

business insurance

update:

London insures hull of hijacked airliner

LONDON—The Pakistan International airliner involved in the longest hijack in history is insured only for its value of \$3 million.

The hull insurance is placed in the London and affiliated markets through aviation brokers at C.T. Bowring & Co. Ltd., sources say.

Continued on next page

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$30 a year © Entire contents copyright 1981 by Crain Communications Inc. All rights reserved.

Five Biggest Benefit Brokers

Rank	1st	2nd	3rd	4th	5th
10,000 or over	J&H	WILLIAM M. Mercer	Alexander A&A	Hall	James
300 to 10,000	WILLIAM M. Mercer	J&H	Alexander A&A	Hall	James
100 to 300	Mercer	A&A	J&H	Hall	James

Criteria: No. of covered employees Source: 1981 Group Insurance Reports

Benefit brokers grab for bigger market slice

By KATHRYN J. McINTYRE

The five leading employee benefits brokers are the same brokers leading property and casualty insurance marketing, but the lineup differs, new research shows.

The rankings, however, could change radically as brokerage firms concentrate new marketing efforts on the benefits market.

The leading benefit brokers and indeed the rankings of brokers by gross revenues are up for grabs if national brokers can gain control of more of the benefits market.

So far, the five leading brokers in commission income attributable to employee benefit plans in 1978 controlled only 8% of the benefits market among corporations with more than 100 employees, research by

1981 Group Insurance Reports shows.

The other 92% of the market was shared by other leading property/casualty insurance brokers, smaller regional brokers, consultants, administrators, including self-funding firms, and direct writers.

More than 500 brokers, agents or consultants market three or more benefit plans for companies with more than 100 employees, the research shows.

This picture of the employee benefits market in 1978 develops as one pores through computer printouts supplied to *Business Insurance* by the researchers at Money Market Directories Inc. in Charlottesville, Va. They computerized information reported by employers to the Department of Labor under the mandate of the Employee Retirement Income Security Act.

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Carnation Co. loses tax fight over captive

By JERRY GEISEL and KATHRYN J. McINTYRE

SAN FRANCISCO—The Internal Revenue Service may have won more than its fight against Carnation Co. in an appeals court decision handed down here this month.

The 9th Circuit Court of Appeals March 6 affirmed in the 1978 U.S. Tax Court decision for the IRS against Carnation's use of a captive insurance company.

Carnation is denied the tax advantages of claiming a tax deduction for the premiums paid and claiming income for its offshore captive.

The highest court yet to rule on the tax issues raised by using a captive insurer also cites for the first time Internal Revenue Service Ruling 77-316, the official IRS position on captives.

This additional citation could be used as ammunition by the IRS to challenge other companies using captive insurers and taking tax advantages afforded traditional insurance arrangements.

The affirmation of the U.S. Tax Court ruling in the Carnation case is brief, stating that the three-judge appeals panel found nothing erroneous in the decision (*BI*, Jan. 8, 1979).

The short discussion of the case, however, ends with the U.S. Tax Court noting that the Carnation case is identical to a section of Revenue Ruling 77-316. It quotes the

section of the ruling that describes the classic use of a fronting insurer to reinsure risks with a corporate captive.

The appeals court comments, "We reject Carnation's contention that the quoted portion of this ruling..."

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Spotlight Report

Specialty risks



Designers fight liability lawsuits

Heaven can't help ministers

Protecting the professional from liability lawsuits and other special risks: Page 17.

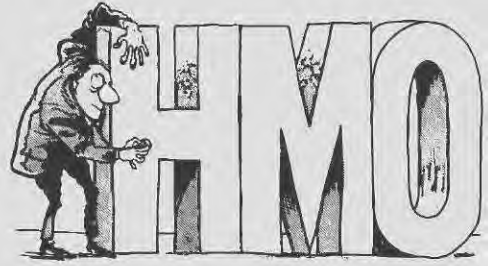
Check HMO's health before signing up

By MARY ANN MATLOCK

NEW YORK—Test the strength of an HMO's financial heartbeat yourself before letting employees plug into the prepaid health system.

That's the advice from experts to employers worried that a financially troubled HMO will close its doors, leaving employees uninsured for health care and holding unpaid medical bills.

Filling the health care gap left by a bankrupt HMO is not hard, experts agree. Other HMOs and private insurers are usually eager to pick up the business.



But the inconvenience and confusion to employees can be avoided if employers seek more information about prospective HMOs

upfront. The areas to thoroughly examine are track record, current financial statements, utilization and contingency plans.

This applies even to federally qualified HMOs, which an employer must offer but not wholeheartedly promote, if requested to do so.

"There is an exposure in this area," said Ken Drummer, vp at Frank B. Hall Consulting Co. "We are recommending employers take a hard look at HMOs, but before they offer them."

"Employers are faced with two conflicting objectives," said Dr. Michael J. Goran, management consultant at Ernst & Whinney in

San Francisco. "One is to offer as many options as possible and the other is to make sure only financially viable plans are offered."

The conflict can be dealt with, these and other consultants agree, through step-by-step analysis of the HMO. The following areas should be investigated:

- Track record. Focus should be on community reputation, employer reaction, marketing objectives and how they were met, financial statements and services offered.

"An HMO's track record is by far the best criterion to make sure you're offering a via-

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Hewitt study shows benefit prevalences
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London at Risk conference report
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update:

London covers hijacked plane

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Portions of the hull insurance were placed through managing agent Transglobe Underwriting Management Ltd., part of the C.T. Bowring Underwriting Group. Polygon, an aviation captive in Guernsey owned by Swissair, Royal Dutch Airlines and Scandinavian Airlines System, also have a share of the cover.

One hundred and three passengers were still on board the hijacked 720 in Damascus last week as three heavily armed gunmen demanded the release of 92 Pakistani political prisoners. Since the beginning of the hijack on March 2, one passenger had been shot and killed and two Americans released.

The airline's liability insurer is unknown.

Insurer sues E/S broker

LOS ANGELES—Winterthur Swiss Insurance Co. is seeking more than \$2 million in damages from excess/surplus broker Robert Burnham here over his role in placing unauthorized reinsurance with the firm.

Winterthur is one of three insurers caught in a tangled trail of reinsurance policies placed by Mr. Burnham under the alleged authority of managing general agent Richard Browning of Metropolitan Insurance Managers Inc.

Switzerland General Insurance Co. in New York has already filed complaints against Mr. Browning in Newark, N.J., and Northern Assurance Co. is considering action (BI, March 9).

Winterthur, in its complaint, says Mr. Burnham "falsely, fraudulently and intentionally" represented various insurers, including Winterthur, and employed the U.S. mail "as part of a scheme or artifice to defraud and obtain money" by offering reinsurance without authority from the insurers.

Mr. Burnham, however, contends he acted "simply as a broker seeking a quote" and accepted the purported authority of Mr. Browning to bind the risks for the insurers.

Winterthur is asking for any actual damages it can prove resulting from the controversy and two counts of \$1 million in punitive damages from Mr. Burnham and his firm Burnham Brokerage Inc.

Braniff profit-sharing OK'd

DALLAS—Braniff International Airline mechanics have given the breath of life to a profit-sharing plan billed as the company's hope for financial salvation.

The mechanics, represented by the International Assn. of Machinists, favored the plan by a 759-583 vote on March 11, despite union leaders' recommendations against it.

Four other unions, the balance of Braniff's 11,500 workers, approved the plan last week.

Under the profit-sharing plan, the airline will withhold 10% of each employee's gross yearly salary until the company attains a 2% profit margin. At the end of each year—beginning March 1, 1981, and ending Dec. 31, 1983—if Braniff makes more than 2% profit, a third of the excess will be returned to the employees, up to a maximum of double their original contributions.

The money is expected to save the troubled airline \$3 million a month and stave off foreclosure on a \$40 million debt.

"We didn't support the plan," said Jerry Emmel, assistant chairman of the machinists union. "There were a lot of problems with work rules not recognized by the company."

Until these are solved, union leaders will refuse to give their approval.

NYIE bill approval expected

ALBANY—The New York Senate Insurance Committee is expected to approve a bill permitting the New York Insurance Exchange to write out-of-state risks.

If passed by the entire legislature, the bill would enable the exchange to compete in the excess/surplus markets of the other 49 states. The exchange's business now is almost entirely reinsurance. Exchange governors say this limits its growth potential.

The bill is sponsored by Sen. John Dunne, the former chairman of the insurance committee, Sen. Martin Auer, the current insurance committee chairman and Sen. Warren Anderson, senate majority leader.

Little opposition is expected to the bill which permits the exchange to accept direct risks from states in which it meets local excess/surplus lines requirements.

It also calls on the superintendent of insurance to permit the exchange to take whatever steps are necessary to qualify as an excess/surplus lines insurer outside New York.

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Captain Arthur Markel (left) and expedition sponsor Jack Grimm hope to raise the Titanic.

Titanic rescue insured for all but the dream

By STEVE SHERWOOD

CORAL GABLES, Fla.—Will the Titanic rise again? The biggest risk to the group of researchers trying to make it happen is the risk of losing a dream. Insurance for the romantic quest is relatively routine, says the broker who placed the risk.

"The insurance itself was simplistic," said Art Pendleton, senior vp at Frank B. Hall here. "It's a basic charterer's legal liability policy, covering damage to the ship, equipment and crew." The policy, held by Lloyd's of London, provides \$5 million in coverage and costs \$2,700, with a \$10,000 deductible

for the hull and a \$2,500 deductible for all else. Despite the mission's exotic nature, the insurance problems "don't amount to a hill of beans," he said. Insurable risks for last summer's expedition on Tracer Marine Inc.'s research ship, the H.J.W. Fay, were similar to those on normal research vessels.

The actual search for the Titanic consisted of towing underwater sonar and camera equipment behind the ship, posing no special problems.

The "eyes and ears" of the expedition—sonar and underwater photographic equipment—was just too special to insure, however.

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Coal tax could be raised to balance black lung trust

By ELLIS SIMON

WASHINGTON—The coal industry would bear almost the full cost of restoring the Black Lung Disability Trust Fund to financial health under a Senate Labor and Human Resources Committee proposal.

The committee voted last week to recommend doubling the excise tax on coal production from 50 cents to \$1 per ton on underground mined coal and from 25 cents to 50 cents per ton on surface mined coal. The excise tax supports the disability fund.

If adopted by Congress, the higher tax would pay \$626 million of the trust fund's \$775 million anticipated expenses for 1982, which begin in September, says committee minority counsel Thomas Altmeyer. The \$149 mil-

lion balance would come from general revenues.

The proposal, however, seems to cost more than what the Reagan administration wants to spend.

The Reagan staff proposes budgeting \$112 million from general revenues for the trust fund in 1982, reducing the Carter admini-

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Backdating 'isn't insurance'

By JERRY GEISEL

WASHINGTON—MGM Grand Hotels Inc.'s purchase of \$170 million of backdated liability coverage "isn't insurance" and shouldn't be tax-deductible, says the former acting director of the Federal Insurance Administration.

Robert Hunter, who left the FIA to become president of the National Insurance Consumer Organization, a Ralph Nader-backed public interest group, says the backdated policies are not insurance because there was no transfer of risk.

"Where the loss event has not only already occurred but also is known by both parties to have occurred, it would seem to be clear

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OSHA's inspection budget survives Reagan cutbacks

By JERRY GEISEL

WASHINGTON—OSHA lives, bloodied but not disabled by Reagan administration cutbacks.

The Occupational Safety and Health Administration, the symbol of over regulation for many business groups, will have its budget trimmed by \$15 million under the latest Reagan administration proposal.

The controversial agency fared well compared with other Labor Department programs such as the

Comprehensive Employment and Training Administration which will be eliminated.

OSHA's budget would be cut to \$228 million from \$243 million the Carter administration sought for fiscal 1982.

The cost of running OSHA will be reduced by cutting staff slightly and by reducing the number of health and safety worksite inspections to 57,800 in 1982, a 9,000 decrease from the 66,800 inspections planned by the Carter administration (BI, Jan. 26).

Secretary of Labor Raymond Donovan, in his first briefing with reporters, said the budget cut would not hamper OSHA operations. "A cut of that amount is warranted and will not affect the program," he said. However, this is the first time any administration has cut back OSHA funding since the program began in 1970.

Mr. Donovan said the reduction in OSHA inspections would be accomplished by eliminating duplication and overlap between the

Continued on page 79

Council puts a damper on Chicago-area arsons

By EILEEN NORRIS

CHICAGO—More commercial policyholders are being convicted of arson-for-profit, but the war against the "insured torch" has only begun.

With 30 cents of every premium dollar going to pay for arson claims, insurance companies are mounting an aggressive attack against the profiteer who sees arson as a means of bailing out of a failing business.

They aren't alone.

The Coordinating Council on Arson for Profit, a year-old organization dedicated to stamping out intentionally set fires in the Chicago area, reports an impressive 12% decrease in arson, both residential and commercial, since the group's inception.

With the help of police, fire and other officials, insurance companies hope the success of the council will culminate in lower insurance rates for policyholders.

After just one year, the group can take credit for 12 convictions, totaling about 66 years of jail time, for arsons in Cook County alone. The U.S. Attorney's Office has four other arson prosecutions pending for 1980.

"Alone among major metropolitan areas in the U.S., Chicago is turning the tide against a vicious crime," said council chair-

man and retired Circuit Court Judge Saul A. Epton. Deliberately set fires are at the lowest level in six years, he said.

Since its establishment, the arson council has formed committees with responsibilities as varied as investigating likely arson targets, drafting anti-arson legislation and creating an arson hotline. Major property/casualty insurance companies have donated \$7,500 in award money to 21 tipsters who reported suspected arsons to police.

The Illinois Insurance Department is one of about 30 Illinois agencies active in the passage of seven anti-arson bills signed by Gov. James Thompson Sept. 3. The bills range from giving insurers immunity in reporting insurance fraud to creating a claims-reporting system to uncover fraud and arson, says Insurance Director Phillip J. O'Connor (see chart on page 77).

The new claims-reporting system, which actually is a welding of systems already in place, would require the New York-based Property Insurance Loss Register to coordinate reports of arson so interstate arsonists would be easier to identify and track down.

As it stands now, an Illinois company or business would report a suspicious situation to the state fire marshal, who in turn would investigate the possible arson.

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Donald H. Mershon (left) and retired Judge Saul A. Epton are active on the council.

Arson-for-profit claims drop 1980

Mar.	\$11,912,784
June	9,790,054
Sept.	7,257,369
Dec.	6,374,400

Employers lend hand in day care

By CAROL G. BLITZER

SUNNYVALE, Calif.—Several Sunnyvale-area employers are helping their employees raise their children by paying child care expenses, guaranteeing child care will be available



The Sunnyvale Center includes a waterbed for youngsters.

or subsidizing parenting classes.

Company donations and subsidies open the doors of the Sunnyvale Child Care Service Center to working parents who have infants, preschoolers and school-age children who need care.

The employer-sponsored model day-care center, which has room for 184 children, is operated by Continuing Development Inc., a private day-care firm in San Jose with 18 centers throughout California.

Five local companies donated funds to equip the center, which opened last year. Their donations entitle any of their employees to a 5% discount for the first six months they have a child at the center, waiver of the registration fee and priority on the waiting list.

Companies also may guarantee spaces for their employees'

children at Sunnyvale Center by paying tuition a month in advance and signing a six-month contract. The companies then subsidize all or part of the fees for employees or simply refer employees to the guaranteed openings and let them pick up the tab.

Other companies let employees use the Sunnyvale Center, another child-care center or babysitting arrangements of their choice, reimbursing them for full or partial costs.

Many others are just subsidizing Continuing Development Inc.'s resources and referral program, which counsels employees on locating and selecting child-care providers and evaluating care. It also offers parenting skills classes.

"This is the program most companies want to participate in because they're so nervous

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Asbestos ruling keeps issue open

By ELLIS SIMON

RICHMOND, Va.—A Virginia Supreme Court ruling defining the statute of limitations in an asbestos suit probably will affect more than 200 suits pending here.

However, the court left hanging one of the biggest questions in asbestos product liability cases: When does the asbestos injury occur? When the person is exposed to asbestos or when the injury manifests itself?

In the case, the state's highest court overturned a lower court ruling that the late Douglas Locke could not sue Johns-Manville Corp. and six other asbestos manufacturers because he was last exposed to asbestos in 1972 and did not file claim until 1978.

Mr. Locke, an electrician, worked with asbestos from 1948 to 1972 and discovered symptoms of mesothelioma (cancer of the lining of the lung) in November 1977. The diagnosis was confirmed by X-rays in June 1978. He filed suit less than a month later.

The court said the statute of limitations begins at the time of injury rather than at the time of the last exposure to asbestos. However, it did not define or elaborate on what it meant by time of injury, although in the Locke case the the-

ory of manifestation seems to apply.

Attorneys representing asbestos plaintiffs say the ruling will benefit their clients; defense attorneys, however, say the court's failure to define when an injury occurs leaves the question open to more litigation and could hurt the plaintiffs.

"The court went only as far as it had to to reverse the lower court ruling," said plaintiffs attorney George Allen III of Allen & Allen, a Richmond law firm. "The court held the action was timely, but the court did not answer the question of when an injury occurs."

In the Locke case, the question probably will be answered in the lower court, which must now rehear the case. Evidence establishing when the injury took place could include records of symptoms, diagnoses and statements from medical personnel as to when the tumor formed Mr. Allen explains.

Even though it didn't define injury, the high court Locke decision will affect several asbestos cases in federal court in Norfolk and Newport News that were dismissed or effectively dismissed because of the previous statute of limitations rule in Virginia, he notes.

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Eleanor Glass and daughter.

Benefit managers earn own designation

By MARY ANN MATLOCK

BROOKFIELD, Wis.—Employee benefit professionals have their own designation to rival the status of the CPA, ARM or CPCU.

Dubbed CEBS—certified employee benefit specialist—the designation has been awarded to only 167 persons, members of the first graduating class last fall. But it is coveted by more than 8,000 other persons enrolled in the program, cosponsored by the International Foundation of Employee Benefit Plans here and The Wharton School at the University of Pennsylvania in Philadelphia.

Years in the making, the program has three goals: education, recognition and evaluation.

"Benefits account for roughly 42% of an employee's compensation, so persons dealing with the plans have a major role in determining security," said Dr. Jerry S. Rosenbloom, CEBS academic director at Wharton.

"We're trying to make sure these persons are more competent, give a measure of professional recognition and give others an idea in evaluating them."

The system gives a fundamental knowledge of the employee benefits field, covering all major subjects, said Nel Daniels, director of education and CEBS programs at IFEBP.

The first CEBS courses were offered in December 1976. Now a full 10-course program is available at more than 30 universities.

The courses include contemporary legal environment of employee benefit plans; pension plans; Social Security, savings plans and other retirement arrangements; management principles; life, health and other group benefit programs; accounting and information systems; asset management; industrial relations; employee benefit plans and the economy, and contemporary benefit issues and administration.

Students can enroll in classes at a university or study independently at home and then take the final examination offered in June and January within 100 miles of their home. Student aides and texts are available through the foundation, which administers the program.

"The largest number of our stu-

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Dr. Jerry Rosenbloom is CEBS academic director at Wharton.



Nel Daniels is CEBS director at the International Foundation.

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Free pilot program spots hypertensive employees

benefit beat

EMPLOYEES AT 10 companies in Dade and Broward counties in Florida are undergoing free screening for high blood pressure under a pilot program developed by The Travelers Insurance Cos.

About 27,000 workers are eligible to participate in the voluntary program, which is expected to end in May.

Employers involved are Wometco Enterprises, The Miami Herald, Flagship Banks, Jordan Marsh, Avatar Corp., Storer Broadcasting Co., Coulter Electronics Inc., Barfield Instruments Inc., Financial Federal Corp., Ryder Systems, the Broward County School Board and Broward Community College.

The pilot program includes an information session for employees followed by actual screening; hypertensive employees will be referred to medical care providers. The program will help employers develop follow-up procedures and long-term monitoring.

Local health departments, the Heart Assn. and Health Systems Agencies will cooperate with the participating employers and The Travelers.

"It's an experiment to see whether this is a role The Travelers and other insurers ought to play

for their customers," said Mike Manley, a director in The Travelers' group department.

The pilot program is free to participating employers. Results will be evaluated to determine the reactions of employers and employees, the percent of employees who participated and the potential costs of such a program if it is expanded around the country, Mr. Manley said.

Costs will vary from area to area depending on whether a company receives voluntary help in the screening, he said.

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Qualification letters

The Internal Revenue Service last year issued qualification letters to 69,342 defined benefit and defined contribution employee benefit plans covering 3.7 million employees.

The qualification letters state the plans are in compliance with ERISA and are eligible for the appropriate tax benefits. The IRS also approved 67,193 plan amendments and 13,279 plan terminations.

It found 40 new plans, 27 plan amendments and 37 plan terminations not in compliance with the law.

Of the newly approved plans, 18,849 were defined benefit plans and 50,493 were defined contribution plans.

The defined contribution plans included 30,251 profit-sharing plans, 19,706 money purchase plans, 482 stock bonus plans, 51 employee stock ownership plans under the 1975 Tax Reduction Act (TRASOPs) and three bond purchase plans.

IRS determination letter activity cannot be used to compute the number of plans in existence because an employer does not have to apply to the IRS in advance to obtain tax benefits for qualified plans.

HMO closing

Los Padres Group Health Plan, a health maintenance organization in San Luis Obispo, Calif., serving more than 9,200 subscribers, will close March 17 because of financial problems.

Under orders from the California Office of Corporations, the health plan was placed in receivership March 3 because of its mounting debts.

The state estimates Los Padres and its provider group, San Luis Obispo Independent Practice Assn., had a combined negative net worth of \$352,344 in June 1980.

The combined negative net worth jumped to \$632,320 by November, said Mark Richelson, senior corporate counsel for the state.

The federally qualified plan received a \$600,000 loan from the former U.S. Department of Health, Education and Welfare when it started.

The number of employer groups participating in this HMO is unknown.

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

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City sues 15 firms to clean up dump

PHILADELPHIA—The city of Philadelphia is suing 15 companies to force the cleanup of a site it says was used illegally to dump hazardous wastes for four years.

The suit, filed March 5, calls for the companies to share the estimated \$10 million cleanup costs and pay an additional \$20 million in "consequential" damages that city officials say have delayed construction of a sludge recycling plant on the city-owned site.

The suit also asks for unspecified punitive damages, which City Attorney Albert Slap said could run into the hundreds of millions.

Philadelphia's action is believed to be the first filed under the provisions of the 1980 Superfund Act, federal officials say. Specifically, a

clause in the act allows plaintiffs to sue for strict liability for the cleanup and damage costs resulting from the dumping of hazardous wastes.

From 1973 to 1976, the city-owned vacant site was used as a dumping ground for more than 20 million gallons of hazardous chemicals, even though a permit was never issued to the hauling and dumping companies using the site, Mr. Slap said.

The city has traced the use of the 57-acre site to 78 companies over that period, 24 of which already have settled by paying a total of \$2 million, Mr. Slap said. Negotiations are continuing with another 39, leaving 15 that the city has "not had too much success with" in negotiations and is suing, he said.

"This is something we can't let the citizens of Philadelphia pick up the tab on," Mr. Slap said.

None of the companies sued has officially responded, Mr. Slap said, adding it may be a while before a hearing date is set.

"This is going to be a very lengthy and expensive case to litigate," he said. ■

Special plan covered bull, china

By ELLIS SIMON

NEW YORK—Merrill Lynch's famous bull-in-the-china-shop commercial was no risk for the ad agency.

The creative department at Young & Rubicam forced the risk of mishaps on the independent production company hired to film the commercial.

But the savvy creative department forgot to tell Y&R's risk manager of their good work, leaving him to believe that any losses would have been covered under the agency's package policy with Atlantic Mutual Insurance Cos. (BI, Feb. 2).

The commercial went off without a hitch on a set outfitted with \$40,000 worth of antique china subject to the meanderings of Merrill, a bull used as the symbol of stockbroker Merrill Lynch in its advertising campaign.

"Include the china on your insurance schedule," Y&R's creative department told the production company. The china was insured under a policy specially written for the filming by broker S. Kornreich & Sons Inc. of New York, the New York office of underwriting agency Albert G. Ruben Co. and Fireman's Fund Insurance Co.

The policy covered injuries to persons on the set and the bull plus extra expenses and damage to the props.

Young & Rubicam would have been covered for damage to the rented china, manager of risk and insurance Rick Wright told *Business Insurance* (BI, Feb. 2). The agency's package policy, written by Atlantic Mutual, would have insured it as property in the "care, custody and control" of Y&R's Los Angeles office.

Mr. Wright said he learned of the famous commercial after the fact, but added the agency requires production companies to indemnify it against liability for accidents.

Because creative people "occasionally do crazy things like this without telling us," Y&R's insurance policy is written as "broadly as possible," he noted. ■

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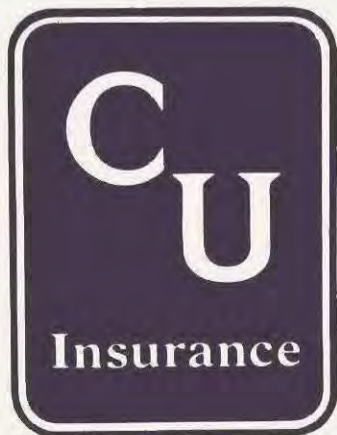
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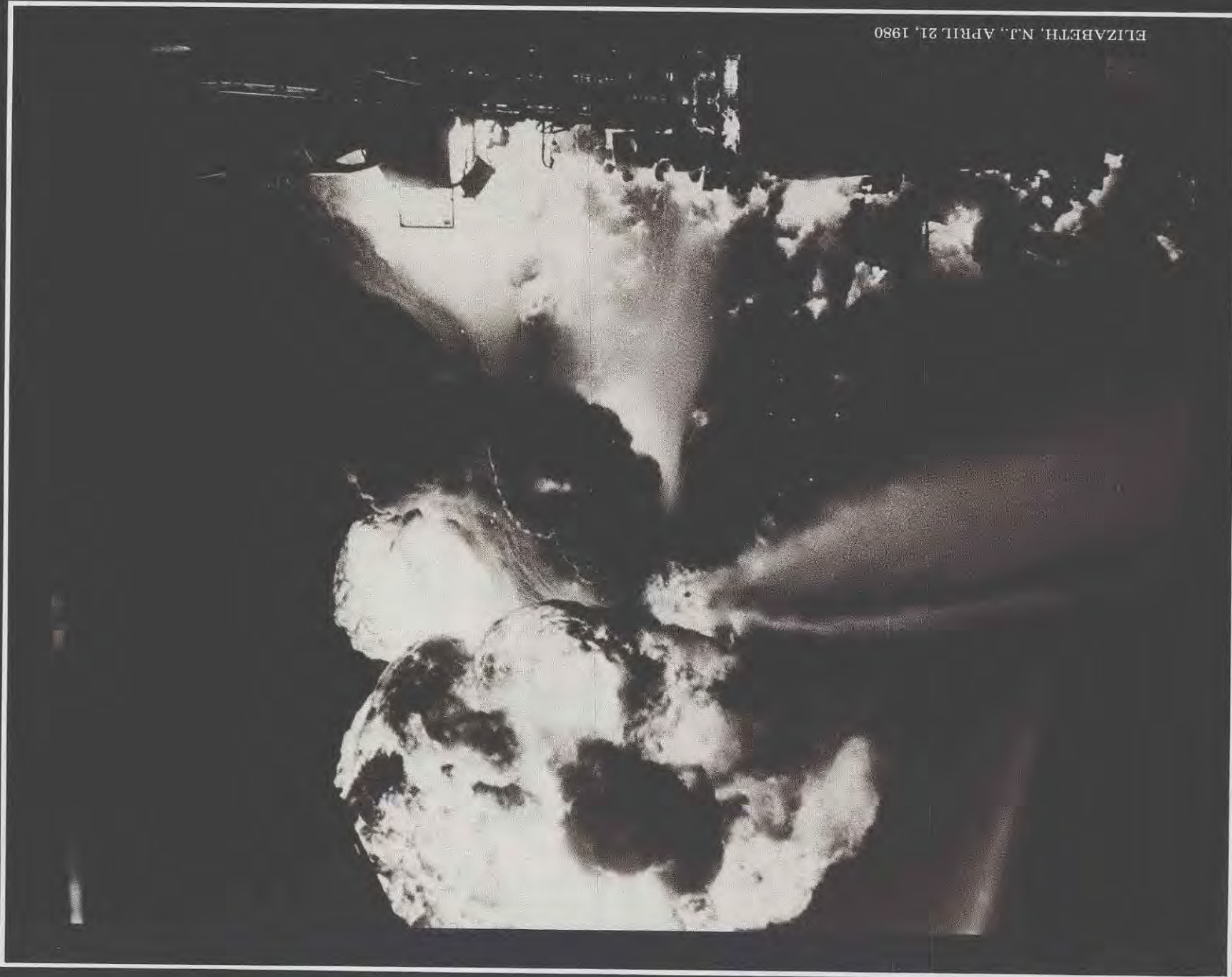
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PREPARED?



ELIZABETH, N.J., APRIL 21, 1980

Toxic-waste disasters! Hazardous chemical exposures!
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That is why companies and even governments faced with liability for pollution disasters turn to Crawford & Company. We have been increasingly active in handling environmental pollution claims and monitoring cleanup expense beginning with the Santa Barbara, California, oil spill of January 28, 1969, and as recently as the Elizabeth, N.J., toxic-waste explosion of April 21, 1980.

Handling such massive claims problems requires many people. Our Environmental Pollution Claims Service team is supported by Crawford & Company's Catastrophe

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Division with 300 trained property adjusters plus 650 branch offices with 2,500 adjusters.

Experts from various technical disciplines may also be employed: marine biologists, statisticians, mining engineers, economists and so on. Values must be set on such widely varying items as birds, marine life, sand, driftwood, boats, clothing and on the many damages resulting to real property such as land, buildings and wharves as well as loss of business revenue.

In short, environmental pollution disasters are anything but your everyday loss, and they require very special treatment. Few companies are as well qualified as Crawford & Company to settle such claims fairly and accurately.

For more information, contact Ron DeNoville,

Director, Environmental Pollution Claims, Crawford & Company, P.O. Box 5047, Atlanta, Georgia 30302.

Or telephone 404-256-0830.

Environmental pollution is not an age-old problem but there is an age-old solution—people serving people.

editorial opinions



How to sleep easier

IF ONE OF THE primary purposes of insurance is to give corporate executives a quiet night's sleep, as the textbook says, then professional liability insurance is more powerful than a whole flock of sheep.

A liability suit charging a professional with failing to do his or her job according to professional standards is the most crushing indictment that can befall a professional. To be hit with such a suit, no matter how frivolous it may be, is unsettling, to say the least.

Handing the professional who has just been charged with not performing his or her job properly an insurance policy that says, "you and we are protected against exorbitant legal costs and any judgments" helps mitigate the fear instilled by such a suit. The professional won't spend sleepless nights worrying about where the money will come from to fight the charges or how any judgment will be paid.

We've never advocated purchasing insurance just for the sake of holding an insurance policy—especially when the institution has the resources to finance its own losses. But if you don't have an insurance policy to hand your engineer, architect, lawyer or village trustee when the suit hits the desk, you had better at least have a promise at hand to protect that individual's assets and deliver the assurance that whatever befalls your organization in this suit won't cripple it.

This message comes through loud and clear in the articles our reporters prepared for this year's special risks issue, in which

we focus on the special risk of people as professionals. Whether or not you have professionals on staff in the same occupations we've looked at, you can find useful information in these articles on how to protect against the professional liability exposure.

There is plenty of loss-prevention work to be done in this area, too, as underwriters of professional liability have told us. It's not enough to be sure your professionals know their jobs.

- You must be sure they know how to document the effort they put into their work and that they know the pitfalls to avoid from the experiences of others who may have been just as professional but not quite as lucky in their work.

Take a look around your own organization.

Which professionals among your fellow employees could be sued tomorrow for a mistake in judgment or action that causes someone else a loss?

Are you insured against such a suit? Do you have adequate funds to pay if there is a judgment against you?

Are these professionals aware of the liability risks inherent in their jobs? Are they on guard against committing acts that could invite a liability lawsuit or leave them defenseless in the face of one?

Answering the questions today and acting on your answers will guarantee your professionals—and you—a quiet night's sleep the night after the summons arrives.

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.

Clarifying bill-paying

To the editor: In Len Strazewski's article "If you pay your own medical bills, you can save" (BI, Feb. 23), I believe clarification is needed or some smaller businesses can find themselves in a jam.

Paying small medical compensation claims directly and not reporting the injury to the insurer is a blatant violation of the conditions of the workers compensation policy (notice of injury).

If the insured knowingly violates the conditions, a few dollars may be saved, but if that small "medical only" injury later flows into a large compensable claim, what happens to his coverage?

Yes, the worker will be paid, but the insurer certainly has the right to look to the insured for reimbursement. The last sentence of the statutory provisions section states, "Nothing herein shall relieve the insured of the obligations imposed upon the insured by the other terms of the policy."

I do not believe "risk management" means the reduction of premiums through the violation of policy conditions and, yes, outright fraud. It is better to eliminate the cause of the "medical only" injuries than it is to cheat the records. In the long run, it may well be cheaper as well.

J. W. S. Gallagher
Rhodes-Gallagher Inc.
Madison, Wis.

- In the article, Mr. O'Nan notes that all injuries must be reported to the workers compensation insurer as required by law. This, of course, protects the policyholder and the insurer from surprise claims eventually resulting from a minor injury. What Mr. O'Nan is recommending for cost reduction is self-payment of minor medical treatment. By paying some of these bills, a firm's expense factor, as calculated by insurers, is less, thus keeping rates down. Even the minor injuries, however, are reported.

Alarmed about backdating

To the editor: I read with interest "MGM buys backdated cover" (BI, Feb. 9).

I must express some alarm, however, that the acquisition of backdated coverage should attract such publicity and, indeed, that insurers should allow such arrangement to become public knowledge. As members of the insurance community, we all have common interest in ensuring that all our clients obtain adequate coverage before a loss. Aside from effects it may have upon pending litigation, the overt offering of retroactive cover

is contrary to one of the fundamental principles of our industry.

The incidence of catastrophic losses, insured or not, serves to prove the case for insurance carriers' premium reserves as opposed to risk retention by self-insurance or limited cover. The client with gaps or insufficient capacity in his cover cannot rely upon being able to procure additional coverage at a future time.

Michael J. Finlay
Underwriter
Mentor Insurance Co. (U.K.) Ltd.
London, England

Addition to directory

To the editor: We were not listed in your recent directory of consultants (BI, Feb. 16) since we have not been on your mailing list and did not see the deadline for submitting information to you for this listing.

Our firm is well established and serves clients in all parts of the country except the West Coast. We would appreciate your publishing our company statistics:

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Total staff: 26.

No. of clients on retainer for:
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Published by Crain Communications Inc., Chicago, HERBERT ZELTNER, group vp; ALFRED MALECKI, J.J. GRAHAM, S.E. COHEN, LOUIS F. DE MARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKENS, ARTHUR E. MERTZ, vice presidents; JAMES M. FRANKLIN, vp-finance and administration; MERRILEE P. CRAIN, assistant secretary.

Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710); \$1 a copy. \$30 a year in U.S. Canada and all other foreign add \$14 for surface mail. Europe and Middle East only add \$32 for air delivery. First-class mail to Canada only, add \$36. WILLIAM STRONG, vp-circulation. PAMELA JANOUSEK, circulation manager; ROGER DiGREGORIO, fulfillment director. Circulation Dept.—Chicago, (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.



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Green sees dearth of profits from U.S.

By RHONDA L. RUNDLE

LOS ANGELES—If underwriting profits dry up in the vast U.S. market, Lloyd's of London could be forced to withdraw from it, warned chairman Peter Green during the Los Angeles leg of his official stateside tour.

Such drastic action is unlikely, he stressed, because Lloyd's underwriters try through policy wording, rating and deductibles to reach a basis for insurance that Lloyd's and its policyholders can live with.

"But our names don't thank us for making underwriting losses," he told *Business Insurance* during an interview at the mid-Wilshire Boulevard offices of adjuster Toplis & Harding Inc. "Making profits out of underwriting is our sole justification for being in business," he emphasized.

Discussions with U.S. underwriters during his visit have convinced Mr. Green that insurers on this side of the Atlantic are also alarmed about the drought in underwriting profits. "They are wondering when the tide will turn and what will make it happen," he said.

"Some people feel we need a real catastrophic loss—possibly this April 10 earthquake so freely predicted here," he chuckled. But Lloyd's chairman doesn't think that sort of catastrophe will turn the business around because the risk is very widely spread through reinsurance.

"Reinsurance simply would shrug off the loss, figuring it happened this once but it won't occur again for a very long time," he believes.

"When the red ink is brilliant on the bottom line, insurers will be forced to charge the proper price for their product," he predicted. That should happen when claims costs rise above the current 110% to 115% loss ratios, or when there is a drop in investment returns, he explained.

"Then top management of insurance companies will have to 'bite the bullet' and the word will go forth to underwriters, branch offices and agents that a basic increase in rates must be obtained," he said. "Otherwise, business must be turned away."

Mr. Green said there is as much controversy in London as among U.S. insurers on claims liability for long-latent diseases caused by substances such as asbestos and diethylstilbestrol (DES).

Some insurers argue that liability should be pinned to the time that exposure to a harmful drug or substance initially occurred. Others believe the injury does not take place until the condition or disease becomes manifest.

"I don't know how this will be resolved," said Mr. Green. "If you argue it in a vacuum, you can make out a perfectly valid argument for both theories."

From the Lloyd's point of view, he added, "it is much better that the claims should be related to when a problem becomes apparent. The exposure may have occurred so long ago that insurers on the risk at the time are no longer in business—and where does the assured go then?"

The difficulty in accepting the exposure theory is that it validates a change in underwriting ground rules from the time the claims are paid, points out Mr. Green. These claims filed in 1980 were not anticipated by the contract signed in good faith by all parties 35 years before.

Asked if the exposure versus manifestation conflict might make Lloyd's underwriters wary of accepting large U.S. pharmaceutical

risks in the future, Mr. Green admitted that "to some extent, in some people's minds, that's true."

He said he would prefer to see these kinds of risks written on a claims-made basis, as is now common with medical malpractice and other professional indemnity coverages. "It's a much tidier arrangement," he noted. "You don't wake up to find you have claims dating back 30 years that were never envisaged when you wrote the policy."

Inability to tie claims to a specific accidental occurrence is also turning off interest at Lloyd's in accepting U.S. chemical waste exposures.

"We insure companies against pollution accidents, cleanup and those sorts of things that arise out of sudden accidental causes," said

Mr. Green. "But U.S. companies are seeking insurance against continuous seepage and escape of toxic substances," he noted. "There's not much interest in Lloyd's in that."

Mr. Green said he had not spoken personally with any officials in the New Hampshire Insurance Department but that Lloyd's U.S. counsel, LeBoeuf, Lamb, Leiby & Macrae, is in almost daily contact with people there.

The New Hampshire Insurance Department recently ordered state excess/surplus lines brokers not to do business with Lloyd's until it supplies the department with certain statistical information it has requested.

This information is being furnished to the department and

Mr. Green expects brokers to be trading again in a matter of days. He said Lloyd's has had similar requests for statistical information in the past, but that no one has ever gone so far as to order brokers to stop trading with them.

Relations with state insurance commissioners are generally very good, believes Mr. Green. Usually state insurance departments contact Lloyd's U.S. counsel before taking strong action on a problem. The New Hampshire action was the exception, he said.

English product liability law is not as liberal as in the U.S.—but expansion is coming, believes Mr. Green. In England and Europe, the general public reads newspaper accounts of large U.S. court awards for product liability and wonders why the same remedies

are not available to them.

"You would have to rewrite whole sections of English law to get to the state you've got to in California, but adoption of consumer protectionism is preached loudly at home," Mr. Green reported. "Some people question whether the trend hasn't already progressed too far."

Mr. Green said he could not foresee the fate of the draft law on product liability under study by the European Economic Community. He noted that the EEC moves very, very slowly.

A proposal to regulate insurance written across national borders has been in the works for 12 years, reported Mr. Green. "If the EEC product liability draft takes as long to see the light of day as this, then it's a long way down the road." ■

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Hospitals may bill insurers for captive

around the states

HARRISBURG—Hospitals can charge third-party payers for the cost of capitalizing a malpractice captive under a ruling by the 3rd Circuit Court of Appeals here.

The case involved about 240 Pennsylvania hospitals that had to put up \$2.5 million in 1975 to form Pennsylvania Hospital Insurance Corp. when commercial insurance was not available to them.

The Provider Reimbursement Review Board and a U.S. District Court had held that the hospitals could not charge Medicare patients for their share of the capitalization costs.

The \$62 per bed assessed by PHICO was a cost related to patient care and is reimbursable under Medicare, the appeals court said.

Five Blue Cross plans, one Blue

Shield plan and Medicaid also face reimbursement claims from participating hospitals, said John Russell, executive vp for the Hospital Assn. of Pennsylvania. The plans probably will follow the appeals court ruling if there is no appeal by Medicare, he predicted.

Microwave death

NEW YORK—The New York Telephone Co. must pay \$28,000 to the widow of a former employee who died after prolonged exposure to microwave radiation in his job, the New York Workers Compensation Board has ruled.

The company, which self-in-

sure workers compensation, will likely appeal the board's verdict to the state's appellate court, a spokesman said.

Employee Samuel Yannon, who worked with television relay equipment at the top of the Empire State Building, died in 1974 at the age of 58 of "abnormal, premature aging," a radiation specialist testified during the board's hearing.

Mr. Yannon had lost 30 pounds, his sight, hearing and coordination before his death, his wife said.

The ruling by the three-member compensation board, reportedly the first of its kind, reaffirmed an administrative law judge's award to the widow of about \$28,000 in

retroactive benefits.

In affirming the law judge's ruling, the panel said it found a direct causal relationship between exposure to microwave radiation during Mr. Yannon's eight years of employment and his disability and death.

Pregnancy cover

MONTPELIER—All employer-provided health insurance plans in Vermont cover pregnancy and pregnancy-related conditions on the same basis as they cover other medical expenses, the Vermont Attorney General office has ruled.

The Pregnancy Discrimination Act of 1978 requires an employer of 15 or more workers to provide such coverage. The new ruling extends this requirement to work-

places with fewer than 15 workers.

This rule applies for all employer-provided insurance, regardless of who pays the premiums.

Fraud probes

COLUMBUS—The Ohio Industrial Commission saved nearly \$3.2 million through its investigations of potential fraud and abuse of the workers compensation program, says commission chairman William W. Johnston.

The investigations began in 1976. Savings included \$1.7 million in court judgments against individuals who defrauded the State Insurance Fund or stole and illegally cashed state warrants.

"Procedures within the commission and the Bureau of Workers Compensation are now providing us with a high degree of control against fraud and abuse," Mr. Johnston said. "Persons who attempt to defraud the workers compensation agencies are subject to severe penalties and imprisonment."

Director named

TALLAHASSEE—Florida Insurance Commissioner Bill Gunther has appointed Gary Granoff of Boston as the new director of the Division of Insurance Rating.

Mr. Granoff will supervise the Bureau of Rates, the Bureau of Policy and Contract Review and the new Bureau of Workers Compensation, as well as the department's efforts with medical malpractice insurance and the Florida Joint Underwriting Assn.

Mr. Granoff was director of the Massachusetts Insurance Department's State Rating Bureau, where he scrutinized rate filings. Before that he was an actuary with the Florida Insurance Department and The Hartford Insurance Group.

Mr. Granoff replaces Mark Trafletton, who left The Florida Insurance Department to set up a Tallahassee consulting firm.

New deputy

NEW YORK—James W. Randolph was named deputy superintendent of the New York Insurance Department in charge of consumer services, data processing, real estate and research. He had been special deputy superintendent in charge of the department's liquidation bureau since 1979. ■

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Keep state comp plans: Erlenborn

NEW YORK—If the black lung disability program represents the federal government's track record, insurers and employers should fight like mad to keep federal regulation out of workers compensation, says a U.S. congressman.

"It would be hard to find an honest man who could say with a straight face that the federal government could improve the state record on the handling of workers compensation programs," Rep. John Erlenborn (R-Ill.) told the annual meeting of the National Council on Compensation Insurance earlier this month.

Workers compensation programs the federal government has taken over have turned into social

welfare programs, Rep. Erlenborn charged. He says this is especially true of the controversial black lung system which he says is a "federal pension plan masquerading as a disease disability program."

Black lung benefits cost the country \$2 billion a year and the fund will have a deficit of \$1.6 billion by the end of 1981, Rep. Erlenborn said.

He said lax standards for payments and the inability of the federal government to challenge most claims has blown the program out of its original proportion. President Reagan has proposed tighter regulations to make the fund solvent again (BI, March 2).

Federal involvement in any other workers compensation programs would only push the cost of benefits higher, resulting in higher payouts by insurers and hiked premiums for employers, Rep. Erlenborn said.

He pointed to the experience of the Longshoremen's and Harbor

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BIR 381



Federal comp has become welfare, says Rep. Erlenborn.

Workers' Compensation Act in the District of Columbia, which is administered by the federal government.

Since 1972, monthly benefits in the district have increased 632% to \$456 a month, Rep. Erlenborn said. In the same time, in neighboring Maryland and Virginia, where the program is administered by the state governments, benefits have increased to \$241 from \$106 and to \$199 from \$173, respectively.

"The federal program cannot be held up as one for the states to emulate," he said.

Opponents of federal regulation of workers compensation have an ally in the White House, Rep. Erlenborn said. He says deficiencies in current federal programs will be attacked before there is any further discussion of widening the federal role in workers compensation.

"We have to correct wrongs in existing workers comp laws that transfer the responsibility from the states to the federal government," Rep. Erlenborn said.

"We have to amend the law, but a change in philosophy (of the Reagan administration) will be a help."

Dick Fuchs on franchises: "The best things in life are free."

SFO Inc. is among the nation's leading underwriters of special multi-peril property/casualty insurance for specialty lines. With its principal office in Kansas City, Missouri, SFO is now a division of the Mission Insurance Group of Los Angeles. In a recent interview, Dick Fuchs, SFO President, addresses the special needs of independent insurance agents and their clients in light of the recent proliferation of agency franchises.

The common definition of an 'expert' is a person from out-of-town.

"But in the commercial insurance field, a recent survey indicated insureds prefer to do business with their local, home-town agent. A qualified local business person is in a better position to keep his finger on the pulse of his insured's special requirements and changing needs.

"Can the independent agent become an expert in a specialty class of business through the purchase of a franchise and still maintain his close working relationship with his client?

"Possibly. But it is an unnecessary major expense.

"First of all, few of the benefits exclusive to agency franchises are of any real value to the customer of the insurance product. The majority of these services have been developed for the benefit of the agent, and, of course, the agent is charged accordingly.

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"SFO offers the independent agent an opportunity to penetrate many of the more complex

groups and associations through our own national advertising campaigns tailored to the needs of these groups, and based, in most cases, upon our long experience with these groups. Often this includes association endorsement. And all of our advertising messages, from regional and national magazines to direct mail, refer the potential customer to his local independent agent.

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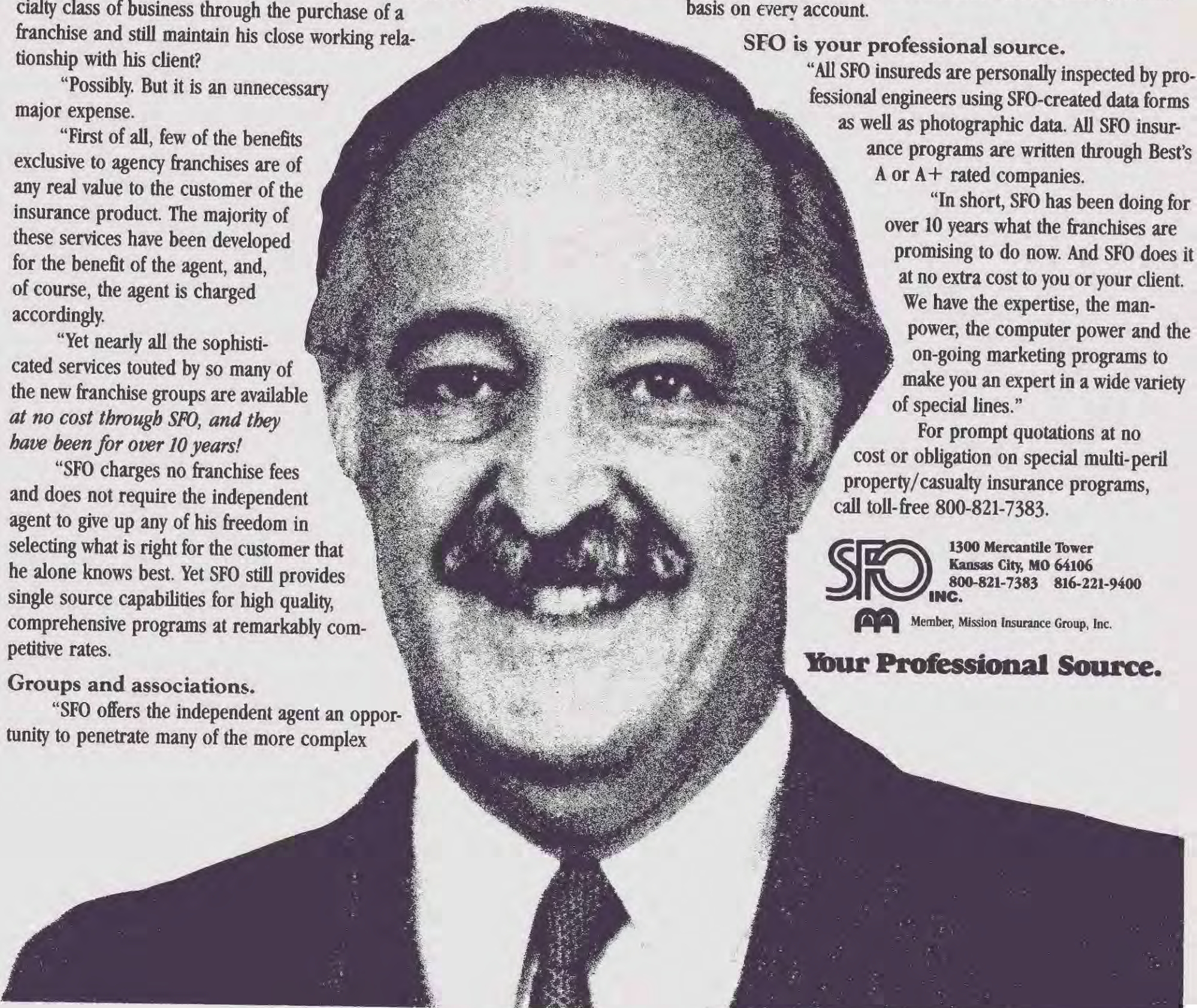


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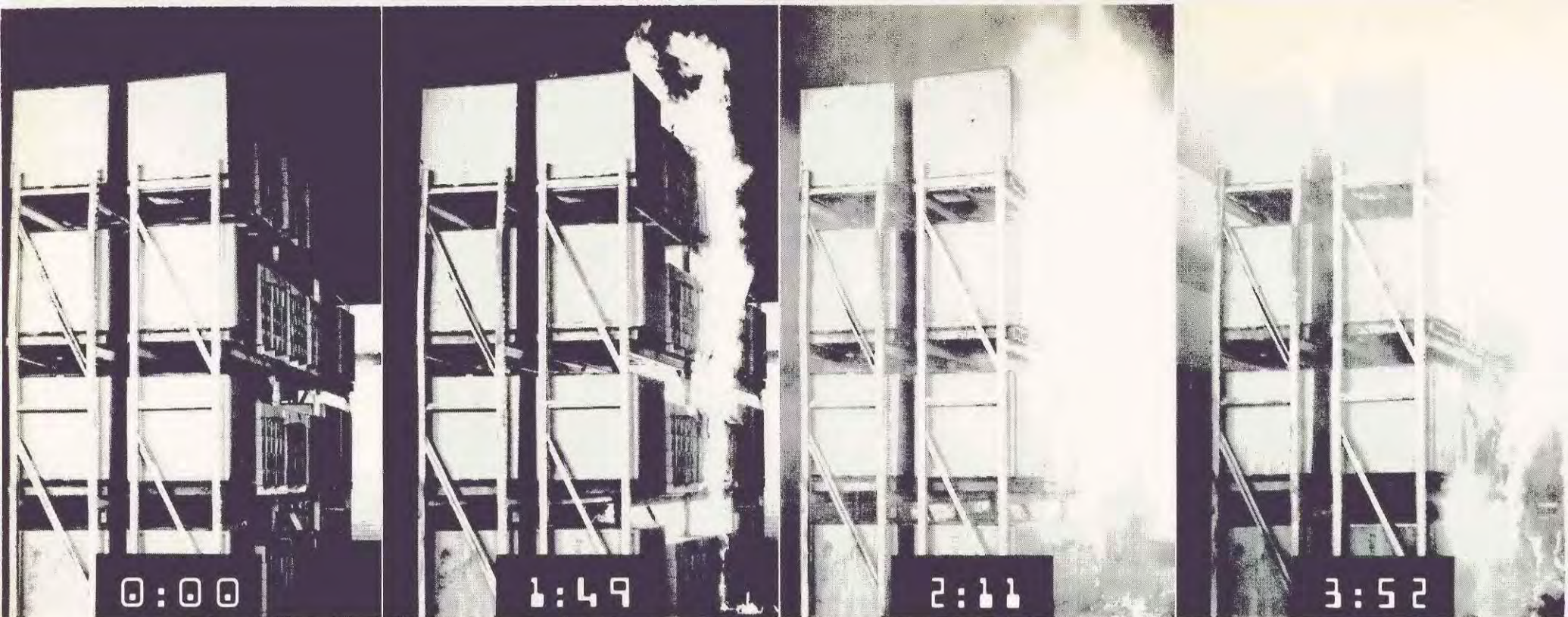


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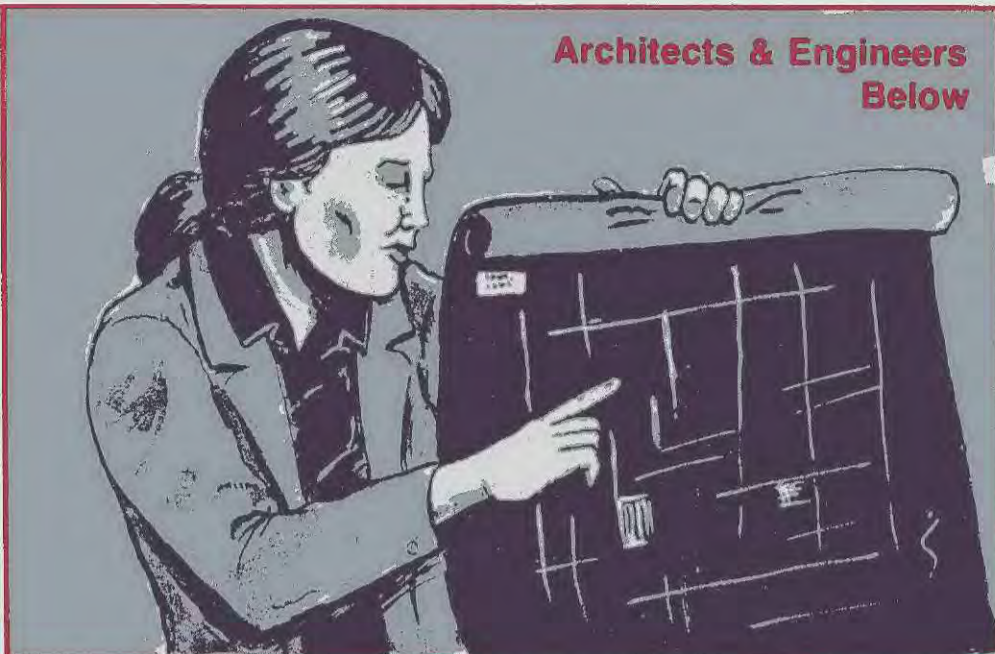
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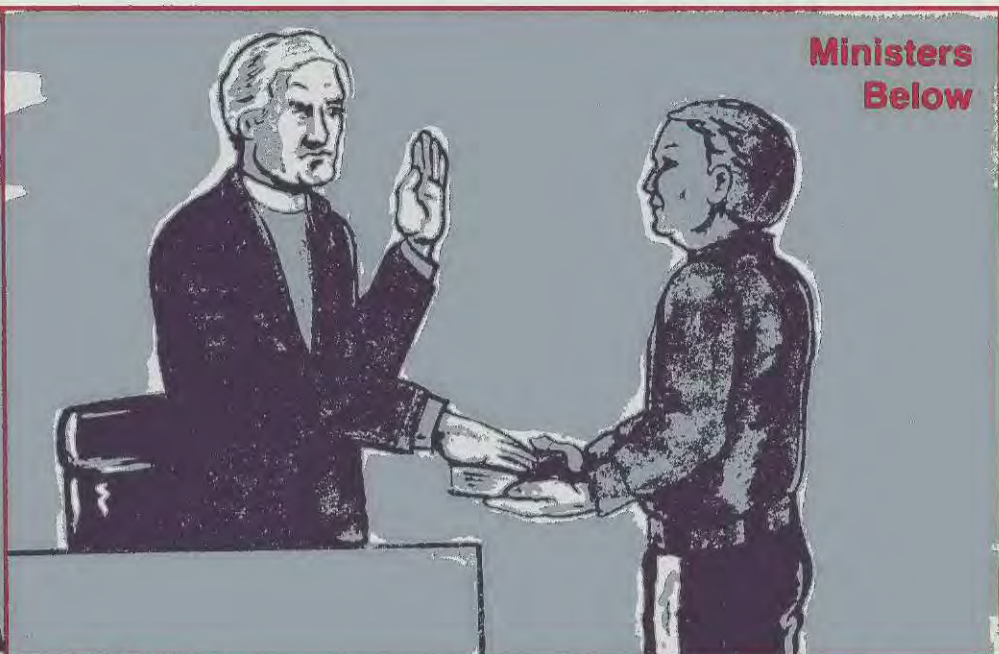


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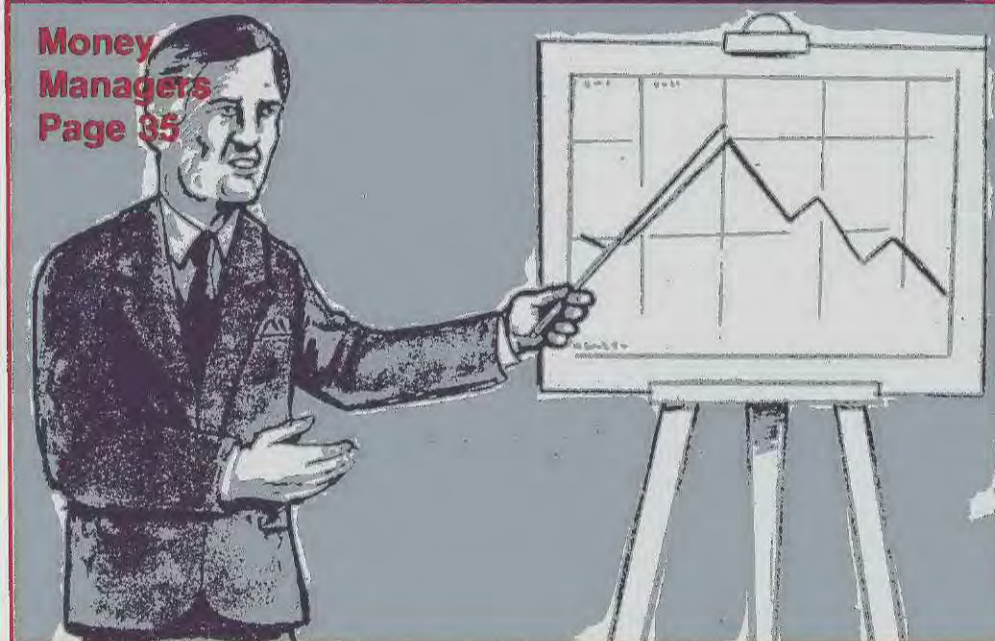
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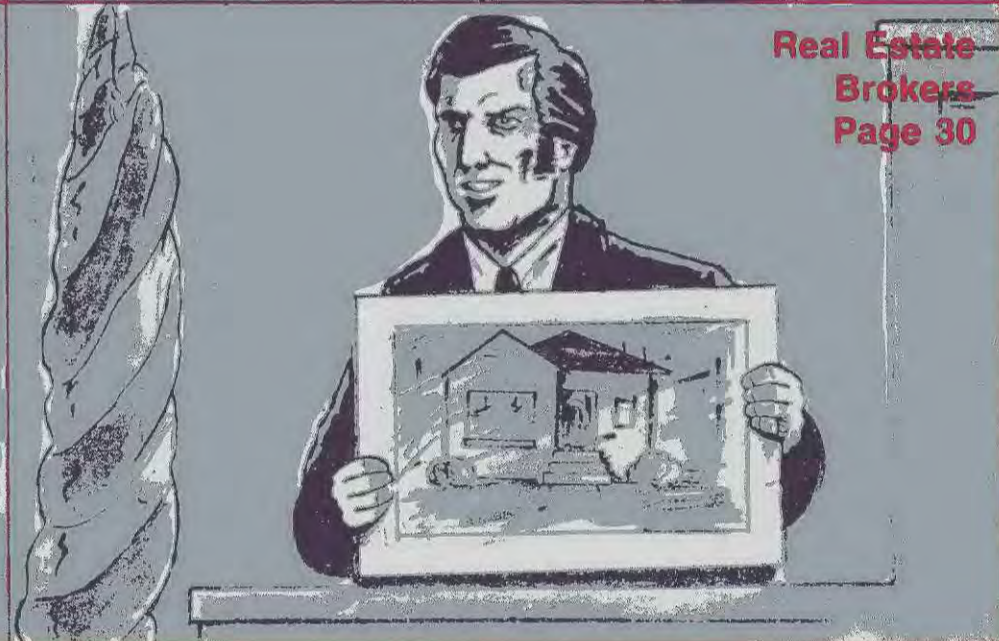
Architects & Engineers
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Ministers
Below



Money
Managers
Page 35



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Designers fight liability lawsuits

By EILEEN NORRIS

CHICAGO—Weighty lawsuits are falling onto the shoulders of architects and engineers, but as many as 50% of those professionals have yet to buy insurance, sources say.

Part of the problem is economics. About 80% of the nation's architectural firms have 10 or fewer employees, and professional liability coverage would all but eat up the smaller companies' budgets.

But that doesn't stop attorneys from naming architects and engineers in lawsuits:

- An architect in a major city who designed a public housing authority project was sued by a third party years after the building was inhabited. A young boy living in the building had thrown a can of paint out of the high-rise, only to hit a passerby in the head. The injured person sued the building owner, who in turn sued the architect for "faulty design."

- A Michigan appellate court recently affirmed an \$830,000 damage award against an architect for injuries suffered by two workers who fell while trying to install bolts in a steel beam.

- An Arizona architect who designed a racetrack was sued by a woman who was injured when someone threw a rock through the plate glass section of the track in which she was sitting as a spectator.

The track had been in use for 13 years when the incident occurred and a jury found no negligence on the part of the architect, James Bird. Mr. Bird was so angry at the time and money he had to spend in court defending himself that he filed a malpractice suit against the attorney who originally brought action against him. He charged the attorney knew he didn't have grounds to sue.

The case is expected to begin

oral arguments this month.

Design professionals are beginning to fight back, especially against lawsuits that name individuals whose involvement is questionable. In the last case mentioned, the attorney for the injured person's suit also named a consulting architect who chose the color for the interior of the track. The judge dismissed the consulting architect as irrelevant to the case.

Frivolous claims cost everyone,

says the American Institute of Architects, which has 36,000 members across the country. "No one gets off free, even if you win. No one wins," a spokesman said.

Architects and engineers professional liability coverage is offered through seven U.S. firms.

Victor O. Schinnerer & Co. Inc. has been administering professional liability coverage for underwriter Continental Casualty Co.,

Continued on page 19

Heaven can't help ministers

By MARGARET LeROUX

LOS ANGELES—Ministers who also counsel may find that divine guidance isn't enough to stave off the risk of malpractice.

The clergy have been considered such safe risks that underwriters tacked their professional liability coverage onto church multiperil or

general liability insurance policies.

But underwriters and ministers alike are closely watching a lawsuit here that charges a minister's inadequate counseling led a young man to commit suicide. A guilty verdict could send ministers malpractice rates shooting up to the heavens.

The lawsuit naming the Rev. John MacArthur, pastor of the largest Protestant church in Los Angeles, Grace Community Church, represents "the first time a traditional approach in a liability lawsuit is being used against a minister," said Edward Barker, the attorney who represents the parents of the young man counseled

by the church staff.

"Just as the head of a corporation is responsible for what goes on in his company, we consider the Rev. MacArthur responsible for the actions of his staff," he said.

"Psychiatrists and psychologists have been targets of malpractice lawsuits for years," he continued.

Continued on page 18

Public officials weigh liability. Page 22
Lawyers find new malpractice markets. Page 26
Lamaze teachers fight liability pains. Page 49

Group plan beats out Indy 500 risks. Page 36
INA floats cover for America's Cup. Page 38
Strange risks from Lloyd's. Pages 40-49

Ministers await outcome of liability suit

Continued from previous page

"Why shouldn't ministers who counsel also be liable for their actions?"

The church's motion to dismiss the case contends it violates the confidentiality between a confessor and his priest. It was rejected by the Burbank Superior Court. The precedent-setting case will go to trial later this year, Mr. Barker says.

Though the lawsuit against the Rev. MacArthur is the first malpractice claim against a minister to reach the trial stage, the example of other professionals who have been successfully sued for liability has frightened church boards of directors in most major denominations into securing the coverage for their clergy.

The market for the coverage, also referred to as clergymen's errors and omissions, is quite limited, with less than a dozen insurers selling it. Premiums are low, typically less than \$50 for limits of \$300,000. A \$1 million limit can be bought for less than \$100.

A representative example is a package policy for congregations belonging to the Lutheran Church in America that includes pastors professional liability in a multiperil policy for the church.

Underwritten by Atlantic Mutual Insurance Co., which has insured churches since 1955, the program is administered for the LCA by broker Frank B. Hall & Co. Premiums average about \$25 for annual aggregate limits of \$300,000.

"It's a peculiar coverage," conceded Michael Toner, the Hall broker who heads the church program. "We get a lot of calls from people asking what sort of social climate do we have when people sue their minister."

Another impetus to the sale of ministers malpractice insurance was a widely publicized account of a couple who sued their clergyman for bad advice in marital counseling (*BI*, March 11, 1980).

The case was cited by a salesman for Church Mutual Insurance Co. in Merrill, Wis.

The insurance company now says it can't prove the case ever happened, and that variations on the story are familiar to ministers throughout the United States.

Church Mutual considers itself the first to underwrite ministers malpractice insurance, offering it in a redesigned multiperil policy in 27 states since 1979.

"It's not a big premium volume item," said a spokesman for the company. "On the average, the endorsement for \$300,000 of liability carries a \$30 premium."

At Preferred Risk Mutual Insurance Co. in Des Moines, vp Robert Plunk agrees.

"The coverage represents a relatively insignificant amount of premium volume, but we've been receiving requests to write it from boards of directors of churches."

"Whether or not a minister needs the coverage depends a lot on his location," noted Tom Evans, spokesman for Utica Mutual Insurance Co., another underwriter.

"If he's in a big city, he'd probably sleep better knowing he had the coverage, but if he's out in the sticks somewhere, I don't know if it's worth it."

"The biggest benefit of the coverage is the defense costs," Mr. Evans added. "Whether or not a clergyman is liable for something he didn't do in counseling is awfully hard for a jury to prove."

Almost all professional liability policies for ministers exclude any medical treatment such as shock therapy or dispensing of drugs. Most also exclude defense costs

for claims arising from actual or alleged sexual conduct.

An exception is the policy for the American Assn of Pastoral Counselors underwritten by Conva Insurance Co in Columbus, Ohio, which specifically includes defense costs for lawsuits arising out

of alleged sexual misconduct.

The policy, developed by Parkington Associates Ltd., an excess/surplus lines broker, was marketed by brokerage Good & Webster in Manlius, N.Y., and has been available since last August.

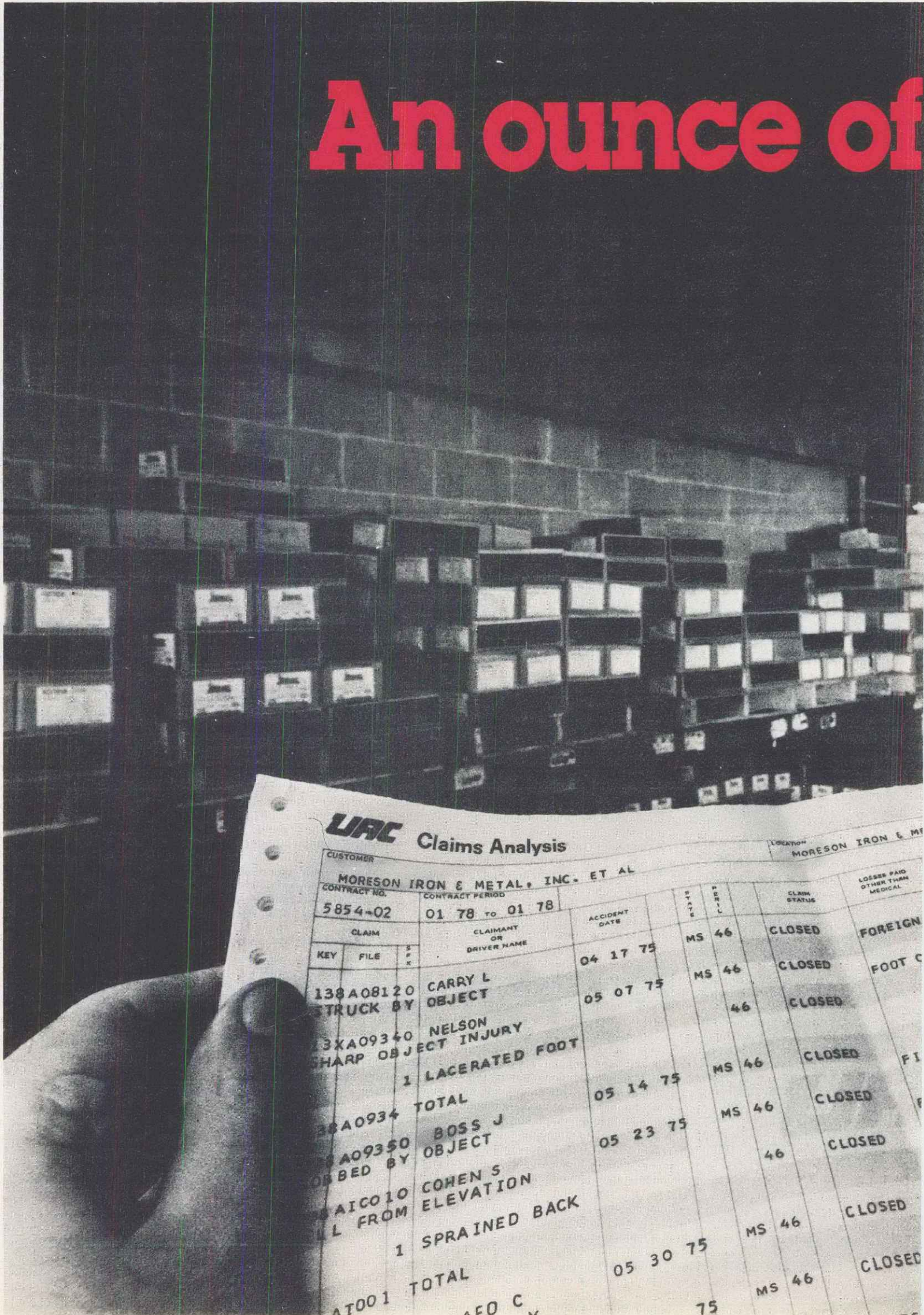
The AAPC certifies counselors

who are also ministers, working in 30 centers providing outpatient psychotherapy.

Real or imagined, the threat of lawsuits has already changed the way some ministers counsel, says Wesley Aiken, chaplain at Duke University Medical Center in

Durham, N.C.

"They're much more careful of what they keep in written record so that it can't be subpoenaed and misconstrued as evidence," he said. "Some of my colleagues now keep no written notes whatsoever; it's all in their heads." ■



An ounce of

Design experts fight back with cover

Continued from page 17

one of the CNA insurance companies, since 1957. CNA virtually held a monopoly on the line until about 10 years ago, when Shand, Morahan & Co. in Evanston, Ill., entered the market. Illinois R.B. Jones has offered the coverage

through Lloyd's of London for about 10 years.

With CNA and Shand, Morahan holding about 80% of the professional liability policies for architects and engineers, the remaining 20% is split between five smaller companies

They are Design Professional Insurance Co. of San Francisco, Imperial Casualty & Indemnity Co. of Park Ridge, Ill., Insurance Co. of North America (INAX) of Chicago, International Insurance Co. in New York and Illinois R.B. Jones through Lloyd's.

CNA, the oldest and largest provider of professional liability insurance, has seen an increase in claims and in severity of paid claims since the early 1970s, says Paul L. Genecki, vp at administrator Schinnerer & Co. in Washington, D.C.

"In the early '70s, we saw a stabilization in the claims," he said. "There were about 16 claims for every 100 firms every year. In 1975, that number jumped to almost 35 and in 1980 we saw a slight reduction. There were about 32 claims per 100 firms a year."

An average paid claim in 1970 might have been about \$10,000 while in 1980 it was about \$40,000, Mr. Genecki says.

Shand, Morahan reports similar figures with estimates that range from 12.5 claims per 100 policyholders in the mid-1960s to about 30 to 33 claims per 100 insured in the current market, says Richard Gundlach, manager of the architects and engineers underwriting program.

As underwriting manager, Shand, Morahan offers five different insurers. The top two are Northbrook Insurance Co. in Northbrook, Ill., and Potomac Insurance Co. in Philadelphia.

Split between the seven insurers is approximately \$300 million to \$400 million of premium volume to be had, sources say. Premium cost was highest in 1975, when a policyholder would pay 2% to 10% of its gross income in premium, says INAX president John Van Cleave.

"Now rates are only one-half of a percent to 5% maximum of gross income because of the severe competition in the market," Mr. Van Cleave said.

Many of the insurers last adjusted their rates in 1978, and six of the seven say they don't expect any rate changes through 1981.

Design Professional Insurance Co. says rates may be subject to change during the next nine months, shows an AIA survey.

Although rates may vary from company to company, most of the seven that offer A&E professional liability coverage offer a minimum coverage of \$100,000. Lloyd's of London through Illinois R.B. Jones is the exception, offering a minimum of \$50,000. Shand, Morahan and CNA offer a maximum of \$25 million in-house for coverage.

CNA says it can arrange as much as \$75 million on an "as needed basis." The minimum deductible is offered through CNA at \$2,000, with the highest minimum deductibles offered through DPIC and International at \$5,000.

Sources offering the special coverage also say there is very little difference between insuring an architect or an engineer, although many agree the architect is more often sued than the engineer.

For that reason, says William Turner, vp of underwriting at INAX, the architect may have to carry more coverage than the engineer, "who is one tier removed from liability," he said.

"The architect is held liable ad infinitum. It's a real dilemma," Mr. Turner said. "The rate relief is only temporary, too. When we get back into the hard market, it's going to be tougher. Many design professionals are self-insuring their risks."

"It used to be that people were sued as a last recourse. Now it seems like it's one of the first things to be thought of," Mr. Turner adds.

"Everybody is litigation happy," agreed George Frankforter of DPIC in San Francisco, an insurance company owned by engineers in private practice. For that reason, the company, one of the smallest of the seven, only does business with private engineers. "We don't want to pick up an exposure the size of General Motors," Mr. Frankforter said.

Continued on next page

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Design experts begin to fight back



Competition is holding rates down, says John Van Cleave.

Continued from previous page

Although no one has a clear defense plan, many report fighting the court system as a starting point. Before court, though, there are several steps a design professional takes.

Besides being as careful as he or she can in the design and documentation of a project, the designer can arm himself with all the knowledge available about the current legal interpretation, including new and varied exclusions and different types of project insurance, says William D. Hooper, staff executive of the AIA in Washington, D.C.

While the AIA neither advocates nor discourages the purchase of professional liability coverage for its members, the organization has put together a survey of insurers that offer professional liability coverage as a guide.

"We don't recommend any company over any other or even that a design professional purchase the special coverage," said Mr. Hooper of AIA.

"Because the vast majority of firms are small, the

insurance is expensive. It's not appropriate for us to say whether or not an architect or engineer should have the coverage."

He estimates about 50% of the design professionals go bare because of the high cost.

Many insurers and underwriters make a point of emphasizing loss-prevention programs as one way to avoid the litigation trail.

INAX has an ongoing loss prevention program for its insured, highlighted by a bimonthly newsletter and periodic seminars.

CNA and Schinnerer & Co. established an Office for Professional Liability Research back in 1972, when the company realized it needed a clearing house for organizing and distributing loss-prevention material to its policyholders.

In addition, CNA annually offers more than a dozen seminars across the country that provide policyholders with technical, insurance and legal information, regularly updated to include the latest case law developments and liability topics.

Seminar tries to cut A&E loss

Beat those leaky roofs!

Shand, Morahan is starting a new loss avoidance program aimed at helping architects and engineers counter the major source of claims against design professionals: leaky buildings.

The University of Illinois-Chicago Circle School of Architecture and Art, in conjunction with the Chicago chapter of the American Institute of Architects, is joining Shand in presenting the seminar, "Wind and Water Penetration of Vertical Surfaces."

"There are three causes of loss," says Shand, Morahan's Roy Vince, assistant vp of architects and engineers claims. "There's greed, ignorance and carelessness. We can't do a lot about greed and carelessness, but we can address ignorance."

The leaky roof syndrome is also the "typical" claim seen at CNA, says Paul Genecki, vp at Victor O. Schinnerer & Co.

"The explosion in new products has helped to create part of the problem," Mr. Genecki said. "Some are too sophisticated for easy installation. But a big cause is

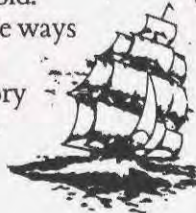
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New products helped create problems, says Paul Genecki.

that the owner of a project will want to cut corners.

"He does that one of two ways: He skimps on the roof or the air-conditioning and heating system because those are two areas that can't really be seen. If an architect OKs a substitute material for a roof other than the material originally specified, then it's his fault if there's a problem," he added.

Another typical claim, Mr. Genecki says, results from structural problems in buildings.

"The key here is that if a building goes up and seems fine for many years, but is later found to have a structural crack, the architect or engineer may be liable to fix the problem at 1981 prices," he explained.

"When claimants decide to sue, they think of all the other little things they're not happy with in the particular building so that several contractors and subcontractors are named in the litigation along with the main designer and engineer.

"These lawsuits take a lot of time because of the numbers of people involved. Then the judge puts the case at the bottom of his list because he can tell by looking at it that a number of professionals are named. It all amounts to a lot of time and money," said Mr. Genecki.



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City E&O

Public risk officials split on need for policy

By STEVE SHERWOOD

McALLEN, TEX., risk manager Joe Marino is glad his city has a \$1 million errors and omissions policy for its public officials.

He hopes the surplus lines policy, which costs McAllen \$11,000 a year, will cover defense expenses incurred in a pending police brutality/civil rights violation suit against the city and its mayor.

The suit, filed April 7, 1978, by

200 American Agricultural Movement members, seeks \$10,000 actual and \$50,000 punitive damages for each member from the city, Mayor Othal Brand and the county of Hidalgo for their roles in removing protesters from a Texas-Mexico bridge in 1977. The AAM blocked traffic to protest importation of Mexican produce.

"Our policy reimburses defense costs up to \$1 million, with a \$2,500 deductible, for wrongful acts suits brought against the mayor, city council, public utilities board and city employees," Mr. Marino said. The city purchased it several years ago and it has indeed provided coverage in certain instances. Whether or not it will cover this latest suit remains to be seen.

"Wrongful acts is such a gray area and there are so many exclusions I can't say for sure," he said. "But I wouldn't want to be without it."

The policy was purchased from International Surplus Lines Insurance Co. in Chicago.

Some municipal risk managers share Mr. Marino's belief in the need for separate E & O policies to protect local officials, or have E & O endorsements added to their general liability policies.

"Florida has a state law that says plaintiffs not only cannot recover damages from city employees, but also cannot even name them in suits," said Glenn Simpson, risk manager for Tampa, Fla.

'Wrongful acts is such a gray area,' says Joe Marino.

"It was passed last July and eliminates the need for E & O as long as an official acts within the scope of his duties."

Claims can still be brought against the city, but the law limits damages to \$50,000 per individual and \$100,000 per occurrence.

"All this could be thrown out by judicial fiat," Mr. Simpson said. "Just because the odds are with us doesn't mean courts won't allow a claim to go through. But I would take the posture that our comprehensive general liability policy would cover councilmen acting within the scope of their duties."

Tampa is self-insured up to \$1 million, but has a \$10 million excess policy with Puritan Insurance Co. of Atlanta.

Despite Mr. Simpson's confidence, the city's two pension boards demanded E & O policies. "They were threatening to quit without it," he said. He located the policies, but the boards pay for them out of their own budgets.

Tampa's police and fire pension board pays \$5,000 a year for \$5 million in E & O coverage, while the city's general employee pension board pays \$6,500 a year for \$10 million in coverage. Both policies were purchased two years ago from Aetna Insurance Co.

"The boards oversee management of pension fund assets and decide who receives pensions," Mr. Simpson said. "I can definitely see potential civil rights suits."

Continued on page 24

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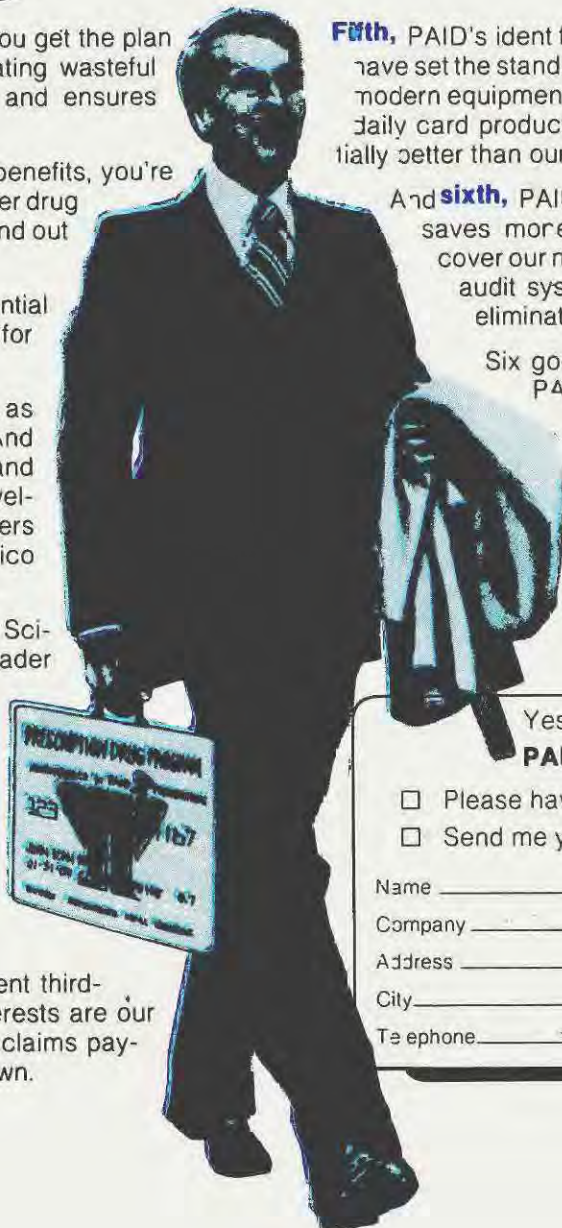
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Public risk officials split on need for E&O policies

Continued from page 22

The risk manager for a large Sun Belt city says he recommended against buying E & O coverage for its public officials.

"In my evaluation of policies, I found they excluded so many things that if we had any liabilities, they fell into the exclusions," he said. "You have to be careful or you can wind up buying nothing."

Cities and counties are vulnerable because they do not have a good feel for their liabilities, he says. "If an official does not violate any laws, the fact that he does something stupid does not mean he loses sovereign immunity."

However, if he in fact violates someone's civil rights, sovereign immunity is no protection and neither is an E & O policy, he says.

"Discrimination is picked up by federal law. Policies would not cover you for wrongful acts defined by the criminal code."

Some policies, however, cover discrimination losses.

Before buying a policy for its officials, a municipality should carefully map out its exposures to liability to be sure it protects them where they need it, he says.

Oceanside, Calif., and Fond du Lac, Wis., are similar in that neither carries a separate E & O policy for public officials. Both protect their people through endorsements on their general liability coverage.

"We included it in general liability about five years ago and the premium is almost negligible," said George Ahrens, Oceanside risk manager. The policy is underwritten by Admiral Insurance Co. and limits E & O coverage to \$10,000.

"It has not been tested—there have been no claims yet," he said. He took the precaution because "people are fallible and I'm not too sure sovereign immunity would hold up these days, especially with all the civil rights cases coming to trial."

Fond du Lac risk manager John Blassie says Wisconsin law limits municipal liability to \$25,000 per occurrence, but recent court decisions have made him unsure it will be upheld.

"Once someone pierces the

'Be careful or you can wind up buying nothing.'

\$25,000 limit, we could be open for it," he said. "The potential for a big loss is there."

His city has an endorsement on its \$500,000-limit Home Insurance Co. general liability policy for \$25,000 in public officials E & O coverage. The endorsement applies to elected or appointed executive officers or members of any municipal board or committee acting within the scope of their duties.

The annual premium for general liability insurance is \$29,000.

"It is going to be a major problem," Mr. Blassie said. "In the future, I will be looking for more coverage, even if I have to do some cutting elsewhere to find funds."

Donald Koester, risk manager for Orange County, N.Y., also sees a definite need for E & O protection for county officials, especially in urban areas.

"New York is an area where it is needed," Mr. Koester said. "There have been a lot of suits and the laws are so liberal they expose public officials to risks not usually covered under general liability."

He purchased a \$5 million E & O policy from Forum Insurance Co. of Chicago last July. The policy costs less than \$50,000 with a \$10,000 deductible and covers legal defense fees.

Legal costs can be the single biggest expense of a suit, larger than some judgments, Mr. Koester says. Win or lose, the municipality must still pay them.

A number of markets are entering the public officials E & O field. Several have been writing policies for years.

They include: International Surplus Lines, a subsidiary of L.W.

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Biegler in Chicago; Unimark-McDonald of Dallas; Forum Insurance Co., and Midland Insurance Co. in New York.

Those recently entering or planning to enter in a big way include Shand, Morahan & Co. in Evanston, Ill.; INAX Underwriters Agency Inc. in Chicago, and American International Group through National Fire Insurance Co. in Pittsburgh.

Bruce Henriksen, manager of nonprofit directors and officers liability for International Surplus Lines, says his firm has a \$10 million in-house capacity and a \$500,000 lower limit for public officials E & O policies.

The McAllen policy, with an annual premium of \$11,000, is costly. But ISL probably would not go below an \$800 premium for a three-year policy, Mr. Henriksen said.

Unimark-McDonald chairman Charles Terrell became aware of the need for public officials liability coverage while serving on the Dallas City Council.

"That was four years ago. As a councilman, I experienced a suit attempt that made me aware of the exposure," Mr. Terrell said. The

A \$1 million limit is usually enough, say underwriters.

council turned down a pool hall permit and was sued on an alleged civil rights violation.

"When I got off the council, I talked to the International City Management Assn., and through a series of meetings with them and a search of the market, came up with a package they endorsed," Mr. Terrell said.

Unimark-McDonald sells a \$1 million policy covering defense costs of employees and elected or appointed officials sued for alleged wrongful acts involving discrimination, civil rights violations and zoning or building permits.

An underwriter for the company says \$1 million is usually enough E&O coverage, adding, "We have never paid a claim for more than that."

Though Forum Insurance Co. can write policies up to \$5 million, claims manager John Pasquini says most are for a flat \$1 million. Stewart Smith, Mid-America underwrites Forum E & O policies.

"We have about 1,600 open files now, pending lawsuits," he said. "We seem to do about 95 per month. A lot of them arise from local political disputes."

Forum policies insure a public entity and persons elected or appointed to office or full-time members of boards and committees. It also covers employees working more than 20 hours per week.

"They don't cover automobile or personal injury damages," Mr. Pasquini said. "If we get a mixed criminal-civil pleading on something like civil rights, we would not cover the criminal aspect, but we would cover defense costs on the civil."

Shand, Morahan & Co. does not have a full-fledged E & O program for public officials as yet, but Don Brayer, assistant vp of production and marketing, says the firm is developing one and has been for some time.

"It is not the hottest project in the works, but is coming along," he said. "We are not defining what we will provide at this time, but on all programs, with minor exceptions, we offer a \$25 million capacity."

John Van Cleave, president of INAX, says his company began offering public officials E & O just two weeks ago.

"It is a very new product. We will be looking at cities with populations up to 1 million, but would not want to touch any of the bigger urban areas like Chicago," Mr. Van Cleave said.

"They are under such big pressures of taxes, costs and corruption that anything could happen. We aren't geared to writing risks that large."

E & O will be marketed in conjunction with general liability policies as well as without, Mr. Van Cleave says.

"There is some advantage to having the E & O with general liability, since costs not covered by one might be covered by the other," he said.

INAX is a large E & O insurer of school boards, writing policies ranging from \$1 million to \$10 million, with annual premiums for the average \$2 million policy at \$1,000 to \$2,000.



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Insurers rush to protect lawyers from malpractice

By **STUART EMMRICH**

NEW YORK—Scared out of the market in the mid-1970s by big underwriting losses, insurers are now back scrambling among themselves to offer professional liability insurance to lawyers.

This recent influx of competition is driving prices down, often by as much as 25% to 50%, and

broadening coverage for the nation's law firms.

As many as 25 insurers offer lawyers malpractice insurance, including six captives sponsored by state bar associations and a mutual company made up of about 50 top law firms, according to the American Bar Assn.

Better loss experience, improved understanding of the risks

involved in covering lawyers' activities and a more sophisticated underwriting approach have contributed to the insurers' confidence in their ability to make a profit.

"Around 1975-76, there were only about three insurers writing this coverage: us, American Home and St. Paul," explained Shand, Morahan vp Don Brayer. "It had been a small line of business for most other companies and they felt they were getting burned. So they got out."

Attorneys were seen as especially vulnerable to suits after a landmark case in which a court held a lawyer liable for a client's false or misleading statements in financial transactions over which the Securities and Exchange Commission had jurisdiction.

"Things have changed in the last year and a half as losses improved and other companies saw that we survived. Now there is a lot of competition again," Mr. Brayer said.

"There is no problem whatsoever in finding insurance for lawyers now," agreed Joanne Felix, staff director for the legal services group of the ABA. "Prices are coming down and we can find coverage for just about all professional acts."

Most observers also agree that when lawyers malpractice policies were being written in the early 1970s, a lot of the rates were based on guesswork. Now insurers claim a track record and a better idea of losses they can expect.

Industry observers say the current claims level can range from one to 2.8 per 100 lawyers covered by the policies.

Claims data is expected to improve even more this year as the ABA joins with insurers to set up a central reporting center for all malpractice claims to keep abreast of the number and the type of claims filed.

Loss experience has also improved in the past few years, making lawyers malpractice a more attractive business for insurers.

Mr. Brayer said his firm has been chopping rates as much as 25% in the past year, while other industry spokesmen say renewal premiums can sometimes be cut up to 50%.

Premiums vary by size and geographical location of the firm, but for an often standard \$10 million policy, premiums can range from about \$4,000 to more than \$35,000, say several industry sources.

Coverages can provide limits of \$100,000 to \$25 million, with deductibles often starting at \$1,000 and sometimes going as high as \$500,000 or \$1 million.

Insurers also compete with the six captives formed by state bar associations in Texas, California, North Carolina, Ohio, Oklahoma and Oregon. Another significant entry into the market in the past year is a mutual company formed by 52 law firms. Called the Attorneys Liability Assurance Society, it was formed in Bermuda to provide coverage to large firms outside of New York City.

Lawyers can now find coverage for most of their actions, including those involving work with securities, said the ABA's Ms. Felix.

Shand, Morahan also has just introduced a companion policy to its professional liability coverage, a five-part master plan that covers property, special general liability, outside directors and officers liability and inside fiduciary liability, comprehensive umbrella liability and comprehensive lawyers blanket bond.

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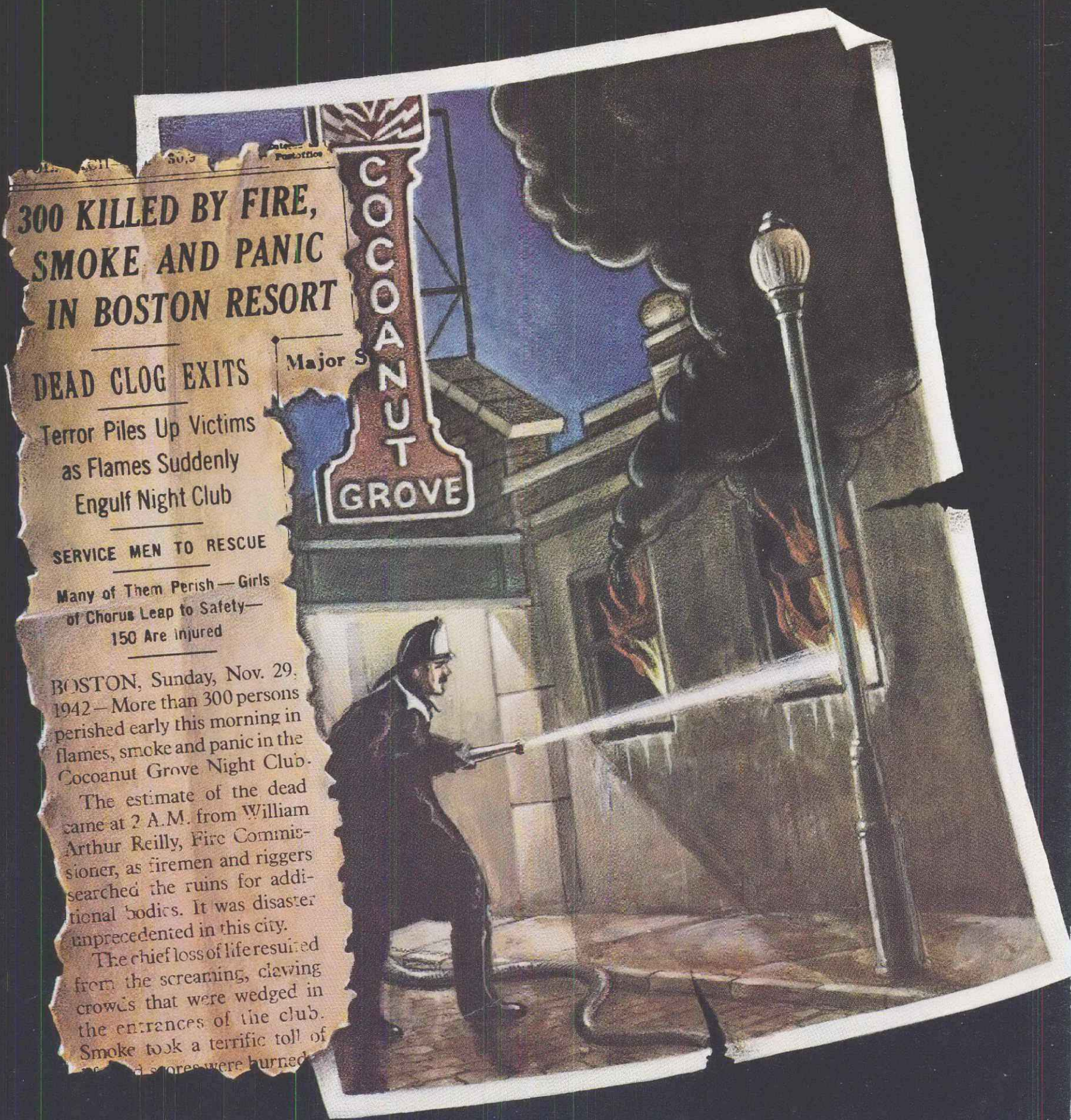
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North Sea Oil Platform Collapse

LONDON, Friday, March 28, 1980—An oilfield platform with more than 200 people on board collapsed in the storm-lashed North Sea, tossing many into the water and trapping an estimated total of 50 in a section that appeared to be submerged. More than 60 people were believed to be missing.

A large-scale rescue operation, which was to include the use of diving bells, was under way in the disaster, one of the worst in the history of offshore oil operations. As of early this morning, 91 survivors had been plucked from 30-foot waves. British helicopters search operations were resumed this morning after being called off because of poor visibility, high waves and strong winds.

208 people were aboard the structure when it collapsed.

Sixteen of those rescued clambered onto an adjoining platform with others taken from lifeboats and rafts. Fears were

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Realtors encounter litigation explosion

By RHONDA L. RUNDLE

"Don't worry about the roof, it's fairly new," an eager, but naive real estate salesperson tells a prospective buyer.

The deal is closed, the parties shake hands and the client moves in. Then the first rain drops acid on the realtor's friendly relations with the buyer.

The roof leaks.

The disgruntled homeowner hires a lawyer and sues the agent for malpractice. Even if the realtor wins the suit, legal defense expenses can be devastating. Damage to the agent's professional reputation may be even more costly.

"In this age of consumerism, realtors are finding themselves more and more often the target of

lawsuits," laments Vincent J. Schmitt, owner of a realty firm in Texas City near Houston and vice chairman of the professional liability insurance trust of the National Realtors Assn.

Malpractice suits have been a threat to realtors for many years, but the recent explosion in litigation is a new phenomenon, says Mr. Schmitt. "If something goes wrong for the buyer, he hates to admit he was a chump and looks for somebody else to blame."

Realtors started to notice the new attitude about five years ago, reports Mr. Schmitt, just at the time one of the nation's largest and oldest writers of realtor's professional liability insurance temporarily withdrew from the market.

When Equity General Insurance Co. in Los Angeles returned to the scene a short time later, rates had quadrupled. "Some people didn't think it was worth paying so much—they decided to ride the tide without insurance," recalls Mr. Schmitt.

But the rising incidence of suits created a clamor of grass roots demand among realtors. The National Assn. of Realtors, a Chicago-based trade association with 750,000 members, canvassed the country to find an insurance company willing to work with realtors to create a new policy.

Insurance Co. of North America was the only taker, according to Mr. Schmitt. Other large insurers weren't interested, he says.

"We sat down with INA, and

worked with them towards design of a policy to suit the realtor," he said.

Two years later, the fledgling program boasts about 20% participation of NAR's gigantic national membership. INAX Inc., a Chicago-based subsidiary of INA, handles the business and ranks among the top three underwriters of realtors errors and omissions insurance.

As sponsor of the NAR program, INAX believes it can double its current writings this year.

"The realtor used to be a friend, your cousin, a neighbor or someone you knew down the street," observes Dan Ryan, INAX vp.

"But that attitude doesn't prevail anymore. Large chains and

firms are losing the personal touch. Clients expect realtors to render professional service." Professional liability comes with the territory, notes Mr. Ryan.

INAX's basic policy provides a combined single limit of \$250,000 with an annual \$1,000 deductible. The cost depends upon the size of the firm, income from sales, property management business, claims history and professional experience.

"With the enormous range in land values around the country, it is difficult to detail coverage costs," said Mr. Ryan.

A typical one-person shop might expect to pay about \$250 to \$300 for the basic coverage. A five-person office would be charged \$575 to \$600.

The deductible applies only to indemnity and not to defense costs, adds Mr. Ryan. First dollar defense coverage is a big selling point because many suits never result in a loss but cost a bundle to defend.

Each claim costs a minimum of \$5,000 to fight, estimates Terry Anderson, INAX casualty underwriter. The most common complaint is misrepresentation of the physical condition of the property, she says.

The leaky roof example is a typical case. "Or the plumbing may be faulty when the realtor said it worked. Or the lot may lack a few yards of the full acres described by the salesperson," explains Ms. Anderson.

The INAX claims-made policy includes coverage for prior acts. The buyer may opt for a three-year extension of coverage. Besides realty sales, the policy may also cover the risks of appraisals, property management and consultation services.

Despite more litigation, however, most realtors still do not buy errors and omissions insurance. Low market penetration combined with nascent demand explains why the line is a growth target for aggressive marketers like INA, National Union Fire Insurance Co. of Pittsburgh and Shand, Morahan & Co. Inc.

"Realtors are starting to realize they are vulnerable to these lawsuits and that is enhancing demand for insurance," observed Don Brayer, assistant vp-marketing with Shand, Morahan & Co. in Evanston, Ill.

"Ours is still a young program after three years," he reports. He estimates 1980 premium volume topped \$5 million with exposure units up about 25%. Mr. Brayer declined to detail the company's pricing structure, but industry sources agree that Shand, Morahan is a very competitive market.

Realtors can purchase errors and omissions coverage with limits ranging from \$100,000 to \$25 million through Shand, Morahan. The typical deductible is \$1,000, but may be higher if the buyer wants to reduce coverage cost. Coverage for prior acts is also available but not included in the standard policy.

Frequency of claims is rising faster in real estate professionals' liability than any other line, notes Bob Reid, assistant vp-claims. This could be a function of the general economic climate for the industry and lack of available mortgage money.

Creative financing arrangements also increase realtors' exposure to suits, points out Mr. Reid. "Realtors are not as familiar with these unusual contracts and there's more room for error."

The National Union Fire Insurance Co. of Pittsburgh under-

Continued on page 32

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Realtors see flood of malpractice suits

Continued from page 30

writes a number of state association-sponsored plans, notably in California. Marsh & McLennan in San Francisco is the program administrator of the California Assn. of Realtors professional liability plan.

"We estimate that fewer than 20% of California realtors carry E&O," reports Fred G. Lewis, M&M vp who handles the program administration. "But we think the trend is for more of them to get it. Consumers know their rights and land values here are so high a bad claim could easily put an uninsured realtor out of business."

An independent individual con-

tractor or a firm of two people can purchase coverage through the state plan for as little as \$275 a year, said Mr. Lewis. That includes limits of \$50,000 per occurrence and a \$100,000 annual aggregate with a \$1,000 policy deductible. Combined single limits of \$1 million are available with deductibles up to \$50,000.

The deductible applies to judgments and settlements only. National Union pays all costs of defense, attorney fees and court costs with no charge to the policyholder, says Mr. Lewis. Prior acts coverage is included as well as an extended three-year reporting endorsement.

The California Assn. of Realtors emphasizes loss control. A claims prevention committee reviews claims to determine how they might have been avoided or what procedures might have been followed to reduce the amount of the claim. The group, which includes a representative from Marsh & McLennan, has also developed a list of preventive measures for realtors (see box).

National Union has pegged realtors E&O for special marketing emphasis in 1981, reports Katherine Trivento, assistant secretary in New York. She says the policy is currently under review and will be revised. Rates and wording will likely be changed.

With gross premiums of about \$3.5 million last year, St. Paul Fire & Marine Insurance Co. is also a major force in the real estate professional liability market. But an extremely bad claims year in 1980 appears to have dampened the company's enthusiasm for the coverage.

"We had almost double the number of claims last year as in 1979," reported Fred Themmes, senior underwriting officer. The adverse experience is forcing rating increases of 25% in the works now, he adds.

Current rates expected to increase soon typically run \$1.15 per \$100 of income on the first \$50,000 of gross income, 77 cents per \$100 on the next \$200,000 and 57 cents on the next \$750,000. A realty firm generating over \$1 million in gross income is individually rated.

Basic policy limits are \$100,000 per claim and \$300,000 for claims in one year with a \$1,000 deductible. Prior acts coverage is available.

Another candidate for oldest domestic market is the Equitable General Insurance Co., formed over 25 years ago for the exclusive purpose of writing realtors E&O insurance. Although still an important market for the coverage, the surplus lines carrier has been dropping business to aggressive primary markets.

To regain its edge, pricing would have to come back to something reasonable, explains Ted Quayle, underwriting manager.

"Rates are dropping so low it doesn't make sense to us because we know legal expenses are high," he adds.

The majority of primary insurers entering the market in the past few years are offering prior acts coverage, reduced rates and no deductibles, says Mr. Quayle. "That's dangerous because claims start to come when the realty business is falling off."

The advent of state association-sponsored E&O plans, such as those at the NAR and CAR, also have made deep inroads in the volume of Equity General's writings. The company's business is 100% through direct mail solicitation. ■

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Exotic liabilities find coverage in trade zone

By ELLIS SIMON

NEW YORK—At least two New York-licensed insurers are using the state's Free Trade Zone to offer exotic professional liability coverage.

The Free Trade Zone was created in 1978 to permit New York insurers to write high premium and exotic risks without prior approval on rate or form. Of the more than 300 exotic risks that can be underwritten by the Free Trade Zone, 67 are professional liability or errors and omissions cov-

erages including tree surgeons errors and omissions and reducing salons professional liability.

Only 23 of the 92 insurers with Free Trade Zone licenses, however, have used them. Of those 23, only American International Group and Crum & Forster underwrite professional liability risks.

At C&F, professional liability policies are underwritten by its subsidiary L.W. Biegler & Co. and insured with either the U.S. Fire Insurance Co. or International Insurance Co.

AIG's National Union Fire Insurance Co. of Pittsburgh is underwriting its professional liability risks in the Free Trade Zone. New policies offered through the zone include data processors, programmers and analysts E&O, marine surveyors E&O, engineers professional liability and investment counselors E&O, according to John G. Johnston, AIG resident vp in New York.

Last year, AIG wrote more than \$300,000 in investment counselors E&O premiums in New York and more than \$40,000 during this January, Mr. Johnston notes.

Other new professional liability lines drew less premium, he added.

New York's policy form filing procedures made offering these coverages outside the zone uneconomical, Mr. Johnston contends. An insurer needed months to get a new policy form through the Insurance Department, then there was no guarantee it would be accepted, he says.

"Before, AIG wasn't able to respond as quickly as a non-admitted market. Now it can," he said.

All new professional liability plans offered by AIG insure against the same type of problems. Only the situations change.

"In all categories, the professional has a responsibility of giving proper advice and counsel to a client and if he's negligent or omits to provide information, then he has not provided the service for which he has been paid," Mr. Johnston explained.

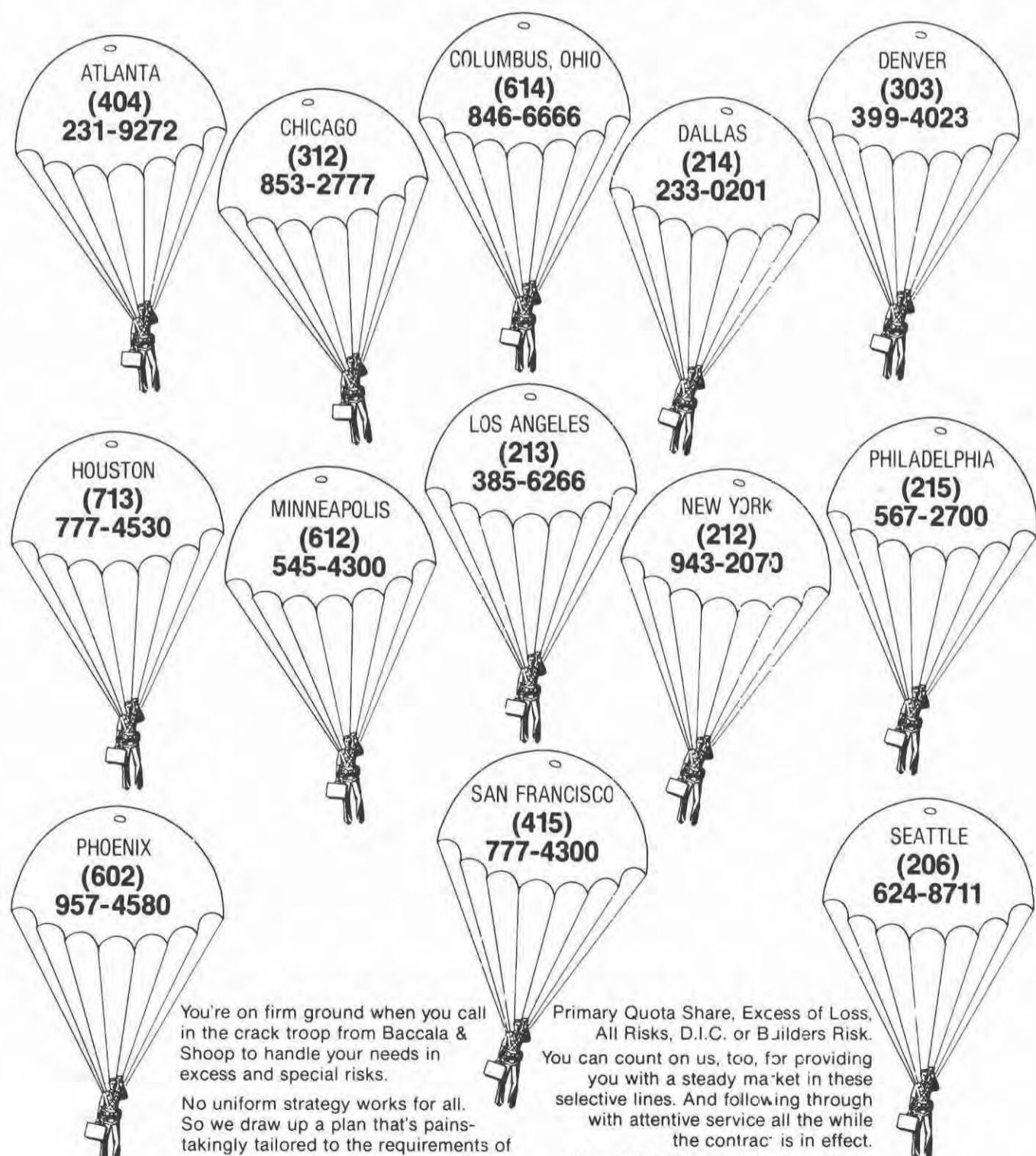
In the case of a marine surveyor, a claim could arise if the surveyor tells a client a ship is seaworthy when it actually is not. An investment counselor could be sued for telling a client to invest in a company the counselor knew or should have known was going bankrupt.

Before offering the new coverages, AIG spent several months on research and design. Much information was gathered from staff experts who specialize in other aspects of these fields, such as marine and financial services underwriters and AIG's data processing staff, notes Thomas Virzi, Free Trade Zone marketing coordinator.

"The public is demanding more of the professional in the way he operates and conducts his business," Mr. Johnston noted.

"If they make a mistake, the customer expects to be reimbursed."

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Money managers can buy liability cover they need

By MARY ANN MATLOCK

NEW YORK—Money management firms don't need to be shortchanged when shopping for professional liability coverages.

A once-tight market renowned for high rates and limited coverage is now opening up to meet the risks of those responsible for handling other people's assets.

"For years this class of business has been misunderstood," said Albert Salvatico, vp with the financial services division of Marsh & McLennan.

"There were fears of the potential exposures that could develop out of this type of activity and you could not get many underwriters interested. Now you have a situation where maintained markets and new carriers are accepting the fact that they're a solid class of business."

"The cover in this area has gotten quite broad over the last three years as the result of competition," added Albert Hetrick, vp at Alexander & Alexander.

"Today, almost any act of errors and omissions relating to handling other people's assets is covered. Before there were exclusions (such as punitive damages and exemplary fines), which in some cases there still are."

First State Insurance Co., part of The Hartford Insurance Group, specialized in errors and omissions coverages for investment counselors for clients and mutual funds for 10 years, only to be given competition in the past few years by others such as Shand, Morahan and American International Group.

Though underwriters wouldn't divulge rates, prices have been said to drop about 50% in the last few years because of competition.

Typically, a firm handling \$100 million to \$500 million in assets would buy \$1 million to \$5 million in errors and omissions coverage at a cost of \$12,000 to \$30,000 annually, explained Mr. Hetrick. Their retention could range from \$25,000 to \$50,000.

Smaller organizations, handling perhaps \$50 million in assets, would typically purchase \$1 million in coverage with a \$10,000 to \$25,000 deductible and an annual price tag in the \$7,000 range.

The marketplace can provide coverage up to \$25 million, Mr. Hetrick said.

Rates can differ according to financial statements, gains or losses of private accounts, expertise of advisers, claims data and credibility, said Shand, Morahan manager Jim Willis.

Today's competition is making coverage affordable.

"Among mutual fund management companies and independent investment advisers, most buy the coverage today," Mr. Hetrick said. "For stockbrokers who may also have investment management operations, half do and half do not."

However, one of the largest—Merrill Lynch—believes the coverage is worth the price.

"As far as we're concerned, the market seems to be

operating, coverage is broad and the price is right," said Charles Mulle, director of insurance and risk management.

For counselors handling hun-

dreds of millions of assets annually, like Merrill's subsidiaries, professional coverages could cost less than \$100,000 annually, Mr. Mulle said.

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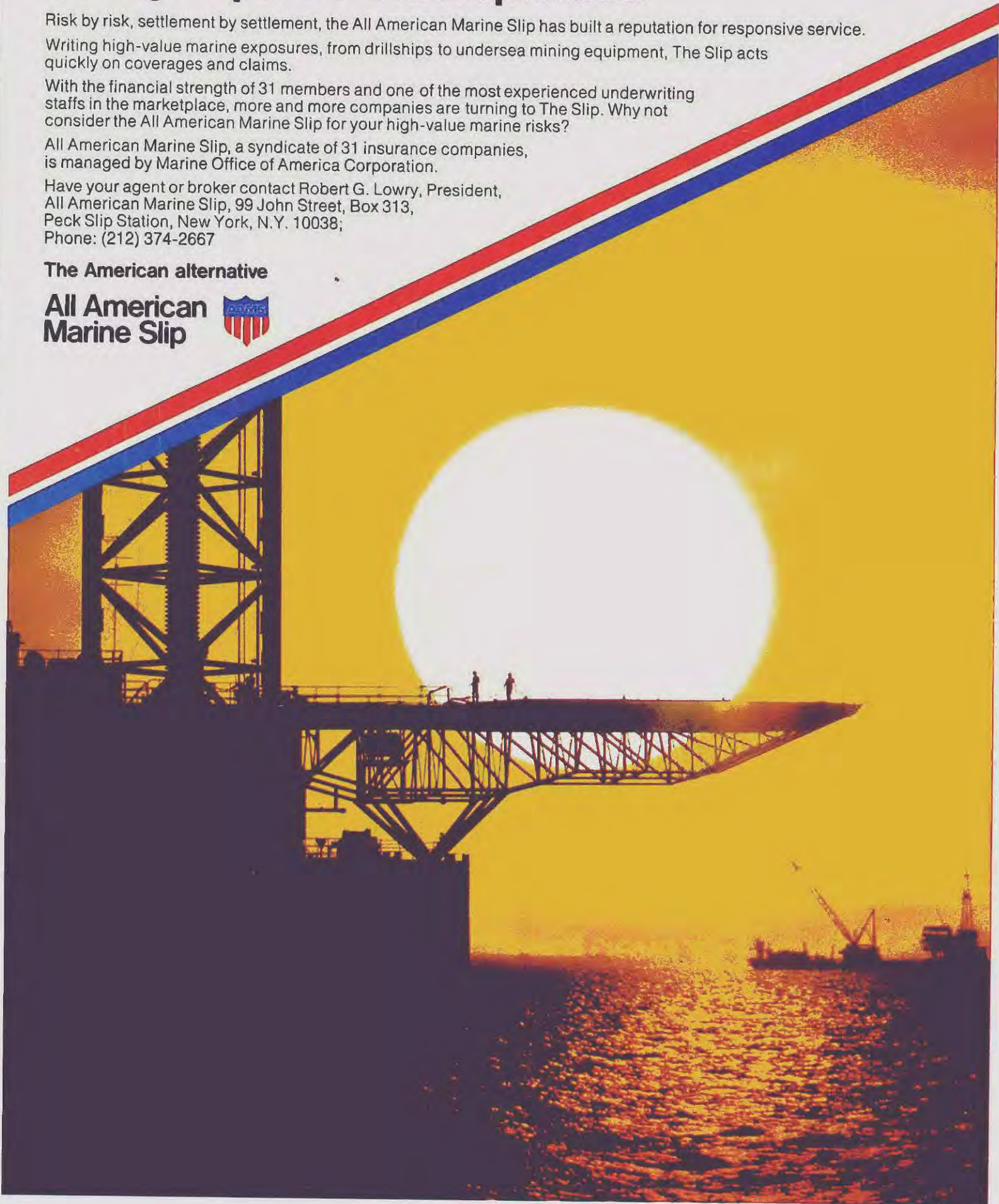
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Indy 500 pit crews are included in the USAC liability policy.

Safety control brakes Indianapolis 500 risks

By JOHN MAES

INDIANAPOLIS—The Indianapolis 500 auto race never lacks excitement or thrills, and its promoters and participants never lack for insurance to cover the many racing risks.

The sports classic is covered for

everything from workers compensation for pit crews to liability for injuries to the hundreds of thousands of racing fans who jam the stands each Memorial Day.

The United States Auto Club purchases general liability coverage for an entire circuit of major auto races it sponsors, says John

Naughton, a Providence, R.I., broker. The liability coverage limits can reach hundreds of millions of dollars from U.S. and London markets, he said.

The general package includes spectator liability, which covers death and injury claims if a race car veers out of control and into the stands.

Another policy, sponsors liability, protects the sponsors of individual race cars, who are often named as defendants when one of the vehicles goes awry.

"It's issued to anybody who signs the title and puts their name on the car," said Greg Mosher, president and chief executive officer for K & K Insurance Inc., which brokers many races including the Indy.

Sponsors coverage protects the overlap in the spectator liability risk and is especially popular nowadays with the trend to "sue everybody for a catastrophic loss," Mosher said.

Indiana requires liability insurance of at least \$15,000 for individual auto owners and sponsors, but many purchase \$500,000 to \$1 million in coverage with deductibles of about \$1,000, adds Jack O'Neal, an Indianapolis agent.

CNA, Lloyd's of London, the Crum & Forster Group and Zurich-American Insurance Co. are some prominent underwriters of the race.

The liability coverage actually purchased by USAC, which assesses contestants for the insurance through an entry fee, they must pay in advance of the race, Mr. O'Neal said.

While liabilities are covered, are the racers, pit crews, officials and other Indy participants for injuries.

For instance, each member of the individual racing crews covered under policies brokered by Mr. O'Neal have \$25,000 in accidental death and dismemberment coverage, a similar amount in medical coverage and payments of \$140 a week for two years of total disability.

After that disability coverage runs out, the policy pays \$300 per month for the next seven years, Mr. O'Neal says.

Life and dental coverage are also part of that package, he adds.

Although policies are designed for the catastrophic losses, the Indy 500 has the lowest rates at the best safety record of any auto race its size, brokers say.

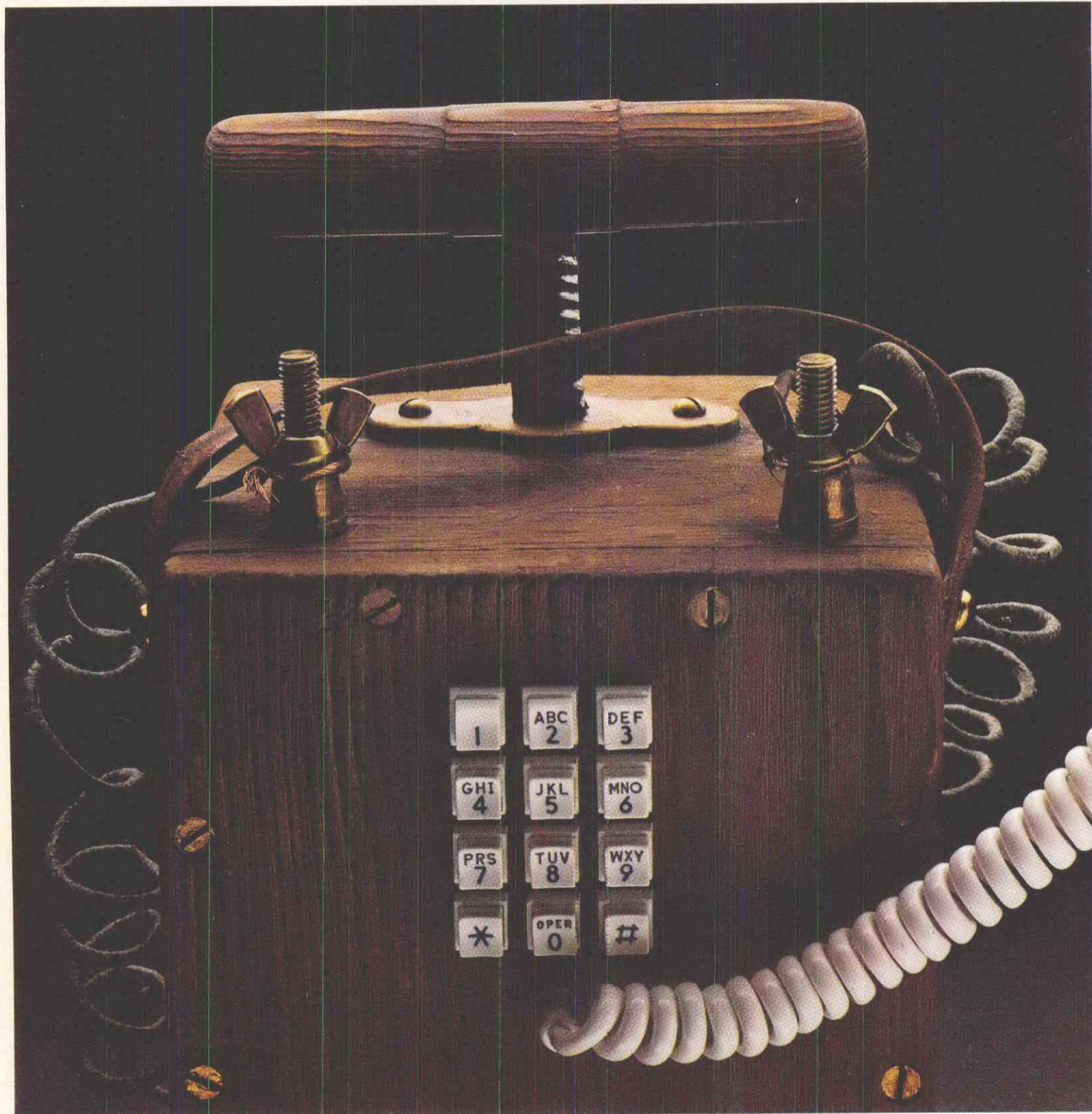
"Let me say this about Indy loss control," Mr. Mosher said. "It's extensive and elaborate."

The USAC and race promoters have spent time developing and overseeing such safety measures, including crowd control in and around the Indianapolis Motor Speedway, barrier protection, the safety of spectators and drivers, and disaster planning and coordination of emergency services.

"USAC is very involved in safe methods," he said. "It's a joint effort between the monitoring bodies and promoters."

Also, the race has led to many driver safety devices, such as helmets, fireproof suits and earth embankments that cushion crashes.

Seatbelts, shoulder harnesses and rear-view mirrors are also products of loss-control planning and development associated with the race.



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INA floats protection for whole fleet

By ELLIS SIMON

NEW YORK—One boat gets the most coveted assignment in yachting every three years—defending America's Cup—but its insurer gets to cover a whole fleet.

INA insures the Freedom, winner of the 1980 race, and its sister 12-meter yacht, the Enterprise. Both are owned by the State University of New York Maritime College Foundation which has received donations from INA.

"What's unusual about the Newport (R.I.) racers is there are so many other yachts and small boats to be insured at the time of the races and in the preliminaries," explained Fred Fernandez, assistant underwriting manager in the New York marine and aviation department of Insurance Co. of North America.

Many people loan or donate other yachts and small boats to the foundation's triennial campaign to have one of its boats become defender of the cup, Mr. Fernandez explains. The small craft are used as tenders and utility boats during the racers' trial runs, he says.

"We're insuring a small flotilla of friends," he said.

The insurance program is not limited to the racers and other boats. Cars, vans and other equipment owned, rented or borrowed by the foundation must be insured, too, says Charles A. Van Hagen, Johnson & Higgins account executive.

The defense of America's Cup is a matter of national pride for which no expense is spared. In 130 years of races at Newport, no foreign vessel has beaten the boat representing the United States.

It costs more than \$1 million annually to "campaign" a 12-meter boat for the Newport races, and the principal racing syndicates like the Maritime College Foundation maintain two boats. When a new boat is built, the older vessel is still run as a "trial horse" to practice against, explains Mr. Van Hagen, also a yachtsman.

The \$700,000, aluminum-hulled boats practice year-round. The crews are constantly testing sails and working to improve the design, Mr. Fernandez says.

Only during the month after the last Newport race are they inactive. During that period they are insured as a "port risk" instead of by a more costly navigation policy.

When stored, the hull, mast and sails are kept in separate locations to minimize exposure, Mr. Van Hagen adds. "If a fire destroyed the hull, you'd still have the masts and sails."

The policy on the Freedom and Enterprise not only covers exposure while in the water or storage, but also includes overland transport. Each year, the boats are trucked to San Diego from the college in the Bronx so crews can practice during the winter without risking weather damage.

A specially constructed trailer must be used for the large vessels and competent crane operators must gingerly position the hull in the trailer's cradle, Mr. Van Hagen says.

The trip route must be planned in advance because height and weight clearance problems prevent use of certain bridges and tunnels, and drivers must beware of low-hanging wires, he adds.

"It would be like handling a painting by DaVinci or Michelangelo," Mr. Fernandez said. "It's not just the dollars and cents that matter. They (the boats) are thought of as the pride of the U.S."

The pride and skill of the persons associated with the racing en-

deavor make insuring this complex risk lucrative. Although the total premium for the two vessels is about \$20,000, it yields greater dividends of prestige to the participating firms.

INA insured the 1977 winner, the Courageous, as well as the Enterprise and its sister, the Intrepid. The Chubb Group insured Newport racers in prior years.

"We know these vessels are raced by people who are the best in the sailing world and we have confidence in them," Mr. Fernandez said.

"It's to their advantage to keep the ship in one piece. If the mast snaps, they could be out of practice for a few days and as the races are nearing, a couple of days without practice could put a boat at a

competitive disadvantage."

"The love and care these boats get goes beyond what is given to ordinary yachts," Mr. Van Hagen added. "The last thing they can afford is something happening to their boats. Otherwise, the chance for the America's Cup could go out the window."

A boat is likely to go through several sails during the race or a practice run. Several sets of sails—designed to meet different wind conditions, are kept on board and are raised and lowered as necessary.

The sails' values usually are less than the policy deductibles and the insurer excludes wear and tear to sails, Mr. Fernandez notes.

The policy also excludes cov-

erage of the mast during the races. The masts are worth about \$50,000, Mr. Van Hagen notes.

The boats are pushed to their limits and that means reaching the point where the mast would be endangered, says Terry Chambers, assistant manager of Chubb's yacht and hull department.

The 1977 Newport winner, the Courageous, could no longer compete in the 1930 trials after its mast snapped.

Storms also create perils for the Newport racers' insurers. When a hurricane threatened last year, all racing was canceled and the boats were pulled out of the water, Mr. Van Hagen recalls.

INA paid the expense of removing the Freedom and Enterprise to dry land through its security

watch program. Fortunately, the anticipated storm did not materialize and racing resumed unhindered, however.

Although some crew members have had minor injuries while serving on the two 12-meter boats, the overall crew safety record has been good, the insurance executives say. The workers compensation and liability exposures of the Freedom and Enterprise are covered by the policy, too.

Crew members volunteer to serve on the two boats and they are not likely to sue for injuries. "They'd give their right arm to sail on these boats," Mr. Van Hagen said. "The last thing on their minds would be to sue the foundation."

Mr. Van Hagen would not disclose the limits of liability on the

LOOK WHERE THE SMART MONEY IS IN HEALTH CARE COVERAGE.

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two vessels' insurance program, but says they are adequate to protect the Maritime College Foundation's assets.

Photo: John Chapin/INA



Competitors in the America's Cup race are required by the rules to avoid danger, even if it means veering off their course.

Foreign vessels coming to Newport probably have to buy additional liability protection because of the high number of boats at the race and U.S. legal environment, which tends to be more generous to plaintiffs.

Although the multitude of vessels carrying race spectators can present collision hazards, the captains of racers' escort boats ask spectator boat captains to keep their distance.

One of the Newport race's rules requires competing yachtsmen to avoid danger, Mr. Van Hagen notes. "Even if your boat has the right of way, you must yield to a boat in your path. You can continue on course until the last possible moment, but then you must turn away. You can file a protest after the race."

Engineering unit helps keep yacht equipment afloat

NEW YORK—With years and millions of dollars invested in design and practice in the quest of America's Cup, no competing yachtsman wants to lose because of equipment failure.

Operators of several American and foreign entrants employed the nondestructive test engineering services of Hartford Steam Boiler Inspection & Insurance Co. during the trial races at Newport last summer to detect equipment flaws that could have led to fiasco.

Nondestructive testing is nor-

mally used in the inspection of boilers and industrial machinery, but it was used at Newport to detect cracks, defects and flaws in the sail and rigging clips, guy wires and devices used to control sail tension.

If these were cracked or became overstressed because of conditions, they could cause a ship to fail, says Robert Paridy, assistant general manager of the Essex, Conn.-based nondestructive test engineering division.

Stress could damage a mast or sail and cause injury to crew members, he adds. A boat could recover from a damaged sail by putting up a new one, but valuable seconds could be lost and those seconds could mean losing the race, he notes.

Boats tested by Hartford Steam Boiler Inspection include: the U.S. Freedom, which won the cup, Enterprise and Courageous; Australia's Australian, and Great Britain's Lionheart.

A few boats needed sail clip replacements and one needed a replacement on a guy wire fixture, the tests discovered.

"There weren't too many problems, but enough to justify having gone there and done the work," Mr. Paridy said. "It could have meant the race and the cup, otherwise."

Hartford Steam Boiler's testing includes dye penetration to detect surface cracks in welded parts, ultrasonic tests to reveal subsurface flaws and X-ray examinations to catch imperfections the other tests missed.

The amount of testing performed varied. A full series of tests would have run a boat several thousand dollars, Mr. Paridy says, and boat designers can usually tell what part of a vessel is most likely to be affected by overstress.

Although the Courageous was inspected by Hartford Steam Boiler personnel, its mast, which broke during one of the races, was not tested.

Mr. Paridy could not say whether nondestructive testing would have found any flaws in the mast, possibly changing the race's outcome.

Hartford Steam Boiler had done nondestructive testing on Navy ships, but never a 12-meter boat before last year's Newport races. The company hopes to expand the program at the next America's Cup defense, Mr. Paridy says.

—Ellis Simon

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Almost everything's game to underwriters

LONDON—You have an unusual risk? Lloyd's of London, where the unusual is commonplace and specialty reigns, can probably insure it.

On the floor of Lloyd's, underwriters now hold policies that were once considered special but now are common. No one blinks at directors and officers liability coverage. Business interruption is passe. Kidnap and ransom insurance, which drew \$150,000 in pre-

miums in 1969, now earns about \$60 million. Tender offer defense expense insurance is just starting to get off the ground.

Products extortion coverage is garnering interest since its inception in April 1980. It's new and strange.

The policies reimburse corporations for up to \$20 million in case of threats to damage, contaminate or pollute products. The coverage also includes the cost of recalling a product from the shelf if there is a threat that it has been poisoned.

"The frequency of these occurrences is greater than the public imagines," said one Lloyd's underwriter.

But products extortion policies are just the newest of the "unusual" coverages that seem usual at Lloyd's.

"Lloyd's has the habit of making the unusual risks usual," said underwriter Dominic Adams, who insures rock bands, film guarantors and others. "It's becoming increasingly difficult to say what's an unusual risk."

It's no longer unusual for corporate garden parties to be insured against adverse weather, and Lloyd's picks up the rain check for the occasional soggy petit four.

It's not unusual to find judges insured against "interruption" during the process of writing judgments.

Baseball strike insurance was pitched to club owners for the coming season and hole-in-one golf policies have teed off over the last few years. Premiums on the golf greens for holes-in-one depend on how big a tournament is and the prize money being offered. Insurance rates are measured by the distance to the hole and by the number of players and their standing.

Some Lloyd's underwriters insure other prizes in sweepstakes and long-shot bettings. Sometimes even a Lloyd's underwriter will think a special risk is too special. "I insure risks, not inevitabilities," Mr. Adams said.

Lloyd's motto, however, seems to be "we can insure anything." And it does. The Scottish Tourist Board once took out a policy on prize money for anyone capturing the Loch Ness Monster. The Scala theatre here covered itself against mysterious disappearance when a magic show appeared there.

But sometimes special risks make Lloyd's underwriters sorry. No one was pleased about the U.S. Olympic team not going to Moscow, nor were there rounds of applause when someone shot a hole-in-one at the Masters Tournament last year.

"Quite a bit of money" was also lost on a cast insurance policy when Robert Shaw died shortly before the film "Avalanche Express" was completed.

Sometimes Lloyd's underwriters should be more thorough in their homework when taking on a special risk, such as computer leasing, said one member of Lloyd's.

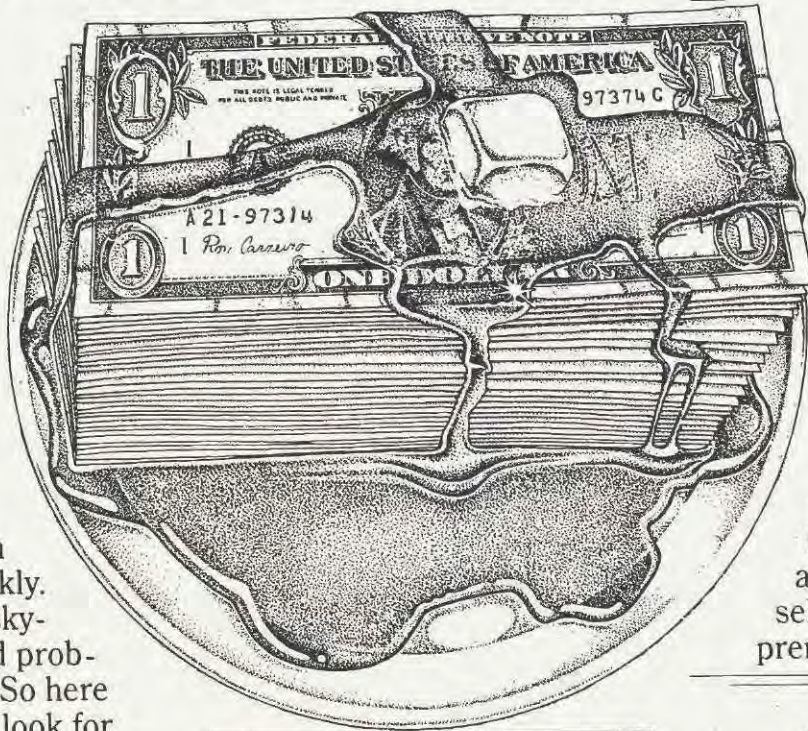
"The biggest danger for a Lloyd's underwriter is boredom," he said.

"You're more susceptible to write something you shouldn't."

But on the floor of Lloyd's, almost anything's game.

—Stacy Shapiro

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Miss Piggy wallows in weighty risks

By STACY SHAPIRO

"Oh Miss Piggy, your precious gems and your magnificent furs are so beautiful. Are they real?"

LONDON—Don't anger the star. Her producer's risk manager says the jewels are probably not real.

But don't tell Miss Piggy or the director. Actors and staff might perform differently if they knew.

"In this industry, authenticity is king," explained Ron Muckleston, director of the insurance division of Associated Communications Corp., producer of the new Muppet movie "The Muppet Caper."

It's too risky to use thousands of dollars worth of jewels when paste looks just as good under the lights, he said, so he has refused to insure a planned \$250,000 worth of gems on a set in Mexico.

"Use something else," he advised.

"We ended up using imitations, but we let it be known around the set they were real, so the directors got their authenticity," Mr. Muckleston noted.

That's just one weird risk.

Real or fake, Miss Piggy took off her fur cape to ride a bicycle all around London in the film. Her

One market can't provide enough Muppet coverage.

love Kermit the frog swam, as frogs do, in a 740,000-gallon tank of water, with two dozen swimmers imported for the scene from the United States.

Mr. Muckleston went to EMI studios to make sure the floor would hold the water tank and prepare for the possibility of leaks.

When the inspection was completed, he told underwriters the tank was safe, but decided not to mention the underground car parking lot directly below the tank.

Kermit and Miss Piggy and the Muppets' creators have become such big stars that one market isn't sufficient to provide all the insurance for the new film, says the risk manager.

About 135,000 pounds in premiums went to Pacific Indemnity Insurance Co. Inc. for the first layer of property coverage. A consortium of British insurers, including Lloyd's, insured the rest of the risk.

In case Jim Henson, creator of the Muppets, or Frank Oz, the voice of Miss Piggy, becomes ill and production stops, ACC bought a 250,000 pound producers indemnity policy to pay the loss either crisis would cause.

If production stops because film was lost or a cast member becomes ill, ACC has two 5 million pound policies—one for the film negative and one for the cast.

The negative insurance cost only 16,000 pounds and the cast insurance cost 53,000 pounds.

It's easier to reshoot missing film than to start all over because a cast member dies, Mr. Muckleston explains.

A wrap-up liability policy, including product, public and employers liability (workers compensation), of 25 million pounds insures all of Associated Communications Corp's 7,000 employees.

Phoenix Insurance Co. Ltd. and the Continental Insurance Group insure the first million pounds of liability. The Chubb Group and several British insurers provide additional layers.

Mr. Muckleston hopes to increase the blanket liability to 50 million pounds to include the U.S. hotel, Airport Park, ACC owns in Los Angeles.

In addition to "The Muppet Caper," ACC is producing a 6 million pound film on emerald theft called "Green Ice" and a science fiction movie, "Dark Crystal," which will cost more than \$15 million.

All scripts pass to Mr. Muckleston when accepted by ACC. He looks for the safety needs in film

production and what risks can be eliminated.

In a recent production, for instance, the director wanted to film a young child under a carriage. But Mr. Muckleston made sure the scene was done through some kind of trick photography so as not to endanger the child's life.

The largest loss area for the film industry is in recalling props, Mr. Muckleston says. But this might be lessened if the prop masters

were named on the insurance policy binders through Pacific Indemnity Insurance Co. Inc. and a consortium of British insurers.

But ACC can't insure prop masters by name because they move around so much through the film industry. So Mr. Muckleston will negotiate with 20th Century Fox Universal and Columbia at the RIMS conference in April to see if they can establish the insurance practice worldwide in the industry.

The film industry uses the same principles of risk management as any industry does, Mr. Muckleston explains. But a risk manager doesn't often go to court for a claim of \$550,000 because an employee fell off a horse when it was scared by a camel.

And only in the film industry is a risk manager awakened in the middle of the night because an employee wanted to insure a Greek helicopter for \$1 million for one day.

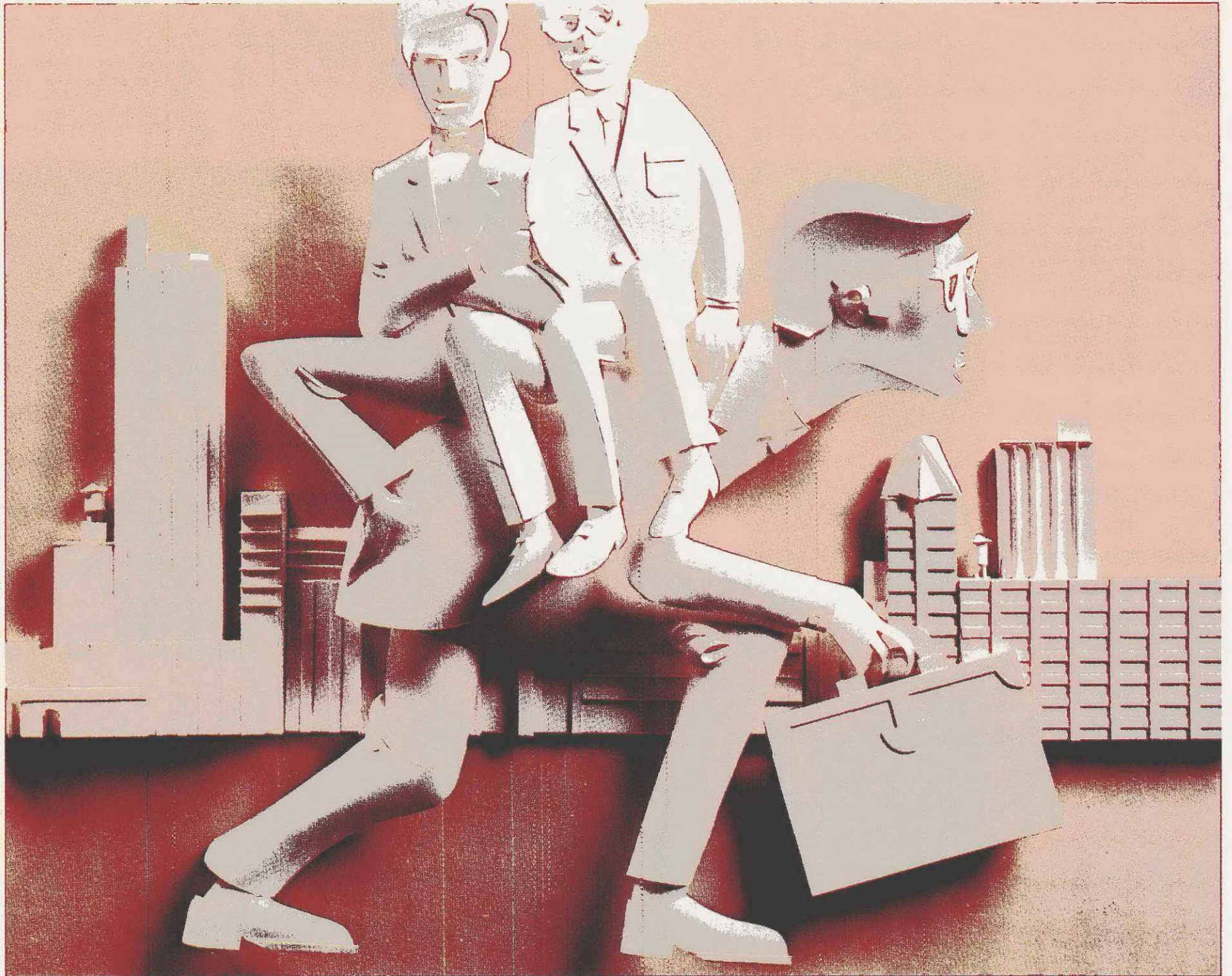
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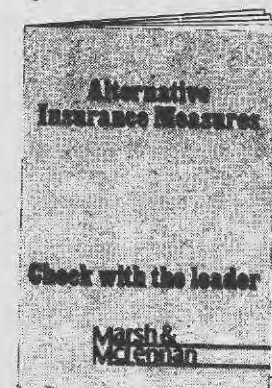
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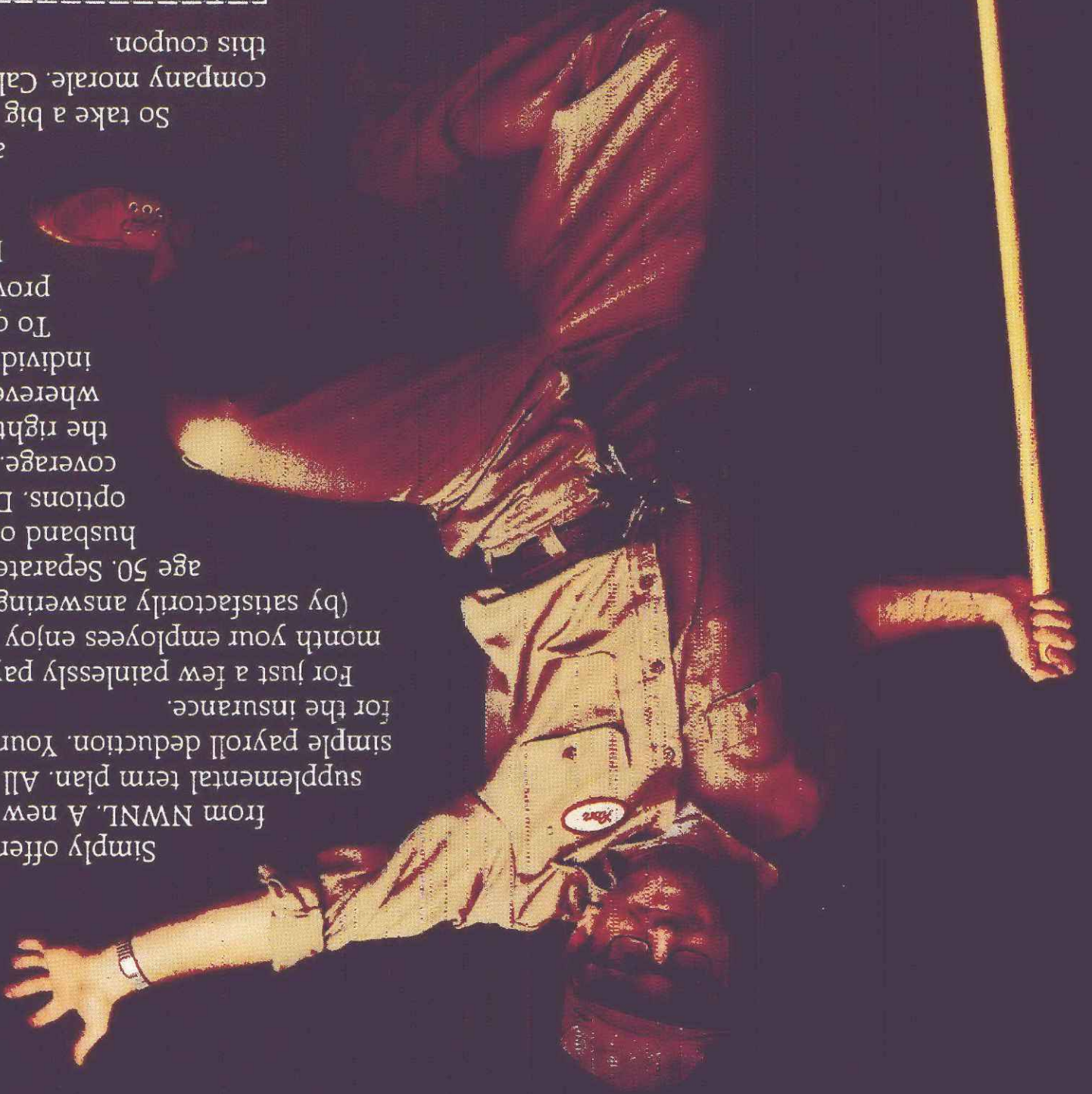
For more information on controlling your company's insurance costs, write for a copy of our booklet "Alternative Insurance Measures" to: Mr. Robert Clements, President, Marsh & McLennan, Incorporated, Dept. 10 BI, P.O. Box 839, Radio City Station, New York, NY 10101.



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perspective

Drawing the line

Human life is a special risk

By B. Bruce-Briggs

RISK ASSESSMENT. This term is appearing with increasing frequency in discussions of industrial health and safety regulation. Like most supposedly new ideas, it has an ancient lineage, because assessing risk is the heart of the insurance business. For 300 years, insurers have made money by assessing the risks of industry, commerce and everyday personal life. The venerability of so many major underwriters attests to their skill at assessing risk.

However adept the professional insurers have been, the popular mind has always held a primitive concept of risk. Activities or products are seen as "safe" or "hazardous" or "dangerous." How safe, how hazardous, or how dangerous is only dimly perceived to be a question of degree—but most people believe their estimate of risk is correct and that other people's assessment is cowardly or foolhardy.

The gap between the insurer's sophisticated assessment and the policyholder's primitive understanding has been a source of considerable profit to the insurance business. Of course, in business insurance the buyer is as expert as the seller. Until recently, risk assessment has been dominated by professionals. Alas, the primitive view is becoming more and more important, because the nonexpert view of risk determines most government regulation of health and safety. The legislators—federal, state and local—think in primitive terms and are supposedly responding to constituents who are even less sophisticated about risk assessment.

Governments have always regulated health and safety, and have reflected primitive views that were also commonsensical: Public buildings ought not to collapse under snow loads, chlorine should not be dumped into municipal reservoirs, no smoking in gunpowder factories, etc. Activities almost everyone would agree are obviously dangerous have long been banned or tightly controlled, with little or no controversy.

But in recent years, especially in the last decade, the scope of government regulation has broadened substantially. Now the regulators are trying to draw the line between safe and hazardous. You, the insurance professional, know nothing is perfectly safe, and the legislator probably also knows that in some vague abstract sense, but more important to him is his perception that the voters do not understand relative risk. The legislator benefits from voting for "health" and "safety" and it costs him nothing, thus regulation proliferates.

Yet the regulations did impose costs on the regulated, especially industry, which began to howl. Industry-sponsored cost-benefit analyses of regulation began to appear. The costs of compliance could be calculated with a high degree of plausibility, but what of the benefits, which is what the legislature cares about?

To take the most troubling problem, what is a human life worth? Most of us who have taken college economics know how the economists

dearly love to try to calculate everything in dollars, but the attempts to determine the dollar value of a life were bizarre. (One learned professor even dug into the records of sales of slaves.) These efforts were treated with amazement or disgust by the legislators and relegated to the wastebasket.

More sophisticated calculations were needed. It is significant that leaders in the new means of risk assessment have been the electric power and the auto industries, both of which have been burdened with an ever-growing weight of regulation.

The most publicized safety issue is that of nuclear power, which presents problems difficult to analyze. Like everything else, nuclear power generation is not perfectly safe; small amounts of radiation affect the personnel and the immediate vicinity of the reactor and some tiny fraction of the exposed population will almost certainly incur a radiation-induced disease such as leukemia. Worse, there is a tiny possibility that sabotage or a major malfunction of the equipment will expose a large population to a considerable amount of radiation.

The auto industry has a problem different from that of the nuclear power industry. About 40,000 to 50,000 people will be killed every year as a result of automobile use. Automobile fatalities have a very low probability in terms of car usage but occur often enough to be directly perceived by the public; yet even the largest multifatality accident is nothing compared to the potential catastrophe of a nuclear plant disaster. So the power- and auto-related analyses offer a wide range of risk assessment cases.

All these new methods have the common characteristic of spreading a large or small risk over

Continued on next page

CREDIT SALE OF A CHOICE GANG OF 41 SLAVES!

COMPRISING MECHANICS, LABORERS, ETC.
FOR THE SETTLEMENT OF A CO-PARTNERSHIP OF RAILROAD CONTRACTORS

BY J. A. BEARD & MAY, J. A. BEARD, AUCTIONEERS

WILL BE SOLD AT AUCTION, AT BANKERS ARCADE, MADISON STREET,
ON TUESDAY, FEBRUARY 5th, 1856,
AT 12 O'CLOCK

A VERY VALUABLE GANG OF SLAVES,

Belonging to a co-partnership, and sold to close the same. The said slaves comprise a gang of 41 choice Negroes. On the list will be found a good Blacksmith, one superior Bricklayer, Field Hands, Laborers, one Tanner, one Cooper, and a first rate woman Cook.

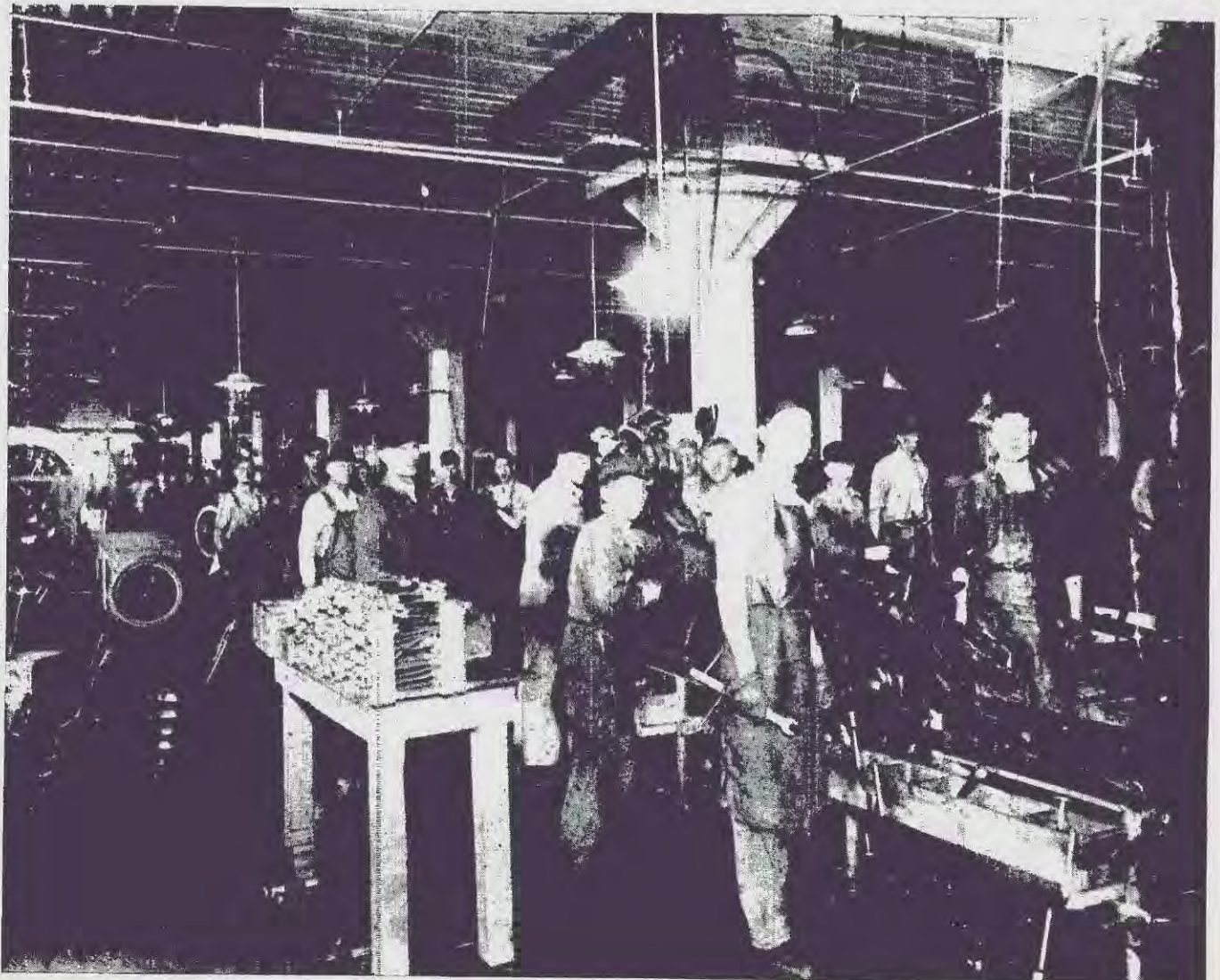
LEWIS, a black man, aged 32	good light hand and laborer.
SHERRY, do	26 do do do
PHILIP, do	30 fair bricklayer.
HENRY, do	24 fair cooper.
JACOB BATES, do	22 good field hand and laborer.
ROBERT KELLY, do	35 do do do
COLEMBUS, do	21 do do do
MARTIN, do	25 do do do
GEORGE, do	30 No. 1 blacksmith.
WESTLY, a griff.	24 a fine tanner and bricklayer.
NELSON, a black man,	30 a good field hand and laborer.
DOCK, do	28 do do do
BIG FRED, do	24 do do do
LITTLE SOL, do	22 do do do
ALFRED, a griff,	29 do do do
SIMON, a black man,	30 do do do
WATT, do	24 do do do
JIM LEAVY, do	26 do do do
JIM ALLEN, do	28 do do do
FRANK GETTYS, a griff,	26 do do do
JERRY GETTYS, a black,	23 do do do
BILL GETTYS, do	23 do do do
GRANDERSON, do	24 do do do
LITTLE FRED, a griff,	23 do do do
FRANK HENRY, a griff,	23 do do do
EDMOND, do	21 do do do
ANDERSON, a black man,	24 a No. 1 bricklayer and mason.
BOS SPRIGS, a griff,	25 a good field hand and laborer.
ELIJAH, a black man,	35 do do do
JACK, do	30 do do do
REUBEN, do	28 ans. ind.
STEPHEN, do	22 a good field hand and laborer.
YELLOW JERRY, a griff,	24 a good tanner.
BIG SOL, a black man,	26 a good field hand and laborer.
BILL COLLINS, do	24 do do do
JESS, do	28 do do do
JUDGE, do	30 do do do
JERRY CARTER, do	28 do do do

LOUISA, a griff, 38 years, a good Cook and maidservant, and an excellent servant.
ROBERT, 13 years old, defect in one toe
JASPAR, 24 years old, an extra No. 1 laborer, driver and coachman
The slaves can be seen four days previous to the day of sale. They are fully guaranteed against the vices and maladies prescribed by law, and are all selected slaves.

TERMS OF SALE—One year's credit for approved city acceptances or endorsed paper, with interest at 7 per cent. from date, and mortgage on the slaves if required. **NOTE**—All sales before the auction, ACTARY PUBLIC, AT THE EXPENSE OF THE PURCHASER.

After the sale of the above list of Slaves, will be sold Another lot of Negroes, comprising Field Hands, House servants and Mechanics. A full description of the same will be given at the sale. The slaves can be seen two days previous to the sale.

What is a life worth? One expert dug into records of slave sales; others treat lives as input to production.



B. Bruce-Briggs is a policy analyst and futurologist in New York. He writes, lectures and consults widely on public policy issues.

Photo: Historical Pictures Services, Inc.

Photo: Wide World

perspective

Protecting property

Establish the yardstick for 'actual cash value'

By Harold J. Smith

THE RECENT hotel fires in Las Vegas and Harrison, N.Y., have caused risk managers to carefully examine their liability insurance. There is, however, another area of insurance that deserves the risk manager's attention: the extent of the property insurance his firm carries. The risk manager should be concerned about the yardstick an insurer will use to establish both the value and loss of property in a situation such as a fire.

If one were to take a random poll of risk managers and ask how the value and loss will be determined, most would say it is quite simple. The basis of loss would be actual cash value. If one were then to ask a risk manager what actual cash value means, the majority would answer that it means replacement or replacement less depreciation.

It is true that most property policies say the property is insured to the extent of the actual cash value. The problem is that the phrase "actual cash value" is probably one of the most misunderstood in the insurance field. Insurance adjusters, in establishing the amount of loss, traditionally would interpret actual cash value to mean replacement less physical depreciation. But many adjusters and most U.S. courts, however, do not interpret the phrase that way. In interpreting its

meaning, most court jurisdictions have adopted what is known as the broad evidence rule. It stems from the McAnarney Brewery case in New York during Prohibition.

The rule states that all factors affecting value must be considered in establishing the loss or the value for coinsurance purposes. They include the replacement cost less depreciation, the market value, the assessed valuation, the income value, obsolescence, the future of the building and many factors.

Although it has not been specifically designated, it appears the market value is probably the most single important ingredient in establishing actual cash value under the rule.

The importance of this subject, then, should be quite evident to the risk manager. What yardstick is he going to use to establish how much insurance to purchase on any given risk and what can he expect in the event of a loss?

Some of the possible problems are:

- A company may suffer a replacement value loss of \$400,000 on a building and the insurer might decide all that is owed is the market value, which may be only \$50,000.

- A company could be paying premiums on values far more than the amount collectible since values may be based upon replacement less depreciation because collectible loss might be based upon broad evidence.

The problem is that the risk manager should clearly establish the yardstick that is going to be used with the insurer. Some would say the answer to the problem is to have everything written on replacement value. In some cases that would be the best way. On the other hand, it could be expensive without accomplishing desired results.

The risk manager might ask what

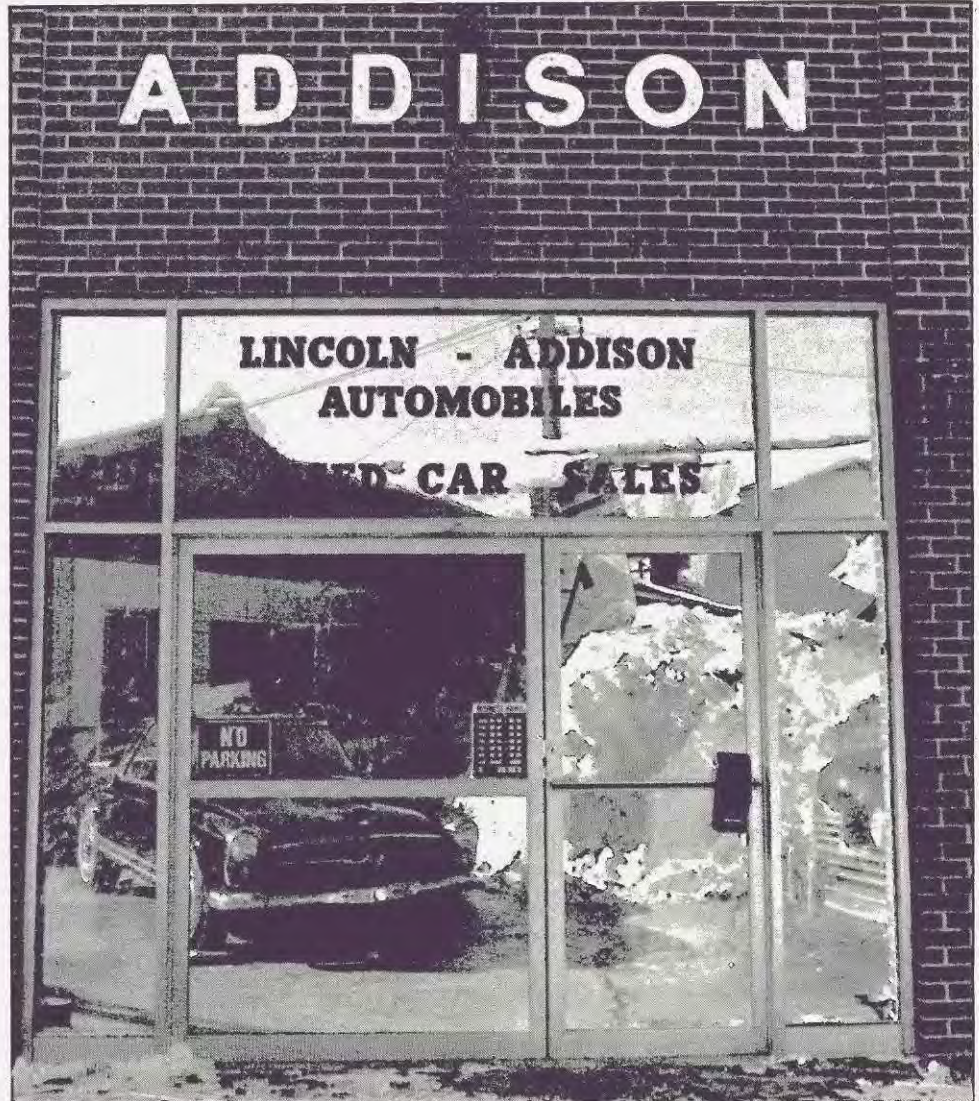


Photo: Mary Cairns

Protecting against property losses can be complex.

would be needed to put his company in the proper position in the event of building destruction. If it's necessary to replace a building on its site, replacement value or at least replacement value less physical depreciation should be obtained. In doing so, he must take care to comply with any coinsurance clause.

If the risk manager's analysis showed the only thing needed in the event of a total loss is the market value of the building and paying premiums

for replacement value is undesirable, the insurer should be consulted to make sure the yardstick was based upon broad evidence or market value.

The risk manager wants to make sure the company will not overpay its premium while being sure of what the adjuster is going to use as a yardstick for paying the loss, namely, replacement less depreciation or market value. This is a very complex subject and deserves a lot of attention by the corporate risk manager. ■



Harold J. Smith is president of Harold J. Smith Adjusters Inc. of New York.

Nonexpert risk assessment gains clout

Continued from previous page
the entire population at risk—the traditional calculation of the actuary. But there are limits to this approach; a reactor accident that kills 1,000 people only once in 1,000 years is far worse than some activity that kills one person a year for a thousand years. (Leaving aside the lives, the 1,000-death accident would kill nuclear power.) Insurers have traditionally dealt with this problem by writing it out of policies as "acts of God or enemy action," but the new risk assessment weighs the calculations for the size and visibility of the event.

This is an intelligent adaptation of strict actuarial practice to the popular perception, although it would seem very difficult to agree on how the visibility of the event should be weighted.

To my mind, another new approach is more interesting: treating lives as in-

put to the production process. After all, nuclear power plants are not built to kill people, but to produce electricity; other types of energy production also kill people. Coal-fired power plants, for example, kill calculable numbers of miners, railroad workers and residents downwind of the smokestacks.

So in effect, the electrical industry is saying, "If you want electricity, you have to kill people. We calculate how nuclear power kills fewer people than the viable alternatives." However correct this notion may be, it is somehow unattractive, and industry-sponsored studies try to take this into account.

Particularly ingenious calculations have been made by Chauncey Starr of the Electric Power Research Institute to factor in the difference between voluntary and involuntary risks. The fact that coal mining is a particularly hazardous occupation is well known to

coal miners, and they are well paid for accepting that risk, so in a considerable sense, the death of a miner is less tragic than that of a person who happened to get leukemia in 1999 because he lived downwind of Three Mile Island in 1979. However, a correction must be made for a large mine disaster—you see how complicated this becomes.

The auto industry has taken a different tack. Its problem is that regulators are requiring safety equipment on all cars in order to save lives in the few cars that have serious crashes.

An especially elegant analysis by Richard Schwing of the General Motors Research Laboratories changes the conventional "saving lives" to the more accurate "extending lives": if we don't die in auto crashes, we will die of something else. There are many ways to extend lives, ranging from improved

ambulance service to improved medical care—the costs of all of these can be calculated and compared. Thus he avoids the pitfall of placing a price on human lives, and says plausibly that we can invest our resources in solutions that will extend lives the most at the least cost.

Risk assessment methods may be useful to focus attention on fundamentals, such as concentrating more on the large accident rather than the series of small ones and looking for the cheapest means of reducing safety and health claims. But remember that the education of the legislators and the public at large is also a purpose of the new risk assessment, and that we are entering a period of hostility to government interference. The regulatory milieu is changing, and those changes will likely be influenced by the concepts of the new risk assessment. ■

books & ideas

Improve operation with new outlook

By Z'ev Kronish

Handbook of Business Problem Solving

Edited by Kenneth J. Albert
McGraw-Hill, 1221 Ave. of the Americas, New York, N.Y. 10020
841 pages, \$24.95

MANAGEMENT would improve if it took fewer things for granted, say 92 consultants in 61 articles compiled in this handbook.

Managers should stand back to look at their situations from a different perspective, these consultants show us.

But their operative phrase is "to improve," with an emphasis on doing rather than philosophizing.

Z'ev Kronish is in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in BI.

After a few chapters, the itch to heal corporate malaise becomes noticeable. You begin to appreciate that the analytical skills left behind at the alma mater can be mastered once again.

We can discount the volume's self-serving promotional purpose and look for nuggets through "conceptual insight," as Bruce Henerson of Boston Consulting Group would say.

The chapters, averaging 10 pages, are punctuated by bold headlines and attention-getting devices, and usually feature case histories.

Harry Allen of Towers, Perrin, Foster & Crosby, for instance, notes that custom is one of five factors influencing the choice of benefit programs. It shouldn't come as a surprise that employers prefer to copy one another, especially when a trend becomes apparent.

Observing that control complements organization, Donald W. Murr, Harry B. Bracey Jr. and William K.

Hill, specialists with Arthur Young & Co., add that this phase of management is crucial simply because "organized activities do not run or function by themselves."

To solve an organization's internal communications difficulty, Joyce Asher Gildea and Roy G. Foltz, also with TPF&C, recommend a dose of listening at all levels. A keen sense of social dynamics is required to encourage management and employees to open up; the two groups have a hard time reading each other even under the best of circumstances.

A chapter on improving work habits by Irwin P. Lazarus, associated with Lester B. Knight & Associates, suggests the initial task in problem solving is to select a specific goal and criteria. With managers today crying for increased productivity, the search for the best method of improvement can no longer be random.

In reaching out to modify a person's work routine, disarm any opposition by explaining your approach and welcoming other ideas. Make a point of withholding criticism, Mr. Lazarus advises. Instead, use tact to win people over.

The consultants warn that plans set in motion can fall short of the mark unless they are monitored. The distance between planning and implementation can be as wide as an ocean, so control is the way to make goals meaningful.

There is not much wit in these pages; is that because business by its nature is a heavyhearted subject? The consultants deliver the messages straight, and it would appear they cover all bases except the intensely human aspect of management. Enthusiasm is the indispensable hallmark of any enterprise, and the human element as an inspiring force did not come forcefully across.

Pay premium for untermiated worker

WHEN AN employer was responsible for paying premiums on an

employee's health and life policies throughout her employment

and the employee was never properly terminated, it was the obligation of the employer, acting as agent for the insurer, to pay premiums for the employee.

Mary Bliss was employed by Encyclopaedia Britannica Inc. in a sales position. In February 1975, she fell and was injured while working. She was hospitalized briefly and went home on April 12, 1975, under doctor's supervision. On Aug. 15, she was admitted to the hospital with abdominal pains. Exploratory surgery revealed she was suffering from advanced carcinoma of the ovaries. She died as a result of the disease on March 13, 1976.

Ms. Bliss was covered under three group policies: life; basic hospital, medical and surgical, and a \$20-per-day benefit while hospitalized. The evidence was contradictory as to whether Britannica had actually terminated Ms. Bliss. The insurer paid benefits accruing before April 30, 1975, but refused all other claims. Her husband sued and recovered about \$30,000.

The appellate court pointed out that Ms. Bliss was unable to return to work because of sickness and injury and, thus, even if she had been "deemed" terminated, coverage would continue under the policies. The court also believed her failure to continue premium payments did not preclude coverage, as this was a responsibility of Britannica through payroll deduction of the employee's share.

Thus, the court said that after both Britannica and the insurer failed to bill the employee for premiums due, the employer could not assert its wrongful acts of failing to pay premiums as a basis for avoiding liability. *Bliss vs. The Equitable Life Assurance Society of*

legal briefs

U.S., U.S. Court of Appeals for the 5th Circuit, June 25, 1980 (BI/05/M.-\$5).

Group health

What is an employer's duty in the selection and retention of a group insurer? A Tennessee appellate court ruled the employer was not liable for failure to buy insurance when there was no binding contract creating the duty.

The employer transferred its group insurance. Retirees were included in the program. When the new insurer encountered financial difficulties, it proposed a 100% rate increase. The retirees sued the employer, contending it breached its fiduciary duty. The trial court ruled in favor of the employees.

The appellate court said the employees had no control over the employer's actions in terminating the group policy and no control in the selection of another insurer. Thus, the court concluded they had no vested right to continuation of the group policy over the employer's objection. The employer's only duty was to use reasonable care in selecting a solvent insurer. *Nidiffer vs. Clinchfield R. Co.*, Tennessee Court of Appeals, March 12, 1980, permission to appeal denied by Supreme Court May 19, 1980 (BI/03/J.-\$5).

Blanket bond

The U.S. Court of Appeals for the 4th Circuit ruled that a loss resulting from the nonpayment of fictitious accounts receivable, which a business had purchased, was excluded from coverage under a blanket bond.

United Virginia Factors Corp. was engaged in the business of purchasing

accounts receivable. A company selling and assigning accounts to Factors was referred to as the client and the debtors on the account were referred to as the client's customers.

Factors entered into a contract with certain clients under which the latter sold to it certain accounts, contract rights and other evidence of customer indebtedness. Factors was to pay the clients the face amount of the accounts on their maturity less a charge of 1.25%. In practice, Factors advanced 85% of the face amount less the 1.25%.

The accounts in question, however, were fictitious. Factors was covered under a blanket bond issued by Aetna Casualty & Surety Co. that covered loss of property through false pretenses, except losses from nonpayment of any loan transaction or note or account assigned or sold, whether procured in good faith or through fraud or false pretenses. Factors sued Aetna and recovered a \$500,000 judgment.

The appellate court reversed. While the court agreed the transactions did not qualify as a loan subject to the exclusion, it said they fell clearly within the plain meaning of the exclusion for nonpayment of accounts. The court rejected Factors' contention that the fictitious invoices were "counterfeited" and not subject to the exclusion. *United Virginia Factors Corp. vs. Aetna Casualty & Surety Co.*, U.S. Court of Appeals for the 4th Circuit, June 19, 1980 (BI/02/F.-\$5).

Implied contract

Does an employer have any obligation to an employee concerning a possible lapse of coverage when the insurers were changed? A Georgia appellate court ruled the employer by implication agreed to continue coverage

that had existed and had breached that agreement.

Mr. Callahan, an employee of Dawes Mining Co., was covered by a group health policy provided by the employer. Through the years he paid his share of the premiums and used the insurance to pay for medical and hospital expenses.

In 1975, the employer changed health insurers.

The new insurer's representative said, in the presence of the employer's representative, that the coverage would remain the same. Mr. Callahan, who was illiterate, signed up for the new insurance.

Mr. Callahan's wife was later hospitalized for a pre-existing illness not covered under the new policy.

The insurer rejected the claim for last illness expenses. Mr. Callahan sued his employer for breach of an agreement to provide health insurance. He won in the trial court.

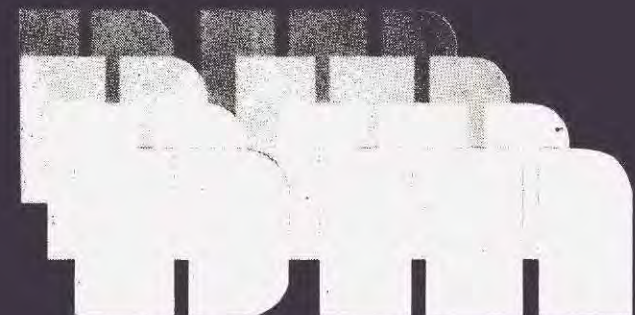
The appellate court agreed, holding that an employer owes to an employee the duty of good faith and due care in attending to the policy.

The employer also should make clear to the employee anything required of him to keep the policy in effect.

The court was satisfied, under the facts here, that the employer had implied an agreement to continue the existing coverage and that the new agreement was breached when the new insurer failed to cover the expenses incurred by reason of the woman's pre-existing illness.

Dawes Mining Co. vs. Callahan, Georgia Court of Appeals, March 20, 1980, certiorari granted May 8, 1980 (BI/04/D.-\$5).

These abstracts were prepared by Cases Unlimited Inc. Copies of the entire decision may be obtained by sending a check for \$5 made out to Cases Unlimited, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.



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riskWatch

Infant coverage offers protection for Lamaze class

By MARGARET LeROUX

When *Business Insurance* learned of a new professional liability coverage—errors and omissions for childbirth instructors—it looked like a job for me. I'm a recent graduate of the Lamaze method of childbirth and the proud parent of a healthy baby boy.

Negotiations are being completed between the American Society for Psychoprophylaxis in Obstetrics, the association that has certified 7,000 instructors of the Lamaze method of childbirth in the United States, and broker Marsh & McLennan, which will administer the special program.

Underwritten by Insurance Co. of North America, the insurance will cover legal liability for an error or omission arising out of a childbirth educator's instructions.

The cost of defense and financial judgment are included in the policy, which has a limit of \$1 million and an annual premium of \$60.

"You could call it sleep insurance," said George Whipple, M&M's program administrator. The risk of a childbirth instructor being sued by a dissatisfied student is slight, Mr. Whipple said.

"But it's not out of the realm of possibility."

The coverage may make instructors sleep better.

Even though there has never been a claim filed against an ASPO certified childbirth instructor, "it's the feeling of the directors they'd better have a program in force just in case," Mr. Whipple said.

"The underwriter is not looking for any losses," he continued. "We look at the exposure as a light one."

Rita Bailey, acting executive director of ASPO, said the response from members has been enthusiastic and the initial goal of 700 policies in force by May seems likely.

"The general tone of today's society makes us very insurance-conscious," she wrote in an ASPO newsletter.

Though some graduates of the Lamaze method have criticized their instructors for being unrealistic about the pain involved, no one has actually sued over the issue.

A more likely problem would be injury to the baby that the parents might contend was caused by something the childbirth instructor told them to do.

Instructor training makes good loss prevention. I'd give the instructor who taught the Lamaze class my husband and I took high marks for loss prevention.

She was careful to explain that because individuals differ in their tolerance of discomfort and their ability to relax, the birth experience would be different for each of us.

She outlined what procedures we could expect during labor and delivery and what anesthesia options are available. Many people mistake the Lamaze method for so-called natural childbirth, but most instructors follow the lead of Elisabeth Bing, author of "Six Practical Lessons for an Easier Childbirth."

"If at any time you should feel the need for medication or sedation, don't hesitate to ask for it," she advises in her book.

The Lamaze method, named after a French obstetrician, Dr. Fernand Lamaze, who introduced it in Europe in the 1950s, seeks to prevent or lessen pain by psychological and physical means, hence the term "psychoprophylaxis."

The ASPO instructors teach women in their final weeks of pregnancy and their partners a series of breathing and relaxation techniques designed to lessen the discomfort of labor and delivery.

"It's mostly a matter of using your own good judgment in presenting the information to the class," said a childbirth instructor who has been teaching the Lamaze method for 10 years.

"You want to give the prospective parents true information, but it's a problem, sometimes, of how to present it," she explained.

The advice insurers offer to many professionals seems to apply. Communicate fully and carefully. Be realistic in explanations and what you expect from clients.

"Some instructors who have had very easy deliveries themselves may not be realistic in their approach," she continued. "I've known some who had students come back to them and say, 'You lied to me about childbirth.'"

ASPO's role in loss prevention is indirect. Instructors must complete a training program that includes observing another instructor throughout a six-week class and a four-day intensive session of seminars with other ASPO certified educators.

Each ASPO instructor develops a course outline for approval by the association's directors, must pass a test on the information and is observed by another ASPO educator while giving instructions to the class. There are also seminars for ASPO members to keep their information up-to-date.

A certified ASPO instructor is necessarily a pretty good risk manager; the coverage may be easing a phantom pain.



Margaret LeRoux

Tough act to cover

Policies help set the stage

By STACY SHAPIRO

LONDON—To be or not to be insured? That's not even a question when actors fight with real swords and swing on trapezes. The risks can be too expensive to cover.

At the world-renowned Royal Shakespeare Co., these and other dangerous stunts make cast insurance a less comprehensive purchase.

"We did at one time cover actors on the stage (during performance), but we can't anymore," said William Wilkinson, financial controller of the RSC. "It's too expensive."

The actors perform so many crazy actions that there are bound to be mishaps, including a few serious ones, he said. One actor actually died a few years ago when he stabbed himself at the end of "Macbeth." Another actor skewered the hand of a person in the audience with a sword during a production of "Coriolanus."

All actors are covered under the mandatory unlimited employers liability insurance, which RSC self-funds, Mr. Wilkinson said. The actors liability insurance insures the acts of the rest of the RSC's 700 employees, he said.

If a leading actor asks for extra coverage in his contract, he won't get it, Mr. Wilkinson added. The RSC also has no insurance to guard against financial loss if an actor can't perform and the show must be canceled. "It's a risk we can't afford to insure," Mr. Wilkinson said.

Because the stage is accident-prone, the RSC takes precautions to prevent disasters. Inspections are made of the engineering equipment above and behind the stage. Each winch, light board, fly tower and grid are inspected to make sure nothing is faulty, Mr. Wilkinson said.

In case of a fire in the leased Aldwych Theatre in London and the RSC theatre in Stratford-on-Avon, an emergency switch drops an iron curtain, sealing off the stage from the audience. The top of the fly tower above the stage flies off, leaving the stage open to the sky and allowing the smoke to escape.

"The stage acts as a huge chimney," Mr. Wilkinson explained.

At the home theatre in Stratford, the iron curtain is immediately sprayed with water when a fire does occur.

In addition to these precautions, the RSC does pay 30,000 pounds in insurance premium to the Royal Insurance Group to insure its property in Stratford, its employees, its props and costumes and its troupe on tour. Coverage includes:

- Six million pounds in replacement cost for the Stratford-on-Avon theatre, built in 1932 and wholly owned by the RSC. Houses where the actors stay for a season in Stratford and storage space are also insured for replacement value.

- The picture gallery in the theatre hallway, with portraits of such actors as Lord Olivier, is under an all-risks policy for 60,000 pounds.

- A 300,000 pound all-risks policy covers the RSC's scenery and props wherever they may be in the United Kingdom on tour.

- Goods in transit are insured for 180,000 pounds. "We're always on the move," Mr. Wilkinson noted.

- If someone in the audience is injured by tripping, being stabbed or poisoned by food, the RSC is insured for 2 million pounds.

Part of the Royal Shakespeare

Co.'s annual 6.5 million pound income comes from profits on overseas performances, such as RSC's "Piaf" on Broadway. But unless the RSC is conducting the tour itself, the foreign production management picks up the insurance, Mr. Wilkinson said.

"We pass as much on to the hosting companies as we can," he remarked. "If we go under our own management, we'll probably in-

sure all around."

Then the RSC must add non-appearance insurance to pay the host company if a show isn't performed.

The troupe also will buy medical insurance for the touring staff, a benefit not needed under Britain's national health insurance. Each staffer is insured for 5,000 pounds for medical services and 20,000 pounds for personal accidents. ■



The Royal Shakespeare Co. takes precautions to prevent disasters.

Photo: Elliott Shapiro

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* 1783 - World's first sustained aerial flight, Montgolfier balloon (Lower Right); 1785 - English Channel crossing, Blanchard and Jeffries (Upper Right); 1793 - First North American ascent, Blanchard (Upper Left); modern hot air balloon (Center).

Premiums climb the charts

Rock bands make hit with insurers

By STACY SHAPIRO

LONDON—Rock 'n' roll bands used to jump and shout and shake it on out on long tours without caring about injuries or lost revenues.

But the days of rocking around the clock without some kind of insurance are over in the multimillion-dollar industry. Premiums may be high for liability, nonappearance and property policies, but rock 'n' roll policies are here to stay.

"All insurance companies thought they had long hair and drank too much. I spent 10 years convincing insurers they're very

responsible," said Willie Robertson of Robertson Taylor Ltd., the star broker for touring groups.

"The music business had been very uninsurance-minded," he said, until he started 12 years ago by insuring his friends in the King Crimson band. Lloyd's was just the market to write the coverage.

"Lloyd's has 1.7 million pounds that they wouldn't have had without the rock 'n' roll industry," he said.

While Lloyd's will insure property, nonappearance and other coverages for touring groups, it refuses liability policies. After The Who concert in Cincinnati in 1979,

where five people were killed jamming the doorways, Lloyd's had enough of rock 'n' roll liability.

Enormous rates are being paid to other London insurers for those policies, said Mr. Robertson, who brokered The Who on the unfortunate tour, one of several losses.

Recently the group Rainbow, also brokered by Mr. Robertson, refused to do an encore at the Wembley stadium here. The fans became violent and 17,000 pounds worth of damage was done to the stadium. Litigation for The Who concert and the Rainbow concert is still pending.

Musicians generally care about property, though. Bands treat their

musical equipment—including computers worth up to 30,000 pounds—like mothers treat their babes, Mr. Robertson said. Tight security is always on hand now, including police at U.S. concerts.

So Lloyd's is satisfied to write most of the business for touring musical groups, says Dominic Adams, a lead underwriter. "The more bizarre the industry, the less likely you will get claims," he said.

Each tour is assessed differently, Mr. Adams adds. The health of the artists and the type of lifestyle they lead are factors in rating. "If you're doing 75 cities in 85 days, that's a strain," he remarked.

Lloyd's will cover financial losses from nonappearance because of death, accident or illness, Mr. Adams says. But he refuses to pay a claim because a star has a temper tantrum and won't go on if the nonappearance is drug-related.

"If someone doesn't go on because of drugs, that's tough. If you OD, that's a deliberate act," he said.

"The industry has a history of drugs and we take that into account," he added. "If people behave in a businesslike manner, we don't care if you're as high as a kite as long as the driver's sober."

Nonappearance because of death also seems to be more frequent these days, Mr. Adams says. Since Glenn Miller died in a plane crash in 1944, big names have been dying in the prime of their lives about once every 18 months, Mr.

Adams says. Bill Haley, John Lennon, Keith Moon, Mama Cass, and Elvis Presley are the underwriters' loss history.

"The odds are frighteningly high, mind you, considering their lifestyles," he said. "I'm talking about traveling."

Most times groups fail to appear during a tour because of injury or illness.

Then expensive tours must be canceled or rescheduled, adds Mr. Robertson, who makes sure the total financial loss, including refunded ticket sales, is recovered.

All he asks to support a claim is a legitimate doctor's note to certify an illness. Fleetwood Mac missed a day in Germany while on tour because of illness, and the broker checked personally.

"I was out the next day and had the claim paid within a week," he said.

He also flew out to Los Angeles this past year when Rex Harrison took ill on his American tour of "My Fair Lady," insured in the London market. Mr. Harrison was ill for three days, but the nonappearance policy had a two-day deductible.

Almost all the music industry has been insured at some time through London. The policyholders include the Rolling Stones and Elton John and New Wave groups.

"I'll take on any small band on the road because they're the Rolling Stones of tomorrow," Mr. Robertson said.

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N.J. will appeal award

NEW YORK—The state of New Jersey will appeal a \$766,000 liability award against it for the death of a bus passenger abandoned on a highway.

A federal court jury here March 3 awarded the judgment to the widow of Robert Barron, who was struck by two cars and killed while wandering drunk down a highway during a hurricane.

Mr. Barron, a 33-year-old stockbroker, "was definitely drunk" when he boarded the Transport of New Jersey bus in New York, said the plaintiff's attorney. He asked the driver to stop at a gas station 15 miles north of his destination so he could use the men's room. The driver drove off and left Mr. Barron at the gas station. Mr. Barron began walking down the highway and was killed.

The drivers of the cars that struck Mr. Barron were sued, in turn, by Transport of New Jersey, but the jury held them harmless, according to Robert Grochow of Schneider, Kleinick & Weitz of New York, the plaintiff's attorney.

Transport of New Jersey, acquired by the state last October, was self-insured at the time for the first \$200,000 of liability per occurrence and has excess liability insurance with the Home Indemnity Co., Mr. Grochow said.

Transport of New Jersey intends to appeal the verdict, contending its liability for passenger safety was too broadly interpreted, a company spokesman said.

Self-insured comp fund blossoming for growers

By JERRY GEISEL

APOPKA, Fla.—A new self-insured workers compensation fund for Florida plant growers has sprouted.

The Florida Foliage Assn., whose 300 members grow a variety of indoor and household plants, has set up a self-insured workers compensation pool to slash members' workers compensation costs.

Plant growers with excellent loss records may be able to cut workers compensation bills by more than 30% through a dividend plan offered by the fund, says C.C. Dockery, fund administrator.

"They saw the success of other trade association funds and

thought they were large enough to start a fund of their own," Mr. Dockery said.

Under the pooling plan designed by Summit Consulting Inc. of Lakeland, Fla., dividends a member receives will be based on its own loss experience and the fund's profits.

Summit manages similar self-insured trade association funds in Florida, including the Associated Industries of Florida Self-Insurers Fund (BI, Jan. 5).

Several companies in that fund with no losses earned a 44% dividend the first year.

Besides paying out dividends to members with good loss ratios, the

Florida plant growers fund also offers advance discounts of up to 15% of standard premium. The size of the discount depends on how big a premium the plant company pays.

Once in the fund, members' workplaces will be inspected periodically by industrial safety engineers from Summit Loss Control Services Inc.

ESIS, the INA Corp. affiliate that supplies statistical services and claims handling for self-insurers, will adjust claims.

The fund pays losses of up to \$100,000 per occurrence. Excess coverage, supplied by several unnamed Bermuda-based insurers, covers any single loss of \$100,000 to \$1 million.

Under an annual aggregate stop-loss policy, also with Bermuda insurers, the fund reserves 70% of premiums to pay claims. Once that fund is exhausted, the aggregate stop-loss policy pays the next \$1 million in claims.

The fund has 49 members that have contributed \$320,000 in premiums. The smallest premium is \$600, the largest \$13,000. Average premium is \$6,000.

The fund's premium flow is increasing by about \$40,000 a month and Mr. Dockery expects a premium of \$700,000 contributed by 100 members by the end of the fund's first full year.

Florida has become especially fertile ground for trade association-sponsored workers compensation funds. In 1980, about 21 trade group pools captured about 10% of the \$877 million in workers compensation insurance purchased in the state, an increase from the 7.3% share of the market earned by 17 trade group pools in 1978.

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N.J. RIMS picks 1981 officers

PARSIPPANY, N.J.—The New Jersey chapter of the Risk & Insurance Management Society has elected new officers and directors for 1981.

Officers are: Ronald McCartney, director of risk management at General Instrument Corp., president; C. Carol Capossela, risk and insurance manager at United Jersey Banks, first vp; John A. Mancuso, risk manager at Interpace Corp. vp-communications; Stephen W. Scammell, senior corporate risk administrator at Becton Dickinson & Co., vp-programs; Marilyn Maher, corporate risk manager at Beneficial Management Corp., vp and secretary, and Wilson King, director of risk management at Rutgers State University, vp and treasurer.

Directors include: Charles Dupuis Jr., risk manager for N.J. Turnpike Authority; Meyer S. Gottlieb, insurance manager at American Hoechst Corp.; Kevin J. Christel, director of insurance at Western Union Corp.; Jerry A. Luttrell, manager-casualty insurance and insurance attorney at Nabisco Inc.; Roy E. Pederson, assistant manager-corporate insurance at Johnson & Johnson, and Patricia Weiser, insurance specialist at Mutual Benefit Life Insurance Co.

The group's next program will be March 18 at the Holiday Inn in Parsippany. Topics will be loss forecasting and retention analysis, presented by Jim Davis of Corroon & Black.

Liability seminar deals physicians preventive dose

By MARGARET LeROUX

ATLANTA—The Georgia Medical Assn. and its longtime malpractice insurer want physicians to take a risk management pill—with a little sugar.

Doctors who attend a special seminar on reducing professional liability risks earn a 10% premium credit on 1981 malpractice insurance premiums, an 8% discount in 1982 and a 6% credit in 1983.

The physicians need it. Malpractice claims jumped 40% in 1980, and Georgia rates are slightly above the national average, according to the medical association.

Georgia malpractice claims grew from 447 in 1979 to 694 in 1980, showing frequency and severity "higher than ever before," noted Thomas Uehlin, manager of St. Paul Fire & Marine Insurance Co.'s Atlanta office. "They (claims) are all over the board" and show no strong trends in any one area, he added.

The leading cause of malpractice claims in Georgia, the insurer says, is post-operative complications, followed in frequency by surgical error and improper treatment of fractures and dislocations.

But an underlying cause of malpractice claims is a breakdown in communication between physi-

have no inkling of how to handle a lawsuit."

Dr. Kaufmann compared the seminar to a driver education course for high school students. "It doesn't eliminate all the accidents, but it does make a striking difference in the behavior of those who take it," he said.

Based on the success of the Georgia seminars, St. Paul, the leading malpractice underwriter in 13 states, is considering doing similar seminars in those states, with the cooperation of state medical groups. ■

A communications breakdown often lies behind suits.

cians and their patients, says the medical association.

That's what the seminar was all about. The curriculum, focusing on good doctor/patient relations, was developed by Dr. J. Rhodes Haverty, former president of the Medical Assn. of Georgia, and Steven Wilson, dean of Georgia State University.

About 200 Atlanta doctors attended the first seminar last December and five other meetings are scheduled this spring.

The seminar explains what doctors can do to reduce their malpractice liability, what to do when a claim is filed and what happens when a lawsuit is taken to court.

A mock malpractice trial with plaintiffs attorneys graphically demonstrates what a defendant faces in court.

"The careless use of a word or phrase can lead to a lawsuit," explained Dr. James Kaufmann, a seminar leader. "Tell the truth, don't conceal things from your patients and don't say things you don't mean."

Doctor/patient relations extend to a physician's staff and clerks, seminar speakers added. Records should be kept clear and concise "as though a jury were to inspect them" and receptionists should be courteous and helpful.

"If your receptionist upsets the patient, then dissension has its foot in the door before you even see the patient," a spokesman for the medical association told doctors.

The response of the doctors attending the seminar was enthusiastic, "especially at the mock trial," said Mr. Wilson of Georgia State. "Although doctors are given a lot of information on how to avoid malpractice, many of them

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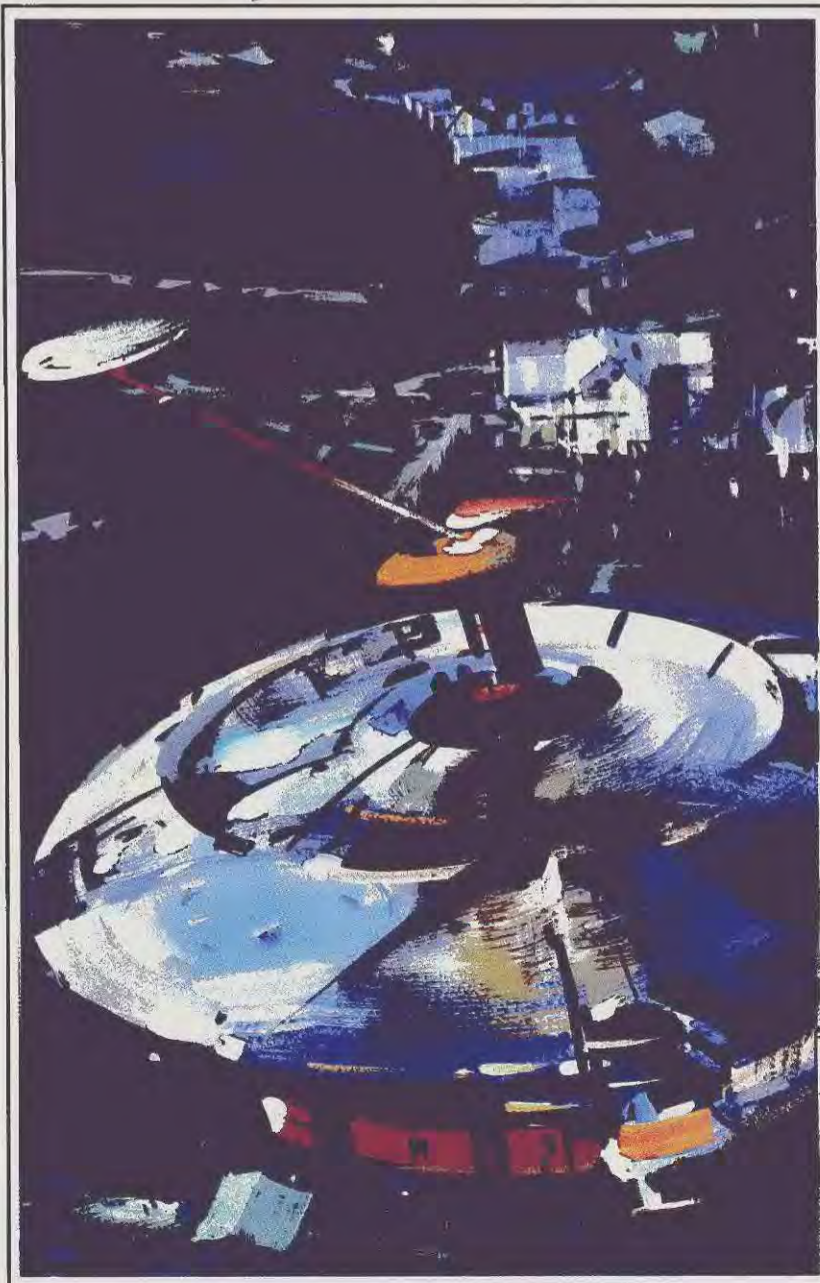
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IRI makes changes in staff worldwide

INDUSTRIAL RISK Insurers in Hartford expanded its engineering service worldwide. In England, **Robert Medeiros** was named district supervisor of the London office, which is responsible for the United Kingdom and Ireland. Senior engineer **Douglas F. Nelson** and engineer **Peter J. Willse** were added to the staff. In West Germany, **Daniel M. Carey** was named district supervisor of the Frankfurt office, which serves West Germany, Austria and Switzerland. In Australia, **Michael J. Hudson** named district supervisor of the Sydney office, which serves Asia, Australia and New Zealand.

Other insurer changes:

Ronald G. Aller elected senior executive vp of Mutual Fire, Marine Inland Insurance Co. He will be responsible for operations, finance, underwriting, reinsurance and claims for the Philadelphia-based company. He was vp of financial staff at Allendale Mutual Insurance Co.



Aller

Michael J. Monaghan joined Fremont Indemnity Co. of Los Angeles as a property/casualty claims manager. He will be respon-

comings & goings: industry

sible for the overall administration of property/casualty claims in the San Mateo division. At the Sacramento division, **David Maylum** joined as senior loss-control consultant.

Excess/surplus

Thomas J. Blattner appointed vp of branch casualty operations in the Los Angeles office of Bacala & Shoop Insurance Services.

Thomas F. Tucker, James R. Stevens and **Merrill B. Walker Jr.** elected senior vps of Victor O. Schinnerer & Co. Inc., professional liability insurance program administrator and underwriting manager in Washington, D.C.

Colin Rainey named brokerage manager and **Rita Flanagan** named claims manager at Jack D. Hunter & Associates, special risks underwriting managers in Arlington, Tex.

Reinsurers

Ronald K. McCarty, branch manager of the Kansas City office of RGC Intermediaries Inc., elected vp.

General Reinsurance Corp. in Greenwich, announced the ap-

pointment of eight officers: in the Chicago office, **Joel E. Babcock, Thomas J. Elmer** and **Mary N. Noonan** promoted to assistant vps, as was **Jean L. Charette** in the Montreal office. Four assistant secretaries were appointed: **George A. Buffum Jr.** and **Michael J. Mugglebee** in Los Angeles. **Karl J. Amidon** in Chicago and **Paul A. McFarlane** in Toronto.

Harold E. Shergold named senior vp at North American Reinsurance Corp. in New York. In his new position, Mr. Shergold will be responsible for managing the firm's treaty marketing operations.



Shergold

David W. Derrick and **John B. Zachry III** appointed assistant vps of RFC Management Corp. of Los Angeles.

Other suppliers

Paul J. McVeary Jr. appointed a consultant with RIMCO Risk Management Inc. in Dallas.

Towers, Perrin, Forster & Crosby announces the election of six new vps: **Clyde D. Beers**, Philadelphia; **Edward C. Lane**, Dallas; **James R. Lannen**, Chicago; **Jean Y. Perron**, Montreal; **James W. Walker**, Boston, and **James W. Zemanek**, Dallas.

Gerold L. Stehr joined the Chicago-based valuation consultant firm of Lloyd-Thomas/Coats & Burchard Co. as vp of operations.

Agents/brokers

W. Douglas H. Gardiner elected chairman of Reed Stenhouse Cos. Ltd.

Mr. Gardiner is a director and former vice chairman of The Royal Bank of Canada and is a director of several other major Canadian corporations. He succeeds **John B. Aird**, who left the firm upon his appointment as lieutenant governor of Ontario, Canada.

Daniel D. Pickard appointed vp of Bayly, Martin & Fay International. Mr. Pickard will spearhead development of a worldwide network of foreign correspondents focusing on foreign brokers.

John P. McLaughlin named head of Area 2 of Marsh & McLennan Inc. He will manage an operation that includes offices in Atlanta and other Southern cities.

Larry E. Davis named head of the Norfolk office of Marsh &

McLennan Inc.

Peter A. Malito joined Corroon & Black Co. of New York as vp in the new business department.

Paul A. Land joined Sheppard, Downing & Coleman Insurance Service Ltd. as vp in their Edmonton, Canada, office.

William Kent III joined Rollins Burdick Hunter of Hawaii as vp in the firm's San Francisco office.

J. Al Friday joined Rollins Burdick Hunter in Atlanta as senior vp. He was vp-in-

insurance with The Grand Union Co. **Frank P. Kelly Jr.** appointed senior vp in the San Francisco branch of Reed Stenhouse; **Robert L. Jones** appointed vp of business development.

Stephen H. Wolter named chief operating officer and executive vp of Frederick Rauh & Co. in Cincinnati.

James V. Davis named director of the advanced risk management services division of Corroon & Black Corp. in New York. Mr. Davis will also become a member of the executive committee of the broker's insurance brokerage services group. ■



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The new master policy may be issued for one to three years. Larry Farano, assistant vp, manages the underwriting of the new policy.

Manager manual

International Benefits Research Associates has published a reference manual and self-training device for employee benefit and risk management personnel entitled "Employee Benefit Plans in the United States of America." Included are briefings of all aspects of employee welfare and retirement plans.

The guide is cross-referenced and indexed and a glossary of 300 terms is presented. It lists facts, explains their significance and demonstrates how they fit in with trends and developments. The cost

products & services

is \$375.

For more information, write IBRA, P.O. Box 241, Old Greenwich, Conn. 06870.

Contractor theft

Fireman's Fund Insurance Co. in San Francisco has developed a program to help contractors protect equipment from theft and vandalism. Booklets, decals and other materials aimed at preventing theft will be available to policyholders. Those that implement the program and suffer a loss from theft will get their deductible reduced by 50%, says vp R. Z. Zoellner.

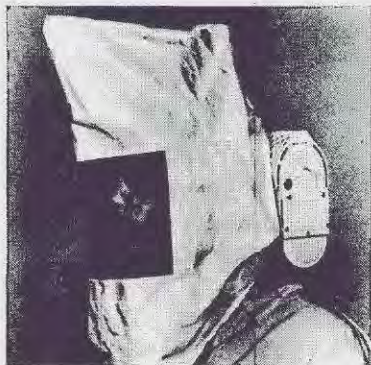
"For example," he said, "a policyholder with a deductible of \$1,000 who puts our loss-control recommendations into practice would be responsible for the first \$500 of a theft loss." The program is available to all policyholders without charge.

Emergency hood

Scott Aviation in Lancaster, N.Y., has designed an emergency hood that will allow the wearer 15 minutes of escape time from smoke-filled, oxygen-deficient

and toxic atmospheres.

Called SCRAM, the hood weighs 3½ pounds and has a solid-state chemical life support pack worn behind the neck. SCRAM units fit



Emergency hood

everyone and are activated in seconds, the company says. Users can talk through the hood without any loss of breathing protection.

When packed in atmosphere-resistant cases, they can be stored in potentially dangerous areas for up to 10 years. The cost is \$200.

Access control

Alarm Controls Corp. is intro-

ducing Kode Key: 620, a digital access-control system for use with electric door strikes, deadbolts or any alarm system. The decoder module and indoor/outdoor key pads are easy to install and can be matched with any existing security system, the company says.

Based on a four-digit code, the system features a built-in power supply, two-channel output, SPDT relays, contacts, rated two amps and a four-wire connection to key pad.

Cost of the decoder module runs \$43.50, the indoor key pad costs \$15 and the outdoor key pad \$22.

For more information contact the company at 151-22 W. Industry Court, Deer Park, N.Y. 11729.

Concealed sprinkler

A new concealed recessed sprinkler is available from Grinnell Fire Protection Systems Co. CLEANLINE II offers a way to include fire protection without detracting from design aesthetics, the manufacturer says.

This model has several advantages over the previous one, the company says: its diameter is reduced 25%, it is easier to install and each unit features a plus or minus ¼ inch adjustment. Cost of the sprinkler is \$8.50.

For details, write Grinnell at 10 Dorrance Street, Providence,

Rhode Island 02903.

Adjusters E&O

MBC-Colby Associates Ltd., a New York-based excess/surplus brokerage, announces new errors and omissions coverage for public adjusters in New York State.

Limits available are \$100,000 to \$1 million on a claims-made basis with a \$1,000 deductible per loss. Cover will be sold through licensed New York brokers at competitive rates, the firm says.

For further information, contact Morris L. Cohen at MBC-Colby Associates Ltd., 200 Garden City Plaza, Garden City, N.Y. 11530, P.O. Box 50009; 212-343-1188.

Arson films

Film Communicators, a producer and distributor of films for fire prevention and safety training, is offering a collection of films on arson.

The films have been designed for fire service, law enforcement, industry and judicial personnel, the firm says.

Videotapes in any format and 16mm color prints are available directly from Film Communicators, 11136 Weddington St., North Hollywood, Calif. 91606; 800-423-2400 outside California, 213-766-3747 locally.

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info

- The American National Standards Institute has published its **1981 Catalog of American National Standards** that lists 10,000 of its approved standards. The catalog is available for \$8.50 per copy from ANSI, Sales Department, 1430 Broadway, New York, N.Y. 10018.

- The Society of CPCU has published its second **Public Affairs Forum** highlighting areas of risk in society. Copies of the 12-page newsletter are available by writing Joan S. Keys, Director of Public Relations, Society CPCU, Kahler Hall, Providence Rd. (CB #9), Malvern, Pa. 19335.

- Merritt Co. has added a **Management Briefing Report** that provides a quick overview of OSHA matters that are detailed in its OSHA Reference Manual Service. First-year subscription rate for the manual is \$198. Write Merritt Co., Department 30701, P.O. Box 955, Santa Monica, Calif. 90406.

- A complimentary issue of the weekly **Smart's Insurance Bulletin** is available from Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577.

- **ABCs of Handling Business Interruption Claims** by Edward N. Bradford is available from the National Assn. of Independent Insurance Adjusters, 175 W. Jackson Blvd., Chicago, Ill. 60604.

- The Office for Professional Liability Research has published **Mechanics' Liens for Professional Services**, aimed at architects and

engineers. Some common problems encountered by design professionals are examined. This is the sixth special study in **Guidelines for Improving Practice**, a loss-prevention series that costs \$50. For information, write OPLR, Victor O. Schinnerer & Co., 5028 Wisconsin Ave. N.W., Washington, D.C. 20016.

- Two sample wallet-sized cards, **Help, I'm Choking . . . Heimlich Maneuver** and **Levante Correctamente**, are available by writing Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577.

- A four-page leaflet, **10 Ways**, describes how Industrial Risk Insurers and producers work together and discusses coverage. Write Communications Department, Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

- **The Second Edition of the Standard for Safety for Heating Water Supply and Power Boilers—Electric**, UL-834, has been published by Underwriters Laboratories Inc. The standard covers electric heating, water supply and power boilers of 600 volts or less intended for commercial or industrial use or for space-heating in ordinary locations, in accordance with the National Electrical Code. Copies are available for \$4.25 each or \$10.25 for the second edition and revisions. A catalog of UL standards is available without charge. Orders with prepayment should be sent to UL, Publications Stock Department, 333 Pfingsten Road, Northbrook, Ill. 60062.

- **An Insurance Buyer's Checklist for Banks** lists various kinds of insurance applicable to banks. For a copy, send \$10 to International Risk Management Institute, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.

- Staffing arrangements and how they affect a hospital's legal liability and effective defense strategy are the subjects of a serialized feature published by the Defense Research Institute. The two parts, entitled **The Symptoms** and **The Cure**, focus on hospital emergency room problems. Copies of the article with footnotes and case citations are available for a prepaid handling fee of \$4 through the Defense Research Institute, Suite 702, 1100 W. Wells St., Milwaukee, Wis. 53233.

- **Property Insurance Annotations—Fire and Extended Coverages** presents annotations to the 1943 Standard Fire Insurance Policy and Extended Coverage Endorsement. The annotations are divided into four parts: "The Con-

tract Generally," "The Insuring Agreement," "Conditions" and "Extended Coverage." Relevant statutory materials are included with the judicial decisions. For a copy, write the American Bar Assn., Order Billing 519, 1155 E. 60th St., Chicago, Ill. 60637. Cost is \$25 for members of Tort and Insurance Practice Section and \$35 for all others.

- Underwriters Laboratories Inc. has published the **Seventh Edition of the Standard for Safety for Unlined Fire Hose**, UL-18. Copies of this edition are available for \$4.50 each or \$10.75 for the seventh edition and any revisions to that edition that may be issued. A catalog of UL Standards is available without charge. Orders with prepayment should be sent to Underwriters Laboratories Inc., Publications Stock Department, 333 Pfingsten Rd., Northbrook, Ill. 60062.

- **Reinsurance . . . A Practical Guide** outlines pro-rata and excess of loss reinsurance. It is available for \$5.50 from Interstate Service Corp. **The Captive Insurance Company . . . An Emerging Profit Center** includes a glossary of more than 650 captive insurance companies and other valuable information. It is available by mail for \$15.45 from Interstate Service Corp., Box 1725, Oklahoma City, Okla. 73101.

- **An Insurance Buyer's Checklist for Mercantile Risks** is available for \$10 from International Risk Management Institute. For a copy, contact IRMI, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.

- The new **Community Bankers Insurance Buying Guide**, designed to assist community bankers in obtaining the most economical and timely insurance and provide guidelines for purchasing adequate insurance coverage, has been published by the American Bankers Assn. Copies are available through the ABA's order processing division, #213400, the Community Bankers Insurance Buying Guide, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4120. Cost is \$25 for members, \$31 for nonmembers.

- Underwriters Laboratories Inc. has published the **Fourth Edition of the Standard for Safety for Liquid-Level Indicating Gauges and Tank-Filling Signals for Petroleum Products**, UL-180. This standard is an American National Standard. Copies are available for \$3.75 each, or \$9 for the fourth edition and any revisions that may be issued while it is in effect. A catalog of UL standards is available free. Orders with prepayment should be sent to Underwriters Laboratories Inc., Publications Stock Department, 333 Pfingsten Road, Northbrook, Ill. 60062. ■

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U.S. expands probe of Teamster fund

washington

WASHINGTON—The Reagan administration is expanding its investigation of the scandal-tinged Teamsters Central States Pension Fund.

A special task force, composed of members from the Labor, Justice and Treasury departments will coordinate efforts in a pending federal civil suit against trustees of the \$2.2-billion pension fund, the nation's largest multiemployer plan.

The task force was formed in the wake of General Accounting Office charges that the Labor Department bungled its five-year-old investigation of the fund (BI, Sept 1, 1980). Some members of Congress considered removing the Labor Department from the probe.

But the Reagan administration says sloppy and uncoordinated legal action against the fund is over. The litigation strategy task force will meet regularly to coordinate pending litigation.

The administration also says it intends to vigorously enforce the Employee Retirement Income Security Act.

"It is of the utmost importance that the workers of this country know that their funds will be protected, and to that end the enforcement of ERISA will be a top priority of this administration."

Barring taxation

Rep. Don Albosta (D-Mich.) has introduced legislation (H.R. 65) to bar taxation of Social Security benefits.

"The only means of permanently assuring that Social Security benefits won't be taxed is to write those protections into law," Rep. Albosta said.

Several research groups, including the President's Commission on Pension Policy, have recommended that Social Security benefits be taxed like private pension benefits are taxed as income.

But a majority of congress finds the idea "repugnant," and members say they will battle to keep Social Security benefits tax-free.

Sen. John Heinz (R-Pa.) is expected to introduce a similar bill in the Senate.

Coverage opposed

The AFL-CIO says it will oppose mandatory Social Security coverage for public employees.

An attempt to cover public employees "would be inequitable and begin an attack against the civil service retirement system on which those workers have relied," says John Leyden, executive director for the AFL-CIO Public Employee Department.

Plan denounced

John Lyons, the only union member of the President's Commission on Pension Policy, has denounced the commission's recommendation to gradually increase the Social Security retirement age.

Lifting the retirement age to 68 "Would break faith with younger workers" and "undermine confidence" among workers who have paid into the system expecting to receive benefits at 65, said Mr. Lyons, the president of the International Assn. of Bridge, Structural and Ornamental Iron Workers.

Instead of raising the Social Security retirement age, the government "should implement effective economic policies that enable people to work," Mr. Lyons said.

Under the commission's recommendation, the Social Security retirement age would be increased gradually to age 68 from 65 beginning in 1990.

Commission chairman C. Peter

McColough recently said the retirement age must be increased to keep the public retirement program viable (BI, March 9).

Swine flu report

A new General Accounting Office report gives the latest information on how the government processes swine flu claims resulting from its ill-fated 1976 mass inoculation program.

The Justice Department reviews all claims and rules on their validity. If a claim is ruled valid, the Justice Department negotiates the settlement.

If the department decides a

claim is not valid, a plaintiff can sue the government in U.S. district court. There have been more than 3,300 claims filed against the government.

At least 32 persons died after receiving a swine flu shot.

Free single copies of the GAO report, "Processing of Claims Resulting from the Swine Flu Program," are available from the Superintendent of Documents, P.O. Box 6015, Gaithersburg, Md. 20760. Specify report no. HRD-81-33.

Suit settled

A Florida fabrics worker has won a \$10,000 settlement from a

firm that he says fired him after he sought information about his pension benefit.

The Labor Department said John P. Hebert, a participant in the Gulf Fabrics Inc. retirement plan, was fired by the Tampa-based firm after he sought an explanation from the company on the amount of his vested benefit and contacted the department about the calculation of the benefit.

The Labor Department filed suit in U.S. District Court for the Middle District of Florida asking the court to reinstate Mr. Hebert with back pay.

The department said ERISA bars a firm from taking action against an employee who seeks additional information about his or her pension benefit.

After the suit was filed, Gulf

Fabrics agreed to pay Mr. Hebert \$10,000 in back pay without admitting to any violations of the law. Mr. Hebert, however has decided not to return to Gulf Fabrics.

Alternative index

The General Accounting Office last week recommended a major overhaul in the way Social Security benefits are increased.

GAO suggested three alternatives to the current automatic indexing to Consumer Price Index increases: The president or Congress could be given discretion to set the amount of the increase; the increase could be limited to the average wage increase, or the CPI could be revamped to more accurately reflect changes in the cost of living.



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Liability suits threaten markets: Exec

NEW YORK—Massive product and environmental liability lawsuits threaten the liability insurance mechanism, says a reinsurance executive.

"Our society may well be required to face up to the fact that the insurance mechanism is incapable of delivering several hundred thousand dollars for every person who died of cancer or some other cause," says William N. Edwards, American Reinsurance Corp. assistant vp.

New asbestos claims are being filed at the rate of 500 per month, compared with 200 per month a year ago, he told a CPCU meeting here. As of Feb. 1, 11,718 individual plaintiffs had sued 725 defendants.

It costs defendants an estimated \$45,000, excluding legal costs, to dispose of each case, Mr. Edwards

maintains. Legal costs could run four to six times loss expense, he adds.

At the rate of 6,000 new asbestos suits annually, it will cost the insurance industry \$1.35 billion in loss and loss adjustment costs to dispose of them, he says. That is more than one-fifth of the \$6.3 billion generated in 1980 through general liability premium, excluding medical malpractice, he points out.

Suits alleging injury due to exposure to harmful substances in the environment pose even a greater threat to liability insurers, Mr. Edwards says.

"There is a huge pool of injuries that evoke tremendous sympathy. Lawsuits, often class actions, are being filed all over country alleg-

ing various and sundry substances are causing cancer and other problems, including birth defects."

The situations include Agent Orange, Love Canal, PCBs and benzene. "Some knowledgeable people in the oil industry think the benzene claims will make the asbestos litigation pale by comparison," Mr. Edwards warns.

If 10% of the nation's 400,000 annual cancer deaths are compensated at \$300,000 each—a median value for wrongful death claims—the cost would be \$12 billion—nearly double the 1980 general liability premium, he says.

Insurers should not dismiss these suits as being of dubious merit, Mr. Edwards warns:

"Plaintiffs attorneys do not file a suit unless they think they can get some money out of it," he said.

"They will not win them all, but given the uncertainty of cancer and other disease causation, conflicting evidence and tremendous emotional appeal, the plaintiffs are going to win many lawsuits. Each win will encourage more filings."

Even when insurers might consider a claim to be without merit they wind up paying, Mr. Edwards says. Such was the case in a suit filed by 1,000 factory employees against three dozen of their employer's suppliers. It was settled out of court for more than \$2 million even though no link was established between the products and the plaintiffs' health.

High legal costs were the culprit. "In this case, a single monthly meeting of the defense lawyers cost the carriers in the neighbor-

hood of \$20,000," Mr. Edwards said.

Settling liability claims is a "terrible dilemma" for the insurer and it is hard to fault them for their strategy, he says.

Often, the decision to settle is made by an inexperienced claims examiner in a field office whose supervisor must worry about keeping expenses within his budget, he explains.

Legal defense costs in large-scale liability suits could be controlled by having one team of attorneys represent several or all defendants, Mr. Edwards says. The Defense Research Institute's industry-wide litigation committee is exploring ways of streamlining defenses and reducing costs, but each policyholder is entitled to a full defense, he adds.

News status will boost HMO aid

TRUMBELL, Conn.—Physicians Health Services here has become the first federally qualified independent practice association in New England, a move that is expected to dramatically boost enrollment.

"We struggled for three years to get 10,000 subscribers, without having much access to major employers in Fairfield County because those employers demand that an HMO be federally qualified before it can be offered to their employees," said executive director Michael Herbert.

"This move means that we will now have access to the major employers in the area and there will be an opportunity for a great many more people to take advantage of the IPA/HMO," he said.

Although the plan approved by the federal government projects Physicians Health Services will have 35,000 subscribers in the Bridgeport area within five years, Mr. Herbert said he believes the IPA will grow faster than now that it has federal backing.

"I think we can top that figure. It is realistic to assume that we could reach 25,000 within two years, and within five years, well, who knows?" he asked.

The federal qualification also means the IPA will be able to borrow funds from the government at lower interest rates than would be available from commercial banks. The IPA plans to borrow \$85,000, Mr. Herbert says.

About 100 employer groups now offer the IPA to their workers. Physicians Health Services includes about 80% of the practicing physicians in the greater Bridgeport area, Mr. Herbert said.

Minorities rate more injuries

CHICAGO—Minority workers are bearing a disproportionate amount of workplace injuries, according to the Chicago Reporter, a magazine that examines racial issues in metropolitan Chicago.

Minorities are suffering higher rates of cancer and other diseases linked to the work environment because industry employment practices place them in the least skilled and most dangerous jobs.

The publication said that in some industries, where shops are small and poorly regulated, minority workers make up the bulk of the employee population, while in larger facilities where most workers are white, non-whites do the least healthful jobs.



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San Francisco, Tampa, Toronto.

Firm to appeal court's approval of expropriation

MONTREAL—Asbestos Corp. plans to appeal a Quebec Court of Appeals ruling that the company's assets can be expropriated by the province of Quebec.

The court last week found the provincial expropriation law is constitutional and allows the province to seize the firm.

Asbestos Corp. is 54% owned by St. Louis-based General Dynamics Corp.

The ruling follows a 21-month legal battle in which the appeals court upheld a lower court decision that the province is empowered to seize the firm (BI, June 9, 1980).

The province passed expropriation legislation in 1979, but Asbestos Corp. fought seizure efforts, arguing a provincial government could not interfere with a company incorporated under Canadian federal law.

Insurance officials at General Dynamics have said the asbestos firm is not insured for expropriation.

Comp amendment

SINGAPORE—New amendments in Hong Kong's workers compensation act allow workers receiving benefits to earn up to \$600 a month in non-manual occupations without jeopardizing their benefits. The previous maximum was \$360.

The death benefit also was raised to \$21,600 from \$16,800 and total disability benefits were raised to \$28,800 from \$21,600, says Johnson & Higgins International.

Saudi instability

NEW YORK—Intensifying hostility between Middle East nations could topple the monarchy in Saudi Arabia and pose serious threats to international business interests there, says a Frost & Sullivan political risk survey.

Political stability, and consequently the future of foreign firms operating there, will depend on the Saudi government's ability to keep out of a crisis should one develop.

A military regime could radically alter the climate for international investment, especially if it is dominated by socialists or religious fundamentalists.

The analysts, however, say there is only a 19% chance of major loss for businesses in the country over the next 18 months because it appears the current regime will remain in power for the time being.

The probability of loss rises to 42% over the next five years because of the growing danger that ideological factions will gain power and may topple the government.

Product liability

BRUSSELS—A new insurance market is forming to provide product liability coverage to European Economic Community manufacturers exporting to the U.S.

A group of insurers, forming Pace Exchange International, will provide primary and excess coverage. Mutual Fire Marine & Inland Insurance Co. of Philadelphia will provide primary layers of up to \$1 million per occurrence with excess layers to be arranged through Lloyd's of London brokers Hargreaves, Reiss & Quinn Ltd. and S.A. Unireas, a Belgian insurer based in Brussels.

Several French, West German

worldwide

and Swiss insurers have expressed interest in providing excess coverage.

The First New York Syndicate of the New York Insurance Exchange has already accepted some of the reinsurance for the primary layer, said a spokesman for Condren, Riebling, Trieber & Co. Inc., New York-based broker and underwriting manager for Mutual Fire Marine.

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Million-dollar product awards increase

By JERRY GEISEL

SOLON, Ohio—The trend to make defendants pay for faulty products or services continues to grow, with a record high number of million-dollar jury awards in 1979.

In 1979, juries around the country awarded 80 million-dollar verdicts, up from the previous record of 66 million-dollar awards in both 1977 and 1978, according to Jury Verdict Research here.

Since 1962, when the first million-dollar award was made, the number of blockbuster awards had grown rapidly. Between 1962 and 1969, 19 million-dollar awards were rendered. But between 1970 and 1979, juries awarded 383 million-dollar judgments.

Juries in California have

awarded 75 million-dollar judgments, more than any other state. Florida ranks second with 56 million-dollar judgments, followed by New York, 53, and Michigan, 33.

Other states where juries have handed down a high number of million-dollar awards include Texas, 28; Illinois, 22; and Pennsylvania, 13.

Product liability suits lead all liability situations in numbers of million-dollar judgments, with 96. A total of 74 million-dollar medical malpractice awards have been recorded, with 56 million-dollar awards involving automobile collision cases.

These large judgments tend to be awarded in cases when the plaintiff has suffered massive injuries, says Jury Verdict Research.

Of the 407 million-dollar judgments awarded since 1962, 104, or 26%, went to plaintiffs who suffered serious brain damage.

Another 24%, or 99 awards, went to plaintiffs permanently paralyzed. Sixty of the big verdicts were for wrongful death and 40 were for the amputation of a leg and/or arm.

According to Jury Verdict Research records, the largest judgment ever made to any individual was the \$128 million a California jury awarded in 1978 to an 18-year-old youth who was severely injured in an accident involving a 1972 Ford Pinto (31, Feb. 23, 1973).

The plaintiff charged Ford placed the gas tank in Pintos in a spot the auto manufacturer knew from its own studies would make the tank prone to rupture upon

light impact. Ford later recalled more than 1 million Pintos to make alterations to the gas tank.

That record \$128 million award, which included \$125 million in punitive damages, was later reduced by a judge to \$6.5 million. Ford is appealing.

While a jury award of \$1 million or more may seem high, "it is often based upon legitimate computations of expected lifetime lost earnings and/or medical expenses necessary to sustain the plaintiff for life," Jury Verdict Research notes.

In addition, the amount of money a plaintiff receives at settlement after the appeals process has been exhausted often is considerably less than the initial award.

A 1977 survey by the Insurance

Services Office found the average payment for a product liability claim was less than \$5,000.

The number of million-dollar judgments awarded includes:

1962: 1	1972: 22
1963: 2	1973: 18
1964: 1	1974: 24
1965: 3	1975: 26
1966: 1	1976: 47
1967: 3	1977: 66
1968: 5	1978: 66
1969: 3	1979: 80
1970: 7	1980: 21 (info incomplete)
1971: 11	

"Injury Valuation Reports: Current Award Trends" is available for \$12.50 per copy from Jury Verdict Research Inc., 5325 Naiman Parkway, Suite B, Solon, Ohio 44139; 216-248-7960. Specify No. 246 in ordering the report.

FASB seeking comments

STAMFORD, Conn.—The Financial Accounting Standards Board is looking for your opinions on how the cost of benefits promised to retirees should be reported to your shareholders.

Corporations could be forced to report the cost of promised retirement benefits as a liability on the balance sheet instead of as an obligation in a footnote.

This is one of the most controversial issues addressed in a new discussion memorandum issued by the FASB in its effort to revamp the way corporations report pension plan information.

FASB wants your comments on the issues.

The goal is to make information reported to stockholders comparable among different companies. Critics of current accounting methods charge existing standards make it impossible to compare the amounts of expense and liability resulting from pension promises.

An interim standard—FASB 36—is only a stopgap measure to improve the comparability until a final standard can be prepared, said FASB project manager Timothy S. Lucas.

Forcing corporations to show obligations to pay pension benefits as a liability on the balance sheet "would reduce reported stockholders' equity or net worth by significant amounts in some cases," Mr. Lucas said. "In other cases, depending on the shape of the final rules, it might have the opposite effect."

Most corporations expect such a reported liability would reduce their net worth, and so oppose such a change.

FASB also wants to address accounting for other post-retirement benefits.

At issue is whether a company that promises to continue health insurance for retirees should accrue for the cost of that insurance while the person is employed.

In all, eight issues involving accounting for pensions and post-retirement benefits are addressed in the memorandum.

FASB wants your comments by June 17. Public hearings also will be held in New York July 13-15.

Up to five copies of "Employers' Accounting for Pensions and Other Post-Employment Benefits" are available free from the FASB, High Ridge Park, Stamford, Conn. 06905.



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Planned collision will provide data on marine safety

By STACY SHAPIRO

London line

LONDON—Two ships that pass in the night or the day or in fog, sleet or rain sometimes run into oil rigs or bridges or each other.

But now a university professor here wants to find out just how safe these marine structures are and how much damage they can take. So he's planning to ram two 25,000-ton ships together to see.

"The best scale is full-scale," said professor Douglas Faulkner, head of the department of naval architecture and ocean engineering at the University of Glasgow in Scotland, where small-scale measurements of ship safety are taking place.

Professor Faulkner will look for insurance coverage for the two old tankers he hopes to get from a Greek shipper in case they sink when pushed together at approximately 10 knots. "We'd have to insure it for sinking and not getting the scrap value," he said.

But professor Faulkner isn't sure he and his team of marine technologists will be able to afford this second step in their program. Hydrodynamic experiments are now going on in the laboratory to mathematically discover how much damage certain structures can take when in water. That alone will cost the university \$90,000.

But moving experiments to open sea would cost about \$1 million and take five years, he says. Sponsors would be needed. Some agencies he hopes to interest are the U.S. Department of Energy and the U.S. Coast Guard.

The most vulnerable ships to study will be the liquefied natural gas carriers, the professor says. "The LNG carriers could lead to quite a serious explosion," he said.

Present regulations are designed to prevent this, but he and his team think there is room for improvement in safety of LNG ships.

The new floating oil rigs used in the North Sea and elsewhere are also fairly vulnerable to collision and damage from the seas, he said, adding these need to be studied.

Beginning this summer, professor Faulkner will be in Houston to examine Conoco's new tension leg platform designs to see if they will be safe offshore of the United States in deep water, a project independent of the university but very important to the study.

Broker probed

Lloyd's of London has begun an investigation into the small Lloyd's broker Oakeley, Vaughan & Co. following a complaint from a third party about the broker's transactions with Syndicate 862, managed by Oakeley, Vaughan (Underwriting). The syndicate is in the aviation field.

"We're investigating certain files," a Lloyd's spokeswoman said. "Somebody came to the deputy chairman and the (Lloyd's) corporation with photocopies of documents relating to the Oakeley, Vaughan broking documents."

Lloyd's has had the fullest cooperation with Oakeley, Vaughan in the investigation and has made available all its files, the Lloyd's spokeswoman said.

Capsized rig

LONDON—Norway's oil risk insurance pool now owns the capsized oil rig Alexander Kielland, after paying more than 25 million

pounds, the total loss, to owner Stavanger Drilling, the London press reported.

Now the pool wants to hand over the capsized rig to the Norwegian government to recover bodies still trapped. At least 123 people died when the rig capsized last year.

The government refused to try a second attempt to right the Kielland after the first attempt, which cost 6 million pounds, failed. ■

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Florida firms to get \$6 million

SARASOTA, Fla.—More than \$6 million in 1979 workers compensation insurance premiums will be returned to the pockets of more than 1,000 Florida businesses.

The refunds are from the Florida Construction, Commerce & Industry Self Insurers Fund. The \$6 million represents nearly a third of 1979 total premiums, said Gilbert Waters, administrator of the nonprofit insurer that writes workers compensation coverage for more than 2,000 Florida firms.

The total includes \$3.8 million in direct refunds, bonuses of 5% of premiums for the 700 members with low loss rates and 14% advance discounts for premiums paid in a lump sum, rather than in installments over the year.

About two-thirds of policyholders are construction firms, said Mr. Waters.

Florida is shedding its light-industry image with a residential and commercial development building boom that has substantially increased workplace hazards, he said. "We had 24 (work-related) deaths here last year."

However, the accident rate has been declining steadily the last few years, at least among the fund's policyholders. "Our claims per dollar of premium have improved in each of the last three years," he said.

The fund received one claim per \$2,400 in premium in both 1979 and 1980, a reduction from 1978's one claim per \$2,200 in premium, he said. The figure contrasts with the state average of a

claim for every \$1,900 in workers compensation premiums.

Fifty per cent of the fund's policyholders had no claims in 1979.

Another 20% had claims of less than 15% of paid premiums, according to Mr. Waters.

The accident decline is primarily the work of the fund's eight loss prevention specialists.

They are concentrating on the 10% to 15% of the policyholders with claims equalling 65% or more of their premiums, he said.

"We'll turn our loss control staff loose to cooperate with the employer and figure out why the problem is happening and then try to correct the cause," he said.

Solvency concerns regulators

NEW YORK—Insurance regulators fear continued poor underwriting results could erode the adequacy of the insurance industry's capital base, says a survey by stockbroker Bache Halsey Stuart Shields Inc.

This is the regulators' second most pressing problem, surpassed only by their departments' budgets, the 1980 survey shows. In a January 1979 survey, personal lines rates were rated as the biggest problem followed by budgets. Solvency and adequacy of capital ranked sixth then.

"Insurance commissioners' primary responsibility is for solvency," noted Bache insurance analyst Herbert Goodfriend, who conducted the study. "The policyholders' interest comes before everything else."

New entrants into the insurance marketplace during the past five years fueled the competitive environment in which underwriting losses are commonplace, Mr. Goodfriend says. Insurance commissioners do not fear an imminent rush of insolvencies, but want to make sure insurers do not let their premium-to-capital ratios run wild, he adds.

The commissioners said workers compensation is the most troublesome line of property/casualty coverage, followed by private passenger automobile and product liability. The ranking was the same in the 1979 survey.

The long-tail exposure of workers compensation makes it impossible to correctly price for the ultimate exposure, Mr. Goodfriend notes. Workers compensation eligibility rules, referees' attitudes and benefit ceilings can change, affecting the relevance of cost analysis.

Availability of coverage is most often a problem for product liability insurance, followed by professional liability and workers compensation insurance. In 1979, professional liability ranked first, followed by private passenger automobile and workers compensation.

Insurance commissioners said their regulatory efforts were most unsatisfactory in dealing with ERISA-exempt employee benefit plans, followed by multiple employer trusts and workers compensation self-insurance. METs ranked first in the 1979 survey, followed by health insurance and property/casualty rates.

By a 63% to 37% majority, the commissioners said they did not foresee the federal government increasing its role in insurance regulation soon. The commissioners opposed an increased federal role 93% to 7%.

Federal jurisdiction would be most effective in dealing with privacy, health insurance and solvency and adequacy of capital, those polled said. Nearly half, however, indicated the federal government would be ineffective in any area.

States are increasingly including investment income in ratemaking, the survey found. More than four-fifths of those polled said investment income is formally or informally considered in the ratemaking process. In the 1979 survey, only 47% said their ratemaking rules required consideration of investment income.

Of the commissioners whose states currently do not consider investment income in ratemaking, 60% said they are considering it for the near future.

52 great issues coming up!

ISSUE NUMBER

ISSUE DATE

AD CLOSING

14. CAPTIVES/OFFSHORE... RIMS

APR 6

MAR 24

15. RIMS Conference Report # 1

APR 13

APR 1

16. RIMS Conference Report # 2

APR 20

APR 8

more to come :

ISSUE DATE

AD CLOSING

12.

MAR 23

Mar 11

13.

MAR 30

Mar 18

14. CAPTIVES/OFFSHORE... R.I.M.S. PREVIEW

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23. NEW YORK MARKET REPORT

JUN 8

May 27

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JUN 15

Jun 3

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Playtex promotes assistant exec

INTERNATIONAL PLAYTEX Inc. in Dover, Del., has promoted **John Polakovic** to risk manager-property/casualty insurance. Before accepting this upgraded position, he was assistant risk manager, a position that will not be filled. Mr. Polakovic, who joined the firm in 1976, also has held various claims positions with Liberty Mutual Insurance Co. He has a bachelor's degree from Villanova University, an ARM designation and is working toward a CPCU.



Polakovic

comings & goings: buyers

finance. Mr. Zukowski will be responsible for risk cost accounting, analysis of loss development and compiling risk-financing statistics. He reports to Mr. Durkin.

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

New York-based Joseph E. Seagram & Sons Inc., in a reorganization of its risk management department, has named **Douglas S. Kasten** assistant director of risk management and **Russell C. Opferkuch** property and loss-control manager. Mr. Kasten, who reports to Don Davignon, director of risk management, previously was property risk manager. He has CPCU and ARM designations. Mr. Opferkuch, who reports to Mr. Kasten, previously was loss-control engineer. He has a bachelor's degree in engineering from Stony Brook University; an M.B.A. from Pace University and a CSP.

Pepsi-Cola Bottling Group in Purchase, N.Y., has named **Robert Flugger** to the newly created position of manager of risk management. Mr. Flugger, who reports to Regina Fisher, director of accounting, previously was manager of national accounts for Kemper/NATLSCO. He is a graduate of The College of Insurance.

Cosco Industries Inc. in Spring Valley, N.Y., has named **Edward Sinnott**, 28, risk manager to replace **Michael Kushner**, who left the company as reported. Mr. Sinnott, who reports to Bill Downey, executive vp and chief financial officer, previously was an engineering representative for Aetna Life & Casualty Co. in White Plains, N.Y. He holds a bachelor's degree in biology and chemistry from Kenyon College in Ohio and belongs to RIMS.

National Starch & Chemical Corp. in Bridgewater, N.J., has named **Lottie Murray** group insurance supervisor-employee benefits. Ms. Murray, who has been with the company since 1974, has served as claims processor and group insurance leader. She reports to benefits administrator **Bergit Thompson**.

Food Fair Inc. in Fort Lauderdale, Fla., has promoted **Allan A. Goldberg** to vp of insurance and risk management from risk management manager. In this new position, Mr. Goldberg maintains his old responsibilities and reports to **Darrell Stiffer**, senior vp of industrial relations. He has a bachelor of science degree in management from the University of Louisville. Before joining Food Fair a year ago, Mr. Goldberg was director of general insurance for Fuqua Industries Inc. in Atlanta.

Perry S. Zukowski, 22, has joined Walgreen Co. in Deerfield, Ill., as insurance specialist, replacing **Tom Durkin**, who was promoted to insurance administrator. Mr. Zukowski is a 1980 graduate of the University of Wisconsin at White-water with a bachelor's degree in

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Firms step up security for property, execs: Poll

CHICAGO—U.S. corporations are stepping up security and protection programs to guard property and the safety of senior executives.

A survey conducted by A-T-O Inc. of Ohio shows three of every five Fortune 1,000 firms have a burglar alarm and electric floodlighting while 50% have other security devices, such as automatically timed lights and closed-circuit television. Two in five have electronic card identification systems and one in four has armed guards.

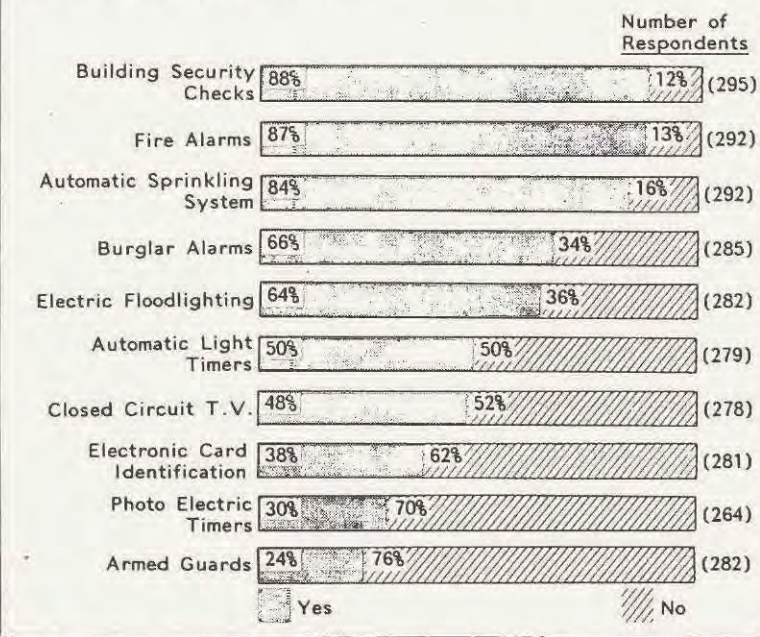
"Corporate executives are concerned about this problem not only on a local and national level, but on an international level as well," the report says. "Subsequently, they are taking comprehensive security precautions to protect themselves, their families and their corporations."

There also is concern over kidnapping of senior executives and arson at plants and offices, it says. Thirty-nine percent of the Fortune 1,000 senior executives surveyed fear they a family member or a business associate will be kidnapped. Consequently, they take safety precautions at home and on their way to work or when traveling.

This concern is most prevalent among companies that send executives abroad on business, espe-

Table 7: Corporate Security Devices

Has your company installed any of the following precautionary devices at company headquarters:



cially if they go to international trouble spots where terrorist and politically motivated attacks are common.

As a result, 73% of the companies operating where executives have been attacked have a security coordinator, the survey shows. In addition, 60% of the executives polled take at least one type of security precaution at home through either alarms, unlisted telephone numbers or keeping confidential the location of their residence.

While traveling, 42% of executives either inspect hotel rooms for hidden intruders or leave their television sets on when out of the room to fool potential attackers. Another 38% take precautions going to and from work, including varying their route of travel, alternating cars and avoiding public transportation for fear of accidents.

The report shows the bigger the company, the greater the concern over kidnapping. Of executives with companies having annual sales of \$1 billion or more, 57% are afraid of being kidnapped, compared with only 24% at companies with \$300 million or less in sales.

With respect to arson, 40% are afraid their corporations will fall victim to arson possibly resulting in destruction of company operations.

Examining the overall dimensions of corporate concern about

crime, the report shows 46% of responding executives say the threat of crime in their "corporate neighborhood" has caused them to take security measures to prevent burglaries, theft and assaults on employees.

Also, a vast array of hardware is being used to ward off criminals. For instance, 88% of the responding corporations use building security checks, 87% have fire alarms, 84% have automatic sprinkler systems, 66% have burglar alarms, 64% have electric floodlighting, 50% have timed lights, 48% have closed-circuit television, 38% electronic card identification systems to control access, 30% have photoelectric timers and 24% employ armed guards.

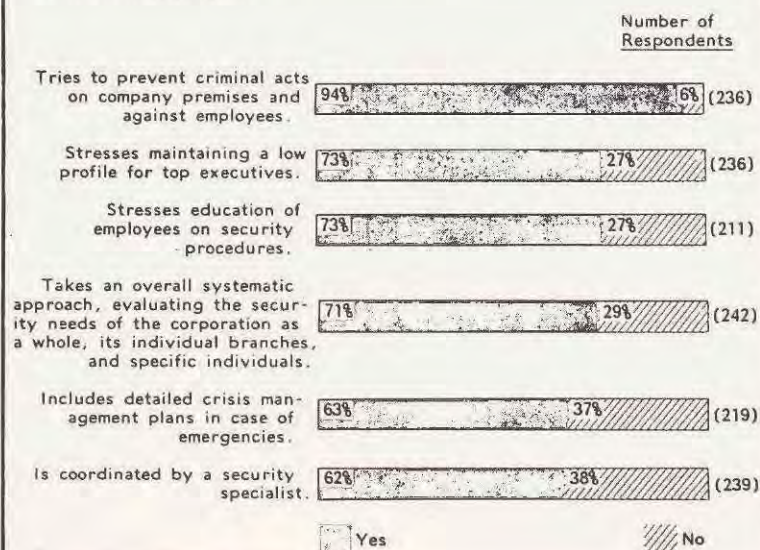
In determining security needs, seven of 10 firms said they take a systematic approach to security problems, evaluating the firm as a whole. Still, companies stress a variety of areas in security programs such as prevention of criminal acts on corporate premises, employee education, maintaining a low profile for executives, crisis management or using security specialists.

Other findings show that among 1% of U.S. firms, crime played a part in their choice of locating corporate headquarters. Five percent have seriously considered relocating because of crime rates and 2% will move in the near future to escape increasing crime.

Table 12: Comprehensiveness of Security Program

Please indicate which of the following best describe policy guidelines of your security program.

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MARCH 30-APRIL 3. The 1981 NAMIC Midwest Risk Inspection and Loss Prevention School in Bettendorf, Iowa, sponsored by the National Assn. of Mutual Insurance Cos.; \$95 for members, \$150 for nonmembers. NAMIC Education Department, P.O. Box 68700, Indianapolis, Ind. 46268; 317-875-5250.

APRIL 2. One-Day Benefit Briefing in San Diego, sponsored by the International Foundation of Employee Benefit Plans; \$120 for members and \$145 for nonmembers. Also April 3 in Las Vegas. IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 5-10. 19th Annual Conference in San Francisco, sponsored by the Risk & Insurance Management Society; \$395 for full week, \$325 for partial week. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-557-3221.

APRIL 6-9. Machine Safeguarding Seminar in Rockford, Ill., sponsored by the Alliance of American Insurers; \$95 (open to member and subscriber companies only). Ginny Dowling, Alliance of American Insurers, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-558-3700.

APRIL 7-8. How to Improve Your Insurance Coverage and Reduce Costs Using the Risk Management Process Seminar in Las Vegas, sponsored by the International Risk Management Institute; \$435. Also April 21-22 in Chicago, May 5-6 in Philadelphia and May 19-20 in New Orleans. IRMI, Suite 208, Building IV, 10300 North Central Expressway, Dallas, Tex. 75231; 214-363-9656.

APRIL 9-11. International Foundation of Employee Benefit Plans' 1981 Corporate Benefits Management Conference in Miami Beach; \$440 for members, \$515 for nonmembers. IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 13-15. Insurance Loss-Control Conference in Pittsburgh, sponsored by the Alliance of American Insurers; \$70 for members, \$65 each for three or more from the same company, \$80 for nonmembers. Loss-Control Department, Alliance of American Insurers, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-558-3700.

APRIL 20. Fire Protection in High Rack Storage Seminar in Anaheim, Calif., sponsored by the Society of Fire Protection Engineers; \$55 in advance, \$65 at the door. Russell Hoeltzel, SFPE, 3303 Wilshire Blvd., Los Angeles, Calif. 90010; 213-380-1600.

APRIL 23-24. Computer Systems to Improve Safety Management, Claims Management and Insurance Management Seminar in Dallas, sponsored by Corporate Systems; \$345. Corporate Systems, P.O. Box 31780, Amarillo, Tex. 79120; 806-376-4223.

APRIL 27. How to Save Ocean Transportation Dollars Workshop in Los Angeles, sponsored by the American Importers Assn.; \$90. Also April 28 in San Francisco. AIA, 11 W. 42nd St., New York, N.Y. 10036; 212-944-2230.

APRIL 27-28. Self-Insurance and the Use of Captive Insurance Companies in Chicago Seminar, sponsored by New York University; \$725. Also June 22-23 in New York. NYU-SIC Seminar, Registrar, 14th Floor, University Conference Center, 360 Lexington Ave., New York, N.Y. 10017; 212-953-7272.

APRIL 28-30. Designing for Fire Safety and Hazard Control Seminar in Norwood, Mass., sponsored by Factory Mutual System; \$475. Training Resource Center for Loss Control, Factory Mutual System, 1151 Boston-Providence Turnpike, Norwood, Mass. 02062; 617-762-4300.

APRIL 30-MAY 1. Second Annual Eastern Regional Safety Congress and Exposition in Philadelphia, sponsored by the National Safety Council; \$45 in advance, \$55 at the door (\$35 per day). Professional Development Seminars extra. NSC, Congress Planning, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

MAY 4-5. Investment Strategies for Captives: A Premium Topic Conference in New York, sponsored by Interforum Group Inc.; \$525. Interforum Group Inc., 68 William St., New York, N.Y. 10005; 212-269-2240.

MAY 4-5. Meidinger Social Security Workshop in Washington, D.C.; \$325. Also May 11-12 in Los Angeles and May 27-28 in Chicago. Dale Detlefs, Meidinger Inc., 2440 Grinstead Drive, Louisville, Ky. 40204; 502-499-1240.

MAY 4-6. Planning a Preretirement Information Program Workshop in Rowayton, Conn., sponsored by Hewitt Associates; \$850. Also June 8-10 in Lincolnshire, Ill. Beverly McRae, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015.

MAY 13-14. IPA-HMOs: Implications for Physicians Seminar in Philadelphia, sponsored by the Pennsylvania Medical Society and the Pennsylvania Medical Care Foundation; \$300. Dr. Robert A. Zelten, American Health Management & Consulting Corp., 85 Old Eagle School Road, Strafford, Pa. 19087; 215-293-9367 or 215-243-7770.

MAY 14-15. Protecting Trade Secrets Program in New York, sponsored by the Practising Law Institute; \$300. Also May 28-29 in San Francisco. PLI, Department QLC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MAY 15-16. Product Liability Update Program in New York, sponsored by the Practising Law Institute; \$300. Also June 5-6 in Chicago and June 26-27 in Los Angeles. PLI, Department QLC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

ing Law Institute; \$300. Also June 5-6 in Chicago and June 26-27 in Los Angeles. PLI, Department QLC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MAY 17-19. Southwest Pension Conference Educational Conference in Albuquerque; \$165 for members, \$190 for nonmembers. Southwest Pension Conference, P.O. Box 401248, Dallas, Tex. 75240; 214-741-5000.

MAY 17-20. 1981 Washington Legislative Update in Washington, D.C., sponsored by the International Foundation of Employee Benefit Plans; \$360 for members, \$435 for nonmembers. IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 1-3. Linking Up the Risk Manager, sponsored by The Risk Management Institute, University of Dallas; \$695 (conditional). Bruce Evans, P.O. Box 3685, Irving, Tex. 75061; 214-579-5360 or 214-579-5330.

JUNE 14-17. 20th Annual Professional Development Conference in Salt Lake City, sponsored by the American Society of Safety Engineers; \$275 for members, \$325 for nonmembers. ASSE, 850 Busse Highway, Park Ridge, Ill. 60068; 312-692-4121.



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N.Y. Insurance Exchange approves 2 more syndicates

markets

NEW YORK—Two more syndicates will operate as underwriting members of the New York Insurance Exchange.

The exchange board of governors last month approved International American Syndicate Inc. and South Place Syndicate Inc., bringing to 23 the number of underwriting members.

International American, managed by AIG Syndicate Managers Inc., was formed by one domestic and six foreign insurers and Sympart Inc., a Miami-based privately held noninsurance concern.

Insurers participating in the syndicate are: Abeille-Paix Reassurances of France, C.A. Seguros Orinoco of Venezuela, Compagnie Financiere et De Reassurances Du Groupe A.G. of Belgium, Ming-An (Overseas) Inc. of Hong Kong, Nichido Fire & Marine Insurance Co. Ltd. of Japan, Omnium Insurance & Reinsurance Co. of Bermuda and Transportation Mutual Insurance Co. of Philadelphia.

AIG Syndicate Managers also manages AIG Multi-Line Syndicate and Anex Syndicate.

South Place Syndicate is owned by 10 foreign and four U.S. insurers and is capitalized for \$7.4 million. Syndicate participants are:

People's Insurance Co. of China, AGF Reassurances of France, Canadian Indemnity Co., The Continental Insurance Co., Elite Insurance Co. of Canada, Finnish Marine Insurance Co., Hafnia Haand I Haand of Denmark, Lumberman's Mutual Insurance Co., Motorists Insurance Co., Nissan Fire & Marine Insurance Co. of Japan, Norden Skadfersikring A/S of Norway, Northland Insurance Co., Phoenix Assurance Co. Ltd. of Great Britain and Seguros America Banamex of Mexico.

Continental Reed Stenhouse Management Co. Ltd., a joint venture of The Continental Corp. and Reed Stenhouse Cos., will manage South Place Syndicate. The firm also manages Maiden Lane Syndicate.

The exchange board of governors also approved O'Connor Associates Ltd. as an associate (nonvoting) broker member.

Exchange premium volume for January totaled \$19.1 million, the highest monthly volume since the exchange opened March 31, 1980, said exchange president Donald E. Reutershan.

Marketpac is writing two open and two endorsed programs through American Home. Marketpac has a similar agreement with New Hampshire Insurance Group.

Risk workshops

The Risk Education and Research Center, a new firm in Eugene, Ore., will develop and conduct risk and insurance management workshops for local governments and businesses.

The center will develop programs for reducing business losses, systems for risk financing, data processing programs, personnel recruitment and audiovisual education. Principals are John F. Janzen and Sam B. Huston.

Association plans

Small group organizations, medium-sized corporations and associations will be the targets of Glenn, Nyhan & Associates, new San Francisco brokerage and consulting firm.

The firm says it will provide medium-sized corporations and trade associations with a range of risk management and employee benefits consulting services as well as innovative cost-savings plans.

The firm is at 55 New Montgomery St., San Francisco, Calif. 94105.

Captive services

The new Donald F. Muldoon & Co. Inc., a general agency and risk management organization, specializes in service to captives.

As a managing general agent of Transit Casualty Co., Muldoon can issue policies and provide excess coverage and aggregate stop-loss protection.

Muldoon is associated with Delaney Offices Inc., a reinsurance intermediary also staffed by captive specialists, and has affiliated captive management facilities in Bermuda and the Cayman Islands. It also operates a specialized brokerage and captive management consulting company that performs captive feasibility studies, retention analysis and reinsurance portfolio analyses.

Muldoon is at 99 John St., New York, N.Y. 10038; 212-964-2996.

Acquisitions

Vaughan Insurance Group of King of Prussia, Pa., has acquired Midland Casualty Insurance Co. of Chicago. The merged operation will be known as Yorktown Indemnity Co.

The operations of Miss-Lou Underwriters Inc. have been consolidated with American Excess Underwriters, 818 Howard St., Suite 205, New Orleans, La. 70113; 504-524-4141.

New offices

IWest Insurance Managers Inc., surplus lines wholesaler and managing general agent, has opened a branch office at 17910 Skypark Circle, Suite 202, Irvine, Calif. 92714; 714-540-3180.

Mission Insurance Cos. has opened a new branch at 1810 United Founders Tower, 5900 Mosteller Drive, Oklahoma City, Okla. 73112; 405-848-1203.

Fremont Indemnity Co. has opened a property/casualty service office at 201 California St. 12th floor, San Francisco, Calif. 94111; 415-788-3636.

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STEVEN P. STUCKY, C.L.U.
Senior Vice President-Marketing

Broker revamps

Lloyd's broker Stewart Wrightson U.K. Group Ltd. has been reorganized. All direct multinational business will now be directed to Stewart Wrightson London Ltd., formerly called Stewart Wrightson (U.K.) Ltd.

A new holding company called Stewart Wrightson U.K. Management Ltd. will be responsible for the London-based nonmarine and employee benefits operating companies, the broking group said.

G. Boden has been appointed managing director of the holding company. H. Purchase is now managing director of marketing for the London-based brokerage.

In other changes, Stewart Wrightson Assurance Consultants Ltd. is called Stewart Wrightson Benefit Consultance Ltd., and D.M. Kerr has been named chairman of the Scottish division of Stewart Wrightson.

European operation

Hogg Robinson Group in London has amalgamated its U.K. and European operations to form Hogg Robinson Europe.

The new company hopes to expand the present Hogg Robinson companies in the United Kingdom and Europe, bringing together the retail insurance broking, benefit consulting, credit insurance and political risk insurance of the group. These include Continental Benefit Consultants & Credit Insurance Assn. in Belgium, France and Holland. Other Hogg Robinson companies are in Guernsey, Italy and Malta.

Mass marketing

American Home Assurance Co. in New York has formed Marketpac International Inc. to develop and implement mass-marketed insurance programs for trade associations and safety groups.

Alexander L. Sarno, assistant vp of American Home/National Union Insurance Cos., has been named manager of Marketpac, responsible for underwriting and servicing all Marketpac business. He and his staff are located at American International Group headquarters in New York.

Dual retirement plan offered most: Poll

LINCOLNSHIRE, Ill.—Most employers offer their salaried employees a double-barreled chance to accrue retirement income.

Ninety-eight percent of 454 employers surveyed by consultant Hewitt Associates here provide defined benefit pension plans, which typically serve as the primary retirement vehicle for salaried staff members. But 88% also offer capital accumulation or defined contribution plans, including savings/thrift plans, TRASOPs, profit-sharing and stock purchases.

The Hewitt study released this month also covers trends in death, disability and health care benefits among the 454 major employers, which include 214 of the Fortune 500 industrials. It is based on plan-by-plan benefit specifications in the 1980-81 Hewitt Associates SpecBook, a report available to corporations which supply their information for it (BI, Nov. 24, 1980).

Of the employers offering defined contribution plans, the most popular vehicle is matching savings/thrift plans. They are offered by 59% of the surveyed employers, with a majority (53%) matching 6% of an employee's contribution.

Thirteen percent match less than 5%; 19% match 5%, and 15% match more than 6%.

TRASOPs, or tax credit employee stock ownership plans, are the next most popular defined contribution plan, offered by 28% of the employers. This is followed by deferred profit-sharing plans, 24%, and stock purchase plans, 6%.

(The total exceeds 88% because some employers provide more than one capital accumulation plan.)

For defined benefit pension plans, almost all employers use "cliff" instead of graded vesting. In 80% of the companies, employees are vested after 10 years of service. Ten percent vest after only five years and 6% use other vesting criteria, like four-year vesting.

Ninety percent use a final/high average pay benefit formula instead of a career average formula to determine pension benefits. Eighty-one percent use a five-year average formula. Only a very small number, 9%, require any employee contribution to the defined benefit plan.

Sixty-four percent directly offset part or all Social Security benefits in figuring pension income. Altogether, 91% integrate benefits with Social Security.

Most death benefit plans among the surveyed employers include both employer-paid benefits and benefits requiring employee contributions. This was true among 69% of the companies. Seventeen percent provide employer-paid benefits only and 14% provide contributory benefits only.

Some 79% of the employer-paid death benefit plans provide coverage proportional to employee pay, with the median 1.5 times pay. Among the 59% that specify a dollar maximum, the median ceiling is \$150,000.

Ninety-four percent of the contributory death benefit plans that are entirely or partially employee-paid provide benefits proportional to employee pay, but employees often choose varying amounts of coverage. The median total allowable contributory coverage is

Volcano losses

Insured losses resulting from the eruption of Mount St. Helens have been revised upward to \$27 million, the American Insurance Assn. reports. Most of the damage was to dwelling and industrial vehicles. The eruption was re-assigned Catastrophe No. 98.

about two times pay.

A dollar maximum is specified in 56% of the plans, with the median \$200,000.

Post-retirement lump-sum death benefits are provided by 86% of the employers surveyed.

It is also common for employers to offer group long-term disability plans for employees disabled for extended periods. The Hewitt study showed 93% of the employers offered LTD plans with benefit formulas typically replacing 50% to 70% of pay and 47% requiring employee contributions.

A cap on monthly benefits is common, with 75% of the employers specifying a dollar maximum for benefits. The median cutoff was \$3,000 a month.

About 45% of the plans offset

family Social Security plans and another 43% offset primary Social Security. The amount of the offset is tied directly to the size of the benefit, the Hewitt study showed.

The plans with the higher benefit formulas were more likely to offset family Social Security. Twelve percent of the plans with a basic formula of 50% of pay offset family Social Security vs. 48% of the plans with a basic formula of 60% of pay.

The surveyed companies were divided about evenly on employee contributions to medical coverage vs. totally employer-paid benefits.

Forty percent require employee contributions and 39% do not. The other 21% require contributions for dependents only.

More than 60% use a basic plus major medical plan approach.

Fifty-five percent of the basic plans reimburse surgical fees on a 100% of reasonable and customary costs basis instead of a schedule or other percentage.

Most major medical plans (66%) include \$100 deductibles, but 21% only have \$50 deductibles. Four percent have \$75 deductibles and 9% use others.

Three-fourths of the major medical plans place a lifetime maximum on benefits with a median of \$250,000.

More than half (57%) limit the expenses paid by employees per year, after which the plan pays 100% of further expenses.

Among the 39% of the employers who use a comprehensive health care plan instead of basic and major medical, \$100 and \$50 deducti-

bles are most common, used by 37% and 33% of the plans, respectively.

Eighty-four percent place a limit on employee expenses per year. A lifetime maximum benefit of \$250,000 is specified by 82% of the comprehensive plans.

Almost three-fourths of the surveyed employers offer dental care plans.

Vision plans are offered by only 12% and hearing plans by a mere 4%.

Most employers provide post-retirement medical benefits to retirees up to age 65 and 88% provide the benefits after age 65.

However, only 25% of the employers will include dental benefits for retirees up to age 65 and only 16% provide them for retirees older than 65.



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'London at Risk'

Market still holds its own despite woes, experts say

By STACY SHAPIRO

LONDON—Plagued with small scandals and large claims, pressured by outside international insurance and reinsurance markets, pinched by the British economy and high, international reinsurance rates, is London losing its top rank in the insurance industry?

"No," say international brokers, insurers and reinsurers here for the "London at Risk" conference.

"Certainly it is at risk, and has been so from the time in the 1680s when Edward Lloyd opened his coffee shop down by London River," said B.K. Doody, assistant general manager for the Swiss Reinsurance Co. (U.K.) Ltd.

"Three hundred years old and like a certain proprietary brand of whiskey—still going strong."

Lloyd's underwriter Robert Kiln agrees. Lloyd's continues to keep its high standards of doing business, he says, offering:

- Experts in the underwriting and broking field who continue to stay in London.
- Innovative ideas for insuring future risks.
- Self-regulation that allows more freedom than in other countries.
- Low expense or cost ratio.
- Security, an insuring requirement not always guaranteed in

newer, unstable markets.

• "A somewhat indefinable asset of a market image which leads to cooperation and the passing of information and know-how for the common good of the whole market," Mr. Kiln said.

If Lloyd's and the London market continue their past performances, the 1980s should be as successful as ever, with profits as high as 250 million pounds.

"I may not be here to see it, but Lloyd's in the 1990s could have 50,000 members—of which half would be overseas members—and an income of 5 billion pounds plus," he said.

But the future is rosy only if the London market uses its strengths to its best advantage. The London insurance community must change some of its old ways and become the initiators of new ideas, say conference members.

"With the London market in a leadership role, we should strive for every efficiency to make insurance a more viable product for the consumer," added L. Patton Kline, president of Marsh & McLennan Cos. Inc. "We should search out new opportunities. To insure the activities of peoples and governments, and we should further increase directly applied capital."

London also should have a screening process for the new overseas investors who come into the fraternity, particularly on the reinsurance end, said an insurance professor here.

"Controlled freedom of entry to the London market by foreign insurers is neither new nor is it objectionable to established practitioners," said Julius Neave, managing director of Mercantile & General Reinsurance Co. Ltd.

"The concept of delegating underwriting and management responsibility is only satisfactory if placed in the right hands," he said. British insurers, however, are still hoping their cricket greens won't turn into baseball diamonds, even though they are accepting the new U.S. brokers into the fold, one insurer said.

At first the Lloyd's members weren't too pleased with Marsh & McLennan buying out C. T. Bowring, said John Regan, chairman of M & M Cos. Inc., at the conference.

"I think they've come around," he said.

The invasion of Lloyd's by U.S. brokers like M & M could prove to be an advantage to the market, says David Rowland, deputy chairman of Stewart Wrightson Insurance Broking Group.

U.S. brokers probably will commit themselves to increased investment in London without increased interference, he said.

"As our U.S. friends come from a background overly regulated and controlled, they have a regard for the freedom and for the traditions which have been the safeguard of this market," he said.

"Paradoxically, they might lead a crusade for higher standards and prevail against unwise control."

The Lloyd's and London markets have the largest potential in the world to insure and reinsure risks, especially the large American risks that account for half their premium volume. Yet the two entities remain sparring partners.

"The love-hate relationship between the companies and Lloyd's has persisted for a century and has not been completely broken down by the fact that large risks have to be shared between the two markets," said Professor H. Cockerell, visiting professor in insurance studies at the City University in London.

"Ad hoc cooperation is all to the good, but is there no scope for an insurance council to speak with one voice for the industry as a whole?"

Lloyd's also must be prepared to rescind some of its self-regulating principles set out in the Lloyd's bill now in Parliament, said Robert McCrindle, vp and parliamentary adviser to the British Insurance Brokers Assn.

"The (new Council of Lloyds) would have preferred to have been free to take all future decisions unfettered by legislative requirements," he explained.

"I foresee that the clause which sought to give Lloyd's legal immunity for their actions will now have to be deleted from the bill," he continued.

"Some tightening of the preventive mechanism of fraud is also likely to be proposed in committee," he said.

Bowring loses another exec

LONDON—Yet another executive has left Marsh & McLennan-owned C.T. Bowring. John Shipton, chairman of the Bowring U.K. division, is leaving to devote more time to family underwriting firm, J.K. Shipton.

"All that's happened isn't his cup of tea," remarked a Bowring senior executive.

Group chairman Peter Bowring will take over for Mr. Shipton, the latest of many departures at Bowring since Marsh & McLennan acquired it last year.

"What we have seen is the sort of thing that happens when two large companies come together, particularly U.S. and U.K. companies," said the senior Bowring executive.

Staff left when some longtime U.S. brokers and worldwide insurers broke ties with Bowring, but both Bowring and M&M expected this kind of purge, he said.

"We said it and Marsh said it. But morale is running higher at Bowring these days, even though business has been lost," he said.

New business from M&M is replacing these lost accounts as the U.S. brokerage uses Lloyd's expertise to develop new products.

"The concept and scope of risk continues to change and the opportunities (to insure) continue to multiply," explained L. Patton Kline, president of M&M Cos. Inc. at the "London at Risk" conference here before Mr. Shipton announced his resignation.

"London's capabilities are adequate to the task of taking large steps forward. London must continue to take the lead," he said.

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World capacity isn't excessive, M&M exec says

By STACY SHAPIRO

LONDON—Don't be so concerned with how much you pay for insurance coverage. Concentrate on risks you must undervalue or leave uninsured, Marsh & McLennan Cos. Inc.'s president told the fraternity of London insurers and brokers here.

Conference members, including Lloyd's and international insurance brokers, insurers and investors, were taken by surprise when Mr. Kline stated that world capacity does not exceed the amount of risks available.

"If overcapacity is defined as too many dollars chasing too few risks, I suggest that in this age when so much around us is either undervalued or underinsured, overcapacity is indeed a myth," he remarked.

For too long, the insurance industry has been running after the old risks and short-term profitability, Mr. Kline continued. "Our industry perceives itself as beset, besieged and buffeted by a series of woes: too much capacity, not enough premiums, difficulty in obtaining good risks, inflation, etc."

"But these are old-time complaints in a world of new risks—a world to which we are not bringing enough of our talents, capabilities and creativity," he said.

Rather, brokers and insurers should focus on the new risks, the risks of the future that will need the worldwide market to insure, he explained.

Some risk problems that need work include:

- Offshore oil platforms worth more than \$2 billion today are not insured close to that value.

- Nuclear plants can only receive \$375 million maximum coverage after the scare at Three Mile Island. This is less coverage than available for the oil platforms, Mr. Kline said.

- The world's space research will soon grow, producing \$5 billion at risk.

"Yet, at the present time there is only capacity to insure 60% of the values which will be at risk on any one space launch," he said.

Other new risks include the development of synthetic fuel from coal and shale and genetic engineering, added John M. Regan Jr., chairman of Marsh & McLennan Cos.

"These new risks seem almost limitless in terms of both money and longevity," Mr. Regan said. "We must explore and develop such innovative areas, even though there is no way every disastrous contingency can be foreseen and adequately provided for."

The broker and insurer must stand beside the risk manager to make sure these risks are covered.

"Corporate finance alone cannot provide those growth essentials. The risks involved in development, expansion and manufacturing have become so great that they cannot, are not, and will not be undertaken unless they are adequately underwritten," Mr. Regan said.

The adverse financial effects would be too enormous to chance

without insurance to buffer a disaster.

"Without insurance, much that is critical and is now happening simply wouldn't be under way in a free society. No space shuttle, no nuclear plants at all, no North Sea oil," he said.

Brokers and insurers also should work on improving service to their clients, Mr. Kline pointed out. "We must all do more to meet the specific demands of clients. Delays inherent in some of today's systems cannot be tolerated by original insureds and reinsurance clients." ■

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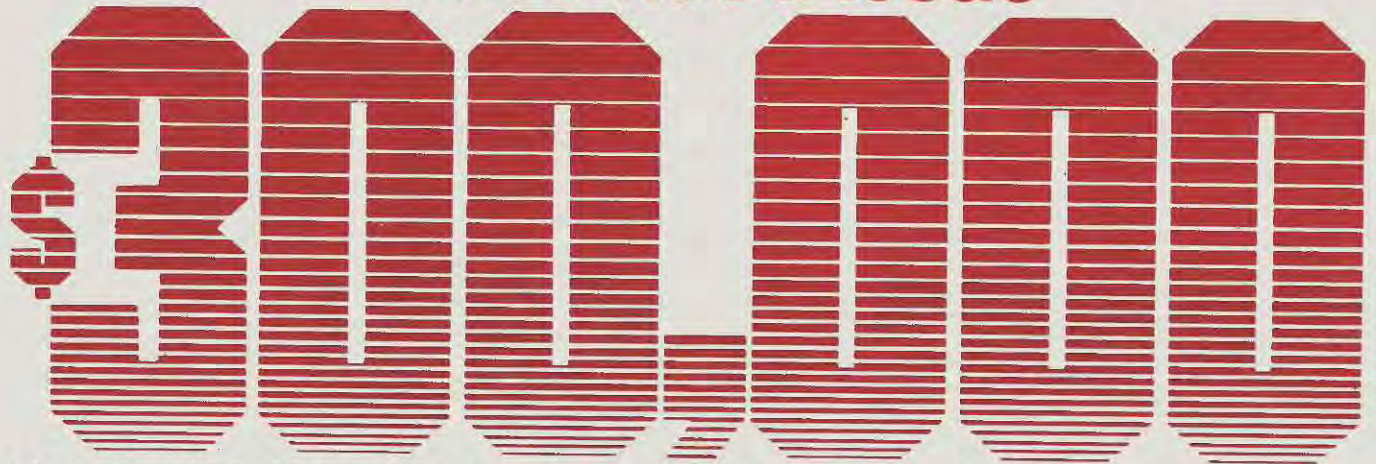
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THE SPECIALISTS

CEBS graduates expect enrollment to skyrocket

Enrollment in CEBS programs will skyrocket if advice from charter graduates is heeded.

"For the most part, the program was very valuable and gave me the opportunity to look at different types of benefits plan operations, which is something I don't get to do here," said Belinda Bewkes, benefits plan adviser at Texaco. "I now have one of my staff members involved in the program and wish all my staff would enroll. It gives perspective you can't otherwise get."

The program's pluses for those in corporate benefits (who made up 15% of the charter class) were expected but actuaries, consultants and insurers also have given it rave reviews.

"I'd recommend it to anyone working in the employee benefit field," said Peter Biberman, employee benefit manager for external accounts at Peat, Marwick, Mitchell & Co. in Philadelphia.

"In employee benefits you tend to specialize in one category and know little or nothing about the others. For this reason it was most helpful," he explained.

"I certainly would recommend it to others," said Edmund M.

Chopko, senior actuarial assistant at Towers, Perrin, Forster & Crosby. "I feel now that although I can't pass myself off as an expert, I can at least converse with experts and not be totally out in the cold."

Perhaps the biggest impact CEBS will have, however, is in the insurance industry. Persons in that field made up the largest segment—23%—of the charter class.

"I went into it looking to see if it would have value for regional directors, etc.," said Edward Cheek, director of pensions profit-sharing sales at Aetna Life Insurance and Annuity Co.

"I have found that certain parts are extremely valuable, such as asset management, industrial relations, employee benefit plans and the economy and contemporary issues," he said. "I have used some of the things learned in those courses to a great advantage in the field."

Armed with this first-hand experience, Mr. Cheek has gone a step further than other graduates interviewed. He is requiring all regional directors to enroll in courses and pursue the designation.

"All my regional directors will

take the courses, and maybe all will get the designation," Mr. Cheek explained. "Without any reservations, all are going to get a bonus if they go through the course."

"I'd like to see CEBS be very accepted, but I can't say what will happen to it," said Mr. Chopko. "I can't see an employer immediately demanding it. But I can see somewhere down the road someone with that qualification getting the edge."

Mr. Cheek was more optimistic. "In 10 years if you're in employee benefits and you don't have a CEBS, it will be like a college degree is today. People will ask why you don't have it."

A look at CEBS courses

To earn a CEBS designation, a person must successfully pass examinations in 10 courses:

- "Contemporary Legal Environment of Employee Benefit

Plans" covers basic legal rights and responsibilities. It is a foundation for other courses but not a prerequisite.

- "Pension Plans" focuses on plan design, funding instruments, actuarial cost factors, tax considerations and regulation.

- "Social Security, Savings Plans and Other Retirement Arrangements" covers the Social Security Act and its impact on benefit plans, savings plans and retirement income funded through profit-sharing or stock ownership plans; and individual retirement accounts.

- "Management Principles" examines planning, organizing and concepts of management.

- "Life, Health and Other Group Benefit Programs" analyzes how protection against the financial hazards of sickness, disability, unemployment and untimely death is provided through group benefits. Funding techniques and tax aspects are studied.

- "Accounting and Information Systems" covers the basic accounting principles of data accumulation systems, income measurement, valuation of assets and liabilities and financial statement analysis.

- "Asset Management" looks at security analysis, portfolio theory, measurement of investment performance and investment objectives and strategy.

- "Industrial Relations" analyzes economic and institutional factors in the labor market, processes of wage distribution and determinants of employment and manpower productivity as they affect the operation of benefit plans. The course evaluates the impact of union, management and government policies.

- "Employee Benefit Plans and Economy" is devoted to the economic principles underlying inflation, national income, business cycles, employment levels, banking and how they affect benefit plans.

- "Contemporary Benefit Issues and Administration" analyzes the issues of inflation and benefits planning, public employee benefit programs, mergers and acquisitions, mandatory retirement and ERISA requirements.

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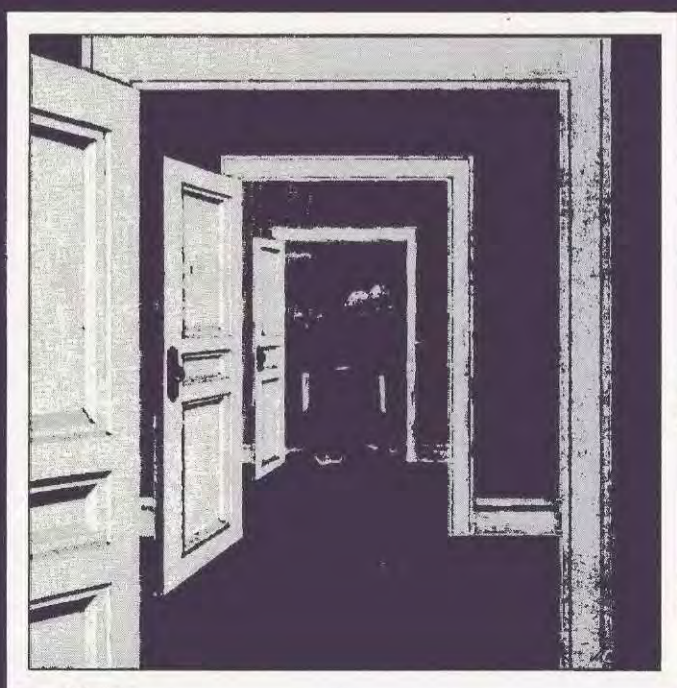
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Benefits professionals get their own designation

Continued from page 3
 dents study at home," said Dan Graham, associate CEBS program director at IFEBP. He estimates about 70% of the 3,000 students who take each exam study at home.

"Many enrollees are experienced people who perhaps would not require a formal class structure to complete assignments and others don't have the opportunity to take formal classes."

Classes, which were phased in at universities since 1976, are largely offered in metropolitan schools such as UCLA, Marquette, New York University, the University of Miami and Wharton. This limits accessibility to formal classes, but has not discouraged participation.

"The program so far has surpassed any expectations any of us had," Mr. Graham said. "In the developing stages, an informal survey projected participation would be successful if we had 200 new students per year."

In that first year alone enrollment was almost 10 times the projected figure and now has surpassed 8,000, he said.

Wharton moved up its development of academic programs for CEBS by two years, making all courses available within three years.

The overwhelming interest in the benefits designation is a sharp contrast to the CEBS program's development, which progressed

CEBS graduates discuss the program on page 74.

'The program so far has surpassed any expectations,' says Don Graham, associate CEBS director.



almost at a snail's pace.

"Our first discussions took place in the mid-'60s," Ms. Daniels said. "Almost nebulously, we asked if it would be possible to provide an academic and professional designation for the employee benefit field since there was no special curriculum and we hoped to create one."

However, it was not until the passage of ERISA in the 1970s that the idea received serious attention.

"We felt the need was not being met by any other professional designation," said Dan McHill, chairman of Wharton's insurance department and senior consultant to the CEBS program. "The foundation had been looking to do this for years. After ERISA, the time seemed right."

Initially, Wharton and the foundation toyed with the idea of offering a special M.B.A. track for benefits professionals, but decided against it.

"One of the things we decided we wanted from the beginning was that the program ought to be open to everyone active in benefits or interested in the benefits field," Ms.

Daniels explained.

The MBA option simply did not fulfill this goal, nor allow extensive home study. The CEBS program is open to everyone without any course prerequisites.

Now Wharton and the foundation are working on a continuing education program to keep CEBS graduates up-to-date.

"Because benefits is an ever-changing field, CEBS will have to continue to keep up," Mr. Graham said.

"Our first class of graduates has asked when we're going to begin our continuing education programs," Ms. Daniels said.

An announcement on it is expected next month.

CEBS program fees are \$50 one-time registration fee; \$85 per examination, \$35 to \$50 for study materials for those not taking formal classes. Each university also sets fees for class hours. Information on CEBS can be obtained from CEBS Registration, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

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Benefit sales juggle expected broker rankings

Continued from page 1

It is the first time such a wealth of information contained on 32,000 Form 5500 reports has been computerized and made available to the public. It is the most current information available.

The information provides employee benefit managers with a guide to which insurers and brokers are most familiar with the employee benefits market.

Johnson & Higgins, with a hammerlock on brokering benefit plans for the largest corporations in America, earns the largest com-

More benefit data news and a report on the up-and-coming broker Fred S. James. Page 74

missions of any employee benefit plans marketer, the research shows.

The total commissions reported, however, are understated for all the brokers because not all employers reported the commissions paid their brokers. One explanation is that not all benefit managers know what commissions are earned by their brokers. Although understated, the relative positions of brokers by commission income are accurate, contends David Bowerman, vp of Money Market Directories.

Marsh & McLennan, with its William M. Mercer unit, is reported to have earned 7.4% less in commissions in 1978 than J&H, even though it handled 20% more benefit cases than J&H. Mercer is second in commission income, even without considering commission income attributed to Marsh & McLennan Inc.

Alexander & Alexander holds a distant third place. Its commission income, even adding in commissions reported under R.B. Jones Corp., which it acquired in 1979, is only a third of Mercer's. It handled 20% fewer cases than Mercer.

Runners-up

Without considering R.B. Jones's commissions, A&A would be edged out of third place by Frank B. Hall & Co. But recognizing the acquisition puts Hall and Fred S. James & Co., the fourth and fifth largest property/casualty insurance brokers, according to the 1980 ranking of brokers by *Business Insurance*, in the same relative positions in benefits marketing.

They are led in property/casualty insurance marketing by M&M, A&A and J&H, according to 1979 revenue reports.

With their offices and marketing networks in place, the brokers could repeat their success in property/casualty insurance in the benefits market, knocking J&H out of its first position and mirroring their property/casualty insurance marketing positions.

James, for example, has already set expanding benefits as a corporate goal, with a recently announced new alignment of management that puts president William Burch in charge of expanding benefit sales (*BI*, March 9). The leading brokers for different sizes of employee groups are scrambled from their aggregate rankings, with J&H strongest among the largest groups and A&A gaining market share with smaller groups (see chart).

The five leaders tap similar markets when placing employee benefit plans, the research on commissions paid by insurers shows.

Six insurers, which are among the leading commercial insurance underwriters of employee benefit plans for employers with more than 100 employees (*BI*, March 9), are the top choices of the brokers: Aetna Life Insurance Co., Prudential Insurance Co. of America, Connecticut General Life Insurance Co., Equitable Life Insurance Co., The Travelers Life Insurance Co. and Life Insurance Co. of North America.

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With changing legislation and new employee demands, Chicago business executives are very concerned with information that can help them with their employee benefit planning.

On April 27, Crain's Chicago Business, the weekly newspaper for Chicago's corporate leaders, will publish a special Employee Benefits/Insurance TakeOut section. It will focus on the ways in which businesses and insurance companies can work together to maximize employee satisfaction and minimize growing company package costs. Pension funds, health insurance, and life insurance will all receive full coverage.

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Brokers' Benefits Markets

Criteria: Commission income

A&A (Jones)

1. Prudential
2. Conn. General
3. Aetna
4. Life INA
5. Travelers

Hall

1. Travelers
2. Prudential
3. Conn. General
4. Aetna
5. Life INA

James

1. Life INA
2. Travelers
3. Conn. General
4. General American
5. Provident

Johnson & Higgins

1. Travelers
2. Aetna
3. Conn. General
4. Prudential
5. Equitable

Mercer (M&M)

1. Travelers
2. Aetna
3. Prudential
4. Life INA
5. Equitable

Source: 1981 Group Insurance Reports

Only James breaks the pace by tapping 17th-ranked General Life Insurance Co. and ninth-ranked Provident Life & Accident Insurance Co. as its fourth and fifth largest markets.

The Travelers Insurance Co., the fifth largest commercial insurance underwriter of employee benefit plans for groups of more than 100 employees (excluding self-funded plans and Blue Cross/Blue Shield plans), pays the most commission income to J&H, Mercer and Hall. It is obviously the brokers' first choice to serve their largest clients, since other insurers get more cases from the brokers.

But the premium volume flowing to The Travelers from James is second to the amount of business placed with Life Insurance Co. of North America and fifth to the business placed with four other insurers by Alexander & Alexander.

Aetna Life Insurance Co., the largest commercial insurance underwriter of employee benefit plans for employers with more than 100 employees (second to Blue Cross/Blue Shield plans), also is among the top five markets for

the four largest benefit brokers. It is the second choice of the two marketing leaders, J&H and M&M; falls to third with A&A, fourth with Hall and is only sixth with James.

Prudential, the second largest commercial underwriter of benefit plans, is one of the five biggest markets for all the broker leaders except James. Oddly, with the other brokers, Prudential's popularity as a market falls as the market standing of the broker grows. Prudential ranks first with A&A, second with Hall, third with Mercer and fourth with leader J&H.

Leading markets

Connecticut General, the third largest commercial underwriter of employee benefit plans in the over-100 employee group market, is one of the five leading markets for all but Mercer. It ranks second with A&A and third with J&H, Hall and James.

Equitable, the fourth largest underwriter of employee benefit plans for the over-100 employee group, sets less business from the

leading brokers than the lower-ranking Travelers. Only J&H and Mercer tap Equitable, and then the insurer ranks only fifth in commissions with each broker.

Life Insurance Co. of North America, the sixth largest underwriter in the over-100 employee group market, is the top market choice of James, the fourth largest market for A&A and Mercer and the fifth largest market for Hall. It ranks fourth with J&H in number of cases but much lower in commission income.

'Ultimate umbrella covers retroactively

CHICAGO—NAS Ltd. says it has an answer for companies grappling with the question of how to cover losses that arise from the past.

The excess/surplus specialty brokerage has developed a policy called the "Ultimate Umbrella," which provides retroactive coverage of up to \$10 million above old umbrella or liability policies, or where no liability coverage existed in the past.

The coverage is designed primarily for large companies that buy out a smaller firm and are concerned that lawsuits might arise from use of a product the smaller firm stopped manufacturing years before, said Thomas Cummane, vp with NAS.

With product liability lawsuits still being filed frequently, "companies don't know if there's any liability out there and they're concerned. They just want to sleep a little easier," Mr. Cummane said.

The coverage differs from the

\$170 million in backdated coverage recently purchased by MGM Grand Hotels Inc. for losses stemming from the Nov. 21, 1980 fire that killed 84 persons (BI, Feb. 9), Mr. Cummane said.

The coverage purchased by MGM was bought from insurers who custom-tailored the package specifically to cover known losses. The NAS-designed policy, however, protects against liabilities the buyer may not even be aware of, but could be the object of a lawsuit later. "What we're offering is a shelf item," Mr. Cummane said.

The coverage is a variation of the buy-back concept of product liability insurance where the client buys coverage for specific past losses. "But umbrellas have not been sought before. And we're going to offer it for the risk at large," he said.

"Our purpose is to provide the coverage from the retroactive date they choose and pick up the gaps in coverage."

Political risk cover offered

Swett & Crawford Group in Los Angeles is offering a political risk insurance program supported by Pacific Insurance Co.

The program is designed to protect the interests of U.S. investors in foreign countries and offers coverage for confiscation, expropriation, nationalization and depriva-

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Limits are available up to \$40 million and in some cases, terrorists and war risks coverage may be included.

Anita Chanpong, brokerage vp at Swett & Crawford, is key account executive for the political risk insurance program.

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New compilation paints picture of group plans

When an insurance broker walks into your office offering you a better deal on your group benefit plan than you have, you may be surprised to find he or she knows almost as much about your plan as you.

The broker's information could be everything you reported to the Department of Labor on your Form 5500 filing and 5500 Schedule A for the 1978 plan year if he or she has purchased a copy of the form from one of the companies that makes its money selling this information to the public.

Money Market Directories Inc. of Charlottesville, Va., most recently began offering this service.

But it is offering even more: a complete tape of information on 32,000 of the Form 5500 reports filed with the Labor Department.

The firm is marketing its computer tapes to insurers and brokers that want to increase their shares of the benefits market.

The picture of the employee benefits market in 1978 painted by 1981 Group Insurance Reports is the most accurate and current that can be painted, contends David P. Bowerman, vp of Money Market Directories.

The firm spent nine months microfilming 36,000 Form 5500 reports filed with the Department of

Labor by employers as required under the Employee Retirement Income Security Act. Of the 36,000 forms, 4,000 could not be analyzed, 2,000 concerned noninsurable benefits and 2,000 were duplicate filings.

Another 4,000 forms filed with the department were not available to money market directories at the end of 1980 when it stopped compiling the 1978 plan year information.

Information on the 1979 plan year will be computerized and available in December after the deadline for employer filings has passed.

The firm is offering the service at a time when national brokers, frustrated by the shifting of property/casualty insurance clients, are trying to garner a larger share of the benefits market from smaller regional brokers and benefit administrators.

Already one of the top five national brokers has purchased the entire set of computer tapes, which costs \$17,000.

Five insurance companies also have purchased all the tapes.

"They are buying these tapes for marketing and research to measure their market penetration, check field staffing and determine how competitive they are by line and territory," Mr. Bowerman said.

"They can get hard-copy print-outs of business in a territory so field people know which brokers to talk to."

Similarly, brokers are interested in the information because it provides a faster way to identify prospects, Mr. Bowerman said. A broker can print out the names of firms and their benefit plan information in a given region and then identify prospects.

Money Market Directories also will sell portions of its computerized information to regional firms that don't need the national information. The minimum charge is \$300 for reports on up to 400 firms, with the price per report dropping to 65 cents when more than 1,000 are ordered.

Copies of individual Form 5500 and 5500 Schedule A filings are also for sale at \$9.50 each for five or fewer and \$8.50 each when more than five are ordered.

Group to study cost containment

OMAHA, Neb.—Twenty-six employers here will participate in a new group that wants to put the brakes on runaway medical costs.

The Employers Health Care Cost Containmentment Committee of Omaha will study what employers and employees can do to contain costs, said organizer Jack Smith, employee benefit manager at Con-Agra Inc.

"We have a committee researching what corporations can do to educate their own employees," he said. The group also plans to establish relationships with local health care providers.

"We are trying to interact with hospitals to communicate the employees' message that we're concerned from a cost standpoint," Mr. Smith said. Employer contributions to health coverage are rising about 17% a year, he said.

The group's programs will be limited to the Omaha region, Mr. Smith said. But employers with branches in other areas could expand the program.

James seeks more benefits business

Fred S. James & Co. is starting from a solid fifth-place position in its determination to increase its benefits brokering.

President William E. Burch, recently given the assignment to expand James' benefit business, will be slugging it out with the company's four larger competitors in the property/casualty insurance brokerage business, which also lead James in employee benefits brokering.

While Johnson & Higgins, Marsh & McLennan's William M. Mercer unit and Alexander & Alexander scramble for leading positions among different sizes of employee groups (see chart), James is a constant fifth to fourth-place Frank B. Hall & Co. for all employers, large and small.

James may seek to change its markets for employee benefit plans in its new effort if it imitates the leaders.

The three leaders use nearly identical markets, with The Travelers Insurance Co. and Aetna Life Insurance Co. as their two choice markets.

But James in 1978 was sending most of its benefits business to Life Insurance Co. of North America, according to research by 1981 Group Insurance Reports on commissions paid as reported by employers to the Labor Department.

Missing from James' five leading benefit markets are Aetna Life Insurance Co., the largest commercial insurance underwriter of benefit plans for groups of more than 100 employees in 1978, and Prudential.

Both insurance companies are the favored markets of the four larger benefit brokers.

James placed only a third as many plans for a quarter of the commission with Prudential in 1978 compared with the business placed with INA Life, according to the Group Insurance Reports researchers.

It placed slightly more business with Aetna, which is reported as James' sixth largest market for benefit plans.

Continental Casualty Co. was a favored market at James for benefit plans in sheer number of plans placed, but the commissions on the business placed with Continental Casualty were much smaller: eighth compared with commissions paid by seven other insurers.

Among James' five favored markets in amount of commissions in 1978 were two insurance companies not among the leading five markets of the other broker leaders: General American Life Insurance Co. and Provident Life & Accident Co.

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Check health of HMO before signing up

Continued from page 1

ble plan," Dr. Goran said. "However, too many HMOs are new, which makes it much tougher to determine if they are financially viable."

• Current financial statement. These should be made available to employers by federally qualified plans asking to be offered or can be obtained from the Department of Health and Human Services in Rockville, Md. Non-federally qualified plans in New York, Ohio, Minnesota, Michigan, Rhode Island, Washington and West Virginia also must make the information available, Drummer says.

"We don't see any reason why an employer cannot ask for financial information," he said, even if release of information is not mandated. "We suggest that if the HMO wants to be included, the employer can request some type of information."

Special attention should be paid to source of funds, projections for break-even points and the ratio of assets to liabilities.

Remember, Dr. Goran cautioned, "many new operations are in the red. But look at the break-even plan. How realistic are the growth and premium projections? Are there contingency plans if the need for funds is underestimated?"

"The problem with a loan is not that the HMO is operating on a loan, but once the loan runs out, it caps deficit financing," he said. If they run through the loans quicker than projected, they're in trouble."

Another item to check is ratio of

Special attention should be paid to the source of funds, break-even projections and the asset-to-liability ratio.

assets to liabilities, which should be 1-to-1, he says.

• Utilization. The HMO subscribers' utilization rates for hospital services should at least be comparable to that reported by other regional HMOs and indemnity insurers, Mr. Drummer suggests. "This indicates how effective the controls are." Information on other utilization rates can be obtained from competing HMOs or insurers.

• Contingency plans in the event of bankruptcy. The type of conversion coverage and reinsurance available should be established, although no guarantees exist in bankruptcy cases.

"We recommend an employer develop a standing letter of agreement to govern the administration of the HMO and to use as a basis of negotiation (in case of bankruptcy)," Mr. Drummer said. Questions of insolvencies and liabilities for unpaid bills should be answered.

To back up this agreement, employers can also prearrange for their own indemnity insurer to accept the former HMO subscribers, with pre-existing conditions.

While these financial considerations are the most pressing to em-

ployers, other things to consider about HMOs are physician qualifications; accessibility; size of plan; time it takes to arrange an appointment; grievance/membership input programs, preventive care available, and cost compared with other plans.

"If you have answered all of these, you can usually make a judgment whether the system is adequate," Dr. Goran said.

However, since this produces no guarantees and federal law still mandates offering federally qualified plans unless their license is revoked. Employers should be cautious about HMOs and remember to work with authorities in insolvency cases.

"The only real protection employers have, if you can call it that, especially with regard to federally qualified plans, is the way you present it to employees," said one benefit analyst. "Most HMOs will not force you into a situation if you don't want to go along."

After all, she explained, an employer may have to offer a plan, but it doesn't have to encourage participation in it.

Carnation loses its captive appeal

Continued from page 1

ing conflicts with recognition of the separate status of corporations."

James Cameron, tax attorney with Baker & McKenzie in New York and an authority on captives, characterizes this portion of the decision as "dicta—something not necessary in order for the court to reach its decision."

The inclusion of this dicta, Mr. Cameron said, "could be interpreted to extend the holding of Carnation to situations where an additional agreement 'neutralizing' the insurance agreement did not exist."

Mr. Cameron would not, however, go so far as to say the appeals court had endorsed the revenue ruling on the tax implications of using a captive insurer.

The Carnation case involved its purchase of a three-year blanket property insurance policy from American Home Assurance Co. Sept. 22, 1971, providing coverage for up to \$500,000 per occurrence with a \$10,000 per loss deductible. American Home reinsured 90% of the liability with Three Flowers Assurance Co. Ltd., Carnation's Bermuda subsidiary. Three Flowers paid American Home a 5% commission on the net premiums ceded and reimbursed American Home for premium taxes.

As a condition of reinsuring Carnation's business with its captive, American Home required Carnation to promise to capitalize Three Flowers up to \$3 million, if needed, to cover losses over the

\$120,000 initial capitalization.

U.S. Tax Court Judge William Goffe, in upholding an earlier Internal Revenue Service ruling, said there was no risk-shifting and, therefore, no insurance transaction on the portion of the risk ceded by American Home to Three Flowers.

Judge Goffe based his decision on Carnation's promise to American Home to increase to \$3 million from \$120,000 the capitalization of Three Flowers if it were needed.

The capitalization promise counteracted the reinsurance agreement, neutralizing any risk-shifting, the appeals court agreed.

"There is no risk-shifting or risk distribution with respect to the risks carried or retained by the wholly owned subsidiary," the appeals court agreed.

Risk-shifting, the three-member panel noted, is an essential element of an insurance transaction, citing a 1941 Supreme Court decision, *Helvering vs. Le Gierse*.

Where there is no risk-shifting, and thus, no insurance, the premiums paid are not tax-deductible as a business expense for insurance, but are instead a non-tax-deductible contribution of capital to the subsidiary, the appeals court said.

Carnation tax attorney Paul Devereaux said he was disappointed with the decision. "There is no evidence that the court gave much consideration to the arguments we raised."

Carnation has not decided yet if it will appeal the decision.

Raise benefit eligibility age for Social Security: Panel

WASHINGTON—The age at which a worker can collect full Social Security benefits should gradually increase from 65 to 68 starting in 2001, says the National Commission on Social Security.

The commission's final report also said all new government workers should be covered by So-

cial Security starting in 1985.

The commission, a bipartisan research group created by Congress in 1977, rejected the idea of mandatory private pensions, but suggested increasing the current \$1,500 annual limit on the amount a worker can contribute to an Individual Retirement Account.

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Pensions stall UMW negotiations

WASHINGTON—Besides picketing the White House to fight any changes in eligibility rules for securing black lung disability benefits, the United Mine Workers also are battling over their pension benefits at the bargaining table.

How pension benefits should be funded is slowing contract negotiations with the coal industry. Coal companies, faced with mine shut downs, want to replace the current multiemployer pension plan with a system of retirement plans set up by individual employers.

Industry sources say mine closings have left coal operators with a deficit of nearly \$4 billion in unfunded liabilities in the multiemployer plan. They say a change in pension systems is critical to continued operation of the mines.

The proposal is a strike issue with the union. It says workers would find it harder to move from one company to another without losing pension benefits. It also fears a change might encourage coal companies to break away from the national contract agreement.

Congress would raise tax to bail out black lung trust

Continued from page 2

stratic's proposed contribution of \$483 million. The new administration says a combination of higher excise taxes and tighter eligibility standards for black lung benefits would reduce federal costs.

The Senate committee proposal, adopted the same day nearly 10,000 United Mine Workers picketed the White House to protest proposed changes in the black lung program, does not call for benefit eligibility revisions. However, the committee has agreed to hold oversight hearings on the program, Mr. Altmeyer says.

Unless eligibility standards and claims administration practices

are changed, coal mine operators will not get released from the high cost of claims, some of which they say are dubious.

The Reagan proposal, though, is likely to tap tighter eligibility standards, according to Labor Secretary Raymond Donovan, backstopping a higher tax.

"There is a shortfall that has to be made up," he said. "The program must be put on a sound financial footing or it will die. It is time to save the program, not gut it."

Mr. Donovan also said legislation to tighten eligibility for the program would be proposed at a later date because "there is evi-

dence that the program has been abused."

Earlier this month, Mr. Donovan attempted to patch relations with the United Mine Workers in a March 6 letter to its president, Sam Church Jr.

"The administration is not going to propose anything that would deprive any miner who is disabled by black lung from qualifying for benefits," Mr. Donovan said in the letter.

Mr. Donovan said his department is "exploring ways to prevent exploitation of the law by some minor operators who find extended litigation financially beneficial" and asked for a meeting with Mr. Church.

Secretary Donovan's remarks are not a major change from what the administration has said all along, says Don Moran, associate director of the Office of Management and Budget for human affairs, veterans and labor.

The administration will include both higher excise taxes and changes in benefit eligibility standards in its proposal to solve the trust fund's fiscal problems, he adds. "What the mix will be is difficult to say."

President Reagan has said he does not want to deny benefits to eligible persons, many of whom are survivors of miners, Mr. Moran notes.

The Labor Department is working on the specifics of a proposal, but it is not likely to be finished in the next few weeks, he added. Mr. Moran said he could not comment on the Senate proposal or any other plans until the administration's proposal is released.

The UMW contends many of the trust fund's financial difficulties stem from mine operators and their insurers contorting or contesting black lung claims that merit payment (BI, March 2).

The trust fund pays interim benefits to miners for whom initial determination of eligibility has been made, until a responsible mine operator has been found to pay the benefits. The operator must repay interim benefits to the trust fund, but is only charged 6% interest while the trust fund borrows from the Treasury at prevailing market rates.

At 6% interest, it is lucrative for coal mine operators to contest these cases as long as they can, a UMW spokesman said. They can make money by investing claim reserves at higher interest rates, he explained.

Nearly all black lung claims are disputed. The average case takes two years to complete, the spokesman said.

If benefit changes are restricted to claims filed after March 1978—the date the 1977 act took effect—it would do little to help insurers, says Don DeCarlo, vp of the National Council on Compensation Insurance.

Insurers' losses stem from being forced to absorb the cost of claims filed before 1978 that were given a second review under the 1977 act.

Insurers should be able to challenge any claims and the government should "police" claim approval activity to detect fraud, Mr. DeCarlo says.

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Chicago panel dampens arson profit

Continued from page 3

"We want to utilize PILR so that the organizations will let our state fire marshall know when 'hits' are occurring," Mr. O'Connor said.

"It will reduce the paperwork at this end and bring more organization to our reporting systems."

The Metropolitan Chicago Loss Bureau, a nonprofit service bureau owned by 100 insurers to supervise property claims, has calculated a "significant drop" in the cost of policyholder-set fires in 1980, says Donald H. Mershon, bureau president.

In March 1980, arson-for-profit claims in metropolitan Chicago totaled almost \$12 million, but that figure dropped almost 50% to slightly more than \$6 million by December.

"Those are substantial and dramatic drops," Mr. Mershon said.

"I haven't seen anything like that in the six years that we have been studying arson claims on a daily basis.

"Arson has been fought by numerous individuals and agencies for 25 years, but never before on a coordinated basis.

"While everyone in the city was at each other's necks or not talking (about the problem), arsonists were burning the city down," Mr. Mershon said.

The lack of unity on the part of city agencies was complicated by the fact that arson is difficult to investigate and even harder to prove, said Mr. Epton.

"If a restaurant owner pays out \$250,000 in premium on a policy and suddenly finds his business in the toilet, he figures he can collect on the insurance policy by having

the place torched," he said.

"The state's attorney didn't want to prosecute the case because of the difficult time the police and fire departments would have in setting anything concrete together, so the arson case would be put at the bottom of the list," Mr. Epton explained.

The Insurance Crime Prevention Institute says arsonists, who are usually hired from Canada for \$1,000 to \$2,500 plus travel expenses for each "job," are very sophisticated in their work.

They leave little telltale evidence behind them to aid investigation.

"The torches are on a plane leaving town even before a building is flaming," said an institute source.

"And the insured who hired him will be in Florida while the job is being done. How can you prosecute with those odds?" he asked. It's not easy, Mr. Epton agrees, adding the coordinating council is far from accomplishing its goals.

Real strides have been made recently, though, in making it tougher for arsonists to profit from damaging property and endangering lives, he adds.

Even tougher legislation is in the works now down in Springfield.

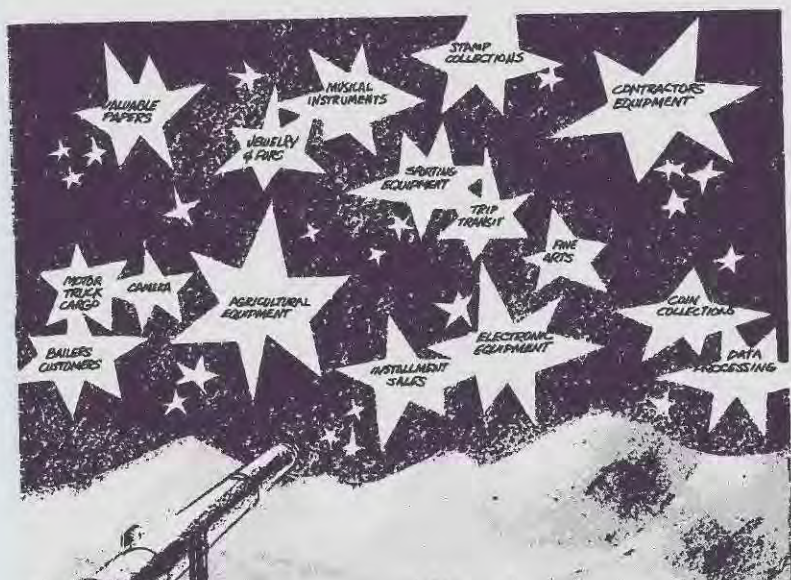
One bill being considered would require property owners to commit to rebuilding should their property be burned down, rather than being able to take the check from the insurance company and run, as one source put it.

"Prior to last year, there were only three arsonists convicted in 22 years," Mr. Epton said. "We're finally beginning to win our share."



Anti-Arson Bills Signed by Governor Thompson September 3, 1980

- H.B. 3272**
Immunity for insurers reporting insurance fraud.
- H.B. 3291**
Requires landlord to post insurance and management information.
- H.B. 3333**
Establishes task force to develop forms of insurance coverage.
- S.B. 1991**
Reform of Illinois FAIR Plan—Credit Program.
- S.B. 1992**
Consolidated review to uncover fraud and arson.
- S.B. 1993**
Cancellation of fire insurance when certain conditions exist.
- S.B. 994**
Expands arson reporting immunity for insurers.



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action line

Association outlines talk by attorney

On page 16 of the Dec. 22, 1980, issue of *Business Insurance*, George Wolff is quoted at length from a speech made to the New York Self-Insurers Assn. in New York City recently.

Can you help me locate Mr. Wolff's address and/or the address of the New York Self-Insurers Assn.?

I am interested in obtaining a full text of his speech.

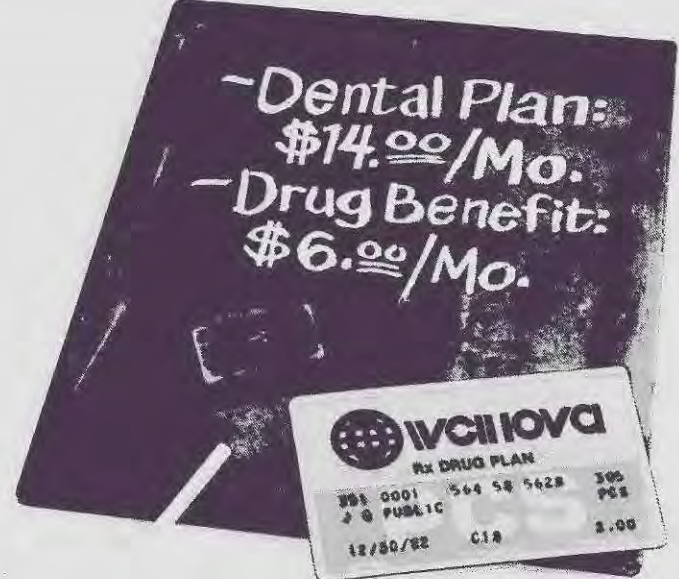
Dr. Charles G. Gunn Jr.
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Hanes Corp.
Winston-Salem, N.C.

Mr. Wolff, an attorney with the law firm Mackenzie Smith Lewis Michell & Hughes in Syracuse, used no formal text when he spoke to the 1980 meeting of the Self-Insurers Assn.

However, the Self-Insurers Assn. of New York prepared an outline of his speech. Thanks to the association, *BI* has obtained a copy of the outline. There's one in the mail to you now.

Freeze damage

Freezing temperatures in nine Northern states Jan. 2-14 resulted in insured property damage of \$10 million, the American Insurance Assn. reports. States affected are Pennsylvania, New Jersey, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine. The property damage was assigned Catastrophe No. 99.



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Asbestos ruling leaves question open

Continued from page 3

"All of these cases will have to be reconsidered in light of the (Locke) ruling."

The federal court cases involve plaintiffs and defendants from different states, but the federal courts follow local statute of limitations practices, he adds.

Six of those cases are being appealed to the 4th Circuit U.S. Court of Appeals in Richmond, which is expected to rule shortly. Attorneys for both sides expect the federal appeals court to apply the Locke decision.

Richard Glasser of Glasser & Glasser, a Norfolk plaintiffs attorney handling those appeals, says the Locke decision eliminates a major defense for asbestos firms in Virginia.

"Virginia represents the tail end of a dying minority of states in the way it deals with latent diseases. The decision will benefit plaintiffs who had been denied their day in court."

Among the people appealing to

The new ruling eliminates a major defense.

the 4th Circuit are four asbestosis victims who each had \$435,000 jury awards overturned by a federal court judge. The judge ruled for the manufacturers because the plaintiffs failed to demonstrate how they were harmed by exposure to the products during the two years before they filed suit, Mr. Glasser says.

Because the Locke case applied to mesothelioma rather than asbestosis, the Virginia Supreme Court did not have to deal with that issue. But Mr. Glasser hopes the federal appeals court will interpret the Locke decision so asbestos manufacturers are liable for products they supplied during an

entire period of exposure.

Mr. Glasser also hopes the federal appeals court will apply admiralty jurisdiction to asbestos suits filed by former U.S. Navy and shipyard personnel.

Under admiralty law, the statute of limitations can be used as a defense only when prejudice on the part of the plaintiff—purposely delaying the filing of a suit to hurt a defendant's case—can be proven, Mr. Glasser says. The statute of limitations runs from the time an injury is discovered and the length of time follows local practice.

Manufacturers would be hard pressed to demonstrate prejudice of plaintiffs who sued after the statute of limitations expired, he contends.

Applying admiralty status to shipyard workers' cases would be a first, he adds. Such a ruling by the 4th Circuit could be followed in California, New York, Texas and other major shipyard states.

If manufacturers appeal such a ruling to the U.S. Supreme Court

and lose, the courts would be likely to apply the ruling to all shipyard cases—a dangerous prospect for defendants.

The Locke ruling, though, could turn into a two-edged sword, contends Henry C. Morgan Jr. of Norfolk-based Pender, Coward, Addison & Morgan. Mr. Morgan represents Keene Corp., one of seven defendants in the Locke case.

Since the court ruled the statute of limitations runs from when the first sign of injury appears, it is possible for the ruling to run against some people who are still working with asbestos products, he says.

In the Locke case, the Virginia Supreme Court had only medical evidence supplied by the plaintiff, Mr. Morgan noted. The defendants did not present medical evidence because the case had been dismissed by the lower court.

"A lot of medical authority says injury occurs when a person is exposed to asbestos," he added. "It is

entirely possible that when the Locke case is heard by the trial court again, it can be shown that Locke suffered his injury more than two years before he filed suit.

"It has not yet been established that Locke's suit was timely filed. The date of injury has yet to be determined."

Insurers have debated the question of exposure vs. manifestation in trying to determine which policies apply to the defense of asbestos claims. The highest court ruling on the subject—INA vs. 48 Insulation Inc.—held for the exposure theory (BI, Nov. 3, 1980).

Mr. Morgan would not say whether his client and the other defendants would seek a rehearing from the Virginia Supreme Court. They had until March 16 to decide.

Other manufacturers named in the suit, which seeks \$1.5 million in damages, are: The Celotex Corp., Unarco Industries Inc., Eagle-Picher Industries Inc., Armstrong Cork Co. and Norport Supply Co.

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Broken dream poses biggest Titanic risk

Continued from page 2

"Cost of insurance for such equipment is prohibitive and the exposures most likely to occur—like the ingress of water—are usually excluded by policies," Mr. Pendleton said. "It is basically uninsurable."

What makes handling the expedition's insurance interesting is the romance attached to the Titanic, he says. "It is the subject of

clubs all over the world, the granddaddy of all treasure ships. The idea of finding it and possibly bringing up something that belongs to it is exciting."

The Titanic sank on its maiden voyage April 14, 1912, after striking an iceberg 380 miles east of Newfoundland. More than 1,500 passengers drowned in the freezing waters.

Last summer's 38-man expedi-

tion that went in search of the wreck was financed by Texas oil millionaire Jack Grimm through Titanic 80 Inc., and was only the first phase of the quest.

Searchers probed the ocean bottom with sonar equipment from late July until Aug. 15 before capturing an echo-sound image of what some believe is the sunken luxury liner. Rough seas forced them out of the area before they

could photograph the hulk, which lay 12,000 feet beneath the surface.

Mr. Grimm, who has already spent \$1.2 million on the venture, says its second phase will begin July 3 this year.

"We're going back with the same equipment, but on a different ship: the Gyre, a research vessel belonging to Texas A & M," he told *Business Insurance*. "First we have to positively identify the target as the Titanic, using camera sleds and a drag bucket. If we know we've found it, we will probably go down, but that won't be until later."

Then the expedition might use a deep-diving submarine and robots with grappling devices and cutting torches to retrieve artifacts, including the ship's log, its bell and \$200 million worth of Antwerp diamonds said to be locked in the ship's vault.

"That option is open to us," Mr. Grimm said. "It is on the drawing boards."

Mr. Pendleton says it is too early to know whether or not the use of a submarine would affect the expedition's coverage for phase two.

"What kind of policy it carries will depend on who goes down in the sub, who the contractor is, how long the expedition lasts, how many divers go down and what

they plan on bringing back with them," he said. Hall already brokers insurance for two submarine firms.

"One sub, worth \$800,000, is covered on all risks except the ingress of water caused by human error or an engineering flaw. Ingress of water would be covered only if caused by an act of nature. In this case there is a \$100,000 deductible and a premium rate of 18% to 19%."

The submarines are so well-engineered that the prospect of loss is low, but premiums are high, he says, so he usually recommends self-funding.

Any treasures brought up by Mr. Grimm's expedition are potential insurance risks and could be covered by a new policy.

"Suppose they locate the purser's safe. Lord knows what they will find there in British pounds, in bullion and in jewelry," the broker said. "We may be talking \$50 million to \$60 million. Even if they don't find jewelry, just an original cup and saucer from the Titanic would have great value. Anything they bring up could be a museum piece. Will that be insured? I don't know yet."

No contracts have been signed on a policy to cover phase two of Mr. Grimm's search for the Titanic, he says. "We'll probably start discussing it in about three weeks."

OSHA inspection budget survives Reagan cutback

Continued from page 2

federal and state OSHA programs. More than 20 states now have safety inspection programs.

The labor secretary also reiterated his intent to change OSHA's focus from an agency that confronts business to one that stresses cooperation between labor and management to make the workplace safer.

"The push-shove syndrome has gone too far," Mr. Donovan remarked. By stressing cooperation between labor and management, OSHA should become much more efficient, he said.

Responding to critics who say the 10-year-old OSHA program has failed and should be killed, Mr. Donovan said he did not come to Washington to preside over the dismantling of OSHA and other Labor Department programs.

Business groups generally approve of Mr. Donovan's attempt to change OSHA's focus.

"We support a shift in OSHA from an agency that has used a punitive approach to one that cooperates with business," said David Sloane, director of congressional relations for the National Assn. of Wholesaler-Distributors.

"This is a step in the right direction," added Tom O'Day, government affairs officer for the Alliance of American Insurers. "It will save government money and turn OSHA from an agency that has confronted business to one that will work with employers to make

Mr. Donovan said he did not come to Washington to preside over the dismantling of OSHA.

the workplace safer."

The OSHA reductions come on top of earlier cutbacks that include eliminating all new federal grants and loans to health maintenance organizations, reducing biannual pension increases for retired federal workers to once a year, tightening the black lung disability program and phasing out some secondary Social Security benefits (*BI*, Feb. 23).

These cuts, as well as others proposed by the Reagan Administration to reduce federal spending by \$48.6 billion, will have to be approved by Congress.

David Stockman, director of the

Office of Management and Budget, however, defended the administration's decision to retain automatic indexing of Social Security benefit increases to increases in the Consumer Price Index.

"It is wrong to balance the budget on the backs of 35 million Social Security recipients—the people least able to afford cutbacks," Mr. Stockman said.

Mr. Stockman said the administration has no plans to remove the CPI as the measure on which Social Security benefit increases are based. He questioned the accuracy of other measuring devices, such as average wage increases.

Backdated MGM plan

Continued from page 2
that there has been no transfer of risk," Mr. Hunter said in letters to the Internal Revenue Service and state insurance commissioners. He wants them to investigate the action.

As reported exclusively in *Business Insurance* (*BI*, Feb. 9); MGM purchased as much as \$170 million of liability insurance through broker Frank B. Hall & Co. for losses

arising from the Nov. 21 fire at its Las Vegas hotel.

The additional coverage came on top of \$30 million of liability insurance MGM had in place before the fire. That amount was considered low by experts; MGM already faces more than \$1 billion in claims filed in connection with the fire.

The backdated policies, which MGM purchased for about \$30 million in premiums, are dated Nov. 1, 1980—20 days before the blaze that killed 84 people.

"Insurers have always said that you can't insure a burning house, but when a client is big enough, apparently you can insure one that's already burnt," Mr. Hunter said.

"All of the major problems associated with this unusual deal stem from the fact that this simply is not insurance," he added.

Experts dispute Mr. Hunter's contention that the backdated policies are not insurance.

"Of course it is insurance, though a very unusual kind," said Bob Hedges, a professor of insurance and risk at Temple University's School of Business Administration in Philadelphia. "There is uncertainty about the risk. No one knows whether, when or how much in losses will be paid."

John McCaffrey, executive vp at Frank B. Hall in Briarcliff Manor, N.Y., noted recently that "there is nothing improper here. It's an insurance product. The principle is clear. The loss cannot be measured and won't be for several years."

Mr. Hunter said because the backdated policies "are not insurance," MGM should not receive a tax deduction for their purchase.

The IRS declined to comment on Mr. Hunter's letter except to note it would "investigate the situation if it has merit," a spokesman said.

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Employers nurture day-care center

Continued from page 3

about giving money only to employees with children," and Eleanor Clement Glass, Sunnyvale Center director. "This is available to everyone, even though parents probably would partake of it more."

TRW Vidar is one of the companies that originally funded the center.

"Rather than subsidize a small number of places, we chose to sponsor so any of our employees could take advantage of the various opportunities within the Sunnyvale Child Care Service Center," explained Nancy Gellhaus, manager of employee relations.

Two TRW Vidar employees have children at the center and others are on the waiting list. There are about 700 employees at TRW Vidar's Sunnyvale and Mountain View plants, and most live in the south part of the county placing the center within their commuting pattern, Ms. Gellhaus says.

TRW Vidar, ESL Inc., Aertech Industries and TRW DSSG also pooled several hundred dollars each into a fund for the center that they hope will be matched by parent TRW headquarters in Cleveland, says Ms. Gellhaus. (TRW is a multiconglomerate involved in the space, energy and defense fields.)

The donations are tax-deductible because they are routed into a nonprofit corporation set up by the City of Sunnyvale, which took a leading role in starting the center and has been recommended for a Model Cities award for its work.

Spots for temps

Timesavers, a temporary personnel agency with several offices near the Sunnyvale Center and clients throughout Silicon Valley, will fund two spots in the preschool program when it opens April 1, says Pauline Gergurich, public relations coordinator.

Timesavers has not decided whether to allocate the space to two specific employees who work

fairly regularly or to several temporary employees as the need arises.

"It's never been done as far as I know with a temporary service. I wish it had so we'd have guidelines to follow," Ms. Gergurich said.

Many temporary workers are reentering the job market and because they do not work regularly, they have difficulty obtaining child care, she explains.

Aertech Industries has taken an active role in promoting the center to its 600 employees, says Debby Fryer, personnel representative. She called a meeting for employees with the center's director. About 10 people attended and were enthusiastic, she says. About five employees signed up their children.

High cost

The cost, however, seemed prohibitive to some, she said. Costs are \$60 a week for infants, \$45 a week for preschoolers and \$30 a week for school-age children.

"I think it's just great over there," said Ms. Fryer, who will continue to post center bulletins and mention the center in her company newsletter.

"Identification of the child-care need has been a real breakthrough," said Ms. Glass, whose own child attends the Sunnyvale Center she runs. "Companies wouldn't even talk about child care. It's in an intense information-gathering state. Whether that's going to be enough to have a domino effect to knock over that last domino—actual commitment in costs—I don't know."

"It will be wonderful when parents go to their job and say, 'What kind of benefits do you have for child care?' I'm sure that when people first went to their employers and asked what kind of vacation benefit they had, they heard, 'Are you asking about that crazy concept of paying workers when they're not working?' It's going to be like that," she predicted.



Photo: Carol Blitzer

The Sunnyvale Child Care Service Center cares for infants and toddlers as well as older children.

Interest in the center might grow even more, however, if the director's dreams all come true. These include night and weekend hours and care facilities for sick children, Ms. Glass says.

The Sunnyvale Center now has three major components: a school-age program for children who attend a nearby grade school and walk to and from the center, a preschool program that will open in April for ages 2½ to 5 and an infant-toddler program for 3 months to 2½ years.

All parts of the center are open from 6 a.m. to 6 p.m., but hours are flexible depending on the needs of participating companies.

"We hope to be able to go to nights and weekends, if there's a

need," said Ms. Glass, adding that Continuing Development Inc. has a 24-hour center operating in Lake Tahoe for recreational workers.

This fall, an advisory committee of parents, company representatives and community members will be formed to make suggestions and survey employees' needs.

"I've only been getting informal suggestions from employer groups, like, 'All of our clerical workers have to rush off to day-care centers at 6 p.m. What if I need them for overtime? Can you stay open until 7 so they're not penalized?' If there's a need for that, we might be able to work it out," Ms. Glass added.

"The project that seems to be the

most interesting and is the most difficult to do is care for the sick child," Ms. Glass said.

The Sunnyvale Center has a government grant to fund five positions for workers who would care for a sick child in an isolation area. Presently, the center can care for a child who gets sick on the premises, but cannot accept a child who already is ill, Ms. Glass explained. The center's "sick bay" program is being held up by a licensing problem.

"I know companies would delight in having that service," Ms. Glass said. The delay "is a matter of one state agency (The Department of Education) vs. another (The Department of Social Services)," she added.

Liability plan covers guides

Richter/Robb Underwriters Ltd. of Denver, a managing general agency and surplus lines broker, is offering a general liability program for outfitters and guides. The program also encompasses dude ranches, saddle animal pack trips, river float trips, mountaineers,

cross-country skiing and related activities.

Combined single limit and excess insurance is available up to a \$500,000 limit. For further information, contact Martin Nye, Richter/Robb Underwriters Ltd., 1245 E. Colfax Ave., Denver, Colo. 80218.

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AIG's winning strategy keeps it in contention

By MARY ANN MATLOCK

NEW YORK—American International Group won't lose its berth in the insurance marketplace for lack of a game plan.

Like a well-trained sports team, the company has produced winning seasons by following three basic strategies: underwriting at a profit, increasing income 20% annually and hiring adept personnel.

Last year was no exception. New statistics show the insurer group earned almost \$80 million in underwriting profit for general insurance. Income from operations before taxes grew 17.4% to \$360.9 million and jumped 21.9% to \$282.2 million after taxes.

Net income increased 9.6% in 1980 to \$284.7 million, as the combined ratio edged slightly higher, to 95.49 from 94.29.

Net investment income in general insurance, which kept many an underwriter afloat in 1980, jumped 27% to \$204.9 million, slightly less than 1979's 33.8% pace.

"There's not an underwriter here who doesn't understand what his mission is," said Gavin R. Arton, director of investor relations. "Underwriters are our key producers. Success is underwriting profit."

Despite a slight 8.9% slip in underwriting profits for general insurance in 1980, pretax operating income below 1979's 19.1% and a net income jump below 1979's 36.2%, AIG's results seem more impressive than the competition.

A *Business Insurance* survey of 23 insurers showed investment income replaced underwriting gains in 1980 as companies recorded an average combined ratio of 103 and an operating income decline of 2% (BI, March 2).

Allowing investments to offset underwriting losses and posting combined ratios at or above 100 "is like talking a basketball team and telling them it's OK to lose by one point," Mr. Arton said.

"It doesn't take long and is almost inevitable for that team to slip into the minor leagues. If they never win or always miss, there's not quite enough motivation. The team becomes demoralized."

At AIG, points were scored in the life insurance, general, foreign and specialty lines

BI ticker

in 1980. The firm also reduced its expense ratio to 22.46% from 23.35% by using a combination of management cutbacks, including curbing travel, hiring less and carefully evaluating workers' performances.

Heavy use of reinsurance (about 50%), also contributed to the expense ratio decline, Mr. Arton said.

The domestic general market, especially property/casualty insurance, showed most business slips.

Year-end results show net premiums written in general insurance jumped 12% in 1980, to \$1.9 billion from \$1.7 billion. Life insurance premiums jumped a remarkable 25%, to \$529.6 million from \$423.1 million, and produced an operating income growth of 28.3%, to \$83.5 million from \$65 million.

The firm's balance sheet posted one substantial loss: \$2.7 million in foreign exchange. In 1979, the firm gained \$537,000 on exchange. This loss resulted in a pretax income jump from operations of only 17.4% compared to 18.5% derived from operations excluding foreign exchange.

Anticipating a difficult 1981, at least in domestic lines, AIG is emphasizing foreign risks, which now account for 50% of its business and 11,000 employees in 140 countries.

"Global accounts and the foreign book are obviously growing factors," Mr. Arton said. "We now have one-stop shopping."

A new program, global accounts, will allow brokers with clients anywhere in the world to obtain single cover from AIG.

"Before we could do this piecemeal. U.S. corporations can now buy insurance in the U.S. for foreign risks," Mr. Arton said.

Other strategies planned for the 1980s include improving communications and possible expansion of foreign offices into secondary cities.

"Most of our competition is still imitating. We're improving all the time," Mr. Arton boasted.

The firm's confidence, expected from AIG executives, is also expressed by indus-

try observers. Shearson Loeb Rhoades Inc. in its 1981-82 forecast says: "We expect that AIG will continue to outperform the industry by a significant margin; however, it will be a difficult year."

The report estimates an industry combined ratio of 108% at the peak of the current cycle, expected in mid-1982, compared with a predicted AIG 1981 ratio of 96.9%.

The 1981 forecast, made before 1980 results were published, was close to target. It estimated AIG would bring income from operations up 18% from 1980 largely because of expected advances in the life business and agencies.

AIG stock looks solid. The stock price increased 25% (bid) in 1980, compared with a 9.4% rise in Best's Multiple Lines Index, a 12.4% advance in the S&P Multiple Lines Index and a NASDAQ Insurance Index overall advance of 3%, according to a February report by Shearson.

AIG also held its own, the report noted, compared to the broader market, where the S&P 400 rose 27.6%, the 500 rose 25.8% and the NYSE Composite rose 25.7%.

Net income per share, according to AIG's year-end statistics, was \$7.54, up from \$6.93 in 1979.

"The 1980 increase in AIG's stock price follows gains of 17% in 1979, 22% in 1978 and 10% in 1977. This performance is directly attributable to AIG's unique place and performance within the insurance industry," the analysts' report says.

"We continue to believe that AIG offers investors substantial opportunity for capital appreciation and recommend purchase to meet that goal."

Bundy moves to Combined as senior vp

CHICAGO—Harvey H. Bundy III, well-known insurance stock analyst at William Blair & Co. here, is joining Combined International this month as senior vp with responsibility for mergers and acquisitions.

The move signals a new interest at the Chicago-based company to expand beyond its current personal lines insurance business of subsidiary Combined Insurance Co. of America, possibly into specialty lines of commercial insurance.

"I see a major opportunity for me to enhance the growth rate of Combined through acquisitions," said Mr. Bundy, who joined Blair in 1968. He has made himself a reputation for being well-informed and knowledgeable about the insurance brokerage business and has been a regular contributor to the *Business Insurance* ticker page reports.

Combined International just announced its intent to make its first acquisitions in 10 years: Union Fidelity Corp., a direct response marketer of accident and health insurance, and a related service company, Nashaminy Valley Information Processing Inc. The price tag is about \$110 million, to be paid to Filmways.

Combined Insurance had a 1980 premium volume of \$596 million and earnings of \$95.6 million.

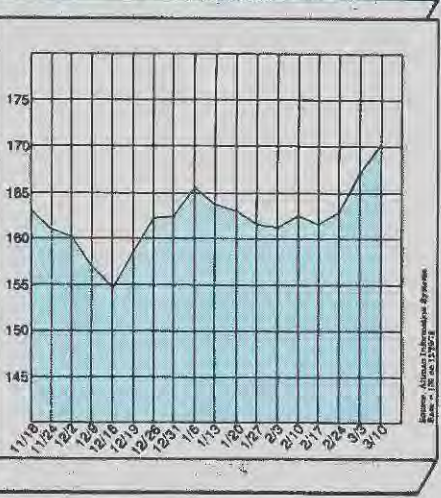
"There has been a slowing in the growth rate of their business and I've been asked to move them into areas that will make them grow faster," Mr. Bundy said.

"Initially, acquisitions will be related to insurance and insurance services, but I don't want to rule out other related areas."

Any expansion into commercial insurance is intended to be into products insuring specialty risks, Mr. Bundy noted.

Combined is well-known for the business philosophy of its founder, W. Clement Stone, who stressed the power of positive thinking. His son, Clement Stone, is the current president and chief executive officer.

BI Insurance Index



The *Business Insurance* stock index continued its strong showing, rising 3.1 points to 170.2 from 167.1. Forty-two stocks rose, 14 dropped and 16 were unchanged. Largest increases were: General Re Corp., 11.9%; Great West Life Assurance Co., 11.1%; Armco Inc., 7.4%; Hanover Insurance Co., 7.1%, and American Indemnity Financial Corp., 6.9%. Largest declines were American States Life Insurance Co., 8.1%; Integrated Resources Inc., 7.1%; E.H. Crump Cos. Inc., 6.3%; Reed Stenhouse Cos. Ltd., 4.2%, and Hartford Steam Boiler Inspection, 2.7%. The 1.8% index gain outpaced all three market indicators. The New York Stock Exchange dropped 0.1%, Standard & Poor's dropped .07% and the Dow Jones Industrials rose 0.6%.

British Issues

3/10 Companies	Price	P/E	Div.	Yield	High-Low
	pence		pence	%	pence pence
Commi Union	154	8.3	15.43	10.0	157-153
Eagle Star	243	8.4	15.71	6.5	247-242
Genl Accident	316	7.9	19.29	6.1	324-314
Gdn Royal Exch	334	8.8	21.43	6.4	344-332
Phoenix	270	8.4	21.43	7.9	276-270
Royal	375	6.2	34.29	9.1	390-373
Sun Alliance	800	10.8	45.00	5.6	806-800

Brokers	Price	P/E	Div.	Yield	High-Low
	pence		pence	%	pence pence
CE Heath	218	10.6	13.87	6.4	228-218
Hogg Robinson	102	8.2	8.14	8.0	108-102
Alex Howden	110	9.2	10.00	9.1	112-109
JH Minet	99	12.4	6.45	6.5	104-99
Sedg Grp	121	12.0	7.14	5.9	132-121
Stenhouse Hldg	82	7.8	6.64	6.1	87-82
Staw Wrightson	216	10.5	17.14	7.9	230-216
Willis Faber	300	13.3	16.14	5.4	307-297

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

Insurance Cos.	MAR. 10, 1981					3/4/81 THRU 3/10/81					
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			
Aetna Life & Cas Co	NYSE	34.88	-5.7	5.5	2.32	6.7	34.88	33.00	519.5		
American Bankers Ins Group	OTC	7.00	-1.8	4.7	0.22	3.1	7.25	7.00	98.4		
American Finl Corp Ohio	OTC	27.25	0.5	5.6	0.50	1.8	27.25	27.13	33.5		
American Gen Ins Co	NYSE	40.25	6.3	6.1	2.00	5.0	40.25	39.13	115.0		
American Indty Finl Corp	OTC	17.50	6.9	6.8	1.12	6.4	17.50	16.63	15.1		
American Intl Group Inc	OTC	82.50	2.8	11.6	0.50	0.6	83.25*	80.25	180.5		
American Natl Ins Co	OTC	13.25	2.9	6.0	0.58	5.1	13.50	13.25	73.8		
American Sta Life Ins Co	OTC	17.00	-8.1	5.8	0.72	4.2	18.50	16.50	1.3		
Aneco Reins Ltd	OTC	4.50	0.0	0.0	0.00	0.0	4.50	4.50	97.1		
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	6.9		
Avenco Corp	AMEX	9.00	1.4	7.8	0.50	5.6	9.00	8.63	3.6		
Banks Iowa Inc	OTC	26.00	0.0	4.4	1.44	5.5	26.00	26.00	1.5		
Bitco Corp	OTC	36.50	0.0	5.3	2.16	5.9	36.50	36.50	1.7		
Cazollina Cas Ins Co	OTC	9.00	5.9	5.7	0.32	3.6	9.25*	8.75	4.5		
Central Natl Finl Corp	OTC	10.25	-1.2	3.7	0.50	4.9	10.38	10.25	1.6		
Chubb Corp	OTC	44.50	-6.6	5.2	2.68	6.0	45.00	42.00	89.4		
Combined Intl Corp	NYSE	18.50	0.7	5.2	1.68	8.6	19.25	18.38	272.8		
Connecticut Gen Ins Corp	NYSE	52.25	6.6	6.8	1.76	3.4	52.25*	49.00	213.3		
Continental Corp	NYSE	24.88	2.1	6.7	2.40	9.6	25.00	24.13	160.3		
Crawford & Co	OTC	19.25	-1.3	14.7	0.52	2.7	19.25	19.25	12.5		
Crown Life Ins Co	OTC	96.00	0.0	8.0	2.80	2.9	96.00	96.00	0.0		
Crua & Forster	NYSE	27.50	4.3	5.1	1.44	5.2	28.13	26.75	155.8		
Employers Cas Co	OTC	22.50	3.2	5.3	1.20	3.7	32.50	31.50	1.6		
Equifax Inc	NYSE	20.50	0.0	6.5	2.40	11.7	20.50	20.38	14.5		
Farmers Group Inc	OTC	30.63	7.0	9.7	1.12	3.7	30.63	28.63	267.8		
First Colony Life Ins Co	OTC	39.50	0.0	13.5	0.80	2.0	43.50*	39.50	14.0		
Foremost Corp Amer	OTC	21.50	6.8	7.1	0.80	3.7	21.50*	20.13	13.4		
Great West Life Assurn Co	OTC	250.00	11.1	19.3	10.00	4.0	250.00*	225.00	0.2		
Hanover Ins Co	OTC	45.00	7.1	4.1	0.72	1.6	45.25	43.00	46.1		
Hartford Steam Boiler Insnptn	OTC	36.00	-2.7	7.2	2.40	6.7	37.00	36.00	4.6		
Integon Corp	NYSE	34.25	0.0	11.8	0.52	1.5	0.00	0.00	0.0		
Jefferson Natl Life Ins Co	OTC	43.00	-1.1	20.1	0.64	3.5	43.50	43.00	4.3		
Kemper Corp	OTC	31.75	2.8	4.8	1.60	5.0	31.75	30.88	54.9		
Lincoln Natl Corp Ind	NYSE	40.88	6.5	5.7	3.00	7.3	40.88	38.75	110.1		
Mgic Invt Corp	NYSE	31.25	1.6	8.6	1.28	4.1	31.25	30.50	196.7		
Mission Ins Group Inc	NYSE	41.00	2.5	8.0	1.00	2.4	41.00*	39.75	9.6		
Nationwide Corp Ohio	OTC	22.00	0.0	6.3	0.70	3.2	22.00	22.00	4.0		
Northwestern Natl Life Ins Co	OTC	28.25	0.9	6.2	1.25	4.4	28.25	27.50	24.0		
Ohio Cas Corp	OTC	37.00	1.0	6.2	2.04	5.5	37.00	36.38	82.2		
Old Rep Intl Corp	OTC	15.88	0.0	4.3	0.92	5.8	15.88	15.75	132.2		
Pineharat Corp	OTC	6.50	2.0	12.0	0.00	0.0	6.50	6.38	3.8		
Preferred Risk Life Ins Co	OTC	18.38	3.5	6.2	0.64	3.5	18.38	17.88	2.1		
Provident Life & Acc Ins Co	OTC	43.00	0.0	6.4	2.20	5.1	43.00	42.50	45.5		
Republic Natl Life Ins Co	OTC	23.75	1.6	14.3	0.70	2.9	23.75	23.50	23.7		
Ryan Ins Group Inc	OTC	23.00	4.5	9.2	0.09	0.4	23.00*	22.00	10.1		
St Paul Cos Inc	OTC	40.63	4.8	7.2	2.32	5.7	40.63	38.63	99.8		
Safeco Corp	OTC	36.75	5.0	6.6	2.00	5.4	37.25	35.13	73.1		
Sri Corp	OTC	29.25	2.6	4.8	1.20	4.1	29.25*	28.75	19.8		
Seibels Bruce Group Inc	OTC	19.63	6.1	4.6	0.80	4.1	19.63	18.38	51.7		
Statesman Group Inc	OTC	5.63	4.7	4.2	0.15	2.7	5.63	5.25	16.7		

Tokio Marine & Fire Ins Co	MAR. 10, 1981					3/4/81 THRU 3/10/81					
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			
Travelers Corp	NYSE	44.63	-6.2	5.2	2.88	6.5	44.63*	42.38	323.6		
United Fire & Cas Co	OTC	36.50	0.0	9.5	1.00	2.7	36.50	36.50	0.4		
United States Fid & Cty Co	NYSE	39.88	-0.6	4.9	3.20	6.0	40.25	39.50	227.2		
United Svcs Life Ins Co	OTC	15.25	1.7	6.2	1.00	6.6	15.25	15.00	13.5		
UsLife Corp	NYSE	25.88	1.0	7.2	0.72	2.8	26.00	25.88	694.4		
Washington Natl Corp	NYSE	37.38	-1.6	7.3	1.50	4.0	38.88	36.75	56.5		
Zenith Natl Ins Corp	OTC	14.75	-1.7	9.2	0.50	3.4	15.00	14.75	24.4		
INSURANCE COMPANIES	AVERAGE			7.3		4.0					

Agents/Brokers	MAR. 10, 1981					3/4/81 THRU 3/10/81					
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			
Alexander & Alexander Svcs	OTC	34.00	2.3	11.1	1.84	5.4	34.00	33.25	116.6		
Baldwin & Lyons Inc	OTC	30.75	0.0	5.4	0.80	2.6	30.75	30.75	1.7		
Corroon & Black Corp	NYSE	22.38	0.6	9.5	1.76	7.9	22.50	22.38	19.1		
Crump E B Cos Inc	OTC	13.00	-6.3	11.4	0.40	3.1	13.75	13.00	25.7		
Hall Frank B & Co Inc	NYSE	23.63	0.0	8.6	1.60	6.8	24.00	23.63	33.2		
Integrated Res Inc	AMEX	16.38	-7.1	8.2	0.00	0.0	17.00	16.38	15.6		
James Fred S & Co Inc	NYSE	23.75	4.4	10							

A bottom line view of loss control



Oil rigs, like this in the Gulf of Mexico, typify high-hazard operations.

Every business has special perils needing special insurance broker solutions. How Alexander & Alexander looks at off-shore drilling, one of the riskiest, will help explain how we will look at your business. In this case, we study rig safety through a contractor's eyes. Scrutinizing the workers and the working environment. Probing the whys of injuries and the hows of accident prevention. Viewing down-time as dollars.

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