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WEEK OF MARCH 1, 1982

business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

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update:
Design change key to Hyatt collapse: Study
 GAITHERSBURG, Md.—A faulty design change, which saved money and eased construction, was the key factor in the July 17 collapse of two skywalks at the Kansas City Hyatt Regency Hotel, federal investigators said last week.
 Had the design change—involving hanger rods supporting the walkways—not been made, the collapse may not have occurred even though the original design violated Kansas City
Continued on next page

Crowley Maritime barges ahead ignoring Social Security benefits

By RHONDA L. RUNDLE

SAN FRANCISCO—Crowley Maritime Corp., a privately owned transportation and maritime construction conglomerate, will shell out an extra \$900,000 a year to make its pension plan totally independent of Social Security benefits.

The CMC change bucks a 20-year trend among U.S. businesses to integrate Social Security and private pension benefits. The Social Security offset typically reduces the employer's contribution needed to guarantee a worker's retirement income at a set percentage of final pay.

Pension funding costs for the San Francisco-based company will increase by a whopping 52% to \$2.6 million a year under the new formula instituted in January. CMC and its employees will continue to make contributions to the Social Security system as required by law.

The revised plan provides monthly private pension retirement income for all employees in the amount of 1.35% of final average pay times years of

service. The highest-paid five years out of the last 10 years of service are averaged to obtain the retiree's final average pay. All of the corporation's 1,300 administrative personnel will earn bigger pensions after the change.

Since CMC has kicked Social Security out of its pension formula, it no longer needs to forecast wildly unpredictable Social Security benefits. The promise of a private pension is no longer linked to a system considered actuarially unsound by corporate benefit managers.

"Social Security is a welfare system, not a benefit system," argues Richard E. Hanson, CMC's senior analyst for compensation and benefits. "Equity was never intended."

But equity is important to CMC management. The company became alarmed when it realized that recent dramatic increases in Social Security benefits had caused an unintended earnings and service test to creep into its pension plan. CMC could no longer promise a private pension to its
Continued on page 31

MGM Grand sues 2 excess insurers

By RHONDA L. RUNDLE

LAS VEGAS, Nev.—MGM Grand Hotel Inc. is battling two of its excess insurers for an additional \$69 million to fully cover an alleged \$211 million property loss caused by the November 1980 fire at its Las Vegas hotel.

American Protection Insurance Co., a member of the Kemper Group, is asking the U.S. District Court in Las Vegas to decide the proper amount of MGM's property damage claim. AMPICO argues that MGM's claim includes sums spent to enhance—and not just rebuild—the hotel and casino.

MGM Grand has responded with a countersuit seeking the \$33 million difference between \$92 million it has received from AMPICO and the \$125 million limit of the insurer's policy. Six other insurers have exhausted their underlying limits totaling about \$50 million.

In a separate action also filed in the Las Vegas court, MGM Grand is suing Insurance Co. of North America for refusal to pay the \$36 million portion of MGM's claim that exceeds AMPICO's liability.

INA underwrote a top \$40 million layer excess of \$175 million to complete MGM's \$215 million property and business interruption insurance package. Court documents show that MGM paid INA \$10,000 for a 12-month policy starting May 15, 1980.

Shortly after the fire on Nov. 21, 1980, claims adjusters and other experts
Continued on page 28

Salary survey: Risk managers in the U.S. are paid an average of \$40,100, plus more than \$7,000 in bonuses

By JAMES M. BURCKE

NEW YORK—How much is a risk manager worth?

According to a new survey, how much a risk manager earns depends on the type of business his company is in and where it is located.

For example, the average salary of managers in the oil/petrochemical industry was \$54,500 last year, while bank risk managers made an average of \$29,300, the survey said.

And risk managers in the Northeast are usually paid more than their brethren in other portions of the United States.

Nationwide, the average risk manager earned \$40,100 last year and received a bonus of \$7,150, according to the survey conducted by Richard Meyers and Bill Perry of Logic Personnel Associates Inc., a New York recruiting firm specializing in risk and safety manage-

ment.

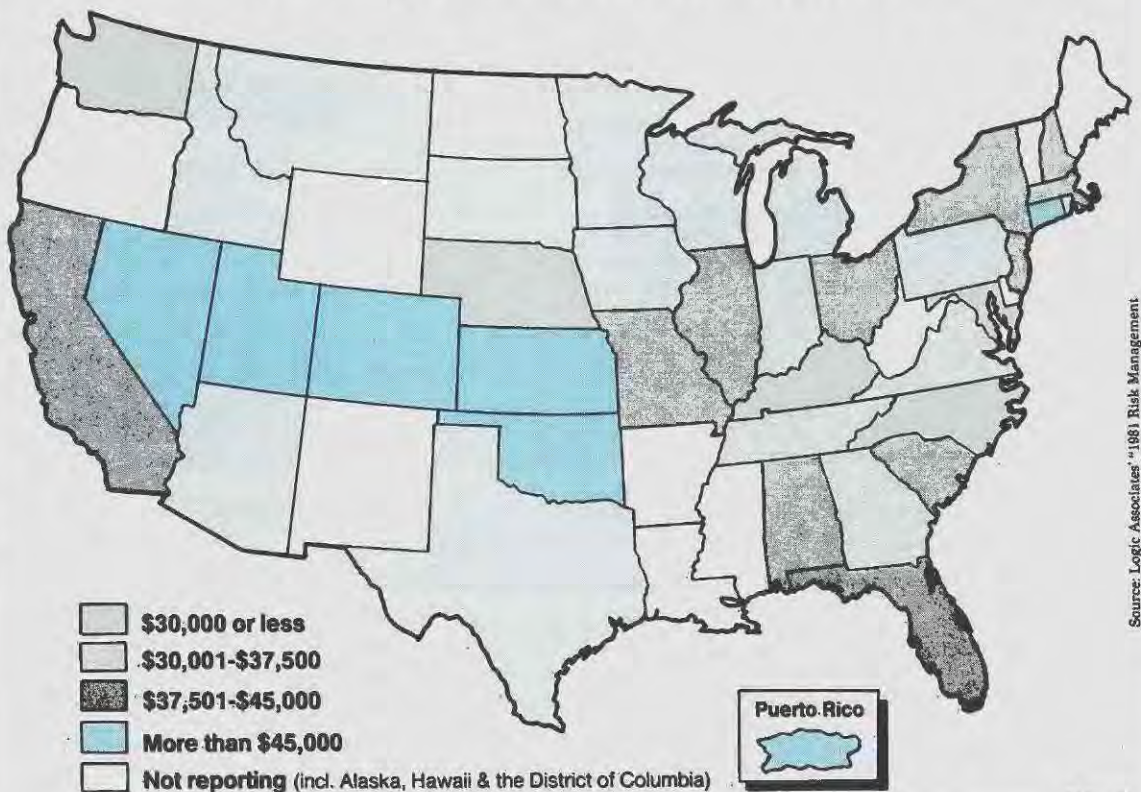
Some 255 risk managers in 38 states responded to the survey, 32% of those polled. However, more than half of the respondents were located in the Northeast. No data was collected from 14 states.

The highest compensation reported in the survey was earned by a risk manager for a conglomerate, who received a \$90,000 salary and a bonus of \$18,000. A county government official ranked at the bottom of the list with a \$17,000 salary and no bonus.

However, some of these figures could be misleading. In notes accompanying the survey, Logic Personnel Associates points out that it is aware of 15 risk management professionals at conglomerates and in the oil, chemical and pharmaceutical industries with base earnings of more than \$100,000.

And although Logic Personnel
Continued on page 32

Risk manager salaries around the U.S.



NEWSPAPER

Sen. Kasten revises product liability proposal
 Page 2

Source: Logic Associates' 1981 Risk Management Compensation Survey

BT Graphic

update:

Design change key to collapse

Continued from previous page
building codes, the Commerce Department's National Bureau of Standards concluded last week after a seven-month investigation.

With the design change, the hanger rod beam connections could only support one-third of the load they were supposed to hold at the Hyatt.

Under the original construction design, the plan for the skywalks called for a single set of hanger rods that would have passed through the beams in the fourth-floor walkway through to beams in the second-floor walkway.

This would have allowed each box beam connection to transfer its own load directly onto the hanger rods.

However, during construction of the hotel, the rod design was changed from a single set to an "interrupted" arrangement, so that the fourth-floor box beam connections had to transfer the loads of both the second- and fourth-floor walkways.

This change doubled the load on the fourth-floor connections and led to the collapse, the study said.

Under the original arrangement, the collapse would not have occurred, said Dr. Edward Pfrang, who headed the investigation.

Who requested the design change is unclear. In court papers, the architects, project manager, general contractor, steel manufacturer and structural engineer point fingers back and forth, and hotel owner Crown Center Redevelopment Corp., a subsidiary of Hallmark Cards Inc., says it did not originate the skywalk design but did ultimately approve atrium and skywalk plans submitted by the architect, a consortium of three firms, Patty Berkebile Nelson Duncan, Monroe Lefebvre Architects Planners Inc. of Kansas City.

Dr. Pfrang also noted that each fourth-floor hanger rod box beam connection had a capacity load of just 18,600 pounds. On the night of the collapse, the maximum load on any of the six connections was 21,400 pounds. Kansas City building codes required the connections to support a load of 68,000 pounds.

CG, INA settle on name

NEW YORK—Connecticut General Corp. and INA Corp. have settled on a name for their new offspring—Cigna Corp.

The two giant insurers said Cigna preserves the value of their existing names and "underscores the business concept of a merger of equals by using all the letters of CG and INA."

The companies expect that, with government clearance, they will complete the merger by April 1.

NRA wants award vacated

WASHINGTON—The National Rifle Assn., stung by a \$2 million jury verdict because it failed to adequately inform an employee he should take his handgun home from the office at night, has asked a U.S. District court judge to vacate the award (BI, Feb. 22).

The handgun was stolen in a robbery at the NRA's headquarters and used a few days later in a fatal shooting.

In a motion filed Feb. 19 the gun lobby argues the award was illogical, excessive and inconsistent because it absolved the gun's owner—an NRA employee—while penalizing the NRA.

Robins to appeal IUD award

MIAMI—Dalkon Shield manufacturer A.H. Robins Co. Inc. will fight a \$2.75 million award by a jury to a woman who claims that complications following the use of the intrauterine device caused her need for a hysterectomy.

The compensatory damage award of \$1.75 million is believed to be the biggest ever for Dalkon Shield injuries. A \$1 million punitive damage award has been stayed, pending appeal of another case.

Plaintiffs are appealing a U.S. District Court order in San Francisco to consolidate all Dalkon Shield suits for purposes of deciding punitive damages against A.H. Robins (BI, Dec. 28, 1981).

Vote on Lloyd's bill this week?

LONDON—The Lloyd's of London self-regulation bill could be approved by the House of Commons this week.

Opponents of the bill say they will once again argue against the bill before it comes up for a final vote. Conservative members debated the bill into the night during one session last week.

'Tolling' statute in limbo

WASHINGTON—The Supreme Court last week sidestepped deciding how long an out-of-state company is liable for its products in New Jersey.

Pharmaceutical giant G.D. Searle & Co. had challenged a New Jersey "tolling" statute that says the state's law requiring a plaintiff to file a product liability suit within two years of injury does not apply to corporations registered outside the state (BI, Oct. 12, 1981).

But the high court, in an 8-1 ruling, sent the case back to the trial court because lower courts failed to address whether the tolling statute violates the Constitution's commerce clause.

index

BI ticker	33	weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to Business Insurance, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221. Copyright 1982 by Crain Communications Inc.
Classifieds	30	
Datebook	10	
Editorial opinions	6	
Insurance services guide	32	
Legal briefs	22	
Letters	6	
Perspectives	21	
Vol. 16, No. 9—Business Insurance (ISSN 0007-6864) is published		

Insurers may hike rates to cover blowout losses

By STACY SHAPIRO

LONDON—The frequency of oil well blowouts has never been so high, the cost of capping them so expensive and insurers so fed up about paying the claims.

"In the old days, the drillers made their own rigs out of wood," says Alan Hiscock, managing director of Sedgwick Offshore Resources Ltd.

"There wasn't any insured value because they were unlikely to be insured. They would just dig and strike a well. And if it didn't work, it didn't work. But you didn't have the sophisticated blowout preventers there," he says.

Today's oil barons, however, are witnessing an explosion in the number of blowouts at both onshore and offshore rigs, London sources say.

They say they're not sure if there is a pattern to the blowouts, but they do know one thing. The cost from blowouts is running into hundreds of millions of dollars, and some insurers are getting tired of paying enormous claims on well control policies.

Some insurers have quit writing well control policies altogether, said Mr. Hiscock. And others—like Lloyd's of London, which is the leading market for oil rig and well control insurance—are thinking about raising some rates by as much as 20%, other Lloyd's sources predict.

It is likely rates will rise, said Lloyd's underwriter David Hill, who is a leader on the master marine oil rig insurance policy. But Mr. Hill is waiting to say how much rates will increase until he finishes a statistical analysis about the frequency of blowouts and their cost.

Lloyd's underwriters say they need to raise rates to try to recoup some of the huge losses they've recently had to pay out on the master oil rig insurance policy. The worst loss recently was caused by a blowout from the Sedco 250 well off the coast of Angola, operated by Gulf Oil Corp., which will cost insurers more than \$1 million (BI, Feb. 15).

But, they say the Sedco losses are just a large tip of a huge iceberg.

Continued on page 27

CU claims Hyatt tried to 'cut deal'

By BILL DENSMORE

KANSAS CITY, Mo.—Hyatt Corp. tried to convince Commercial Union Insurance Co. after the skywalk disaster to cover its interests, but CU balked, court documents assert.

The new revelations are contained in papers filed Feb. 19 in Jackson County, Mo., Circuit Court by CU attorneys Stephen A. Cozen of Philadelphia and Charles E. Paterson of Kansas City.

The papers, which include copies of private letters between Mr. Cozen and Hyatt attorney Don H. Reuben, are Mr. Cozen's response to a motion under Mr. Reuben's name seeking Mr. Cozen's removal as CU counsel.

Hyatt claims Mr. Cozen made misleading statements to the court about CU's coverage position (BI, Feb. 8). Judge Timothy D. O'Leary has not ruled on the motion.

Mr. Cozen's response asserts that Mr. Reuben, representing Hyatt, tried to "cut a deal" with Mr. Cozen as CU's counsel for CU to recognize

Continued on page 29

EPA announces rules on closure coverage

By JOHN W. MILLIGAN

WASHINGTON—Hazardous waste sites throughout the United States soon may be able to insure closing and monitoring costs. However, no insurer is selling the coverage.

U.S. Environmental Protection Agency officials say the agency will announce new regulations this week that will allow waste site operators to use insurance to guarantee payment of site closing and monitoring costs as required by the Resource Conservation and Recovery Act.

The agency is expected to publish the regulations this week in the Federal Register. That announcement will be followed by a 60-day comment period.

The regulations on closing and monitoring procedures, which also allow other funding mechanisms including self-insurance, take effect 90 days after the publication date.

Under RCRA, operators must demonstrate their capacity to pay for the costs of closing and monitoring a facility, called closure/post-closure costs. Once a disposal site has been closed, it must be monitored for 30 years.

Operators who decide to insure their closure/post-closure costs will have to cover the full estimated amount of the costs. Operators are required to submit these figures to the EPA, along with a detailed closing and monitoring plan, during the licensing of their facilities.

The regulations will include other options to show that closing and monitoring costs can be paid: a trust fund, bond, letter of credit or self-insurance.

It appears that these four approaches will be the only funding

Continued on page 28

Revised product liability bill drops some protection for manufacturers

By JERRY GEISEL

WASHINGTON—In his latest legislative attempt to establish a federal product liability law, Sen. Bob Kasten, R-Wis., has changed

errors & omissions

In the Feb. 22 issue of Business Insurance, two errors appeared in stories:

- In the London Line article, the annual report of the Liverpool Underwriters' Assn. was incorrectly identified as the Institute of London Underwriters' annual report.

- Due to a typographical error, a story on Olympic insurance coverage erroneously stated that television rights for the 1988 summer Olympics would be insured for \$5 billion. The correct figure is \$1 billion.

his mind about giving all manufacturers new protection from product liability lawsuits involving older products.

In draft legislation that will be unveiled this week and discussed at a Senate Commerce Committee hearing next week, Sen. Kasten proposes to bar product liability lawsuits involving major capital goods, like printing presses, 25 years after the product is delivered.

However, no time limitations, based on when a product is delivered, would apply to other products.

In addition, there would be no time limitation on filing suit in cases where the injury was caused by prolonged exposure to a product like asbestos.

Other major changes in the revamped bill involve government safety standards as a defense against liability and the use of expert witnesses in product liability suits.

However, important provisions involving the exposure of whole-

Continued on page 30

House legislation not the same

WASHINGTON—While Sen. Bob Kasten now wants to give most manufacturers less protection than he originally proposed in his federal product liability legislation, a California congressman wants to give them much more.

Rep. Norman Shumway, R-Calif., in his proposed "Products Liability Act of 1982," H.R. 5214, would bar most product liability suits from being filed 10 years after the product is first sold.

However, in cases where the injury is caused by prolonged exposure to a product, like asbestos, a plaintiff would have 15 years from the time the product was sold to file suit.

In its latest version, Sen. Kasten's bill proposes a 25-

Continued on page 30

First suit filed following Ocean Ranger disaster

By BILL DENSMORE

NEW YORK—Criticism of safety conditions aboard the Ocean Ranger drilling rig by its ex-captain could figure prominently in the first suit filed since the accident.

Charging the rig owner and operator with operating an unseaworthy and unsafe vessel, the family of one of the 84 lost crew members is demanding \$2 million in damages in a suit filed in U.S. District Court in New Orleans.

The family of Gerald R. Vaughn, 36, of Collins, Miss., a tool pusher believed to have died in the rig accident, filed the suit Feb. 17 against Ocean Drilling & Exploration Co., the rig's owner, and Mobil Oil Canada of Calgary, Alberta, which was leasing the rig on the Hibernia

Bank drilling site.

Their attorney then dispatched an associate, who, with a court reporter, obtained sworn testimony from the former captain about conditions aboard the rig.

The suit was filed by attorney James A. George of Baton Rouge, La., and assigned to Judge Robert F. Collins.

The sworn statement from Karl T. Nehring, the Ocean Ranger's former captain, amplifies the criticism of safety conditions he made to the news media.

Capt. Nehring alleged in at least two separate interviews that there were numerous safety problems on the rig before he resigned his command late last year.

In a telephone interview with the Canadian Broadcasting Corp., which he made from his family's

apartment outside San Jose, Costa Rica, Capt. Nehring said a U.S. Coast Guard official found 200 design, maintenance and structural problems aboard the rig about a month before it sank and nothing was done.

They included insufficient maintenance of remote control valves on 32 ballast tanks controlling the rig's stability, he said.

Mr. George's associate, attorney Vincent J. DeSalvo, says Capt. Nehring resigned after about two years of working on various ODECO rigs because he decided he lacked sufficient authority on the Ocean Ranger.

"He felt that because he, Nehring, had more experience navigating the vessel than the senior tool pusher, he should be in charge of navigating it," said Mr. DeSalvo.

"That is the point over which he resigned."

A spokeswoman for ODECO said Capt. Nehring's departure was a "mutual thing—there were some hard feelings on both sides."

The Coast Guard said it could not determine if safety problems were found aboard the Ocean Ranger. It acknowledged that an officer undergoing training to become a rig safety inspector was aboard the Ocean Ranger last fall and performed an informal inspection.

The inspector, Lt. Cmdr. T.W. Purtell, wrote a letter Nov. 2 to training officials at the end of a three-month tour observing ODECO rigs at several locations, said Dan Dewell, a spokesman for the Coast Guard Marine Board of Investigation probing the disaster. Portions of the letter, read by Mr.

Dewell, refer favorably to the "attention to detail in aspects of design, maintenance, housekeeping and operations."

"(T)he Ocean Ranger is U.S.-inspected and certified and during my visit I performed an informal inspection for certification to assist the rig in preparation for the formal inspection in December. Even after such a thorough examination I have to agree that the Ocean Ranger is the queen of the ODECO fleet," the letter said.

Capt. Nehring could not be reached to determine whether the Coast Guard official he said found 200 safety problems was Lt. Cmdr. Purtell. The Coast Guard said it knew of no other servicemen aboard the vessel during that period. Lt. Cmdr. Purtell is now on another billet in Chile, the service said.

Meanwhile, ODECO, Mobil and their insurers aren't discussing who could be liable to pay any judgments to families of the 84 workers who were killed.

Besides Mr. George, at least two other attorneys say they have been retained by families of those lost in the accident and would be filing similar suits, although not necessarily in federal court in New Orleans. Boston is another possible site for suits under the Jones Act, which provides broad third-party liability recovery for negligent maritime acts.

"We're still not sure what piece of it we've got," said an underwriter for a liability insurer of ODECO, who spoke on the condition he would not be identified. "We're on the foreign and this might be deemed to be domestic."

Different policies may be triggered depending on whether the rig is operated in U.S., Canadian, foreign or international waters. Insurers so far don't know how to classify the Hibernia field where the rig drilled. Also, the laws governing liability recovery for negligence can differ by location.

ODECO said it won't comment on the rig loss until it testifies before the board of inquiry.

Insurance coverage for semi-submersible rigs like the Ocean Ranger is complicated. A semi-submersible drilling rig is part ship and part platform. Different insurance policies apply when the rig is moving from when it is stationary.

When the rig is under power or tow, third-party liability is covered by a traditional marine protection and indemnity policy, often written by London-based pools.

When the rig is on station and drilling, a different liability policy is triggered, which may be underwritten as part of the overall comprehensive package carried by the owner or by the company leasing the rig. Thus, whether ODECO or Mobil Oil Canada is responsible for that coverage will probably depend on the contract between the two.

There also could be a question about who was in charge of the rig.

On a drilling rig, insurance experts say, it is customary for a "senior tool pusher" to be in charge of the platform during stationary drilling operations. When the rig is the type that has its own propulsion system, as the Ocean Ranger did, a separate maritime captain takes command while it is moving.

It is not immediately clear, the experts said, which man would have final authority for such things as correcting a list or issuing an order to abandon ship.

Although not yet identified with Ocean Ranger, the half-dozen U.S. insurers providing liability insurance for on-site drilling include Insurance Co. of North America, American International Group, AGIA and Continental Group subsidiaries.

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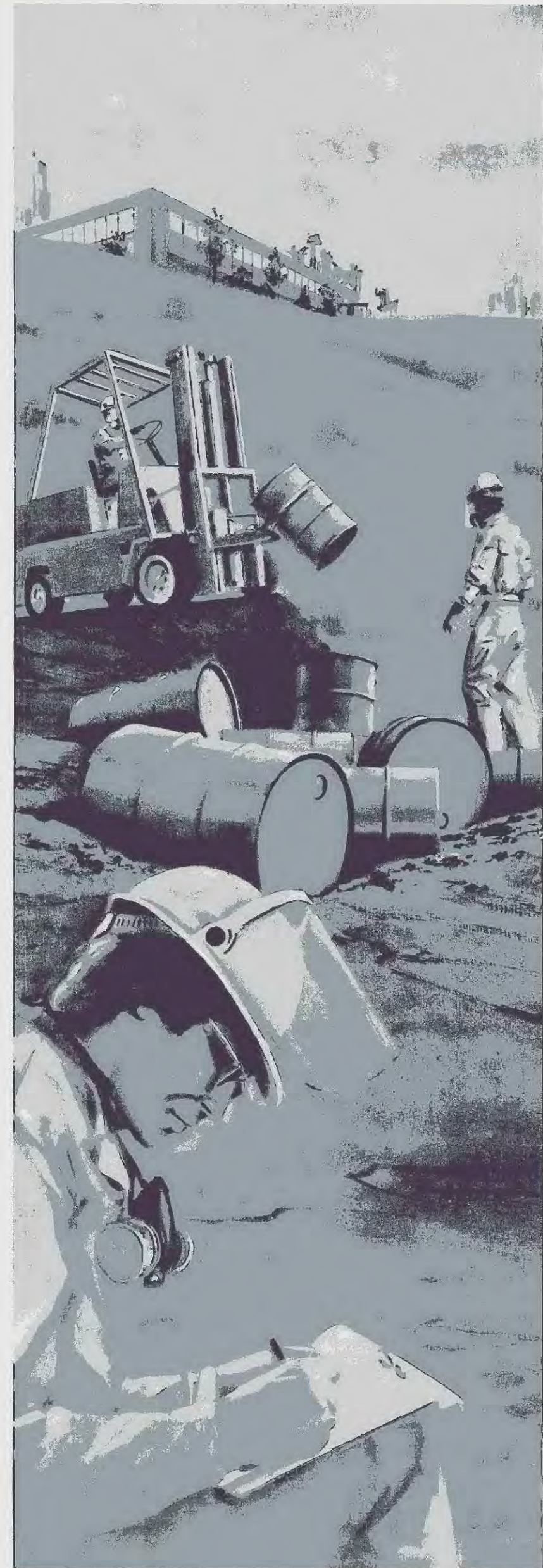
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editorial opinions

Help give employees a break

CORPORATE RESPONSE to employees' new tax breaks for retirement savings is the most important benefit issue to develop since Congress enacted the pension reform law.

That's no exaggeration.

Other benefit issues—the Multiemployer Pension Plan Amendments Act of 1980, equal maternity benefits for the wives of workers and rising health care costs—are certainly important problems to large segments of employers. But, the new tax breaks affect every employer and all employees. And instead of problems, they present opportunities.

You have the opportunity to stimulate employees to take the \$2,000 income tax deduction for retirement savings available under the Economic Recovery Tax Act of 1981. As more employees take advantage of this new tax break, more will have adequate incomes in their retirement years.

You have a responsibility to carefully consider how your company can help its employees take advantage of the new tax break.

And you have a lot to consider.

Our special report beginning on page 3—compiled by Associate Editors John W. Milligan, James C. Lawson and Stephen Tarnoff—identifies and explains the multiple issues you must address, including the new enthusiasm for salary reduction plans. While not part of the changes in the tax law, these salary reduction plans are another new—and some say better—method of encouraging employee savings for retirement.

In addition, two articulate corporate executives who have studied the issue of payroll deduction programs for Individual Retirement Accounts present their opposing views in our Perspective section.

Together, these reports give you an overview of the issues you must consider. We encourage you to study

them closely. Even if you previously decided against taking any action in response to the tax act changes or on salary reduction plans, keep yourself informed of new insights.

And, we suggest, mark your calendar to regularly review your decisions on these options. The potential benefits to you and to your employees are too large to leave initial decisions engraved in stone.

We sympathize with those benefit managers who are concerned about the delayed regulations from the Internal Revenue Service that could throw a wrench into the administration and effectiveness of these plans. Who can be surprised, though, that the IRS is moving more slowly to clarify tax breaks than it does to collect tax revenues?

Don't be caught short

TAKE A LESSON from the experience of Seattle School District No. 1.

Check your liability insurance limits against the big awards being handed down in your business.

You may be underinsured, as Seattle School District No. 1 finds itself in the face of a \$5.5 million judgment, which we reported last week.

The case isn't shut yet, and the school district may come out of it without tapping its operating budget for the nearly \$1 million by which the award exceeds its insurance. For its sake, and for the sake of education, we hope so.

In any event, this example should remind all those in charge of purchasing liability insurance that today's legal climate demands high liability insurance limits for ultimate protection. Given the current cheap prices of insurance, especially excess insurance, there is no excuse for being underinsured.

letters

Firm did not make heater that exploded

In an article that appeared in *Business Insurance* on Feb. 8, Bradford-White Corp. was identified as the manufacturer of a water heater that exploded in Spencer, Okla. This is incorrect:

The heater in question was identified as a Republic heater, Model R200-211-4, with a serial number of 13326-1-6. According to the fire marshal, the identification material on the heater itself stated that it was manufactured by Republic Appliance Division, Panacorn Inc., 342 W. 12th St., Erie, Pa. We understand that the information indicates the heater was manufactured in 1966.

In late 1974, Bradford-White purchased the assets, but not the liabilities, of the Republic Heater Division of Celotex Inc. The agreement specifically provided that Bradford-White was not in any way responsible for heaters manufactured prior to the sale. The Celotex corporation is an ongoing concern, with headquarters in Tampa, Fla.

In view of the terrible tragedy involved, Bradford-White insists that the public record be perfectly clear that it did not in fact manufacture the heater involved in the incident.

James J. Donohue
White & Williams
Philadelphia
(For Bradford-White Corp.)

Lessors' coverage

To the editor: The recommendations in Howard Alper's two-part Perspective article, "Risks in leases" (*BI*, Feb. 1, Feb. 8), make a strong case for giving the risk manager the opportunity to review a lease

agreement before it is executed. His checklist approach is excellent.

However, it does seem that he is speaking from the position of the lessor with the "hammer." It is true that the negotiation positions of the parties are seldom equal. Unfortunately, the party with the "clout" all too often takes advantage of his position. A lease should not be the result of a power struggle. I don't think either party should ask for more than he would give if the positions were reversed. I wish Mr. Alper had given the "desired as lessee" column equal consideration.

For example, the indemnity clause that he proposes places the entire burden on the tenant, including the landlord's negligence. Why shouldn't the lessee be entitled to indemnity for the lessor's negligence and evidence of liability insurance to cover the lessor's areas of responsibility? Why should the tenant assume responsibility for public areas like the lobby elevators and parking lots?

Naming the other party on a liability policy may be desirable in some cases, but it is cumbersome, costly and usually unnecessary. The basic liability policy covers liability assumed in an incidental contract like a lease. A certificate representing coverage with adequate cancellation-clause wording should suffice.

From a risk management point of view, the landlord will have the incentive to rebuild faster if the rent is abated and he must insure or assume the loss of rents.

The mutual waiver of subrogation is good, but it would be better if it were broadened to apply to "insurable loss" rather than just insured damage. If the waiver is limited to what is insured, the other party is still exposed to a claim for the uninsured (business interruption) or underinsured loss.

To avoid a squabble after a loss over which insurance company will pay for improvements and betterments, the lease

should clearly specify ownership of them and when it attaches. And I agree with Mr. Alper: Paying for the landlord's building insurance is one thing; buying it for him can only create problems.

Lawrence J. Bell
Assistant vp/risk management
Revco Drug Stores Inc.
Twinsburg, Ohio

Computerization

To the editor: The article "Computerization lets risk manager stress management" (*BI*, Feb. 8) made a good case for use of computerized information systems in risk management decision making. Using loss experience and exposure rather than just exposure as a basis for premium allocation is good. However, caution must be taken in its application. A bad occurrence shouldn't unduly penalize a unit, close an operation or lead to higher price for the product.

At Rollins Burdick Hunter, our Premium Allocation Plan takes into account at least the past three years of loss experience, rather than just the most current year, and loss limit per occurrence is applied at plant, division and group levels. Loss above a certain limit is allocated to the division and at a higher limit to the group, except when a unit's performance is consistently bad. This results in a "fair-share" cost of risk allocation.

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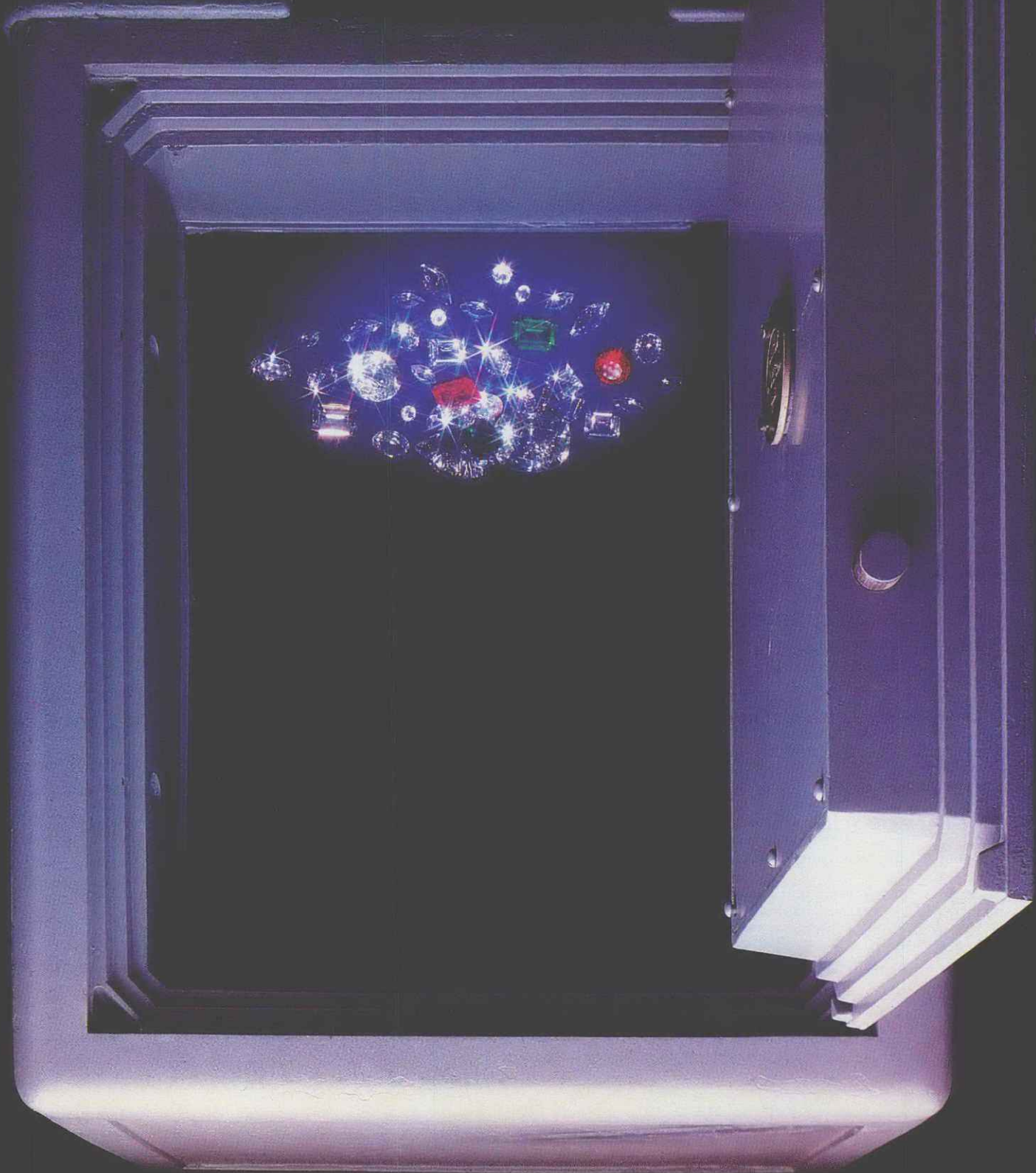
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California city proposes municipal home coverage

By CAROL G. BLITZER

PALO ALTO, Calif.—Relying on its loss-prevention skills, the city of Palo Alto thinks it can use a municipal home insurance program to save its residents money and earn some for the city.

This progressive Northern California city of 56,000 adjacent to Stanford University will be seeking program proposals from insurers if the City Council approves the concept at its March 8 meeting.

As part of the proposal, the city would receive a portion of the premium to self-fund some of the smaller losses under the homeowners policies.

Initially, the plan would apply only to owner-occupied single-fam-

ily dwellings. If the program succeeds, it will be expanded to rentals and multiple units and, ultimately, to commercial property, said Loss Control Manager Donald West.

Because the 38% loss ratio on homeowners property insurance policies in Palo Alto is better than the state's overall loss ratio of 49%, Mr. West believes the city can find an insurer that would be willing to return to the city excess profits earned off the homeowners policies and reduce the premiums.

The city proposes to use its city-owned utility company to collect premiums with the idea that it would retain part of that income to cover the losses it will retain. The income and any excess profits would be invested to help finance the fire and police departments or pay for other city projects.

Finding an alternative source of funds is important to California municipalities because the enactment of Proposition 13 in 1978 limited the ability of California governmental units to raise money through taxes.

A key to the plan is an inspection of individual homes by the city's current fire and crime-prevention personnel to keep the loss experience good. Homes would be certified after any necessary corrections were made to make them more crime-proof or fireproof. Homes would be reinspected before each policy renewal.

Mr. West estimates that an insurer participating in the municipal program could collect about \$6.75 million in annual premiums writing coverage for the value of the structure, contents replacement cost and \$300,000 in personal liability insurance. The policies, which would include a \$100 deductible, would be written on the 16,000 single-family homes in Palo Alto.

A municipal homeowners insurance program is feasible, says Lane B. Sickles of Kindler & Laucci in San Francisco, the city's insurance broker. Insurers are accustomed to underwriting large premiums on a fixed-profit basis.

Although Palo Alto would be the first major city to implement such a program, the idea is not new.

Three years ago, the League of California Cities established a task force to consider community-funded pools to underwrite fire insurance (*BI*, Sept. 17, 1979). The committee disbanded when it was concluded that to establish cities as insurance producers would require a change in state law, and the political climate was not ripe for that.

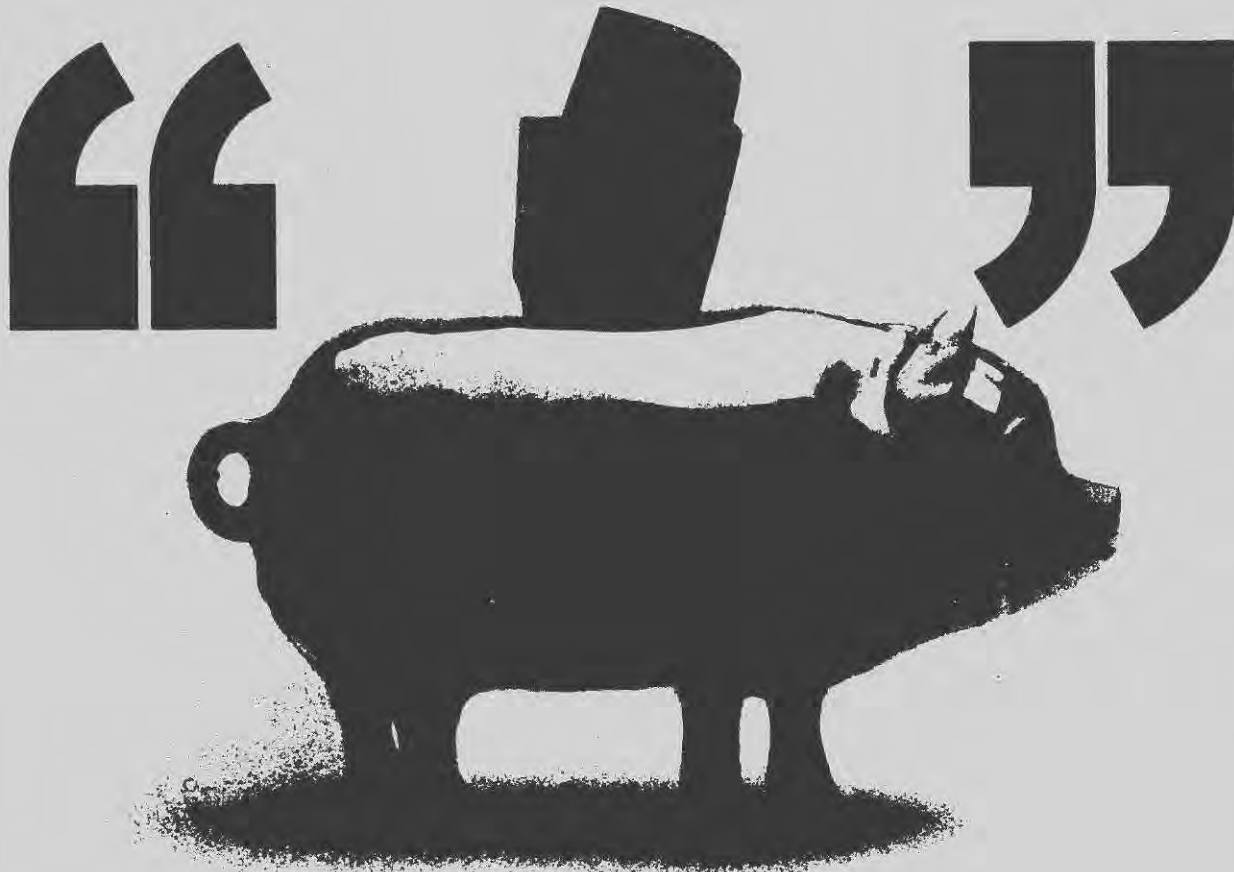
But Avco Financial Insurance Group in Newport Beach, Calif., has been marketing a municipal insurance program, and the town of Mill Valley implemented a plan through it last month.

However, the Palo Alto program would return more of the profits to the homeowners and city than the Avco plan does to Mill Valley, Mr. West says. He estimates that Avco takes between 30% and 35% of premium; he hopes to negotiate a rate closer to 15% with the insurer Palo Alto chooses.

Although Avco gets about 30% of premium in the Mill Valley plan, this level is expected to drop over the next few years, says Vernon Hazen, the city manager. Excess profits returned to the city are funneled into the police and fire budgets.

While the Avco package includes marketing and claims administration, Palo Alto will negotiate these services separately, Mr. West says.

Preference would be given to an insurer that can market the program through independent agents, but the city would offer sales assistance and endorse the program. ■



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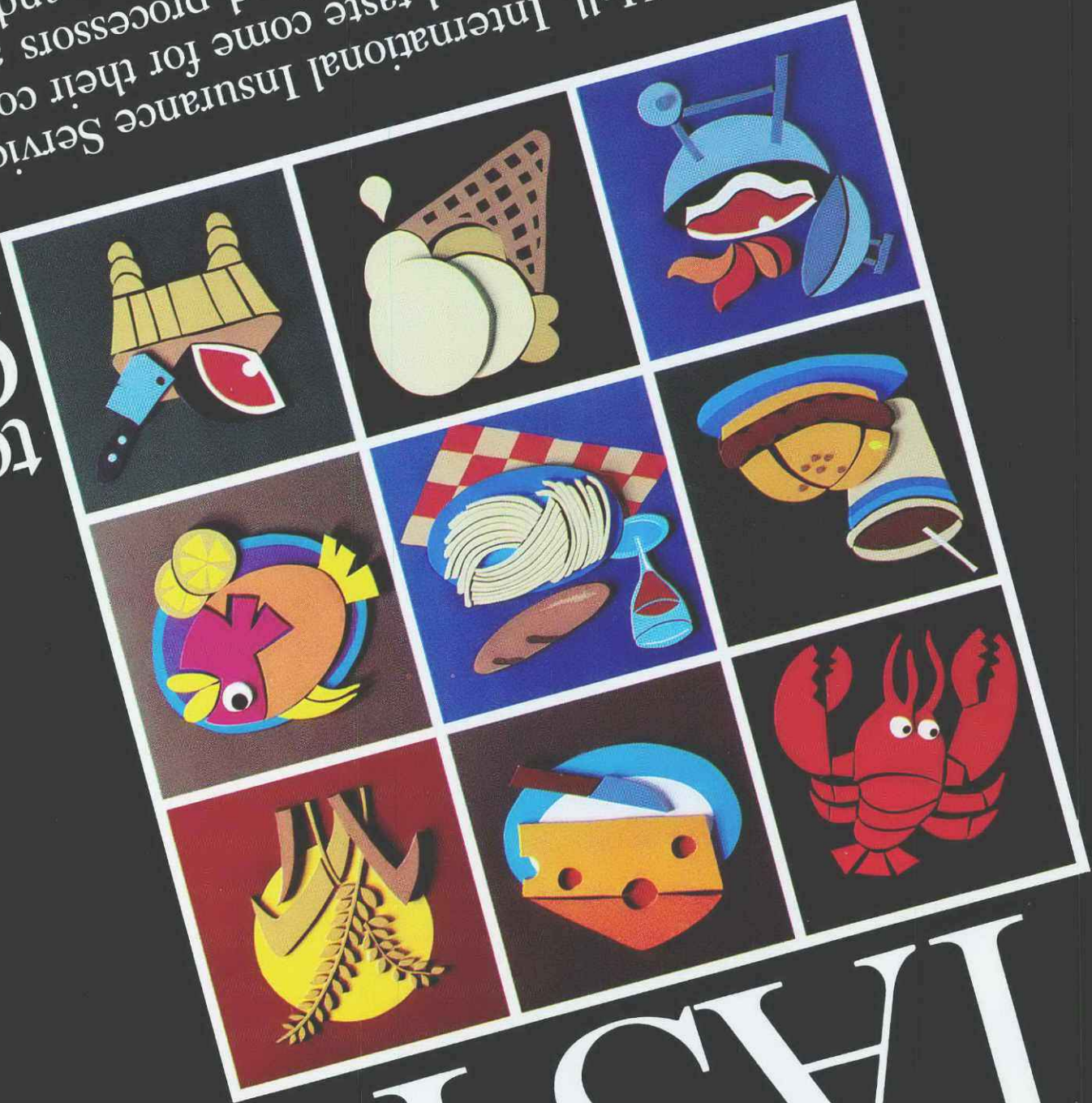
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MARCH 8-9. Joint Defenses in Investigations and Litigation program in New York, sponsored by the Practising Law Institute; \$275. Also **April 26-27** in San Francisco. Practising Law Institute, Department VTC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MARCH 8-10. Fundamentals of Insurance course in Denver, sponsored by the Risk & Insurance Management Society; RIMS members, \$345; \$195 for additional participants from the same company; for non-members, \$445. Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MARCH 8-10. Loss Control for Risk Management seminar in Houston, sponsored by the International Safety Academy; \$375; \$335 for three or more participants from the same company. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

MARCH 9. "Lloyd's and other International Markets" educational seminar in Chicago, sponsored by The Boiler & Machinery Insurance Assn. of Chicago; \$20. Mickey Hanauer, Zurich Insurance, 120 S. Riverside Plaza, Chicago, Ill. 60606; 312-454-4654.

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MARCH 12-14. The New Medical Malpractice Equation conference in Rancho Mirage, Calif., sponsored by the Annenberg Center for Health Sciences; \$425. Annenberg Center for Health Sciences, Office of Education, Eisenhower Medical Center, 39000 Bob Hope Drive, Rancho Mirage, Calif. 92270; 714-340-3911.

MARCH 15-16. Fourth Annual Hazardous Waste Management conference in Washington, sponsored by The Energy Bureau; \$650. Carol A. Hertzoff, Planning Manager, The Energy Bureau Inc., 41 E. 42nd St., New York, N.Y. 10017.

MARCH 15-17. Corporate Benefits Management conference in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; members, \$470; non-members, \$545. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

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MARCH 15-19. Total Loss Control Management seminar in Houston, sponsored by the International Safety Academy; \$570; for three or more participants from the same company, \$525. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024.

MARCH 16. Fundamentals: Risk Financing and Captives seminar in Bermuda, held in conjunction with the Sixth International Captive Insurance Company Conference; \$200. Eileen B. Callahan, Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820; 203-655-9791.

MARCH 16-17. Fire Safety in Buildings conference in Orlando, Fla., sponsored by the Society of Fire Protection Engineers and the Engineering News Record; \$477; two or more participants from the same company, \$420. Also **April 21-22** in New York. D. Peter Lund, Executive Director, Society of Fire Protection Engineers, 60 Battery March St., Boston, Mass. 02110; 617-482-0686.

MARCH 16-18. Reasoning Reinsurance seminar in Dallas, sponsored by the Risk Management Institute, University of Dallas; \$445. Professor Bruce Evans or Julie Allan, Risk Management Institute, International Center, University of Dallas Station, Irving, Texas 75061; 214-579-5360/5330/5299.

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MARCH 17-19. Self-Insurance, Risk Retention and Paid Loss Retro Plans seminar in New York, sponsored by the American Management Assns.; members, \$590; non-members, \$680. American Management Assns., 135 W. 50th St., New York, N.Y. 10020; 212-246-0800.

MARCH 17-20. Institute for New Trustees, Advanced Trustees and Administrators program in New Orleans, sponsored by the International Foundation of Employee Benefit Plans; members, \$390; non-members, \$465. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

MARCH 18-19. Fourth Biannual Marine seminar in San Francisco, sponsored by the Board of Marine Underwriters of San Francisco; \$85. Board of Marine Underwriters of San Francisco Inc., 233 Sansome St., Suite 500, San Francisco, Calif. 94104; 415-981-0350.

MARCH 22. Economic Recovery Tax Act of 1981 seminar in Chicago, sponsored by the International Foundation of Employee Benefit Plans; members, \$130; non-members, \$155. Also **March 23** in Tarrytown, N.Y., and **March 24** in San Francisco. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

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Retirement funding

Companies decide what type of plan to offer

Continued from page 3 that's to do nothing."

Most employers appear to be implementing payroll deduction programs for employees to contribute to their own IRAs. These plans can be set up more quickly, are easier to administer and are less regulated than pension and profit sharing plans, which are governed by the Employee Retirement Income Security Act and IRS.

"Once they understand the difference," says Andrew Schewan, a vp at consultant William M. Mercer Inc. in New York, "(companies) almost inevitably go with the group IRA."

Three corporations that have set up payroll deduction programs—Eastman Kodak Co., NCR Corp. and Aluminum Co. of America—each considered and decided against allowing contributions to a company-sponsored qualified plan. Their reasons ranged from the complexities of the qualified plan, the absence of an existing plan that could be easily modified or the uncertain future of regulatory guidelines.

Eastman Kodak, based in Rochester, N.Y., now is putting the finishing touches on its payroll deduction IRA program with the Fidelity Group, a mutual fund organization.

Kodak employees will be able to choose from six different investment funds with the company providing payroll deduction services.

"The opportunity is there," says Marty Bael, director of corporate employee benefits, of Kodak's motivation. "We wanted to do everything we could to help employees take care of their own retirement."

NCR Corp., based in Dayton, Ohio, started payroll deductions for IRAs in its tradition of "strong fiscal conservatism" and the feeling it could not meet the demand for richer retirement benefits entirely at its own expense, said Doug Bartlett, NCR's director of employee benefits for the United States.

NCR employees currently may choose between mutual fund investments offered by T. Rowe Price, a financial services company, or a guaranteed interest contract provided by Connecticut General Life Insurance Co.

Soon, NCR will expand the system to accept payroll deductions from employees using an IRA at any financial institution in the United States that uses an electronic funds transfer system.

The company will inform employees of "two or three national institutions that are especially well equipped to meet their needs," Mr. Bartlett says, and will name a few local institutions close to where the employees live.

The response to NCR's program has been "excellent," Mr. Bartlett observes, with employee participation growing by 0.5% of the total workforce a week.

Aluminum Co. of America also has embraced the IRA concept, selecting the Vanguard Group mutual fund with five investment options for its employees.

Citing its benefit for both in individual employees and the nation's economy, Benefit Manager William C. Jones says Alcoa wanted to support the tax legislation.

The company also considers the three-legged stool concept as valid and sees its IRA program as a way for Alcoa employees to save for their retirement.

"We think the concept is good," Mr. Jones says. "We felt we wanted to encourage this in our employees."

Not everyone, however, is frightened by the complexities of starting an IRS qualified plan to accept em-

ployee contributions.

Johnson Controls Inc. in Milwaukee has established a new plan to accept employee contributions into a money market fund, an equity fund and a guaranteed interest contract provided by Metropolitan Life Insurance Co.

About 13% of the company's 8,000 salaried employees have signed up for payroll deduction, compared with an expected participation rate of 10%, notes Dr. Frank M. Sterner, vp of human resource management and corporate planning.

"We philosophically feel that one of the most important issues is one

of capital accumulation in these inflationary times," says Dr. Sterner.

While Johnson Controls feels that it has one of the better pension plans going, continues Dr. Sterner, the company still feels it should encourage people to "look ahead and plan for their retirement."

Yet the company is not doing this just to take pressure off its pension plan, Dr. Sterner is quick to say, but rather is acting out of a sense of corporate responsibility.

"It's consistent with the fact that we care about the employee. And we don't just care when they are working with us," he says.

An amended or new qualified plan like Johnson Controls' plan has some advantages over payroll deduction plans for IRAs, others observe.

Metropolitan Life, which advocates qualified plans for tax-deductible contributions, says this approach gives the company some control it might not have when an employee is dealing directly with an IRA vendor.

When something goes wrong with a payroll deduction IRA, notes Metropolitan Vp James Weil, the employer is going to receive em-

Continued on next page

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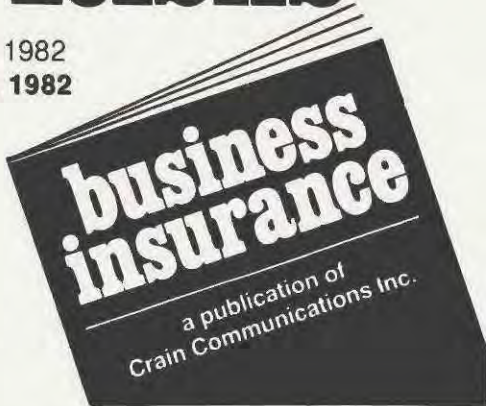
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Firms have the option of many different plans

Continued from previous page
employee complaints whether it is sponsoring the plan or not.

As plan sponsor, says Mr. Weil, a company can control the flow of promotional material sent to employees, making the investment decisions less confusing.

Mr. Weil also contends the choice boils down to: Does an employer "want to offer a service or another benefit to the employee?"

There also is considerable debate among consultants and financial institutions whether employers should establish a new qualified plan or amend an existing one, and if the latter, which one to amend.

Harrison Givens, senior vp of pensions at the Equitable Life Assurance Society, recommends creating a new plan.

A poorly designed plan amendment, notes Mr. Givens, could disqualify the existing plan.

If a company wants to amend an existing plan, Mr. Weil at Metropolitan suggests amending the pension plan instead of the profit-sharing plan. The pension plan, which was set up for the purposes of retirement savings, is by design more suited to accept contributions for retirement savings, he says.

David Eager, corporate vp and national director at consultant Meidinger Inc., based in Louisville, Ky., disagrees. The company's profit-sharing plan is the best program to amend, he says.

The "investment risk factor"—dominant in the profit-sharing plan—is compatible with employee needs for investment options, says.

Amendments to either type plan to accept tax-deductible employee contributions will be needed only if the plans did not accept voluntary contributions in the past, the Internal Revenue Service announced last week. If the plan sponsor amends the plan, the amendments must be approved by the IRS, it added in the new guidelines to be published in IRS Bulletin No. 1982-9 dated March 1.

The delay in getting these guidelines, which also are subject to revision in the final IRS regulations has held up decisions about helping employees save at many firms.

Other companies say their payroll system just can't handle another deduction at this time, if IRAs or qualified plans.

And since employees can start their own IRAs, an employer who doesn't get involved is not depriving its workforce of a benefit.

NL Industries Inc. in New York, for example, cites the "administrative nightmare" of trying to set up a program with payroll deduction.

Richard J. Farrell, director of compensation and benefits at NL Industries, says the best the company could have done was a payroll deduction IRA with one vendor and that "really didn't accomplish much for the employee."

"We felt that might be too restrictive and the employee could do better on his own," he says.

The company is thinking of amending its existing savings plan to include a salary reduction feature, a study that Mr. Farrell notes is still in the "formative stages."

PPG Industries Inc. in Pittsburgh also takes a conservative posture regarding any new retirement plan. R.R. Esler, director of compensation and benefits, says the company is "being cautious and looking at various options."

PPG is looking at all three options—IRAs, qualified employee voluntary contributions and salary reduction plans—and like many companies is concerned about future regulations.

While it's "pretty easy for an employee to get one on his own," notes Mr. Esler of the expansive IRA market for individual investors, he concedes that the concept has "public relations value" for the company. Employees want both payroll deductions as well as some guidance on which IRA to choose.

After studying several options made available under last year's tax act, Westinghouse Electric Corp. in Pittsburgh has decided to hold back for a while too, says Jack Mullen, supervisor of employee benefits. "At the moment, we don't see any reason to rush into it."

Westinghouse has some concern about future regulations as well, he says. "We just don't want to go on to the ball field until we know the rules of the game."

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By JOHN W. MILLIGAN

NEW YORK—You must answer one crucial question before deciding how to help your employees take advantage of new tax deductions for retirement savings:

Do enough of your employees want the help to justify the time spent on the project?

One company that neglected to answer that question before instituting payroll deductions for Individual Retirement Accounts found only 100 of 4,000 employees signed up for the program.

"We encourage an employer to do some listening to see if employees really are interested," says Richard Hutson, a partner at Hewitt Associates in Lincolnshire, Ill.

If the answer is yes, then your course is charted by the type of help you decide to offer: a payroll deduction plan for IRAs or a pension or profit-sharing plan to accept tax-deductible contributions.

Most agree the payroll deduction plan is the easiest for the employer to implement. A host of vendors from insurance companies to banks are competing to service these accounts, offering to do everything for the employer to sign up his workers short of staffing the company's payroll department to process the deductions.

Opening a company-sponsored pension or profit-sharing plan to employee contributions—an existing plan or a new plan—is more work and perhaps more risky.

Payroll deduction programs for IRAs aren't subject to the regulations and fiduciary responsibilities laid down by the Employee Retirement Income Security Act, but pension or profit-sharing plans that

accept employee contributions are. Gun-shy of ERISA, some companies turn to payroll deduction programs for IRAs.

A company that wants to offer payroll deductions for IRAs must choose a vendor and plan administrator from a selection of mutual funds, insurers, banks and stock brokers (see story, page 16).

Some companies have formed executive committees to make these decisions. For example, Aluminum Co. of America, headquartered in Pittsburgh, formed a task force of legal, financial and payroll specialists to select the investment and plan administrator for its payroll deduction IRA program.

Mr. Hutson suggests that employers consider several criteria when judging a vendor, including:

- Past investment performance.
- Record keeping functions.
- Flexibility in transferring assets from one fund to another.
- Cost to the employee.
- Ability to enroll employees in the program.

Most vendors marketing group IRA plans provide communication materials that explain to employees the investment funds involved.

The Fidelity Group, a Boston-based mutual fund, is just one of many vendors that will provide promotional materials, videotapes and personal presentations to explain the different investment funds in their IRA programs.

"The direction," says Dennis Nelson, vp of sales for Fidelity, "is to take as much responsibility away from the employer as possible."

For example, the investment decisions are determined under contract between the employee and the IRA vendor, leaving the employer

out of any discussions or directions about investments.

And since the employer has no responsibility for investment of the employee's money, it is not involved in any subsequent transactions like fund transfers or closing the accounts.

The employer's biggest chore is the payroll deduction itself. The employer must sign up the employees, add the deduction to the payroll system and transfer the deduction information to the vendor.

Some vendors, like Fidelity, will provide firms with the necessary deduction forms and will work with the payroll department to computerize the deduction system.

The employer, however, must be willing to accept changes in payroll deductions and new participants.

The cost of payroll deduction to the company is low, vendors contend. None of financial services firm T. Rowe Price's 15 clients has had to "excessively modify" its payroll system or add staff to handle the deductions, says Vp Charles H. Salisbury Jr.

A new payroll deduction procedure also has to be established to accept employee contributions to a pension or profit-sharing plan.

A pension or profit plan that already accepts voluntary employee contributions need only announce it will accept tax-deductible employee contributions and establish the procedures, the IRS says.

The plan also may continue to accept up to 10% of an employee's salary as a voluntary contribution that is not tax deductible and up to \$2,000 in tax-deductible contributions. Separate accounting procedures will be necessary, the Internal Revenue Service says.

A new pension or profit-sharing plan created to accept tax-deductible employee contributions or one that must be amended to accept

employee contributions must be approved or "qualified" by the IRS. Consultants are calling these plans Qualified Voluntary Employee Contributions Plans, or QVECs.

As with any new qualified plan, says Andrew Schewan, vp with consultant William M. Mercer Inc. in New York, the employer must draft documents establishing the plan and describing its provisions.

Amending an existing plan to accept tax-deductible employee contributions is done under Sections 219(a) and (e) and 401(a) of the IRS Code. The IRS has not decided yet how to apply Section 219(a) and (e) to new plans qualified under Section 401(a), which is the section of the code that governs qualification of pension and profit-sharing plans. This technicality exists because Section 219 doesn't address new plans.

There also is doubt over the discrimination standard that will apply to pension and profit-sharing plans qualified to accept tax-deductible employee contributions.

The IRS has not "fully and officially" addressed this issue, an agency spokesman admits, and is hopeful of releasing "additional guidance" sometime in the future.

Several experts contend the discrimination test for 401(a) plans is not as severe as that for salary reduction, or 401(k), plans that are attracting wide attention now.

The employer needs only to make tax-deductible employee contributions to 401(a) plans available to all employees, says James Weil, vp at Metropolitan Life Insurance Co. The response rate does not matter.

The percentage of employees in the upper one-third of a company's pay scale who participate in the plan compared with the percentage in the lower two-thirds—the test applied to 401(k) salary reduction

plans—does not apply, according to the legal staff at Metropolitan.

Yet, plans qualified to accept tax-deductible employee contributions present other vexing problems.

When a company decides to amend an existing qualified plan to accept tax-deductible contributions, all supplemental employee contributions that existed in the pre-amended plan—for example, those unmatched by the employer—are now considered by the tax act to be tax-deductible unless otherwise specified by the employee.

Therefore, the employer must ask all contributing employees if they want prior contributions to be tax-deductible, notes Deborah J. Marx, partner and head of the defined contribution division at consultant Kwasha Lipton in Ft. Lee, N.J.

Unless employees tell the company otherwise, their supplemental contributions can't be for liquid savings and will be locked into a tax-deductible retirement plan, subject to a 10% tax penalty for early withdrawal.

A company that either amends or establishes a new pension or profit-sharing plan to accept employee contributions also must decide what investment options to offer the employees and what services to buy.

Johnson Controls Inc. in Milwaukee, for example, provides three investment vehicles in its plan with the Metropolitan Life Insurance Co.: a money market fund, an equity fund and a guaranteed interest contract.

Metropolitan and its client split administrative responsibility for the program, with Johnson Controls handling the plan enrollment, deductions and plan terminations while Metropolitan manages the three investment funds and forwards money to the employee when an account is closed. ■

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Financial institutions peddle variety of plans

NEW YORK—For many of the nation's financial institutions, the Economic Recovery Tax Act of 1981 is a marketing dream come true.

This legislation, which enables employers to provide retirement plans for voluntary tax-deductible employee contributions, also allows these institutions to sell on a group basis what many already were offering to individuals.

Notes Jim Knupp, a partner at pension consultants Ennis, Knupp & Gold in Chicago: "It's like a

wholesaler's delight."

One product of the 1981 tax act is the payroll deduction Individual Retirement Account program, and competition among the various vendors is heating up as more employers embrace the group IRA concept.

Employers also may establish new or amended qualified retirement plans for employees wishing to make tax-deductible contributions, and financial institutions are providing investment and administrative services for these programs,

too.

There are four basic vendor groups among the financial institutions selling group IRAs: insurance companies, mutual funds, banks and stock brokers.

While this is not a complete survey of the many vendors now competing in the IRA marketplace for corporate business, interviews with representative members of each group show all have responded with a broad range of investment products and administrative services.

How tough is the competition for group IRA business?

"In a word—very," says Dennis Nelson, vp of sales for Fidelity Group, a mutual fund supplier.

While no vendor can predict what the response rate of corporations will be since the group IRA business is still getting under way, explains Mr. Nelson, "the potential is so tremendous that none of us feels we can afford to hold back."

At stake is the opportunity to form "long-range relationships" with many corporations having

billions of dollars to invest over the years ahead.

Of the vendors interviewed by *Business Insurance*, each has certain characteristics in common including:

- All will assist the employer in setting up a payroll deduction IRA program, including the preparation of a client's payroll system for additional deductions as well as providing a wealth of communication and promotional material that explains the IRA program to the employee. Vendors also will perform all investment and administrative duties, relieving the employer of responsibility for all aspects of the program except for the payroll deductions.

- Cost to the employer and employee alike is minimal. In a payroll deduction program, the employer is left with only the internal costs of modifying its system to perform the additional deductions. Most employers pass on the maintenance expenses and sales commission to the employee, and costs here vary. And at least one vendor interviewed by *Business Insurance*—San Francisco-based Bank of America—charges the employee nothing.

- A wide variety of money market, certificate of deposit, equity funds and guaranteed interest contracts are offered by various vendors.

Yet most can provide a mix of investment vehicles offering the employee varying levels of risk and return on equity.

There also are some differences between each of the four vendor groups. Insurance companies, for

'The potential is so tremendous that none of us feels we can afford to hold back,' says Dennis Nelson.

example, traditionally do not offer investment securities that are registered with the Securities and Exchange Commission.

And mutual funds generally do not provide guaranteed interest contracts as the insurers do.

And neither group has the backing of the Federal Deposit Insurance Corp. as do the banks.

Representatives of each of the four vendor groups include:

- **Metropolitan Life Insurance Co.:** Offers five basic investment funds, from a riskless guaranteed interest contract at one end to an aggressive growth stock fund at the other. Cost to employees ranges from \$8 to \$15 per year, depending on the number of employees enrolled. Concentrates on new or amended qualified plans. Hopes to unbundle record-keeping service for defined contribution plans for the end of the year. Has 20 clients for these programs with a total dollar flow of \$60 million a year.

- **Equitable Life Assurance Society:** Offers a money market, stock and bond fund, all registered with the Securities and Exchange Commission. Concentrates on payroll deduction IRA plans, but will provide investment vehicle for new or amended qualified plans. Costs to employees vary from nothing to \$40 a year, although participants in the largest plans average \$6 a year regardless of how many funds are invested in. Equitable has 11 clients including one major association; by end of February hopes to have 500,000 participants.

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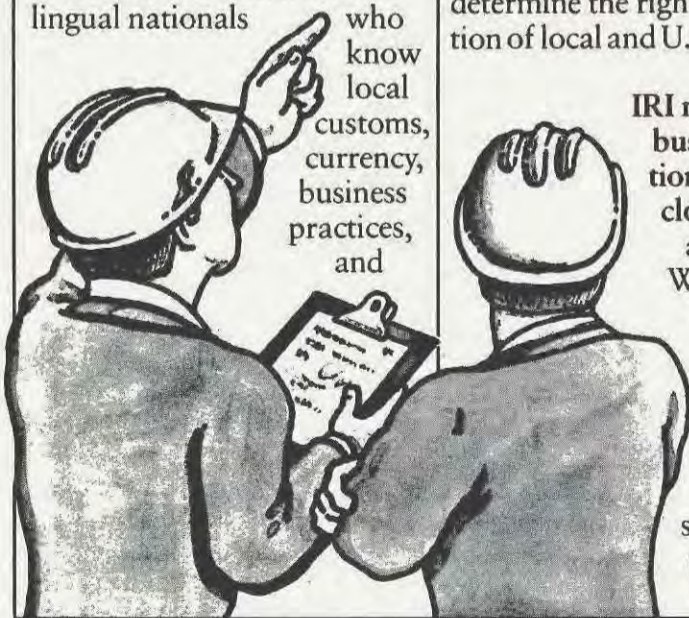
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"In this market," says Harrison Givens, senior vp for pensions, "we are not like your insurance company, we are like your mutual fund."

● **T. Rowe Price:** A mutual fund offering five investment funds with varying degree of risk. Minimum deduction of \$20 a month. Cost to employee of \$3 per fund per year. Will do either payroll deduction IRAs or qualified plans. Fifteen corporate clients signed on thus far, ranging from very large to very small companies.

● **Fidelity Group:** A mutual fund offering money market, income and equity funds. Costs to employee of \$3 per year per fund, \$10 annual charge and \$10 one-time liquidation charge. Concentrates mostly on payroll deduction IRAs. Signed up 50 companies thus far representing a total of more than 500,000 employees.

● **Citibank:** Offers 18-month variable rate certificate of deposit and a 30-month product giving access to longer-term rates. Only cost is \$10 fee for opening account. Concentrates on both payroll deduction IRAs and qualified plans. No exact figures on client response, although at least a dozen plans are with large companies, Citibank says.

● **Bank of America:** Offers liquid 5½% savings account plus fixed rate accumulation account with guaranteed rate for 18 months. Minimum deduction of \$50 a month. No cost to employees. Would not release figures on client response, but says it is doing "very well."

● **Oppenheimer Management Corp.:** Stock broker offering nine mutual funds ranging from very conservative to very active. Minimum monthly deduction of \$25. Sales charge of 2% on total employee deposits for corporate client up to \$1 million, 1% for deposits from \$1 million to \$5 million and 0.5% on deposits of more than \$5 million. No figure on number of clients.

Few benefit consultants would recommend one vendor group over another, stating only that employers should study each group closely to determine which best suits its needs.

However, at least one expert—

An Ennis, Knupp & Gold study found that mutual funds 'really do everything in their power to keep the employer not involved,' says Jim Knupp, a partner at the pension consulting firm.

Mr. Knupp at Ennis, Knupp & Gold—states on the record that mutual fund organizations are the most "cost-effective" way to provide payroll deduction Individual Retirement Account plans.

Mr. Knupp, a partner in the Chicago-based firm, says his company conducted a study of six mutual funds at the request of a client.

The study found that mutual funds "really do everything in their power to keep the employer not involved," says Mr. Knupp, although this statement can also apply to representatives of the other vendor groups.

Yet mutual funds have added advantages as well, he says.

They do not charge sales commission—or load—on their group

IRA products as do stock brokerage firms, and this expense can be "hard to justify to employees."

And mutual funds also have more experience with individual investors than either banks or insurance companies, which Mr. Knupp says are geared more toward institutional investment.

So the 1981 tax act has turned out to especially profitable for the mutual funds, Mr. Knupp notes.

"This has to be an absolute coup for these mutual funds," he concludes.

The lines of distinction between the vendor groups themselves are starting to blur as the financial institutions react to two forces.

These two forces are a competitive marketplace and the demand from benefit managers for programs with several different types of investment vehicles.

As with all mutual funds, the Fidelity Group's investment vehicles center around equity funds that are registered with the Security Exchange Commission.

Yet Fidelity has recognized a demand for guaranteed interest contracts (GICs), and will provide this product for large clients, underwritten by an insurance company.

The mutual fund has one such contract in place now, underwritten by Metropolitan.

"No doubt about it," says Mr. Nelson at Fidelity when he was asked if guaranteed income contracts are a popular option. "We're convinced of it. "Employees are familiar with GICs because employers offer them through various thrift and savings plans."

T. Rowe Price has noticed this trend as well, confirms Charles H. Salisbury Jr., vp and portfolio

Employees can invest funds in several ways

Here are definitions of the types of investment vehicles employees can choose:

● **Certificates of deposit**—Interest-bearing deposits with a bank, savings and loan association or credit union, usually paying lower returns on smaller investment amounts. Financial institutions are limited in the amount of interest they can pay.

● **Money market mutual funds**—Offered by mutual fund organizations, these investments generally provide instant liquidity and high interest rates. Fund portfolios usually include Treasury bills and notes, corporate IOUs called commercial paper and large-denomination, negotiable certificate of deposits not subject to government restrictions on interest rates.

● **Stock funds**—Consist of common stocks offering a fluctuating interest rate tied to performance of stock in the fund. Often characterized by the types of stock they contain, like Blue Chip Fortune stocks—the stock of Fortune 500 companies—high technology stocks or energy stocks.

● **Bond funds**—Generally investments in medium- and long-term bonds issued by corporations. Lower return on investment is offset by lower risk to investor.

● **Guaranteed interest contract**—Usually offered by insurance companies, although mutual funds are looking at this investment vehicle now with greater interest. Also called fixed-rate funds. Investor is guaranteed a predetermined interest rate for a set period of time, often 12 to 18 months.

manager. The financial services firm is considering the possibility of offering an insurance GIC as well.

In addition, there is the contrast of Metropolitan and Equitable. The insurance giants are positioned differently in the marketplace.

Metropolitan, says Mr. Weil, is concentrating more on new or

amended qualified plans, although it now offers a "guaranteed investment and annuity contract" for placement in payroll deduction IRA programs.

Equitable, on the other hand, has concentrated on payroll deduction IRAs, yet will also work with new or amended qualified plans, says Mr. Givens.

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Salary reduction plan interests many firms

Continued from previous page

Participants to defer more than 1.5 times the total amount deferred by the rest of the participants or allows the one-third of the highest-paid participants to defer 3% more than the lower-paid employees contribute.

To avoid holding off on a salary reduction plan until final regulations are issued but still address the unanswered discrimination question, Honeywell Inc., the Minneapolis-based high technology firm, has established a salary reduction plan using a conservative 4% annual maximum deferral level, instituting monthly monitoring sessions to determine contributions levels and omitting matching contributions, which could be troublesome at the end of the year if discrimination formulas change.

Rchm & Haas Co., on the other hand, decided to drop plans for a salary reduction plan rather than work around the final regulations. The Philadelphia plastic and chemical products manufacturer recently agreed to allow employees to set up their own IRA accounts with an outside vendor through an in-house payroll deduction mechanism. The company also has a thrift plan that matches the first 6% of employee contributions.

"It's not our intention to get into the 401(k) plan," said Warren Higgins, manager of employee benefits. "We looked into it in 1978 and we looked at it again recently."

Rchm & Haas was discouraged, Mr. Higgins says, because "when we looked at the test for the 401(k) plan, we knew it wasn't for us. It fits some people, but we don't feel it fits us."

Employers who like the benefits of a salary reduction plan, says Mr. Hasbargen of Hewitt Associates, first should:

- Make sure no money gets into the plan that would disqualify it. Study the company's demographics. Allocate a low percentage level for contributions until IRS regulations are finalized.
- Create an accumulation account to hold funds that could throw off the discrimination balance. These funds could be held and invested the next year.
- Frequently test the level of contributions by the employees, especially the lower-paid employees, and make adjustments whenever necessary.
- Consider incentives that would attract more low-paid employees to the plan. An insufficient number of low-paid participants could easily disqualify the plan. ■

Honeywell plan packs one-two punch

By JAMES C. LAWSON

NEW YORK—Honeywell Corp., a Fortune 500 manufacturer with a progressive employee benefits program, is using the one-two punch to provide its workers with tax-deferred retirement savings alternatives.

With the help of benefits consultant Hewitt Associates of Lincolnshire, Ill., the Minneapolis-based high technology firm has designed a new two-pronged program that allows employees to take advantage of new tax incentives for contributing to their retirement savings.

As part of its new Honeywell Retirement Savings Plan, the company established a new qualified retirement savings plan to accept voluntary tax-deductible employee contributions, which it calls a voluntary deductible employee contribution (DEC) plan. (Other benefit experts refer to such plans as Qualified Voluntary Employee Contribution—QVEC—plans.)

As allowed under the Economic Recovery Tax Act, employees can take tax deductions for up to \$2,000 in annual contributions to the plan and are restricted from making withdrawals except in the case of death, termination of service or retirement.

The Honeywell retirement savings plan also has a salary reduction option that lets employees defer a maximum 4% of their pretax earnings annually.

Benefit specialists say Honeywell is one of the largest employers to install a cash-or-deferred contribution plan using the salary reduction provisions allowed under Internal Revenue Code 401(k).

Established Jan. 1, the new retirement savings plan is another way of helping employees build their own retirement savings program and do some inflation-proofing to guarantee a more financially secure future, says Gus Lemesis, the company's manager of benefit planning.

Honeywell, which has a company-sponsored pension plan, chose to spend a one-time amount of \$500,000 to establish its new two-pronged plan because it had no profit-sharing or thrift plan and "wanted to give people a choice of how they could defer taxes and save for their retirement," explains Mr. Lemesis.

Fifty-one percent of Honeywell's 55,000 non-union employees have enrolled in the retirement savings plan, he says. Some 48% have chosen the salary reduction option and 25% have chosen the voluntary deductible employee contribution option. These percentages represent some workers who make contributions under both options.

Honeywell's 15,000 union employees are not eligible for the savings plan, but could be if they win the benefit in their collective bargaining agreements.

"Employees had been saying they wanted some type of tax-effective savings plan," explains Donald Hasbargen, the Hewitt consultant who worked on the plan. "Everybody, both high-paid and low-paid employees, like the tax leverage they can get from their pretax contributions and the kinds of high-yielding investments they can choose."

Honeywell placed a 4% limit on deferrals for the salary reduction plan to head off any problem meeting IRS discrimination regulations yet to be released. The IRS is to issue final rules this year governing how much higher-paid employees can contribute to the plan in relationship to contributions from lower-paid employees.

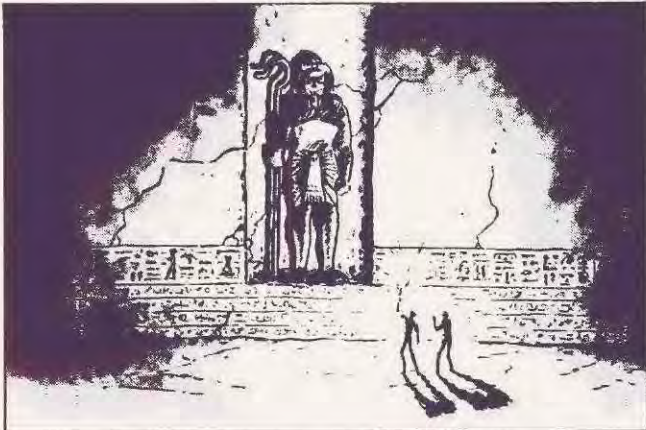
Besides the 4% cap, Honeywell will monitor contributions from the lower-paid two-thirds of its employees monthly, suspend contributions by the highest-paid third of employees if the balance appears out of line and hold off on matching contributions until the Internal Revenue Service regulations are finalized.

"We had been exploring the salary reduction concept for a long time," said Mr. Lemesis. "Despite the tough discrimination test, we thought it still offered many more advantages than an IRA offered. But we didn't want to exclude any employees so we added the DEC option."

Contributions can be invested in a fixed-fund account paying a guaranteed 16%, a balanced bond and equity fund or a Standard & Poor's Index Fund of securities, managed by Chase Manhattan Bank in New York, trustee of the entire Honeywell retirement savings plan.

Honeywell and Hewitt Associates share administration duties. Honeywell arranges payroll deductions, salary reductions and plan payouts, while Hewitt handles record keeping and issues quarterly and annual reports.

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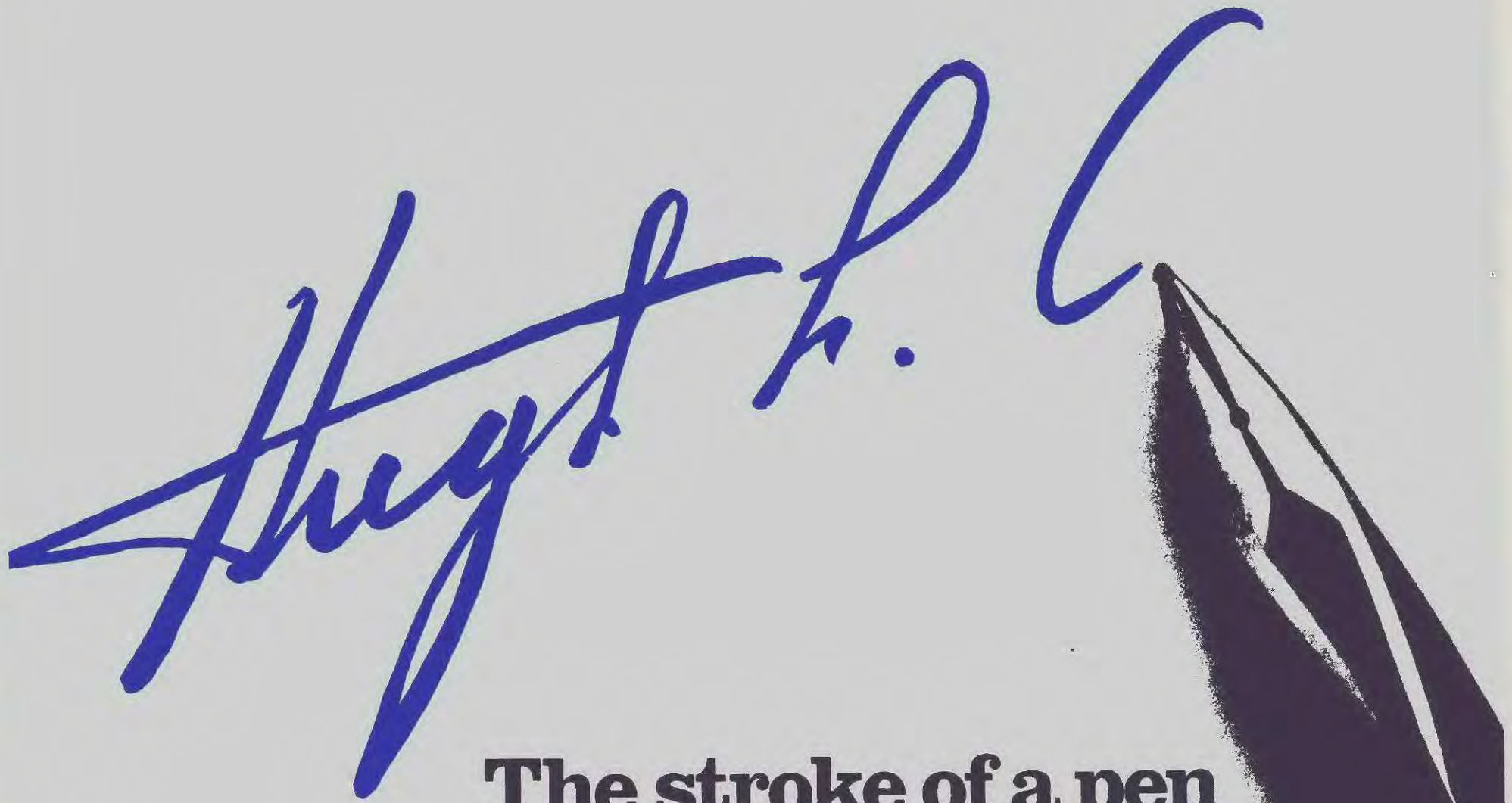
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Banks hope to handle more retirement assets

NEW YORK—Commercial banks, looking to increase their involvement in employee benefit programs, are developing new products to help employers administer retirement savings programs.

While banks have long provided design, management and administrative services to employers, the latest drive is more than an effort to obtain more assets to manage, some banking industry officials say.

"Banks have to hire people who are knowledgeable (in the employee benefits administration). You can't just manage assets anymore," says John Cramer, assistant vp of employee benefits at Girard Bank, a subsidiary of Philadelphia's Girard Co.

A good example of this new effort is found at Los Angeles' Security Pacific National Bank, the nation's 11th-largest commercial bank with total assets of nearly \$30 billion. It has formed a new subsidiary just to handle design and administrative services for pension, profit-sharing, thrift and salary reduction plans.

The new subsidiary, Security Pacific Employee Benefit Services Inc., will be based in Pasadena and will function as a third-party administrator providing record-keeping services for at least 150 current bank customers.

"A lot of banks are watching us. If we're successful a lot more probably will follow," contends David Chandler, president of the new subsidiary.

The California bank has planned a massive marketing campaign and is designing a prototype package of benefit plans. It already has several clients that are interested in establishing salary reduction plans for their employees.

Meanwhile in Philadelphia, Girard Bank, with total assets of \$13.5 billion, has begun designing Flex-Plan, a prototype retirement savings plan that can be implemented as an employer profit-sharing plan, savings plan, thrift plan, a money purchase pension plan or a salary reduction plan.

A money purchase pension plan is a multiemployer plan in which the employer contributes a certain amount of money per hour worked by a laborer, like a bricklayer, or other workers, like actors, who often work for many different companies over the course of a year.

Flex-Plan is modeled after Cash-Op, a prototype retirement savings plan developed by Johnson Cos., a Newtown, Pa., benefits consultant, and managed by Girard. Flex-Plan can be customized to fit most employers' benefits needs, explains Joseph O'Connell, Girard Bank's vp of employee benefits.

The plan allows an employer to make matching contributions if it chooses and to establish a maximum contribution limit if it fears its retirement savings plan may be disqualified for allowing employees to contribute more than Internal Revenue Service regulations allow.

Currently, employees covered by the Cash-Op prototype can invest their contributions in a floating rate employee benefit equity fund or a money market fund.

Girard expects to market its Flex-Plan as soon as it gets final Internal Revenue Service approval.

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THE SPECIALISTS

Plans could increase firms' liability

Continued from page 3
retirement plans," added Lloyd Kaye, vp of consultant William M. Mercer Inc.

Some, however, do foresee a possible increase in the number of lawsuits brought by employees.

They say it is a natural outgrowth of employers playing a greater role in handling employees' money, investing funds and communicating often-confusing regulations to employees.

And since employee money will be more directly involved through voluntary contributions to retirement savings plans, employees may take a greater interest in how the employer invests it, they say.

"I think there probably will be an increase in the incidence of litigation," said Marc Gertner, an attorney with the Toledo, Ohio, law firm of Shumaker, Loop & Kendrick.

Along with the odds being in favor of more suits, he also bases his prediction on the fact that society is increasingly litigation-prone and that ERISA makes it easier to sue by spelling out what an employer's obligations are.

"I guess with more permutations of possibilities the chances of being sued are greater," added Peter Elinsky, a partner in the national tax practice of Peat, Marwick, Mitchell & Co. in Washington.

But, employees also have become more sophisticated since ERISA, and an extra layer added to retirement programs will not necessarily increase an employee's propensity to sue, Mr. Elinsky added.

But still, employers with payroll deduction IRA plans can breathe easier since the Labor Department issued its opinion on the non-ERISA status of the plans.

To avoid being classified as an ERISA plan and, therefore, greatly reduce fiduciary liability when sponsoring payroll deduction programs for IRAs with outside vendors, the letter advises:

- Companies must communicate clearly to employees that the payroll deduction IRA is completely voluntary; that the company is not endorsing either the sponsor or the funding vehicle; that there are other IRA opportunities available to the employee other than a payroll deduction program; that IRAs may not be appropriate for all individuals; and that the tax consequences of an IRA are the same whether or not payroll deductions are used.

- The employer is not the IRA sponsor or an affiliate.

- The investment medium used does not have "significant investments" in securities of the employer or its affiliates and is not identified as such.

- If the IRA program follows an agreement between an employer and an employee organization, the investment medium is not designed to benefit an employee organization by providing more jobs for its members, loans to its members or similar direct benefits.

- The employer immediately transfers withheld funds to the IRA sponsor and does not exercise influence over these investments.

This advisory opinion was issued following a request by the Investment Company Institute.

"It very much strengthens the position of the employer," said Judith Mazo, director of research for Martin E. Segal Co. in New York, a benefit consulting firm.

The advisory opinion removes the question of whether an employee acquiring an IRA sponsor might be tacitly endorsing it, possibly increasing fiduciary liability, Ms. Mazo added.

"It solved a great many problems, especially for providers and employers," added Charles Ginsberg, vp and manager of research

and technical services for the Human Resource Management Group of Alexander & Alexander Services Inc.

"If an employer is not endorsing it and says (the payroll deduction IRA plan) is just a convenience, I think he is avoiding fiduciary liability," he said.

Others caution that despite the opinion letter, employers may be the subject of employee suits in the extreme situation where an IRA provider selected by the employer is unable to deliver what it promised to employees.

They cautioned employers not to offer tax or legal advice to employees when informing them about IRAs and to have the sponsoring organization provide as much information as possible.

Employers also should make sure they have studied the sponsor and used a degree of caution in choosing it, Mr. Kaye added.

A second advisory opinion handed down by the Labor Department last week allows companies in the business of marketing IRAs to provide them to their own employees and affiliates without having the plans qualify under ERISA.

It generally echoes the first opinion and requires that the company offer the same program to its employees as it does to the general public. Any fees or sales commissions charged also must be the same.

The advisory opinion deletes conditions in the first opinion that prohibited the funding medium from investing in securities of the employer or its affiliates and barred significant investments in such securities.

For companies amending or establishing new IRS-qualified plans to accept employee contributions or those setting up salary reduction plans, the ERISA fiduciary responsibilities extend beyond the prudent investment of funds. Complying with ERISA administrative requirements is an equally important fiduciary act.

These employers will have to make sure they comply with the numerous ERISA regulations governing information that must be reported to employees, including communication of potential consequences of contributing to the plans.

For example, under the Economic Recovery Tax Act early withdrawals of contributions to IRAs and qualified plans are subject to a 10% tax penalty. An employee who did not fully understand this could be prompted to sue

his employer for not clearly communicating this information.

In salary reduction plans, Ms. Mazo pointed out, there might be a potential for increased employer liability for inadvertently causing harm to an employee.

For example, if IRS discrimination rules governing the proportion of funds contributed by high- and low-paid employees are broken, the plan can be disqualified, eliminating the tax shelter on all employee contributions, she said.

Another liability exposure concerns the length of time a company sponsoring a salary reduction plan takes to put the money subtracted from the employee's salary into a trust.

Proposed IRS and Labor Department regulations differ on when salary deductions must be put into the trust. IRS regulations require the deposit to be made no later than 30 days after the plan year, but under Labor Department regulations, the money must go into the trust immediately after it is withdrawn from the employee's check.

Hence, if the company follows the IRS rules, it may be violating a fiduciary duty by not investing the money in a timely fashion in the Labor Department's eyes, Ms. Mazo added.

Final regulations to be issued this year on salary reduction plans are expected to clarify the rules governing discrimination and length of time allowed for investments.

Employers concerned that their current fiduciary liability insurance will not cover any increased exposures resulting from steps they take to let employees take advantage of new tax incentives would be wise to check with their insurer. Some say that any amended or new retirement savings programs would be covered under current policies and others say they would require an endorsement if a new plan is established.

"We have had a few inquiries from employers for whom we provide fiduciary liability contracts," said Roland T. Chiaradio, assistant secretary of the bond department at Aetna Life & Casualty Co.

Most wanted to know if any increased exposures from amended or new plans would be covered under current policies. "Our response was emphatically yes. We will," he said.

However, Chris Cavallaro, senior vp at American International Group, said if a company is establishing a new plan, it will need an endorsement on its current fiduciary liability contract.

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A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

The new pioneers



Photo: Mary Herlehy

By DONNA LEIGH YANISH

Pioneering women are lighting the way to key positions in agencies and brokerages, but it's not an easy job.

Obstacles still bar the way for women in this traditionally male industry and the subject is so sensitive that few women executives want their names linked to their views.

But despite a tradition of male leadership, female agency executives are proving themselves over and over again and finally receiving recognition for their achievements.

It's a story that demands to be told about growing, achieving and changing the system.

How are female agents and brokers beating the barriers? By being better than the rest, say both male and female agent/broker executives.

Stereotypes form most of the obstacles. Agent/broker stereotypes depict women as not aggressive enough for sales, too emotional to handle the daily

Continued on next page

Women battle agent/broker barriers

Continued from previous page

strain, not dedicated enough to put in the time commitment and unable to win the acceptance of skeptical male buyers.

Male decision makers also say that insurance buyers—corporate risk or employee benefit managers—don't take women producers seriously.

Some of the women who are succeeding despite the stereotypes obviously don't agree. Some say the buyers do make the job difficult for a woman producer, but others say the so-called buyer bias is just an excuse to keep women out of sales.

One female producer says that being a woman has actually aided her drive toward a successful sales career (see story, page 26G).

"The hardest thing is getting my foot in the door," says Linda Eckland, assistant vp and producer in the Minneapolis office of Corroon & Black. "Some refuse to see me or they treat me like their daughter."

But a sales representative can use her sales ability to overcome those problems. They're similar, Ms. Eckland contends, to the impediment that women and men face when they're young and breaking into the business world: not being taken seriously.

"Be confident and express that confidence over the phone" where initial contact is frequently made, she suggests.

Showing that you know your business will also win some of the most difficult buyers' ears, other women add.

Knowing answers to technical questions about insurance coverage helps win acceptance from the buying public, says Diane Voit, an account executive for Bayly, Martin & Fay International Inc. in Alexandria, Va.

"The days of the producer saying 'I'll go back and check that with my girl' are gone," Ms. Voit says.

The buying public is much more sophisticated and wants information quickly, she believes.

It pays to do your homework, especially if you are a woman in the field, agrees Betty Jo Stevens, assistant vp in the Salt Lake City office of Fred S. James & Co. Inc. "Women are very much on trial. You have to prove yourself very fast."

Sometimes you just won't know. Although you can be very familiar with an account, you may not have all the answers right off the top of your head.

Be honest, not deceptive, female producers advise.

"If you don't know the answer

A/B/T

(to a client's question), say you don't know the answer," she says.

Indeed, honesty in all things is a key to women being accepted by clients, explains Constance L. Colt, assistant vp, officer and stockholder in Allen, Russell & Allen Inc. in Hartford, Conn.

"Don't feel a need to apologize" for your position, she says. If you feel the clients are skeptical about your ability, "allow your performance to change their minds."

Don't let the men who knock you get you down, she advises. "Remember the number of men on a business level who don't care whether you are female or not. Pull your own positive reactions out of things."

Learning how to react in various business situations is essential to a woman's success. A lack of those skills has been part of the reason many women haven't succeeded in business, some women say.

"A guy is brought up to be a professional," Ms. Colt contends. "Guys expect to be slugged in the school yard—girls are not." When most women are hit with a negative response in the business environment, they don't know how to react, she says. Women in business have to learn to think like their male counterparts.

When a woman encounters a new situation, she should ask herself "how would a man react?" Ms. Colt contends. For example, if a client comes up with an idea, acknowledge that you hadn't thought of it but you'll follow up on the notion, she says. Don't pretend you've already had the idea.

"If women are going to work in a 'man's world,' they'll have to learn the rules of the game," agrees Joyce Mrazik, co-owner of The Tolland Insurance Agency in Tolland, Conn. "One of the hardest things I had to learn was that business isn't always fair. You don't always get the promotion because you're the best-qualified."

Ms. Mrazik reached the top after years of working in the insurance company side of the business. She and her husband started the agency from scratch in 1976 to service business and personal needs of the surrounding community of about 13,000 people, within the shadow of nearby Hartford.

With a background in life insurance, Ms. Mrazik handles personal

lines for the agency and runs the technical end of the operation. Mr. Mrazik sells commercial insurance.

Learning the rules also includes learning to roll with the punches, Ms. Mrazik says. "Before I came into business, what would have been a crisis is now just something that must be dealt with."

Women are discovering the strategies of the business game and are succeeding, she says, especially young women. The generation of women coming into the business world are more career-oriented than any generations before them, she contends.

Ms. Mrazik, who has two post-college-age daughters, is certainly not the only woman from her generation who holds a key position in an agency or brokerage. But many of the women climbing the career ladder in the business are young.

Youth can be both a boost and a barrier to gaining success.

Young women have the advantage of the few female role models who preceded them in the industry, say women who have worked in the industry for a long time. They also follow a few decades of the women's movement, which encouraged young women to pursue professional careers.

Young women face the same struggles as young men starting on a career—plus many more, they say.

Ms. Colt says that young people think they can do things they may not be ready to tackle. Looking back on her early days with Allen, Russell & Allen, she reflects: "I was often chomping at the bit that I was held back. But he (her boss) knew I wasn't ready."

Had she gone off and taken the responsibility, she would have made mistakes, Ms. Colt admits.

Some male executives still treat a woman employee as a person who is only in the workplace until she has children. A few women noted that at some point in their careers they were asked whether they planned to have children.

Some managers balk at training someone for a key position whom they think is a short-term employee, but women are overcoming that stereotype by proving their professionalism.

Many women are getting advanced training like the Chartered Property Casualty Underwriter designation (see story, page 26D), partially to signal their dedication to their insurance careers.

Dedication also means being willing to put in extra, late-night hours, a view that seems to be true for women and men.

Are women executives willing to put in the extra time? Men and women agent/brokers disagree.

"The 'Gloria Steinems' of the world believe that women should be given positions on a silver platter," says Mary Evelyn Beach, vp at Corroon & Black.

But they're wrong, she says. "Your most successful men work extra hours (to get ahead). We could take leads from them."

Others say women may be more willing to work the hours—because they have to. They say they have further to climb on the ladder of success.

Women usually start on a lower step on the career ladder than their male colleagues, women in the industry say. For those women, the extra work involved may mean that to get ahead they have to do the work of two jobs—their current position and the job on the next rung of the ladder.

Many of the most successful women in the business began as clerical or technical workers, they say. They had to prove they can handle the responsibilities on the

Statistics show progress being made

Are women agents and brokers really making professional progress around the country?

The latest government statistics are encouraging. Women held 1,196, or 16.7%, of the 7,181 official and managerial posts in agencies and brokerages in 1980, according to data from the Equal Employment Opportunity Commission.

The statistics, however, include reinsurance and excess/surplus lines brokerages where women appear to have made greater inroads.

next rung of the ladder before attaining that rung, while many men right out of college begin in sales, they say.

One woman in an agency technical position realized she was doing much of the work of an account executive without the title or the financial rewards. She asked for the promotion and received many of the traditional responses such as "male buyers in the community wouldn't accept a woman as an account executive."

But the agency does allow for "career pathing," the aspiring account executive notes.

To win management's support, she presented her "emancipation proclamation" outlining what she wanted and what management would have to do to ensure a smooth transition to an account executive position.

There are however, only so many hours in the real workday, she notes. While both the current and developing position require a lot of contract with other business people, those activities must fit in normal work hours.

A woman working hard to service present clients may find it difficult to find and meet the new clients necessary to win a better job, women producers say. That's another part of the double-bind of working overtime.

Once a woman has overcome the barriers impeding her climb to a higher position in the agency, all the obstacles aren't gone, they say. She had better be prepared to face the feeling of being an outcast from many of her former peers (see story, page 26F).

Even if a woman gains a higher position by moving from another agency or brokerage, she may feel left out of the crowd.

The men who hold management or production-level positions usually don't include the lone woman among their ranks in lunches and social gatherings, they say.

Women in newly attained management positions also have to fear staff resentment. Some employees may resent a female boss, women managers say.

Marsh & McLennan's Myra Tobin (see story, page 26C) recalls an interesting situation she faced when a promotion at age 32 meant that she had a 62-year-old man reporting to her.

Ms. Tobin says she prevented a potential problem from developing. "We learned to work with each other in areas we needed to, but I recognized that he needed minimal supervision," she explains.

She became more of a consultant than a supervisor to the man, she adds.

Resentment can stem from employees in lower positions whether or not they report directly to females in production or management positions. Many women who have been successful in agencies and brokerages say that other women in the office resent their promotion.

One woman reports that she's watched by the technical workers who note how long she takes for lunch and when she arrives and leaves the office.

A few women have been hit even harder with office politics. They were shocked to hear that other employees, male and female, assume they "slept their way to the promotion."

Those accusations are nearly impossible to handle. The more a woman denies having a sexual relationship with her boss, the louder the accusations become.

Being successful at your job is the only way to stop the accusations, one woman said. If a woman proves her capabilities, others will believe that she was promoted on her merit.

Women are proving that they can overcome the internal and external barriers to promotion through hard work and dedication. But many still have to face obstacles from another source—their selves.

Women must be willing to give up a large portion of their personal lives to make the commitment to a career in an agency or brokerage, successful female executives say. The overtime hours don't end when they attain a production or department head position—they just begin.

Key positions in an agency or brokerage, for example, frequently require entertaining clients. A woman has to juggle the demands of her home life to accommodate dinners with clients or a round of golf after work, they say.

Although professional women have come a long way from the days when they were rarities in management and production positions, most women in the insurance business agree they still have a long way to go—all the barriers that only women face haven't faded away.

Are the coming obstacles going to be less difficult to overcome? Will the successful women have an easier time climbing to the next rung on the corporate ladder than they did the get where they are now?

Will the women following them face fewer obstacles because the pioneers disproved the stereotypes about women's inability to succeed in business?

Some of the pioneers say yes. They're proving themselves and paving the way for other women to follow. The pioneers will soon have other women joining their ranks in top positions in agencies and brokerages.

Other women disagree. They say that the women's movement was in vogue in the 1970s. Everyone was talking about promoting women. Federal regulations demanded equal opportunity.

There isn't as much emphasis to make room for women anymore, one woman said. The media's attention is no longer on the women's movement, so there will be less pressure from society to promote women, she contends. And the federal government clearly seems to be cutting back on regulating equal opportunity in business.

But whether the barriers become lower or higher, most women say they're committed to climb the ladder to key positions in agencies and brokerages. If the going gets tougher, they say, they'll meet the challenge.

N.Y. brokerage president violates all stereotypes

NEW YORK—Ernesta G. Procope is not a typical president of a medium-size brokerage.

As the top executive at E.G. Bowman Co. Inc. in New York, she's a female in a position usually held by males. And she's black in a predominantly white industry.

"I'm a curio," Ms. Procope says. "I'm a woman and I'm black. People listen to me because they wonder what this woman could possibly have to say."

Her history tells the story best. Ms. Procope didn't start in the insurance industry the way most other women do. She didn't begin at the bottom as a clerk with an insurance company or agency, hoping to work her way up.

In 1953, she opened the brokerage under her name from a previous marriage, to insure the brownstones she was buying in Brooklyn, N.Y.

"I didn't know a thing about the brokerage business," she admits.

After succeeding in personal lines, the brokerage added commercial lines sales in 1968 by going after the Fortune 500 companies. E.G. Bowman has about 50 on its books, she says.

Being a woman was never a problem in dealing with mostly men in large corporations, she says, because, "I didn't allow it."

Being a curio got people to listen, but after that, ability took over.



Ms. Procope

Tobin's climb to top at M&M hasn't been easy

NEW YORK—Myra L. Tobin, managing director of Marsh & McLennan Inc., began her career at age 14 in Harrod, Ky., a long way from the nation's biggest city and world's largest insurance broker.

It was back in those days of selling overshoes in her father's dry-goods store that she learned the art of selling—her products, her capabilities and herself.

She used those skills to climb right out of sales and into top management at M&M.

After joining Marsh & McLennan in 1970 as a financial analyst, Ms. Tobin worked her way through the operating division as account representative, senior account representative and casualty product line manager.

She took her big step up the corporate ladder in 1978 when she moved from the operating division, where revenue is produced, to a staff position with responsibility for the broker's casualty insurance business throughout the country.

As a senior casualty officer, "I'm an available resource to all the offices on any casualty account or problem they may want to refer to me," Ms. Tobin explains. "I'm (also) responsible for contacts with senior casualty underwriting officers for insurance companies."

Although her supervisor suggested she apply for the staff position, her climb hasn't been easy. She had to overcome the internal and external barriers presented to one of the first women to venture on traditionally male ground.

For example, while working with captive insurance companies for the brokerage in 1971, Ms. Tobin asked to attend an upcoming conference in Bermuda.

"The program sounded so interesting, I even offered to pay my own way," she explains.

However, the thought of sending a woman so far away was such a radical idea, her supervisor consulted the department manager, who had to think about it over the weekend.

Finally, they decided Ms. Tobin could attend the conference—at Marsh & McLennan's expense.

"Ten years later, women are traveling to Europe, South America and the Far East as a normal course of business," she says.

Ms. Tobin faced other, more complex internal barriers during her first years at M&M.

"Initially there was always a concern on how a client would accept a woman on their account." In reality, "the clients were much more receptive (to her handling their accounts) than internal management."

There were external barriers to overcome, too. Women can't join many male private lunch clubs. Although it sounds trivial, the problem was a major obstacle, she says.

Women must have access to traditionally all-male clubs, Ms. Tobin believes. "A lot of conversation takes place in a social setting. It's a necessity to be part of the decision process and to be where decisions are made."

"I worked around that barrier though," Ms. Tobin says, explaining that several men let her use their memberships. "Soon I had access to four or five clubs."

A woman in business has to sell herself to her manager and male co-workers, who must feel comfortable in her presence, Ms. Tobin contends. Once she can build confidence from both management and male co-workers, they will be much more accepting.

This all takes time and experience is the best teacher. Time, or rather age, is also a big problem, she says.

Ms. Tobin acquired the skills of a good business person through eight

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years of "trial and error" in business before she came to Marsh & McLennan.

Going through those eight trial years, Ms. Tobin says she overcame one of the major barriers to people, particularly women, starting in business: age.

She was 30 years old when she started at Marsh & McLennan and people stopped wondering whether she'd leave after a short time to get married and have children.

"In the early years (before Marsh & McLennan) I suffered from (having to) convince people I wanted a career and be professional," she says.

While Ms. Tobin says she can appreciate a company's unwillingness to invest in an employee who will only be there a short time, "there's nothing to say anyone is going to be in a job forever."

Her education helped signal that she was serious about her career.

"I realized in my late 20s that I needed an MBA to be taken seriously," Ms. Tobin says. She received her degree in corporate finance from New York University.

But education isn't a substitute for ambition, Ms. Tobin emphasizes.

Although Ms. Tobin continues to rise in the business world, she hasn't completely left behind the territory that started her career.

She purchased a farm in her native Kentucky in 1973 and is learning a new business—farming. ■



Photo: Donna Yanish

Myra L. Tobin has journeyed from a small Kentucky town to a top position at the world's largest insurance brokerage.

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Women proving their commitment by obtaining CPCU

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How can a woman prove she is serious about a career as an agent or a broker?

Many women say attaining the Chartered Property/Casualty Underwriter designation helps make skeptical men sit up and take notice of their dedication and achievement.

An increasing number of women are earning their CPCU. Some 204 or 21.8% of the 935 designees finishing the program in 1981 were women. A year earlier, women earned 301 or 16.9% of the 1,780 designations granted.

For the second consecutive year, women have taken slightly more than 40% of the top honors in CPCU examinations.

Although previous years' statistics are not available, the Society of CPCU estimates participation by women in the educational program has nearly doubled in the past two years. About 1,000 of the more than 16,000 people who have received the designation are female, according to the organization.

The CPCU designation can be the difference between night and day when it comes to being accepted by male insurance colleagues, women producers say.

Dorothy A. Duck, a vp with production responsibilities and management duties in commercial lines for Myers-Baker & Co. Inc. in Chicago, is the national director of the Society of CPCU's North Central region.

Ms. Duck, who owned an agency for more than 10 years before merging with Myers-Baker, credits her CPCU designation for instigating the merger.

That designation said something positive about the agency and herself to Myers-Baker principals, Ms. Duck says.

While some insurance buyers still don't know what the title means, those that do recognize the dedication it takes to achieve as well, women in the industry say.

The designation shows that you've been around for a while, adds Linda Eckland, assistant vp and producer for the Minneapolis office of Corroon & Black Corp.

Achieving a CPCU takes up to five years, so a member of the group has clearly been in the insurance business and studying various aspects of the industry for at least a couple of years, she explains.

Credibility isn't the only reason more and more women are earning membership to the group.

A Society of CPCU survey of women who achieved top honors in the most recent national examinations suggests that many earn the designation to fulfill company requirements.

In response to a question about the most important motivation for joining the program, more than half of the women pointed to "job requirements" or "company policy."

One respondent said her reasons for taking CPCU classes were "pressure from company initially, but once I started I found that it was intellectually stimulating and rewarding in the practical sense. From then on, motivation came from within."

Many of women surveyed emphasized the desire to "increase personal knowledge and learn as much about insurance as possible." Others sought to "increase job efficiency leading to possible promotion."

Valerie Sanborn, vp in the Long Island, N.Y., office of Rollins Burdick Hunter (see story, page 26), began the CPCU program without a push from her employer and then drove herself to a quick completion. She finished the course in three years.

"I always liked the learning process and decided I might as well learn something about my industry," she explains. "After a while, it got to be an obsession."

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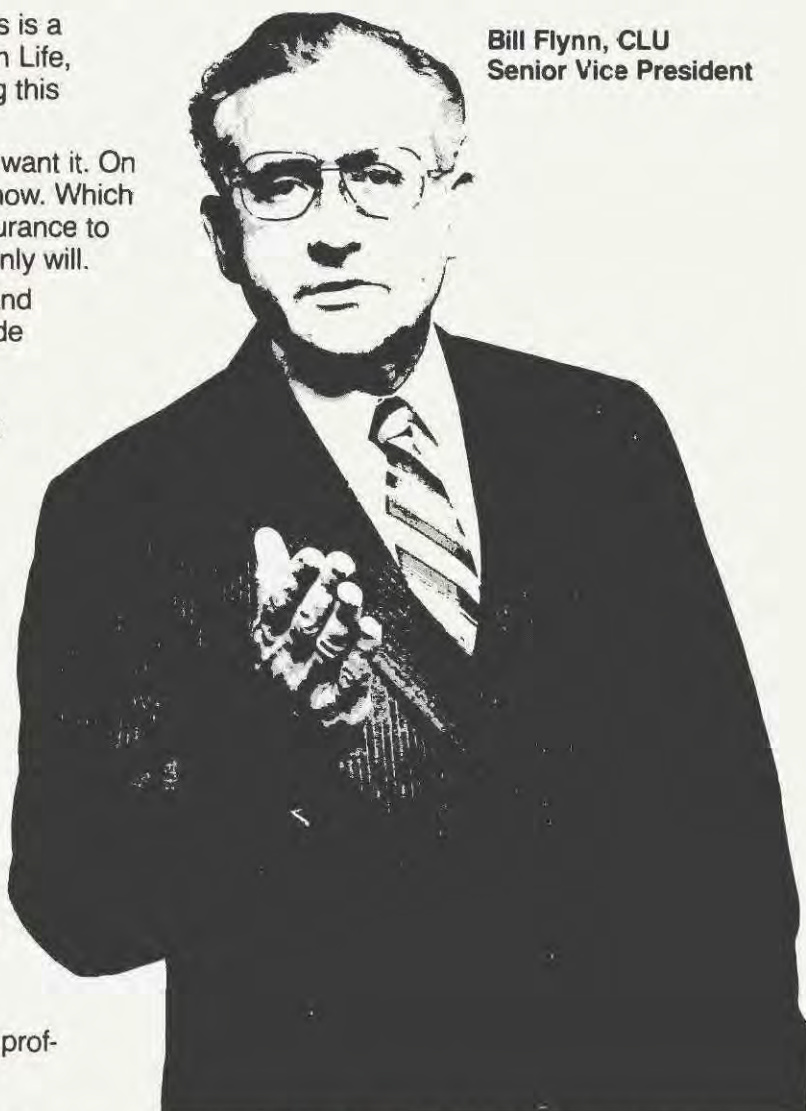
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Kansas brokerage willing to take risk of promoting women

WICHITA, Kan.—William Cohen, president of Insurance Management Associates Inc., thinks promoting women from within is risky business. But he says he's willing to take the risk.

Women fill eight of the 15 department head or production positions in his \$22 million-premium-volume brokerage. Women also hold five of the 14 stockholders' positions in the firm.

Employees, regardless of sex, are management material if they show the ability to handle their jobs suc-

A/BT

cessfully, get along with peers and accept additional responsibility, Mr. Cohen says.

But in promoting these workers, the manager "runs the risk of moving them beyond their capabilities," and into a hornet's nest of employee relations problems.

A major promotion puts an employee in an adversary role with his or her former peer group, Mr. Cohen says. Former colleagues "tend to want to see the person fail" and may cut the person out of their society, he says.

Managers must alert employees they plan to promote of the potential loneliness. Women, in particular, will probably be hit hard, Mr. Cohen says.

Discuss the ramifications of losing the friendship of former peers, he suggests, because pressure from other employees may lead to failure.

Failure is always a possibility. Each time managers promote someone, they're taking a person who's good at a job and moving him or her to a position he or she may not be able to handle.

Problems associated with a misjudgment about someone's potential for promotion are exacerbated if the person didn't want to be promoted in the first place, he says.

Some employees, especially women, may have leadership potential but lack the confidence to seek a management position. For years, young women weren't taught to strive for higher positions in business and so leadership qualities may be dormant, he says.

If managers see those qualities they have to push the woman to recognize her potential although she may be "kicking and screaming all the way," Mr. Cohen explains.

If the managers are correct, they may have tapped a great resource for the agency or brokerage.

If the employee fails after being promoted, the manager must either demote or fire the employee, or keep the incapable person in the supervisory position.

With either of the first two solutions, the employee suffers because of a management error; with the third solution, the agency or brokerage suffers, Mr. Cohen notes.

"Those times are tough when you make a mistake," Mr. Cohen notes. "You're pinched up against the wall."

But once the manager has made the commitment, he or she must keep the person in the supervisory role, he says.

Then accepting less than successful people in management can cause a moral problem. Others wonder why management tolerates less than the best, Mr. Cohen says.

Despite the risks, promoting the a staff member with the greatest potential, whether that person is male or female, may be the best route management can take to fill a vacancy, Mr. Cohen says.

Hiring an outsider means the new person has to to prove him or herself to the insiders. He or she may receive half support from the employees already there.

The agency or brokerage may "waste a year" before it can fully tap the new supervisor's potential while a promoted staffer could adjust much faster, he says.

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Woman producer says being female is 'tremendous asset'

ROCKVILLE CENTRE, N.Y.— "It's a total fallacy that male clients don't take women seriously" as producers for agencies and brokerages, says Valerie Sanborn, vp and producer in the Long Island office of Rollins Burdick Hunter Co.

Although some insurance traditionalists disagree, Ms. Sanborn's five-year tenure with the brokerage backs up her belief. Last year, she brought in more than \$1 million in insurance premiums.

Being a woman can be a "tremendous asset" to selling insurance, Ms. Sanborn says, because male buyers "don't know how to slam the door in (a woman's) face."

They listen, testing the woman producer's knowledge during the first interview. If she knows her business, she will soon have an attentive listener, Ms. Sanborn says.

Like many other women in agencies and brokerages, Ms. Sanborn learned the insurance business by beginning as a technician with an insurance company. She started in a clerical job to earn money until she could find a job using her college major, art.

Ms. Sanborn stayed with insurance, moving quickly into an underwriting post.

"I was actually looking for an underwriting position when I came to Rollins Burdick Hunter," she notes. But it became clear during her interview, however, that her interviewer had a sales job in mind.

"He had to talk me into the (producer's) position," she confesses. "He said that I would be a great experiment."

Ms. Sanborn partially attributes the experiment's success to her technical background, but sales ability is another part of the outcome, she adds.

Her sales approach is "low key," she says, and more protective of her clients than most male producers.

"My male clients know that. They're relaxed and honest with me," she explains. "Males are more competitive with each other."

But males have an advantage at traditional insurance social functions. Taking a client out for lunch can cause one of the few difficulties for a female producer working with male clients.

"You may have problems picking up the check," she says, but you can get it if you are persistent.

When she first joined RBH, entertaining was even more difficult, she notes. The only tickets available for client entertainment were for sporting events.

"That's not my style," Ms. Sanborn says, but now theater tickets are available to the producers, too.

Being a woman has not hurt her ability to win new accounts, either. When she's not taking care of current clients, Ms. Sanborn has her hands full in bringing in new business.

"People call me and ask me to come look at their insurance," she says. "I have more prospects than I can handle."

Ms. Sanborn is still expanding her technical and financial interest in the insurance industry. After finishing her Chartered Property/Casualty Underwriter designation, she entered Columbia University in an intensive MBA program for working executives.

A/BT

Rollins Burdick Hunter is picking up the \$17,000 tab for her degree.

Although Ms. Sanborn says the large brokers are a long way from allowing a woman to run a branch office, she has her eyes set on more management responsibilities, and the MBA is one more qualification to show the brokerage she has what it takes.

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Role of women in agency system still not up to par

By LEN STRAZEWSKI



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Some things never change—and it's a shame, not a blessing.

Nearly 3 1/4 years ago, I began reporting on agent/brokers issues in the Agent/Broker Topics section of *Business Insurance*. One of the first situations that caught my attention was the casual way in which agent and brokers acknowledged a male-female split in the way an agency works.

Men, agency and brokerage executives pointed out, worked the outside. Male producers made sales

calls, looked over worksites and delivered policies or claims checks when the personal touch was called for.

Women worked inside, answering telephone calls from policyholders, looking up coverage details, typing policies and usually rating risks and issuing binders on behalf of their mobile male counterparts.

The jobs, however, weren't separate but equal, despite some attempt at professional titles. Men or "account executives" clearly had the upper hand, the business lunch, the sales commission and usually the bigger base salary.

The women, usually called "account technicians" or "policy analysts" managed the message pad, ate chicken salad at their desk and earned lower pay that reflected the lower salary levels of clerks and typists in other industries.

Although large, national brokerages clearly lead the way in equal pay and equal opportunity, it was not uncommon for a male producer of vp or higher rank to say, "Let's have lunch. I'll have my girl call your girl."

As associate editor of *BI*, I didn't have "a girl." I had two female bosses (and still do), who would tell a caller where to go if he treated them like flunkies.

With this in mind, I wasn't too surprised when a top executive for a large national brokerage told a seminar group that if he were starting a new agency, he would hire three male producers and nine female insiders.

I don't even think he was being intentionally sexist. I think he was describing, in a pragmatic, nonjudgmental manner, the way things were in the business.

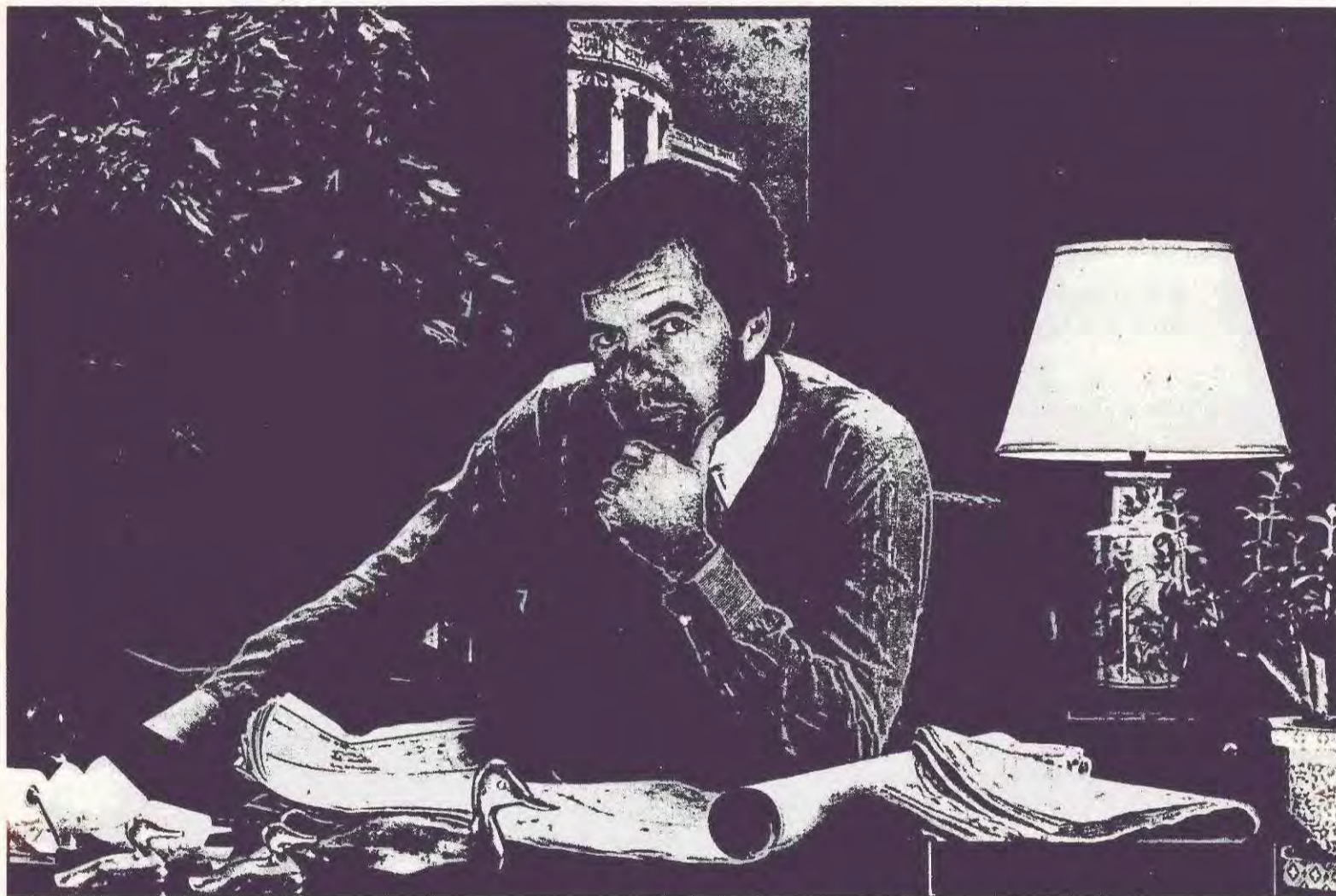
Now I edit and help direct the coverage of Agent/Broker Topics and am not pleased to say that the role of women doesn't seem to have changed much in the past three years.

While doing research recently on broker personnel trends for an analysis of the public brokers' quarterly results, I was surprised to hear from insurance recruiters and employment agencies that the male-female division of labor in the business still exists. In fact, it was becoming exaggerated by economic stress.

As the economic recession and the insurance industry cycles took their toll on agent/broker profitability, managers began returning to the old ways. A commitment to "equal pay for equal work" still exists, the recruiters said, but job competition trends still show that women work cheaper.

Associate Editor Donna Yanish's report on women in the agent/broker business confirms what I have heard and seen for the past three years. Women still take the back seat in most commercial insurance sales organizations.

Although the pioneers that Ms. Yanish interviewed are showing a strong guiding light for women in the industry, there's still a lot of darkness.



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Well control rates could rise

Continued from page 2

"The frequency of insured blowouts has fairly dramatically increased the last two to three years and obviously, with inflation, the amount of loss has increased in cost," Mr. Hiscock says. "So underwriters would be looking for increased rates for those insureds without exemplary loss records."

But few, if any, oil drilling and related companies have good loss records these days, the London market is saying. Companies are scrambling to find oil and gas, often drilling into high-pressure gas pockets 30,000 feet under the seabed. As they search harder, the risk of a blowout is greater.

"There are an astronomical number of holes just pincushioning America," says Alistair McGill, a broker for the energy division of Alexander Howden Group Ltd.

For example, between July and September 1981, more than 19,000 wells were drilled in the United States, according to the American Petroleum Institute.

"There are so many oil areas being explored; if you hit a high pressure of gas, you are in trouble," Mr. McGill warns.

But the increasing number of wells drilled may not be the only reason for an increase in the number of blowouts; the skill of the crews drilling the wells could also be to blame (BI, May 18, 1981).

And blowouts cannot be predicted on the basis of geography or the company doing the drilling, underwriters say.

"No one can say one well in one part of the world is more prone to blowout than in another part of the world. It just happens," said Mr. Hiscock, who reinsured both the Sedco 250 well off Angola and the Ocean Ranger, a semi-submersible drilling rig that sank off Newfoundland last month (BI, Feb. 22).

It is interesting, however, that rigs drilled in the North Sea have the lowest loss records for blowouts, Mr. Hiscock said.

"There have been few blowouts in the North Sea. The last one, I think, was the Ekofisk Bravo in 1977, because the blowout preventor was installed incorrectly," he said.

"But one would have to ask why in the North Sea there are relatively fewer blowouts than elsewhere. Perhaps more qualified experts are hired to drill for rigs in the roughest sea in the world."

But while areas cannot necessarily be pinpointed for poor loss records, the cost of cleaning up after a blowout varies according to the well site.

"The cost of controlling a well on land in, say, Alabama has to be cheaper than the same blowout at the same depth under 10,000 feet of water," Mr. Hiscock said. "Offshore, you have to get in a specialized drilling barge, which can cost \$100,000 per day."

And sometimes, as in the case of the Sedco 250, up to three barges may be needed to cap a well.

Mr. Hiscock said drilling companies may experience additional problems when operating near the Philippines or Indonesia, where high volumes of hydrogen sulfide gas are present. And the special barges needed to cap a blowout may not be readily available in remote areas. They must be brought in, and that costs time and money.

London insurers also have adjusted well control insurance premiums according to how much it costs to control a blowout in various areas of the world.

For example, the initial rate for onshore wells in Area 1, which includes most of the United States and Canada, is 62 cents per foot drilled.

Coverage for rigs drilled in Area 2, which includes Wyoming, Utah, Montana, Arizona, New Mexico,

Colorado, Texas, Louisiana, Mississippi, Alabama, Florida, Alaska and portions of Canada north of 60th parallel, is initially rated at \$1.50 per foot drilled.

Rates are higher in Area 3, which covers offshore wells off Venezuela, in the Gulf of Mexico and in the Gulf of Korea. The rest of the world, including the North Sea, is included in Area 4, where the rates are the most expensive.

Arctic and Antarctic regions are not listed on the insurers' schedule because of a drilling moratorium.

Well control insurance premiums are adjusted for other factors besides geography, Mr. McGill says. For example, insurers rate wells according to their depth.

Companies also can receive discounts from insurers if they take out large deductibles or buy a worldwide policy that covers a large number of wells. ■

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MGM Grand, excess insurers contest cover

Continued from page 1

estimated the total amount of the property damage at about \$50 million plus more than \$35 million for business interruption losses (BI, Dec. 1, 1980). Industry observers at that time did not think the loss would pierce INA's excess layer.

Since MGM is continuing to report rebuilding costs in proof of loss amendments, it appears possible that the total property loss claimed by MGM may exhaust or nearly exhaust its \$215 million in property insurance.

The business interruption portion of the loss, included in property policy limits, was settled with insurers in November 1981 for \$62.8 million. The hotel was closed from Nov. 21, 1980, until July 29, 1981.

"There is a continuing disagreement between the claimant's experts and our own on the amount of the loss," said a spokesperson for Kemper Group. The insurer is pursuing two tracks to resolve the dispute—the declaratory judgment petition and out-of-court negotiations, he said.

"We are not closing the door on out-of-court settlements," he emphasized. "In fact, we have very, very recently sent to MGM a suggested methodology for coming to a resolution out of court."

"Since the underlying limits have not been paid out, we were under the impression that the loss would not pierce our layer," said an INA spokesperson. The insurer is now investigating the disputed

claim to respond to the lawsuit filed against it Feb. 16, he added.

An endorsement contained in INA's excess policy reads: "This insurance is excess insurance and shall not be called upon to pay any loss insured there under until such loss exceeds \$175 million and then only this company's portion of the loss."

The INA spokesperson declined to speculate on the insurer's liability for a loss that pierces its excess layer but has not been entirely paid by underlying insurers according to their limits.

INA's policy also included a replacement cost endorsement, permitting MGM Grand to substitute the replacement cost for the actual cash value of its lost property in any claim. Kemper's policy was written on a replacement cost basis, too.

Immediately following the fire, MGM's property insurers cooperated with their policyholder to reconstruct the hotel and casino as quickly as possible. These representatives, including those from INA, "did not object, or contest coverage for, and approved, authorized and acquiesced in the expenses incurred by MGM..." to repair the hotel and casino, MGM states in its suit against INA.

"MGM reasonably relied upon the approval and express and implied representations made by the representatives of its insurers, including INA, that the expenses incurred to reduce the loss, the re-

Hotel firm settles 204 additional claims

LAS VEGAS, Nev.—MGM Grand Hotel Inc. will pay more than \$15 million to settle 204 claims arising from the November 1980 fire that killed 85 and injured 700 people.

Most of the claims were for smoke inhalation, but the large out-of-court settlement also included 14 wrongful death cases. MGM has settled more than 2,000 of about 3,000 total fire-related claims for an undisclosed amount.

"The settlements are consistent with an aggressive policy to reasonably settle as many of these claims as quickly as possible," said an attorney representing the hotel-casino company.

The 204 claims represent all of the clients of plaintiffs' attorneys Neal G. Galatz of Las Vegas and James L. Fetterley of Minneapolis. Mr. Galatz has submitted his resignation as co-chairman of the plaintiffs' legal committee. Mr. Fetterley, another committee member, also will leave the litigation.

Mr. Galatz said he represents a number of clients with claims still pending against other defendants named in the fire litigation. Some of the claimants who settled with the MGM Grand are pressing actions against hotel contractors, subcontractors and architects.

So far, not one of these defendants has contributed to fire-related settlements, Mr. Galatz said.

Besides the MGM Grand Hotel, at least 10 companies have been sued by fire victims and their families.

Among the defendants are Taylor Construction

Co., California Electric Construction Co., architect Martin Stern Jr., Orvin Engineering Co., Clark County, Nev., Continental Mechanical Corp., Upholstery Supply Co., Otis Elevator Co. and Del E. Webb Corp. (BI, Sept. 28, 1981).

Many of these defendants argue that Nevada's six-year statute of limitations makes them immune from lawsuits because their work on the hotel was completed more than six years before the fire. Plaintiffs argue that Nevada's law is unconstitutional.

MGM Grand Hotel, which has cross-complained against these defendants and others, argues that building contracts provided for the application of California—not Nevada—law. Because California's statute of limitations is 10 years rather than six, contractors are still subject to suits under California law.

U.S. District Judge Louis C. Bechtel, who is presiding over the multidistrict litigation, will hear arguments on this issue March 9 in Los Angeles. A decision is expected soon.

If Judge Bechtel dismisses building contractors from the suit, plaintiffs will lose millions of dollars in potential damages. Some of these defendants carry high limits of liability insurance, including \$100 million by California Electric Construction Co., a unit of GK Technologies Inc.; \$150 million by construction subcontractor Del E. Webb Corp.; and \$275 million by Otis Elevator Co., a unit of United Technologies Inc.

construction measures being taken and the kind and quality of materials being used by MGM to rebuild, repair and replace the MGM Grand Hotel and Casino... were within the coverage of its insurance poli-

cies," the suit continues.

The first \$50 million in property insurance has been paid, including: Mutual Fire, Marine & Inland Insurance Co. for \$2.5 million; Pine Top Insurance Co. for \$2.5 million;

Puritan Insurance Co. for \$7.5 million; Lexington Insurance Co. for \$15 million; Northbrook Excess & Surplus Insurance Co. for \$2.5 million; and Holland-America Insurance Co. for \$22.5 million.

EPA announces closure coverage rules

Continued from page 2

alternatives for most operators in the face of an insurance industry that is still coming to grips with closure/post-closure coverage.

According to several consultants, insurers and EPA officials, most insurance companies are waiting to see the agency's regulations before making a commitment on offering the coverage.

However, one insurer, St. Paul

Fire & Marine Insurance Co., has expressed a definite interest in writing the coverage.

St. Paul has worked closely with EPA officials in designing a possible program for this exposure. Joseph Nardi, senior underwriting officer for the Minnesota-based insurer, confirms that St. Paul still has the coverage under consideration.

"Certainly we're interested in

writing any profitable insurance," Mr. Nardi says. "We're still at the exploratory stage."

St. Paul, along with other insurance companies, will meet in Washington this week with EPA officials to give them its view of the new regulations.

The Pollution Liability Insurance Assn., a pool of property/casualty insurers recently formed to write pollution liability insurance, also has not committed itself to writing closure and monitoring coverage.

Pollution liability coverage, which protects companies against third-party liability exposures resulting from pollution incidents, is separate and distinct from closure/post-closure insurance.

Ambrose Kelly, PLIA manager and general counsel and secretary of American Mutual Reinsurance Corp., says his organization will study the matter this week at a meeting of its underwriting committee, but does not expect quick action, if any.

PLIA was established to write pollution liability insurance only, Mr. Kelly says, and this would be the first stumbling block to accepting closure/post-closure risks.

Mr. Kelly says he doubts that PLIA would write this coverage for any disposal facility without insur-

ing its third-party liability risks as well, since the pool would want to be fully aware of its management practices before accepting a risk.

"In a sense, you need to know what's going on there," Mr. Kelly says of the knowledge an insurer would gain by taking the third-party exposure. "That's why we would want to be in all the way."

Closure/post-closure coverage is similar to "a life insurance policy," Mr. Kelly says, in that an insurer expects to accumulate funds over a facility's anticipated life span—generally set at 20 years—to pay a claim it knows will someday be made.

When a waste site closes early, Mr. Kelly continues, there is an immediate demand for coverage before an insurer has had an opportunity to accumulate funds to pay the claim.

Hazardous waste site operators that choose to self-insure their closure/post-closure costs must pass one of two tests of financial strength.

The first test, says John Skinner, director of the EPA's state programs division in the office of solid waste, is for manufacturing companies that can first show a tangible net worth of more than \$10 million. These companies also must demonstrate they have net work-

ing capital of at least six times estimated closing costs, and assets in the United States worth at least six times total closure/post-closure costs.

A second test, one that applies to utility companies, replaces the net working capital standard with high bond ratings from either Standard & Poor's Corp. or Moody's Investment Services Inc. This step was taken so that utility companies, which often do not have sufficient net working capital to meet the first test, will not be subject to discrimination, Mr. Skinner says.

If the facility is owned by a subsidiary of a parent company, the parent may pass the test and qualify the site for self-insurance.

This option could be popular with major corporations for which it would make sense to self-insure, notes Mr. Nardi at St. Paul.

One consultant, Michael J. Murphy, chief operating officer of Washington-based Risk Science International, feels the self-insurance provision could have considerable impact on the market for closure/post-closure insurance.

"I believe they (operators) would prefer to self-insure," he says.

"Why insure when you know what the risks are?" he asks. "You insure when you don't know the risks."

Transit system not liable for crime: Court

NEW YORK—A woman assaulted and raped 19 years ago in a Metropolitan Transit Authority subway station plans to appeal a state Court of Appeals decision that frees the MTA from liability for the crime.

Harvey J. Michelman, the woman's attorney, says he plans to file an appeal in federal court.

The state's highest court, in a Feb. 18 ruling written by Judge Bernard S. Meyer, freed the system from liability when it declared the MTA is not legally required to pro-

tect a passenger from crime in subways or to supply additional police protection for the system.

The decision extended to the MTA, a municipal body, legal immunity that is enjoyed by municipalities but not by private operators of bus and rail lines.

The ruling, Mr. Michelman contends, diminishes protections that lower courts had previously given to subway passengers and denies equal protection under the law.

Daniel Ross, an attorney representing another subway crime vic-

tim, and Mr. Michelman contend the MTA was liable because private bus companies, railroads and other common carriers traditionally have been held liable in similar situations.

Mr. Michelman's client was granted a \$50,000 award in 1976. The decision, however, was overturned in 1978 by a state Appellate Term Court.

Mr. Michelman argues that the MTA could have prevented the assault if it had taken extra steps to combat crime.

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CU says Hyatt attempted to 'cut deal'

Continued from page 2
coverage of Hyatt. In exchange, Hyatt would agree not to press certain unspecified claims against Commercial Union.

Mr. Reuben, in an interview with *Business Insurance*, declined to elaborate or confirm his discussions with Mr. Cozen.

"It's just unseemly for lawyers to talk about their aborted settlement negotiations in public and I'm not going to do it," he said.

Mr. Reuben said the only issue is what Mr. Cozen or his associates told Judge O'Leary about CU's coverage of Hyatt.

"We say they are bound by the position they took in December and that is they are on the coverage (of Hyatt)," Mr. Reuben added.

Commercial Union wrote a \$1 million primary liability policy and a \$10 million umbrella policy for Hallmark Cards Inc., whose subsidiary, Crown Center Redevelopment Corp., owns the Hyatt Regency Hotel building here that Hyatt managed.

The insurer maintains in letters and legal papers that its coverage of Hyatt ended when construction of the building was completed.

Hyatt's first excess insurer, Northbrook Excess & Surplus Insurance Co., is defending Hyatt and Hallmark/Crown Center and has made settlements on their behalf.

Hyatt, Hallmark/Crown Center and numerous other defendants are accused in a federal court class action of negligence in the July 17 collapse of two suspended skywalks in which 113 people were killed and at least 200 others injured. The Cozen-Reuben exchange is part of Hyatt's effort in state court to obtain a ruling on its insurance coverage available to satisfy claims estimated at between \$90 million and more than \$1 billion.

In U.S. District Judge Scott O. Wright's courtroom, settlement talks among plaintiffs' lawyers and insurer-hired attorneys for Hyatt and Crown Center/Hallmark have been halted by the defendants because of a dispute over whether the defendants will get "credit" for settlement amounts in any ultimate punitive damage award (BI, Feb. 15).

Judge Wright is considering the question.

The sworn affidavit accompanying CU's state-court response to Hyatt's request that Mr. Cozen be removed provides a detailed account of a series of telephone conversations which Mr. Cozen, as CU's lead counsel, held during November and early December with Mr. Reuben, as Hyatt's attorney.

Mr. Cozen, of the firm of Cozen, Begier & O'Connor, describes a telephone conversation he says took place on Nov. 5 with Mr. Reuben, of Chicago's Reuben & Proctor firm.

"(Reuben) told me that he wanted to 'cut a deal' with Commercial Union and its line of coverage. I told him I was always willing to talk and saw a commonality of interest between Hyatt, Hallmark and the Commercial Union line.

"I told him that I did not 'cut deals' with anyone until I heard them out and analyzed the situation, but that there would be no deals made with anyone without the participation of Hallmark."

Mr. Cozen's affidavit also cites a Nov. 16 telephone conversation with Mr. Reuben in which Mr. Cozen raised the implications of Endorsement No. 18 on CU's policy (regarding exclusions from CU's coverage) as well as provisions of an "indemnity agreement" contained in the secret management agreement between Hyatt and Crown Center/Hallmark.

"After lengthy discussions, (Mr.

Reuben) indicated to me that he could recommend to his client an agreement whereby we would reserve any and all arguments with regard to the ultimate net loss provisions of our policy and coverage for punitive damages as well as other exclusions, but only if we would acknowledge Hyatt as an additional named insured under our policy," Mr. Cozen's affidavit says.

"He asked that we also agree not to raise the Indemnity Agreement or the breach thereof by way of counterclaim with the understanding that we could reserve the right to do so in the future, if necessary, by way of counterclaim or by way of separate action."

Mr. Cozen says Mr. Reuben then asked him to put their discussion in a letter as a proposal from CU,

which Mr. Cozen says he did on Nov. 23. On Nov. 27, says Mr. Cozen, "I again spoke to Mr. Reuben on the telephone" and advised him that "there was a serious question regarding any coverage for Hyatt as I had indicated previously."

Mr. Cozen's affidavit continues: "(Mr. Reuben) asked me whether or not we could make a 50/50 deal on the ultimate net loss provision by reserving our rights as to 50% of defense costs and guaranteeing the other 50% of defense costs."

Mr. Cozen says Mr. Reuben indicated that the suggestions about reservation of rights from the earlier telephone call were agreeable.

Mr. Cozen says he then agreed to take the latest proposal to CU officials with the understanding that he had "a very serious problem in

recommending" it. On Nov. 30, Mr. Cozen asserts, the Hyatt lawyer telephoned.

"In that discussion, he indicated to me that his client was prepared to make considerable concessions if we would recognize Hyatt as an insured for the purpose of the July 17, 1981 incident," Mr. Cozen's affidavit says. "I told him that we had serious reservations concerning any such agreement, but that I intended to pursue the matter further with our clients and with the people from Hallmark."

On Dec. 3, Mr. Cozen's statement says, he learned that Hyatt had filed court papers making further allegations about CU's coverage responsibilities. The CU lawyer says he then telephoned Mr. Reuben and said an agreement was "untenable" at that time. Mr. Cozen ex-

pressed a similar view in a Dec. 8 letter to Mr. Reuben.

The CU papers filed Feb. 19 also include as an exhibit a copy of an unsigned Dec. 11 letter to Mr. Cozen over the name of Mr. Reuben and on the Reuben & Proctor letterhead.

"I know a turndown when I see one," the letter says. "I am disappointed. I would not have strung me out the way you did, having me go back to my client several times and obtaining the concessions you required. I also think I would have called when you made your decision Thursday, Dec. 3.

"I want to give you comfort," the letter concludes. "None of the papers that have passed between us will be used by me at any time, any place, to your or your client's prejudice."

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About the Speaker

Dr. Kenneth R. Oppenheimer, President of Decision and Risk Analysis, Inc., of Palo Alto, California, specializes in executive education and the application of decision and risk analysis to corporate decisions in the insurance, fire protection, banking, wood and paper products, data processing, cattle feeding, and oil and gas drilling industries. Prior to founding Decision and Risk Analysis, Inc., he spent five years with the Decision Analysis Group at S.R.I. International (formerly Stanford Research Institute). His academic background includes a B.S. in mathematics from Tufts University, and a M.S. and Ph.D. in Engineering-Economic Systems from Stanford University. While at Stanford, he was a member of the Decision Analysis Group at Xerox Corporation.

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May 17	New York	St. Regis-Sheraton
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June 21	San Francisco	The Fairmont

Agenda

1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

Kasten revises product liability proposal

Continued from page 2

salers to product liability lawsuits, misuse of products, product alteration and identifying the manufacturer of a defective product remain virtually unchanged.

In his first draft bill proposed last October, Sen. Kasten suggested manufacturers of major home appliances, like dishwashers, could not be sued 20 years after they delivered a product. A 10-year cutoff would have been imposed for other products. Those two cutoffs have been removed.

These statute of repose changes followed a recognition that product liability suits involving very old products are, by and large, limited to manufacturers of capital goods built to last for decades.

Consumer goods often wear out or are thrown out just a few years after they are made, reducing those manufacturers' exposures to older product suits.

However, the change is bound to anger some manufacturers who favored tighter restrictions on the time an injured consumer has to file a product liability lawsuit (BI, Dec. 14, 1981).

As a result, some manufacturers might throw their support to legislation, H.R. 5214, proposed by Rep. Norman Shumway, R-Calif., that has a tougher statute of repose provision (see story, page 2).

But the changes could soften resistance to federal product liability legislation by consumer groups that have vigorously resisted the enactment of statutes of repose at the state level.

Other changes in the Kasten bill, the only major tort reform measure under discussion

in the Senate, include:

- Products would be presumed non-defective if they complied with appropriate federal standards. The first Kasten draft bill strengthened a manufacturer's defense if its products also conformed with local or state safety standards.

- "Congress is in the position to judge the weight federal safety regulations should be given. It is not in the position to decide how much weight state and local safety standards should receive," a source said in defending the change.

- Compliance with National Highway Traffic Safety Administration or federal Food and Drug Administration standards would not be an absolute defense against liability, as the original bill suggested.

That change was made because of the recognition that NHTSA and FDA regulations are only minimum standards and should not bar recovery.

- Testimony from expert witnesses in a trial is not, by itself, sufficient to establish that a product was defective. Expert testimony must be backed up with "substantial, objective evidence," under a new provision added to the bill.

Other key provisions proposed in the first bill remain. They include:

- A plaintiff would have to prove "by a preponderance of the evidence" that a product was made by a specific manufacturer in order to establish liability.

That provision would challenge the 1980 landmark California Supreme Court decision in the Sindell case. In that ruling, which involved the anti-miscarriage drug

DES, the court said when a product causing injury is made by many different manufacturers and the specific manufacturer can't be identified, liability must be divided among them based on market share.

- Wholesalers and distributors would be immune from most product liability suits unless they also made the product.

- Manufacturers no longer could be held liable for failing to warn of obvious product dangers.

- Manufacturers would be protected from most product liability lawsuits if their products were altered or modified.

- Product liability awards would be reduced by the extent that a plaintiff's negligence caused an accident.

- An employer or its insurer could not obtain compensation from the manufacturer to recover its workers compensation costs in product liability cases involving workplace accidents.

- Punitive damages would be allowed, but a plaintiff would have to prove that the harm suffered was "the result of the reckless disregard of the product seller for the safety of the product user."

Although business support for federal product liability legislation to pre-empt state law is growing, the prospects of such legislation being enacted soon remain slim.

Despite a major educational and lobbying effort by business groups, most congressmen still don't understand product liability problems, let alone the solutions. In addition, the Assn. of Trial Lawyers of America is expected to fight federal tort reform legislation.

Shumway's proposal

Continued from page 2

year statute of repose only for major capital goods, like printing presses. For other products there would be no limitation on when suits could be filed. And, Sen. Kasten's draft bill excludes any time limitation in cases where an injury takes years to manifest itself.

Although Rep. Shumway's bill hasn't received much publicity, it has picked up support from yet another business group that wants a federal product liability law: The Coalition for Uniform Product Liability Laws, a small association of larger firms, led by Colt Industries Inc. of New York.

The much larger Product Liability Alliance is backing Sen. Kasten's bill.

Mr. Shumway's bill also differs in other ways from the Kasten proposal. For example, the Shumway measure would make it more difficult to sue a manufacturer if its products conformed with federal, state and local safety regulations. Under Sen. Kasten's revised bill, only conformity with federal standards would be relevant.

In addition, Rep. Shumway's bill would limit the amount of punitive damages a plaintiff could collect to twice the amount of actual damages, not exceeding \$1 million. Rep. Kasten's bill doesn't cap them.

Meanwhile, Rep. Henry Waxman, D-Calif., is expected to introduce yet another federal product liability bill. His bill, which was drafted by House Health and Environment subcommittee staff members, is expected to be more attractive to consumer groups because of fewer restrictions on filing suits.

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Crowley steams ahead without Social Security

Continued from page 1
workers in the lower third of earnings.

This phenomenon was particularly disturbing to CMC because the company prides itself on offering "a barge-full of benefits," both to maintain its competitive edge in the people market and to back up its claim that CMC exists for its employees' sakes.

The company was founded more than 100 years ago by a 15-year-old entrepreneur named Thomas Crowley, a San Francisco tugboat and ferry operator.

Mr. Crowley Sr. acquired many other maritime operations throughout a long career that ended with his death at age 94. Thomas Crowley Jr. gradually took over the business from his father starting in the early 1960s.

Last year CMC's four domestic and one international division reported more than \$500 million in gross earnings. Company operations include offshore and pier construction, oil drilling and exploration, maritime salvage, ship repair and transoceanic shipping. CMC also is the world's largest tugboat company.

More than 60% of CMC stock is owned by the Crowley family and the remainder is principally owned by employees. Through an Employee Stock Ownership Plan and a Tax Reduction Stock Ownership Plan, ownership of all CMC shares will gradually pass from the Crowley family to employees.

Generous health care, group life insurance, disability and other benefits put CMC in the top 10% of companies for benefits, according to the 1981 Hay-Huggins non-cash compensation comparison. CMC calculates its cost for benefits at 53½ cents per dollar of salaries, compared with a national average benefits-to-salary ratio of about 37%.

The average CMC employee earns a salary and bonus of \$33,000 a year and is 35 years old. More than half the company's salaried workforce makes the maximum Social Security contribution calculated on a wage base of \$32,400 a year in 1982.

By early 1980 it was clear that the company's pension plan lagged far behind its other benefits. A handful of Crowley people began to complain that they were retiring with no company pension whereas union workers were guaranteed some minimum benefit.

CMC's pension plan at the time was 72.5% integrated with Social Security. When it was designed in 1973, it provided some pension to almost every retiring worker. But enormous Social Security benefit increases enacted by the Carter administration in the late 1970s were adversely affecting the size of a worker's private pension.

The worker at the very bottom of CMC's wage scale earning \$1,000 a month at retirement with 30 years service qualified for a \$330 Social Security benefit in 1975. The CMC pension, at 1.5% of final average pay, came to \$450 before integration. Following integration (\$450 minus 72.5% multiplied by \$330), the CMC pension came to \$210 for a

total monthly retirement income of \$540.

By 1980, the \$1,000-a-month employee was retiring with a Social Security benefit of \$550, points out Mr. Hanson. After integration, the Crowley pension provided only about \$50 for the worker with 30 years of service. Workers retiring with 10 or more years of service might not receive any CMC pension at all.

This extreme example illustrates the problem confronting CMC. The phenomenon was less acute in the higher salary ranges, but a study conducted by Mr. Hanson in 1981 showed that 40% of the workforce would not qualify for a CMC pension upon retirement.

This meant that CMC could no longer tell its employees that they would receive a CMC pension at retirement. Suddenly, it found it would have to start communicating to workers that there was an earnings and service test to meet in order to get a company pension.

At first, Crowley management blamed the pension plan's design for the problem. Hewitt Associates actuary Ray Cole was asked in early 1980 to start investigating adjustments to the 1.5% formula to provide a minimum benefit to all retiring workers.

But by midyear, CMC's benefit managers began to suspect that Social Security was the culprit. Rich Hanson, who joined CMC in June 1980, did a statistical analysis showing that Social Security was the "bad" part of the pension plan. He began preaching divorce from Social Security.

"It was Social Security's fault that this anomaly occurred—we didn't want a plan like this by intent," Mr. Hanson says.

He also believes strongly that there is no reasonable basis for integration. Benefits are not actuarially derived and bear no relationship to the contribution made by employees or employers.

"It's entirely likely the system won't have revenues to pay benefits in four years," he adds.

Mr. Hanson, working with Steve King, CMC's director of compensation and benefits, and Dick Brenner, vp of personnel and planning, launched a campaign to convince top management of the need to separate the pension plan from Social Security.

"The first step was to get top management to acknowledge that Social Security is not a positive part of benefits—in fact, it's not a benefit at all but a tax," he says.

Consistent with CMC's corporate philosophy, Mr. Hanson, working with Mr. Cole, the actuary, set about designing a plan that would include an equitable, level benefit formula—not top- or bottom-weighted to favor workers in the upper or lower salary categories.

They came up with a 1.25% formula independent of Social Security. The plan would assure a minimum \$125 a month pension for the retiree with 10 years of service.

But there was one problem: The formula would reduce the pensions of several senior executives earning in the \$65,000 to \$200,000 range. A top manager qualifying for a

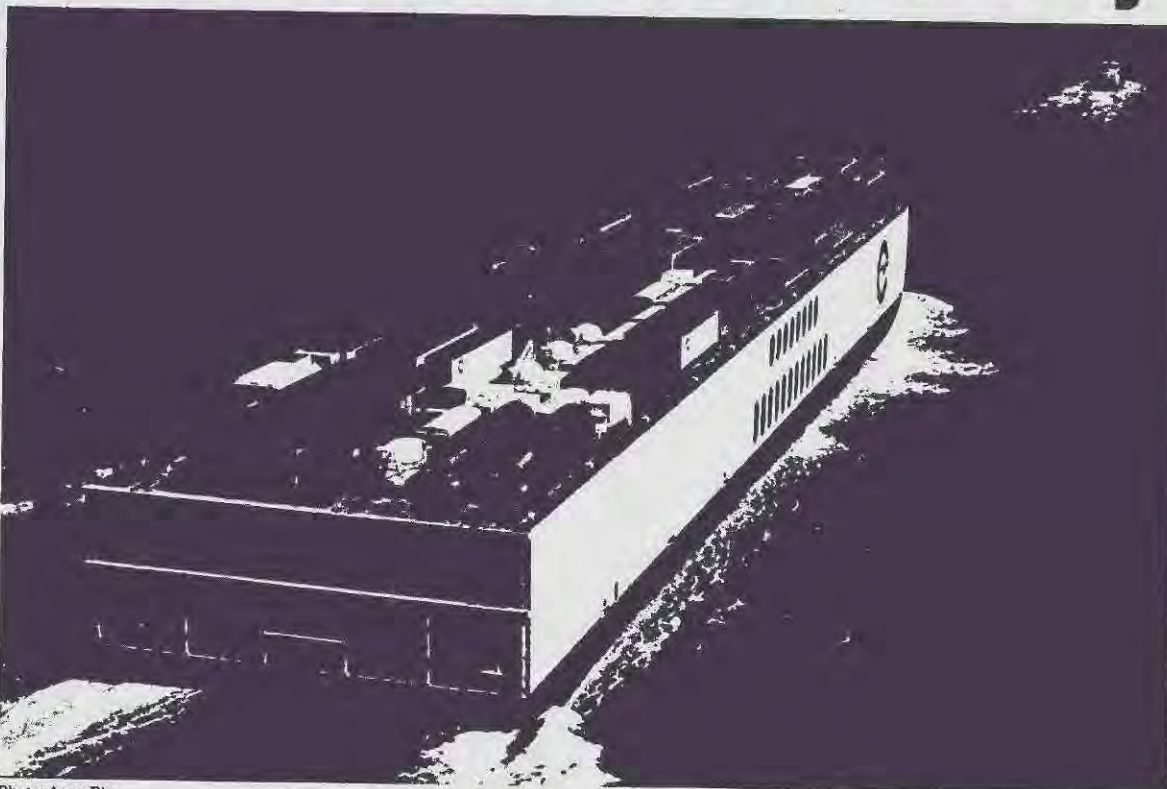


Photo: Aero-Pic

Crowley Maritime Corp. makes seafaring equipment like this triple-deck ro/ro barge.

\$8,000-per-month pension before the change stood to lose up to \$500 a month in benefits.

Before presenting the plan to the full management committee, whose approval was needed for implementation, it was reviewed by J. Alec Merriam, executive vp. He asked for a second alternative that would not adversely impact top managers' pensions. A richer formula of 1.35% would do the job. That was the plan submitted and approved by the management committee headed by Mr. Crowley Jr.

Mr. Hanson says he believes the committee bought the plan for two reasons: the soundness of the case study showing that a large proportion of CMC employees would retire with no company pension and the increase in CMC's earnings projections.

CMC's business plan calls for substantial growth in the next several years. The company has profited from skyrocketing demand for low-cost transportation and shipping. "There's no way cheaper than tug and barge."

Because the company is privately held, there are no outside shareholders pressuring management for higher dividends. CMC reinvests its earnings in expansion projects or distributes profits to employees in the form of sizable annual bonuses.

"There is also a strong sense of loyalty to the Crowley heritage that was built on attracting the best people in their fields with competitive salaries and benefits," notes Mr. Hanson. "We concluded that Social Security integration was no longer an effective program for our employees."

Several benefit consultants contacted by *Business Insurance* agreed that the CMC pension plan is both generous and unusual. They said that a small minority of major U.S. corporations never integrated pension plans with Social Security,

but none could recall a corporation that had canceled integration.

"Integration became popular in the late 1950s and 1960s after businessmen accepted Social Security as here to stay," notes Manual Castells, managing partner of the benefit consulting firm of Kwasha Lip-ton in Fort Lee, N.J.

Integration is nearly universal today, with the most common plans trending toward a 50% formula, he adds. "There seems to be some magic in this percentage because it's equal to the employer contribution to Social Security."

CMC's former pension plan using a 73.5% integration formula was close to the maximum permitted, notes Don Pfaff, vp and senior re-

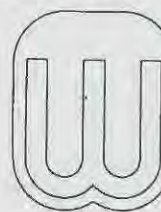
tirement plan consultant for William M. Mercer Inc. in Los Angeles. He says many companies are currently revising their integration formulas away from the maximum. "Ninety percent of our clients are now at the 50% integration level."

CMC's revised plan appears to provide across-the-board pension benefit increases to employees, observed Mr. Pfaff. The rank and file will receive much larger benefits and higher-paid retirees will receive smaller increases.

CMC also will be able to walk away from all the administrative hassles of keeping pace with rule changes in integration schemes, he points out.

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COIL drafts hotel safety legislation

DENVER—Hotel guests would receive better safety information when they check in if the Conference of Insurance Legislators gets its way.

The COIL Task Force on Structural and Fire Safety in Hotels and Places of Public Accommodations is preparing model statutes to be considered by state legislatures.

One piece of legislation would

provide classifications for hotels that would signify whether they had sprinkler systems, smoke detectors and other safety devices.

Another would mandate that hotel personnel give safety information to guests, similar to that given by flight attendants.

The group is also proposing that immunity to lawsuits be provided to insurers that notify authorities

they have canceled a hotel risk because of unsafe conditions.

Members of the panel include state Sens. John Dunne of New York, Charles Butts of Ohio, Harold McLendon of Illinois and Truman Wilson of Missouri, and state Reps. Warren Arthur of South Carolina, Matthew McNeely of Michigan and David Roberts of Arkansas.

Risk managers in oil industry earn most

Continued from page 1

Associates was not surprised that risk managers in the lucrative oil/petrochemical industry earned a higher average salary than their peers in most other industries, it says it expected an average salary of \$65,000 in the oil industry, rather than the \$54,500 reported by the survey participants.

Likewise, the company says it expected bonuses for oil industry risk managers to average \$15,000, compared with the \$11,000 average reported in the study.

Risk managers for natural resources companies averaged salaries of \$61,500 and bonuses of \$17,500, and mining company risk managers averaged \$54,000 in salary and \$2,500 in bonuses. However, a very small number of risk managers in each of these industries replied to the survey, thus casting doubt on the authenticity of these averages.

And although bank risk managers "officially" trailed the rest of the industries with an average salary of \$29,300, advertising, data processing, temporary help and trading company risk managers reported lower salaries. However, only one risk manager in each of these categories answered the salary survey.

Logic Personnel Associates said that risk managers for county governments were traditionally paid lower than risk executives in other fields, based on the recruiting firm's experience.

According to the survey, government risk managers received an average salary of \$34,000 last year, although no bonuses were reported. The survey did not differentiate between state, county and local

governments.

Among the states from which a significant number of responses were returned, risk managers in Connecticut received the highest total compensation package last year, with an average salary of \$46,275 and an average bonus of \$6,450 for an average total compensation of \$52,725.

New York risk managers reported the second highest average: \$44,750 in salary and \$7,900 in bonuses for total compensation of \$52,650.

However, not all risk managers in the industrial Northeast fared as well.

Of the states with a significant number of responses, Pennsylvania risk managers were the lowest-paid.

They received an average salary of \$31,200 and an average bonus of \$3,300 for a total compensation average of \$34,500.

The second lowest average came from Georgia, with a salary of \$35,500 and a bonus of \$2,100, or \$37,600 in total compensation.

Of all the states, regardless of the number of responses received, Nevada reported the highest average salary—\$62,850.

A risk manager for a conglomerate located there reported a salary of \$78,500, while a utility risk manager reported a \$47,200 salary. Neither received a bonus.

Kansas ranked second with a \$58,000 average. An oil company risk manager reported he received \$58,000 in salary and a bonus of \$15,000. A risk manager for a transportation company received a salary of \$56,000 with a \$3,000 bonus.

In the notes accompanying the study, Logic Personnel Associates

said that it was no shock that average risk manager salaries in Connecticut and New York topped the nation, but there were some surprises.

For example, the company had estimated the average salary for risk managers in California would be \$43,100, based on its experience in the field. According to the survey, the California average was only \$40,000.

Similarly, the statistics from New Jersey—\$42,600 estimated, \$38,700 reported—and from Texas—\$40,350 estimated, \$37,500—did not match the company's expectations.

Although definite salary trends can be easily drawn from the study, generalizations about bonuses for risk managers are more difficult to perceive.

However, among the industries from which a significant number of responses were received, risk managers in the chemical and oil/petrochemical fields were the most likely to receive bonuses. More than 90% of the chemical company risk managers received a bonus in 1981, while 70% of oil/petrochemical risk managers were similarly rewarded.

Risk managers in some other industries didn't fare nearly as well. For example, only 28% of bank risk managers and 6% of those that work for utilities received bonuses last year.

In addition to compensation, the survey also quizzed risk managers on corporate reporting structure and the size of their professional staffs.

A majority of the risk managers responding, 58%, said they reported to a corporate financial executive. Eleven percent said they reported

Average risk manager compensation in selected industries

	Average salary	Percent of companies paying bonus	Average bonus
Banking	\$29,300	28%	\$ 5,000
Conglomerates	\$47,000	56%	\$ 9,000
Consumer products	\$43,000	64%	\$ 9,700
Manufacturing	\$41,200	62%	\$ 7,000
Oil/Petrochemical	\$54,500	70%	\$11,000
Transportation	\$41,600	62%	\$ 4,000
Utilities	\$42,700	6%	\$ 3,500

Source: Logic Associates' "1981 Risk Management Compensation Survey"

to an executive vp.

Seven percent said they reported to the controller, 6% said they reported to administrative or human resource personnel, 5% said they reported to the company president, 3% said they reported to the general counsel and 3% said they reported to a vp of administration.

Another 7% said they reported to various executives like operation chiefs, cashiers, commissioners or general managers.

Almost half of the risk managers participating in the study were the only risk management professionals in their department. Thirty percent said they had an assistant, while only 21% of the corporations surveyed had a professional risk management staff of three or more people.

The risk managers also were asked to describe the size of the corporation they worked for. Some 217 of the 255 risk managers participating in the survey furnished such information.

Of those, 49% of the companies reported sales of less than \$500 million last year. Fourteen percent had sales of \$500 million to \$1 billion, and another 14% reported sales of \$1 billion to \$2 billion. Fifteen percent had sales of \$2 billion to \$5 billion, while 8% reported sales of more than \$5 billion.

Copies of the "1981 Risk Management Compensation Survey" are available for \$30 each, including postage and handling, from Risk Management Survey, Logic Personnel Associates Inc., Suite 1708, 170 Broadway, New York, N.Y. 10038; 212-227-8000.

Assistants earn \$7,000 less

NEW YORK—Assistant risk managers earn an average of almost \$33,000 a year, only \$7,000 less than their supervisors, according to a recent survey.

The average assistant risk manager earned a salary of \$32,920 last year and received a bonus of \$3,500, according to the survey by Logic Personnel Associates Inc., a New York recruiting firm specializing in risk and safety management.

According to the same survey, the average risk manager earned \$40,100 in salary last year. However, risk managers received a much larger average bonus—\$7,150—than their assistants, the study reports.

Only 55 assistant risk managers from 21 states responded to the survey and New York was the only state with more than six respondents, making it difficult if not impossible to compare compensation averages from state to state.

The highest reported salary for an assistant risk manager was \$51,000, plus a \$10,000 bonus, for a total compensation package of \$61,000. The person worked for a Pennsylvania-based conglomerate.

The lowest reported salary was the \$16,000 paid to an assistant risk manager at a real estate firm in Texas. That person did not receive a bonus.

Of the 55 assistant risk managers surveyed, only 13 reported receiving a bonus in 1981.

The lack of respondents also made it nearly impossible to make statistically valid comparisons between the salaries offered in different industries.

Assistant risk managers for six conglomerates reported an average salary of \$31,000. Fifteen assistant risk managers for manufacturing companies reported average salaries of \$32,850.

No other industry furnished more than four respondents to the survey.

What makes a perfect risk manager?

NEW YORK—What should the perfect risk manager do?

According to Logic Personnel Associates Inc., a New York recruiting firm, the "model" risk manager would:

- Be responsible for the purchase of all domestic and international property/casualty coverage.
- Be responsible for negotiating and designing employee benefit packages and possibly pension plans.
- Manage corporate safety and loss-prevention programs through the direction of the company's engineering staff.
- Direct his own staff of risk management professionals.

"In essence, the risk manager

will act as an organizer, planner, controller and performer," Logic Personnel Associates says.

The company compiled its list of risk management responsibilities through the responses of 255 risk managers in 38 states who replied to its survey on risk management compensation (see related story).

As part of its findings, Logic Personnel Associates also concludes that risk managers at larger corporations usually had more sophisticated staffs but also had additional responsibilities like acquisition evaluation, budget financing, security and accounting and pension funding.

The company also reports that a risk manager's salary also varies

according to his duties.

"One manager is presently an assistant vp/director of risk management, supervising a professional staff of four with a sales volume of \$30 billion," the company reports. "He is presently reporting to a senior executive within his company and has tremendous management visibility.

"His responsibility consists of the management of their domestic and international property/casualty insurance programs, marine, loss prevention and design and purchase of employee benefits. His current salary and bonus is \$108,000."

Conversely, the company found "a risk manager working for a company with sales of \$490 million, no staff and reporting to the controller. His responsibilities consist of the management of all property/casualty insurance programs and loss prevention.

"His current salary is \$27,500 with no bonus."

But the survey found that the size of a corporation's premium budget is not a significant factor

alone in determining a risk manager's salary "because of the uniqueness and severity in various coverages."

In addition, Logic Personnel Associates also detailed what a "model" assistant risk manager does, based on the replies it received from 55 assistant risk managers (see related story).

The model assistant risk manager would:

- Assist the risk manager in purchasing and negotiating all insurance coverages.
- Handle group benefits if the risk manager were responsible for benefits and pensions.
- Be responsible for monitoring claims and losses and be responsible for loss-prevention activities.
- Supervise the rest of the staff, including risk analysts, insurance managers, claims managers and loss-control engineers.

"In essence, the assistant risk manager will act as a potential risk manager, supervisor, administrator, planner and performer," the report states. ■

Insulation ban to be appealed

WASHINGTON—The nation's formaldehyde industry will appeal a government's ban on the use of home insulation foam made with formaldehyde.

The Formaldehyde Institute, an industry trade group, labels the Consumer Product Safety Commission's ban an "abuse of regulatory power" unjustified by medical and scientific findings.

The manufacturers and installers say they will appeal the ban, which only applies to future sales, in the courts and Congress. Under recent legislation, Congress has the power to veto a commission regulation.

The commission, in a 4-1 vote last

month, said a ban was the only effective way to protect consumers from formaldehyde gas that can be released after installation.

Exposure to formaldehyde has been linked to cancer in animals, while in humans it has caused nausea, headaches, dizziness, respiratory ailments and skin irritants.

Urea-formaldehyde foam insulation or UF-foam, as it is frequently called, became a popular way of insulating older homes during the mid-1970s. UF-foam first resembles shaving cream when it is pumped into spaces between walls, but it later hardens forming a layer of insulation. ■

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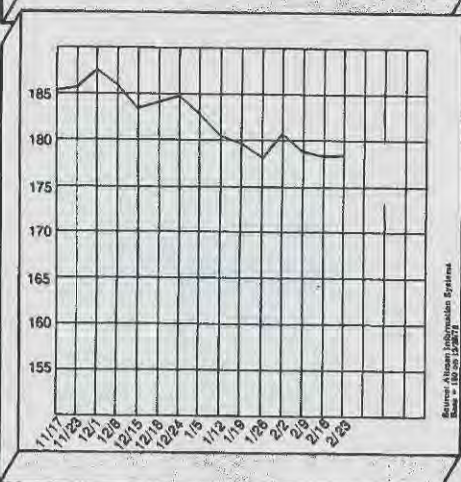
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BI Insurance Index



Insurers must remain vigilant despite satisfactory results

By MYRON M. PICOULT
Special to Business Insurance

BI ticker

MOST OF THE property/casualty companies that we survey have now posted their results for both the fourth quarter of 1981 and for the entire year. As a general rule, operating results were no worse than expected and, in many instances, were somewhat better.

As had been the case all through 1981, the underwriting loss was not as ominous as feared and the growth in net investment income proved stronger than expected.

While it is still early in the new year, we currently believe that the "Chinese Water Torture—Property/Casualty, American Style" scenario exhibited by the industry in 1981 may well be repeated in 1982. The lack of an earnings debacle, which when translated into property/casualty insurance parlance is equivalent to "delusions of profitability," could inhibit any meaningful shift in the rate structure for the next few quarters.

While the prospect of relatively flat operating earnings again in 1982 may not appear to be a particularly ebullient investment scenario for the industry, the development of this newly found earnings stability—or lack of extreme volatility—could prove to be a very palatable morsel.

This stability is particularly appropriate for aggressive entrepreneurs who recognize the subtle shift in the value of holding financial assets, particularly when an insurance company can literally be bought at bargain-

basement prices and cover the necessary interest and principal costs from its own earning power.

The 1981 results and the outlook for 1982 seem to underscore our theory that different segments of the industry will bottom out at different times and that various companies within specific sectors will have their underwriting results reach their lowest level independently, not uniformly.

Premium growth continues to lag. Our survey shows a 1.4% increase in premium for the fourth quarter and a 0.4% rise for the year. Almost without exception, companies reporting premium gains performed well above the average; those companies that performed below the industry norm recorded huge premium declines.

The dichotomy between premium trends is amazingly diverse and can only be explained by the fact that there are apparently many management teams that do not know where their companies stand on price adequacy relative to current results.

The combined ratio (after policyholders' dividends) for the full year, based on returns to date, is running at 105.4%, compared with 103.5% a year ago. The bulk of the deterioration was centered in the loss ratio; the expense ratio rose only about 0.7%.

Fourth-quarter combined ratios averaged 107.9%, compared with 107% in fourth quarter of 1980, with the deterioration almost completely in the loss ratio.

Companies that are oriented toward personal lines continue to maintain their underwriting edge, with SAFECO Corp. being the only major company that has thus far posted an underwriting profit.

We remain amazed at the relatively small rise in expense ratios, given paltry premium growth and the fact that while companies are quoting on as many risks as ever (for competitive reasons), they obviously have a lower "hit ratio."

Also of note is that, in general, companies appear to be doing a reasonably credible job of maintaining adequate reserves despite the

imbalance between claim costs and rating trends.

Net investment income, the industry's salvation, continues to provide the necessary bailout, although the profitability margin is narrowing. Investment income increases hovered in the 10%-to-12% range for both the fourth quarter and the entire year.

The gains, admittedly a little stronger than expected, stem from both the continuation of high interest rates and less of a collapse in cash flow than anticipated.

Earlier, we mentioned that we believed many insurance company management teams were being blinded by "delusions of profitability." The influence of the underwriting cycle on management decisions has been all-pervasive. In fact, we would characterize the industry's management techniques as "crisis management"—going from one precipice to another.

Strategic planning is something that the industry has had little use for. In fact, the notable success that some underwriters have enjoyed in their markets is attributed more to geographic and other factors than incisive planning concepts.

The only problem with maintaining such a status-quo attitude is that it is no longer "business as usual" in this industry. The really successful companies will be those that recognize the value of strategic planning and the implementation of specific programs to achieve specific objectives. Current delusions of profitability for many companies can turn into disillusion faster than some realize.

We'll talk about strategic management concepts more in our next column.

Financial briefs Eagle Star

Eagle Star Insurance Co. Ltd., one of Britain's largest insurance companies, has bought a controlling interest in a French insurer, L'Indépendance Compagnie Assurance Contretours Risques.

Eagle Star increased its share of the insurer to 70% from 30% for a price of less than 2 million pounds (approximately \$3.75 million), the company said.

Allianz, an German insurer, owns a 28% share of Eagle Star.

Alexander & Alexander

Alexander & Alexander Services Inc., which declared its tender offer to acquire Alexander Howden Group Ltd. as unconditional late in January, has received acceptances of the offer for more than 90% of the Howden shares.

Together with previous purchases, A&A now owns more than 96% of Howden.

Bitco Corp.

Bitco Corp. of Rock Island, Ill., has declared a regular quarterly dividend of 60 cents a share and has authorized a five-for-four stock split. Both the dividend and the additional stock will be issued March 12 to shareholders of record March 3. The dividend will be paid on the pre-split number of shares.

Bitco owns Bituminous Insurance Cos. and Great West Casualty Co.

General Re

General Re Corp. has declared a regular quarterly dividend of 54 cents per share, payable March 31 to shareholders of record March 22. Gen Re has also proposed a two-for-one stock split. Shareholders will vote on the proposal on May 7.

Reliance

Reliance Insurance Co. has declared a regular quarterly dividend of 67½ cents per share on its Series A preferred stock, payable April 1 to shareholders of record March 16.



Mr. Picoult

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column for Business Insurance appears monthly.

BI Industry Stock Report

FEB. 23, 1982 2/17/82 THRU 2/23/82

FEB. 23, 1982 2/17/82 THRU 2/23/82

Insurance Cos.	Price	% Chg.	P/E	S Div	% Yld.	High	Low	Vol (000)	
Aetna Life & Cas Co	NYSE	45.00	0.6	7.4	2.32	5.2	45.00	44.13	513.8
American Bankers Ins Group	OTC	7.63	-3.2	8.1	0.48	6.3	7.75	7.63	127.6
American Gen Ins Co	NYSE	41.25	-0.6	6.2	2.20	5.3	41.88	41.13	187.5
American Indty Finl Corp	OTC	16.50	1.5	7.9	1.12	6.8	16.50	16.25	6.3
American Intl Group Inc	OTC	65.50	1.2	11.4	0.40	0.6	65.50	65.00	343.2
American Natl Ins Co	OTC	13.75	0.0	5.9	0.76	5.5	13.88	13.75	44.1
American Sks Life Ins Co	OTC	16.50	-2.9	5.3	0.80	4.8	17.00	16.50	1.4
Aneco Reins Ltd	OTC	1.88	-16.7	0.0	0.00	0.0	2.25	1.88*	21.0
Appalachian Natl Corp	OTC	2.56	0.0	0.1	0.00	0.0	2.56	2.56	0.0
Avaco Corp	AMEX	10.38	5.1	6.8	0.54	5.2	10.63	10.00	12.2
Banks Iowa Inc	OTC	35.00	-9.1	5.4	1.44	4.1	38.50	34.00	2.9
Bitco Corp	OTC	38.00	0.0	4.6	2.16	5.7	38.50	38.00	11.9
Carolina Gas Ins Co	OTC	6.75	3.8	7.4	0.32	4.7	6.75	6.50	7.3
Central Natl Finl Corp	OTC	35.38	0.4	11.5	0.65	1.8	35.38*	35.25	0.0
Chubb Corp	OTC	45.38	1.7	5.4	2.92	6.4	45.38	44.88	194.7
Combined Intl Corp	NYSE	19.63	-8.7	5.3	1.80	9.2	21.75	19.50	370.2
Connecticut Gen Ins Corp	NYSE	49.75	-2.8	5.8	2.04	4.1	50.13	48.75	181.1
Continental Corp	NYSE	25.88	2.0	6.5	2.60	10.0	25.88	25.50	96.4
Crawford & Co	OTC	12.75	2.0	10.0	0.56	4.4	13.00	12.50	-5.9
Crown Life Ins Co	OTC	81.00	0.0	8.8	3.10	3.8	81.00	81.00	1.5
Crum & Forster	NYSE	29.25	-2.5	4.7	1.64	5.6	29.88	29.13	182.9
Employers Cas Co	OTC	28.00	0.0	6.0	1.20	4.3	28.00	28.00	4.1
Equifax Inc	NYSE	29.50	0.4	8.5	2.60	8.8	30.00	29.50	39.2
Excelsior Ins Co	OTC	17.50	1.4	12.0	0.70	4.0	17.50*	17.25	1.9
Farmers Group Inc	OTC	32.38	2.4	9.5	1.24	3.8	32.38	32.13	182.0
First Colony Life Ins Co	OTC	61.50	-2.0	15.9	1.00	1.6	62.63	61.50	36.0
Foremost Corp Amer	OTC	21.75	-4.8	6.8	1.12	4.5	26.00	24.75	74.5
Great West Life Assurn Co	OTC	235.00	-0.4	9.1	0.00	4.3	236.00	235.00	0.0
Hanover Ins Co	OTC	32.00	-5.2	3.9	0.72	2.3	33.75	32.00	16.5
Hartford Steam Boiler Inapnt	OTC	40.00	0.0	6.9	2.80	7.0	40.50	40.00	6.1
Jefferson Natl Life Ins Co	OTC	33.25	14.7	10.2	0.76	2.3	33.25	29.00	21.2
Kemper Corp	OTC	31.38	2.4	5.2	1.80	5.7	31.38	30.50	75.6
Lincoln Natl Corp Ind	NYSE	39.25	-2.5	6.1	3.00	7.6	39.75	39.25	43.1
Mgic Invnt Corp	NYSE	51.00	3.0	12.7	1.28	2.5	51.00	48.38	2,018.5
Mission Ins Group Inc	NYSE	38.88	4.1	9.1	1.00*	2.9	38.88	34.13	107.3
Nationwide Corp Ohio	OTC	26.25	0.0	8.7	0.70	2.7	26.25	26.25	4.3
Northwestern Natl Life Ins	OTC	26.00	0.0	5.4	1.36	5.2	26.13	25.50	16.0
Ohio Cas Corp	OTC	42.00	0.6	6.3	2.36	5.6	42.00	41.63	71.8
Old Rep Intl Corp	OTC	18.63	0.7	4.4	3.92	4.9	18.75	18.50	58.0
Preferred Risk Life Ins Co	OTC	17.75	2.9	4.8	3.80	4.5	17.75	16.50	5.5
Provident Life & Acc Ins Co	OTC	48.50	1.0	6.0	3.20	4.5	48.50	48.00	27.4
Ryan Ins Group Inc	OTC	17.00	6.2	7.4	0.12	0.7	17.00	16.00	14.2
St Paul Cas Inc	OTC	50.00	-0.2	6.6	2.60	5.2	50.13	50.00	92.0
Safeco Corp	OTC	39.63	0.0	6.9	2.20	5.6	39.75	39.63	70.8
Sri Corp	OTC	23.00	-3.2	4.6	1.00	4.3	24.00	23.00	46.1
Seibels Bruce Group Inc	OTC	21.75	-2.8	10.5	0.80	3.7	22.38	21.75	25.1
Statesman Group Inc	OTC	5.83	0.0	4.9	0.15	2.7	5.63	5.63	8.3
Tokio Marine & Fire Ins Co	OTC	102.00	3.8	8.1	1.00	1.0	102.25	99.25	2.8
Travelers Corp	NYSE	47.50	1.3	5.6	2.88	6.1	47.50	46.50	436.1
United Fire & Cas Co	OTC	28.50	0.0	8.1	0.88	3.1	28.50	28.50	0.3
United States Fld & Gty Co	NYSE	42.00	2.8	7.0	3.20	7.6	42.75	41.63	388.8
United Sves Life Ins Co	OTC	14.25	5.6	5.3	1.00	7.0	14.25	12.88*	46.3
UsLife Corp	NYSE	20.75	-4.6	4.9	0.84	4.0	21.75	20.25*	178.4
Washington Natl Corp	NYSE	17.13	2.2	5.2	1.08	6.3	17.13	16.63*	59.9
Zenith Natl Ins Corp	OTC	17.00	3.0	8.5	0.76	4.5	17.00	16.50	17.6
INSURANCE COMPANIES									
AVERAGE									
P/E 6.1 % Yld 4.4									
Agents/Brokers									
Alexander & Alexander Sves	OTC	28.13	-1.3	9.4	1.94	6.9	28.50	28.13	179.1
Baldwin & Lyons Inc	OTC	35.50	-2.9	6.2	0.80	2.3	35.50*	34.50	6.4
Corroon & Black Corp	NYSE	20.13	1.9	11.3	1.76	8.7	20.13	19.75	18.1
Crupp E H Cas Inc	OTC	10.75	-1.1	12.6	0.80	3.7	10.88	10.75	8.3
Hell Frank B & Co Inc	NYSE	29.25	5.9	11.0	1.70	5.8	29.25	27.25	234.3
Integrated Res Inc	AMEX	15.13	0.8	6.2	0.00	0.0	15.25	15.00	26.1
James Fred S & Co Inc	NYSE	20.13	-1.8	9.4	1.60	8.0	20.50	20.13*	47.7
Marsh & McLennan Cos Inc	NYSE	32.75	4.8	10.0	2.00	6.1	32.75	32.25	256.2
PennCorp Finl Inc	NYSE	5.25	-6.7	4.2	0.16	3.0	5.50	5.25	127.4
Pinehurst Corp	OTC	8.63	0.0	0.0	0.00	0.0	8.63	8.63	9.7
Poe & Assoc Inc	OTC	7.75	-16.2	8.8	0.80	10.3	8.50	7.75*	0.0
Reed Stenhouse Cos Ltd	OTC	11.00	-2.2	9.0	0.60	5.8	11.25	10.50	186.6
Rollins Burdick Hunter Co	OTC	19.38	-4.3	12.1	1.32	6.5	20.25	19.38*	15.0
AGENTS/BROKERS									
AVERAGE									
P/E 9.2 % Yld 5.4									
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	44.25	4.7	7.9	2.20	5.0	44.75	42.88	891.0
Anderson Clayton(Banger/Panam)	NYSE	27.25	-3.1	5.6	1.32	4.8	28.75	27.25	102.8
Armo Inc	NYSE	21.50	-2.8	4.3	1.80	8.4	21.88	21.50*	593.9
City Investing Co. (Home Ins.)	NYSE	22.50	-3.2	6.5	1.60	7.1	23.00	22.25	188.4
CNA Finl Corp (CNA)	NYSE	15.88	11.4	6.6	0.00	0.0	15.88	14.75	60.9
Control Data (Comm. Credit)	NYSE	34.25	3.8	7.7	0.55	1.6	34.75	33.50	1,088.7
General Re Corp	NYSE	84.88	0.9	10.4	2.16	2.5	86.38	84.25	128.4
Gulf Vtd Corp	NYSE	17.75	-7.4	6.2	1.32	7.4	17.88	17.75	79.8
INA Corp (Ins. Co. of Ra)	NYSE	45.38	0.8	6.2	2.40	5.3	46.88	45.00	432.5
ITT (Hartford Group)	NYSE	26.13	-2.8	6.9	2.68	10.3	26.25	25.88	806.9
Optimum Hldg Corp	OTC	9.75	0.0	12.5	0.00	0.0	9.75	9.75	7.4
Sears Roebuck & Co. (Allstate)	NYSE	16.25	2.4	8.1	1.36	8.4	16.50	16.00	4,044.7
Baldwin Vtd Corp	NYSE	55.13	-7.4	9.4	1.60	2.9	61.00	55.00	143.4
Taladyme Inc (Argonaut)	NYSE	125.00	-2.0	6.3	0.00	0.0	128.00	123.75	451.0
Transamerica Corp (Occidental)	NYSE	20.75	-2.4	6.0	1.40	6.7	21.25	20.75	169.6
CONGLOMERATES/HOLDING COS.									
AVERAGE									
P/E 7.1 % Yld 3.6									

*Record high/low since Jan. 1, 1981.

System design: Altman Information Systems

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Quality inspector testing a system at Diagnostic/Retrieval Systems, Inc., in Oakland, New Jersey

Alexander & Alexander

From the client's point of view.