WEEK OF JUNE 30, 1980

business insurance

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Playing the odds

The days of bargain policies are ending, predicts oddsmaker Dale Comey: **Someone you should know, page 3.**

Ohio work comp

Agents and insurers are setting their sights on private competition for Ohio workers comp: **Page 14.**

President's panel

The President's Commission on Pension Policy is missing the boat, says a Mercer consultant: **Page 22.**

Fisher plan redesigns Lloyd's

New rules would invite U.S. brokers



Photo: Kathryn J. McIntyre

Restructuring Lloyd's

The new Lloyd's building to replace the oldest structure being demolished could house a new Lloyd's if the committee follows the Fisher report.

By KATHRYN J. McINTYRE

LONDON—Lloyd's of London will be a radically transformed commercial insurance market if the Committee of Lloyd's follows the Fisher Working Party's recommendations for change.

The historic insurance exchange here would divorce the long-standing and often criticized financial marriages of many Lloyd's underwriters and brokers, U.S. brokers would be free to own Lloyd's brokerage subsidiaries and new regulators at Lloyd's would have a book of rules to throw at misbehaving brokers, underwriters and names.

The 198-page report of the Fisher Working Party, released here Friday, delves into and recommends changes in nearly every aspect of business at Lloyd's.

About the only traditions at Lloyd's left unscathed by the report are unlimited liability of Lloyd's names and the hanging of the famous Lutine bell in the underwriting room.

Abolishing the financial ties between Lloyd's brokers and underwriting agents—paving the way for U.S. ownership of Lloyd's brokers—is the most dramatic change recommended affecting U.S. relationships with the Lloyd's market.

But the entire report is especially important to U.S. commercial insurance buyers who depend on Lloyd's. It recommends new codified rule-making and disciplinary procedures designed to protect Lloyd's policyholders and encourage the smooth functioning of the world's most important commercial insurance market.

The report by a seven-man committee, chaired by Sir Henry Fisher of Wolfson College, emerges against a backdrop of continuing litigation and publicity about Lloyd's.

Members of the Sasse Syndicate, thrown into a $41 million loss by questionable fire risks, computer leasing risks and other business, are suing Lloyd's, charging the market should have better policed its underwriting business.

Lloyd's internal functions have been spotlighted by the mammoth $340 million losses the market is suffering for writing the unusual computer leasing risk policies and the ill fortune befalling more traditional Lloyd's risks like the $77 million RCA satellite lost in space and the series of jumbo jet crashes.

Financial link-ups of major U.S. insurance brokers and London brokers also have drawn U.S. attention to the nearly 300-year-old insurance market, known for underwriting risks that standard U.S. insurers shun as too dangerous, too big or too unusual.

The U.S. brokers that have purchased or are negotiating link-ups with London brokers—including

Continued on page 24

Defections undermine takeover of Bowring

By RHONDA RUNDLE and JOHN MILLER

LONDON—Defections in top management ranks and two major account losses totaling about $100 million in premiums are undermining C.T. Bowring, just as Marsh & McLennan Cos. completes its controversial takeover of the London broker.

The defections in response to M&M control of Bowring suggest that more non-Lloyd's interest in Lloyd's brokers—as envisioned by the Fisher report—would meet with market and broker resistance.

- J.H. Blades & Co. Inc., the Houston excess/surplus lines broker, is transferring the bulk of its $60 million oil risk excess insurance business to London broker Hogg Robinson.
- The $40 million California Hospital Assn. account, brokered by Gerald J. Sullivan & Associates Inc. in Los Angeles, will move to R.K. Carvill & Co. of Lloyd's, *Business Insurance* learned.
- Robert Ballantyne, director of Bowring's North Ameri-

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Texas plan beats woes, cuts cost hike

By SHARON WATSON

AUSTIN, Tex.—The Texas state employe benefit plan, unwitting bait in an FBI probe of political graft, is beating the bad publicity and other potential marketing handicaps to cut projected cost increases.

A change in insurers and a new charge to employes for 100% coverage of hospital charges are holding the new contract cost increase to 14.9%. The contract provides health, life and accidental death and dismemberment insurance for 100,000 employes and retirees.

The Texas uniform group insurance plan will switch to Blue Cross/Blue Shield Sept. 1 under a $91.9 million contract. Metropolitan Life Insurance Co., the current plan underwriter, had bid $109.2 million to write the program.

Texas, which had changed to Metropolitan from Blue Cross in 1977 to avoid an earlier premium increase, is defying the adage that a buyer can't switch insurers for price and keep finding willing underwriters.

The state is also bucking insurer complaints about its contract clause precluding insurers from carrying losses from one year into the next contract year.

Metropolitan is projecting an $8 million loss on its current $80 million contract with the state. It announced in March it wanted a 30% premium increase to renew the plan.

The state went looking for bids from other insurers, undeterred by Metropolitan's experience on the plan, insurer complaints about the contract and publicity involving the FBI probe (*BI*, Feb. 18).

Metropolitan had merely underpriced its contract, contended the state, and the plan had not done anything improper but was used as bait by the FBI.

Prudential Insurance Co., which says its name was used without its knowledge by the FBI in the Brilab operation, bid for the plan but was high at $103.6 million.

"It may look like we left money on the table, but we believe we had a good, fiscally sound bid," said Gene Aune, senior vp for Blue Cross.

The Blues contract is for one year, with two optional one-year renewals.

Under the new contract, the state is raising its contribution toward employes' insurance costs to $40 per month from $35. But even with this increase employes will have to pay $47.40 a month for 100% hospital coverage.

The $35 contribution in the past covered either of two plans: one paying 80% coverage of hospital bills or one paying 100%. Both plans covered 80% of major medical expenses.

But 100% coverage "is just too rich," said Joe Murphy, chairman of the state employe retirement board. "I feel that eventually we will go to offering just one plan (80% coverage). You don't get adverse selection that way."

Eighty percent of the employes

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NEWSPAPER

Summerfest Page 3

for your information

Ill. house passes reform bill increasing work comp benefits

SPRINGFIELD, Ill.—A key workers compensation reform bill that passed the Illinois house of representatives last week could increase benefits paid to workers with preexisting injuries and establish a state cumulative injury fund.

The increased benefit is one of several amendments added by representatives to a bill that passed the senate earlier this year (*BI*, May 19).

The bill, sponsored in the house by majority leader Michael Madigan (D-Chicago), was amended by house Democrats to:

- Expand the senate's provision by awarding greater benefits to a worker with a preexisting injury. Employers would not be penalized for hiring the handicapped, but workers would be compensated by a state cumulative injury fund.
- Establish a 90-decibel standard for hearing loss.
- Base payments to part-time employes on wages actually earned, rather than on the state average weekly wage.
- Exclude from compensation accidents occurring while an employe is attending drug or alcohol rehabilitation programs. The senate version now excludes recreational events sponsored by a company and voluntarily attended by an employe.

The bill now returns to the senate, which passed the bill under the sponsorship of Sen. Aldo DeAngelis, for consideration of House changes.

Carrier liability rules expire

TALLAHASSEE—Florida's intrastate carrier liability regulations will be wiped out with the sunset of state commercial vehicle regulations.

Though the state legislature agreed on a bill to protect motor carrier safety requirements, members could not agree on a new bill to protect insurance requirements for the intrastate trucking industry, says a spokesman for Florida's senate commerce committee. State regulatory reform law requires commissions be reviewed every six years and repealed if a new bill is not enacted.

The public service commission, the body regulating motor vehicles, will be discontinued July 1. Safety requirements will be controlled by the state's department of transportation.

Florida's state insurance department is not too concerned, however, about the repeal because truckers still will be responsible for minimal liability limits under state financial responsibility law, says an insurance department spokesman.

NBC files claim with Lloyd's

NEW YORK—National Broadcasting Co. has filed a claim with Lloyd's of London for some of its losses after the U.S. Olympic Committee decided to boycott the Moscow Olympics.

NBC is insured by Lloyd's and other insurers against cancellation of the games because of political disagreements and against U.S. withdrawal from the games. A settlement would enable the broadcaster to recoup some of the $85 million it paid the Soviets for exclusive rights to televise the games. Lloyd's participation in the risk is $45 million. NBC is self-insured for $5 million and the remaining $35 million is shared by several other companies.

A Lloyd's spokesman earlier had said the payment would cause no special problems.

Longshoremen get state comp

WASHINGTON—Injured maritime workers who file for benefits under the federal longshore act may also apply for benefits under state workers compensation programs, the Supreme Court ruled last week.

The decision makes clear that neither a state workers compensation program nor the federal program is an exclusive remedy, and that an injured harbor worker, in some cases, could collect benefits from both programs.

Awards, however, won't overlap. An employer would pay the benefit an injured worker is entitled to receive under the state program and then make additional payments to boost the worker to the federal level.

Ford keeps paying premiums

DETROIT—Ford Motor Co.'s public appeal for its major suppliers to cut their prices 1.5% does not include the No. 2 automaker's insurers.

Like the financially ailing Chrysler Motor Corp., Ford will continue to pay full premiums for its coverage. Chrysler, holding back payment to most suppliers, also exempted insurers from the cut.

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2 insurers awaiting claims in office fire

By ELLIS SIMON

NEW YORK—Two companies are scouring New York City for office space and two insurers are awaiting damage claims after a June 23 fire in a Manhattan skyscraper.

Chubb Federal Insurance Co. writes a $40 million property insurance policy with a $1,000 deductible for Fisher Brothers Management Co., general lessor and managing agent for the 42-story office building at 299 Park Ave.

Insurance Co. of North America underwrites excess insurance for Fisher Brothers to $100 million on four buildings.

Fisher Brothers' insurance policies are expected to cover the undetermined damage to the building and the cost of renting temporary office space for Bank of America and Great Lakes Carbon Co., two companies displaced by the fire.

Personal property damaged in the fire that burned out of control for three hours will be covered under property policies of the individual tenants, it's believed.

Six floors were damaged in the fire and 115 persons were injured. Most injuries were sustained by New York firefighters who suffered smoke inhalation and exhaustion.

Bank of America had a commercial lending office on the floor where the fire began and directly below it. Great Lakes' offices were directly above the Bank of America office. Damage to other floors resulted from smoke, heat and glass broken by firefighters to vent the fire.

Other firms affected included SCM Corp. and Westvaco Corp.

Elliot Cohen, risk manager for Fisher Brothers, said it will take two weeks to several months to reopen the six floors, depending on the extent of damage.

He said no damage estimate will be made because Chubb Federal has agreed to let Fisher make repairs and file its claim based on cost. However, damage is "very substantial," Mr. Cohen said.

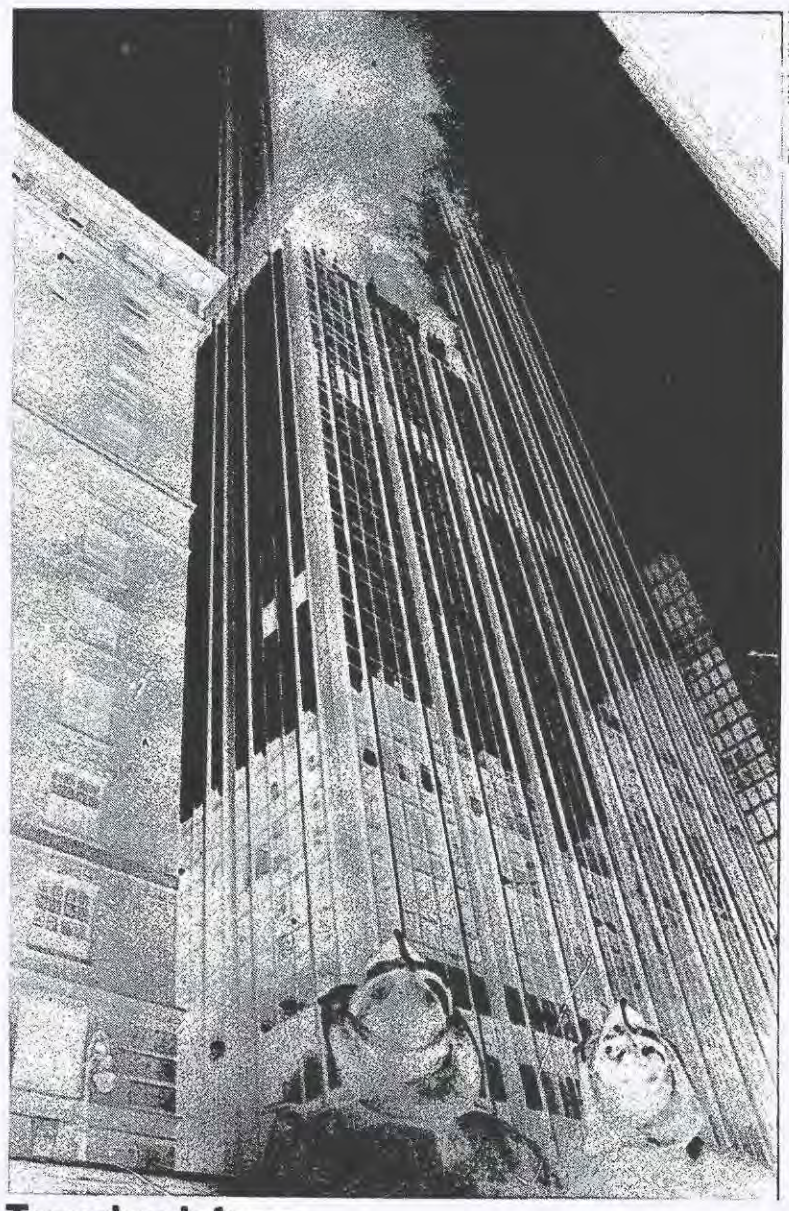


Photo: Wide World

Towering inferno

Newly installed firewalls have been credited with containing the June 23 blaze in this Manhattan office building to six floors.

Bank of America lost office equipment and corporate records. Assistant vp Norman Wintemute in San Francisco said he did not know the extent of the damage or whether duplicates of the records existed when contacted by *Business Insurance*.

The bank is insured under a layered program brokered by Johnson & Higgins of San Francisco.

Continued on page 25

Gawla to take over as managing editor

Most of the faces are the same, but the *Business Insurance* team bringing you the latest in commercial insurance news has a new lineup.

Kathryn McIntyre, *BI* editor, has hired Lorrie Gawla as managing editor. Although Ms. Gawla is new to the insurance industry, she is a 10-year veteran in the publications field. She comes to *BI* from the Herald-News in Joliet where she was associate news editor in charge of suburban coverage for the 53,000 circulation daily.

Ms. Gawla will be managing the day-to-day operations in the *BI* newsroom, reporting to Ms. McIntyre.

Ms. McIntyre also announces several promotions.

Effective July 1, features editor Len Strazewski becomes senior editor/features and special reports. Besides continuing his responsibilities for the Perspective pages, he will take charge of special issues and extended coverage articles.

Merrill Saltzman, editorial production chief, has been promoted to graphics editor/production manager. She develops the graphics used in *BI* and manages the production staff.



Gawla



Strazewski

John Maes, Chicago-based associate editor, will become assistant features editor working with Mr. Strazewski on the weekly Perspective package. He also will be anchor reporter for *BI* special reports and continue his news reporting.

Rhonda Rundle, Los Angeles-based *BI* reporter, has been named West Coast editor in charge of developing a system of West Coast correspondents for *BI*.

Flight 191 suit nets $277,500

By STACY SHAPIRO

CHICAGO—It was muggy in the courtroom—much the same as it was more than a year ago when American Airlines Flight 191 crashed—as a federal jury granted the first award to surviving relatives of a DC10 crash victim.

The eight-man jury awarded the survivors of Craig Valladares $250,000 in compensatory damages and $27,500 in prejudgment interest, the amount of interest that would have been accumulated had the money been in the bank since the time of his death. The three-day trial before U.S. District Judge Herbert L. Will ended June 23.

Defendants American Airlines and McDonnell Douglas Corp., however, will appeal part of that award, said Robert Alpert, senior vp of U.S. Aviation Underwriters, liability insurers for the airline.

"We do not think this prejudgment interest ruling is available in

Continued on page 28

Policies back up fest

MILWAUKEE—Summerfest, an entertainment extravaganza here, is known for its lineup of big name entertainers, including Waylon Jennings and Buddy Rich.

But starting the festival on schedule last week required a lineup of special insurance coverages that cost Milwaukee World Festival Corp., the show's operator, nearly $70,000, said broker Chuck Helling.

Property coverage for $3.5 million in buildings, booths and trailers costs the firm about $30,000 and is underwritten by Tower Insurance Co., explained Mr. Helling, vp for the Laub Group Inc. in Milwaukee.

A series of liability and workers compensation policies is underwritten by five other insurers and costs the firm about $40,000.

A local insurer, Time Insurance Co., underwrites workers compensation for Summerfest and U.S. Fidelity & Guaranty holds the comprehensive automobile liability coverage for show vehicles, peaking at $500,000 per occurrence.

Comprehensive general liability primary coverage to $500,000 per occurrence is underwritten by Canadian Universal Insurance Co., and the catastrophe umbrella liability policy over $500,000 and up to $10 million per occurrence is underwritten by Columbia Casualty.

In addition to general liability, Summerfest also purchased an employe dishonesty and property disappearance plan from Hartford Accident & Indemnity Co. that insures losses from internal swiping up to $50,000 per occurrence. ■



Photo: Milwaukee World Festival Corp.

A cast of special insurance coverages will keep the operators of Milwaukee's Summerfest from singing the blues over audience lawsuits.

Continued on page 28

Anyone having any problems with Blue Cross/Blue Shield concerning midwife services contact attorneys Wiesen & Gurfein, PC. 344-1183.—ADVT.

Class action seeks midwife coverage

By MARY ANN MATLOCK

NEW YORK—More than 2,000 patients are expected to join a class-action suit against Blue Cross/Blue Shield of Greater New York seeking coverage for nurse-midwife care.

Richard A. Gurfein filed the suit in superior court of New York on behalf of hundreds of patients who were denied coverage for nurse/midwife care they received. Hundreds more are expected to join the suit before a motion is made next month on the suit's class-action status.

Nationwide, 57 of 70 Blue Shield plans refuse to pay for nurse/midwife care, arguing doctors should deliver babies (*BI*, March 31).

Others may join the case after reading the following front-page ad in the New York Times on June 20: "Anyone having problems with Blue Cross/Blue Shield concerning midwife services contact attorneys Wiesen & Gurfein."

This ad, at the cost of $225 for one day, is aimed at women who chose the services of nurse/midwives at hospitals such as Downstate, Albert Einstein, North Central and Beth Israel. The typical fee for a baby delivered by a nurse/midwife is $500, with each professional delivering about 65 babies a year.

New York Blues do not specifically provide coverage for nurse/midwife care, Mr. Gurfein said. "Blue Shield will cover if the nurse/midwife care is billed as part of hospital care, but not if the patient is billed directly by the nurse/midwife."

Nurse/midwife services are rarely included in hospital services, however, because most operate independently and not as hospital-salaried employes.

Nurse/midwives receive training similar to that of obstetricians and are specifically licensed to practice in New York State, he said. Therefore, insurance treatment should be equitable, he argued.

Current Blues policy either forces the patient to pay for nurse/midwife services herself or solicit the signature of a physician for services actually performed by a nurse/midwife, the attorney said.

Blue Cross/Blue Shield admitted its plans do not provide direct coverage for nurse/midwife care and said plans are being evaluated.

Exec puts bets on end to bargain price days

By STUART EMMRICH

HARTFORD, Conn.—Dale Comey is a man who works the odds.

The senior vp of The Hartford Insurance Group has spent most of his career as an actuary—calculating mathematical possibilities, juggling figures to gauge how they most affect a firm's bottom line and analyzing various company ventures to predict success and failure.

So when Mr. Comey the insurance executive is asked what is going to happen to the markets in the next few months, Mr. Comey the actuary has a carefully calculated answer: The odds are that the days of bargain prices are coming to an abrupt end.

"The industry will have to correct itself by realistically pricing coverages by the end of the year," Mr. Comey predicted. "This current situation can't go on. People say companies are going to be satisfied with combined ratios in excess of 100, where they wouldn't have been a few years ago, because of investment income gains. I don't buy that."

The days of tighter markets and much higher prices aren't imminent, Mr. Comey conceded. He has already pushed his estimates of a market turnaround to the middle of 1981 from his earlier guess of the end of 1980.

Only 39 years old, on a fast track since he joined the company in 1965, Mr. Comey is mentioned frequently as not only someone who will have a strong influence on the future operations of the insurer, but also may one day end up in its top office.

His recent promotion to senior vp put him in charge of the company's field operations and just two notches below Hartford's chairman and president DeRoy Thomas.

As part of his new duties, Mr. Comey is concerned with corralling business without resorting to the extreme price-cutting he warns against, deciding into what geographical areas the company might best expand and guiding new projects designed to snare more of the market.

One of those new products The Hartford has been developing over the past two years and is now marketing is a service called Spectrum, aimed at simplifying coverages for small and medium-sized businesses.

Spectrum, which started in Colorado at the beginning of the month and is expected to be offered in most of the states by the end of the year, is being touted by company officials as a major revamping of the way The Hartford sells its commercial insurance.

Under the program, which offers property limits of $2.5 million for the building and $500,000 for the contents, an agent can take a standard form into a shopping area and within a few hours provide coverage for a wide range of business. The program is open to retail stores, wholesalers, offices, service outlets and apartments and condominiums, and has no square-foot restrictions, unlike similar programs offered by other companies.

Policyholders can get quotes in just a few minutes and the form is a simple one giving both sides a great deal of flexibility, Mr. Comey said.

"We're at that point that is the most difficult in the underwriting cycle. It's time to execute a game plan to deal with it that we have been developing over a long period of time," Mr. Comey said, explaining the enthusiasm for Spec-

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someone you should know



'We're at that point that is most difficult in the underwriting cycle,' says Dale Comey of The Hartford.

Insurer settlement helps finance dome

By HARRIET KING

SEATTLE—The Travelers Indemnity Co., which once guaranteed the performance of a contractor constructing the King County Kingdome stadium, is now helping to pay off the arena's mortgage.

The insurer underwrote performance bonding in the early 1970s for a contractor that walked off the job during the Kingdome construction. Last week, it agreed to a $12.8 million out-of-court settlement with the county to help pay for the stadium and reduce the local taxpayers' debt.

The settlement closes five years of litigation and may set a precedent for other municipal construction disputes, especially those involving the construction of public stadiums, said King County prosecuting attorney Rich Elliot.



Photo: Harriet King

The Kingdome's contractor walked off the job in the early 1970s.

"Travelers settled purely for economic reasons," he said. "There was the potential for the case to go to a U.S. Court of Appeals all the way up to the U.S. Supreme Court. Those appeals probably would have taken two years.

"It will be a precedent in dealing with contractors, especially for other counties that are building stadiums. However, it will not be as useful a precedent as if it had gone to the Supreme Court. In a general sense, too," said Mr. Elliot, "it will have an effect on other construction projects the county may have underway."

King County executive John Spellman hailed the award as "a victory for the people" and said it was one of the biggest settlements a public body had ever received in a construction dispute. The settlement and an Economic Development Administration grant reduce the cost of the Kingdome to taxpayers to $49.6 million from $61.3 million and ensures final payment of the stadium.

The litigation history, however, is not a simple tale of city versus a failed contractor. King County, The Travelers and the contractor, Donald M. Drake Co. of Portland, Ore., have been mired in suits and countersuits that finally ended in The Travelers settling without the formal approval of Drake.

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KDI Corp. shelves plan for new risk exec job

A brand new risk management job at KDI Corp. in Cincinnati has fallen victim to a corporate belt-tightening campaign and fears of further deterioration in the company's swimming pool construction business.

"The job was budgeted and several candidates had been interviewed," reported Ted Miller, KDI vp-industrial relations. But the new position was shelved after the company reassessed its 1980 financial outlook and decided it would face a challenging second half, he said.

recession watch

KDI, a highly diversified manufacturing company that had $190 million in sales last year, employs 4,000 people in 29 operations around the country. Besides swimming pool construction, hard hit by record-high interest rates, KDI manufactures electronics components, recreational equipment and educational supplies.

N.Y. contributes more for city health policies

NEW YORK CITY will contribute up to an additional $450 per employe for annual health and medical benefits under terms of a new two-year master contract between the city and the American Federation of State, County and Municipal Employes.

The pact covers 25 unions representing 200,000 nonuniformed city workers such as teachers, clerks and health service employes. The agreement, effective July 1, is subject to a ratification vote later in the month.

The additional funds will be used by each union to upgrade its own benefit plan.

benefit beat

In addition, some forms of the contract include an annual $750 cost-of-living increase to be incorporated into the wage base used to compute pensions, starting in 1982.

Higher premium

Kansas state employes will pay nearly $12 a month more for family policies under a new health insurance contract awarded to Kansas Blue Cross/Blue Shield, the current underwriter. The contract, covering about 34,000 employes, will take effect Aug. 1.

The new policy, awarded by the state committee on surety bonds and insurance, will cost the state and its employes about $31.2 million. Continental Assurance Co. was the only other bidder on the contract.

Premiums for BC/BS individual coverage, $43.74 a month, are paid by the state, as are the $23.07 BC/BS premiums for individuals also covered by Medicare. The state pays $43.74 a month for family coverage and the employe pays $74.87.

State employes living in Johnson and Wyandotte counties in Kansas and Jackson and Cass counties in Missouri may opt for membership in the Prime Health HMO. The state pays $43.74 a month for individual or family membership in Prime Health and an employe pays $5.51 for individual coverage and $71.04 for a family plan.

Retiree plans

Retirees of Westinghouse Electric Co. will be covered for medical and hospital expenses and prescription drugs under new plans to begin July 1.

The health plan will cover a lifetime maximum of $10,000 in hospital and medical costs and will supplement Medicare benefits. Under the drug plan, retirees will pay the first $2 for a prescription, Westinghouse picks up the next $5 and the retiree pays the balance.

The expanded benefit plans are insured by the Equitable Life Assurance Society and will cover about 30,000 pensioners and their spouses, said John McCrea, administrator of pension and insurance plans. He declined to disclose the cost of the new plans to the company.

FICA facts

If the Social Secirity system operated like a private pension plan, it would need $3.75 trillion in its fund to pay all benefits earned to date by everyone covered by the system, both retired and currently employed.

That's the analysis from Hay Associates, quoting figures from a study done by the Office of the Actuary of the Social Security Administration.

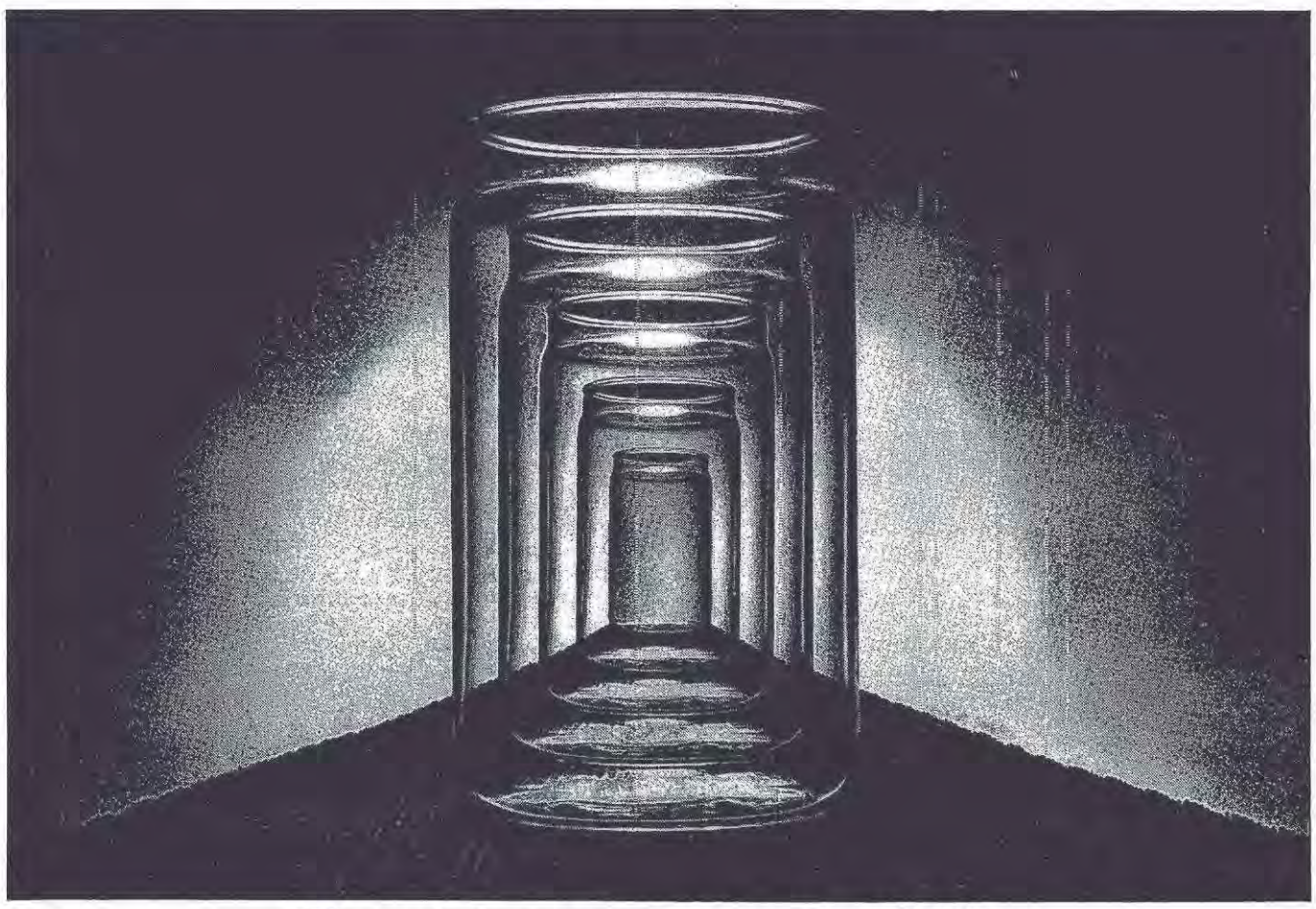
The $3.75 trillion is equal to 60% of the net worth or tangible and financial assets of all U.S. households, or almost five times the national debt, or almost seven times the national budget.

And how much of a reserve does the Social Security system actually have? Only $30 billion. Aside from a comparatively small reserve of money, the more than $100 billion paid out in Social Security benefits in 1979—about 20% of the federal budget—came from FICA tax revenues.

•

Benefit beat keeps insurance and employe benefit managers up-to-date on what other companies are doing and informed of current developments in the employe benefit field. We'd like to know if you've made any changes. Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

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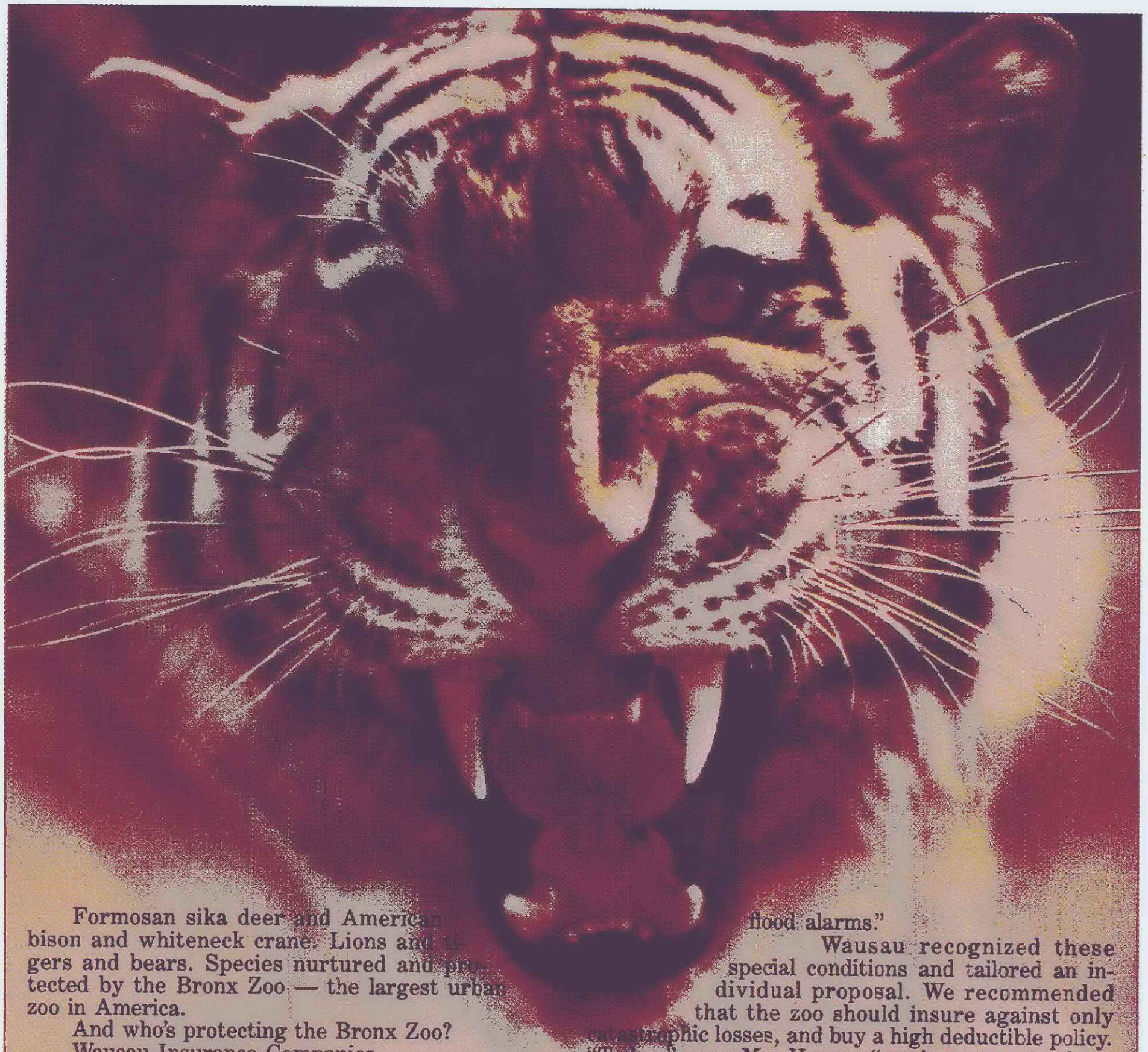
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How the Bronx Zoo tamed an insurance problem by teaming up with Wausau.



Formosan sika deer and American bison and whiteneck crane. Lions and tigers and bears. Species nurtured and protected by the Bronx Zoo — the largest urban zoo in America.

And who's protecting the Bronx Zoo?

Wausau Insurance Companies.

The Bronx Zoo needed a more efficient way to protect its property.

John G. Hoare, Comptroller of the New York Zoological Society, explains: "Our zoo buildings are far more secure than those of most businesses. They were designed with safety foremost in mind and are equipped with sophisticated fire and flood alarms."

Wausau recognized these special conditions and tailored an individual proposal. We recommended that the zoo should insure against only catastrophic losses, and buy a high deductible policy. "Today," says Mr. Hoare, "we have two to three times the coverage — in terms of numbers of buildings — at a 30% savings over our previous cost."

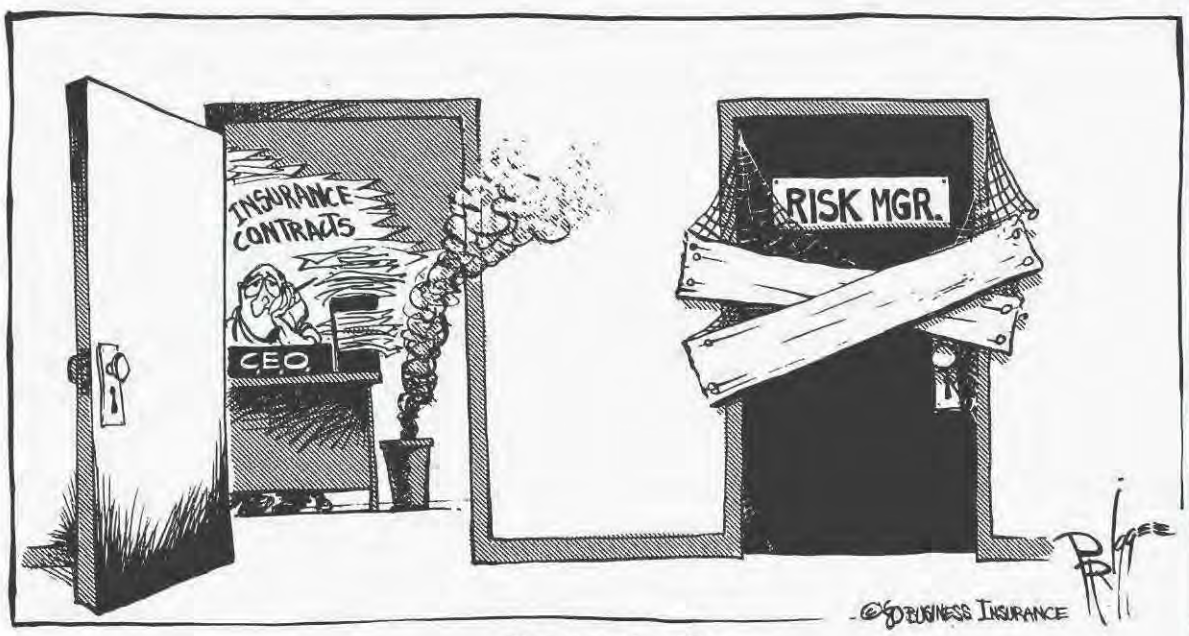
Together, the New York Zoological Society and Wausau work as partners to manage risk at the Bronx Zoo.

The partnership works effectively to make business insurance earn its keep. That's the Wausau Story.

WAUSAU INSURANCE COMPANIES
Employers Insurance of Wausau

WAUSAU WORKS.℠

editorial opinions



Economical?

Prove your worth

YOU MIGHT LOSE your job in this recession if you don't prove yourself indispensable. At the very least, your department is going to be under scrutiny for cutbacks as corporations look for ways to cut costs in the face of falling business prospects.

A third of our Risk Management Board members are under hiring freezes or facing cutbacks in their risk management departments. Our reporting found two companies disbanding recently created risk management departments to cut costs. The theory: We survived without risk management once, we can again.

Risk managers can show top management that corporate survival through this recession could hang on the effectiveness of the risk management department. One big uninsured loss, a pile of invalid claims that are paid or a delay in recovering a major loss could throw a company on the brink of bankruptcy right into Chapter XI proceedings.

It's more important than ever to convince top management that money spent on risk management is money saved on losses and human suffering.

The recession should remind everyone that it's time to check all physical loss prevention programs such as sprinklers, and human loss prevention programs such as safety committees.

The recession should remind everyone that every claim needs to be examined for validity and accuracy. It's common knowledge that in a recession, disability claims increase; employes fearful their jobs are on the chopping block are more inclined to preserve income under disability programs.

Claims made by a corporation to insurers also must be handled with diligence. In times of tight money, everyone wants to delay payments as long as possible. Without aggressive risk managers breathing down their necks, insurers will take their time paying claims.

Presenting these arguments to top management won't guarantee your job or your department. You have to be able to show you are accomplishing these goals for your employer. Every risk manager should be presenting an annual report to top management highlighting the department's activity over the last year and goals for next year.

The report should be jammed full of statistics on loss and insurance costs and how they have developed over the past 10 years. A risk manager who charts decreasing loss and insurance costs over the past few years can expect to hold his/her job

Has your company been growing so fast that insurance and loss costs have increased too? Show the relationship between corporate growth and the risk management department's expenses.

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.

More on BAP

To the editor: It is most gratifying and perhaps foreboding of an improvement in attitude that a representative of the ISO for the second time takes a position on my analyses of the BAP in *Business Insurance* (Dec. 24, 1979, and Feb. 25). Unfortunately, B. Joseph Shelley in his objection (May 26) has overlooked my letter of March 10 in which I specifically called attention to the new endorsement to the comprehensive general liability policy on loading and unloading intended to close the gaps created by the change in the auto liability policy (BAP).

It would serve no useful purpose to continue the discussion on the ISO's opinions and the other objections to the BAP which Mr. Shelley omits to mention. At least one of them has meanwhile been revised in the 1980 version of the BAP.

What is important, however, is the realization that such analyses are not exercises in semantics but have two principal purposes:

- To call attention of the insuring public (consumers) and its representatives to changes, restrictions and limitations in new policy forms and endorsements, unannounced by a rating organization or insurance company and frequently described as "clarifications of intent" or "editorial changes."
- To cause the organization or company to submit proposed important changes in policy conditions to the representatives of insureds for their comment and suggestions and where liaison committees exist broaden the scope of their activities.

This may prevent careless wording in the contracts, ambiguities and undesirable reductions of coverage.

Henry Salfeld
Frenkel & Co. Inc.
New York, N.Y.

Trite sensationalism

To the editor: As an independent insurance agent and broker, we totally resent the trite sensationalism that Howard C. Alper has tried to create in "Worksheet for confusion" (June 16). He states, "Most insurance brokers do not understand the business interruption worksheet" and "the broker is obligated to interpret this information for the policy contract. If he does not, then he, rather than the business or its accountant, should bear the consequences of the error."

We do not know where Mr. Alper has done his research to reach the conclusion that most insurance brokers do not understand the business interruption worksheet. Having worked in three states as an insurance agent and as an insurance educator, it has been my experience that most insurance agencies and brokers have an excellent understanding of the business interruption worksheet. The worksheet is a simple device with excellent instructions for completion. It has been our experience that businessmen and their accountants have frequently resisted spending the time to work with the broker to complete the worksheet.

It has always been and it should always be the responsibility of the insured to provide accurate information to the insurance company (via the insurance agent or broker). Of course, the agent/broker should offer his assistance to the insured at all times. It would be absolutely unconscionable to place the consequences of the insured's errors in completing the worksheet on the insurance agent/broker. This should certainly be between the insured and his accountant.

The credibility of Mr. Alper is further questioned with the illustration that appeared with his article which included the business interruption worksheet (for use with the two-item contribution forms). I can't remember how many years it has been since the two-item contribution form has been in existence.

I suggest Mr. Alper is out of date and out of touch with reality and that his article is without substance.

Dave Jaffe, CPCU
Harris-Shcolnik
& Associates Inc.
Phoenix, Ariz.

CIRCO business

To the editor: I would like to draw your attention to an error in the article on page 60 of the May 19 issue regarding Cayman Islands Reinsurance Corp. ("Cayman reinsurer seeks U.S. business: Director").

It is indicated that I stated that CIRCO would be doing business primarily in the U.S. reinsurance market. What I stated is that CIRCO will participate in the U.S. reinsurance market as part of the world market, with no specific emphasis on the United States. When asked whether we would be dealing primarily with reinsuring Cayman insurance companies, my response was that we would be dealing primarily in the world reinsurance market including the U.S.

Klaus J. Gebhardt
President
Intex Management Co. Ltd.
Plano, Tex.

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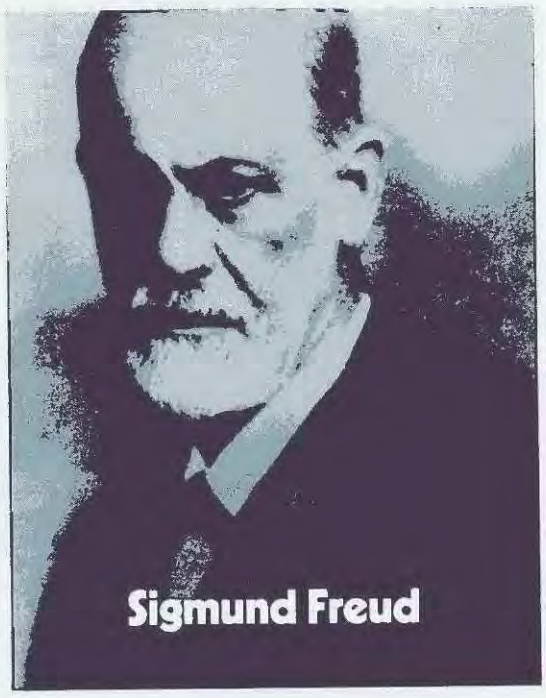
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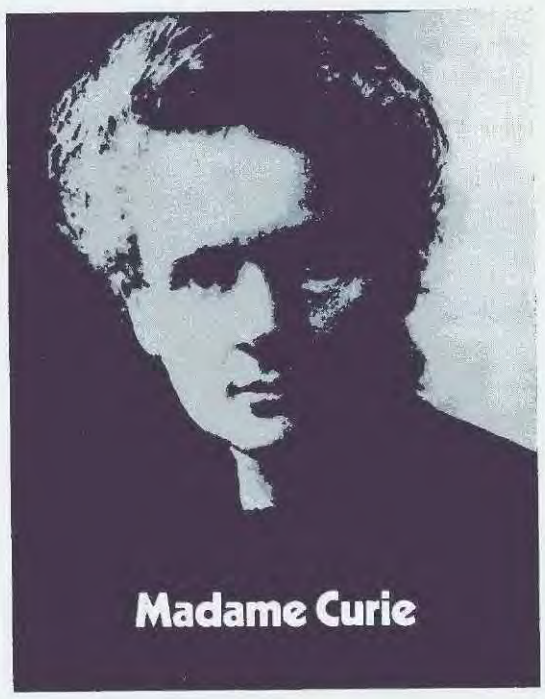
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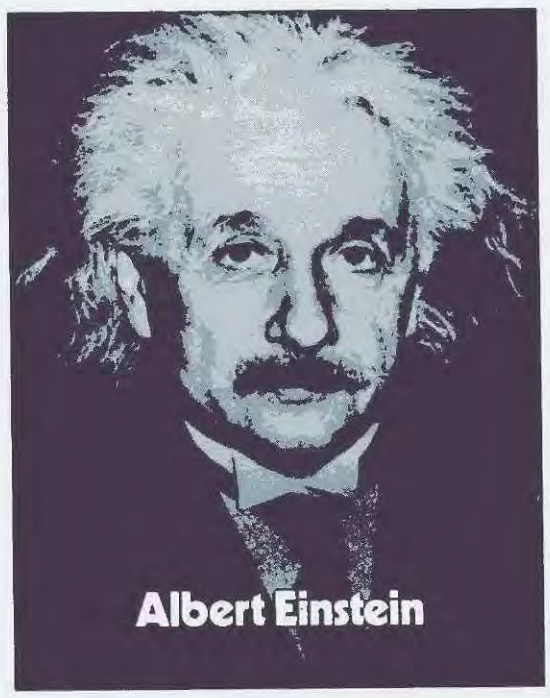
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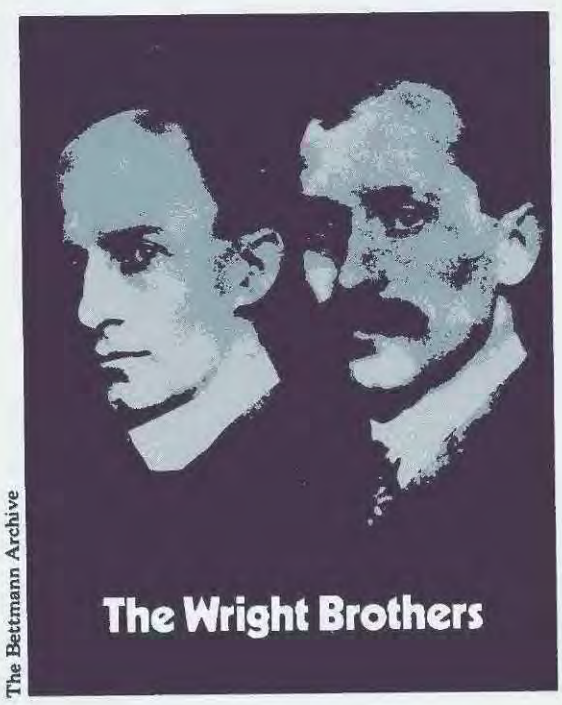
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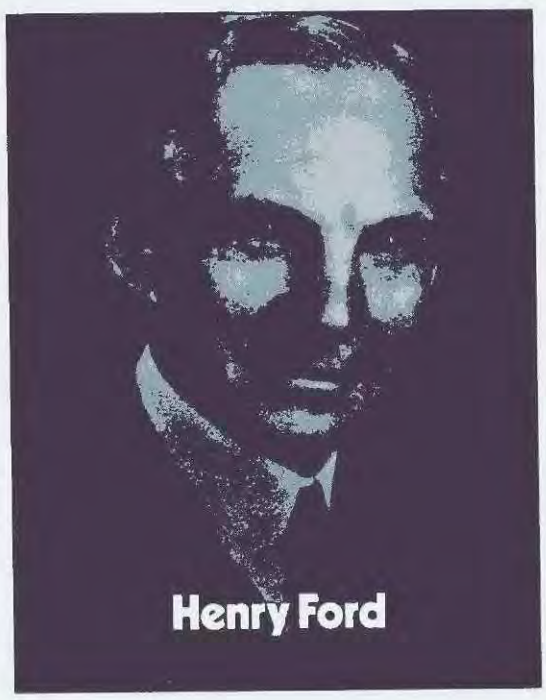
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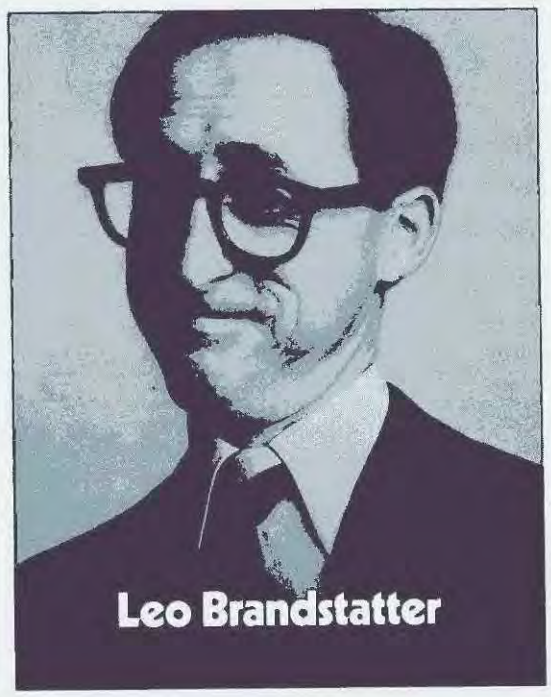

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Bill would ease clash of foreign, U.S. plan rules

By JOHN MAES

worldwide

WASHINGTON—Legislation introduced in the U.S. House of Representatives would allow U.S. employers to tax deduct government-mandated contributions to pension plans for overseas employes.

The legislation, introduced by Rep. Barber Conable (R-N.Y.), is designed to allow U.S. firms to maintain pension plans for foreign workers and avoid conflicts between IRS and foreign government requirements for an overseas pension plan.

Currently, the IRS will not allow deductions for contributions unless the plan meets all ERISA requirements that govern plans for a company's U.S. workforce, according to the Washington-based Assn. of Private Pension & Welfare Plans.

But in many cases, the pension laws of foreign nations preclude U.S. corporations from complying with ERISA in designing a plan. As a result, the IRS prohibits the deductions.

The legislation provides, however, that not only will contributions be deductible under U.S. tax law, but also will reduce earnings and profits for foreign tax credit.

Improvements urged

OTTAWA—Upgrading of pension benefits to ward off poverty among elderly persons should be a prime objective of any national pension reform in Canada, the government here has been told by a task force on retirement income policy.

One way to improve pensions for current retirees is to increase benefits according to the Consumer Price Index or some other economic yardstick, according to the task force.

But the panel has also urged the Canadian government to eliminate the source of the problem by changing the employer-related pension system to broaden benefits.

Among the options open to the government are earlier vesting for employes, improving deferred pensions, elimination of defined benefit plans and encouragement of defined contribution plans, the task force said. The government could also require all employers to offer plans and all workers to join them.

Canada's Federal Department of Health and Welfare will sponsor a conference on pension reform this fall.

Group expands

AMSTERDAM— Nationale Nederlanden, the giant Dutch insurance group, is attempting to expand its Australian operations with a public bid for the Australian Community Insurance Co.

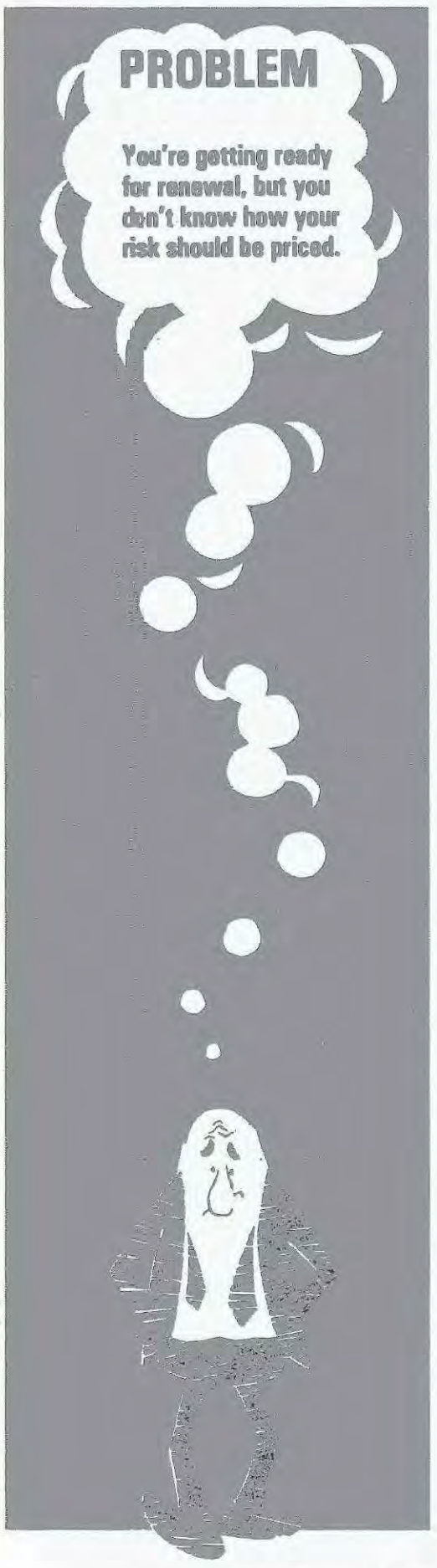
The Dutch group already has a subsidiary firm in Australia, Associated National Insurance Co. of Sydney, which is bidding for the firm.

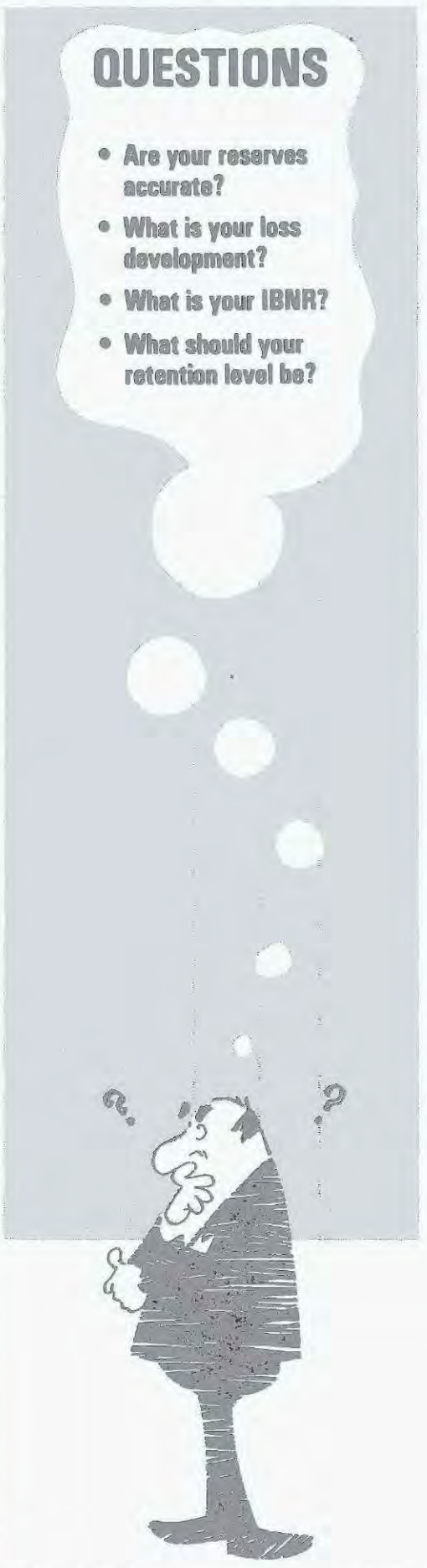
Australian Community is a general commercial insurer founded in 1969. It has branch offices in Sydney and Melbourne in addition to its Brisbane headquarters.

News of the Nationale Nederlanden bid comes only a few months after the group announced acquisition of Proodos Insurance & Reinsurance Co. of Greece as a gateway to the Mideast and Africa (*BI*, May 19).

Fire study

STOCKHOLM—The Swedish government is sponsoring a three-year study of fire causes and possible preventive methods. The project, called the Swedish National Fire Research Program, has been allowed $3 million and will study fire loss statistics. ■





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Group life

Group life insurance set up under new or revised group contracts totaled $13.6 billion in January, compared with $9.4 billion a year earlier, and $10.3 billion in February, compared with $10 billion a year earlier, according to the Life Insurance Marketing & Research Assn.

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Va. bans excess health plan

around the states

RICHMOND—Virginia employers can't buy certain minimum premium plans for excess group accident and sickness coverage as of July 15, under a ruling by the state insurance department.

Two types of minimum premium plans have been operating in the state. Under one, a company self-insures the first layer or a percentage of estimated monthly medical claims and an insurer provides excess coverage. The insurer maintains claim reserves and, upon termination of the policy contract, remains liable for all claims, including incurred but not reported claims and extended benefits. This type of plan will not be affected by the ruling.

Under the type of minimum premium plan that will be prohibited, the employer maintains the claim reserves and the insurer does not assume liability for claims or claim reserves after the policy agreement is terminated. The insurance department has no estimate of the number of these plans operating, said William Gestwick, assistant commissioner for the life and health division.

The new rule will have no effect on Virginia employes that totally self-insure their health benefit plans, Mr. Gestwick said.

Prison negligence

DOVER—The state of Delaware should be held responsible for the deaths of persons slain by prison inmates on work-release programs, contends a suit filed in superior court.

The suit, filed by the children of Gilbert S. and Clara Lambertson, claims the couple would not have been brutally murdered by convicted felon Bill Bailey if he had been locked up instead of being virtually free on a work-release program.

Prison officials should have known the inmate was capable of committing violent crimes, contend the plaintiffs, Saxton C. and Delbert G. Lambertson, and Mary L. Moore and Betty Ann Wharton, all of Dover. They are seeking an unspecified amount of damages.

The state failed to consider all of the inmate's records when he was released from Delaware Correctional Center to the custody of minimum security Plummer House in Wilmington, the suit contends.

Also, the suit charges the state was negligent in allowing the inmate to escape once authorities realized he should not have been released. Prison officials, allegedly realizing they had overlooked important evidence in his file, tried to recall him from the work-release program. But he walked out the back door of Plummer House as state police drove up to return him to prison. A few hours later he robbed a liquor store and killed the Lambertsons in a barrage of shotgun fire.

Brown lung

RALEIGH—Trying to speed up workers compensation claims, a panel of North Carolina physicians has tentatively agreed on a standard definition of brown lung disease.

Members of the North Carolina industrial commission's textile occupational disease panel also agreed on elements to be used in evaluating disability.

"These recommendations could have a valuable impact on the compensation process," said Dr. Ted R. Kuntsling, panel chairman. "It could improve our ability to evaluate workers and submit reports to the commission with less confusion for lawyers and commissioners."

The issues of medical examination and diagnosis have been major stumbling blocks in resolving brown lung claims, said an April report by a special brown lung committee named by Gov. James Hunt. Physicians, it noted, have been unable to agree on a precise definition of the disease and their methods of diagnosis have varied.

The panel physicians agreed that brown lung, or byssinosis, is a disease of the airways of the lungs that results from occupational exposure to cotton dust. The disease can produce both acute and chronic effects, they said.

A medical evaluation of a worker who suspects he has brown lung disease should include: complete medical and work histories, a comprehensive physical exam, complete blood count, urinalysis, chemistry workup, electrocardiogram, and tests of pulmonary function and lung capacity.

Work comp panel

HARRISBURG—Pennsylvania Gov. Dick Thornburgh has signed an executive order creating a blue-ribbon committee to review the state's workers insurance fund.

"A sound workers compensation system is an essential component of a successful state economy," Gov. Thornburgh said. "Yet the Commonwealth's workers insurance fund is not actuarially sound."

Pennsylvania employers can either buy private insurance to provide workers compensation benefits for their employes or can turn to the state insurance fund. During the 1970s, employers' premiums climbed more than 265% while benefits paid to workers jumped more than 270%.

"This committee will seek possible solutions to the complex problems affecting the system's soundness and fairness for both workers and employers," Gov. Thornburgh said. The 13-member panel, to consist of representatives from business, labor and the legislature, will hold hearings and issue a report by June 1981. ■

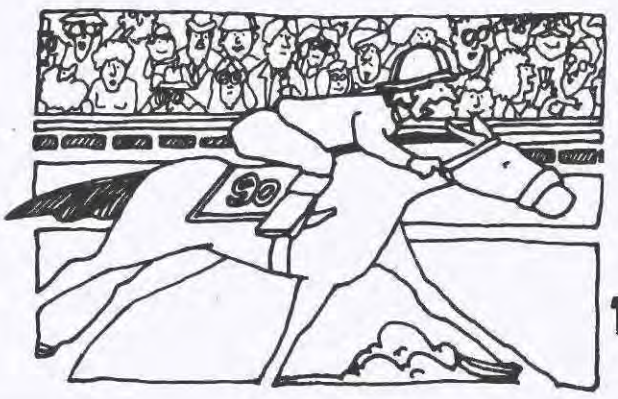
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Oil tanker crews need upgrading: Salvage Assn.

london line

By JOHN MILLER

LONDON—Oil companies must be more diligent in controlling the crews of their tankers, especially when they are under pressure to meet delivery deadlines, warns the U.K. Salvage Assn.

"Owners and operators of these vastly expensive vessels often appear content to leave them in the hands of crews that are barely adequately trained," the association says.

"By far the majority of fires and explosions can be traced to inadequacy of crew training or lack of attention to safety."

The warning comes at a time when underwriters are studying changes in rating levels because of the steady stream of tanker and other merchant vessel losses.

Tankers servicing the Alaska pipeline have already been warned that they may face heavy damage if they maintain their schedules during severe weather.

Marine insurers have weathered claims for heavy and expensive tanker damage caused by severe storms. The Salvage Assn. issued its warning after an alert from its San Francisco bureau pointed out that the vessels can only keep to their strict timetables if they do not slow down until winds exceed Force Six strength.

Total marine losses this year are approaching one million tons, a jump of more than 70% over the same period last year, says Geoffrey Merriman, chairman of the Institute of London Underwriters.

Last year saw a record casualty figure of 2.3 million tons, a 60% jump from 1978 casualties.

Reinsurers are responsible for much of the competition that is keeping premiums low, Mr. Merriman says.

Surging oil prices around the world are lifting the bottom limits of oil cargo coverage to new levels, with several now reaching $100 million per shipment and some even as high as $150 million.

This means that if a $60 million tanker is badly damaged but not actually sunk, cargo insurers might have to pay a high proportion of claims under the law of general average, Mr. Merriman said.

With oil prices rising almost every day, insurers are exposed to large variations in insured values, he added.

But there seems to be no end to the shortage of experienced crews, says Ralph Maybourn, assistant operations manager of the British Petroleum tanker group.

"It may well be the end of the century before widespread and substantial improvement can be expected," he said.

Government enforcement agencies and classification societies must share the blame with oil companies for the continued existence of substandard vessels, he said.

Fire prevention

The U.K. is introducing new rules for department stores selling domestic upholstered furniture with polyurethane foam filling, after a $6 million blaze last year at a local Woolworth's store killed 10 persons.

Such furniture will have to be stored in areas that are not accessible to the public and special fire precautions will have to be taken unless sprinklers are installed.

Consumer Affairs Minister Sally Oppenheim has ordered that all upholstered furniture on sale must pass fire tests by this fall or else carry warning labels indicating a fire risk. Stricter rules preventing the import or manufacture of fire-hazardous furniture will take effect in 1982.

Insurers are welcoming the new rules, which Ms. Oppenheim says will put Britain "well ahead of the rest of the world" in the field of fire prevention. ■

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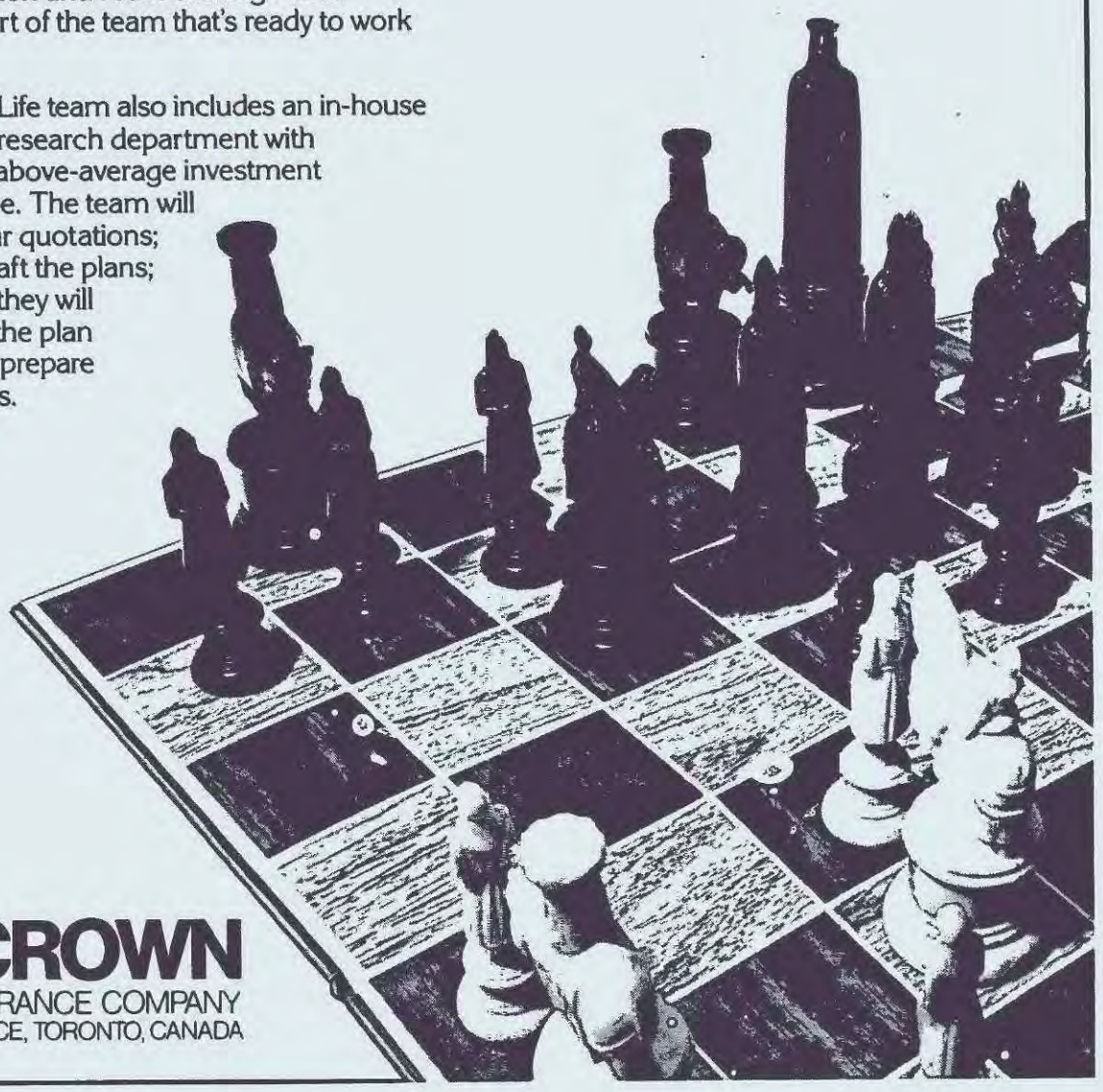
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Ohio insurers ask private work comp

By JILL KAPLAN

COLUMBUS—A new drive to bring a competitive workers compensation insurance market to Ohio is shifting into high gear—for 1981.

An initiative petition that would allow private insurers to underwrite workers compensation insurance is being drafted by the American Insurance Assn. and the Independent Insurance Agents Assn. of Ohio.

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This is the second attempt at a petition. The AIA was enlisted by the IIAAO when the agents' first petition failed to garner support (*BI*, Aug. 20, 1979).

Ohio is the only industrial state—and one of six states nationwide—where workers compensation is exclusively underwritten by a state fund.

The campaigners are shooting for the November 1981 election date to bring the petition to the voters.

But employers are reluctant to vote for such a change. They fear a move to a competitive system could increase costs.

"When private companies are involved, we have to pay for commissions and profits," said Joseph Krabach, director of labor relations for the Ohio Manufacturers Assn. "We don't have to pay that now."

For every $1 now paid by Ohio employers to the state fund, 84 cents goes to pay losses and adjustment services. Nationally, only 76.3 cents of every $1 goes to benefits and loss adjustment. The remaining 23.7 cents pays insurers' acquisition and general expenses, agent/broker commissions and profits, according to the National Council on Compensation Insurance.

"By having a governmentally run program, all of the investment income from the $3 billion fund comes back and is plowed into the program," Mr. Krabach said.

Ohio employers have had four successive rate reductions in the past four years, thanks to increasing investment income and lower loss ratios.

Manufacturers' view

'If private insurers show that they've got just as good a program for the same cost, we'd probably opt for free enterprise,' says Joseph Krabach.

"If private insurers show that they've got just as good a program for the same cost, we'd probably opt for free enterprise because that's our philosophy," Mr. Krabach said, "But not if it's at a higher cost."

Advocates of a competitive market are concerned about lack of support from the business community and are carefully courting employers. "We want to make certain if we do go forward that we don't run the risk of creating opposition," said Edward Stoll, executive vp-law at the American Insurance Assn. in New York.

"We think labor will oppose the petition, but we don't want both labor and business to oppose it," he added.

To placate the business community, a provision that would have made employers liable for punitive damages in accidents occurring in violation of federal safety standards has been deleted from the first draft.

Presently, Ohio employers only pay punitive damages for injuries resulting from the violation of state safety standards.

But Mr. Krabach dismisses the change as a minor item.

"The biggest problem is the insurance agents selling the idea of competition," he said. "They've rigged the language so that the rates will be set by the insurance department for both the state fund and insurance companies so that there's no competition."

Mr. Stoll, one of the petition's proponents, denies the charge.

"It's not true; there is no requirement that the rates would be the same," he replied. "Only the classifications would be the same."

Employers would not be forced to buy from private insurers, say sponsors of the petition for open competition.

"People would have an option," said Charles Coakley, associate counsel at the AIA. "Who would write business if insurers charged 30% to 50% higher rates?"

State funds offer lower rates than private insurers in the 12 states with competitive state funds, Mr. Coakley acknowledged. But insurers are able to offer better services and continuity of coverage to employers operating in more than one state, he argues. ■



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Comprehensive coverage for lenders' liabilities.
– Crown Valley Insurance's Robert Evans

Lending institutions face an increasingly complex set of insurance exposures. Many of these bear directly on their overall financial performance.

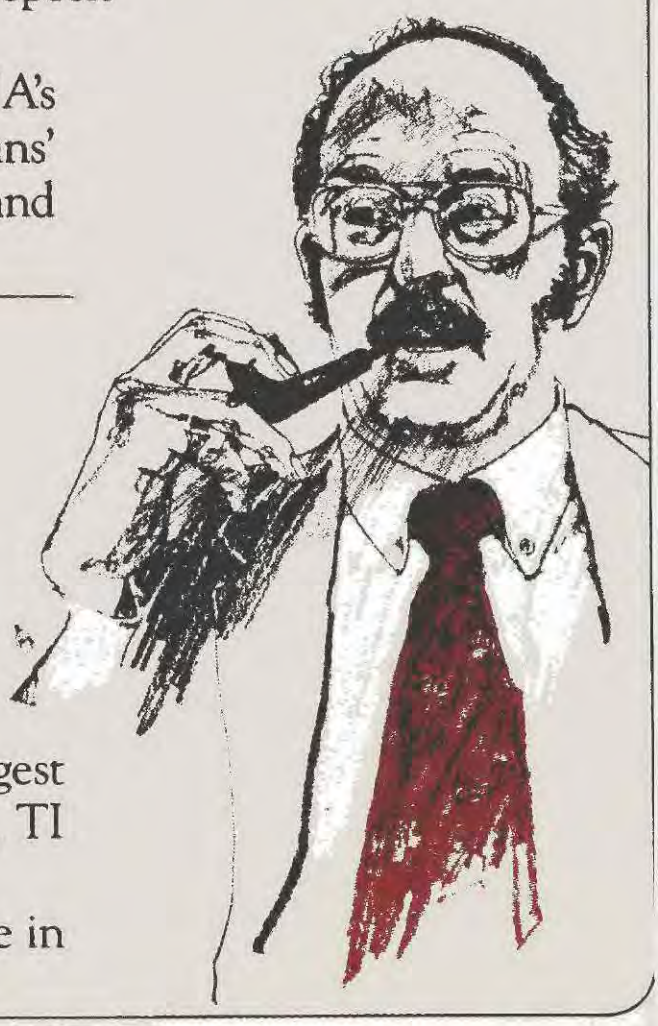
Robert Evans, President of Crown Valley Insurance (CVI), a leading California agency, has approached these special coverage requirements by custom-tailoring a comprehensive protection program to a lender's individual needs.

"Today," suggests Evans, "the only way to supply needed protection on a cost-effective basis is to put yourself in the lender's position."

CVI's careful analysis of a lender's situation often leads to a multi-faceted solution. Basic coverages such as property, general liability, and auto fleet are the fundamentals. "Then comes the procedure," says Evans, "of fitting specialized components into place. We can strategically recommend additional products ranging from mortgage impairment and bonding to safe deposit box liability or even errors and omissions."

The agency's capabilities in this field are enhanced by INA's concern for serving the needs of the banking system. In Evans' opinion, no other carrier offers so large an inventory of products and services for "creating the correct protection formula."

Writing the book on offshore exploration.
– Texas Instruments' Hugo Hines



Seismic exploration vessels are prospecting the ocean's floor to pinpoint vital oil fields. Their searches for new energy sources have become increasingly urgent and widespread, multiplying the risk to both ships and the high-technology equipment they carry.

Texas Instruments (TI), through its subsidiary, Geophysical Service Inc., operates one of the world's largest seismic fleets, under contract to major oil companies. In 1973, TI acted decisively to control the subsidiary's mounting losses.

Realizing that changes in shipboard personnel (taking place in

locations as diverse as the Arctic Circle and the Persian Gulf) increased the chance of human error, TI decided to issue a safety manual to each ship's captain.

"Working with INA," explains Hugo Hines, Corporate Risk Manager for TI, "we designed a comprehensive guide, specifying standard procedures for both routine and emergency situations."

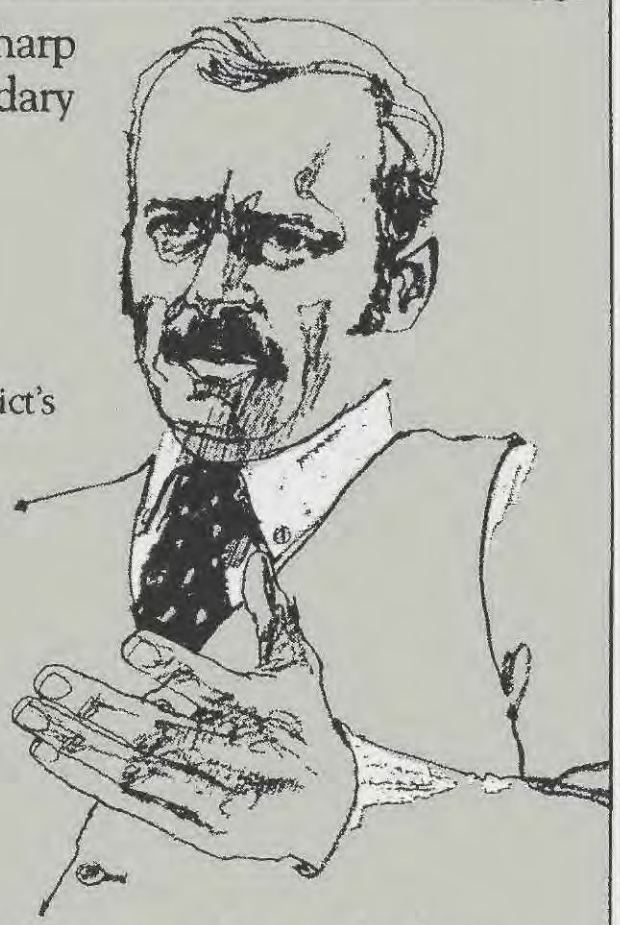
This constantly updated manual, as important to the captain as his charts and log, has contributed to a remarkable reduction in losses. As a result, Geophysical Service was awarded the prestigious "Safety in Seas" award in 1978 by the National Ocean Industries Association.

"We formerly insured the fleet with the London market," Hines adds, "but switched to INA since their expertise helped us to contain our marine exposures. Reduced losses have translated into reduced insurance costs."

During the early 70's, unrest on college campuses triggered sharp increases in the cost of property coverage for primary and secondary schools as well. "We suddenly confronted a doubled premium and an unusually high deductible," recalls Dr. William Bedell, Assistant Superintendent of Livonia, Michigan, Public Schools. Seeking a solution to the rate crisis, Bedell and fellow administrators in the area studied alternatives to commercial coverage. They found that school districts did not hold sufficient reserves to permit self-insurance. And a state-sponsored insurance pool was far too difficult to administer.

Choosing the logical alternative.

– The Livonia School District's Dr. William Bedell



Then, working with his brokerage firm, R.L. Jones and Associates, Bedell found two ways to lower the cost of property coverage. First, he placed the district's insurance with INA and, through restructuring the coverage, realized a reduction in premiums. As the next step, he enrolled the school district in a state-wide safety group created by MarketDyne, an INA subsidiary, and sponsored by the Michigan Association of School Boards.

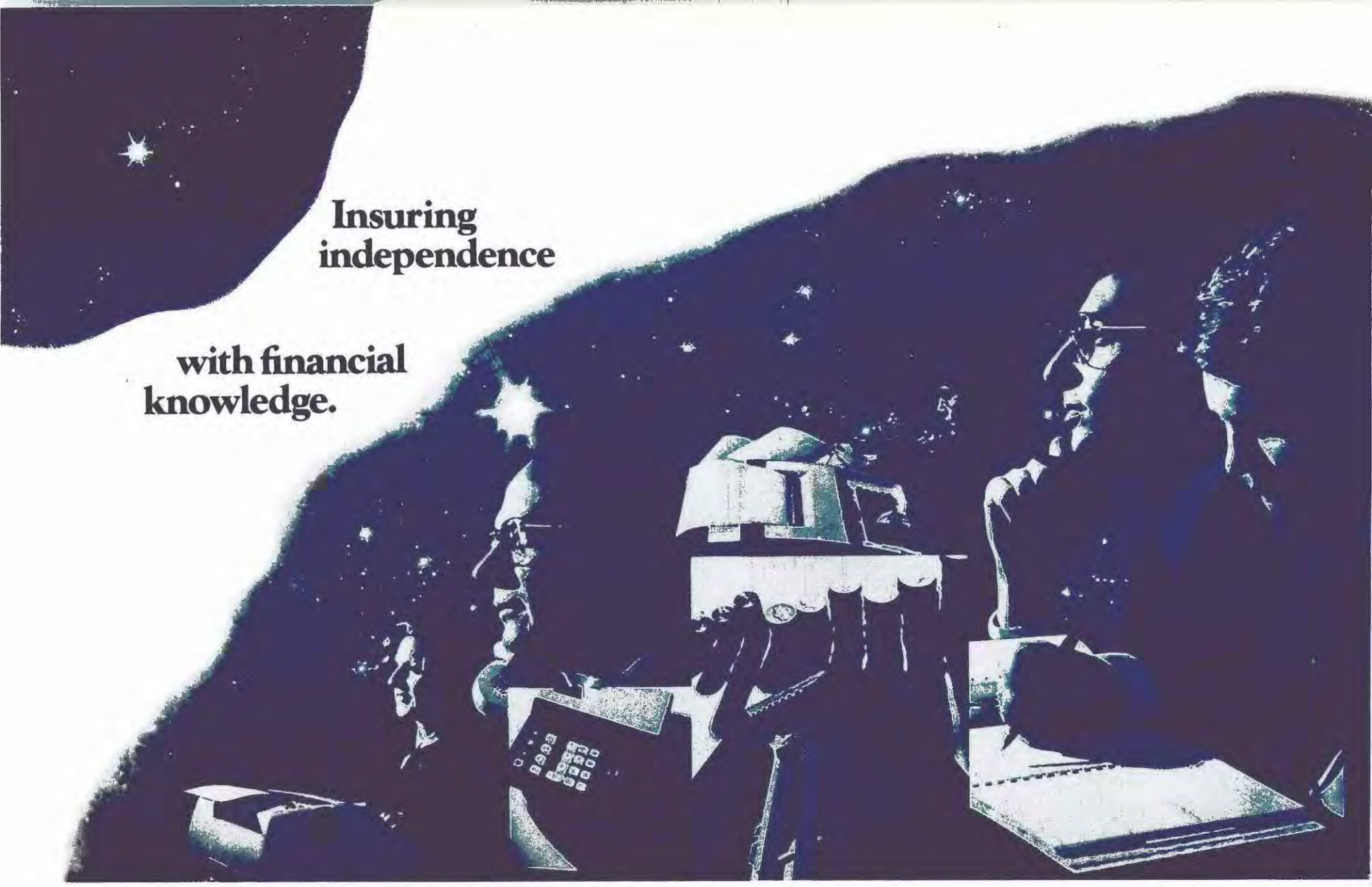
"Since then, our premiums have been related to the actual loss experience of schools in the group," Bedell explains. "And we receive a dividend return on premiums in years of lower-than-expected losses." Last year, the districts in the group were refunded 17.8% of their premiums, and the year before 16.5% was returned, allowing a shift of funds from operations to education. "Our dividends have translated into salaries for two teachers a year," Bedell observes.

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perspective

Longshore benefits

Annuities help anchor cost to employer

By Vincent J. Mangano III

THE U.S. Longshoremen's and Harbor Workers' Compensation Act was amended effective Nov. 26, 1972, enacting changes so profound that effects have not only been unanticipated but have yet to be fully comprehended.

Much has been written and discussed about the amended act, but from the employer/insurer point of view, one of the most difficult problems to handle is estimating future exposure—either for reserving or rating—especially in the permanent total and death indemnity benefits area.

On Nov. 25, 1972, the maximum benefit payable under the act was $70. Although this might have been regarded as a relatively low maximum, on Nov. 26 the maximum jumped to $167 (an increase of 138.6%) and by Oct. 1, 1979, reached $426.26 (an increase of 509%).

Such a startling increase, both in percentage and dollar amount, is explained by the fact that the maximum weekly benefit is now revised every Oct. 1 to equal 200% of the national average weekly wage. This built-in "inflation factor" substantially increases the cost of long-term claims and makes it extremely difficult to estimate future exposure.

This problem affects all parties in the insurance chain: the primary insurer or self-insured employer, the excess or reinsurance underwriter and state and federal insurance regulatory agencies. The difficulties created range from reserve accuracy to rate calculation to surplus position and are obviously all the more serious for smaller employers or insurers.

The cost of longshoremen's coverage has risen as dramatically as the benefits, as is evidenced by the following example: Before the 1972 amendments, a certain self-insured employer was able to afford coverage excess of $25,000 on each claim. Today that same employer is self-insured for the first $1 million of each claim, primarily because the cost of such coverage starting at a substantially lower level is inordinately expensive. Conversely, even with $1 million underlying, the excess insurer or reinsurer is not immune from substantial loss.

A 39-year-old employe, for example, otherwise in good health, sustains a head injury that renders him totally disabled. His average earnings are $398.14 per week and his weekly benefit is $265.44. Using an undiscounted normal life expectancy of 35 years and without future escalation, total weekly payments would be $483,100.

Unfortunately, the longshoremen's act requires annual revision of maximum benefits and the average revision since October 1973 has been an increase of 7.11%.

Thus, the same $265.44 per week benefit projected to life expectancy with an annual increase of 7.11% totals $1.9 million. Even with $1 million underlying, the excess insurer or reinsurer stands exposed for more than $900,000 on one single loss. Should a multiple claimant loss occur, the exposure is magnified without considering the additional costs incurred on the medical side.

The above example is an actual claim that presents the employer with several difficulties: what reserve to carry, which, projected over all open claims, could bear directly on surplus position; what exposure will there be to the excess/reinsuring company (and inevitably the effect of such exposure on the future cost of such coverage), and what is the "hidden" cost of internal handling of such claims? Also, you cannot ignore that the cost of paying these benefits is eventually translated into a business operating expense for the employer. Increases in such expenses result in price increases passed on to the general public. Finding ways to help limit these costs and exposures will provide benefits beyond the concerns of the insurance industry.

Let's explore solutions. Although there is no simple answer, there are ways to bring some control to bear. For the majority of claims, the obvious methods still provide the best course of action. There is no substitute for experienced, aggressive, thorough claims personnel and procedures.

Following claimants, investigators and doctors will effectively limit exposure on most claims. Being knowledgeable in rehabilitation methods and facilities can ensure that prompt and proper medical treatment and cure will be provided at the lowest cost. However, even with conscientious claims handling, there are still claims that involve very large exposures and require special handling.

In recent years, high-valued third-party personal injury claims have seen more use of structured settlements. The structured settlement pays the claimant over a period of years rather than the entire amount immediately. Although the form and elements of such plans vary and are shaped to fit the needs of a particular claim, the tool most often used is the annuity. They are ideally suited to workers compensation claims.

The purpose of workers compensation insurance is to assist the employe in reaching maximum medical care and to replace part of his wage in the same way he would receive funds if he were working. In the past few years, many state compensation systems have recognized the value of annuities and approved their use.

Generally, such states require the employer and/or insurer to continue to pay future benefits and that the employe will not receive less than the benefits provided by law, except in the case of a negotiated settlement agreed to by the claimant. There's no reason such methods should not be used to handle longshoremen's claims.

In the example of the injured 39-year-old, an annuity can be purchased for approximately $500,000, which will pay the present level of longshoremen's benefits and increase them by 7.11% per year for life. The annuity can also be adapted to guarantee payments for the life of the claimant's spouse if he dies before her. A provision can be made to return the funding cost of the unpaid portion of the annuity to the purchaser if the claimant and his wife die substantially earlier than normal life expectancy.

Since the life insurance company guarantees future payments and that the annuity can be written in terms parallel to the act's indemnity provisions, including an annual inflation factor, there is no detriment to the claimant.

Most life insurance companies have a substantially greater financial capacity than many self-insured employers, benefitting the claimant.

When this procedure is used, the employer benefits from more than the saving on loss payments. In the previous example, taking down an almost $2 million reserve would increase surplus. The limitation of loss from $2 million to $500,000 would likely avoid exposure to excess insurers or reinsuers for the particular loss and such avoidance should have a beneficial effect on the cost of future excess or reinsurance coverage.

The clarification of loss cost will also allow more accuracy in estimating future loss exposure for both the employer and underwriter. If a reversionary interest in the annuity were purchased to cover premature death, a further cost reduction would result.

Two other less apparent benefits should also be considered. The turning over of the payment obligation to the life insurer should mean lower costs for the employer. In addition, the guaranteed annual increase factor can be a decided advantage to a claimant.

To these benefits, however, must be compared the disadvantage of loss of investment income obtainable on funds held in reserve. Because of this, an annuity purchase plan is of limited value and careful evaluation should be given to the relationship of estimated investment income to annuity costs.

The most attractive situation would involve a younger claimant, with little or no medical payments required (a death claim or simple amputation). Such claims would require long-term indemnity reserves, which could be avoided by the purchase of an annuity. If necessary, the future medical aspects of a claim can be handled through trust accounts and other methods. ■



Photo: Mary Cairns

Solution needed
Finding ways to limit workers comp costs and exposures will provide benefits beyond the concerns of insurers.

Vincent J. Mangano III is president of Vincent J. Mangano Associates of Westport, Conn., a structured settlement and claims consulting firm.

perspective

Facing retirement

Programs help workers prepare for change

By Robert A. Jud

THE ROUGH dimensions of a developing crisis in retirement policy in this country are slowly becoming apparent to even the most casual observer of television evening news programs. It has to do with our growing number of older people, the shrinking population base of productive workers who can support them, the ravages of inflation and the rising expectation most of us bring to this important issue.

This is the picture that seems to be emerging:

• The proportion of active workers to retired people has dramatically declined. In 1935, when the Social Security Act was first passed, there were nine productive workers for every man and woman over 65. Today the proportion is less than three to one, and will be less than two to one after the turn of this century.

• The sheer number of older and retired people is growing. There are more than 25 million older citizens in this country, and that number is likely to double in 50 years.

• Older people tend to live longer, more robust lives than they once did. A man who survives to age 65 will, on the average, live another 14 years; a woman at the same age will survive for 18 more years. Most Americans will live a fifth of their lives in retirement.

• Supporting an older population of this size requires an enormous productive capacity. But the grimness of this problem presents itself exactly at the moment in history when we are faced with shortages in energy, an OPEC cartel, a depletion in resources generally, rising inflation, balance of payment deficits and the whole list of economic ills that plague us.

• As a result, the Social Security systems of virtually all Western countries and Japan face serious troubles, and many observers voice similar concerns about the private pension system as well.

While many workers may express concern about whether "Social Security will be there for me when I retire" and most will talk about anxiety over inflation, the truth is that few workers are aware of the issues, and neither are the majority of their employers.

It should come as no surprise, then, that several surveys taken during the last two months indicate the trend toward early retirement has finally been reversed, and that even among 65-year-olds almost as many elect to keep on working (45%) as elect to retire.

What the problem requires over the long haul, of course, is a basic and patient reappraisal and reengineering of retirement policy and practice in every sector of our society.

Robert A. Jud is an assistant vp and consultant on retirement planning, counseling and equal opportunity law compliance for William M. Mercer Inc.

Photo: Len Strazewski



The hallmark of successful retirement programs is that they are handled with skill, dignity and tact.

What is required over the short term, however, are retirement planning and education programs, sponsored by corporations and other institutions, for older workers who must prepare now for the changes and uncertainties they are certain to face.

Retirement planning programs have been available in a variety of forms and from a variety of sources for over two decades. Almost all of them share these areas:

• A heavy emphasis on financial planning, a knowledge of company pensions and other benefits, Social Security payments, Medicare and medical retirement budgeting.

• A concern for issues relating to health care, including such matters as nutrition, exercise and fitness programs; availability of health care services, and human sexuality in the older person.

• The meaningful use of leisure time is an extremely important issue for people who no longer have a job to structure their time and who suddenly experience an infusion of 50 spare hours a week into their lives.

• Choices of home and geography need to be faced by an increasingly mobile population that must decide between life in the city or the country, the Sunbelt or Vermont, the traditional family home or a retirement village condominium.

• Family relationships (especially marriage) are naturally affected by a change as profound as retirement. People need the time and the skills to adjust to this last stage of growth and development in a relationship.

• Second careers are a genuine option (often in the form of a small business) for a large number of older workers who wish to remain productive or who need a supplemental income.

• Other retired workers may wish to engage in volunteer work and community activities. They can learn what these activities are and how to become involved in them.

Some retirement preparation programs also cover issues like legal services for the aging, adult education, travel and mobility and many others.

The hallmark of successful retirement programs is that they are handled with skill, dignity and tact. They do not assemble older workers in a classroom to give them free advice on how to live their lives. They carefully avoid being patronizing and condescending. They use the considerable experience and background of older people as the primary resource for continued growth and development.

For corporations needing help in establishing (or renewing) their retirement planning programs, there is considerable expertise available in many universities and junior colleges. A variety of specialized consulting firms, as well as not-for-profit corporations and other agencies specializing in these services, also exists.

The experience of firms whose programs are successful suggests some basic things to do or to avoid in setting up a retirement planning effort. Here are some of them:

• Begin by stating and agreeing on the objectives of the program. There are powerful and persuasive reasons why organizations start such a program, not all of them stated or implicit in this article. Every company should agree early on what its unique objectives are and a way of measuring later that they are in fact achieved.

• Raise levels of general awareness in the firm on this issue. Our workforce (like the general population) is growing older, and many older workers will work longer than they have in the past. Our communications programs should deal with this issue and with the facts of aging workers. They should dispel myths and stereotypes and prepare the workforce generally for education programs. Retirement planning programs launched out of nowhere and without a proper context tend to be viewed with anxiety as vehicles for identifying those who are over the hill.

• Begin with workers who are within two or three years of retirement because their need for this kind of education is immediate and obvious.

• Extend the program later to workers in their early 50s. Some aspects of retirement education (especially those dealing with financial planning) require time to be effective. This is a good time also to deal with issues of mid-life career assessment, so mature workers and their managers can find ways to continue to grow, learn and contribute—rather than sliding into a long, late-life performance plateau.

• Motivate people to attend these programs by appealing to their needs and interests.

• Evaluate the program periodically and make changes as we all learn how to do these things better.

The more complete information employes have, the more likely they are to make intelligent decisions. The central purpose of retirement education is to prepare workers to pick the right time to retire, rather than hang on to a job out of fear and desperation; to engage in meaningful retirement activities, rather than sitting around bad-mouthing the company and nit-picking its pension plan, and to live in reasonable security and comfort, rather than living out one's final years at the barest of subsistence levels.

This is clearly an issue whose time has come. ■



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Pension unit ignores issues: Expert

NEW YORK—The interim report of the President's Commission on Pension Policy ignores more issues than it considers, according to the nation's largest employe benefit consulting firm.

The commission, which offered some support for mandatory pension plans and options for cost-of-living adjustments in pensions, "was not getting to the essence or real problem," said Lloyd S. Kaye, vp at William M. Mercer Inc.

The interim report ignores key issues, including the role of savings and assets in retirement income; Social Security financing and benefit structure; overlaps in pension plans; pension plans and collective bargaining; actuarial and accounting standards; the effects of demographic shifts; the costs to society of providing adequate universal retirement, and integration of Social Security with private pensions (BI, May 12).

"It is hard to review this list without concluding quickly that what the commission has deferred for further study is considerably more significant than what they have already studied," he said.

He attacked the commission's position on mandatory retirement plans, options for cost-of-living adjustments in pension plans and divorced spouse pension rights.

The interim report, Mr. Kaye said, recommended mandatory pension plans be given "serious consideration," without studying the financial implications.

"It is not sufficient to assert that the portion of the workforce not now covered should be covered under a program supplementing Social Security, without analyzing the nature of the employes and their employers who might be forced to provide pension coverage," he charged.

Ignoring financial questions, he added, could result in businesses closing under a financial burden.

The report's suggestion that "employes should be given the opportunity of taking reduced benefits initially, with subsequent cost-of-living increases," brought additional criticism from Mr. Kaye.

"It indicates a conviction that government is more concerned and more responsive to employe needs than the companies which employ these workers," he said.

Inflation protection is usually not offered to workers because of financial prudence, not because of stinginess, he said.

Mandatory cost-of-living adjustments may also breed more red tape.

Essential issues

'What the commission has deferred for further study is considerably more significant than what they have studied,' says Lloyd Kaye.



"I shudder at the prospect of regulations explaining how each plan must offer this option, the parameters granted to the employe, the required notice and revocation provision," he said.

Prorated survivor protection for divorced spouses may also create new problems for employers, Mr. Kaye lamented.

This type of provision would complicate divorce negotiations and administrative complexity while increasing the size of the bureaucracy, he said.

"The contents of this interim report should make us wonder how the commission can properly evaluate hard issues of fundamental importance to the integrity of the private pension system," he concluded.

The commission's final report is due in February 1981. ■



Trade group to study small plans



"The ASPA findings should give the commission a broad, factual picture," says Thomas Woodruff.

WASHINGTON—President Carter's Commission on Pension Policy has awarded a major research and analysis contract to a pension trade group to study pension plan characteristics of small and medium-sized companies.

The $45,000 contract, awarded to the American Society of Pension Actuaries, will fund a report and analysis of the pension formulas of smaller plans based on information provided by 200 members of the pension group. Research data will be requested from 3,000 private plans.

The commission "is extremely concerned about the effect that its final recommendations will have on small and medium-sized businesses," said Thomas Woodruff, the commission's executive director.

"The ASPA findings should give the commission a broad, factual picture of the possible impact that our proposed pension policy will have on this important sector of the private economy," Mr. Woodruff added.

ASPA, whose 1,800 members provide administrative, actuarial and consulting services to more than 250,000 corporate retirement plans, estimates its membership will provide more than $200,000 in free services to the commission in order to complete the contract later this year.

Aside from developing a data base for policy evaluation, the ASPA contract also will:

- Provide an overview of vesting requirements based on plan type and the nature of the pension plan sponsor.
- Describe the employment patterns of plan sponsors.
- Attempt to establish relationships between the age of a company and the start of a pension plan.
- Assess the relationship between the size of the plan and the level of retirement benefits provided.
- Analyze the proportion of the plans that are integrated with Social Security.
- Determine the cost associated with defined benefit and defined contribution plans.

"This project is a good example of how the private sector can provide substantial input to the commission in its study of the nation's retirement income policies," Mr. Woodruff said. ■

datebook

AUG. 11-13. Computer Security Program Seminar in Houston, sponsored by the Computer Security Institute; $495. Also **Aug. 18-20** in Toronto. Gerald I. Isaacson, director, Computer Security Institute, 675 Line Rd., Aberdeen, N.J. 07747; 201-566-6622.

AUG. 13-15. Making Project Management Work Workshop in Schenectady, sponsored by Union College; $295, $250 for team registration. Union College, graduate studies and continuing education, Schenectady, N.Y. 12308; 518-370-6288.

AUG. 14-15. Risk Analysis Seminar in Houston, sponsored by the Computer Security Institute; $395. Also **Aug. 21-22** in Toronto. Gerald I. Isaacson, director, Computer Security Institute, 675 Line Rd., Aberdeen, N.J. 07747; 201-566-6622.

AUG. 17-20. American Risk & Insurance Assn. annual meeting in Chicago; $30 for members, $40 for nonmembers. Richard Johnson, ARIA, Brooks Hall, University of Georgia, Athens, Ga. 30602; 404-542-4290.

AUG. 18-22. The Development and Growth of a Modern Safety Program Seminar in Sacramento, sponsored by the International Loss Control Institute; $525. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208.

AUG 25-29. Professional Consulting in Safety and Loss Control Seminar in Atlanta, sponsored by the International Loss Control Institute; $525. Frank E. Bird Jr., ILCI, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208.

AUG. 27-29. Cause and Origin of Fires and Explosions Seminar in Chicago, sponsored by the National Assn. of Fire Investigators; $100. NAFI, 53 W. Jackson Boulevard, Chicago, Ill. 60604; 312-939-6050.

SEPT. 1-5. Product Liability and Reliability Conference in England, sponsored by the British Society for Strain Measurement and the Institution of Production Engineers. BSSM administration officer, 281 Heaton Rd., Newcastle upon Tyne, NE6 5QB.

SEPT. 7-8. American Assn. of Insurance Management Consultants Annual Meeting in Chicago; $25. Herbert Lapidus, 120 W. John St., Hicksville, N.Y. 11801; 516-935-2000.

SEPT. 7-11. International Assn. of Industrial Accident Boards & Commissions Annual Conference in Detroit; $125 for members, $190 for nonmembers. IAIABC 66th annual convention office, P.O. Box 10236, Lansing, Mich. 48901.

SEPT. 15-16. Self-Insurance and the Use of Captive Insurance Companies Seminar in New York, sponsored by New York University; $670. Also **Oct. 20-21** in Atlanta. Heidi E. Kaplan, Department 20NR, NYU conference center, 360 Lexington Ave., New York, N.Y. 10017; 212-953-7272, ext. 296.

SEPT. 22-23. Insurance Services Office's Statistical Seminar in New York; cost to be between $100 and $150. Jerri Schwartz, Insurance Services Office, 160 Water St., New York, N.Y. 10038; 212-487-4721.

SEPT. 22-25. American Society for Industrial Security Annual Seminar in Miami Beach; $160 for members, $215 for nonmembers; $65 per day for members, $95 per day for nonmembers. ASIS, 26th annual seminar and exhibits, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887. ■

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agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

DENVER:

This is Cherry Creek Plaza.

The Cherry St. Gang—which includes Marsh & McLennan, Alexander & Alexander and Fred S. James—works here. But there's more to this mile-high city than new office buildings and a booming economy. There is a solid group of independent regional brokers expanding its business and making the national brokers sweat.



Photo: Dave Galanti

Big brokers climb rocky path

By DAVE GALANTI

DENVER—One of the benefits of working here is that almost every office building has a scenic view of the Rocky Mountains.

Cherry Creek Plaza is no exception. Denver brokers such as Ken Cole from Marsh & McLennan, Larry Thompson from Alexander & Alexander and Anthony Jones from Fred S. James need look no farther than their windows for a view their Eastern counterparts can only imagine.

The mountains are not all that's rocky, however. A business climate that features few Fortune 500 companies and a landscape dotted with a bounty of staunch independent regionals creates a tough climb for national brokerages moving into this booming area.

The result: several Denver branch offices hover around the $1 million mark in commissions, hoping to survive the best they can.

Marsh & McLennan's Denver office is a good example of what the big brokers face in this market.

M&M's Denver office opened from scratch in 1971 to service some branches of M&M accounts handled elsewhere in the U.S.

Growth was slow at first, only six employes in five years. A major regrouping in 1976 produced expansion with income in property/casualty operations rising to $549,000 in 1978 and $932,000 last year.

Downtown growth

Income is expected to rise again in 1980, topping $1.2 million. But assistant vp Ken Cole admits it hasn't been easy.

He and M&M are not alone. Downtown growth of corporate branch offices and energy development dominated by small firms make the nationals scurry for business in this booming territory.

"There has been a lot of development downtown that has been built with money that came from outside of Colorado," says Anthony A. Jones, senior vp of Fred S. James & Co. in Colorado.

"A lot of that money is from Canadian firms, so the Reed Stenhouse Cos. branch office here controls a lot of the insurance," Mr. Jones says. "We've got some of the downtown action, but the involvement of the Canadians here has really been a boon to Reed Stenhouse."

New development

Denver means boom town to many observers, who acknowledge a growing energy industry, fine skiing, a temperate winter climate, substantial government employment and a young and vibrant image. This image is borne out by the number of new developments in town that have attracted many of the public brokers.

"It's hard to pinpoint just what kind of town this is," says Mr. Jones. "There used to be a lot of trucking and distribution centers operating out of here. There are old established manufacturing risks around and some light industry is moving in from out-of-state."

At first glance, the energy field would also seem to be ripe big broker pickings. The number of en-

Continued on next page

Regionals carve niches

DENVER—The Rockies appear everywhere—on business cards, on signs and in promotional literature, in many ways reflecting the attitude of the regional brokers here—young, sharp and defiant.

Led by regional broker Warren & Sommer Inc., Denver-based agencies such as Schoelzel & Associates, Van Gilder Agency, Insurance Agency of Colorado and Talbert Corp. have carved their niches in the insurance market here. Specializing in personal service to the medium-to-small-sized corporations that make up much of the insurance market, the regionals probably face a brighter future against the nationals than their regional counterparts elsewhere.

If the regionals are to continue to succeed in Denver against the onslaught of the national houses, service is what they must continue to sell, says Dell Van Gilder, president of the Van Gilder Agency.

"A lot of the larger accounts in town are still written by the independent agents here and those businessmen won't entertain bids by the national houses," he says. "We feel we get more competition from Warren & Sommer, Day Webb & Taylor and the other locals than we do from the big brokers. The nationals can best serve the Fortune 500 companies and I just don't see them coming in droves to this region.

"Independent agents have a big advantage here because of that," Mr. Van Gilder adds. "We get business because of the people that we know rather than the size of our international department. The nationals have been writing business profitably, but that is partly because this is a good state to do business in."

The excess/surplus market reflects the standard market, says Charles A. McCarron, senior vp of Richter/Robb underwriters. Richter/Robb, a

Continued on page 22N

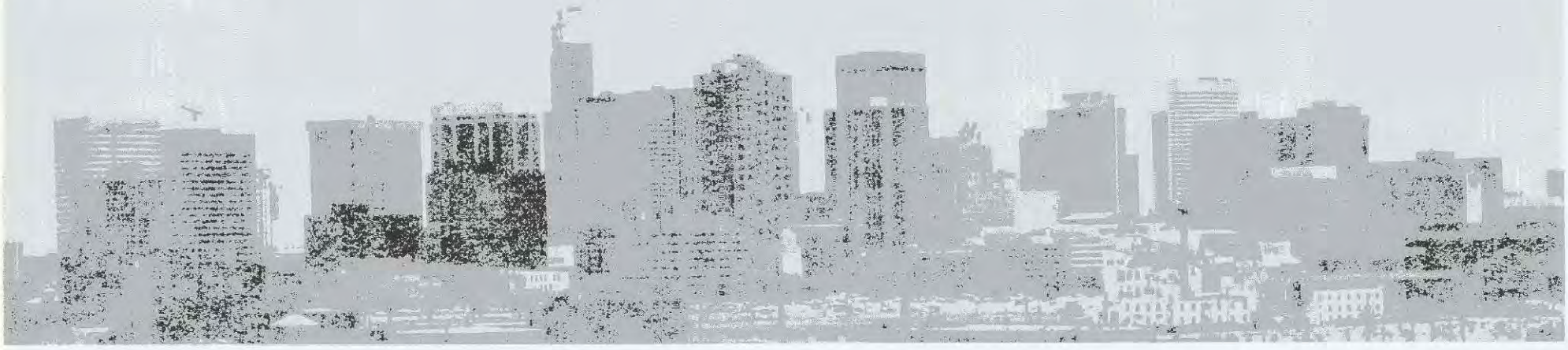
INSIDE

Talbert Corp. bonds Denver . . . page 22D

Chicago broker puts risks on TV . . . page 22L

Alphabet brokers scale rocky path

Photos: Dave Galanti



Continued from previous page

ergy firms located in Denver is booming and the big energy firms are looking more and more to Denver to center their activities.

Both Marsh & McLennan and Alexander & Alexander have set up small energy departments, but they are limited to what can be written in Denver, the brokers say. Most of the growth has occurred with small firms with few employes.



"We have an energy expert that goes out and steadily produces a lot of smaller business," said M&M's Mr. Cole. "However, there aren't a lot of big guys out there who have their insurance placed here. I think energy is overemphasized as far as the insurance industry here is concerned."

Alexander & Alexander managing vp Larry R. Thompson says A&A has two executives marketing energy-related risks. "Energy is where it is," he said.

But James's Mr. Jones casts a dissenting vote.

"Energy will provide some growth, but I'm more skeptical of the amount than Marsh & McLennan is," he says. "We don't have an energy expert, for example, and I don't think we need one here."

Marsh & McLennan's Mr. Cole adds more to the list.

"All you hear about is energy," he says. "But there are a lot of real estate firms here, too, especially real estate developers. Construction is another big industry."

This spread of business and an easy-to-work-with state insurance department invites a rush of business to Denver, says John Miner, vp of regional broker Schoelzel & Associates.

Competitive market

"Traditionally, Colorado has been a profit pocket for both companies and agencies," Mr. Miner says. "When things go bad in New York, firms could always come to this region and make a buck. What has happened, therefore, is that everyone from the big guys to the small guys has been told to sell all they can in Denver. That means the competition is fierce here."

The market is competitive, agrees Dell G. Van Gilder Jr., president of the Van Gilder Agency Co. "Companies want to grow here because this is a good state," he said.

"The trick is to transfer risk management techniques to the medium-sized risk," says Anthony Jones.

"That increases competition and selling instead of service."

"In other words, loyalty is starting to take a back seat to price," says Wesley Schoelzel, president of Schoelzel & Associates. "After all, inflation means everyone has to watch the bottom line."

That is especially true for the regionals, which like their counterparts elsewhere pride themselves on selling the personal service that medium-sized regional businesses prefer. Mr. Schoelzel says his firm prefers working with the small, closely held corporation.

Few big risks are controlled in Denver, James's Mr. Jones says.

"The trick here in Denver is to transfer risk management techniques to the medium-sized risk," Mr. Jones says. "A risk that brings in $200,000 or $400,000 in premium is pretty large around here. But they need help just like the firm that brings in $1 million in premium and has risk departments. To succeed here, you have to meet that need."

As the big risk isn't always here to boost premium totals for the national houses, neither is the very small, run-of-the mill business available. Since many brokers began their Denver offices from scratch, they lack the solid base of business many of their counterparts elsewhere gain through acquisition.

"We don't have as much Main Street business as we would like," says A&A's Mr. Thompson. "We're fairly new in Denver, like most of the national brokers. And we came in and began serving the larger risks, because that is who is first attracted to firms like A&A."

The A&A office now employs 25 people, up from three in 1971.

Few acquisitions

"We have a lot of interest in buying agencies," he says. "In fact, we're talking to one small agency now. This is a from-scratch office, but we would like to grow like everyone else."

Growth via acquisition can be tough in Denver, however, as many brokers found in the early 1970s. A rugged individualistic stripe runs through many of the local agencies here.

"We've made one acquisition and I think there are a lot of good agencies around here," says James's Mr. Jones. "But they're not for sale. There is quite a bit of independent feeling around here."

Johnson & Higgins, led by new executive vp Sam W. Aiena, thinks it can grow in Denver. At one time, some Denver brokers say, J&H made it known that the office was only after the large risks. But Mr. Aiena says that certainly is not his philosophy.

"Growth is possible here if you take a look around you and base your organization around what is available," Mr. Aiena says.

National brokers are growing faster now. A&A hired five new employes in the last six months, for example. But how fast is the question.

"Some brokers say they will grow from 20% to 30%, but that may be too high considering what can be controlled in the Denver offices and the state of the insurance market right now," says M&M's Mr. Cole. "Ten percent may be a better figure."

James's Mr. Jones agrees.

"There is an influx of new businesses into this area," he says. 'But as I see it, we will continue not to have very many Fortune 500 companies come in with corporate offices so their insurance can be controlled here. A big jumbo can come and buy insurance elsewhere.

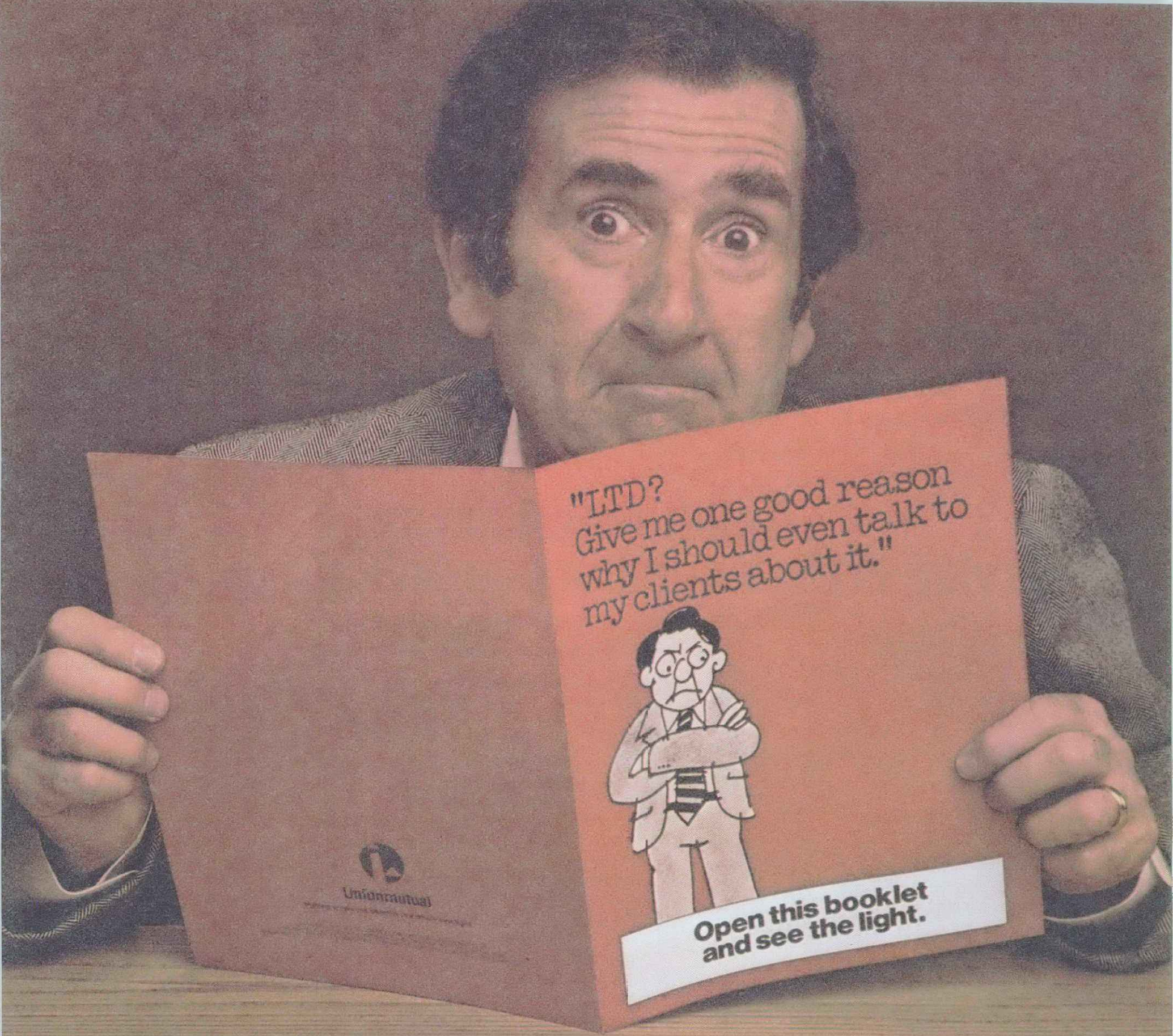
"Much of what new risks are coming in even today is still being controlled outside of Denver," Mr. Jones adds. ■



"Growth is possible here if you base your organization around what is available," says Sam Aiena.



A bevy of medium-sized industries lies not far from Denver's booming downtown district.



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Agent builds on contractors coverage



Photo: Dave Galanti

"We're gearing up, says Courtney Peterson of Talbert Corp.

DENVER—A recession taking hold and the construction industry crying for help might drive an agency devoted almost entirely to filling contractors insurance and bond needs to cry as well.

Neither Courtney Peterson nor any of his fellow employes at Talbert Corp. here are singing the blues, however. Talbert, one of Denver's largest agencies and well-known among contractors in the West, expects construction activity in Denver to level off only for a short time this year, then zoom again in 1981.

"The growth in Denver has been strong over the past decade because the economy here hasn't really been dependent on any one business," says Mr. Peterson, secretary-treasurer of the 19-year-old agency located on the southern

A/B/T local leader

fringes of Denver's booming downtown area. "We're also the second largest government employer in the country and that helps stabilize the economy.

"In fact, the activity downtown has been great," he adds. "Even with the recession and high interest rates, the bond business has held even with last year over the first five months. There are a lot of industrial parks along the Valley Highway (which runs a north-south route along the dividing line between the Great Plains and the Rocky Mountains), and if you go out there today you would see a half-dozen cranes working on buildings from about three to 12 stories."

The construction atmosphere looks good even though the city lacks the giant-sized contractors that bring in huge premiums. That just means Talbert has to operate a bit differently, Mr. Peterson says.

"We don't have very many large contractors," he says. "We do have a large amount of medium and small contractors. Other firms we know of may deal with 25 or so contractors that they see as large. We may have 200 medium-sized ones. The situation is different from Houston or Chicago."

The medium- and small-sized contractors business has allowed Talbert to grow to a 45-employe agency, including two people hired in the past six months.

"We're gearing up," Mr. Peterson says. "We have water and energy problems here but this is going to continue to be a real growth area—and construction will lead the way."

Talbert has an office in Casper, Wyo., and handles bonds and insurance for contractors nationwide. Mr. Peterson says the firm doesn't aggressively look for new business, but prefers to further serve existing clients and handle referrals from them.

"The Casper office is a good example," he says. "We have a lot of customers here that have business in Casper. We opened up an office there to keep our commissions here. We don't want to open branches all over the place, although if the opportunity exists, that's fine.

"What we like to do is combine our two areas of expertise," he adds. "If we work on the surety bonds for a contractor, we also want to handle his property and casualty insurance needs. We also want to provide the firm's life insurance and financial services needs."

Foreign firms are interested in Denver investment, Mr. Peterson notes, but much of that business in Talbert's backyard is controlled elsewhere. Even if the contractor is from out-of-state, Talbert tries to get a piece of the action.

"A typical example is a high-rise going up downtown that is being built with Canadian money," he says. "They will probably use a Canadian contractor. But that contractor will turn around and use subcontractors from around here. Local firms will do the concrete work or something.

"Those are the companies we can go after, and we've got a sizable number of subcontractors around here who have large backlogs because of the business downtown."

Where there is good business there is competition, and Mr. Peterson says there are about a half-dozen firms in Denver that specialize in contractor business, a lot more than there were 10 years ago. The national brokers do not dominate the market.

"We've been contacted by the majors, but we want to stay independent," Mr. Peterson says. "We've expanded our internal stock ownership to prepare for the future."

Talbert is particularly proud of its relationship with its markets, which the firm hopes will keep it going through any hard underwriting times. The firm is choosy about what contractors it works with.

"Writing business here isn't much different than it is in the rest of the country," he says. "In 1974 and 1975 the markets tightened up for us like everyone else. But we're fortunate in that we've had excellent loss ratios and that minimizes our marketing problems.

"In looking toward the future, we've been planning in that we've tried to build our markets. In the early days we were tied to one or two markets. Now, we're an important factor in five bonding companies, for example. If one pulls in its horns when things get tight, it's not going to affect us as much as it might have before."

But Talbert remains optimistic, Mr. Peterson says.

"There are bound to be some slowdowns from time to time," he said, "but I don't see anything major coming for the next 10 years. The demand is here for both residential and commercial construction. I could be wrong, but I think we are situated in one of the right places at the right time." ■

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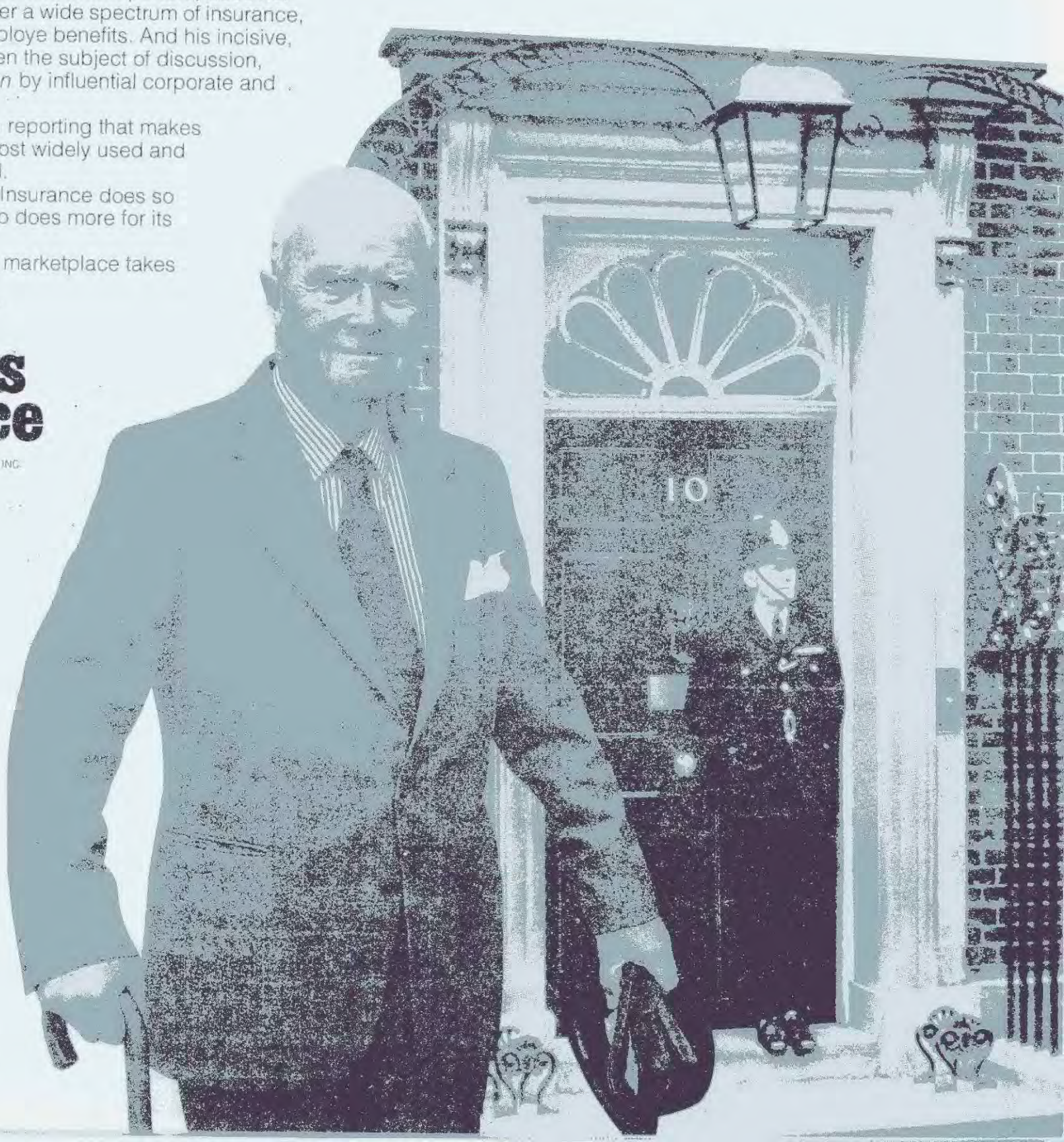
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Broker pushes price first

Most brokers eventually talk price with their clients, but when Schiff Terhune started to advertise price alone, they didn't know what to expect.

Schiff Terhune's most recent advertising campaign features a picture of senior vp John Ross with the words: "A Schiff Terhune Challenge: If your company's sales are $75,000,000 or less, we can probably lower your insurance costs." The ad urges businessmen to contract Mr. Ross directly.

"We were pleasantly surprised with the results," Mr. Ross said. "We ran the ad six or eight times and got 30 valid responses to the coupon. We have made several calls in response to requests, including one in Baltimore last week."

Mr. Ross estimates the brokerage has signed up three new accounts because of the ad and is working seriously on another 10. A couple of the accounts will reach $250,000 in premium, he adds.

"Frank Schiff (chairman of the board) and I did some work on the ad, and then we sent it out to an advertising agency to be finished," Mr. Ross said. "He and I came up with the $75 million figure.

"We didn't really know what we'd get out of it," he added.

"But we did know that whatever response we got would be worth going after because we'd know that that firm was interested in hearing from us. The advertisement attracted a few firms we might not have sought out by other means."

Mr. Ross says he responded to each contact, just as the ads promise.

"I contacted each one personally, then referred them to one of our offices or kept it myself if it was large enough in size," he said.

Magazine makes A&A an offer it can't refuse

NEW YORK—When you are No. 2, you don't turn down $12,000 worth of free advertising.

So when the publishers of Where magazine offered Alexander & Alexander free space on the inside back cover of its 22-city events and activities magazine, A&A advertising people couldn't say no. The result was added frequency for the broker's "A&A looks at offshore drilling" ad.

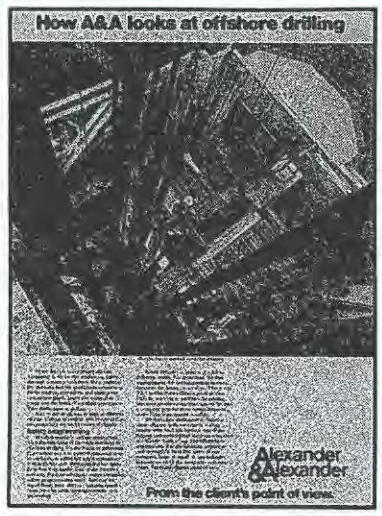
Where magazine is a free publication circulated in hotels and other spots frequented by business travelers in larger U.S. cities.

A/BT

"The Where placement certainly wasn't planned in advance, but when the offer came in from Media Networks Inc. (which recently took control of the magazine) to allow us to take the inside back cover, we agreed," said A&A advertising manager Bob McCourt.

A&A advertises in in-flight magazines such as Mainliner (United Airlines) and the American Way (American Airlines) to complement its lineup of business publications, including the Wall Street Journal, and specialized publications.

"We are always looking at new publications to advertise in, however," Mr. McCourt said. "When Inc. magazine first started, for example, we saw it as a magazine that would reach the small and medium-sized businesses we also want to reach."



Alexander & Alexander couldn't refuse free play on the inside back cover of Where magazine.

An insertion like the one A&A received in Where would run an advertiser around $12,000, said Where publisher Fred Harris. A&A would profit from continued use of his magazine, he says, because it reaches many of the same businessmen A&A tries to reach via the in-flight magazines.

Mr. McCourt isn't totally convinced, however.

"People keep commenting, which means it is being read," he said. "Still, I don't see us using the magazine on a continuing basis. If we had to pay for the space I don't know whether we would do it again." ■

Hall campaign posts success

BRIARCLIFF MANOR, N.Y.—More than 2,500 people have responded to Frank B. Hall's advertising campaign offer of free posters of theme symbols ranging from a one-man band ("versatility") to a young girl painting a rainbow picture ("creativity").

"The response has been great," says a Hall advertising department spokesman. "We didn't even have them ready when the first requests came in. But eventually we were able to get them reprinted into poster size and sent out in tubes."

The campaign is now in its second series, with the number of ads to reach 24 soon. ■

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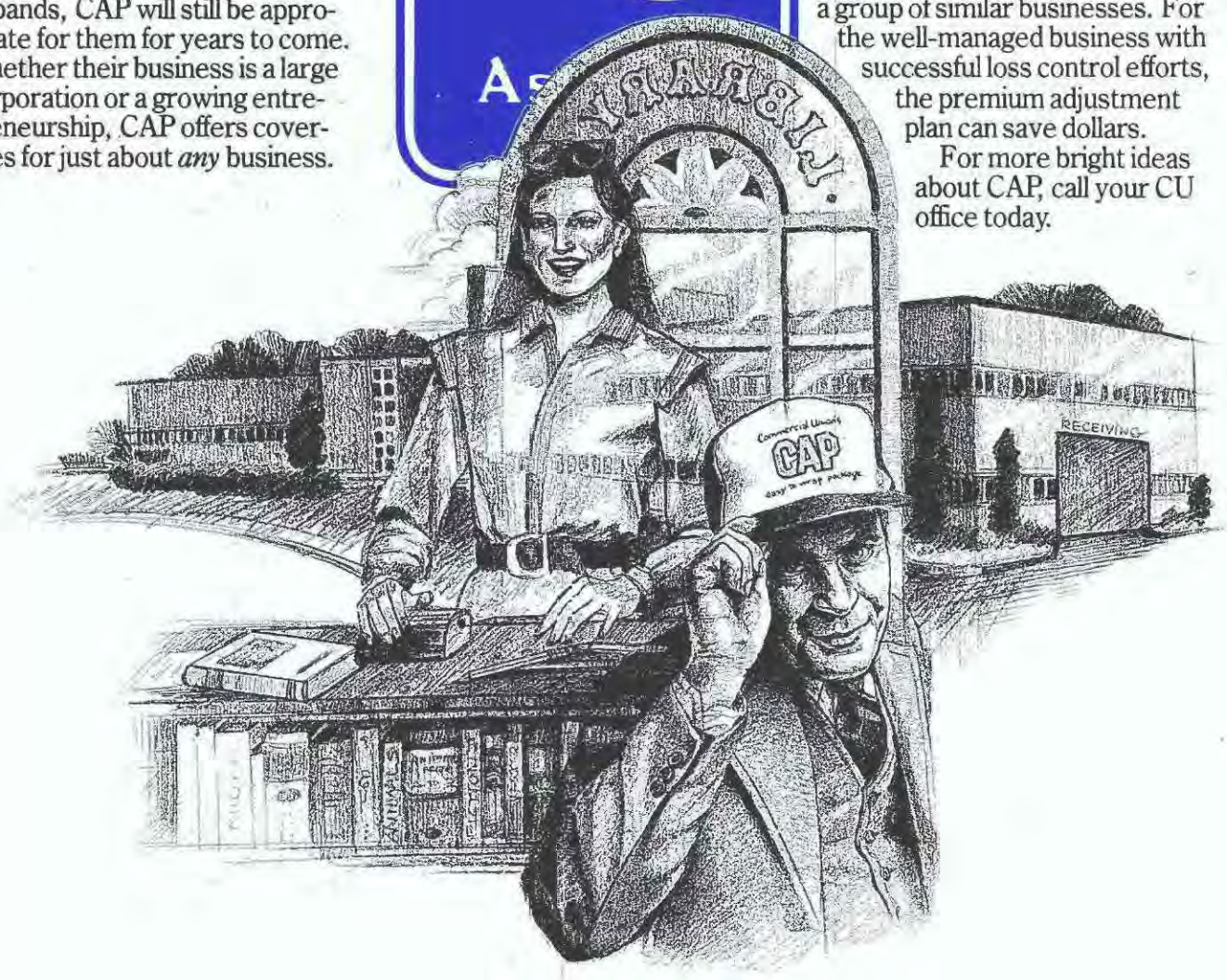
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Commercial Union Assurance Companies, One Beacon Street, Boston, Massachusetts 02108

Network links agent to special policies

By JERRY GEISEL

CHEVY CHASE, Md.—You're an independent insurance agent in a small Midwestern town.

One of your biggest accounts, a truck body equipment builder, needs product liability coverage and you lack direct access to the market. What do you do?

If you had been a member of one of several new networks of insurance brokers and agents, finding coverage for the trucking equipment firm would have been easier.

IM of America, for example, a Maryland brokerage and consulting firm, has founded a new network that sells group programs for some difficult risks, including trucking. In a limited way, the new program competes with several established organizations, including Assurex, Insgroup and ISU Cos.

The program, called Intermark Inc., is aimed at helping agents find hard-to-place coverages for clients in trade association insurance programs organized by IM of America.

For example, the small Midwestern trucking equipment company could have found product liability coverage with a group insurance program sponsored by the Truck Body & Equipment Assn.

Intermark was started because IM of America had developed a series of association programs and needed a marketing arm to sell the programs to association members, said vp George Young.

Under the Intermark program, participating agents are given names of companies in their area that are members of a trade association having a group insurance program set up by IM of America.

"Intermark leads agents to accounts of members of national associations that have an association-endorsed program," Mr. Young said. By having a connection to an association-sponsored program, the agent has a little more leverage in selling the product, Mr. Young added.

A/BT

In addition to tracking down sales prospects for association programs, Intermark through IM of America can do captive feasibility studies, set up and manage a captive insurance company or establish a group insurance program with a large domestic insurer for an agent's clients, Mr. Young said.

So far, 38 agents around the country have signed up for the Intermark network, mainly east of the Mississippi River. Mr. Young's goal is to have 200 participating agents.

Intermark is looking for agents who have been in the business at least three years and whose agency generates at least $3 million in commercial premiums each year.

"The agency should be the No. 1 or No. 2 brokerage in town in terms of premium volume and should be locally owned," Mr. Young said.

Under the program, an agent pays IM of America 25 cents for each business in his territory for a three-year period. Renewal rights are obtainable for 20% of the original fee, Mr. Young said.

The agent then is the exclusive representative for IM of America in that area. An agent can purchase rights for as small an area as a county or buy rights for an entire state, he added. ■



George Young's goal is to have 200 agents join Intermark.

Broker revamps services

CHICAGO—Marsh & McLennan's office here has reorganized its services to separate large Fortune 500 risks from smaller accounts, says M&M senior vp Donald B. Davidson.

A new department for risks "that don't need our full range of services" will be headed by senior vp Gary D. Gatewood. Mr. Gatewood's unit will concentrate on the medium-sized commercial risk.

Larger risks will be handled by a department led by James A. Wagner.

"It is a continuation of what we always have tried to do, serve both kinds of risks," Mr. Davidson says. "What we will try to do is define these two areas better within our own operation so that we can respond better to our customers in the long run."

Medium-sized firms often complain that large brokers do not provide the personal service they desire. Mr. Davidson says he has heard those complaints, and hopes the new department will allay some of those buyers' fears.

"That type of buyer often asks us where they fit into our system," he says. "So we tried to set up a structure here that would serve them. We can tell them that we have a department that has that size risk as their target." ■

Firm to develop training program

NEW YORK—The Independent Insurance Agents of America has hired The Merritt Co. of Santa Monica, Calif., to develop an insurance training program.

Merritt will produce student workbooks and a leader's guide for seminars, as well as programmed instruction texts and audiovisual supplements for self-study.

Individual agents and associations will be able to purchase self-study materials through the IIAA and its affiliated state associations. The program will cover 23 topics ranging from general liability coverage to personal risk management. ■

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Account exec quarterbacks for team

By Walter S. Tomenson Jr.

THE RELATIONSHIP between policyholder and broker has become far more complex in recent years with the growth of risk management and the resultant expansion of broker services. As the risk manager's responsibilities have developed, the ancillary services provided by suppliers have become more specialized and varied.

Risk management today involves sophisticated, multidisciplined techniques for identifying and measuring risk, as well as for devising methods for transferring, reducing, eliminating or retaining risk.

Realizing that no individual or limited team of individuals could keep current with all the new and professionally demanding dimensions of risk management, major brokers have adopted the account management approach to the delivery of insurance and risk management services.



The account management concept emphasizes the contributions of technical specialists in specific fields. The efforts of these specialists are directed, organized and coordinated by account executives whose objective is to meet the specific requirements of their clients.

A director of our firm recently described the account executive's role as that of analyst and assessor, troubleshooter and psychologist, reassessor and provider. An account executive can be visualized as a quarterback or a symphony conductor, depending on your cultural preference.

However, perhaps the best way to dissect the true characteristics of these multifaceted individuals is to examine their responsibilities at both ends of the delivery system: to their clients—the risk managers—and to their firms—specifically, the account management team with which they work.

The ideal broker-client relationship is one of mutuality: mutual respect, mutual confidence and mutual trust. The achievement of this three-dimensional relationship depends on the account executive's success in handling various responsibilities at either end of the delivery system.

The traditional role of the broker, very simply put, is that of representing the client. The first step in doing this is to know and understand the client's operations and the needs and demands of the risk manager and his or her department.

The principle responsibilities on this end of the delivery system can best be summarized as follows:

- Stay in touch.
- Stay involved.
- Stay ahead.

Staying in touch means direct and regular communication with the risk manager and, depending on organizational structure, with other members of the company or department involved in the risk management process. This is a rather basic principle, but without it an effective working relationship will never develop.

Staying involved refers to the account executive's need to know and understand his or her client's business. The goal should be to gain a thorough, in-depth knowledge of a client's operations. As such, the account executive should strive to learn as much as possible about a client's products, financial structure, personnel and organization.

Account executives must also understand and appreciate the responsibilities of the risk manager. The more they can learn about the risk manager's goals, objectives, timetable and deadlines, the more successful they will be in setting up a good working relationship. The account executive should ask questions and listen carefully. Listening to the risk manager is the first step in the design of a creative solution to a client's real problems.

To stay ahead, an account executive should take the initiative in all phases of the risk management process. He or she should always be thinking about the important issues, as well as solving the urgent problems of the day.

Staying ahead requires creativity on the part of an account executive. After all, ideas are the most important product a broker is called upon to deliver.

On the other end of the system, account executives must be able to work effectively with their own people. They must be able to bring the full resources and services of a brokerage firm to the risk manager's problems, opportunities and challenges.

This is not always easy. The team of specialists involved in many accounts has increased considerably in recent years, resulting from the complex and specialized demands of the risk management process. This, together with the account executive's usual position within the corporate structure—one of enormous responsibility but little direct authority—makes the task of being a good account executive a real challenge.

A successful account executive satisfies his client's needs by multiplying professional skills through the additional talents of the other members of the account team. A risk manager should hold his account executive responsible for the quality and depth of these services and, more importantly, their effective delivery.

Walter S. Tomenson Jr. is a vp and deputy manager of the financial institution department of Marsh & McLennan Inc. in New York.



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From the brokerage firm's standpoint, the account executive is ultimately responsible for the planning and coordinating of the effective use of the firm's resources for the client's benefit. His or her ability to carry out these responsibilities is largely premised upon how well the account executive has developed a relationship with the client.

How does a risk manager evaluate an effective relationship with an account executive? Ultimately, the risk manager needs three kinds of services: program design, risk management services and marketing activity. The account executive should be involved in varying degrees in every aspect of these services.

In the program design phase, the account executive's input is critical. The account executive must draw on the knowledge and understanding of the client's operation, and specifically on an appreciation of the challenges facing the risk manager. The program design phase is extremely important because it eventually touches all services in the risk management program, both self-insured and insured.

Account executives are in an ideal position to initiate new ideas and stimulate the thinking of various members of the account team. Their persistence and flexibility are crucial in the development of a new product, a manuscript policy, a variation of a funding technique or other such innovations.

With risk management services, which have grown quickly in recent years, the account executive's knowledge of an account and relationship with the client are crucial.

Until recently, an account executive schooled in either property or casualty insurance could function quite adequately. Today, with the risk manager's increasing demand for services in the analytical, statistical, financial and other noninsurance-related areas, the more conversant the account executives are with them, the more effectively they can do their job.

An account executive is not a guru in all these specialized disciplines, but he or she should be comfortable with the vocabulary of each in order to relate in a meaningful fashion with inhouse specialists and to apply their skills to a client's problems.

Marketing activiy is the most traditional service provided by the broker. Here the account executive can play an important coordinating role by knowing the various steps in the process.

In today's climate, many alternatives have to be assessed. It is here, with the account executive working closely with marketing specialists in the various product lines, that alternatives are considered.

These can include the use of one market versus another, admitted versus nonadmitted markets, the arranging of facultative insurance to support a particular market, the marketing of a block policy including many product disciplines and the coordination of the marketplace with a client's own captive insurer.

With such a multitude of alternatives, it is imperative for account executives and their marketing specialists to work closely together. In some cases, this may involve bringing the client in on a firsthand basis in discussions with underwriters. ■

IIAANY election

Peter A. Pomeroy has been elected president of the Independent Insurance Agents Assn. of New York at its annual convention in Ottawa, Canada. John J. Farley Jr. was named president-elect, John E. Becker was elected treasurer and Edwin J. Lucie II was renamed state national director.

Don't fear computer's arrival

By Karen Z. Sneirson

A/B/T perspective

TO SURVIVE downturns in the economy, to meet competitive prices, to retain profitability, and more important, to produce greater volumes of business, independent insurance agents must automate their agencies soon.

Many other industries have already gone through this process. Banking and air travel are examples of fields in which the consumer has learned to expect rapid communications and resultant better service.

Insurance agents and their companies are next in line. This September, the Insurance Institute for Research will initiate a research program for a pilot interface system that will allow independent agents to communicate with more than one company, primarily using whatever data processing equipment is already in place in either the agency or company office.

The only equipment an agent must have in order to interface with insurers using the pilot system will be an in-house computer or a terminal. Several IIR member companies and some agents selected by IIR to, among other things, represent different vendors' systems will be the initial participants.

Karen Z. Sneirson is a public relations consultant for the Insurance Institute for Research, headquartered in White Plains, N.Y.

Although the pilot is being developed by IIR as a test, agents already should be thinking about how they will adapt to the necessary practice of doing business.

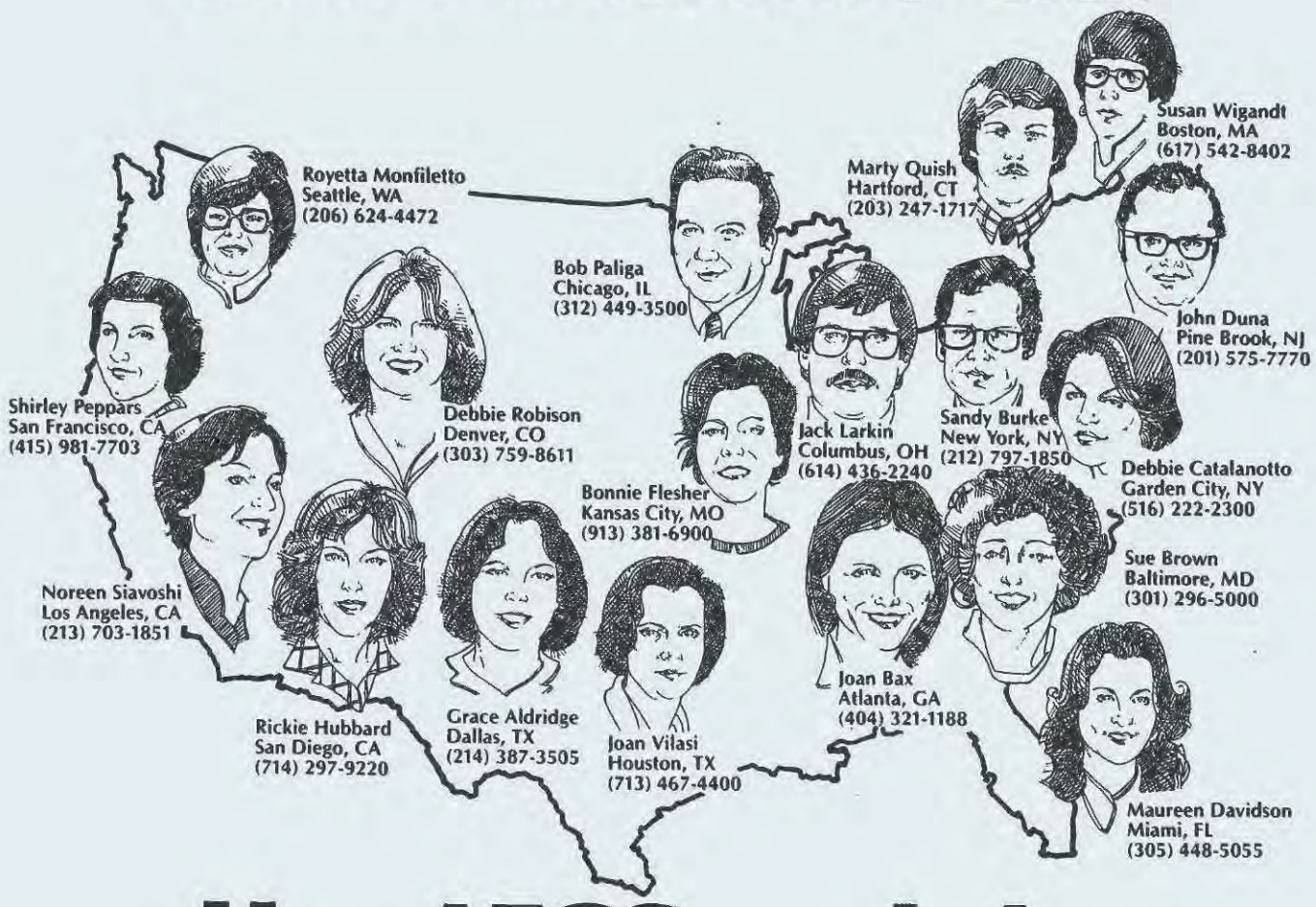
First, be prepared. Learn all you can about the different types of hardware and software from nonvendor sources that would be most beneficial for your circumstances. Each system performs functions you may or may not require.

Read, attend seminars, ask questions. No one can tell you off the cuff that "A" is better than "B." What might be right for one agent may be wrong for another. If you're considering a big investment in data processing equipment, consider hiring a consultant to advise you.

Second, know the problems you'll face: cost, installation and a breaking-in period when you'll need to work with parallel operations entailing additional costs. If there is no equipment on the

Continued on next page

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PIMA committee plans to woo METs

CHICAGO—The Professional Independent Mass-Marketing Administrators has set up a new permanent committee on multiple employer trusts to woo more MET administrators into the association.

The MET committee was formed in February, following the success of an MET seminar and workshop sponsored by PIMA in California last December, says committee co-chairman Warren D. Gardner. Mr. Gardner is a past president of PIMA and is executive vp of a California-based MET.

The four-person committee's aim is to bring the problems of the MET administrator to the forefront in PIMA, he says.

"When we formed PIMA, we got together primarily to fight against problems in the association group

A/BT

field of mass marketing," he notes. "At that time, a few MET administrators came in. But they soon left, because there wasn't enough being done to solve their particular problems.

"Since our membership was and still is primarily made up of the association group type of administrators, that was OK for then," Mr. Gardner adds. "But early last year we started getting inquiries from MET people on whether we could start to serve their regulatory and educational needs."

Those inquiries came at the same time Mr. Gardner changed careers—from an association group administrator to the MET field. This helped him get interested in making PIMA more responsive to the MET requests, he says.

"What happened is that we held an MET seminar last December, and from 70 to 90 people attended," Mr. Gardner relates. "PIMA wanted to test the waters to see if there was an interest for this type of program, and we found there was."

The committee's first efforts are aimed at the group's annual convention, to be in Toronto July 27-30.

"We decided to organize the convention in three parts," Mr. Gardner says. "First, there will be items that appeal to all administrators, no matter what their specialty. Then there will be seminars on such topics as 'Direct writers—are they our competition?'—items of interest to association group administrators, but not to MET administrators.

"So the third part will run concurrently to many of these sessions and appeal to MET administrators," he adds. "We'll feature people knowledgeable on ERISA and the administration and sales of METs."

The effort is probably a necessary part of PIMA's growth, Mr. Gardner says.

"Administrators, no matter what type they are, have problems in common," he says. "But we have to recognize that there are special problems unique to each type as well. What we as an association would like to do is to try to provide legal and regulatory work as we see fit and provide education for both types.

"We feel the timing is right for this move. I would be the first to say that if PIMA can't serve MET administrators, then we shouldn't try. But my gut reaction is that we can do the job well," he says. ■

Don't fear computer's arrival

Continued from previous page

premises now, some training will be necessary. This should probably take just several days over an extended period.

Be prepared to support the system to your staff. It will allow you to handle more than you did before, to process replies faster, to run at greater efficiency and to improve in-house procedures.

Be careful not to automate your current mess. Analyze your existing methods, procedures and routines before automatically building them into your new system. To do this you must change attitudes—first yours and then those of your staff. This is a good time for reorganization within the agency, if appropriate.

When your staff perceives new equipment to be a threat to their jobs, explain that this equipment is friend, not foe, and that by eliminating poor handwriting and missing information from a form, fewer errors will be made. Emphasize your continued need for your employes while explaining that as they handle more volume they become that much more valuable to the agency.

Assure your staff that the operation of the equipment will be easily comprehended. You and your staff must learn to trust the reliability of the equipment. It doesn't make much sense to enter reams of information and still keep those reams of files on hand.

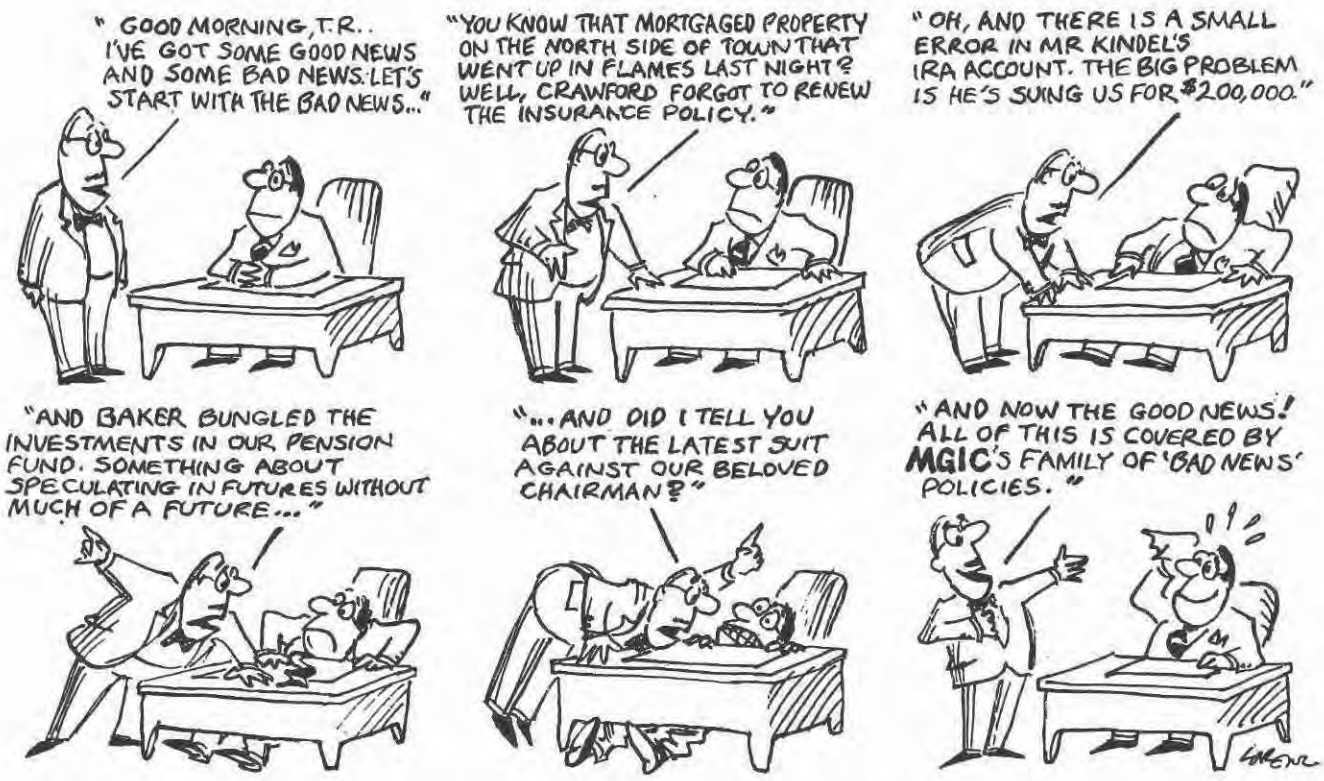
The attitude of every employe must be transformed from the old way of doing business to the new. The fear of automation and data processing equipment must be reduced, if not eliminated.

Current business procedures perpetuate "putting off" because experience shows there will be delays anyway. The agent often sends only partial information to the company, knowing there is no urgency to send full and detailed information from the onset of the transaction. But electronic interfacing will help the agent to send more complete and more accurate data immediately to the company and vice versa. Missing information will be much less of a problem to both agents and companies.

Once all this is accomplished and you and your staff are comfortable with interfacing, you can look forward to knowing your data has been sent and acknowledged as received. This immediate reply is apt to be a traumatic experience for those who are used to waiting weeks for a response.

But this shock will lead to even more results from interfacing. The agent will be able to write lots more business without adding more employes. The agent and his companies will develop a feeling of prestige by working through interfacing. Agents and companies will end up making more money, and the consumer will benefit from faster turnaround and better all-around service. ■

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Senate approval needed

Lobbyists push to pass bank holding bill

WASHINGTON—The recent passage of the bank holding company bill by the House of Representatives has sent lobbyists for the two major independent agent associations scrambling to win approval of the bill in the Senate.

The bill (H.R. 2255) seeks to ban most large bank holding companies from selling property and casualty insurance. It would not affect bank holding firms with total assets of $50 million or less or larger holding companies that began selling insurance before June 6, 1978.

The bill passed the House June 12 by a 333-25 vote and was sent to the Senate for consideration.

The lobbying push in the Senate is expected to be hotter than ever because some agent association experts believe this is a do-or-die year for the legislation. Agent groups have been pushing for a bank holding limitation bill for almost a decade, with the Independent Insurance Agents of America alone spending about $1 million in membership contributions to stop the firms from entering the insurance field.

The fight has not only been waged in Congress. The IIAA has filed opposition before the Federal Reserve Board numerous times to prevent it from rubber-stamping approvals of bank holding company applications, an IIAA spokesman said.

These efforts were crippled by an April 21 ruling of the U.S. Court of Appeals, District of Columbia circuit, that severely limited legal restraints on the firms' entry into the sale of property and casualty insurance. The decision left "a hole wide enough to drive a truck through as far as the entry of banks into the agency business is concerned," IIAA executive vp Jeffrey Yates has said.

As a result, both IIAA officials and the leadership of the National Assn. of Professional Insurance Agents have pleaded with members to contact their own national legislators regarding the passage of H.R. 2255. The bill is the top legislative priority of the IIAA.

As the battle moves to the Senate, however, association officials are privately worried that time may not be on their side. With the national conventions and elections coming up soon, the push will be on to get the bill to the floor as soon as possible.

A/BT

To do this, they will use the same reasoning that sponsors Rep. James Hanley (D-N.Y.) and Rep. Fernand St. Germain (D-R.I.) used in House debate over H.R. 2255: Banking traditionally has been kept separate from commerce in the U.S. and the entry of bank holding companies into the insurance field could result in those corporations unfairly using their power to approve or reject bank loans to coerce consumers into buying insurance from them.

Agents are also hoping the lopsided vote in the House will create favorable interest in the Senate. "One would hope that the vote in the House would hasten the Senate passage of the bill," said IIAA president Donald Brain.

"We're shooting for the next couple of weeks," said IIAA lobbyist Hal Ebberly.

"After that the legislators go to the conventions, and after that the primary concern is on politics and getting themselves reelected. We hope that the House vote will show the Senate that we have a lot of support for our efforts."

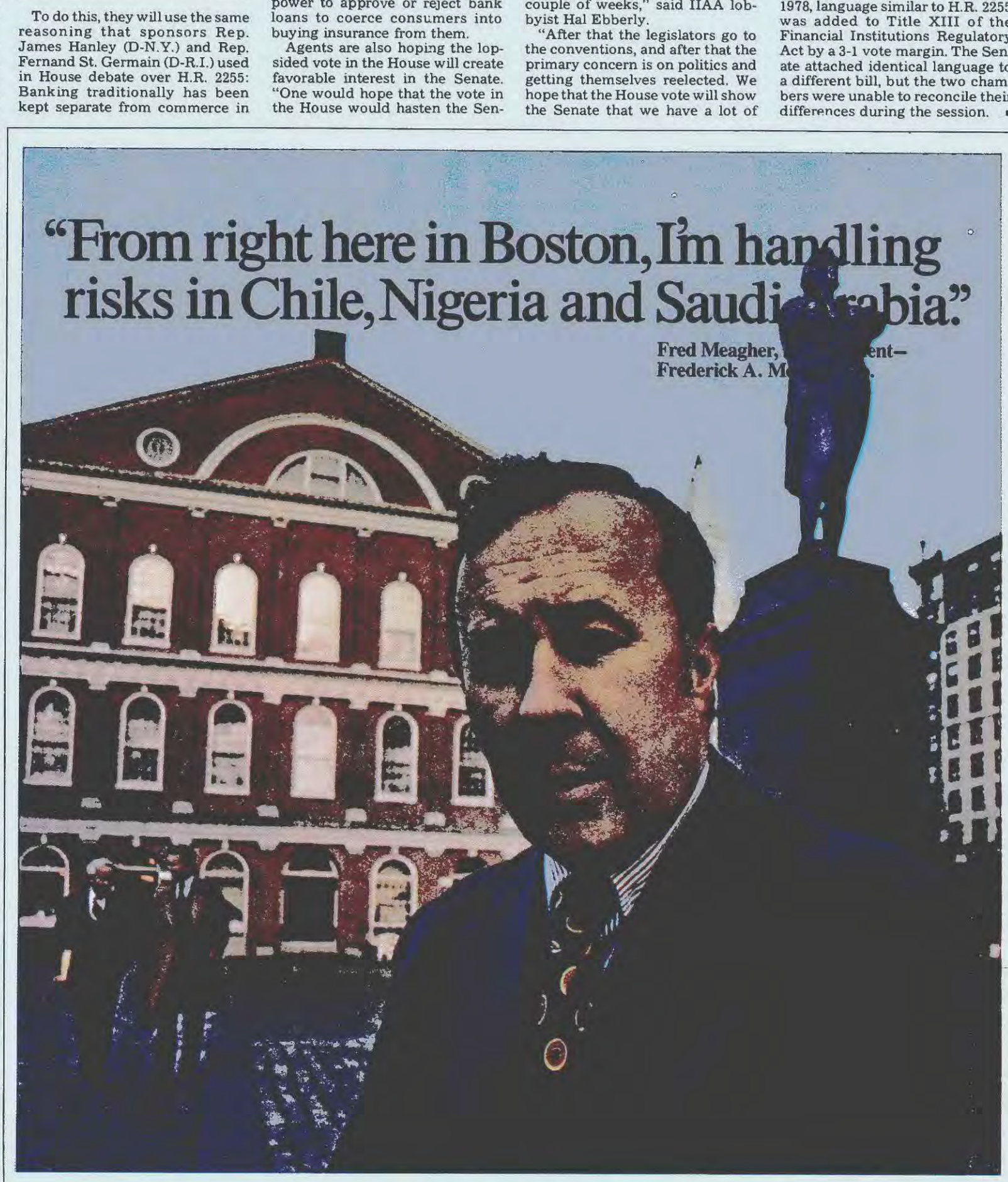
The recent vote was the second time in two years the House has discussed a bank holding bill. In 1978, language similar to H.R. 2255 was added to Title XIII of the Financial Institutions Regulatory Act by a 3-1 vote margin. The Senate attached identical language to a different bill, but the two chambers were unable to reconcile their differences during the session. ■

Futurist, planner to speak to IIAA

NEW YORK— Futurist Alvin Toffler and long-range planning expert Michael J. Kami will be featured at the annual convention of the Independent Insurance Agents of America Sept. 28 through Oct. 2 in New Orleans.

Mr. Toffler is a former associate editor of Fortune magazine and a contributor to a number of scholarly journals. He has also served as a consultant to the Institute for the Future, the American Telephone & Telegraph Co. and the Rockefeller Brothers Fund. He is best known for his books, which include "Future Shock" and the recently published "The Third Wave."

Mr. Kami is an internal management expert specializing in long-range planning. His talk to IIAA members will center on the management of the independent agency and the corporate planning process. He was formerly involved in long-range planning departments of IBM and Xerox. ■



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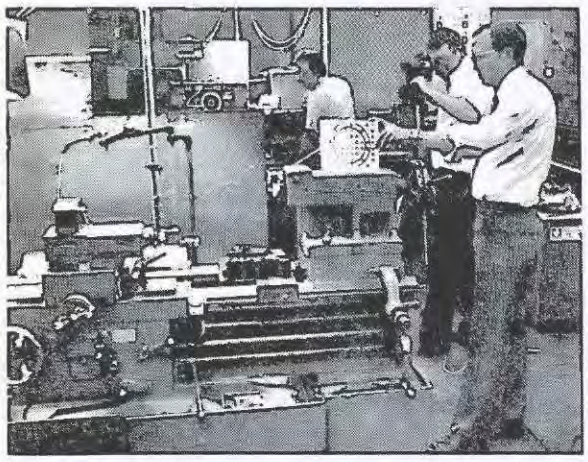
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Special feature

It may not win any Academy Awards, but James S. Kemper & Co. hopes to win some clients through its videotape films. Videotape can also be used as a loss prevention tool.

Lights, camera,

A/BT systems

MORTON GROVE, Ill.—It wasn't exactly Hollywood, but then Art Le Blanc didn't expect stardom.

Instead of stars and starlets, James S. Kemper & Co.'s communications whiz had a machine shop lathe and a lathe operator. Two television cameras, a TV monitoring system and a videotape recorder were sprawled behind him.

He was producing not a full-length feature film, but a five-minute job safety analysis program for Kemper agency clients on the proper and safe way to operate a lathe.

Intended for factory supervisors, the videotape is to be used as a loss prevention tool to serve current policyholders and attract new ones.

Mr. Le Blanc is director of corporate communications and communication services for the Kemper agency. A large part of his role consists of taking the newly purchased videotape equipment around the country to film Kemper meetings and seminars, loss prevention productions and other instructional pieces.

At the Crane Packing Co. in Morton Grove, where the lathe film was being shot, he was acting as director—positioning cameras and making sure the lighting was correct. Strange duties for an insurance agency employe? Mr. Le Blanc says the process fits right in.

"Videotape is the method of the future for communication," he says. "It's flexible, you can take the equipment easily just about anywhere, you can edit what you are going to show and you can do it all fast, because there is no processing involved.

"When we looked at the existing use of videotape among our clients and its potential in the future, we felt we could use it for safety, loss control and claims administration training," Mr. Le Blanc adds.

The equipment is two small color cameras, a monitor and editing system and a videotape recorder. The system is portable, and can be packed in special containers to allow Mr. Le Blanc to move the equipment either by car or airplane.

The equipment has special effects, fade-in, fade-out and titling capabilities. Further embellishment can be added in a studio.

The Morton Grove screening was a good example of what the system can do, Mr. Le Blanc says. A similar lathe job safety analysis was already recorded on filmstrips, but Mr. Le Blanc believed it should be reshot on videotape to add spontaneity and impact.

After set-up, the crew and participants ran through the program a couple of times. Then Mr. Le Blanc and his two cameramen taped the program.

First, Kemper vp Peter R. McPherson introduced the firm, then Crane foreman Sam Arterian and lathe operator Mike Koumrigian demonstrated how the lathe should be run safely.

Kemper chose the lathe for one of the first films because it is widely used in machine shops. Kemper could send the tape to a wide range of corporate clients.

"There are quite a few advantages to this system. One is that other employes at the filming location think more about safety," Mr. McPherson says. "They see the show and the confusion and wonder what is happening. Then they see it is about safety and take more care themselves."

Client productions are expected

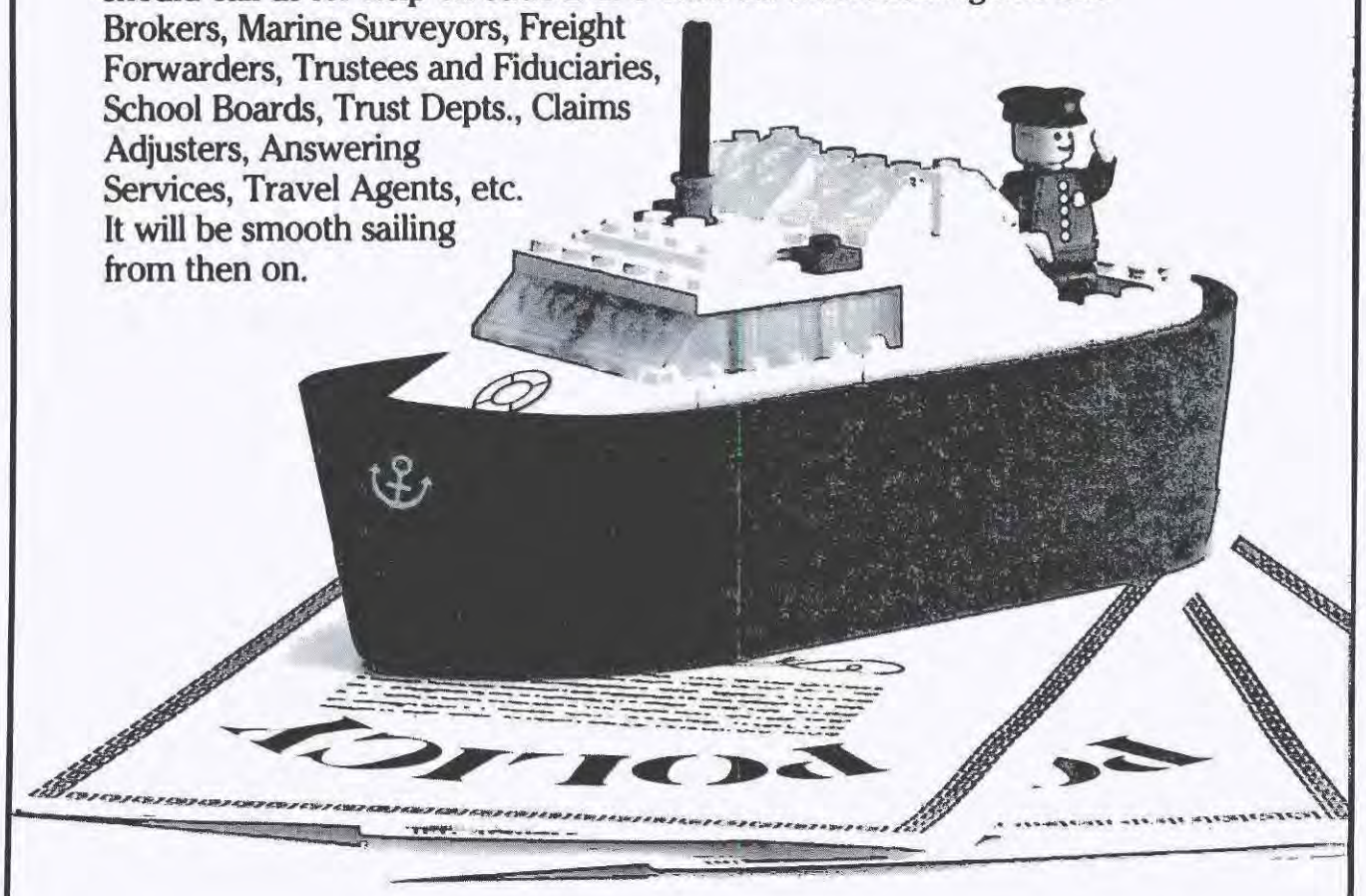
Agents obtain

TALLAHASSEE, Fla.—Concerned with Florida independent agents' decreasing share of the personal lines market, three national insurers revealed new marketing programs at the Florida Assn. of Insurance Agents' annual convention here.

The independent agents' share of the personal lines market has dipped to 38.6%, FAIA executive vp Tom Johnson told attendees. For the past decade, Mr. Johnson added, Florida independents have lost an average of 1% each year to direct writers and other forms of insurance sales.

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loss prevention

to take two tacks, Mr. Le Blanc says: safety, loss production and claims administration, or marketing.

"For our internal use, we will use the equipment for performance appraisal instructions, cash-flow analysis, seminars, telling our employes how to effectively use the telephone and a list of 10 or 12 other things," says vp Raymond Hayes. "The untapped area at this point is what we can do for our markets."

"We really feel we can do a great job for our clients with this equipment, however," Mr. LeBlanc adds. "Say we want to do something like the lathe film. We could probably send out to a lathe manufacturer and get one. But if you are our client, we can send a portable system and get your lathe and your operators into the film. That creates instant interest.

"We used to look at a lot of films supplied by equipment manufacturers and rejected 90% because they were boring," he adds.

To make sure Kemper films aren't boring, emphasis will be placed on the "show" as well as the subject, Mr. Hayes says.

"We want to use people who will interact with their audience; we don't want to use a talking head," Mr. Hayes says. "With two cameras we can splice in background, charts and other matter. It's not that different than having an effective teacher in front of you."

Mr. Le Blanc also hopes the system will help place hard-to-describe risks.

"In many cases, we have to try to explain to an underwriter what this particular client does," he says. "If we use this system, all we have to do is flip a switch and the underwriter can see the production from start to finish.

"We can use it for both new and renewal business," Mr. Le Blanc adds. "How many brokers can get the underwriter that close to our client at a very early stage?"

The program has been in the development stage since last November.

"The thing we had to remember, however, was that we didn't want to get into the business of selling equipment. There are a lot of television production companies out there," he says. "We want to solve insurance problems through television."

The system was chosen because informal surveys showed it had widespread use among corporations. Kemper clients and markets had used similar systems in their own corporations, Mr. Le Blanc says.

In some instances, clients will have to pay for the videotape services, he adds. The department will operate as a profit center.

"The cost to a client is hard to measure, because sometimes it will be included in a package and sometimes not," he said. "Also, if you are looking at a loss control application, for example, it may prevent costs down the road, but it is hard to predict when or how much."

The equipment is now being operated by part-timers, but crews will man the equipment full-time, Mr. Le Blanc says.

"If our clients are willing, we want them to work with us in coming up with ideas as much as possible," he said. "Our costs will be competitive with what they could get elsewhere. We can also do it in their own houses.

"They could go to a television production house and get the same expertise, but anyone can run the cameras. What we hope to sell is the insurance expertise behind the film. For us, the toughest thing is getting to quote the risk. We feel this system will give us a leg up." ■





Calling the shots

Art Le Blanc, above left, corporate communications director for Kemper, plays film director behind the scenes. The videotape on lathe safety can be sent to a range of clients.

new markets

Although this decrease was less than the national average, he said, greater efforts in the area of pricing are necessary.

The Florida all-lines loss ratio in 1979 was 56.7% compared with the national average of 61.5%.

In other announcements, Aetna Life & Casualty said it would open early next year in Jacksonville its first major new field office in 22 years. Regional vp William Ogden told conventioneers he expects Florida will be the company's No. 1 growth center in the 1980s.

CNA and the Hanover Insurance Cos. also announced programs. ■

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Send to: Mr. Richard Vose, Second Vice President, Association Services, T-28, John Hancock Mutual Life Insurance Company, P.O. Box 111, John Hancock Place, Boston, MA 02117.

John Hancock Mutual Life Insurance Company

Boston, Massachusetts

Regional brokerages grab a foothold



Photo: Dave Galanti

Continued from page 22A

general agency whose roots extend back to 1918, recently sold its standard renewals to Zurich-American Insurance Cos. to concentrate on surplus lines.

"It is a soft market here for us, just as it is in other parts of the country," Mr. McCarron says. "And the competition for us has been just as intense as it has been for the other regional agents. There are 18 general agents in Denver now, but only three in excess/surplus lines are headquartered here.

"The standard lines insurers are writing free, but we can't stand still," he says. "We're doing a lot of advertising while at the same time trying to outperform our competitors. You have to let the agents know you are here to do business."

Mr. McCarron fears there has been too much expansion in town. Perhaps, he adds, Denver cannot support this much competition.

"Everyone is on an expansion kick around here," he says. "I guess the brokers, both excess/surplus and retail, had risks to service here and that's how it all started. Denver has become the glamor capital of the West and has shown some fairly rapid growth.

"But it could be most companies aren't doing their homework on this area," Mr. McCarron adds. "We are growing, but from a very small base. The percentage increases can be deceiving. I don't know if everyone will do as well as they expect."

Mr. McCarron's opinions reflect the competitive race for business between the nationals and regionals. Warren & Sommer is the largest in town, thanks partly to a large book of association business. Talbert Corp. (see story, page 22D) is second, with a large performance bond business.

Vail boomtown

"There is tremendous growth in the resort areas," says Wes Schoelzel.

Follow the leader

Tailing the leaders are a number of agencies that produce from $1 million to $1.5 million in commissions yearly.

• Warren & Sommer—In the last four years, this aggressive Denver agency has more than tripled revenues and increased staff two and a half times. Competitors place W&S's non-association, Denver-area business at about $2.5 million in commissions. The firm employs about 100 people.

The firm is split into a captive management, self-insurance and financial services branch and the agency operation. The firm has branch offices in Breckenridge and Vail.

"The dynamics of the business climate are great here, although we are a little short on the high end,"says Gene Mapes, executive vp and chief operating officer. "I think that's one reason why the local agencies have not sold out to the national houses. People are young here, and they look at what was happening here and don't see why they should sell out."

Group business is big money for W&S, which places professional liability and malpractice coverage in addition to a package plan for Burger King franchisers.

"We see this type of business as very important to our future," Mr. Mapes says. "We will do well as long as we meet each individual policyholder head on and service them individually.

"You have to sell and service face-to-face. The Burger King program was natural for us because the agency that handled it before didn't do this. We were able to take over and expand the program greatly."

• Schoelzel & Associates—President Wesley Schoelzel says he is content to double his business every five years, which works out to be about a 15% increase annually.

"There is tremendous growth in the resort areas west of here," he says. "They say that Vail and the area around Vail isn't even a part of the economy. Recession is a strange word to them."

The firm is prospecting "a number of good, mainstream commercial accounts," he says. But what he is most excited about is his connection with William Rigg Co. in Fort Worth, Tex. The two firms last year formed Schoelzel/Rigg Co. to serve the Denver energy market.

Oil experts

"There are a lot of brokers going around Denver telling people they are oil experts. They aren't," he says. "We realized we weren't either, so we went out and allied ourselves with people who are.

"We prospect and market the oil risks and expertise is provided by Wm. Rigg," he adds. "It is good for both of us, because we now have the knowledge and they now have the contacts in Denver. We have about a dozen nice accounts coming out of the joint venture that we might not have had otherwise."

• Van Gilder Agency Co.—Dell Van Gilder Jr. is the third genera-



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tion to run this downtown agency, which placed nearly $10 million in premium last year. Mr. Van Gilder hopes to double the size of the agency in the next five years.

Group plans for architects and lawyers buoy the Van Gilder agency. Of Van Gilder's 11 producers, three work exclusively on association programs, he says.

"We got into that type of business after we bought an agency that had expertise in that area," Mr. Van Gilder says. "We saw what could be done with it."

The firm competes with Warren & Sommer on its lawyer program, he adds.

"They came in first and got the early endorsement from the association," he says. "But we have a competitive program and feel we are doing well with it."

• Insurance Agency of Colorado Inc.—President William D. Adams' firm extends back to 1882. Mr. Adams and a few other principals bought the agency recently when W.W. Rice sold most of its agency offices to Fred S. James & Co.

"It was an old office that was just plodding along, but now we're really moving," says Mr. Adams.



Finally moving
'We're just having a good time now,' says Bill Adams. 'We're really moving.'

"We're just having a good time now.

"We won't shy away from anything, but we really want to go after the risks that bring in from $2,000 to $20,000 in premiums. We're also aggressively marketing personal lines. It isn't difficult to get a personal lines account that brings in more than $1,000 a year around here, and with so many people coming into town it is a good business."

Growing market

Mr. Adams also hungrily eyes the growing energy market.

"There are some 400 independent drillers and contractors that have come in here in the last three years or so," he says. "My partner is skilled in that area, so we're looking for the markets to serve these risks. The problem in that area is getting the markets, not finding the policyholders."

• Byerly & Co. Inc.—With offices in Denver and Cheyenne, Wyo., Byerly deals almost exclusively in employe benefit plans. There are eight principals and 25 employes in the 21-year-old firm, says senior account executive Gerald A. Peters.

Byerly will usually only hire employes who have more than 10 years of benefits experience, Mr. Peters says. The firm depends on referrals and reputation to fight the hot competition in the benefit field, he adds.

• Day Webb & Taylor—President Robert W. Webb says his firm is looking to move out from its present headquarters, an old warehouse building in a friendly residential shopping strip.

Mass marketing

Like many of his competitors, Mr. Webb is getting more involved in mass marketing. The firm acts as managing general agency in 25 states for a rent-a-car agency plan. It also has offices in Seattle and elsewhere, but Mr. Webb says the firm will continue to concentrate on the Denver region.

"Colorado will continue to grow and we want to devote a lot of effort to this region," he says. "We may sell off our Seattle office to do this. I have a friend in Texas that has several offices in his immediate area. With them, he can compete well in all of the larger smaller towns nobody else is in yet."

• Reichart-Silversmith Inc.—Formed in 1944, Reichart-Silversmith wrote $5 million in premium last year, says president Murray P Hayutin. The firm is heavy in risks that bring in $10,000 to $20,000 in premium. Mr Hayutin says he likes going after retailers, wholesalers and developers for new business.

A lifetime Denver resident, Mr Hayutin has mixed emotions about the growth the region has attracted.

"I guess you could say it is great for business, but lousy for living," he said. "As a businessman, however, I had better not complain about it. Besides, you can always go into the mountains and get away from it all." ■

Personal touch

"You have to sell and service face-to-face," says Gene Mapes.



Photos: Dave Galanti



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Wholesalers tailor programs to fit risks

ATLANTA—When an agent needs a suit, he goes to a tailor. When the agent needs a specialty insurance program, he could go to the United Specialty Agents Alliance.

The USA Alliance began as a co-op advertising group of 18 managing general agents, but expanded this year to a team of excess/surplus experts who enjoy planning new programs for retail brokers, says president William Murrey.

The 18 MGAs in 39 states represent more than 100 specialty insurers.

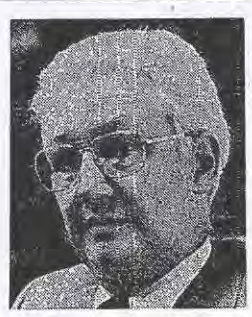
Developing new products began when the Alliance started getting requests from local agents who saw the advertising and needed new markets for commercial risks.

"They came to us, and we started asking our agents until we found one that could help," Mr. Murrey explained. "That's how we work now. Our MGAs are completely independent; we don't share commissions or services, but if a local agent's local Alliance member can't help, the MGA can ask another member and pass it on."

The Alliance has already developed new programs for tanning parlors, retail liquor stores, small grocery stores and a restaurant group, Mr. Murrey said.

New wave

'Specialty lines have evolved into an industry within an industry,' says William Murrey of the Alliance.



A/BT

The roster of MGA's represent about $250 million in commercial insurance premiums and the group is actively searching for new members in states not yet covered by the network: Colorado, Connecticut, Hawaii, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, South Dakota and Vermont.

Retail agents who tap the Alliance programs are paid commission from the specialty insurers the clearinghouse represents and the Alliance MGA processes claims for the insurer on the risk, Mr. Murrey said.

But the agent could also find a market and rate cut for risks that are hard to place, even in soft insurance market cycles, Mr. Murrey told *Business Insurance*.

"There is an underlying motivation implicit in the Alliance," Mr. Murrey explained, "one that encompasses the elevation of the specialty classes of business as a distinct and increasingly necessary dimension in the property/casualty business.

"Specialty lines have evolved into an industry within an industry with its own technical and esoteric needs," he continued. "The routine risk seemingly no longer exists."

There's a need for someone to insure coverages markets shun, he added. ■

Agents don't plan: Survey

MALVERN, Pa.—Many agents consider formal strategic planning necessary for their survival in the 1980s, but a recent survey indicates many firms don't plan ahead.

Informal surveys at 12 recent seminars by the American Institute for Property & Liability Underwriters indicated formal planning was one concept that may separate the successful agent from the failure in the future.

But only about 20% of the 500 agents responding had any types of formal strategic planning underway, said a spokesman. Most had not stated goals for the next five or 10 years, anticipated new product lines, segmented markets or set a time schedule for reaching agency goals.

Nearly 80% of the firms surveyed also said they had not considered the type of business they were going to seek in the future or established expertise in particular areas.

Most agency principals, however, agreed that trained, professional managers from outside the agency were better prepared to run an agency than highly skilled producers who were unsuited for management positions.

A majority of those attending the seminars believed that hiring a manager would relieve the boss of many of his managerial duties.

The attending agency principals generally placed the salary for such a manager below $41,000. ■

Old accounts pay new premiums

There's always some new premium in that old account, agency hotshots say.

Henderson & Phillips, a large independent agency here, is taking that hype to heart with a new associated company, Executive Benefits Inc. Executive Benefits specializes in benefit programs for businesses and individuals whose corporate accounts Henderson & Phillips already handles, says affiliate president Richard F. Kiefner.

The new division handles all life insurance, disability income, health coverage, retirement plans, group pensions, accident, annuities and deferred compensation for Henderson & Phillips, too, Mr. Kiefner adds.

"We're especially interested in working with the executives of the firms we now do business with on commercial risks through Henderson & Phillips," Mr. Keifner said. "We want to try to impress upon them the convenience of calling one location for all their insurance needs."

The new affiliate began operation in February. Mr. Kiefner is new to Henderson & Phillips, but has worked in the benefits field in the Norfolk area for eight years.

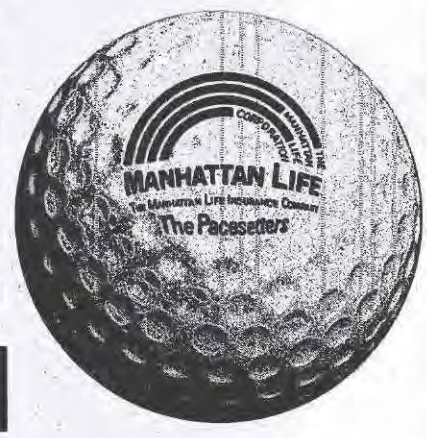
"What we did was to put together my clients and those of Henderson & Phillips," he said. "I then started to hit each client in turn, telling them what we have to offer."

With present Henderson & Phillips clients, Mr. Kiefner says he tries to go through the executive's benefit programs individually, looking for problem areas or gaps in coverage. At the same time he looks at the corporate benefit plan and reviews that policy, he adds.

Most new business comes from referrals and existing commercial accounts interested in benefits, Mr. Kiefner says.

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Continental Plaza of Chicago

Review this schedule and learn how you can communicate the full importance of your benefit programs.

Sunday 26 October

4:30 pm **Registration...**obtain session materials and prepare for the program opening and reception ahead.

6:00 pm **Welcome Address** by Alfred Malecki, publisher of Business Insurance.

6:15 pm **The Essence of Clear Communications** "Medi$ense," a Robert Drucker & Co. film on healthcare costs provides an insightful look into the techniques of handling a complex and misunderstood issue. The film confronts consumers with their role in soaring healthcare costs. Tylie Jones of Tylie Jones Communications explains the film's aim.

7:00 pm **Cocktail Reception**

Monday 27 October

9:00 am **Introductory Remarks**

9:10 am **Simple Is Smart... Techniques for Simplifying Benefit Materials**
Alan Siegel, president of Siegel & Gale, Inc., will discuss specific techniques he has used to simplify over a 150 life and health insurance policies and other employe benefit booklets.

10:30 am **The Style and Substance of Clear Communications**
Three concurrent sessions... repeated after lunch. Each session is one hour 45 minutes.

- **Designing Employer Benefits Programs To Benefit Employes**
  William J. O'Connor, executive vice president of Source/Inc. and David A. Williams, president of Williams Communications, apply principles of design and communication to affect positive employe attitudes.
- **Pacing Your Message**
  Acting relocations administrator for Rockwell International, John G. Willard, demonstrates the approach of pacing key words and ideas to maximize the impact of benefits messages.
- **Tools, Tactics & Timing**
  The why behind which tools to use when packaging your benefits program are revealed by Terrance T. Toth, director of communication services, Buck Consultants, Inc.

12:30 pm **Luncheon...**with a screening of EBC competition entries.

2:00 pm **Concurrent Sessions Resume**

4:00 pm **CPC's Animated Approach**
Richard T. Whitman, a partner with Kwasha-Lipton, details CPC International's use of an imaginative benefits story.

4:30 pm **What I've Learned in the Advertising Business in 111 Years**
Robert Zabel, president of NW Ayer ABH International-Chicago shows how to inject "humanness" into your communications.

5:15 pm **Cocktail Reception**

Tuesday 28 October

9:00 am **You Be the Judge**
Herbert Zeltner, group vice president of Crain Communications Inc., invites attendees and a panel of benefits professionals to join him in evaluating the effectiveness of benefits approaches. (The session will run until noon with a break)

12:00 pm **Luncheon...**Thomas F. Masloski, director of communications for Source/Inc., examines the role corporate advertising/pr departments can play in the employe benefits communications picture.

2:00 pm **Rewards of Well-targeted Benefits Communications**
Kathy Groon, audiovisual training coordinator of Jewel Food Stores, explains Jewel's a/v program for communicating benefits during the various stages of an employe's work life and reveals the effect it has had on claims.

3:30 pm **Communicating in a Changing Work Climate**
Vice president-manager of compensation & benefits for Bank of California, Joseph Young, demonstrates how benefits communications can and must adapt to a changing work atmosphere, new employe needs, and expectations.

5:30 pm **Cocktail Reception**

6:30 pm **The 8th Annual EBC Awards Dinner** features the presentation of Business Insurance Employe Benefits Communications awards in five categories.

Wednesday 29 October

9:00 am **Developing a Total Employe Benefit Communication Program—How & Why**
Control Data of Canada, Ltd's Walter D. LeGrow, director of personnel services, explains why his company felt it important to tell its employes about all their benefits—and how it was done.

10:15 am **Clear Communications: The Law & Lawyers**
Robert W. Ridley, a partner with Forster, Gemmill & Farmer, has practical suggestions on how to deal with your legal department.

11:15 am **You Be the Judge... Reprise**

12:00 pm **Conference Adjourns**

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Report recommends Lloyd's revamp

Continued from page 1
Marsh & McLennan, Alexander & Alexander, Frank B. Hall and Corroon & Black—will be relieved to see the Fisher group recommending the 20% limitation on non-Lloyd's ownership of Lloyd's brokers be removed.

The Fisher report suggests that preventing brokerage ownership of Lloyd's underwriting agencies and stronger regulation over Lloyd's brokers dispel the need for the 20% rule.

All financial ties between brokers and underwriters at Lloyd's should be dissolved within five years, the Fisher report recommends. Broker ownership of an underwriter and underwriter ownership of a broker create unacceptable conflicts of interest that could hurt Lloyd's policyholders and names, the report says.

Currently 45.3% of the underwriting capacity at the $1.6 billion premium volume market is managed by broker-controlled underwriting agencies.

Fundamental principle

"A fundamental principle is at stake here, namely the principle that an agent should not put himself into a position where he may have conflicting duties," the report says. "The interests of the assured (for whom the broker acts) and the interests of the names (for whom the agent and underwriter act) are separate and distinct and are sometimes in conflict.

"It is unacceptable that brokers should, through common share ownership, have the power to control the agency company, which has a legal duty toward the names. Conversely, assureds are at risk that the broker will not be wholehearted in looking after their interest if he has a financial stake in an agency which managed underwriting syndicates and draws a profit commission from the syndicates."

A recommendation that financial ties between Lloyd's brokers and underwriters be severed was anticipated by some observers here, but the majority defend the tradition. One unidentified member of the Fisher committee also dissented from the recommendation.

Severing ownership ties between Lloyd's underwriters and brokers, however, is just one reason the 20% limitation on non-Lloyd's ownership of Lloyd's brokers can be removed, the report says. The other development needed to remove the 20% rule is stronger regulation of all Lloyd's brokers, the report says.

Lloyd's had maintained the 20% was needed to ensure the management of Lloyd's brokers would be genuinely independent and that brokers would be responsive to requests of the Lloyd's chairs and committee.

The Fisher report contends the powers of the current governing Committee of Lloyd's "to control and discipline Lloyd's brokers are insufficient." It recommends language to be contained in a new act of Parliament to strengthen Lloyd's hand in governing its brokers, who alone are authorized to place business with Lloyd's underwriters.

If the 20% rule is abandoned, new conditions must be imposed on acquisitions of shares in a Lloyd's broker by non-Lloyd's insurance interests, the report says.

Disposing shares

While Lloyd's brokers continue to own shares in managing agencies, Lloyd's should require that any shares held in a managing agency by the acquired Lloyd's broker be disposed of by the broker. With this requirement in mind, the committee recommends that during the five-year period when brokers are allowed to own shares in underwriting agencies, acquisitions of more than 20% of the shares of a Lloyd's broker by a non-Lloyd's interest be approved by Lloyd's.

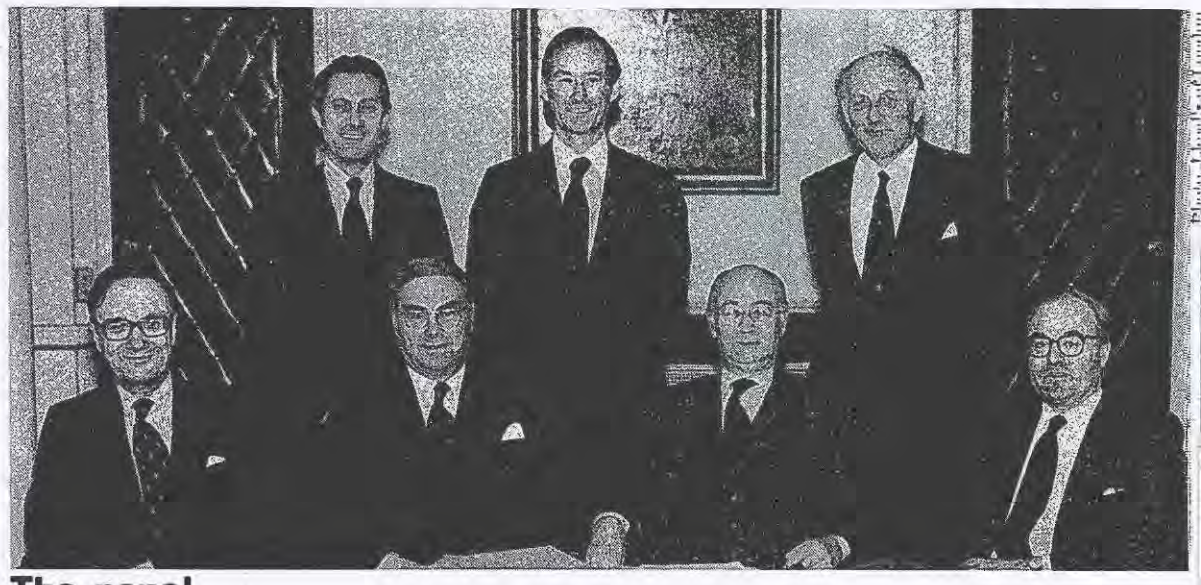
As part of its recommendations for new regulation of Lloyd's brokers, the Fisher report recommends that all new Lloyd's brokers be required to be incorporated in the European Economic Community with offices in London sufficiently staffed, records available and its directors and shareholders available to meet with the chairman of Lloyd's and the Committee of Lloyd's on "reasonable notice."

Concerned with mergers of Lloyd's brokers in London and the possibility for concentrated market shares in the Lloyd's brokering business, the report also recommends the new governing body of Lloyd's have the power to rule on mergers. Lloyd's brokers that merge without seeking the approval of a new Lloyd's council could be barred from placing business at Lloyd's.

Three recommendations

The massive reorganization of self-regulation at Lloyd's recommended by the Fisher party hinges on three major recommendations. They are:

- To create a new widely based Council of Lloyd's to govern the insurance market.
- To transfer to the new council the rule-making and disciplinary powers presently vested in the general meetings of Lloyd's members.
- To seek a new act of Parliament to allow Lloyd's to adopt the massive revamping recommended by the Fisher Working Party.



The panel

Members of the Fisher group are: front row, from left, David Watt, Tom Langton, Sir Henry Fisher and Robin Broadley; back row, Gordon Hutton, Norman Frizzell and Bruce Gray.

The principal recommendations of the Fisher party are outlined in the party's letter to Lloyd's chairman Peter Green and are quoted here:

- The rule-making and disciplinary powers at present vested in general meetings of Lloyd's members should be transferred to a new body to be called the Council of Lloyd's.
- The membership of the council would be made up of 16 working Lloyd's members who would be elected by the personal vote of working members, six nonworking members who would be elected by postal ballot of the nonworking members and three outsiders who would be nominated by the council with the approval of the governor of the Bank of England.
- The Council of Lloyd's would be responsible for making all bylaws by appropriate majorities, under the powers conferred by Parliament, and for all policy and strategic planning. It would be responsible for all discipline but would delegate its powers to a standing disciplinary committee separate from the executive members of the council.

The executive function carried out at present by the Committee of Lloyd's would be delegated to an executive committee of the council consisting of the 16 council members who are working Lloyd's members. The power to regulate the conduct of insurance business could be delegated to this committee. The council chairman would also be chairman of this executive committee, which would be known as the Committee of Lloyd's.

- The council and the committee would be given extensive powers to regulate the admission and registration of members, agents and brokers. The registration of agents and brokers would be reviewed every five years. These powers of regulation would replace the present system of contractual undertakings.
- In the event of any breaches of bylaws or regulations, disciplinary proceedings could be taken before the disciplinary committee and a variety of penalties would be available including fines, suspension and expulsion. Appeals would be permitted to an appeal tribunal.

No restriction

In the light of the powers conferred by the new act, any need for restricting the degree of ownership of Lloyd's brokers by non-Lloyd's insurance interests (the so-called "20% rule") would disappear.

- Regulations also would control the activities of individuals employed in senior positions in companies or firms of agents and brokers, so offenders can be punished or excluded from conducting business at Lloyd's.
- The council would have the power, subject to suitable safeguards, to veto the appointment and employment of any active underwriter if the council were not satisfied that he was a fit and proper person to hold such office.

The council would be empowered to investigate the affairs of any syndicate, broker or agent and would be entitled to suspend them if necessary to prevent serious damage to Lloyd's.

- While the council would strive to maintain the tradition of not interfering in market and underwriting matters, it would have extensive powers in relation to premium income limits and binding authorities; the maintenance of adequate means and deposits by all members; the provision of adequate information by agents to prospective and established members; the proper treatment of members by agents under the terms of a generally standard form of agency agreement, and the maintenance of adequate financial resources by brokers and agents.
- The council would be responsible for ensuring a higher standard of audited accounts and reports given members by their agents and for strengthening the independence of syndicate auditors.
- The working party, by a majority, recommends that over five years, shareholding links between Lloyd's brokers and managing agencies and between non-Lloyd's insurance interests and managing agencies should be terminated and that such links should not be permitted in the future. There would be no prohibition of links between Lloyd's brokers and members' agencies.
- All disputes between members of the Lloyd's community that did not directly involve outside third parties would be compulsorily submitted to arbitration. An arbitration panel including independent outsiders would be established to deal with all disputes referred to it.
- The council would be responsible for encouraging the maximum possible delegation of decision-making and the recruitment and development of a permanent Lloyd's staff of a caliber that will be able to carry out the additional responsibilities that implementation of the working party's recommendations will involve. ■

Members respect tradition less

Lloyd's of London brokers and underwriters fondly recall the days when a summons by the chairman of Lloyd's and a few sharp words put anyone back on the straight track who had dared to wander from the proper way of conducting business at the honorable international insurance market.

No one implies that Lloyd's is less honorable now, but its members are less respectful of the traditional manner of correcting one's business approach when reprimanded by the chairman, say brokers and underwriters.

"They say, 'Show me where it says I can't do that,' " complained one Lloyd's insider who is miffed by the challenge to Lloyd's authority.

Dragging out a rule book to cite chapter and verse of the regulation governing an incident is pretty difficult at Lloyd's. None of the instructions issued by the Committee of Lloyd's that are still in force and expected to be obeyed are compiled in one document.

The top recommendation of the Fisher Working Party on self-regulation at Lloyd's is that a volume containing all the bylaws and regulations be published and kept up-to-date.

Recommended in the other 197 pages of the Fisher report are changes in the regulations governing insurance underwriting and broking at Lloyd's to strengthen the institution's control over individual members of the market.

The mammoth document is the product of intense labor by the seven-man panel. During its 14-month study of Lloyd's self-regulation, the group met 79 times, interviewed 72 people and reviewed 437 written documents it received.

Sir Henry Fisher, president of Wolfson College in Oxford, was chairman of the committee. Other members were Thomas B. Langton, a deputy chairman of Lloyd's in 1973 and 1974 and a director of Devitt Langton & Dawnay Day; Robin Broadley, managing director of Baring Brothers & Co. Ltd., Merchant Bankers, and Norman Frizzell, chairman of Frizzell Group Ltd. and Frizzell BV of Holland and a member of Lloyd's since 1946.

Other members are Bruce Gray, a member of the Committee of Lloyd's from 1976 through 1979 and deputy chairman in 1977 and 1978; Gordon Hutton, chairman of Lloyd's Underwriters Assn. and an underwriting member of Lloyd's since 1964, and David Watt, a director of the Royal Institute of International Affairs with a career in political journalism.

Accepts recommendations

Lloyd's to ask Parliament for changes

By KATHRYN J. McINTYRE and JOHN MILLER

LONDON—Lloyd's of London will seek Parliament's approval next year of a bill to revamp Lloyd's internal regulations, based on the recommendations of the Fisher report.

"We accept the main outlines of the Fisher report and now we have to consider how to put it into operation," said Lloyd's chairman Peter Green.

"We will start by presenting a draft bill for Parliament this October and that should become law by this time next year," Mr. Green explained.

He warned, however, that many of the changes recommended in the Fisher report won't be made immediately.

"The 20% rule, for example, cannot be swept away overnight," he said, referring to Lloyd's rule limiting non-Lloyd's ownership of a Lloyd's broker to 20%.

The Fisher report concluded the 20% rule would be unnecessary after recommended regulations were implemented.

"If the controls to be embodied in the act should prove to make the (20%) rule redundant, this will only be apparent after careful consultation, followed by legislation," Mr. Green said.

"We wanted a strong, independent view and now we have it," the chairman added.

Though Lloyd's still must study the report, the overall reception was positive.

The Fisher report suggestions "will ensure the success and continuation of Lloyd's as a freely competitive market for many years to come," Mr. Green remarked.

"Naturally we welcome it because it ensures fair treatment for all who have contact with Lloyd's."

Mr. Green had told *Business Insurance* before the report was released that Lloyd's had intended to make the complete document public.

If, however, "the report is so totally unacceptable to the committee, we would say, 'Off to the furnace," Mr. Green said in an interview earlier this year. He added that such a development was unlikely.

Some observers who had hoped the Fisher report would also endorse appointment of a full-time chief executive will be disappointed.

The report contends Lloyd's doesn't need a chief executive in addition to the chairman. ■

Defections place damper on takeover of Bowring

Continued from page 1

can reinsurance division, has announced that he and four colleagues will leave the firm and apply for Lloyd's acceptance as an approved broker.

• Michael Jenner, chief executive of Bowring's international division known as C.T. Bowring & Co. Insurance Ltd., will also seek to start his own Lloyd's brokerage with four other resigning associates in his department.

Despite assurances that Marsh & McLennan will grant considerable autonomy to its new subsidiary, resigning top officers at Bowring are clearly disillusioned over both the firm's new ownership and Bowring's acquiescence.

A former Bowring associate who will join Mr. Ballantyne's new firm, Fred Sherer, said he was upset when Bowring abandoned its opposition to the M&M bid after telling its staff it would fight it.

"The board worked the staff up to a fever pitch and then performed a volte-face," Mr. Sherer declared.

Acknowledging there have been some resignations, Bowring managing director Gilbert Cooke strongly rejects rumors of mass defections. Resignations include only a small group of people out of the firm's 10,000 employes, he told *Business Insurance*.

No animosity

Defending Bowring's acceptance of M&M's takeover bid, Mr. Cooke said the decision was made with staff interests in mind.

"I think most employes understand this," he added.

Blades is changing London brokers on its major oil accounts "at the request of policyholders and brokers," explained chairman Joseph H. Blades. "Most of our oil business is produced by brokers who compete with Marsh & McLennan."



On the move
'We harbor no animosity toward C.T. Bowring,' says Joseph H. Blades, who is switching brokers.

"We harbor no animosity toward C.T. Bowring," Mr. Blades said, noting his firm had been a client of Bowring since 1956. "If an oil account wants to stay, that's fine with us."

Apparently, however, none of the large accounts wishes to do so. But for the time being, at least, Blades is expected to leave its directors and officers liability risks with Bowring.

Some anxiety

The oil accounts will move to Hogg Robinson, another major Lloyd's broker, which will act as caretaker until resigning Bowring director Michael Jenner and his team can get Lloyd's approval for a new brokerage, *Business Insurance* has learned.

Mr. Jenner's association with Bowring dates back 25 years, and a year ago he was nominated to its full board. His new firm, incorporating the names of two other departing Bowring colleagues, will be called Jenner, Fenton & Slade Ltd.

Mr. Jenner's decision to resign has caused some anxiety, said Bowring's Mr. Cooke, but he noted the move is not a big surprise because it is common for a broker executive to follow the move of a major account.

It was natural for some U.S. brokers to want to leave Bowring if they are competing with Marsh & McLennan, Mr. Cooke said. "M&M will bring plenty of fresh business to replace anything we lose."

The California Hospital Assn. offers its 420 participating hospitals a market for professional liability coverage through a joint program with the Truck Insurance Exchange of the Farmer's Insurance Group, said David Odell, hospital association vp.

The London broker change was recommended to CHA by its excess/surplus lines broker, Gerald J. Sullivan & Associates in Los Angeles, Mr. Odell said, adding he expected the switch would not affect the association's insurance program. ■

Insurers await claim

Continued from page 2

Mr. Wintemute would not disclose the participating insurers or the bank's deductible.

Damage to the building and its telephone lines prevented *BI* from reaching risk managers at SCM Corp. and Great Lakes Carbon Co., which is insured by Allendale Mutual Insurance Co. Industrial Risk Insurers confirmed it covers SCM Corp. An IRI inspector who wanted to check smoke damage the day after the fire was denied access, said Ray Miller, New York claims department manager.

Westvaco Corp. suffered minor water damage and broken glass in its corporate office. It is not known if damages exceed the firm's $25,000 deductible on property coverage, said insurance manager Thomas Herrington. Arkwright-Boston insurers Westvaco.

Fisher Brothers had finished installing firewalls and planned other improvements to bring the building into compliance with a New York City law governing skyscraper safety.

This helped contain the fire to the 20th floor, Mr. Cohen said. "The building proved itself to be soundly structured for its type."

Sprinkler installations were not planned because of the prohibitive cost, which would run from $2 million to $3 million, Mr. Cohen said. Buildings retrofitted with firewalls do not need sprinklers to comply with city code, he said. ■

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Formerly with Philip Morris

Evans to manage Ingredient benefits

comings & goings: buyers

Richard A. Evans, 33, has been named employe benefit manager at Ingredient Technology Corp. in New York to replace **Josephine Lopes,** who retired. Mr. Evans, who reports to senior vp and secretary A.D. Marshall, will be responsible for all employe benefits in the corporation's 25 plants in the U.S. and Canada. He was most recently benefit coordinator for Philip Morris Inc. in New York and before that worked in benefits at General Host Corp. He has a B.A. degree from Hofstra University and an M.A. from Temple University.

* * *

George W. Swanson, 62, has been elected treasurer of Fansteel Inc. in North Chicago, Ill. Mr. Swanson, who handles all corporate insurance programs, has been with Fansteel for 45 years and most recently held the positions of assistant secretary and assistant treasurer. No replacement has been named. He attended the Lake County (Ill.) College of Commerce and is a past director of the Chicago chapter of RIMS. He reports to executive vp John Devlin.



Swanson

* * *

Yolanda Kalinowski has been elected vp administration at Central Reserve Life of North America Insurance Co. in Berea, Ohio. Ms. Kalinowski, in this newly created position, will be in charge of employe benefits, personnel and administration as well as supervise the ordinary and preferred trust departments. She joined the company three years ago and most recently held an assistant vp position. Ms. Kalinowski, who reports to president Fred Lick, has more than 15 years experience in the insurance field and attended Cuyahoga Community College.



Kalinowski

* * *

Edward H. Brode, 42, has been promoted from senior vp and controller to executive vp and chief financial officer at Marine Midland Banks Inc. in New York. Mr. Brode will be responsible for financial control, tax and insurance functions. He replaces executive vp **George H. Burns,** 56, who will focus on holding company business development. Mr. Brode joined the bank in 1971 as assistant vp, was promoted to vp in 1973 and senior vp and controller in 1976. He graduated from Pennsylvania State University and Pace College and belongs to the New Jersey Society of CPAs and the Financial Executives Institute. He reports to president John Petty.

* * *

Donald L. Meck, previously risk manager at Medtronic Inc. in Minneapolis, has joined the risk management consulting firm Corporate Insurance Consultants, also in Minneapolis, as executive vice president. Mr. Meck, who has 18 years experience in risk and insurance management, has a bachelor's degree in business administration from the University of Minnesota and CPCU and ARM designations.

•

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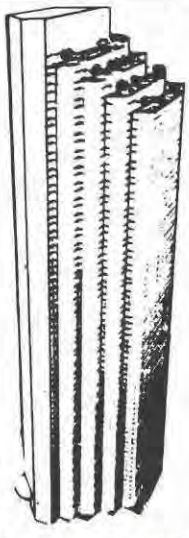
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Four face bribery conspiracy charges

AUSTIN, Tex.—As the state employe retirement board here was awarding the 1980-81 group insurance contract to Blue Cross/Blue Shield, four people indicted for promising to influence the insurer last year were pleading innocent.

Texas house speaker Billy Clayton, who wants an unprecedented fourth term as house leader, asked for a speedy trial to clear himself of the federal bribery conspiracy charges that he accepted a $5,000 bribe and a promise of $600,000 to use his influence in awarding the multimillion dollar contract.

The name of Prudential Insurance Co. was used by FBI informant Joseph Hauser in setting up the bribe situation.

Mr. Hauser approached Austin attorneys Randall Wood and Donald Ray and labor leader L. G. Moore in seeking Mr. Clayton's aid in influencing selection of Prudential as insurer for the state employes' group life and health program.

Mr. Hauser was said to have represented a fictitious company, Fidelity Financial Consultants of Beverly Hills, Calif., which in turn allegedly represented Prudential.

The four defendants face a six-count indictment: two counts of wire fraud, one count of conspiracy, one count of interstate racketeering, one count of extortion (or aiding or abetting extortion) and one count of conspiracy to commit extortion.

The maximum penalty for each count upon conviction is: five years in prison and a $1,000 fine for wire fraud; five years in prison and a $10,000 fine for conspiracy; five years in prison and a $10,000 fine for interstate travel or use of interstate facility in aid of racketeering enterprise, and 20 years in prison and a $10,000 fine for extortion.

Earlier, a federal grand jury in New Orleans also indicted four men June 17 on charges of racketeering, mail and wire fraud and conspiracy involving an alleged scheme to obtain group insurance contracts in Louisiana by bribery.

The 12-count indictment was returned against Carlos Marcello; I. Irving Davidson; Charles E. Roemer II, former commissioner of the Louisiana division of administration, and Vincent A. Marinello, an attorney.

As part of the conspiracy, the indictment said, the defendants would bribe public officials to obtain contracts from the state of Louisiana, city of New Orleans, Jefferson Parish, labor unions and a shipyard. Mr. Marcello, Mr. Davidson and Mr. Roemer would receive part of the commissions, the indictment said.

The defendants face a six-count indictment on bribery charges.

Mr. Marcello allegedly introduced Mr. Roemer and Mr. Marinello to two undercover agents of the Federal Bureau of Investigation and to Mr. Hauser, who was cooperating with the FBI. The fictitious business firm of Fidelity Financial Consultants was also used in Louisiana.

The indictment says Mr. Marcello agreed to contact officials in New Orleans and Jefferson Parish with the intention of paying them bribes. He also allegedly directed payment of $25,000 to Mr. Roemer, who received that amount in cash and agreed to use his state post to obtain insurance contracts.

Mr. Marinello received $10,000 to deliver to James E. Fitzmorris Jr., then Louisiana's lieutenant governor and a gubernatorial candidate, to get his assistance in obtaining contracts. Mr. Marinello told Mr. Hauser a meeting had been arranged with Mr. Fitzmorris, and Mr. Marcello and an FBI agent later met with Mr. Fitzmorris.

Mr. Fitzmorris was not named as a defendant.

All four defendants are charged with one count of conspiracy to violate the Racketeer Influenced and Corrupt Organizations Statute, one substantive RICO violation, six counts of wire fraud and one count of mail fraud. Mr. Marcello and Mr. Davidson also were charged with one count of interstate travel in aid of racketeering and, along with Mr. Roemer, with two additional wire fraud counts. ■

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Texas cuts cost hike

Continued from page 1

chose the 100% coverage under the current plan, but Mr. Murphy predicts only 45% will want full coverage enough to pay for it.

Employes will continue to pay for coverage for dependents and for optional life insurance of up to two times annual salary.

Blue Cross/Blue Shield was awarded the contact upon the recommendation of the insurance commissioner and consulting actuaries.

The selection system withstands the shadows of Brilab, Mr. Murphy says, because the board calls in not only an Austin consulting actuary but also an independent actuary for analysis of the final bid. The state board of insurance then does its own analysis, and the insurers are given an opportunity to review the evaluations. The retirement board then chooses the insurer. ■

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32.	Spotlight Report: Pensions & Retirement Programs	AUG 11	Jul 30
33.		AUG 18	Aug 6
34.	PROPERTY/LIABILITY: THE YEAR AHEAD	AUG 25	Aug 12
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Settlement will help finance stadium

Continued from page 3

Drake had been appointed original contractor for the Kingdome. But in 1974, workers walked off the job when about 60% of the work had been completed. The work was a year behind schedule and the deadline for completion loomed just weeks away. Drake had spent $22 million of its $29.6 million contract. The company faced $1,500 a day in penalties.

Drake officials have contended they stopped work because of concerns about the design safety of the domed, concrete stadium roof. Drake wanted the county to take responsibility for safety while removing construction bracing supporting the roof. The county declined.

King County sued Drake in U.S. District Court for $14 million. Drake in turn sued the county, asking damages of up to $10.5 million.

The county argued Drake had stopped work to force the county into a new cost-plus agreement that would pick up all the cost overruns and give the firm a profit even though it couldn't meet the terms of its original contract.

After a five-month trial, U.S. District Judge Morell E. Sharp on July 28, 1978, found in favor of the county, awarding it $12.3 million in damages. Judge Sharp ruled Drake had broken its contract. The Travelers' settlement included $530,000 more than the district court judgment to incorporate ensuing interest payments.

The county hired Peter Kiewit Sons Co. to complete the stadium construction and sold $12 million in bonds to complete the job. It had been paying about $1.3 million a year on the bonds, payable through 1992.

The settlement will allow the county to put $9.7 million into high-paying securities with the proceeds going to pay off the bonds, Mr. Spellman said. After amortization, the county would have slightly more than $3 million left over.

About $1.2 million will be paid to the county's general fund to finance the five-year legal battle, Mr. Spellman added. Litigation costs totaled abut $1.6 million, including $400,000 in lawyers' fees.

Stuart Oles, attorney for Drake, said the settlement was a surprise.

"We were confident an appeal would have been successful," he noted, adding that the company had been working on an appeal for two years. Oral arguments were to go to the 9th Circuit Court in San Francisco within three months.

The Travelers and its wholly owned subsidiary Phoenix Insurance Co., which underwrote the bond, did have an agreement with Drake that permitted the insurer to make a settlement, he noted.

"We told their attorney three days before that a settlement was imminent. I suspect we just settled faster than they expected," said Andy Letenzre, business assistant vp at The Travelers.

A settlement while the case is in the appeal process "is standard procedure," he added. "The cost of prolonging a case mounts up and we thought this was fair to everyone."

Drake has $50 million worth of construction projects underway in the Northwest and bonding for those contracts is also held by The Travelers.

The settlement will not affect the other projects, Mr. Oles said, but added Drake will not be able to recover damages from the county the firm believed it was entitled to receive.

Safety dispute

Officials of Drake, the contracting firm, have contended they stopped work because of concerns about the design safety of the domed concrete stadium roof.

Bargain end near

Continued from page 3

trum. "We realize we have to do something new, offer new products, if we are going to maintain a reasonable flow of business."

Price, Mr. Comey maintains, is not a Hartford selling tactic.

The Hartford isn't waiting around for the rest of the insurance marketplace to realize it can't continue writing at an underwriting loss much longer. This large national insurer, never known as a place that offered rock-bottom prices, has already started looking askance at some business it would have agreed to write six months or a year ago.

The Hartford hasn't decided to stop writing a certain class of business because of what it sees as ruinous competitive pressures, but the company's unwillingness to meet prices offered by other insurers has cost it some clients, Mr. Comey said.

"We are not pulling out of any areas, but there are some areas of our business that are not going to experience any growth. We decided that we are going to let our prices respond to competition only to a certain extent—or else we just won't write it," he said.

One type of coverage for which The Hartford finds it hard to meet competitors' prices—and is therefore losing some business—is excess casualty insurance, Mr. Comey said.

This hard-nosed approach, which Mr. Comey said has allowed the company to write its book of business at a "tad higher" price than most other companies, only works because of The Hartford's reputation in the industry, Mr. Comey contended.

"Our great selling point is one of consistency. The company you see in 1980 is the one you will see in 1982," Mr. Comey said. "We are not looked upon as a low pricing company or as an easy underwriting company, but one that can be counted on to be here tomorrow, the next week and the coming years."

Insurance buyers are beginning to realize that and some are willing to forsake a few of today's bargains for assurances that they will have a place to bring their business next year, Mr. Comey maintained.

"If you run in and out of the markets, you are ultimately going to be hurt because you were out at a time when you should have been repairing relationships," he argued.

Senator still hesitates to back risk pool bill

By JERRY GEISEL

WASHINGTON—Though support for the Risk Retention Act in the Senate seems to be growing (*BI*, June 9), one powerful Senate committee chairman who could speed the bill's passage still hasn't made up his mind.

"I haven't reached any final judgment about the bill," said Sen. Howard Cannon (D-Nev.), chairman of the Senate Commerce Committee.

Speaking before an Insurance Information Institute conference, Sen. Cannon said he is concerned about establishing another federal regulatory administration—no matter how small it might be—if other alternatives can solve product liability insurance problems.

But Sen. Cannon said he is sympathetic to manufacturers' concerns that product liability insurance costs may pose burdens.

"We won't create any new regulatory bureaucracy if it isn't needed, but we will take action if it's necessary to assure manufacturers and sellers of products that they have reasonable options available to them for obtaining product liability insurance coverage," he told insurers.

The Risk Retention Act (S. 1789), which removes state regulatory restraints and allows businesses to set up insurance cooperatives at the federal level, is bottled up in Sen. Cannon's Commerce Committee. It passed the House by a wide margin in March.

Sen. Cannon also defended his proposal that would bar the Federal Trade Commission from investigating insurance issues without the consent of a majority of members of either the Senate or House commerce committees.

Although he has no objections to the FTC investigating issues on which the states have failed to act or where regulation is weak, "Anything beyond that is improper and unlawful," he said.

Consumers who believe the FTC should play a greater role in investigating or regulating insurance should seek repeal of the McCarran-Ferguson Act, he said.

"That is a legitimate goal which will raise all of the issues regarding the proper federal role in the regulating of insurance."

Jury awards $277,500

Continued from page 2

either Illinois or California law and we will appeal," said Mr. Alpert.

The victim's widow, Jewel, and his daughter, Michelle, are the first plaintiffs to go to trial since the fatal crash of American Airlines Flight 191 last year killed 273 people. Ms. Valladares, separated from her husband for two years before the crash, waived punitive damages demands before the trial.

"Other settlements are continuing now. We've made offers in all but 10 outstanding cases," said Mr. Alpert, "with 191 potential claims remaining.

"In those 10 we don't have sufficient information." Of the 191, 124 suits are pending in the Chicago court while another 20 to 25 await trial in California (*BI*, June 2). Settlements have already been made in 82 of the tragic cases.

Ms. Valladares sought $507,629 in compensatory damages, contending her husband paid her $10,000 annually while he was alive. Her attorney, James C. Kellogg, also asked for $109,102 in prejudgment interest plus $300,000 for his client's daughter, Michelle, 5 years old.

"You can't replace the warm father/daughter relationship Michelle lost," said Mr. Kellogg in his final argument. "Three hundred thousand dollars is a fair figure for the loss that this child is incurring from her father's death."

Michelle, present at the trial, squirmed in her chair when her attorney pointed to her.

Attorneys for American Airlines and McDonnell Douglas Corp. argued $916,659 was an excessive amount to give to Ms. Valladares, and used the plaintiffs' actuarial testimony as defense for their opinion.

Ms. Valladares was separated from her husband for almost two years before the crash, McDonnell Douglas attorney Norman J. Barry emphasized in his final statements. He also noted that after her husband paid for his own expenses out of his $24,700 annual salary from A & P Food Stores, he would only have $6,617 to give Jewel and Michelle.

"It is improbable that there was a $10,000 contribution" from Mr. Valladares, Mr. Berry said. "I ask you to submit a verdict for the sum of $208,000."

The $277,500 judgment is consistent with the offer made to Ms. Valladares and other survivors by American Airlines last October, Mr. Alpert says.

At that time, American Airlines sent letters to survivors, including Ms. Valladares, offering a $225,000 settlement. Her attorney, Mr. Kellogg, rejected the settlement on her behalf, Mr. Alpert says.

Mr. Kellogg will be paid a 33% contingency fee from the settlement, sources say.

Plantiffs in the next case are Leila Gemme, widow of Francis Gemme, and three minor children. No court date is set.

Announcement of increase in capital of

Kansa Reinsurance Company Ltd

Affiliated to Kansa Corporation Ltd

Authorized FIM 260,000,000
($70,000,000)
Paid-up FIM 65,000,000
($17,500,000)

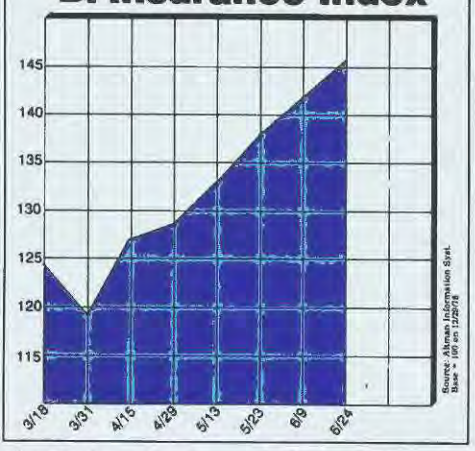
Head Office:
Hämeentie 33
POB 78
SF-00501 Helsinki 50
Finland
Tlx: 122209 kansa sf

KANSA

Total assets of the Group
FIM 1,877,000,000 ($ 507,000,000)

Branches and Contact Offices:
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Hong Kong
London
Mexico City
Montreal
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BI Insurance Index



The *Business Insurance* industry index hit a new high for a two-week period this year, climbing 3.9 points to 145.9 (The base of 100 was at year-end 1978.) Forty-four stocks were up, 21 were down and 9 remained unchanged. Among the biggest gainers were: Northwestern National Life Insurance, up 25.6% to $33.75; Integon Corp., up 23% to $26.75, and American National Insurance Co., up 17.6% to $15.88. Biggest losers were: Aneco Reinsurance Ltd., down 11.4% to $4.88; Penncorp. Financial Inc., down 6.9% to $8.37, and First Colony Life Insurance Co., down 6.6% to $28.50. The insurance stocks on the *BI* index outperformed other stock indicators. The Dow Jones Industrials climbed 1.9%, the New York Stock Exchange composite rose 1.4% for the period and the Standard & Poor's 500 rose 1.3% for the period.

British Issues

6/24 Companies	Price pence	P/E	Div. pence	Yield %	2 Week High—Low pence	pence
Comml Union	149	7.5	14.00	9.4	150—	134
Eagle Star	205	6.8	12.86	6.3	205—	180
Genl Accident	282	6.9	17.14	6.1	282—	248
Gdn Royal Exch	292	7.9	19.28	6.6	292—	258
Phoenix	242	6.7	19.00	7.9	242—	224
Royal	368	7.4	30.71	8.3	368—	330
Sun Alliance	654	8.4	40.00	6.9	654—	598
Brokers						
CT Bowring	169	11.3	8.57	5.1	170—	167
CE Heath	193	8.6	13.80	7.1	202—	190
Hogg Robinson	106	8.5	7.48	7.1	110—	101
Alex Howden	106	7.3	10.00	9.4	109—	10
JH Minet	96	9.1	6.38	6.6	101—	96
Sedg Grp	112	9.1	7.14	6.4	114—	105
Stenhouse Hldg	79	7.2	6.46	8.2	81—	77
Stew Wrightson	212	7.5	17.14	8.1	220—	202
Willis Faber	230	10.7	15.71	6.6	237—	225

Source: Kitcat & Aitken, London

Insurer insolvencies may be on way: Exec

By STUART EMMRICH

BI ticker

WORRIED THAT the current economic slump will drive your insurer to bankruptcy and leave your company with a slew of worthless coverages?

That may not be an unfounded fear for many insurance buyers, warns an insurance company executive who recently had some sober words about the state of the industry and some pointers for policyholders looking for signs of a potential insolvency.

"The insurance industry is in worse financial condition now than it has been for any of the last 50 years," warned Richard Haverland, president of the Progressive Corp. "Only strong cash flows have hidden the basic weaknesses of most companies for the last few years."

More than 60 companies have gone bankrupt in the last six years and at least 200 more are what Mr. Haverland calls "technically insolvent" in a report he has sent to financial institutions around the country.

Lax state regulation, underreserving for losses by insurers and the failure of policyholders to check the background of their underwriters are contributing to what Mr. Haverland sees as an industry complacency toward insolvencies that may soon backfire.

Even last year's failure of Reserve Insurance and American Reserve Insurance Co.—which he called the industry's most severe insolvencies—seemed to have little effect on the industry, Mr. Haverland complained.

"Anyone who believes that the insolvencies of American Reserve and Reserve Insurance Co. were isolated, nonrecurring events is likely to suffer the same trauma that so many have recently experienced," he said.

Inadequate loss reserving should shoulder much of the blame for the industry's seemingly precarious position, Mr. Haverland contended. He cited a study by Conning & Co., a research firm, concluding that of the nation's 240 largest property and casualty firms, 13% were underreserved by more than 25% of their reported 1978 year-end surplus. It also stated that 31% of these companies had understated reserves from the prior two-year period by more than 25% of their surplus.

Although underreserving by insurers usually means buyers are reaping the benefits of lower premiums, it also might mean there will be no underwriters around to pay when those losses finally come due.

Insurance companies also have been guilty of overstating the true value of their bond holdings, Mr. Haverland argued. As interest rates go up, the market value of a company's bond portfolio goes down, a factor few insurers account for, using the argument that bonds are held for maturity, not yield.

But Mr. Haverland contended companies under financial stress may be forced to reduce premium volume, thereby decreasing their cash values and triggering a liquidation of investments to pay claims.

On this point, Mr. Haverland agrees with Arizona insurance commissioner Michael Low, who recently warned 100 insurers around the nation that they are seriously undervaluing their bond holdings (*BI*, April 7). Mr. Haverland estimates the number of insurers doing this at more than 300.

State insurance departments have proved to be ineffective watchdogs of these companies, leaving their policyholders vulnerable to an insolvency, Mr. Haverland complained.

"Most (companies) believe that they shouldn't have to worry about insolvencies because they know that state regulators are responsible for insolvency prevention and detection," Mr. Haverland said.

"What they don't realize is that regulators do an inadequate job of regulating for solvency. Otherwise there would not have been more than 60 insolvencies in the last six years alone."

So policyholders are pretty much on their own when it comes to protecting themselves against an underwriter going belly-up, Mr. Haverland said. He added, however, there are some measures insurance buyers can take to minimize this risk.

Especially helpful, he said, is a so-called "early warning test" devised by the National Assn. of Insurance Commissioners to measure the solvency of individual insurers.

Although the test does not take into account what Mr. Haverland considers the crucial factor of bond portfolios, they do offer an objective method to gauge a company's financial strength.

These tests, called the Insurance Regulatory Information System, rate individual companies on a variety of financial factors. They are not available to the general public, but most state insurance departments will allow the tests to be inspected in their offices, Mr. Haverland said. The insurers also get reports on their individual results.

Checking the A.M. Best rating on the insurance companies is also recommended by Mr. Haverland, who notes that a rating of B or less should be a cause for further investigation, especially if the company also ranks poorly on the NAIC tests.

Other factors to consider when choosing an insurer or questioning the performance of your present one, Mr. Haverland said, include:

- The amount of reinsurance a company relies upon to cover its risks. Mr. Haverland contends that heavily reinsuring to generate surplus can be construed as a sign of weakness.
- Whether or not an outside accountant is used to certify the company's financial statements. "This is not a guarantee that the company is in the shape that it says it is in, but it is an indication that at least it has been reviewed by an outside third party," Mr. Haverland said. He also says a potential warning sign is when an insurer frequently changes accountants.
- The refusal of independent premium finance companies to finance the premiums of the insurer may be a sign that they are worried about a company's ability to return unearned premiums.
- A slowdown in claims settlements or returns of unearned premiums may reflect cash-flow problems.

Keeping tabs on the insurer's financial standing by regularly receiving its financial reports and by meeting the key people in the organization also may prove helpful in spotting potential problems, Mr. Haverland said.

Crum & Forster

If a company's loss-reserving techniques are a clue to an insurer's financial strength, then customers of Crum & Forster should take some heart in a recent report by Morgan Stanley & Co.

A study of the firm's bookkeeping shows "Crum & Forster continues to be one of the best reserved companies that we follow," says industry analyst Allerton Cushman.

Calculations by Mr. Cushman conclude that Crum & Forster loss reserves contain an estimated $214 million margin of conservatism, approximately 14% of the loss reserves outstanding for the calendar/accident years between 1973 and 1979 and 46% of the company's property/casualty statutory capital and surplus at year-end 1979.

Although this may seem a bit high to policyholders that are wondering if perhaps they are paying steeper premiums than necessary, Mr. Cushman says Crum & Forster's reserving is only as high as necessary, particularly the $110 million margin of conservatism for workers compensation reserves.

"Although these estimated margins of conservatism may seem enormous, it should be remembered that workers compensation is a long-tailed business; 8.9% of ultimate losses for calendar/accident year 1972, for instance, were still held in reserve at year-end 1979," Mr. Cushman said.

BI Industry Stock Report

JUNE 24, 1980 — 6/10/80 THRU 6/24/80

Insurance Cos.		Price	% Chg.	P/E	$ Div.	%Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	38.75	-0.6	5.4	2.12	5.5	38.88	36.75	1,208.1
American Bankers Ins Co Fla	OTC	7.25	-1.7	4.9	0.44	6.1	7.63	7.25	106.7
American Finl Corp Ohio	OTC	34.25	5.4	3.7	0.75	2.2	34.75*	33.00	60.0
American Gen Ins Co	NYSE	34.13	0.4	5.2	1.00	2.9	35.00	33.50	100.5
American Indty Finl Corp	OTC	15.75	1.6	4.5	1.12	7.1	16.25	15.75	28.9
American Intl Group Inc	OTC	65.75	7.8	10.2	0.50	0.8	66.50*	61.25	327.9
American Natl Ins Co	OTC	15.88	17.6	6.1	0.62	3.9	16.00	13.50	354.5
American Sts Life Ins Co	OTC	16.50	3.1	6.8	0.64	3.9	16.50	15.00*	5.5
Aneco Reins Ltd	OTC	4.88	-11.4	*****	0.00	0.0	5.50	4.88	113.5
Appalachian Natl Corp	OTC	2.00	0.0	5.7	0.05	2.5	2.00	1.88	1.4
Avemco Corp	AMEX	10.88	-1.1	7.2	0.50	4.6	11.00	10.38	17.8
Banks Towa Inc	OTC	22.50	-2.2	4.3	1.32	5.9	23.25	22.50	4.4
Bitco Corp	OTC	27.50	10.0	4.2	1.68	6.1	29.00	25.50	13.5
Carolina Cas Ins Co	OTC	6.62	6.0	3.9	0.32	4.8	6.63	6.25	4.1
Central Natl Finl Corp	OTC	7.75	10.7	3.2	0.50	6.5	8.00*	7.00	4.1
Chubb Corp	OTC	40.25	6.3	5.3	2.40	6.0	40.25*	38.13	306.8
Combined Intl Corp	NYSE	20.12	-46.9	0.0	0.00	0.0	20.38	18.88	328.9
Connecticut Gen Ins Corp	NYSE	39.37	2.9	6.0	1.52	3.9	39.38*	38.50	400.5
Continental Corp	NYSE	25.75	-4.2	5.0	2.20	8.5	27.00	25.75	371.1
Crawford & Co	OTC	16.00	0.0	13.5	0.54	3.4	16.00	15.75	8.0
Crown Life Ins Co	OTC	63.50	1.6	46.0	2.40	3.8	63.75	63.00	25.0
Crum & Forster	NYSE	26.63	-3.6	4.8	1.26	4.7	28.38	26.63	258.8
Employers Cas Co	OTC	30.50	13.0	5.5	1.20	3.9	30.50	27.00	12.8
Erc Corp	OTC	93.75	2.9	10.5	1.40	1.5	93.75*	92.00	774.8
Equifax Inc	NYSE	23.13	6.3	7.4	2.40	10.4	23.75*	21.50	19.7
Farmers Group Inc	OTC	28.25	5.6	9.2	1.00	3.5	28.50	26.88	648.3
First Colony Life Ins Co	OTC	28.50	-6.6	10.6	0.76	2.7	30.00	28.00	25.9
Foremost Corp Amer	OTC	19.12	2.0	7.7	0.60	3.1	19.63*	19.13	31.1
General Reins Corp Del	OTC	93.00	1.1	7.3	2.80	3.0	93.00	90.00	211.7
Globe Life & Acc Ins Co	OTC	33.87	1.5	12.6	0.40	1.2	33.88*	33.38	112.8
Great West Life Assurn Co	OTC	145.00	0.0	7.2	8.00	5.5	145.00	145.00	0.0
Hanover Ins Co	OTC	36.25	0.0	3.7	0.72	2.0	38.00	35.00	27.4
Hartford Steam Boiler Insptn	OTC	30.00	9.1	6.3	2.20	7.3	30.00	27.50	10.6
Integon Corp	NYSE	26.75	23.0	9.8	0.48	1.8	26.75	22.50	216.8
Jefferson Natl Life Ins Co	OTC	38.50	-1.3	9.3	0.64	1.7	39.50*	38.00	14.9
Kemper Corp	OTC	27.50	9.5	4.0	1.40	5.1	28.00	26.00	117.9
Lincoln Natl Corp Ind	NYSE	41.88	5.3	5.9	2.80	6.7	42.63	40.25	105.2
Mgic Invt Corp	NYSE	26.63	-0.5	7.9	1.12	4.2	27.13	26.00	547.3
Mission Ins Group Inc	NYSE	32.38	-3.4	7.3	0.80	2.5	33.75	32.38	53.9
Nationwide Corp Ohio	OTC	18.50	1.4	5.2	0.66	3.6	18.50	18.25	7.6
Penn Corp	OTC	40.00	5.3	8.6	2.00	5.0	40.00*	36.25	464.7
Northwestern Natl Life Ins	OTC	33.75	25.6	6.7	1.25	3.7	35.00	27.25	330.1
Ohio Cas Corp	OTC	33.13	-4.0	4.7	1.76	5.3	34.63	33.13	115.3
Old Rep Intl Corp	OTC	14.50	1.8	3.4	0.92	6.3	15.13	14.38	235.1
Pinehurst Corp	OTC	7.12	5.6	8.5	0.00	0.0	7.13	6.75	68.4
Preferred Risk Life Ins Co	OTC	17.00	0.0	6.2	0.64	3.8	17.00	17.00	13.1
Provident Life & Acc Ins Co	OTC	43.50	-1.1	5.7	1.88	4.3	44.00	42.50	17.8
Republic Natl Life Ins Co	OTC	22.50	-3.2	12.8	0.70	3.1	23.38*	22.50	521.0
Ryan Ins Group Inc	OTC	23.50	4.4	5.6	0.16	0.7	23.50*	22.50	10.7
St Paul Cos Inc	OTC	35.25	0.0	4.8	2.00	5.7	35.63	35.25	246.8
Safeco Corp	OTC	36.38	3.2	5.0	1.80	4.9	36.38	35.88	230.5
Sci Corp	OTC	20.00	5.3	3.6	1.00	5.0	20.00	18.50	94.7
Seibels Bruce Group Inc	OTC	16.50	15.8	6.5	0.80	4.8	16.50*	14.50	88.8
Standard Life Ins Co Ind	OTC	26.00	0.0	14.3	0.44	1.7	26.00	26.00	0.0
Statesman Group Inc	OTC	4.50	-7.7	3.6	0.15	3.3	4.88	4.50	30.0
Tokio Marine & Fire Ins Co	OTC	143.50	9.8	15.2	0.00	0.0	143.50*	131.75	5.2
Travelers Corp	NYSE	41.00	-0.6	4.6	2.48	6.0	41.50	40.38	328.7
United Fire & Cas Co	OTC	27.00	-10.0	7.9	0.90	3.3	29.75	27.00	5.0
United States Fid & Gty Co	NYSE	41.75	1.2	5.0	2.80	6.7	41.75*	40.75	439.3
United Svcs Life Ins Co	OTC	14.38	0.9	5.1	0.96	6.7	14.50	14.13	65.8
Uslife Corp	NYSE	22.63	-2.2	5.7	0.70	3.1	23.13	22.38	331.7
Washington Natl Corp	NYSE	29.75	10.7	6.1	1.50	5.0	29.75*	26.63	61.8
Zenith Natl Ins Corp	OTC	15.50	12.7	9.5	0.50	3.2	15.50	14.25	38.0
INSURANCE COMPANIES	AVERAGE			6.7		3.8			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	33.00	4.8	11.1	1.64	5.0	33.00	31.75	211.9
Baldwin & Lyons Inc	OTC	26.75	8.1	4.9	0.80	3.0	27.50	24.75	32.1
Corroon & Black Corp	NYSE	23.62	0.0	8.9	1.72	7.3	23.88	23.50	65.0
Crump E H Cos Inc	OTC	10.75	0.0	9.9	0.36	3.3	10.88	10.75	18.1
Hall Frank B & Co Inc	NYSE	26.00	4.0	8.6	1.44	5.5	26.00	24.50	155.7
Integrated Res Inc	AMEX	13.75	-1.8	8.5	0.00	0.0	14.13	13.00	102.8
James Fred S & Co Inc	NYSE	22.37	-3.8	8.2	1.40	6.3	23.00	22.00	132.8
Marsh & Mclennan Cos Inc	NYSE	60.75	1.7	9.9	3.60	5.9	61.00	59.25	185.7
Penncorp Fincl Inc	NYSE	8.37	-6.9	5.1	0.16	1.9	9.00	8.25	372.4
Reed Stenhouse Cos Ltd	OTC	9.37	2.7	7.2	0.48	5.1	9.50	9.13	12.3
Rollins Burdick Hunter Co	OTC	19.50	2.6	8.5	1.24	6.4	19.50	19.00	26.7
AGENTS/BROKERS	AVERAGE			8.2		5.1			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	35.63	4.4	7.3	2.00	5.6	36.25*	34.88	1,404.9
Anderson Clayton(Ranger/PanAm)	NYSE	22.00	0.0	5.7	1.12	5.1	22.25	21.88	65.0
City Investing Co. (Home Ins.)	NYSE	28.00	10.9	5.4	1.50	5.4	29.00*	25.13	6,226.6
CNA Finl Corp (CNA)	NYSE	15.75	-0.8	3.6	0.00	0.0	16.00	15.50	336.0
Control Data (Comml. Credit)	NYSE	54.50	-2.0	7.4	0.60	1.1	56.75	54.50	628.4
INA Corp (Ins. Co. of NA)	NYSE	36.00	6.3	5.5	2.20	6.1	36.00*	35.13	503.7
ITT (Hartford Group)	NYSE	27.88	1.8	7.8	2.40	8.6	28.38	27.00	2,256.7
Reliance Group Inc	NYSE	68.25	5.0	2.8	2.00	2.9	68.25	64.75	55.3
Sears Roebuck & Co. (Allstate)	NYSE	16.88	5.5	7.5	1.36	8.1	17.13	16.25	1,995.4
S & H Co. (Bayly Martin & Fay)	NYSE	13.88	0.0	5.1	1.00	7.2	14.00	13.63	12.5
Teledyne Inc (Argonaut)	NYSE	119.50	-4.6	5.3	10.00	8.4	124.38	118.50	406.9
Transamerica Corp (Occidental)	NYSE	17.25	-3.5	4.7	1.12	6.5	18.50	17.00	681.2
CONGLOMERATES/HOLDING COS.	AVERAGE			5.0		5.6			

System design: Altman Information Systems

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