

RIMS reveals risk managers average \$28,800, gain status

By REBECCA A. FANNIN

NEW YORK—Risk managers are paid an average of \$28,800 a year, are increasingly reporting to vice presidents and have gained increased responsibilities and higher levels of education since 1968, reveals a study sponsored by the Risk & Insurance Management Society.

"There were no surprises in the study. It just reinforces what's going on in the field," said Robert S. Spencer, RIMS president and vp-insurance at Fuqua Industries in Atlanta. "Risk managers are gaining importance and we're only just beginning to mature."

But Don Gough of Sibson & Co. Inc., the firm that conducted the study last fall, said it was disappointing to learn that "there are still some out there who purchase insurance and have no loss preven-

tion duties."

Regardless, one of the most significant findings of the study was that the responsibilities of risk managers have grown tremendously, Mr. Spencer said.

The study revealed that almost 50% of risk managers report to a vice president, compared to 23% who said they reported to a vice president in a 1968 survey.

The 84-page study represents a 38% response from a total of 2,600 questionnaires sent to the society's members. Mr. Gough said the response was adequate for profile.

The highest paid risk manager earns \$60,000 or more while the lowest paid earns less than \$15,000, the comprehensive survey says.

While the study found that the most important factor in determining compensation was the size of the company, Sibson also con-

cluded that six other factors affect salary: type of industry, area of concentration, type of risk manager, reporting level below the chief executive officer and geographic location of corporate headquarters.

The average salary for a company with sales of \$5 billion or more was \$34,200. This compares to a much smaller company with sales less than \$100 million that pays a risk manager an average of \$24,500.

This relationship of compensation to size of organization illustrates that there is both a need for a higher degree of professional skill and an appreciation of that skill within larger organizations, the Sibson company concluded.

By looking at area of concentration, the report concluded that a risk manager with duties in em-

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Photo: Wide World

3 train disasters kill 20

Firemen in Waverly, Tenn., spray water on a derailed tank car containing propane gas in an attempt to keep the car from exploding. Another tank car exploded earlier, killing 12 persons and devastating a large area of this Tennessee city. Twenty persons died in three railroad accidents in one week, prompting promises of federal action on rail safety. Story, page 2.

Insurers embrace new DNA research

BY KATHRYN J. McINTYRE

CHICAGO—Tinkering with the essence of what makes us tick and the mystery of creation makes for bone-chilling movies and books. Recombinant DNA research in one's backyard sends shivers up people's spines.

But the most skittish group of people around — insurance company underwriters — are apparently coping with these uncharted risks. For example:

- Princeton University reports it will be able to meet an insurance requirement in a pending local law that would regulate recombinant DNA research.
- Risk managers at other universities conducting recombinant research say they have not been saddled with an exclusion for the new risk in their comprehensive general liability policies.

The one private company that did encounter difficulty in obtaining insurance last year expects no insurance problems this year for the most advanced level of research.

Concern over a potential disaster in DNA research is now most visi-

ble in Princeton, where that prestigious university is planning to build a laboratory to conduct advanced research and the community wants to regulate it by local law.

A section of the law requires a recombinant DNA researcher in Princeton to maintain \$1 million/\$5 million in liability insurance against personal injury and \$1 million of insurance against property damage. In lieu of insurance, proof of available assets in those amounts is required. The borough must be indemnified and held harmless from any liability in the event of an accident involving recombinant DNA research.

Princeton University maintains \$22 million of liability insurance from the first dollar of loss. University insurance manager Harry Riddell said "we can supply either one" of the borough's requests for liability protection. Though he hasn't yet discussed DNA research with his CGL insurers, Mr. Riddell doesn't expect his insurers to exclude coverage for DNA research.

That appears to be a fair predic-

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Week of March 6, 1978

business insurance

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American Can employes test new flexible benefits program

By REBECCA A. FANNIN

NEW YORK—American Can Co. is testing a benefits program that offers employes more flexibility in benefits than any other corporate benefit package.

Neither American Can nor employes will pay extra for the pilot program which has been under study for two years. Hewitt Associates designed the innovative plan and the benefits will be underwritten by Metropolitan Life.

The flexible benefit approach, also used on a smaller scale at TRW Inc. and Princeton Educational Testing Service, naturally grew out of trends to offer options such as dental, long term disability and extended medical coverage, said Thomas Russo, product manager at Metropolitan Life.

Only salaried employes participate in the program which was introduced Jan. 1 on a trial basis for 760 employes in the consumer towel and tissue group of American Can. If successful, the program will be extended to salaried employes throughout the company.

"With the introduction of this new program, American Can has taken yet another step toward enhancing its image among employes as a good place to work," said Sal J. Giudice, senior vp of human resources. "This is a major move to make our benefits program more responsive to the different needs of our employes."

Although flexible, American Can's program isn't modeled after

the "cafeteria approach" to benefit planning, which, in its purest form, converts salary plus benefits to raw salary. The employe then selects any combination of benefits and salary or can take all benefits in the form of direct salary.

According to Mr. Russo, the cafeteria approach "won't ever come to the floor" because the employe has a moral obligation to make certain that each employe has some benefits.

American Can's program con-

sists of required core benefits and optional benefits beyond the core level.

Core coverages are provided at no cost to the employe for basic medical, life, vacation, disability and retirement/capital accumulation benefits. These core benefits are less than benefits provided other employes not in the pilot program. Employes are permitted to opt for additional coverages in these areas by using flexible credit dollars generated by taking the dif-

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Ford to use subsidiary for dealer insurance

BY KATHRYN J. McINTYRE

DETROIT — Ford Motor Co. is responding to dealer requests for better product liability protection with an umbrella liability insurance policy underwritten by the Ford subsidiary American Road Insurance Co.

American Road, a subsidiary of Ford Motor Credit Co., is expected to file the policy early this month with state insurance departments and offer it to Ford and Lincoln-Mercury dealers as approvals and licenses are secured. Available limits will range from \$1 million to \$5 million, Ford president Lee A. Iacocca said at the recent Chicago Auto Show.

Ford declined to comment on de-

tails of the new insurance policy, saying the program still has certain specific items that need to be finalized.

Car dealers are becoming increasingly uneasy about their exposure to product liability lawsuits, especially since a \$128 million judgment was leveled against Ford in California last month (BI, Feb. 20). The dealers say they find themselves also routinely named in suits against the automakers and their insurance premiums are skyrocketing.

As a result, the National Automobile Dealers Assn. (NADA) is pressing automakers to adopt indemnification clauses in their

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The inside story

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- PRODUCT LIABILITY decisions at the federal level rest with Carter aides. **Page 19.**
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20 die in 3 separate railroad accidents

By JERRY GEISEL

WASHINGTON—Twenty per-

sons were killed and thousands evacuated from their communities following three separate railroad

accidents in one week in which tank cars derailed spewing toxic chemicals into the air.

In the wake of the accidents, Transportation Secretary Brock Adams said he might propose a task force to draft new safety rules governing the rail transport of hazardous substances.

Tennessee Gov. Ray Blanton, in whose state two of the accidents occurred, urged consideration of a more drastic measure: nationalization of the railroads. Gov. Blanton maintained railroads lack the financial resources to keep their equipment in sound operating condition.

The chain of events, in what was to become one of the most disastrous weeks in recent railroad history, began with the derailment of a Louisville & Nashville freight train in Waverly, Tenn., a town of 5,800 persons 62 miles west of Nashville.

No fatalities occurred in the initial accident, but two days after the wreck a derailed tank car containing liquid propane exploded moments before its contents were to be transferred to a tank truck. At least 12 persons died in the explosion.

Two days after the Waverly explosion, an Atlanta & St. Andrews Bay Railway freight train derailed in the Florida Panhandle, spewing a cloud of deadly chlorine gas. Eight persons were killed by the fumes, 60 hospitalized and more than 2,000 residents of Bay County evacuated from their homes by state and county law enforcement

officers.

Hours after the Florida accident, an Illinois Central Gulf freight train cracked up in Cades, Tenn. about 80 miles west of the first accident in Waverly. One of the derailed cars carried sodium hydroxide, a chemical that burns the skin upon contact. About 200 Cades residents were evacuated from the area, but there were no reported fatalities or injuries.

The Louisville & Nashville (L & N) accident not only appears to have resulted in the greatest loss of life and the most extensive property damage, but also leaves the most questions unanswered.

The 92-car L & N freight liner left

Nashville without incident in the late afternoon to begin its trip to Memphis.

In Waverly, the 17th through 40th cars derailed, probably caused by a broken wheel, a spokesman for the National Transportation Safety Board (NTSB) said.

Two of the derailed cars were liquid tankers containing volatile liquid propane gas. A spokesman for L & N said the railroad immediately and continually tested for evidence of leaking gas.

When none could be found, L & N officials decided to remove the other derailed cars first. Two days after the accident, L & N began the delicate job of transferring the liquid propane from the derailed car

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OSHA alleges 'willful' violations; fines elevator \$116,000 in crackdown

GALVESTON, Tex.—The Occupational Safety & Health Administration says it found 17 violations of safety procedures at a grain elevator here that exploded last December, killing 18 workers.

OSHA levied \$116,000 in fines against the Farmers Export Co. in connection with six serious violations and 11 willful violations. OSHA said the Department of Labor is conducting an investigation to determine whether criminal charges should be brought.

Willful violations involve "intentional and knowing" disregard of safety procedures. The 11 willful violations included failure to use approved means of moving rail cars in and out of the elevator's car dump, allowing smoking in dangerous areas, not requiring specific approval for welding, failure to clean up grain spills, failure to have internal fire alarms to warn occupants of a fire and lack of an employee fire safety and evacuation program.

Insured losses in February storms top \$48 million

NEW YORK—Insured losses from the winter storms that bombarded the Northeast and California last month total at least \$48 million, estimates the American Insurance Assn.

Losses in Massachusetts from the snow that blanketed the New England states in mid-February totaled \$37.7 million, not including damage insured through the federal flood program or business interruption policies.

The two rain storms that lashed California caused \$13.5 million in damage, the AIA said.

Michigan sues Farm Bureau, Northwest unit

LANSING—The state of Michigan is suing the Michigan Farm Bureau and a unit of Northwest Industries Inc. for \$119.2 million in connection with 1973 feed mixup that resulted in the destruction of two million animals in the state.

The state is asking the Farm Bureau and Velsicol Chemical Corp., the Northwest subsidiary that produced the chemicals involved in the accident, for \$59.2 million to cover the costs of destroying animals which were accidentally given feed contaminated by a fire retardant.

The Michigan Farm Bureau so far has paid about \$40 million to settle claims from the incident; Northwest is believed to have paid a similar figure.

Fire losses climb 5% in 1977

NEW YORK—Fire caused an estimated \$3.75 billion in damages in 1977, an increase of \$193 million or 5.4% over the 1976 figures. The Insurance Services Office said monthly losses in 1977 ranged from a low of \$259 million in November to a high of \$362 million in February.

Court orders jury trials in age bias suits

WASHINGTON—The Supreme Court unanimously ruled last month that a person who charges that he or she was a victim of age discrimination is entitled to a jury trial.

The case involved a 48-year-old employe of The Lorillard Co., who claimed she was dismissed in 1975 as part of company policy to retain young employes while firing older ones.

Justice Thurgood Marshall, who wrote the court opinion, said the 1967 federal act against age discrimination calls for a jury trial. Lorillard contended the federal law only granted a trial before a judge.

Delta denied government payments in '73 crash

WASHINGTON—The Supreme Court has declined a petition by Delta Airlines for review of a lower court decision denying government indemnification for damages the company paid in connection with the crash of a Delta airliner in 1973 in Boston in which 89 persons died. Delta contended part of the blame belonged to an air traffic controller.

New York moves to restrict fronting

NEW YORK—The New York insurance department is proposing a regulation to eliminate fronting when there is a prior agreement that the fronting insurer will cede the risk to a company's captive. The department says they cannot properly regulate unlicensed insurers, who may have undue influence on claims handling.

A hearing on the proposal will be held March 22 at the World Trade Center in New York.

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the benefit beat

Mobil pays workers bonuses to control benefit costs

MOBIL OIL is paying bonuses to employees who hold their benefit costs below the maximum company contribution as part of the oil company's cost containment program. Last year Mobil paid employees \$1.4 million in bonuses, with the average family receiving \$55. Manager of compensation and benefits Robert B. Peters said the company also introduced second opinions on elective surgery on a trial basis to determine if the popular technique is cost effective. Also added to the benefit program was coverage for ambulatory surgical care, preadmission testing and treatment in extended care facilities, alcoholism facilities and by home health care agencies.

Mobil uses deductibles to discourage abuse of benefits, Mr. Peters said. The comprehensive medical plan deductibles range from \$50 to \$200 per individual, depending on salary, and employees must pay 20% of the cost of medical care. Administration has been simplified by combining surgical, hospital and extended benefits into a single plan with employees choosing either individual or family coverage.

ATLANTIC RICHFIELD is abolishing mandatory retirement for 7,500 non-union employees. ARCO vp William Read said the Los Angeles-based oil company made the move because "we suspected it was a change whose time has come." Employees who remain on the job past 65 will not receive any additional pension benefits. Workers must make a formal request to continue working, undergo a physical examination and have their work evaluated. California last year passed legislation abolishing mandatory retirement at any age and Mr. Read said ARCO expects Congress to enact legislation raising the national age for mandatory retirement to 70.

MINE WORKERS engaging in wildcat strikes will not be fined \$20 a day to reimburse the union's health and welfare funds under the latest tentative contract now awaiting ratification. The previous agreement, rejected by the miners bargaining council, would have fined wildcat strikers and cutoff their health and welfare benefits after 10 days off the job. The new contract also drops the benefit cutoff provision. Like the previous agreement, the new proposal guarantees health and welfare benefits, although medical coverage deductibles are instituted.

The new contract provides for scrapping the 1974 Benefit Trust in favor of providing benefits through insurance company contracts, while keeping the 1950 Benefit Trust with employers increasing their contribution per ton of coal mined by 75%. Coal owners agreed to reimburse miners for medical expenses the workers have been forced to pay since a rollback in benefits last July. That could cost employers \$5 million. In addition, employers agreed to pay February pension benefits not received by miners retired under the 1950 Pension Trust. That could cost coal operators \$20 million.

FORD'S AEROSPACE and communications division and the International Electrical Radio and Machine Workers have agreed on a new 40-month contract covering 2,700 workers that is expected to boost the cost of fringe benefits by \$1.62 an hour. Under the agreement, which covers employees at the Ford plant in Connersville, Ind., the major medical benefit will be boosted in three stages to \$100,000 from \$50,000 over the life

of the contract. Company-paid life insurance will increase to \$15,000 from the current \$10,000. Death benefits for surviving spouses have been lifted to \$3,000; the old benefit was \$1,000. A dental plan has been established which will cover 80% of the cost after a \$25 deductible. The number of paid holidays has been boosted to 44, up from 32.

In addition, Ford agreed to pay workers for eight holidays missed during an 83-day strike. Ford also agreed to pay one-half of the insurance premium for medical and hospitalization coverage for retirees; retired workers previously had to pay the entire premium. Employees now can retire after 30 years of service and receive full pension benefits. Under the old

agreement, an employee had to be at least 58 years old and work for 30 years to qualify for a full pension benefit. The maximum pension benefit has been lifted to \$500 a month, up from \$240 a month under the old contract.

POST-RETIREMENT increases in pensions were granted last year by one-third of 72 major corporations surveyed by consultants Towers, Perrin, Forster & Crosby. Twenty-five companies gave all retirees one-shot increases last year. Two companies increased pensions only for salaried retirees and two firms upped pensions only for hourly retirees. Most of the companies gave percentage hikes based on length of time an individual had been retired. The next

most popular formulas were a flat dollar amount based on the length of service and a flat percentage increase.

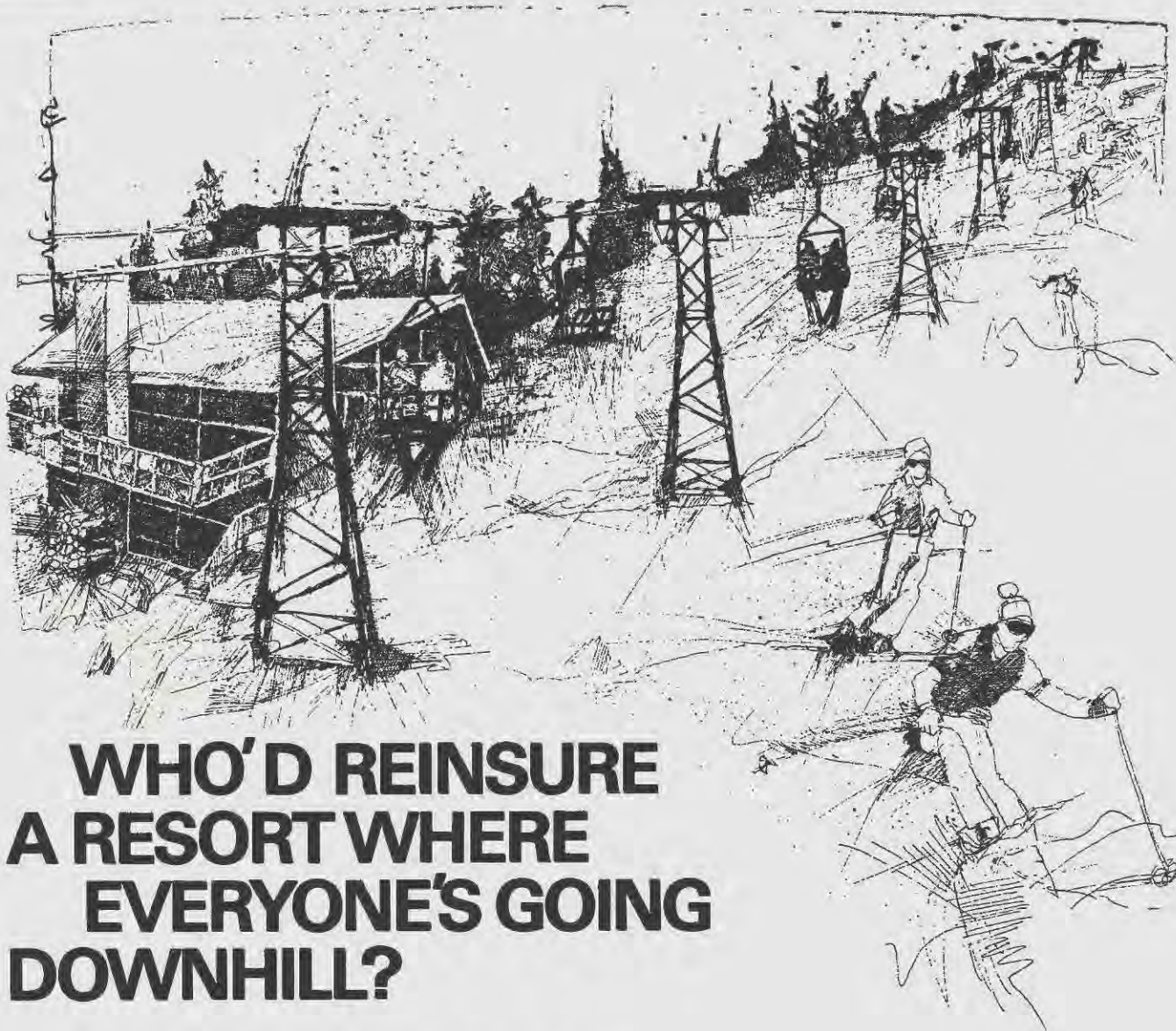
B.F. GOODRICH is bargaining with the United Rubber Workers for a no-strike agreement in return for the guarantee that Goodrich workers will get benefits and wages according to future pattern-setting contracts. Goodrich always ends up following the pattern set by one of the three major tire makes anyway, said manager of union relations Jack Johnson, so there's no sense to strike over industry issues.

As part of the no-strike proposal, Goodrich is asking its URW workers to ratify a 90-day extension of the current contract which expires

April 20, 1979. That would put Goodrich negotiations three months behind the major tire makers—Goodyear Tire & Rubber Co., Firestone Tire & Rubber Co. and Uniroyal Inc.—with the hope a pattern-setting settlement would be reached in that time. Nonetheless, Goodrich employees would be precluded from striking if a pattern-setting agreement hadn't been reached. Under the no-strike proposal, industry economic issues and non-economic Goodrich issues would be subject to arbitration but local non-economic issues would be subject to strikes.

A URW committee is studying the proposal and could kill it with a recommendation against it, observed Mr. Johnson. To make up

Continued on following page



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the benefit beat

Continued from preceding page for the 90-day delay of a new contract, and to induce ratification of a new contract in '79, Goodrich is promising each URW worker a \$200 cash bonus when new contracts are effective. In addition, Goodrich says it will open up to hourly employees its stock purchase plans.

NATIONAL HMO marketing network and the functions it could serve will be studied by the Group Health Foundation under a grant from HEW's division of health maintenance organizations. While The Blues and major commercial health insurers can offer a single premium and coordinated claims administration to national employers, HMOs are at a disadvantage with their numerous contracts

and lack of portable benefits, says the Group Health Assn. of America, the HMO trade group. The study, to be completed in July, will look at the possibilities of a national marketing agent for prepaid accounts, uniform coverage for out-of-area claims, transfer of membership between participating HMOs, national periodic evaluation of HMO services, development of new benefits and risk sharing among participating HMOs. The study will also consider a national HMO information center that could maintain central files on marketing, premiums and benefits, coordinate billing to national accounts and evaluate participating HMOs' performance.

HMO CZAR has been appointed in the Department of Health, Edu-

cation and Welfare. Howard Veit, who served for a year as a consultant to the federal HMO program before becoming an assistant commissioner with the Massachusetts Public Health Department, was finally selected after a long search by HEW. Mr. Veit is charged with coordinating the formerly separate functions in HEW of HMO qualification and compliance with grants and loans. His background in HMO operation includes serving as health center administrator and director of community programs for the Harvard Community Health Plan in Boston from 1971 to 1975.

CITY OF MEMPHIS pension board for the first time has granted a disability pension for psychological injury. The board refused in 1976 to grant a disability pension to a patrolman who said he suffered psychological injuries as a result of killing two holdup men in a liquor store robbery in 1970. But last

month the board reconsidered the case and, based on medical proof developed since 1976, decided a phobic, traumatic neurosis had developed which was directly caused by the shooting incident. The patrolman will receive \$5,500 annually. Complicating the case, however, was the patrolman's dependency on alcohol which ultimately cost him his job in 1976. Under the Memphis pension system, the board can deny benefits if disability is due to alcoholism or drug abuse. But the board, after hearing the expert testimony, determined that the patrolman was injured in the line of duty assured him an annual disability pension benefit of at least 50% of salary 12 months prior to retirement instead of the standard Memphis pension formula of 2.25% of annual salary for each year of service. Memphis pension admin-

istrator Edward Hastey said the board isn't concerned that it has set a precedent. "We'll consider each case on its merits," he said.

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

House agrees to continue OPIC to '80

WASHINGTON—The House has approved legislation extending the life of the government agency that provides political risk insurance and loan guarantees for companies investing abroad.

By a 191-165 margin, the House voted to continue the underwriting authority of the Overseas Private Investment Corp. (OPIC) until Sept. 30, 1980.

The measure now must go to a conference committee to clear up differences between the House bill and the legislation the Senate passed last September.

The most significant difference involves a House amendment requiring 50% of all OPIC insurance, reinsurance, loan guarantees and financing activities go to small businesses. The Senate bill lacks such a restriction.

In an interview with *Business Insurance* last month, acting OPIC president Rutherford M. Poats warned that putting OPIC business on a quota system would sharply limit the availability of insurance for large corporations who are the major clients for political risk insurance.

Under amendments adopted on the House floor, OPIC would be forbidden to provide insurance for copper mining products and for projects involving the production of palm oil, sugar or citrus crops for export to the U.S. The Senate bill does not contain those restrictions.

The house bill directs OPIC to end its joint direct underwriting arrangements with private insurers; the Senate bill would permit OPIC to end that arrangement rather than forcing such action.

OPIC, in fact, already has taken steps to comply with the House legislation. The Overseas Insurance Investment Group, a joint OPIC-private insurer pool, has been disbanded.

A new underwriting group, known as the Overseas Investment Reinsurance Group, has been established in which a consortium of 14 private U.S. and foreign insurers will join a reinsurance pool.

Although final shape of the bill won't be known until it emerges from the conference committee, the vote to continue OPIC is a major victory for the embattled agency that was fighting for its life.

Opposition to extending OPIC was led by the AFL-CIO, which charged the agency contributed to the loss of jobs in the U.S. by encouraging investment abroad.

But OPIC staffers said the agency was not insuring the type of plants—such as steel mills in Japan—that were contributing to the loss of American jobs.

OPIC also stressed that the agency screens applications to weed out projects that have a negative impact on U.S. employment. One out of 14 applications for OPIC insurance was rejected for this reason, noted Rep. Bill Alexander (D-Ark.) during the debate on the House floor.

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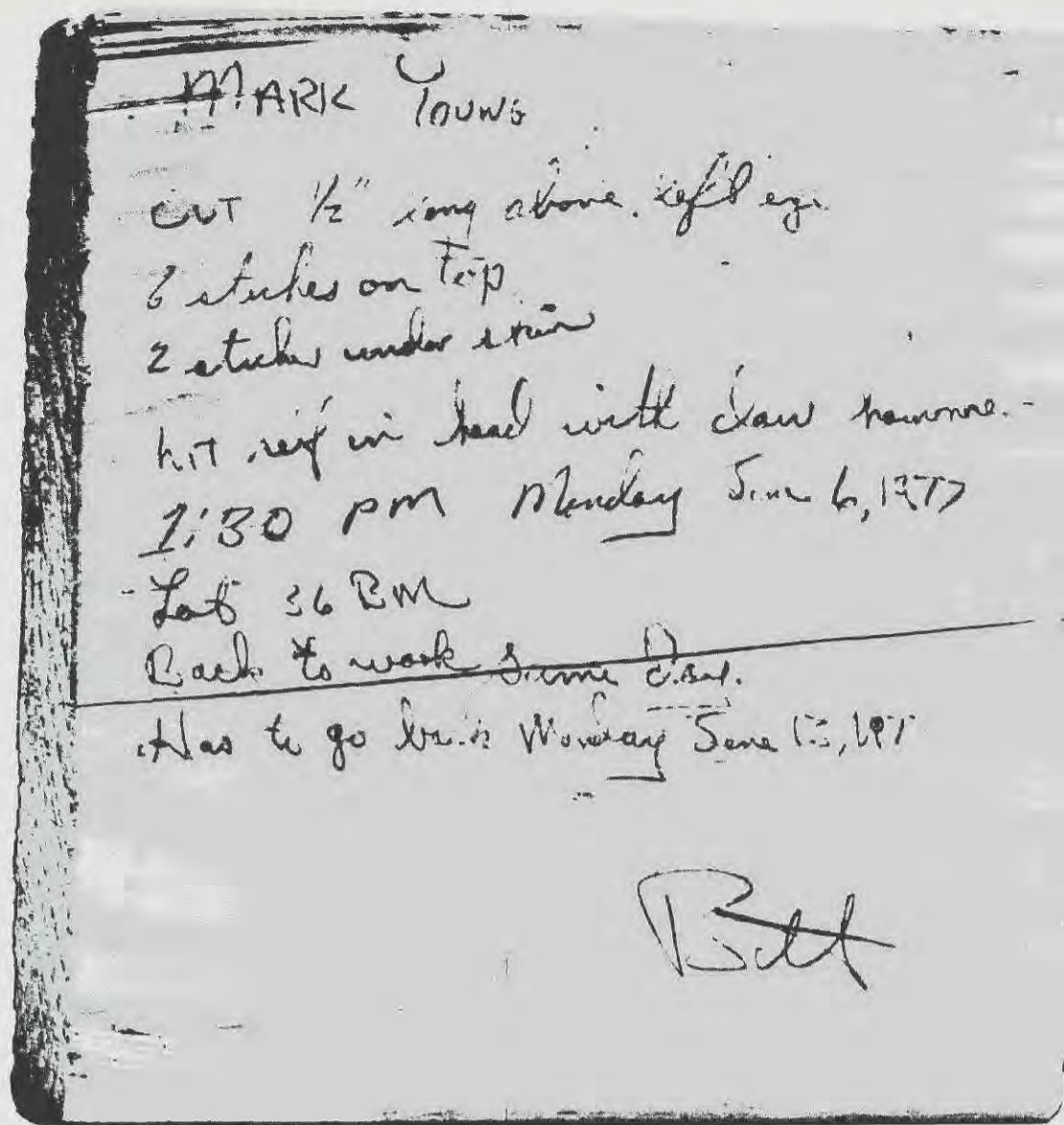
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EMPLOYERS INSURANCE OF WAUSAU Wausau Wisconsin

Drug firm execs cleared in fatal plant explosion

By ELLIS SIMON

NEW YORK—Criminal charges have been dismissed against four Warner-Lambert Co. executives in connection with a fatal explosion at the company's Queens plant in late 1976 since the officials had taken steps to reduce the risks.

The four officials had been charged with six counts each of second-degree manslaughter and criminally negligent homicide stemming from the six deaths which resulted from the blast at the American Chicle-plant.

In a 25-page opinion handed down late last month, State Supreme Court Justice John J. Leahy noted "the record is replete with the inter-corporate memorandums and letters amongst the individual defendants evincing an awareness of the dust condition and a strong resolve and determination to mini-

The judge's decision 'vindicates our repeated position that the tragedy was an unpredictable accident caused by a freak set of circumstances.'

—E. Burke Gilbin, Warner-Lambert chairman

mize the risk to well within safe limits.

"The totality of the evidence (71 exhibits, 58 witnesses and 1,000 pages of minutes from the grand jury) . . . can lead to but one inescapable conclusion—that the defendants were, for many months, exercising their various corporate responsibilities in seeking solutions to the ambient dust problem that created the primary risk of explosion."

The explosion was said to have been caused by the ignition of magnesium stearate dust, a lubricant used in the manufacture of the company's "Freshen-Up" chewing gum.

The court's ruling noted that Arkwright-Boston, which underwrote the property and business interruption coverage on the plant, notified the company of the explosion danger which magnesium

stearate represented, but was satisfied that the company had taken steps to reduce the dust level by 75% to 90%.

While the Queens County district attorney's office was aware of the efforts, a spokesman there said the indictment was sought because it was felt that steps taken by the company were insufficient.

The indictment charged that the company failed to install dust collecting equipment, conform to New York City and national electrical wiring codes, monitor and control use of liquid nitrogen, eliminate all sources of ignition in dust accumulation areas and instruct employees on the fire and explosion hazard.

However, Justice Leahy ruled as "untenable" the position that such actions "showed a conscious disregard of the risk," needed to indicate criminal wrongdoing.

The district attorney's spokesman said a decision would be made within 30 days on whether to appeal.

E. Burke Gilbin, Warner-Lambert chairman and chief executive officer, said the decision "vindicates our repeated position that the tragedy was an unpredictable accident caused by a freak set of circumstances."

"We felt all along that there was no reason for the indictments," added insurance manager Ed Mench.

Warner-Lambert still has to defend several lawsuits brought against the company by injured employees and survivors of those killed. The total of these suits was put at several million dollars.

However, Mr. Mench said he did not understand why the suits were filed since the employees are covered under workers compensation. That argument will be a main contention of the company's defense.

A \$45.4 million suit, filed by Warner-Lambert in December 1977 to collect on its business interruption and property insurance policies with Arkwright-Boston is still pending.

Negotiations between the two parties are continuing and there are no plans at this time for the case to come to trial, Mr. Mench said. ■

UK police refuse aid to insurers

LONDON—Police chiefs in the U.K. have decided they will not cooperate with insurance companies over details of stolen property because there is too much strain on limited manpower resources in supplying full lists of information.

But they will aid the companies in detecting fraudulent claims.

Roger Bardell, secretary of the British Insurance Assn., has lodged protests on behalf of nearly 300 insurance firms against the restricted information which will be given in future. "This move is clearly not in the interests of crime prevention," he complains.

Underwriters fear that people could insure valuable property with several different companies and claim cash from every company if it were lost or stolen without any opportunity to trace details of the losses. ■

Trial lawyer says 'crisis' a mirage

MONTE CARLO, MONACO—The product liability crisis has turned out to be a mirage, the president of the Assn. of Trial Lawyers of America (ATLA) told a worldwide conference here last month.

Speaking before ATLA's first international perspective on product liability, president Tom Davis noted that according to the federal task force report there is no widespread problem of unavailability of product liability insurance.

Furthermore, while insurance premiums have increased, product liability insurance costs still amounts to less than 1% of sales in many industries, he said.

Mr. Davis blasted the insurance industry for its calls for changes in product liability tort law at a time when property and casualty underwriters earned \$2 billion in profits, he said. ■

Group life up

Group life insurance contracts in December for new or revised programs totaled \$19.5 billion in December, compared with \$16.3 billion in group contracts for the same month in 1976.



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editorial opinions

Warner-Lambert wins, but others might not

WARNER-LAMBERT CO. was delighted to learn in mid-February that the indictments against it and four of its managers were dismissed by an appeals court judge who didn't think there was enough evidence to support criminal charges.

This case was all the more interesting to us because one of the Warner-Lambert officials indicted was the corporate safety director. Thus, we had noted in an editorial last September that any company involved in a similar situation would have to question if it had gone far enough to assure the well-being of its employees and the safe continuity of its operations.

Indeed, the indictments in the Warner-Lambert case raised the specter of potential liabilities for corporate executives after any fatal workplace accident.

But as it turned out, Warner-Lambert showed beyond any doubt that the company and its executives had gone to great lengths to fulfill their responsibilities for maintaining a safe plant. The record, said the presiding judge, was "replete with evidence" that after receiving complaints from employees about dangerous conditions, and after receiving a Factory Mutual inspection report, the individuals cited went to great lengths to mitigate the risks.

Contrary to initial information, there weren't any violations of safety rules filed against the company by the fire department, health department, police department

or any other government agency.

And, in the end, the steps taken to eliminate the dangers of explosion at Warner-Lambert's chewing gum plant reduced by a whopping 75% the dust concentrations that were thought to be possible causes of explosions. All of this took place six to nine months before Warner-Lambert's plant was actually rocked by an explosion that took six lives and injured another 55 workers.

Warner-Lambert had not only done its best to manage the risk of explosion, the court found, but it had gone beyond that to try to eliminate the use entirely of the dangerous compound that created an explosion risk. This was all documented by memos that had circulated internally at the manufacturer.

Warner-Lambert won its case. Another company might not, with less documentation and less definitive witnesses.

Risk managers, if they are to fulfill the broad meaning of that designation, must consider the potential outcomes of action versus inaction when safety and loss control are concerned. We are virtually certain to see more criminal indictments of the type that ensnared Warner-Lambert.

A new risk has emerged, that of criminal prosecution for corporate managers who don't go far enough to ensure safety in the workplace.

You must back efforts to thwart terrorism

TERRORIST ACTS have captured the headlines in recent months often enough to put the fear of God into every corporate executive or visible public official.

The rash of kidnappings and killings is evidence of the deep-pocket theory at its worst. While many kidnappings have been politically motivated, most have been for ransom. News of kidnappings for ransom in the U.S. is getting almost as frequent and nearly as bad as a few years ago in Europe, South America and elsewhere far distant from our shores, where we hoped it would stay.

But terrorism has become big business, not only for the terrorists and kidnappers themselves but also for those companies seeking to educate potential victims and provide bodyguards and other services to prevent loss of life and property.

Like the product liability "crisis," the kidnaping and terrorist threat is resulting in a flurry of news stories using all kinds of statistics. One wonders where some of them come from, since sources often aren't identified. A Chicago newspaper, for example, noted that "terrorist incidents against the corporate community have increased more than 600% in the last 10 years; there have been more than 4,000 kidnappings since 1974." No source indicated.

But those figures become suspect when they're compared with the U.S. Air Force's statistics. The USAF

says that from Jan. 1, 1970, until Nov. 1, 1977, it recorded 1,800 episodes of terrorism, excluding Northern Ireland, Israel and U.S. These included 512 killings, 551 assaults and 363 kidnappings.

Of the attempted kidnappings, says the USAF, 80% were successful and 43% of the victims were businessmen.

One set of statistics we could do without is The Rand Corp.'s estimate that terrorists have an 87% chance of success in seizing hostages. In addition, Rand believes there's about a 79% chance that all members of the terrorist team will escape capture or death.

■ Frightening. And discouraging. Corporate America needs to throw its influence, money and cooperation behind government efforts to thwart terrorists. The business community can't afford to assume a low profile on this issue, nor should it rely on insurance as the solution.

The trouble is that right now there seems to be little, if any, reason for kidnapers and terrorists to be deterred from carrying out their wild schemes. Heartless as it may seem when valuable human lives are involved, the U.S. government's avowed policy of refusing to play ball with terrorists by denying them negotiations or ransom money is the only way to make it clear that there's no quick profits awaiting the irrational.

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.

Insurance managers

To the editor: I must say Peter Downes's article "Insurance, risk managers aren't interchangeable" (Feb. 6) brightened my day.

As an insurance manager who, in my opinion at least, practices risk management, I have been somewhat amused over the years by the struggle for the appropriate designation.

Right on, Mr. Downes.

K. E. Kerr

Insurance manager, The Steel Co. of Canada Ltd., Hamilton, Ont.

Trial lawyers

To the editor: The statement made by the executive director of the California Trial Lawyers Assn. ("Aetna is justified," Feb. 6) further demonstrates the lack of concern for the public welfare by this group of individuals. The long term effect of these outrageous awards need not be discussed, as we are all aware of their detrimental effects on the public and the insurance industry. Aetna has undertaken what I feel is the first serious effort to make the general public aware of the crisis that indeed exists. We should all take a long hard look at this situation and try to find a solution, instead of worrying about personal gain.

Douglas R. Railey

Sales representative, Gonder Insurance Agency, Oakland, Md.

Grain explosion

To the editor: I noted with interest the article "No Panic, But Tight Markets Loom for Elevators," (Feb. 6).

The article says, "prior to the purchase of the ill-fated Galveston Elevator by Farmers Export, Millers Mutual had the coverage on that property." As a matter for the record, the previous owner of that elevator was Cook Industries Inc. of Memphis, Tenn., and I personally had placed the entire package of coverage with Protection Mutual on Aug. 1, 1976, until their sale of that facility to Far-Mar-Co. Inc. on June 1, 1977. Our total package coverage was slightly less than \$46 million at that facility.

In addition to the Factory Mutual
Continued on page 36

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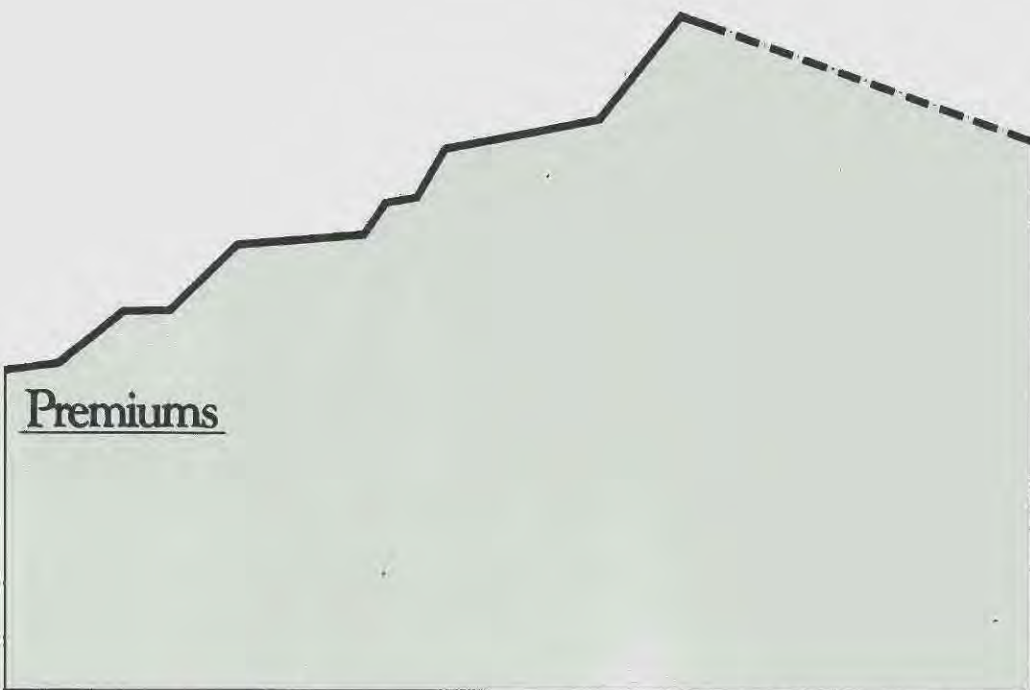
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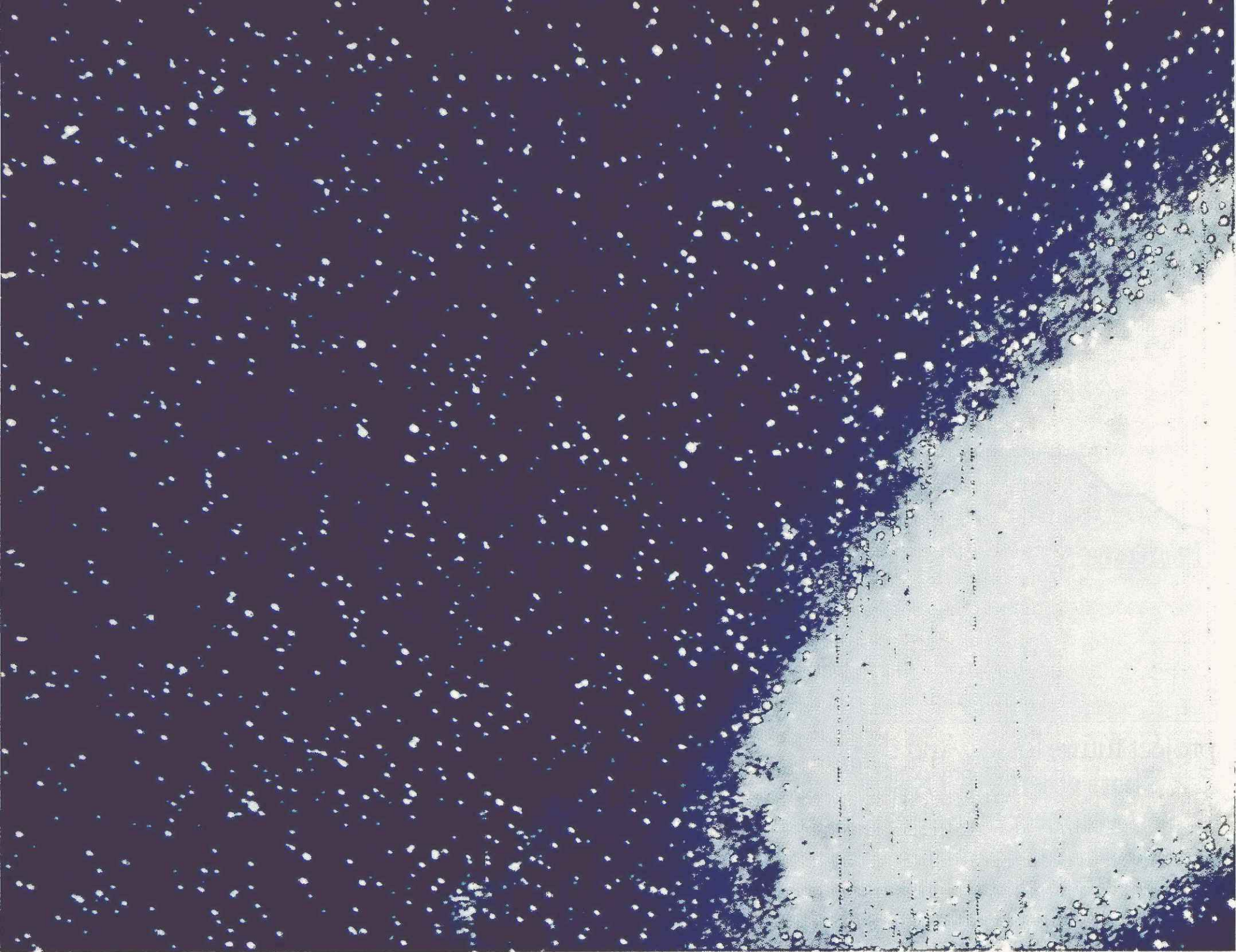
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*Employee Benefit Plan Review April 1977

4 companies set up Colorado captives; total 25

By JERRY GEISEL

DENVER—Four new captives have been formed in Colorado since the end of last year with six more insurance subsidiaries now in the final stages of approval.

The parent companies of the four new captives are Clougherty Packing Co. of Los Angeles, Calif.; Michigan General Corp. of Dallas, Tex.; Allis-Chalmers Credit Corp. of Milwaukee, Wis., and AIC Holding Co. of Denver.

The incorporations bring to 25 the number of captives domiciled in Colorado under the state's unique law.

Clougherty, Michigan General and Allis-Chalmers each have capital and surplus of \$1 million. AIC Holding Co., owned by seven regional Caterpillar dealer associations, has capital of \$400,000 and surplus of \$1.85 million.

AIC Holding Co., whose captive is the Aspen Indemnity Corp., chose to incorporate in the Rocky Mountain state instead of offshore because it "would be better accepted and recognized," according to president R.T. Amis. "Basically, we wanted to be an American company and live within the laws."

The rapid escalation of insurance costs was the impetus for setting up the captive. "The cost was getting horrible and we thought we better do something about it before the situation deteriorated any more," Mr. Amis observed.

Aspen will be used to underwrite what Mr. Amis describes as the "whole gamut" of risks—just about everything except life and health insurance.

Michigan General Corp. is the parent of the Lone Star Indemnity Co. which will be used for reinsuring general liability, automobile

liability and automobile physical damage. Northwestern National Insurance Co. is fronting for the captive for 13% of the standard premium.

Tax advantages were not a consideration in Michigan General's decision to go to Colorado, according to Charles Gabriel, manager of insurance and research.

"We had eight or 10 reasons for setting up a captive, none of which was for tax reasons," Dr. Gabriel said. "Basically, we wanted continuity of coverage . . . and to be able to control our own destiny."

Although Michigan General had a reasonable safety record and excellent claims experience, it had found the going tough in the conventional market during the last three years.

As a diversified holding com-

pany with a broad geographic base and a manufacturer of a wide range of products, including motor homes, oil field chemicals and paint, Michigan General's risks were so complex that underwriters did not find the account desirable.

In recent years, Michigan General acquired a host of smaller companies. Dr. Gabriel had been concerned for some time that coverage could be canceled or rates "raised umpteen percent" if Michigan General took over a company its underwriter did not want to cover.

With those persistent marketing problems looming, Dr. Gabriel began a feasibility study at the end of 1976 of new approaches to its insurance needs.

In the course of his analysis, Dr. Gabriel found that "no matter how I approached it, a captive always was the best solution, particularly

with the threat of having a product that an underwriter could just say no to."

As a completely domestic corporation with no foreign exposures, Dr. Gabriel could not see any distinct advantages to going offshore. So the decision was made to go Colorado.

Michigan General's captive, Lone Star Indemnity Co., was incorporated Dec. 30, 1977. It has been smooth sailing ever since. Dr. Gabriel reports Lone Star has not caused him any additional work and credits Ken Brown, vp at Marsh & McLennan's Dallas office, with valuable assistance in setting up the captive.

Dr. Gabriel says the savings from the captive, while not insignificant, are far overshadowed by having the assurance of future coverage.

Lone Star is being managed by Marsh & McLennan's M&M Insurance Management Services here.

Allis-Chalmers and Clougherty Packing Co. could not be reached for comment. But it is known that Allis-Chalmers' captive, Financial Services Insurance Co., which was incorporated Feb. 1, will be managed by Frank B. Hall Management Co.

Clougherty's captive, Lombardy Insurance Co., also will be managed by Frank B. Hall.

CNA executive joins Allstate's new company

NORTHBROOK, Ill.—Robert A. Liebold has been named executive vp of Allstate Insurance Cos.' new commercial lines company. Mr. Liebold was formerly senior vp and director of marketing lines for CNA Insurance Cos.

He will be responsible for implementing Allstate's long range commercial lines strategy, a spokesman for Allstate said.

Allstate announced its intention to create a new commercial insurance company last year.

"Our personal lines agents already sell some commercial insurance, but our growth in personal lines needs and deserves most of their attention," the spokesman said. "If we hope to make as big a dent in commercial lines as we have in personal lines, we will require additional marketing resources. For this reason, we will be utilizing independent agents and brokers who specialize in commercial markets, while our own sales force continues its efforts."

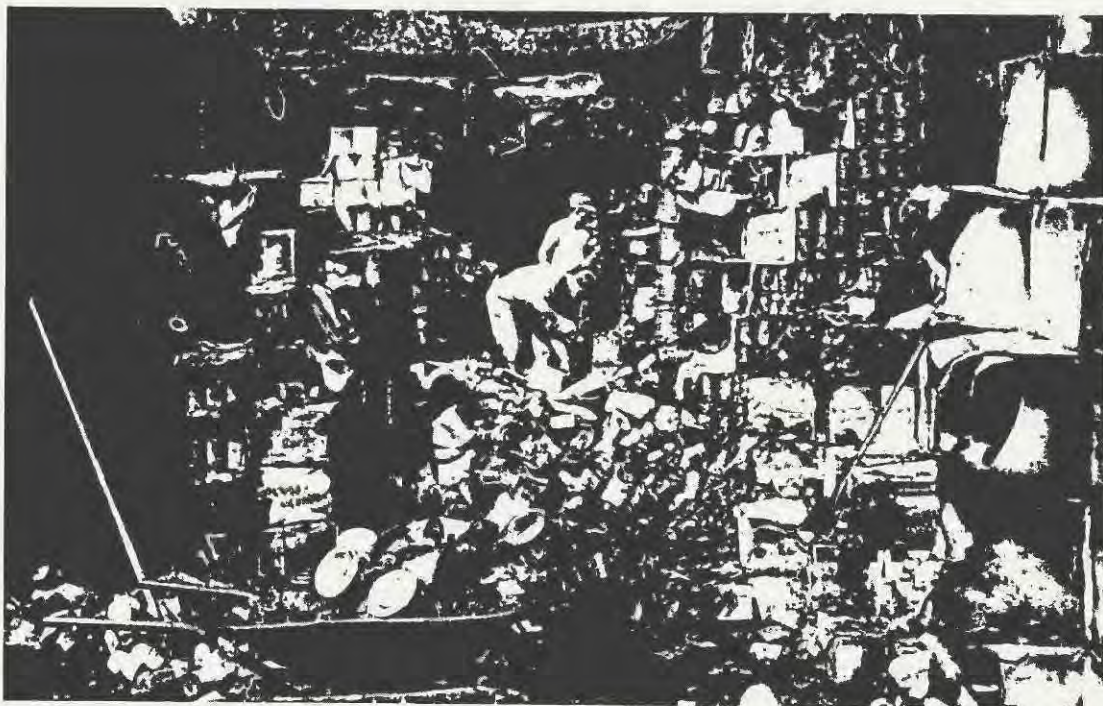
At a recent agents' conference, an Allstate executive said the company anticipated \$25 million in premium volume in 1977 from 575 independent agents in 35 states. This is up from the \$11 million premiums generated by 246 agents in 1976.

The company spokesman said however, that Allstate has no specific market penetration goals for commercial lines.

Beck to head the Pru

Robert A. Beck will become chairman and chief executive officer of The Prudential Insurance Co. when Donald S. McNaughton steps down Sept. 1. Mr. McNaughton, 60, said that he decided to explore other possibilities after six years as head of the Prudential. Mr. Beck said that no successor for his position has been picked, although the post would be filled from within the company. Mr. Beck joined Prudential full time in 1951 as an agent.

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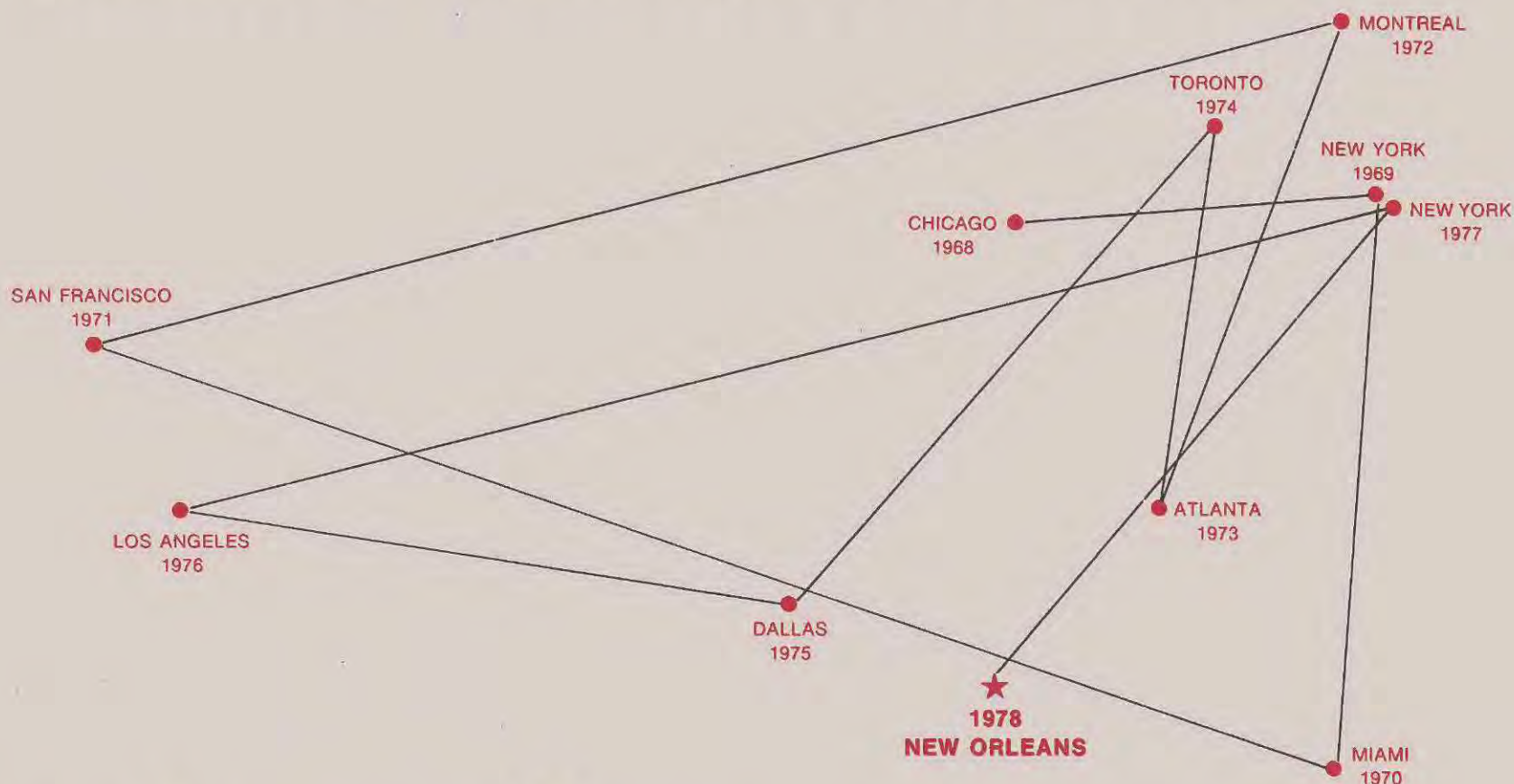
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Physician mutuals heal malpractice crisis wounds

By MARGARET LeROUX

SAN FRANCISCO — Physician-owned mutual insurance companies, one major response to the medical malpractice crisis, are making insurance work.

Three mutuals are operating in California, where medical malpractice problems reached near disaster level as doctors went out on strike to publicize their plight.

Today, the three companies have a combined premium income of more than \$41 million. Norcal Mutual, the largest, is ranked as the 14th largest malpractice underwriter in the country.

Spokesmen for all three say the mutuals' experience so far has been good—for one mutual so good that it's paid a series of cash dividends to members.

The Doctors Insurance Co.,

which insures 3,800 physicians, has paid three dividends: 11.6% of the 1976 premium, interest of 6% of the contribution to surplus in December 1977 and 14% of the 1976 premium last month.

"We are able to pay the dividends because we're very selective about who we'll accept," said Doctors president Joseph Sabello. "About one in six applicants is turned down and others can't meet our underwriting requirements."

"We require deductibles and will assess surcharges or put restrictions on practices on an individual basis," he continued. "For example, if a doctor has no major losses, but a lot of small claims that don't amount to much, he must be irritating his patients somewhere along the line. We might ask him to accept a \$4,000 deductible to get him to mend his ways."

Dr. Sabello said the Doctors Co. approaches claims differently than other insurance companies. "We've paid out \$725,000 in indemnities but only \$23,000 in defense costs. We're diverting the premium dollar into compensating injured persons, not into supporting the defense attorneys' bar."

A committee of physicians meets monthly to discuss claims and incident reports. "We encourage members to report any incident which may lead to a claim before it gets to the stage where a claim is filed," the Doctors Co. executive said. "We'll defend any doctor who's not at fault, but where there's clearly an example of negligence, we'll move to settle in an equitable way even before a lawsuit is filed."

The Doctors Co. retains physi-

cian-attorney Dr. David Rubsamen as a full time consultant and uses the services of an actuary and auditor.

Capitalized at \$1.25 million, the company began writing claims-made policies in April 1976. Premiums for high risk physicians (neurosurgeons and orthopedic surgeons, for example) were \$6,354 with an equal amount contributed to the surplus fund. Second year premiums increased 57% to \$9,976 with a \$4,099 contribution to surplus. Premiums for third year insureds in the same class are \$11,971 with no contribution to surplus.

In the two years of its existence, the Doctors Insurance Co. has increased its surplus to \$16 million and total capitalization to \$33 million.

At Medical Insurance Exchange of California, which insures 2,300

physicians, a spokesman noted, "We don't think it's prudent after two years of operation to declare dividends."

"We feel, and it's been historically evident, that it takes at least four or five years before you can talk about experience for a liability insurance company," said Ron Neupauer, assistant vp at Marsh & McLennan, the brokerage firm that manages the physician-owned mutual.

"Our own experience to date, however, has been very favorable," Mr. Neupauer added. "The frequency of small losses has been about what we expected and the severity has been lower."

Peer review committees are the cornerstone of Medical Insurance Exchange's good experience, he continued. "There have been specific restrictions for certain specialties."

Anesthesiologists, for example, are required to monitor patients throughout surgery; orthopedic surgeons who do spinal surgery are evaluated by a special committee.

"It's worked quite well," Mr. Neupauer said. "So far we haven't had any claims in these two areas."

Medical Insurance Exchange has increased its rates 10% over the first year of its existence. At present third year insureds pay from \$3,300 to \$21,000, according to their specialty, for \$1 million/\$3 million limits of liability coverage.

Norcal Mutual Insurance Co., largest of the doctor-owned malpractice mutuals in California with more than 4,000 insureds, decreased premium rates in 1978 because of favorable claims experience, the company president said.

Premium rates for 1978 enrollees were 13% lower than premiums paid by first year insureds in 1977, according to Stuart Menist, newly appointed chief executive. Mr. Menist was formerly chairman of the board of Fireman's Fund Insurance Co.

Second year insureds in a high risk classification pay a premium of \$3,679 for \$500,000 limits of liability; \$4,414 for \$1 million/\$3 million and \$5,959 for \$2 million/\$4 million limits. In addition, new enrollees are asked to make the company a subordinated loan which goes into the mutual's surplus.

Norcal started out with a surplus of \$3 million when capitalized at the end of 1975. Surplus was \$15 million and total assets of the company were listed at \$42 million as of Sept. 30, 1977.

Peer review, careful screening of applicants and other loss control practices of the physician-owned mutuals in California not only have resulted in fewer claims filed against doctors, but also have improved medical care, spokesmen for the three companies agreed.

"One major realization of the malpractice crisis was that among many factors that caused it were doctors themselves," Dr. Sabello said. "We recognize this and are trying to deal with it."

In some cases there has been "a sorting out of skills," he continued. "Physicians who in the past might have delivered six babies a year are now realizing that it might be better to deliver no babies."

"We'd like to believe that the controls the doctors are putting in themselves are leading to better medical care," Mr. Neupauer said.

Norcal Mutual's Mr. Menist noted that defendants are winning more malpractice cases. He quoted a comparison of malpractice cases by the Insurance Information Institute that in 1972 defendants won 60% of malpractice lawsuits while in 1977 they won 71%.

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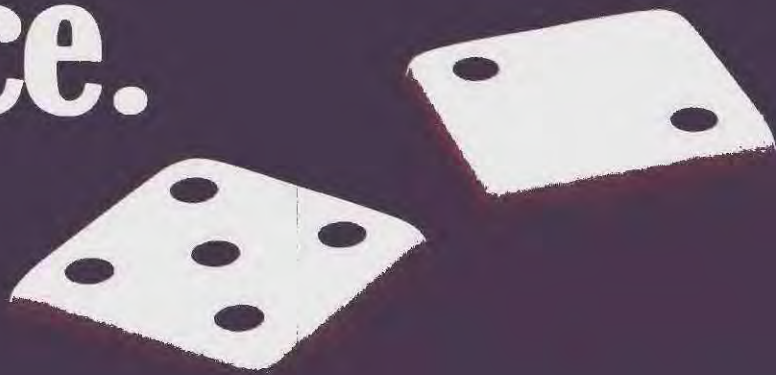
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around the states

25% work comp hike eyed in Michigan

LANSING—An independent hearing officer recommends a 25.2% overall rate increase in workers compensation rates in Michigan.

Spencer Kimball, the University of Chicago professor who was recently involved in a workers compensation rate case in Illinois, was called in after insurance commissioner Thomas Jones rejected an insurance industry request for a 29.6% rate increase.

Professor Kimball sharply criticized the statistical and research work of the National Council on Compensation Insurance, the rate making arm of the insurance industry.

The recommendations will now be reviewed by the insurance department.

Ski resorts

AUGUSTA—Maine ski area operators, worried about rising insurance costs, asked a legislative committee for better protection against lawsuits by injured skiers.

Bill Sim, president of the Sugarloaf ski area, said that insurance premiums amount to about \$100,000 annually for his area, 5% of the \$2 million Sugarloaf takes in every year.

Mr. Sim said limitations on lawsuits would help control escalating

premiums.

The bill before the committee would require a skier to tell a ski area within 90 days that he or she was hurt or lose the right to sue. It would also require any suits to be filed within two years, instead of the current six.

Washington state and Vermont have passed legislation recently to limit ski area liability.

Ohio work comp

COLUMBUS—The Ohio bureau of workers compensation wants to devise a way to give small businesses a break when they have to make annual deposits to cover

part of their anticipated workers compensation insurance costs.

The bureau has sent out 66,000 bills averaging \$650 for companies to deposit \$43.9 million in additional funds. The bills reflect an average 30% increase in insurance rates that the Ohio industrial commission has voted.

Companies must deposit funds to cover their estimated insurance premium costs for eight months. In July and December companies are billed for their actual insurance costs, but the deposit is not used to help pay the bills.

The bureau already has \$264.8 million from advance deposits that are kept on deposit and credited to

the next year's premiums. Employers each year must increase their deposit to cover any payroll or rate increases.

\$250,000 award

AUSTIN—The Texas Supreme Court ordered Bock Laundry Machine Co., the maker of a device that extracts water from wet laundry, to pay \$250,000 to a 13-year-old boy who lost his left arm to one of the machines. The arm of George Miller Jr., then 11, was severed when the safety device that was supposed to prevent the washer's lid from opening failed and his arm was caught in the whirling machine.

New commissioner

PORTLAND—W. W. Fritz is the new insurance commissioner in Oregon, replacing Lester Rawls who resigned after several expense vouchers were questioned.

Mr. Fritz served as insurance commissioner for Alaska from 1967 to 1971.

Design defect

SACRAMENTO—The California supreme court ruled that persons seeking damages for injuries caused by a product with an unsafe design need not prove the defect made the item "unreasonably dangerous."

The unanimous decision established the definition of design defect in product liability suits against manufacturers.

It said a product is defective in design either if it "failed to perform as safely as an ordinary consumer would expect when used in an intended or reasonably foreseeable manner or if, in the light of relevant factors . . . the benefits of the challenged design are outweighed by the risk of danger inherent in such design."

The court reiterated that the focus should be on the product, not the manufacturer's conduct, and that the plaintiff need not prove the maker acted unreasonably or negligently in order to prevail.

North Dakota

BISMARCK—The North Dakota workmen's compensation bureau says employes cannot waive their rights to coverage under the Workmen's Compensation Act.

Brenald Thompson, chairman of the state bureau, said even if an employe signs a statement that he is not an employe, the statement has no effect on whether there should be workers compensation coverage.

Problems have been experienced lately with employers requiring workers to sign an "independent contractor" form to avoid paying compensation premiums, he said.

"Such forms are meaningless if the worker is in fact an employe," Mr. Thompson said.

The employer who fails to secure coverage for his employe is subject to penalties under the law. And in case of a lawsuit, the burden of proving a worker a non-employe rests with the employer, he said. ■

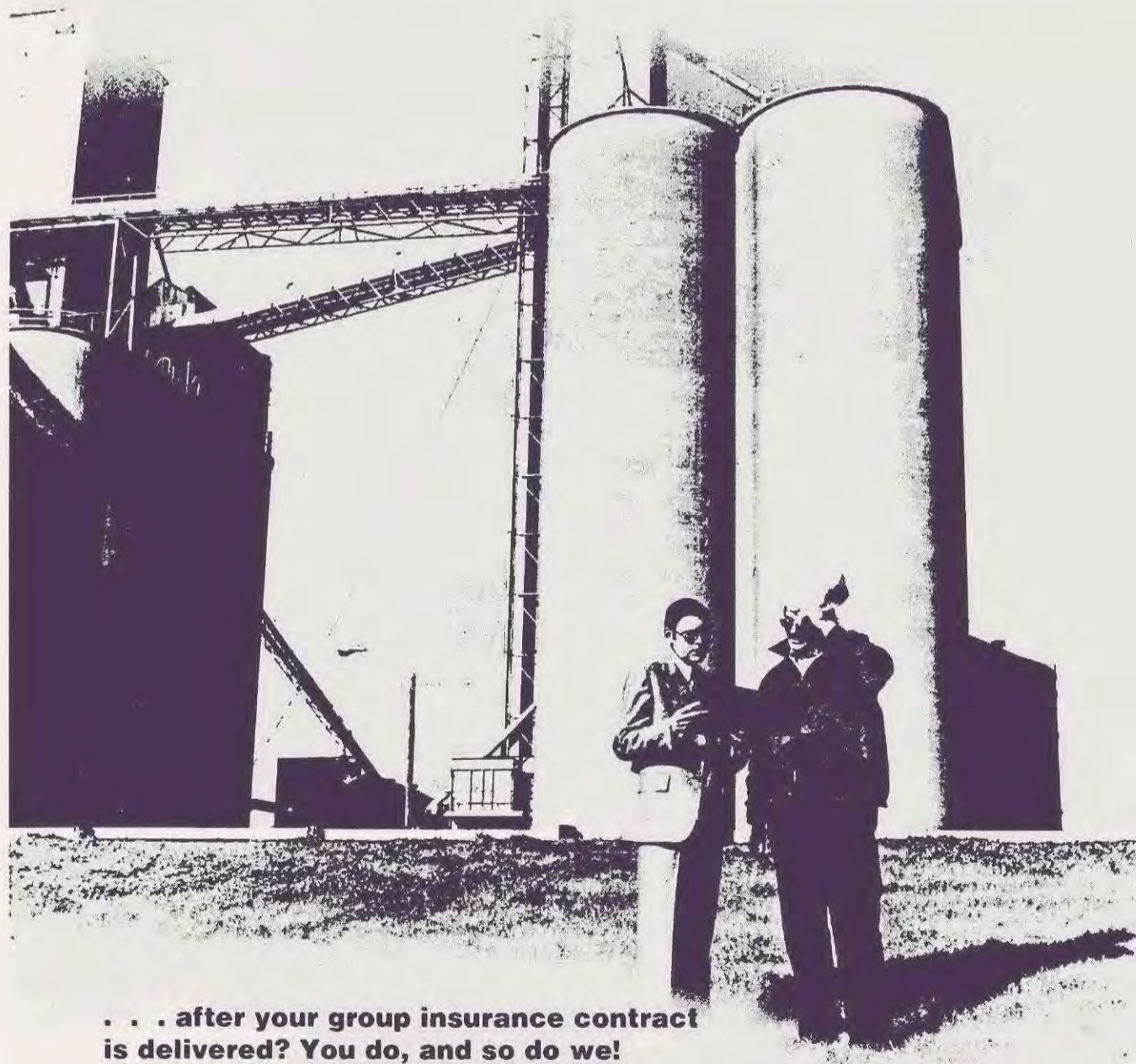
Pennsylvania OKs liquidation law

HARRISBURG—Pennsylvania Gov. Milton Shapp has signed a bill amending the Insurance Department Act.

Called the Pennsylvania Insurers Rehabilitation and Liquidation Act, the new law permits the insurance commissioner to deal more quickly with financially troubled companies.

Gov. Shapp hailed the new measure as affording greater protection to policyholders. ■

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Texas court reverses award against Bell unit

EASTLAND, Tex. — A \$1 million verdict against Southwestern Bell, a Texas unit of American Telephone & Telegraph Co., was reversed late last month by a three-judge state appeals court here.

Two other awards totaling \$3 million stemming from alleged Southwestern Bell harassment of two former employees are being appealed by the company.

Former Bell executive James Ashley and his wife claimed the company invaded their privacy by wiretapping.

According to James Ingram, Southwestern Bell's lawyer, the appeals court concluded that there was "absolutely no evidence before the jury of wiretapping." The best they could establish was that Southwestern Bell had the capability of wiretapping, he said.

The plaintiffs' lawyer has filed a motion for rehearing but it will probably be denied, Mr. Ingram said, because the decision was unanimous.

A jury in December awarded \$300,000 to Mrs. Ashley, \$200,000 to Mr. Ashley in compensatory damages and \$500,000 to the couple for exemplary damages.

Southwestern Bell reportedly is self-insured for \$2 million and has an excess liability policy with the Home Insurance Co.

In related suits against the company, tried last August, Mr. Ashley was awarded \$1.5 million for libel and slander by the phone company and the widow of a co-worker who committed suicide was awarded \$1.5 million.

Southwestern Bell is appealing these two awards, contending that the judge failed to change the venue of the trial and claiming that pre-trial publicity made a fair hear-

ing impossible. The appeal also alleges 767 reversible errors were made by the plaintiffs' lawyers or by the judge.

Mr. Ashley's suit charged that Southwestern Bell had libeled and slandered him after Bell investigated him because of rumors it heard about sexual improprieties at its San Antonio office. Bell said it suspended and later fired Mr. Ashley as a result of the investigation.

A co-worker, T.O. Gravitt, was also investigated. The jury in this case ruled that this investigation resulted in slander which led to Mr. Gravitt's mental illness and in turn his suicide. ■

errors & omissions

1977 international directory listing

The following item was inadvertently omitted in the International Directory in the Feb. 20 issue.

Continental

Continental Insurance Cos. international insurance activities now account for \$200 million in premium volume. Since 1964 Continental has established a worldwide network to service international insurance accounts. Included are 24 minority-owned affiliates in Europe, Latin America, the Middle East and Asia. The international insurance division has established production and underwriting offices in Chicago, Columbus, Dallas, Houston, Los Angeles, San Francisco, Jacksonville, Toronto, Canada and New York City to handle multinational accounts. It also maintains overseas representatives in many financial centers around the world as well as full branch offices now operating in London, Panama and Singapore. Other Continental affiliates active in the international insurance field are Marine Office of America Corp. and Swett and Crawford Group. Contact Mervyn Walding, vp International Division, 80 Maiden Lane, New York, N.Y. 10038.

Fremont opens 2 new offices

LOS ANGELES—Fremont Indemnity Co., a California-based property/casualty underwriter, has established two new division offices in San Diego and Orange, Calif.

The insurer wrote net premiums of \$105 million in workers compensation and between \$20 to \$30 million in property and casualty in 1977.

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CAPTIVE INSURANCE COMPANY REPORTS, a bi-monthly publication of specialized topics and developments about captive insurance companies — with tax and legal news, reinsurance information, parent company developments, and the underwriting of outside business. The publisher is H. Felix Kloman, President of Risk Planning Group, Inc., independent risk and insurance management consultants. These Reports will be valuable working tools for risk and insurance managers, underwriters, agents, brokers, and others interested in the captive movement.

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INA International, whose network of worldwide facilities is the largest of any single U.S. based insurance company, has developed a number of operating standards that should prove of interest and benefit to agents and brokers.

This is the second in a series.

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benefit tax slants

Consider all options for pension payouts

By **JOSSEPH S. ROBINSON**
Attorney-at-Law

BEFORE AN EMPLOYEE takes his small fortune out of his company retirement plan, he should do

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some pencil work after being briefed on the various options available. How he arranges the payout can make a big difference in the amount of money he or his family ultimately receives. That's because the 1976 Tax Reform Act significantly changed the tax rules relating to pension and profit sharing payments under qualified plans.

Prior to the Tax Reform Act, distributions—whether lump sum or annuity—were not subject to federal estate tax so long as they were payable to a named beneficiary (other than the executor or the estate). This rule applied only to distributions attributable to an employer's contributions;

those traced to an employee's contributions were includable in the gross estate. Under the new law, all lump-sum distributions are includable in the gross estate. However, payments attributable to an employer's contributions can be sheltered from estate tax by spreading the payments over more than one tax year and by designating a named beneficiary (other than the executor or the estate).

To state the current rule another way, the estate tax exclusion will be lost if a lump sum payment is made to any beneficiary. Even if the payout is not made in a single sum, the exclusion will be lost if made directly to the estate or the executor. These rules apply

whether payments are made because of death, termination of employment or retirement.

New tax rules

The Tax Reform Act also changed some of the income tax rules. Annuity payments are taxed as ordinary income to the extent they are attributable to employer contributions. They are tax-free to the extent attributable to employee contributions. A special rule allows an employee who can recover his entire investment within three years to pay no tax until the investment is recovered. Thereafter, each payment is fully taxed as ordinary income. The new law qual-

ifies such annual payments for the 50% maximum tax on personal service income.

Lump-sum payments are taxable income to the recipient to the extent attributable to employer contributions. The portion of a lump sum payout attributable to pre-1974 years of plan participation qualifies for capital gain treatment. The portion of a distribution representing post-1973 participation is taxed as ordinary income.

The employee can elect to have the ordinary income portion taxed under a special 10-year averaging formula by filing Form 4972 with his 1040 Form. He can also elect, instead, to have the entire payout taxed under 10-year averaging by checking the box at the top of the first page of Form 4972. Under this election, amounts traced to pre-1974 contributions are treated as ordinary income rather than capital gains. At first blush, this does not appear desirable because capital gains income is generally taxed more favorably than ordinary income. But, this is not always the case.

Without going into the technicalities, capital gains can be taxed as high as 49.125% when we take into account the regular capital gains rates the 15% minimum tax on one-half of long term capital gains (above the minimum tax floor) and the disqualification of personal service income from otherwise 50% maximum tax treatment because one-half of capital gains are subject to the minimum tax.

Death benefits

Under current rules, the entire lump sum is likewise included in the employee's estate. Therefore, in determining how the payout of death benefits should be made—whether in one sum or in several installments—an employee has to choose between favorable income tax treatment (via a lump sum with 10-year averaging) or estate tax exemption (via installment or annuity payout). He cannot have both.

Tax choices

In many situations, it will pay to elect 10-year averaging for the entire taxable portion of the lump-sum distribution. Under 10-year averaging, you take the taxable amount and figure the tax on one-tenth of the amount at the single person rate without counting any other income you have. You then multiply this by 10. The result is that your distribution is taxed in relatively low brackets. For instance, if you have a total taxable distribution of \$60,000 your tax on this amount at the 10-year averaging rate will be \$10,680 or 17.8%.

On the other side of the coin, lump-sum payouts should be avoided in larger estates where the estate tax shelter is more important. The bottom line is that a comparison must be made of the income tax treatment to the participant or his survivor receiving a lump sum as opposed to receiving periodic payments.

Employees want retirement help

WASHINGTON—Most workers think their employers should provide counseling on the financial aspects of retirement, according to a new survey by the American Council of Life Insurance.

More than 80% of the respondents thought financial counseling important, the Council said, while only 4% viewed financial counseling as unimportant.

Also, 76% of those surveyed favored employer counseling on non-financial problems of retirement while 7% thought it unimportant, the Council said.

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Based on a 1977 nationwide survey conducted especially for this project, vital data are provided on over 50 suppliers: Applications covered (e.g. marketing, accounting, financing, claims control, rate quotations) • Type of operation & facilities (e.g. service bureau, manufacturer, software or system house, consultant—a separate section for each) • Cross-referenced by company name, contact; cost range, address, phone, remarks • Also includes special "KEY QUESTIONS" to ask potential suppliers.

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Man killed in 'unheard of' amusement park accident

By JOANNE GAMLIN

VALENCIA, Calif.—A 23-year-old man was killed and his bride of one day severely injured in an amusement park ride accident that safety officials say is almost unheard of.

Miguel Garcia was killed and Kathy Garcia was severely injured last month after a fall from the "eagle flight" skyride at the Magic amusement park here. Hospital officials report Mrs. Garcia remains in an intensive care unit in critical condition.

The gondola fell into an open area and no one else was injured in the accident.

The skyride, which had been in operation since Magic Mountain opened in 1971, was immediately closed after the accident by sheriff's deputies and park officials. Jack Ryan, spokesman for Magic Mountain, said that the ride, which has a maximum height of 200 feet, had a safety check by government agencies and park officials just a week before the tragedy.

He also said that the amusement park, which is owned by the Newhall Land & Farming Co., had no previous accident involving aerial rides. Wendy Hamilton, risk manager for the park, said that the Garcia death represents the first

"guest" fatality of the park in its seven-year history.

Investigation into the cause of the accident is being led by the California division of industrial safety. Robert Beath, who oversees elevator compliance in the division's Los Angeles office, said that Wagner Biro of Austria manufactured the skyride.

It is known that a representative of Wagner Biro has been asked to participate in the investigation.

The park is understood to be self-insured for general liability under a program that has limits of \$100,000 per occurrence. There is no aggregate limit on the program. Johnson & Higgins of Los Angeles is Magic Mountain's broker.

Miss Hamilton, however, would not discuss the accident or the

park's insurance coverage.

The company spokesman said he did not know whether Mrs. Garcia's hospitalization expenses were being paid by the park.

Safety directors at other amusement parks around the nation said they had never heard of a fatality resulting from the malfunctioning of an aerial ride. John Shastine, safety director for Astroworld in Houston, which boasts the "ultimate" roller coaster called Texas Cyclone, said he had never heard of an accident similar to the one that happened here.

"Skyriding has a very low rate of accident frequency, probably less than that of your average ferris wheel," he said.

Spokesmen for Six Flags Over

Texas in Arlington, Tex., and King's Island in Cincinnati, were equally adamant that such accidents are nearly non-existent. Six Flags Over Texas has been in oper-

ation since 1961 and has never had a "guest" fatality, a spokesman pointed out.

No lawsuit has yet been filed in the Magic Mountain accident. ■

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Rehabilitation saves you claims dollars by opening up ways to close a case faster.

Factory Mutual says collapse problems rise

NORWOOD, Mass.—A three-year study of building collapse reveals an increasing serious problem with both the number of incidents and the total damages, the Factory Mutual System says.

FM says its insureds reported 437 incidents involving collapsed structures between 1974 and 1976. Total damage was estimated at more than \$43 million.

Collapsed roofs represented the greatest dollar losses (37.5%) and the greatest number of incidents (37.5%). Tanks, silos and bins collapsing were the next greatest chunk of dollar losses (15.7%) although they accounted for only 8.7% of the incidents. Cranes accounted for 15.4% of the dollar losses but only 11.7% of the incidents. Unknown and miscellaneous accounted for 17.8% of the incidents but only 3.8% of the dollar losses.

Water accumulation was the most common reason for failure of the roof collapses usually due to the lack of or inadequate drains. Water loading accounted for 42.6% of all roof collapses and 62.5% of the total roof collapse loss. Structural and snow loading problems caused 36.1% of the number of roof losses and 27.4% of the loss.

The most common causes of tank, silo and bin collapses were inadequate design, overfilling and inadequate vacuum relief. Units of metal construction were involved in 60.5% of the collapses, causing 60.5% of the loss; concrete tanks, silos and bins accounted for only 18.4% of the number of the class incidents but 31.7% of the loss. ■

Expectations vary

About 35% of the people interviewed in a recent survey by the American Council of Life Insurance believed their retirement income will enable them to live comfortably. About 20% said it would just cover living expenses and 11% felt their income wouldn't be enough to live on, the Council said.

At International Rehabilitation Associates, known as IRA, we've learned from our experience with more than 700 accounts that an injured worker usually wants to return to work. It's our task to make that as easy as possible for the worker, his or her family and also the employer. But we've also learned that rehabilitation is a complex process involving many factors. By taking them all into account, we can open up ways to close a case faster.

IRA rehabilitation involves what we call the "whole person." We consider not only medical requirements, but motivational, social and financial needs as well. We are often able to encourage a supportive attitude by the claimant's family and relatives, which

can hasten the return to work.

In the vital area of job placement, we always try to return workers to their original jobs. When that is not possible, an IRA job analysis can sometimes discover ways to alter a job slightly so as to make it feasible for the injured worker. Otherwise, we help find a new job that makes full use of what an injured worker can do.

One reason for using IRA rehabilitation to close a case as quickly as possible is a simple recognition of human nature. An injured worker's basic desire to get back to work can sometimes slacken over a period of time. The other reason is, of course, that a significant amount of money can be saved for the insurance company or self-insured.

Six short weeks

Wayne S., a 29-year-old assembly line worker had been a paraplegic for 14 months, as a result of an automobile accident, when his case was referred to IRA. An IRA rehabilitation specialist found that Wayne wanted to return to work and that his previous job could be done in a sitting position, except for the need to pick up parts across the plant floor. IRA convinced his employer to have another worker replenish the parts twice a day. Wayne went back to work, full time, just six weeks after the initial interview, saving the insurance carrier over \$100,000.

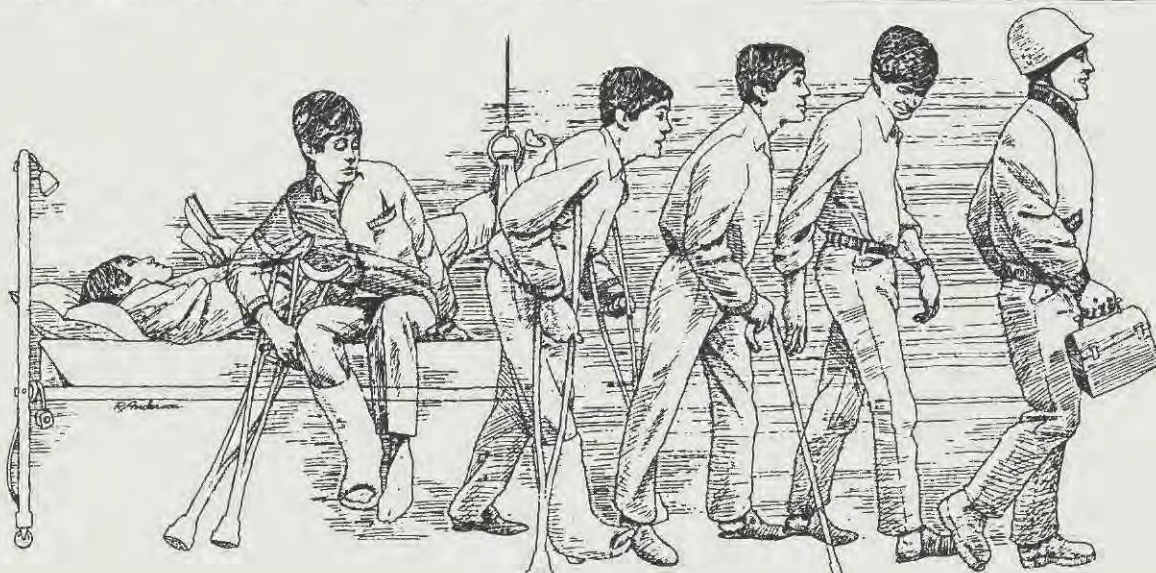
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legal brief

Insurer must reveal reduced coverage

THE MINNESOTA Supreme Court has ruled that when an insurer, by renewal of a policy or by an endorsement to an existing insurance policy, substantially reduces the prior insurance coverage provided the insured, the insurer has an affirmative duty to notify the insured in writing of the change in coverage.

Here the Canadian Universal Insurance Co. Ltd., (Universal), brought suit against its insured, Fire Watch Inc., which was engaged in selling, distributing and servicing fire protection equipment. Universal sought a declaration that a restaurant fire loss, for which separate suit was brought against the insured, was excluded

from coverage under a "completed operations product liability" insurance policy.

The language of the original business risk exclusion did provide coverage for losses arising from the negligent installation of a fire protection system. However, Universal, without notification or offer of premium rebate, sent the insured an endorsement which denied coverage for both negligent installation and manufacturing. The trial court ruled in favor of the insurance company.

The appellate court reversed pointing out that the endorsement substantially reduced the insurance coverage afforded the insured under the policy. The court was

unable to locate any Minnesota case which directly considered the issue of affirmative duty to notify.

However, after a review of decisions from other jurisdictions, the court concluded that imposing on the insurer an affirmative duty to

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

notify the insured of a substantial reduction in coverage was "a sound, equitable approach to the problem." *Canadian Universal Ins. Co. Ltd. v. Fire Watch*, Supreme Court of Minnesota, Sept. 2, 1977, rehearing denied Oct. 13, 1977. (BI/01/F.-\$4).

Oral agreements

May previous verbal agreements for insurance, which are merged into written contracts, be subsequently modified by oral evidence? In a suit under an "all-risks" policy for the loss of watches in a burglary, a District of Columbia court of appeals ruled that when an agent acting within the scope of his authority orally agrees to insure an applicant, and through a mistake a provision orally agreed upon is omitted from the written policy, a court of equity may intervene to reform the imperfectly written agreement to correct defects and to reflect the true agreement and intention of the parties.

K & T Inc. (K & T), a retailer, was persuaded by Max Holtzman Inc. (Holtzman), an insurance agent of Continental Casualty Co. (Continental), to transfer its property protection insurance for the store to Continental. The former insurance included watches worth up to an aggregate value of \$1,000 per loss occurrence. The new coverage agreed upon was to be "as good as or better than" that in force under the former policy.

Subsequently, K & T sustained a burglary loss of watches worth about \$3,000. A claim was filed with the agent. Continental rejected it as the written policy issue explicitly excluded watches. K & T sued both the agent and Continental. The trial court entered a judgment in favor of K & T against Continental.

The appellate court affirmed the judgment against Continental because of the mistake due to the agent's negligence, who was acting within the scope of his employment. As an additional reason for ruling in favor of K & T, the court emphasized that most individuals rely on an insurance agent and thus less is required in insurance cases to establish a basis for reformation than in ordinary contract disputes. *Max Holtzman Inc. v. K & T Co., Inc.*, District of Columbia Court of Appeals, June 27, 1977. (BI/02/F.-\$4).

Dishonest acts

An Arizona appellate court has ruled, in a suit brought by an employer against his insurer under a fidelity insurance policy, that the issue of proximate cause of loss was both a question of fact as well as a question of law. A fact question, the court held, was whether the actor's conduct in anyway brought about the loss.

The J. R. Norton Co. (Norton) operated a cattle feed lot and was insured with Fireman's Fund Insurance Co. (Fireman's) under a fidelity insurance policy. The policy provided protection against "loss of money or securities and other property" sustained through any fraudulent or dishonest acts of any employee.

The manager of Norton's feed lot concealed the death of at least 360 cattle, substituting later acquired cattle. This kept the true nature of the death losses, as well as the mismanagement of the lot, from Norton for over one year.

Norton filed its claim against the insurer which was denied. Norton then lost its suit in the trial court.

The fundamental question on appeal, according to the court, was whether the admittedly dishonest acts of the employee in concealing the actual death losses were themselves a proximate cause of any loss to Norton. The court pointed out that Norton could have shown causation if the employee's concealment prevented it from becoming aware of the actual death loss and thus from taking remedial measures. The court also believed that, if proven, Norton's losses were a direct result of the employee's conduct.

Thus, the court held that Norton was entitled to a full trial on these issues. *J. R. Norton Co. v. Fireman's Fund Ins. Co.*, Court of Appeals of Arizona, July 6, 1977, rehearing denied Sept. 8, 1977, review denied Oct. 4, 1977. (BI/03/F.-\$4).

(Copies of the entire decision may be obtained by sending a check for \$4 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.)

New J&H director

George F.B. Owens Jr., senior vp of Johnson Higgins of California, has been elected to the board of directors of Johnson & Higgins.

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One corporation employed the system to help decide investment policy for pension funding. But after the future costs of benefit improvements already scheduled

were revealed, the company's original thinking was immediately modified. A re-evaluation of basic pricing policies followed.

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Consulting Actuaries George Budd [left] and Bob Bein of J&H New York and Russ Millman [center] of J&H Cleveland, review a Multi-Assumption Projection System print-out.



Forecasting today requires more precision than "Guesstimating" or using rules of thumb.

French broker opens U.S. office; targets benefits

By REBECCA A. FANNIN

NEW YORK—French broker Jean Carbonel & Associates Inc. is opening a branch here to specialize in group benefits insurance for large multinational companies. It is the first French broker to expand overseas.

The expansion indicates that the highly competitive French insurance markets are beginning to take advantage of several opportunities in the U.S.

Carbonel is banking on boosts in business as more French companies expand here because of the lackluster French economy and fears of nationalization if leftists win upcoming elections.

The broker plans to take advantage of much unused capacity in the French insurance markets for U.S. subsidiaries in France.

The U.S. branch, incorporated as Carbonel & Associates Inc. in September, wants to attract accounts such as Bic Pen Corp. and Michelin Tires, French firms with large U.S. subsidiaries. Carbonel also plans to broker for U.S. companies with French subsidiaries.

To gain business, Carbonel plans

to lure group insurance away from major U.S. brokers by using its specialized knowledge of the French group insurance markets and the French language.

Carbonel won't compete with those brokers, however. "Instead, we want to be like a subcontractor to the brokers," said Carbonel vp Stephen L. Wyss who is establishing the branch.

He explained that his firm will work out a share contract with other brokers, his firm taking the group insurance and the other brokers keeping property and casualty coverage.

"We have a narrow enough definition of what we want to do so we can work the market hard," Mr. Wyss said.

The firm, however, is in the in-

fant stage. Mr. Wyss is introducing Carbonel while awaiting results from tests taken to obtain a license to operate here.

The U.S. branch of Carbonel is "very well capitalized, much more so than the average broker in the U.S.," Mr. Wyss said. However, he declined to reveal the amount.

The large capitalization, he added, is so "we don't have to have immediate success. We're spending what it takes to make it work."

In France, Jean Carbonel & Associates Inc. is the only group insurance broker. Annual premium volume is \$20 million for more than 300 clients, according to Mr. Wyss.

Mr. Wyss speaks French and is familiar with overseas markets after spending three years in Lon-

don and 15 months in France as a group manager with the Insurance Co. of North America.

Mr. Wyss plans to use his previous connections with INA. For French companies with U.S. subsidiaries, INA will be approached to underwrite the group insurance, he said. But Mr. Wyss added that Carbonel plans to use other insurers also.

Eventually, he hopes to build connections with Lloyd's.

Although Mr. Wyss is still trying to familiarize others with the Carbonel name, he said he is banking on the fact that the French community here is rather small.

To help introduce and spread its name, Carbonel plans to develop an extensive reference library on social legislation and employe

benefits in France for clients, other brokers and insurers.

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Injuries in Iowa decline 4 percent

DES MOINES—An Iowa bureau of labor study shows 4% fewer Iowa workers suffered injury or illness on the job in 1976 compared with the previous year.

In 1976, one worker out of every 10.2 had a work illness or injury. In 1975, the rate was one worker out of every 10.6.

The study is based on reports submitted this year by private businesses and governments.

The state's most hazardous industry groups—manufacturing and construction—showed an 11% and 4% decrease, respectively, despite a statewide increase of 22,000 jobs in 1976, the bureau reports.

Allen Meier, Iowa Commissioner of labor, said the year's 434,900 lost workdays cost \$20 million in wages, \$4 million more than the previous year.

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- Guidelines and an **Insurance Buyer's Checklist for Oil & Gas Producers** are compiled in a booklet to help insurance managers determine the best program for oil and gas producers. The booklet, according to its publisher, RIMCO, is designed so the insured can request his insurance agent to schedule coverages presently carried as well as outlining his recommendations or modifications. Copies are \$5. Write Robert N. Hughes, RIMCO Inc., Suite 180, 10300 N. Central Expressway, Dallas, Tex. 75231.

- **Loss Assumption** is an article reprinted from *Financial Execu-*

tive outlining the basic risk management process that should be considered by a corporation to reduce the total cost of risk. It also explains the loss assumption indicators that tend to measure financial strengths and tells how to draw up a risk potential matrix. Copies are free. Write William S. McIntyre, RIMCO Inc., Suite 180, 10300 N. Central Expressway, Dallas, Tex., 75231.

- **A Risk Manager Guide to Goods in Transit**, a 16-page booklet prepared by the Insurance Co. of North America for risk managers of corporations that sell and ship goods domestically and over-

seas, discusses ways to identify, measure and handle the risk and implement a risk management program. For a free copy write INA, SuperService, 1600 Arch St., Philadelphia, Pa. 19101.

- **Insuring Complex Risks: Some Professional Considerations** is a promotional brochure from INA. The brochure suggests self-insurance as a possible alternative. For a free copy write Dept. R, INA, 1600 Arch St., Philadelphia, Pa. 19101.

- **A 10-Point Pocket Guide to Fire Protection** from Industrial Risk Insurers is a 24-page booklet covering what to do when a loss occurs and 10 rules for such concerns as fire safety education, good housekeeping, safe fuel storage and handling, controlled smoking and preparing for emergencies. For a free copy write Robert F. Quagliaroli, Publications Dept., Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

- Results of the first nationwide comprehensive survey of bank insurance have been tabulated in the **1977 Confidential Bank Insurance Survey Report**. The survey provides bankers with data to compare their most critical insurance policy limits, insurance premiums, costs, losses, deductibles and recoveries with the industry or banks of the same size. The cost is \$7 and may be obtained by ordering number 212100 from the Order Processing Dept., American Bankers Assn., 1120 Connecticut Ave., N. W., Washington, D. C. 20036.

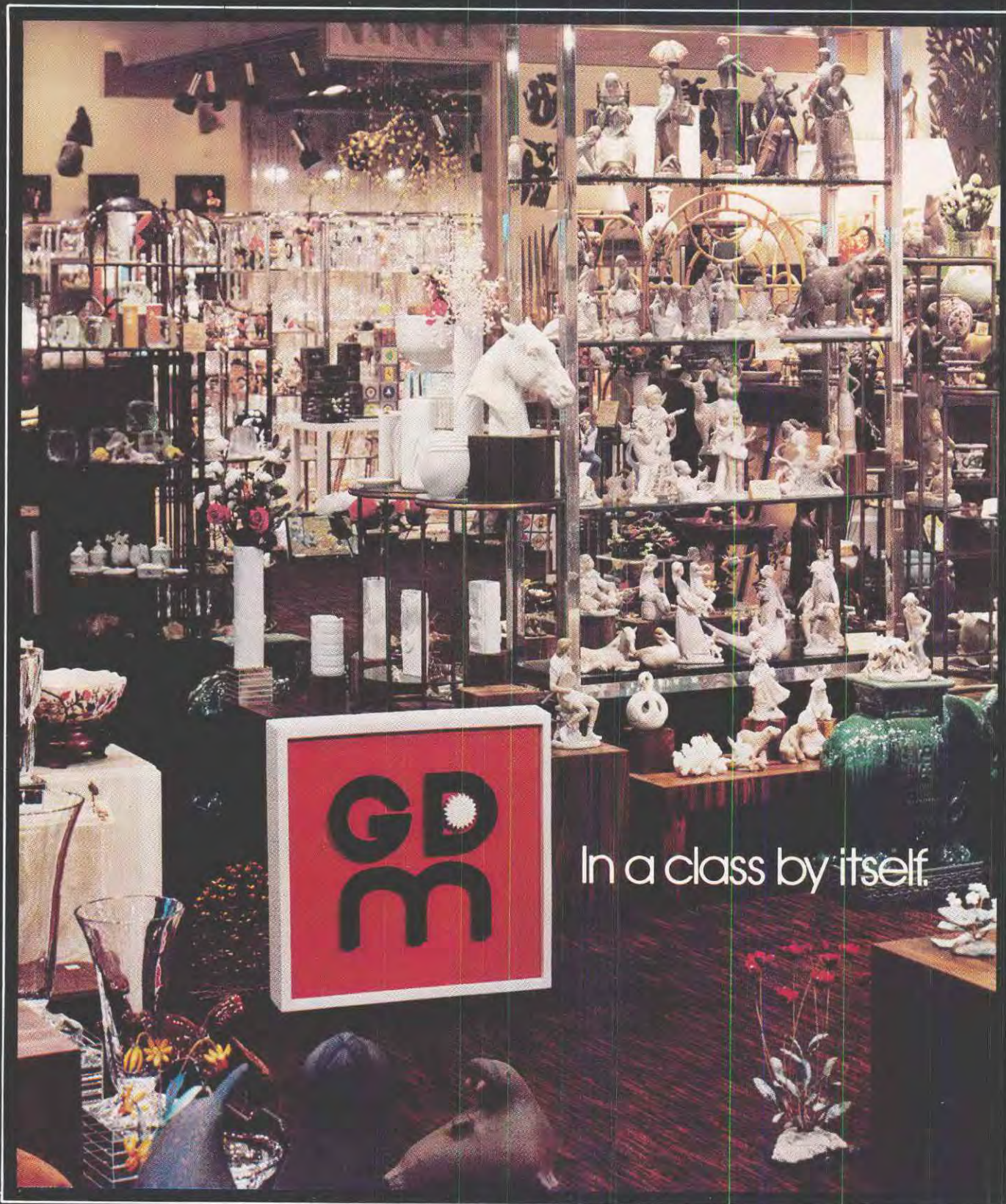
- How can American business protect itself from the ravages of runaway product liability insurance costs? Can the problem best be solved by federal legislation? These and other questions are examined in the **Product Liability Conference Proceedings** held in May 1977 in Washington, D. C., under the auspices of the Multi-Association Action Committee. The transcript costs members of the Sporting Goods Manufacturers Assn., \$25; \$50 to non-members. Write Sporting Goods Manufacturers Assn., 200 Castlewood Rd., North Palm Beach, Fla. 33408.

- **Insurance Consultant's Society Brochure** includes information on risk management services provided by members of the society. There is also a listing of the member companies. For a free copy write William S. McIntyre, CPCU, RIMCO Inc., Suite 180, 10300 N. Central Expressway, Dallas, Tex. 75231.

- **The Way to Go** is a factual summary of the latest information from Kemper on drinking and driving and those who sometimes do both. Up to 50 copies are available free. Write Communications & Public Affairs Dept., Kemper Insurance Cos., Long Grove, Ill. 60049.

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Gas tank explodes in Calif.

RIALTO, Calif.—A tank in a high octane gasoline farm in San Bernardino county exploded late last month, critically injuring a 24-year-old truck driver.

The explosion burned for 10 hours, according to the Rialto fire

department. Fire chief Francis Lorson said that the entire plant had to be shut down while the fire was extinguished.

Estimates of damage appears to be under \$1 million, including \$150,000 for fire department ex-

penses.

The tank involved in the explosion was owned by Southern Pacific Pipe Lines Inc., of Los Angeles, a subsidiary of Southern Pacific Transportation Co. of San Francisco. A Southern Pacific spokesman explained that the pipeline unit leases the tanks to various companies, including Texaco Inc., the company reported to have leased the tank that exploded.

However, Robert Kreiling, manager of the insurance department for the oil corporation, said that to his knowledge the tank was not leased to Texaco and that his company was not involved in the explosion.

Nevertheless, he also added that "after a loss, it takes time to sort things out," indicating that further investigation may prove that Texaco did lease the tank.

Southern Pacific insurance supervisor Jim M. Walsh said that his company had coverage on the tank with a "normal" deductible, which he would not disclose. ■

More older people in U.S. population

WASHINGTON—Since the mid-19th century, the total U.S. population has increased about nine times. However, the older population—those 65 years and over—has increased 40 times, the American Council of Life Insurance reports.

Each day approximately 1,300 persons join the ranks of the older population, the Council notes, which adds up to nearly 500,000 more retired people annually.

There were approximately 22.9 million persons age 65 and older in the U.S. in 1976, the Council says. By the year 2000 the figure is expected to reach 31.8 million. And by the year 2030, the number of persons age 65 and older is expected to reach 55 million. ■

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riskWatch

By KATHRYN J. McINTYRE

Insurers tell buyers: Take punitive damage fight to legislatures, not us

If you don't like the new exclusion of punitive damages in your liability insurance policies, pressure legislatures to clean up the laws so that it's an exposure you can live with.

That's basically the insurance industry response to uproar over its recent attachment of the specific exclusion. The insurers maintain that punitive damages, as a form of punishment, are not a proper subject of insurance and never were intentionally covered. Besides, they add, the awards are becoming too frequent and too expensive to leave the industry open to that liability: Witness the \$125 million punitive award last month against Ford in California.

But that award might not be that outrageous. Consider, if Ford really deserved to be punished for knowingly marketing a deadly car, how much is enough to actually punish the giant corporation? Admittedly, it's mind-boggling that the award is going to one victim, even one so painfully and tragically injured at 12 years of age. It's been suggested that punitive awards be paid to a rehabilitation fund.



McIntyre

The justice of victims getting the spoils aside, risk managers readily concede that the insured's intentional acts should not be covered by insurance and in fact are excluded by the insurance policy's definition of occurrence. They contend, however, that protection is deserved under the insurance policy against punitive awards in cases of vicarious liability: when the actions of an insured's agent in a punitive award were not known and condoned by the insured. Insurers say they sympathize, but so far only INA and SAFECO Cos. have developed an endorsement to insure against the exposure, for a price of course.

Other insurers are begging off, claiming they can't write an endorsement that will apply only in cases of vicarious liability. "It's too hard to define when that takes place," said Kemper Insurance Cos. underwriting manager George Kasbohm. Fireman's Fund vp Creighton White asks, "When does a company know and when doesn't it know about an activity? Does it know when the whole board of directors knows? When one director knows? When a foreman knows?"

In lieu of insurance, the insurers offer that the employer should not be punished in vicarious liability cases. Granting that an employer cannot preclude all future liability no matter how carefully he screens prospective employees, St. Paul Fire & Marine senior vp Thomas F. McCann said, "We feel it's a problem that should be handled legislatively." Not willing to concede so much, Ronald A. Jacks, senior vp and general counsel at CNA Insurance, suggests it is up to the corporation to establish principles and guidelines to preclude vicarious liability cases.

Assessing furor over the exclusion among buyers of insurance and brokers, Fireman's Fund's Mr. White said, "Maybe ISO's approach wasn't diplomatic. It might have been better if the industry had defined the problem, written to legislatures to get punitive damages to what they're supposed to be. RIMS should do what the insurers should have done: Get this defined. There's been no pressure to clean-up the law and say, 'Punitive damages apply under these circumstances.'"

CNA's Mr. Jacks recommends that insurers and insureds get together to force legislative relief from what they consider burdensome awards. He admits CNA adopted the exclusion not only on the principle that indemnifying punitive damages undermines the court's intent to punish, but also because "we're concerned about the inordinate exposure presented by the recent use and abuse of punitive damages." The solution, he says, "lies in the legislative area. We need some curbs. We need to set standards for awards and place limits on them."

Rather than joining forces to pursue this avenue, there's some belief that risk managers can, through their collective consumer clout, eventually force the exclusion off liability policies to keep coverage for vicarious liability where permitted by state law.

ISO reconsidered the exclusion recently and even with some different members the committee voted to maintain it. When confronted with the idea of a consumer revolt, ISO's vp Richard Savage quipped, "If there's a revolt, it ought to be against what is happening in our courts."

How about it? Which giant do you want to stalk: the legal system, the insurance industry or the stupid incidents that get you into the whole mess to begin with?

Social Security: Look, plan, but don't leap

By Kenneth Keene
Senior vp and director
Johnson & Higgins
New York



Photo: Bo Groome

Part of the increased Social Security taxes will be offset by higher corporate income tax deductions, says benefit specialist Ken Keene. But a substantial portion will be absorbed directly by employers, leaving less money for private pension plans.

below the wage base may result in over-generous benefits for the lower-paid employes, with a corresponding increase in plan cost.

One control device here could be to use a breakpoint which is a specified lower dollar amount initially. This would be modified upward as the wage base goes up, using some built-in lag factor or amending the plan from time to time.

A third variety of integration is a technique using an employee's "covered compensation," rather than a breakpoint which is identical for all employes. Otherwise, the concept is similar to the breakpoint approach. Covered compensation is the average Social Security wage used to determine the employee's primary benefit assuming he worked to age 65 and earned the maximum taxable wage each year. The covered compensation varies by date of birth. In 1978 it is \$8,256 for an employee born in 1913 and grades up to \$17,700 for one born in 1947 and later. (This is using the pre-1977 amendments, since the effect of the amendments will have to be clarified at the regulatory level).

The 1977 amendments will affect plans using this technique in two ways — first because of the changes in the wage base and second because earnings are now indexed for wage inflation from the year in which earned to when the employee reaches age 60. It is not clear whether the old method of determining covered compensation will still be permitted and, if so, whether the scheduled increases in the wage base to \$29,700 in 1981 will be used in projecting covered compensation. Or, this method may be scrapped by IRS in favor of a formula based on the new "average indexed monthly earnings" concept contained in the 1977 amendments.

Early decisions will be needed for individual benefit statements which show projected pension and Social Security benefits under an integrated plan. If the scheduled increases in the Social Security wage base through 1981 are used in the projection, then some employes may be disturbed by the indicated drop in their pension compared to the previous statement. If the future increases in the wage base are ignored, the reporting to the employee overstates the plan benefit.

One temporary solution is to base the projections on the pre-1977 amendments. Then,

Continued on following page

This table highlights the potential for dissatisfaction as average-paid workers retire beginning in 1982 and higher-paid workers retire starting in 1980, with extra pressures on those retiring in 1982 and later.

Redesign of pension plans to dovetail with the 1977 Social Security amendments will not be a simple matter. Defined benefit plans should be examined as to cost, pension adequacy, integration margins and overall design. Some companies will be surprised and perturbed when looking at the final result: fashioned by the interaction of these various elements. In at least a few cases private plan contribution levels may go up as the benefits go down!

Final pay plans are often integrated with Social Security benefits by an "offset" deduced by a certain percentage of the primary Social Security benefit. The specific percentages for each year of credited service are set to achieve a target level of pension adequacy for a career employee. For example, a plan might provide 1½% of final average pay less 1¼% of primary Social Security for each credited year.

The change in employer contribution levels under an offset plan as a result of the 1977 amendments will depend on changes in the actual dollar primary Social Security amount (these changes will vary based on earnings of the participants) and on the assumptions previously used by the actuary to

estimate future Social Security benefit increases. In some cases the new contribution levels may be sharply different — higher or lower — compared to previous costs.

Career average plans are generally integrated using a "step-rate" or "breakpoint" technique. The plan provides pension benefits which are proportionately greater for earnings in excess of the Social Security tax and wage base. For example, a plan might provide 1% of the current year's pay up to the Social Security wage base plus 1¼% of the excess. These credits would be added up for all years counted under the plan.

As the Social Security wage base is increased materially under the 1977 amendments, career average plan benefits currently credited for higher-paid employes will be lower relatively. This is because a larger portion of their earnings fall within the lower percentage portion of the plan formula. Unfortunately, this benefit decrease will probably be only partly restored by increases in the employee's primary Social Security benefit.

The result could be a gap in pension income for these employes. Increasing the percent credited over the wage base may not help since the wage base itself is growing and, in any event, there are IRS limits on the spread between the two percentages in the

VOLUMES CAN AND WILL be written about the social, fiscal, economic and political implications of the 1977 Social Security amendments—replete with predictions of the additional short and long term changes that will be made in the Social Security system. Less dramatic, but more practical, are the effects the new amendments will have on the design and integration of private pension plans and on plan cost and pension adequacy.

The most elementary observation is that employer and employee Social Security costs are going to increase dramatically over the next 10 years. The taxes will more than double in 10 years for the average employee—one who earns about \$10,000 now, but who will earn over \$17,000 if wages grow at the 5¼% yearly rate used in the Social Security actuarial cost projections. For an employee who earns at the maximum covered wage level, the taxes will triple!

Part of the matching employer taxes will be offset by higher corporate income tax deductions (a form of general revenue financing), price increases ultimately passed on to the consumer and a curtailment of wage increases. However, a substantial portion is going to be absorbed directly by employers. This means that less money may be available for private pension plans.

Despite a big boost in taxes, Social Security benefits for a typical employee will go down from the level of benefits provided by the prior law. The primary Social Security benefit measured as a percentage of an employee's covered earnings in his last year before retirement at age 65 will decrease precipitously in the next several years.

This table shows the projected age 65 "replacement ratio" for workers with average earnings and for workers always earning at the maximum covered wage level.

Replacement Ratio

Year of Retirement at Age 65	Worker With Average Earnings	Worker At Maximum Earnings
1979	46.7%	34.8%
1980	46.6	29.3
1981	47.0	28.0
1982	41.9	22.9
1983	41.0	22.8

Speaking Out continued

Here's how to distinguish risk, insurance managers

By Bruce D. Evans
Executive director
Risk Management Institute
Irving, Tex.

TO BOLSTER PETER DOWNES'S concepts to delineate a risk manager's qualifications from a director of insurance, I have contrasted below the insurance buyer (being a purchasing agent), the insurance manager and the risk manager characteristics. This overview can further assess these essentials.

Using another approach, let us imagine a newly hired director of insurance traveling to various organization units armed with a pre-prepared checklist of insurance exposures. That director needs to conduct on-site evaluations identifying and appraising exposures in a comprehensive manner explaining insurance and self-insurance programs to interested employes and working toward uniformity of purchase in a professional manner.

The risk manager, by contrast, can be expected to do more than the director of insurance

ance by citing non-insurance risk exposures, by checking into the consistency of personnel submitting data, by preventing loss wherever possible by seeking to disperse any accumulation of values, by urging the strictest standards for loss control, by gathering incident reports that may not have to be reported into the insurance program, by identifying vulnerability to any single resource (such as fuel, transportation services, critical raw materials, etc.) and urging reliance on two or more methods to supply such a resource, by insisting on an extra set of critical papers or records at any organizational unit which cannot be damaged concurrently with the master records and by being on the lookout for unnecessary waste, whether it be a resource, a process or a concept.

The distinguishing feature of a risk manager is that he protects resources, not just assets. This person will concentrate on the negative consequences of any decision and not be bound by only the insurance-oriented risk exposures which is (unfortunately) the training given to insurance personnel.

Area	Insurance Buyer	Insurance manager	Risk manager
Risk analysis	Buys insurance/relies on agent	Studies balance sheet/P+L	Calculates also the off balance sheet items
Risk evaluation	" "	Evaluates MFL and PML/utilizes one occurrence deductible	Analyzes also aggregate protection w/understanding of stop loss needs
Loss prevention/accid. control	" "	i.e. dry sprinklers to protect computers	Attitude survey and loss data also studied
Risk transfer	" "	Establishes self-insured fund or buys excess ins. over deductible	Searches full insurance market incl. reinsurance
Risk re-evaluation	NA	Checks impact on Pa+L Bal.	Checks liquidity impact; stalls payment of premiums; investigates loss reserve adequacy
R.M. personnel secured from	Ins. co./agency	Property & casualty ins. underwriting	Open—depends on qualifications
Appraised by	Boss' goodwill	Superior(s) at time of loss	Results through MBO
Scope of Job	Insurance only	Fortuitous loss applications	Negative consequences ("what if") of any decision
Title	Ins. analyst or admin. officer	Director of insurance	R.M. vice president

PERSPECTIVE

Government harassment just too much to bear

By Peter Downes
Manager of Insurance
Baltimore, Md.

IT MAY BE THAT old Omar Khayyam had the right idea after all. Perhaps all good, middle-aged, middle class men should now liquidate their assets, gather up a loaf of bread and a jug of whiskey and then traipse off into the wilderness with a good-looking woman. Needless to say, one's spouse may have her own ideas about the subject, but it is a thought worth considering.

No doubt it is the depressing effect of a long winter combined with income tax and all the rest, but having trained myself as a risk manager to take a look at future trends, I find myself appalled at the prospect before me.

First of all, there is Social Security. Not that I have anything against Social Security since I hope to benefit from it in the future. But the most recent change in the laws, as I understand it, doubles benefits over the next seven years, redoubles them in 14 years, then doubles them again in 21 years and so on, ad infinitum. Obviously this law must have an inflationary effect since otherwise benefits will exceed the gross national product sooner or later.

This reminds me too of all those pension plans which are integrated with Social Security—the ones that say that your maximum annual pension and Social Security combined shall be equivalent to X% of your average annual earnings over the last



Speaking out columnist Peter Downes finds the new Social Security amendments just another example of the government harassment he finds beyond the tolerance of any individual.

half century. The way benefits are being increased many of us may yet find ourselves living entirely on Social Security in our old age instead of on those pensions we hopefully looked forward to.

But that is not all. Payroll tax will triple for both employe and employer over the next 10 years and will continue to increase thereafter. Of course, employers do not really pay taxes but customers do in the form of higher prices. This means that not only will employes' real income diminish because of direct taxation but will dwindle still further because of indirect taxation.

Perhaps this would not be so bad if there were any indication that the nation's productivity would increase at the same rate. Momentarily, however, there is every indication that the rate of growth will lessen in the years ahead rather than increase. In addition, one foresees a declining birth rate, increasing life expectancy and, not-

withstanding the most recent noises on the subject, demands for earlier retirements rather than later ones, as well as shorter work weeks.

Obviously, something will have to give and the most likely thing is the nation's economy with its demise coming about in the form of hyper-inflation. This in turn will mean that all those pension plans, deferred compensation plans, split-dollar plans and everything else you have so assiduously wheedled from your employers these last 20 years may not be worth the paper they are written on.

This is just the start of my complaints. In this year of grace I am paid a salary that 30 years ago I would have thought beyond my wildest dreams. I also have a tax bracket to match. Inflating my salary to match the inflated economy does me no good at all since my real earnings keep getting less by the day. Needless to say, the Feds are after me to

pay tax in ever greater amounts, not to mention the state and the county. In addition to this, the property tax on the postage stamp lot and shack, which the bank and I own and on which I pay the taxes, keeps escalating because of a purported increased value. Heck, I can't even afford to sell the dump!

There are other charges on me as well. Every time I buy something the state skims off a percentage. Then the government turns around and says to me, "Remember all those consumer goods you bought over the years. Well, you were ripped off," and I reply, "Yeah, I know — by you!" And they respond, "No silly, not by us but by the manufacturers. So what we have done is to pass a law to take care of you."

Well, a new law means new regulations, a new army of bureaucrats to administer them and, of course, more money from my pocket to pay for it all. Then the bureaucracy finds that it does not have the necessary information to proceed against corporations and demands that the corporations supply it. This in turn requires extra staff to produce what is necessary and, of course, they too have to be paid — in other words, there is another form of taxation which pushes prices a little higher and my real earnings a little lower and adds nothing at all to the gross national product.

However, what really irks me is when the less reputable bureaucrats like insurance commissioners start getting into the act. The Maryland insurance commissioner, for example, has just come up with a scheme to milk me of more money. He wants me to subsidize Baltimore city drivers on the grounds that automobile insurance should be based on where a car is driven and not where it is garaged. In actual fact I thought that was how I am being rated now since on demand I dutifully tell my insurers that I drive to and from work and I have always supposed that they charged me accordingly. Maybe so, says the commissioner, but you must pay more.

Well if he says that, I just might lie about where I drive — after all who is to know the difference? Unless, of course, he sets up the system of insurance police that I have joked about from time to time, which in turn will require even more of my earnings to pay their salaries.

So, the more I think of it the more attractive does the thought of gallivanting off into the wilderness become. The only flaw in the argument that I can think of is that when I get there I shall probably find it lousy with bureaucrats telling me what to do and, of course, being supported at my expense. ■

Risk Management Notes

IRS analysis of dividends is sleeper in captive ruling

By Warren, McVeigh, Griffin
Risk Management Consultants
San Francisco

THE FOLLOWING are the comments of a corporate tax attorney experienced in captive insurance companies.

Issuance of Revenue Ruling 77-316 has generated considerable excitement ("yawn!"). While it is a useful presentation of the IRS position, nothing in the ruling itself should cause taxpayers to panic since the ruling does not have the force and effect of law. It is interesting to note that the IRS has waited almost 2½ years to release the ruling at the most strategic time.

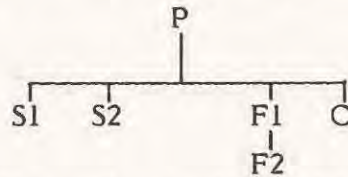
There are some real "hookers" in the ruling, however. The unwary taxpayer may find himself in trouble if the IRS position is correct. First, let's analyze the ruling.

In Rev. 77-316 (77-35 IRB 7) the IRS "hypothesizes" three fact situations:

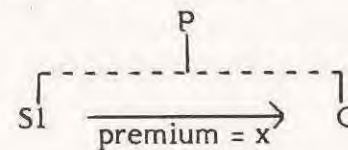
- U.S. corporations insured with a foreign captive insurance company which retains the "risk."
- U.S. corporations insured with an unrelated U.S. insurance company which reinsures 95% of the "risks" with a foreign captive insurance company which is related to the U.S. insured.
- U.S. corporations insure with a related foreign captive insurance company which immediately reinsures with an unrelated insurance company.

An observation: Although each of the three examples relate to foreign captive insurance companies, the IRS conclusions, if applicable, would apply equally to U.S. captive insurance companies (Colorado). Further, although the examples all relate to U.S. corporate "insureds" (Carnation Co.) the conclusions would apply as well to foreign insureds (Ford Motor).

To illustrate, assume that a corporate group consists of a U.S. parent corporation (P), two operating U.S. subsidiaries (S1 & S2) and two foreign subsidiaries (F1 & F2) as well as a foreign captive insurance company (C). A typical organization chart might look like:



If S1 pays a "premium" to C (and the IRS ruling proves to be correct) a triangular or constructive dividend will occur.



In fact, the IRS will "reform" the transaction as:



Unless P & S1 file a consolidated tax return, the dividend may be partially taxable.

Similarly, if F1 pays a premium under the same fact pattern, it will be treated as a dividend (probably fully taxable), followed by a contribution to capital of C. This may cause a number of unpleasant tax consequences. Thus, F1's earnings may have been sheltered from taxation by a foreign tax holiday. Such "shelter" may have been partially defeated. Conversely, assume that F1 had been taxed at very high rates and P had not wanted a dividend because it already faced an excess foreign tax credit limitation. The limitation problems have now been compounded.

The ruling states that insurance requires risk-shifting and risk-distributing. It goes on to conclude that there is no economic shift or distribution of the "insured" risk. Therefore, the contract is not considered to be one of insurance.

As a result, the following tax conse-

quences arise:

- The U.S. "insureds" will only receive an income tax deduction for the portion of the premium which ultimately goes to the unrelated insurance company.

- The balance of the premiums paid by the U.S. parent corporation will be a non-deductible capital contribution to the captive (also not taxable income to the captive).

- The non-deductible portion of the premiums paid by the U.S. subsidiaries of the U.S. parent corporation will be considered to be a dividend (possibly taxable) to the U.S. parent to the extent that the subsidiary has earnings and profits, followed by a contribution to capital of the foreign captive.

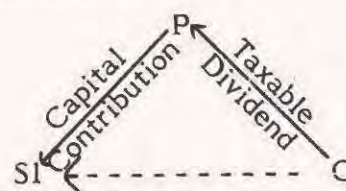
- Any proceeds paid by the captive to U.S. parent corporation with respect to losses will be considered as a dividend (to the extent of earnings and profits).

- Any proceeds paid by the captive to U.S. subsidiaries will be considered to be a dividend to the U.S. parent (to the extent of any earnings and profits), followed by a contribution to capital of the subsidiary.

- Because payments by the captive do not constitute insurance proceeds, the U.S. corporation will be permitted to deduct the "uninsured" losses.

The "dividend" aspect of the ruling is a "sleeper" that may ultimately be much more expensive to U.S. corporate groups.

Because C doesn't qualify as an insurance company, it is likely that all of its investment income will be taxable in the U.S. If, however, such income temporarily escapes U.S. taxation, the triangular flow is reversed if proceeds are paid.



The ruling doesn't address other complexities. Thus, if the "premium" had been paid by F2 to C, the "dividend" would have hypothetically moved through F1 and P before reaching C. Which foreign tax credits will be available to P?

It should be obvious that the IRS has gone beyond eliminating tax advantages of a captive when compared with self-insurance. If the IRS ruling is correct, the effect of constructive dividends may suggest that self-insurance is less costly.

Keene...

Continued from preceding page state to the employees that the technical details of the 1977 amendments are under study and will be reflected in next year's statement. This will provide breathing space to redesign the plan.

In addition to the 1977 amendments, pension plans may be affected by new and substantial changes in the degree and methods of integration now being proposed by the Carter Administration and included within the tax reduction/tax reform package.

If these proposals are enacted into law, the pure "excess" plans (no benefits for those who earn less than the maximum taxable Social Security wage) will be prohibited. Further, the majority of offset, step-rate and covered compensation plans would need costly modification. It is expected that these proposals will evoke a considerable response among companies and pension professionals. One side effect will be a dialogue involving heated debate and emotional outcries. This will be a front-burner topic soon, even though the basic effective date is Jan. 1, 1980.

The overall impact of the 1977 amendments does not mandate immediate action — there is a transitional period in calculating benefits of participants who reach age 62 before 1984 and the maximum wage base and tax for 1978 is unchanged from prior law. The best thing to do right now is to plan, and look — but don't leap.



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letters

Continued from page 8
engineering department's inspections of that facility while we were on the coverage, our people also made additional inspections and always found the risk to be in exceptionally good condition. Unfortunately, I never had the opportunity of inspecting the elevator after Cook Industries sold it to Far-Mar-Co. in 1976.

The one item not mentioned in the article is the possibility of equipping our concrete elevators with explosion suppression systems. Although we are not 100% convinced on the adequacy of the systems, they appear to be a far better solution than offered by anyone so far.

Bill M. Morrison
Vp, Producers Exchange Management Co. Inc., Dallas, Tex.

Wrap-up programs

To the editor: I was interested in reading Kathryn McIntyre's article (Jan. 23) "Utility's Wrap-up Program Saves \$1.3 Million."

I don't dispute a substantial savings for the utility in insurance premiums (CGL, workers comp, builder's risk) on a construction project of this magnitude, but I seriously question insurance manager Richard Grennan's assertion that the Nebraska Public Power District also saved \$225,000 in surety bond premiums as a result of the utility's "owner-controlled bond program."

In the first place, it is known that a number of large general contractors in the U.S. refused to bid on NPPD construction contracts because they would not be able to furnish the required bonds in their own surety companies and through their regular agent or broker, had they been the successful bidder. This clearly indicates that "the absent bidder may have

been the low bidder," therefore there is no assurance whatever that NPPD obtained the lowest possible construction prices. On the contrary, the actual total construction costs paid by NPPD are very likely higher than would have been the case had there been a greater number of bidding contractors.

Further, it is interesting to note that Mr. Grennan pointedly neglected to mention the name of the surety company involved in the NPPD owner-controlled bond program and, more importantly, what rate that surety charged for the bonds it provided to the contractors performing construction for the utility.

I submit that many of the regular sureties to the contractors performing NPPD work could have matched or even undercut the bond rate charged by NPPD's surety, thus completely negating the alleged \$225,000 "savings" in bond premiums paid by the utility.

It is widely known and acknowledged that many utilities

and other large U.S. construction buyers have long since recognized the fallacy problems inherent in owner-controlled bond programs, including the illusory "savings" to be had.

Bruce T. Wallace
Executive vp, National Assn. of Surety Bond Producers, Washington, D.C.

Reinsurance

To the editor: The Perspective section of your Jan. 9 issue contained two excellent articles by Joseph Destein and Andrew Barile. Not only are these articles timely, they point out many of the pitfalls new companies entering the reinsurance market must consider.

An interesting sidelight is that a number of the subsidiary insurance companies the ARM/IRML Group manage became interested many years ago in diversifying their risks. This was accomplished

to a limited extent—over 10 years ago—by sharing in each other's reinsurance treaties. Growing in experience, as well as financial capacity, many desired further diversification with its appropriate financial return.

With the guidance of our management group, a separate jointly owned reinsurance company was formed over two years ago. With its own professional staff and with the aid, advice and assistance of the professional reinsurers who for many years had formed the backbone of the reinsurance treaties of these subsidiary insurance companies, the new reinsurance company got off to an incredible start. Now in its third year of business, it is writing a \$30 million premium portfolio of diversified worldwide reinsurances principally in conjunction with, or as direct retrocessionaires of, the major professional reinsurers of the world.

All of this avoiding the pitfalls outlined in your articles.

Arthur H. Deters, CPCU
Executive vp & director (Reinsurance), American Risk Management Inc., Englewood Cliffs, N.J.

Cost control

To the editor: "Self-funded benefit plans can pioneer cost control" (Feb. 6) impressed me as being somewhat simplistic and misleading. Benefit plan design is one element in cost control, but it is not the only element and it is not so clearly effective as the author implies.

For example, there is little hard data on the value of deductibles and coinsurance in preventing unnecessary care without discouraging necessary care. The hypertensive patient who forgoes routine therapy because of coinsurance saves the plan a little today, but may present a catastrophic claim in five years.

Likewise, there is little evidence that second surgical opinion programs are cost-effective over the long term. That is not to say that these and other benefit changes are not worthwhile trying—only that they are not easy solutions and benefit managers should be aware of the trade-offs and uncertainties.

Cost containment is a complex issue and requires action on several fronts: plan design, efficient claims administration and cost control, joint provider-payer programs to review medical care (as in concurrent review of the hospital care), public programs and employee education (which, incidentally, should not be a one-shot description in a booklet, but a continuous program of benefit and health education).

There is no "quick fix" for the problem—not nationally and not even for the individual benefit plan. Yet, there is much that can be done by responsible and committed parties. I would hope to see the issue treated more realistically in the future.

Michael J. Manley
New Britain, Conn.

Insurance info

To the editor: Thank you for the editorial on the Library, myself and our services, ("Need Information," Jan. 23).

Needless to say, *Business Insurance* has quite a large public as we have been inundated with cards, letters and phone calls.

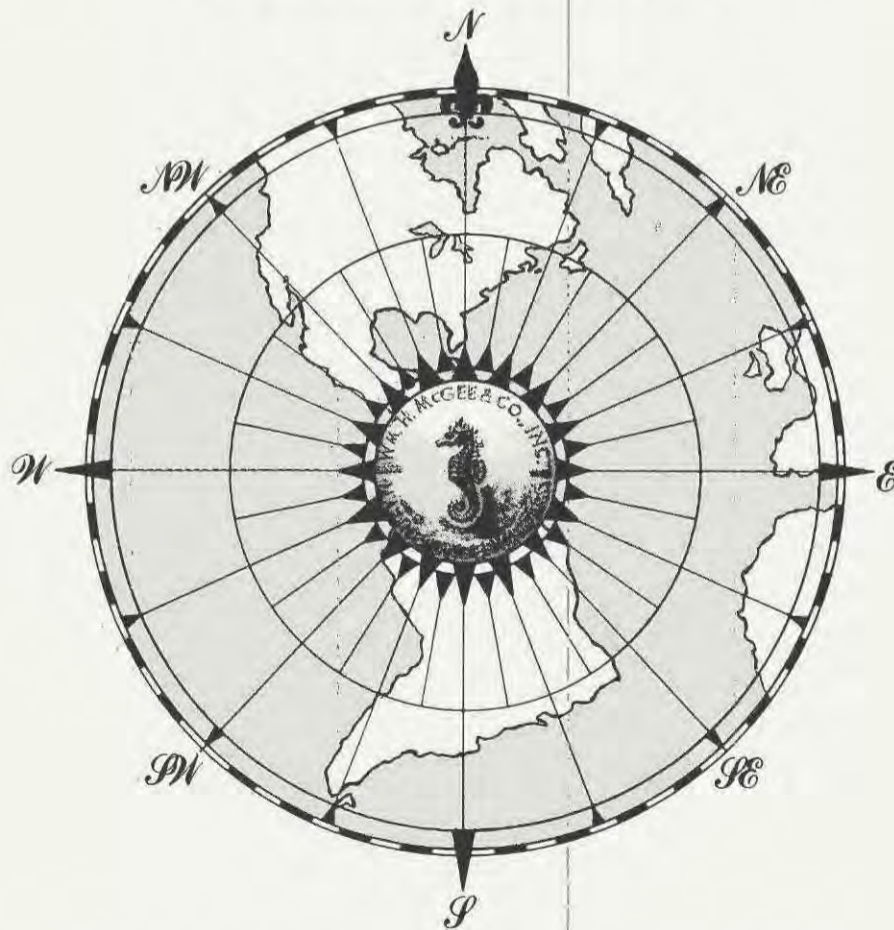
I do have to mention that the rates for membership which were mentioned in your editorial were the rates for "individual" membership, rather than for "group" membership.

Tobelynn Gerard
Director, The Insurance Library Assn. of Boston, Boston, Mass.

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Correspondents Throughout the World

Salary survey . . .

Continued from page 1

Employee benefits only was paid the highest, with an average salary of \$29,500. Risk managers with property and casualty duties only earn an average salary of \$28,800, while risk managers involved in property, casualty and benefits earn \$28,400.

The study also reported that type of risk manager affects salary. Sibson's study of responsibilities and compensation defined the various levels of risk managers by identifying five types. The highest level risk manager (type V) would have duties in risk management, including self-insurance, loss prevention engineering, safety administration, risk financing, risk determination and evaluation, claims handling administration and some responsibility for employee benefit plan administration, design and risk financing for those benefits. Approximately 38% of risk managers were included in this category.

Types assigned

This compares to only 1% who were a type I risk manager. This type has little authority in deciding on a broker or insurer and is mainly responsible for purchasing insurance and accounting. A type II risk manager would have additional responsibilities such as sharing responsibility for selecting brokers or insurers and risk evaluation, plus responsibilities in accounting and claims handling and employee benefit plan administration. The percentage of type-II was 14.1%.

The highest percentage of risk managers was in category IV (40%). This type, according to the study, determines and evaluates risk, but only shares responsibility for loss prevention engineering, security and safety administration. They also handle claims, employee benefit design, plan administration and insurance purchases for employee benefits. A type III risk manager, which includes 10.2% of the responses, would identify risk exposure, evaluate risks and purchase insurance. There would also be responsibility for claims handling, including review and payment of the claims and administration of the insurance unit or department.

The type V risk manager earns \$31,300. Types III and IV earn an average of \$26,900 and \$28,300, respectively. An average salary of \$25,300 is earned by a type II. Since the percentage for type I risk managers was so small, it wasn't

analyzed throughout the study.

The salary levels increased as the levels below the chief executive officer decreased, the study found. While the average salary was \$30,700 for a risk manager one level below the chief executive officer, the salary for six levels below was \$24,200.

Although New York reported the highest average salaries (\$33,000), Hawaii and Alaska weren't far behind at \$31,800. Los Angeles was third with an average salary of \$31,400, while Chicago salaries averaged \$29,500. The lowest regional average was \$24,700 in the Southeast. The Midwest recorded an average salary of \$28,000, while the West average salary was \$28,400 and the Southwest \$27,700.

In addition to salary, 35% of risk managers responding are eligible

for annual bonuses. While the eligibility for bonuses doesn't vary greatly by company size, there is a general relationship between the bonus amount as a percentage of salary and the salary level, the study reported.

Approximately 51% of risk managers are eligible for perquisites and executive benefits. The most prevalent executive benefit, according to the study, is an annual physical exam, followed by participation in stock options or a long-term bonus program.

Corporate status

The value of the noncash compensation ranged from a low of \$2,300 to a high of \$6,000 in only a few cases.

The Sibson study also reported that risk managers average 2.7 levels below the chief executive officer. This figure, the study revealed, varies according to the size of the company.

In smaller companies, the risk management function is more likely to be two levels below, the study said. But in larger companies, it's three reporting levels below the chief executive officer.

However, even within very large companies the risk management function is more than three levels below the chief executive officer for only 20% of the membership, the study said, adding that this underlines the importance of the risk management function.

Sibson also studied the title of the individual the RIMS member reports to, finding that almost 50% report to a vice president. Approximately 49% of the risk managers have the title of manager; the second most frequent title is director with 22.6%.

Of those risk management members responding, a large percentage (54.6%) have duties in property, casualty and liability coverage, while a small percentage (1.7%) have duties only in employe

benefits, group insurance and/or pension.

In addition, the study found that 73% of risk managers have staffs of five employees or less, with one to two being the most prevalent. Sibson said the size of the staff is primarily related to the size of the company. Approximately 7% have staffs of more than 16.

Education

A bachelor's degree was the most common highest educational level attained by the risk managers. Almost 75% have reached this level, while 16% have a master's degree and 15% have some college.

More than 15% of members responding in the U.S. have earned the associate in risk management, which is a significant increase over the 3% level reported in a 1968 survey, according to Sibson. Over 10% have the CPCU designation, which is a 6% increase over 1968.

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Train disasters . . .

Continued from page 2

to a tank truck owned by Liquid Transporters of Louisville, Ky.

Just before the transfer was to begin, the railroad tank car exploded. "It sounded like a 155 mm shell going off," a Tennessee National Guard spokesman said.

Neither railroad officials nor NTSB investigators have been able to determine why the explosion took place. An NTSB official said the agency was investigating a report that a man involved in the salvage operation may have been smoking a cigarette right before the explosion.

The explosion devastated a 400 by 500 yard area. Seventeen buildings were believed to be destroyed, including two lumber yards, a small restaurant and grocery store, according to a dispatcher with the Waverly Police Department. He

said damage probably was less than \$1 million.

L & N officials declined to discuss the railroad's insurance coverage, commenting only that most railroads typically have very high levels of self-insurance.

The cause of the Cades accident is not known yet. But a spokesman for the NTSB said the Florida Panhandle derailment appeared to be caused by a broken rail.

The three accidents have stimulated concern about the condition of the nation's rail lines. Secretary Adams urged a 25% increase in the 300 federal rail inspectors who monitor rail conditions.

Secretary Adams said there were about 8,000 derailments last year. About 500 of the derailments involved the transport of hazardous substances.

A spokesman for the Assn. of American Railroads, an industry trade group, said the rate of derailments involving rail transport of hazardous materials has fluctuated between 100 and 150 derailments per million car unloadings between 1970 and 1975, the latest period for which figures are available.

Under new safety standards put into effect last year by the Department of Transportation, new tank cars have better insulation to allow them to withstand higher temperatures.

They also have an improved coupling device to reduce the chances they will come apart and spear preceding tankers in the event of an accident.

New tank cars are being equipped with crash shields in front and back for added protection. The nation's railroads now are retrofitting tank cars to comply with the new government standards.

Ford plans . . .

Continued from page 1

dealer agreements. They want in black and white that the manufacturer will indemnify and hold the dealer harmless from any losses, damages, or expenses relating to third-party suits when the manufacturer's product is, or is alleged to be, defective, deficiently designed or to have malfunctioned.

Insurers have reduced premiums when the clause is in the dealer's contract, said an NADA spokesman, while other insurers have refused to underwrite a policy for a dealer without such a clause in his contract.

These indemnification agreements are common among major auto importers, but the big three U. S. automakers have thus far not agreed in writing to indemnify

their dealers in these cases.

At General Motors Corp., where the indemnification issue is under review, a spokesman said the company has indemnified dealers "under appropriate conditions." Chrysler Corp. said it currently is working on the issue with its dealer councils.

Ford said it would be inaccurate to assume that the new umbrella policy for its dealers is in response to demand for indemnification clauses in dealer agreements.

The NADA proposed wording of an indemnification clause includes a section indemnifying the car manufacturer when the dealer fails to comply with his obligations, when negligent or improper repair or servicing is at issue, when the dealer breaches a contract with a customer or when a customer is misled by the dealer.

The wording varies in the indemnification clauses adopted by the auto importers, including Volkswagen, Porsche-Audi, Peugeot, Toyota, Datsun, Fiat and Saab-Scandia of America Inc. Saab's is perhaps the shortest, saying simply, "Dealer and Saab each agree to indemnify and hold the other party harmless against all actions, claims, damages, expenses and attorneys fees incurred by either party by reason of any act of the other party, or arising out of any action to which either is made a party through fault of the other."

Only one U.S. truck manufacturer, Freight Liner Corp. of Portland, Ore., writes a similar indemnification clause in its dealer agreement.

Major Ford dealers in the Chicago area said they had either not heard of the pending insurance policy from American Road or that they had only second-hand information they would not repeat.

As to whether or not dealers will buy the insurance in lieu of continuing to press for an indemnification clause, one Ford dealer official said, "Something is better than nothing." Leonard C'miel of Marshall White Ford in suburban Chicago said, "We can't buy insurance, as far as we know, for the product we sell."

Marshall White Ford spends close to \$30,000 a year defending suits. They aren't the kind that make headlines, like the \$128 million award in the 1972 Pinto design case, but they cost money and time, Mr. C'miel said.

Currently the dealer is defending a suit brought by a disgruntled Pinto owner who discovered that while the manual said a driver can shift gears when the car is moving 15 mph, she found in fact she had to be driving 16 mph to shift gears. The owners manual will be revised to preclude another such suit, but in the meantime, Mr. C'miel said, "We don't know what the mail is going to bring each day."

Although the American Road umbrella policy is intended at this time for only Ford and Lincoln-Mercury dealers, there is nothing to legally preclude the policy from being marketed to dealers of other automakers once it is approved. ■

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Play indicates successful man

WASHINGTON—The ability to play can mean success, reports the Health Insurance Institute.

Studies of 95 Harvard graduates from the classes of '42, '43 and '44 by psychiatrist George E. Vaillant show that the ability to play competitive games, such as tennis, with friends and take long, imaginative vacations from work is a good indicator of successful adjustment in middle age. ■

Crain unveils plans for Chicago magazine

CHICAGO—Crain Communications Inc. will begin publishing its 15th publication, Crain's Chicago Business, a weekly tabloid covering the 10-county Chicago trading area on June 5. Crain Communications is the publisher of *Business Insurance*.

The newspaper will report on all aspects of the Chicago business scene—manufacturing activity, labor, distribution, retailing, advertising and marketing and federal, state and local government moves affecting Chicago businesses. Crain's Chicago Business will have an initial circulation of 40,000 and will be available on newsstands and by subscription.

Crain Communications, founded in 1916, is one of the oldest and largest Chicago-based business publishers. Crain's Chicago Business will be able to draw on the resources of other Crain publications. In addition to *Business Insurance* they include Advertising Age, Automotive News, Modern Healthcare, Rubber & Plastics News and Pensions & Investments. The new publication will publish special reports, tailored for the Chicago and Midwest areas, based on material from the various Crain publications—profiles of leading Midwest markets, insurance brokers, advertising agencies and advertisers and quarterly investment performance figures of Chicago and Midwest banks.

Publisher is Arther E. Mertz, most recently Midwest advertising manager of Advertising Age.

Editor-in-chief of Crain's Chicago Business is Rance Crain, president and editorial director of Crain Communications. Editor is Steve Yahn, a former financial reporter for the Chicago Daily News who has held major editorial positions on Pensions & Investments and Advertising Age. Managing editor is Dan Miller, previously assistant financial editor of the Chicago Daily News.

One-time black-and-white page rates for Crain's Chicago Business have been set at \$2,250. The Crain newspaper will also offer advertisers a combination rate with Houston Business Journal and a

new business weekly Cordovan Publishing Co., which publishes HBJ, is introducing June 5 in Atlanta. Advertisers who use all three publications will receive 10% off normal rates.

To build reader and advertiser interest in Crain's Chicago Business the publication is staging a sweepstakes promotion offering a grand prize of \$10,000 in common stock of Chicago-based companies. First prize is a trip to Hawaii by Chicago-based United Airlines. The promotion for the new magazine will be advertised via computer billboards, radio and newspaper ads.

The new publication will have a fulltime editorial staff of 10, including a reporter in Washington, plus correspondents in Springfield and other major Midwest cities. In addition to business news Crain's Chicago Business will also carry a "5 to 9" section, covering the leisure and entertainment side of Chicago. The section, to be edited by veteran Chicago Daily News feature writer Sandra Pesman, will carry stories on things to do and places to go around Chicago, plus profiles of leading business executives pursuing hobbies, sports, charities and other "5 to 9" non-business activities.

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DNA research risk . . .

Continued from page 1

tion in light of experience at other universities involved in recombinant DNA research, the experimenting with molecules that consist of different segments of DNA joined artificially in cell-free systems and capable of replicating in a host cell.

Opponents of the research charge that researchers could create new diseases for which humans have no immunity.

Risk managers of universities heavily involved in the new field of scientific research say they have not been saddled with any DNA research exclusions in CGL policies and have not seen their premiums increased because of this risk.

Although there were reports that one university was denied insurance for DNA research, *Business Insurance* was unable to identify

that institution.

University risk managers don't consider DNA research to be any more of a risk than other research conducted at their institutions and they don't view it as a particular problem risk for insurance. The risk managers generally agreed it's covered under their CGL policies unless it were to be specifically excluded.

Yale approved

Yale University insurance manager W.H. Neale said his underwriter wanted to investigate the research facility. "Aetna Life & Casualty took a good look at it. Information sheets were filled out by the head of the research unit. And they sent out an engineer to check the lab. We had to close it down, decontaminate it, so he could look

at it," Mr. Neale said.

Yale did not see an increased premium at its last renewal because of recombinant DNA research which it conducts at the P-3 level (on a scale of P-1 to P-4).

"DNA is just one of hundreds of research projects going on here everyday," Mr. Neale observed. He recalled that when asked to supply information on risks at Yale, he once replied, "Everything that man has ever conceived of doing is going on here this afternoon. The only thing we don't have is a nuclear power plant and we don't own airplanes."

Massachusetts Institute of Technology, also a P-3 recombinant DNA researcher, has not seen any exclusion either for the risk and the subject was not discussed at last renewal, said insurance and legal administration officer Kimball Valentine. Potential DNA problems are probably covered under a CGL policy, Mr. Valentine said.

He cautioned, however, that the mere absence of an exclusion doesn't guarantee insurance protection because "DNA is not like nitric acid, it's a whole mode of research."

Harvard University is six to eight months away from beginning recombinant DNA research in a new lab still under construction. There aren't any liability insurance concerns there because the university's CGL is placed with its Cayman Islands captive insurance company. Similarly, the University of Wisconsin at Madison hasn't any policy concerns because it is self-insured by state statute.

The one private corporation that experienced insurance problems last year anticipates conducting advanced recombinant DNA research this year with its underwriter's approval.

Litton confident

Litton Bionetics, a division of Litton Industries that operates the Frederick Cancer Research Center in Frederick, Md., under government contract, wanted to move into the most advanced stage of recombinant DNA research (P-4) last year. Litton Industries insurance manager Paul Harvey was reluctant to include the risk in the corporation's \$1 million retention, fearing allegations of liability more than an actual incident.

However, Mr. Harvey could not find a willing primary underwriter. As a result, he decided not to "subject our excess insurance program" to possible cancellations because of the risk.

"I said we'd take the first million if the government would take the excess, but it wouldn't," Mr. Harvey recalled. When he finally found a few primary underwriters willing to take small portions of the first \$1 million over deductibles, "the government had backed out on conducting the more advanced research."

In the last year Mr. Harvey noted a decline in scare tactics leveled against recombinant DNA research. Dr. Robert Stevenson, director of the Frederick Research Center, observed, "no green monsters have emerged and there've been a number of discussions that have put the issue in a better perspective."

This year Mr. Harvey is notifying his excess insurers that Litton Bionetics will begin P-4 recombinant DNA research. "We're telling them we're going ahead with this research and making sure they are not going to turn us down. All we're trying to do is make sure it's not specifically excluded from the excess program," Mr. Harvey said.

Although he's yet to receive the confirmation he would like, Mr. Harvey said he is not concerned about any exclusions.

Two drug companies experimenting in this field, Upjohn Co. and Eli Lilly & Co., said their research is included in their liability insurance policies.

Exclusion urged

The very idea that insurers would, or could, exclude a type of research from insurance protection doesn't sit well with some risk managers. "The power to remove liability coverage could end research," observed Stan Tarr at Rutgers University.

That appears to have occurred to a retired life insurance executive who opposes widespread recombinant DNA research. A.S. Carstens of LaJolla, Calif., has invested thousands of dollars in booklets and mailings urging the insurance industry to exclude recombinant DNA research and its effects in all its policies. He is also urging the federal government to control and limit the research to a few government operated facilities.

Mr. Carstens laments that nei-

ther the insurance industry nor the government has needed his advice.

Mr. Tarr maintains universities have to apply reasonable standards for laboratory work, a conviction seconded by other risk managers. They were all eager to detail the workings of committees which protect the universities and communities from unfortunate research incidents.

Loss control

The personal involvement of risk managers in loss control relating to research varies with the university. Mr. Tarr serves on the committee at Rutgers which protects the rights of human subjects in research. "A risk manager belongs on a committee like that. I like to know what's going on," he said. And he sits ex-officio on the council that coordinates all the committees overseeing research projects.

Mr. Neale at Yale said, "I'm not an engineer or a physicist. I have to depend on the learned persons here. I do make sure that someone is looking over the shoulders of the researchers, that there is a committee." MIT's Mr. Valentine observed that risk managers at universities don't have the control their colleagues in industry may have. "You don't tell anyone else they can't do research. If there are safety concerns, you get involved, but not from an authoritative viewpoint," he said.

Recombinant DNA research, when funded by the National Institutes of Health, is subject to rigorous regulations and review. Dr. Stevenson at the Frederick Research Center said each DNA experiment goes through two review committees of technical and safety people. The first review is by the advisory committee of the institution, whose members have to be certified by NIH. The second review is by national and international experts at NIH.

Insurer interest

However, privately funded recombinant DNA research is not subject to any regulation. A bill to be introduced in the House again this year would extend to private industry the regulations that apply to NIH-funded projects.

The bill also contains a provision to preempt all local regulation of DNA research, such as Princeton's law, unless the secretary of HEW was convinced the additional regulation was necessary. There are no insurance requirements in federal regulations governing recombinant DNA research.

Though insurers are often criticized for abandoning what they don't understand, at least one insurer, the Travelers Insurance Co., set out to get as much information as possible on recombinant DNA research on a visit to MIT. Although MIT is not one of Travelers' insureds, the institution agreed to give them a close-up look at the field. "We wanted to develop as much information as possible on the processes involved," said Harry DeNeau in product management at Travelers. The insurer did not talk to MIT with the idea of taking a position on recombinant DNA research and the company has not done so in regard to it or any other type of research, Mr. DeNeau noted.

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Continued from page 41

senior vp of store operations. His staff includes nine people.

* * *

In an intensified emphasis on safety at California Liquid Gas Corp. in Sacramento, three positions have been created. **Jimmy Todd**, 43, previously a branch manager in Denver, has been named area manager of loss control. **J.C. Miller**, 52, is the new area manager of loss control, eastern division. He formerly was safety and loss control inspector for Ranger Insurance Co. **J.H. "Bud" Guess**, 63, formerly division II sales manager, has assumed the position of area manager of loss control for the western and northwestern territories. Subsequent with these additions, **L.W. "Skip" Ferninand**, 49, previously safety manager has been named loss control manager.

* * *

The new assistant risk manager at Rutgers University is **Howard Reading**, 32, who previously worked in the claims department at Allstate Insurance Co. in Murray Hill, N.J. Mr. Reading, who reports to director of risk management, **Stan Tarr**, replaces **Robert E. Hunt**, the new risk manager for the state of New Jersey, as was previously reported.

* * *

Stanley J. Lopata has joined Employe Benefits Insurance Co., workers compensation specialists, in the newly created post of California division human resources manager. He's responsible for compensation and benefits, organizational planning, staffing, affirmative action, employe relations and management development. He reports to **James E. Little**, vp and California division manager. Previously, Mr. Lopata was personnel manager for Armour Food Co. in Phoenix in charge of southern operations.

* * *

Paul Brown has been named executive assistant of administration and insurance for the Port of Long Beach, Calif., replacing **Loren Cornish** who retired. Mr. Brown, who reports to **Jim McJunkin**, general manager, oversees risk management activities at the port. He was formerly on the port's accounting staff.

* * *

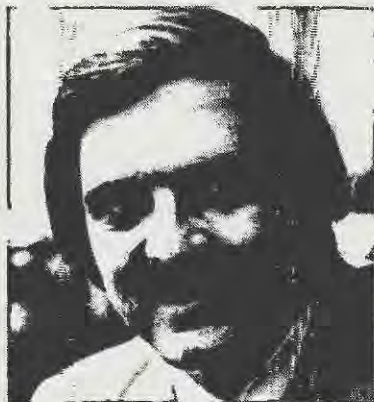
Neal Gates has been named safety and security co-ordinator for Fibreboard Corp. of Sonora, Calif. He replaces **T. Clancy** who resigned. Mr. Gates is a registered professional engineer in safety engineering in California. He was formerly a safety consultant specializing in general industry and forest products. He reports to **James Garfalo**, corporate safety director and to **Gerry Bránwell**, plant manager.

* * *

Jeanne Warner has been named corporate insurance manager for property and casualty insurance for The Bekins Co. in Los Angeles, a new position. She reports to **Al Prevost**, director of risk management and insurance. Miss Warner was formerly an assistant accountant executive for the Los Angeles office of **Corroon & Black, Miller & Ames**. Prior to that, she worked for **Max Factor** in Hollywood, Calif., in the insurance administration department.

* * *

The position of risk manager has been created at Deaconess Hospital in Evansville, Ind., and **William Boultinghouse**, 43, has assumed



Stanley J. Lopata

the position. Mr. Boultinghouse said he will advise department directors about "eliminating, reducing or sharing liability or safety risks" through friendly persuasion. Mr. Boultinghouse joined the hospital staff in June 1976 as assistant director of material handling in the material management department. Prior to working for Deaconess, he was employed as a production control specialist by General Electric in Owensboro, Ky.

* * *

Positions of employe benefits manager and safety manager have been created at The Pittston Co. in Greenwich, Conn., at the direction of **Frank T. Lennon**, who recently joined the company as director of risk management, insurance and employe benefits. **Donald J. Fitzmaurice Jr.**, 34, is the corporate employe benefits manager. This position was created, according to Mr. Lennon, because the company wanted to emphasize and expand the benefits department. Mr. Fitzmaurice previously was a manager of benefits planning at Merrill Lynch & Co. The new safety manager is **Richard Narad**, 35, who was in charge of safety for the Brinks division. The position was created because of the importance of loss control, Mr. Lennon said. Previously, Mr. Narad was safety manager for Scovill Co. in Westbury, Conn., where he hasn't been replaced.

* * *

Barbara Akk, risk manager for San Diego County, will become a consultant for Ebasco's new regional consulting office in Newport Beach, Calif., at the end of this month. She will report to **Dick Huntington**, who heads the office. Ms. Akk joined San Diego County as risk manager in January 1977 after working as an assistant risk manager for the Marmon Group in Chicago. Ms. Akk has been secretary-treasurer of the San Diego chapter of RIMS.

* * *

Mark Korman, 24, is the new risk and insurance analyst at Mercedes-Benz of North America Inc. Mr. Korman, whose major responsibilities involve contract analysis, valuation and quantitative development, reports to **Henry Gunby**, manager of corporate insurance. Mr. Korman previously worked for The House Insurance Co. in New York. Mercedes-Benz of North America, based in Montvale, N.J., imports and distributes Mercedes-Benz automobiles and trucks.

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 212-936-5050. We'd also like to receive photographs of those persons involved in changes in your risk management and employe benefit departments.

American Can . . .

Continued from page 1

ference between the value of the core and the value of the corporation's existing benefits program.

Flexible credits, broken down on an individual basis, will vary from year to year because they depend on the employe's age, length of service, salary, and family status.

The effect of the benefit changes can best be seen by using an example.

An average employe, 43, married, with 15 years service and a salary of \$20,000 has \$1,468 flexible credit dollars to opt for additional benefits beyond the core.

He selected the dental plan at 175 credits and accidental death and dismemberment for 60 credits.

The standard comprehensive medical plan would have cost 630 credits, but the worker chose a new plan that provided 100% coverage after a \$200 deductible. This plan only cost 175 flexible credit dollars.

With the remaining credits left from choosing the less expensive medical plan, the employe chose to contribute an additional \$903 to the capital accumulation plan.

If an employe wants additional medical benefits beyond those he can obtain through the credit allocation, he can pay for the benefits through payroll deductions.

The employe must obtain coverage equal to the value of the existing American Can plan since the company isn't returning unused credits in direct payments to the employe.

Of the approximate 670 employes testing the program, 86%

selected options above the standard program while 14% kept the present corporate benefit plan.

Within the medical plan, 82% chose the dental plan while 23% took coverages in vision, hearing and preventive health. In life insurance, 78% chose dependent life insurance and 28% opted for survivor income protection. A 50-50 split developed for the employe's own life insurance, half taking the present life insurance plan and half opting for a new age-related life in-

urance plan. Long-term disability was selected by 88% of the employes.

A 50-50 split also occurred between the present stock purchase plan and the new capital accumulation plan, which provides for long or short term investments. Eleven percent of the employes opted for additional vacation, up to a limit of one week.

To administer the complex program, American Can developed a computer system capable of handling a possible 10,000 or more individually tailored benefit programs.

Chamber ranks tort priorities

WASHINGTON—The U.S. Chamber of Commerce late last month established a priority list of tort reforms that business groups should fight for in the area of product liability.

The Chamber's board of directors urged business and industry groups to concentrate on achieving a shorter statute of limitations, defenses against liability based on the state of the art, duty to warn and alteration or modification of product and allowing evidence to be presented in a trial of collateral payments.

"What we are saying is that in terms of what is important, sensible and achievable, these are the reforms that are critically needed," said a Chamber spokesman.

The Chamber also is studying the implications for business of several bills pending in Congress that would allow tax deductions

for reserves set aside to pay product liability claims.

Smoking jeopardizes your baby's health

WASHINGTON—If you're pregnant, smoking not only jeopardizes your health but also that of your unborn baby, reports the Health Insurance Institute.

Studies show that carbon monoxide from cigarettes can retard fetal growth. A lower-than-normal birth weight, in turn, can affect a child's physical and emotional development. If that isn't bad enough, studies also show that women who smoke during pregnancy increase the chances of having a stillborn infant or a baby who dies soon after birth.



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people

Cincinnati hospital names first risk manager

M. David Machnovitz, 36, has been named director of risk management of the Jewish Hospital Inc. in Cincinnati. Mr. Machnovitz, previously director of safety, heads the new risk management department created because of the hospital's increasing use of self-insurance. He will retain safety functions, reporting to Warren C. Falberg, president and chief executive officer. Mr. Machnovitz has been with the hospital for two

years.

Andrew S. Rosenthal, 36, has joined the American Electric Power Service Corp. in New York as manager of corporate benefits. His responsibilities include management of the company's retirement, savings and group insurance plans, reporting to Jim Dickson, director of insurance and pensions. He replaces **Ray Musser**, who left the company. Mr. Rosenthal previously was an employe

benefit specialist at Bristol Myers Co. in New York, where he has been replaced by **Kathy Weissman**. Mrs. Weissman previously was a benefits communicator with George B. Buck consulting actuaries in New York.

Robert R. Fogtman, 36, has joined Geosource Inc. in Houston as corporate risk manager. He's responsible for all insurance and risk management functions for Geosource and its nine divisions,

which each employ risk management administrators. Along with two other people at corporate risk management level, Mr. Fogtman reports to Bruce Lessey, corporate assistant treasurer. Mr. Fogtman replaces **Ernest Hundahl**, 29, who has been promoted to administrative assistant in Geosource's Petty-Ray division, after working as corporate risk manager for one year. Mr. Fogtman previously was a property and casualty insurance administrator for Dresser Indus-

tries Inc. in the Dallas office. He hasn't been replaced there.

The new director of insurance and risk management at Ralphs Grocery Company in Los Angeles is **David R. Meek**, 28. Mr. Meek was formerly manager of insurance, safety and environmental health at Ralphs for five years, duties he will retain. Mr. Meek reports to Ken Geifert, senior vp of finance and administration, and to Jim Brown,

Continued on page 41

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Endorse your U.S. policy at your own risk.

If you have exposures abroad and are endorsing your U.S. domestic policies, you're taking an unnecessary risk. Here's why.

Example: Assume a manufacturer wanted to sell his product in Europe but manufacture it in the U.S. and planned to endorse the domestic product liability policy for worldwide coverage. Should the product's failure be the cause of a lawsuit, the foreign country's non-admitted laws, which may call for insurance, would be violated and the company could be in danger of losing an important market, the suit, or both.

Example: Or assume a U.S. manufacturer wanted his domestic general liability policy endorsed worldwide. And assume his salesman was demonstrating the product in a remote factory in the Far East and inadvertently injured an employee. Without having local facilities, it would take several days before a bond could be posted and the salesman be permitted to leave.

Example: Or suppose a U.S. manufacturer was covered by the workmen's compensation laws of his state and sent one of his able

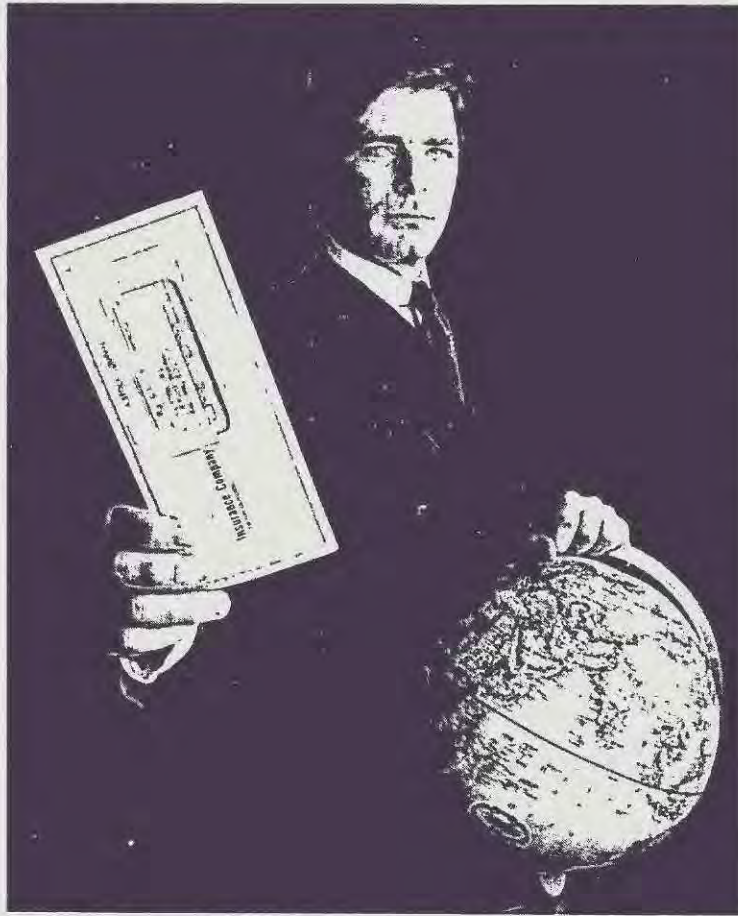
executives to the Middle East. While there a plant accident hospitalized the executive. Who would he turn to for help who knew the language, the doctors, or could provide needed services immediately?

Example: One last example. In South America, a consumer brings a complaint against a U.S. company which has its domestic liability policy endorsed. Obviously it would take some time for the insurer to locate facilities, to investigate the claim, obtain legal counsel and protect the insured. In the meantime, the consumer's attorney, noting the company was foreign and could walk away from the case, could obtain a court order to impound the company's merchandise until the claim was settled.

You can avoid these hazards by doing what

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