

business insurance

Week of June 2, 1980

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Fighting for OSHA
Industrial hygienists sign petitions against proposed amendments to limit OSHA's inspection power: **Page 9.**

New Sunbelt HMOs
A new HMO will open in Dallas, the first phase of INA's plans for major development of HMOs in the Sunbelt: **Page 12.**

Future pricing
Insurers will have a tough time getting rate hikes, an expert says: **Page 23.**

Volcano losses create a \$1 billion nightmare

By HARRIET KING



Gathering dust
The National Guard is helping Washington state sweep up a blanket of volcanic ash.

SEATTLE, Wash.—Insurers and state officials are still trying to total losses, expected to top \$1 billion, caused by the catastrophic eruptions of Mt. St. Helens volcano that began May 18.

The eruptions have been an underwriter's nightmare, knocking much of Northern Washington back into the Stone Age as personal and commercial activity ground to a halt in a pile of volcanic ash.

Many insurers are still unsure of exactly what losses will be covered under policies written before the explosions, but state insurance commissioner Dick Marquardt has insisted the insurers adopt liberal interpretations of policies in dealing with claims.

In personal lines claims, insurers indicate they will comply with the edict and cover smoke and ash damage to automobiles under automobile comprehensive policies and private home damage under homeowner's policies.

Commercial coverage, however, is still in question. Several ports on the Columbia River are losing an estimated \$5 million a day because debris has all but closed shipping on the major transportation artery that extends from Idaho to the Pacific Ocean.

Portland officials anticipate daily losses of \$4 million. The losses do not include those incurred by loaded vessels stuck in ports, which have operational costs of \$15,000 to \$20,000 for every day idle.

The Army Corps of Engineers has dredged a 20-foot-deep channel; the shipping channel normally is

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Easy entry lures Canada to the New York exchange

By ELLIS SIMON

NEW YORK—Canadian risk managers may send exotic and high-risk coverage south next winter—to the New York Insurance Exchange as an alternative to Lloyd's and London companies.

Canadian insurance buyers are better primed to tap the new market than U.S. risk managers because their business, as foreign risks, can be written directly without any market restrictions.

New York risks can get to the exchange for direct insurance only after being rejected by the New York Free Trade Zone. U.S. risks located outside New York can only get to the exchange through reinsurance because state rating laws prevent them from being submitted to the Free Trade Zone (BI, Jan. 14).

To date, the New York Insurance Exchange has written only six direct risks, half of which are

domestic risks, said president Donald Reutershan.

Three of five risks submitted to and rejected by the Free Trade Zone have been written by the exchange, said Joseph Conroy, secretary of the representative committee of special risk insurers, who supervises the rejection process.

Although Canadian insurance markets now are keenly competitive and capacity is plentiful, brokers and risk managers say the hot market is bound to chill, turning the New York Insurance Exchange into a likely alternative by late 1981. Canada could become a leading source of direct business for the fledgling market.

"New York is a major market that wants to make itself felt and cannot be ignored," said Norman Golledge, vp-marketing of Tomenson Saunders Whitehead Ltd. of Toronto, Canada's second largest



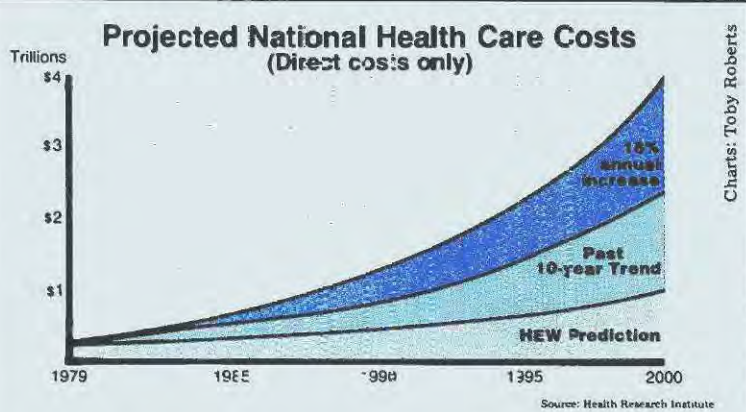
Canadians will use the exchange, says broker Norman Golledge.

insurance broker.

The insurance exchange's guaranty fund, the credibility of its backers and its proximity to Canada make it an attractive market for Canadian brokers and policyholders, he said.

"When you get a quote from London, usually it's part Lloyd's and part London companies," he explained. "Usually the companies are unlicensed and unknown. Going to New York, at least you

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Employers battle health care costs

By MARY ANN MATLOCK

NEW YORK—Armed with few surefire weapons, employers are nonetheless on the march to confine cost increases in today's \$205 billion health care system.

They are fighting the good fight individually within their own companies and collectively in employer coalitions that sometimes include health care providers.

The two-pronged attack is necessary, observers agree, to assemble a comprehensive plan to combat rising health care costs which will reach \$2.4 trillion by the year 2000 if the cost increases of the past decade continue. Costs rose an average 12.4% a year over the past 10 years.

If last year's 15% cost increase continues, the health care system in the U.S. would cost \$4 trillion by 2000, according to consultant William Hensbree, director of the Health Research Institute in San Francisco.

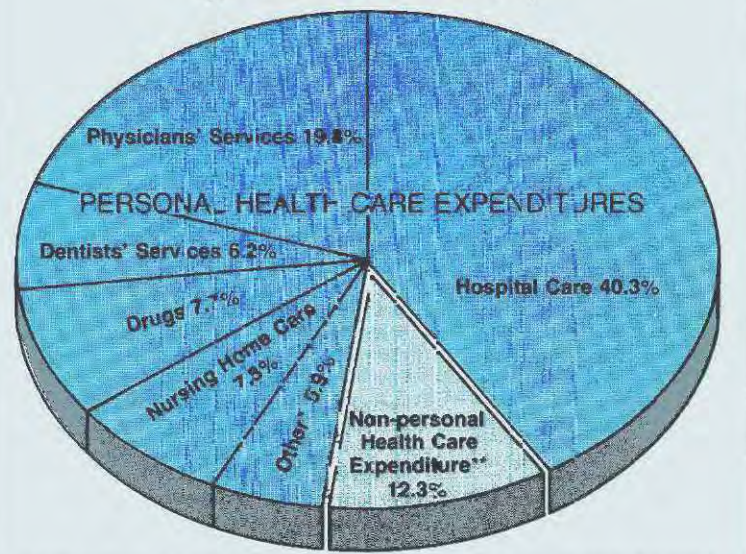
These mind-boggling cost projections are especially startling to employers, who pay about 25% of the nation's health care bills through group health insurance programs for employees.

The projections have shaken employers, insurers, health

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extended coverage

Where the Health Care Dollar is Spent (\$206 billion in 1979)



*Includes eyeglasses, orthodontic appliances, services of allied health professionals and industrial in-plant services.
**Includes expenses for prepayments and administration, government public health activities, research and construction of medical facilities.
Source: HCFA Health Notes (HEW) May, 1978

NEWSPAPER

Protecting Picasso
Page 3

for your information

Insurance Management Corp. to acquire Kindler & Laucci

RICHMOND, Va.—Insurance Management Corp., the nation's 12th largest broker with headquarters here, will soon acquire California Insurance Management & Investment Corp. and its principal subsidiary, Kindler & Laucci.

With 1978 revenues of \$7.1 million, the addition of Kindler & Laucci is expected to hike Insurance Management Corp. several notches in the *BI* largest broker rankings, competing with Arthur J. Gallagher, Penn General Agencies and E.H. Crump Cos. for ninth place.

Insurance Management Corp.'s 1978 revenues totaled \$17.3 million.

Dispute threatens risk pool bill

ALBANY—Legislation permitting New York municipalities to pool their risks could die this session because of disagreements between the senate and assembly over the proper form.

An assembly bill allowing municipalities to join unregulated risk-sharing pools as well as insurance reciprocals regulated by the insurance department has passed the assembly. But New York insurance commissioner Albert B. Lewis objects to allowing the formation of unregulated risk-sharing pools. At his request, Sen. John Dunne has introduced legislation in the senate to only allow municipalities to form reciprocals that will be regulated.

The assembly appears intent on allowing municipalities both options, while senate leaders appear intent on allowing only reciprocals.

The senate insurance committee will consider the risk-sharing issue in a few weeks.

Insurers to tally Miami losses

MIAMI—Local officials expect to know within the next two weeks the extent of damage done to the city during the recent race riots here (*BI*, May 26).

Fifteen insurance companies with substantial exposures in the Northwest Miami community hit by the riots have agreed to provide to the city by June 10 figures that will show the amount of claims they have received and in what areas losses have occurred, such as from arson or looting.

Preliminary estimates of commercial insured losses have been set at about \$100 million and personal losses another \$100 million.

House passes disability cutback

WASHINGTON—A bill slashing Social Security disability benefits overwhelmingly passed the House and is expected to breeze through the Senate this week (*BI*, May 26).

The bill limits combined monthly disability benefits for a worker and dependents to 85% of the worker's average monthly earnings or 150% of the worker's primary insurance amount, whichever is lower. PIA is calculated by the Social Security Administration and is based on salary and year of employment.

The new limitations, cutting benefits an average of 14%, would only apply to families joining the rolls after July 1, 1980.

Bowring approves sale to M&M

LONDON—C.T. Bowring shareholders last week approved the firm's sale to Marsh & McLennan Cos. Inc., parent firm of the largest U.S. insurance brokerage for 44 million shares of stock and about \$314 million in cash.

To generate the stock required, M&M shareholders authorized increasing M&M's outstanding common stock to 60 million shares from 16 million.

M&M shareholders have also approved the stock offer to Bowring.

No major obstacles now face the controversial merger that marks the first foreign ownership of a Lloyd's broker's parent firm. How much of the Lloyd's brokerage division can be retained by Marsh & McLennan hinges on a soon to be released study of Lloyd's rules (*BI*, March 5).

In the United States, the U.S. Justice Department has completed its investigation of the transaction and decided not to take action or issue a formal report. The probe, which also examined commercial insurance brokerage industry competition, revealed no antitrust activities that demanded further investigation, according to a Justice Department investigator.

Congress gets pension report

WASHINGTON—President Carter's Commission on Pension Policy sent its interim report to Congress last week, recommending that legislators consider requiring all employers to offer pension programs to their employees, as expected (*BI*, May 12).

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Photo: Chicago Tribune

Arson strikes boatyard

Exploding gasoline tanks fueled an arson fire, causing at least \$1 million in damages to boats, cabin cruisers and a storage yard in Chicago, destroying the boatyard.

Three men overpowered a nightwatchman and set the fire early May 23, according to the Chicago police.

The storage yard warehouse, owned by Rodi Boat Co., is insured by Industrial Risk Insurers. The limits of the coverage were not disclosed but IRI said yard owners are adequately covered for the property loss.

IRI, however, provides only limited coverage for the boats, whose private owners will have to collect from their personal property insurers.

Rodi president John Hughes said 35 boats, averaging \$50,000 in value, were damaged or destroyed in the blaze, but he was unable to estimate damage to the 38,000-square-foot warehouse, one of several such structures on

the property.

Fortunately, he said, most of 350 boats normally stored at the yard were out of the warehouse and afloat in Lake Michigan for the spring and summer.

Police said it was the third arson fire to hit the boatyard this year. The most recent blaze was touched off with gasoline April 4 and the other was set Jan. 4 with cleaning solvent in a showroom. Both blazes were extinguished by automatic sprinkler systems before they could cause much damage.

More than 160 firefighters and 35 pieces of equipment, including two Chicago Fire Department fireboats, however, battled the latest fire for more than three hours.

IRI said its own arson investigators from the Chicago field office were probing the blaze in conjunction with members of the Chicago Police Department bomb and arson squad. ■

House passes increase in PBGC trust premiums

WASHINGTON—The House unanimously approved an increase in the premiums multiemployer pension plans pay for termination insurance, but unless the Senate moves faster in clearing its version of the bill, the July 1 target date for mandatory federal coverage of such plans may have to be extended once more.

Differences between the House and Senate bills has kept the Senate measure (S. 1076) bottled in the Finance Committee. The House legislation (H.R. 3904) would raise premiums to \$2.60 per participant over a nine-year period, from the current 50 cents per participant annually. The Senate version would raise the termination insurance premium to \$3.40 per participant.

Mandatory Pension Benefit Guaranty Corp. coverage of terminating multiemployer pension plans originally had been set for May 1, but Congress delayed the start-up until July 1 in order to have more time to consider the pending premium legislation.

Under the House legislation, most participants of terminated multiemployer pension plans will be guaranteed 100% of the first \$5 per month per year in vested benefits and 70% of the next \$15 per month per year in vested benefits.

But participants of plans in poor financial shape before the passage of ERISA will be guaranteed \$5 per month per year in vested benefits and only 60% of the next \$15 per month per year in vested benefits.

The legislation, approved by the House May 22, is designed to give the PBGC, the federal agency that guarantees pension benefits through an insurance program, more assets and reduce its liability to multiemployer pension plan participants.

The legislation would for the first time give federal benefit guarantees to the nation's eight million

participants in multiemployer pension plans.

Since ERISA went into effect Jan. 1, 1975, the PBGC has guaranteed 100% of the vested benefits of participants of single employer pension plans, subject to a cap of \$1,159.09 per month.

But the PBGC's coverage of multiemployer plans has been discretionary. Because so many multiemployer plans are in financial hot water, it has been feared that

mandatory coverage could bankrupt the PBGC as the plans terminated.

Mandatory coverage of multiemployer plans has been delayed by Congress until a long-term solution of guaranteeing benefits was worked out. Congress hopes that by raising premiums and cutting benefits, the PBGC should be better equipped to handle multiemployer terminations when federal coverage is mandatory. ■



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SECURITY FOR THE SECURITY INDUSTRY

Kan. employers win right to sue EEOC over rules

By JERRY GEISEL

TOPEKA—Employers have the right to challenge the Equal Employment Opportunity Commission's controversial federal pregnancy benefit guidelines, a U.S. District Court judge said.

Judge Richard Rogers denied a motion by the EEOC to dismiss a suit filed by the Kansas Assn. of Commerce & Industry challenging portions of the guidelines implementing the federal law.

The EEOC plans to appeal the decision, setting the stage for an extended legal battle between Kansas's largest business group and the EEOC. More challenges are also possible from employers around the country that also have refused to heed the EEOC pregnancy guidelines.

The judge's decision even gives employers more clout in fighting other EEOC guidelines, says one attorney. "For the first time, a court has held that an EEOC guideline is susceptible to a pre-enforcement challenge," said Steve Bekat of the National Chamber Litigation Center in Washington, D.C. "You can go after them before they go after you."

The federal pregnancy benefits law, passed by Congress in October 1978 and effective April 1979, mandates that employers offer equitable benefits for pregnancy to women employees covered by group health insurance plans. The EEOC issued guidelines to help employers comply with the law.

The KAIC objects to two of the guidelines: pregnancy benefits are required for the wives of men employees if the husbands of women employees are covered in a group

health insurance plan, and equal extended benefits must be given for other injuries or illnesses if benefits are provided to pregnant employees.

Judge Rogers was especially mindful in his ruling of the cost to employers of complying with the pregnancy guidelines.

He rejected the EEOC argument that the case was not "ripe" for judicial review and should be dismissed. Such a review only would be appropriate when an employee was denied a pregnancy benefit and the EEOC filed suit against the employer seeking the benefit on behalf of the employee, the EEOC argued.

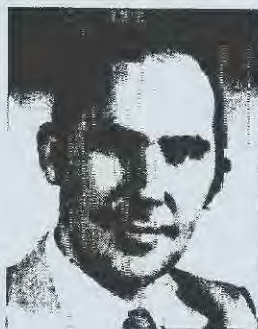
More clout

'You can go after them before they go after you,' says attorney Steve Bekat of the ruling.

In rejecting this argument, Judge Rogers said pre-enforcement review of federal guidelines and regulations is crucial for the business community to help it obey the law and properly fund costs.

"We believe the EEOC's position overlooks the fact that the EEOC has given its final word in this matter," Judge Rogers said. "The regulations are final and complaints based upon the EEOC's views of

Continued on page 4



Some dissatisfaction

'Why not question ratemaking if there are good arguments?' asks Philip O'Connor.

Best method

Price competition will help ensure availability at fair cost, says William Bailey.



NAIC bill would introduce work comp rate freedom

By JILL KAPLAN

CHICAGO—Employers could shop for competitive workers compensation insurance rates if states adopt a new model bill proposed by an advisory committee to the National Assn. of Insurance Commissioners.

Rating bureaus would no longer be permitted to require adherence to classification plans, rating plans or manual rules if the proposal is accepted by the NAIC and adopted by the state legislatures.

The NAIC might even suggest advisory rates be eliminated.

States have shown increasing interest in competitive rating systems in the past two years. The NAIC is hoping to draft model legislation by December based on the report of its advisory committee and work by NAIC task forces.

"Price competition, where properly structured and free of unnecessary impediments is the most effective way to assure the availability of property/casualty insurance at costs that are fair, reasonable and not excessive," said advisory committee chairman William O. Bailey, president of Aetna Life & Casualty.

Key issues discussed in the advisory committee's report include: rating freedom allowed various

lines of insurance; consumer information; workers compensation's place in a competitive system; the rating bureaus' role, and the monitoring of competition.

Three types of rate regulation are endorsed by the committee:

- Competitive rating for most personal and commercial lines of business.

- Prior filing for selected lines, such as workers compensation and title insurance.

- Prior approval for residual markets where price competition does not and cannot exist.

Insurers would not have to seek the approval of the insurance commissioner in order to change rates, but would have to report a change. But the commissioner could voice disapproval on the basis of unfair rates and discrimination.

Competition among workers compensation insurers and the role of rating bureaus spurred much debate among the advisory committee members. The committee decided that the ratemaking function of the bureaus should be preserved, along with the development of advisory manual rates.

But there's a better than 50-50 chance the final NAIC model bill will not permit final advisory rates, said Philip R. O'Connor, acting

director of insurance in Illinois and chairman of the NAIC task force on open competition.

"The question is whether there should be an organization making suggestions on final rates," Mr. O'Connor said. "Is the recommendation of a rate consistent with a competitive marketplace?"

"A lot of people are dissatisfied with the workers compensation system," he continued. "People are looking at different ways of doing things and are asking a lot of questions. Why not question ratemaking—especially if there are good arguments?"

Fundamental to the existence of a competitive market is a consumer information program, the advisory committee reported. The group recommends two approaches.

A general information program is suggested to provide data for consumers about coverages, price ranges, rating procedures and the role of agents, insurers and insurance departments.

For the individual about to make a buying decision, specific information should be provided concerning coverage details, particular insurance needs and the stability and practice of various insurers.

U.S. insures art exhibit

By STUART EMMRICH

NEW YORK—The most valuable art exhibition ever held in the world—the mammoth Picasso Retrospective at the Museum of Modern Art here—has \$50 million of free insurance.

The U.S. government will pay the first \$50 million of losses to the exhibit after a \$15,000 deductible payable by the museum.

The special policy for the more than 900 pieces of Picasso artwork on exhibit until September comes free to the museum under a government program to encourage exchanges of art between the U.S. and foreign countries.

Additional insurance coverage over the \$50 million layer and surpassing \$100 million was placed with Lloyd's of London syndicates, according to museum officials.

The value of the Picasso exhibit is a record for MOMA, said Richard Palmer, director of exhibitions. The Cezanne show several years ago, estimated at being worth "well over \$100 million," was the last most valuable exhibit at MOMA.

"The Picasso show is worth several times" the Cezanne exhibit, Mr. Palmer said, and is fully insured. "This is by far the most valuable exhibition we have ever done and our under-

writers think it is probably the most valuable fine arts exhibit to date."

The government coverage is available to museums and non-profit galleries that depend on artwork loaned from foreign institutions for special shows. The policy was approved by Congress as a way to stimulate cultural exchanges, Mr. Palmer said. Other countries in Europe have had similar programs for years, he added.

Excess coverage above the government guarantee was placed with Lloyd's by the museum's Washington, D.C., broker, Huntington T. Block Insurance.

The museum also purchased an excess transit liability insurance policy from Lloyd's that provides an additional layer of \$5 million above the \$7.5 million coverage offered by the government.

The insurance planning began more than a year ago, Mr. Palmer said, in addition to improvements in the museum's security precautions for the run of the show.

An additional 65 to 70 guards have been hired for the show, allowing almost all of the museum's more than 50 galleries to have a guard in the room at all times, he said.

The shipments of artworks loaned from other museums

were also carefully guarded, with special convoys assigned to the most precious works, Mr. Palmer said.

"We have gone to a great deal of trouble to protect this exhibit," Mr. Palmer said. "We have made all sorts of special arrangements, provided escorts for some of the most valuable shipments and just made sure there was no problem or danger in getting them here."



Photo: N.Y. Museum of Modern Art

The value of the Picasso display is a record for the museum.

DC10: Damage issue holds up trials

By JOHN MAES

CHICAGO—A little more than a year after American Airlines flight 191 fell to earth here killing 273 persons, legal liability questions involving punitive damages are holding up trials.

A federal court judge here has ruled that McDonnell Douglas Corp., builders of the ill-fated DC10 jetliner, can be held liable for millions of dollars in punitive damages in the crash, but American Airlines can't be held liable for punitive damages.

Describing the ruling as "inconsistent and incongruous," senior U.S. District Judge Hubert L. Will explained he was making the decision because McDonnell Douglas is based in St. Louis, Mo., where state law allows payment of punitive damages. American Airlines, now headquartered in Dallas, was based in New York at the time of the crash where statutory punitive damages are not allowed. Even though the cases are in federal court, state law applies to the issue, the judge ruled.

Attorneys for both sides are filing appeals.

Norman Barry, a Chicago lawyer representing McDonnell Douglas, said he has filed an appeal contending the judge wrongly applied the law.

The other appeal will be filed by John J. Kennelly, an aviation litigation lawyer representing 30 plaintiffs in the case. His appeal will ask that American also be held

liable for punitive damages.

The first damage trial in the case will begin June 16 in Chicago before Judge Will and his associate, senior Judge Edward Robson. The case involves a plaintiff who is contesting the amount of compensatory damages offered by the insurer. Suits involving punitive damages won't be heard until the appeals regarding liability for punitive damages are resolved.

Appeals notwithstanding, American Airlines could be put back on the punitive damages hot-seat in Illinois if the 9th U.S. Circuit Court of Appeals in Los Angeles rules that punitive damages can be awarded in California.

The California case involves the 1974 crash of a Turkish Airlines DC10 jetliner near Paris, France.

Mr. Kennelly and Judge Will have both advocated new federal legislation that would establish a uniform national policy on the punitive damage issue.

There are 124 suits pending in federal court in Chicago and another 20 or 25 in state and federal courts in California, Mr. Kennelly said.

No judicial awards have been made to claimants but there have been three settlements, the largest for \$950,000, Mr. Kennelly said.

There have been more than 75 nonlitigated claims settled by U.S. Aviation Underwriters, liability insurers for American Airlines. Some have been settled for as much as \$1 million, others for as little as \$25,000.

Firms can challenge EEOC

Continued from page 3

the PDA (Pregnancy Discrimination Act) are sure to follow. Noncompliance is certain to result, in the very least, in bad publicity for the companies named in such complaints."

The EEOC's position "ignores the fact that people obey when the government speaks, regardless of the form of the communication," the judge observed. "Thus the plaintiff and its members must proceed to pay out increased insurance premiums in order to come into compliance with the proposed regulations, even though they disagreed with them."

In short, the EEOC guidelines place employers in a dilemma, the judge said. If a company does not upgrade its health insurance plan to comply with the EEOC guidelines, it could later be hit with large uninsured losses if a court upholds the guidelines and orders restitution.

On the other hand, if a court overturns the guidelines, employers that had arranged for coverage will have paid for benefits not legally required.

The cost of complying with some of the EEOC pregnancy guidelines could prove very costly to

some firms, Judge Rogers said. For example, members of the KACI said their group health insurance premiums would increase 3% to 18% more if they are forced to cover the maternity expenses of men employees' wives on the same basis as they cover the medical expenses of women employees' spouses.

The KACI began the legal battle last year when it filed suit in U.S. District Court here asking that the EEOC pregnancy guidelines be overturned.

In challenging the EEOC requirement that an employer's health insurance plan covers maternity expenses of men employees' wives if the plan covers the medical expenses of women employees' spouses, the KACI said:

"The extension of benefits . . . to pregnant spouses of male employees is beyond the intent of Congress . . . and is arbitrary, capricious and not in accordance with the law."

The Kansas suit also challenged a subsequent EEOC guideline that says if an employer offers extended benefits to pregnant employees, the same benefits must be offered on the same basis to other employees leaving the firm.

United Airlines serves benefits to flight hosts

benefit beat

ABOUT 9,100 FLIGHT attendants for United Airlines are taking to the friendly skies under a new two-year contract providing improvements in disability, life and health coverage.

Under a new long-term disability plan, a flight attendant will receive 50% of his or her monthly salary, after a nine-month waiting period, for up to two years if he or she is unable to work as a flight attendant and for an unlimited period if he or she is unable to work at all. United Airlines and flight attendants each contribute 19 cents

per \$100 of pay to the disability plan.

Life insurance is doubled to \$20,000 from \$10,000, and United's dental plan now picks up 100% of the schedule of fees—about a 31% increase, according to the Assn. of Flight Attendants. The limit on orthodontia coverage is increased to \$1,300.

In other changes, provisions of the company's medical plan were brought into compliance with the pregnancy discrimination act. Flight attendants retiring after 10 or more years of service will continue to be covered by all medical insurance except dental, until the retiree is eligible for Medicare.

All insurance coverage for flight attendants is underwritten by Connecticut General.

Drug program

A benefit program covering both inpatient and outpatient treatment of alcoholism and drug abuse is being test-marketed by Blue Cross of Greater Philadelphia and Blue Cross & Blue Shield of Alabama. The program is one of the few in the country that cover substance abuse on an outpatient basis, said David Strachan, senior manager of marketing support services for Blue Cross Assn. in Chicago.

If the two-year trial is successful, the program will be offered by the Blues nationwide.

The benefit provides full reimbursement for 30 days of inpatient care at a hospital and covers 120-125 days at an intermediate facility, such as a halfway house or residential program, and 120 to 135 visits to an outpatient facility. Premium for the coverage has not been determined, but should be less than \$1 per month per individual, Mr. Strachan said.

By covering outpatient treatment as well as hospitalization, the experimental program emphasizes rehabilitation rather than detoxification, he added.

The coverage also provides group contract holders with aid in establishing "employee assistance programs" that identify troubled workers and provide counseling.

Group auto

A new group automobile insurance plan underwritten by Provident General Insurance Co. has had 73 employees of Tampa Federal Savings & Loan Assn. sign up for the ride.

The new plan, effective May 1, includes bodily injury and property damage liability, medical payments, no-fault personal injury protection, collision, comprehensive, towing and uninsured motorist coverages. The basic plan offers \$100,000 of liability coverage and a \$200 deductible for collision, although a higher limit or lower deductible is available, said Stanley Lacy, executive vp at Tampa Federal.

Tampa Federal pays half the premium, which Mr. Lacy estimated to total \$17,000 a year. Future premiums will be experience rated.

Employees with one year of service are eligible and their coverage cannot be canceled. Their shares of the premiums are paid through payroll deductions. More than 80% of the savings and loan's employees have signed up for coverage.

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editorial opinions

Caught in the middle

INDUSTRIAL HYGIENISTS don't need to worry about unemployment, what with OSHA and the heightened corporate awareness of workplace safety.

But hygienists are worried that if proposed amendments to OSHA pass, hygienists won't be as much in demand and that the impetus for maintaining healthy workplaces will take a beating.

The amendments, proposed by Sen. Richard Schweiker, would exempt 90% of the nation's workplaces—those with good safety records—from routine OSHA inspections.

What's most interesting—and sad—is that corporate hygienists are being forced into a dilemma by both sides on this issue of reforming OSHA. As a story in this issue points out, the subject was the focus of much discussion at a recent meeting of the American Industrial Hygiene Assn. in Houston.

Business says OSHA is singularly unsuccessful and should be radically re-

formed or eliminated. Labor says OSHA is the best thing for worker safety since plastic glasses and hard-toed shoes and not only deserves to be saved but also should be strengthened.

In the middle is the corporate hygienist, whose responsibility is to the workers but whose salary is paid by business. No doubt the corporate hygienist sees both sides pretty clearly, recognizing OSHA's faults and failures as well as its strengths, but knowing the employer's goal of making profits while balancing investment in safety with the need to conserve and preserve assets.

Corporate hygienists charged with establishing and maintaining the health of workers must tell us clearly what parts of OSHA are needed and should be preserved. They must let legislators and business executives know whether OSHA has helped or hindered the occupational safety effort. And if it has helped, they shouldn't be afraid to say so.

Don't give up fight

INCREDIBLY, GENERAL Motors says it can't do anything to stop employees from fraudulently collecting sickness, accident and disability benefits.

It's almost unbelievable that a towering giant of industry must stand by helplessly while an estimated 5% to 10% of all paid-out benefit dollars go down the drain, supporting people who aren't really sick or disabled at all.

We don't know exactly what GM executives are now doing to curb this abuse by people who get phony medical certificates allowing them to be absent from work; GM officials don't want to discuss the findings of a recent investigation by the Flint Journal which were the subject of a story in our last issue.

GM's insurers feel equally helpless

about their chances of uncovering and curtailing this kind of employee benefit plan fraud.

What a mess. There is an analogy in the workers compensation liability field, where the incidence of lower back pain may be suspect, but an employer's hands are tied: Workers suspected of fraud can't be fired, evidence of fraud is nearly impossible to find and even a second opinion wouldn't uncover the presence or absence of a real injury, disability or pain because the injury isn't visible.

One thing is clear: Any company thinking of cutting back its benefit department staff to save money during the recession had better think again. At the very least, claims should be scrutinized very, very carefully.

letters

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

Retraction sought

To the editor: Your article "Trial to determine trust status" (May 19) states a trial will be necessary to determine if Insurance & Prepaid Benefits Trust is an employee benefits plan under ERISA and thus exempt from state regulation. This is not correct, in my opinion. Please refer to the enclosed judgment in U.S. District Court by Robert M. Takasugi, entered Jan. 30, 1979, stating that I.B.T. is an employee benefit plan and is subject to ERISA.

We ask that you retract your May 19 statement and restate it as above. Subsequent to our favorable judgment, I.B.T. pressed the Department of Labor for an affirmative determination to remove the adverse multiple employer trust marketing stigma created by the press and to enable I.B.T. to market in states other than California for the benefit of both current and potential members of I.B.T. The Department of Labor was specifically requested by I.B.T. to actively take part in the District Court case or at least attend as observers in the prior case; the DOL failed to do either, but subsequent to the favorable judgment, independently determined that I.B.T. was not an ERISA plan, without stating what I.B.T. needed to do to qualify and without offering an appeal procedure. I.B.T. then sued the Department of Labor for the purpose of having that department comply with the law and recognize the ERISA judgment in favor of I.B.T.

The matter is still in litigation, pending trial.

Thomas J. Wilkie
Administrator
I.B.T.
Tustin, Calif.

■ Judge Takasugi states in his most recent opinion (April 8) that the judgment you refer to was "reached by stipulation rather than by a ruling of this court." Whether I.B.T. is an employee benefit plan "within the meaning of ERISA is still an issue," the judge said.

Wrong impression

To the editor: In the recent article entitled "Risk pool questions linger" (by Roger Severns, Emmanuel Kalu, Paul Gronewoller, Barry Schweig and Dan Deines), April 28, a number of questions were raised by its authors. They create the erroneous impression that Congress has failed to consider them.

First, the authors suggest that the Colorado and Tennessee captive laws already permit the formation of the equivalent of risk retention groups. After noting that very few, if any, firms have attempted to form captives for the purposes of insuring product liability and completed operations, the authors ask: "Would the formation of federal risk retention groups change things significantly?"

Presently, the Colorado law requires either that the firms all be resident in the licensing state or that the captive qualify to do business in all the states where its insureds are located. The Risk Retention Act would eliminate this hurdle by enabling product sellers in numerous states to form a single group which would not have to qualify under various state laws. Hence, we would expect to see a substantial number of risk retention groups formed.

The second point the authors make is that a risk retention group with 20 or more dissimilar businesses with dissimilar product liability and/or completed operations risks would have difficulty obtaining reinsurance on a group basis. This observation is a non sequitur: while correct, it ignores the fact that 20 or more similar businesses with similar product liability and/or completed operations risks would quite likely be able to obtain insurance and reinsurance on a group basis. Because of the economics involved, as well as the aggregation of their experience, it is also quite likely that this group rate would be lower than the individual rates.

Next, the authors appear to confuse the requirement for pro rata assessments with the ability of the group to charge different rates to different risks. Assessments result only when a group is in the aggregate charging premiums less than the group's experience would warrant: a call for additional capital must be made on a pro rata basis. However, since the group is permitted to charge different risks different rates, and assuming the adequacy of those rates, there will be no need for assessments.

As far as the ability of these groups to bring lower premium rates to the "volatile" product liability insurance marketplace, I believe this to be unquestioned. Unlike commercial insurers, the product liability rates established by the groups will reflect their members' experience, not the zeal of commercial insurers to compete for various types of business. The volatile insurance market is in fact induced by the activities of the commercial insurers themselves. To the extent that the risk retention groups do not engage in such conduct, they should have a stabilizing effect on the marketplace.

With respect to the payment of legally valid claims, certainly risk retention groups would not "have any more incentive to pay gray area claims" than any other insurer. However, under the act, the secretary of commerce can require that legally valid claims be promptly adjusted; this authority is often lacking at the state level.

Next, with respect to the differences between offshore captives and risk retention groups, several comments bear note. While there is concededly an advantageous regulatory environment offshore, to a great extent this will be offset by the flexible regulation of risk retention groups afforded the secretary of commerce. Further, contrary to the suggestion in the article, most offshore captive companies are pure captives in that they are controlled by a single affiliated group of corporations. Also, contrary to the suggestion in the article, an offshore captive with only 10 equal members would not obtain deductions for premiums paid to the captive.

More importantly, the Risk Retention Act will enable business to insure domestically. As the risk retention group will be taxed like an insurance company, many of the same tax advantages can be enjoyed in this country.

Finally, the suggestion that the Risk Retention Act preempts the captive insurance company acts of Colorado and Tennessee is absurd. The Risk Retention Act merely provides another vehicle for licensing—a vehicle which is quite likely more advantageous.

Rep. John J. LaFalce
House of Representatives
Washington, D.C.

business insurance

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Decision to defend

Ind. OSHA to fight federal takeover

INDIANAPOLIS—The Indiana occupational safety and health administration will fight a federal takeover of its plan, the state labor commissioner says.

William H. Lanam announced Indiana's decision to defend its plan, responding to a letter from Assistant U.S. Secretary of Labor Eula Bingham.

Dr. Bingham's letter was federal OSHA's first step in withdrawing approval of the state plan, a move that could cost Indiana \$1.7 million and cause safety enforcement to be taken over by federal OSHA (BI, April 28, 1980).

Deficiencies the OSHA inspectors found in the state program and cited in Ms. Bingham's letter include: insufficient number of industrial hygienists, failure to identify serious hazards in the workplace and reduction in fines.

The case will now be heard before an administrative law judge and could possibly reach the U.S. secretary of labor.

Until the issue is resolved, Indiana's unit may continue to operate and receive federal funds. Workers will also receive safety protection from the federal OSHA, which has stepped up enforcement activities in the state.

Comp package

SPRINGFIELD—A key two-bill package designed to ease employers' workers compensation costs in Illinois cleared the Senate here.

The bills (S.B. 1739, S.B. 1740) would change the state's administration of workers compensation and would offer employers alternative forms of insurance (BI, April 14).

Key provisions of the legislation, sponsored by Sen. Aldo DeAngelis, would:

- Free employers from liability for preexisting disabilities.
- Exempt from compensation injuries acquired at recreational activities, unless the worker was required to attend.
- Limit attorneys' fees.
- Permit group self-insurance.
- Allow firms to band together to buy casualty insurance as a group, based on pooled experience.

But the package did not include a provision requiring the industrial commission to adopt disability standards urged by Gov. James Thompson (BI, May 19).

Malpractice limit

INDIANAPOLIS—Indiana's pioneer law limiting the amount an injured patient can collect in a medical malpractice suit was upheld in a unanimous state supreme court decision here.

Every provision in the 1975 law was ruled constitutional by the court. Indiana's statute, the nation's first, served as the model for many other states in dealing with the malpractice crisis.

Awards against health care providers are limited to \$100,000 for any one defendant and \$500,000 for any one incident, under the Indiana statute.

A lawyer's contingency fee can be no more than 15% of the state fund's award, according to the law. A lawyer may receive an amount on a per diem basis from a claimant, however.

The law also requires that a medical review panel hear all claims before a suit can be filed.

Premiums in the state increased as much as 1,200% over a 15-year period because of the increase in number and size of claims, according to Justice Roger O. DeBruer,

around the states

who wrote the opinion in the case.

Some doctors could not buy malpractice insurance at any price and surgery was reportedly canceled in some rural areas, Justice DeBruer said.

Challengers to the law argued that a limit on the amount of damages sought in a malpractice suit violates free speech as well as court rules. Findings of a review panel would be biased, they said.

Silver coverage

NASHVILLE—Policyholders

are spared an increase in rates for silver coverage after Tennessee insurance commissioner John C. Neff denied two rate increase requests.

The increases, filed by New York Central Mutual Fire Insurance Co. and Aetna Casualty & Surety Co., called for a hike in rates to 50 cents per \$100 of coverage from 22 cents.

"With the silver market in such a state of fluctuation I did not believe it would be a responsible action to grant the increases, and secondly, the companies did not

present enough statistical data to show that the increases were justified," commissioner Neff said of his denial.

No suit allowed

FRANKFORT—A man who failed to win a workers compensation claim cannot sue his employer under the state occupational safety and health act, the Kentucky court of appeals has ruled.

Alvin Stinnett Jr. was severely injured four years ago when he fell off a barn roof near Hardinsburg while employed by Dr. Earl Buchele as a farm laborer. After Mr. Stinnett lost his claim before the state workers compensation

board, he alleged that the physician had violated two state safety regulations.

"Even if we were to assume, which we do not, that these regulations were applicable to this particular repair job ... courts have uniformly stated that a violation ... does not give rise to an independent tort action by the employee against his employer," the three-judge appellate panel said in its decision.

Although painting a barn roof can be considered hazardous, the court said, an employer cannot be held liable for failing to provide a safe workplace merely because he asked the employee to work on the roof.

THE COST TRAP
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Only looking at a small piece of the problem can lead to a big mistake.



Industry hygienists defend OSHA law

By SHARON WATSON

HOUSTON—Industrial hygienists are waging a grass roots campaign to fight proposed amendments to the Occupational Safety and Health Act of 1970.

The official organizations of industrial hygienists aren't taking a position on amendments to the OSHA Act proposed by Sen. Richard Schweiker (R-Pa.), but individual members circulated petitions opposing the amendments during an annual convention here two weeks ago.

The Schweiker bill would exempt 90% of the nation's workplaces—those with good safety records—from routine OSHA inspections.

"We want them (Sen. Schweiker and other supporters of S. 2153) to

know that it's not just labor unions who oppose the bill," Dr. Frank Rosenthal, a member of the New York committee on occupational health and safety, said at a committee meeting during the annual convention of the American Industrial Hygiene Assn. and the American Conference of Governmental Industrial Hygienists.

The AIHA committee on social concerns canceled its regularly scheduled program to present a forum on Sen. Schweiker's Occupational Safety and Health Improvement Act of 1980.

"There was so much interest that we felt we should address this issue and how it affects industrial hygienists," said Eileen Senn Crenshaw of Chester, Pa., chairwoman of the committee.

The field of industrial hygiene has grown significantly since the creation of OSHA, which made the profession necessary to industry.

A well-organized campaign circulated petitions to "Protect OSHA" during the afternoon social concerns session. "We are opposed to this and any bill which would exempt large numbers of industries from routine OSHA inspections," Dr. Rosenthal declared. He said proponents of the Schweiker bill are using the failings of OSHA as rationale for weakening its power.

Speaking from the panel, Mark DeBernardo, labor relations attorney for the U.S. Chamber of Commerce, argued OSHA has not been successful in its nearly 10 years of existence. The basic concepts of OSHA need to be rethought, he

said. A cost-benefit analysis would prove OSHA historically unsuccessful, he added.

"We've tried the crime and punishment approach (inspections and citations). Let's try a constructive approach," Mr. DeBernardo urged. "Let's allocate safety dollars to true abatement of hazards."

Sensing overwhelming opposition to his views, Mr. DeBernardo nonetheless fired salvos at activists on the panel and in the audience. "The unions are using this issue as a political rallying point, a chance to 'win one,' " he said.

In response, Fred Maybry, Southwest representative of the United Steel Workers of America, said his statistics differed vastly from Mr. DeBernardo's. He said many figures were "washed" by

settlement agreements.

The Schweiker bill would make workers pay for their rights* to health and safety through death or hospitalization, Mr. Maybry countered, referring to provisions that in some cases would allow inspections after accident.

Mark Nicas, a hygienist and an OSHA field officer in Wisconsin, said the general perception that the Schweiker bill would not affect health inspections—just safety inspections—is wrong. Many health inspections occur on referral after a safety inspector notices possible health hazards, he said. The bill would not allow such referrals, he believes.

The petitioning group of hygienists says any change in OSHA should strengthen the agency, not weaken it. But they don't offer an alternative proposal to the Schweiker bill at this time. "We haven't had time," Ms. Crenshaw said. "The point is to show (bill proponents) that industrial hygienists are opposed to the bill."

Taking a more moderate viewpoint, Dr. Fred M. Toca of the G.E. Plastics Division in Pittsfield, Mass., said there is a need for OSHA, but he sees room for reform.

A member of the AIHA board, Dr. Toca said both sides agree on a common goal: protection of the worker. But "regulations have been meted out one-by-one. . . . We don't need this nitpicking. We need standards."

As an industrial hygienist who also is a line manager, "I'm glad there is an OSHA, but I want them to help me do my job," he said. ■

Everybody wants to control health care coverage costs. But sometimes executives can make a costly error.

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INA to establish more Sunbelt HMOs

By SHARON WATSON

DALLAS—INA Corp. plans to expand the availability of prepaid health care by opening more health maintenance organizations

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in the next five years, executives announced here.

Through its subsidiary, INA Healthplan Inc., INA will both acquire and develop HMOs, primarily in the Sunbelt states. Its feasibility studies showed the most growth potential in the Sunbelt, which has fewer HMOs than other parts of the country.

The expansion of INA, whose insurance subsidiaries underwrite conventional health insurance plans, into the operation of HMOs marks another milestone in the acceptance of HMOs by the conventional health care delivery market.

Blue Cross/Blue Shield is also operating HMOs in various parts of the country.

In Dallas, INA will invest \$14 million in HMO construction and operation over the next three

products & services

years, said Healthplan president James Buncher. Two health care centers are under construction, with a third to be opened by 1981.

INA is about to begin similar projects to be operational by 1981 in two other Southwestern cities, said Larry Kugelman, senior vp in charge of HMO acquisition and development. He declined to name the cities.

HMOs are touted by many health services experts as cost-cutting health care delivery systems.

"We see the potential to develop significant business (in HMO operations) over the next 10 to 20 years," Mr. Kugelman said. A successful HMO is one with 50,000-

plus members, he added.

The Dallas facilities represent the first "from the ground up" project by INA. In late 1978, INA's corporate strategy identified prepaid health plans as a potential area for growth, compatible with its insurance administration and hospital management operations. Studies were made of 77 potential markets.

INA Healthplan Inc. was formed at the same time HMO International, a Los Angeles HMO with 125,000 members, was acquired. HMO International became INA Healthplan of California. INA is currently updating its 18 health care facilities there.



Dirk deLange inspects plans for a new HMO.

A second operational HMO was acquired in 1979: ABC HMO of Phoenix, Ariz., with 55,000 members and four centers in the metropolitan Phoenix area. ABC is now INA Healthplan of Arizona.

INA also manages two HMOs in Florida.

INA Healthplan of Texas is the first start-from-scratch development.

"Dallas was chosen as the most promising market with the most potential for development of HMOs," said Dirk deLange, vp and general manager for the Texas plan.

In addition to the construction of three centers with their own staffs, the HMO project has contracted with at least three major hospitals for hospital care and 90 to 100 specialists.

Federal and state certification of the Dallas operation is expected in June, with the HMO opening July 1. Mr. Kugelman said major employers have been solicited, though he declined to say who was interested.

Competition from two other HMOs, Kaiser-Permanente/Prudential and Metrocare, both a year old, could be tough. But Mr. Kugelman says he views the plans as partners in expanding the reputation of prepaid health care.

"Right now the HMO idea is so embryonic that we don't feel we are competing against other HMOs," he said.

Safety monitor

Bothered by benzene? This and other organic vapors including toluene, acetone, xylene and acrylonitrile can be detected through use of a monitor introduced by 3M.

The Organic Vapor Monitor Model 3500 measures time-weighted average concentrations of hazardous fumes in the workplace. The unit, the size of a silver dollar, is worn on a worker's collar.

The contaminant is absorbed by a charcoal wafer in the monitor and then analyzed.

3M also offers a monitor analytical service that provides gas chromatographic analysis. Samples are analyzed and a written confidential report is returned to the customer within 72 hours.

Security seals

Two new cargo security devices will soon be available from Brammall Inc. in Angola, Ind.

One of them is a new version of the Cone Loc that is permanently attached to railroad car or trailer truck hasps, eliminating the need to replace the cone with each shipment and making seal installation a one-step procedure.

Also new is a security seal design that uses a loop of high tensile strength aircraft cable and a forged aluminum base drilled and threaded to accept a #8 semi-heat-treated hex bolt. Tests have shown this lock has a pull strength of 6,000 indicated gauge reading, exceeding that of the cable used. ■

What makes John Hancock's International Group Program the best in the world? Ask Derek Chilvers.

Derek Chilvers, Vice President International Group Department, is one of the key people responsible for the formation and development of IGP.

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Which brings me to another point that separates us from the rest: *flexibility*. If a client asks for something, our people know that they're to do everything possible to get

it done. Even if it's never been done before. And if it's a problem on the local level, we go as far up the ladder as necessary with our Associate Insurer to work it out. It's understood. We do it automatically, every day, no question.

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"We have 37 people with a lot of experience, the largest staff in the international employee benefits field. Naturally, we can offer better and more comprehensive services. We play a whole different kind of ball game."



"Unfortunately, many multinationals just consider up front costs. They don't see the hidden costs of a less efficient program. In the end, they could spend as much or more. And get much less."



"People perceive insurance companies, and I think rightfully so in many cases, as a bunch of people who simply go by the book. If it says 'XYZ', you say 'XYZ'. We don't operate that way at all."

Swiss courts see few insurance claims: Survey

ZURICH—Only a fraction of all insurance claims filed in Switzerland every year wind up in court, a survey of major Swiss insurance companies shows.

Only 259 of the 1.8 million claims in a year grew into lawsuits, according to the survey results published by the Publishing Service of Insurance Information.

Most claims are settled out of court because private insurers are generally lenient in claim settlements and public agencies heavily regulate the process.

Also holding down the number of lawsuits is the frequent use of private insurance ombudsmen who are called in to mediate claim disputes as independent parties. The system is generally successful in helping to hammer out settlements agreeable to all parties, the survey said.

Dutch acquisitions

AMSTERDAM—Look for Nationale-Nederlanden, the giant Dutch insurance group that recently purchased the Greek insurer Proodos, to make further international acquisitions and expansions this year, according to its annual report.

Nationale-Nederlanden last year bought Life Insurance Co. of Georgia. This year it acquired Proodos, one of the largest Greek insurers, in a move seen as the opening of a gateway to the Mideast and Africa (BI, May 19).

Established in 1963, Nationale-Nederlanden is one of the 10 largest insurance groups in the European Economic Community. It writes 12% of all nonlife coverage in the Netherlands, with 40% of its revenues coming from outside the home country.

Swedish premiums

STOCKHOLM—Sweden's non-life insurance industry collected \$2.2 billion in premiums during 1979, leaving insurers optimistic about the 1980s despite inflation and a labor crisis in which hundreds of thousands of workers have lost their jobs. The majority of the nation's nonlife coverage is written by Skandia, Trygg-Hansa, Floksam and a federation of smaller firms known as the County Group.

Sign language

LONDON—In an effort to provide greater safety for deaf passengers, cabin staff of U.K.-based Air Europa are being taught sign language.

"If you're blind, someone usually notices your ailment. But deaf people are not so easily recognizable, so it's essential for rapid communication to be established with them in case of emergency," said Peter Staerck, an airline steward.

Zimbabwe market

SALISBURY—British insurers, waiting to see whether the new Robert Mugabe regime nationalizes Zimbabwe's insurance industry, will try to reestablish themselves in the market here.

U.K. insurers are no longer bound by economic trade sanctions against the republic, formerly called Rhodesia, that were imposed by Great Britain in 1965. The sanctions blocked Lloyd's of London from doing any business in the country, whose growing to-

worldwide

bacco industry has yielded sizable premiums to foreign reinsurers of South African underwriters.

Lloyd's reportedly is confident of receiving some reinsurance business even if the Mugabe government nationalizes the insurance industry or sets up a state-owned company. A Lloyd's delegation is planning a trip to Zimbabwe to set up business contacts there, London sources said. ■

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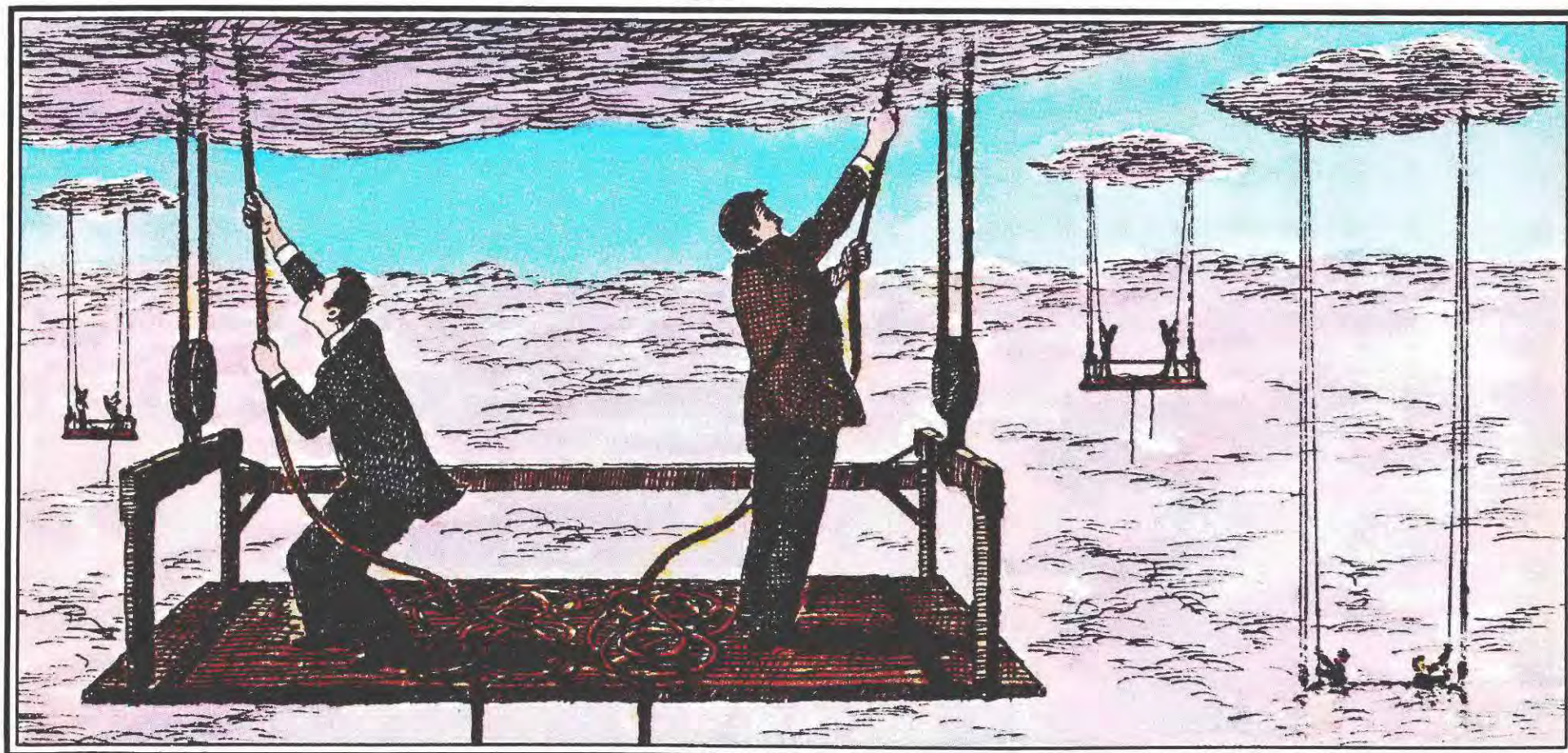
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Growing Interest in



With financial pressures tending to restrict expansion of employer-paid benefits, many companies are giving their employees an opportunity to buy supplemental coverages at a savings through elective plans.

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

Amid widespread expectations that some degree of inflation will persist indefinitely, many companies have become concerned about the effects on their employee benefit plans and the protection those plans provide to individuals and their families.

Paid benefits are already a major expense for U.S. employers. The cost of providing benefits reached an estimated \$60 billion in 1979, representing 35% to 40% of total wages and salaries. Automatic benefit increases based on cost-of-living adjustments are frequently an issue in collective bargaining. But at the same time,

current federal guidelines for increases in employee compensation discourage new benefit outlays, since any additional benefits reduce possible wage increases.

One way companies are responding to employees' needs, however, is through supplemental benefit plans developed by insurance companies for group distribution on a voluntary, wholly employee-paid basis.

Savings all around

Voluntary plans can represent a substantial cost savings to the employee, compared with individual purchase. This is because the

insurer's sales and administrative expenses are lower for these group distribution plans. It is also due to the savings resulting from the convenient payroll deductions and other administrative work handled by the employer.

The voluntary benefits receiving most emphasis today include life insurance and insurance against accidental death and dismemberment, as well as long-term illness and injury. Personal thrift plans are also growing in popularity.

In each case, the company sponsors the plan, calling attention to it through employee communications and making it available to all eligible employees during special enrollment periods.

Updating protection

Since living costs have risen more than 80% since 1970, over \$18,000 of life insurance is required today to provide protection equal to a \$10,000 policy purchased ten years ago. This is a major motivation for employee purchase of low-cost life insurance,

Voluntary Benefits

both term and permanent, above and beyond the level of basic life protection provided and paid for by many employers.

Permanent insurance, the most common form of voluntary life, features a steady increase in paid-up insurance and in cash values, which after retirement can provide an employee with paid-up lifetime protection.

Voluntary term insurance, on the other hand, owes its growing attractiveness to its reduced rates, particularly for the lower age groups whose need for life protection is usually greatest. Premiums remain level over 5-year age brackets, for example from age 25 through 29 and 30 through 34, and are fixed for each employee regardless of how many other employees sign up. The benefits payable generally range from \$10,000 to \$50,000, with some plans going beyond \$100,000.

Additional security

Closely related is a voluntary plan providing income in the event of long-term illness or injury. This

plan is intended to be supplementary to basic company-paid salary continuance plans which provide income during the first months of disability. Many long-term disability plans are paid for entirely by the employee; in some companies, however, employer and employee share the costs.

The most widespread voluntary benefit of all protects against accidental death or permanent and total disability due to any kind of accident, on the job or off. The choice of benefit levels usually ranges from \$10,000 to \$300,000, in addition to any benefits payable by any other insurance. Payroll deductions — a typical cost is \$5 a month for \$100,000 protection — are low enough to be affordable by practically all employees.

A qualified thrift plan commonly offers employees a choice of investing in equity funds or in a fixed-income vehicle with the advantage of deferring federal income tax until withdrawal.

The fixed-income option is often provided by a group annuity contract which guarantees the

principal and annually credits competitive interest accumulation. While an employer contribution is required in a thrift plan, a plan with no employer contribution may obtain the same advantage of tax deferral to employee participants if only the group annuity contract is used as a vehicle.

Voluntary insurance plans of the kind described here are written by Life Insurance Company of North America and by INA Life Insurance Company of New York, two of the INA companies.

Comprehensive services for business

Recognizing and meeting complex needs, such as those of employers and employees for voluntary benefits, typifies INA's comprehensive approach to increasingly sophisticated business insurance and risk management problems.

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

For an informative booklet on voluntary employee benefits, write INA, Dept. R, 1600 Arch Street, Philadelphia, PA 19101.

Opportunity knocks again

Relatively few homes have been visited by a life insurance salesman in the last ten years, in contrast with a generation ago when door-to-door solicitations were routine.

As a result, many families don't have all the life insurance they might need.

A presentation of voluntary group life at employer-sponsored meetings may be the first face-to-face explanation of life insurance most employees have ever experienced.



INA
The Professionals

Research grant

A \$2,550 research grant has been awarded to a Tulane University graduate student by the International Foundation of Employee Benefit Plans. Margaret Carol Noyes will study the potential impact on the health insurance market of mandatory "cafeteria-style" health care packages.

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Alabama firm banks on Cale

comings & goings: buyers

JOHN C. CALE, 59, has been named director of corporate insurance and real estate at Southern Bancorporation in Birmingham, Ala., to replace **Lew Ferrell**, who retired June 1. Mr. Cale, who reports to bank administrator Bill Pearson, will be responsible for insurance and risk management for Birmingham Trust National Bank and other banks owned by Southern Bancorporation. He has an A.B. degree from Birmingham Southern University and an M.S. degree from Indiana University.

Before accepting this new job, he was a vp in the trust department of Birmingham National for 18 years. Mr. Ferrell handled the insurance and risk management function at Birmingham National for the past 18 years and also consolidated the insurance program for the parent concern. He has been a member of RIMS since its early days and currently is national director from

Alabama.

Dravo Corp. in Pittsburgh has named **Thomas G. Noel**, 49, director of compensation and risk management, a new position. Mr. Noel, who previously was director of hazard control, will be responsible for directing medical, loss prevention, corporate liability, property insurance and benefits. He has a

B.A. degree in political science from Franklin & Marshall College and has taken courses at Duquesne University and the University of Pittsburgh. He reports to James Copeland, senior vp of planning and employee relations.

The Iowa State Assn. of Counties has named **David M. Murphy** to the newly created position of risk manager. Mr. Murphy, who previously taught insurance at Des Moines Area Community College, will report to Don Cleveland, executive director of the association. He has a B.S. degree in safety from Central Missouri State College and a background in loss control gained while working for an insurance company. He will be responsible for providing member counties with risk management services, especially in the liability area.

In a move that has transferred benefits from corporate to group headquarters, Searle & Co. in Chicago has named **Craig J. Blair**, 37, director of operations/compensation and benefits and **Michael F. McDermott**, 32, manager of benefits planning and administration. Mr. Blair will develop and implement a compensation and benefits program. He has a B.A. degree from Franklin College and reports to Peter Baron, group vp/human resources. Mr. McDermott, who joined Searle in 1977, will be responsible for management of benefits and pension administration. He has an A.B. degree in economics from Notre Dame University and an M.B.A. from Loyola University. He reports to Mr. Blair.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Mary Ann Matlock, Business Insurance, 708 Third Ave., N.Y., N.Y., 10017 or call 212-986-5050.

Awards contest cutoff extended

CHICAGO—The closing date for entries for The Hartford Loss Awards competition has been extended to June 15. The contest, offering \$75,000 in prizes, is soliciting new ways of reducing workplace accidents.

Presentations will be made at the annual meeting in October of the National Safety Council in Chicago.

Further information and entry forms are available from The Hartford administrator, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611.

Judges for the competition are: Sen. Abraham Ribicoff (D-Conn.); B. Gawain Bonner, director of loss control at Tenneco Inc., Houston; Dr. Frederick Clarke, director of the Center for Fire Research, National Bureau of Standards; Doris Flournoy, executive editor, Journal of Occupational Medicine; Dr. John V. Grimaldi, professor of safety and systems management at the University of Southern California-Los Angeles; Alvin F. Grosspiron, retired president of the Oil, Chemical & Atomic Workers International Union; Dr. Robert H. Kirk, chairman of the division of health and safety at the University of Tennessee; Jerome A. Mark, assistant commissioner for productivity and technology with the Bureau of Labor Statistics; George E. Smith, international representative for the International Brotherhood of Electrical Workers, and H. Clark Underwood, director of safety and health for PPG Industries Inc., Pittsburgh.



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perspective

Cutting the cost of care

Providers, users need incentives

By Robert J. Cardinal

HEALTH CARE COSTS for the average employer are almost three times what they were 10 years ago. The bill for the whole country is \$200 billion, with the largest items physician and hospital services. Only home and energy costs have gone up faster.

This is not surprising, because there have been few incentives to lower costs. Health care is outside traditional market forces, as the attempts to close unneeded hospitals demonstrate. Although we have 316,000 surplus hospital beds, closings are successfully resisted not only by those who would lose jobs, but also by those who would lose prestige.

However, it is surprising that employers, too, pass up opportunities to contain costs. For example, only 3% of the top 1,000 corporations use claims audits, a basic tool for cost containment.

How do we reduce administrative costs? How do we minimize costs within the system? How do we make the system more cost effective?

Basically, we must provide incentives—for consumers to regard health care dollars as their own and for providers to use this costly system appropriately.

Costs are needlessly high. For instance, unemployed people average 1,000 to 1,200 hospital days per 1,000 people per year; the working population averages 900. Yet when health care providers are efficient and/or have a stake in cost containment, quality care can be given at 600 hospital days per 1,000 people (Mayo Clinic) or 450 (Kaiser-Permanente) or 400 (seven HMOs in St. Paul-Minneapolis).

We must concentrate incentives in those areas that produce the health care, and employers must become alert to cost containment options and practices.

Employers can cut costs by sharing costs with employees, self-insuring and careful claims management.

Sharing costs with employees reduces premium costs. Some plans are moving toward higher deductibles. These provide an incentive for employees to be concerned about costs because they must make some initial payment toward the claim: \$100, \$300, \$500.

The key to this approach may be the eventual growth of "cafeteria" plans and the educating of employees so they



understand that selecting a cheaper plan also may allow them to put money saved into some other benefit, such as vacations.

Financial structures of benefit programs range from fully insured to fully self-insured, with many options between the extremes: minimum premium, aggregate and specific stop-loss coverage and others.

Fully insured plans are almost risk-free, but compared to some form of self-insurance are expensive options for three reasons:

- The insurer has expenses you are paying for in overhead and profit.
- An insurer pays taxes on premiums. Self-insured contributions and reserves are not considered premiums and are tax-free.
- Investment earnings of insurance companies are taxed. Earnings by employee benefit trusts are not taxed so long as they are applied against administrative expenses.

Determine how much risk you can assume and investigate the options.

Claims management—by the insurer, third-party administrator or your own firm—offers great potential for savings. Costs should be about 3% to 4% of your contribution. Since 85% to 90% of your contribution is paid in claims, it is important to look at the caliber of the claims managers and at how much they can save. A 5% reduction in claims pays an administrator's fee, a reasonable goal. But a 5% increase doubles the fee.

Here are some other cost containment tips:

- Eligibility verification. Are you paying after hiring date? Before termination? What about dependent eligibility? We've had employees make maternity claims when their legal wives were not pregnant or have had a



Stake in system

When health care providers use their tools efficiently or have a stake in thrift, quality care can be given at a lower average number of hospital days per 1,000 people per year.

hysterectomy. And people claim for their neighbors' kids. Hospitals don't know relationships and family histories, but claims-payers should.

- Are you enforcing your "preexisting condition" clause?

• Coordination of benefits is used by 90% of the Fortune 1,000. But how well? The national average is only 3.8% in cost reduction from COB, whereas some firms achieve 12% to 14%. To prevent claims from being paid twice, check hospitals, previous records and personnel departments.

- Subrogation should be more widely used. For example, if you are paying a claim for a person injured in an auto accident that was the fault of a third party, you can subrogate and recoup your payment from the third party's liability or medical insurance.

• Claims audits can lead to great savings. Take them as a standard procedure and require less than 5% errors. Rather than make a superficial review of all claims, supervisors each day should pull two claims from examiners' stacks and audit them.

This system can cut error rates as much as 10%. Claims of more than \$5,000 should be reviewed by supervisors and those of more than \$10,000 by the director of claims and, in some cases, by the medical director.

extended coverage

We at MICA have independent audits, too, and the 30 major insurance insurers we pay claims for audit their plans yearly. But we still find errors, even though we are more experienced and thorough than most employers are with benefits.

Audits are basic. Insist on them.

- Check against "usual, reasonable and customary" charges. One study reveals that 90% of providers whose charges were high cut them to a lower "usual" figure when challenged.

• If the bill is more than \$20,000, we find third party audits of a hospital's charging system worthwhile. Charged twice? Paying for services not received? The answers to such questions can sometimes save you money.

Now, what can be done to change the expensive system?

First, we can support competition and create market forces. One benefit of health maintenance organizations is that doctors providing preventive care have a stake in not routinely sending people to hospitals. That's why Kaiser-Permanente runs 450 days per 1,000 people and normal plans run 800. Of course, HMOs also must be screened.

We could also include new and preventive features in plans. Outpatient services could handle some 20% to 40% of operations—hernias, vasectomies, tonsillectomies, D and Cs—and dispense with the usual two- or three-day hospital visit.

Payment for second and third opinions requires further study, but could be used voluntarily. Preadmission testing can cut a day or two off hospital stays.

We could use new and creative health systems: concurrent reviews, PSROs. One program contracts with the doctor to maintain a family's health and to pay for all services, including hospital care. He has an incentive to minimize costs.

We could probably do much to improve health if we paid for improved diet control, exercise programs and improved prenatal care. Currently, only about 3% of employers pay for "well baby" care.

It's your money—\$200 billion a year. If you exercise your muscle as thrifty businesses, there is a great deal you can do to keep your employees healthier at a much lower cost.

Some suggestions

Employers can cut health care costs by sharing costs with employees, self-insuring and careful claims management, says Robert J. Cardinal.



Robert J. Cardinal is president of Mass Insurance Consultants & Administrators in Chicago. His tips are taken from a presentation to the Corporate Benefit Managers Conference earlier this year.

perspective

Punitive damages

Work comp court fights can hurt

By Thomas R. Bond

WITH INCREASING frequency, the umbrella of protection provided to the employer in the form of workers compensation statutes within our various states is being circumvented when the employer or his workers compensation insurer harms the injured employee by acting in bad faith or discouraging the filing of workers compensation claims.

Punitive damages are being sought and obtained when the employer or its insurer has acted in bad faith in handling the workers compensation claim. Also, such damages have been awarded when the employer has engaged in retaliatory firing of an injured employee making such a claim.

Several very recent appellate court decisions help us understand this new aspect of workers compensation.

In liability cases, punitive damages may be awarded when there is bad faith by the insurer because there is a covenant of good faith and fair dealing implied in every insurance policy. In other cases, it has been held that what is required is a reckless disregard of the insured's rights or what has been described as quasi-criminal conduct on the part of the insurer.

In Pennsylvania, however, there have been no cases in which an action

Thomas R. Bond is an attorney with the law offices of LaBrum & Doak in Philadelphia, Pa.

Winning cases

Workers are winning punitive damages from employers and insurers.



Employer's defense

Employers say a worker's remedy is exclusively under work comp laws.



has been allowed against a workers compensation insurer for punitive damages based upon gross misconduct by the insurer in the handling of a claim. In other states, however, such actions have been allowed, mostly for retaliatory discharge of injured or allegedly injured employees.

The most discussed case on this issue is *Frampton vs. Central Indiana Gas Co.*, 297 N.E. 425 (1975), a case de-

cided by the Indiana supreme court. The claimant was threatened with firing if she filed a workers compensation claim for an injury sustained on the job. Thereafter, she filed a claim and was paid, but fired about one month after her return to work.

She brought an action seeking damages for emotional distress and sought compensatory and punitive damages. In the lower court her action was dis-

missed on a technicality. On appeal, however, the court overturned the dismissal and the action was permitted to proceed.

The court ruled there existed a strong public policy favoring workers compensation and the right to file claims. A remedy is required when this right was threatened, the court added.

The case of *Coleman vs. American*
Continued on page 20

Can your insurance pay? It's complex

By Victor B. Levit

ARE PUNITIVE DAMAGES awarded in liability or workers compensation cases insurable?

We are now getting some guidance from the courts on this important question. Logically, one would think such damages were not insurable, since the purpose of punitive damages is to deter conduct of a defendant. But there is also a rule saying that if something is not excluded from coverage, it is included, or at least some courts have followed this approach.

Before dealing with any specific decisions, I would suggest that the rules in this area are more complex than they would appear on the surface. I think the specific facts before the court are vital in determining what signifi-

cance to give to the result.

If the Oregon supreme court decided, as it did in *Harrell vs. Travelers Indemnity* (1977) 567 P2 1013, that it was not against public policy to insure against punitive damages in a gross negligence case, it does not follow that in a case involving actual fraud or an intentional, willful act that punitive damages would be insurable.

Indeed, I doubt that such damages would be insurable today even in Oregon.

This is why it is so important to know the facts of the case precisely in order to interpret the significance of the court's decision. Anyone who attempts to catalog the 46 states allowing punitive damages and divide them up as to whether such damages are or are not

insurable is quite likely to arrive at an erroneous conclusion.

In many states, there are no decisions whatever on this issue. Even in those states where there may be a decision, the decision should be read in light of the specific facts before that court.

The most recent case dealing with this important issue of insuring punitive damages is *Hartford Accident & Indemnity Co. vs. Village of Hempstead* (1979) 48 NY2 218, a unanimous decision of the New York supreme court.

The case involved intentional infliction of injury by police officers. The court accepted the insurer's position that it would be against public policy to allow insurance of the punitive damages.

"The strongest arguments against coverage are that it defeats the purpose of punitive damages, which is to punish and to deter others from acting

Continued on page 20

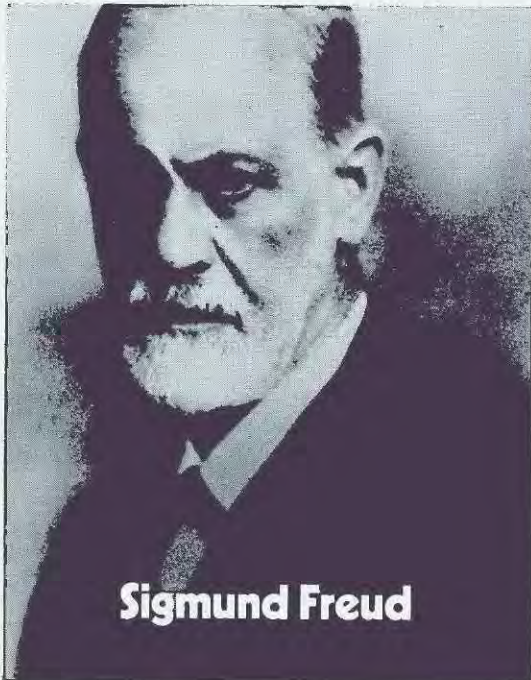


Hard to judge

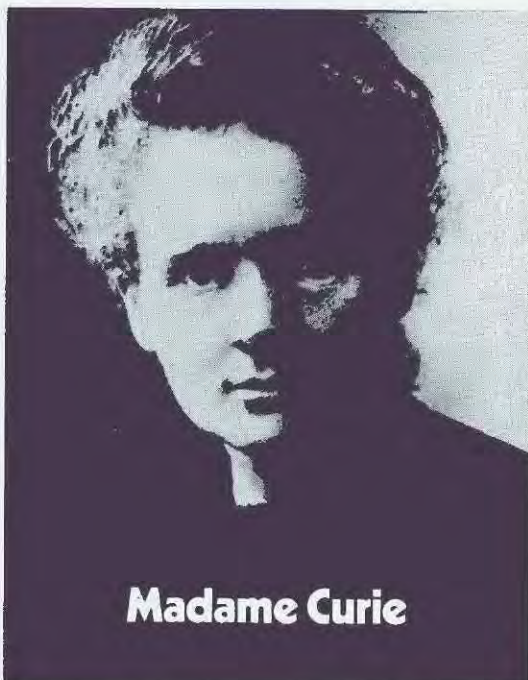
The rules in this area are far more complex than they would appear, says attorney Victor B. Levit.

Victor B. Levit is managing partner of Long & Levit, a San Francisco and Los Angeles law firm. He is also chairman of the professional liability committee of the general practice section of the American Bar Assn.

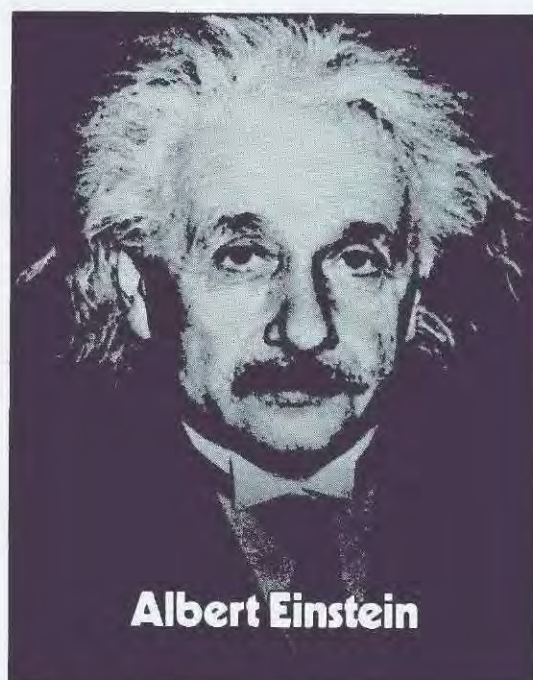
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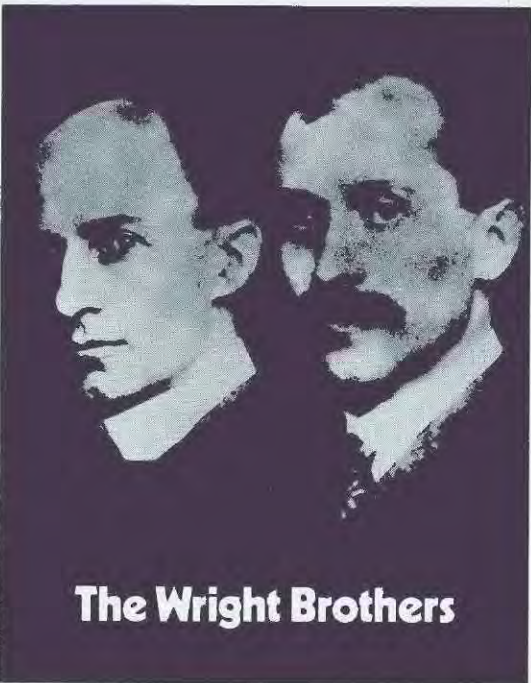
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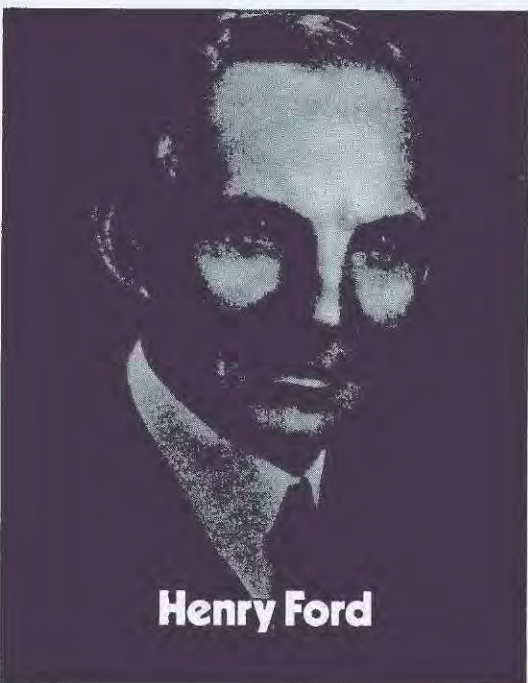
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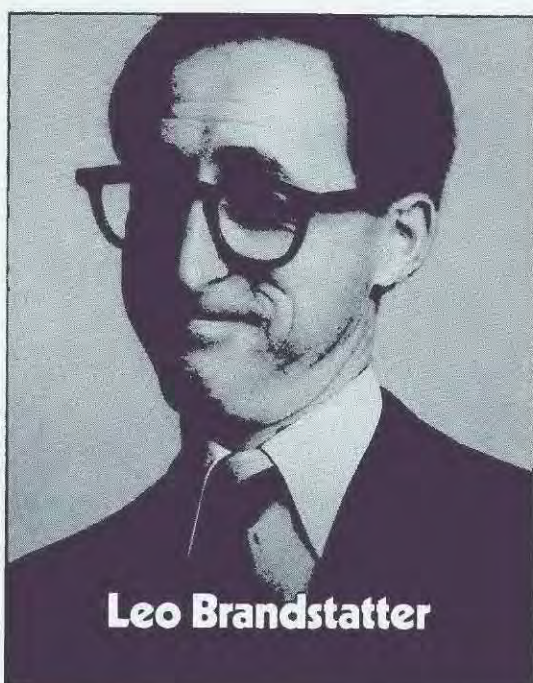
Albert Einstein



The Wright Brothers



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Then Madame Curie.

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

Leo Brandstatter?

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Which is why the world will always remember the contributions of Freud, Einstein and Brandstatter.

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Let us take the risks.

perspective

Work comp worry: Punitive damages

Continued from page 18

Universal Insurance Co., 273 N.W. 2d 220 (1979), in Wisconsin, is also relevant. The claimant was receiving compensation and on three separate occasions his payments were arbitrarily cut off. In response, he filed an action for bad faith, requesting punitive damages.

The employer rested its defense on the argument that the claimant's remedy was exclusively under the workers compensation law. The court disagreed, indicating the injuries for which the claimant was seeking damages did not arise out of his employment and therefore did not fall within the exclusivity provisions. The action was permitted.

The court also alluded to another case saying an action for bad faith conduct and intentional infliction of emotional distress can be brought in addition to legal action for recovery under the penalty provisions of the workers compensation law.

The next important case is *Kelsay vs. Motorola Inc.*, 389 N.E. 2d 353 (1978), also involving retaliatory discharge after the filing of a workers compensation claim. The jury returned a verdict of compensatory and punitive damages, which was sustained on appeal. Punitive damages were stricken, however, because the court believed this

was an area of the law that could not be predicted by the defendant and, therefore, should not give rise to recovery.

In an Oregon case, *Brown vs. Transcon*, 588 P.E. 2d 1087 (1978), it was held that there is a right to institute action outside the scope of the compensation act for retaliatory firing. But just as the court in *Kelsay* held, the concept of punitive damages within workers compensation matters constituted a new area of law and, therefore, the court proceeded to exclude the assessment of punitive damages in this particular case.

Now let us return to Pennsylvania. If an employee was discharged for exercising his right to file a workers compensation claim, it is quite reasonable to believe an action would be permissible outside the scope of the compensation act.

In 1974, the Pennsylvania supreme court, in the case *Gary vs. U.S. Steel*, held that an employee would have a cause of action against his employer if his discharge were in violation of valid and recognized public policy.

Such a case arose in 1978. An employee was discharged for exercising her right to jury service. There is very clearly in Pennsylvania a public policy which permits and, in fact, encourages the payment of workers compensation



Bad faith actions may bump aside the exclusivity of workers compensation laws.

benefits and protects the injured employee's rights to these benefits. Therefore, it seems fairly clear that in a case where an employee alleges that he was wrongfully discharged for exercising his right to file a claim petition under the workers compensation act, the case could go to the jury.

All of the cases cited share one issue: the necessity to get outside the exclusivity provisions of the workers compensation law on the basis of intentional and wrongful actions or bad faith actions on the part of the employer or the workers compensation insurer.

The Pennsylvania workers compensation act provides that it is the exclu-

sive remedy for a person who has sustained a work-related injury. Once the hurdle of exclusivity has been cleared, punitive damage counts can be tacked onto the other counts. In Pennsylvania, at least it is probable that the workers compensation exclusivity hurdle can be cleared.

In the case of *Reed vs. Hartford Accident Co.*, 367 F. Supp. 1344 (E.D. Pa. 1973), the court held that when there had been an industrial accident and agreement for total disability, the arbitrary cessation of benefits by the insurer followed two years later by a modification petition would give rise to a cause of action.

At the first hearing on the petition, all of the medical testimony pointed to continued and total disability of the claimant. The complaint contained four separate causes of action:

- Intentional economic duress.
- Conversion of funds.
- Abusive process.
- Breach of contract.

The federal court held that these causes of action did not arise under the workers compensation law and so was within the federal court's jurisdiction. The court held that the law covers only causes of action arising out of employment-related accidents.

Punitive damages loom likely. ■

Punitive awards may be insurable

Continued from page 18

similarly, and that allowing coverage serves no useful purpose since such damages are a windfall for the plaintiff who, by hypothesis, has been made whole by the award of compensatory damages. To allow coverage, it is said, passes on to other premium payers the punishment intended for the defendant, creates a conflict of interest between insurer and insured and a conflict between the rule permitting the jury to consider the defendant's financial standing in fixing the amount of punitive damages and the rule against revealing insurance coverage to the jury," the court said.

The court also reviews the contrary arguments and rejects them. Most important, in my view, is the court makes clear its decision is limited to the specific facts of the case, namely, the conscious disregard of the rights of others and not the unintended result of an intentional act.

An intermediate California court recently arrived at the same result in *City Products Corp. vs. Globe Indemnity Co.* (1979) 88 CA3 31, 151 CR 494. The California supreme court denied a hearing. The opinion correctly states that it is the first appellate court decision in California to deal with the issue. It is therefore more likely the California supreme court also agrees with the opinion.

The liability policy did not exclude punitive damages and covered "all sums which the insured shall become legally obligated to pay as damages." A

judgment for malicious prosecution had been entered against the policy holder, including punitive damages of \$10,000. The punitive damages were awarded on the basis of deliberate actions by the collection manager for an entire area and not just one store, sufficient to bind the corporation, said the court.

The California court concluded it was the willful act of the plaintiff and not vicarious liability for the acts of an employee that resulted in the punitive damages. The court concluded:

"The foregoing demonstrates that the policy of this state with respect to punitive damages would be frustrated by permitting the party against whom they are awarded to pass on the liability to an insurance carrier. The objective is to impose such damages in an amount which will appropriately punish the defendant in view of 'the actual damages sustained, the magnitude and flagrancy of the offense, the importance of the policy violated and the

wealth of the defendant.' Consideration of the wealth of the defendant would of course be pointless if such damages could be covered by insurance. The onus of the award would depend entirely upon the amount of insurance coverage and not upon the legally relevant factors. We conclude, therefore, that the public policy of this state prohibits insurance covering the punitive damages levied against plaintiff."

Another recent California case of interest on this subject is a decision of the California supreme court in *Clemmer vs. The Hartford Insurance Co.* (1978) 22 C3 865, 151 Cr 285, where the court refused to allow insurance against murder, saying this was a willful act and it would be against public policy to allow such insurance.

There is some question whether an insurer can exclude punitive damages from its policy. The Michigan Insurance department in its Bulletin 79-8, issued in 1979, specifically ruled that in

that state such an exclusion would not be given effect. Other major state insurance departments have reached the same conclusion.

There's no clear way to protect yourself. I stated years ago that good faith reliance on the advice of counsel should be a complete defense for a suit seeking punitive damages because such reliance negates fraud, malice or oppression. All large companies should consider this proposal seriously.

There is very little legal authority dealing with this problem. In *Beck vs. State Farm Automobile Insurance Co.* (1976) 54 CA3 347, 126 CR 602, the California court hints that reliance on the advice of counsel would be a good defense. See also *Gordon vs. Nationwide* (1972) 30 NY2 427, where the highest court of New York states:

"It would be an extraordinary result to hold a client guilty of breach of good faith, with large punitive damages, because it acts on advice of counsel—even mistaken advice."

We have only scratched the surface in this vast and growing area. A major problem is where an entire class is affected. Should the first one who brings a product liability action, for example, against Ford Motor Co. regarding a Pinto, be able to recover large punitive damages?

What about all the other Pinto owners? Doesn't this put a massive burden on Ford and a windfall for the one who gets to court first?

Only the courts will tell. ■

Conflict of interest?

To allow coverage of punitive damages passes the punishment intended for the defendant on to other premium payers and creates a conflict of interest, said the New York supreme court.



Employers push for care cost savings

Continued from page 1

care providers and state legislatures into a flurry of activity, but little hard evidence exists about what can reduce or contain costs.

"What we're seeing now is a time of tremendous experimentation by the employer. Only in the past decade has the mentality changed from one of acquiescent payer to participant," said Andy Weinberg, assistant director of the Washington Business Group on Health.

Mr. Hembree agrees. "Only recently has there been a shift from doing nothing to doing something," he said. But even doing something is difficult, he admits, because "there's not much data. It's kind of an iffy business."

For most employers, that "iffy" business begins with redesigning benefit packages to provide coverage for hospital care alternatives. Thriftiness also mandates better management of claim payments. Over the past few years, insurers have joined the fray by providing coverage for nonhospital care: pre-admission testing, ambulatory care and second opinions on surgery.

Aetna Life & Casualty, Connecticut General, Prudential, Blue-Cross/Blue Shield and John Hancock have all developed these programs. Only two, however, have preliminary evidence that shows the programs can cut health care costs.

John Hancock estimates its policyholders saved \$59 million in 1979 thanks to new cost containment features in its health insurance plans. A combination of strategies is credited with the savings: concurrent hospital utilization review, hospital prompt payment discounts, hospital bill audit programs, preadmission testing, ambulatory surgical facility coverage, second surgical opinions, accident/sickness disability control, coordination of benefits, setting reasonable and customary charges for surgery and emphasis on early detection.

Hospital utilization

At Blue Cross/Blue Shield, several programs attempted at various locations seem to be effective, but the most effective has been hospital utilization review and analysis, according to Neil Hollander, vp of health care services. It accounts for most of the plans' reduction in hospital use over the past 10 years.

Cutting hospital use and bills is seen as the most effective attack on rising health care costs because hospital bills account for the largest percentage of the total health care bill—about 40%. Blues subscribers' utilization has dropped to 729 days per 1,000 subscribers in 1979 from 896 days per 1,000 subscribers in 1969, said Robert Snyder, senior director of professional payment and utilization.

This approximately 19% drop is ahead of general trends, he noted. American Hospital Assn. statistics reveal the rate for the general population dropped to 819 days per 1,000 subscribers in 1978 from 838 days in 1969. National Center for Health Statistics figures show hospital days jumped to 894 in 1977 from 890 in 1969 for the general population.

In addition to the utilization review, budget reviews and negotiating for special rates aided this reduction, said Blues executives.

Prudential is attacking hospital costs with a major push for second surgical opinion programs, based on a pilot test in which \$64,000 was saved. To emphasize its faith in the program, the insurer is offering up to 6% premium reduction for those using it, said Cliff Hoch, vp for

Health care providers and users alike need incentives to cut costs: Perspective, page 17.

group claims.

Health maintenance organizations, proven to reduce hospital use, continue to grow.

"We feel very strongly there are firm statements that can be made about HMOs," said George Strumpf, associate director of the Group Health Assn. of America, an association of HMOs.

His strong statements are impressive: HMO member costs can be 10% to 40% lower than conventional insurance premiums (although many still are the same or more expensive than conventional plans) and hospital use by HMO members is about 35% lower than

that of conventional insurance users.

But even Mr. Strumpf, who represents HMOs, says the prepaid health care system can't be the only weapon against rising health care costs. HMO enrollment is voluntary, as Mr. Strumpf maintains it should be, and so won't attract everyone.

Two key strategies also have to be incorporated into the fight, most observers agree: changed lifestyles so people are healthier and controls on health care costs incurred in hospitals.

Promoting prevention

Mr. Hembree of Health Research Institute promotes prevention.

"We're all concerned about cost, but cost is not the problem, it's the

system. We're in an era of lifestyle disease. The medical community is not going to be effective in holding down cancer, strokes, heart attacks, etc., because the cause is our lifestyle," Mr. Hembree charged.

American Express, TRW, Diamond International and Gillette have already realized the importance of prevention.

"We promote healthful life-

Continued on next page

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Firms wage war on health care costs

Continued from previous page
styles. We really believe that's part of the whole cost containment area," said Margaret Gagliardi, vp of employee benefits at American Express Co. in New York.

Ms. Gagliardi said programs promoting self-care, immunization and nonsmoking are already underway and another—preretirement counseling—is also offered to promote mental well-being.

At TRW in Cleveland, Joseph Kozlowski, corporate manager of benefit planning, said programs are being introduced to cover cardiovascular and high blood pressure checkups. A program to help employees select physicians and hospitals is also in the works. "A healthy employee is going to have better morale," said Mr. Kozlowski.

"The individual has to realize they have to protect their own health," agreed Mary Raffaniello, benefit administrator for group insurance at Diamond International in New York.

Gillette Co. in Boston credits an in-house medical clinic started 20 years ago with saving the company \$1.2 million this year on health care costs.

Clinic care

"We provide comprehensive care for employees," said Dr. William Greer, director of corporate medical services.

The clinic, open to 5,000 employees and their dependents 24 hours a day, seven days a week with a staff of at least two internists and frequently a surgeon

and nurse practitioner, will cost Gillette \$750,000 to operate this year.

The bill is \$1.2 million lower than it might be, Dr. Greer explained, because an extensive list of services is provided in-house and the program has cut absenteeism.

Clinical care includes X-rays, laboratory tests, electrocardiograms, stress tests, vision checks, allergy and dermatology services and minor surgery.

When care outside the clinic is required, company-selected specialists are also used, which cuts costs, Dr. Greer explained.

"We can control hospital costs; we can keep a lot of cases out of the hospital, too," said Dr. Greer in touting his record of not having to hospitalize one ulcer patient in the past 10 years. Usually, he said 20%

to 30% of such patients are hospitalized.

Benefit managers can wage these cost-cutting battles alone in their companies, but many benefit managers are also lining up allies in attacking costs.

Employer groups

"There's no question we all must work at reducing medical costs. I believe the most effective way is through employer groups," said Jack Bush, insurance and risk manager for Lockheed International in Burbank, Calif.

Mr. Bush, currently helping organize an employer group or coalition in the Los Angeles area, explained: "We have to tell doctors and hospitals that the heyday of exorbitant charges has passed. We

have to tell them we will refuse to pay excessive charges."

Mr. Bush says employers can pressure the medical community to comply with cost containment goals.

The number of empty hospital beds and the cost of malpractice insurance need study, he said.

A member of the Cincinnati Cost Containment Network shares Mr. Bush's views. "A lot of things can be done but none will have as great an effect as the medical profession itself being a leader in this effort," one member said.

"Until the medical community will get together and address the problem, society will never arrest costs," the spokesman added. "The major flow of money is dictated by doctors. The free enterprise system is such that when a person is sick he's going to find a doctor who will take an insurance company's money. There's no incentive to not be taken care of in a Cadillac fashion."

To try to change this, the Cincinnati coalition is trying to convince the local medical school to teach a course in economics to encourage younger doctors to provide quality but less costly care.

Another employer/provider group—the Greater Cleveland Coalition on Health Care Cost Effectiveness—says groups can solve the health care problem by promoting cooperation.

"The key is cooperation. If we accomplished anything it was getting people to stop pointing fingers," said TRW's Mr. Kozlowski, Cleveland chairman of the board of directors for the coalition.

Through this group's cooperative efforts, cost containment programs have been voluntarily initiated by the provider community, Mr. Kozlowski said.

Health promotion

A local hospital voluntarily eliminated 200 excess beds, he said. A local hospital association has started a health promotion.

"A lot has been done but there's not any one cure," Mr. Kozlowski said.

A newly formed coalition, the Midwest Business Group on Health, is reviewing the effectiveness of three cost containment measures implemented by 20 Midwest employers: education of hospital trustees, utilization review programs and community-wide health data studies.

Supported by such companies as Ford Motor Co., John Deere & Co., General Mills, Honeywell Corp., Quaker Oats, IBM and Jewel Cos., the coalition has an office in Chicago.

President James Mortimer, formerly in the benefits and personnel departments at Continental Bank in Chicago, foresees the organization helping other employers implement cost containment programs the group finds successful as well as working with health care providers.

"We want to be a consumer-type organization to clearly define the business posture," he said. Only nonhealth care companies will be allowed into the organization that was originally conceived as part of the Washington Business Group on Health, but is now a separate unit.

Activists in health care cost containment view state and federal legislation to contain costs as a last resort.

"The last thing that should happen is to try and legislate or regulate the health care system. Unfortunately, if the industry does not succeed, that will be the next thing to happen. It would be disastrous," Mr. Hembree said.

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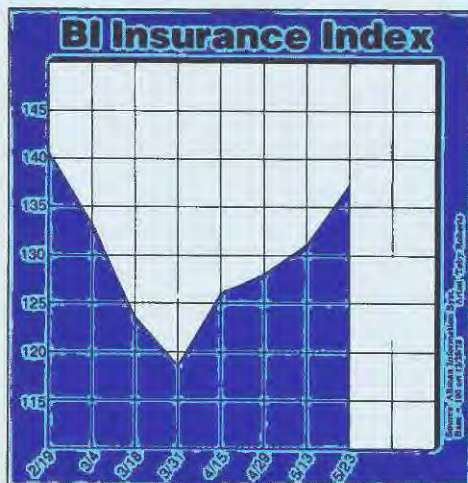
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22.	JUN 2	May 20
23. Market Report: California	JUN 9	May 28
24.	JUN 16	Jun 4
25. EXCESS/SURPLUS	JUN 23	Jun 10
26.	JUN 30	Jun 18
27.	JUL 7	Jun 25
28. Spotlight Report: Fidelity & Surety Bonds	JUL 14	Jul 1
29.	JUL 21	Jul 9
30. AGENT/BROKER PROFILES	JUL 28	Jul 15
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32. Spotlight Report: Pensions & Retirement Programs	AUG 11	Jul 30
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Leading insurance industry stocks slipped slightly in the last two weeks, with 47 of the firms on the BI Insurance Index rising, 11 remaining unchanged and 17 falling. The index rose 3.4% to 137.826. (The base of 100 was at year-end 1978.) Biggest gains were posted in the shares of E.H. Crump Cos., up 25.3%; Reed Stenhouse Cos., up 18.7%; Washington National, up 16.1%; Nationwide Corp. Ohio, up 15.8%, and Pinehurst Corp., up 14.5%. Companies whose stocks dipped the most included Aneco Reinsurance Ltd., down 14.2%; PennCorp Financial, down 5.8%, and Hartford Steam Boiler, down 5.2%. The BI index rise of 3.4% fell short of the minimal gains posted on three leading stock indexes over the same two weeks, including the Big Board Composite of 4.14%, the S&P rise of 4.06% and the Dow Jones Industrials increase of 4.56%.

British Issues

5/27 Companies	Price pence	P/E	Div. pence	Yield %	2 Week High—Low	
					High	Low
Comm Union	129	5.9	14.00	10.9	134	128
Eagle Star	179	6.9	12.64	7.2	183	178
Genl Accident	244	6.8	17.14	7.0	252	244
Gdn Royal Exch	254	7.9	19.28	7.6	255	250
Phoenix	216	7.2	19.00	8.8	218	214
Royal	323	6.6	30.71	9.5	334	320
Sun Alliance	574	9.1	40.00	7.0	594	574

Brokers

5/27 Companies	Price pence	P/E	Div. pence	Yield %	2 Week High—Low
CT Bowring	154	10.8	8.57	5.6	157—152
CE Heath	197	8.9	13.80	7.0	217—192
Hogg Robinson	101	9.2	7.48	7.4	104—101
Alex Howden	102	8.0	10.00	9.8	105—102
JH Minet	101	11.0	6.38	6.3	101—97
Sedg Grp	106	9.3	7.14	6.7	106—103
Stenhouse Hldg	77	6.9	6.46	8.4	77—74
Stew Wrightson	200	7.1	17.14	8.6	203—200
Willis Faber	222	10.9	15.71	7.1	220—217

Source: Kitcat & Aitken, London

Regulators will moderate premium hikes: Analyst

By STUART EMMRICH

CONTINUED INFLATION over the next couple of years will bolster insurance companies' efforts to get premium rate increases, but buyers can count on state regulators to vigorously fight substantial price hikes, predicts a prominent economist.

The property and casualty insurance industry can anticipate an annual inflation rate of 10% to 12% for the rest of the decade, says Paul MacAvoy, professor of economics at Yale University's School of Organization and Management.

To combat this inflation rate, Mr. MacAvoy suggested at the annual meeting of the American Insurance Assn. in New York that the insurance industry will require "substantial" premium increases.

But those increases won't be easy to come by, he predicted.

"In the past, when inflation has induced a need for industry price increases, regulatory agencies have shown a notorious inability to allow increases sufficient to compensate for the inflation rate," Mr. MacAvoy said.

Regulatory agencies "look for short-term political gains" instead of granting "deserved" price increases for regulated industries, he argued.

While policyholders may be able to count on regulatory agencies to provide a moderating influence on expected rate hikes, they may also be helped by a slowing of the inflation rate—if it occurs.

R. Robert Russell, director of the federal Council on Wage and Price Stability, said that although President Carter's anti-inflation program hasn't done much good yet, the administration has high hopes that present fiscal and monetary restraints will bring about a "significant drop" in the inflation rate.

Corroon & Black

Insurance analysts have been fairly bullish about large brokers of late, impressed

BI ticker

by robust first-quarter earnings and continued growth in new business.

The only notable exception—and so far it is just a slight one—has been Corroon & Black. No one has sounded any warnings, but appraisals of the company's performance have been less than enthusiastic.

This has been aggravated by Corroon & Black's disappointing first quarter, when net income dropped 13% on a revenue gain of 9%. Net income for almost all the other major brokers jumped more than 10%.

"The first quarter of 1980 might be characterized as stop-start for Corroon & Black," said Herbert Goodfriend, analyst with Bache Halsey Stuart Shields Inc.

He cited disappointing results from last year and 1980's first quarter as reasons for dampened investor enthusiasm for the company.

But he added that directors of the broker, showing what he said was continued optimism in future profit gains, recently increased cash dividends to \$1.72 from \$1.56, constituting a 64% payout of 1979 earnings and 57% of probable 1980 profits.

"Those levels are somewhat higher than the average for the other big five alphabet equities and as a consequence, the current yield of over 8% also is the most attractive of all the big five," he said.

Harvey Bundy, analyst with William Blair & Co., has recently urged investors to consider accumulating stocks of the major brokers, arguing that an expected slump in the next few quarters should be offset by a surge in profits in a year or more.

"Based on the excellent potential for above-average earnings gains as the brokers emerge from the current period of soft insurance markets and slow revenue gains, we believe an earnings explosion comparable to that which occurred in 1976-1977 is possible in late 1981 or 1982," Mr. Bundy said.

But in going from a general assessment of the brokers as a group to a specific comment about Corroon & Black, Mr. Bundy also was more restrained. Instead of suggesting that investors might want to start accumulating this stock, he instead limits his opinion to present Corroon & Black stockholders, telling them to consider keeping their holdings through the present rough period.

That period will at least extend into the next quarter, Mr. Bundy predicted, saying it will probably show a decline from 1979 for Corroon & Black, adding that a "precipitous decline" in short-term interest rates in past weeks will flatten investment income for the rest of the year.

"The current high yield and excellent long-term growth prospects of the company" should allay any investor fears about the prospect of a continued earnings decline for Corroon & Black, he concluded, however.

The company should also be helped by its recent acquisition of a 20% interest in Minet Holdings, a London-based insurance broker.

Corroon & Black has been gradually accumulating holdings in the British broker—7% in the fourth quarter of 1979 and 13% in the first quarter of 1980. This increased interest will boost the earnings for Corroon & Black's second quarter by approximately 5 cents a share, Mr. Bundy says.

Crum & Forster

For the first time in almost 10 years, Crum & Forster has split its stock two-for-one. The split was the first for the insurer since October 1971, and is effective June 5. Shares will increase to 48 million from 24 million.

Connecticut General

The board of directors of Connecticut General Insurance Corp. has declared a quarterly dividend of 38 cents per share, payable on July 10 to stockholders of record June 13.

Mission Group

The board of directors of Mission Insurance Group Inc. has declared a quarterly cash dividend of 20 cents per share, payable July 25 to shareholders of record July 3.

Kemper Corp.

The board of directors of Kemper Corp. has declared a quarterly cash dividend of 35 cents per share payable Aug. 29 to shareholders of record Aug. 8.

Heath

C. E. Heath recently became the second major Lloyd's of London broker to announce a sharp downturn in first-quarter profits. Pretax broking and underwriting profits dropped 18% to \$30.1 million from \$37.3 million a year ago. Heath joins Willis Faber in blaming its latest results on the new found strength of the sterling against other currencies, such as the dollar.

Of the group's profits, 75% are earned overseas.

Reed Stenhouse

Reed Stenhouse Cos. Ltd., the Toronto-based insurance broker, increased its net earnings by 7% during the six months ending March 31, to \$6.9 million from \$6.5 million. Revenue for the period rose 16% to \$102.4 million from \$87.9 million, while commissions and fees grew by 15%.

The company also recently announced it would pay its 45th consecutive quarterly dividend on Class A shares at the rate of 12 cents per share, payable June 30 to shareholders of record June 9.

BI Industry Stock Report

MAY 23, 1980

5/14/80 THRU 5/23/80

Insurance Cos.		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	35.38	1.1	4.9	2.12	6.0	36.13	34.00	1,057.1
American Bankers Ins Co Pla	OTC	7.25	-1.7	4.9	0.44	6.1	7.50	6.88	99.8
American Fint Corp Ohio	OTC	32.25	12.2	3.5	0.50	1.6	32.25*	28.75	49.7
American Gen Ins Co	NYSE	32.00	4.9	4.8	1.00	3.1	32.38	31.50	115.5
American Indty Fint Corp	OTC	14.50	-0.9	4.2	1.12	7.7	14.75	14.38	13.0
American Intl Group Inc	OTC	59.25	1.3	5.2	0.50	0.8	60.50*	58.25	421.4
American Natl Ins Co	OTC	13.50	0.9	5.2	0.62	4.6	13.50	13.13	132.6
American Sts Life Ins Co	OTC	16.50	0.0	6.8	0.64	3.9	16.50	16.50	0.5
Aneco Reins Ltd	OTC	4.50	-14.3	34.6	0.00	0.0	5.13	4.50*	35.1
Appalachian Natl Corp	OTC	2.25	12.5	6.4	0.05	2.2	2.25	2.00	0.8
Avgmco Corp	AMEX	10.38	1.2	6.9	0.50	4.8	10.38	10.00	5.8
Banks Iowa Inc	OTC	23.00	-4.2	4.4	1.32	5.7	24.00	23.00	0.8
Bitco Corp	OTC	24.50	2.1	3.7	1.68	6.9	24.50	24.50	14.4
Carolina Cas Ins Co	OTC	6.37	0.0	3.7	0.32	5.0	6.38	6.38	0.6
Central Natl Fint Corp	OTC	7.00	0.0	2.8	0.50	7.1	7.00	7.00	2.1
Chubb Corp	OTC	38.50	0.0	5.1	2.40	6.2	40.00*	38.38	145.0
Combined Ins Co Amer	OTC	18.25	0.0	5.4	1.40	7.7	18.25	18.13	400.8
Connecticut Gen Ins Corp	NYSE	36.12	9.5	5.5	1.52	4.2	36.13	33.50	473.9
Continental Corp	NYSE	25.87	2.5	5.0	2.20	8.5	25.88	25.25	410.6
Crawford & Co	OTC	16.00	6.7	13.5	0.54	3.4	16.00	15.00	9.8
Crown Life Ins Co	OTC	62.50	-1.6	45.3	2.40	3.8	63.00	62.25	1.3
Crum & Forster	NYSE	52.00	2.0	4.7	2.52	4.8	53.00	51.50	87.3
Employers Cas Co	OTC	27.50	0.0	5.0	1.20	4.4	27.50	27.50	2.0
Erc Corp	OTC	69.25	11.7	7.7	1.40	2.0	72.25	66.00	486.1
Equifax Inc	NYSE	21.00	-1.8	6.7	2.40	11.4	21.88	20.88	7.2
Farmers Group Inc	OTC	26.25	-0.9	8.6	1.00	3.8	26.50	26.00	282.7
First Colony Life Ins Co	OTC	31.00	6.9	11.5	0.76	2.5	31.50*	30.50	10.1
Foremost Corp Amer	OTC	17.63	10.2	7.1	0.60	3.4	17.63	16.75	25.9
General Reins Corp Del	OTC	86.00	4.9	6.8	2.80	3.3	86.00	84.00	117.1
Globe Life & Acc Ins Co	OTC	31.00	2.1	11.6	0.40	1.3	31.00*	30.50	56.4
Great West Life Assurn Co	OTC	141.00	0.0	7.0	8.00	5.7	141.00	141.00	3.5
Hanover Ins Co	OTC	35.25	1.4	3.6	0.72	2.0	35.25	34.50	7.8
Hartford Steam Boiler Inspn	OTC	27.00	-5.3	5.7	2.20	8.1	28.50	27.00	6.2
Integon Corp	NYSE	21.63	-4.4	7.9	0.48	2.2	22.00	21.25	52.1
Jefferson Natl Life Ins Co	OTC	37.00	1.4	8.9	0.64	1.7	38.50*	37.00	19.7
Kemper Corp	OTC	25.75	-1.4	3.7	1.40	5.4	27.00	25.50	68.7
Lincoln Natl Corp Ind	NYSE	38.37	5.9	5.4	2.80	7.3	38.38	36.63	79.5
Mjic Inv Corp	NYSE	24.50	7.1	7.3	1.12	4.6	24.50	23.38	737.3
Mission Ins Group Inc	NYSE	32.00	6.7	7.3	0.80	2.5	32.00*	30.50	24.0
Nationwide Corp Ohio	OTC	18.25	15.9	5.2	0.66	3.6	18.25*	15.75	7.5
Nh Corp	OTC	35.50	2.9	7.6	2.00	5.6	36.00	33.75	100.1
Northwestern Natl Life Ins	OTC	26.00	-2.3	5.2	1.25	4.8	27.00	25.88	50.5
Ohio Cas Corp	NYSE	36.12	1.8	5.1	1.76	4.9	36.38	36.00	109.2
Old Rep Intl Corp	OTC	14.50	-1.7	3.4	0.92	6.3	14.63	14.00	147.9
Pinehurst Corp	OTC	6.87	14.6	8.2	0.00	0.0	6.88	5.88	58.8
Preferred Risk Life Ins Co	OTC	17.25	3.0	6.3	0.64	3.7	17.25	16.75	4.1
Provident Life & Acc Ins Co	OTC	37.50	1.4	4.9	1.88	5.0	38.00	37.00	13.7
Republic Natl Life Ins Co	OTC	20.12	0.6	11.4	0.70	3.5	20.25	19.63	295.2
Ryan Ins Group Inc	OTC	20.00	11.1	4.7	0.16	0.8	20.00	18.00	16.9
St Paul Cos Inc	OTC	35.88	1.8	4.8	2.00	5.6	38.00	35.75	192.8

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		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Safeco Corp	CTC	33.87	0.0	4.7	1.80	5.3	34.50	33.75	249.4
Sri Corp	CTC	18.50	12.1	3.3	1.00	5.4	18.50	16.50	37.3
Seibels Bruce Group Inc	CTC	14.75	7.3	5.8	0.80	5.4	15.00	14.25	24.3
Standard Life Ins Co Ind	CTC	27.50	-0.9	15.1	0.44	1.6	27.75	27.50	12.5
Statesman Group Inc	CTC	4.75	10.0	3.8	0.15	3.2	4.75	4.32	35.2
Tokio Marine & Fire Ins Co	CTC	132.00	1.7	14.0	0.00	0.0	132.00	125.50	3.6
Travelers Corp	NYSE	39.00	2.6	4.3	2.48	6.4	39.63	38.38	438.3
United Fire & Cas Co	OTC	30.00	14.3	8.8	0.90	3.0	30.00*	27.00	7.1
United States Fid & Gty Co	NYSE	39.50	-1.3	4.7	2.80	7.1	39.50	38.75	215.4
United Svcs Life Ins Co	OTC	14.63	4.5	5.2	0.96	6.6	14.63	14.00	40.5
Uslife Corp	NYSE	23.50	9.3	5.9	0.70	3.0	23.63*	21.88	247.9
Washington Natl Corp	NYSE	27.88	16.1	5.7	1.50	5.4	28.00	25.13	49.8
Zenith Natl Ins Corp	OTC	14.25	0.0	8.7	0.40	2.8	14.25	14.25	11.5
INSURANCE COMPANIES	AVERAGE			6.2		4.1			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	32.75	7.4	11.0	1.64	5.0	32.75	31.00	176.0
Baldwin & Lyons Inc	OTC	24.75	2.6	4.5	0.80	3.2	25.00	24.75	17.4
Corroon & Black Corp	NYSE	21.75	-0.6	8.2	1.72	7.9	22.00	21.50	42.8
Crump & H Cos Inc	OTC	11.12	25.4	10.2	0.36	3.2	11.13	8.88	46.3
Hall Frank B & Co Inc	NYSE	25.03	4.7	8.3	1.44	5.8	25.00	24.00	103.9
Integrated Res Inc	AMEX	13.63	9.0	8.5	0.00	0.0	13.63	12.75	139.9
James Fred S & Co Inc	NYSE	22.63	8.4	8.3	1.40	6.2	22.63	20.88	50.9
Marsh & McLennan Cos Inc	NYSE	56.75	1.3	9.2	3.60	6.3	57.63	56.13	311.7
Penncorp Fincl Inc	NYSE	8.00	-5.9	4.8	0.16	2.0	8.25	7.75	306.8
Reed Stenhouse Cos Ltd	OTC	9.50	18.7	7.3	0.48	5.1	9.50*	8.00	88.6
Rollins Burdick Hunter Co	OTC	18.00	0.0	7.9	1.24	6.9	18.00	17.75	14.2
AGENTS/BROKERS	AVERAGE			7.9		5.3			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	34.50	4.5	7.0	2.00	5.8	34.50*	33.38	1,115.0
Anderson Clayton(Ranger/Panam)	NYSE	22.00	0.4	5.7	1.12	5.1	22.00	20.75	28.2
City Investing Co. (Home Ins.)	NYSE	24.25	19.8	4.6	1.50	6.2	25.75*	19.63	5,150.7
CNA Finl Corp (CNA)	NYSE	15.62	4.2	3.5	0.00	0.0	16.13	14.88	138.3
Control Data (Comm. Credit)	NYSE	52.50	9.9	7.1	0.60	1.1	52.50	48.00	555.7
INA Corp (Ins. Co. of NA)	NYSE	31.62	-1.2	4.8	2.20	7.0	32.00	30.50	446.6
ITT (Hartford Group)	NYSE	28.12	1.8	7.9	2.40	8.5	28.13	27.00	1,506.6
Reliance Group Inc	NYSE	65.50	-3.0	2.7	2.00	3.1	67.25	63.25	66.9
Sears Roebuck & Co. (Allstate)	NYSE	17.13	-2.1	7.6	1.36	7.9	18.00	16.63	2,422.1
S & H Co. (Bayly Martin & Fay)	NYSE	13.88	2.8	5.1	1.00	7.2	13.88	13.38	4.5
Teledyne Inc (Argonaut)	NYSE	121.75	0.8	5.4	10.00	8.2	121.75	120.75	550.4
Transamerica Corp (Occidental)	NYSE	18.13	6.6	5.0	1.12	6.2	18.13	17.13	480.1
CONGLOMERATES/HOLDING COS.	AVERAGE			4.9		5.7			
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Access lures Canada to N.Y. exchange

Continued from page 1
get an insurer with established credibility. You know about the exchange's backers and operations and its security."

Tomenson doesn't have a U.S. branch and will use Sargent, Weber & Co., a subsidiary of Smyth, Sanford & Gerard, to place business on the New York Insurance Exchange. A New York branch of Tomenson is possible in the future, Mr. Golledge adds.

At present, market capacity is plentiful in Canada, notes J.C. Meen, president of Toronto-based Dale & Co., Canada's third largest broker. But as capacity tightens in 1981 and 1982, people will be scrambling for new markets, he predicts.

Petrochemical

The Dale firm has not yet placed business in the New York exchange, but has been solicited by two exchange brokers, Mr. Meen said. Because the firm services several petrochemical accounts, the exchange is likely to figure into Dale's search for future capacity, he explained.

Those views were reinforced by George Wilkinson, property, tax and insurance administrator for Syncrude Canada Ltd., a \$2 billion installation producing synthetic crude oil from tar sands in northern Alberta.

"We have a large property risk that is the type of thing that should go into an exchange of that type," he said. "The possibility of us using it is good."

Other Canadian risk managers share Mr. Wilkinson's interest.

"In general, we all look upon the New York Insurance Exchange as a good thing, but it will probably be a couple of years down the road before we get full use of it," said Robert Best, insurance manager for Dominion Foundries of Hamilton, Ont. "I can't find any reason a risk manager wouldn't look toward it favorably."

Going to New York for coverage will not be a new experience for Canadian risk managers, notes George Willis, manager of risk and insurance for Cadillac-Fairview Corp., a Toronto-based firm.

Lloyd's benefit

Often when a policyholder is covered by the Canadian subsidiary of a New York-based insurance company, the underwriting decisions are made in New York, he explained.

One distinct disadvantage the New York exchange will have compared with Lloyd's is the 10% excise tax Canada charges insurance buyers who tap nonadmitted markets without a special government exemption. Lloyd's has become an admitted insurer in Canada to avoid this handicap.

Tomenson's Mr. Golledge has written to insurance exchange president Donald Reutershan, urging that the exchange become admitted in Canada. Mr. Reutershan only said the exchange will seek accepted reinsurer status in Canada when asked if it will seek admitted status for direct business.

To be admitted in Canada, the exchange would have to pass a solvency test and be exempted from a five-year operating history requirement.

Meanwhile, Heartland Group and John Street Syndicate were approved as underwriting members of the New York Insurance Exchange May 24, bringing captive insurance company capital into the exchange for the first time.

Heartland, which is managed by

Howden-James Holdings Inc., was capitalized at \$3.7 million by 19 insurance companies, including four captives: Horizon Underwriters, a captive of Cargill Inc. of Minneapolis; Midrow Ltd., a captive of Midland-Ross Corp. of Cleveland; Great Lakes Ltd., a captive of Great Lakes Chemical Corp. of West Lafayette, Ind., and Pinetop Insurance Co., a captive of Phoenix-based Greyhound Corp.

John Street Syndicate, which is managed by Pruco Managers Inc., was capitalized to \$3.8 million by four interests, among them two captives—Blue Water Insurance Co. Ltd., a captive of Igram Corp. of New Orleans and Republic Western Insurance Co., a captive of U-Haul International Inc. ■

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Volcano losses may total \$1 billion

Continued from page 1

40 feet deep. It could be several months before shipping is restored to normal. Some importers say that because of river closure resulting from an "act of God," steamship companies will not be liable for late deliveries. However, other importers say legal disputes could develop over who should pay extra charges.

Some insurance policies exclude volcanic eruption as it relates to earth movement and mudslides, but many are taking a liberal view and calling the eruption an explosion, which is covered.

"We haven't exactly classified it as an explosion but are taking a broad look and may interpret it as such. As the insurance commissioner suggested, we want to take a consumer's point of view," said a spokesman for SAFECO, the largest Washington-based insurer.

A lava flow might be called an earth movement, "but if a house or business caught on fire because of heat from the lava, we would call it fire damage and it would be covered."

To date, SAFECO has received only 20 claims. A SAFECO agent in Spokane, however, told his home office, "People there are still

trying to get their lives back together and to protect their businesses and property from further damage. They have things more important to do than filing a claim at this moment."

Claims filed

The SAFECO office in Spokane has received 10 of the claims.

Future insurability of risks in Washington State is also in question. Several insurers, including SAFECO, Allstate, Pemco and State Farm, are no longer writing new coverage within 50 to 100 miles of Mt. St. Helens. But

spokesmen said the insurers would resume underwriting new policies when the volcano quiets down again.

The problem is no one knows when that may happen.

"What worries everybody is the number of years the volcano could continue to erupt," said David Rodgers, chief deputy in the state insurance commissioner's office. "The last time Mt. St. Helens erupted from 1830 to 1857. Most insurers have good intentions but do not want to pay claims for 14 years. So insurance companies will soon have to make major policy decisions on this matter."

A company with major losses is the self-insured Weyerhaeuser Co. (BI, May 26). Its Camp Baker logging center, about 15 miles from the volcano's summit, was devastated in a wave of mud and water. Damages are expected to be just under \$1 million.

The company has not been able to sight from the air any of its 22 lost crew buses. Its 38 Kenworth and Mack logging trucks, each costing \$50,000, were buried in the mud, covered with logs or tossed onto their sides like toy replicas. The firm hopes to repair some of the trucks.

Logs washed into wooden buildings and collapsed the structures. Logs in storage there were swept down rivers toward the Pacific Ocean.

The logs would have provided lumber and plywood for 300 homes, said a spokesman. The firm has begun operations to recover many of the logs.

Extensive damage was also done to Weyerhaeuser's logging road network and to its railroad system. Some rail cars are almost buried in mud.

Up to 5,000 acres of Weyerhaeuser timber were leveled in the first eruption with the trees felled as if they were match sticks.

Timber losses

"We are assuming that much of the timber is salvageable from what we have observed from the air. The timber was not insured because we have six million acres of land countrywide. The cost of insurance compared to the risk does not make economic sense," said the spokesman.

"We have been through worse disasters, such as forest fires. We were lucky that the damage was concentrated. A storm might blow down trees in spotted sights over a couple of million acres."

The state has experienced some of the largest losses. "The state is pretty well self-insured. We have no umbrella liability policy unless we can get funds from the federal government," said Glen Rose, insurance adviser to the state risk manager.

State losses described by the office of financial management are \$236 million for unemployment benefits, \$40 million for replacement and repair of roads and bridges, \$54 million to restore and replace sewage treatment systems, \$6 million to replace damaged fish hatcheries, \$6.5 million for increased welfare and public health costs and \$7.5 million for repairs of schools.

Other losses include \$200 million over coming years to salmon and sports fish, incalculable losses to tourism, damage to agriculture that could reach \$200 million and \$500 million of federal timber in the Gifford Pinchot National Forest.

Governor Dixy Lee Ray has appointed a recovery assistance team composed of top state agency officials to address problems created by the eruption. President Carter visited the area May 22-23 and before leaving, signed an order establishing large parts of Washington as a federal disaster area. The order could qualify individuals and businesses for federal disaster loans and other benefits.

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