

ERISA wrecks some, but not all, pensions

By JERRY GEISEL

WASHINGTON—If you think the impact of the federal pension reform law is the reason why so many pension plans are terminating you're right.

But only partially right. The Employee Retirement Income Security Act (ERISA), with its complex reporting and disclosure requirements, has been a significant factor behind the decisions of companies to terminate their pension plans, a *Business Insurance* survey found.

But the closing down of corporations, the takeover of businesses by outside firms, the sale of corporate divisions and the desire to establish improved benefit plans for

employees outweighed ERISA as major causes of plan terminations.

Interestingly, none of the participants suffered any immediate harm since all the pension plans had sufficient assets to guarantee vested benefits.

In order to get behind the numbers in other studies of plan terminations, *Business Insurance* talked to benefit administrators and trustees to find out the reasons why they folded their pension plans.

Twenty-four companies that in the last year either have terminated or announced their intention to terminate their pension plans were interviewed.

The names of the companies were obtained from the Pension

Benefit Guaranty Corp. (PBGC), the federal agency that guarantees pension benefits through an insurance program. The companies with terminating pension plans were selected randomly from PBGC's public list of defined benefit plans that have been covered under its termination insurance program.

Like other studies of pension plan terminations, most of the 24 companies were small firms with less than 10 employees, lending support to the argument that ERISA created the greatest problems for small companies.

Similarly, a PBGC study of plans that announced their intention to terminate in 1977 discovered that the average terminating

plan had only 23 participants and that half of the plans involved less than seven workers.

"This partially reflects the fact that small firms are likely to go out of business or experience financial problems more frequently than larger firms," said PBGC in explaining why small plans are more likely to terminate than larger plans.

Of the 24 companies *Business Insurance* contacted, nine or 37% cited the impact of ERISA for their decision to shut down their pension plans. ERISA was cited as the sole reason for terminating in 18% of the cases in a PBGC study of plans that filed termination notices between 1975 and 1977.

"ERISA was responsible purely because of its effect on administrative expense when dealing with a small group of people," said Edith Lichota, assistant treasurer of The Carborundum Corp. in Niagara Falls, N.Y.

Carborundum sponsored a packet of plans for employees who had retired years ago. Though no benefits were accruing and the plans were frozen, the company still faced the continuing expense under the pension reform law of filing annual plan reports to the government.

"We just decided that the simplest, least expensive thing to do and still protect the participants was simply distribute the funds
Continued on page 46

And the winner is...

You'll know the winner in the next issue of *Business Insurance*.

The winner, that is, of the *Business Insurance* Risk Manager of the Year award. Our special RIMS preview issue will tell you who won, explain how the individual was selected and profile the winner in an up-close look by associate editor Kathryn J. McIntyre.

Our RIMS preview issue will also feature a special report on risk management and employe benefits in the Sunbelt by associate editor Ellis Simon.

Watch for the special issue, dated April 3.

Week of March 20, 1978

business insurance

the national newsmagazine of loss prevention, risk financing and employe benefit management

© Entire contents copyright 1978 by Crain Communications Inc. All rights reserved.
75¢ a copy; \$15 a year



Photo: Wide World

Spreading the HMO gospel

HEW Secretary Joseph Califano calls on a host of experts at a Washington conference to convince the business community to invest their time and money in health maintenance organizations. Mr. Califano warned the corporate community that HMOs might be its last opportunity to tackle the inflation ridden health care system. Stories, pages 43-44.

Risk managers, brokers decry N.Y. move to restrict fronting

By REBECCA A. FANNIN

NEW YORK—A proposal by the New York insurance department that would severely restrict fronting arrangements has brought outcries from brokers, insurers and risk managers who argue that the plan would hurt legitimate captive insurance companies.

The department's proposal is aimed at reinsurance arrangements between licensed insurance companies and unlicensed insurers.

Under most fronting arrangements, a corporation obtains an insurance policy from a U.S. licensed insurance company. The insurer then reinsures the bulk of the risk with the corporation's own captive insurance company, usually located offshore. The licensed insurance company usually assumes a portion of the risk and provides services, while the corporation uses the fronting arrangements to meet state laws and pay premium taxes.

The New York department would prohibit fronting arrangements when the reinsurer is affiliated with the corporation whose risks are being insured. The plan also

prohibits fronting when there is a prior agreement to reinsure the risks with a specific, unlicensed reinsurer.

Companies would be prohibited from ceding to an unlicensed insurer more than 25% of a risk or of a group of policies without the approval of the department.

Fronting has been restricted in New York since 1954. In practice, however, it was assumed that fronting arrangements could continue as long as the licensed insurance company assumed a portion of the risk.

The new proposal, known as "regulation 82," was originally written in the department's life insurance section and was designed to crack down on fronting in credit life insurance. Fronting occurs in credit life insurance, according to sources outside the department, when a bank or other retail credit operation sells a loan customer a life insurance policy, receiving a commission from a New York company. The bank then gets the insurance company issuing the policy to reinsure 90% of the risk with an insurance company set up by the bank outside New York.
Continued on page 48

Social Security hikes may mean benefit cutbacks, BI Board fears

By SUSAN ALT

CHICAGO—Employe benefit managers around the country are worried that higher Social Security taxes for employers will force the delay or deferral of future benefit improvements and may even

force the death of the private pension system.

This may be an unanticipated surprise for the Washington establishment, which doesn't appear to realize that the people responsible for administering many of the nation's largest corporate benefit

programs are already re-evaluating their retirement programs and costs.

Beyond the impact the Social Security System is having on private retirement plans, 65 benefit managers said in a nearly united voice that their companies won't have money for added life, health, dental or other benefits, either. Though they've not made any modifications of benefit programs yet, benefit executives around the nation fully expect they'll either freeze benefits at current levels or will have to restrict them in the fu-

Continued on page 47

The inside story

Punitive damages

With risk managers, brokers and even insurers trying to chart a course through the stormy punitive damages seas, *Business Insurance* editors prepared a special report on the thorny issue. A noted attorney, West Coast broker and our own Peter Downes tackle the issue in the Perspective section, pages 39-42.

Elsewhere:

- COURT BATTLES over full benefits loom after okay of forced retirement bill. **Page 10.**
- TENNESSEE PLANS a recruiting drive following passage of its new captive law. **Page 11.**
- ABORTION ISSUE may snag the pregnancy benefits bill. **Page 14.**
- ANISTICS TAPS Bermuda's new capacity for gap layer programs. **Page 15.**
- GATX SELLS its portfolio to INA as Thomas Sheehan forms a new agency. **Page 19.**

The people column pages 49-50

Some hospitals and the American Medical Assn. should have the primary responsibility for holding down the cost of health care. The executives also said they believed coordination of benefits and limiting facilities were the best ways to

derwriters.

Associated Aviation Underwriters
90 John Street, N.Y., N.Y. 10038

Broker today for the full story.

ATLANTA • CHICAGO • DALLAS • DENVER • DETROIT • KANSAS CITY • LOS ANGELES • SAN FRANCISCO
For more facts circle 104 on reply card

Major study identifies

two or three years out," said the publication. "We need to adopt a longer viewpoint."
The problems were predicted by

for your information...

the benefit beat

Continued from preceding page
turn entitled to any surplus. Brown County doctors decided to split the surplus with the employers who supported the fledging HMO. Rates in the early years were \$10 to \$15 more a month on a family plan than indemnity plans, reflecting the broad coverage and preventive medicine characteristics of HMOs.

Now the five area HPPs in Wisconsin are more competitive with traditional health plans, said HPP administrator Mike Hammes, and in some cases HPP is less expensive. Unable to calculate the impact of preventive medicine on health care expenditures, Mr. Hammes focuses on cost controls in HPP: one-year guaranteed fee schedules from physicians, hospital certification to cut down on admissions and length of stay, peer

review and physician risk sharing. Employers of Wausau assistant vp Jacob J. Spies observed the physicians' fund surplus shows that money saved on reduced hospital utilization isn't all spent on ambulatory care. Green Bay HPP now serves 5,500 from 20 employers. It shows 99 hospital admissions per thousand members compared to 130 for other plans, 440 hospitalization days per thousand compared to 700 and an average hospital stay of 4.4 days compared to 6.5 days.

Benefit Beat keeps employe benefit managers informed of changes in programs around the nation. We'd like to know if you've made any changes. Write Greg David, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5279.

Family first accepts \$500,000 award, then says insurance misrepresented

WASHINGTON—In a bizarre development, a family that initially accepted an out-of-court settlement of \$500,000 in a personal injury case is now asking the court to set aside the settlement and grant a trial on the grounds that the defendant's insurance coverage was misrepresented.

Earlier this month, Baltimore attorney Marvin Ellin accepted a \$500,000 settlement on behalf of a family who sued the Seventh-day Adventist Church after their son was paralyzed in a trampoline accident at the religious group's academy in a Washington suburb.

The youth's family sued the Takoma Academy in Takoma Park, Md., for \$3.8 million following the 1975 accident in which the

youth's arms and legs were paralyzed.

On March 13, Mr. Ellin accepted a contingency settlement of \$500,000 from the school with the understanding that there was no insurance coverage beyond \$500,000, the total amount of liability insurance the school apparently had with the Hartford Insurance Co.

Mr. Ellin settled for that amount because under Maryland law a charitable institution, such as a religious academy, is liable to pay only the amount that its insurance will cover.

"Even if a \$3 million or \$4 million verdict was made, we could not get more than \$500,000 because the

school was immune beyond that amount," Mr. Ellin said in explaining why the \$500,000 settlement was initially accepted.

But on the day of the settlement, Mr. Ellin said he found out that the school apparently had an excess liability policy well above \$500,000. Mr. Ellin said the policy may have been with Affiliated FM of Johnston, R.I., but he wasn't sure.

Mr. Ellin said he immediately contacted the court and the opposing counsel to ask that the settlement be set aside on the grounds that insurance coverage was misrepresented. The school's potential liability would be as high as its insurance coverage.

Neither school officials nor its defense attorney Patrick Attridge could be reached to comment on Mr. Ellin's contentions.

The case goes back to 1975 when Paul Costa, who was 17 at the time, attempted to bounce off a trampoline onto a vaulting box while trying out for the academy's gymnastic team.

Instead of landing on his feet, young Costa dislocated his neck. The injury rendered him a quadriplegic.

In his suit, Mr. Ellin contended the school did not have a "crash mat of sufficient thickness and did not have spotters," persons positioned around the trampoline who could have broken the youth's fall." The school also placed the gymnastic equipment in a dangerous fashion, Mr. Ellin said.

The trampoline was placed too close to the vaulting box, Mr. Ellin said. "When Costa went up he wasn't able to fix his hands firmly on the vaulting box to shove up. He just barely touched the box with his fingers. He sailed over and landed on his head."

School officials were reported to have said that the youth's accident was not due to an act of carelessness on the part of the school, but was the result of a simple slip that could happen to any gymnast.

Mr. Ellin said the \$3.8 million in damages that he is asking for on behalf of his client is very low. Of the \$3.8 million, \$2.6 million would be to compensate the youth for expected medical care costs and loss income potential.

The remaining damages would be to compensate the youth for the pain and emotional anguish he has suffered since he will be unable to marry or have sexual relations, Mr. Ellin said.

This free booklet can help prevent you from having frozen assets this winter.

If the coming winter is anything like last year, then you'll want to know what to do in your plant before a cold-weather freeze-up.

Hartford Steam Boiler has a free, freeze-up prevention plan for your boilers and machinery that could save you a lot of cold cash. It's in our fall issue of "The Locomotive." It details step-by-step procedures for preventing cold weather freeze-up of piping, heat exchangers, boilers, air conditioning and refrigeration, air systems, pressure vessel and mechanical equipment.

Our plan provides a convenient way for your key plant personnel to educate equipment operators and other employees concerning adequate, early cold weather precautions and emergency priorities.



For example, in a major freeze-up, should an equipment operator first drain and then blow out all the moisture from the diaphragm on a \$200,000 compressor? Or would his time be better spent servicing boiler water lines? The answers could save you big dollars.

This freeze-up prevention plan, designed and tested by our national staff of over 900 inspectors and engineers, is now being routinely distributed to our insureds. It provides yet another building block for creation and maintenance of an effective in-house risk management program.

For more facts circle 113 on reply card

For your free copy, simply fill out and send us the coupon.

I want the cold facts about saving cold cash on my boilers and machinery. Please send me a free copy of "The Locomotive" concerning freeze-up prevention.

Name _____
Title _____
Company _____
Address _____
City _____
State _____ Zip _____

Send coupon to:

**HARTFORD
STEAM BOILER
INSPECTION AND
INSURANCE**

56 Prospect St., Hartford, Conn. 06102
We help more risk managers manage risks better.

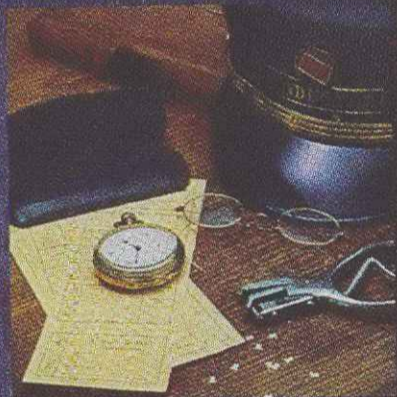
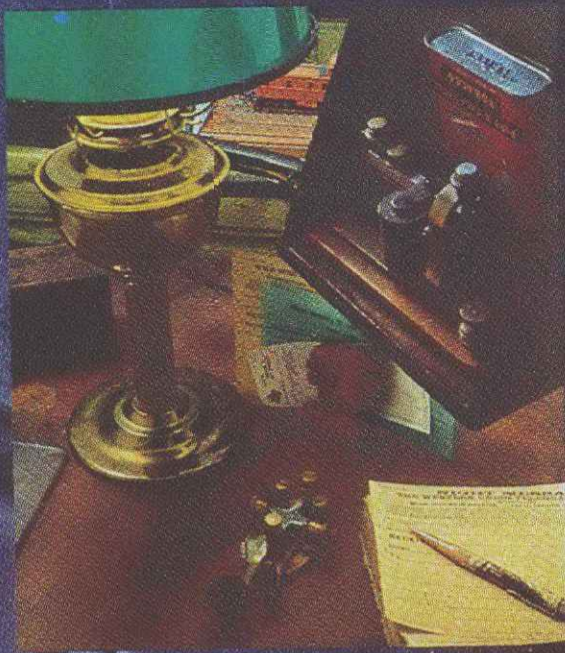
MarketDyne pays record dividend

PHILADELPHIA — MarketDyne International reports it returned a record \$6 million in dividends last year to participants in its group insurance programs.

The amount is nearly double the dividends the INA subsidiary paid in 1976.

MarketDyne arranges group insurance programs for small and medium sized businesses who belong to trade associations. Commercial package insurance programs or workers compensation plans are underwritten by the Pacific Employers Insurance Co., another INA subsidiary.

MarketDyne president Kenneth J. Ford attributed the record dividend to increased participation by corporations in trade association insurance and risk management programs. He also ascribed his company's improved financial performance to increased safety and loss prevention efforts and inspection programs.



Inside story.

You've seen our little train station before. And if you've ever wondered what it looked like on the *inside*, here it is.

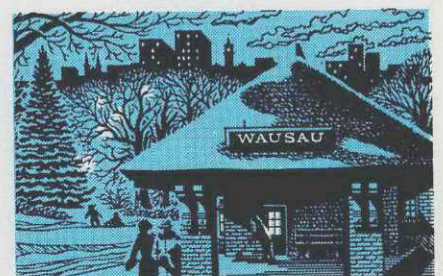
At Employers Insurance, we "borrowed" the Wausau depot about 25 years ago for our company trademark. Now, we actually *own* it.

The trains are gone now. But the little station will have a long and useful life as a constant reminder—to us, and to our policyholders—that business insurance is a two-way track.

Our guidance and know-how can help you. But your commitment and actions are just as necessary. It takes this kind of *partnership effort* to control losses. And that's still the best way to control business insurance *costs*.

We want business insurance to work for a living. That's the Wausau story.

Come to the source



Employers Insurance of Wausau

Wausau Wisconsin



EST. 1899

DAVIS, DORLAND & CO. INSURANCE BROKERS

99 CHURCH ST., N.Y., N.Y. 10007

TEL: (212) 791-2100

U.S. blames sabotage

Suits ask \$225 million in Fla. train accident

TALLAHASSEE, Fla.—Four suits have been filed in federal court here asking for \$225 million in damages on behalf of victims killed when a railroad tank car derailed, releasing a cloud of deadly chlorine gas.

Eight persons died and thousands of Florida Panhandle residents had to be evacuated from their homes after an Atlanta & St. Andrews Bay Railroad freight train cracked up near Yourigtown, Fla., spreading the gas from a ruptured tank car across a nearby highway.

Named as defendants in the suits

are the Atlanta & St. Andrews Bay Railroad, BASF Wyandotte Chemical Co., a Germany corporation that manufactured the chlorine, and GATX Leasing Corp., manufacturer of the tank car.

The suit contends that St. Andrews is liable because it:

- Did not properly maintain its track and ties.
- Operated the train too fast for track conditions.
- Did not properly install the plates and bolts that hold the track together.
- Did not properly prepare the roadbed before laying down the track.

The National Transportation Safety Board, however, said the accident was the result of sabotage. Someone apparently unbolted two sections of rail.

But an attorney for the plaintiff, James Usich of Coral Gables, Fla., said there is no evidence of sabotage.

Mr. Usich said GATX was named in the suit because it designed the tank car improperly. The tank car should have had been constructed of a heavier metal to prevent rupture in case of an accident, he said.

BASF Wyandotte failed to advise the railroad on the potential danger of the chlorine it supplied the railroad and therefore is also liable for damages, Mr. Usich said.

In a related development, NTSB has asked the Federal Railroad Administration to use its emergency powers to recall more than 20,000 freight cars for immediate replacement of potentially hazardous wheels.

The safety board earlier this month urged the FRA to have all wheels manufactured by the Southern Wheel Co. in the late 1950s and most of the 1960s with high carbon content recalled immediately.

The board said its investigation of "several recent derailments has disclosed that the probable causes of the accidents were the breaking of wheels due to overheating."

The Louisville & Nashville Railroad Co. told the NTSB that it had 11 derailments since January 1977, which were caused by the breakage of Southern wheels.

Southern Wheel Co. also manufactured the wheels on a freight car that was part of a Louisville & Nashville train that derailed in Waverly, Tenn., late last month, killing 12 persons when a ruptured tank car containing liquid propane exploded. The NTSB said that accident was caused by a broken wheel.

Meanwhile two trade groups, the Assn. of American Railroads and the Manufacturing Chemists Assn., have set up a nine-member task force that will analyze rail accidents involving hazardous materials.

The task force, whose members are senior executives of railroad companies and chemical manufacturing firms, is expected to come up with recommendations on improving equipment design and loading and unloading procedures to reduce the risk of accident.

Separately, the FRA reports that there were 7,800 derailments last year, up from 5,000 10 years ago.

But the number of accidents caused by defects in the track, ballast or ties, shot up from 1,844 in 1967 to 4,260 in 1976, the last full year for which complete figures are available from the FRA.

FOLLOW A LEADER

In today's sophisticated employee benefits field you need a specialist to help attain your company's insurance objectives.

Crown Life has a leading team of group insurance specialists with the knowledge and experience necessary to help you choose the plan best suited to your needs.

We rank 20th in business in force among over 1,800 life insurance companies in North America, with over \$26 billion of life insurance and annuities in force, of which over \$15 billion is group.

And we've got 45 Group Offices and over 170 Agencies and Branch Offices throughout North America, the United Kingdom and the Caribbean to serve you.

So when you're in the market for a sound plan of employee benefits — life, health or pensions, or for a full range of individual plans —

look to an efficient organization that's well qualified to lead you through the steps necessary to set your plan running smoothly.

Look to Crown Life. Just call your local Crown Life Group Office or General Agency.



CROWN

LIFE INSURANCE COMPANY
HOME OFFICE, TORONTO, CANADA



Rig 64 isn't just another well-wisher

for our specialists-on-the-spot, the uncommon is commonplace

It takes exceptional equipment to bring new reserves of oil and gas to a fuel-hungry world. If anyone knows that, Kerr-McGee does. That's why its wholly-owned subsidiary, Transworld Drilling Co. relies on "new generation" mobile offshore units. Rig 64, for one, can drill to 20,000 foot depths—even during a hurricane.

As a top-ranked contender in the international energy sweepstakes, Kerr-McGee knows from experience that second best isn't good enough. Second best isn't good enough in worldwide risk management, either. That's why Swett & Crawford Group plays a key role in helping Kerr-McGee Corporation and its broker meet this energy company's international insurance needs—from umbrella liability placements in the London market to claims supervision just about everywhere.

With more than 50 years of experience, Swett & Crawford Group is renowned for its ability to sell, service, insure and reinsure large and unusual commercial risks—in the fields of energy, transportation, construction and manufacturing. Swett & Crawford Group: a unique combination of capabilities and organizations working together to serve the domestic and international insurance and reinsurance fields.



Swett & Crawford Group

a subsidiary of The Continental Corporation

For more information about Swett & Crawford Group write our President, Mr. W. F. W. Fellows, 4201 Wilshire Boulevard, Los Angeles, California 90010.

editorial opinions

The RIMS study

THERE'S GOOD NEWS and bad news in the RIMS study on compensation and responsibility of risk managers. First, the bad news: There are still quite a few insurance clerks around, responsible for little besides the purchase of policies and the clerical tasks associated with the necessary policy recordkeeping. You know, keeping track of premiums and making sure somebody knows when renewals are rolling 'round.

To us this indicates there are still some insurance buyers who haven't fully recognized how visible and valuable they can become within their companies if they would take some initiative. The economics of insurance being what they are, corporate insurance clerks have giant opportunities to shine staring them in the face. Whether they do anything with those opportunities is their own business. But we're discouraged to see that the old insurance "clerk" lingers among us.

Now for the good news: A terrifically high proportion of insurance and risk managers are now reporting to vice presidents within their organizations. Over half (that's right, half) the managers surveyed by RIMS report to a vp or the chief executive officer (a surprising but pleasing 8.2%). That is the single most encouraging finding of the entire RIMS study, we'd say. It indicates upgraded status of the position to that of a professional middle manager (or better, in a few cases). Almost 25% more risk and insurance managers report to a financial executive with the title of controller or treasurer, another promising statistic. It shows that risk management is being put where it belongs, within the financial management structure of the organization.

Salaries are pretty good in this middle management sector. But what's more important is that the risk manager's star is rising and salaries are sure to follow. As risk and insurance managers become more professional in their decision-making and risk-handling practices, as they make more reports to top management, as they become the recognized corporate experts on alternative forms of risk treatment, they won't have to worry about salaries. Keep working. Keep making waves. Be willing—even eager—to make yourselves visible within your companies by offering to be involved in everything risk-related.

Not to turn lazy, however. Risk managers had best not be complacent. Lest any of the long-timers in the profession forget, they're competing for jobs against double the number of risk managers with law degrees (6% up from 3% a decade ago) and a heap more whiz-kids with master's degrees (15% versus 9% in 1968).

Improving BI

AS YOU'VE PROBABLY noticed in recent issues, we've made substantial changes on our Perspective pages. With this issue, we're increasing the size of this regular section to three full pages each time *Business*

Insurance is published.

Among the valuable additions in recent months has been a column on benefit programs and retirement plans by Ken Keene of Johnson & Higgins, an acknowledged expert in the benefit field and a highly readable and informative columnist. Mr. Keene's articles appear along with the regular Speaking Out columns being competently and provocatively authored by the inimitable Peter Downes, who uses his wry humor and often bristling prose to jostle our sometimes prosaic postures.

Brokers, consultants, risk managers, underwriters help to round out our Perspective pages with their views on topics of current interest, sometimes raising questions and sometimes answering them, but often disagreeing on how to approach them. And that's exactly what Perspective is for: to provide a forum for differing views, for new ideas, for the discussion of new applications for both old and new solutions.

Still more changes are to come. They'll be based, of course, on what you tell us you like best and what you need in the way of information to do your jobs better.

In this issue, we've added a feature called "Worth repeating" in our Perspective section, designed to keep you abreast of noteworthy statements by noteworthy people speaking about insurance, benefits, risk management and all the other topics we cover in our pages.

Next to come is a regular column of brief items about the "suppliers" to risk managers and benefit managers, so you'll be up-to-date on financial results, acquisitions and other pertinent activities of insurance companies, brokerage firms, service specialists—people who've not always commanded a lot of space in our regular news columns. We want you to have a thorough overview of what's happening "in the industry."

We'd be happy to receive your reactions, suggestions, and contributions to this forum, adding your Perspective to put things in the proper context.

Special services report

WITH THE GROWTH in self-insurance have come myriad services to assist insurance and benefit managers to handle claims, determine the proper deductible levels, manage subsidiary insurance companies, investigate accidents, prevent fires and control occupational diseases.

Again this year we'll take a close look at the many services you're buying, as well as some you're probably not yet buying but would be interested in. On May 29 we'll round up the details for you on topics such as the growth of risk management consulting services in the last few years, the current boom in guard and security services, risk inspection and survey services, the current state of competition among managers of captive insurance companies, employe benefit administration services and the skyrocketing demand for industrial hygienists.

If you'd like to contribute any ideas or articles to this issue, please let us know before April 1. Call or write Susan Alt, Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; phone 312-649-5278.

letters

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

Errs & Admissions

To the editor: May I suggest a small change in your fine magazine? Instead of using the technical (and pejorative) term "Errors & Omissions" for misprints, etc., why not substitute the delightful transposition made by a temporary helper on our dictating machine one day: Errs & Admissions.

It will accomplish your same purpose but with a nice touch of humor.

Martin J. Small

W.B.B. Child & Co. Inc., Boston, Mass.

We've weighed the alternative, agreeing it provides a humorous touch. (We also agree that BI sometimes needs levity to offset our serious coverage of serious subjects.) But we found Errs & Admissions wanting; we don't take lightly our mistakes, whether they're our fault or the printers', and we doubt whether readers do, either.

Outstanding

To the editor: Your issue on the international market, particularly Susan Alt's personal coverage of the London market, was better than outstanding. There are so many nice things I'd like to say about how well written that entire issue was that I think I'd better not get too flowery and just say congratulations for a job well done.

George Nordhaus

President, Insurance Marketing Services Inc.

COB savings

To the editor: We read with interest the article entitled "Insurers Wage Two-Front War on Health Costs" (Jan. 23). In particular, we were interested to read about the annual coordination of benefits (COB) savings quoted by various insurance companies, viz:

Equitable	\$50 million
Aetna	68.5 million
Conn. General	36 million
Hancock	10 million

Could you find out what were the gross health and accident premiums reported by these same companies for the same period for which the COB estimates were quoted (last year). We would be interested to know what percentage

Continued on page 45

business insurance

the national newsmagazine of loss prevention, risk financing and employe benefit management

G. D. CRAIN JR.
founder (1885-1973)

MRS. G. D. CRAIN JR.
chairman of the board
RANCE CRAIN
president and editorial director
DAVID J. CLEARY JR.
senior vp-group publisher

S. R. BERNSTEIN
chairman, executive committee
KEITH E. CRAIN
secretary-treasurer
ALFRED MALECKI
vp-publisher (New York)

SUSAN ALT, editor (Chicago)
GREG DAVID, managing editor (Chicago)

Associates: New York—REBECCA A. FANNIN, ELLIS SIMON, Washington—JERRY GEISEL, Los Angeles—JOANNE GAMLIN, Chicago—BARBARA JEAN GRAY, KATHRYN J. McINTYRE. Editorial production chief: Chicago—MERRILL SALTZMAN. Art director: JOE FARACI. Correspondents: London—JOHN MILLER (01) 946-4215. Seattle—HARRIET KING (206-888-2340). San Francisco—MARGARET LeROUX (415-525-5082)

DONALD A. WALSH, Advertising director (New York)

Advertising district managers: New York—CHARLES A. HORVATH, JACK FORREST. Chicago—ROBERT L. NIESSE. Production manager: Chicago—FRAN PRYBYLO. Promotion manager: New York—RONNIE I. DRACHMAN. Assistant to the publisher: Chicago—CELIA MALOUHOS. New York—HOLLIS PIVOR.

Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Pensions & Investments, Industrial Marketing, KEITH E. CRAIN, secretary-treasurer; M. A. HARTENFELD, executive vice president; D. J. CLEARY JR., senior vice president; ALFRED MALECKI, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKINSON, vice presidents; JAMES M. FRANKLIN, vp-finance and administration; MERRILEE P. CRAIN, assistant secretary.

Published biweekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices at 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). 75 cents a copy. \$15 a year in U.S. Elsewhere \$5 a year additional. WILLIAM STRONG, circulation director. ROGER DIGREGORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, Business Insurance, 740 Rush St., Chicago, Ill. 60611. Telex number: 25-4248; Cable address: CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48103. Microfiche copies are available from Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.



Member of Business Publications Audit of Circulation



NATIONAL UNION OFFERS \$15,000,000 COMMERCIAL UMBRELLA.

Business needs commercial umbrella protection today more than ever.

Unfortunately, it's getting harder than ever to find an insurer willing to write this kind of coverage.

National Union is proud to say that we're still providing commercial umbrella coverage, and even prouder that we can still offer up to \$15,000,000.


Our umbrella specialists have the experience, the capacity and the flexibility to design programs tailored to your specific needs, no matter where in the world your problems arise, or how complicated your risks are.

To get more information about Commercial Umbrella Insurance, send in the coupon.

We can't help you until we hear from you.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.
Dept. A, 102 Maiden Lane, New York, New York 10005
Please contact me about your commercial umbrella coverage.

Name _____
Title _____ Phone _____
Company _____
Address _____ City _____
State _____ Zip _____

 A Member Company of American International Group
BSIN-3-161

We welcome inquiries from any licensed agent or broker. You don't have to be a regular producer to place business with an AIG company.

For more facts circle 101 on reply card

For full benefits for over-65 workers

Retirement bill OK'd; court battles loom

By JERRY GEISEL

WASHINGTON—Congressional staffers expect court battles over whether corporations can reduce benefits for employees working past age 65 under the new law raising the mandatory retirement age to 70.

Their prediction of possible court disputes is in spite of the Labor Department's position that the Employee Retirement Income Security Act (ERISA) does not require full benefits for employees staying on the job past 65.

A House-Senate conference committee earlier this month broke a four-month deadlock by reaching agreement on legislation that forbids forced retirement before age 70 rather than 65 and completely eliminates involuntary retirement for federal workers.

At issue is whether the landmark legislation, which amends the 1967 Age Discrimination in Employment Act, only prohibits mandatory retirement before age 70, or if it also forbids discrimination in employee benefit plans for older workers.

According to a letter sent by assistant secretary of labor Donald Elisburg to several senators involved with the legislation, the Labor Department concluded that the bill did not clash with ERISA. Mr. Elisburg noted that since ERISA defines the normal retirement age to be 65, benefit accruals for years of service after age 65 would not be required.

But Congressional aides point out that legal challenges to employers who cut back on benefits for workers over 65 would not be filed under ERISA, but would be based on the age bias act that forbids discrimination in employment practices for workers between 40 and 70.

At issue in such lawsuits would be whether reduced benefits for workers over 65 are designed to discourage employees from taking advantage of the new retirement legislation.

The staffers add that a legal battle might be avoided if the conferees indicate in their conference reports how, if at all, the legislation affects employee benefit plans.

But staffers are unsure if sufficient time remains for conferees to indicate their legislative intent in the conference reports which are expected to be ready later this month.

If the conferees or the Labor Department fail to issue guidelines on the scope of the legislation, the issue is "absolutely certain" to wind House and Senate committee aides up in the courts, according to who worked on the legislation.

"I can't imagine that a benefit plan that, for example, denied life

insurance coverage for workers above 65 while offering such coverage to everyone else would go unchallenged," said one House staffer.

Predictions that the legislation will not raise employee benefit costs are based on the assumption that corporations may reduce life insurance, disability and medical coverage for employees working past 65. Corporations that have abolished mandatory retirement, such as Connecticut General, have generally not provided full benefits to workers staying on the job.

The compromise measure incorporates a House-passed provision that eliminates the age-related mandatory retirement for most

'I can't imagine that a benefit plan that, for example, denied life insurance coverage for workers above 65 while offering such coverage to everyone else would go unchallenged.'

—House staffer

federal employees. The Senate version would have kept the current forced retirement at 70 for federal workers.

The elimination of mandatory retirement for federal workers would take place on Sept. 30, 1978.

The higher mandatory age for private employees would go into effect on Jan. 1, 1979, except where

mandatory retirement is provided for in a labor contract reached through collective bargaining. In that case, the higher mandatory retirement age would take effect two years after enactment of the law or at the end of the contract, whichever is longer.

The compromise legislation permits companies to retain manda-

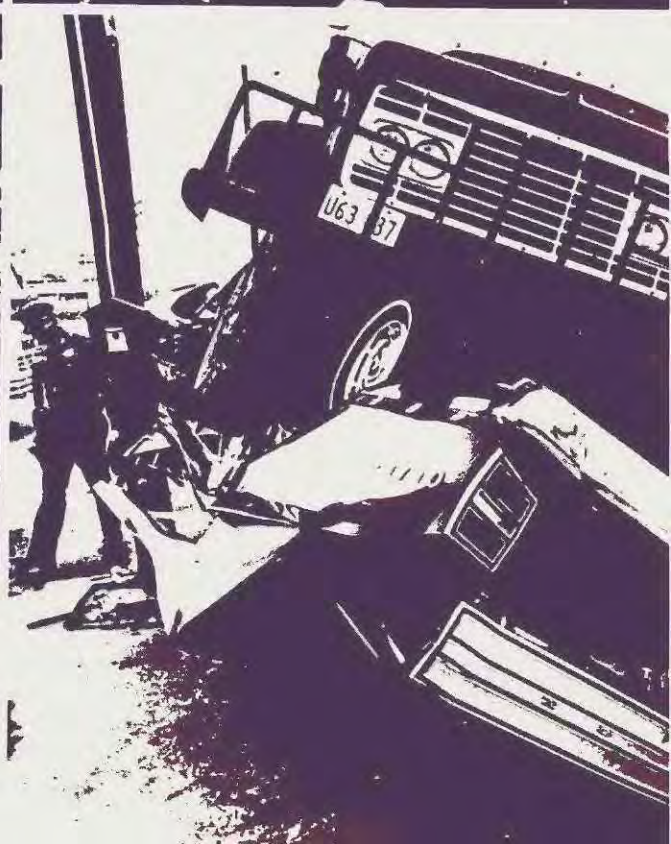
tory retirement at age 65 for executives whose retirement income is \$27,000 a year or more, excluding Social Security.

The Senate bill had placed the cutoff at \$20,000 in pension income while the House bill lacked such a provision excluding executives from the legislation.

For tenured college professors, the compromise measure would permit mandatory retirement at age 65 until July 1, 1982. After that date, the age 70 rule would go into effect. The Senate would have allowed colleges to require tenured professors to retire at age 65.

Each house of Congress now must give final approval to the compromise measure worked out by the conferees. Backers of the measure said the legislation should be ready for President Carter's signature by mid-April. Mr. Carter said previously that he would sign the legislation into law.

It's high time we all put a



Labor extends comment deadline

WASHINGTON—The Labor Department will accept comments on how seasonal industries should be treated under the pension reform law until April 24.

The department said the deadline was being extended because of the complexity of the issue and to get a wider spectrum of views before regulations affecting seasonal industries are issued.

Comments, in triplicate, should be sent to Pension and Welfare Benefit Programs, Office of Regulatory Standards and Exceptions, Room C4526, 3rd St. and Constitution Ave., Washington, D.C., 20216, marked "Attention: Comments on Seasonal Industries."

Tennessee to recruit clients for new captive law

By KATHRYN J. McINTYRE

NASHVILLE—Tennessee intends to actively recruit corporations to establish captive insurance companies here under the state's new captive insurance company law.

When signed by Gov. Ray Blanton, a move expected this month, Tennessee will be the second state in the country with a law specifically designed to facilitate captive insurers. The Tennessee law was modeled after the Colorado statute which was passed in 1972.

"We're gearing up to start licensing companies," said assistant insurance director Paul J. Tidwell who is preparing the administrative guidelines for the law. "We expect some immediate applications."

A captive could be operating

within 30 days of the governor's signature on the bill which was submitted to the legislature as part of Gov. Blanton's legislative program and passed last month.

Companies will be invited to submit a letter of intent to the insurance department for an initial opinion on whether they qualify under the law before a great deal of money is spent on formal application. Tennessee captives will be licensed to write professional liability, errors and omissions insurance or comprehensive general liability insurance.

"It's very much along the lines of the Colorado code," Mr. Tidwell said, noting that Colorado insurance commissioner J. Richard Barnes helped Tennessee officials to prepare the legislation.

Mr. Tidwell said, however, that

'The only advantage we might have over Colorado, if there is one, is location and it's not as costly to operate in Tennessee.'

—Paul J. Tidwell,
Tennessee official

Tennessee's approach to reinsurance of the captive's risks is somewhat more liberal than Colorado's. "You can reinsure with almost anybody, provided the regulations are met," Mr. Tidwell said. For example, the law will not recognize a non-admitted reinsurer unless the commissioner is appointed as agent for service of legal documents. And even a reinsurer not admitted in any other state can reinsure the captive if the premium and commission is held in a

strictly regulated trust.

Otherwise, as in Colorado, Tennessee will:

- Require \$750,000 in capital and surplus for a pure captive, one that writes risks of only related companies, and \$1 million in capital and surplus for an association captive.

- Allow the capital and surplus requirement to be met with a letter of credit.

- Require that the insurance written by the captive is not available elsewhere except at unreason-

able prices or with unreasonable deductibles.

- Restrict insurance underwriting in a pure captive to the risks of related companies and in an association captive to risks of association members.

- Permit captives to accept reinsurance.

- Exempt captives from compulsory associations or pools.

- Tax premiums at a reduced rate of 1%.

- Require management offices be located in Tennessee.

- Require prior approval of rates.

"The only advantage we might have over Colorado, if there is one, is location," Mr. Tidwell said, "and it's not as costly to operate in Tennessee."

The state plans to market itself as a captive haven in color brochures distributed by the Tennessee Industrial Development Corp. "The fallout could be substantial," Mr. Tidwell observed, predicting major corporations could be enticed by the captive law to relocate their headquarters to Tennessee. "It's one way to attract industry to the state. I think that's why the governor was glad to include the bill in his legislative package."

The Tennessee insurance department is also standing alongside Colorado in defending the legitimacy of captive insurance companies for tax purposes. "Our position is the same as commissioner Barnes's," Mr. Tidwell said. He maintained that the state statutes "establish that the captive is a real company," and that premiums paid to it should be tax deductible because they are a necessary expense.

Tennessee isn't necessarily looking for large numbers of captive insurance companies to measure the success of its law. "We want to fill a need. If we license only five for product liability insurance, we've got a success," Mr. Tidwell said.

Not only did Tennessee borrow from Colorado's captive law, but it also learned a lesson in getting the legislation passed. Mr. Tidwell commented that the Colorado statute failed the first time it was presented to the legislature because of opposition from insurance agents in the state. Tennessee explained the proposed legislation to leading insurance agents in its state to preclude opposition and the bill was passed in the senate with only one dissenting vote.

Ky. can regulate unsafe products

FRANKFORT, Ky. — Kentucky's human resources secretary can start enacting regulations on safety of consumer products and chemicals, the state attorney general says.

However, the attorney general's opinion said there may be some problem with regulations dealing with the recall of unsafe products, as opposed to the banning of such products.

Assistant attorney general Rodney Tapp advised the Department for Human Resources:

"We feel the police power may be used to prevent defective products from reaching consumers. . . . But rules requiring the return of defective products by consumers would violate the ban of the U.S. and Kentucky constitutions against retroactive legislation.

"It is the thrust of consumer health protection legislation to protect against risks of consumer injury which accrue in the future rather than those which accrued in the past and are continuing."

He also reminded the state agency that regulations cannot burden interstate commerce.

premium on Loss Prevention.



Last year, 46,700 people died on our highways. There were over 1,100,000 fires in homes and businesses. The damage caused by pollution totalled an estimated \$39 billion. And two million workers were injured.

America can no longer afford the pain, suffering, or the cost. You can't either because you're paying for it.

At The Hartford, we've been doing something about it with a commitment to loss prevention that began 168 years ago.

Today we're expanding that commitment further.

Together, we can make a difference.

But the task facing us is enormous. It would be foolhardy for us to tell you that one insurance company can accomplish it alone. We need everyone to join in the fight. You must make loss prevention a way of life. By working together, we can help reduce the waste.

When losses go down, rates don't have to go up.

The Hartford now has more than 500 loss prevention specialists who help design and implement prevention programs for any kind of business.

Working with our independent agents, they help identify potential danger areas in your business and suggest how to eliminate them. Before you end up with a loss.

And that can also help make your insurance more affordable. Because experience has proved that when losses go down, rates don't have to go up.

The proof is on the bottom line.

Hundreds of thousands of businesses have learned how effective our loss prevention counseling can be. For example:

1. After a major paper manufacturing company put our recommendations into effect, accidents decreased 23% in one year. And Workers' Compensation claims were lowered almost \$100,000.

2. A municipality learned what our loss prevention can do in a year. It saved \$145,023 in premiums.

3. In one year loss prevention helped a supermarket chain cut its accident rate by 23%. Which cut Workers' Compensation and liability losses over \$300,000.

Learn how The Hartford can help you put a premium on loss prevention in your business. Check the Yellow Pages for the independent agent in your area who represents The Hartford.

Do it today. 216 million Americans are counting on you.

The best protection is prevention.



THE HARTFORD



The Hartford Insurance Group, Hartford, Conn. 06115

Inland AND Ocean Marine

FACILITIES AVAILABLE
TO AGENTS & BROKERS OF MEMBER COMPANIES

MUTUAL MARINE OFFICE, INC.

100 PARK AVENUE, NEW YORK, N.Y. 10017 • 212-953-0580

General Managers
NEW YORK MARINE INSURANCE CO.

— Marine Managers —

ARKWRIGHT-BOSTON INSURANCE COMPANY
ARKWRIGHT-BOSTON MANUFACTURERS MUTUAL
INS. COMPANY.
EMCASCO INSURANCE COMPANY
EMPLOYERS MUTUAL CASUALTY COMPANY
GRAPHIC ARTS MUTUAL INSURANCE COMPANY

LUMBER MUTUAL FIRE INS. CO. OF BOSTON, MASS.
MERCHANTS MUTUAL INSURANCE COMPANY
MUTUAL FIRE, MARINE & INLAND INS. CO.
NEW HAMPSHIRE MERCHANTS INSURANCE COMPANY
UNION MUTUAL INS. CO. OF PROVIDENCE
UTICA MUTUAL INSURANCE COMPANY

7 Calif. cities activate 1st comprehensive pool

SAN FRANCISCO—The first municipal pool to combine property, liability and workers compensation coverage went into effect this month as seven cities in Sonoma County signed a joint powers agreement.

The pool, The Redwood Empire Insurance Fund, provides the cities with property limits of \$1 million and liability and workers compensation limits of \$10 million. Each city in the pool retains the first \$25,000 for property coverage, the first \$100,000 for liability and the first \$150,000 for workers compensation.

The cities pay \$270,000 for the entire excess coverages, a savings of 25% over their previous individual

costs, according to Donn P. McVeigh of Warren, McVeigh & Griffin, consultants who set up the pool.

The cities, located in the heart of northern California's wine country had pooled their workers compensation insurance before adding property and liability, Mr. McVeigh said. Members of the pool include the cities Sonoma, Healdsburg and Sebastopol and range in population from 6,777 to 13,450.

After deciding to add property and liability insurance to their workers compensation pool, the cities interviewed six brokerage firms, requesting market proposals. The San Francisco firm of Kaine & McAuliffe was selected.

Swett & Crawford Group is the excess broker for the pool's property coverage, insured by the Harbor Insurance Co. Broker for the excess liability coverage is Baccala & Shoop. The liability coverage is split between Drake Insurance Co., which is underwriting \$400,000 excess of the first \$100,000, Puritan Insurance Co. and Pinetop Insurance Co. which share \$9.5 million excess of \$500,000.

The excess workers compensation insurance is with Employers Reinsurance Co. and claims are administered by ESIS. That firm will also handle the liability claims for the pool. Each city will be responsible for its own property claims.

Although there are no immediate plans to open the pool to other cities, "The members are not closing their minds to participation from other municipalities," Mr. McVeigh said.

Pools for municipal insurance are sweeping California. Last month 13 cities in Contra Costa County in Northern California activated a \$5 million pool for liability insurance.

U.S. insurers' outlook good: U.K. broker

LONDON—Favorable results for U.S. insurance business in 1978 are forecast by the big U.K. stock-brokerage firm Rowe and Pitman, Hurst Brown, which anticipates underwriting ratios of at least 97% in an analysis of coming trends.

"The extent of the recovery since the worst-ever year of 1975 may still be underestimated and ratios for the coming year may even drop to 96%," he said. "In 1979 the natural forces of the underwriting cycle should begin to operate, with ratios rising. But there are good reasons for arguing that the next downturn will be relatively shallow and that the 1979-1980 period might show unusual underwriting stability."

Insurance buyers are likely to find that underwriters will not forget the experience of their 1974-75 losses and managements are unlikely to repeat the mistake of excessive rate-cutting, the report adds.

Surplus, or the solvency margin, problems will restrict premium growth and competition, so the insurance industry appears to be entering a period of conservatism in which selective underwriting, underwriting profitability and retained earnings will have high priority.

"We therefore believe that the U.S. offers a reasonable environment for the insurance industry over the next few years."

Quiet

Quality.

ROLLINS BURDICK
HUNTER

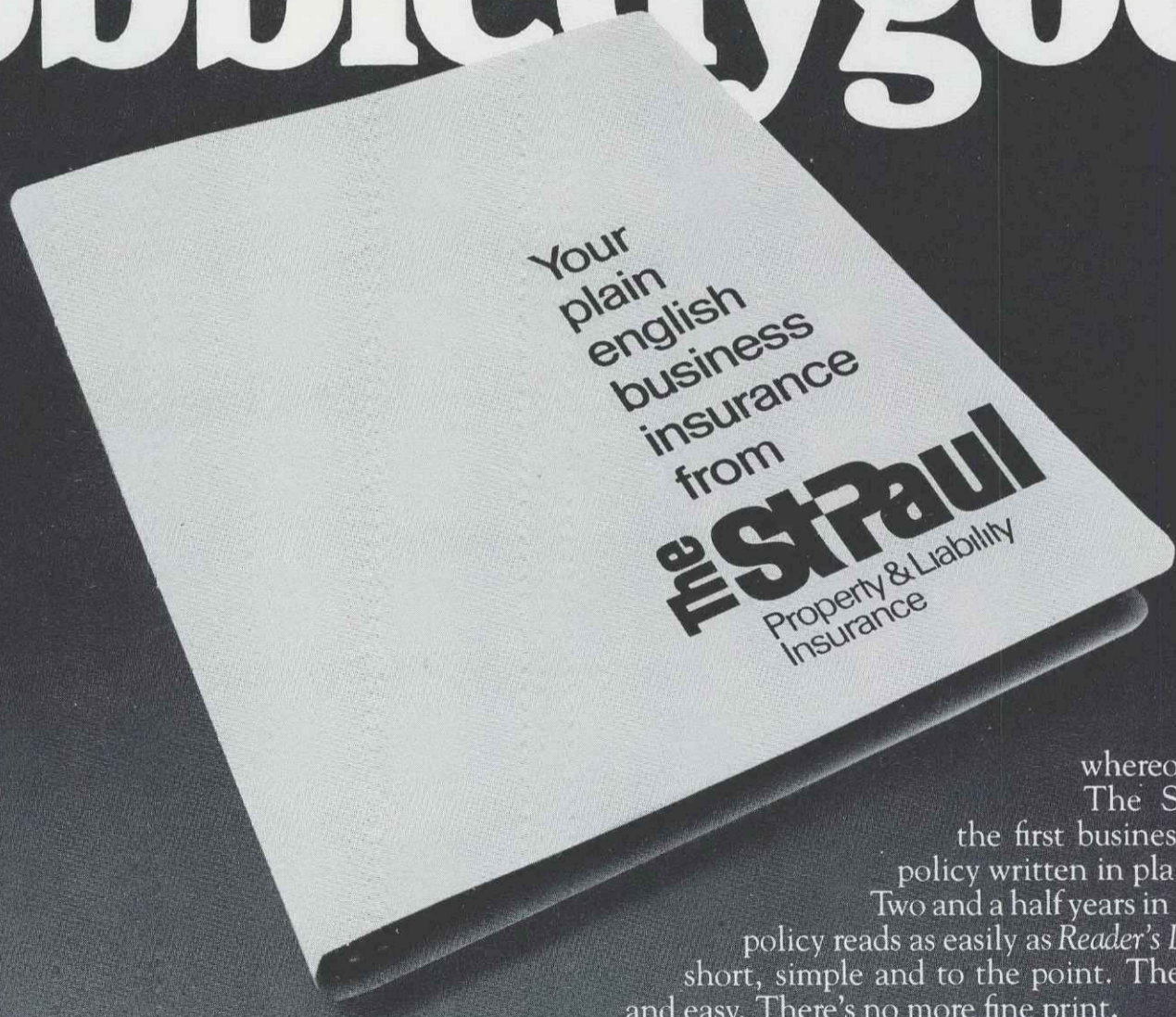
Multinational Insurance Brokers

World Headquarters

10 South Riverside Plaza

Chicago, Illinois 60606

Announcing the end of insurance gobbledygook.



No more thereto's,
whereof's and hereinafter's.

The St. Paul introduces
the first business package insurance
policy written in plain English.

Two and a half years in the writing, this new
policy reads as easily as *Reader's Digest*. Sentences are
short, simple and to the point. The typeface reads nice
and easy. There's no more fine print.

What's more, examples and definitions are included in the text.
No more digging for words buried in a glossary somewhere in the back.

We simplified this policy for a very simple reason: The better you
understand your business insurance, the fewer problems you will have
with your insurance program.

Want insurance without gobbledygook? Contact your Independent
Insurance Agent representing The St. Paul. He's listed in the
Yellow Pages.



Serving you through Independent Agents. St. Paul Fire and Marine Insurance Company/St. Paul Mercury Insurance Company/The St. Paul Insurance Company/
St. Paul Guardian Insurance Company/The St. Paul Insurance Company of Illinois. Property and Liability Affiliates of The St. Paul Companies Inc., Saint Paul, Minnesota 55102.

For more facts circle 120 on reply card

Abortion issue may snag pregnancy benefits bill

By JERRY GEISEL

WASHINGTON—The drive to pass legislation requiring most employers to offer full disability and medical benefits to pregnant employees may have been slowed by the stormy politics of abortion.

The House Education and Labor Committee earlier this month approved legislation (H.R. 6075) that would forbid discrimination in employee benefit plans on the basis of pregnancy.

But the committee's 25-6 approval came only after an anti-abortion amendment was attached to the measure which would mean an employer would not have to provide benefits to a pregnant employee who elects to have an abortion.

The bill goes to the House floor where a vote is expected in April, committee staffers said.

Supporters of the legislation, such as Education and Labor Committee chairman Augustus Hawkins (D-Calif.), fear a major battle could erupt in any House-Senate conference committee over the anti-abortion amendment. The Senate bill, passed last month, contains no provision allowing employers to exclude abortions from benefit programs.

Adoption of the anti-abortion amendment, which was introduced by Rep. Edward Beard (D-R.I.) clearly has reduced support for the pregnancy legislation by the bill's strongest backers.

For example, the Campaign to End Discrimination Against Pregnant Workers, which previously had lobbied intensely for passage of the measure, has dropped its endorsement of the bill.

"We can't support the bill with the Beard amendment," said co-chair Susan Ross. "We never will accept anti-abortion language."

Ms. Ross also said that the National Organization of Women had dropped its support of the bill and she doubted that the American Civil Liberties Union could continue its endorsement of the legislation now that restrictions on abortions are part of the bill.

But Senate staffers who worked closely with the legislation believe the anti-abortion amendment will be dropped or modified on the House floor or in the conference committee.

"I'm sure a compromise can be reached," said a staff member of the Senate Human Resources Committee. But a House committee staffer warned of a protracted battle in the conference committee.

Mayhew joins James

Stanley Mayhew has been appointed managing director of James International Treaty (Bermuda) Ltd., a Bermuda-based reinsurance brokerage subsidiary of Fred S. James. Mr. Mayhew previously held several posts with H.S. Weavers and Walbrook Insurance Co. Ltd.

'We can't support the bill with the Beard amendment. We never will accept anti-abortion language.'

**—Susan Ross,
pregnancy benefits advocate**

over efforts to strengthen, delete or modify the amendment.

Coverage for abortion has routinely been included in many group medical and hospital plans since the Supreme Court ruled in 1973 that a woman had a legal right to seek an abortion.

At American Telephone & Telegraph, for example, a pregnancy terminated before the seventh month is covered under the company's sickness and disability

plan. After the seventh month, the abortion is covered as a maternity benefit.

In some plans, the word "abortion" does not appear as a covered benefit in a group medical plan. Instead coverage refers to pregnancy or a complication resulting from pregnancy. Thus, abortion is covered in these plans as a complication resulting from pregnancy. Other plans, however, specifically

list abortion as a covered benefit.

Firms that object to paying for employee abortions can exclude the coverage from its program while paying benefits for pregnancy, said a spokesman for the Travelers Insurance Co. There is no change in premium if coverage for abortions is deleted.

The U.S. Catholic Conference, for example, does not cover abortion in its group medical and hospital plans, said a conference spokesman. However, insurance companies said they did not know how many other organizations have excluded abortions from their medical plans.

Aside from the anti-abortion amendment, which passed the committee on a 19-12 vote, the Senate and House versions of the legislation are identical.

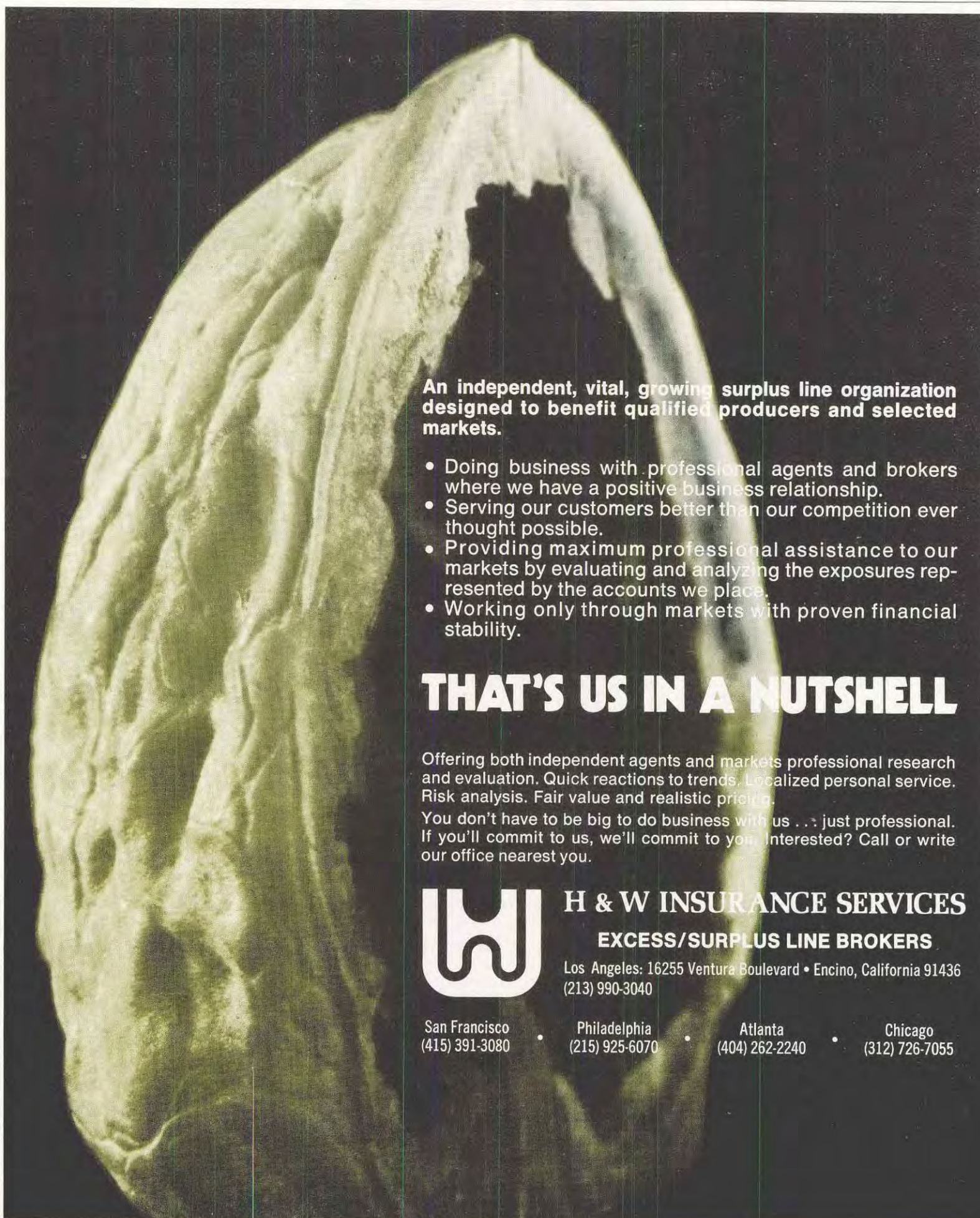
Under the proposed legislation,

employers offering disability plans would be required to include pregnancy in their plans on the same basis as any other sickness. An employer that does not provide a sick leave program, however, would not have to pay pregnancy disability benefits.

The bill also would prohibit paid sick leave programs that limit benefits for pregnancy to a shorter period than other disabilities.

In addition, medical and hospital plans would have to be revamped if they covered pregnancy on a different basis than other sicknesses.

The legislation would go into effect six months after it is enacted into law. Furthermore, employers could not reduce their employee benefit plans for one year after the bill's enactment or until the end of a union contract to pay for the cost of pregnancy benefits. ■



An independent, vital, growing surplus line organization designed to benefit qualified producers and selected markets.

- Doing business with professional agents and brokers where we have a positive business relationship.
- Serving our customers better than our competition ever thought possible.
- Providing maximum professional assistance to our markets by evaluating and analyzing the exposures represented by the accounts we place.
- Working only through markets with proven financial stability.

THAT'S US IN A NUTSHELL

Offering both independent agents and markets professional research and evaluation. Quick reactions to trends. Localized personal service. Risk analysis. Fair value and realistic pricing.

You don't have to be big to do business with us... just professional. If you'll commit to us, we'll commit to you. Interested? Call or write our office nearest you.

W H & W INSURANCE SERVICES
EXCESS/SURPLUS LINE BROKERS

Los Angeles: 16255 Ventura Boulevard • Encino, California 91436
(213) 990-3040

San Francisco (415) 391-3080 • Philadelphia (215) 925-6070 • Atlanta (404) 262-2240 • Chicago (312) 726-7055

independent

CONSULTANTS...
insurance and employee benefits

complete analysis

we do not sell or

place insurance



**CORPORATE
POLICYHOLDERS
COUNSEL, inc.**

20 North Wacker Drive
Chicago, Illinois 60606
Phone: 312-372-8225



Joseph Destein, head of A&A's Anistics division, says Leslie Dew is being used to set the lead on pricing since he has the prestige to make his decisions stick.

Anistics taps new Bermuda capacity to plug gap layers for key clients

By SUSAN ALT

PALO ALTO, Calif.—The Anistics division of Alexander & Alexander has found a way to utilize the new and growing insurance capacity in Bermuda for clients needing "gap layer" liability coverage.

Bermuda Fire & Marine Insurance Co., the largest insurer operating in Bermuda, provides an important key to this program as the policy issuing company for Anistics. The program, which involves substantial changes in the way the corporate liability risks are marketed by Anistics acting as the broker, has been under development since last autumn.

Anistics already has one major

client in the program, effective Jan. 1, with five more corporate clients going into the program in coming weeks. Another 10 clients are either seriously considering using this facility or are in various stages in changeover to it.

The program is designed to solve a problem that Alexander & Alexander identified as the single most troublesome aspect of placing risks in tight insurance markets: obtaining insurance to fill the gap between the first-dollar primary policy or a self-insured retention and the point where excess insurers are willing to take over.

Furthermore, soaring premiums coupled with the difficulty in ob-

taining coverage has led insurance buyers to the point where they're clearly making a make-or-buy decision, says Joseph A. Destein Jr., president of Anistics. And for many corporations, the decision is to "make" rather than buy insurance, necessitating self-insurance with excess coverage over the first large layer.

Anistics attempted to find a solution to the problem of gap layer liability coverage by using the Bermuda markets, approaching BF&M to arrange for its involvement in what could turn out to be a substantial source of new business for underwriters in Hamilton. Anistics was aiming for BF&M's commitment to help underwrite programs from the first dollar of loss up to the high loss levels "where worldwide markets are quoting in a truly responsive way," says Mr. Destein.

The six clients either in the program or going into it for their general liability and product liability insurance are sizable corporations having annual sales over \$100 million and ranging up to \$1 billion. Their retention levels (technically, the retrospectively rated portions of the policies) range from the minimum \$1 million up to an anticipated \$5 million level for a company now being quoted.

Mechanically, BF&M writes a policy—either directly as an admitted U.S. surplus lines insurer or as a reinsurer of a captive—and formally contracts with the policyholder to retrospectively rate the first \$1 million of coverage over a three-to-five-year period. Clients must agree to remain with the BF&M program for at least three years in order to cover retro adjustments in the form of future premium charges to cover any large losses paid under the policy.

For the coverage over the retro limits, other Bermuda markets participate by reinsuring BF&M. In the one completed program, however, a single U.S. insurance company reinsured the entire program. Sometimes it is BF&M that arranges for the reinsurance participation, sometimes it's Anistics and/or A&A, depending on the marketing requirements.

BF&M and Anistics jointly developed this program, which Mr. Destein describes as a long term retro rating plan but which some other organizations dub a "banking excess" plan. Anistics and A&A don't have any exclusive agreement with BF&M, though, and BF&M apparently has made it clear that it intends to offer similar programs to other brokers who are interested.

Eventually, says Mr. Destein, captives themselves will probably be involved in marketing the reinsurance for this kind of program.

Leslie R. Dew, underwriter for Gulf Oil's Inesco subsidiary, is acting as a lead reinsurer on several of the programs being quoted. "We are relying on Mr. Dew to set the lead on pricing," says Mr. Destein, noting that Mr. Dew is the only person in Bermuda with the stature, prestige and wherewithal to establish rates which other Bermuda insurers (including captives) can rely on and follow.

Mr. Destein told *Business Insurance* that he's found Mr. Dew extremely flexible and agreeable when negotiating reinsurance rates which determine, ultimately, the cost of these programs.

The Bermuda market currently has acknowledged capacity to underwrite \$500,000 and \$1 million

Continued on following page

Crain's Chicago Business

Charter Subscriber/ Advertiser Enrollment

Yes, send me a year of Crain's *Chicago Business*, 52 weekly issues, for just \$20.00—a 20% saving off the regular rate of \$25.00 a year—and enter me automatically in your sweepstakes drawing to win a piece of Chicago business worth \$10,000 in stock or cash!

Maybe, I'll decide to subscribe, but first rush your April 17 pilot issue—including full details of your sweepstakes drawing—free.

No, I don't wish to subscribe, but enter my name in the sweepstakes drawing so that I have a chance to win a \$10,000 "piece of Chicago business."

In addition to subscription and sweepstakes information, please send me Crain's *Chicago Business's* Media Kit for prospective advertisers.

\$20.00 payment enclosed. Please bill me.

Name _____

Title _____

Company _____

Type of business _____

Home or Office Address _____

City _____

State _____ Zip _____

Mail to: Crain's *Chicago Business* — 740 Rush St. —
Chicago, Illinois 60611

insurance headache?

At Reed Shaw Stenhouse there's no insurance problem too big or too complex. One of the things that distinguishes us from many of our competitors is exactly the ability to deal with each client and each problem on an individual basis. We've made it a matter of policy to establish a world-wide network of our own offices rather than to rely on correspondents. And we're similarly committed to a large number of relatively small offices with a broad geographic spread. It would be easier for us to consolidate our facilities in a few major insurance centers but it wouldn't keep us nearly as closely in touch

with you and your immediate insurance needs.

Of course, if your particular needs involve widely varied coverages in far flung places, our system also allows us to coordinate the efforts of experts from around the world and to bring their total expertise to bear on your particular problem. It's not at all unusual to find Reed Shaw experts from Chicago and Boston joining forces with our Houston people to resolve a client's dilemma.

So, if you've got an insurance headache, don't despair, just take two aspirin ... and call Reed Shaw Stenhouse.

REED SHAW STENHOUSE INTERNATIONAL INSURANCE BROKERS

With offices in Boca Raton, Boston, Chicago, Denver, Ft. Lauderdale, Honolulu, Houston, Kansas City, Los Angeles, New York, Orlando, Pittsburgh, Portland, St. Louis, San Francisco, Seattle, Washington, D.C. and one hundred six other cities around the world.



Anistics . . .

Continued from preceding page
layers of insurance, said Mr. Destein. (Mr. Dew alone is known to have the authority to take \$500,000 of risk in any single program for Gulf.)

Other Bermuda companies available to share in Bermuda underwriting on programs of this type along with Mr. Dew of InSCO include Bellefonte Insurance Co. owned by Armco Steel, Ivanhoe International Ltd. (Bermuda subsidiary of a Canadian insurer), Walton Insurance Co. Ltd. owned by Phillips Petroleum, Cambridge Insurance Ltd., UFC Insurance Ltd., Oceanview Insurance Co. owned by Hanna Mining, Erieview Insurance Co. Ltd. owned jointly by Hanna Mining and National Steel, Horizon Insurance Ltd., Mentor Insurance Ltd. owned by Offshore Drilling & Exploration Co., Security Reinsurance Corp. Ltd., Blades Group representing six captive insurance companies, and Transcon Insurance Co. Ltd. owned by Ford Motor Co.

Other than the program that's been completed, about four reinsurers are participating on each of the other plans being quoted in addition to Mr. Dew, said Mr. Destein.

With the establishment of BF&M's program, the Bermuda markets are beginning to operate in much the same fashion as the London markets, where a single risk is marketed to a variety of underwriters and/or reinsurers, each of whom subscribe to a portion of the risk until it is 100% covered. Mr. Destein says he's presently working on getting a "line slip" set up in Bermuda similar to the type of slips used to present a risk to Lloyd's and the London companies.

These slips would probably come into wider use if and when Bermuda begins writing umbrella liability policies for amounts beyond its present capacity, said Mr. Destein. The purpose of having a system of using line slips like London's would be to facilitate the process of having someone like Mr. Dew take a lead and determine the appropriate rate with all other subscribers following that lead.

Mr. Destein also believes that eventually captives based in Bermuda will participate in reinsuring the type of programs BF&M is underwriting by subscribing to the risks on the slips.

BF&M's basic premium charges for these programs are negotiable and are generally "substantially less than what it would cost in the U.S. market" for similar fronting arrangements, said Mr. Destein. (Minimum charges of \$60,000 to \$100,000 are commonly required by U.S. insurers for similar fronting or retro plans.)

This type of longer term insurance relationships could ultimately lead to an entirely new method of underwriting and rating, Mr. Destein predicts. "The way I see this in the future is the predictable high frequency risks will be rated on an annual basis, with the working or buffer layer rated over five years or so and the lowest frequency area being rated for as long as 10 years or even 20 years," he said.

For the six A&A clients going into or already in this program, deductibles had previously been much lower, ranging from \$60,000 to \$100,000 per loss. Thus, major jumps were required for the minimum retentions under the BF&M arrangement. These companies had been faced with premiums under their old plans from 30% to 95% of limits, meaning some would've been paying as much in premiums as the insured limits. ■

Sheehan forms agency; INA buys GATX portfolio

By KATHRYN J. McINTYRE

CHICAGO—New capacity is being created in the professional liability insurance market with the formation of a new agency for Imperial Casualty & Indemnity Co. and the sale of GATX Underwriters Agency Inc. to INA Corp.

Thomas F. Sheehan resigned as president of GATX Insurance Co. and its related underwriting agency to establish his own company. Thomas F. Sheehan Inc. opened this month in suburban Chicago as the sole managing general agency for Imperial, specializing in professional liability insurance.

"After 25 years and nine months in the employment of others, I decided to work for myself," Mr. Sheehan said.

In the wake of his resignation, GATX Corp. this month sold GATX Underwriters Agency and the agency's entire book of professional liability insurance and reinsurance to INA Corp. for \$2.1 million in cash. The agency, which provided insurance underwriting services for GATX Insurance Co. and others, had an annualized volume of \$12 million that was heavily reinsured.

INA says the acquisition will "enhance INA's ability to provide a broader spectrum of insurance products and services for agents and brokers serving the corporate and professional markets."

Mr. Sheehan anticipates many of the GATX Underwriters Agency clients will follow him to Imperial at renewal time. The professional liability expert is enthusiastic about the future, noting that Imperial, owned by Standard Oil of Indiana, is operating with less than a one-to-one premium-to-surplus ratio. "There's a lot of growth potential. It's a fine company," Mr. Sheehan said.

Imperial, of Omaha, Neb., has in excess of \$12 million in capital and surplus, is admitted in 48 states and is a surplus lines insurer in the remaining two, New York and Hawaii.

Mr. Sheehan and Imperial are old business associates. GATX Underwriters Agency placed its specialty lines coverages—mainly professional liability insurance for directors and officers and other non-medical professionals—with Imperial as well as GATX Insurance. Imperial heavily reinsured the professional risks.

However, GATX Underwriters Agency would have been placing less business with Imperial this year because GATX Insurance had earned a Best's rating and could take more of the business itself. Meanwhile, Mr. Sheehan wanted his "independence and to no longer be an employe of a giant corporation." Imperial's desire for the professional liability business and Mr. Sheehan's yearning for his own company fused.

GATX Corp., however, was ap-

parently left in a bit of a quandary. It was losing not only Mr. Sheehan but also his most valuable associates, including vp Ram H. Chandarana, to the new Sheehan venture.

Mr. Sheehan had directed the growth of GATX Insurance as a professional liability underwriter from his arrival in 1974 when the one-year-old company was only writing haul and machinery on the GATX subsidiary Marine Transport Lines.

GATX had three choices when Mr. Sheehan submitted his resignation in January: "to find a successor to me and keep the agency and the insurance company, to sell the company and the agency or to sell the agency alone," Mr. Sheehan said.

An executive search firm came up dry after looking for a successor to Mr. Sheehan. Just why it opted to sell only the agency and GATX's plans for the insurance company could not be learned. GATX executives refused to discuss anything. However, a press release from INA Corp. on the purchase of the agency said, "GATX will retain its insurance company which will continue in the insurance business in fields other than the types sold to INA."

But the mainstay of GATX Insurance was the business sold to INA of professional liability coverages including insurance for directors and officers, architects, accountants, lawyers, trustees and fiduciaries and real estate brokers. Now all GATX Insurance has left is its in-house exposure on Marine Transport Lines and some old assumed reinsurance on a runoff.

The Insurance Co. of North America's plans are clear. Marketing communications vp Bruce Shaeffer said INA is expanding its excess/surplus operations in conjunction with developing its special risk facilities. "INA's posture on special risks is to develop a market for the entire account's needs. We are gearing up as a primary market for lines we've not previously written," he said. He added that INA excess/surplus subsidiaries—broker Montgomery & Collins and underwriter Cal-Union—are "moving ahead rapidly."

The GATX Underwriters Agency name will be retained, Mr. Shaeffer said, and maintained that the 8,000 policyholders will not be affected by the change.

Mr. Sheehan had also bid on GATX Underwriters, offering GATX nearly \$1 million more than INA but paying \$300,000 to \$600,000 in cash and the balance in services while INA agreed to pay \$2.1 million in cash. (INA and GATX both declined to confirm or deny the purchase price.)

Mr. Sheehan said he looks forward to INA's competition for professional liability insurance business. "The better the marketplace operates, the better the insurance

business operates," said the seasoned insurance company executive. He boasted he already had 12 orders when he opened his Des Plaines office March 1.

Imperial will continue to write its trustees and fiduciaries liability policy on the innovative discovered loss form developed by Mr. Sheehan last year while at GATX (BI, Sept. 19, 1977). Imperial will also write liability insurance for lawyers on the discovered loss form at the request of a bar association. And INA will use Mr. Sheehan's brainstorm policy form where applicable for the trustees and fiduciaries policy.

Mr. Sheehan is highly complimentary of the working relationships he enjoyed with GATX executives during his four-year tenure with the Chicago-based conglomerate and considers his departure amicable. He notes that the insurance company and agency earned \$9 million for GATX—\$7 million on income from the insurance company and agency and a \$2 million profit on the sale of agency—"which would make anybody happy," he smiles.



Thomas Sheehan offered to buy the GATX portfolio for nearly \$1 million more than INA paid; but GATX chose INA's offer with the higher amount in cash.

RISK CONTROL PROBLEMS

SEE BOOTH 31-32

SERVICE FOR SELF-INSUREDS

SEE BOOTH 31-32

UNIQUE TECHNICAL SERVICES

SEE BOOTH 31-32

COST EFFECTIVE CLAIMS HANDLING

SEE BOOTH 31-32

CONTRACT SHOP INSPECTION

SEE BOOTH 31-32

ENVIRONMENTAL SCIENCE

SEE BOOTH 31-32

BEFORE YOU DECIDE ON RISK MANAGEMENT SERVICE

SEE BOOTH 31-32

COMMERCIAL UNION RISK MANAGEMENT, INC. BOOTH 31-32

Spectrum 78, 16th annual Risk Management Conference, April 9-14

Injuries rise in Pennsylvania

HARRISBURG, Pa.—The incidence of occupational illness and injuries among Pennsylvania workers in 1976 rose to 9.3 per 100 full time employes from nine in 1975, according to the state labor and industry department.

An annual survey of employers is conducted by the department under contract with the Occupational Safety and Health Administration (OSHA). Questionnaires were sent to 20,000 employers in the survey to gather information on work-related injuries and illnesses.

The returns show that the number of recordable injury and ill-

nesses went from 291,600 in 1975 to 305,300 in 1976, a 4% increase. And about 2.2 million workdays were lost as a result of these injuries and illnesses in 1976, up from 1.8 million the previous year. About a third of these increases can be attributed to a growth in employment in the state during this two-year period.

Furthermore, there was a 12% increase in the number of injuries and illnesses that involved the loss of work time by employes (from 97,000 to 108,400). The average time lost in these cases increased one day to 20 days in 1976 from 19 in the previous year.



HERBERT L. JAMISON & CO.

90 Park Avenue New York, New York 10016 Area Code 212—490-7660

ASSOCIATION GROUP INSURANCE PLANS

Design - Marketing - Administration

- Professional Associations
- Trade Associations
- Multiple Employer Trusts
- Third Party Claim Facilities

For product liability

South Dakota enacts statute of limitations

PIERRE, S.D.—South Dakota has enacted a statute of limitations making it the first state this year to pass product liability reform legislation.

Under the measure (H.B. 1116), a suit involving product liability must be filed within six years after the product was delivered to the first user.

The bill, which was introduced by Rep. Donald Peterson, passed the House by a 65-0 margin. The Senate also unanimously approved the proposal 33-0.

Gov. Richard Kneip signed the measure last month. The law goes

into effect July 1, 1978. South Dakota thus becomes the fourth state to pass product liability reform legislation since the drive to change the tort law began last year. Utah, Colorado and Oregon passed comprehensive reform measures in 1977.

Supporters of the bill said the key to getting the reform legislation passed was a united business community. "Everybody got together and concentrated on the same proposal," said Jim Cope, president of Morgan Manufacturing Co. in Yankton.

The key groups behind the reform bill were the South Dakota Manufacturers and Processors Assn. and the state wholesaler-distributors association. Other business trade groups also added support, Mr. Cope said.

The effort toward tort reform began last year when a legislative study committee studied possible solutions to product liability problems.

After several rounds of hearings, the interim committee recommended a statute of limitations. Rep. Peterson, who was a member of the study committee, then introduced the six-year statute of limitations bill when the legislative session began in January.

In analyzing how to get a product liability reform bill passed in a state legislature, Mr. Cope suggested:

- Establish your priorities. "We felt in the final analysis that the most important thing we could get was a six-year statute of limitations and that is what we fought for," he said.

- Obtain a broad base of support. In South Dakota all major trade associations supported the same proposal. In other states trade associations have engaged in damaging internecine battles with each group proposing different approaches to tort reform, Mr. Cope argued, hopelessly confusing the issue.

- Educate the public. State business groups spent thousands of dollars on advertising explaining the purpose and benefit of the bill.

Senate business groups will be meeting later this month to decide if they will press for more comprehensive legislation next year.

Meanwhile, the Idaho house of representatives approved legislation (H.B. 526) that provides a 10-year statute of limitations from the date of manufacture or two years from the time of injury.

The bill allows a manufacturer "rebuttable presumption" if the product was manufactured in accordance with government safety standards, and would reduce damages to the extent that a plaintiff's own negligence contributed to the accident.

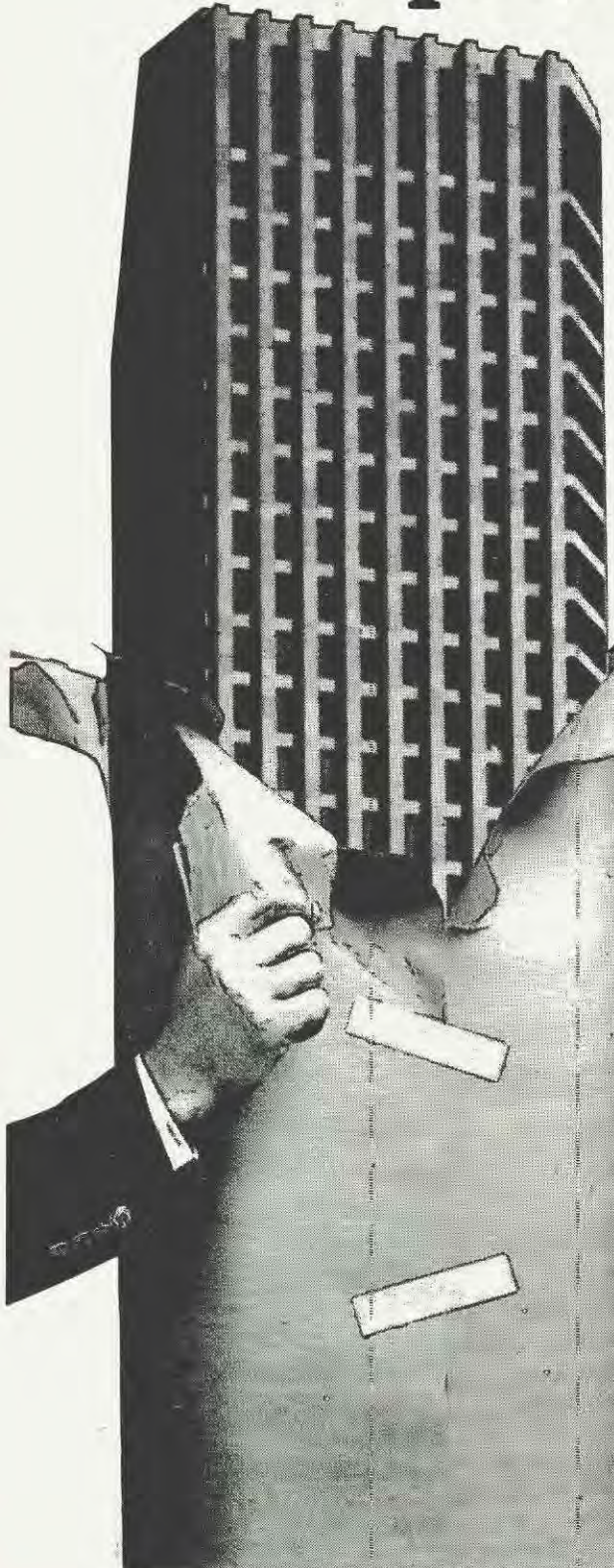
Punitive damages would be limited to no more than twice the general and special damages.

The bill, which passed last month on a 38-32 vote, now goes to a senate committee. A stiff fight is expected there.

Future finances

It seems we're not as confident about our future finances as we once were. A recent survey by the American Council of Life Insurance shows that the number of people who felt a great deal of control over "providing for dependents if you die unexpectedly" fell from 64% in 1968 to only 48% in 1977.

The time is right. Aetna announces its Real Estate Separate Account.



Real estate offers you one more way to diversify your pension fund. And Aetna Life & Casualty believes market conditions are now right for the introduction of our new separate account. So much so, that we've already committed \$50,000,000 of income producing properties to it.

We'll be buying shopping centers, industrial parks, warehouses and office buildings.

They're all new, recently completed or completely renovated constructions.

We're also putting to work every ounce of the 120 years' experience Aetna has gained building a 5 billion dollar portfolio in first mortgages and income producing properties.

To get in on the ground floor, call John C. Lang, Assistant Vice President, at (203) 273-4361.

**Real Estate
Separate Account
for Pension Funds.**



Group products involving this account are offered only to employers with and trustees of qualified pension plans. We will provide further information about these products and financial information about Aetna Life Insurance Company upon request.

Aetna Life Insurance Company, 151 Farmington Avenue, Hartford, CT 06156

S.D. museum underinsured for severe fire

SAN DIEGO—A fire, which the San Diego fire marshal says was set by arsonists, late last month destroyed the internationally known San Diego Aero-Space Museum.

The 63-year-old Electric building, which contained the museum, housed 40 vintage aircraft, including a Japanese Zero, World War I biplanes, scale models of the Gemini and Apollo spaceships, the Lunar module plus a communications satellite and artifacts relating to man's aviation history.

Probably the premium piece in the museum was a working replica of the Spirit of St. Louis, the San Diego-built plane that carried Charles A. Lindbergh on the first solo trans-Atlantic flight in 1927.

"How do you insure the invaluable?" asked Colonel Owen Clark, museum director. He said the museum contents were insured by three underwriters for \$350,000, or about 10% of their value.

Barney & Barney of San Diego, was the broker on the policy.

The colonel explained that coverage adequate to insure the museum contents were beyond the financial reach of the institution and that more than 10 underwriters would have been needed to underwrite such a policy.

Annual premiums on the \$350,000 coverage ran around \$3,600, he estimated, noting that insurance records were badly burned in the blaze which roared out of control for more than four hours.

Robert Walters, risk manager for the city of San Diego, said that the city has a fire policy on the Electric building, but would not comment further.

Mr. Walters did agree with publicized loss figures that set the loss at about \$4 million.

The Electric building was put up in 1915 as a temporary structure to be part of an exhibition, he said. It was supposed to have been razed in 1916, he added.

Two youths, aged 19 to 20, are being sought as the suspected arsonists. ■

Shiff Terhune buys 4 firms

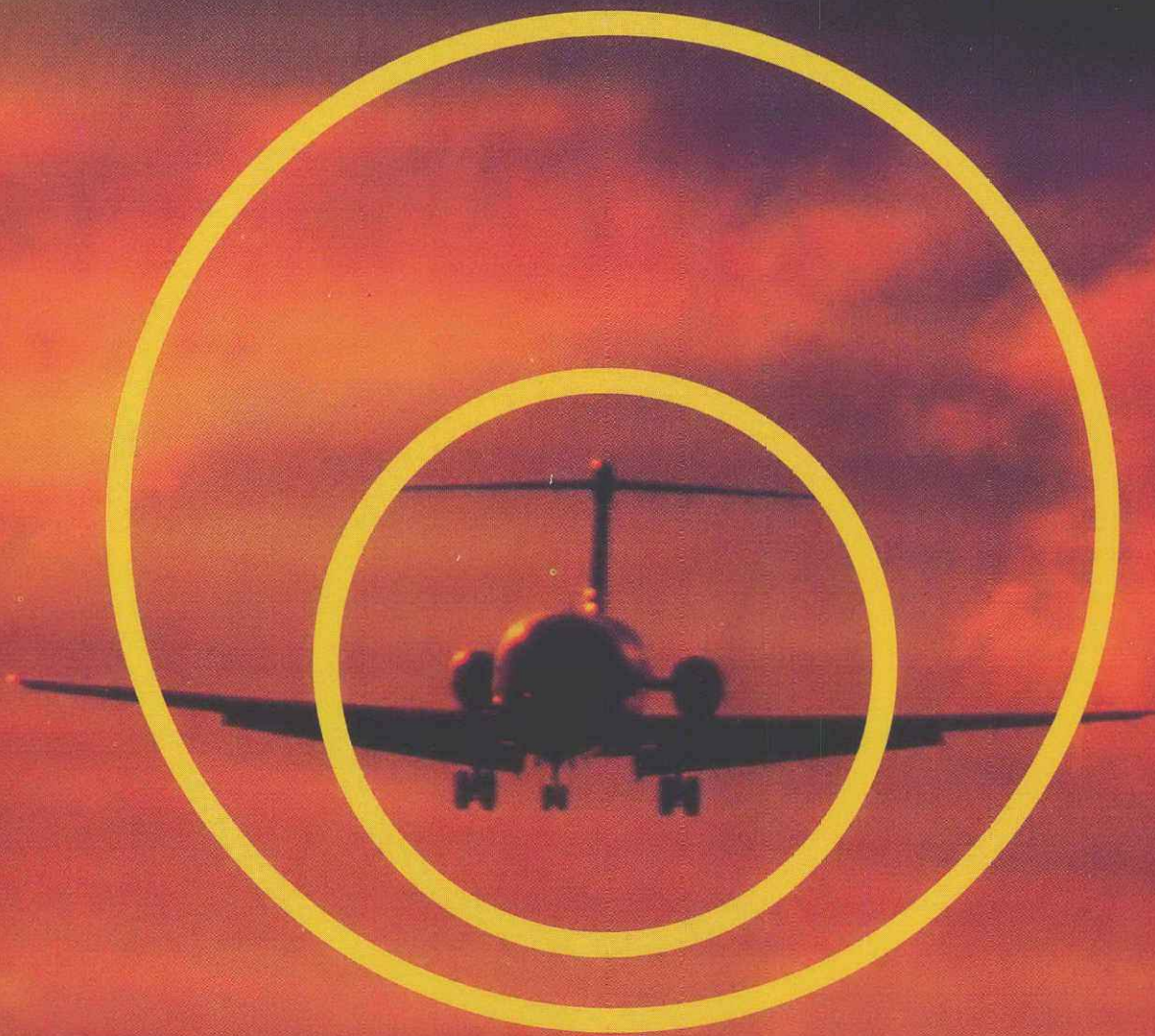
NEW YORK—Schiff Terhune International Inc. acquired four brokerage firms around the country, adding a total of \$3 million in gross revenues to its revenues of about \$9 million. This could boost Schiff's ranking among the top insurance brokerage firms in the nation from 20th largest to 16th or 17th largest, depending on the rate of growth for other brokerage firms during 1977.

Most significant was the acquisition of Leedom, O'Connor & Noyes of Milwaukee, adding about 20 people to Schiff's existing office of only two people and establishing the base for Schiff's planned expansion to more cities of the Midwest in the next six months. Next in line as targeted cities are Detroit and Chicago, where president Frank Schiff said acquisition talks are currently underway.

Brenner Associates Inc. of Los Angeles was merged into Schiff's existing operation there, adding five people.

Roblin Insurance Agency Inc. was merged into the firm's Boston office, adding 16 people to the existing staff.

Swimmer Wolf Co. of Philadelphia was merged into Schiff's operation there, adding six people. ■



CIRCLE OF PROTECTION

Airlines
Pleasure and Business
Small Private Strips
Major Metropolitan Hubs

FOR ALL THAT FLIES



**SOUTHERN
MARINE &
AVIATION**

UNDERWRITERS, INC.

New Orleans · 610 Poydras St., 70130
(504) 524-4131 · Telex: 058-275 · 058-7440
Atlanta · 10 Corporate Square, 30329 (404) 321-1660
Houston · 1770 Saint James Pl., 77027 · (713) 627-9720
Los Angeles · 3200 Wilshire Blvd., 90010 · (213) 385-8436
Tulsa · 305 Park Tower Bldg., 74135 · (918) 664-0101

around the states

N.J. ponders overhaul of work comp law

TRENTON—The New Jersey legislature is considering a major overhaul of that state's 63-year-old workers compensation law including the establishment of defenses for employers that would limit benefits in certain cases.

Among the "affirmative defenses" a company could argue are that injuries resulted from "horse-play," drunkenness or willful misconduct.

Other provisions would increase the minimum permanent partial disability payment to \$15 a week from \$10 and set permanent partial disability rate at two-thirds of the weekly wage; increase the burial benefits to \$1,500 from \$750; allow dependents over 18 to continue to receive death benefits after 450 weeks if they are physically or mentally incapacitated, and specify that there is no time limit for compensation as a result of occupational disease.

The proposal would also allow the commissioner to require self-insurers to establish a reserve fund, post a bond or obtain excess insurance to cover workers compensation costs.

Michigan skiers

LANSING—The Michigan labor department has proposed safety rules that basically would make skiers liable for accidents on the way down the slope and resort owners liable for accidents on the way back up.

Don McGrath, deputy director of the labor department's safety bureau, says resort owners are getting stuck for too many accident claims that happen because of skiers' own negligence.

"A skier may not be able to handle certain conditions and he starts hotdogging," explained Mr. McGrath. "Or he goes to the lodge to warm up and he gets overheated (drinks too much)."

State inspectors examined 91 ski areas and issued 114 safety orders last year, Mr. McGrath said. There were six ski lift accidents in Michigan last year.

N.Y. medical fees

ALBANY—The New York workers compensation board has approved a 13% increase in the medical fee schedule that regulates insurance reimbursement rates for physicians treating workers compensation patients.

A board spokesman said that the 13% increase effective last month included a 7.3% cost of living increase. As a result of a study made by the state insurance board showing the existing fee schedule was about 95% of the "customary and usual" fees charged by physicians throughout the state, 5% more was added. The board chairman then added 0.7% to round off the figure.

Wisconsin injuries

MADISON—Work-related injuries increased sharply in Wisconsin in 1977 for the second consecutive year.

The rate, based on preliminary figures, was expected to show an

increase of about 10%. In 1976, the increase was 8.2%, according to the department of industry, labor and human relations.

The number of work related injuries qualifying for money under the workers compensation law neared 61,000.

Hospital self-insuring

OLYMPIA—A self-insurance fund covering 60 hospitals in Washington state has allowed member hospitals to save nearly \$800,000 on insurance costs with commercial firms, says B.C. Day, manager of the Washington Hospital Liability Insurance Fund.

He said malpractice claims against the hospitals during the past year were less than \$5,000 and the self-insurance fund reduced its premiums by 4% late last year.

Mr. Day cautioned that claims based on hospital cases during 1977 can be filed for a number of years and those claims could change the fund's claim experience.

Self-insuring nixed

RICHMOND—Virginia attorney general J. Marshall Coleman has ruled that Fairfax County is not authorized to establish a self-insured health insurance program

for its employees.

Such a program is not authorized by law, the opinion said. And it cannot be covered by laws allowing the county to buy insurance, to create prepaid hospital or medical service plans, or to set up a self-insurance liability program for local officials.

Ky. work comp

FRANKFORT—Kentucky Gov. Julian Carroll has proposed legislation that would eliminate workers compensation benefits granted in two recent state court decisions.

The proposed legislation is in re-

sponse to pleas from business leaders that the decisions could lead to higher workers compensation premiums. One national insurance group estimates that one of the decisions could raise premiums 10%.

That case, *Mills v Parsley*, involved a dispute over the formula to be used in calculating the benefits of an injured worker. The state workers compensation board awarded him \$54 a week, but the state court of appeals said he was entitled to \$84 a week.

The other case, *Transport Motor Express v Finn*, involved a dispute over calculating benefits for an employe who was 50% disabled before suffering an on-the-job injury that left him 100% disabled.

The board awarded him \$72 a week in compensation for his 100% disability. His employer said he was due only \$42 a week for the part of the injury suffered on the job. But the state court of appeals awarded the higher amount. ■



MEMO FROM MARSH & McLENNAN

It used to be easy to tell the good guys from the bad guys.

Not any more. Many of today's most elusive criminals don't look much different from you and me. They may be right there on your payroll, without you knowing it. That is, until it's too late.

That's one reason why banks, stockbrokers, insurance companies and other financial institutions, though among the most respected elements of our business community, are beset by some of today's most severe insurance problems.

In the area of crime losses alone, many financial institutions have had difficulty obtaining adequate amounts of insurance and some even operate without coverage. In newer

2 die when Continental jet aborts takeoff

5 firms may be involved in DC-10 accident

By JOANNE GAMLIN

LOS ANGELES — At least five major corporations may be involved in liability questions stemming from the crash of a Continental Airlines DC-10 in Los Angeles this month.

Two persons died and 74 were injured in the accident that began when the Honolulu-bound DC-10 blew two tires on its left landing gear forcing the pilot to abort its takeoff.

The Los Angeles fire department said the plane veered off the runway on to a thin layer of asphalt which gave way under the weight of the jumbo jet. The jet's landing gear collapsed and the left wing touched the pavement. The fuel

tanks ruptured at the same time, setting off a fire under the fuselage.

The two persons killed, 76-year-old Carl Schneider and his 72-year-old wife Ann of El Cajon, Calif., apparently died of smoke inhalation after they jumped from the elevated right wing of the burning plane, according to Rudolf Kapustin, a National Transportation Safety Board investigator. Mr. Kapustin, who is heading a 10-man team investigating the accident, said the couple was probably so severely injured by the fall that they could not get away from the smoke and flames.

Some of the victims were burned as flames engulfed the fuselage, according to fire department offi-

cial. Others were injured while attempting to slide down emergency chutes that failed to inflate properly.

All but 28 of the injured passengers were released from hospitals within 24 hours of the accident.

The National Transportation Safety Board said it may take up to six months to establish the cause of the accident. However, error by pilot Charles E. Hersche was ruled out four days after the disaster. Ironically, flight 603 was the last for Capt. Hersche since he was about to reach the mandatory retirement age of 60. The accident was said to have been his first crash in 32 years of flying.

Los Angeles-based Continental Airlines has a \$33 million hull pol-

icy, 60% of which is written in London and 40% of which is with the U.S. Aviation Insurance Group (USAIG), treasurer Jack Woodlock told *Business Insurance*. He said that the airline also has passenger liability insurance written by the two underwriters with "normal" limits.

In mid-March Lloyd's of London announced it and other European insurers paid Continental \$19.8 million to represent its 60% of the coverage.

J. H. Minet is Continental's London broker. The airline's domestic broker of record is the Van Schaack agency of Pasadena, Calif., a firm that has been with the airline since the early 1960s. Van

Schaack is headquartered in Denver and was named the airline's broker when Continental was headquartered in that city.

McDonnell Douglas, the manufacturer of the DC-10, is understood to also be insured by a combination of London and the USAIG, although one informed source noted that the coverage may now be written entirely in London.

Other manufacturers under investigation in the crash are General Electric Corp., which made the engine, and BF Goodrich Co. and the Goodyear Tire & Rubber Co., which produced the tires used in the ill-fated flight.

Mr. Kapustin of the NTSB said his agency has established that the tires on the jet were retreads. However, he added that the use of such tires is a normal practice among airlines.

He said the NTSB is concentrating its investigation on why the fuel tanks ruptured and the landing gear collapsed; whether the escape chutes were in compliance with federal flame-retardance standards and why the retread tires blew out.

He noted that aircraft landing gear is designed to run only on runways and not on the asphalt that the jet was on when the accident occurred.

An FAA spokesman in Los Angeles said that last October his agency put out a proposal that DC-10s be required to have a shield to protect the hydraulic landing gear system from tire treads thrown off when tires blow out. The proposal has been submitted to the industry for comment, he said, and is now being reevaluated by the FAA.

An NTSB spokesman in Washington gave the DC-10 good marks for safety. He pointed out that there have been only 11 accidents involving the plane in domestic service, most of them minor. Until the Los Angeles incident, he said only one person died in a DC-10 accident in the United States.

However, in March 1974 a Turkish Airlines DC-10 crashed near Paris, killing 346 persons. The more than 300 lawsuits arising from the tragedy have been settled, at least at the trial level, in Los Angeles federal court. The estimated cost of the settlements is between \$70 and \$80 million.

Plaintiff attorneys who participated in the trial that stemmed from that disaster are less willing to assign high marks to the DC-10. San Francisco attorney Gerald C. Sterns, who represented a contingent of British plaintiffs in the lawsuit, told *Business Insurance* that the DC-10 "is the most dangerous" plane aloft today.

He charged that the DC-10 has a "terrible" safety record and he said that McDonnell Douglas is particularly vulnerable to liability for the Los Angeles crash because of the collapse of the plane's landing gear.

"The whole thing would have been a genuine catastrophe if Los Angeles firemen had not been right there, Johnny on the spot," he said.

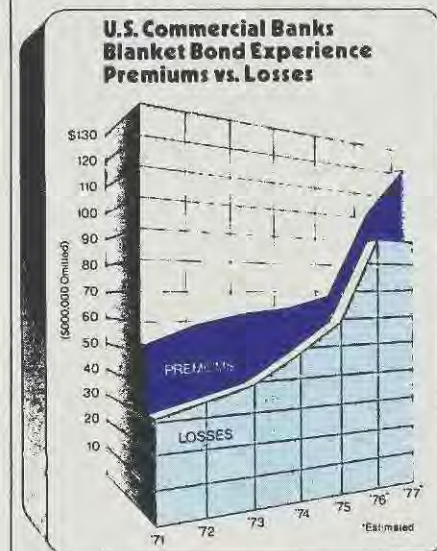
Mr. Sterns made no secret of the fact that he would like to represent plaintiffs in the lawsuits he said are sure to follow the latest accident.

Similarly, Marshall Morgan, a plaintiffs attorney in the Paris crash case, said that he is eager to participate in any lawsuits that arise from the Los Angeles disaster.

"No one has been intelligent enough to ask for my services yet," he said.

areas of insurance coverage—such as liability under ERISA, Electronic Fund Transfer, Automated Teller, and Debit Card—underwriters have granted insurance either sparingly or not at all.

Overall, insurance coverage in



this field has undergone several rounds of policy restrictions and substantial increases in deductibles in recent years.

Two factors compound the situation.

First of all, the insurance market for most coverages purchased by financial institutions is served by a limited number of insurance companies, few of size, and several offering only specialized lines of coverage.

Second, in the category of crime insurance coverage, the insurance industry has paid out tremendous sums of money over the past five years, resulting in large operating deficits even after taking into account investment income.

Consequently, there is a crucial shortage of the capital and surplus necessary to provide

for the insurance requirements of the financial community. Paradoxically, these factors have converged at a time when the risks of loss confronting financial institutions have increased many times because of new technologies and business expansion, coupled with changes in the social and legal environment in which financial institutions operate.

How Marsh & McLennan is tackling the problem.

Specialization! By bringing together a group of financial institution insurance professionals and making this a Marsh & McLennan resource available to our clients anywhere. The diversity of skills represented by this group, which can be tapped through our offices, includes experts in risk analysis, underwriting, claims management and loss prevention, as they relate to the truly unique loss exposures faced by financial institutions.

This group is actively engaged in an attempt to ease the pressure on financial institutions by increasing the underwriting capacity available to them, and by seeking widespread industry support for these efforts.

Further, in the area of crime claims, difficulty in establishing and proving losses is one of the most troublesome and frustrating aspects of this type of insurance. Marsh & McLennan, by concentrating the skills of its people in this field is thoroughly knowledgeable in the details necessary to establish claims properly with insurers. Also, we offer specific experience in the mechanics of documenting proof that losses were insured in those

cases where discovery of the losses was made long after the crimes had been committed.

Most of all, Marsh & McLennan has learned through specialization that standards for loss prevention, consistently applied are the best way to prevent or to reduce losses, and in turn, to reduce premiums.

Simply put, no insurance broker is better equipped or is better organized to respond to the diverse insurance needs of financial institutions.

In other words, we're good guys to have on your side.

If you'd like to know more, we have prepared a kit containing up-to-date information on this important subject, which we'll send you on request. Write to Dept. 400 BI, Marsh & McLennan, Incorporated, 1221 Avenue of the Americas, New York, N.Y. 10020.

Our specialists in insurance for financial institutions are ready to serve you.



Marsh & McLennan



REED STENHOUSE COMPANIES LIMITED

is the new corporate name for Reed Shaw Osler Limited, the international insurance and reinsurance brokerage and risk management organization.

In 28 countries, throughout the world, subsidiaries continue to operate under their existing names. In Canada and the United States, the principal operating subsidiaries are Reed Shaw Stenhouse Limited, and Reed Shaw Stenhouse Inc. respectively.

Repair costs go up

Dollar's slump alarms top marine underwriter

LONDON—The dollar's weakness in world currency markets is causing problems for marine underwriters who believe that premiums ought to be adjusted upward to counter the effect on repair costs.

The situation has been spotlighted by John A. Oliver in a review of current market trends after taking office at Lloyd's for another term as chairman of its marine market underwriters' group.

As the dollar drops in value against the pound sterling and other foreign currencies after its buoyant stance of recent years,

hull claims will become more costly in many parts of the world in relation to premium receipts.

Well over 60% of marine insurance transactions at Lloyd's and other centers are carried out in dollars. Premiums running into hundreds of millions of dollars are collected in that currency and claims are settled on the same basis.

Repair costs play such a large part in the marine market, however, that extra new burdens are being placed on insurers whenever damaged ships are taken to non-American shipyards for repair.

Payment for these repairs must be made in local currency, which is now rising in value compared with the dollar, and the premiums do not meet the full costs of the settlement.

Mr. Oliver, who is one of Lloyd's leaders in the marine market, said, "I have been watching for a sign from U.S. market that underwriters there are taking steps to help remedy the situation, for a weak dollar will affect them as well as insurers in the U.K. and other countries. But they do not appear so far to be making any move to hike their rates to allow for the fall in dollar values in major financial centers.

"It may be they are hoping the situation will improve under the Carter administration's economic plans, but the matter cannot be left too long before corrective action for shipowners' premiums has to be taken," Mr. Oliver said.

He believes the problem may have considerable impact on the U.S. market, even though insurers there may feel they are shielded from the effect of the falling dollar if they have repairs carried out to a greater extent in U.S. shipyards.

"The cost of repairs in U.S. shipyards is already very high and can go higher if costs of raw materials rise as the dollar falls," he pointed out.

"The U.K. insurance market was in a much stronger position in the past to achieve the lead in raising premium levels than it is today when there is severe competition from fringe markets and cut-rate insurance in some parts of the world," Mr. Oliver continued.

"I cannot see any major upturn in rates while the present world shipping recession continues. Shipowners seem to be taking the opportunity of cheap rates to counteract the slump in world freight, but they ought to have regard to the security which markets like Lloyd's offer, even though the rates might sometimes be a little higher."

Support for hull insurance portfolios in general from other sources such as cargo insurance and war risks coverage has been dropping lately and so throws an extra burden on the all-risks hull account.

Safety exam

Applications to take the September examination of the board of certified safety professionals must be received by June 1. A completed application, reference questionnaires and an academic transcript must be received by the deadline for all individuals wishing to take the examination scheduled for Sept. 30. Application materials may be obtained by writing the Board of Certified Safety Professionals, 501 South 6th St., Suite 101, Champaign, Ill. 61820.



Before they ask you about dental care programs, ask us. Last year 4,114 benefit managers did.

Last year thousands of employee benefit managers contacted the American Dental Association for information on dental benefit plans. Why?

Dental care plans are a rapidly growing employee benefit—from two million people covered in 1965 to an estimated 48 million today. Employers and union officials recognize dental plans as a worthwhile employee benefit.

Further, the American Dental Association has experience gained from longstanding cooperation with the nation's largest carriers and purchasers of dental insurance.

We can help you better understand dental care and make the right decisions for your company and your employees.

Return this coupon, and we'll send you a package of useful background information on dental payment.

If you are considering a dental plan for your company, or presently have coverage, we believe you will find this information important. Please

send the coupon to: James Y. Marshall, Council on Dental Care Programs, American Dental Association, 211 East Chicago Avenue, Chicago, Illinois 60611.

For your information kit send this coupon to:

James Y. Marshall
Council on Dental Care Programs
American Dental Association
211 East Chicago Avenue
Chicago, Illinois 60611



BI 3/20/78

Name _____

Title _____ Phone _____

Company _____

Address _____

City _____ State _____ Zip _____

Number of employees _____

Presently have a dental plan? Yes _____ No _____

Cable system is blamed in park accident

VALENCIA, Calif.—California authorities say minor discrepancies in the tolerances of a cable system caused the collapse of a gondola skyride at the Magic Mountain amusement park here.

A 23-year-old bridegroom was killed and his wife of one day was severely injured in the accident.

"The discrepancies were minor but they were also cumulative," said Bob Beath of the California division of Industrial Safety.

He said his agency made a detailed examination of the cable clamp that was involved in the accident. The accident occurred Feb. 4 when a skyride gondola, carrying Miguel and Kathy Garcia, suddenly fell 50 feet to the ground.

Mr. Garcia died three hours after the accident. His wife of one day remained under intensive care in a nearby hospital for about three weeks. She is now listed in fair condition.

Mr. Beath said that from his observations of the markings on the cable clamp, "we were able to duplicate the accident."

He said that a representative of the European manufacturer of the cable clamp system was present during the duplication and that the manufacturer's representative claimed that there was nothing wrong with the system.

"The division disagrees and we are basing our position on the fact that we were able to duplicate the accident," asserted Mr. Beath, noting that Wagner Biro of Austria, the producer of the skyride, is not the manufacturer of the cable clamp system.

The skyride, which has been closed since the accident, will not be re-opened to the public until the division is satisfied that the problem has been corrected and that the accident cannot be reproduced, Mr. Beath said.

Magic Mountain has agreed to make corrections, according to the safety officer. Furthermore, he said the amusement park is instituting a control program to inspect the critical clamp area more closely.

No lawsuit had been filed by mid-March regarding the accident, a Magic Mountain spokesman said. ■

St. Pauls adds services division

ST. PAUL, Minn.—St. Paul Fire & Marine is moving into the risk management services business with a new department it intends to nurture into a competitive force for Kemper's NATLSCO and the Insurance Co. of North America's ESIS.

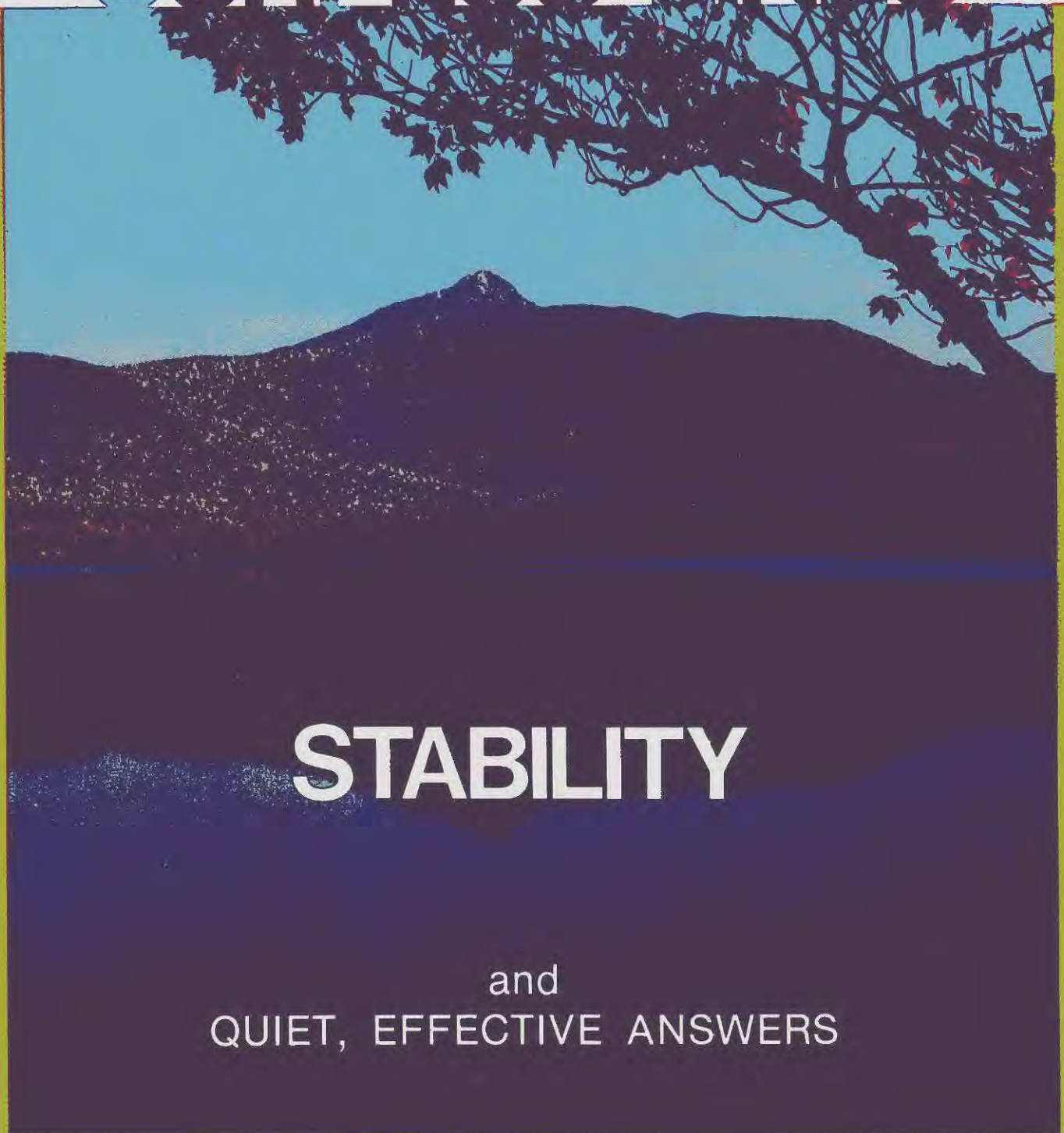
"Risk management is fast becoming a major line of business and The St. Paul intends to be a leader in this field," said executive vp Thomas H. Swain.

The insurer has been testing the services market for the past several years through a unit attached to its marketing division, providing risk management services to insureds and also on contract to non-policyholders.

So far it's a one man department, supported by the expertise and work of other St. Paul Fire & Marine departments. E. Warren Bessler moved from his position as general manager in Washington, D.C., to head the new services department.

Ultimately plans are for the risk management department to provide services nationwide and to have its own staff.

SURPLUS LINES



STABILITY

and
QUIET, EFFECTIVE ANSWERS

THIRTY YEARS ...

of stability and quiet, effective answers! Clearly, First State is in the marketplace to stay. You might keep this in mind in relation to the explosive Excess-Surplus Lines growth of recent years.

Count on us. For continuity, creativity and capacity. Now and in the future.

Buffers, Umbrellas, D.I.C., All Risk Builders' Risk, Valued U. & O., Vacant Property, Special Covers are just a few of our products.

FIRST STATE, the largest and oldest domestic company formed to write Surplus Lines, Special-Purpose and Reinsurance Business.

A + :CLASS XII - A.M. Best Co.

**MULTINATIONAL, PROPERTY and LIABILITY,
MULTILINE THROUGH AGENTS AND BROKERS**

FIRST STATE

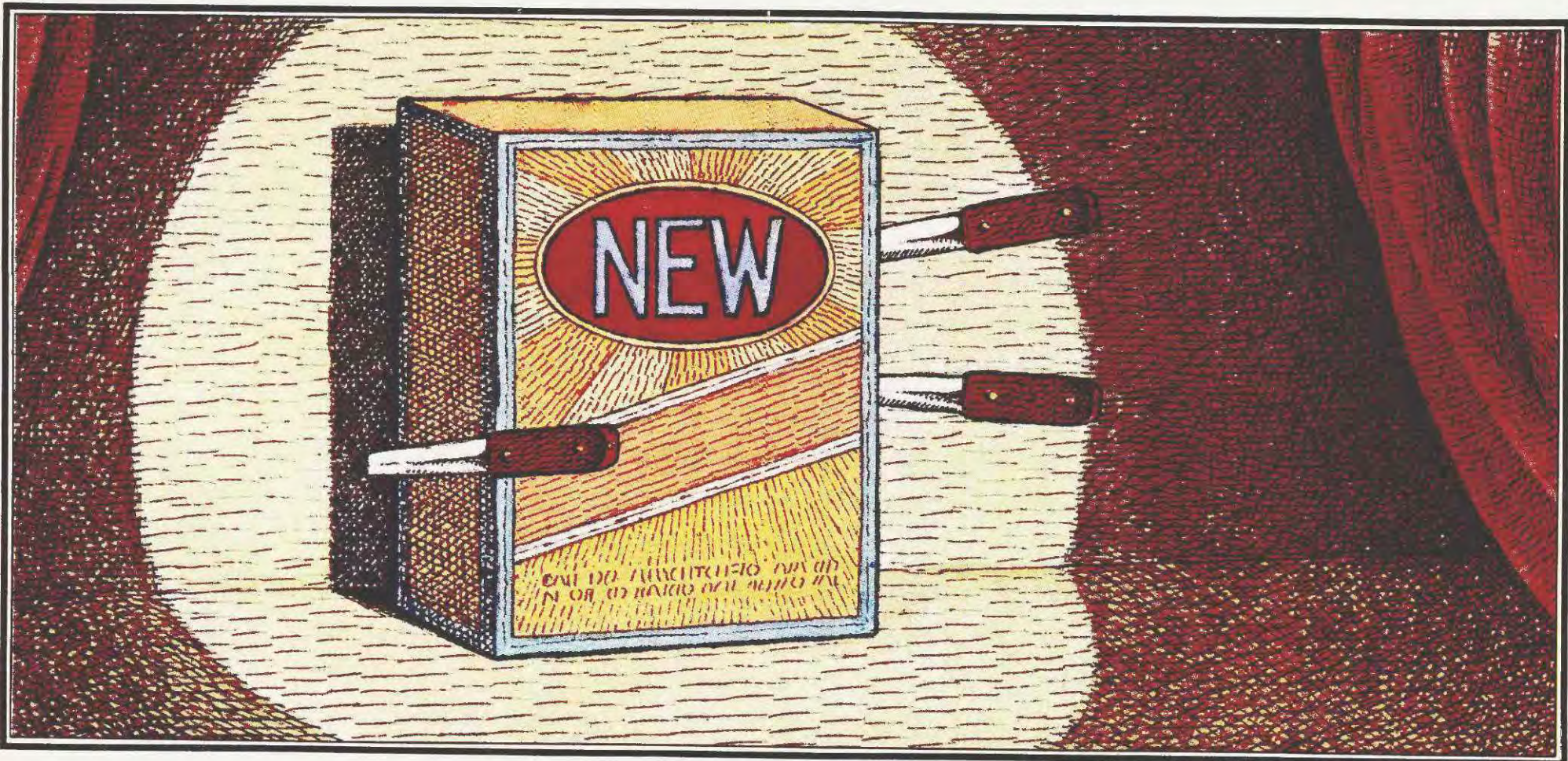
INSURANCE COMPANY

a CAMERON and COLBY activity



Cameron and Colby Co., 60 Batterymarch Street, Boston 02110 - 617/357-8400
CHICAGO, Hartford Plaza Building, 312/782-5921
ATLANTA, 3340 Peachtree Road N.E., 404/266-1480

Reducing Product



With product liability insurance increasingly restricted in terms of coverages, manufacturers are putting more stress on loss control and safety programs to hold down claims and lawsuits.

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

Although product liability insurance is still generally available to manufacturers, rates have gone up sharply over the past few years and coverages have been significantly reduced. The insurance now issued usually provides for relatively high deductibles, so that more of the risk is shifted to the manufacturer. In addition, there has been a trend toward policies covering the current year only, excluding all claims not

made during that year, which can also add to a company's risk.

Virtually all manufacturers have been affected by product liability difficulties. Companies making such products as pharmaceuticals, chemicals, machine tools, power mowers and sporting goods have been particularly hard hit. The problem is so widely recognized that 189 remedial bills have been introduced in 42 states, in addition to a variety of mea-

asures pending in Congress.

Legislative changes, however, can at best provide long-range solutions. Meanwhile, manufacturers are utilizing several approaches, including the establishment of self-insurance reserves where possible and, with some larger companies, the formation of "captive" insurers.

Most companies don't stop there, however. Spurred by a variety of influences, they are tightening and extending their product safety and loss control programs. The starting point is often an extensive survey, the objective of which is to reveal every potential hazard, both to people and property, which might result from the use of the product under all conceivable conditions.

Some insurance companies will conduct such surveys either in conjunction with insurance coverage or separately. Surveys

Liability Exposures

of this kind generally examine the two basic aspects of product safety—control of the product itself and control of the conditions under which it is used.

Sensing the pitfalls

For example, a survey made for a manufacturer of road paving equipment resulted in specific suggestions for improvements in product design and manufacture. In design, it was recommended that a railing be installed behind the operator's platform, together with additional hand holds. In manufacture, critical parts—parts whose failure might result in injuries to users—were identified and quality control standards drawn up for them. Another suggestion was for the establishment of a tag system for rejected parts, to ensure that they would not find their way back to the assembly line.

And to cut down on accidents on the road, recommendations were made for lights and turning

signals on the machines and for such equipment as safety chains for towing.

As for control of conditions of use, all operating and maintenance manuals, sales literature and advertising were reviewed for clarity and avoidance of misleading wording. Express warranties were changed—the phrase “a fail-safe brake system” became “a safer brake system.” Pictures were deleted of machines performing tasks that might tax their limits of strength under certain conditions. And it was suggested that some warnings appearing in instruction manuals also be placed on the equipment itself.

Following through

Plans for safety and loss control programs are one thing—implementing them is another. Although corporate risk managers can make recommendations based on surveys and other information, few of them have the authority to see that they're

actually accomplished. This usually becomes the responsibility of plant managers or of industrial relations people. In any event, perhaps the most important stimulus to safer products and fewer product liability claims is the commitment of company management to these goals.

Through its insurance facilities and through ESIS, its self-insurance subsidiary, INA provides professional counsel and services in the development of comprehensive product liability risk management programs.

* * *

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

INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on current trends in product liability, write INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

INA

The Professionals

For more facts circle 16 on reply card

Helmet can't block every kick, court finds

Even a well-designed football helmet can't protect a player against all head injuries, an Arizona court has found.

In clearing a helmet manufacturer of liability in a \$2.5 million product suit, the court determined that the injury resulted, not from a blow to the helmet, but from an uppercut to an exposed part of the face—something a helmet could not be expected to protect against.

Scientific tests showed that the helmet held up under blows far more powerful than would be received in a football game and that it was free from defects.



Employee Benefits



A One Day Seminar For Interested Professionals
In The Employee Benefits Field

Sponsored by the
Northern California Employee Benefits Council



Fairmont Hotel • San Francisco • May 9, 1978

TOPICS —

- THE IMPACT OF VOLUNTARY RETIREMENT
- THE CURRENT STATE OF THE HEALTH INSURANCE MARKET
- LIVING WITH ERISA

For further information call or write:

Ms. Kathy Sinclair, Treasurer
Alexander & Alexander, Inc.
1900 Spear Tower • 1 Market Plaza
San Francisco, Cal. 94105
(415) 777-5500

dates for buyers

March 28-29. How to reduce your construction insurance costs (while improving your coverage) to be held in Atlanta and sponsored by RIMCO. The seminar will be repeated April 10-11 in Washington, D.C., April 27-28 in St. Louis, May 3-4 in Dallas, May 15-16 in Los Angeles and June 7-8 in Chicago. Cost: \$435; per team member, \$375. Contact RCI Communications Inc., 95 Boston Post Road, Greenwich, Conn. 06830; phone 203-622-0050.

March 29-30. How to reduce your hospital malpractice insurance costs while improving your coverage to be held in Chicago and sponsored by RIMCO. The seminar will be repeated April 6-7 in Washington, D.C., April 20-21 in Dallas, May 2-3 in Key Biscayne and May 22-23 in San Francisco. Cost: \$435; per team member, \$355. Contact RCI Communications Inc., 95 Boston Post Road, Greenwich, Conn. 06830; phone 203-622-0050.

March 29-30. How to reduce your trucking insurance costs while improving your coverage to be held in Atlanta and sponsored by RIMCO. The seminar will be repeated April 5-6 in San Francisco, April 20-21 in Philadelphia, May 1-2 in Denver and May 17-18 in Dallas. Cost: \$395; per team member, \$345. Contact

RCI Communications Inc., 95 Boston Post Road, Greenwich, Conn. 06830; phone 203-622-0050.

March 30. The Society of Chartered Property and Casualty Underwriters will present a workshop **Financial Management of Your Agency**. The workshop will be held in Williamsburg, Va., and will emphasize ways to increase agency profits, cash budgeting, use of cash flow, measuring proper expense-income balance, agency expense control, honest self-appraisal, major time problem areas and solutions, why buy or sell, how to value goodwill, how to value covenant and valuation of expirations. Cost: \$60 for CPCUs and \$65 for non-CPCUs. Contact Robert M. Finan, The Society of CPCU, Kahler Hall, Providence Road, (CB#9), Malvern, Pa. 19355; phone 215-648-0440.

April 2-4. The Society of Chartered Property and Casualty Underwriters will present a inter-regional seminar on Large Marine and Off-shore Risks in New Orleans, La. Topics will emphasize cargo and hull coverages, offshore risks, protection and indemnity, the Longshoreman's and Harbor Worker Act, the Jones Act, the Outer-Continental Act and river barges and tugs. Cost: \$175. Contact Robert M. Finan, The Society of CPCU, Kahler Hall, Providence Road, (CB#9), Malvern, Pa. 19355.

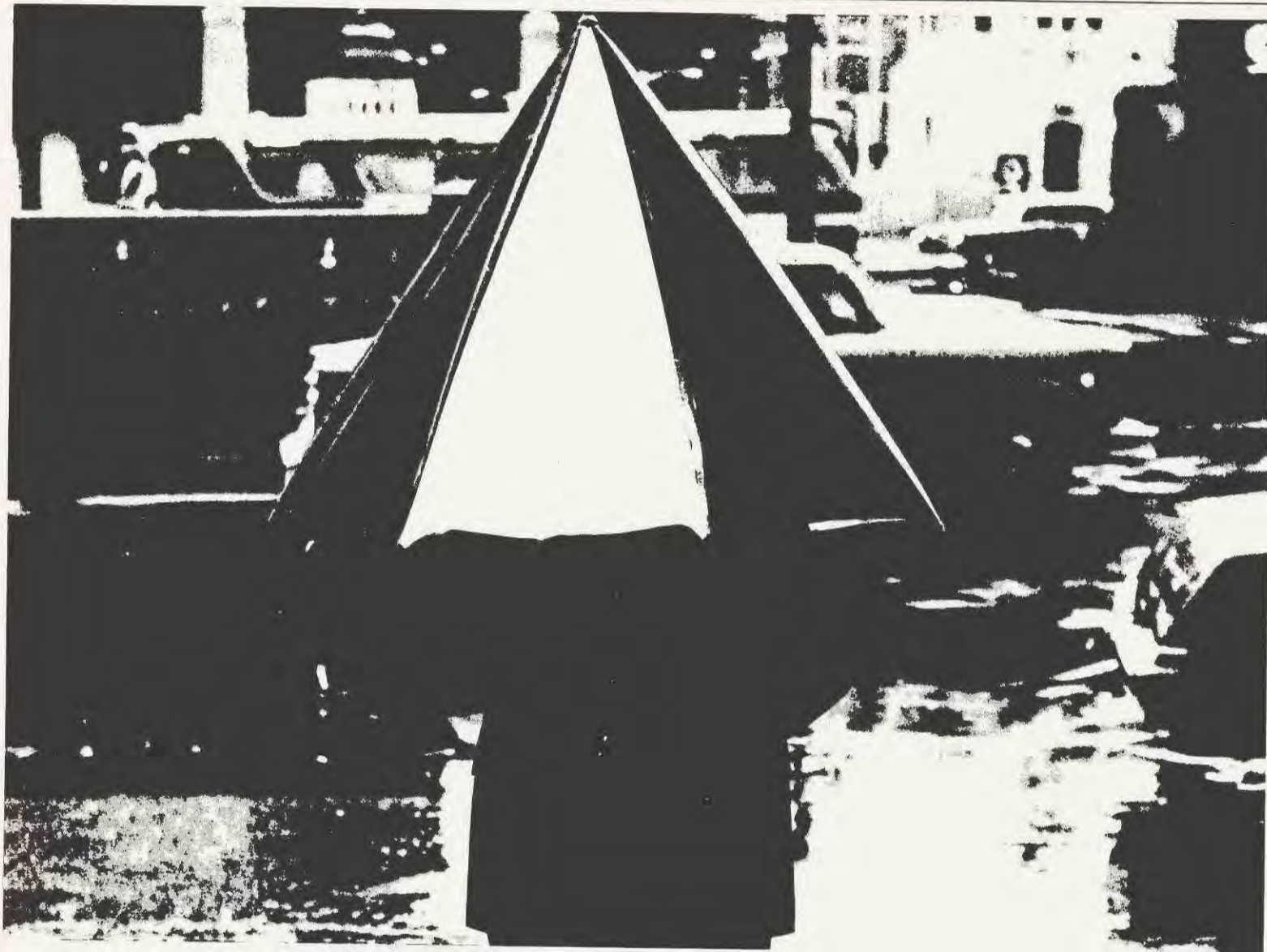
April 10-11. The New Mine Safety and Health Act: What it Means to You sponsored by the Energy Bureau Inc. to be held in Denver. The program is designed for executives and supervisors of the hardrock and coal mining industries. Cost: \$395; per team member, \$295. Contact Robert W. Nash, Executive Director, The Energy Bureau Inc., 101 Park Ave., New York, N.Y. 10017; phone 212-889-7657.

April 18. The New York Metropolitan Chapter of the Society of Fire Protection Engineers will hold its annual seminar in New York. The topic of the meeting will be **Energy Conservation and Fire Protection**. Cost: \$30. Contact Mr. W. Robert Powers, c/o New York Board of Fire Underwriters, 85 John St., New York, N.Y. 10038; phone 203-322-7639.

April 26-28. The Assn. of Private Pension and Welfare Plans Inc. will hold its annual meeting in Washington, D.C. The meeting will focus on amendments to ERISA and include a Congressional reception. Cost: \$200, members; \$250, non-members. Contact Sue Meldrim, Assn. of Private Pension and Welfare Plans Inc., Suite 909, 1028 Connecticut Ave., N.W., Washington, D.C.; phone 202-659-8274.

April 18-19. Keith Shipton Developments Ltd. will sponsor a conference on **Aviation Risk Management 1978** in Heathrow. How will the insurance industry respond to increased requirements will be the basis of discussion. Contact Caroline Atkinson or Gillian Morley, Keith Shipton Developments, St. John's House, 124/127 Minorities, London, EC3N 1NT; phone 488-2071.

April 20-21. NAEHMO will hold their second annual meeting on **Health Care Cost Containment** in Kansas City, Mo. Topics will include dual choice regulations, how to negotiate with an HMO, determining the employer's contribution, how to communicate the HMO option, how to administer and follow-up of the National HMO Conference. Cost: \$175, NAEHMO member; \$225, non-member. Contact National Assn. of Employers on Health Maintenance Organizations, 1134 Chamber of Commerce Building, 15 S. 5th St., Minneapolis, Minn. 55402; phone 612-338-4823.



Has your insurance program collapsed when you needed it most?

When you suddenly find that your vital insurance programs have become too expensive to maintain—that the design of your coverage has in fact collapsed around you—it's clearly time to consider a new broker.

One who's more experienced and flexible. A truly innovative broker with a top performance record for clients ranging from multi-national companies to local businesses. One who can design, implement and administer self insurance programs.

But above all, a broker who can economically adjust to your constantly

changing requirements and prevent program collapse.

Arthur J. Gallagher is that kind of broker.

Check the record. Our unequalled growth rate among the top 20 U.S. brokers is clear proof of focused planning and professional management for an increasing number of clients.

Regardless of how varied or complex your insurance needs may be, we can provide the protection you need.

Why not contact us, at absolutely no obligation. Before it rains.



ARTHUR J. GALLAGHER & CO.

Gould Center, Golf Road, Rolling Meadows, Illinois 60008 • Phone 312/640-8500

- An International Organization Providing Excess Coverages and All Related Services for Self Insurers
- Brokers for Commercial, Industrial and Institutional Insurance Programs

For more facts circle 110 on reply card

HOW TO ORDER B. I. REPRINTS

Readers may now order low cost reprints of articles that appeared in **BUSINESS INSURANCE** directly from this magazine. Articles are reprinted on 8½" x 11" sheets and carry the **BUSINESS INSURANCE** credit line and issue date.

Quantity	Price*
100	\$25.00
Additional 100's	
per 100	\$ 6.50
1,000	\$65.00

* For articles requiring more than one page, multiply the price by the number of pages needed. Shipping extra. On quantities larger than 1,000 and additional information contact:

REPRINT MANAGER
business insurance
708 Third Avenue
New York, N.Y. 10017
212/986-5050

Sometimes Arkwright-Boston reps don't call home for months.



That's because they're the best in the business.

Since we're a decentralized company, they have to be. They've got to be good enough and professional enough to make decisions and come up with answers without calling the home office every five minutes. In effect, they're Arkwright-Boston wherever they are.

That means that if you have a company in Des Moines, it will get the same attention as a company in Atlanta or one in Stuttgart, Germany. And the attention you'll get is the best. In fact, you'll probably have a better loss prevention record when you insure with us than you'll have when you insure with anyone else.

After we sell you insurance, we want to make sure you'll never need it.

Regional Offices:

Boston, Cleveland, New York, Chicago, Atlanta, San Francisco.

Arkwright-Boston Insurance



A most unusual company

London line

Conference may transport liability to shipowner

By JOHN H. MILLER

LONDON—U.K. underwriters expect major changes in insurance coverage for world freight after a diplomatic conference in Hamburg which has been set up to look into the problem.

Proposals are being considered to switch liability for goods at sea from the shipper to the shipowner.

This is likely to mean that the trend towards the use of P&I (protection and indemnity) mutual clubs for third-party coverage on goods carried by sea will be stepped up considerably.

But marine insurers believe that it will still be necessary to cover the

cargo against unforeseen contingencies, while firms that export their products abroad will have to rely on the ordinary commercial protection as well.

This can result in a form of "dual insurance" for a time until the legal complexities of the new arrangements are sorted out.

The plans have been drafted by United Nations experts to assist "developing countries" which contend that their economic interests will be put into better balance this way.

Underwriters in many leading insurance markets, however, challenge this approach. They argue that the placing of cargo cover by

the shipper in the normal marine market has stood the test of time as the basic system for contracts under the Hague Rules of 1924 has operated well for more than 50 years.

But under schemes developed by UNCTAD—the United Nations trade and development organization—over the past seven years it looks as though the change will now take place and that in the future the world's shipowners will have to protect themselves against large claims for loss or damage to most goods sent by sea.

Bulk goods, such as liquified gas or petroleum, which are not pre-packed, will be excluded. But the

majority of businessmen now face a beneficial review of their insurance coverage for exports if the draft convention goes through, as hopefully they will be able to get any losses paid for by the shipowners involved.

Oil loss

Insurers have agreed to pay \$2.4 million (Canadian) for oil lost when the U.S.-owned tanker Venoil collided with its sister-ship Venpet off Cape Town last December.

This represents 7% of the total insured cargo, valued at \$33.5 million (Canadian), which was put in peril when the collision occurred.

U.K. standards

Insurance buyers will be able to rely on high standards of service from the U.K.'s new statutory registration council which has been established for brokers both at Lloyd's and in the company market.

Alan Parry, head of the North American division of the Sedgwick Forbes group, explained that Lloyd's brokers had decided to join the new organization because its overall aim is to raise the standards of the brokerage industry as a whole.

As retiring chairman of the Lloyd's Insurance Brokers Assn., which has now been made a component part of the British Insurance Brokers Assn. representing all interested bodies, he said: "Lloyd's brokers have to comply with far more stringent requirements than other brokers, but it is surely right that they should seek to help others to come closer to these high standards."

Product liability

Business equipment manufacturers in the U.K., who have an annual turnover of \$3 billion and handle export orders reaching more than \$1.2 billion, are hoping that no-fault liability will not be as rigorous as some consumer interests seek.

They argue that producers ought not to be held liable if the product was not defective in the light of technological knowledge at the time it was put into circulation, and that there should be limits of financial liability.

Difficulties, which will arise in obtaining insurance coverage for unlimited liability or the likely cost of getting such coverage, should be taken into account before legislation is introduced in the U.K., their trade association points out.

Most households own life policies

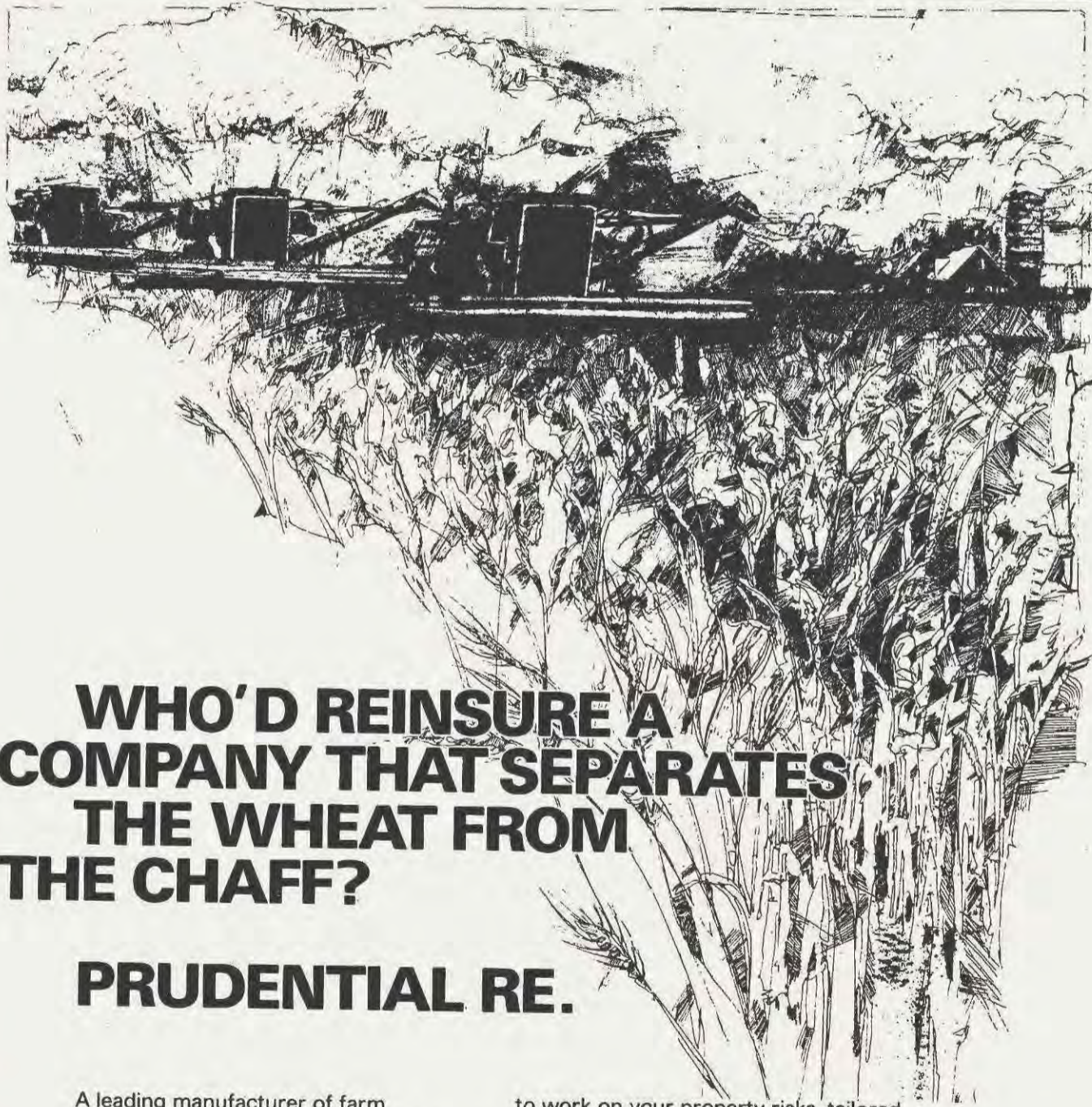
WASHINGTON—Most household heads between the ages of 18 and 45—the years when families are being raised—own some form of life insurance.

A joint survey by the American Council of Life Insurance and the Life Insurance Marketing and Research Assn. found that:

- In households headed by persons under age 45, nearly nine in 10 of the household heads had life insurance.
- One in four of the heads of households had purchased individual insurance on his or her life within the past two years.
- In one-fourth of the households, total life insurance protection amounted to \$50,000 or more.
- Homeowners and married household heads with children tended to have larger than average amounts of life insurance.

Tax payments

U.S. life insurance companies are paying federal, state and local government taxes, licenses and fees of over \$4 billion for their 1977 operations, the American Council of Life Insurance estimates.



WHO'D REINSURE A COMPANY THAT SEPARATES THE WHEAT FROM THE CHAFF?

PRUDENTIAL RE.

A leading manufacturer of farm equipment needed a lot of insurance for its assembly plants and equipment. Its insurance company required reinsurance. So they turned to Prudential Reinsurance Company to provide facultative coverage on the excess risk. This is one example of Prudential Re's involvement in property insurance.

But picking up the excess isn't the only way we take a property risk. We write facultative property reinsurance on a pro-rata basis, too. Either way, Prudential Re is willing to put its capacity

to work on your property risks, tailored to your requirements.

Prudential Reinsurance welcomes a wide range of property and casualty facultative risks. You can always count on experience, expertise and realistic terms.

Just give us a call. We're the Rock in reinsurance. Even if it's about farm equipment, our discussions will bear fruit.

In Newark: (201) 877-8000. Branch Offices: Los Angeles, (213) 385-6261; Chicago, (312) 782-4793; New York, (212) 422-4350.

Prudential Reinsurance Company
Subsidiary of The Prudential Insurance Company of America



benefit tax slants

Qualified stock options attractive despite elimination of tax break

JOSEPH S. ROBINSON
Attorney-At-Law

WHILE THE TAX BREAK surrounding qualified stock options has been virtually wiped out by the Tax Reform Act, nevertheless they are still a valuable benefit because of the guarantee to the participating employee that he can purchase the shares at a stated price.

The law specifically provides that all participating employees must have the same rights and privileges. This means that a company cannot discriminate in favor of any one class of employees. However, granting options on the basis of the rate of compensation paid is allowable. This means that the \$100,000 a year executive may be given the right to purchase five times as many shares as the \$20,000-a-year employee (subject to a \$25,000 annual ceiling per employee).

Apparently, the company cannot use a formula that takes into account such factors as years of service with the firm, age, or units of production. If a company wants to grant stock options on the basis of one of these factors, it should consider a nonqualified stock option plan.

Options can be offered to eligible employees at a maximum discount of 15% of the value of the underlying stock. Of course, the company is not required to set the price at this mark. It has complete discretion to charge the minimum 85% of the value or a higher amount. But once a price is set, it must apply equally to all employees.

The option may run for a period of five years from the date of grant if the price is based upon the fair market value at the date of exercise. If the option price is determined in some other way, the maximum duration of the option is only 27 months.

Note that whatever method is used for determining the price, the option price may not be less than 85% of the market value.

Threat to pension

Company-sponsored pension plans have long been considered useful in building an employee's retirement estate. But after inflation and taxes have taken their toll, the payout may not be all that great.

Consider a 35-year-old employee who now earns \$20,000 per year. If he remains with the company for the next 30 years, chances are he'll be pulling down \$100,000 by age 65

even if his salary hikes merely keep pace with a 6% annual cost of living increase. Suppose his pen-

sion plan calls for retirement pay of 45% of final pay, our man will be in
Continued on following page

SPECIALTY UNDERWRITERS AGENCY, INC.

UNDERWRITING MANAGERS FOR HARD TO PLACE
CASUALTY • PROPERTY • TRUCKS

122 MAIN BUILDING / MILFORD, OHIO 45150
(513) 831-RISK TELEX: TWX 810-460-8322

Introducing The Frank B. Hall of Fame.

Named after the world's most inventive corporate insurance broker. Here, Frank B. Hall stands behind a handful of his 190,000 unique clients. Firms whose property and casualty risks he protects—as well as the welfare of their employees. One of our 66 local offices can show you exactly why these illustrious firms chose Frank B. Hall.



We make you safe.
You make us famous.

Captive manager forms in Colo.

DENVER—The Van Gilder Captive Management Co. has been formed here to manage Colorado captives. It is a wholly owned subsidiary of the Van Gilder Agency Co.

Henry Higginbottom is president of the newly formed division which is in the process of doing feasibility studies. He is also comptroller of the brokerage firm. Prior to joining Van Gilder, Mr. Higginbottom was an officer of the Glendale Agency here and chief financial officer for three Colorado captive insurance companies.

The Van Gilder Agency recently acquired Steel Jacobs & Associates Inc. here bringing combined gross revenues to approximately \$1 million.

benefit tax slants

Continued from preceding page
the 50% tax bracket even in retirement.

What happens to the \$45,000 annual pension a generation from now, after taxes and inflation have

New business interruption plan

CHICAGO — Zurich-American Insurance Cos. is offering a new business interruption policy for businesses with annual sales under \$1 million.

The time-element coverage combines loss of earnings and extra expense coverage with the loss from rents added. Zurich-American says the new policy can be up to 35% less expensive than comparable policies.

The policy named "earnings plus," contains no coinsurance clause, contains no percentage limitation on extra expenses and offers coverage for a minimum of two months and a maximum of one year.

been taken into account? The purchasing power of this retirement income measured in terms of current dollars (assuming a conservative 5% rate of inflation) combined with the tax bite will reduce the retiree's real yearly income to a figure approximating \$8,000 — not nearly as substantial as anticipated.

Reporting perks

The SEC released its guidelines to clarify which fringe benefits must be reported as compensation to executives. Basically, according to the SEC, company expenses which simply assist an executive in doing his job effectively or which reimburse him for outlays incurred in the performance of his duties are not income. However, company expenditures for an executive's personal benefit or for purpose unrelated to company business constitute income to him. Thus, the personal use of a company plane or automobile must be reported, but parking places that companies provide their top brass

may be omitted from remuneration reports.

The SEC guidelines consist of more than 40 questions which are answered and deal with such subjects as insurance, medical check-ups, chauffeur driven cars, and other frequently provided management perks.

IRS movies

IRS has announced that it has made several half-hour films dealing with tax subjects. The films are available free to civic, business and other community organizations planning programs on federal taxes during 1978.

One of the films, "The Americans Way of Taxing," portrays the history of the federal income tax system and describes the services offered by IRS. Another, "Why Me, Tom Krolik?," deals with the tax audit and appeals process.

Program planners who may be interested in borrowing any of the films should contact the Public Affairs Officer in their IRS District Office. If the films aren't available locally, they can be obtained by writing a letter to the Internal Revenue Service Public Affairs Division, C.I.P., Washington, D.C. 20224.

riskWatch

By ELLIS SIMON

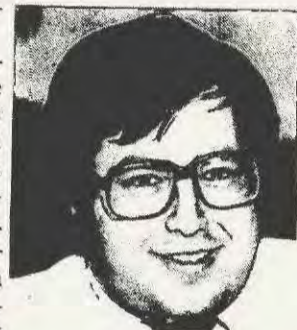
Lawyer grabs a scalpel, operates on health system

For a little over a year, a former village justice from Westchester County and five assistants have been shaking up the health care establishment in New York State.

The former judge is Matthew Lifflander. A partner in a New York City law firm, Mr. Lifflander is counsel and director of the state assembly's medical practice task force.

The task force, staffed by Mr. Lifflander and his aides, is conducting a comprehensive probe into the state's medical profession and health care industry.

Since opening for business a little over a year ago, the task force sparked nationwide headlines with its exposure of medical equipment salesmen who took part in operations with the knowledge of the attending physicians. The panel has also focused attention on "ghost" surgery, where a resident is substituted for the surgeon hired by a patient without the patient's knowledge.



Simon

But possibly the most important accomplishment of the task force is its plan to assure quality medical care to New York state residents while controlling costs. Believed to be the first plan of its kind in the U.S., the program includes a proposal to allow private insurers to receive the same lower hospital rates available to Blue Cross.

Discounts for Blue Cross range from 15% to 40% in New York and cost control efforts can not truly be effective without eliminating this discrepancy, Mr. Lifflander said.

But, the greatest challenge to controlling costs is the need to curb payment for unnecessary or incompetent procedures, he added.

While it is very difficult to put a dollar figure on the cost of unnecessary surgery, Mr. Lifflander said it probably runs into the millions of dollars many times over. Studies in New York State have revealed high proportions of unneeded hysterectomies and tonsilectomies, he added.

Greed and incompetence are the prime reasons for such practices, he said. "Most surgeons will tell you that the practice of surgery tends to breed strong egos because of the tremendous responsibility.

"In open-heart surgery, the surgeon relieving angina by coronary bypass believes it's the best treatment, but studies show that medicine works just as well," Mr. Lifflander explained.

Medical incompetence is rarely reported by members of the profession, hospitals, government agencies or insurers, a task force report said. Further, incompetents are often allowed to continue such practices.

The degree of incompetence among doctors is greater than the public realizes, but it is no different from any other profession, Mr. Lifflander noted.

"Doctors are not made out of anything different from anybody else, but society has put them on a pedestal and imputed to them a superior intellect," he explained, "It's unfair to them and they've become defensive about the profession."

Full disclosure to patients and use of second opinions can be consumer safeguards and help control costs, but the state must take steps to assure cost and quality control because nobody has done that so far, Mr. Lifflander said.

The state licenses and regulates doctors, hospitals and insurers and is the largest purchaser of health care services through Medicaid and its group health plan for civil service workers. As the largest purchaser, the state should insist on quality control, Mr. Lifflander said.

The task force has proposed that the state set the quality assessment standards that professional standards review organization (PSROs) will have to follow.

The task force's plan would set up a quality assessment agency to monitor PSROs. PSROs not meeting standards would be replaced and total cost of the quality assessment agency would be around \$500,000 per year, Mr. Lifflander said.

Assembly Speaker Stanley Steingut has requested that the task force have legislation ready for introduction this month. Mr. Lifflander noted that Gov. Hugh Carey who has made health care a major issue, is expected to give the bill strong support.

If passed the task force proposals could be a major step in controlling New York's health care costs, improving quality of care and easing the skyward pressure on health insurance premiums.

Looking for a good, reliable, reputable, hardworking claims adjusting firm that separates fact from fiction?

Our founder wrote the book.

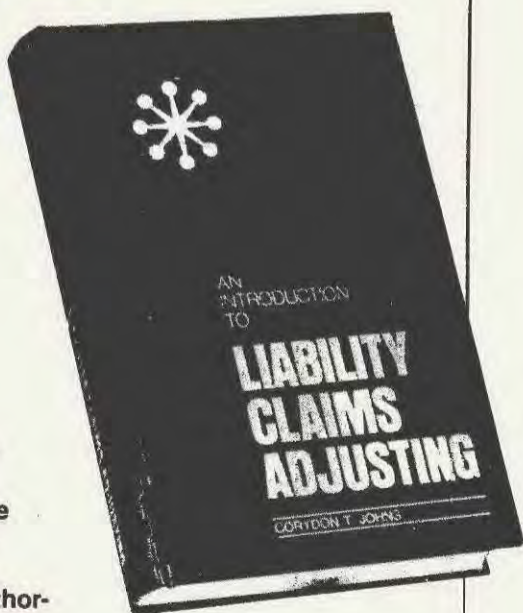
An Introduction to Liability Claims Adjusting is used as the basic training manual for claims adjusters across the country. The founder of Johns Eastern, Corydon T. Johns wrote it. As professionals, we adhere to the sound claims adjusting principles the book reflects. And, we practice them daily.

Johns Eastern values its reputation as a thorough, quality conscious, "value received" company.

We've worked hard to build that reputation and to keep it.

After all, our clients have the book to measure us by.

Call Johns Eastern...
the claims adjusting firm the professionals use.



JE **JOHNS EASTERN COMPANY, INC.**
P.O. Box 4175/2238 Gulf Gate Drive/Sarasota, Florida 33578/(813) 924-1301

info for buyers

• With their traditional immunity to damage suits largely a thing of the past, state, city and local governments have been hard hit by high jury awards and a subsequent rise in insurance costs. INA has published **Municipal Liability, Some Professional Considerations** which discusses the resulting trends toward municipal risk management and municipal insurance pools. For a free copy circle 196 on the reader service card.

• Thousands of restaurant fires will occur this year. Eighty percent of the restaurants as a result will not re-open their doors. In an attempt to prevent this Ansil has prepared a booklet outlining their R-101 system. The booklet is intended to help the restaurant owner understand how his system works, his responsibility for maintenance and what to do in case of fire. For a free copy of **Restaurant Fire Protection** circle 197 on the reader service card.

• **Thirty Percent of What?** is the title of a reprinted article that refers to the fact that an employer's liability in a terminated ERISA-qualified pension plan can be measured by 30% of the fair market value of the company's net worth. For a free copy of the article, which appeared in the January 1978 issue of *Financial Executive*, circle 198 on the reader service card.

• Johnson & Higgins is offering a promotional brochure on their employe communications division—**Employe communications is more than just talk**. For a free copy circle 199 on the reader service card.

• J.H. Minet has prepared a leaflet summarizing the insurance markets available for **overseas investment insurance**. For a free copy circle 200 on the reader service card.

• J.H. Minet Training Center has prepared a folder of **Basic Insurance Principles**. The brief guide is divided into six parts: the contract of insurance, insurable interest, utmost good faith, proximate cause, indemnity and subrogation and abandonment. For a free copy circle 201 on the reader service card.

• **Among Your Resources** is a 28-page booklet listing upcoming educational programs of the International Foundation of Employee Benefit Plans, a description of the foundation's activities and a directory of officers, committee members and headquarters staff. Also included is a brief history of the 24-year-old foundation. For a free copy circle 202 on the reader service card.

• A promotional brochure outlines the services of **Venture Management Ltd.** The company offers management services to Bermuda-domiciled insurance companies. For a free copy circle 203 on the reader service card.

• **Staff** is a monthly, 40-page, daily, pocket-size calendar for managers. It includes executive development programs for middle managers and white collar supervisors. Topics cover four areas—creativity, executive skills, management in action and business and the law. For a free sample circle 204 on the reader service card.

• **Safety & Security for Supervisors** is a 40-page, pocket-size daily calendar booklet. It provides an on-going supervisory training program including questions and answers about OSHA, a safety checklist form and case histories, articles

and forms on industrial safety and security. For a free sample circle 205 on the reader service card.

• **You Could Look Like A Million** ... to someone who wants to sue you, says a Kemper Insurance Co. brochure explaining its \$1 million personal liability policy against unusually large but increasingly frequent lawsuits. For a free copy circle 206 on the reader service card.

• **Who Needs a Household Inventory?** is a promotional folder designed to help the homeowner keep a record of personal property for insurance purposes in case of loss or theft. For a free copy circle 207 on the reader service card.

• **Liability Insurance** is the title of

a reprinted article from *Constructor Magazine* defining some of the problem exclusions in a professional liability policy and offering possible solutions. For a free copy circle 208 on the reader service card.

• The dangers of a non-negotiated insurance policy and a review of exposures, coverage and property valuations before a loss are all explained in **After the Damage is Done**. For a free copy of this promotional pamphlet circle 209 on the reader service card.

• A promotional brochure from **Pinkerton's challenges you to compare** their services to those you may be receiving for security. The free brochure provides a checklist to assist your comparison. For a copy circle 210 on the reader service card.

• In a reprinted article—**Risk Management**—a top executive of a

large corporation explains the role of risk management and its importance in the overall financial affairs of a company. For a free copy circle 211 on the reader service card.

• The Ansil Company has produced a 16-page, color, promotional booklet outlining the curriculum of its **Fire School**—how it operates and what to expect when any of your employees enroll. According to the premise of the school, a graduate should be able to cope with a large percentage of

common industrial fires. For a free copy circle 212 on the reader service card.

• A 24-page booklet from Arkwright-Boston Insurance explains the basics of **Boiler and Machinery Insurance**, including the insuring agreement, conditions which apply to it and a description of the various forms which complete the policy. It also details special provisions which apply to direct damage coverage, endorsements that

Continued on following page

HOW THE FENWAL FIRE SUPPRESSION SYSTEM IN THIS AUTOMOTIVE COMPANY PAID FOR ITSELF IN ONLY 2 WEEKS.

At 9:03 on a Wednesday night, an electrical malfunction caused overheating, and smoke began rising in the west end of this company's computer room.



At 9:06, while the fire was still in the smoldering stage, the Fenwal Fire Suppression System automatically sensed this smoke and discharged its extinguishing agent (Halon 1301).

By 9:30 that same night, the smoke had cleared, employees had arrived and with the appropriate Fire Department clearance entered the computer room. Traces of Halon were present but there was no discomfort.

Close examination of the problem area revealed scorched and discolored internal wiring. Some relays would have to be replaced. But no other damage had occurred.

Even though the fire was inside the consoles, at the farthest point from the Fenwal discharge nozzles, the flames were snuffed out *dry*

and major damage or personnel injury was completely averted.

At 10:45 P.M. the Fenwal distributor who had installed the modular suppression system was called. By 5:30 A.M. it was re-charged and back in service.

This protection system had been installed just two weeks prior to the true incident described above.

It actually made the difference between a few hours of downtime and several weeks of expensive business interruption. The kind of interruption from which some businesses never really recover.

Fenwal has designed and installed more of these Fire Suppression Systems than any other manufacturer. And we make a full line of thermal, smoke and ultraviolet Detection Devices and Control Panels.

We have visual proof our Systems work in a variety of environments. Send for our film, "The Fireaters."



Or for a copy of our booklet on fire suppression. Write Fenwal Incorporated, Ashland, Mass. 01721. A division of Walter Kidde & Co., Inc., or call (617) 881-2000.

For installation and around-the-clock service, see our local distributors listed in the Yellow Pages under "Fire Protection."

FENWAL®

Nobody in the world has more experience in fire and explosion protection systems.

For more facts circle 108 on reply card

info for buyers

Continued from preceding page provide indirect damage coverage and a complete glossary of frequently used boiler and machinery terms. For free copy circle 213 on the reader service card.

• Are you considering **self-insurance**? A promotional brochure from Jeff Brouger, consultant for Thompson, Graham & Co. Ltd., may answer your questions. For a free copy circle 214 on the reader service card.

• A promotional brochure, **Products Liability Services**, describes the services of CURM, a risk management services organization. For a free copy circle 215 on the reader service card.

• Revised and updated, **GAB's Lit-**

tle Red Book 1978 is a comprehensive directory of addresses and telephone numbers for the more than 650 GAB branches throughout the U.S., Canada, Caribbean and Europe. Also listed are the company's services and key executives. The directory includes a tear-out card with the emergency claims service telephone numbers. The 62-page booklet is available without cost by circling 216 on the reader service card.

• **The 1976-77 Source Book of Health Insurance Data** is available from the Health Insurance Institute. The 80-page booklet is a handy reference guide on private health insurance coverage, benefits and premiums. The introductory chapters describe continuing efforts to control rising healthcare

costs and improve the delivery and quality of health care services. For a free copy circle 217 on the reader service card.

• The International Foundation of **Employe Benefit Plans** has compiled a **bibliography** of source materials from its publications and cassette tape subscription service. Listings date from the passage of ERISA in 1974 and are divided into 33 subject sections. Single copies of the articles are free. For a free copy of the bibliography circle 218 on the reader service card.

• **Advantages of Self-Funded Health Plans** is a promotional brochure that outlines the benefits of those plans into two general categories—financial and design. For a free copy circle 219 on the reader service card.

• Kwasha Lipton has just produced a newsletter, **Long-Term Pension Costs and Investment**

How to order Info

This is the third of several expanded Info For Buyers sections Business Insurance will publish this year. To aid our readers in receiving the information they would like, the free items may be ordered by circling the appropriate number on the reader service card inserted in this issue. Items that carry a charge must be ordered directly from the supplier.

Objectives in a Dynamic Economy: The Impact of Inflation and Investment Return on Private Pension Plans. For a free copy circle 220 on the reader service card.

• **A Comparison of Pension Plans** is a four-page brochure from David Langer Co. Inc. that contrasts a prior plan and an amended plan. Factors considered are number of covered employees, total salary, annual pension benefits, insurance volume, pension contributions and insurance premiums. For a

free copy circle 221 on the reader service card.

• The Through Transport Club has recently published an illustrated, eight-page brochure to explain its insurance services for air cargo operators and air freight forwarders. Designed for **brokers and air through transport operators**, this is the first in a promotional series, each of which will deal with a different category of through transport operation for which the club offers membership. The remainder of the series will be published later in the year. For a free copy circle 222 on the reader service card.

• **Protect Your Home... For All It's Worth** will help a homeowner estimate replacement costs in the event of a loss. The booklet provides a worksheet and floor plan to help a policyholder determine if his house is insured to replacement value. For a free copy circle 223 on the reader service card.

• **Employer HMO Service** is a bi-monthly report on the concept and development of health maintenance organizations published by Personnel Research Associates. *Business Insurance* readers are offered a free sample issue dealing with the 190 most frequently asked questions about HMOs. Circle 224 on the reader service card.

• **Noise in Industry** is a 30-page technical report with diagrams on the subject published by Commercial Union Risk Management. It is a guide to employers who are involved in the problem of noise and its effects, whether in choosing new processes and equipment or a wider concern for employee health and safety. Cost \$5. Write Eric Mitchell, Commercial Union Risk Management Ltd., St. Helen's, 1 Undershaft, London EC3P 3DQ, England.

• A defense attorney provides the medical expert with **Ten Tips on Handling Yourself in Court**. The article gives a detailed list of tactics to aid the physician in giving medical testimony. The author deals first with substantive areas and then the procedural areas of medical testimony. Following the article is an outline, Trial by Expert, directed toward the defense counsel handling medical malpractice cases. Copies are \$2. Write Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233.

• If you are learning risk management techniques or are enrolled in such a class, Insurance Education Specialists has prepared a study guide that may be of value—**Structure of the Risk Management Process** by Robert E. Kuntz. The study guide is intended to be used in conjunction with the 1977-78 IIA Topical Outline for RM 54. Cost is \$8.50. Write to Insurance Education Specialists, 43 Norfolk Ave., Clarendon Hills, Ill. 60514.

• **Risk Management for the Smaller Company** is a 45-page booklet published by The Assn. of Insurance and Risk Managers in Industry and Commerce (AIRMIC), the representative group of U.K. insurance and risk managers. Cost of the booklet is \$7.50. Write to R. A. Muckleston, INCO Europe Ltd., Thames House, Millbank, London SW1P 4QF, Britain.



If you had time to read them all, you wouldn't need us as much.

One of the hardest parts of any risk manager's job is keeping up with the latest information and changing trends. The sheer volume of reading required is staggering.

But you have to know. What are the newest state and federal regulations? Are there new ways to cope with products liability? What's the latest on self-insurance? How do you reduce the possibility of fire loss?

It's the single, critical piece of information you miss that could make the difference in effective decision-making.

Where can you go for answers?

Try us.

R. B. Jones is a national firm. We've been providing major corporations with solid, up-to-date recommendations in all areas of risk management since 1889. Property. Casualty.

Marine. Surety. Employee benefits. You don't have to be a client to call.

When it comes to insurance and risk management, we believe you can never ask too many questions.

Our experienced professionals will be happy to supply the answers.

We have offices in Atlanta, Boston, Chattanooga, Chicago, Dallas, Ft. Worth, Houston, Jefferson City, Kansas City, Los Angeles, New Orleans, New York, St. Louis, Tulsa, Waterloo, and Wichita.

Or call our corporate headquarters in Kansas City, 816/391-1000.

R.B. Jones Insurance.

agent/broker topics

a regular editorial section exclusively for agents and brokers

Nationals find Phoenix competition prickly

By BARBARA JEAN GRAY

PHOENIX — Phoenix blooms commercially. As desirable and as promising as a budding cactus flower, its economy is a beauty to local commercial insurance agents and brokers.

But penetration may be a prickly problem to outsiders eyeing the industrial potential of this market.

Those seeking to cash in on the city's growth via acquisition will find a cluster of local agents who pride themselves on the number of times they've turned down merger offers and who claim they've grown pleasantly accustomed to independence from insurance companies. And those seeking to make an entry on their own will find potential competitors who claimed they successfully scrambled to hold on to accounts in recent years as risk managers balked at skyrocketing costs. This was probably more reflective of agents' conservatism than anything else because there has been more than enough business to go around.

Neither the local brokers nor the recently arrived nationals doubt that eventually the national brokers will dominate the nation's 15th largest city.

But between now and then it's going to be one rip roaring battle in the winning of this corner of the Southwest.

Most of the national brokers here now — March & McLennan, Johnson & Higgins, Corroon & Black, Fred S. James and Nordstrom Larpentour — have opened their own offices from scratch. Kansas City-based Financial Guardian appeared on the scene in 1973 with the acquisition of the Insurance Center of Arizona and James apparently attempted to come in through the acquisition of the \$600,000 in revenues Luhrs Insurance Agency, at least according to Luhrs.

At least one major house, Frank B. Hall, has already been in and out. In 1974 it affiliated with a one-man office intended to be built into a general lines agency but after two years the operation had not developed and the office was closed.

"We don't feel threatened by the nationals, but I'm sure they are writing a lot of volume we would



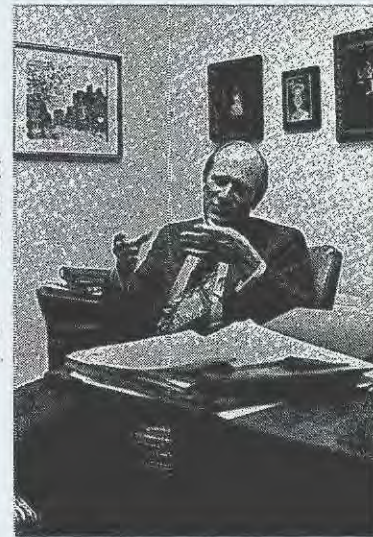
National brokers 'will rock local fellows like us. Most locals are not doing a damn thing about it.'

—Bill Pilcher, Olliver/Pilcher



'We feel we're still a lot better than the alphabet houses . . . They will have a tough time.'

—Bob Cowie, Lasher-Cowie



'The nationals will penetrate the Phoenix market only if they buy agencies. Otherwise, they won't.'

—Robert Charles, Charles & Laubach

Who's Who in Phoenix

- | | |
|---------------------------------|-------------------------------------|
| 1. Olliver/Pilcher & Associates | 6. Schaefer-Smith-Ankeney Insurance |
| 2. Cash, Sullivan & Cross | 7. Johnson & Higgins of Arizona |
| 3. The Valley National Co. | 8. Charles & Laubach Inc. |
| 4. Standard Insurance Agency | 9. Corroon & Black-Miller & Ames |
| 5. The Lasher-Cowie Agency | 10. Marsh & McLennan Inc. |

Ranked in order of gross revenue size, based on local opinions.

like to write," commented Bob Cowie, president of the local Lasher-Cowie Agency. "We feel we're still a lot better than the alphabet houses. They're just coming in here. They will have a tough time. The main reason is the local agents. The nationals are aggressive in services, although not as in sales as we are."

"The nationals will penetrate the Phoenix market only if they buy agencies," said Robert M. Charles, president of Charles & Laubach Inc. "Otherwise, they won't."

The city's largest broker however, Olliver/Pilcher, believes that its peers are underestimating the threat of market penetration by national brokers. The nationals' ac-

cess to markets is a definite advantage over the local brokers, claimed the chairman Bill Pilcher. "That's why we're putting our money into getting a marketing man. We won't have to have just local markets but all markets."

"We will be seeing many companies going to self-insurance in the future and right now J&H and

Fred S. James are the only firms here that have such services. That'll be another area we'll be getting into.

"Most locals are not doing a damn thing about it, but it will rock the local fellows like us. Hopefully, we'll be able to compete."

Olliver/Pilcher has two loss pre-

Continued on page 34G

'Calculator' slays laborious quotes

GLENVIEW, Ill.—The paper flow had become frustratingly clogged and the duplication of elementary bookkeeping functions tedious. Aside from being a pain in the neck, the time wasted on these efforts was contrary to Bruce Robertson's idea of what an insurance brokerage operation should involve, selling and service.

The president of Robertson Vickers Inc. and his four employees didn't even want to quote auto rates to prospective customers because of the hassle. That involved dragging out three manuals, checking and double checking whether they had asked all of the necessary questions and then going through the entire process again if they wanted to change even one little item. The whole process took anywhere from 30 to 45 minutes.

So in July 1976 Bruce Robertson began scouring electronic systems for a way to speed up auto rating. Though personal lines accounted for only 10% of his \$200,000 annual gross revenues, Mr. Robertson estimated that it took 80% of the time of two employees just to quote auto rates and to handle the agency's invoicing.

He investigated 42 different systems for auto rating. He looked at an IBM mini-computer for \$42,500, a Wang mini-computer for \$32,500 and a Hewlett-Packard programmable calculator for about \$11,000. He almost bought a Monroe programmable calculator for \$2,500 plus programming costs, but finally decided against it because the Monroe required that its 13 data cards be fed into the unit in perfect order and because its out-

put was in numbers and symbols only (no words), something Mr. Robertson feels increases the probability of error.

Then he found and bought Canon's Canola SX-320, an electronic programmable calculator that looks much like an electric typewriter. A tape with eight general auto interrogation questions is fed into the unit each morning and stored for the day, a process that takes 30 seconds.

After he bought the programmable calculator, Mr. Robertson realized he would need 156 cassette tapes to store the information he would need to provide auto rates from his three auto companies (Aetna, Kemper and Continental) for 13 territories. The cassettes would cost \$2,808 plus charges for a Canon representative to put the

programs on the tapes.

So instead of buying the 156 tapes, Mr. Robertson bought a Canon floppy disk drive SX-3320, which is about the size of a bread box. This holds all the information necessary for the auto quoting plus capacity for future programs. Information is stored on diskettes that look like 45 rpm records: Each one costs \$6.50.

The total cost of the two-unit Canon system was \$8,042.

It now takes the agency less than five minutes to spew out three auto quotes and only an additional two or three minutes to adjust the quotes to different limits or deductibles.

Changes on the tapes such as rate adjustments for any of the three companies can be done by the employees at Robertson Vickers. Addi-

Continued on page 34F

Inside: The future

The unprecedented growth in insurance brokers in the past two years has allowed brokers to make major improvements. But the growth may also ultimately be a curse, says a McKinséy & Co. expert. **Page 34B.**

Non-compete pacts

A non-compete agreement drawn up in Texas 12 years ago is being tested in a Denver court by Alexander & Alexander. **Page 34C.**

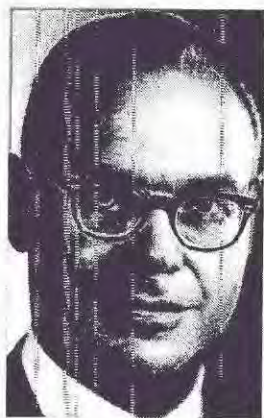
Agents & companies

A Texas firm is offering a service that injects itself into the agent-company relationship. **Page 34E.**

Your firm's new prosperity may wind up a curse

By Philip H. Dutter

McKinsey & Co. Inc.
New York



Philip H. Dutter, a nationally recognized expert on the insurance industry, is a director of the management consulting firm McKinsey & Co. Inc. Based in New York, Mr. Dutter heads McKinsey's insurance division.

THE PAST two years have been years of unprecedented growth in revenues and profits for most insurance brokers and agents. During 1976 and 1977, commercial lines property/casualty premiums written by stock companies increased at an annual rate of 21.5%. Preliminary reports indicate that commission payment increased at a somewhat slower pace but still exceeded an annual rate of 17%, the most explosive growth rate the industry has seen in the last 30 years.

This surge in revenue growth has resulted primarily from dramatic increases in premium rates for casualty coverages as insurers sought to restore profitability to lines that were heavily affected by the combined impact of accelerated economic and social inflation in 1974 and 1975.

The two-year leap forward in revenues and profits

has not been unwelcome in a business in which operating costs normally are pushed upward by inflation at the same pace as revenues. It has provided many firms the financial capacity to make much-needed investments in both personnel and equip-

ment that should help them provide more extensive and efficient service in the future. At the same time, this unusual period could ultimately prove to have been a curse, rather than a blessing, for many brokerage firms and agencies.

Why? It seems reasonable to assume that the same premium increases that have provided new opportunities to invest in strengthening a firm's capabilities are also stimulating changes in the attitudes of buyers of commercial property/casualty coverages that will make the customer environment in which insurance brokers and agents operate considerably more demanding in the future than it has been in the past.

The findings from an interview survey of 43 corporate risk managers conducted by McKinsey & Company in December and January tend to confirm this hypothesis. While most of the risk managers interviewed gave high ratings to the brokers and agents they use, there were also indications that the requirements for maintaining client satisfaction are becoming more severe.

For example, nearly half, or 19, indicated that they either had made or planned to make a change in their agent or broker relationships for at least part of their business. The primary reason given was inadequate service, with increased insurance costs running a close second. Commissions understandably are attracting increased attention. Some risk managers indicated that they plan to control their payments to brokers through negotiated commission rates or fees; others are more inclined to concentrate on making certain that they receive services that justify the increased commission payments.

While these attitudes are not new, it seems clear that the premium rate increases of the past two years have not only brought more revenue to agents and brokers, but they have also sharply accelerated a long-term trend toward greater customer sophistication and a more demanding competitive environment.

It seems likely that the next five years will be a period in which the well-managed, highly professional agencies and brokerage firms will increase their share of the total corporate insurance business at a faster rate than they have in the past. In fact, this trend is probably already taking place. During the past two years, the revenues of the six largest publicly owned brokerage firms have increased at an annual rate of 24%, approximately 40% faster than the rate of growth in total commissions from commercial property/casualty lines. While several factors including acquisitions have contributed to this faster rate of growth, an increase in share of market for these major firms is undoubtedly the major factor.

Based on our interview survey findings, it would appear that the more demanding customer attitudes that are developing will heighten the importance of three requirements for long-term success for agents and brokers:

- The ability to provide highly responsive service in carrying out the essential function of obtaining appropriate coverage at the best rate available.
- The ability to provide an array of supplementary services and the flexibility to tailor these to individual customer needs and desires.
- The ability to marshal the talents of specialists (inside or outside the firm) in a coordinated fashion to help solve the insured's problem.

One clear message from the survey is that "extra" services—such as special analyses of loss experience, counseling on loss prevention and control and unusual assistance in claims handling—cannot make up for any deterioration in service in performing the essential

Continued on page 34F

Design Error? It's Included In our **BUILDERS RISK!**



ILLINOIS R.B.JONES
has taken the
hassle out of
**BUILDERS
RISK!**

How many times have you had a carrier decline a Builders Risk claim on the strength of a Design Error exclusion? How long have you waited for an adjustment while the Builders Risk carrier and Architects E & O carrier (if any!) determined responsibility?

OUR ALL-RISK BUILDERS RISK INCLUDES PROTECTION AGAINST PHYSICAL LOSS RESULTING FROM DESIGN ERROR!

It's the hassle-free Builders Risk, available only through Illinois R. B. Jones. Our market is A+XII rated. Your customers are the Contractor and the Building Owner.

FOR FURTHER INFORMATION, CALL NOW OR MAIL THE COUPON TODAY!

ILLINOIS R. B. JONES INC:

Please send complete information on your **ALL-RISK BUILDERS RISK INCLUDING DESIGN ERROR!**

MY NAME _____

FIRM _____

STREET ADDRESS _____

CITY _____ ZIP _____

STATE _____ PHONE _____

BI

Insurances
effectuated at
Lloyd's
London
since 1905

the best of both worlds

**ILLINOIS
R.B.JONES inc.**



serving agents
and brokers
since 1905

175 W. Jackson Blvd., Chicago, Ill. 60604 • Phone (312) 435-8200

For more facts circle 171 on reply card

With former vp

A&A sues to enforce non-compete contract

DENVER—A non-compete employment contract drawn up in Texas 12 years ago is being tested in the U.S. district court here.

Alexander & Alexander Inc. has filed suit to enforce a non-compete and non-piracy employment agreement signed by an A&A vp who left to form his own brokerage firm.

The suit was originally filed in November 1975, two months after William S. Freberg established Freberg & Co. Inc., a Colorado corporation. A pre-trial conference was held last fall, but no date has been set for trial.

A&A charges that Mr. Freberg, while still employed by A&A, actively solicited A&A accounts for the new brokerage firm he planned to form after his resignation.

A&A requests \$100,000 from both Mr. Freberg and Freberg & Co. The suit charges that Mr. Freberg breached the contract by not only neglecting to fully devote his energies to A&A and by being "engaged in other business in direct competition with and in violation of employment agreement to the damage and detriment of A&A."

A&A also argues that it is entitled to 75% of the commissions on the business Mr. Freberg allegedly took from A&A in the three years following his resignation. At the time of the suit's filing, the amount was estimated to be less than \$75,000 in the suit's second claim.

A&A also requests exemplary damages of \$100,000 for relief in which it claims the defendant's conduct has been "attended by circumstances of fraud and a wanton and reckless disregard for the property rights and feelings of the plaintiff."

The A&A employment contract was signed September 1966 by Mr. Freberg and the Drake, Alexander & Drake co-partnership of William F. Alexander Jr., C.L. Gregory, W.G. Amundsen Jr. and T.E. Draper. The brokerage firm later became Alexander & Associates Inc. (an A&A subsidiary) and then Alexander & Alexander Inc.

The relationship among the successive owners is significant. "If we are to be successful on the contract count (the second claim for relief) the interrelationships of the parties will be an issue," said James D. Hinga of White & Steele, legal counsel for A&A in Denver.

The relationship between Drake Alexander & Drake and Alexander & Alexander Inc. is an issue in the case, concurred Richard Haring, of Calkins, Kramer, Grimshaw and Haring, which is representing Mr. Freberg. "There is no direct ownership change from Drake Alexander & Drake to A&A, the Maryland corporation," he said, "and there is an issue who has the right to enforce such an agreement."

Speaking for Mr. Freberg, Mr. Haring declined to reveal the size of Freberg & Co. in terms of gross revenues or employees.

National legal counsel for A&A Ron Roessler said there was no connection between this Texas employment contract and the non-compete agreements which the brokerage house instituted for its executives nationally in 1976.

The legal counsel said the question of enforcement of such agreements is most likely to come up in California, Oklahoma, Michigan and New York.

The contract signed by Drake, Alexander & Drake and Mr. Fre-

berg in 1966 stipulated that Mr. Freberg would devote his entire "time, skill, labor and attention to the agency and not engage in another business," obtain and maintain all necessary licenses for his profession, not disclose any information about the agency's business, not own the records or customers of the agency and be indebted to the agency for 75% of all commissions on new or renewal business of the agency three years immediately following termination of employment and for 10% of attorney's fees if the agency makes a claim in this practice. ■

Horan, Goldman Companies

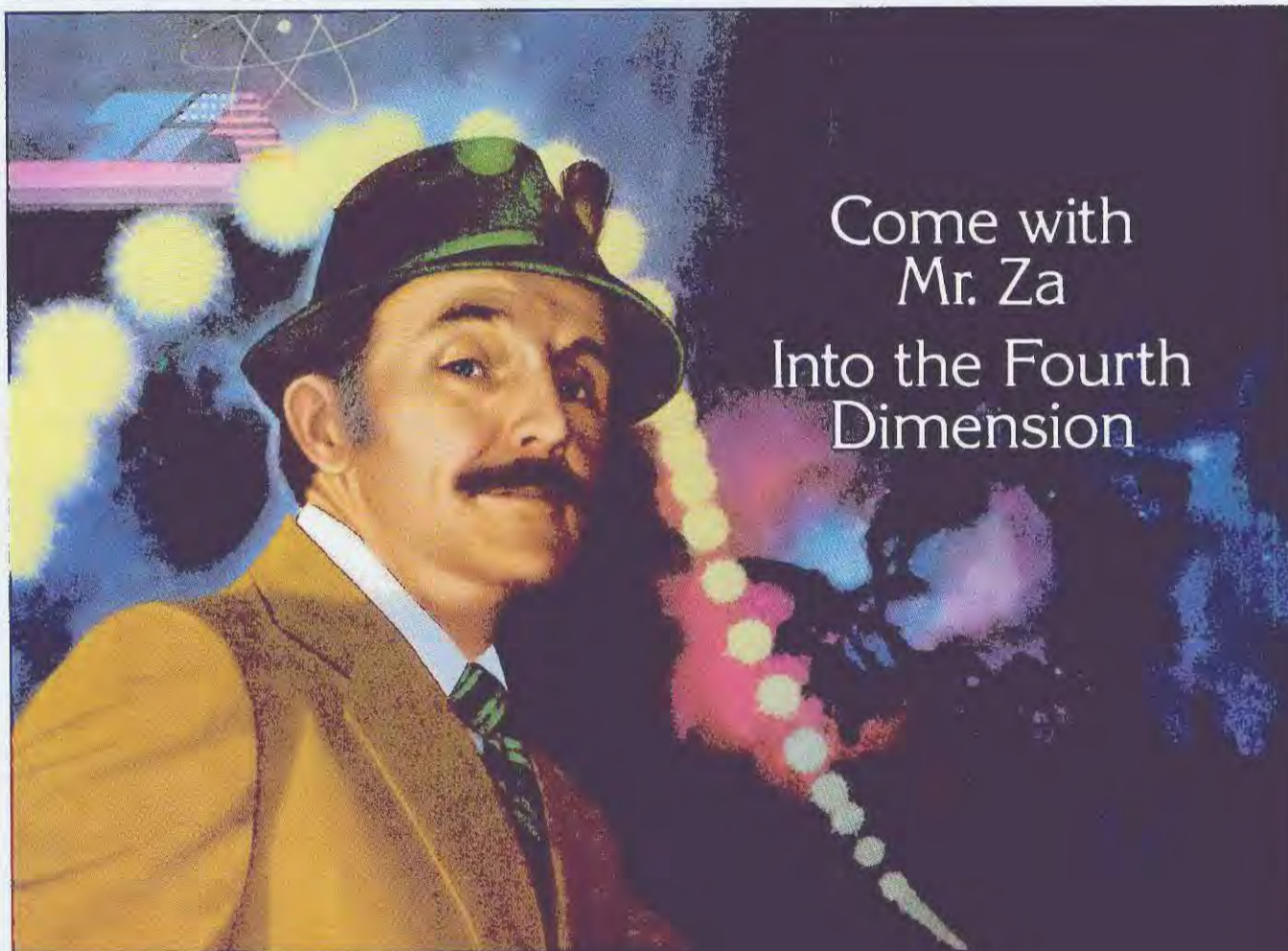
Managing General Agents Excess-Surplus Underwriters

Two Bryn Mawr Avenue, Bryn Mawr, Pa. 19010 • (215) 527-4400
414 Severn Bldg., 8600 LaSalle Road, Baltimore, Md. 21204 • (301) 821-5900
900 Kings Highway North, Cherry Hill, N.J. 08034 • (609) 667-9600
105 Loudon Road, Concord, N.H. 03301 • (603) 224-4009
111 John Street, New York, N.Y. 10038 • (212) 964-4500

HG

INTEGRITY
STABILITY
RELIABILITY

For more facts circle 170 on reply card



Come with Mr. Za Into the Fourth Dimension

In physics, the fourth dimension is time. In insurance, it's time element coverage.

But your client doesn't have to be an Einstein with Z-A's new Earnings Plus business interruption form*. For example, there's no need to predict whether losses will be in the loss of earnings or in the extra expenses category. Because there is a combined limit of up to \$25,000 a month per location for both. And Earnings Plus has no contribution (coinsurance) clause, a complicated idea that most insureds find about as intelligible as $E=mc^2$.

Depending on circumstances, premiums can be as much as 35 percent lower than standard manual rate premiums.

Learn more about Earnings Plus. Write to us now or call your Z-A branch office.

At Z-A service is our number one policy—in every dimension.



Zurich Insurance Company
American Guarantee
and Liability Insurance Company
111 West Jackson Boulevard
Chicago, Illinois 60604



*Available from Zurich Insurance Company or American Guarantee and Liability Insurance Company. Check with your Z-A representative for local availability. (Not available in all states.)

For more facts circle 173 on reply card

Look for the silver lining in those E&O clouds

A fictional account may be more truth than fantasy, from what we hear about the brokerage business. This light-hearted view of the broker's work-a-day world is designed to sprinkle a little oil on the daily grind (no pun intended).

It is a bleak day when the Par Excellence Insurance Agency is served its first million-dollar errors and omissions suit.

The claimant is the Zero Insurance Co., wanting to recover costs for which it says it's not liable. The suit claims that a would-be insured phoned the Par Excellence Insurance Agency at 4:55 p.m. on a recent Friday afternoon to obtain an auto policy. The caller dealt with a George Blitz at the agency. Mr. Blitz gave him a quotation on auto coverage with the Zero Insurance Co., the caller wanted the policy and Mr. Blitz told the caller he was covered. Driving home from the office, the caller had an auto accident. Mr. Blitz, however, did not have binding authority and had left the office Friday immediately after speaking



By
**BARBARA
JEAN GRAY**

to the caller. Zero paid and is now making claim against the Par Excellence Insurance Agency.

Producer Par Excellence was mulling the issue when Producer Zilch walked into his office.

Reading the suit, Zilch asked, "Who is George Blitz?"

"Who is George Blitz?" asked Producer Par Excellence incredulously. "Why, he's the fellow who... No. Wait. That's not him. Oh! He's the one who... No that's not him either."

Producer Par Excellence buzzed his secretary. "Mildred, who's George Blitz? ... uh huh, oh yes. Thanks."

Then, turning to Zilch, he said "George Blitz is Joe Whatshisname's brother-in-law."

"Oh HIM," said Zilch. "I never liked him anyway. He said I thought like an insurance company underwriter."

"That's ridiculous! It's also making a big assumption about underwriters."

"Yeah. Well, what's our E&O coverage? What are our policy limits?" asked Zilch.

"\$200,000 per claim and \$600,000 aggregate," said Producer Par Excellence.

"And what's our deductible?"

"\$199,000."

"Hm. Well, that gives us only \$999,000 to go. Where could we get that money? Do you think we could sell Blitz?"

"No. We may be ruined. We may soon be out on the street corner peddling apples."

"Yeah," muller Producer Zilch. "Just think. If the agency is lost, there'll be no more of those wonderful moments trying to place product liability coverages."

"Yeah," said Producer Par Excellence almost in a whisper.

"And there'll be no more of those fun-filled hours looking for account executives."

"Yeah," nodded Producer Par Excellence.

"And there'll be no more of those halcyon days meeting with our companies to discuss our commission levels and our profit-sharing agreements."

"Yeah. Hmm. Maybe that Blitz guy isn't so bad after all." ■

Commercial mass plans on increase

WETHERSFIELD, Conn.— Commercial mass marketing programs are on the increase while personal lines mass marketing programs are declining for independent agents in this state.

Among the 116 agents responding to an Independent Insurance Agent Association's survey, 25 agencies reported they lost 48 individual accounts to commercial mass marketing or safety group programs last year, double the number of the previous year.

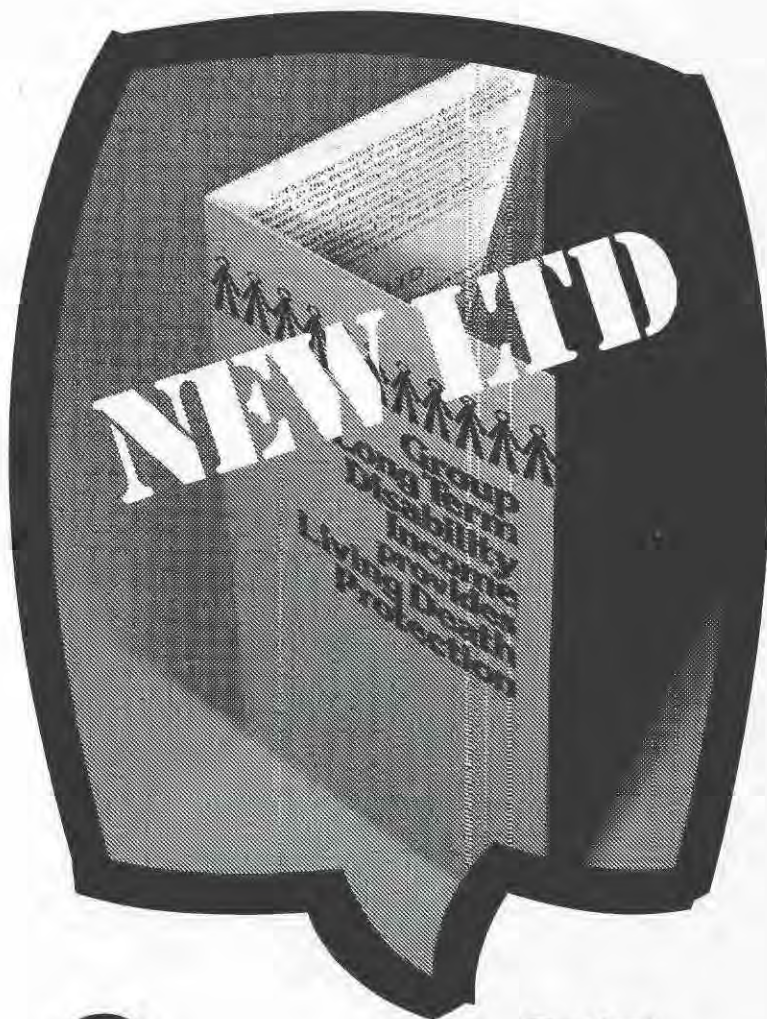
The number lost however was about even with those lost in 1975 (46) and about half those lost in 1974 (86).

In the association's 1977 survey on competition and markets, agents said 65% of those accounts lost last year to mass marketing were due to premiums which were 16% to 25% lower than insurance sold through traditional markets. The agents themselves wrote 169 groups in commercial mass merchandising and 72 groups in safety groups. That represented a 66% increase over 1976.

"The average annual premium accounts in these programs has jumped tremendously to \$20,000, up from \$3,600 last year," the survey said. "The average was affected by one account for \$150,000 and another at \$75,000."

By contrast, agents claimed they had lost 84 policies to personal lines mass merchandising programs in 1977. This compares to 220 in 1976 and 698 in 1975.

"This confirms the impression that most of us have that mass marketing of personal lines is dead," the report noted. "Experience figures for these plans reported to the Connecticut insurance department show that for 1976, written premiums for mass merchandising in the state were \$8,627,000 which developed an underwriting loss of \$1,126,000." ■



Quote Us.

It was time for a change in our Group Long Term Disability coverages. And we made it. The result? Our new LTD product is even more buyable. Check these quality features for your clients, then write and ask us for complete details: First, we will provide LTD coverages without requiring other coverages; schedules providing 50%, 60% or 66 2/3% of an employee's basic monthly earnings are available; monthly maximums of from \$2000 to \$3000 are available; for the first 3 years, total disability means the inability to perform the duties of one's own occupation. What's more, groups with as few as 10 employees can buy it. **This is a 20th century LTD Program. Designed for today's needs. And you can quote us on that.**

State Mutual of America
has a lot of good Group ideas.

Available in all states except California.

Yes, please deliver your **Group Long Term Disability Income provides Living Death Protection** brochure. We are interested in knowing more about a flexible LTD approach. We are also interested in Group:

- Life
- Pension and Profit Sharing
- Smile Guard Dental
- Allocated Investment Dollars

Other: _____

Name _____ Title _____

Firm Name _____

Street Address _____

City _____ State _____ Zip _____

Telephone _____
Mail to: State Mutual Life Assurance Company of America
Worcester, MA 01605. Attn: Mr. Crawford. BI-2

New service takes on agency-company hot potato

BRYAN, Tex.—Agency Records Control Inc. is bucking to expand its services to insurance companies, a relatively small market to date for the electronic data processing service bureau and minicomputer marketer.

It's a move with more implications for insurance agents and brokers than the insurance companies themselves since it involves an agency-company function that's becoming a hot potato.

Presently, the wholly owned subsidiary of Kaneb Services Inc. is negotiating with four insurance companies to create a data processing system that will reconcile their monthly statements with those of their agents.

Marketing vp Tom Lukens said in a recent interview that historically agents have calculated their own payables or accounts current and have paid insurance companies based on these calculations.

"Here's the rub," he explained. "The reconciliation is done by the insurance companies. But now it's getting testy. The companies are beginning to say 'We want to issue the statement, you reconcile it and pay off that.'"

The new practice of having the agents reconcile the statements would require much less bookwork for the insurance companies, a function which they have traditionally done by hand.

"Agents are recoiling at the idea," Mr. Lukens said. "What's at stake here is cash flow." If the companies reconcile, the agent has 60 days to pay. If the agent reconciles, the payment is due immediately.

ARC wants to create a data processing system that will reconcile these statements for the insurance companies. Mr. Lukens claimed it's "bound to be cheaper than what they're paying to have it done by hand," although he acknowledged that it will be more expensive than having the agents do it themselves.

ARC is negotiating for the company information so it can try the system on an experimental basis. ARC has the cooperation of ACORD (the agency-company operations research and development committee of the Independent Insurance Agents of America) and believes it could be a significant project. "But whether it will work is to be seen," he said.

Major national brokers are not affected by this development since their method of remittance, after they have been paid by their customers, is not at stake. It is the smaller agents who are affected by this change in the reconciliation method.

Except for its Redi-Tape program which provides companies with account current information on participating agents at the companies' expense, ARC has primarily serviced insurance agents since its creation in 1963.

Since the acquisition of ARC in 1969, parent Kaneb Services has added two other data processing firms: Agency Data Systems Inc., a minicomputer marketer in 1976 and Systams Corp. a service bureau and minicomputer marketer in 1977. Combined, the subsidiaries now have 6,200 insurance agents as data processing customers.

And since the addition of ADS, the firm has been making inroads into minicomputer marketing. Although initial marketing efforts were rough going ("nobody wanted to be the first") things are now beginning to click.

ARC sold about 75 minicomputers in 1975, nearly twice that many in 1976 and it hopes to sell 300 in 1978.

The average price for both the

ARCom I (a balance forward accounting system) and ARCom II (an open item accounting system) has been \$35,000.

ARC chose to move into the one-shot sale of minicomputer marketing in addition to its more predictable income producing service bureau activities because "we decided that's the way the industry is going and if we're not in the forefront, we'll be in trouble in the long run."

The future of minicomputers in insurance agencies is bright indeed, according to sources outside the industry as well. Frost & Sullivan, a New York-based market research firm, estimates that 15,000 will be operating in insurance agencies by 1985. The Stanford Research Institute believes there will be 10,000 in use by 1985.

One of the reasons for the

minicomputer appeal is rising communications cost, according to Mr. Lukens. Time-sharing operations, in which the customer has a designated time of day during which he communicates with the master computer, are becoming expensive.

"Every agent we have in Chicago who is on the batch system could have a terminal in his office from our IBM in Bryan. The reason they don't is because the cost of a dedicated lease line is about \$3 per mile per month with some variations among states."

An agency can justify an in-house computer when service bureau costs exceed \$400 per month, according to an ARC rule.

About half of the firm's minicomputer buyers have come from ARC service bureau customers.

The largest agency has a \$60 million premium volume and the average customer is a \$5 million premium volume agency.

The owner of a minicomputer need not have a computer programmer, Mr. Lukens said. "What he must have is a competent bookkeeper whom we will train to be a computer operator." ARC conducts one training school in Atlanta and will open a second this year in San Francisco.

The tight labor market for computer key entry people and computer programmers will keep the price of minicomputers firm, Mr. Lukens predicts.

"Agents don't have to be computer experts, they just have to know what they want from the computer," he argued, one point vendors have failed to make clear to potential customers. —bjg



Photo: Barbara Jean Gray

TOM LUKENS: "We decided (one-shot computer sales) is the way the industry is going and if we're not in the forefront, we'll be in trouble in the long run."

Committed...



In nature, commitment is the decisive action required for survival.
In excess and surplus lines, commitment is the necessary ingredient for successful performance.
The Crowther People . . . strongly committed to solving your excess and surplus lines problems.

the
Crowther
People 

Minneapolis
612/333-0361

Des Moines
515/243-1221

Omaha
402/393-2040

Sioux Falls
605/336-0960

Bismarck
701/223-1112

Billings
406/248-7183

Boise
208/336-7131

Madison
608/271-6500

For more facts circle 169 on reply card

Calculator...

Continued from page 34A

tion of a fourth insurance company or another line of insurance other than personal auto however, has to be done by Canon.

All five agency employees operate the calculator, including one person who's been on the job only two months with no prior insurance knowledge. That was an important factor for Mr. Robertson, since he is aware that some electronic systems require a full time operator that could easily add \$12,000 to his personnel costs. Mickey Smith, marketing manager for the agency, who operates the unit most of the time, spent one afternoon at a local Canon office being trained to use the unit.

With the new ease in auto quoting, the broker is thinking of gradually changing his mix of commercial and personal lines to a

60% commercial and 40% personal lines ratio, reflecting an expansion of personal lines. "We have the same problems as any other company," he said. "We have many small and medium-sized accounts and one large one. What happens if the large one moves, goes out of business or gets acquired?"

Other lines

Although Mr. Robertson bought the Canon system primarily for its personal auto insurance quoting capabilities, he has plans to develop other personal lines business with it. The firm presently generates a healthy amount of its personal lines revenues in coverage for recreational vehicles. The firm also sends out 2,500 pieces of direct mail per week, using its Xerox 800 electronic typing system.

Mr. Robertson hopes that in the near future he'll be able to interface his Canon system with the direct mail lists (including the new personal auto business he's picking up) and put quotes in the mail.

In addition to new business development, Robertson Vickers now handles all of its administrative accounting procedures in-house with its programmable calculator. Previously, the firm used Safecom Management Systems, a division of the Safeco Insurance Cos., to get income and expense information.

"The way the Safecom system is set up, invoicing had to be done here. That usually took two days. Then the producer would have to do his bit. That would take another two days. It took three to four days to get the simplest time out of this office. The systems were getting clogged. There was too much paper.

"I don't knock the system. It was a good system, but I don't believe

we need anything this complex. With our present size, we shouldn't need a bookkeeper," Mr. Robertson says.

Time saved

With the new system, the broker has all of his accounting done by lunch. "I know daily what money I owe, what premiums I have received and what's outstanding."

The new system is supplied by Positive Management Systems headquartered in Buffalo, N.Y. Mr. Robertson first heard about it a few years ago when he met an agent from Toronto who praised a system he was using in his agency that generated 60% or 70% of its \$2 million premiums in personal lines. Mr. Robertson was incredulous that it was a hand system.

Now, after having been sold on the system himself, he laughs. "This is the system that we were using 20 years ago. We're back in the dinosaur ages."

The beauty of the system is the simplicity of the one-step entry of daily figures on the invoice, the client ledger card, the insurance company's accounts current report and the agent's trust journal.

Mr. Robertson receives basically all of the information the Safecom system supplied: an income and expense statement, a general ledger, a check register, a producer's statement, an accounts current report, a monthly activity report and an aged accounts receivable report.

The reason for the new system was greater simplicity and efficiency. "I had not expected to save money on changing, but I am," he reports.

Cost of the Safecom services averaged \$135 per month, Mr. Robertson estimates. The first four months on the Positive Management Systems (with the help of the programmable calculator) averaged \$84 per month including start up costs such as the \$500 bin that stores the records. Next year the costs, primarily for paper, should be about \$25 or less per month, he figures. —big

Simplicity

And how Afco premium financing helps you cut the red tape.



Tell *all* your insureds about the simplicity and convenience of using Afco.

Throughout Afco's 23 years of experience in premium financing, we have continually looked for ways to simplify every procedure. Have eliminated red tape so we can release your money promptly. Have freed you from record-keeping, billing, collecting. And are responsive to your every question and problem.

So when you sell a policy, sell Afco, too. It will make your agency operation more profitable.

You're in the money with Afco.

AFCO

NEW YORK: 108 John Street, New York, N.Y. 10038
Atlanta • Baltimore • Boston • Chicago • Columbus • Dallas
Hartford • Hempstead • Houston • Kansas City • Los Angeles
Miami • Pine Brook, N.J. • San Diego • San Francisco • Seattle

IN CANADA: ~~CAFO~~
Halifax • Montreal • Toronto • Edmonton • Vancouver

For more facts circle 166 on reply card

Dutter...

Continued from page 34B

functions of an agent or broker. "Responsive service" was most frequently mentioned as the prime criterion for selecting agents or brokers, and "poor service" was the reason most often given for shifting business.

The survey our firm conducted was limited to corporations in *Fortune's* 1,000, all with sales in excess of \$150 million. Yet, even within this group of relatively large corporations, it was apparent that there are wide differences in internal capabilities to deal with various aspects of risk management and in the attitudes of risk managers. Some risk managers look to their broker or agents for a great deal of assistance on a variety of issues; others prefer to rely on their own staffs or consultants.

Generally, the smaller corporations need and want more help from their agents or brokers, but a number of larger corporations also look to their brokers for supplementary services. Given the variety of attitudes that exist, it seems evident that it not only will become more and more important for brokerage firms and agencies to develop the ability to provide extra services for their clients but also to find ways of making each service available on a cost-effective basis for clients.

As insurance problems become more complex, particularly in the liability field, more and more situations arise where there is a need to combine an in-depth understanding of the customer with in-depth technical knowledge of a particular type of risk exposure and form of coverage. For the very large firms, this means that organizational structures and incentives need to be adapted to promote the desired working relationships between two types of experts. For smaller firms, it generally means developing good relationships with a number of specialists.

It also means that the smaller firms will generally be able to compete more effectively if they concentrate on one or two industries in which a few people can acquire knowledge and relationships that compare to that which a larger firm can bring to bear on a range of industries.

The recent escalation in business insurance costs has brought with it a need that is more compelling than ever for brokers and agents to take a hard look at their competitive strengths and weaknesses and to set priorities to meet the more demanding customer requirements that are sure to come. ■

Phoenix market . . .

Continued from page 1
vention specialists and the chairman believes that's unique among local agents.

The local agents and brokers say that for the most part they don't run into the nationals on the street and that the majors are more on the prowl for Fortune 500 types.

So far, there haven't been that many of them for the nationals to fight over. Presently three Fortune 500 companies are headquartered here: Greyhound, Talley Industries and Southwest Forest Industries.

Johnson & Higgins, which generates close to \$1 million in gross revenues now claims it writes part of the accounts on several of the city's jumbos. Marsh & McLennan, which has been here the longest (1960), writes part of the Southwest account. Greyhound, which at one time was handled exclusively by M&M out of Chicago, now is scattered and recently placed an aviation risk through Olliver/Pilcher.

More jumbos

If the jumbos aren't numerous now, they're expected momentarily. For every winter as bad as most of the country had this year, Phoenix residents can expect at least one more Fortune 500 company to emigrate to the valley of the sun, gauged Wink Ames, president of Corroon & Black-Miller & Ames.

"By and large, branch operations moving here from out of state have comprised the big expansion," reported John Howard, president of the Valley National Insurance Co. "In fact, that's where we lose most of our accounts," when firms based outside the state buy local companies, Mr. Howard added.

Branch operations don't necessarily mean more business, local brokers and national brokers concurred. In fact, observed Mr. Ames, with headquarter firms seeking larger retentions, the likelihood of branch offices having the power to buy insurance is declining.

The Phoenix national offices are optimistic that when those jumbos do arrive, they will have a better crack at getting the business. "Transplants want to do business with the same firms they worked with 'back home'," claimed Mr. Ames. Echoed Fred S. James Phoenix president Roger Clayton, "When new companies move in, all things being equal, the national broker's name is an entry. Recognition is important."

As far as cooperative efforts between branch offices of national houses, Johnson & Higgins executive vp Charles Binford believes "we lend support to the other cities probably more than any other broker. We might be called on for inspections, loss control functions. There's a great need for such services in Arizona, especially in the copper mining area."

Co-brokering between locals and nationals sometimes happens. Johnson & Higgins for example co-brokers a nuclear account on the outskirts of the city with Valley National.

Booming city

Branch offices do bring people if not risk managers. Maricopa County, which includes Phoenix, had 1.2 million inhabitants last year and that figure is expected to double by the year 2000.

Winter-weary refugees swarming into Phoenix are not only retirees and asthmatics. The average age in Phoenix last year was 27.1 according to a census by the local newspapers. Residents over 65 totaled 9.4% of total metro population compared to the national figure of 10.7%.

Sunshine draws many of the

people here. Phoenix residents have an 86% chance of sunshine every day, according to the national weather service. That compares to odds of 57% in Chicago, 59% in New York and 73% in Los Angeles.

Total employment in the metro area grew 5% between 1974 and 1977. During the next three years, it's projected to increase 14%, according to the Arizona Department of Economic Security.

Between 1974 and 1977 the number of people employed in the metro area in mining increased 25%, in government 16%, in services and miscellaneous 8%, in wholesale and retail 8% and in transportation and utilities 1%. The number of people employed in construction decreased 19% and in manufacturing 5%.

Not everyone of course stays. Many of the sunshine chasers are

tourists who numbered five million last year.

But there are enough of those who do stay to make residential construction the fastest growing industry in the opinion of local brokers. Statistics from the Arizona department of economic security show however that this industry is making relatively meager gains compared to other industries. Although it's up 17% in 1977 over the previous year in terms of people employed, it's still down 19% from three years ago.

Construction market

Probably no Phoenix broker is more attuned to the residential construction market than Cash, Sullivan & Cross, which handles the Del Webb account, the developer of the Sun City residential community.

"What the developer thought would be a retirement community with homes averaging \$8,000 to

\$12,000 is actually a microcosm of achievers and well-to-do with the average home selling for \$40,000," claimed Jim Fowler, one of the nine partners at Cash, Sullivan & Cross. The Sun City population of 40,000 is expected to grow to 150,000 in the next 10 years.

For the brokerage firm, the projections are sunny indeed. In addition to writing the construction risks for the developer, Cash, Sullivan & Cross also sells a homeowners policy to each of the home buyers as a part of the housing costs. The broker maintains a 23-person office in Sun City just to handle this homeowners business plus auto which it writes there. "And we have found," continued Mr. Fowler, "that contrary to insurance company figures, our risks there, many of whom are older people, are superior risks."

Cash, Sullivan & Cross estimated that it had doubled its gross revenue and personnel in the last five years. Last year, five new staff-

ers were added bringing the total to 65 and a 20% growth brought revenues close to \$2.5 million. The firm plans to open two more offices within two years.

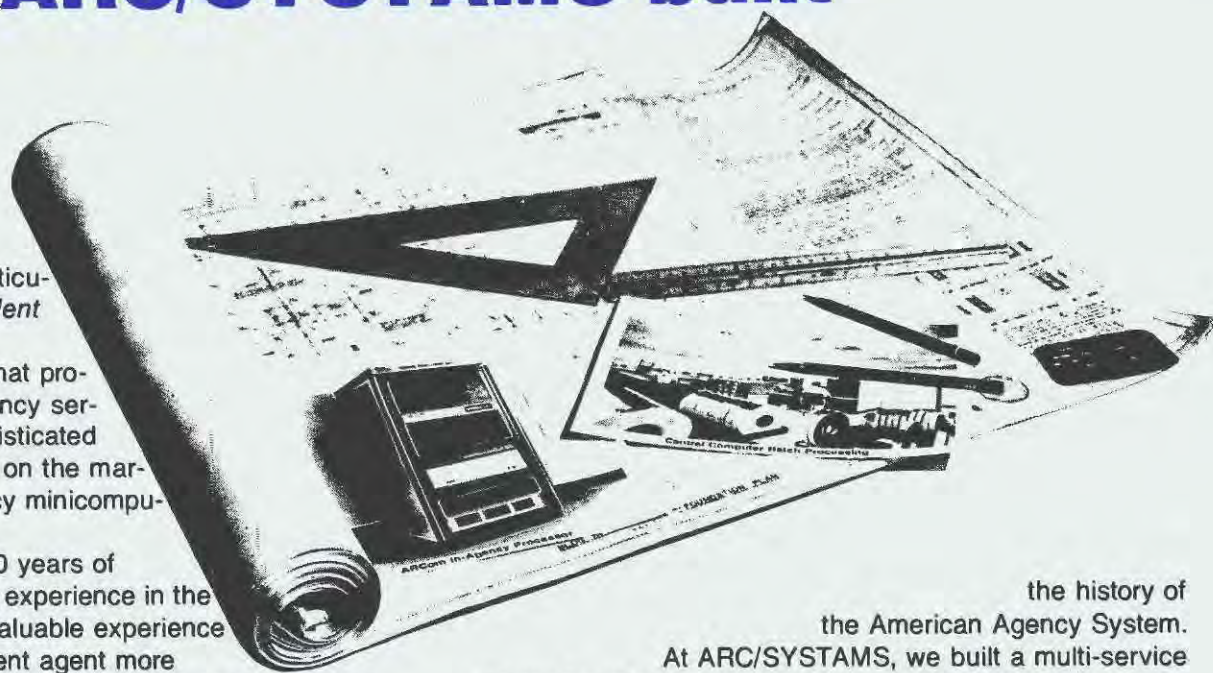
Like Cash, Sullivan & Cross, another major broker here, the Valley National, has grown through internal growth rather than actively soliciting. Valley has 36 employees, two more than last year, plus a nine-person office in Kingman, Ariz. The firm generates an estimated \$2.1 million in gross revenues.

It started out as the insurance department of the Valley National Bank here which bills itself as the largest bank in the Rocky Mountain States. The brokerage firm was separated from the bank in 1935 when the bank went national.

The biggest problem facing Phoenix brokers now, according to Valley president John Howard, is the possibility of a rate war by insurance companies. "We're be-

Continued on following page

the 'house' that ARC/SYSTAMS built



A "house" designed particularly for you, the independent agent.

An all-inclusive house that provides various types of agency services, from the most sophisticated batch processing systems on the market to the leading in-agency minicomputer systems.

A house that shelters 40 years of combined data processing experience in the insurance industry . . . invaluable experience which gives the independent agent more choices than ever before. Time-saving, profitable choices.

In short, whatever you need in agency information systems, we have it.

The unprecedented expertise resulting from the joining of Agency Records Control, Inc. and the SYSTAMS Corp. means that regardless of size, you can start with the best and stay with the best. In manual accounting systems . . . in automated batch processing at centralized sites . . . in ARCom in-agency minicomputers. As your operation grows, you can change to a system to meet your new requirements.

For batch processing, we maintain central computer sites in Bryan, Texas and Tampa, Florida, and regional sites at key distribution points across the nation. Our ARCom systems have rapidly moved to the front in minicomputers, offering in-agency processing for the smaller to medium-sized agencies as well as the larger agencies. Our customer service organization and our research and development capabilities, both in batch and in-agency processing, are unequalled in

the history of
the American Agency System.

At ARC/SYSTAMS, we built a multi-service "house" to give the independent agent options previously not available. *The choice of service is yours.* For more information, mail the coupon below or call our **Marketing Department** toll free at (800) 231-6943 (National WATS) or (800) 392-2883 (Texas WATS).

arc
SYSTAMS

a Kanab company

Agency Records Control, Inc.
P.O. Box 1009, Bryan, Texas 77801,

To: Marketing Dept. — Send material on
 Batch Processing ARCom Minicomputers Both

Name _____

Agency _____

Address _____

City/State/Zip _____

Phoenix market . . .

Continued from preceding page
ginning to see some competition now on some SMP policies. That's where pricing normally moves first."

Effective this year, Arizona allows individual risk premium modifications on fire policies, allowing greater pricing flexibility. This will fuel the fire of competition, he believes.

Now that most property stock companies have returned to profitability, there is more leeway in pricing. Arizona and Phoenix especially are particularly vulnerable to fluctuations since they have traditionally been profit centers for insurance companies, explained Mr. Howard and vp Bob Lehan.

Apprehensions about such a development were repeated at other firms such as Cash, Sullivan &

Cross. "We're afraid it might come to that," said Mr. Fowler. "And our agency does better in a tight market. When it's loose, any agency can price you out of the market."

Any such market softening however is not across the board. "I can still see umbrellas and excess layers getting tougher," claimed Olliver/Pilcher's chairman.

Phoenix's largest

In fact, Mr. Pilcher believes these coverages are overpriced in view of loss ratio experience.

The city's largest broker has grown primarily through acquisition shoring up some 50 local agencies in the past 30 years. Of the firm's \$3.7 million in gross revenues, about 65% are generated in metro Phoenix. The firm operates 10 offices in the state and recently

moved its headquarters to a new 20,000 square foot building on the city's near north side.

Among the areas expected to grow for the firm are excess/surplus lines which will soon be 10% of revenues compared to 2% now, according to Mr. Pilcher. The broker is in the process of hiring a specialist for this field.

Another promising area for Olliver/Pilcher is mass marketing.

Most brokers concurred that mass marketing was a relatively new development for them. One exception is a program managed by Marsh & McLennan. There, 13 employees work full time under a management contract with the Mutual Insurance Co. of Arizona, a professional liability program organized in 1974 by the Arizona Medical Association.

The M&M office here employs a total of 30 people and generates an estimated \$680,000 in gross revenues. Vp Jerome Gunderson, who started the office in 1960, said he

regarded the firm more as a local firm than part of a national operation.

Yet Mr. Gunderson credits a leveling off of revenues last year to increased competition from other national houses.

Nationals' expansion

The nationals are making their inroads, albeit quietly. Last year, J&H added six staffers to its roster, bringing its total to 23; M&M added two, bringing its total to 30; James added two, bringing its total to 14; Financial Guardian added five in the last two years, bringing its total to 12, and the two-year-old Nordstrom Larpenteur office now has three people.

Corroon & Black views its competition as other contracting specialists regardless of their size. Contracting presently means 90% of the firm's business according to Mr. Ames but "twenty years from now I'll bet we'll be 50% construc-

tion due to growth in general commercial insurance."

The spread of accounts would not be unwelcome. "Then, the next time we have a construction recession we won't have to ride that down hill," he said.

The four-year-old C&B office doubled in size last year, the executive estimated, a lot of which was absorption "of capacity we already had."

This year the firm will add three more employees: one in bonds, one in employe benefits and one clerical worker.

While expansion is a byword for many of the booming brokers here at least one aggressive, second-tier broker questioned the economy of branches. "If I can handle it out of this office, I'm that much further ahead," claimed Lasher-Cowie's president Bob Cowie.

For Lasher-Cowie the distinction between inside people and outside people is perhaps clearer than for other firms since its salesmen are just that—strictly salesmen. "In our team efforts, we're different. Our salesmen don't service business. Our salesmen are salesmen, not insurance men."

The brokerage firm recorded a 42% increase in revenues last year, bringing the total to about \$1.2 million.

Franchise concept

Last year it set up a subsidiary agency for substandard auto called the Auto Insurance Mart, a concept it hopes to franchise. The firm bought the first franchise and operates it in Tucson. Mr. Cowie described the first year as profitable and claimed the operation had a 31% loss ratio with its largest company, a remarkable figure for substandard auto.

Another major second-tier firm strongly emphasizing sales is the Standard Insurance Agency where 23 employees generate about \$1.5 million in gross revenues. Unlike other firms, said president Richard Cunningham, Standard pays its producers on commission rather than salary. "One of the disadvantages of this method from the management aspect is that we don't control our seven producers. But the policy has been workable. How can you put a lid on incentive?"

Schafer-Smith-Ankeney Insurance committed a hefty 7% of revenues to radio and television advertising last year, including sponsorship of a football talk show.

The broker generates about 40% of its nearly \$1 million revenues in personal lines and credits promotion of its company name to its 35% growth last year.

Excess/surplus broker listing

A special excess/surplus lines broker directory is being planned for the Sept. 4 Agent/Broker section of *Business Insurance*. We're interested in listing the names and specialties of as many excess/surplus lines brokers as we can. The format will be similar to that of our annual Agent/Broker Profiles directory.

We already have the names of many excess/surplus lines brokers, but we want to make sure we have as many as possible. Will you please send us the names and addresses of the excess/surplus lines brokers you use so we can send them a questionnaire? Mail them to Barbara Jean Gray, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611, or phone 312-649-5274.



"Wish I could get that kind of teamwork from the underwriting department!"

If your underwriting department doesn't put forth the kind of team effort you need, don't just grin and bear it—get with Bituminous. You'll find our underwriters willing to work with you and able to provide reasonable answers within a reasonable amount of time. Bituminous specializes in business

insurance and offers a wide range of insurance products at fair and equitable pricing for the coverage provided. Bituminous, the property/liability companies. Check into our inland marine and SMP programs today.

 **Bituminous** INSURANCE COMPANIES

For more facts circle 168 on reply card

Legal brief

Negligence is not dishonesty, says appeals court

THE ISSUE IN this suit turned on whether an exclusionary clause for dishonest or criminal acts was applicable in a lawyers professional malpractice policy. A Maryland court of appeals ruled that because an attorney was negligent in allowing his partner to misappropriate a client's funds, such negligence was only an indirect cause of the loss and was not within the policy coverage.

Mitchell Myers was covered under a lawyers' malpractice insurance policy issued by St. Paul Fire & Marine Insurance Co. (St. Paul). The policy contained a clause excluding coverage for any "dishonest, fraudulent, criminal or malicious act or omission of the insured, any partner or employee..." Mr. Myers's partner misappropriated more than \$300,000 from an escrow account of their clients, the Aragonas.

The Aragonas sued Mr. Myers and recovered a judgment. They then proceeded to seek recovery from St. Paul under the insurance policy. St. Paul refused claiming that the loss was caused by the partner's dishonesty and was within the exclusionary clause. The Aragonas sued St. Paul and were successful in the trial court.

On this appeal, the Aragonas argued that because they had proved a cause of action based on Mr. Myers's negligence which was separate and apart from the partnership liability, the loss was covered by the insuring provisions of the policy. The appellate court disagreed because, in its opinion, there was no ambiguity in the language of the policy.

The court concluded that the exclusionary clause of the policy was all-encompassing in the intention to exclude losses from dishonest or criminal acts. *Aragona v St. Paul Fire & Marine Ins. Co.*, Court of Appeals of Maryland, Nov. 3, 1977 (BI/01/M.-\$4).

Defense obligation

The Supreme Court of Minnesota has ruled that insurers were not obligated to defend their insured under a general liability policy where the insured was sued for converting personal property and the pleadings filed against the insured contained no allegation of "property damages" within the insurance coverage.

Inland Construction Co. (Inland) was insured under a standard form policy of comprehensive liability insurance issued by the American & Foreign Insurance Co. (American). Inland also carried a policy of excess third-party liability insurance with Continental Casualty Co. (CNA). Inland sold an office-warehouse building it was constructing to IDC; however, it agreed to be responsible for leasing the building until the "rent achievement date."

Subsequently, and in the mistaken belief that Inland was still responsible for the building, an Inland employee had the locks changed on one tenant's space after finding the rear door tampered with. When Inland sued the tenant for unpaid rent, the tenant counter-sued claiming conversion of its personal property. Inland tendered the defense to its insurers but was rejected. The trial court ruled in favor of the insurers.

The appellate court noted that the American policy obligated the insurer to pay property damage arising out of an "occurrence" which was defined as "an accident... which results in bodily injury or property damage..." However, according to

the court, a review of the tenant's complaint revealed that the only claim made against Inland "was that either it or its employees intentionally converted personal property." The court emphasized that personal property may be converted "without causing physical damage or destruction to the property."

Because the tenant did not claim any property damage, the court concluded that the insurers were justified in rejecting the defense. *Inland Const. Corp. v Continental Cas. Co.*, Supreme Court of Minnesota, Oct. 7, 1977 (BI/02/M.-\$4).

Bronchitis excluded

The Supreme Court of Tennessee has ruled that work-related bronchitis, though not a listed occupational disease, was not so closely related thereto so as to be compensable. The court also held that it was not an injury within the meaning of the workers compensation law.

An employee who had contracted bronchitis as a result of exposure to paint and other fumes during the course and scope of, and arising out of, her employment filed a claim for compensation. Her claim was rejected and this appeal resulted.

On appeal, the employee claimed that work-related bronchitis was an "injury by accident" within the meaning of the workers compensation law. The appellate court disagreed, pointing out that the law constitutes "a scheme of benefit payments based upon injury and on disease." Occupational diseases, the court said, are embraced within the term "injury" and "personal injury." The court emphasized that the workers compensation act contains a list of scheduled injuries and of occupational diseases, but bronchitis was not so listed.

The court also believed that bronchitis was not an "injury by accident." *Wittenbarger v The Carr Co.*, Supreme Court of Tennessee, Oct. 3, 1977 (BI/03/M.-\$4).

Special hazards

This was an appeal by an employer from an award of compensation to the widow of an employee who was found in his submerged automobile a few feet from a causeway across a lake that led to an entrance to the site of his employment. The Supreme Court of Arkansas ruled that the widow's death benefit claim was compensable under the "special hazards" exception to the "going and coming" rule.

The deceased employee was found in his submerged automobile two days after he had left his home for work. The causeway near where he was found cut across a lake to two entrances of his employment. On the morning of the accident there was a low-hanging fog resulting in poor visibility. The auto left the causeway at a curve approximately one-quarter mile from the back entrance. The widow's claim for death benefits was upheld by the trial court.

Because workers compensation benefits generally are not available for claims arising out of an employee's going to or coming from the employer's place of business, the issue on appeal was whether the facts in this case met the test of the "special hazards" exception.

According to the court, two components are involved in ascertaining the application of the exception: the presence of the special hazard at the particular off-prem-

ises point and the close association of the access route with the premises so far as coming and going are concerned.

The court concluded that there was ample evidence to support the application of the special hazards exception. *Bechtel Corp. v Winther*, Supreme Court of Arkansas, Oct. 31, 1977 (BI/04/M.-\$4).

Employee's knowledge

In an employee's suit to recover under a group disability policy, a Tennessee appellate court ruled that the question of whether the employee knew that he had suffered a heart attack prior to the effective date of coverage was irrelevant to whether the policy provided coverage for a subsequent coronary bypass operation. The court held that the existence of the state of facts, not the employee's knowledge of them, controlled.

In 1970, J. D. Norman became ill and was hospitalized. His condition was diagnosed by his physician as "arteriosclerotic cardiovascular disease." Norman was not advised that he had, or might have had, a heart attack. Norman was placed on a diet, advised to quit smoking, to exercise daily and to take certain medication. He followed this advice until shortly before his coronary bypass operation in 1973.

On Jan. 1, 1972, Norman became covered under a group disability insurance policy issued by Liberty Life Assurance Co. (Liberty). The policy did not afford coverage for any illness with respect to which the employee had received treatment prior to the effective date if he had not gone three months without receiving treatment after the effective date of coverage. The insurance company denied Norman's claim and was upheld by the

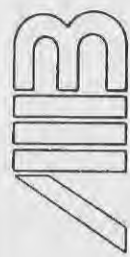
trial court.

On appeal, Norman argued that he did not know of his 1970 heart attack and that the "treatment" suggested by his physician was not treatment but was preventative in nature.

The court disagreed and denied coverage, believing that Norman's knowledge was irrelevant. *Norman v Liberty v Life Assur. Co.*,

Court of Appeals of Tennessee, May 12, 1977 (BI/05/M.-\$4).

(Copies of the entire decision of cases described may be obtained by sending a check for \$4 made out to Cases Unlimited to Legal Briefs, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion requested.)



The acquisition of
ALBERT M. BENDER CO., INC.
Insurance Brokers since 1881

by
Bache Group Inc.
is now complete

*The undersigned acted as an advisor to
Albert M. Bender Co., Inc. in this transaction*

Russell R. Miller & Co., Inc.
Specialists for the insurance industry

*Providers of speciality services to insurance related companies:
valuing closely held firms, and advising in purchases, sales,
mergers and acquisitions.*

Corporate Headquarters: 300 Montgomery Street San Francisco, California 94104 (415) 956-7474	Los Angeles (213) 413-4080 New York (212) 964-7373 Chicago (312) 878-4477 London (01) 588-3908
---	---

For more facts circle 117 on reply card

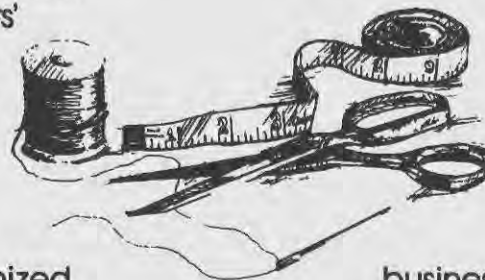
TAILORED

WORKERS' COMPENSATION SELF-INSURED PLANS BY GATES, McDONALD

Businesses, like yours, need services tailored to their wants and needs. Gates, McDonald has been tailoring workers' compensation administration plans for businesses since 1929. Our tailored services

include: customized systems to administer your workers' compensation plan efficiently, review and processing of all claims, a high quality of medical care for employees, and assistance in the development of

employee information and rehabilitation services. Add loss control services, safety programs, and tailored management reports and you have administrative services tailored to your business. Go ahead — be particular — contact Gates, McDonald, or your insurance broker.



GATES, McDONALD

CORPORATE OFFICE ONE NATIONWIDE PLAZA
P. O. BOX 1944
COLUMBUS, OHIO 43216
614/227-7211

Active Reinsurance Runs Deep



It has more underwriters, more ideas, more information in more places than all of its domestic competitors combined.

This depth of human resource is reflected in its ability to offer consistently strong, available, properly-priced reinsurance.

Active Reinsurance. Use its dimension to build the financial strength of your company.



General Re
Active Reinsurance

M.C. Escher, Three Worlds. Authorized Reproduction.

Punitive damages controversy

Punitive damages dominate many conversations among risk managers, brokers and insurance company executives. Prompted by the recent \$125 million award against the Ford Motor Co. and the ISO effort to exclude punitive damages from liability policies, the experts are trying to decide on a course of action. *Business Insurance* prepared this special Perspective report with analyses by a noted attorney, a West Coast broker and Peter Downes.



Attorney's view: We've come a long way from Nader to Ford

By Victor B. Levit
Attorney
Long & Levit
San Francisco

THE RECENT AWARD by a Santa Ana, Calif., jury of \$125 million in punitive damages against Ford Motor Co. in connection with the design of the gas tank on the Pinto automobile highlights the serious exposure of a punitive damage award. We have come a long way since the 1966 suit of Ralph Nader against General Motors for invasion of his privacy when he sought \$20 million punitive damages and later settled for less than \$1 million.

I have been personally involved in the subject of punitive damages since I began practicing law almost 25 years ago. One of my first jury trials was a case in Santa Cruz, Calif., where I represented the U.S. postmaster in a defamation case against a local newspaper which asked its readers to write the postmaster and ask him if the local postmaster had ever been a member of the Young Communist League. We were successful in obtaining a jury verdict, which was never overturned, for \$100 actual damages and \$75,000 punitive damages. At the time, it was one of the largest punitive damage awards in the United States. But by today's standards it would not even receive notice except by the parties involved.

Since then, as an active trial attorney and a counselor to the insurance industry, punitive damages have assumed more of my attention. We are presently reviewing a proposed policy insuring against punitive damages to be marketed by a major national carrier.

I have been invited to comment on ISO's recent adoption of an amendatory endorsement which has the effect of excluding punitive damages from a liability policy. I am also aware that the Western Assn. of Insurance Brokers and other organizations have condemned this action of ISO as unwarranted, lacking statistical backing and improper unless accompanied by a premium reduction.

Certainly this action by ISO has created controversy within the insurance industry. I personally have acted as an attorney for



'Punitive damages are never a matter of right and are always in the discretion of the jury.'

—Victor Levit

both ISO and WAIB, although not in connection with this matter, but will attempt to call it as I see it.

The law of punitive damages varies from state to state and often within a single state there are many unsettled questions. But the general guidelines are similar. I will use California as an example.

In order to recover punitive damages, there must be breach of an obligation not arising from contract and there must be oppression, fraud, or malice by the defendant. There must be some actual damage in order for punitive damages to be awarded. Punitive damages are never a matter of right and are always in the discretion of the jury.

Continued on following page

Broker's view: ISO's welcome clarity still leaves questions

By Jim Whitaker
Dinner Levison
San Francisco

The following article was originally prepared as an inter-office memo for the San Francisco-based brokerage firm of Dinner Levison.

THE INSURANCE SERVICES OFFICE exclusion of punitive or exemplary damages confronts us with new challenges. Because so many of our clients have a very real exposure to punitive damages, we owe it to them to understand the controversy, to inform them if this type of coverage will soon be withdrawn from their insurance program and to obtain for them, if necessary, punitive damages coverage.

The purpose of this memo is to explore the punitive damages controversy and to identify the position of our major markets on the exclusion.

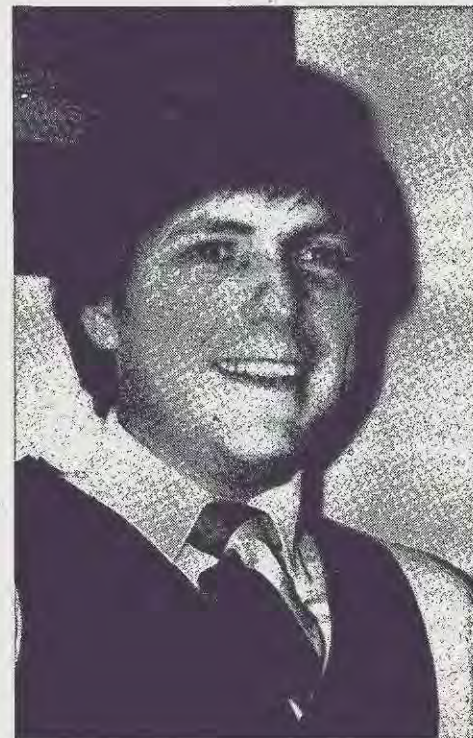
ISO's "punitive or exemplary damage exclusion" states: "Regardless of any other provision of this policy, this policy does not apply to punitive or exemplary damages."

To read this is almost a pleasure because, for ISO, it has uncharacteristic clarity and lack of verbosity. Its intent is pure and noble. Why should anyone be relieved of the economic consequences of his injuriously wanton and willful acts? ISO will bring the insurance industry one step closer to truth with this endorsement.

Why does this evaluation sound so cynical? Because for one thing, as Oscar Wilde said, "The truth is rarely pure and never simple." There are at least five major reasons why ISO has not addressed the question squarely by simply requiring the exclusion to be attached whenever a hint of punitive damage liability is present.

One. The main issue connected with punitive damages, at least nominally, is its ethical repugnance. The ISO, in its "explanatory memorandum on the introduction of the punitive or exemplary damages exclusion," explains that:

"These damages when awarded are in addition to the compensation an injured person receives for economic loss and pain and suffering. They are awarded as a means of punishment in an effort to deter future similar anti-social behavior. Accordingly, in-



'ISO will bring the insurance industry one step closer to the truth with this endorsement.'

—Jim Whitaker

sureds should not be able to insulate themselves from the possibility of such punishment through the purchase of an insurance contract and thereby defeat the punishment and resulting deterrent effect."

For an insurance company to pay someone's punitive damages is looked upon as morally equivalent to the ancient practice of thin-skinned gentlemen who hired mercenaries to fulfill their patriotic obligation to serve the state in time of war. Such patriotism truly was the last refuge of scoundrels.

But many courts really are less concerned with pinning the rap on insurance companies than serving justice and are very much

Continued on page 42

PERSPECTIVE

ISO ducks the punitive damage issue

By Peter Downes

Manager of Insurance

American Trading & Production Corp.
Baltimore, Md.

THE PROBLEM with the concept of punitive damages is that it is absurd to start with, or so it seems to me. When you add to this that in many instances you know that there are punitive damages only because the courts say that they are punitive and then observe that some jurisdictions say that they may not be insured, then you have arrived at the all too familiar mishmash which passes for law in America. Thereupon we may all shrug our shoulders and remark that the only ones to benefit from the situation will be the lawyers, as usual.

I have always found it valuable when considering such matters to forget about insurance, at least at the outset. As I understand punitive damages, in any negligence action a plaintiff may first be awarded damages to indemnify him for the injury sustained. Thereafter an additional amount may be awarded to punish the wrongdoer and set an example to others.

This is what I find absurd—how can one punish a corporation? Moreover, is it desirable under any system of government for an individual to attempt to inflict punishment on others? Personally, I think not, but I hasten to add that I am not advocating that wrongdoers should escape the consequences of their acts.

Were I on the wrong end of a devastating injury there would not be enough money in the world to do what I would want to do to its perpetrator.

Damages for worthy cases

For my own part I think that in any negligence action there should be a quantum of damages even though I know that this concept itself gives rise to all sorts of difficulties. Nevertheless, I think that there is abso-

Speaking Out



'If there are going to be such things as punitive damages, then they should be regarded as fines imposed for criminal acts. . . . (But) based on this kind of reasoning, faulty or not, I have convinced myself that insurance of punitive damages is not contrary to public policy.'

—Peter Downes

lutely nothing wrong with rewarding an injured plaintiff sums of money for disfigurement, prolonged pain and suffering, inability to perform or develop a career and even loss of consortium. And if such a plaintiff gets more this way than he would have earned if he had not been injured, then I would still have no objection at all provided that the case is a worthy one.

I am aware, of course, that many of my colleagues wish to eliminate such damages from the law of negligence because of the many apparent abuses of the system. From my personal experience, I recall a hospital malpractice case in which the unfortunate plaintiff died and the estranged husband came into a windfall. Once, I sat in a courtroom a couple of years ago watching a judge peering through his bifocals trying to place the exact location of an alleged disfigurement on a plaintiff's hand and heard the jury find for the plaintiff.

But as I see it, the desire of the reformer to eliminate these kinds of damages is their reaction to an imperfect world. To put it bluntly, we do not trust the courts, the judges who sit in them, the lawyers who practice in them, the doctors who testify in them or the juries who will do as they please in any event. In fact, we often feel that the very last thing you can expect to get in a court of justice is justice.

Lack of trust

Since we cannot trust the courts, some of us feel that if we eliminate the source of an abuse, then this will help solve our problems. To my mind this is just wishful thinking and I have reluctantly reached the conclusion that it will be better to retain these causes of damages if only because there is some chance of basing the amounts involved on actual conditions. On the other

hand, if these causes are eliminated and punitive damages are resorted to, then we shall be governed solely by emotion without regard for facts at all.

To my mind, if there are going to be such things as punitive damages then they should be regarded as fines imposed for criminal acts. Indeed, I think that states like Virginia which forbid the insurance of punitive damages have done precisely this since in effect they have lifted such damages outside the domain of civil law.

Shades of the primitive

However, this process seems to me to be defective since the imposition of damages in these jurisdictions does not benefit the community but only random selected individuals within it. I have always been taught that modern criminal law is for the protection of the whole of society and that any penalties imposed by it are for the benefit of the entire community. The action of the Virginia legislature is reminiscent of pre-feudal Europe and the payment of wergild.

Based on this kind of reasoning, faulty or not, I have convinced myself that the insurance of punitive damages is not contrary to public policy and should be made readily available by those who wish to supply it (except, of course, where this is forbidden). Then how does one regard the action of the Insurance Services Office in drafting an endorsement for the approval of regulatory authorities with the object of excluding punitive damages from all liability policies?

If one gives the ISO the benefit of the doubt, they have done this with the object of reducing the cost of insurance for those who feel that they do not need the coverage, leaving insurers free to delete the endorsement on payment of an appropriate premium.

I do not really believe this, however, and feel that it is far more likely that they have done what they have always done when they meet with a problem — they have run away from it!

Attorney's view . . .

Continued from preceding page

If punitive damages are an issue in a case, the plaintiff is entitled to put in evidence the wealth of the defendant. This evidence often results in larger awards against the defendant. Whereas compensatory damages are intended to compensate the plaintiff for his injuries, punitive damages are for the purpose of punishing the defendant.

Insurance companies, as large financial institutions, have been sued directly for punitive damages by their policyholders on the basis of fraud, oppression, or malice (*Gruenberg v Aetna Insurance Co.* (1973) 9-C3-566, 108-CR-480). But today the lively issue in many states is whether it is against public policy to insure against punitive damages. (The best treatment of this subject is a law review article by a law student entitled "Insurance for Punitive Damages: A Reevaluation" 28 *Hastings Law Journal* pp 431-475; November 1976.)

Insuring punishment

It can be argued that if the purpose of punitive damages is to punish the defendant, how is it possible to do this if the defendant can insure against this risk? This is probably the public policy underlying California Insurance Code §533 and California Civil Code §1668 which prohibit insuring against willful acts of the insured.

But what if the insurance policy is ambiguous and insures against all damage, with no exclusion for punitive damages? A number of states, including Oregon (4-3 decision of the Oregon Supreme Court in *Harrell v Travelers Indemnity Co.*, 279 Or 199, 567 P2 1013 (1977)) and Arizona (*Price v Hartford Accident Indemnity Co.*, 108 Ariz 485, 502 P2 522 (1972)), have held that if punitive damages are not excluded from policy coverage then there is coverage for such damages.

In my opinion, the law in California on this issue is presently unsettled. And even in states where the highest court of that state has spoken, it does not follow that the same

result would be reached on different facts. For example, the *Harrell* decision in Oregon involved gross negligence; if an intentional act had been involved the court probably would have held there could be no valid insurance coverage.

I can remember many years ago, before ISO's formation, when the Pacific Fire Rating Bureau (which merged into ISO) asked its members if statistics should be kept on punitive damages and a rate charged for this risk and whether the risk should be excluded. At that time it was felt no action should be taken. But as more state courts have followed the reasoning used in Oregon and Arizona, I suspect pressures within the industry to exclude the coverage have developed.

This exclusion, I am sure, is predicated on the theory that it was never the intention of the insurer to provide such coverage. If that theory is sound, then it is logical that there be no premium reduction, for the exclusion merely clarifies what was intended all the time.

But WAIB and others have argued that certainly there is nothing against public policy in insuring punitive damages where such damages are imposed on a principal for vicarious acts of an agent. Although there was no specific finding on punitive damages, in *Dart Industries Inc. v Liberty Mutual Ins. Co.* (CA9 1973) 484 F2 1295, a 9th circuit decision based on California law, a liability insurer was held liable for malicious conduct of the president of a corporation in a libel action. The court rejected the argument that it was against public policy to insure against such a "willful" act.

Many not following ISO

And it is clear that many insurers are not going to use the ISO exclusion or are going to allow the insured to delete the exclusion by paying an extra premium.

Even if there is no exclusion, whether a particular policy affords coverage against



punitive damages will depend on the particular state involved and the facts of the specific case at issue. For example, if an intentional malicious or fraudulent act by the insured is involved, it is doubtful that there could be valid insurance coverage against punitive damages in any jurisdiction.

If punitive damages are excluded, it may be that the insured can hire his own attorney to handle this phase of the case and have the attorneys' fees paid by the liability insurer. (See, e.g., *Executive Aviation Inc. v National Insurance Underwriters* (1971) 16 CA3 799, 94 CR 347, which does not go this far, but other cases may.)

In view of the division within the industry on the use of the exclusion, the prudent broker will be on safer ground to provide coverage for his client in a company which does

not exclude punitive damages. Certainly where such coverage can be obtained at the same cost, the broker will have a hard time explaining to his client why coverage was not provided without the exclusion.

On the other hand, before a broker could be held liable for failing to place coverage in a company which did not have the exclusion, the insured would have to establish that such coverage would not be against policy under the law of the state involved on the specific facts at issue.

But what about the insured doing business in many states? The law on insuring punitive damages varies from state to state and will vary even within a single state depending on the particular facts at issue. It would seem that the safest course would be to get the broadest coverage available.



WE HELP MEND THE WORLD.

AllLife and affiliated companies have been doing business all over the world for years, giving us unmatched experience in handling claims on a local basis.

We can provide employee benefit programs tailored for local needs throughout the world.

We know the local laws and customs, and we train local personnel in American business methods so that we can handle your problems quickly and efficiently.

If you are a company doing business overseas, you need our help for life insurance, pension plans, medical insurance, payroll deduction plans and Third Country National plans.

We can help you control your entire overseas benefits program, and we can show you how to take advantage of experience rating dividends through pooling, which can reduce costs significantly.

Our worldwide staff of 14,000 can manage your benefits program efficiently and economically. We can help you hold onto valuable employees, and attract new ones.

Mail the coupon for your complimentary copy of *New Concepts In International Employee Benefits*.

It can make a world of difference in your employee benefits program.

AllLife

American International Life Assurance Company of New York
Dept. A, 102 Maiden Lane, New York, N.Y. 10005

- Please send me your brochure.
- Please have an AllLife representative contact me.


Name _____

Title _____ Phone _____

Company _____

Address _____

City _____ State _____ Zip _____

 A Member Company of
American International Group

BSIN-3-133

We welcome inquiries from any licensed agent or broker. You don't have to be a regular producer to place business with an AIG company.

For more facts circle 102 on reply card

Labor clarifies impact of ERISA on HMOs

WASHINGTON—While the Health, Education and Welfare Department was trying to sell the business community on health maintenance organizations at the "Secretary's Conference on HMOs," the Labor Department tried to remove one of the reasons for moving cautiously with HMOs.

Employers have questioned the apparent conflict between the pension reform law which requires they act prudently as the fiduciary of an employee benefit plan and the 1973 HMO Act which requires they offer their employees a federally qualified HMO when properly petitioned. "What if the HMO appears to be shaky financially?" it has been asked. Which law should

they violate?

Ian D. Lanoff, administrator of pension and welfare benefit programs in the Labor Department, has answered he does not believe a plan sponsor could be held liable for a breach of fiduciary duty under ERISA merely because it made membership in a qualified HMO available as a benefit under an employee welfare plan.

He added that an HMO is federally qualified only when HEW is satisfied the HMO will be operated according to the provisions of the HMO Act relating to fiscal soundness, nature of services and other matters.

As to whether it is an employer's

responsibility to investigate the accuracy of the descriptive material provided by the HMO or inquire into its operations, Mr. Lanoff said, "Generally, an employer would be justified under ERISA in offering a qualified HMO without making an independent investigation into these matters and in assuming that the descriptive material furnished by the qualified HMO is adequate."

The administrator explained that a federally qualified HMO would not ordinarily be considered a plan itself under ERISA but rather as one benefit of an employee welfare benefit plan. "Therefore, making membership in a qualified HMO available as a benefit under a plan would not ordinarily result in the management of the HMO's assets being subject to the fiduciary responsibility provisions of ERISA," he said.

However, if an HMO is the final arbiter of claims, the HMO would

be a fiduciary for the limited purpose of reviewing claims that had been denied. This should not result in any significant difficulties for either employers or HMOs, Mr. Lanoff maintained.

Secretary Califano alerted the conference attendees that the Labor Department was to make the announcement that same day, but he did not provide them with the details of the agreement worked out by HEW and Labor.

Employers have also expressed concern about their reporting responsibilities under ERISA when they offer HMO membership to their employees. Though still without a definite answer, Mr. Lanoff said the Labor Department and HEW are close to developing a reporting and disclosure system which the two believe will minimize the burdens for such plans while continuing protection for plan participants. He promised guidelines or proposed regulations would be issued soon.

HEW taps ex-exec as HMO envoy

WASHINGTON — Business leaders who were pumped full of the HMO gospel and asked for their money and support for the prepaid health care delivery system at the secretary's HMO conference here this month can expect to be petitioned more in the future.

They won't be summoned to another HEW conference, but they may be visited by one of their colleagues who has agreed to campaign for business support for health maintenance organizations.

Health, Education and Welfare secretary Joseph A. Califano told the conference that he has appointed Leo Beebe, retired Ford executive and leader of the 1960s JOBS program, as his ambassador to the private sector. Mr. Beebe will follow up on interest expressed by business leaders at the conference, marshal the resources they request in private efforts to stimulate HMO development and drum up new support and interest in HMOs.

Moreover, the new HMO czar at HEW, Howard Veit, promised he will aggressively market the HMO concept. "We have not sold hard enough," he said. "We will be looking at communities without HMOs and looking for sponsors of HMOs in those communities." Four out of five metropolitan areas are not served by an HMO.

HEW under secretary Hale Champion gave an idea of what HEW has in mind for the future when he told the conference that there should be "ten times as many" of the 170 HMOs there are today.

But HEW doesn't want to appear as though it will come on too strong. "The flavor I would like to present is that we will be receptive to indications of interest expressed to us," said special assistant Bruce Wolff. HEW stands ready to aid private business in HMO development efforts, he stressed, echoing the secretary's message of the day.

Concrete expression of interest at the conference surprised HEW. "Many said they would be back to us," Mr. Wolff said.

Mr. Wolff acknowledged, however, the characteristic transience of missionary zeal generated at such gatherings. "We're going to let this percolate. We want to get a sense of how much the business community wants to involve us," he said.

Whether or not corporations now exhibit a more positive attitude toward HMOs, invest money and management talent in HMO operation or sponsor HMO feasibility studies as HEW hopes, Mr. Wolff maintained just having the conference was self-fulfilling. "It got people thinking about HMOs," he said. Still, he hopes "people will now go further in their deliberations."

Agents oppose punitive exclusion

SANTA BARBARA—The Independent Insurance Agents of California this month joined other insurance brokers and buyers in opposing the Insurance Services Office attempt to exclude punitive damages from liability policies.

The California agents said the ISO exclusion is contrary to a number of companies that continue to provide insurance for punitive damage awards. Thus, the onus of whether punitive damage insurance could be provided is placed on the agent rather than the courts or state legislatures, the agents said.

CASSETTE TAPES NOW AVAILABLE FROM THE...

Complete tapes of some of the sessions from this Business Insurance conference, are available for purchase from the Crain Education Division. Simply check the tapes you wish on the order form and return the coupon order form along with your check for the total amount of your order. ADVANCE PAYMENT IS NECESSARY BEFORE SHIPMENT. For each group of 1-5 tapes ordered, include \$1.00 for postage in the U.S. and Canada; \$3.00 for postage outside the U.S. or Canada. Costs are based on session length and include any applicable sales tax. Each tape comes in its own plastic storage container. Please allow four weeks.



November 7-8, 1977

BI771 GOOD COMMUNICATIONS-PERSONNEL PROFIT—Lee A. Carlson, Manager, Salaried Benefits and Policies, The Bendix Corp., tells why good benefit communications is good business; the many ways employers gain from having a good communications posture; and the dangers of undercommunicating. Is there such a thing as overkill? \$10.00

BI772 ERISA HEADACHE #1: HOW TO COPE—Barbara Philbeck, Communications Consultant and Richard Cromer, Partner and Consultant, Hewitt Associates, show you how many companies are meeting and exceeding ERISA's requirements for summary plan descriptions and summary annual reports. Sparkling visuals and incisive comments give you insight into effective ways of meeting your communications obligations \$10.00

BI773 OVERVIEW: OUTSTANDING COMMUNICATIONS PROGRAMS—A panel of corporate employee benefits managers highlights all elements of their own programs—the media utilized, how changes and updates are made, and how they apportion their funds. Each has been a winner or a judge in the Business Insurance Employee Benefits Communications Contest. Panel members are: Richard E. Emrick, Manager, Benefit Program, Mead Corp.; Joseph W. Duva, Director, Employee Benefits and Compensation, SCM Corp.; Judith Starkey, Personnel Specialist, Chemtron Corp.; and Carol Williams, Manager, Employee Benefits, Borden Inc. \$15.00

BI774 FLIPSIDE: WHAT EMPLOYEES THINK—William W. Wimpisinger, International President, International Association of Machinists, and James H. Mayes, Director of Publications, Standard Oil of Indiana, tell you what employees really think of benefit communications—what employers do right, what they do wrong and how, in the employees' view, benefit communications could be made clearer and more effective \$10.00

BI775 AFTERMATH: MOVING BEYOND LEGAL REQUIREMENTS—Larry Ewing, Partner and Consultant, Hewitt Associates, discusses how we move on now that the legal requirements have been taken care of—how to meet the demands created by employees' new awareness; how to better organize materials; areas which are the communication specialist's rather than the lawyer's, and how to put more emphasis on what people want to know rather than on what they have to know \$10.00

BI776 BIG BROTHER: FRIEND OR FOE?—Ronald Weakley, Director of Communications and Public Service, Pension & Welfare Benefit Programs, U. S. Department of Labor tells you what the government expects of benefit communications programs. Here is your chance to see how the regulator is doing to meet the objectives he sets for you—ask the "hot" questions you want answered \$10.00

BI777 CHOOSING A CONSULTANT: A MARRIAGE MADE IN HEAVEN OR ...—This expert panel moderated by Joseph W. Duva, Director, Employee Benefits and Compensation, SCM Corp., examines the many ingredients needed to arrive at choosing the right consultant—whether you need a small firm or a large one, and how to evaluate whether they can transport you to the heights of communications effectiveness they claim. Panel members are: John M. Shores, Jr., Director of Personnel and Purchasing, Birmingham News Co. and Robert Sjogren, Manager, Benefits Development, Xerox Corp. \$10.00

BI778 DOING THE JOB WITHOUT BREAKING THE BANK—George Craig, Indirect Compensation Manager, Green Giant Co., shows you how to set a benefit communications budget, outlining typical ways funds can be allocated to achieve maximum effectiveness at minimum cost. You get many money-saving, time saving ideas \$10.00

BI779 EVOLUTION: HUMANIZING YOUR COMMUNICATIONS—A panel of communications professionals discusses ways you can relate on a personal level with your employees' needs and desires for straightforward benefit information and communication understanding. Panel members are: John Mackenzie, President, Internal Communications Corp.; John Kearney, Jr., Vice President, Employee Communications, Kwasha Lipton Inc.; Paul Sanchez, Consultant, Towers, Perrin, Forster & Crosby Inc.; and Donald Ward, Director, Employee Benefits, Medtronic Inc. \$10.00

Code #	Price	Quantity	Total
BI771	\$10.00	_____	_____
BI772	\$10.00	_____	_____
BI773	\$15.00	_____	_____
BI774	\$10.00	_____	_____
BI775	\$10.00	_____	_____
BI776	\$10.00	_____	_____
BI777	\$10.00	_____	_____
BI778	\$10.00	_____	_____
BI779	\$10.00	_____	_____

Total Amount of Order . . \$ _____
 Plus Postage (\$1.00 U.S. or Canada; \$3.00 outside U.S. per every 1-5 tapes ordered) \$ _____
 Amount Enclosed . . . \$ _____
 ADVANCE PAYMENT IS NECESSARY BEFORE SHIPMENT—PLEASE ALLOW FOUR WEEKS.

(PLEASE PRINT OR TYPE)

Name _____
 Company _____
 Title _____ Phone _____
 Street _____
 City _____ State _____
 Zip _____ Country _____

PLEASE MAKE CHECK PAYABLE TO CRAIN EDUCATIONAL DIVISION, 740 RUSH STREET, CHICAGO, ILLINOIS 60611, U.S.A. (312/649-5242)

More hospitals reveal insurance costs, suits

CHICAGO—Many more hospitals are disclosing their insurance costs and the existence of lawsuits against them in their 1977 annual reports, according to John E. Buelt, a partner of Price Waterhouse & Co.

Growing concern on the part of third-party payers, trustees and others about malpractice claims is forcing private tax-exempt hospitals to "lay out what is happening," according to Mr. Buelt, who is a St. Louis-based partner of the Big 8 accounting firm and its leading health care industry specialist.

Price Waterhouse recently published a survey of financial and reporting accounting developments and a study of 43 voluntary and seven proprietary hospitals' disclosure policies in their 1976 annual reports. "Of the 50 financial 1976 statements surveyed, 26 statements disclosed matters regarding insurance coverage and 16 disclosed the existence of lawsuits against the hospital," according to the report.

Mr. Buelt noted that the American Institute of Certified Public Accountants will soon issue a Statement of Position, "Clarification of Accounting, Auditing and Reporting Practices Relating to Hospital Malpractice Loss Contingencies." It is intended to facilitate the accounting and disclosure of potential losses from alleged malpractice in hospital financial statements in accordance with the provisions of statements on the Financial Accounting Standards

Board rules.

The reports for 1976 disclosed asserted and unasserted claims against reporting hospitals as well as the existence and amounts of self-insurance reserves, insurance policies with retrospective premiums and captive insurance companies, Price Waterhouse found.

The firm also found that auditors qualified their opinions on slightly more hospital annual reports than they normally do in other industries, Mr. Buelt said. This reflects contingencies and uncertainties arising from possible reimbursement adjustments by third party payers on cost-based contracts and a trend toward self-insurance and larger deductibles with umbrellas, he said.

In addition, he said, some hospitals' auditors expressed uncertainties about the financial impact of the disposition of hospital facilities and liability upon the retirement of their clients' debt.

A proposed change in accounting standards would effectively eliminate "subject to" opinions involving uncertainties in hospitals that noted such contingencies and uncertainties in their reports, Mr. Buelt noted. ■


We are pleased to
ANNOUNCE
the availability of another quality product . . .

CLINICAL DIAGNOSTIC LABORATORIES PROFESSIONAL LIABILITY

This new program features:

- An Insurance Product specifically designed for the industry
- A Premium Rating Basis geared to the exposure inherent in the individual risk
- A wider range of and higher limits of liability than have previously been available
- The optional inclusion of employees as additional insureds
- An "occurrence" form

For further information or applications call or write . . .



COVER X CORPORATION

30161 SOUTHFIELD ROAD
SOUTHFIELD, MICHIGAN 48076
TELEPHONE (313) 644-3200
TELEX 23-5635

Affiliated Office:
AGENCY MARKETING, INC. OF COLORADO
180 Adams, Denver, Colorado 80206
(303) 321-2700

letters

Continued from page 8
of "premium paid" these savings represented.

Kevin Stokeld

Deere & Co., Moline, Ill.

Equitable has not yet reported 1977 health insurance premiums for group and individuals. Aetna reported \$1.741 billion, Connecticut General reported \$1.259 billion and Hancock reported \$608.1 million.

Punitive damages

To the editor: I would like to join the flood of comments regarding the recent ISO punitive damage exclusion.

My company operates in five states which have handled the ISO exclusion as follows:

- Florida: The filing has been approved (the insurance commissioner's legal department advised him that he had no authority to disapprove).
- Louisiana: the filing has been approved (however, ISO's legal department advises that the awarding of punitive damages in tort action in Louisiana is illegal).
- Alabama: The filing has been rejected.
- Texas: The filing has been disapproved for inland marine. Not filed for other lines.
- Mississippi: It has been filed but withdrawn.

The regulatory confusion demonstrated above, together with the uneven responses of the primary and excess carriers, could lead one to believe that the ISO's action was irresponsible and may have done serious damage to the insurance industry.

C. E. Frost

Insurance Manager, Florida Gas Co. Orlando, Fla.

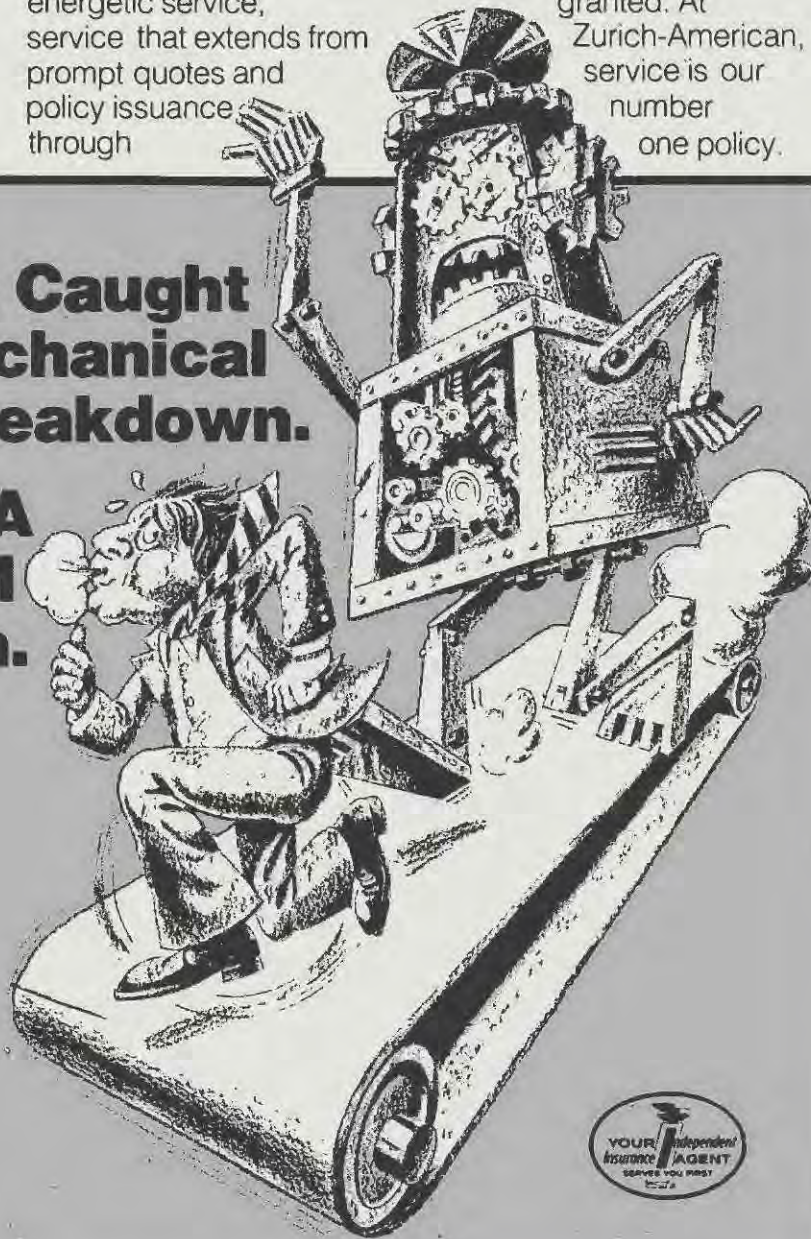
Breakdowns can turn an intricate mechanical system into a pile of junk. That's just one of the many accidents covered by boiler and machinery insurance. As one of the few multi-line carriers with a boiler and machinery facility, we can

offer you this important coverage either separately or as part of a full insurance package. But the best boiler and machinery insurance policy is just a scrap of paper without energetic service, service that extends from prompt quotes and policy issuance through

timely inspections right down to fast and fair claims handling. And we don't take your boiler and machinery business for granted. At Zurich-American, service is our number one policy.

Don't Get Caught by a Mechanical Breakdown.

Call Z-A for B&M Protection.



Zurich Insurance Company
American Guarantee and
Liability Insurance Company
111 West Jackson Blvd.
Chicago, Illinois 60604



Pension plans . . .

Continued from page 1.

which were sufficient to pay participants the present value of their benefits," Mrs. Lichota said.

Four administrators said they terminated their plans partly because ERISA's participation requirements resulted in skyrocketing pension payouts as the net of coverage was cast out farther.

For example, Maurice Archbold set up a defined benefit plan in 1972 for full time employees who had worked for three years at his retail dress shop in Fort Wayne, Ind.

It was the sort of plan "to take care of the best people who were going to be with us for a long time," Mr. Archbold said.

But the plan failed ERISA participation standards that required Mr. Archbold to include employees

who had put in one year of service and worked as little as 20 hours per week.

As a result, "all our part time employees got in on the act. The expense went sky-high," said Mr. Archbold. He was forced to terminate the plan because of the cost of the expanded coverage.

ERISA related

Three administrators (12%) cited adverse business conditions and ERISA-related factors for termination. The PBGC study also found that 12% of plans terminated due to ERISA and business factors.

"Our profits weren't increasing, but pension costs doubled," said William Weiner, plan administrator for the National Picture

Frame Co. in Philadelphia. "When it got down to the nitty gritty, it was pay my bills, or pay my pension plan," Mr. Weiner said.

A couple of bad financial years was the chief reason Hartford-based Ideal Drug Co. terminated its pension plan for four employees.

But even if business had not soured, plan administrator Robert Fineberg might have closed his plan due to high administrative costs. "Everytime I turned around, I had to hire someone to figure out a new ERISA regulation," he said.

Several plan administrators objected to ERISA standards requiring companies to pay a fixed amount into plans to guarantee benefits for participants.

"I don't like the idea of paying fixed benefits every year even though my profits may slump from one year to the next," said Lit Co. plan administrator B. David Lockman in explaining why he is terminating the Baltimore company's plan covering six employees.

Starting new plans

Some plans were scrapped simply because plan administrators found it simpler to start a new plan rather than rewrite an existing plan that no longer was in compliance with ERISA.

"Our attorneys said it would be easier to set up a new profit sharing plan than to patch up our old defined benefit plan," said Maine State Chamber of Commerce administrator Paul Emerson.

Turning from defined benefit plans to profit sharing or other defined contribution plans proved to be an attractive alternative for several plans.

In the case of the Sadler Insurance Agency in Nashua, N.H., plan administrator George Sadler made the move to a profit sharing plan to give employees a "more equitable, beneficial plan."

Sadler's defined benefit plan established in 1965 "just didn't mean anything to anybody," Mr. Sadler said. But with the new vastly more equitable profit sharing plan set in place "employees really can see a piece of the action now."

Mr. Sadler said while only six employees were covered under the old plan, 12 employees are participants in the profit sharing plan. According to the PBGC, the number of people covered under new plans since the passage of ERISA is three times greater than the number of participants who were covered under the plans that were terminated in the same period.

Bankruptcies

Going out of business, the dropping of a division and incorporation into another firm emerged as the major factors leading to termination for the 15 companies that did not cite ERISA as the culprit for ending their plan.

"We terminated because we went out of business. Clear and simple as that," said Robert Bennett of Molers Dairy Foods Inc. in Dayton, Ohio.

A more typical case involves the Ohio Brass Co. of Mansfield, Ohio. After selling a division of the firm to an outside company, Ohio Brass faced the problem of running a pension plan for participants who no longer were employees.

"When we evaluated all circumstances, particularly the reporting and disclosure requirements, we preferred to terminate rather than keep the plan alive," said administrator T.J. Geiger.

3 brokers merge

Three independent life insurance brokerage firms in Houston have merged to form Comiskey, Kaufman & Padon. The new firm will specialize in estate liquidity plans for businesses and professionals, executive compensation programs and benefit planning.

'We terminated because we went out of business. Clear and simple as that.'

—Robert Bennett
Molers Dairy Foods Inc.

Other reasons for terminating pension plans just don't fit neatly into any one category. For Beach Co. Ltd. of N. Fort Myers, Fla., a dispute with the insurance company that managed its 12-employee defined benefit plan resulted in the death of the plan.

On the anniversary date of the plan, the firm that managed the plan slapped Beach with what administrator William Herbst described as substantial administrative charges.

"We objected to the charges saying that we didn't contract for them," Mr. Herbst said. "But the insurance company said they had the right to adjust for administrative costs. We pointed out that there were no administrative costs."

The end result was that Mr. Herbst told the insurance company "to stuff it or words to that effect" and told the PBGC that Beach wanted to terminate its plan.

No hardships

The termination of corporate pension plans did not work any apparent hardship on the plan participants. In every company contacted, the plans had sufficient assets to pay participants their guaranteed vested benefits.

Similarly, in the much larger PBGC survey of 9,627 plans, the agency estimated that only 2% of plans had insufficient assets to pay vested benefits.

Where new employee pension plans were not set up to take the place of the old terminating ones, former plan participants are increasingly opting for Individual Retirement Accounts (IRAs).

Mr. Archbold of the retail dress shop in Fort Wayne will be setting up IRAs for himself and his wife. At the same time he increased the salaries of former plan participants to match the amount he was previously paying into the pension fund.

The Internal Revenue Service reports that the number of IRAs leaped dramatically in 1976, the latest year statistics are available. The number of IRAs went from 1.3 million in 1975 to 1.9 million in 1976, a 46% increase.

In view of a situation in which "we probably put as much money trying to comply with ERISA as funding the plan, the best thing would be to do away with pension plans and let individuals invest in IRAs," said one disgruntled plan administrator.

HOW TO ORDER B. I. REPRINTS

Readers may now order low cost reprints of articles that appeared in BUSINESS INSURANCE directly from this magazine. Articles are reprinted on 8½" x 11" sheets and carry the BUSINESS INSURANCE credit line and issue date.

Quantity	Price*
100	\$25.00
Additional 100's	
per 100	\$ 6.50
1,000	\$65.00

*For articles requiring more than one page, multiply the price by the number of pages needed. Shipping extra. On quantities larger than 1,000 and additional information contact:

REPRINT MANAGER
business insurance
708 Third Avenue
New York, N.Y. 10017
212/986-5050

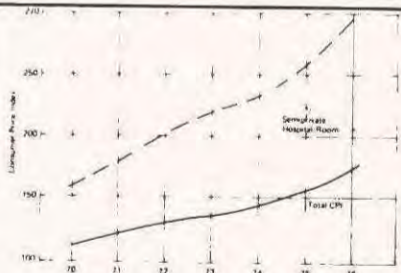
Employee Benefit Consultants, Actuaries, Administrators

Specialists in the analysis, design, administration and communication of Pension, Profit Sharing, Group Benefit and Executive Compensation Plans.

HERGET AND COMPANY, INC.

204 E. Lombard St.
Baltimore, Maryland 21202
(201) 539-3500

WHEN HEALTH CARE BECOMES THE PATIENT



There is a lot of concern today about the price tag for health care in America. If you're involved with seeking a cure, the **Springer Series on Industry and Health Care** is for you.

It's a concise and up-to-date reference exploring the issues and challenges facing business, labor, insurance, health services delivery, and government.

- Payer, Provider, Consumer: Industry Confronts Health Care Costs by D. Chapman Walsh and R.H. Egdahl, Boston University Health Policy Institute (Vol. 1, paperback, \$7.80)

- A Business Perspective on Industry and Health Care by W.B. Goldbeck, Washington Business Group on Health (Vol. 2, paperback, \$7.80)

- Background Papers on Industry's Changing Role in Health Care Delivery edited by R.H. Egdahl (Vol. 3, hardcover, \$29.80)

I'd like to know more about the Springer Series on Industry and Health Care:

Please send Volume 1 Volume 2 Volume 3 on 10-day approval.

Please send more information.

Name (please print) _____

Organization/Address _____

City/State/Zip _____

Return to: Springer-Verlag New York Inc., 175 Fifth Avenue,
New York, NY 10010

BI

Frelinghuysen Livestock Managers
wants to introduce you to . . .

SUPER INSURANCE!

Super insurance is what makes Frelinghuysen so special. We only insure livestock. That's it. It's the big reason why Frelinghuysen knows so much more about livestock than anyone else. Super!

Frelinghuysen is fast. We get policies out within 48 hours of being notified. That's fast. And we settle claims with the same sort of speed. So you get better service. Super!

Just about any way you choose to look at it, Frelinghuysen offers the first, middle and last word when it comes to livestock insurance.

Which is why you should come to Frelinghuysen for livestock insurance.



The Frelinghuysen Livestock Managers, Inc.
P.O. Box 185, U.S. Route 22, Whitehouse Station, N.J. 08889
Telephone: (201) 534-4027

For more facts circle 109 on reply card

employe benefit board

Continued from page 1

ture because of the heavy Social Security burden mandated by the law passed late last year.

These are some findings of *Business Insurance's* latest editorial survey of the Benefit Board, a group of top corporate benefit managers who've volunteered to respond six times each year to queries about issues affecting benefit management.

Corporate benefit managers also share the concerns of other private citizens, worrying that they're not getting out of Social Security what they put into it and that the system may be defunct by the time they are eligible to claim benefits. In their roles as benefit managers for large corporations, they are concerned that employees aren't coming out on the winning end of benefit programs, since higher Social Security benefits interact with certain plan provisions to result in lower overall retirement benefits.

Alongside this social concern, they fret that the costs of Social Security are escalating so fast that their employer corporations won't always be financially able to shoulder the burden.

The majority of corporations already have integrated their pension and/or profit sharing plans with Social Security, offsetting Social Security benefits so that as federal payments to retired individuals rise, the corporate plan pays a smaller portion to reach the designated level of salary replacement.

Of the 65 benefit managers responding to the current survey, 90% said they have integrated their plans at least to some extent. Much of the plan integration with Social Security took place many years ago, with 31% of the participating panelists noting that integration had come about between the 1940s and the end of the 1950s. Another 40% said plans were integrated with federal benefits between 1960 and 1974, while the remaining 29% have changed plan provisions to offset Social Security only in the last few years as they saw the handwriting on the wall.

Social Security taxes are normally regarded as corporate employe benefit costs, said the benefit managers. Only 12% of the respondents said that Social Security isn't included in corporate benefit tallies. Most companies include Social Security in budgets for benefit costs, viewing federal benefits as part of a total employe benefit package, so that federal taxes for Social Security have a direct impact on the money available for other benefits such as health and dental insurance.

A benefit manager for a Fortune 1000 firm based in the Midwest commented that even though his firm doesn't include Social Security in the total benefit picture, "Social Security does have an indirect effect on what we can spend on benefits."

About one-fourth of the benefit managers said the hike in Social Security taxes won't affect benefit plans directly by forcing any restriction or modification of existing plans. But most of the remaining panelists have begun reviewing their existing plans along with improvements in other benefits that they had intended to make.

Four out of every five benefit managers on the Benefit Board become personally involved in Social Security matters in their companies, counseling employees on benefits, handling pre-retirement counseling, putting out employe communications about Social Security benefits and taxes, doing retirement benefit calculations and

keeping abreast of legislation for lobbying purposes.

Among the immediate effects higher Social Security costs will have, said one panelist, is that such "uncontrolled benefit cost increases will take away from controlled (i.e. voluntary) benefits provided for our people."

"Profit sharing allocations will increase for lower paid and for very high paid employees and will decrease in the middle," said another.

"Decoupling, which results in lower Social Security benefits in the future, will result in greater benefits and higher costs under our offset plan," said the benefit executive for a large manufacturer. This prediction contradicted about half a dozen benefit managers who believe that their overall pension costs will decline in the future since they have plans integrated with Social Security.

The increased federal burden will speed the shift by one corporation to a profit sharing plan in lieu of a pension plan, said one benefit chief. Several others agreed that they will move quickly to elimi-

nate defined benefit plans in favor of defined contribution plans.

"With higher costs for Social Security, we are less inclined to spend money on non-essentials," said a panelist, while another bemoaned the fact that his company's costs will rise about \$4 million in 1978 alone because of the higher taxes.

Of the 37 benefit managers who

said the effect of higher Social Security will be freeze or cutbacks in benefits, no one put it more succinctly than the benefit manager who said that the Carter administration's latest solution to the Social Security problem "will only reinforce our current efforts to control costs by restricting the growth of benefit plans and the improvement of plans."

Pension system takeover?

CHICAGO—Of all the concerns benefit managers have about Social Security costs for the future, none is more important than their general fear that the federal system will eventually engulf the entire private pension system.

Along the way, they predict, the Social Security system will change shape even more than it has, becoming a vehicle for income redistribution instead of remaining a retirement plan as it was intended to be.

One benefit manager is convinced that the Washington bureaucracy actually wants to end the private pension system in order to get hold of the huge dollar reserves that have been built up in corporate coffers to pay pensions.

Aside from this conspiracy theory, there is an irony in the fact that, as one benefit manager so pointedly commented, the government is being irresponsible in the management of its own retirement program, refusing to comply with the same kind of rules that it was only too willing to establish for the private sector under ERISA.

Many benefit executives worry about attempts currently underway to prohibit private pension and profit sharing plans from offsetting Social Security benefits through integration provisions.

Social Security is on its way to becoming the prime retirement income factor, "resulting in erosion of employer-provided benefits," asserted a panelist.

Social Security has other problems, too, the Benefit Board said. Included among their benefit concerns are such issues as sex discrimination in Social Security payouts; workers who double-dip and collect Social Security benefits at the same time they are earning wages and forcing an employer to pay more federal taxes; the skyrocketing cost of Social Security taxes for young people, and the declining level of disposable income for employees.

Because we, at LONE STAR, can offer such an impressive invitation to Life and Disability Income Insurance, it makes us want to "get involved" so that we can help you as we have helped so many others.

We Want to get Involved

Why don't you get involved with the PRO... we would be pleased to assist you.

Just call us on our WATS line... 800/527-4527 or, if you're in Texas, dial 800/492-4816.

LONE STAR LIFE INSURANCE COMPANY

200 Treadway Plaza Exchange Park
P. O. Box 35047 Dallas, Texas 75235
A Subsidiary of K mart Corporation



W. G. (Bill) Shirley
DIRECTOR OF SPECIAL MARKETING

Brown Brothers Adjusters... the problem solving specialists.

Claims adjusting is no puzzle in the West.

Because Brown Brothers Adjusters has over 50 local headquarters that fit together in seven Western states to give you professional, experienced assistance. Our adjusters have the local knowledge and contacts to settle your claims quickly and accurately. We're putting the pieces together 24 hours a day, seven days a week. If you're puzzled about claims service in California, Nevada, Arizona, Utah, Oregon, Washington, and Hawaii, call Brown Brothers Adjusters. The problem-solving specialists.



B:A Brown Brothers Adjusters

Home Office: 545 Sansome Street, San Francisco, CA 94111 • (415) 392-2825
TELEX: San Francisco—34-472 • Honolulu—63-4266 • Los Angeles—67-234

License B-137

For more facts circle 105 on reply card

Fronting controversy . . .

have enough capacity to accommodate what captives are doing," he added.

Continued from page 1

Several sources said the insurance department didn't realize the impact the proposal would have on captives or the role captives play in providing insurance capacity.

But Al Albert, chief of the state's life bureau, said, "We recognize the lack of capacity in the domestic markets and the need that captives fulfill."

Nevertheless, the department wants to explore why the reinsurance now being placed with unlicensed reinsurers "can't be placed with a strong New York company rather than an offshore company that's not that strong," said George Fosket, assistant chief of the life department.

Although the department would not identify any specific fronting abuses, it said the arrangements can allow unlicensed insurers to exert undue influence in the settlement of claims.

Avoiding the law

In addition, the department said it has seen cases where licensed insurance companies cede up to 99% of the risk. In essence, the department argues, this allows an unregulated insurance company to engage in the insurance business in New York.

"Obviously the insurance department hasn't recognized the impact this will have on casualty and when it's understood the proposal will be rethought," said Maurice R. Greenberg, president of American International Group.

"Frankly, they don't fully realize what they have done," said Thomas A. Clark, president of the Insurance Brokers Assn. of New York. "Producers are angry, insurance companies are angry and reinsurers are angry."

"I just don't believe the insurance department gave thought to the proposal's implications," echoed Gustav Werner, head of the casualty department at Johnson & Higgins.

The contrasting effects of this proposal with regulation 20, recently passed here to allow insurers to take credit for reinsurance with unlicensed insurers, also bewilders the insurance industry.



ROBERT SPENCER, RIMS president, says 701 companies use fronting arrangements to obtain reinsurance.

"This proposal is diametrically opposed to regulation 20," said Thomas Duffield, president of The Captive Insurance Cos. Assn. Inc. "It would wipe out regulation 20's impact in freeing up insurer's surplus for more capacity."

A large number of risk managers would be affected by the proposed regulation, said Robert S. Spencer, RIMS president and vp-insurance at Fuqua Industries in Atlanta. Of 2,600 RIMS members, 701 companies use fronting insurers to obtain reinsurance.

Increased costs

Of those 701 companies, many have used fronting companies in New York.

Mr. Spencer said the proposed regulation would increase costs tremendously and would make it impossible to obtain needed capacity for large industrial risks.

"The captive provides much needed capacity and I don't know if domestic insurance markets

Few alternatives

Risk managers face few alternatives to their fronting setup if the proposed regulation goes into effect.

Licensing of captives is a time-consuming and costly process, costing about \$50,000 to \$100,000 per state, Mr. Spencer said.

Another alternative, according to Robert Clements, executive vp and head of national services at Marsh & McLennan, is to "qualify as a self-insurer, but that is time consuming and not as efficient as a captive."

Insurers who have provided fronting arrangements in New York also face few alternatives, except to lose that business.

"It certainly would put a cramp in our style," said Frank Snook, specialty risk underwriting officer at Kemper Insurance Cos. "It would hamper our working with captives at all, especially on many of the large accounts."

"The regulation would simply mean that we would have to find some other means besides fronting to do business with the captives," said John Haker, president of Northwestern National Risk Management.

Mr. Haker said a retrospective rated plan would be an alternative, but that it has many drawbacks.

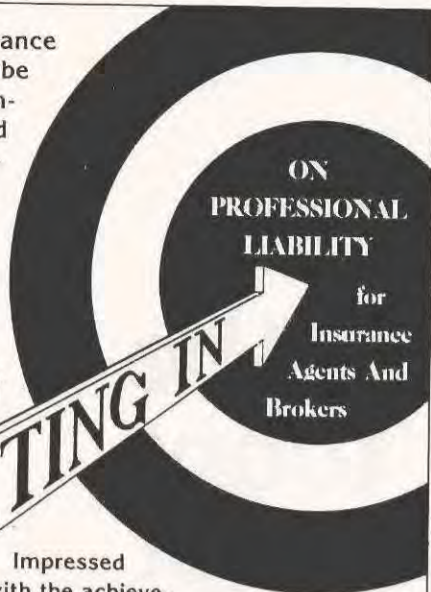
"We'll find some way to conform with these regulations, or we will simply eliminate New York and do business in the other 49 states," Mr. Haker said.

RIMS also emphasized that the proposed regulation could result in a loss of business to New York insurers. The imposition of such a regulation may well force companies to seek coverage elsewhere in a climate more responsive to their needs, RIMS said.

RIMS added that the unlicensed reinsurers are as financially secure as their parent companies if they furnish the primary insurer with financial guarantees such as letters of credit or bonds.

You, a professional insurance agent or broker, must be alarmed about professional liability—and with good reason. Claims have skyrocketed. How can you reduce your exposure?

At last, an experience-proven program, focusing on your unique problems, is available. It is known as the Institute of Professional Practice/Insurance Agents and Brokers Section.



Impressed with the achievements of the program with other professionals, the Assurex Institute has endorsed it, and at least one insurer now requires all accounts persons to have completed the program as a condition for professional liability coverage.

The program centers on a text relating actual case histories to loss prevention principles. A self-evaluation appendix enables you to rate your firm as a risk. Finally, to ensure grasp of subjects, the text is augmented by examinations of each participant.

Enrollment is by firm only. The charge: \$50 for the first and \$35 for each additional enrollee, subject to a minimum of \$200 per firm.

Send your list of enrollees along with your check to:

Risk Analysis & Research Corporation
50 California Street • Suite 545
San Francisco, CA 94111

TARGET IN! REDUCE YOUR EXPOSURE TO PROFESSIONAL LIABILITY CLAIMS TODAY.

Value Changes

When it's worth knowing how much, it's worth knowing IAC.

Industrial Appraisal Company
222 Boulevard of the Allies
Pittsburgh, PA 15222
(412) 471-2566

Offices nationwide in major cities

For more facts circle 115 on reply card

We want your views

We'd like to add your voice to the chorus of benefit managers who tell us what they think about issues and trends in benefit management. Six times a year *Business Insurance* sends a questionnaire to members of our Employee Benefit Board. The responses, which are kept strictly confidential, are tabulated and reported in stories in *Business Insurance*.

Just drop us a note with your name and address if you'd like to join our board. The only requirement is that you have responsibility for benefits at your corporation or institution. We lost track of some participants when they changed jobs. If you're one of those lost members, just send us a note with your new address. Send those notes to Susan Alt, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611. If you've any questions, just call editor Ms. Alt at (312) 649-5278.

INSURANCE SPECIALISTS

Buffer Layers
Umbrella Liability
World Wide Oil Drilling & Production
Excess Employers Liability-Maritime
Commercial Property
Political Risks
Excess of Sir's

THE WETZEL COMPANY, INC.
THE COMMODORE INSURANCE COMPANY

2000 South Post Oak Road, Suite 2400
P.O. Box 66452, Houston, Texas 77006
713/625-3240 Telex: 76-2053

Taking the Risk out of Business

For more facts circle 124 on reply card

people

Continued from page 50

director of administration. In his new position, he is in charge of property, casualty insurance as well as employe benefits coverage.

William O. Park, 46, is Northwestern University's first risk manager. The Chicago university upgraded its insurance supervisor position with the arrival of Mr. Park from the University of Chicago, where he had been insurance supervisor for the past nine years. At Northwestern he will be responsible for managing property/casualty risks and reports to the senior vp for business and finance. At the University of Chicago he has been replaced by **Lambert King**, who has experience in corporate risk management and consulting. As insurance supervisor, Mr. King is responsible for property/casualty risks and reports to the associate vp and assistant controller.

In a consolidation of the compensation and benefits programs at Schering Corp. in Kenilworth, N.J., **Jeffrey A. Turner, 34**, has been promoted to manager of compensation and benefits planning. His former position was manager of international employe benefits. Reporting to Mr. Turner are **Richard Lacy, 59**, who has been named manager of expatriate compensation and benefits and **Diane Harris, 30**, who has been appointed manager of overseas compensation and benefits programs. Previously both had duties only in compensation, Mr. Lacy as manager of international salary administration and Ms. Harris as associate manager of international salary administration. The compensation and benefits staff reports to Reyer Swaak, director of international personnel.

John C. Goddard, 42, has been named manager of employe benefits at Honeywell Information Systems Inc. in Boston. He replaces **William M. Servais**, who joined Bendix Corp., as previously reported. Mr. Goddard formerly was manager of compensation and benefits for eight years and hasn't been replaced.

Ira Irwin, 45, has joined W.R. Grace & Co. as a senior benefits adviser with duties in developing plans and booklets for group insurance. He replaces **Norman N. Kushin**, who was transferred to the position of pension analyst. Mr. Irwin reports to Mrs. H.M. Lewis-Wistner, manager of employe insurance. Previously, Mr. Irwin was manager of employe benefits for Keene Corp. for four years in New York, where he hasn't been replaced.

Michael J. Glapion, 30, has joined Graco Inc. in Minneapolis in the newly created position of manager of risk and insurance. He reports to treasurer **Roger L. King**, who formerly handled the risk management responsibilities. Mr. Glapion has responsibility for the development of a risk management program, claims administration, property/casualty insurance, loss prevention and workers compensation, which is self-insured. Prior to joining Graco, Mr. Glapion was insurance administrator for two years at Medtronic Inc. in Minneapolis. He's been replaced there by **Joanne Wittrock, 27**, who was previously a secretary for 10 years. Her duties include general supervision of property and casualty in addition to claims administration of workers compensation and auto. She reports to Donald Meck, director of corporate insurance.

Stephen R. DeBarre, 28, has

been named director of insurance in charge of property, casualty and employe benefits at Flanigan's Enterprises Inc. in Miami. He replaces **Gregory York** who was named director of corporate insurance for Northrop Corp. in Los Angeles, as was previously reported. Mr. DeBarre reports to Bernard Marder, vp of finance. Previously, Mr. DeBarre was insurance manager for one year at American Service Corp. in Miami, where he hasn't been replaced.

Edgar F. Kent, 39, has been named manager of benefits research and systems, a newly created position at Johns-Manville Sales Corp. in Denver. He reports to J.D. McGee, vp and director of employe benefits. Mr. Kent formerly was an employe benefits

coordinator in charge of forming and implementing benefits at the Electrolux Division of Consolidated Foods Corp. in Stamford, Conn. No replacement has been named.

M. Wayne Coon, 44, has been named manager of the property and liability insurance division at Caterpillar Tractor Co. Mr. Coon succeeds **Ralph F. White**, who is retiring this summer. Most recently, Mr. Coon was secretary-treasurer of Caterpillar Far East Ltd. Mr. Coon reports to treasurer Jim Wogsland.

Arlene L. Cohen, 25, has joined Hamilton Brothers Oil Co. in Denver in the new position of administrative assistant—risk management and benefits. Ms. Cohen assists Howard E. Wyatt, director of risk management and benefits. Previously, Ms. Cohen was a personnel assistant handling some group insurance at Seiko Time

Corp. in New York City.

John Lindquist, 42, was named director of risk management at Browning-Ferris Industries in Houston. He replaces **C.P.J. Mooney III**, who moved exclusively into management services as a vp in a restructuring of the department. The reorganization gives added emphasis to risk management. Also new to the Browning-Ferris staff is **John R. Thomasson, 29**, who is assistant director of risk management. Mr. Thomasson previously worked in the management services department at Seiscom Delta Inc. of Houston. Mr. Lindquist previously worked as corporate risk manager at Anderson-Clayton & Co. of Houston, where he hasn't been replaced.

W. Richard Hale, 41, has assumed a newly created position as risk manager at Middle South Services Inc. in New Orleans. He's in

charge of developing additional risk management programs and reports to Conrad Faulk, director of insurance services. Previously, Mr. Hale was risk manager for the Dade County School Board in Miami, where he hasn't been replaced.

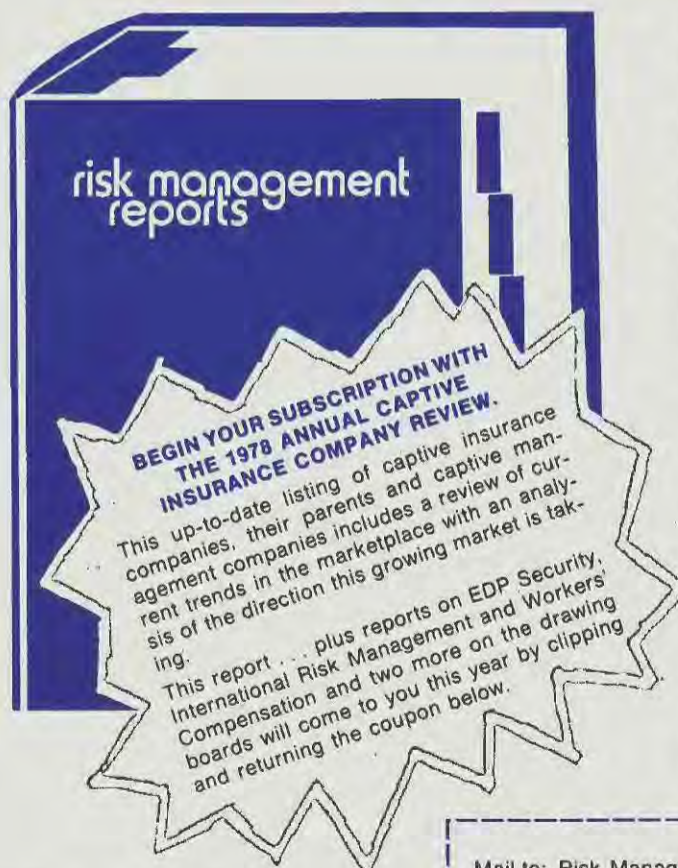
Jack Baker, 45, has joined Zapata Corp. in Houston as a corporate claims manager, a new position. He reports to risk manager Lee Baldwin. Previously, Mr. Baker was a claims superintendent for the Home Insurance Co. in Houston for eight months.

We'd like to report on staff changes in your risk management or employe benefits department. Just drop a note to Rebecca A. Fannin, Business Insurance, 708 Third Ave., N.Y., N.Y. 10017 or call (212) 986-5050. We'd also like to receive pictures of those involved.

The most up-to-date "how to do it" working tool for financial officers, risk and insurance managers of corporations and others involved in the field of risk and insurance management.

risk management reports

from BUSINESS INSURANCE



Risk Management Reports are brought to you by experts in the field.

The editor of Risk Management Reports is H. Felix Kloman, president of his own consulting firm, Risk Planning Group. He is assisted by Myrna S. Briskin, assistant editor and an editorial advisory board including Jean-Paul Decottignies, Risk Factoring, S.a.r.L.; Peter Downes, American Trading & Production Corporation; Paul B. Ingrey, Prudential Reinsurance Company; Peter Law, U.S. Industries; Stanley R. Tarr, Rutgers University; Stefan J. Valovic, Stone & Webster Engineering Corporation. Other experts from insurance companies, brokers and safety consultants will, from time to time, participate in the preparation of specific reports.

Here is the information service that answers the reference needs of everyone in the risk management field.

Risk Management Reports—six times a year—hones in on topics of current, critical concern in four major risk management categories:

- Exposure Identification/Risk Analysis
- Risk Control
- Risk Management Administration
- Risk Finance

Each topical issue is thoroughly researched with information drawn from the writers and their staff's close contact with a broad spectrum of companies and institutions in the U.S. and abroad.

Within these comprehensive one-subject reviews, practical suggestions and techniques put solid theory into workable practice.

You'll find this practicality evident in new subjects and in updates on topics of long term interest which require reappraisals, rethinking. You'll find it, too, in the Current Comment section with its wide-ranging reports on all facets of risk management. Here in many cases, you'll be alerted to developing exposures... before financial loss.

Risk Management Reports comprise an invaluable library of information you need and you'll use. For this reason, a sturdy vinyl binder accompanies your first report and a cumulative index is part of the service.

Mail to: Risk Management Reports
c/o Business Insurance 740 Rush Street, Chicago, Illinois 60611

YES, enroll me as a satisfaction guaranteed subscriber to Risk Management Reports for \$75—6 bimonthly issues.

Payment enclosed (Make check payable to Risk Management Reports)

Bill me Bill company

Name _____

Title _____

Company _____

Street _____

City _____ State _____ Zip _____

people

Sambo selects Pike as its risk manager

James Pike has been named director of risk management for Sambo's Restaurants Inc., the Santa Barbara-based fast food chain. He assumes the newly created position April 1. Mr. Pike, formerly assistant risk manager for City Investing Co. in Beverly Hills, Calif., reports to George McKaig, senior vp corporate affairs. Mr. Pike is responsible for property, liability and workers compensation insurance for Sambo's.

Joe Tonda has been named risk and insurance supervisor for the city of Fremont, Calif., a community with 125,000 people in the San Jose area. It is a new position. Mr. Tonda is responsible for safety and employee benefits in addition to property and casualty insurance. Reporting to the directors of personnel and finance, he was formerly claims training supervisor for the State Compensation Fund in San Francisco.

Hank Andreuccetti has been named risk manager for Mobex Corp., in Fullerton, Calif., a new position. Mr. Andreuccetti, formerly manager of corporate insurance for Signal Corp. in Beverly Hills, Calif., reports to Greg Zorn.

Continued on preceding page

INDEX TO ADVERTISERS

Aetna Life & Casualty Company	20
AFCO Credit Corporation	34-F
Agency Records Control, Inc.	34-G
American Dental Association	24
American International Group	9, 41
American Mutual Insurance Company	52
Arkwright-Boston Insurance	29
Associated Aviation Underwriters	3
Bituminous Insurance Companies	34-H
Brown Brothers	47
Chubb & Son, Inc.	43
Commercial Union Risk Management	19
Corporate Policyholders Counsel, Inc.	14
Cover X Corporation	45
Crain's Chicago Business	18a, 18b, 18c, 18d
Crown Life Insurance Company	6
John Crowther, Inc.	34-E
Davis, Dorland & Company	6
Employers Insurance of Wausau	5
Fenwal, Inc.	33
First State Insurance Company	25
Frelinghuysen Livestock Agency	46
Arthur J. Gallagher & Company	28
Gates, McDonald & Company	37
General Reinsurance Corporation	38
H&W Insurance	14-15
Frank B. Hall & Co., Inc.	31
Hartford Insurance Group	10-11
Hartford Steam Boiler Inspection & Insurance Company	4
Hergert & Company, Inc.	46
Horan, Goldman Companies	34-C
Illinois R.B. Jones Inc.	34-B
Industrial Appraisal Company	48
INA/Insurance Company of North America	26-27
Herbert L. Jamison & Company	20
John's Eastern Company, Inc.	32
R.B. Jones Insurance	34
Lone Star Life Insurance Company	47
Marsh & McLennan	22-23
Russell R. Miller & Co., Inc.	37
Mutual Marine Office, Inc.	12
National Association of Independent Insurance Adjusters	2
Northern California Employee Benefits Council	28
Professional Indemnity Agency	51
Prudential Reinsurance	30
Reed Shaw Stenhouse, Inc.	16
Reed Stenhouse Companies Ltd.	24
Risk Analysis & Research Corporation	48
Rollins Burdick Hunter Company	12
St. Paul Fire & Marine Insurance Company	13
Schiff Terhune	2
Southern Marine & Aviation Underwriters, Inc.	21
Specialty Underwriters Agency, Inc.	31
Springer-Verlag New York Publishers	46
State Mutual Life Assurance Company of America	34-D
Sweet & Crawford	7
Wetzel Company, Inc.	48
Zurich-American Insurance Companies	34-C, 45

classified advertising

RATES AND CLOSING TIME: \$3.00 per line, minimum charge \$15.00. Cash with order. Figure all cap lines (maximum—two) 30 letters and spaces per line; upper & lower case 40 per line. Add two lines for box number. Replies are forwarded daily. Closing deadline: Copy in written form in Chicago office not later than noon, Monday, 7 days preceding publication date. Published every other Monday. Display classified takes card rate of \$33.25 per column inch, and card discounts on size and frequency. Mail ads to Business Insurance, classified advertising dept., 740 N. Rush St., Chicago, Illinois 60611.

HELP WANTED

HMOs, NHI HEALTH CARE COST CONTAINMENT

If you are in the health insurance or benefits field, you need current information in all the above areas. You can have your own in-house "consultant" by subscribing to the EMPLOYERS HMO SERVICE. The \$26.00 annual fee includes a bi-monthly newsletter and Q&A service. Write: Personnel Research Associates, 49 Oakridge Rd., Verona, N.J. 07044

CORPORATE RISK MANAGER

To lend his talents to expanding Insurance Agency, Extensive Commercial Property & Casualty experience required. This is a unique opportunity for an insurance person seeking a lifetime career. All responses strictly confidential. Salary Open. Send written reply & resume to: Richard Mintzer, c/o Martin Bkge. Co. 191 N. Long Beach Rd. Rockville Centre, NY. 11570.

INSURANCE ACCOUNT EXECUTIVE

Commercial agency needs executive with property/casualty experience for account service and development. Excellent opportunity for advancement. Salary open subject to qualifications. Our Western Massachusetts location with its recreational and cultural advantages is also a great place to live. Send resume to Gilbert A. Haberman, James C. Haberman, Inc., 146 Chestnut St., Springfield, MA 01103

Loss Control Analyst III

The Suffolk County Insurance Managers office seeks individual who can assume responsibility for loss control program for a municipality with over 10,000 employees and diversified vehicle, aviation and marine exposures. Requires Bachelors Degree and 3 years experience in safety management, industrial safety, safety engineering or related field. Submit resume in duplicate showing current salary to Box EWBI 1410, 18 E. 48 St. NYC 10017.

NOTE: All Candidates must be approved for Civil Service eligibility. Equal Opportunity Employer M/F

CHIEF, BUREAU OF RISK MANAGEMENT STATE OF IDAHO BOISE, IDAHO

Individual sought to plan, organize and direct the property, casualty, liability and bond insurance program for the State of Idaho; procure needed insurance coverages; direct the insurance, self-insurance and risk prevention program; research, write and interpret insurance specifications.

Considerable casualty, property, liability and self-insurance experience needed. Specific experience in corporate risk management desired. Position responsible to Director, Department of Administration, State of Idaho.

Starting salary: \$1,499/Mo

For additional information, contact Mr. Martell Miller, Department of Administration, Statehouse, Boise 83720. Tel. (208) 384-3380. Applications may be received from and returned by April 3 to the Idaho Personnel Commission, Statehouse, Boise 83720. (208) 384-2263

An Equal Opportunity Employer

Ambitious individuals with strong commercial insurance background are needed for the world's leading insurance agency. We have an excellent opportunity for experienced account executive. Major responsibilities will be to develop new accounts and service existing accounts.

Career opportunities are also available for casualty account marketing specialists and raters. We offer competitive salaries, a fine benefit package and extremely creative and professional environment in Houston, Texas.

Marsh & McLennan

1100 Milam Bldg., Suite 4500
Houston, Texas 77002
Attention: Kathy Moerbe

MANAGER OF EMPLOYEE BENEFITS

Growth oriented multi national Minneapolis based company has an immediate opening for a Corporate Manager of Employee Benefits. Qualified candidates for this outstanding opportunity must possess a Bachelor's Degree plus demonstrated experience in negotiation of coverage, development, and administration of a variety of employee benefits programs on a company wide basis. This position offers excellent salary and benefit package. Qualified applicants may submit resume and salary history in confidence to:

Bill Everett
Manager Corporate Employment
DONALDSON COMPANY, INC.

donaldson

P.O. Box 1299
Minneapolis, Minnesota 55440

An Equal Opportunity Employer

PROPERTY/CASUALTY MARKETING MANAGER

Atlanta regional office, subsidiary of international insurance company, needs experienced marketing manager. A strong commercial insurance marketing background, preferably agency/brokerage and appropriate education required. Responsibilities include client contact and supervision of 2 employees. Salary 20-24K, plus incentive bonus, and complete benefit package including savings plan. Send resume with salary history in confidence to:

Box 110, BUSINESS INSURANCE
740 Rush St., Chicago, Ill. 60611
An Equal Opportunity Employer M/F

PROPERTY AND CASUALTY ADMINISTRATOR

Large central N.J. Commercial Insurance Brokerage Firm has opening for two Property/Casualty Underwriters with a minimum of two years experience.

The Candidate must be able to relate to insurance carriers and customers with equal ease.

Responsibilities would involve daily administration of all commercial accounts, underwriting and marketing of new and renewal business.

The Candidate should at present be involved in underwriting for either an insurance company or a Brokerage/Agency operation, preferably in the N.J./N.Y. market.

For immediate consideration, please send resume detailing education, business experience and salary history to G. B. Parks & Co., Inc. at 1107 Convery Blvd., Perth Amboy, N.J. 08861 Attention of Stephen M. Parks, Vice President.

RISK MANAGEMENT DIRECTOR

City of Scottsdale
Scottsdale, Arizona

\$1652 - 2108/month plus fringe benefits.

Under administrative direction: plans, organizes, coordinates and supervises the management of the City's workers' compensation and public liability plans, claims recovery, subrogation, loss prevention program and risk management activities.

Qualifications equivalent to a Bachelor's Degree in Business Administration, Public Administration or closely related and considerable (5 - 7 years) experience in the field of risk management.

Applications will be accepted by mail until April 7, 1978.

Contact: City of Scottsdale
Personnel Office
7384 E. 2nd St.
Scottsdale, AZ. 85251

CORPORATE INSURANCE OPPORTUNITIES

V.P. CLAIMS To \$50,000+
A 30 office multi-line claims operation. Sr. mgmt. expr. needed within a national or major regional claims organization.

RISK MANAGER To \$35,000
Major SE industrial & services corp. with interesting exposures seeks 3 to 6 years exp. buying and administering programs.

CLAIMS MANAGER To \$30,000
Recently formed captive of Fortune 300 Corp. seeks 5 years+ exp. in multi-line claims management, emphasis on Texas W/C.

INSURANCE MANAGER To \$25,000
NYSE listed Texas oil & Gas co. 2 to 5 years exp. administering insurance prog.

LOSS CONTROL ENGINEER To \$20,000+
Gulf coast corp. 2 years+ expr. in HPR, boiler and machinery environment.

PARTIAL LISTING ALL FEES PAID
CORPORATE INQUIRIES INVITED

CONTACT: Donald J. Delaney
INSURANCE RECRUITERS, INC.
3707 Rawlins, Suite 416
Dallas, Texas 75219
(214) 528-0090

EMPLOYEE BENEFITS SPECIALIST

A career opportunity exists in a progressive company located in Madison, Wisconsin for a professional with 3-5 years of generalist personnel experience. We require a minimum of two years experience in benefits administration with preference given to individuals with a working knowledge of ERISA. The position entails the planning and administration of long term employee benefits. We offer a competitive starting salary and excellent fringe benefits. Candidates send resume including salary history to:

Employment Supervisor
P.O. Box 192
Wisconsin Power and Light Company
Madison, WI 53701

An equal opportunity employer M/F

MISCELLANEOUS

SURVEYS

Sophisticated RM consultant available for primary analysis or ghosting of property/casualty RM surveys. New York City area.

Please contact:

Box 111, BUSINESS INSURANCE
740 Rush St., Chicago, Ill. 60611

HOW DO YOU KNOW IF YOU HAVE THE RIGHT FIDUCIARY LIABILITY POLICY?

THE INSURANCE BUYER'S ERISA QUIZ

- Does your policy limit coverage to persons defined as fiduciaries?
- Does your policy limit coverage to wrongful acts of insureds only?
- Does your policy provide defense costs within the limits of liability?
- Does your policy limit loss to damages by definition, and exclude non-pecuniary claims?
- Does your policy by definition exclude employee benefits liability losses?
- Does your policy include outside persons as insured fiduciaries?
- Does your policy contain a limited retroactive acts exclusion?
- Has your policy been purchased without the advice of competent legal counsel who has rendered an opinion in writing as to which contract he felt offered the broadest coverage?

If the answer to *any* of the above questions is "Yes," the chances are you have probably purchased the wrong policy. And the real problem is that you will probably never know until you have an uninsured loss.

How do you know you have the right fiduciary liability policy? There's only one way — to *compare*. Remember — *all policies are not created equal*. While all contracts may appear to be similar, there can be substantial differences in their terms and conditions — differences which can be very significant — and costly. And, unfortunately, it's impossible to compare policies without a thorough understanding of the law. (ERISA)

The Professional Indemnity Agency, direct Lloyd's correspondents, is one of the very few insurance underwriters qualified to make sound recommendations. Fiduciary liability coverage is our business — our *only* business. We understand this is a difficult business — and we refuse to take the easy way out. Combining a Fiduciary Liability and a Directors and Offi-

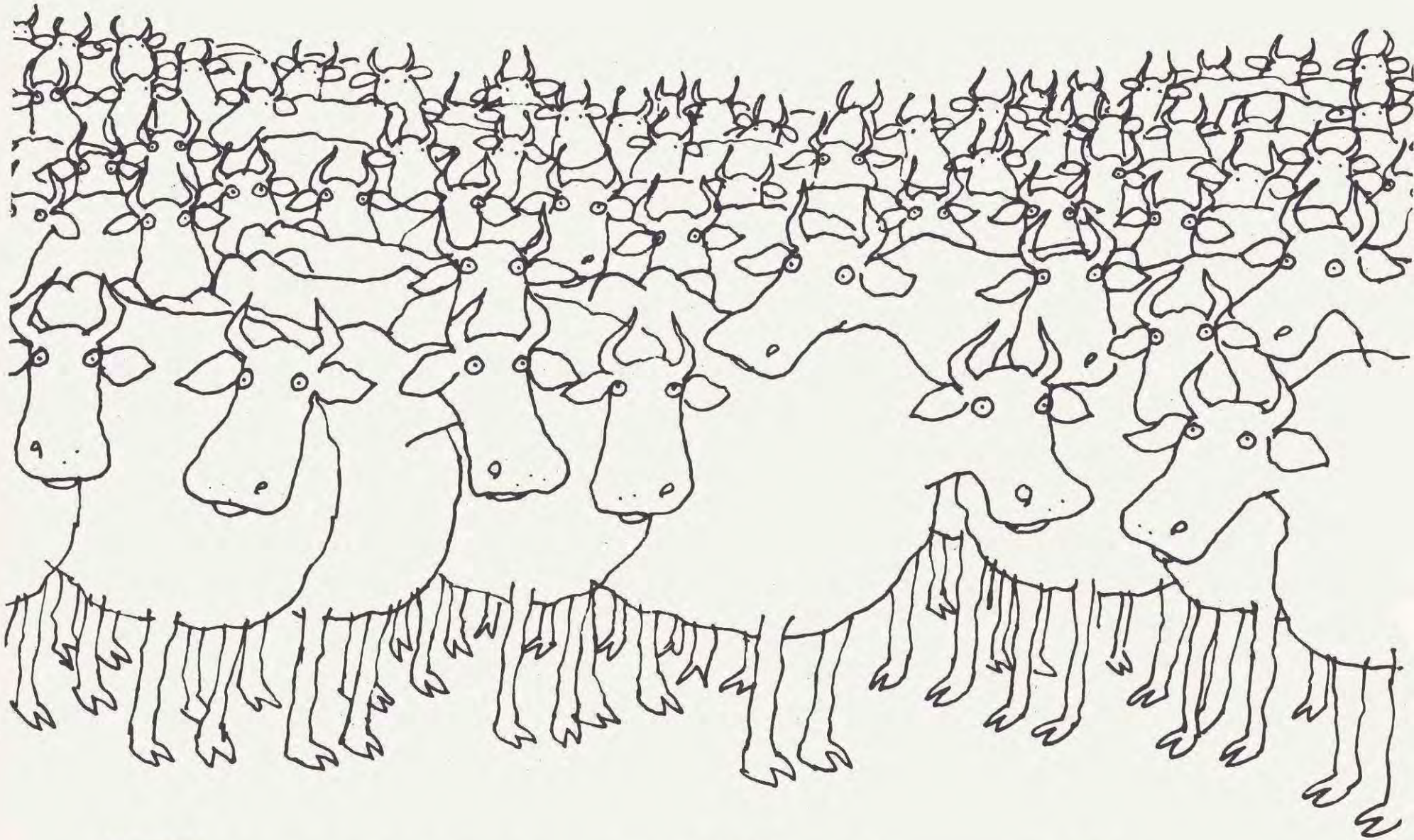
cers Policy may serve the best interests of the insurance carrier and the broker, but it may *not* serve *your* best interest because it may not give your people the complete protection as provided by the P.I.A. form. The responsibilities of persons covered under each policy are quite different; in fact the law (ERISA) *mandates* this conflict. P.I.A. does not deal directly with insureds, but we will be happy to make our facilities available to your agent or broker.

Before the enactment of ERISA, your sole responsibility was the guarding of corporate assets. But now, because of this law, (ERISA) you are faced with the tremendous additional responsibility of protecting the personal assets of your directors, officers and other employees. You've got to be *sure*. You've got to *compare*. You've got to talk to the experts... **NOW!**



Professional Indemnity Agency
3901 North Meridian Street
Indianapolis, Indiana 45298
Tel. (317) 924-5311 (212) 421-2033

For more facts circle 119 on reply card



The way some Workers' Comp policyholders are regarded is un-American.

Do you ever feel you're being treated like one of the herd? It won't happen with American Mutual.

We serve the needs of people – that's the American way, the American Mutual way.

**American
Mutual**

INSURANCE COMPANIES, WAKEFIELD, MASS. 01880

We want to keep you safe, and sound.

For more facts circle 103 on reply card