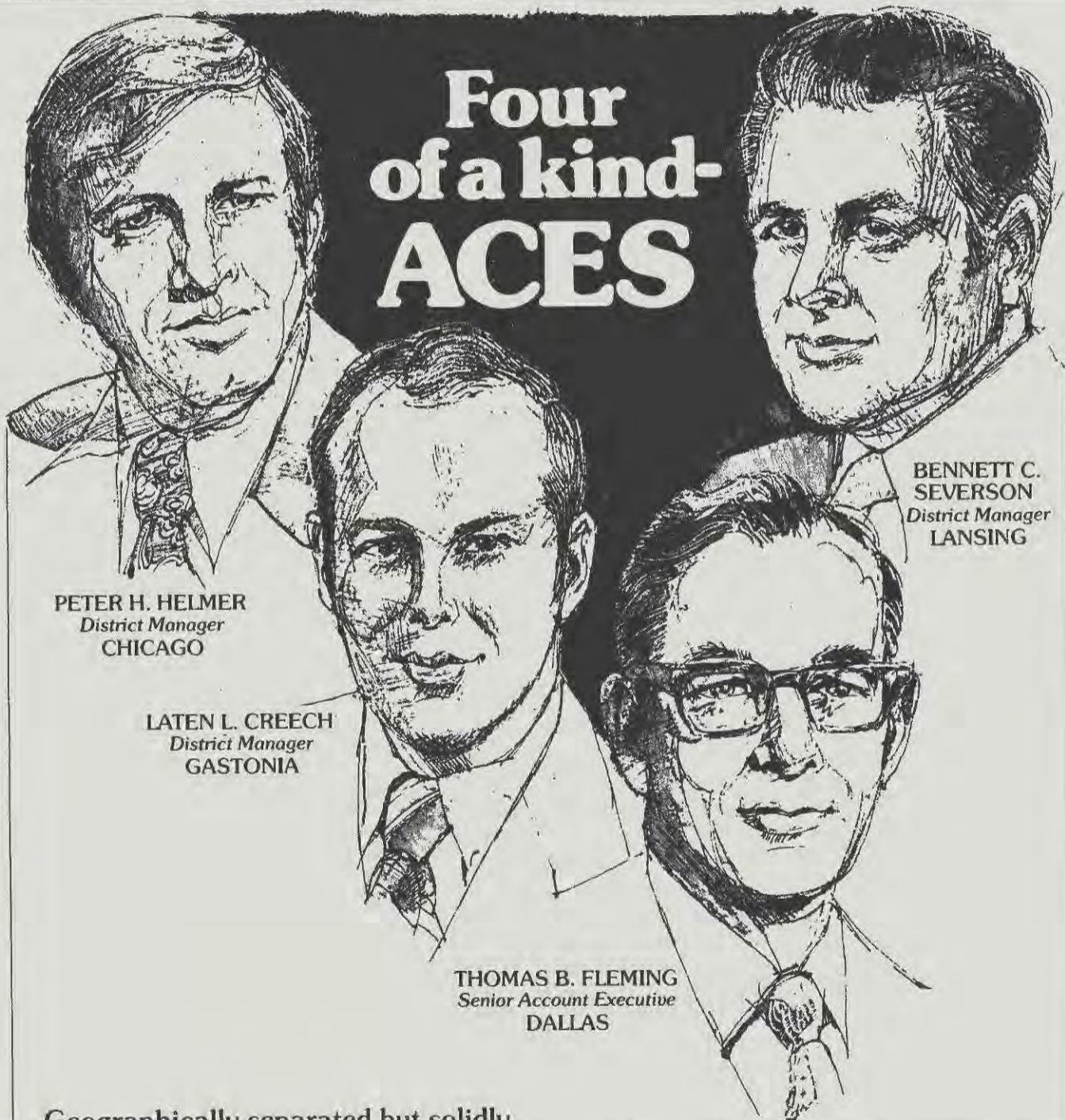
Mr. Paul said the Larraburu bakery plant "might" bring as much as \$170,000 when sold by the

receiver for scrap. "The rest of our inventory," he said, "will be disposed of in such a manner as to give Larraburu creditors as much as possible."

Anticipating a \$25 million award against Royal Indemnity, however, the two owners are blast-freezing enough of the famed sourdough "starter" for five individual batches of "start" which will be "safely stored in five different parts of the U.S., to survive for the day when Larraburu again starts baking."

Kindler expands

Kindler & Laucci formed Kindler, Laucci & Stewart Insurance Brokers located in Fresno, California, as an important step in its expansion program. Ronald J. Stewart, formerly vp and chief executive of Zurich Insurance Cos.' Western zone, will be president and general manager of the new facility.



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Well-trained adjuster is key to arson detection

SEATTLE—In 1975 arson surpassed car theft as the number one property crime in the U.S. Industry studies indicate that direct arson losses amounted to \$1.4 billion. Total arson losses ranged between \$5 billion and \$10 billion.

But a well-trained adjuster can play a big role in keeping those losses down, says Bob G. Daily, Mutual of Enumclaw Insurance Co.

and president of the Seattle Casualty Adjusters Assn.

"I'd like to see all adjusters trained by the International Arson Investigators Assn.," says Mr. Daily. "Today, only a few are. But the adjuster must be a highly trained individual who can recognize arson—or the lack of it."

He notes that "red flags are raised to tip the adjuster off when arson is involved. They may be raised when you determine how the loss occurred, how the fire started. If it was by an overload of an electrical circuit, it doesn't bother me. Arson probably wasn't involved. But if we determine that the hot spot was in the closet where there are no electrical outlets, or similarly, on a back porch, a red flag is raised.

"Or, if in taking statements someone says that they heard an explosion or saw a back door swinging, I'll look twice. Or if the owner is undergoing a divorce action, is in debt and can't meet his payroll, another flag goes up. Each situation differs, but a well-trained adjuster will recognize that particular red flag," says Mr. Daily.

Initially, investigators must assume that nothing is wrong with a claim until a red flag is raised, he says. When beginning a fire investigation, an adjuster may make a phone call or two from his office to check out the loss. Then, he immediately goes to the scene.

"The adjuster must take prompt action to get the ball rolling; this is most important. We need to de-

termine the extent of the loss, the inventory and salvageable items left and what to do with them.

"I'll take as many photos as I can. The need for pictures is so often overlooked, yet \$25 worth are worth their weight in gold. I like to use a regular camera, not a Polaroid, because the prints turn out better. I especially want photos of the inventory and salvageable items."

If Mr. Daily suspects arson, "one of the first things I do is to preserve or obtain evidence to prove it, evidence that will be presentable before a judge. Maybe it will be an incendiary object, like a gas can."

He'll read the fire marshal's report and sometimes interview firemen. The fire department keeps the name of the person who turned in the fire; he'll get that person's statement. "I'll knock on doors of people close by . . . maybe someone saw someone running from the building, or saw the rear door swinging," says Mr. Daily. Then, he'll hire a fire reconstruction expert, give him an idea of what happened and let the expert reconstruct the blaze.

"Sometimes we'll need to have an engineer construct on paper what type of building it is, or a CPA to certify the type of inventory and the value of the salvages. We may need an attorney. Sometimes we hire several attorneys so that eventually our evidence will be turned out of court," says Mr. Daily.

In many cities, police and fire department personnel are experts in investigating fires, he says. "They can tell the type of materials used. They even have sniffers to find the inflammable materials and liquids, or to look for "hot spots" that signal arson.

"Most statements are recorded now. These are presentable in court. I've even heard of one California firm that can take taped statements and analyze the voice pattern in a way similar to polygraph tests. In some cases, the results have held up in California courts. It is not ironclad, so whether they'd hold up in other states, I don't know," says Mr. Daily.

He notes that he tries to get statements within the first two to three days after a loss. "Otherwise, memories may be dull or people may tend to believe what other people have told them.

"Early on, I must confer with the insured to appraise him of what to do. If the owner is clean and was a victim, we usually get his cooperation. If someone is trying to do him in, he's usually got an idea of who it is. It may be his wife, even. If it is a house fire, women are sometimes more prone to try and destroy the nest. Sometimes we find that children playing with matches may have started the fire. If so, we close the door, there's no use going any further," says Mr. Daily. "We've learned that if we can't prove arson, we don't use the word."

If a building owner is suspected of an arson fire, "We'll get a reservation of rights agreement—we'll investigate it but we may not pay it.

"I prefer to gather the evidence carefully. I'll take a recorded statement, the cause of the fire and the value of the items damaged. Then, I'll leave him and get the value of what was damaged. The insured must sign a statement of proof of loss. Then, I'd review all of this material with our attorneys. Frequently there is a difference of opinion.

"In that case, I'll then go to the

insured and say this is what you say happened and this is what we found happened. I'll give him a chance to explain. If he can't do it satisfactorily, then I'll say something like 'It looks like there may be fraud here.'

"We want to give him the easy way out. We insure accidents. We're not guardians of morals. At this point, if we have a strong case, we may mutually agree to forget the claim—but we can't speak for what the prosecuting attorney may do," says Mr. Daily.

It may take one to two months to investigate the fire and a lot of people have to look at the evidence. By the time a suspected arson case goes to court, it may be nine to 15 months. "But sometimes we don't mind the delay. If an arsonist feels we're building a good case against him, he may just quietly let the claim drop."

But Mr. Daily says few arson cases are prosecuted. "The insurance company doesn't want to lose. And juries today are less inclined to convict a person for arson than for regular theft. The juries often feel that the insurance company is far better able to stand the loss than some guy who's got marital or financial problems.

"Sometimes it's a double headed ax: prosecuting attorneys often won't press charges unless they feel they have a 50-50 chance of

winning. They want a good win-loss record when they come up for re-election," says Mr. Daily.

There is no "rule of thumb" to measure what dollar loss is important enough to go to court to try and collect. "But I feel that if even \$1 in losses was caused by arson, I'd like to sue," says Mr. Davis. "Of course, that's impractical."

"When a case does go to court we sit back like a general reviewing his options before he goes into battle. When we're ready, we have statements and physical evidence by fire reconstructionists—they keep the evidence because an insurance company doesn't want to be accused of tampering with the evidence. We have the fire marshal report, etc.

"To a great extent, whether the case ever gets to court depends on how thorough the adjuster was at the beginning, since he is the one to preserve and present the evidence to the trial judge. If he stumbles, the insurer will probably say, 'Well, we blew it, so let's get on to something else.'

"That's why training is important," says Mr. Daily. "A lot is happening today, too. Fire departments around the country have new instruments and methods to determine the hot spots, to collect evidence. Adjusters need to know about these techniques."

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May allow carriers to choose regulatory body

WASHINGTON—A dual regulatory system for the insurance industry, akin to the system that allows banks to opt for either state or federal regulation, was suggested by Sen. Edward W. Brooke (R-Ma.) earlier this month.

Referring to the Justice Department's study of the 1945 McCarran-Ferguson Act, which provides the insurance industry with immunity from antitrust laws in return for state regulation, he acknowledged the "historical resistance" of insurance companies to federal regulation.

"However, the recent spate of insolvencies and the difficulties in rate setting encountered over the last year might be causing some of you to rethink your stance," Sen. Brooke said.

The ranking minority member of the Senate Banking Committee told the Insurance Information Institute's annual government briefing here June 16 that he and his staff are working on a legislative package that would allow insurance companies to opt for either federal or state regulation.

Companies which opted for a federal charter would be free from state regulation and assessments against state insolvency guarantee funds, he said. However, Sen. Brooke proposed the set-up of a federal organization similar to the Federal Deposit Insurance Corp. which would provide insolvency insurance for a fee.

Insurance companies would be free to move from one regulator to another, and no pressure would be brought on them to obtain federal charters, he said.

"This freedom of movement serves as a check on over-burdened regulation at either the state or federal levels," the senator said.

Reaction to Sen. Brooke's speech was a mixture of surprise and cautious optimism. "This is one of the first new ideas I've heard in a long time," one insurance company representative said. "We weren't expecting it. It's certainly worth

consideration."

While the senator's proposal is only at the "thinking state" and "not fixed in concrete," he said the check on "overregulation and sloppy regulation at the state level" would occur as companies seek regulation at the level where they will have maximum flexibility while still avoiding the potential of paying for other companies' mistakes.

"I, for one, would urge that any federal insurance regulator rely upon the market rather than rate setting to promote the lowest possible costs to the consuming public," Sen. Brooke said.

International relations for two adjusters

EAST ORANGE, N. J.—Two leading adjusting firms have agreed to act as correspondents in the United States and Europe to assist one another in the assessment and negotiations in adjusting multinational losses.

Sarasohn & Co. Inc. of East Orange, N. J., founded in 1923, and L. S. Harris & Co. of London, established in 1865, announced the agreement this month. The agreement will enable each to have the advantage of home office advice and local personnel to handle major insured property losses.

Among the companies using the services of L. S. Harris & Co. are Flat Motor Co., Barclay's Bank, Snakpak, Lillywhites Ltd. of London, Trust House Forte Group, Beecham Group, and Smiths—a part of the General Mills Group.

Sarasohn's insured clients include Union Camp Corp., International Paper, Ronson Corp., Loew's Corp., Alberto Culver Co., General Instrument Co., Agfa-Gevaert Inc., and Renfield Distilleries.

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people

Greyhound appoints director of insurance

George T. Petrula, 50, was appointed corporate director of insurance for The Greyhound Corp., reporting to Robert M. Egner, vp-insurance. Mr. Petrula heads the risk management department and has responsibility for administering corporate insurance. He is also executive vp of Pine Top Insurance Co., a subsidiary of Greyhound. Three other appointments were made in the risk management department at Greyhound. They are: Dale C. Birch, 51, manager of financial operations; Patrick H. Langan, 51, manager of self-insured operations; and Daniel J. Sielicki, 31, manager of risk management and loss prevention operations. All previously were Greyhound employees but Mr. Egner declined to give out their former positions.

Effective June 21, Donald H. Gallone was hired as insurance and safety analyst at Wallace Murray Corp., New York. He replaces Joseph A. Rinaldi, who resigned in April to join ITT. Mr. Gallone previously was a loss prevention representative with Royal Globe Insurance Co., Hartford, Cn. In May, the company promoted Stephen G. Palenscar from insurance analyst to assistant manager-general insurance. Both appointees report to Merlin F. Teed, manager-general insurance, who said the company does not contemplate filling the insurance analyst position.

Inmont Corp., New York, promoted three people in the employe relations department: Vincent J. Tomo, 35, to manager-employe benefits from manager-benefits administration; Claire A. Rex, 31, to manager-benefits administration from benefits administrator; and Philomena Malone, 45, to benefits administrator from executive secretary to the vp of personnel. Mr. Tomo replaces Thomas J. Gorey Jr., who left to become director of compensation and benefits at American Broadcasting Cos. Inc., New York (BI, April 19). Mr. Tomo reports to the director of employe relations and is responsible for benefits planning, general management and labor relations backup work. Mrs. Rex is in charge of benefits administration including managing the claims staff. Miss Malone works on benefits cost accounting, premium payments and life claims.

Jay S. Etheredge, 34, was appointed assistant director-insurance division at Continental Oil Co., Houston. Reporting to the director-insurance division, he is responsible primarily for international and marine coverage areas. Formerly, he was manager of insurance, property and taxes at the Baroid Division of NL Industries Inc., Houston. No replacement has been named by the petroleum drilling fluids manufacturer. Mr. Etheredge replaces Dean Surian, who joined Santa Fe International Corp., Orange, Ca. as insurance manager (BI, Dec. 15, 1975).

Effective May 15, Geoffrey Arnold, 26, was promoted to division controller of the poultry processing division at Perdue Inc., Salisbury, Md. He formerly had worked on developing a risk management program for the company along with Donald D. Long, insurance manager. Mr. Long, 39, now has taken over responsibility

for the risk management function and reports to the director of treasury at Perdue.

Alabama Power Co., Birmingham, restructured its tax and insurance department, creating a new employe relations department. Norman M. Horsley, 46, formerly general cashier for the company, was promoted to manager of taxes and insurance, with responsibility for administering all property/casualty insurance. He replaces C. L. Roberts, who was promoted to manager of employe benefits in the newly-created employe relations department. Mr. Roberts took with him the responsibility for Alabama Power's group life, health and accident, AD&D, and pension coverages when he became benefits manager. Other job changes in the power company's insurance shift include: Charles Cranford, promoted from accounting specialist to assistant head of the tax and insurance section, succeeding C. L. Black, who was promoted to senior market planning specialist; and W. L. Sanders, assistant treasurer, has assumed additional responsibilities in the tax and insurance section.

Eastern Airlines Inc., which moved its entire treasury division from Manhattan to Miami, Florida, hired William J. Ott Jr., 36, as its new director of insurance. Mr. Ott is replacing Richard V. Porrett, who left the airline in March and is now with the Great Atlantic & Pacific Tea Co. (A&P) in Montvale, N. J. Before accepting the position at Eastern, Mr. Ott was manager of insurance and benefits for retailer W. F. Woolworth Co., New York. At this writing, his position is still open, according to R. G. Zimmerman, Woolworth's assistant secretary and treasurer to whom Mr. Ott used to report. In his new job at Eastern Airlines, Mr. Ott has the responsibility for the total insurance and benefit program. He reports to Charles Glass, Eastern's treasurer.

Other job changes at Eastern's insurance department include the internal promotion of Linwood J. Albert, 46, from supervisor to manager of employe benefits administration; and the hiring of Derek F. Tyler, 44, as manager of insurance and claims. Both Mr. Albert and Mr. Tyler will report to William Ott. Mr. Tyler was formerly supervisor of group insurance and pension administration in the Miami office of National Airlines. At this writing, he has not been replaced there. Mr. Tyler said his main job responsibilities at Eastern Airlines would be in the pension benefits area.

Ft. Lauderdale-based Personnel Pool of America Inc. appointed John J. (Jim) O'Brien, 50, director of insurance, a newly-created position. He reports to the company's general counsel and focuses much of his attention on the workers' compensation area. "Though we don't have control of the work-site for our temporary help, we still have the responsibility for providing workers' compensation coverage and the burden of trying to obtain the cooperation of a disinterested employer," Mr. O'Brien explained. He also is responsible for other property and casualty coverages and insured employe benefits. Previously, he was director of insurance for the Franklin

Mint Corp., Franklin Center, Pa., until the position was "phased out" a year ago. Since then, Mr. O'Brien has served as a consultant to the company. Frank B. Hall Inc. handles most of insurance management, working with David Dustin, assistant to the vp of finance at Franklin Mint.

The new safety supervisor at Allis-Chalmers Industrial Truck Division, Matteson, Ill., is Roger L. Gename, 22. Mr. Gename, who majored in occupational safety and health at the University of Wisconsin in Whitewater, joined Allis-Chalmers on June 7. He previously worked as a safety intern for J. I. Case Co., Racine, Wis. for six months. Mr. Gename reports to the manager of employe and community relations at Allis Chalmers and replaces Rod Busse, who

joined Chemetron Corp., Chicago, in February. Mr. Busse works in the management services department at Chemetron. Mr. Gename said he expects to take over the function of security supervision within a year.

Constance N. Stancell, 28, was named employe benefits administrator at Sybron Corp., replacing Monica Quagliata who assumed responsibility for the company's pension plan. Mrs. Stancell reports to the superintendent of employe benefits and is responsible for reviewing benefit programs and preparing the groundwork for changes in benefits. She was formerly superintendent for life and health claims at Aetna Life & Casualty Co., Newark, N. J.

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APPWP appointments

The Assn. of Private Pension and Welfare Plans Inc. (APPWP) appointed four new regional chairmen. They are: John L. Brown, Tennessee; Richard Harding, Idaho; Joey McCandless, New York; and Thaddeus Swank, Washington, D.C./Baltimore. Regional chairman disburse information, coordinate regional pension meetings and develop membership.

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