The inside story/International report

Captives in Bermuda

Bermuda has been called a miniature Lloyd's of London. But whatever term is applied, there seems little doubt that the captive insurance industry there has a bright future. **Page 11.**

Kidnap insurance

While the security measures adopted three years ago during a wave of kidnapings remain in force, interest in exotic protection schemes and kidnap insurance has lagged. **Page 11.**

Roundtable of experts

To help multinational firms tackle the problems of international risks, Business Insurance assembled five experts for a discussion of the difficulties. Exerpts begin on **Page 41.**

International directory

Our 1977 listing of the international services offered by insurance companies, brokers and consultants is on **Pages 56-64.**

Elsewhere:

- A DRUG law in Germany imposes stiff insurance rules. **Page 17.**
- FOREIGN insurers are opening U.S. offices. **Page 31.**
- NATIONALISM complicates Latin American risks. **Page 33.**
- INTERNATIONAL brokers are the leg men abroad. **Page 36.**

Other stories:

- PEPPERIDGE Farm investigates claims after its first recall. **Page 2.**
- BOEING reduces dental benefits. see Benefit Beat, **Page 3.**
- COURT battle looms in blocking of Sacramento harbor. **Page 4.**
- IRS proposes to hike taxes on term life. **Page 6.**
- BORDEN combines insurance and safety functions. **Page 8.**
- CUMULATIVE trauma is the new game. Editorial. **Page 20.**
- AN APPEAL delays the DC-10 liability trial. **Page 67.**

Regulators deplore inaction by Labor on ERISA trusts

By GREG DAVID

CHICAGO—State insurance officials around the nation are dismayed by the failure of the U.S. Department of Labor to regulate the burgeoning growth of self-funded employe benefit trusts.

"This is potentially one of the greatest frauds ever perpetrated on the public," warns Hector DeLeon, general counsel of the Texas insurance department.

Many officials fear the recent bankruptcy of the National Multiple Employers Foundation, a large self-funded trust in California, may be just the beginning of a series of failures. The Foundation, which at one point had medical premiums of more than $1 million a month, reportedly may leave $3 million in unpaid claims.

The trusts provide medical and death benefits. In the past they were known as multiple employer trusts, underwritten by state-regulated insurance companies and designed to bring the advantages of group insurance to small employers.

This is the second of two stories resulting from a month-long Business Insurance investigation of the rapid growth of employe benefit trusts filed under ERISA.

•

Either the Labor Department or the state insurance departments must act on the problem of multiple trusts. See Editorial, Page 20.

But large losses have forced many insurers out of this field. Thus a growing number of trusts are opting for self-funding and marketing their plans to associations and individuals in addition to small employers. The Foundation's benefit package, for example, provided $250,000 in lifetime medical benefits, paying 80% of the first $5,000 of expenses each year and 100% of expenses over $5,000.

The trusts file with the federal government as employe benefit plans under the Employe Retirement Income Security Act (ERISA). That law, they argue, preempts state regulation of their activities.

The Labor Department has not issued any regulations for these trusts. The department is merely filing the trust papers for later review, says Dallas Salisbury, acting director of the office of policy, planning and research in the DOL's pension and welfare section.

However, Labor is now studying the problem of preemption of state regulation under ERISA, Mr. Salisbury said. The policy office has one person assigned to the study full time with three persons working in the area on a part-time basis. Additional people may also be involved in field offices, Mr. Salisbury said.

"I'm very unhappy Labor hasn't moved to do anything," said Angele Khachadour, chief counsel for the California department of insurance. "I don't think they appreciate the money here."

Several states argue that Congress did not intend to include these trusts under its definition of employe benefit plans. "I don't believe the federal law was intended to be applicable to anyone but a single employer," said J. Richard Barnes, Colorado insurance commissioner. "These plans are nothing but mass marketed insurahce schemes," said Frederick C. Berry, deputy commissioner in Arizona.

Arizona, Montana and Colorado have gone to court seeking jurisdiction over multiple employe ERISA trusts operating in their states. Several other states are also considering legal action. But the trusts have so far stymied the state insurance departments.

Arizona has filed suit against Common Market Employe Benefit Assn., a Phoenix, Ariz., trust. Arizona attempted to shut down the trust, arguing it was merely a mass marketed insurance scheme

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Week of March 7, 1977

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Carter asks strict controls on rising hospital costs

WASHINGTON — The Carter Administration has proposed a strict federal limit on how much hospitals can charge patients in an effort to slash skyrocketing medical costs by billions of dollars.

The Administration said it would ask Congress for authority to establish a ceiling on hospital charges. One Health, Education and Welfare spokesman estimated the annual savings for those who pay for health care could amount to $2 billion.

At a press conference, HEW Secretary Joseph A. Califano Jr. denied that the administration's ceiling was wage-price controls for hospitals. Instead, the ceiling was a way of negotiating with hospitals to give them "a reasonable price increase" but no more.

While Mr. Califano said HEW was not committed to any set figure, several government officials said the proposal will limit increases in hospital charges to the government, health insurers and individuals to a maximum of 9% a year.

Mr. Califano describes the 9% figure as only an example of the possible ceiling to be negotiated with hospitals. But he did term it "an ample increase," and said it could save health insurers and cash-paying patients $1.6 billion in fiscal 1978.

Mr. Califano said the ceilings are needed now to contain health care costs while a national health insurance program, which will be introduced within a year, is prepared.

Negotiations on actual hospital charges might be conducted by federal officials with state hospital associations. Mr. Califano said a national advisory board would be set up to help him set hospital cost limits.

Mr. Califano was meeting in early March with leaders in Congress and representatives from the American Hospital Assn., the American Medical Assn. and Blue Cross to work out the final details of the proposal before it is

Continued on page 68

Work comp, disability insurance

Federal program exploited

By JERRY GEISEL

ATLANTA—At the beginning of 1974, Charles J. Hawkins, a 40-year-old former Federal Aviation Administration (FAA) air controller, received his first of 30 monthly income disability payments from the North American Co. for Life and Health Insurance of Chicago.

In the next two and a half years, dozens of other air controllers in the Atlanta area left the FAA, all claiming that job-related neuroses prevented them from working. Like Mr. Hawkins, the other men received benefits from private insurance disability policies as well as 75% of their salaries tax-free from the federal government workers' compensation program.

In a recent complaint in federal court here, North American has challenged the disability certification of 30 air traffic controllers.

While the damages requested are relatively small—under $1 million—the suit provides a dramatic and disturbing illustration of how recent amendments to federal employes worker's compensation regulations have opened the door to widespread fraud and deception that may have cost the government and insurance companies millions of dollars.

Sources in the Labor Department indicate the alleged abuses of workers' compensation by FAA employes in Atlanta were not extreme or unusual. They point out that similar or worse problems exist in other federal agencies including the U.S. Postal Service.

The FAA cases are cited not only because of the high salaries and benefits the men received—an air controller can earn $25,000 annually after several years of experience—but also because they illustrate how large loopholes in workers' compensation rules encouraged and facilitated possible fraud.

During 1974, the workers' compensation rules were amended to allow federal employes to see a doctor of their choice to certify a job-related disability. Until then, federal employes had been required to go to a U.S. public health facility or to designated private

Continued on page 69

The people column
page 70

Pretzel manufacturer seeks cause, probes claims in first recall

By KATHRYN McINTYRE ROBERTS

CHICAGO—The lye-contaminated pretzels are off the grocers' shelves and consumer complaints about burns to their mouths after eating pretzels have subsided.

But Pepperidge Farm Inc. and its parent company, Cambell Soup Co., are still wrestling with the cause and consequences of the manufacturing mishap which resulted in a Food and Drug Administration public warning and a recall of 56,000 cases of pretzels.

Somehow the routine use of sodium hydroxide (lye) in the manufacturing of pretzels went awry. Instead of the caustic substance converting to harmless sodium carbonate in the baking process the crystals remained in their pure form and ended up in the packages of pretzels.

At Pepperidge Farm's New Holland, Pa., plant, where the contaminated pretzels were made, new processes for glazing pretzels are under investigation. The plant's production was suspended as a result of the mishap but will resume "shortly" according to a Pepperidge Farm spokesman.

Company investigators are looking into the rash of consumer complaints in the Pittsburgh, Pa., area because they seem suspiciously high compared to complaints elsewnere about the nationally distributed pretzels.

A Pepperidge Farm spokesman said there is no estimated cost of the recall and the company does not carry recall insurance. Cambell Soup declined to discuss its liability insurance but *Business Insurance* learned the company maintains a $1 million retention and carries catastrophe insurance above that limit. According to a Pepperidge Farm spokesman, claims will be investigated, verified and paid. No moves have been made yet to pick up the injured consumers' medical bills, the spokesman said.

Pepperidge Farm's first recall experience in its 40-year history began Feb. 4 with a consumer complaint to the Detroit office of the FDA about a burning sensation in the mouth after eating pretzels. A similar complaint was made to the same office three days later. The FDA analyzed the consumers' pretzel packages and found sodium hydroxide crystals.

Pepperidge Farm cooperated with the FDA, according to a company spokesman, and production at the plant was suspended and a recall begun. The company claims it has completed the recall and the FDA is checking its effectiveness.

Pepperidge Farm is now working on a "foolproof" method for using sodium hydroxide and is also experimenting with other ways to produce glazed pretzels without using the chemical.

The FDA's public warning about the pretzels sent consumers to their phones calling local poison control centers. Two centers, in Detroit and Maryland, said most of the calls were just inquiries. Detroit had incomplete records on how many callers were referred to doctors. But a spokesman for the Maryland center said 19 of its 50 recorded callers complained of symtoms and were referred to doctors.

However, in Pittsburgh about half of the 212 callers to the Poison Control Center complained of symtoms and were referred for medical treatment. Of those referred, 15 "showed definite signs of something going on," according to the center's director, Dr. Richard W. Moriarty.

The range of symptons was varied, said Dr. Moriarty, from mouth irritation to blistering of the lips and burns to the mouth and tongue. One woman was hospitalized.

A Pepperidge Farm spokesman indicated the company is skeptical about the large number of complaints in the Pittsburgh area. And Dr. Moriarty admits he is baffled by a few of the injured consumers who say they ate pretzels other than those on the recall list.

"It doesn't hold together well," he conceded. And he doesn't try to explain the inordinate number of calls to his center compared to others in the country. "Our media didn't expand on it anymore than anywhere else. And I don't think it was anything else (causing the burns)," he said. ■

New security plan cuts construction site losses

By MARIE KRAKOWIECKI

WASHINGTON—An Ebasco Services Inc. construction security program for power plants reduced theft losses by 90% at the sites where it was tested, the firm's supervisor of security and fire protection says.

Donald J. Whittaker Jr. told a workshop on public utilities security sponsored by the American Society for Industrial Security (ASIS) that Federal Bureau of Investigation statistics placed last year's construction site losses at $150 million, although actual losses were higher because many contractors have stopped reporting losses.

Mr. Whittaker said contractors did little in the past to reduce losses because security measures were considered too expensive and troublesome. However, site losses in a bad economy became a luxury contractors could no longer afford and Ebasco—which acts as a consultant to utilities, engineers and builders—began developing a year ago a standard construction security program.

The construction industry's average site loss is about 10% of project cost, Mr. Whittaker estimated. He said Ebasco clients were losing less than the average before it developed its new program, but found that individual site efforts at reducing losses proved expensive and generally ineffective.

But Ebasco realized that each had unique problems and would require some customized arrangement in order to be cost-effective and to get corporate acceptance.

Ebasco developed a three-part standard security program which uses a basic security outline and applies site modification as needed. In addition to the outline, the program consists of a departmental security philosophy statement and a standard guard force procedure.

Tool and equipment inventories were made on all sites where Ebasco controls actual construction. Loss reports were reviewed where it only supervises contractors.

"The results of these inventories or report reviews were used to limit the amount spent on increasing site security," Mr. Whittaker explained. "Generally half the amount lost was set as the limit of further security spending."

He said the heart of the new security program is the basic outline which covers two areas, physical or site consideration and administration. Physical considerations are where security has traditionally had little or no control, but where most problems develop, Mr. Whittaker said. "Any effective changes you can make to site layout will literally save you thousands of security dollars," he added. ■

Certification plan unveiled

NEW YORK—Employe benefits personnel can now be certified under a program sponsored by the International Foundation of Employe Benefit Plans and the Wharton School of the University of Pennsylvania.

The program, 30 hours of seminars offered at 18 universities throughout the U.S., leads to the designation Certified Employe Benefit Specialist.

"There has been an amazing amount of interest in the program," a spokesman for the Foundation said. ■

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Unhappily, Directors and Officers Liability Insurance has received adverse comment because of a few litigated situations on coverage. Regrettably, there is no standardization of policy form, application for insurance coverage, nor indemnity provision available to Directors and Officers.

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–No Prior Acts Coverage (no coverage applied to wrongful conduct which took place prior to the inception date of the policy, but which ripened into a claim during the policy period).

–Single policy format (some contracts have been issued attempting to insure both the corporate obligation and the directors' and officers' obligations in one policy contract which poses serious problems of enforceability of the insurance contract in many states).

–Bodily Injury and Property Damage Exclusions have been introduced.

–Not all Officer and Directorship positions have been automatically insured.

–Subsidiaries of the parent corporation frequently have *not* been properly insured.

–Newly acquired corporations have *not* been automatically insured.

–Mergers Exclusions have been introduced.

–Unconscionable deductibles have been required.

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—the benefit beat

Boeing reduces dental benefits after cost hike

REDUCED DENTAL BENEFITS are now in effect for the 19,000 Aeromechanics Union members at the Boeing Co. in Seattle. Under a three-year contract signed October 1974, Boeing agreed to pay a monthly dental insurance premium of $14.91 per employe—the rate then charged by the Washington Dental Service, a Delta Dental Plan. But the insurance was renegotiated for this year and the premium was raised to $22.30. So Boeing reduced the benefits to maintain the same premium, according to a spokesman of the Aeromechanics Union-Lodge 751. The maximum benefit for a calendar year is now $400, reduced from $1,000; there is now a $35 deductible when there was none before, and the insurance now pays only 50% of the cost of restorative crowns when it previously paid the full cost. The changes were effective Jan. 1. The union's contract expires in October and a union official said restoration of the previous dental benefits is "a must" in the new contract.

110,000 TEAMSTERS COVERED by the Central States Health and Welfare Fund received improved medical and life benefits paid for by increased contributions required in last year's master contract. The lifetime medical limits for participants and dependents was increased 500% to $100,000 from $20,000. Full reimbursement will be provided for preventive dentistry with the plan paying 85% of other dental treatments and 50% of orthodontic care up to $500 per person per lifetime after a $50 deductible. The dental program is insured with The Travelers Insurance Co. Life insurance was increased to $16,000 per employe from $14,000. Disability benefits were increased to $283 per month for 60 months. In addition, 186,000 Teamsters will receive eight weeks of medical and life coverage during layoffs under a new "Benefit Bank" program. After eight weeks an employe can continue coverage by paying the contribution himself. The money comes from the increase in employer contributions to $24.50 per week per employe under contracts signed between April 1, 1976 and March 30, 1977. The contribution increased to $27.50 in the second year of the contracts and $29.50 in the third year.

PERTEC COMPUTER CORP., Los Angeles manufacturer of computer equipment, has chosen the Equitable Life Assurance Society of the U.S. to underwrite the life insurance, accidental death and dismemberment, health care and dental insurance for 2,000 employes. Group life volume is approximately $76 million with an annual premium of $1.4 million.

THE STATE OF WISCONSIN'S group life insurance program covering 105,000 current and retired state and municipal employes has been awarded to Minnesota Protective Life Insurance Co. after competitive bidding. The final premiums have not yet been determined, but the program previously involved $11 million a year on the $1.5 billion face value program. The employe contribution has been set at 60 cents per $1,000. The final bidders for the contract were Minnesota and Aetna Life & Casualty Co.

A PILOT SECOND opinion program was inaugurated March 1 by Blue Cross/Blue Shield of Illinois. Under the program 20,000 employes of selected groups in the Chicago area will be given the choice of a Blue Cross-paid second opinion when surgery has been recommended. The insured will be given the names of three conveniently located specialists from a list of 300 doctors who have agreed to participate. Blue Cross will also pay for a third opinion if the first two doctors disagree. The plan does not expect the 12-month experiment to save money, although a full-fledged program would be expected to recover its cost through the surgeries cancelled.

MOST GROUP major medical plans now provide at least $100,000 in benefits, according to a new study by the Health Insurance Institute. A survey of new group plans covering 1.2 million persons and from 33 insurance companies showed 81% had maximum coverage of more than $100,000. In 1971 only 1% had coverage that high. Other findings of the survey were that 90% of the plans provided at least $50 per day for hospital room and board and $500 for miscellaneous hospital expenses, 40% had maximum medical coverage of $1 million or more and nearly all covered nervous and mental disorders.

ABOUT 25% OF Blue Cross of Illinois' business is currently on a cost-plus or administrative services only (ASO) arrangement, which Blue Cross intends to expand to roughly half its business over the next few years, according to George Chronis, director of sales and marketing for the Illinois group. "We are also developing cash flow and minimum premium capabilities," he said. Under these plans, Blue Cross sells claims adjusting, statistical and actuarial services to benefit self-insurers, which is the fastest-growing segment of the health insurance business.

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.

errors & omissions

• Northrup Inc., a Hutchins, Tex., solar energy manufacturer mentioned in a Jan. 10 story, carries $2 million in product liability coverage. The story incorrectly said the company did not have product liability insurance.

• Due to a typographical error, the name of a company in the Benefit Beat column for Feb. 21 was incorrect. The company is Rucker Co. of Oakland, not Bucker.

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Court battle expected in blocking of harbor

By JOANNE GAMLIN

SACRAMENTO—An 8,000-ton Japanese ship carrying wood chips ran aground here, blocking the port and stranding four other ships.

Twenty barges removed the wood chips and the ship was towed from her blocking position on Feb. 19, seven days after the OJI MARU ran aground.

The Bakke Steamship Corp. of San Francisco is acting as agents for the owners of the OJI MARU, a 600-foot general cargo ship capable of carrying 30,000 tons.

Business Insurance learned the OJI MARU is a member of the Japanese Protection and Indemnity Club, although P&I clubs from that nation do not offer indemnity protection.

Spokesmen for Bakke Steamship and Alexander & Alexander in San Francisco, which is handling the charterers' liability for the removal of the OJI MARU's cargo to the lash barges, predict that the question of liability for the grounding of the Japanese vessel will be thrashed out in court.

First, there is the little known fact that Japanese P&I clubs do not insure indemnity. Beyond that, the pilot of the ship, Frank Pierce, claimed that the OJI MARU went aground because he was veering to avoid an unlit dredging operation.

Joseph Pascucci, claims manager for Bakke Steamship Corp., said that "preliminary information indicates that the dredging equipment was at fault."

General Construction Co., Portland, Ore., owned the dredging equipment in the Sacramento river channel outside of the Port of Sacramento where the ship went aground, three miles south of the town of Rio Vista.

"The dredging equipment was lit," a General Construction spokesman said. But he added that it was unattended and "this is legal."

Indeed, a Corps of Engineers spokesman said that the Coast Guard in Rio Vista reported that the dredging equipment was in compliance with Coast Guard regulations.

The General Construction spokesman added that the company has not been contacted by the Coast Guard. He said General Construction is working with the Corps of Engineers, Sacramento, on a dredging operation and was under strict regulations about "parking" equipment when it was left idle. The equipment in question was "parked" the weekend when the Japanese ship was grounded.

Alexander & Alexander provided the 14-day, charterers' liability protection for the removal job of the lash barges from Farrel Lines, Inc. An A&A spokesman said that the London market was used for the coverage, although he declined to disclose limits and deductibles . ■

Insurer sets name change

LOS ANGELES—The Unionamerica Insurance Group, which last year was acquired by The Continental Corp. of New York, has changed its name to the Swett & Crawford Group.

William F. W. Fellows, group president, said that the group's reinsurance underwriting company, Unionamerica Re, has changed its name to Buffalo Reinsurance Co., the name used prior to the company's Unionamerica Affiliation.

He said that The Continental Corp. has contributed $10 million in capital to the group's underwriting companies.

The group's former parent company, Unionamerica Corp., earlier changed its name to Westmor Corp., to designate its principal holding, Western Mortgage Corp. Two companies which were part of the old parent company—Cypress Insurance Co., which underwrites workers' compensation coverage, and Marshall & Stevens, an appraiser—are up for sale, according to a spokesman for the company.

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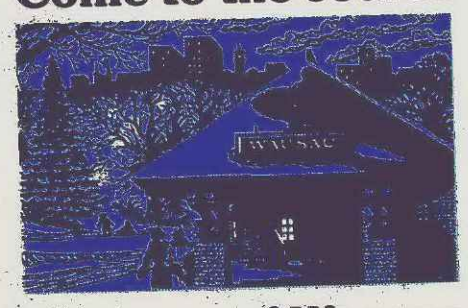

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Town yells murder over insurance

JUNTURA, ORE.—Just 63 years old and with 60 residents, this little town on U.S. 20, about 60 miles west of Idaho, recently went out of business.

The town couldn't afford to insure its board members against lawsuits. The premium on the insurance was $1,500, about equal to the town's annual budget.

Juntura had never worried about insuring its town board against law suits. Then Oregon passed a law last year making town board members liable when a town is sued and can't pay the damages.

It's not that the town, which merely grades the roads and keeps them lighted, has much of an exposure to suits. But, as ex-mayor Inez Cooley said, "In this day and age there's always a possibility."

Mrs. Cooley was born 61 years ago in the town that's mostly sage brush, rocks, juniper trees and hills. "It's a darn fool law," she snapped. "And the insurance companies got busy selling insurance." But they couldn't sell to Juntura.

The town's annual revenues came from rebates on liquor and gas taxes. And it wasn't about to levy a real estate tax just to stay in business, although it had been incorporated since 1913.

"We're still a community and we're still here," said Mrs. Cooley. But now the county will grade the roads and folks will have to put up their own lights to find their way home at night.

"If it's got to be, it's got to be," said Mrs. Cooley. "But no one's really happy about it." ■

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IRS plans to up tax on term life

WASHINGTON—An Internal Revenue Service proposal announced last month would sharply increase the tax rate for determining the income from employer-paid group term life insurance.

The increase would be accomplished by introducing a new set of tax tables, which the IRS calls Table II, to replace the old Table I schedule.

Under present IRS guidelines, employes must report as income group term life insurance over $50,000 purchased by their companies.

The $50,000 exclusion from taxes remains unchanged. But under Table II, the tax rate would jump. For example, an executive between 30-34 now reports as income paid term life insurance at a rate of $1.20 a year for each $1,000 of insurance over $50,000.

But if Table II is enacted, the executive would have to report the income of the company-paid plan at a rate of $2.76 a year for each $1,000.

The following chart offers a guide to how Table II increases the amount of income an employe must report who has a $150,000 employer-paid group term-insurance plan:

Age	*Current*	*Proposed*
45-49	$480	$732
50-54	816	1,092
55-59	1,320	1,632
60-64	1,956	2,472

Thus a 50-year-old executive in the 50% tax bracket would pay $138 a year more in federal income taxes for his company-paid term plan under Table II.

The IRS says Table II was proposed "because it better reflects the actual cost of group-term life insurance than Table I."

One leading brokerage firm, Johnson & Higgins, disagrees. Kenneth K. Keene, Johnson & Higgins senior vp, said the decrease in current mortality rates has reduced the value in company-paid term life insurance plans.

Comments and requests to speak on the proposal must be submitted to the IRS by March 14, 1977. ■

Storm losses

Loss from the winter storm that swept through a nine-state area in the Midwest and East Jan. 27-29 are estimated at $23.8 million. Pennsylvania suffered the greatest damage with losses of $10.9 million, according to the American Insurance Assn.

Inside most self insurance packages...

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Borden realignment links safety and insurance

By SUSAN ALT

COLUMBUS, OHIO—Russell Drake is moving quietly and methodically to bring Borden Inc.'s risk management philosophies and programs up to date, initiating at least one major change that represents a logical but out-of-the-ordinary approach.

Mr. Drake, director of corporate risk management and insurance for Borden since 1972, is "particularly pleased" with the merger last year of safety, security and loss prevention into his insurance and risk management operations. In the process, a newly designated risk management department was created, with two managers under Mr. Drake.

The responsibilities of the two managers—Lou Siegel and Jim Cicchetti—represent a new twist in job assignment. Mr. Siegel was put in charge of all property insurance and property/asset conservation, while Mr. Cicchetti was made responsible for all liability insurance, safety, security and technical services.

In most companies, one person is assigned to handle all property and liability insurance, while safety and loss prevention are given to another staff member, separating insurance costs and problems at least psychologically from the job of preventing or reducing losses.

But Mr. Drake considers his new approach very logical. "For a number of years I read all the literature on risk management, particularly as it related to safety and liability insurance, and concluded that the two things should logically be under the same individual.

"My reasoning goes this way: 'It's when safety and loss prevention techniques fail that we need to have the liability insurance'. It's that simple."

Mr. Drake says he doesn't know of anyone else who's tried this approach to risk management. It didn't require any major departmental changes, just a realignment of functions. Mr. Cicchetti was previously in charge of safety and loss prevention. Now that he's in charge of liability insurance as well as loss prevention on third party risks, he's handling technical services under OSHA, Department of Transportation and other regulatory agencies which are logically in the safety realm.

"The change has not affected the insurance programs or our premiums very much," says Mr. Drake, "but the people's view of handling these risks is broadened. They now can see cause and effect, where the tendency before was to have tunnel vision, to see only, say, safety, unrelated to industrial hygiene, and long-term workers' compensation trends."

But there's too much overlap in the cause and effect of different corporate functions today, he adds, to allow this tunnel vision to continue. "As an example, a security man might suggest padlocking the side doors of a warehosue to prevent inventories from disappearing, but this will violate safety regulations regarding emergency exits."

Mr. Drake notes the same idea applies to the process of flushing toxic chemicals from a manufacturing area, which must be seen as a larger environmental concern and related to third party liability risks, "since when these chemicals get into public sewers, there's a problem."

Borden's risk management department works hard to see the bigger picture by coordinating with industrial hygiene and environmental managers within the company.

"Safety, per se, is only part of the overall concern we must have," says Mr. Drake.

The realignment "forces us to be on both sides of the fence," he believes. "And there's a beneficial by-product of this reorganization. The insurance underwriters are concerned with the safety program and the loss history of their policyholders, almost in that order. So having our people in charge of these new areas puts that need of the insurers in perspective, I think."

Prior to 1972, Borden had a very traditional type of safety program, he recounts. "We would paint steps, paint pipes, put in railings, etc." But in 1972, Jim Cicchetti and his staff began forging new programs, implementing a different philosophy of safety "stressing the motivational approach to safety, working to correct the human errors that cause accidents."

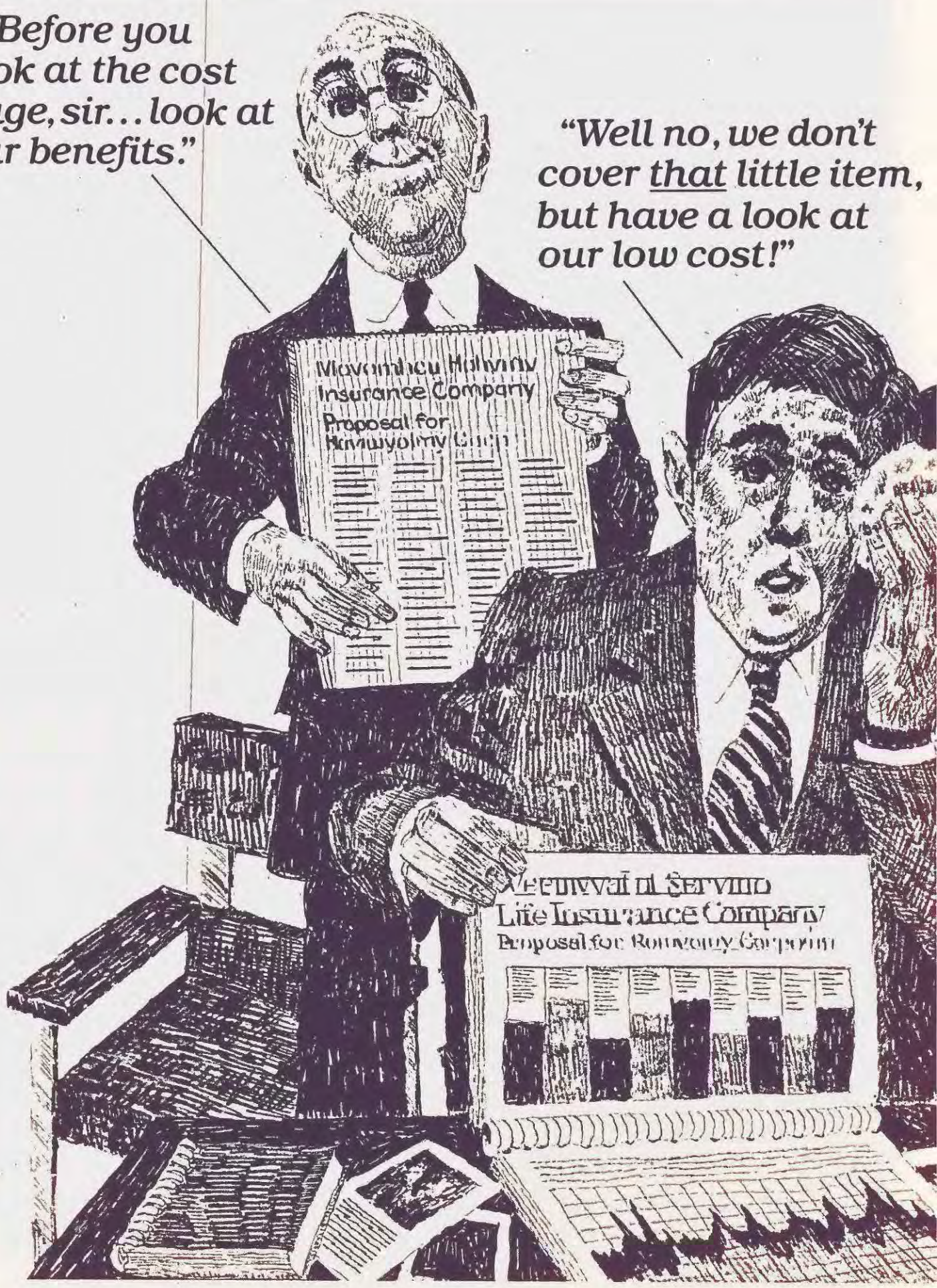
Borden's loss and accident statistics dropped dramatically. The statistics previously were even with National Safety Council averages, but the new program reduced the losses nearly in half to levels of far below the Council's statistical averages.

"The impact of that effort has been that Borden's safety performance has consistently been so good that insurance companies question us on it . . . we spend a lot of time verifying facts for them," laughs Mr. Drake.

Similarly, product liability claims and losses for Borden were reduced 30% during 1976 from 1975. Mr. Drake is also proud of Mr. Cicchetti's success in lowering motor vehicle accidents and employe injuries by 6% from 1975, with a corresponding 10% cut in employe disabling injuries during 1976.

"The disquieting fact, though, is that we cut injuries by 10%, and despite that record the workers' compensation costs go up and up because of higher benefit levels," Mr. Drake said.

In product liability, he attri-



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butes the improved loss record to increased efforts of the quality assurance department at Borden. "We work with them in two ways. We cooperate with them in their activities plus we provide them with claims experience reports on a monthly basis, so they can check on their operations which might be causing losses. We get computer runs every month on every new claim put into the system, so they can check this backwards," says Mr. Drake.

Borden has used ESIS since the late 1960s for its computerized claims reporting services, including data on workers' compensation claims and losses, product liability, third party liability and motor vehicle payments.

Mr. Drake has a manager of claims who oversees all claims investigation and administration. ESIS performs the initial investigation in cooperation with the local plant people, then if there's anything suspicious about the claim, the plant people alert ESIS to this.

The ESIS reporting system is very efficient, Mr. Drake is convinced. "We saved 82,000 pages a year of hard copy reports in 1974 when ESIS changed to microfilm. Now they're switching to a microfiche system, and December was our first full month of using microfiche." ESIS provides Borden with the necessary reader-printer machines for data retrieval.

As a percentage of annual incurred liability costs, Borden pays ESIS a fee of about 8%, says Mr. Drake. "Each year we negotiate with ESIS a fixed fee based on claims activity, which is related to the amount of work they'll do servicing us.

Mr. Drake has compared ESIS's services and the firm's capabilities with other suppliers of EDP services and claims investigation assistance. "ESIS is head and shoulders above the rest, right now at least," in terms of sophistication and flexibility, he concludes.

"We can custom-make the claims services in a certain area using ESIS. For example, in New York state, a local plant manager might be very concerned about employe claims and want to be told of all claims submitted and the investigation results, any employe hearings, etc., on a daily basis. The claims people for ESIS can keep that local manager informed of claims processing every step along the way."

In areas where there's a high concentration of Borden facilities and employes, there might be one or two ESIS people working "practically full-time" on Borden claims, says Mr. Drake.

Borden employs 35,000 people in the U.S., and another 10,000 outside the U.S.

Mr. Drake renewed Borden's property insurance programs during 1976 with no problem, although he's presently got two brokers, two direct writing insurers and one consultant working up "concept" proposals on new ways to manage the company's worldwide property risks.

Overall, the renewal last year was accomplished at "about the same premiums" as the expiring policies.

At present, Allendale Mutual Insurance Co., one of the Factory Mutual System companies, has the bulk of Borden's property business. Industrial Risk Insurers insures about 40 locations. With a total of some 2,000 facility locations, Mr. Drake characterizes Borden's property risks as "mostly non-HPR, with only about 150 HPR locations," Allendale and IRI have the HPR locations; Affiliated FM covers the balance.

Affiliated FM also provides a worldwide all-risk difference-in-conditions (DIC) policy for all locations.

The range of values for Borden's facilities is all the way from a $200 million petrochemical complex in Los Angeles down to a $5,000 sales office.

"We have a property program that we are fairly satisfied with, but we decided to approach Marsh & McLennan, Johnson & Higgins, Arkwright-Boston Manufacturers Mutual Insurance Co., the FM System and American Risk Management (ARM) to see if there was a better marketing approach. We asked them to submit "concept" proposals only, and told them not to approach the marketplace or get competitive bids because that's not our objective at the present time. We asked: Is there a concept that would make our property program more flexible, more marketable and more economical?" says Mr. Drake.

This is really another form of competition for the brokers and underwriters, Mr. Drake believes. "Competitive bidding isn't just having your brokers go out into the markets. That is a misconception. We are right now using our brokers and several companies in a different way, and it, too, is a competitive process."

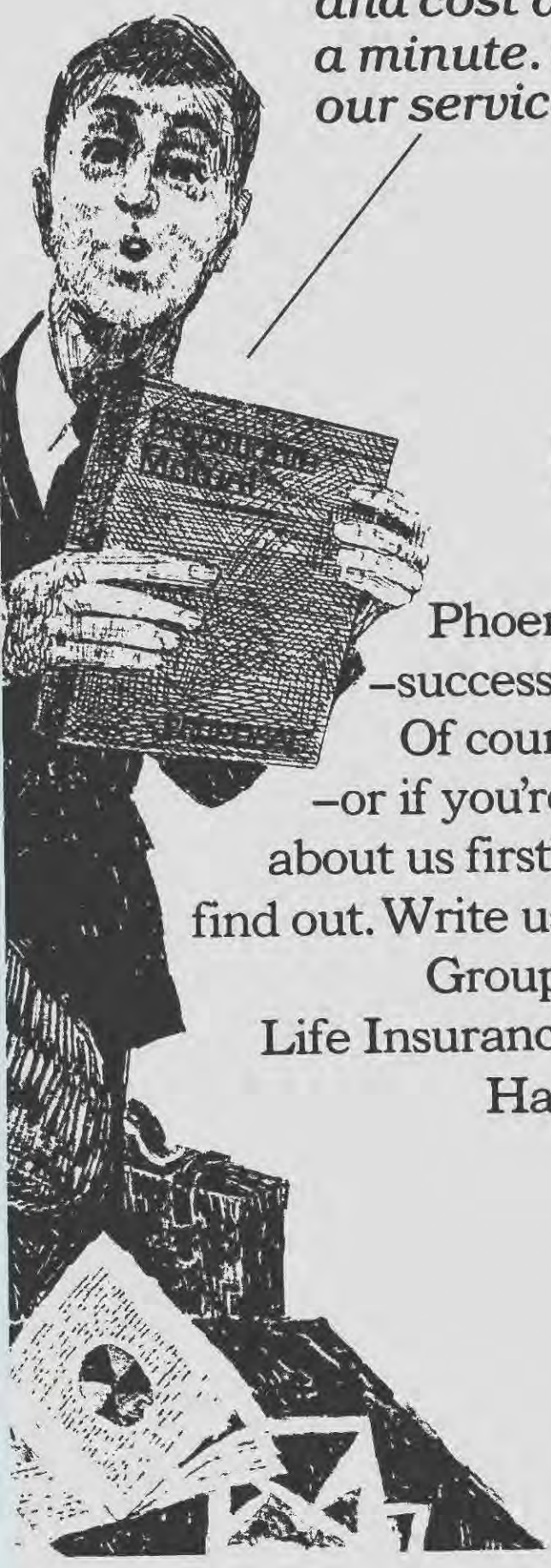
For liability insurance, Affiliated FM is the major carrier on primary coverage (excess of Borden's self-insured retention of the first $500,000 of motor vehicle, work comp and general liability losses —including products). Policy limits then are for $10 million, and Mr. Drake looks for "some pressure from Affiliated FM for some increase in premiums" upon renewal.

Other liability insurers on the Borden account include Lloyd's, First State Insurance Co., American Home Assurance Co., Lexington Insurance Co., Northstar Insurance Co., Fireman's Fund Insurance Cos., Aetna Casualty & Surety Co., Midland Insurance Co. and INA. Liability coverage is in 12 layers.

Umbrella coverage premiums rose about 30% when policies were renewed last month. "But there were no major problems," says Mr. Drake.

Although Marsh & McLennan has the biggest part of Borden's insurance account, James S. Kemper Co. recently won a piece of the action and is being used for the first time. When M&M brought in the renewal quote on the crime and fidelity bond, purchased from Zurich-American Insurance Co., "I had a feeling the premium was higher than it should have been for our risks and our experience," says Mr. Drake.

The decision was made to approach James S. Kemper's John O'Connor, have him select several viable bond markets and get quotes for Borden. "They did a much better job," says Mr. Drake, pointing to a $20,000 savings (40% of the total premium) on the new program through Kemper with AIG, even though it's a relatively small piece of business. ■



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Claim forms

SALEM, ORE.—Oregon Insurance Commissioner Lester L. Rawls proposes to set up uniform health insurance claims forms that must be accepted by all insurance carriers marketing health insurance in the state as well as by all state agencies that require health insurance claim forms for their records.

Mr. Rawls has set March 10 for a public hearing on the propcsal, to be held in the Labor-Industries Building here.

A uniform dental insurance claim form will be considered. If approved, the new uniform forms requirement will become effective May 1. ■

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INTERNATIONAL

Bermuda's an adolescent planning to make waves

By MARGARET LeROUX

HAMILTON, BERMUDA—Bermuda has been called a miniature Lloyd's of London by its most enthusiastic boosters. Miniature Wall Street might be a more accurate characterization.

All the insurance and financial businesses are located within a six block section of downtown Hamilton. They're only a few minutes walk apart—when the streets are not clogged with tourists from the cruise ships that dock in Hamilton Harbor.

With the number of captive insurance companies registered in Bermuda approaching 500 (in January there were 486) and the numerous management companies, accountants, lawyers and banks serving them, the island's reputation as an insurance and financial center may soon rival its resort image.

For the moment, Bermuda as an insurance market is in its early adolescence. But representatives of captive insurance companies and the firms that provide services for them unanimously believe the island will become a major force in the international market.

"Exempt insurance company business represents a significant part of the new business coming to the islands," said William D. Thomson, manager of international business development at the Bank of Bermuda, the island's largest financial institution.

New insurance business isn't coming solely from the U.S., Mr. Thomson noted. "We're seeing more business from Europe this year than ever before."

Inside captives

Captive continues to be one of the hottest words in the insurance lexion. *Business Insurance's* expert on captives, Margaret LeRoux, spent seven days in Bermuda recently preparing this special report on the island's burgeoning industry. In addition to the accompanying story on the island's insurance potential, stories on pages 22 to 30 examine captive management companies, the actual steps required to register a captive, the industry's lobbying organizations, what investments they are making and the Bermuda College.

Until this past year there was only one exempt insurance company in Bermuda whose parent company was European. Now there are five or six, he said, writing both primary insurance and reinsurance.

"It makes me very optimistic about the future of the insurance industry here," Mr. Thomson said. "I see Bermuda developing as a major insurance center."

At the Blades Group of companies, one of the five leading management companies on the island, president Stuart Grayston sees Bermuda's future as a "support, a supplement, to the London market."

Bermuda shouldn't consider itself as a competitor to the London market, Mr. Grayston said. "That would pull the plug out and everything could go down the drain."

"London is looking for capacity and the captives have it," said W. A. Yeargan, vp of the Blades Group. Last year some 20 brokers from London visited Bermuda seeking new markets, "four or five times as many London brokers as we've seen here before," he added.

It's not only London's interest that is encouraging people in Bermuda's insurance industry. "The fact that captive companies are developing on their own," one captive manager noted, is a positive sign. "They're writing risks other than the parent company's. Most of them are doing treaty reinsurance—some even facultative reinsurance."

That is why the term "captive" no longer accurately describes Bermuda's insurance industry, maintains A. E. Chilvers of International Risk Management Co. Ltd. (IRMCO).

Bermuda captives, or exempt insurance companies as some of them prefer to be called, are becoming experienced in writing third party business simply because it's so easy to do.

"We can send a piece of business up the street to another captive by messenger and close the deal within half an hour," one member of a management company said.

The insurance community in Bermuda, though growing in size and sophistication each year, remains a closely knit group.

Given the restrictions of geography—the Bermuda islands are 21 miles long and one mile wide, at the widest point—one can hardly avoid meeting business associates socially as well as during the workday.

The Bank of Bermuda provides service to a number of captives.

"I'm more surprised if I go into a restaurant and don't see several of my colleagues," a captive manager said, "than I am if I do."

"Bermuda is like a very exclusive English gentlemen's club," according to one community resident. "Once you get in, you want to keep all the other riffraff out."

Thus, the offshore companies doing business in Bermuda justify their low key approach.

"We keep a very low profile," a member of one of the island's leading law firms noted. "We don't want to attract every Tom, Dick, or Harry who thinks he wants to set up an insurance company."

Bermuda is attracting reinsurance business from major international reinsurers. Last fall, Insurance Co. of North America (INA) announced plans to establish a reinsurance subsidiary on the island.

INA isn't operating in Bermuda yet, but a suite of offices has been rented and rumors about the size of the facility abound.

"They've got enough space for a staff of at least 25," said a source who has already seen INA's Bermuda offices.

Continental Insurance Co. is in the process of transferring international business to Security Reinsurance Co. Ltd., its Bermuda subsidiary. And American International Reinsurance Co. (AIRCO) Bermuda's oldest and largest offshore insurance company, reported net premium income from general insurance operations increased more more than 18% for the past five years. The 1975 total was more than $705 million.

Bermuda has a stable government sympathetic to the interests of the "exempt" insurance companies. In 1970 the islands celebrated the 350th anniversary of the Bermuda Parliament, the first parliament in the Western world and the oldest anywhere outside Great Britain and Iceland.

Since the 1960s there have been two major political parties, the Progressive Labour Party (PLP) and the conservative, United Bermuda Party (UBP) which in 1976 won a majority for its third consecutive four-year term.

John Sharpe, the premier, is the former finance minister under whose jurisdiction falls responsibility for incorporating offshore insurance companies.

The current finance minister, J. D. Gibbons, is working with the exempt insurance companies to draft "a sound legislative framework' befitting a major insurance center, he told a group of insurance companies executives last November.

At present, virtually all management positions in the insurance and financial industries in Bermuda are filled by foreigners because local talent hasn't been available. However, Bermuda's public college is in the process of revamping courses to meet the needs of the island's growing business community.

Bermuda's sophisticated communications system, vital to an insurance and financial center, was cited by residents as evidence of the islands' development.

Computers are being used by captive management groups and the investment strategies and money management techniques of many captives are being reviewed and improved.

You can now direct dial New York and London from Bermuda and most of the international companies there have Telex systems.

"Our phone system is so much better than Europe's," the manager of one international company boasted. "Often we'll get a message over the Telex from London: 'Call us. We can't get through to you!' " ■

Security measures remain tight

Panic recedes on kidnap insurance front

By JERRY GEISEL

WASHINGTON—Jeffery Agate, the 58-year-old chief of Du Pont Co.'s artificial-fibers plant in Londonderry, Northern Ireland, had just driven through the gates of the drive leading to his home outside the city.

As he got out of the car to close the gates, two men emerged from the darkness and shot him twice in the head. Neighbors found him dead in the driveway. The killers, thought to be members of the Irish Republican Army, escaped.

Last month's murder of Mr. Agate spotlights a deadly trend that began back in the late 1960s: Executives and the multinational companies they work for, have become increasingly vulnerable to terrorist attacks.

The initial response to the wave of corporate kidnapings, bomb blasts and extortion threats took several forms. Some companies poured huge sums of money into sophisticated electronic security devices. Others beefed up their guard services.

The 1974 kidnapping of an Exxon Corp. official and the subsequent $14 million ransom paid to secure his release after he was held three months by Argentine revolutionaries, stimulated an unprecedented interest in kidnap insurance.

Premiums doubled in three months. Some companies faced the prospect of paying premiums of more than $100,000 for $1 million of coverage to protect their key employes.

But a new feeling and attitude toward multinational security has emerged recently. The panic situation of three years ago is gone. While many of the security measures established during the early '70s remain in effect, interest in the more exotic protection devices has lagged.

And interest in kidnap insurance, once one of the hottest items in the insurance market, has tapered off.

"There isn't so much talk anymore about kidnap insurance," said Tom Hallet, risk manager for Joy Manufacturing Co. in Pittsburgh. "Underwriters are willing now to reduce their prices. The big rate increases seem to be over where insurance companies jacked up their premiums every few months."

While rate increases for kidnap insurance may have ended, the aura of secrecy that surrounds corporate security abroad hasn't changed.

One risk manager immediately clammed up when asked about his company's attitude toward kidnap insurance. "I can't talk about that," he said. "If I even mentioned the word kidnap our policy would be void."

Both IBM and General Motors would not comment. But GM reportedly refuses to purchase kidnap insurance since it violates company policy.

A kidnap insurance brochure from National Union Fire Insurance Co. in Pittsburgh illustrates another element of the secrecy. "Discretion plays a key role in this program," says bold type in the brochure. "National Union . . . permits only certain select, senior underwriting and managerial staff members access to its kidnap & ransom files."

The biggest providers of corporate kidnap remain Lloyd's and the American International Group. "Our policy always has been to offer this coverage in a dignified way to those who desire it," said Joseph P. DeAlessandro of American International Group.

It still is difficult to pin down the premiums charged for kidnap insurance. "I can't make any generalizations about premiums," said Mr. DeAlessandro of AIG. "Every risk is different with a lot of intangibles that have to be figured in."

Mr DeAlessandro did say, however, that deductibles on kidnap insurance typically amount to 10% on any one occurrence. Limits frequently go up to $1 million for any incident and up to a $2 million aggregate for any one policy in a year.

In some cases, however, multinationals have purchased policies that provide up to $20 million aggregate coverage.

Insurance, though, is only one way multinationals deal with threats to their overseas operations. A more common approach to protect corporate executives is to brief them on possible dangers before they leave the United States.

Control Data Corp. of Minneapolis, for example, shows its foreign-bound employes a Motorola-produced film "Executive and

Continued on page 12

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Kidnap insurance . . .

Continued from page 11

Personal Protection." The film describes the steps an executive should take to avoid kidnaping in South America.

The Movie's safety tips include alternating schedules frequently, keeping in touch with one's family so they know when to expect you, and always changing locks when moving into a new home.

In addition, Control Data maintains a "critical list" in which 40 countries are ranked into one of three categories according to their potential danger.

According to Jack Exline of Control Data's international security department, the critical list is periodically revised when employes return from overseas and are debriefed on the current conditions in the countries they lived in.

Employes who are moving to countries at the top of the critical list are given an "aggressive" presentation, said Mr. Exline. "We want our employes to understand the gravity of the situation."

Mr. Exline said employes are warned to keep their contacts with local citizens to a minimum. And the company strongly discourages executives from driving flashy, attention-grabbing cars while abroad.

Other companies report increasing use of guards to protect executives. Burns International Security Services Inc. said its personal protection business has increased 10 to 15% in the last three years.

Rayne International, a Miami-based security firm with branches in Switzerland, Italy, Germany and South America, reports increases in corporate hiring of bodyguards and expanded sales of electronic alarms and bullet-proof clothing.

Fred Rayne, president of the firm and a member of the Justice Department's Committee on the Prevention of Terrorist Crimes, says an increasing number of multinationals are using his company's consulting services.

For a consulting fee amounting to a "few thousand dollars," Rayne agents—who include former FBI and Secret Service men—analyze an executive's living habits and daily movements with an eye toward security.

One change Mr. Rayne recently recommended was for an executive to rearrange the furniture in his den at home so he wouldn't be silhouetted against the window when he worked at night.

In violence-ridden Northern Ireland, several U.S. companies have set up "dummy" organizations with a different name than the parent in the hope that an unfamiliar name will reduce the likelihood of attack. Other companies simply don't put any name on their office buildings there.

One U.S. oil company with a large office in London set up an elaborate security system after a washroom was heavily damaged by a bomb blast.

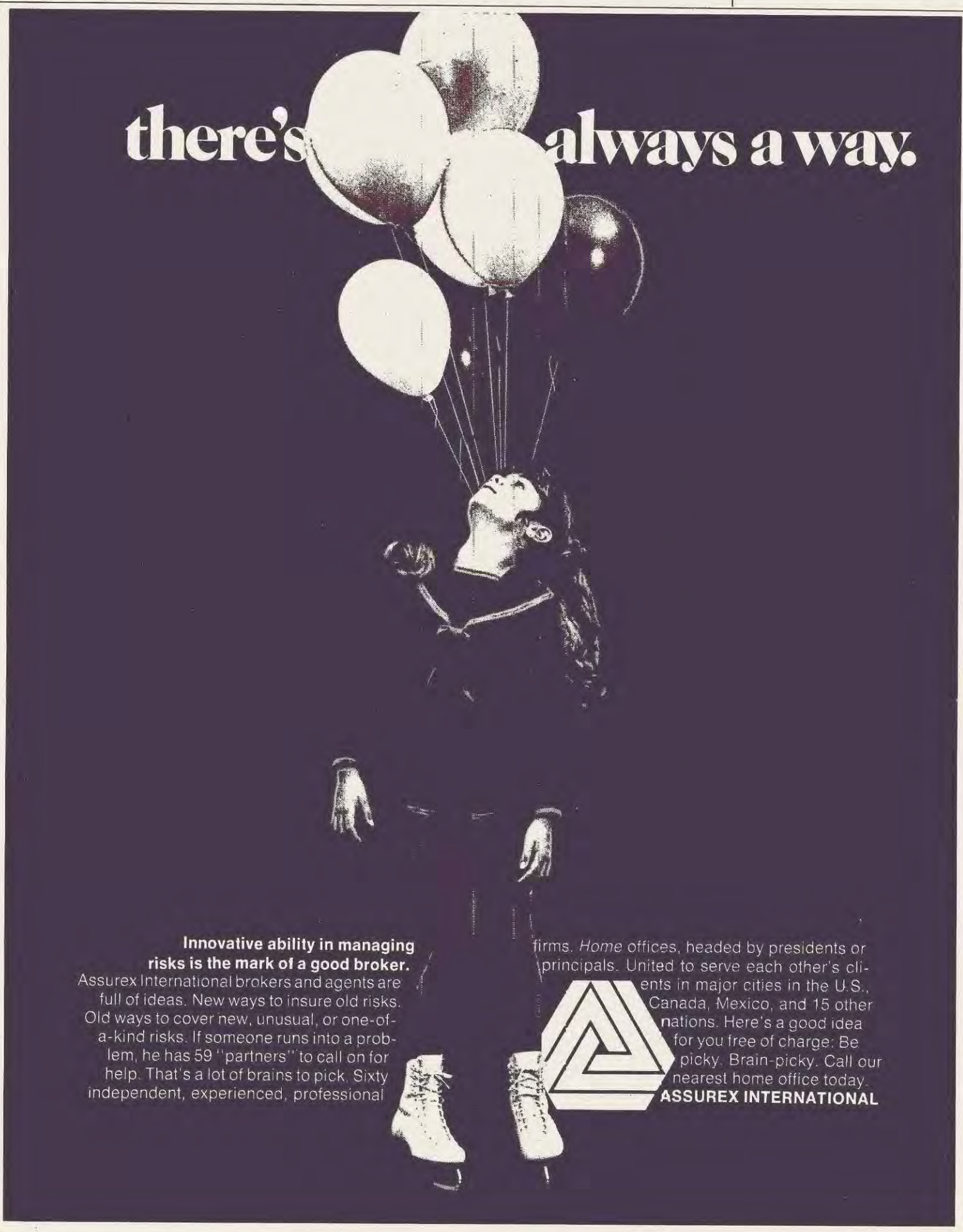
Under the system, all visitors must register at a lobby desk. A uniformed guard asks who the visitor wants to see. The company official is called to confirm that he was expecting the visitor. The official or his secretary then goes downstairs to accompany the guest to his office.

Risk managers and security experts agree that the gravest dangers to U.S. corporations with overseas operations are in several South American countries.

Argentina, where kidnapings and gun battles between rival political groups are endemic to daily life, still remains a security nightmare. Because of the violence, several U.S. companies that previously operated out of Buenos Aires have shifted their operations to Brazil.

Other South American countries that present major security risks are Venezuela and Chile. With the recent shift to the left in Jamaica, Mr. Rayne feels U.S.-owned firms will be more vulnerable to attack there.

The biggest question mark currently is Africa. One Philadelphia broker reports that he is on the verge of setting up a "really big" kidnap insurance package for a multinational. He sees increasing demand for similar policies as racial conflict looms more and more likely in Southern Africa. ■



Germany expands liability, insurance for drugs

By GREG DAVID

CHICAGO—A new law that goes into effect next January in West Germany imposes absolute liability and stiff insurance requirements on drug manufacturers and sales organizations.

A reaction to the Thalidomide disaster, the law sets maximum payment to an individual injured by a drug at $208,000 (500,000 deutschmarks) and maximum payments per drug at $83 million (200 million DM). Despite the imposition of strict liability, individuals may still sue for even larger amounts under the West German negligence law, which remains in force for drugs.

Drug companies will be required to purchase insurance meeting the limits in the law with an insurer licensed in West Germany.

The absence of an annual aggregate is expected to be a major stumbling block for risk managers and insurance industry officials coping with the new requirements. "This will probably cause a headache for our friends in the U.S.," said Frank Preuss, a lawyer and insurance broker with Emil Preuss of Hamburg, West Germany.

Mr. Preuss said the limits in the law may aid the drug companies in calculating their risks.

But Henry Blackwell, assistant general counsel of Eli Lilly International in Indianapolis, said, "We don't think we gain anything." Joe Gullo, director of insurance at Richardson-Merrell with sales of $40 million in Germany, said at the very least the law will force him to add a third insurance program to his regular primary and excess coverage.

Negotiations are still underway on the exact insurance mechanism to be used in meeting the requirements. An early draft of the law contained a provision for a mutual fund financed by drug companies, but that idea now seems dead, Mr. Preuss said. Drug companies may attempt to become involved in the reinsurance, possibly through the use of captives, although the companies "are being a little bit secret about their activities," according to Mr. Preuss.

Present plans call for a maximum insurance rate of 55 cents per hundred dollars of sales, according to Mr. Preuss. That rate would be divided into 10 cents per hundred for the first 10 million deutschmarks of coverage and 45 cents for the next 190 million.

Mr. Gullo also said the rate was expected to be 55 cents, although he had heard figures as high as 88 cents.

For Richardson-Merrell, Mr. Gullo estimated the additional insurance will cost $300,000 a year. He expects the cost of his company's products in West Germany to be increased .05%.

"We view it as an additional cost but not a backbreaker," said Eli Lilly's Mr. Blackwell.

The 55-cent rate is "pretty high" by German standards, Mr. Preuss admitted. Mr. Gullo also believes the rate is high, even though it cannot be strictly compared with other excess coverages since rates are usually not negotiated on sales.

Under present plans, Mr. Preuss said, a drug company will purchase a 200 million deutschmark policy from a single German insurer or a company licensed in West Germany. That company will retain 10 million deutschmarks of the risk, ceding 190 million deutschmarks to a reinsurance pool created by the insurance companies.

The reinsurance pool will then reinsure that amount in the worldwide market.

An insurance manager for a large East Coast drug company said he believed the London market will be reluctant to accept the reinsurance. Mr. Preuss agreed that the London market's knowledge of the situation is sketchy, but said some of the risk will have to be placed there. Another international broker in New York agreed.

Under the 55-cent rate, Mr. Preuss said first year premiums could be 44 million deutschmarks or a little under $20 million dollars. Mr. Gullo and the East Coast risk manager wondered whether that would be enough to meet claims considering the law's limits.

Mr. Preuss dismissed those fears. He said Germany has not had a major drug problem since Thalidomide, and it is also unfair to

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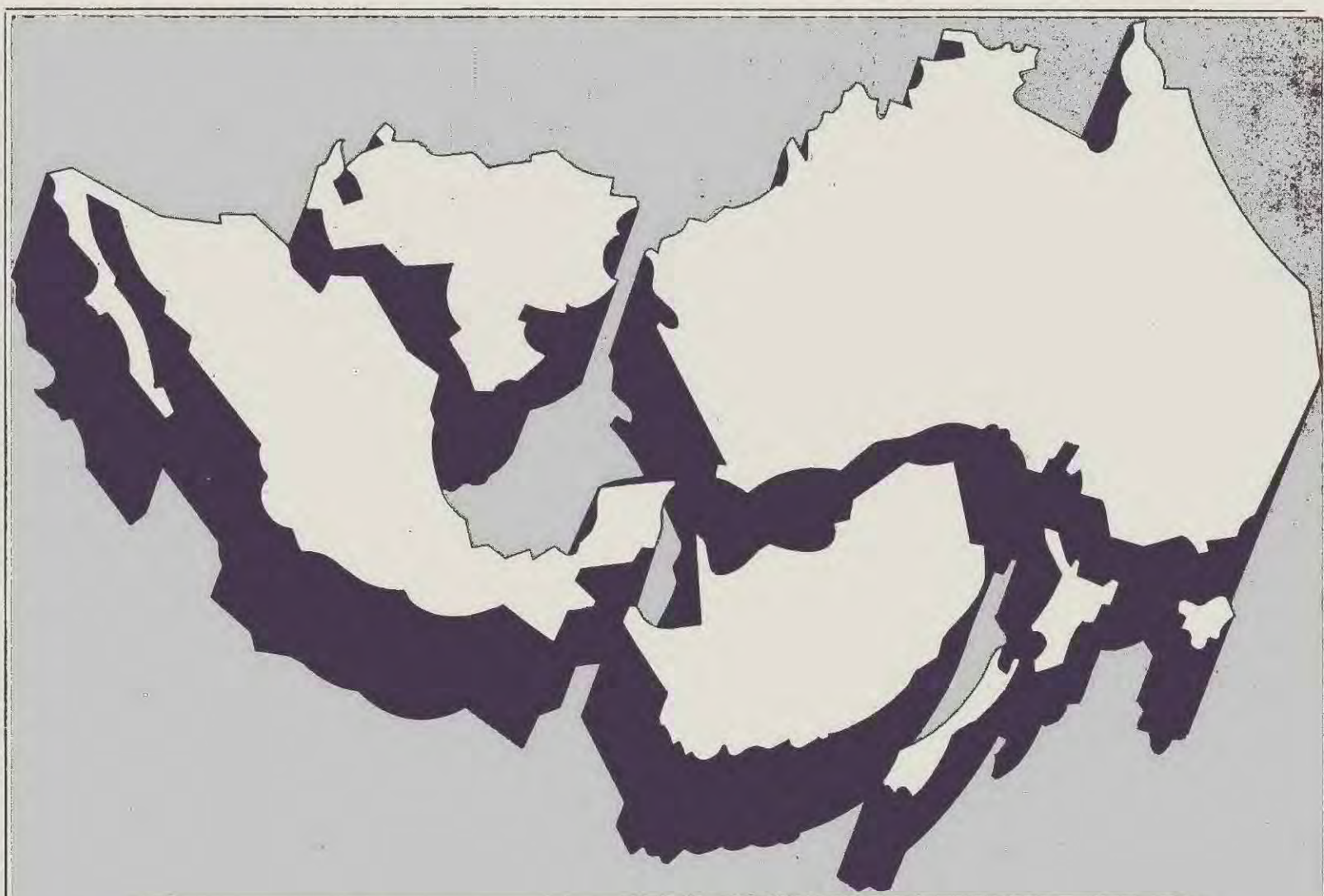
INTERNATIONAL



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Separatist victory hasn't affected Quebec risk management—yet

MONTREAL, QUEBEC—Businesses here took out their worry beads when the Parti Quebecois won an electoral victory last November. But despite excited speculation that Renee Levesque's new socialist, French separatist party could mean problems with language policy, nationalization or even violence, there has been no measurable impact yet on Canadian risk management or insurance buying practices.

In the four months since the Liberal party was defeated, some firms in Quebec announced they will pull up stakes and relocate their headquarters if they cannot use English. Bell Canada, the country's biggest telephone company, made such an announcement. And although it insisted its move had nothing to do with politics, Canada's largest financial institution, the Royal Bank of Canada, transferred three of its largest departments to Toronto.

The overall effect suggests that Montreal could decline in importance as an economic center if French separatism mandates exclusive use of French instead of English or gives preferential treatment to French Canadians. But none of a group of risk managers or insurance industry people from Canada would comment on how the Parti Quebecois might affect their business.

Most said they were doing nothing until they could see exactly what Premier Levesque's government would do. Nearly all asked not to be quoted. As one risk manager said, "It would be political dynamite for my company if I said anything to you right now."

Premier Levesque said in December that his party wanted to

INTERNATIONAL

institute no-fault automobile insurance in Quebec. By late February, it was not clear whether his proposed plan of compulsory auto insurance would go into effect, but Canadian risk managers thought no-fault was probably the most immediate insurance issue they would face if Quebec secedes.

"What will firms with large fleets do if they've got a commercial policy and then provincial insurance becomes the law? It's bound to create some difficulties," one of them observed.

Although there was not a great deal of concern expressed over the nationalization of industries, a few risk managers still thought that Quebec might nationalize the indigenous insurance industry.

As one risk manager at a company located in Quebec said, "Although the whole separatist movement is going to have a tremendous effect on my company and my company's investment policy, and although the nature of my company could change drastically because of it, my department has not felt any impact from the changeover yet.

"But I do suspect that in the next few years Canadian risk managers and the corporations for whom we work will have many new situations to contend with. Time will tell." ■

Germany . . .

Continued from page 17

expect there will be a claim in the first year that would push the law's limits. He expects the rate to come down if there are few claims, although obviously it would have to rise if there is a major problem with a drug.

Mr. Preuss said he expects the rates to be negotiated by the types of drugs. But the American risk managers said they had not heard of any plan to rate drugs.

It is unclear whether drug companies are already carrying insurance with limits in the area of those imposed by the law. Mr. Preuss said some of the largest multinational German drug companies are already insured to those limits, although there are many smaller ones with 5 to 10 million deutschmark limits.

Mr. Gullo said his umbrella has annual aggregate limits of $80 million to $100 million. The East Coast risk manager said, "Most companies would be satisfied with $84 million if they could purchase that amount of product liability insurance worldwide."

Eugene Bader, manager of corporate insurance at G. D. Searle & Co. in Skokie, Ill., said he has considesred limits as high as those imposed in the German law, but hasn't yet purchased them.

He also said, "We are concerned because we think the German law will be the tip of the iceberg" with absolute liability and stif insurance requirements spreading throughout Europe.

Mr. Preuss said it was unclear whether the German law would be adopted in other countries. France already has a tough liability law he said. A product liability law for all common market countries is under consideration, but it now appears that such a law, even if adopted by all the national parliaments, will not go into effect before 1980.

Whether drug companies would prefer one law for all the Common Market countries or individual laws will depend on the substance of the laws, said Mr. Blackwell. "It's possible we would prefer six good laws and one bad law," he said, rather than one poor law.

Mr. Blackwell said the impact of the German law will not be clear until some claims have been settled. Under a fairly administered law, he said, "All manufacturers are willing to stand behind their products." ■

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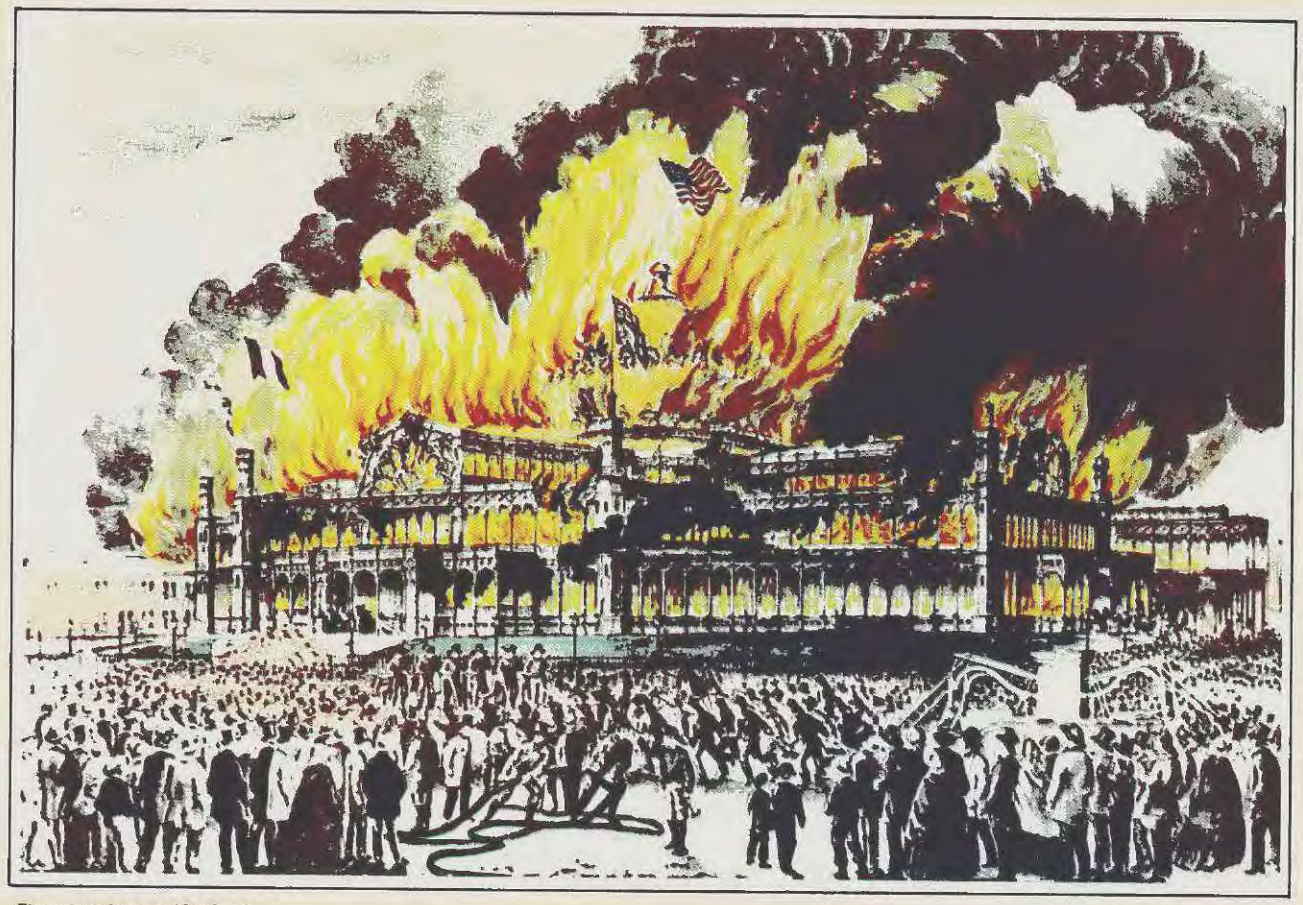

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editorial opinions

ERISA benefit trusts: Someone must act

EVEN CORPORATE consumers can be duped. In the supposedly sophisticated world of commercial insurance, there are some smaller employers being enticed into joining up with some multiple employer trusts for the purpose of pooling group benefit plans and either insuring or self-insuring the benefits with the aim of saving some money.

Some—although not all—of these employers are being sold the proverbial bill of goods.

As our investigation of this situation made clear, a few multiple employer trusts (METs) have fallen upon bad times. And it's not just because they've been caught in a squeeze.

What appear to us to be some very shady dealings are surfacing. Unusual as it may seem, agents and brokers are apparently selling the daylights out of these METs, convinced that they will earn commissions of as much as 25%. But there are suspicions abroad that at least a few so-called self-insured METs are playing a classic Ponzi game, pyramiding premiums to pay claims generated by employes whose health coverages went earlier into the "pool."

No wonder at least one very large MET has already collapsed. And more trusts are in very shaky condition. They'll give self-insurance programs a bad name, right along with other METs, especially the insured plans, which are often very responsible.

What's as bad a disgrace, however, is the complete lack of regulation in this area.

The reason? Let's blame it on the pension reform law—ERISA—since we blame lots of problems on that good scapegoat these days.

As a matter of fact, ERISA in this case has caused such confusion that nobody—but nobody—is closely scrutinizing the sharks at work. Ordinarily, state insurance commissioners would be the prime regulators, keeping close watch on such pooling mechanisms, either insured or self-insured, because they fulfill the requisites for being considered insurance underwriters.

But, thanks to ERISA, state regulation of pooled benefit plans under trust arrangements might have been preempted. Instead, the Labor Department should be the regulator under a federal benefit law, seeing to it that these pooled programs are financially sound, are sold without fraud, and have the money to pay future claims as promised.

The Labor Department is amiss in not having done anything—to date—to supervise the operation of METs around the country.

The Labor Department has no defense in saying it wasn't aware of what has been happening with the fly-by-night METs. We've learned that the Labor Department has, indeed, been alerted several times to the financial wheelings and dealings of these outfits.

Until the Labor Department gets itself together, we suggest state insurance regulators be allowed to oversee the multiple employer trusts now in business, to prevent major scandals which appear to be brewing, and to prevent innocent employers and employes from being badly burned financially.

As a second step, the Labor Department simply must formulate immediately the standards of practice for benefit trusts. It's imperative that a qualified team of people be assigned to the task of protecting the benefit monies being paid into these trusts.

Cumulative trauma is the new game in town

CUMULATIVE TRAUMA is creating problems for employers having to pay workers' compensation damages for injuries suffered over the working lifetimes of their employes. Work comp claims seeking damages for such so-called "successive injuries" are on the rise, even among people no longer in the workforce, people who've retired after years at the same job.

The latest industry to face the trauma of cumulative trauma is the professional sports clubs—the pro teams—whose loyal, hard-working and, for the most part, well-paid players are playing the claims game.

Sports writers across the country are bewailing the threat of this latest financial "peril" to bedevil major league baseball, football and hockey teams. Potentially—because most competitive sports teams are regularly engaged in strenuous, if not rough, activity—all kinds of sports teams could face the workers' comp problem of cumulative trauma.

Drawing attention to a growing awareness of team members that they may be entitled to certain injury benefits was the case of Detroit Tiger pitcher Denny McLain, who won $31,500 from the work comp board of Michigan because of an arm injury suffered in 1965 and compounded each playing season thereafter.

The Tiger manager worries that McLain's claim may trigger a flood of similar actions by former athletes who limped away from their normally short-lived careers with the scars of the battle.

In Michigan alone, similar cumulative injury claims are still pending for better than a half-dozen football players and another Tiger former pitcher.

Pro team owners, as well as their insurers, apparently are worried about what could happen in five notably liberal states—Michigan, New York, Ohio, California and Illinois—that are home bases for 11 major league baseball teams, 11 pro football teams, eight pro basketball teams and seven pro hockey teams.

We sympathize with all employers who are only now facing the responsibilities built up over many years of employing workers to perform tasks which may have seriously injured them in the process. We have no less sympathy for the sports team owners who face these costly liabilities under the law even though they've often paid astronomical salaries to their players.

But the inference in some quarters is that the players themselves aren't within the law, that they've signed away their rights as employes in return for fame and high salaries.

We dispute that notion. There's no reason why professional athletes don't have the same legal rights as any other workers. They have a right to claim for damages caused by cumulative injuries the same as other people.

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, Bussiness Insurance Magazine, 740 N. Rush St., Chicago, Ill. 60611.

RiskWatch

To the Editor: I enjoyed Marie Krakowiecki's *riskWatch* column in the Jan. 10 issue. I know about the risk management program offered by the Insurance Institute of America. In addition an increasing number of universities and other organizations are preparing individuals for a career in risk management.

Do you have available or can you tell me where I can obtain a comprehensive listing of these institutions of learning which graduate risk managers?

M. John Wansink
Assistant vp, International Service Corp., Philadelphia, Pa.

The Huebner Foundation for Insurance Education of the University of Pennsylvania is in the process of updating a publication called "Risk and Insurance Instruction in American Colleges and Universities" which lists all the schools teaching risk management and/or insurance. The foundation says the latest edition will be ready in about six months. For anyone who needs a directory sooner, the foundation still has in print older copies of the same publication. Single copies can be obtained from the foundation by writing to it in care of Dietrich Hall, 3620 Locust Walk, Philadelphia, Pa. 19104.

What is a trend?

To the Editor: I read with interest the front page article in the Jan. 10 entitled "Pensions After ERISA: Shifts But No Stampedes."

There was one particular portion I would like to take some issue with believing it's dramatically and grossly misrepresenting what ERISA is in fact doing.

The paragraph said, "All of the consultants warned that their conclusions were probably not applicable to small companies with 100 employes or less. These companies may be terminating their plans or replacing defined benefit arrangements with defined contribution plans. But what a lot of five or ten employe companies do, does not make a trend", according to Murray Becker, vp and actuary with Johnson & Higgins.

I would challenge and take issue with Mr. Becker. I wonder if

Continued on page 64

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Captive management is a lively affair

By MARGARET LeROUX

HAMILTON, BERMUDA—"We're very civilized. There is no cutthroat competition . . . there's enough business to go around," a member of one of the many captive management companies in Bermuda explained over tea late one afternoon.

British though the island may be, there is still enough American entrepreneurial spirit in evidence to generate a lively industry for captive management groups. And there are differences among Bermuda's largest management groups, if subtle ones in some cases.

The granddaddy of all the offshore companies in Bermuda is American International Reinsurance Group (AIRCO). Ernest E. Stempel, president, said his company has been in Bermuda for "more than 30 years."

The American International building is the largest insurance facility in Hamilton. AIRCO employs more than 200 people, making it the largest employer of all the exempt companies headquartered in Bermuda.

Its modern, five-story glass and concrete structure sits atop a hill on Richmond Road. The president's penthouse office provides Mr. Stempel with a sweeping view of the city: In front of him, Hamilton Harbor; if he swivels around in his chair he can see beaches on the south side of the island.

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AIRCO is an insurance holding company whose largest subsidiary is the American International Group (AIG). The company has consolidated assets totalling $2.36 billion at the end of 1975, an increase of more than 20% over the previous year's figure. In 1975 AIRCO's net premiums totalled $739.89 million.

The company manages 40 captives through another subsidiary, AIRCO (Bermuda) Ltd., "but less than 10% of our staff works solely on captives," Mr. Stempel said.

"The bulk of AIRCO's involvement is with AIG's companies," he continued. "AIG is the largest placer of reinsurance in the world."

Because of AIRCO's involvement in all aspects of insurance, the company's staff resources are rich. "We have the only actuaries on the island," Mr. Stempel said. "We also have the only full time American lawyer in Bermuda."

International Risk Management Co. Ltd. (IRMCO), Fred Reiss's captive management group, occuplies a suite of several offices in the Belvedere Building, just down the street from the Hamilton Princess Hotel.

IRMCO is purported to have more captive clients than any other management company in Bermuda. Estimates place the total at 60. However, no details of the companies operations were confirmed by officers of IRMCO.

Business Insurance visited IRMCO's offices, but Mr. Reiss was off the island, we were told, and no one else on the staff could comment on any of the company's activities.

"That's strictly a one-man operation," the manager of a large Bermuda captive said, referring to IRMCO, "and they like to keep a very low profile."

"I like to describe Fred Reiss as the Howard Hughes of the insurance industry," another captive manager quipped.

Across the street from IRMCO, on the harbor side of Hamilton, is the Bermuda Fire & Marine Building, a landmark and the oldest local insurance company.

It was in this building, so the story goes, that Fred Reiss started his own lucrative captive management company.

Cyril E. Rance, assistant general manager at BF&M noted that his predecessor offered the use of his office to Mr. Reiss when the latter was getting his start in the captive management business.

"We've really seen the captive industry grow," Mr. Rance said.

BF&M Management Ltd., a subsidiary, manages some 17 captives for U.S., Canadian and European companies. Two of the captives are association mutuals.

Joseph W. Sutton, manager and secretary of BF&M Management stressed the company's independence. Being a local company, it has no affiliation with U.S. insurance brokers.

"Our clients are those who don't want to tie themselves to one broker or who use several brokers," Mr. Sutton said. "We like to think of ourselves as completely independent of brokers."

A staff of six works with BF&M Management's captives, although services are purchased from U.S. insurance companies.

Reid House on Church Street in the shadow of Bermuda's Anglican Cathedral houses two firms actively involved with captives: J&H Ltd. and Appleby, Spurling & Kempe, one of the two law firms that represent virtually all the captives on the island.

It's no coincidence that most of J&H's clients retain AS&K, "since they're right downstairs," president Clayton Chambers noted. About one-third of 64 captive clients J&Hs claims to handle retain the other leading law firm in Bermuda, Conyers, Dill & Pearman, he added.

Around the corner and up the street at Marsh & McLennan (Bermuda) Ltd., the reverse is true. Most of Marsh & Mac's captive clients retain CD&P.

Captive clients of the two largest U.S. insurance brokerage firms also divide their business between Bermuda's two leading banks. The majority of J&H's clients deal with the Bank of Butterfield, which also retains AS&K. Marsh & Mac's clients favor the Bank of Bermuda, which retains CD&P. ■

Registering a captive is painless, more are filing, says key official

By MARGARET LeROUX

HAMILTON, BERMUDA—The actual steps involved in incorporating an insurance company in Bermuda are relatively simple, Mrs. A. Verbena Daniels, acting registrar of companies said in an interview.

"The law firm retained for the captive handles most of the details," Mrs. Daniels said. The first step is filing an application for incorporation with the advisory committee of the government department of finance.

The committee is headed by John Barrett, a member of parliament, and includes four other members representing the business community, the attorney general and the comptroller of the government.

The application must contain the name of the proposed company as well as three alternative selections. "Many companies find that their first choice of names is already registered," Mrs. Daniels said. As of Dec. 31, 1976, there were 3,136 exempted companies registered in Bermuda including 486 insurance companies.

Other information required on the application includes authorized capital, par value of shares, allotment of share capital, names of directors and officers of the new company.

A quorum of directors must ordinarily reside in Bermuda, so a member of the parent company's Bermuda law firm is often named to the board of directors.

Bermuda law requires that an exempt company's minute books and registers be kept on the island. Again, local law firms often provide corporate secretarial services to fulfill this requirement.

The new company should appoint a local auditor and accountant because immigration permission will not normally be given for a foreign auditor to come to Bermuda for that purpose. Most major U.S. accounting firms have local offices or correspondents in Bermuda.

Bermuda law requires that an advertisement announcing the intention to incorporate the company be inserted in the official newspaper, The *Royal Gazette*, within three months prior to the date of the application.

The Finance Department's advisory committee considers the application and makes a recommendation to the minister of finance who grants the permit to incorporate.

Once permission has been granted, the application, along with the company's charter, is filed with the registrar. The date of the filing is the legal incorporation date of the company.

"Once the application is completed, the entire process takes about three weeks," Mrs. Daniels noted.

According to Bermuda law, stamps must be affixed to the documents registering the exempt companies. A duty of .25% on the aggregate par value of the authorized capital of the company is charged. There is also an annual $1,000 fee required of exempt insurance companies.

But the process of filing technical and sophisticated insurance information ends in a cramped three-room office above a quaint bookstore in the heart of the tourist section, Bermuda's other main industry.

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To reach the office of the registrar, you make your way past a wheezing old air conditioner and a huge copying machine, where documents signifying multimillion dollar investments are processed.

Ninety-one of the approximately 500 exempt insurance companies were registered in the past year. "This is an 80% increase over the previous year," Mrs. Daniels said.

A special ad hoc committee was established in 1975 to evaluate applications by medical malpractice companies. The committee is headed by Steven Chamberlain, president of Intercontinental Reinsurance Co. Ltd.

"We've only approved about 15 malpractice insurance companies," Mr. Chamberlain said, "all of them hospital owned. Our standards are high enough so we don't get many applicants." The committee will not approve physician-owned malpractice insurers.

The ad hoc committee submitted a report to the minister of finance in April 1976 suggesting guidelines for malpractice insurance companies. The committee recommended that stock companies be preferred over "open-ended vehicles such as pure mutals."

As a result, the committee now requires additional information from those insurance companies applying to write malpractice coverage.

"In no event will the Bermuda company commence any underwriting operation until . . . an adequate catastrophe reinsurance program has been put into effect and the directors of the Bermuda company have submitted an agreement to any undertakings by the minister of finance," states one provision.

The insurance community does a very good job of screening prospective captive companies, according to an official in the Bermuda government.

"Everyone knows everyone else and they do their own checking," he said. Once it comes to making the actual application, "it would be quite a shock if it weren't approved." ■

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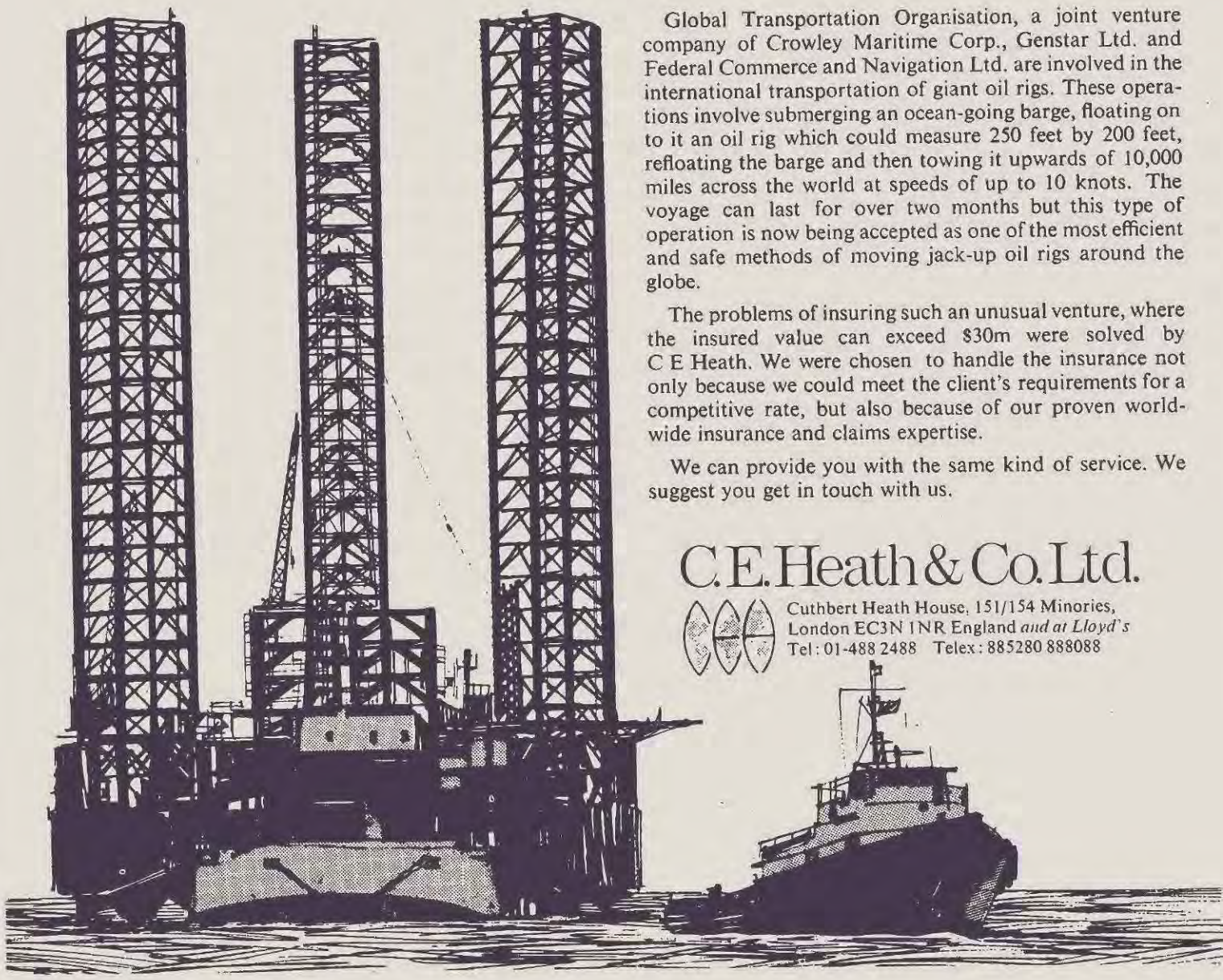

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Exempt insurers back 2 groups for lobbying

HAMILTON, BERMUDA—Exempt insurance companies in Bermuda have two lobbying groups representing their interests before the government—the International Companies Division (ICD) of the Chamber of Commerce and the Bermuda International Business Assn. (BIBA)

The ICD's 535 members include shipping firms, insurance companies and mutual funds. The 20 members of the executive committee—"The Club," as a Bermuda government official described them with a wry smile—meet once a month. The entire organization meets twice a year.

Exempt companies—there were a total 3,136 registered as of Dec. 31, 1976—represent 13% of Bermuda's GNP. Included in the total are approximately 500 exempt insurance companies.

The ICD claims that international business visitors added $1.5 million to Bermuda's economy last year. They break the amount into 3,000 business days at $125.00 per day for each 3-month period.

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The total includes money paid for hotels, food, taxis, entertainment "and visits to Triminghams (one of Bermuda's department stores that caters to tourists)," said Robert F. Lynch vp at Canadian Pacific (Bermuda) Ltd.

BIBA's members are the professions that service the captives: law firms, banks and accountants.

Besides providing input for legislation affecting the exempt companies, the two groups have taken it upon themselves to blot out Bermuda's tax haven image.

"Anything that smacks of tax evasion is not welcome here," said William D. Thomson, manager, international business development at the Bank of Bermuda.

In a speech at the ICD's six annual meeting in January, Robert F. Lynch, vp of Canadian Pacific (Bermuda) Ltd. noted that exempt companies "are also here for freedom of foreign exchange, investment flexibility and avoiding the state and provincial bureaucracies that proliferate throughout the U.S. and Canada." Mr. Lynch is president of the ICD and chairman of the executive committee.

"Political stability is the keystone of our continuing to do business and to expand our activities in Bermuda," Mr. Lynch noted ■

Eurodollars, bonds are top investment now

HAMILTON, BERMUDA—Eurodollars and Eurobonds are today's catchwords in the investment strategy of captives.

"We're seeing a lot of activity in the short term Eurobond market," said William D. Thomson, manager of international business development at the Bank of Bermuda.

Captives get better interest rates on five-year Eurobonds than on time deposits or certificates of deposit (CD's), sources in Bermuda's insurance industry explained.

Until little more than a year ago, most captives put their surplus into time deposits on a 30-to-120-day basis because of the attractive 9%-11% interest rates.

However, interest rates on CD's have declined. Now 30-day deposits return only 4% and a one year deposit yields only 6%, Mr. Thomson said.

In contrast, five-year Eurobonds can yield from 7% to 10%. European Coal and Steel, an AAA rated bond due in January 1981 will yield 7.4%. New Brunswick Electric Power, a AA rated bond due in January 1983 will yield 8.08%.

"Not too exciting, but damn safe," the manager of one of the largest captives in Bermuda said about Eurobond investments.

That captives are getting into five-year and longer term bonds indicates financial maturity, according to sources in Bermuda's financial community.

"They (the captives) have come of age," commented one Bermuda financier.

Although acknowledging captives' interest in Eurodollars and Eurobonds, several management groups noted that some of their captive clients prefer to keep their assets more liquid.

"Our investment strategies haven't changed all that much," said Joseph Sutton, manager and secretary of Bermuda Fire & Marine Management Ltd.

Many of BF&M's captive clients prefer to keep their assets in 30-day time deposits staggered so that a portion of the amount is available each month.

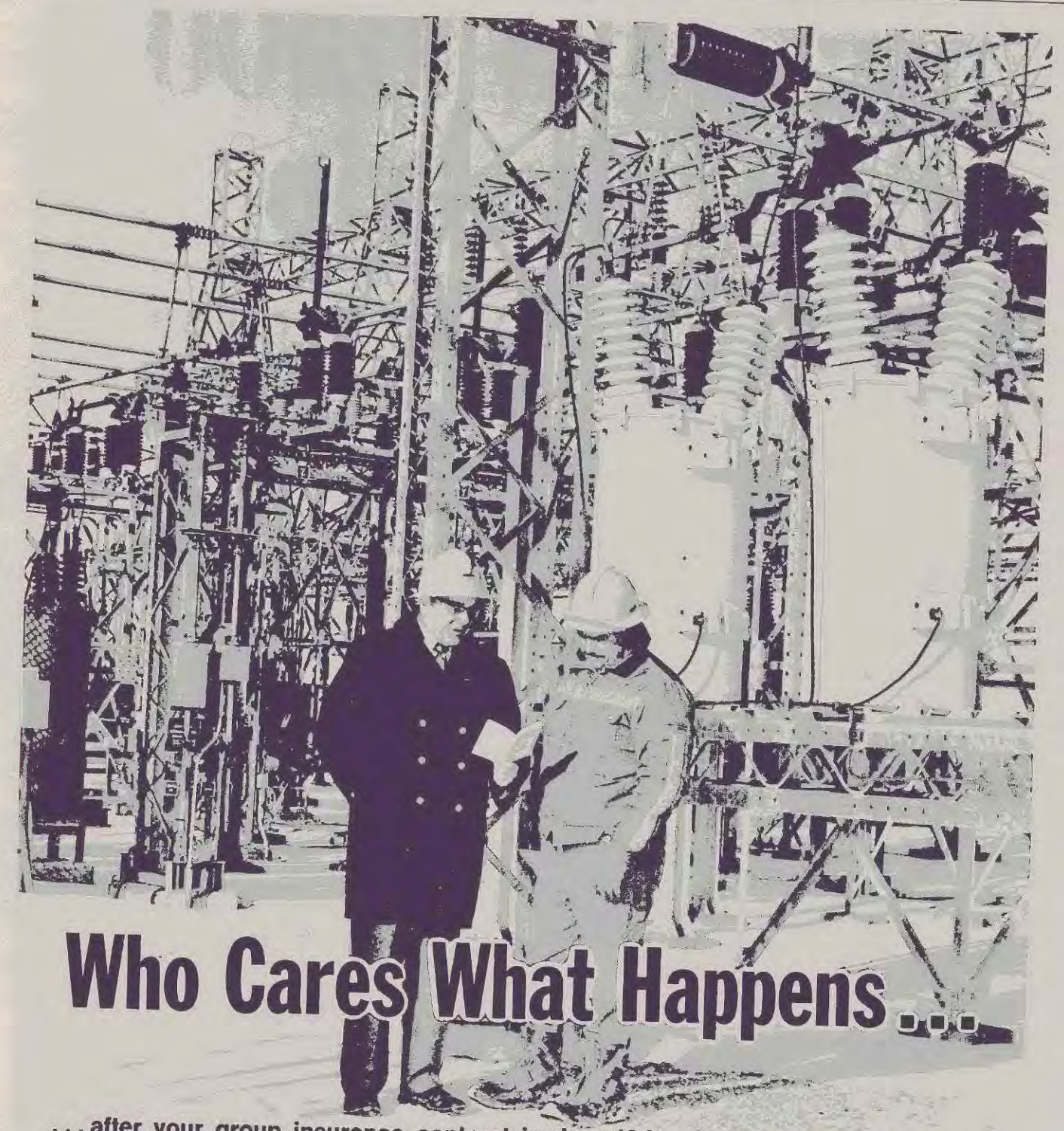
At Marsh & McLennan (Bermuda) Ltd., managing director David Vaughan said some of the company's captive clients have their money "on call" in time deposits for periods ranging from 30 to 120 days.

Blades Group president Stuart Grayston noted, "We encouraged our captive clients to form policyholder trust funds." Amounts ranging from $50,000 to $100,000 are held in escrow for claims.

In New York, Sidney Pine, an attorney and authority on captives said, "We're now beginning to recognize captives as a means of moving money on an international basis."

As reinsurance companies, captives can be used to move money out of less stable countries to more stable areas, he said.

"As captives become the conduit in global management of money, they become less 'captive' of the parent company and assume more of the full stature of insurance companies," Mr. Pine said. ■



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SEE OUR AD ON PAGE 12

More changes urged in Bermuda legislation

HAMILTON, BERMUDA—Further modifications in Bermuda's proposed insurance law—in the accounting requirements and the wording—have been discussed by David J. Saul, financial secretary and Philip Marr, economic adviser.

"The drafters of the bill originally required a full accounting by the captives," Mr. Saul said. "We've decided to drop that idea in favor of a solvency certificate."

The certificate, a brief signed by two of the captive's directors and certified by the company's auditors, "will be a guarantee to the policyholders that the company is solvent," he continued.

The Bermuda government will not try to duplicate reporting requirements of the Internal Revenue Service. "We don't have the staff to look into all the finances of all the captives."

"It will be sufficient for the captives to show they can cover a run of claims, Mr. Saul said. "The exempt insurance companies should be ecstatic over that."

The language of the insurance law has also been modified. All references to direct and captive insurers have been taken out, Mr. Marr explained, "since this is jargon."

Instead the law will refer to insurance companies. "The motive is a bill to fit all people doing insurance business in Bermuda," Mr. Saul added.

Changes in the insurance law have been discussed in several meetings between government officials and representatives of the exempt insurance companies since the first of the year. The bill's introduction in Parliament is scheduled for the end of March.

Mr. Saul stressed the cooperation between the exempt companies and the government.

"We can't afford a 'them versus us' attitude," he said. "If we're going to guarantee a good base for exempt companies here, we've got to make sure a partnership works." ■

INTERNATIONAL

Key terms for captives

These terms are crucial to understanding the Bermuda insurance industry:

The Companies (Incorporation by Registration) Act, 1970: Allows incorporation of limited liability companies by registration. Prior to 1970, an act of Parliament was necessary to incorporate such a company in Bermuda.

Exempted companies: Incorporated by non-Bermudians for the purpose of conducting business outside Bermuda from an office on the island. They are exempt from income and capital gains taxes until March 29, 2006, by order of the Bermuda government. An exempted company, however, cannot hold mortgages on land in Bermuda, acquire interest in any local company or carry on business with local concerns except in furtherance of its business carried on outside of Bermuda. ■

Ship losses

LONDON—Lloyd's statistics for 1976 show that world insured shipping losses last year totalled the record figure of $295 million, compared with $207 million in 1975.

Gross tonnage covered in these figures amounted to 1,021,133 compared with 802,593 in 1975.

Lloyd's Intelligence Services bureau said "Inflation, currency values and mounting repair costs have led to these record sums."

Flags-of-convenience vessels represented more than 56% of the total, covering losses costing $153 million. ■

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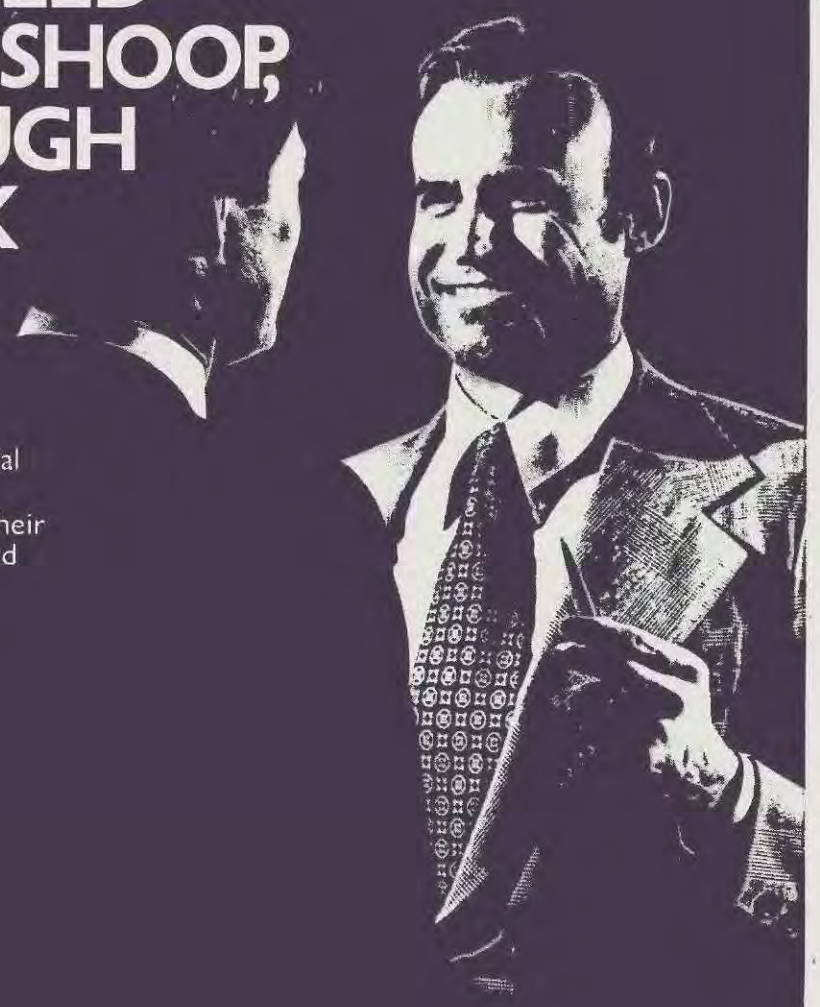

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Exempt insurers ignore Bermuda college: Director

DEVONSHIRE, BERMUDA—Mansfield Brock Jr. was fighting mad. But as the executive director of Bermuda College spoke animatedly into the telephone, the reporter in his office could see this was a battle he relished.

Mr. Brock was discussing a charge made by a member of the International Companies Division (ICD) of the Chamber of Commerce that the school was not turning out students qualified for jobs with the islands' international businesses.

The accusation was made in an article in that morning's *Royal Gazette* and Mr. Brock was fully prepared to answer the criticism.

"Since 1974 when the college was created by an act of Parliament, we've invited members of the business community to tell us their needs so we can develop programs, turn out students that are qualified," he said. "Industry needs should determine what courses we offer."

There has been a notable lack of response from the international companies, he continued, with the exception of the accounting field.

"We mapped out a two-year program that will enable graduates to enter the local job market as intermediate accountants; skills above those of a bookkeeper and below those of chartered accountants—CPAs as they're called in the U.S.," the college's director said.

"The accounting firms on the island worked out the entire program with us," he said. This spring the college will graduate the first three accountants to complete the program. Some of them will go on to the New York Institute of Technology, an affiliate of Bermuda College, for further training, Mr. Brock said.

The head of Bermuda College expressed disappointment at the lack of interest by exempt insurance companies in setting up insurance courses.

"I've been at ICD meetings, I've told them about our programs and

INTERNATIONAL

I've asked for their help," he said. "We're certainly willing and able to provide the training, but we're not going to try and set up courses unless employers express a need for them."

There is an insurance course available in Bermuda, though not through the college. It is a four-month series of seminars run by local and exempt insurance companies.

The object of the courses is a diploma which exempts the student from the qualifying exam for the Chartered Insurance Institute course offered in London.

Forty insurance companies in Bermuda are members of the Bermuda Insurance Diploma Assn. and pay annual dues of $75.00.

Among students currently completing the insurance courses is Mrs. A. Verbena Daniels, acting registrar of companies.

"I find the insurance courses very interesting," she said, "but what I like the best are the ones on reinsurance. That's where all the action is."

Bermuda College also offers courses in bookkeeping, business administration, general secretarial and executive secretarial. A computer training course is scheduled to begin in the fall of 1977.

Located outside Hamilton, the college occupies a former military barracks. Though the facilities are severe, the campus is on a hill with a beautiful ocean view.

The college is the first attempt by the Bermuda government to make education above the secondary level available to native Bermudians, Mr. Brock explained. Since tourism and international companies provide the top two sources of income, courses are geared towards jobs in those industries.

The problem most insurance companies face, a captive manager said, is finding employes to fit their specialized needs.

"Where are you going to find an underwriter with several years experience on the island?" he asked.

Before any position in an exempt company is filled, by law advertisements must appear in local newspapers. Exempt companies must demonstrate that there is no qualified Bermudian available before the position can be filled by a foreigner.

In addition, exempt companies must pay an annual fee of $50 for work permits for each of its foreign employes.

"We keep a record of every ad that appears," Mr. Brock said. "We're building up a file of the type of employes the international companies need."

The latest government statistics show that the finance and insurance industry hired 150 new employes in 1975. A total of 122 administrative and managerial workers were approved by immigration in 1975; 111 of them male, 11 female.

Of the 113 new foreign stenographers, typists and card/tape punch machine operators hired in Bermuda in 1975, 111 were female, two were male. ■

Marine changes

CANBERRA, Australia—Marine insurers in Australia are worried that proposed changes for the rules of carriage of goods by sea may cost them $30 million in premium income yearly. International plans are to transfer the risk to the shipowner for cargo transportation, but the Insurance Council of Australia feels that this will inevitably mean loss of business.

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Management firms can lower captive costs

HAMILTON, BERMUDA—Cost is a major consideration in the decision to choose a captive management company over managing the captive in-house, sources in Bermuda's insurance community said.

"To set up your own office, with a minimum staff of one manager and one secretary, it will cost from $75,000-$100,000," one captive manager said.

In contrast, an average cost ranging from $13,000 to $15,000 a year was quoted as common for captive management company fees.

"A lot depends on how much work the management company does," B. A. Yeargan, vp of J. H. Blades & Co. (International) Ltd. said.

"For a pure captive that writes three or four policies a year for the parent company, has one annual general meeting and quarterly reports, $15,000 would cover the expenses," Mr. Yeargan said.

If more services are provided by the captive management company the cost can increase to $20,000 or more.

"If the financial officers want elaborate annual meetings or if they want to be wined and dined when they come down here, it's going to cost more," one captive manager said.

Also, management companies differ on how fees are figured. Some charge on the basis of premiums written, some on a minimum-maximum fee basis.

One management company has all its employes, from officers to clerical employes, fill out daily time cards allocating how much work they did on each captive.

Retaining a Bermuda law firm will add a minimum of $1,000 to $2,500. The former figure is the basic fee for handling the details of incorporating a captive. However, most captive companies have one or more members of their law firm as directors of the company at an annual fee of $1,000.

Local auditors must also be obtained, to comply with Bermuda law. All the Big Eight U.S. accounting firms have affiliates in Bermuda and the competition among them is lively, according to David Lines, Cooper & Lines, an affiliate of Coopers & Lybrand.

Mr. Lines declined to quote costs of audits for captives. "We work on a fee basis and the fees are related to the time involved," he said. The time varies according to the size of the captive and type of business it writes.

Exempt insurance companies must also pay the Bermuda government an annual fee of $1,000.

Then there is the capitalization of the captive, no small matter.

Although the minimum capitalization requirement for a captive in Bermuda is $120,000, the government is highly reluctant to allow an insurance company with such meager assets to do business.

Minimums of more like $1 million were quoted by government officials, who are worried that the demise of an undercapitalized insurance company would tarnish the reputation of the islands.

Since many captives in Bermuda are becoming involved in reinsurance, the need for adequate capital and surplus is important, captive management groups said.

"If you're considering reinsurance, my advice is to get your parent company to put more money into the captive," the head of one management group said.

A captive has to have at least $2.5 million capital and surplus to get involved in facultative reinsurance, sources in Bermuda's insurance community said.

"Some London brokers won't look at anything less than $5 million," one captive manager said. "But there is a growing number of captives here that have enough capital and surplus to meet London's requirements." ■

INTERNATIONAL

UK insurers study product liability law

LONDON—Insurers in the United Kingdom have been studying the effects of a product liability law enacted in Britain four years ago to determine if it has had any major impact.

But the general consensus is that is has not affected the ordinary product liability cover to any great degree, since it mainly concerns the small private consumer.

The new law was brought in by the Supply of Goods Act of 1973, which banned a manufacturer from contracting out of his obligation to supply goods of a merchantable quality to a person for his private use or consumption.

This gave protection to people who might have unwittingly signed away their rights to protection because of a "small print" clause in their terms of purchase. But it merely tidied up a legal situation which had already been causing judges in small claims lawsuits to rule in favor of private consumers in the event of them being treated unfairly by purported "hold harmless" clauses.

A leading Lloyd's source said there had been no major impact on product liability insurance since it reflected the existing legal attitudes.

"This small piece of legislation was confined to certain types of transactions, and so has caused no worries," the source added. "But it will be far different if strict liability laws are brought in throughout Europe." ■

MEMO FROM
MARSH & McLENNAN

Product Liability at the crossroads. It's time for cool heads, not heated arguments.

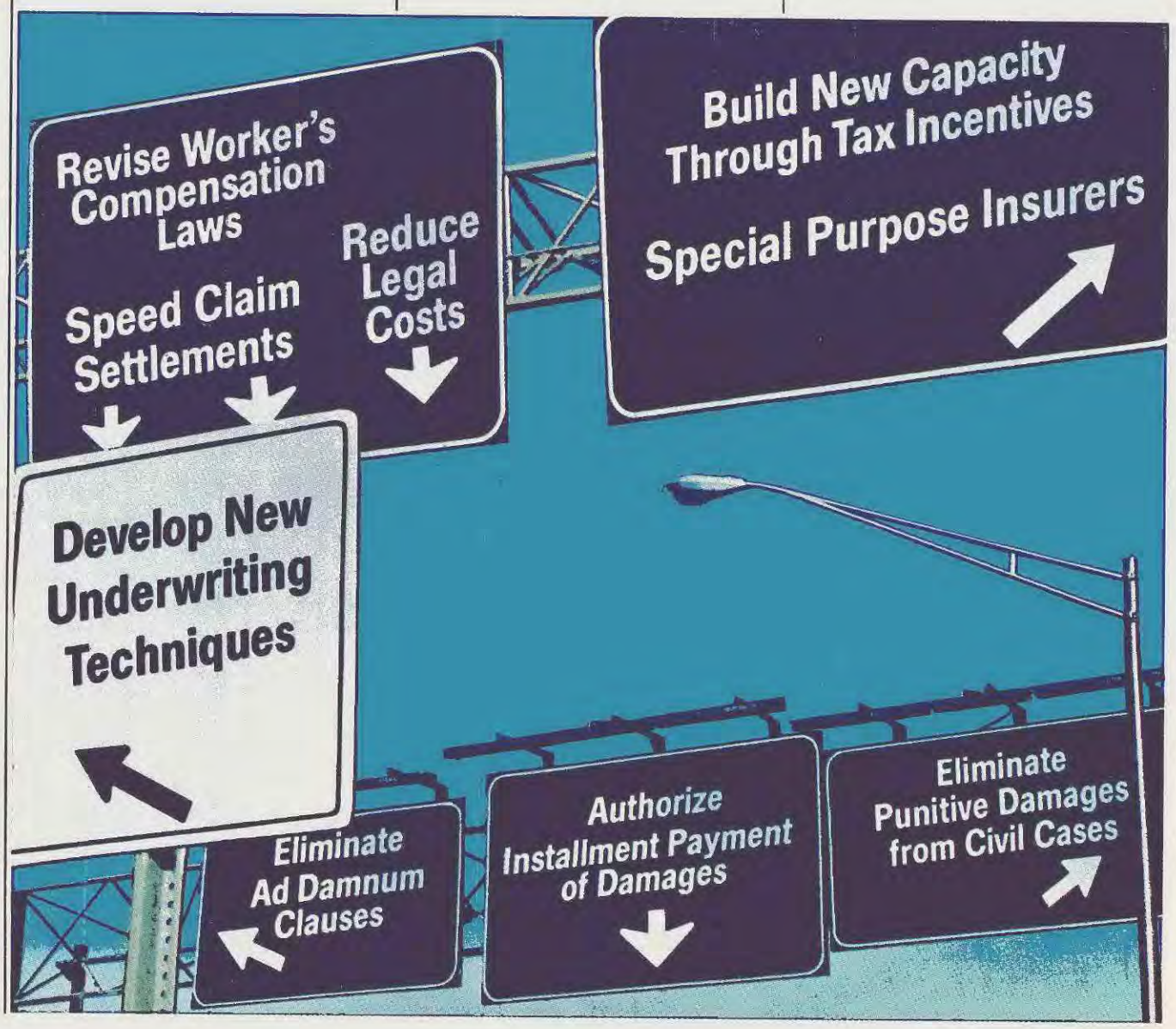
As everyone who reads the newspapers knows, the insurance market for product liability coverage is in bad shape. In many cases, a business cannot obtain enough coverage; for some classes of risks, coverage is almost totally unavailable. And in a classic example of supply-and-demand economics, premiums are soaring. Sadly, this is as much a reflection of the capacity shortage as of any technically sound assessment of loss potential.

The problem is widespread, affecting industry, the legal profession, insurers, legislators—and ultimately, the public. All have different, often conflicting, viewpoints which have been stated repeatedly, frequently with great passion and dire predictions.

However, we feel that the time has come for more than talk.

Too much heat, not enough light.

Our feeling is that a central forum is needed where opinions



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Foreign insurers follow their countrymen to U.S.

By MARIE KRAKOWIECKI

NEW YORK—As the U.S. rapidly becomes a haven for foreign capital investment, some foreign insurance companies are opening branches here to underwrite the U.S. risks of their countrymen.

There are enough risks to keep their books humming. According to the Commerce Department, direct foreign industrial investments in the U.S. exceeded $30 billion last year.

But despite the large exposures these figures imply, many Europeans, Asians and others are plainly bewildered by insurance buying and risk management in this country.

"Risk management? To them it means nothing more than fire prevention," sniffed one international broker whose firm is rumored to get a substantial percentage of its business from foreign operations here.

So far, foreign businesses here have done little to correct the impression that they are inexperienced in insurance matters. But it is precisely that inexperience which foreign insurance companies are using to promote their own U.S. activity to such clients.

Many business people from abroad believe they have enough to worry about just in setting up their industrial ventures. They don't want any additional headaches which might accompany an attempt to understand the U.S. "crises" in product liability or capacity.

With the exception of some of the largest operations, notably German, most foreign businesses do not station risk managers here. The foreign managers are able to deal with insurance in a familiar way if a big insurance company from their homeland is licensed here.

For instance, a Japanese motorcycle manufacturer facing problems buying product liability in-

INTERNATIONAL

surance probably won't want to learn how to negotiate with the American market if he can deal directly with a Japanese insurer who shares his language and his point of view.

The idea closely parallels the situation of a U.S. risk manager with overseas subsidiaries who prefers to deal with the local offices of a American-based international insurer instead of with local insurers in each country.

American International Group (AIG), which has built its fortunes by employing that concept abroad, is now in the forefront of turning the tables by helping foreign businesses with multinational needs get U.S. insurance through insurance companies from their own countries.

One of its wholly-owned subsidiaries is North American Managers or NAM, which in addition to writing indigenous U.S. business serves as the managing agent for some foreign insurance companies whose clients have established U.S. operations.

Nichido Fire and Marine Insurance Co., Colonia Insurance Co. and Belgian General Insurance Co. are three foreign insurers NAM represents and has helped to get licensed in the U.S.

Two new members, the Italian Societa Assicuratrice Industriale (SIA) and the New Zealand insurer South British Insurance Co., are in the process of being licensed.

"How to get a license—that is the biggest mystery," remarked Claus Dannasch, director of the U.S. branch of Germany's second largest insurer, Colonia Insurance. That's why his firm uses NAM to help it obtain accounts from the 500 German owned or operated businesses in the U.S.

Steven H. Newman, president of North American Managers, said a foreign insurance company that wants to join NAM has to put up at least $5 million in capital. In exchange NAM will help the firm get a license and give it access to all the staff and claims and engineering services available from AIG.

That lets the insurer enter the market here on its clients' behalf without incurring any construction costs or having to staff a full insurance operation.

Most of the German businesses here which work with the NAM-managed insurance companies don't have risk managers in this country. When they run into problems they will either contact the risk managers in the parent company abroad, or they will come directly to Colonia for advice, Mr. Dannasch said.

Although German firms sometimes prefer to use brokers who are U.S. correspondents of German brokers, frequently it is American brokers who will arrange for foreign insurance companies to write the U.S. insurance coverages for foreign-owned firms, NAM said.

This was indirectly confirmed by international sources at two major American insurance brokers who said a substantial portion of their firms' business is now coming from reverse investments—foreign firms with risks in the U.S.

Yoshikazu Yano, chief representative of the U.S. branch of Japan's Nichido Fire & Marine Co., said his approach to Japanese firms relies less on American brokers since Japanese law prohibits brokers while allowing agents.

More than 1,000 Japanese firms are now operating in the U.S., Mr. Yano estimated.

It is unclear when a firm should

Continued on page 32

can be heard, ideas collected and opposing viewpoints reconciled.

Because we judge the need so urgent, we have formed the Marsh & McLennan Product Liability Council. This group is composed of senior Marsh & McLennan professionals selected on the basis of broad insurance experience, extensive client contact and a reputation for open-mindedness.

There will be no easy solutions. Product liability is largely a social issue. Its roots are in our tort system of justice – which in this case is intolerably slow, capricious and cost-inefficient. Tort reform is essential but it is a long way off, dependent as it is on legislative action and public acceptance.

Meanwhile, what can be done?

A great deal.

• Means can be sought to attract new capital into the insurance underwriting markets which would do much to ease the upward pressure on premium rates. (One unexpected source might be the extra capacity made available by more careful scrutiny of tax laws and regulatory provisions that seemingly encourage purchase of insurance solely for accounting and administrative considerations.)

• Greater stress should be placed on loss prevention, leading to fewer claims, with good effect on future rates. Specifically: tighter controls over all aspects of product design, manufacturing, marketing and distribution to insure compliance with warranties, given or implied.

• Much remains to be done in the effort to improve the essential structure of liability insurance programs. Policy language, methods of rating and exposure data information – each of these areas often fail to respond satisfactorily to the needs of both insurer and insured.

All the while, of course, the Council will bear in mind that long-term legislative and public education goals are absolutely essential if the current crisis is to be resolved and repetition avoided.

What's an insurance broker doing in all this?

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This is just such a case. We feel our special talent and depth of professional experience places us in a unique position where we can become part of the solution.

If you'd like to know more—or have suggestions to offer—write to the Product Liability Council, Dept. 200 H, Marsh & McLennan, Incorporated, 1221 Avenue of the Americas, New York, N.Y. 10020. We'll send you reprints of several articles on the subject.

Members of the Product Liability Council, San Francisco, February, 1977

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Foreign insurers . . .

Continued from page 31

be considered "foreign owned." The Commerce Department arbitrarily uses ownership of more than 10% of a company's stock to distinguish between general stock ownership and a direct investment.

NAM sent one reinsurer a list of "foreign" business representing risks NAM had either quoted or bound, noting that there were some "surprises" like Timex Watches, Stouffer Restaurants and Clorox Bleach.

Although Clorox is on the NAM list, a German firm owns only 14% of its stock. A spokesman said Clorox was perplexed at finding itself on a number of lists in the financial press and elsewhere which indicate it is foreign when the ownership is so indirect. The management is still distinctly American, he said.

One twist *Business Insurance* found in foreign-owned businesses arranging their insurance coverages in the United States concerns U.S. businesses acquired by European firms.

For instance, the Oxford Pendaflex Corp. in Garden City, Long Island, was acquired by a Swedish firm Esselte AB in July 1976. At Oxford, a major manufacturer of office filing equipment and supplies, the insurance buying procedures haven't changed at all except for the fact that budgets are approved by Esselte, according to William I. Thompson, Oxford's president.

N. Robert Sorensen, Oxford's assistant treasurer, continues to run the firm's insurance department as he did before the acquisition. "I *am* the department,' he remarked, stating that Oxford continues to use Factory Mutual for property coverages and Liberty Mutual for general liability, workers' compensation and auto liability.

U.S. companies which are acquired by foreign firms need not lose their American identity. Large multinational corporations realize that existing management should be retained to insure continuity and profitability, Oxford's Mr. Thompson said.

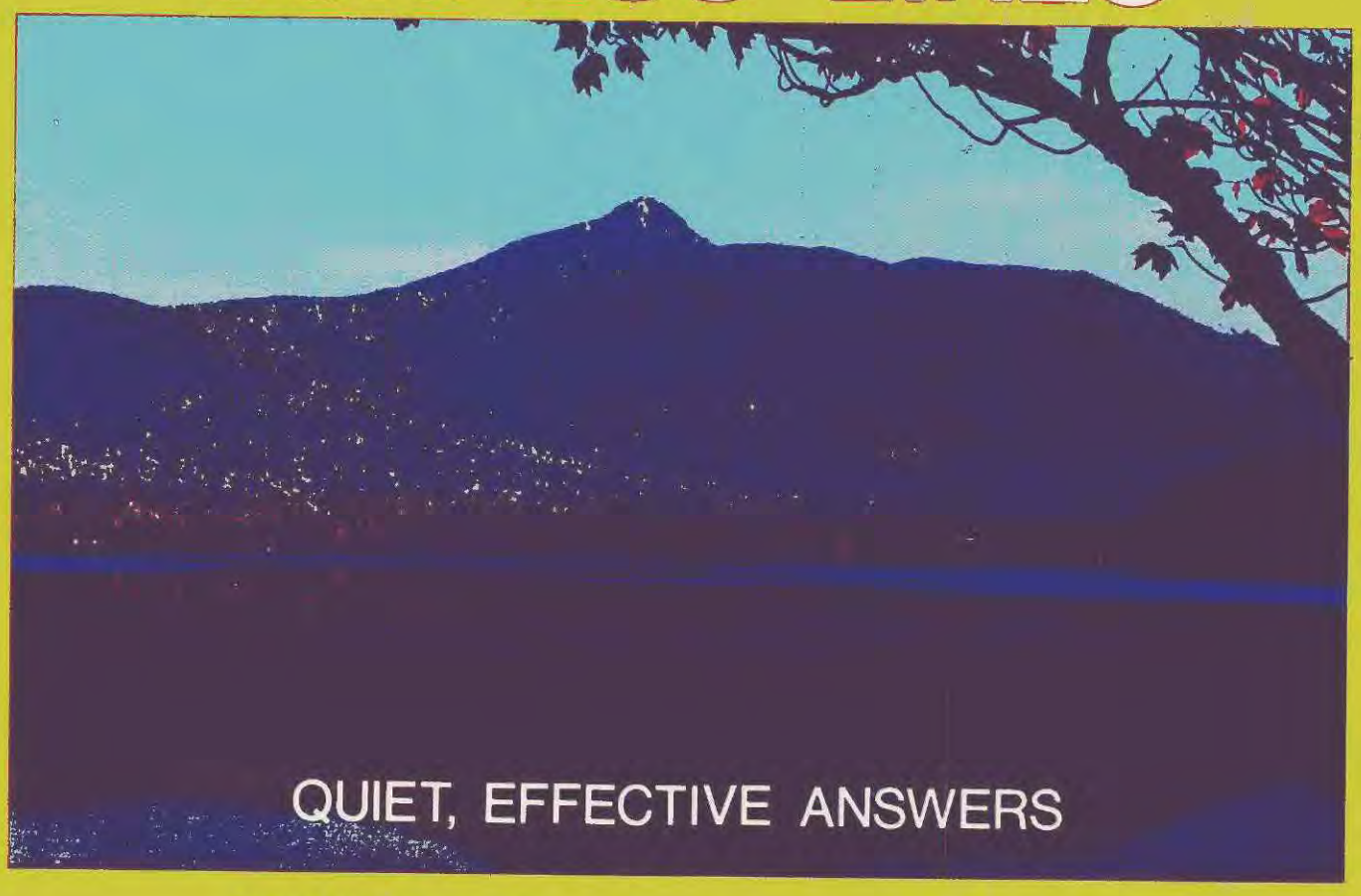
In a related development, Frank Raab, president of the Allianz Insurance Co. in Los Angeles, the U.S. branch of the German insurer which bought the General Fire & Casualty Co. from Greyhound Corp. last year, said Allianz doesn't write any accounts for German risks in the U.S.

"Those German risks are pretty big," Mr. Raab said, explaining that Allianz was organized as an American company and is writing American business. However, he said he hoped that within a year, Allianz would start picking up the accounts of German operations in the U.S., and that it would use both medium and large-sized U.S. brokers to help it do so.

Even though Oxford Pendaflex's insurance program did not change, the remarks its president made in a speech may best explain why insurers feel there is a fruitful market to be tapped writing U.S. risks of foreign business:

"The simple fact, and a startling one," Mr. Thompson said, "is that U.S. manufacturing has the highest prductivity and lowest costs of any in the world. This, combined with lower inflation, fewer labor demands and a stable government and economy, make the U.S. the prime target now for foreign investment capital." ■

SURPLUS LINES



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Tape theft results in tight security

ROTTERDAM—Industrial security is being tightened in northern Europe after a bizarre $350,000 ransom demand over valuable computer tapes stolen from the Holland center of the big Imperial Chemical Industries group.

But specialist underwriters in Lloyd's and other markets are not believed to be planning any immediate steps to extend theft or fidelity insurance to guard against such unique circumstances since they are difficult to insure.

The only possibility, one international broker in the London market said, is that some of the insurers who handle kidnap risks might offer some form of 'gimmick cover" against similar commercial ransom activities.

"It's such an unusual event that it would be difficult to rate as it's really impossible to quantify the value of the risk involved," he added.

Industrial espionage is a field where comparable risks for loss of business might be covered to some extent, but most brokers believe normal theft or damage policies would have to take care of such contingencies if there was any direct financial loss other than ransom payments.

In the risk management field, many believe companies should always arrange to have vital computer tapes duplicated and kept in separate offices so that if they are lost through fire or other causes there is adequate "back up" material to keep a company functioning.

The story of the computer ransom began in Rozenburg, where the I.C.I. group stores on tapes much of its information about future operations in Europe outside the U.K.

Two men, one a former employe, got into the plant by tricking security guards with apparent satisfactory credentials, and removed more than 600 tapes and discs from the offices. Then they drove to another I.C.I. office in Rotterdam and loaded the identical duplicates into their auto.

This defeated the normal protection systems based on duplicate records. Knowing that it would cost the industrial group more than $150,000 and many weeks work to replace the tapes, they telephoned its managing driector in Holland with a $400,000 demand for their return, but then lowered the payoff by $50,000.

However, the men were arrested in London before they could destroy the tapes and now face trial in Britain's Central Criminal Court. ■

Nationalism tangles Latin American risks

By JOANNE GAMLIN

LOS ANGELES—Growing nationalism and increased insurance restrictions in Latin America are complicating the task of U.S. risk managers with operations there.

Although laws prohibiting further outside investment in insurance can be found throughout the world, a U.S. Commerce Department study says restrictions are most often imposed by less developed countries.

As a result, insurance restrictions are a common feature of the Latin American landscape. A 1965 law in Venezuela, for example, requires insurance companies operating there to be at least 80% owned by local residents.

A risk manager for a large Midwest corporation said his company pulled out of Argentina and Peru "because of the political climate." A spokesman for the American Foreign Insurance Assn. (AFIA) said Peru was a particularly difficult country in which to operate.

The Midwest risk manager said his company still operates in Venezuela. "And we comply with their stringent insurance laws regardless of costs," he continued. "We figure that property coverage

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costs us from 25% to 75% more in Venezuela than it did before we turned to local coverage."

Even though his company has worldwide coverage, it has elected to purchase additional local coverage on a selective basis.

"We buy locally admitted coverage wherever it is required," he said. In the past, some countries did not appear to have teeth in their insurance laws and the all too-human tendency was to ignore them, he said. Now companies are looking more carefully at compliance with laws overseas.

Captives can also be affected by the proliferation of restrictive foreign insurance laws, according to an official of an international insurance company based in New York.

Due to the fact that reinsurance monopolies exist in Argentina, Brazil and Chile, a risk manager for a company with important subsidiaries in South America could get into trouble if he wants to establish a captive, he said.

There are about eight categories of restrictions that can be imposed on the insurance business, according to a paper by Ronald F. Shelp entitled "The Proliferation of Foreign Insurance Laws: Reform or Regression?"

One restriction used in Latin America prohibits direct foreign investment in insurance. Mr. Shelp points out that Chile, Colombia, Ecuador, Peru and Venezuela have agreed that no further foreign investment in insurance will be allowed.

Mr. Shelp adds that while the decision does not require divestment in foreign insurance investment, two countries, Peru and

Continued on page 34

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Some different approaches to surplus lines.

Latin risks . . .

Continued from page 33

Venezuela, have "passed additional legislation permitting only 20% ownership by foreign investors in insurance."

Another restriction is mandatory local incorporation and national ownership requirements where a government requires that all insurance activities within a nation be conducted by locally incorporated companies. National ownership rules may also be simultaneously imposed. Mr. Shelp says that Guatamala is among the nations that have required foreign branches and agencies to convert to local corporations.

Government procurement policies can be another form of discrimination affecting foreign insurance operations. In Argentina, state properties must be insured by the Caja de Ahorro Postal, a government-owned insurance company. Argentina also requires that all enterprises that have received benefits from the government—for example, tax forgiveness or import duty exceptions—must insure with a local company.

Compulsory use of national and regional reinsurance companies is another form of restriction cited by Mr. Shelp. Brazil, Chile and Peru all require that external reinsurance transactions be channeled to a national entity.

Restrictions in other Latin American Nations are detailed by the Department of Commerce study—"U.S. Service Industries in World Markets." Mexico demands that life insurance companies be incorporated domestically and that more than 50% of the ownership be held by domestic interests.

The Commerce Department study goes on to say that Mexico's licensing and exchange control importers make obtaining authorization to remit insurance premium income difficult.

In Argentina, the department says there is discrimination in the areas of reinsurance, taxation and placement. It notes that in 1973, compulsory reinsurance with the State Reinsurance Corp. (INDER) was boosted from 30% to 60% and foreign companies were required to make compulsory cessions in various classes of accident business.

Among other large South American countries, Brazil restricts new foreign ownership of national insurance companies to 30% and limits the placement of insurance and reinsurance abroad to risks that cannot be covered in Brazil.

Similarly, in Chile, insurance ownership is restricted by a law that requires at least two-thirds of capital of Chilian insurance companies be issued to Chilian citizens.

What can be done about these restrictions? The U.N. Conference on Trade and Development (UNCTAD) and the insurance committee of the Organization for Economic Cooperation and Development (OECD) are two groups with jurisdiction.

"The insurance industry is dissatisfied with efforts in both existing forums," says the Commerce Department, "and has urged that its problems be taken up in the multinational trade negotiations.

At least one insurance executive believes those GATT (General Agreement on Tariffs and Trade) talks are the proper vehicle for negotiation on insurance questions.

"GATT traditionally negotiates non-tariff barriers," he said. ■

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Brokers abroad: U.S. firms' leg men

By KATHRYN McINTYRE ROBERTS

CHICAGO—International brokers are the leg men for risk managers of American multinational corporations.

They can get good prices in the marketplace. Their worldwide network of offices gives them access to local insurance regulations and developments. Their local representatives can provide local services to the distant operations as well as link them to the home office.

Business Insurance interviewed 15 risk managers and five international brokers to determine how risk managers utilize their brokers in protecting overseas risks.

The pattern that emerged has more facets than the crown jewels of England. Each risk manager has different needs depending on his own expertise, the scope of his company's foreign operations and his own risk management philosophy.

One recurring highlight, however, was the risk manager's active involvement in the broker's work. The risk managers said they develop the concepts behind their programs and even participate in the marketing of the insurance. That involvement runs counter to the accusation of one risk manager that "in international insurance, the insurance manager fails to identify his needs. He lets the broker do the package."

Even brokers agreed that the risk managers they work with on international insurance generally know what they want and are deeply involved in the insurance program. Said Bruce W. Shinabarger, senior vp at Schiff Terhune International, "Most risk managers are quite knowledgeable in this area. Once they undertake it, they see the problems are similar to domestic problems."

Jonathan M. Chettle, vp at Fred S. James & Co., agreed, "There's a great number of terribly confident risk managers. They are experienced if they've been through it a couple of times. But a new risk manager at a multinational company who has only worked on domestic—he'll come to us and say, 'I don't know what I've got.' We'll find out what insurance they have and then put together a program that fits the needs of the corporate philosophy and the regulations of the country they are in. And we'll get the insurance."

Although Hamilton M. Loeb Jr., senior vp of Reed Shaw Stenhouse Inc., conceded, "There's a great deal of sophistication among risk managers in the international field," he suggested, "What the broker has to offer—that the risk manager cannot have himself—is a complete awareness in all parts of the world as to regulations and markets."

INTERNATIONAL

But markets—which ones to use and how to negotiate—is an area risk managers mentioned frequently to cite their involvement in their international programs.

Spencer J. Traver, director of risk management at B.F. Goodrich Co., discusses potential markets with his broker before any contacts are made. "That way you can screen out companies you don't want," he explained. When there are decisions to be made and policies implemented, Mr. Traver said, "We go talk to the underwriters."

Martin R. Flink, insurance manager for Standard Oil Company (Indiana), accompanies his broker to meetings with underwriters. "I didn't do it in the beginning. But then I ran into a problem. I was unhappy with a premium and I insisted on seeing the underwriter."

Now Mr. Flink makes a habit of meeting regularly with his Lloyd's underwriter. "I want to be sure the guy paying the premium and the guy paying the losses have an understanding," he explained.

Harold E. Meeks, manager of casualty and property insurance for the Aluminum Co. of America, agrees risk managers should meet with their underwriters. In addition to developing a better understanding between the insurer and the insured, Mr. Meeks said the practice can avert delays in finalizing policies.

"None of us can anticipate all the questions another party might ask," he said.

Of the international brokers interviewed, none objected to the practice. "In many cases it enhances the presentation," said George Corde, senior vp of F. B. Hall.

Fred S. James' Mr. Chettle said it's "quite healthy" for a risk manager to attend meetings with an underwriter. "The risk manager knows the operation better than anybody."

Not everyone, however, agrees the exercise is necessary. Said William Betcher, general traffic manager of Commercial Metals Co., "That's what the broker is for. If you didn't trust your broker, you'd go."

But risk managers who do think the company-underwriter meetings are necessary cite other reasons for engaging a broker.

Mr. Flink explained, "We need so many markets and we don't have enough volume in any one market to get good premiums. The broker has more clout." Mr. Meeks said, "Brokers can exercise some positive influence in the marketplace for their clients. They have purchasing power."

Brokers also have a well of knowledge that risk managers like to dip into now and again.

Mr. Meeks said, "I find them particularly helpful when we start operating in a country for the first time. If they have an office there or clients in that country, they are familiar with the insurance regulations there. They can make recommendations to meet the statutory requirements."

He added, "The broker can make suggestions on how the market might respond to a different level of retention, or a different level of liability—whether it is more expedient to tack something on to one policy than to look for it separately."

Although his company has operations in 42 countries, Mr. Flink said he doesn't need a broker to keep him informed on the various regulations. His concern is that the broker provide him with new approaches to managing risks. "We develop the concepts here, but sometimes the broker has something new," he said. "We want him to be innovative. We don't have all the answers. The broker sees things I never see—he's in the market everyday."

Allan Pearce, risk manager at Aminoil U.S.A. Inc., has a similar approach. "Our philosophy is we need to work as a team. We need brokers for the market—and also for innovative ideas." To be sure his broker will suggest a new approach—such as self-insurance—Mr. Pearce keeps his broker on a fee system as "an incentive."

International brokers operate with a worldwide network of offices through branches or correspondents. These offices can provide local services and act as a line of communication between the home office and its overseas op-

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Going direct to London

Since risk managers already meet with their underwriters in the presence of their brokers, what's to stop them from eliminating their brokers?

Nothing, says a western U.S. Risk manager who has arranged his own audiences with London underwriters.

"You can function in the European markets without a broker," he says. "But you need a significant premium and you have to be above the normal loss level. You can't hand them a stream of losses," he advises.

The benefits are "you save the brokers commission," and, he stressed, "you get to know good people and they get to know you."

Jonathan M. Chettle, vp of Fred S. James & Co., said, "You can go direct overseas in some countries. But you might find the quote is different than a broker would get. The underwriter may include the broker's commission in the underwriting side. Of course, no insurance company will confirm that, but let's say—it could happen."

erations.

Goodrich's Mr. Traver explained there is a "vast amount of administrative detail in international business." The broker's foreign offices are helpful, he said, to explain insurance costs and coverages to local managers.

Stanley C. Bartecki, operations officer for the First National Bank of Chicago, prefers his foreign managers engage brokers who have offices in Chicago to facilitate communications. The local managers are responsible for obtaining their own insurance, based on guidelines, and Mr. Bartecki reviews their programs.

For the most part, risk managers gave their international brokers good grades. However, there were a few 'Ds'.

Aminoil's Mr. Pearce said that even though his office prepares extensive underwriting data, the broker "so often misses pertinent facts. They just don't understand and then they develop a wrong program design." He also complained there is a "lack of follow-up," particularly on getting renewals completed early.

Schiff Terhune's Mr. Schinabarger suggested risk managers who are presented with confused programs "get a new broker or a new account executive." He defended brokers on delayed renewals saying, "The insurance company is the back-logged one."

Inconsistent service from overseas offices of a broker was another criticism. Goodrich's Mr. Traver said, "As a general rule, the brokers aren't nearly as effective in the foreign context as the domestic." He suggested that correspondent relationships don't always make for the best service since the foreign broker is more concerned with servicing his own accounts (with full commissions) than servicing accounts for American brokers (with shared commissions).

A recurring bit of advice from risk managers was: Don't prejudge performance on the name of a firm—consider the person on the account.

Jack Hunter, property and casualty insurance manager for Revere Copper & Brass Inc., said, "You can get excellent service from a broker you have never heard of and poor service from a broker who is on everybody's lips. It all depends on the individual working on the account and how well the risk manager handles the portfolio himself."

Risk managers unhappy with one broker needn't worry about finding another.

Waste Management Inc., which just started an operation in Saudi Arabia, found there was a lot of interest in its international insurance needs. "We got a lot of phone calls from people who had never contacted us before," said insurance manager Donald Haufe.

And Bob Thomas, insurance manager of Penrod Drilling Co., said when his insurance was up for renewal, "We had brokers running out of our ears." ■

Swiss insurers face new liability risks

ZURICH—New laws are providing a climate in which Swiss insurers are likely to face major risks over general liability business. Rising costs of hospital and medical care are keeping personal casualty claims at a high level, but

INTERNATIONAL

there has been a drop in auto losses because of more stringent traffic rules.

Those are the assessments of Dr. Emile Meyer, of Lausanne, general manager Swiss Accident Insurance Society, in a survey of domestic trends for the Swiss Credit Bank.

Commenting, on the rise in crime, he said "Fire insurers in Switzerland are worried by a series of major claims, some of a criminal nature, despite modern fire prevention installations.

"The same holds true for transport insurance, where doubtful claims are on the increase, especially in the transit of goods to the Middle East.

"Road shipments have been known to disappear without trace because of the complexity of transit routings, and there is an ever-rising crime rate which is putting a strain on the theft insurance sector."

Technical losses are also being incurred on foreign accident and casualty insurance, he reported. ■

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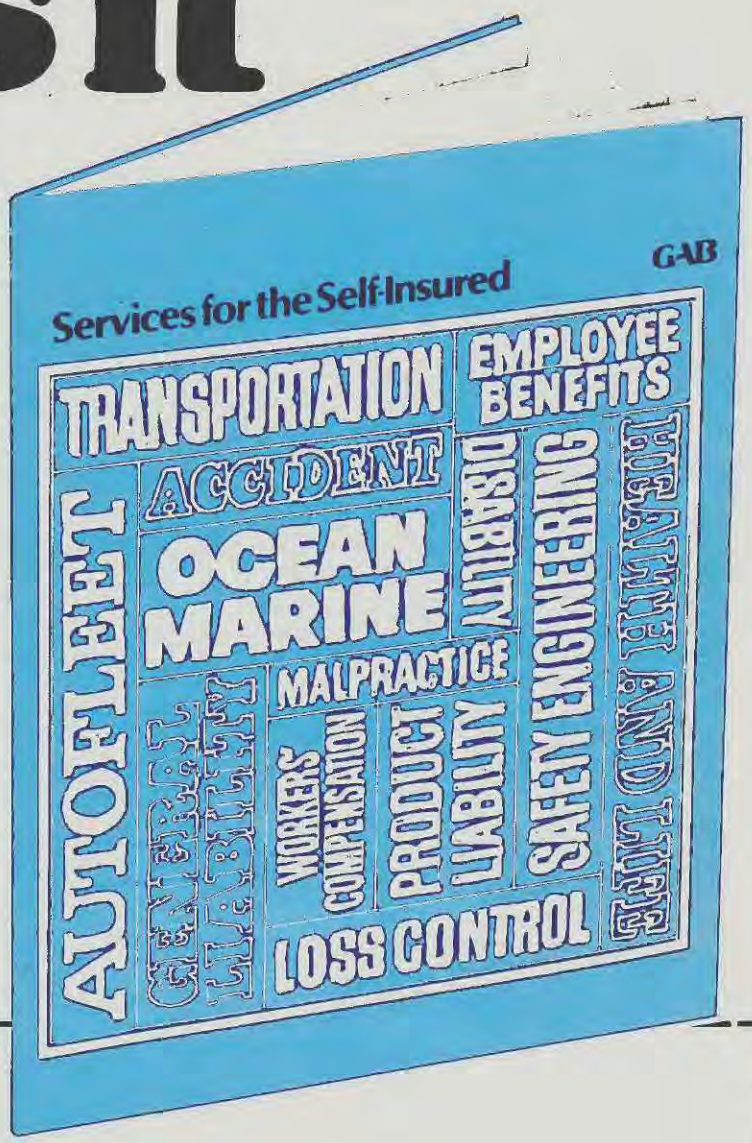

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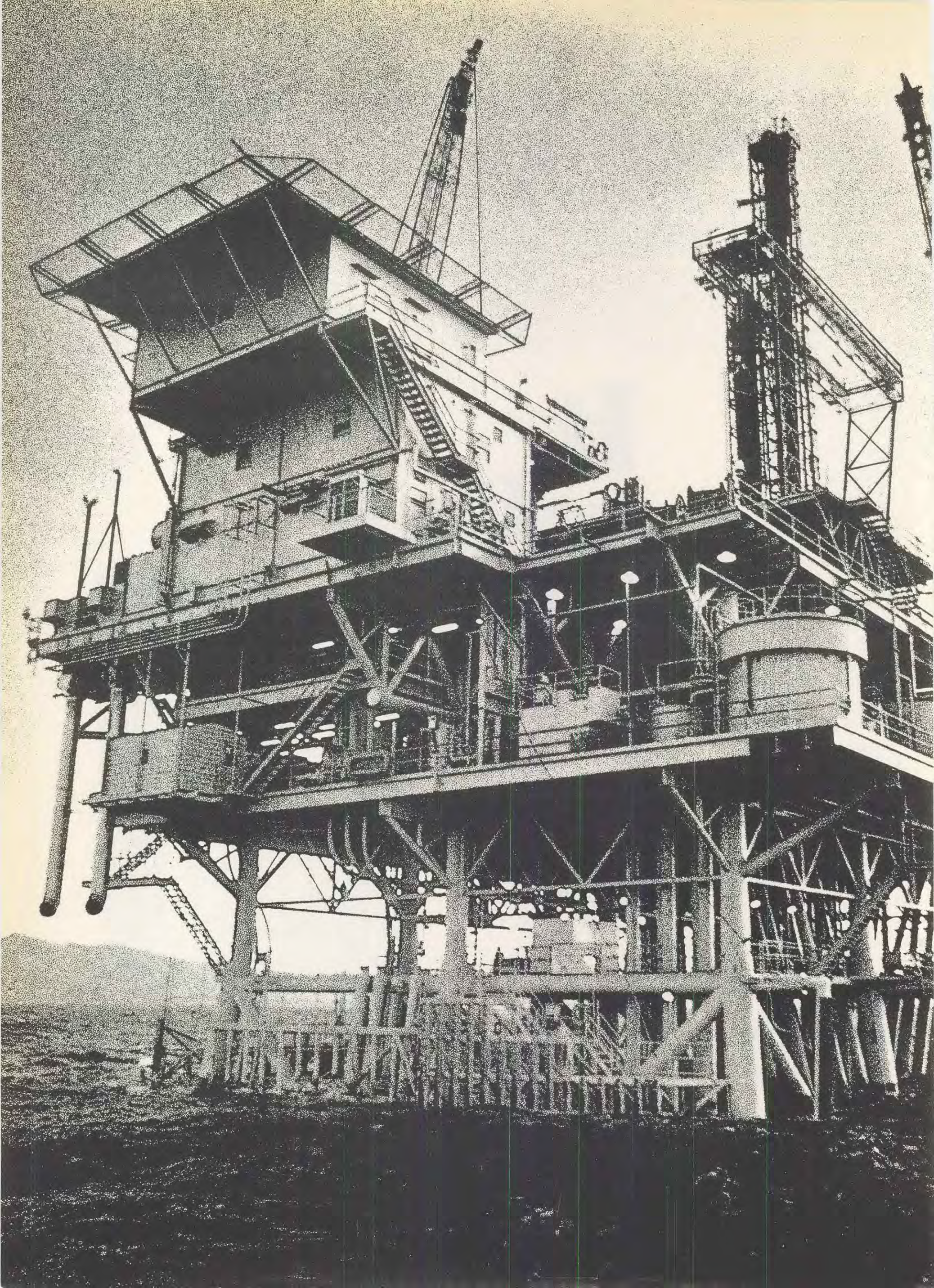

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PERSPECTIVE

Managing international risks: 5 experts discuss the problems you face

The new Common Market liability law is one of many developments that are affecting the risk management programs of multinational corporations. To help risk managers tackle those problems, Business Insurance *invited three insurance management executives and two international brokers to a roundtable discussion. Participating were Joseph R. Gullo, director of insurance for Richardson-Merrell Inc., Wilton, Conn.; Norman B. Chanzis, corporate risk manager for American Standard Inc., New York City; and James J. Andersen, director of insurance and safety for Norton Simon Inc., New York City; Edgar S. Clark, vp of Alexander & Alexander, San Francisco; and Harold R. Talbot Jr., vp of Marsh & McLennan's multinational insurance services, New York. Moderating were* BI *editor Susan Alt and features editor Margaret LeRoux.*

The participants in the risk management roundtable (left to right): Harold R. Talbot Jr. Edgar E. Clark, Norman B. Chanzis, James J. Anderson and (sitting) Joseph R. Gullo.

INTERNATIONAL RISK MANAGEMENT ROUND TABLE

MS. LeROUX: I assume you are all familiar with the proposed Common Market Liability Law. What effect do you think this proposed law will have on your operations overseas?

MR. GULLO: It's going to be trouble, no doubt about it. We have enough trouble right now trying to maintain a worldwide liability program. I have got a book here called "The Law and the Reform of Drug Liability," a translation from the German document. There are a couple of things here that had me scratching my head. You are talking about the EEC, not the German, bill right?

MS. ALT: Let's take the EEC law first. That's the standard that may well become worldwide.

MR. CLARK: I don't agree it's a standard for anything.

MR. GULLO: The Japanese are studying it. They have already made a proposition to the committee.

MR. CLARK: Norway already has absolute liability.

MR. CHANZIS: You mean absolute liability in terms of what the United States has right now.

MR. CLARK: It's tougher than that: The absence of fault.

MR. GULLO: We have to buy the equivalent of 25 million European units of accounts (UACs) worth of insurance under the EEC law.

MR. CLARK: About $30 million worth.

MR. GULLO: That's not too bad. But how this liability is going to mix in with your worldwide excess umbrella now could be a problem because you are going to wind up with different liabilities and different reasons for having those limits, and different conditions within those limits, and there goes the worldwide program.

Insurance is difficult enough to obtain right now. I know some companies are having trouble maintaining coverage. They are not getting the capacity and limit that they want.

Within the EEC's standard, the German law is going to cause wrinkles. Germany has decided to change it, France has decided to change it, and the next thing you know you have got exactly the kind of thing we tried to prevent on a worldwide program; that is, these local idiosyncrasies.

Almost all of us have some sort of underlayer policy that takes off from the excess umbrella worldwide, and that is a different umbrella than we have in the United States. From there down you just handle your local level with a deductible or with local insurers for some small amount—it used to be some small amount like $30,000, not up around the $2 million retentions used now. You used to be able to work with a two-million-dollar figure. Now you have got a 200,000 Deutschmarks in Germany and 25 million European units of account for all of the Common Market.

The point is that you see the splintering starting to happen. You used to have it pretty easy controlling the worldwide program. Now you are going to have to be an expert in every country before long. That is not going to help a risk manager. We have got enough trouble without adding that to it.

MR. CLARK: The basis of liability is different in each country. It has always been one that people should be facing and in most cases haven't because they relied on the worldwide umbrella, forgetting that the umbrella doesn't cover the absolute liability for pollution in Germany, Austria, or Switzerland, for example, that already exists.

It may not cover the absolute liability that case law established in Norway.

You have been lucky if you haven't had a case that tests your IC or umbrella, whatever you want to call it.

MR. TALBOT: The problem hasn't arisen, because the mentality in Europe particularly, or anywhere else in the world, has been different from ours. I have a very cautiously optimistic view of this whole subject, frankly, because the context within which legislation as a whole in Europe is passed, when it comes to consumerism or anything to do with the welfare of individuals, is welfare-oriented. It's not reward-oriented, if I can use that term, as the courts have seen fit to make United States legislation apply.

In other words, you get a reward for being injured or sick, or whatever, in terms of the history of the United States judicial system, whereas in Europe the whole movement right across the board, legislation and everything else, is a much more socially-oriented system, one which is controlled. It may be excessive in certain countries, like we talk about the U.K. and Italy going broke because of excessive social legislation.

This is another element of social legislation. Therefore, I don't really foresee the onslaught of tremendously high claims occurring in Europe in any way comparable to the way you have in the United States for some time. This is just because the mentality is completely different.

MR. ANDERSEN: I think the world through the social security type of system is taking care of people; not so here.

MR. CLARK: It's going to be terrible for the local countries' insurance industries because they are not ready for it.

MR. CHANZIS: How many of our overseas facilities—before you got involved in a program—would actually purchase local liability coverage on their own? We have tried to measure "X" shares of risk from our standpoint with all our DIC and casualty, fire, and legal liability, and independent contractors, elevators—this is nonsense, in my opinion.

I am not accusing the brokers of trying to sell something, but what I am saying is you look at the risk and you can count on your fingers the number of products cases that you had, particularly in Europe

When they do come up they are usually, we find, a matter of sound business practices, whereas U.S. insurers use adjustors as buffers, offer good will, and they go out and generally try to obtain the good will and settle on the basis of no liability at all just to keep the public happy.

MS. ALT: Except for insurance-related impact, do you think this will have any effect on your operations?

MR. CHANZIS: To some extent. I think the key to it is how quickly the lawyers in Europe pick this thing up. I don't think they can make as good a thing out of it as they have in the States, but to some extent, yes, we will start seeing numbers if indeed we have a Common Market situation.

MR. TALBOT: There is a built-in edge on that history of the way the legal profession is practiced in most European countries.

MR. CLARK: The only thing you have to worry about is a combination of overreaction of the insurance industry in a country and the worldwide reinsurance industry that deals with international insurance.

You also have to worry about the overreaction of local legislatures. I think that is what is going on in Germany right now. They had a problem with Contergan —I don't know who makes it, it's a sleeping pill used by pregnant women.

The insurance industries have never afforded insurance because in German insurance policies there is no insurance unless it is scheduled. And the couple of manufacturers of Contergan never scheduled the coverage. The government stepped in and paid those losses on a social security-type basis.

That, then, led to this proposed legislation that Joe talked about, which is compulsory pharmaceutical liability on an absolute liability basis. This is where you have to be careful, I think.

I think also the thing you have got to do is put the draft legislation in perspective. I don't think for the major American business of insurance that it's a big problem. It's a huge problem for the little guy, for the little exporter, because not only is it absolute liability, but any firm that makes something in the manufacturing process is absolutely liable, not just the final manufacturer. It's a $39 million, ten-times-a-year limit when the product is put into circulation by the producer.

The other sleeper in the proposed German law is that you can't contract out of your liability with either the chain of people involved or the ultimate consumer. That's different from other laws.

MR. ANDERSEN: Don't you think this new German situation is the long-range result of the initial Thalidomide situation?

MR. GULLO: Definitely. I think it's very definitely one of the things that you can read into everything that's being said in the law's preamble. The Thalidomide-type situation is what they have in mind when you read this, because you can always imagine that as you come down through this, which makes the text easier to read, because you know basically what they have in mind.

MR. ANDERSEN: If you take what we are now calling consumerism, or whatever our problems are, with these awards being given, and equate the initial award given in Germany to what have been given out on a similar product in the States and in Canada, it's incredible, absolutely incredible, what the difference is.

MR. CLARK: There is another thing you have to watch out for if you have heavy operations in France and Germany, and that's the class action suits allowed in those two countries, but not allowed in the U.K. That to me is a slightly scarier thing.

MR. CHANZIS: Coming back to corporate philosophy, to what kind of limits you are going to have, and where, it's our philosophy as a good neighbor going into a country that we will buy limits to take care of the ordinary situation, the modest situation. If an accident occurs in France, for example, we want a French insurer representing us with French lawyers in front of a French judge. If the situation is very significant, I am pretty sure the parent would step in anyway, for the sake of the company.

I can't speak for management, but I would think that our concern is long term. And I don't believe that the defense counsel in Europe or elsewhere or plaintiffs' counsel, for that matter, have the expertise where we would like the company name in their hands on anything significant.

MR. CLARK: Do you get a chance on all your local insurance in France for example, to buy full French coverage for whatever might occur under French liability laws? If there were a serious lawsuit can you bring your own attorneys in in lieu of theirs?

MR. ANDERSEN: They plea for that. They don't have the in-house capability; not just in France. Anywhere.

MR. TALBOT: The person in France, when he gets stuck in a situation, wants his lawyer in there to help. This is the

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INTERNATIONAL ROUND TABLE

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could at least find out what was happening around the world on a particular situation. And I could complete the whole program of liability and fire and business interruption.

Some people were doing a fair job; some people were doing a terrible job. I know that I could tell the management we were covered for three minimum things. The first one was glass breakage; but I couldn't care less about that. I was concerned about the primary exposure and property damage and loss of profits.

It's a long evolutionary process to find out who the best broker would be in a certain area. I don't have time to do that, so I take the easier course, and admittedly there might be a broker who is twice as capable as the one I am using, but at the moment I don't have the time to worry about that.

MS. LeROUX: I would like to talk a little bit about the use of insurance markets for overseas exposures. How about in the future? What are you planning for the next five or ten years?

MR. ANDERSEN: There are several large associations of insurers, like the AFIA and AIU which have the physical capacity and financial capability of servicing a worldwide insurance program. I believe in going to them.

MR. CHANZIS: Our worldwide program from the standpoint of risk management.

When we began our program with the particular carrier, we simply felt it was great: We have the brokerage facilities, we have the insurer's facilities. I don't want to be told that I have got a 200% loss ratio in Italy. I want to know why, what products

HAROLD TALBOT: "I don't really foresee the onslaught of tremendously high claims occurring in Europe . . . because the mentality is different."

are involved; I want the typical type of loss runs we get domestically. Absolutely. After four years, forget it. We went elsewhere.

MS. ALT: They were just not coordinated?

MR. CHANZIS: No. I don't know that it's the capability or willingness. I agree with you in terms of capability, but usually, Sandy, we are talking to guys who are United States-oriented, not locals in Brussels, but guys who worked back here. We wanted to know where our losses are, and haven't been able to get them. They haven't been extensive enough.

MR. CLARK: They have the same problem as the guy who was trying to set up a multinational program has, no different. It is an internal management problem.

MS. ALT: Do you think a risk management person in each of your operations should be named to give you this information?

MR. CHANZIS: We have suggested, indeed, for the long run that a risk management counterpart running the operation and reporting back to us in New York would be desirable.

MR. CLARK: I am surprised you don't have that, because there are a number of firms that have.

Let's define our terms. The risk management function can be accepted or assigned to somebody in each country. You don't have to have a full-time person. It can be the manager's secretary in the United States or assistant manager in Germany. He can coordinate with you. There are a number of companies who do have the full-time risk manager in an area. I think it's a good thing to do if you can afford it, but a lot of firms can't afford it.

MR. CHANZIS: In terms of the long run we have under consideration a European risk manager who would be in our headquarters in Brussels for our two major groups. Now, those two groups are starting to shake hands for the first time in 10 years, so we will have the possibility of working together.

So we have suggested that, indeed, we would be happy to train one guy I have in mind who would run the program as part of his function, not full-time. He has benefits part time. This would be a big help to us in our particular circumstances.

MS. ALT: What do you think about this, Jim? Do you need people to give you that loss information?

MR. ANDERSEN: I think we have it, as far as knowing what the problems are. The only way I feel comfortable with that is going over and sitting down with the management, going through flow charts and suppliers and customers and all the problems that are peculiar to the country, to find out what the overall situation is.

The continuing information flows through profit-and-loss reports and statistical analyses that I ask for, and it becomes just one of the reports that are filed through staff.

MR. GULLO: I am very fortunate in that when we go to a foreign country we build our own plant to our specifications, do our own thing. Our product, being an over-the-counter or ethical drug, is controlled so very much by a governmental body that when a claim comes up it becomes very important because it may mean the future of the product is at stake.

When one case comes up, the whole product is reviewed in committee and the whole quality assurance committee gets together. I am on both. I can count my foreign losses on one hand, both product liability and auto liability. We just don't have the frequency or the severity.

MR. TALBOT: Let me talk about the broker's function for a second. As a broker, I feel the broker's job is really twofold. On the one hand we can be consultants, idea boys, innovators. We can help in planning strategy. On the other hand, in the local technology we are hewers of wood and carriers of water, depending on the structure of the company. If you have four major locations abroad and that's all, then it's probably in your interests from a cost and knowledge viewpoint as a risk manager to have a lot of that hewing of wood and carrying of water done by yourself and your department, small or large, than to spend a lot of time training individuals in the plant, in the facility abroad, to do a part of that whole.

If, on the other hand, you have got a 40-country spread, then you probably can get the hewing of wood and carrying of water of a technical nature done more cheaply and efficiently by a broker network, where there is consistency. Just from a pure administrative and cost question, it's cheaper and more efficient.

MR. TALBOT: You ought to pay for what you get and no more. In other words, more and more brokers—certainly in this country, abroad it's a little different—but more and more brokers in this country are actually prepared to talk about what they earn. If a broker isn't willing to do this, I really feel he shouldn't be a broker. There is a problem when you are dealing with a foreign broker if he is not tied into a big American firm. He probably isn't cost accounting-conscious and doesn't know what your account costs him to handle. He hasn't really thought in terms of the types of services he renders and their value. He is not really prepared to say, "I will negotiate with you what you should pay."

MR. GULLO: One more point on that same subject. You can get special services from a broker in a small country where you don't have a large insurance budget, whereas it would be small potatoes with anyone the locals went to—in Guatemala, a fellow spending $3,200 a year on insurance can't command any attention at all from a broker, whereas, with one broker worldwide, that local fellow gets the same

NORMAN CHANZIS: "We attempt to find out in advance when our various groups in Europe call their annual controllers' meeting and we get the risk manager on the agenda.

attention that I do if he needs it.

MS. ALT: Let's turn to market conditions.

MR. CLARK: I agree with Jim from a market viewpoint, that there are a limited number of international markets capable of handling a multinational risk.

MS. ALT: Are there new international markets emerging?

MR. CLARK: No. There are a lot that say they are and that's a big question in the next 12 to 48 months. There are a lot of companies, I won't name them, coming in and saying, "We can do it for you, we will write it," and they aren't worth a pot to do anything in.

The market still gets back to AFIA, AIU, Commercial Union, Continental, Factory Mutual, INA, the London market—if you use it the right way, by making sure they net line the way the American market net lines—and the Royal. Can you think of any others?

MR. TALBOT: I think there are some more.

MR. CHANZIS: The Travelers, maybe.

MR. CLARK: I don't agree with that.

MR. TALBOT: Some companies are trying, some have tried and busted their nose, and stepped back a way, but there is one company that has been active for years: Switzerland Genera.

MR. CLARK: I have them listed here. But it is not a leader because it doesn't have the service facilities that are needed in a multi-country operation.

MR. TALBOT: You do have, I think, a certain number of other companies that have the facilities. Speaking of three: Generale of Trieste Italy; RAS, which is an Adriatica group; and Allianze, on the West Coast.

MR. CLARK: They won't deal with anybody but California brokers.

MS. ALT: Even the companies you have named, though, have pulled back somewhat domestically. Are they still aggressively seeking worldwide business?

MR. CLARK: One of these companies I know is ringing doorbells of any broker in town once a week for international business. They are hungry.

MR. ANDERSEN: We make it a point in the United States market of dealing with companies that have good ratings. It used to be 5-A, but now they have changed that system. Certainly, you should carry over that same approach towards market selection when you are dealing internationally. Beware of the Shifting Sands Mutual in India, when a loss occurs. That has happened to me—when Bangladesh emerged, they were writing business like gangbusters, but didn't have any money to pay claims. The surviving company was nationalized when East Pakistan became Bangladesh. The insurance community in Bangladesh had been independent. When it was nationalized, the money was taken out.

So, that's a part of our job, too. To decide where we put the money.

MR. CHANZIS: When we drew up our program in Nicaragua we had a 50-50 partnership. The property insurance carriers were unknown to us and their broker had very little capitalization. We wrote and said we would like more details.

Our partner said they run the insurance and are not about to change. Then comes the earthquake, and we collected 75 cents on the dollar.

MS. ALT: What do you do in a case like that? Is there any statutory information that you can get your hands on, submitted to any regulatory body?

MR. ANDERSEN: I would suggest that you stick with Class A companies. If I were to give you advice, I would say stay with AFIA, AIU and so on, and just stay away from the rest of them.

MR. CLARK: If I go to the Philippines with a major risk and someone comes up with a Malaysian insurance company, I wouldn't be very happy because I wouldn't want them covering my losses in Germany or Latin America.

MR. TALBOT: Each country has its own way of saying what the balance sheet of the insurance company ought to look like. If you can figure that out, if anybody can figure that out, it's terrific.

Here I am citing names like Generale. How do I know they are any good? I really don't know, when you really get down to it, because I know that in Italian practice and legislation there is no such thing as full disclosure.

Since there is no such thing as full disclosure, what they publish in their income statement and balance sheet is very limited.

MR. GULLO: We are talking about a budgetable item—premiums—substituting that for a non-budgetable item—a catastrophic loss. If we spend under the budget and a loss occurs, we can collect the money. Where are we? We have lost something. You had better make sure your budgets are right and the money is there if you ever need it.

MR. CLARK: There are some American "Shifting Sands Mutuals" going out into the world, too. There was one company in the reinsurance market 10 or 12 years ago when we dumped them to London and killed everybody. They are going in the same direction right now. It scares me as an international broker who is as concerned as Jim is about the financial stability of the markets in which I place business for my clients.

I think it's a big problem in international buying right now.

MR. GULLO: I see a contraction of the market because there is one less company I really have any faith in.

MR. CHANZIS: There are some huge gaps. You put together a program with one of these companies that you mentioned, then go over and sell it to your local management in terms of servicing and so forth. You find that your brokerage network takes two, three weeks to even get to a claim.

That happened to us with one of the major groups. We suddenly saw these little gaps appearing in the dam. We had a program but had not really done our homework. We got a good price, great competition, but really didn't look at the service. If we started today, I would want to know much more about every country and the availability of service, no question about it.

Let's say, for example, we recommended a broker change to the carrier and he was upset over the fact that the company we were proposing had only two claims offices throughout France. They had a multitude of claims occurring year after year, and they needed more in the nature of a direct buffer than they did in terms of liability. The services weren't there.

We started backing off all over Europe and found that business was greatly competitive. We had very capable brokerage help; however, we hadn't done our homework in terms of what I wanted, we certainly hadn't. If I hadn't been alerted to some of these gaps we could have been in some serious trouble.

MS. ALT: Are you concerned about industrial security abroad? How do you handle what's happening? Is there any kind of threat? Let's include terrorism threats in this one.

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Clearing the canal

Pictured below are just two of the dozens of sunken ships which for nearly 8 years blockaded the Suez Canal during the Arab-Israeli conflict.

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INTERNATIONAL ROUND TABLE

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MR. CHANZIS: I will say that fortunately we have a corporate security director, that came under the risk manager before I came on board. Again, as I commented before, our auditors and I got together before that to handle it. It was from the standpoint, I think, mostly of pilferage. Our company lends itself very peculiarly to pilferage.

The corporate security director has within the last three months established a European security program and appointed a corporate security director for Europe. Local security companies who report back to him for any help that we might need under the circumstances.

I really can't go into depth in terms of what the programs are, but I do know that the fellow out of Brussels now has responsibility for all Europe to implement the programs.

MS. ALT: How about the insurance aspect of industrial security threats against people and property?

MR. CHANZIS: My own opinion is that coverage along those lines is not worth the cost at the moment.

MS. ALT: Let's consider also the threat of arson and external forces damaging your property or removing goods from your property or removing executives from their places of residence.

MR. CLARK: I don't think it's a big asset or earnings problem except in the kidnap and ransom area. That is where it is a problem.

I know over the past four years eight firms who have had losses of over $25 million each in Europe and in Germanic countries caused by top-level employes. That to me is an area risk managers should be concerned about.

We worked on one in Australia, $14 million, a long time ago. Because of the corporate structure and the fact that the guy who headed the Australian operation didn't have to legally report to anybody under Australian law because the company was owned by shareholders. It wasn't managed by people. The same thing is true in Germany or Switzerland.

He just went ahead and pocketed the cash. They didn't know about it until four or five years later. That was a big loss.

MR. TALBOT: It was an acquisition situation, too, wasn't it?

MR. CLARK: That's right. The risk manager made two mistakes. One, he didn't realize the substantial loss occurring overseas because of the legal system, and, secondly, management doesn't get involved enough.

MR. GULLO: I am doing an industrial security review for the company right now. I was shocked when I started asking questions, such as, who handles negotiable securities? Outside of the United States negotiable securities are used quite commonly. If you walk into a bank with one there are no questions asked, you have a negotiable piece of paper, you can demand a certain amount of money, and they have got to pay. That is something we don't do in the United States, but is common overseas.

We have quite a large excess cash position and we have a lot of hard cash put into these negotiable securities that are moving around, being discounted and shifted all over the place. So I wanted to know where, what amount, and if we have an agent, who are the agents, because under our new crime policy agents are excluded. You have got to name a specific agent if you want the coverage now.

I am causing some eyebrows to go up, and some people are saying this is none of my business. When someone says, "None of your business," you know there is a rock that has to be turned over somewhere.

I am in the middle of that now. Yes, it's a problem a lot of people don't even think about.

MS. ALT: Are there any other areas of industrial security included in your study other than who has access to cash?

MR. GULLO: This is a very big thing, talking about $77 million flying all over.

We don't have an on-premises problem from the security standpoint because we are dealing in drugs. We have a big tank in which we make the product. You have to push a button, it's in liquid form, and it's in a cage. The cage has a lock on it and the tank has a lock, and the building has a lock. And we have all kinds of silent sentry alarms.

The proper governmental agent has to come in and verify whenever anything is unlocked, when it's opened and when it's closed. No one goes near it again. We are held responsible for these drugs.

It's not a matter of counting how many bags are here today and how many are here six months from now. That stuff is computerized from beginning to end. When it's weighed we know how much has to go into the product.

If it's missing on one end—the weight here and weight there are not equal—everything is stopped because our quality assurance forces an inventory control.

It operates on a day-to-day basis; as the production line runs, everything has to be weighed out. So, it's a lot more definitized and controlled. We don't have that problem.

MR. TALBOT: One industrial security concern is the question of insurance. Can you insure it? What problems are associated with that? We have talked about that. The other is what else we can do about the risks.

I have an Italian friend in Italy, unrelated to clients, and I know certain Italian companies—not clients, but friends—where there are certain very straightforward terrorism and kidnap questions, and steps have been taken. In large, wealthy Italian families, every single member sometimes has a personal bodyguard. The risk management technique is a pretty blunt one.

We all live under the cloud that we are the big, bad Americans and therefore we are the subject of all the threats. That's simply not the case. Europeans are just as subject to the terrorism and kidnap problem as we are, if not more so. It's more particularly a problem at Fiat than a company like American Standard.

Speaking of risk management, people are using bodyguards, I know that for a fact.

Another question is the business of bomb threats, all of that kind of stuff.

There are some practical things you can do. You can establish an evacuation procedure. You can set up a plan to evacuate a building, and do it within a plan. You can do it in 10% or 20% of the time it would take you to do it if you didn't have a plan.

You can avoid the risk internally. The question of conferences, for example. Within the last couple of years every management conference in Argentina has got to take place outside of the country so that all the people in a company don't concentrate in one place. One firm I know of has all its conferences in Miami.

MR. CHANZIS: It's an interesting problem. In terms of the possibility of insuring and the possibility of loss, it just so happens our companies have been in Europe for 60 years or more. They don't have the same names they do in the States.

It was my conclusion that our overseas operations were really thought of as indigenous or European companies rather than as branches of a multinational corporation. Therefore we did not and still do not feel that we are the target for terrorists like somebody who is as well known as, for example, IBM.

Indeed, in several countries, in areas where kidnapping is so popular, my conclusions may be wrong under those circumstances. But I think it depends on your visibility and the sort of target you are. We felt we were not a target.

MS. ALT: Have any of you held meetings or educational sessions for executives in overseas operations to teach them how to avoid the kidnap risk, the direct exposure?

MR. CHANZIS: I believe to some extent that is done; because of the very confidential nature of the subject, I can't swear that it has been, but I believe it has. Perhaps between three of us here in terms of risk managers it probably has been done. To what degree is something that you have to talk to the security people about. I am happy to say it is not our function or responsibliity.

MR. CLARK: Basically, I hear it rumored around that kidnap ransom is a security function within a number of companies rather than a risk-management-only function.

MR. CHANZIS: I think, again, as a matter of a target situation, I would have to say statistics have shown that there are companies in Argentina with more of a visibility problem—what you are taking out of a country versus what you are putting in. If we indeed are contributing to the economy of the country in which we do business, that is the basis of our function. Then we should not normally be a target.

MR. CLARK: I have seen a number of major American multinationals whose crime bonds bought in the States might or might not be sufficient, maybe $5 million or $10 million. I personally believe those limits are very insufficient in terms of catastrophic exposure overseas.

MR. CHANZIS: I would have thought to the contrary.

MR. CLARK: I personally believe that they should increase those limits.

MR. CHANZIS: Are you suggesting that controls are so loose in Europe that you may have a period of five or six years where a guy could be stealing?

MR. CLARK: Yes.

MR. CHANZIS: If I tell you we had our auditors in there as regularly as we do in the States, would that ease your concern?

MR. CLARK: Yes, it would, but you don't.

MR. CHANZIS: We do.

MR. CLARK: Okay, fine. But many companies don't. They may or may not have a combined American auditing firm, may not have an international internal audit firm, may or may not be interested in getting involved in that.

MR. TALBOT: First of all, the auditor tells you he is not here to find a defalcation, although it may incidentally turn up. I am talking about external auditors, internal auditors are another story.

MR. CHANZIS: We program our audits very well. I claim no pride of authorship. The auditor came to me and said, "What can we do for you? We have got new procedures." I said, "Oh, boy." I gave him a hypothetical application for a crime bond and some other papers we had put together. I said, "This is what I would like you to look at." He said, "Wait a minute, are you suggesting? . . ." I said, "Sure I am." And they uncovered a defalcation, but caught it in time so that it was nominal.

MR. ANDERSEN: One of the hidden perils in the crime area is that it is not uncommon at all in foreign operations where your company will use non-employes and place them in positions of trust. That is one common way to commit you financially or contractually, and of course, that person is outside the crime bond.

It is not at all uncommon in advertising abroad that you will pay the company. Payment to the agent does not constitute payment to the media.

You have to be concerned about that because you cannot rest on someone else's bond, particularly abroad.

You know, in France, for example, as I understand it, French companies must be run by French nationals. It is not at all uncommon to have a French national as a figurehead only. But French law, as I understand it, gives that officer permission to draw on the company bank account.

MR. CLARK: He doesn't even need signature cards.

MR. ANDERSEN: He just goes up to the bank and says, "Here I am." He might not even be an employe. If he is the head of the company you must have a French national.

I am more concerned with the non-employes in a position of trust. That has to be monitored, since these persons sometimes have a power of attorney—such as outside accountants. I know situations where you have outside powers of attorney, such as outside accountants who have the capacity to commit you financially or contractually, and you are stuck with it by law. All these people are outside the crime bond, unless they are specifically named in the bond.

MR. CHANZIS: I have seen in the last year or so some of the major bonding companies, crime underwriters that do write worldwide now, setting forth new conditions under which they will refuse to include partnerships, subsidiaries, joint ventures, or call it what you will, unless the U. S. parent exercises financial control. They want our own people in there, and we have a heck of a time.

MR. ANDERSEN: With regard to international business there is something we didn't touch on which I think is very important. That is, buyers should be aware of management's intention insofar as loss payments are concerned—in what currency they want it paid. This is absolutely critical.

Some people feel U.S. dollar coverage is the answer to all international problems. Each country, of course, has its own insurance law. Some people feel we can beat that if we will go to the hard currency in U.S. dollars. Very simple.

I think you must take the premium and distribute it to the operating companies, subsidiaries, whatever they are. But there are only six or seven countries that allow you to pass money across boundaries like that, Belgium being one of them.

If you don't try to pass it, of course, you talk about non-admitted insurance, which raises another problem. You can't pass an expense off to someone for an item that is already considered illegal in that country. So, you are stuck with it here, because if you didn't pass it off, then you have internal accounting problems.

When a loss occurs, obviously the insurer can't pay the loss to the foreign operation. In some countries the insurer can do this, but in a lot of countries they can't claim a loss on a policy that's not in effect.

MR. GULLO: If the law is enforced to authorize you to pay that loss to that country, the IRS may still consider that it is paid claim income and you are taxed on it.

MR. ANDERSEN: That's right. You can't go to the insurer at all.

MR. GULLO: There is an endorsement.

MR. ANDERSEN: You have to be very careful with that. There might be really a total insurance deficiency loss, so we get half a loaf when you get right down to it.

MR. CLARK: We have a problem now with a client, a major operation in New Zealand, non-admitted, a little tax-gimmick, just as every other country on a profit-centered basis. This premium was passed down to the local company to pay, to be passed back to the parent company because they don't have any corporate cash, it's all operating cash. The bank in New Zealand wouldn't let them pay it out.

I have never seen that happen before. The bank in New Zealand said there are sufficient insurance markets in New Zealand, and won't allow the client to pay out.

MR. ANDERSEN: The buyer might also want to have management opinion as to what they would do if they sustained a total loss in a country.

MR. TALBOT: That's an interesting question.

MR. ANDERSEN: There is an awful lot of explaining to be done, and it's not the job of the risk manager to make those decisions. It's outside the scope of his determination. He has to have the questions asked, but it is not up to him to make that decision. This is a big decision, tremendous decision.

MR. CLARK: Take Mexico. The dollar business there was fine. Now the values are all screwed up with two devaluations. What does it mean? You are better off having peso coverage in Mexico as far as your local operations are concerned, unless half your machinery may be supplied from the States.

MR. CHANZIS: Aren't you questioning, then, the value of non-admitted coverage?

MR. ANDERSEN: For some it works. For others it's not a good idea, and the question is not really one of insurance but one of corporate planning. You have to know what the company intention is before you go ahead and make a commitment.

If you were in a country that you are using primarily for export only and you have export tax relief, certainly you are dealing with 100-cent dollars. Every dollar of expense that goes into that country, since you are not taking tax on profits, every expense is a full dollar.

Then you go into a country where the effective tax rate is very high, certainly that's where you want the expenses.

MR. CLARK: That's why captives are not a bad mechanism, particularly if you get into the reinsurance market to help you cope with that. ■

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UK rejects claims from cough drug

LONDON—The U.K. government has turned down claims for 300 children believed to have been harmed by whooping cough vaccine in recent years.

But it agrees that damage from this type of vaccine can be caused in rare circumstances, and will review its attitude on financial aid later this year.

It is waiting for a report from a special inquiry known as the Pearson Commission on Civil Liability which is studying the whole effect of personal injury awards throughout the nation's legal system.

The degree of fault which has to be proved in accident and other lawsuits and the amount of compensation which should be awarded will be among the points on which this commission will make recommendations.

So the problem of whooping cough vaccine has been put into abeyance for some months, although parents of the victims insist there must have been serious faults in the state-run health system that allowed children to be inoculated without taking proper steps to ensure they were safely treated.

Pharmaceutical manufacturers and family doctors have been exempted so far from blame, as the vaccine itself has been accepted as effective in millions of cases in the more than 20 years since the drug was introduced.

But Sir Charles Stuart-Harris, chairman of the U.K. government immunization board, has disclosed that one child in 300,000 has probably suffered brain damage or other side effects from the drug.

This is not because of any individual doctor's maladministration, but because of overall lack of knowledge about the sensitivity of some children to its effects.

Parents are claiming that the government's health advisers should have taken more care over alerting them to these effects before widely recommending whooping cough vaccination to millions of families.

Vaccination for whooping-cough was introduced extensively in Britain nearly 30 years ago because it was regarded as a "killer disease" for young children.

But its side-effects, although suspected by some doctors, did not start to become apparent until 10 years ago when there was already anxiety over the thalidomide drug which deformed 400 British children.

So far there is no sign of any insurance claims over the whooping-cough vaccine. But children suffering from incipient epilepsy, or from families where there is a hereditary tendency to epilepsy, can have this type of ailment brought on more rapidly by the drug.

Parents blame the government's Health Ministry at this stage for not giving them proper warning of its perils. Permanent brain damage is believed to have been caused to a small group of children, thought to total 1,000, who developed epileptic-type fits after being given the vaccine at the age of one or two.

Future demands for compensation will be made against the government by a group of parents led by Mrs. Rosemary Fox. "If there is an official policy of mass vaccination, then compensation for any victims should also come from public funds," she said. ■

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Lloyd's marine expert sees more competition

LONDON—Leading marine underwriter Ted D. Rainbow believes dozens of insurance companies all over the world are still looking for the opportunity to break into the shipping risk market.

"They may be very competent in handling their own financial affairs, but they are new to the marine market and don't fully realize the problems that go with it," he said in an interview.

Mr. Rainbow, past chairman of the Institute of London Underwriters, hopes that this trend will moderate during 1977. But he says the situation has to be faced firmly by existing underwriters both in London and other existing marine markets, since there is a lot of new capacity coming from other sources.

"We don't mind competition from well established insurance companies with technically competent marine underwriters," Mr. Rainbow added. "But the evidence is that during the last two or three years an increasing proportion of marine capacity is coming from companies which are new to our business on an international basis," he continued.

"They tend to accept portions of business because they are told it is based on rates fixed in New York or London. But there are times when that is misleading, because it may be that out of 200 underwriters in London, one has decided to take a share of the risk which others don't want."

Mr. Rainbow, who is marine underwriter with Commercial Union, found it difficult to pinpoint the areas of new capacity.

"It just keeps coming from all sorts of places, both from the traditional insurance countries and from emergent countries," he said.

But Eddie Mann, current Institute of London Underwriters chairman, who is with Sun Alliance and London, agreed that premium rates were still very competitive.

Shipowners should look very carefully at the situation when cheap rates are offered so as to make sure they've got security for their future claims," Mr. Mann warned.

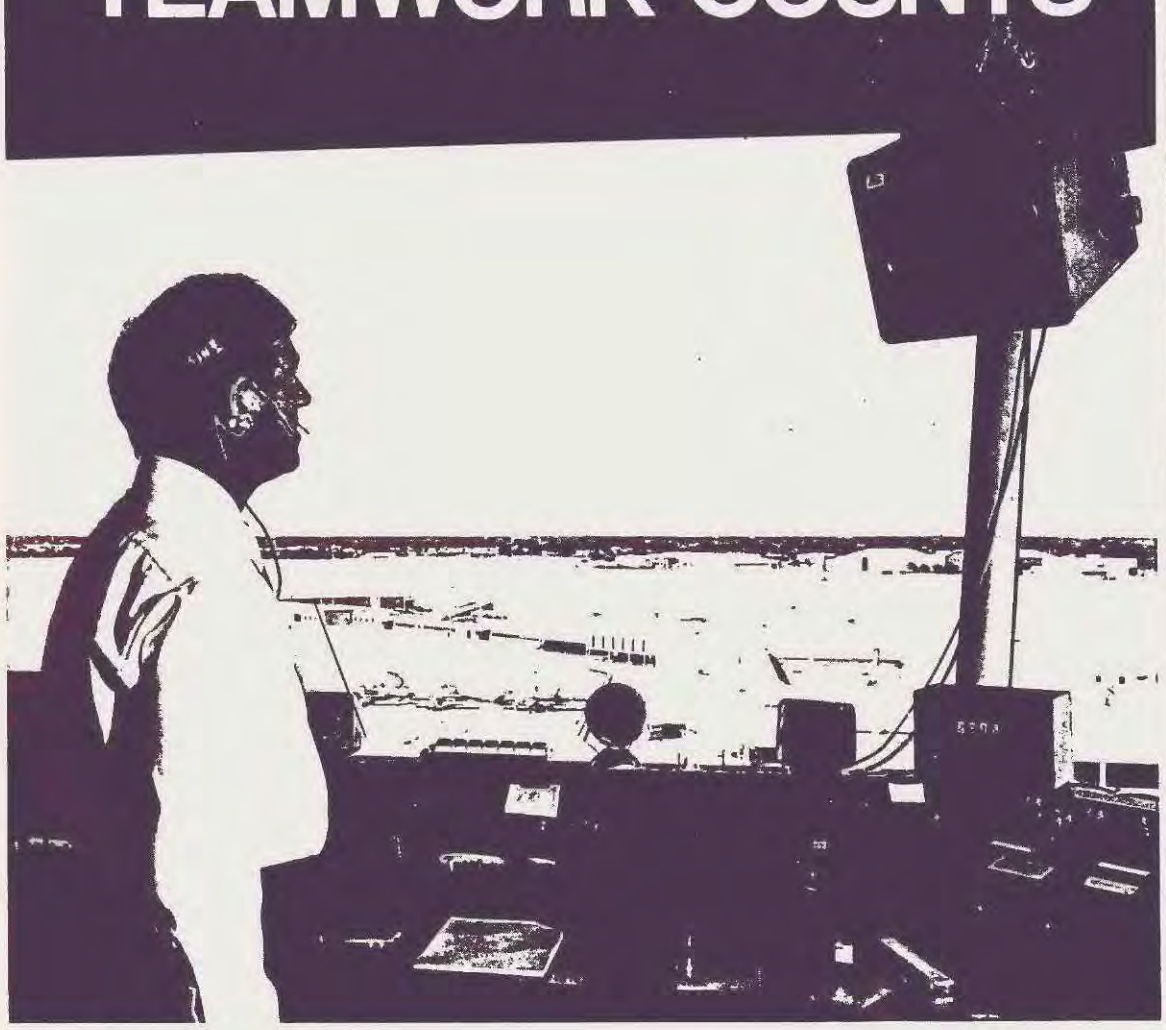
"A lot of risks which have been placed in fringe markets are now coming back to the security of the London market. But the desire to retain business at all costs must be resisted if our hull underwriting is to return to a profitable basis," he continued.

"For most of us in the London market a loss is inevitable when the 1974 account closes after its three-year accounting period. Indications are that both 1975 and 1976 are showing a little improvement, but the chance of profit is still marginal.

"Cost of repairs in many countries has risen by 18% in the past 12 months, but because of the recession in the shipping industry some repairs are being done below cost in order to get business, and this is helping underwriters in meeting claims.

"Risks in the oil exploration industry are reaching astronomical values, and the increase in capacity for large values is causing over-capacity for the smaller risks." ■

TEAMWORK COUNTS



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riskWatch

By MARIE KRAKOWIECKI

Mutual aid pacts offer a backup to self-insurance, loss prevention

It's a long way from a wide-bodied jet to an electric meter. But industries from airlines to public utilities are using a technique known as a "mutual aid agreement" to cut back losses and manage risks. It appears the concept works equally well for diverse products and businesses.

The heart of any mutual aid agreement is a pact among competitors in the same industry to work together to solve problems which would be impossible to tackle on an individual basis.

Krakowiecki

Mutual aid agreements aren't new. Airlines have been using them successfully for almost 20 years under a protection plan known as Mutual Aid Pact (MAP).

But the approach hasn't received the publicity it deserves as an effective backup to self-insurance or loss control programs. There is some indication, however, that mutual aid agreements may enjoy something of a renaissance.

Waller Smith, former risk manager for United Airlines and now a consultant with Rollins Burdick Hunter in Chicago, makes a convincing case for how mutual aid agreements could be used successfully outside the airline industry, for instance among contractors.

The airlines originally formed their agreements to protect themselves financially if one of them was struck. Since strikers against one airline would be sustained by contributions from union members working at the other airlines, the companies decided to help each other out in much the same way.

■ Since a strike could devastate one airline at the same time it gave windfall profits to the others who picked up extra customers, the 16 airlines that signed MAP agreed to pay back the windfall profits to the struck member.

Mr. Smith compared the payments to premiums (for financial protection insurance) which are equal only to the excess revenues the operating companies receive when one of the others is struck.

This arrangement has paid some huge losses during the 20 years it has been in effect and has done a better job than the insurance industry would have, Mr. Smith said.

The airlines also got together in what they call a mutual assistance agreement. If one airline runs into equipment problems it can't handle, the others will help by loaning equipment or facilities at an agreed-upon rate. This is the type of arrangement which Mr. Smith thinks might work for contractors or other groups relying on large machinery.

Edward J. Thompson, manager of the insurance and claim department of Brooklyn Union Gas Co., described a smaller scale mutual aid agreement between his firm and Consolidated Edison Co. of New York.

Like utilities across the nation, Con Ed and Brooklyn Union are plagued by theft of services and the illegal tapping of gas and electricity, usually by customers tampering with meters and pipelines. (Mr. Thompson said Brooklyn Union's expected revenue loss for 1977 due to stolen gas exceeds $1 million; total losses for all utilities are not known, but go well into the millions.)

■ In Brooklyn, Queens and Staten Island, there is overlapping service, with Con Ed supplying electric power and Brooklyn Union natural gas. If someone is stealing electricity, they will frequently bar the electric meter reader from entering a building but will allow the gas meter reader access or vice versa.

Since the main way both utilities discover if someone is stealing their services is through meter readers, the two utility companies decided to work out an arrangement to help one another.

Mr. Thompson is discussing with Edward Glister, manager of Con Ed's central property department, the possibility of having Brooklyn Union train Con Ed's electric meter readers to spot irregularities in gas meters while Con Ed trains employes from Brooklyn Union to tell if electric meters have been tampered with.

Each firm would then offer rewards through an incentive program to meter readers who report theft of service.

No one has formally given this program the tag "mutual aid agreement" but that is what it is. And although it is more modest than the airlines' MAP, it is a resourceful demonstration of how companies could cut their losses if they learn to work together.

Xerox Ltd. employs new techniques for risks

By JOHN H. MILLER

LONDON—New strategies for risk management are being worked out for the extensive operations conducted by the Rank Xerox Ltd. group from its London headquarters.

This is the company which handles the needs of the big Xerox Corp. outside its own domain of North America and related territories such as South America and Japan.

The plans are being introduced for insurance in 35 countries from Scandinavia right across Europe and the equator to Australia.

In London it's quite a "hot seat" for risk manager Dennis J. Farthing as he watches over his company's needs. Its corporate income of more than $1 billion a year flows from hundreds of business centers, confronting him with a multinational field of risks to face every day.

With support from a tightly knit team of four in his department, he is in charge of insurance for plant assets worth more than $200 million and related machinery assets worth over $500 million.

The specialized copiers and other products of Rank Xerox are largely retained by many business users on a hire-rental basis, so it's essential to keep them properly insured as their values change.

Mr. Farthing, 49, became risk manager of Rank Xerox Ltd. in June 1975. Six years earlier a change in its U.K. structure, involving the then parent body, The Rank Organization, led to the U.S. Xerox Corp. taking a more dominant position altering company attitudes in various ways, including its philosophy on insurance.

Till then there had been a centralized insurance approach by the Rank Organization, which also had interests in films, audio and recording equipment. But this was altered under the new management to fall in line with U.S. practice.

Mr. Farthing himself is one of the pioneers in risk management concepts in Europe. He worked under Doug Barlow, past president of RIMS, in the U.K. section of the Massey-Ferguson group from 1969 to 74, and had been a founder member of AIRMIC (the U.K. Association of Insurance and Risk Managers in Industry and Commerce) as far back as 1963.

When Rank Xerox in Britain adopted a definite risk management stance, partly on the suggestion of its insurance manager Malcolm Oliver who is still with the group, Mr. Farthing joined the firm.

"As our first job we had to disengage the insurance operations from the Rank Organization's central insurance office and decentralize their administration," Mr. Farthing recalled.

"Our parent body, Xerox Corp., firmly believes in risk management when it can be used to the best possible effect. So there were many changes in our European based scene that had to be made for the future benefit of all concerned.

"Turnover with Rank Xerox in London is running at more than $1 billion a year, derived from places as far apart as Britain, Western Europe, Africa, Asia (except Japan), Australia and New Zealand. The company here in London also controls 24 operating companies in 35 different countries.

"Revenue can, therefore, be at risk if we fail to protect our machines and other supplied equipment from damage by fire or other causes.

INTERNATIONAL

"The first thing to be done when I joined the company in Britain was to revise its insurance strategy to fall more in line with these specific requirements, but at the same time use our ability to absorb risk on our own account where possible.

"This is what I like to think risk management is all about, so as to serve the firm's needs without impairing its basic insurance requirements.

"In consequence, we are moving away from the former centralized control to a more hybrid form of control. This means, for example, using normal global cover for such risks as consequential loss, material damage and product liability. But at the same time we have a decentralized set-up, as far as administration is concerned, that enables policies to be dealt with locally as far as possible.

"Risks such as auto and employers' liability are in any case left at local level. We've appointed domestic brokers in all our territories. They service our local companies for their on-the-spot insurance, but at the same time are able to service us at head office for the local aspects of our global cover.

"Our associated operating companies in various parts of the world have local policies in local language, with premiums paid in local currency, and claims met in local currency.

"This is quite different from running an insurance structure in the U.K. on a non-admitted basis, in sterling, and doing everything from the center.

"This has resulted in savings despite the retention of local broking arrangements."

Fire insurance represents a major part of Rank Xerox's risks —more than 30%—with its pre-

Continued on page 54

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Xerox techniques . . .

Continued from page 53

mium volume now running over $2 million a year.

It is in this major type of risk, embracing explosion, lightning and related perils as well as fire, that Mr. Farthing has been concentrating to see what new principles can be adopted that will improve the insurance position.

"I've restructured the company's fire cover on a new global basis," he explained. "Under the central buying concept that used to exist in the old organization, I think we relied too much on benefiting from commission arrangements with brokers.

"I've preferred to go straight for a better rating structure. I think it's succeeded, even though we still use the broking system, because we've gone out for an improved basis of global cover and the use of deductibles. That's produced direct cost savings that more than make up for any change in commission arrangements.

"We have adopted in sterling currency terms, as a general level, a deductible of 5,000 pounds on each and every loss. But in addition, we've gone for a supplementary deductible of 100,000 pounds for any one incident in certain ranges of our plant operations. There's also a stop/loss of £250,000 (say $430,000) in any one year.

"This is all in keeping with overall Xerox thinking and its practices in the U.S. market."

But Mr. Farthing had one particular problem to face in the U.K. market before he finally sorted out his priorities. He decided he needed a maximum capacity for his global fire cover as high as $150 million to cover all contingencies.

"I went to four Lloyd's brokers, one HPR (highly protected risk) company, and four U.K. companies to find their attitudes," he said.

It took nine months to complete the complex deal. But now he feels the potential premium savings will cover his deductibles, and so provide him with almost a "no risk" system while saving money on the premiums—"though there's no such thing as completely no risk," he adds.

He quickly put the tariff market in the U.K. out of his plans. The tariff market is a formidable group of leading companies in Britain who tend to a uniform approach.

He discovered several companies, including some in London with close U.S. links, outside the tariff market who seemed ready to adapt themselves to the growing call of multinational bodies for keener rating structures.

"We finally placed the risk with one of these companies, American International Underwriters, which is part of the U.S.-based AIG group," he explained.

"It was, naturally, done with the aid of U.K. brokers who were best able to package our needs. As a result the first underwriting layer is led by AIU, and excess layers have been placed with Lloyd's underwriter and other non-tariff companies, as they were also flexible and receptive to our needs.

"Sixty percent of the cover is in the U.K. market as a result of these arrangements. We used AIU as it has international resources to meet our needs. But the other 40% has been placed round the world, often in countries where we operate, as we believe in supporting local business wherever possible.

"I think the tariff companies are a little surprised that I managed to get the capacity we wanted, but we succeeded without undue difficulty in getting other underwriters to make a book to suit our purposes."

Auto cover, another large part of Rank Xerox risks, has been restructured in the U.K. on a third-party basis only.

Mr. Farthing feels there is value in this for a big corporation, as auto premiums represent 35% of Rank Xerox's outlay.

Employers' liability, product liability, fidelity and cash cover are still placed through the company's central organization because its priority for fire cover occupied attention.

But now Mr. Farthing, with his desk clear of prior tasks, will be looking at these risks, too, in case they need restructuring.

"In our industry I don't regard product liability as a major problem, since the machines we produce and supply are quite innocuous to handle in every way," he commented.

But he is presently moving into loss control as an essential part of full risk management.

So now he's beginning a program of audio visual presentations to senior executives in its marketing, warehousing, and manufacturing divisions to emphasize the message of risk control benefits at all levels. ■

Persian Gulf spills eyed

BAHRAIN—Legal experts from the Persian Gulf oil states have been meeting to discuss ways to fight potential oil spills in one of the world's busiest areas for tanker traffic.

They are exploring a convention, on the lines of those drawn up by the Inter-Governmental Maritime Consultative Organization, to protect the marine environment.

One idea is to set up an oil-combatting center like that which has been opened as a pollution measure by IMCO at Malta to deal with spills in the Mediterranean.

So far the oil companies have set up a private system in the Middle East to clean up spills which are beyond the resources of individual companies to tackle. But it is felt that there ought to be greater Government responsibility in the future. ■

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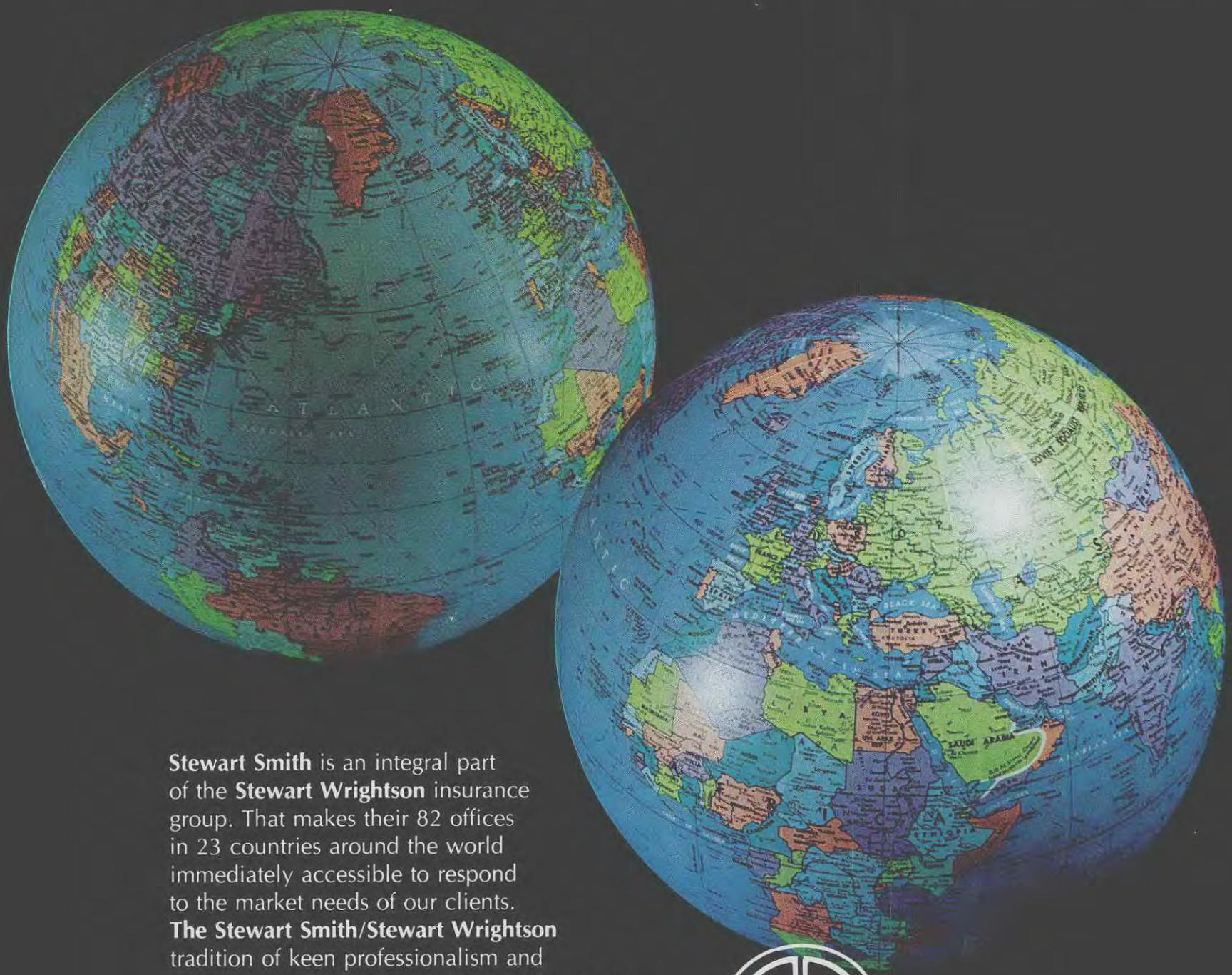

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AIU has a Bermuda captive management operation in Hamilton. It opened an office in Ireland in 1976. AIU also opened a branch of National Union Fire Insurance Co. in Saudi Arabia last year, the only American insurer with a branch office there.

AIU has its own claims adjusting operation, UNACO, with offices in 100 countries. It says it has written agreements of cooperation with major Eastern European nations, the Soviet Union and China.

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Assurex International is a worldwide corporation of insurance brokers and agents with 60 offices in major cities in the United States, Canada, Mexico, and 14 nations in Europe, South America, and the Pacific. It provides risk management, insurance, and related financial services to clients. For information on the international insurance services available through the member firms of Assurex International, contact David S. Butler, executive vp, Assurex International, PO Box 1270, Wheeling, W. Va., 26003; phone (304) 232-3611; or call your local Assurex member.

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Bankhardt acts as national insurance brokers and excess/surplus lines brokers throughout the world and as an intermediary for foreign insurers transacting insurance in the U.S. The firm handles all forms of insurance programs including facultative and treaty reinsurance. Contact Stuart Bankhardt, president, Bankhardt Cos., 19320 Sherman Way, Reseda, Calif. 91335; phone (213) 873-3334; telex: 69-8477 BANKROSS LSA.

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Cayzer, Steel, Bowater International Ltd. operates an insurance and reinsurance broking group in the United Kingdom and overseas through 25 outlets providing worldwide marketing facilities. This Lloyd's brokerage firm specializes in aviation, marine and all kinds of non-marine coverage. The subsidiary reinsurance broking company provides all types of facultative and treaty reinsurance facilities. Also offered are employe benefit lines, credit insurance, broking, claims and loss prevention services. The American division offers placing facilities for direct U.S. surplus lines business in the Lloyd's and London market. Capability is available through associate offices in France, Middle East (Saudi Arabia), Singapore, Australia and Iran. Contact Patrick Leigh, director, at Greenly House, 30 Creechurch Lane, London, EC 3A5EJ. Telex 886191. Cables: Kaystell-London-EC 3.

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Chubb operates in 109 countries through its own licensed companies, subsidiaries, affiliated local national companies, agents and correspondents providing a full range of underwriting, engineering and claims facilities for multinational companies. Contact H G. Parker III, director, International Division, 100 William St., N.Y., N.Y. 10038; phone (212) 285-6690; telex: 127493.

Regional offices for European Common Market: Federal Insurance Co., Manhattan Center, 21, Avenue du Boulevard, 1000 Brussels, Belgium; phone 219-43-85; Telex: 25138 and Federal Insurance Co., Sternhaus, Kaiserswerther Strasse, 115, Dusseldorf, West Germany; phone, 211-451-016; telex: 4152. Other regional offices are located in Rio de Janeiro, Caracas, Bogota and Ecuador; Sydney, Australia and Toyko.

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Contact Richard J. Powals, Clayton Environmental Consultants, 25711 Southfield Road, Southfield, Mich. 48075; phone (313) 424-8860.

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Contact Richard P. Hoskin, Manager of Multinational Insurance Services, National Accounts Marketing Division, CNA Insurance, CNA Plaza, Chicago, Ill. 60685; phone (312) 822-5337.

COATS & BURCHARD CO.

This appraisal firm offers international appraisals in the U.S., Mexico, Canada, Venezuela, Puerto Rico, Italy, Belgium and Ireland. Contact J. M. Koetz, executive vp, Coats & Burchard Co., 4413 Ravenswood Ave., Chicago, Ill. 60640; phone (312) LO1-2181.

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The Commercial Union Assurance Group is directly represented in more than 100 countries worldwide with on-the-spot service capabilities for multinational organizations. CU's international risks division, with specialists in New York and London, can offer advice on setting up a worldwide insurance program.

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Dietz & Co. are international adjusters and loss consultants. They represent the insured worldwide in the adjustment of first party claims, including business interruption. Contact Ms. Meegan, S. I. Dietz, 116 John St., New York, N.Y., 10038; phone (212) 233-4228.

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• The advantages of incorporating **loss recovery services** into a risk management program are outlined in a 12-page promotional booklet, the USSC way to increased cash flow protection and asset conservation, published by The Underwriters Salvage Co. For a free copy write USSC, National Executive Offices, Risk Management Services, 1400 Busse Road, Elk Grove Village, Ill. 60007.

• **Directors & Officers Liability** Insurance specifically for nonprofit organizations as offered by CIMA is described in a company leaflet. For a free copy write CIMA, 5513 Connecticut Ave. N.W., Washington, D.C. 20015.

• A Study of the **Corporate Risk Management** Function, an 11-page primer on risk management published by the Insurance Buyers' Council Inc., defines and outlines the functions of risk management. It also offers a step-by-step procedure for developing a risk management program. For a free copy write Pat Davis, Insurance Buyers' Council Inc., 22 West Road, Baltimore, Md. 21204.

• Employers Save Money by **Self-Insurance** is a promotional brochure published by Employe Services Inc., a claims administrator for employers who self-insure group health and accident programs. The brochure briefly describes self-insurance, its application to employe benefit programs and the company's services. For a free copy write the company at P.O. Box 1610, Sioux Falls, S.D. 57101.

• A Personal Insurance Plan for **International Employes,** a promotional booklet published by Chubb & Son Inc., explains the company's group insurance plan for employes assigned outside the United States. The plan incorporates a personal property floater with optional transit coverage, comprehensive personal liability, personal excess liability and accident coverages. It's available to corporations with 25 or more overseas employes. For a free copy of the booklet write David N. Tucker, Personal Lines Manager, International Division, Chubb & Son Inc., 100 William St., New York, N.Y. 10038.

• **International Insurance,** a booklet from Arkwright-Boston Insurance, was prepared for risk managers of multinational corporations. The booklet describes international services such as loss prevention engineering and loss control seminars, as well as available coverages including blanket, contingent and GAP. For a free copy write Advertising Manager, Arkwright-Boston Insurance, 225 Wyman St., Waltham, Mass. 02154.

• **Corporate Insurance in Brazil** is an English language brochure prepared by Argos-Cia. de Seguros. The brochure contains a general discussion of the insurance market in Brazil and specific coverages available through the company. General lines insurance and employe benefits are covered. For a free copy write William E. Namacher, Managing Director, Argos-Cia. de Seguros, Largo Sao Francisco, 34-2. Sao Paulo, ESP., Brazil.

• **Ill Winds Abroad** discusses how hurricanes and other windstorms start, where they come from, what to do, how to detect their coming, seasonal patterns and how AFIA can help insureds limit windstorm risks. The booklet's information is limited to windstorms overseas. For a free copy write Joseph B. Weimert, vp, AFIA, 1700 Valley Rd., Wayne, N.J. 07470.

• **When You're Not Sure if Your Construction Site Will Be in a Friendly Territory,** Johnson & Higgins says they can help. The pamphlet outlines the complexities facing U.S. contractors with overseas commitments and describes the company's "all risk" and political risk insurance. For a free copy write Judith L. Cromwell, Production & Coordination 'Dept., Johnson & Higgins, 95 Wall St., New York, N.Y. 10005.

• **The Essential Role of Marine Cargo Insurance in Foreign Trade** is a publication of the International Union of Marine Insurance. Copies, which cost 25 cents each, are available by writing Robert A. Herbst, American Institute of Marine Underwriters, 99 St. John St., New York, N.Y. 10038. After April 1 the address will be 14 Wall St., New York, N.Y. 10005.

• Insurope has published a booklet, **Multinational Benefits Assessment.** Topics covered include the need for an international benefit system, corporate benefit planning, local management and employe relations, and cost control by benefits abroad. For a free copy of the booklet write Multinational Benefit Associates, 980 Post Rd., Darien, Conn. 06820.

• An explanation of **Earthquakes Abroad,** why they occur, how to predict building damage, how to select building design and construction—has been prepared by

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One Family's Airport. *George J. Priester is a railroad engineer who in 1928 also became a pilot. In 1953, he bought a Chicago-area field with sand and gravel runways which he has since developed into Pal-Waukee Airport, one of the nation's finest. 5 paved and lighted runways. 400 based aircraft. 70 T-hangars, 5 acres of roofed hangar space. Jet charter operation. Tower, ILS, restaurant—you name it, he's got it. A professional business operation resulting from a sophisticated management approach. ☐ Son Charlie joined George at age 14. Holder of both an ATP and a degree in Business Administration, he is currently Pal-Waukee's general manager. Sisters Sheila and Sharon are commercial pilots. Several of Charlie's children now work at the airport part-time. It must be in the blood. ☐ Looking back over the past twenty-odd years, George commented, "It's been a battle all the way. Law suits. Noise complaints. Tornados. And being privately-owned, the most we get from any level of government is crippling tax bills." ☐ "One bright spot," said Charlie, "is we're insured with USAIG. We would have been out of business if USAIG had not had the capacity to provide adequate limits, engineering and claim services." ☐ The Priester family and USAIG . . . sturdy aviation pioneers providing continuity of leadership in a rugged world of change.*

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AFIA Worldwide Insurance. For a free copy write Mr. Joseph B. Weimert, vp, AFIA, 1700 Valley Road, Wayne, N.J. 07470.

• Cayzer Steel Bowater International Ltd., an insurance and reinsurance broking group operating in the U.K. and overseas, has made available its current **Directory.** The group operates 25 separate companies, branches and divisions and handles all aspects of insurance. The firm's facilities in Saudi Arabia are included. For a free copy write Cayzer Steel Bowater, International Ltd., Greenly House, 30 Creenchurch Lane, London, EC3A 5.EJ.

• The **AFIA Worldwide Insurance Guide** lists insurance practices in 70 countries, including the countries of the Eastern Bloc. This reference book contains information on compulsory covers, admitted and non-admitted insurance and types of covers available. Available free to readers of *Business Insurance*, write Joseph B. Weimert, AFIA, 1700 Valley Rd., Wayne, N.J. 07470.

• **Uniform Rules for a Combined Transport Document** are explained in a bi-lingual (English and French) booklet prepared by the International Chamber of Commerce. Copies cost 25 cents each. They may be obtained from Robert A. Herbst, American Institute of Marine Underwriters, 99 John St. New York, N.Y. 10038. After April 1 the address will be 14 Wall St., New York, N.Y. 10038.

• The American Institute of Marine Underwriters has prepared **The Banker + Dollar Marine Insurance = Better Export Business.** The booklet explains the relationship of the banker and marine insurer and their vital role in the export trade. For a free copy write Robert A. Herbst, Amer. Institute of Marine Underwriters, 99 John St., New York, N.Y. 10038. After April 1 the address will be 14 Wall Street, New York, N.Y. 10005.

• AFIA Worldwide Insurance explains **Boiler & Machinery Insurance Abroad** in a booklet that explains the coverages available, basic information required for the insurance company, special factors that need to be considered and how to obtain coverage. For a free copy write Mr. Joseph B. Weimert, vp, AFIA, 1700 Valley Road, Wayne, N J. 07470.

• Usually the most plentiful resource, water is often in short supply for firefighting abroad. How the insured can cope with this problem is the subject of AFIA's color bocklet **Fire and Water Abroad.** For a free copy write Mr. Joseph B. Weimert, vp, AFIA, 1700 Valley Road, Wayne, N.J. 07470.

• A newsletter entitled **The United Kingdom Social Security Pensions Act 1975,** subtitled "The perplexing question of contracting in or contracting out," is available from Kwasha Lipton Inc. The title refers to the fact that in the U.K. Social Security benefits, although mandatory, need not be wholly provided by the state. Part of the benefit may be provided by an employer through a private plan. If this is the case, the employer is said to have "contracted out." For a fre ecopy write Dept. M. Kwasha Lipton Inc., 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• **Employe Benefits and Services** is a bibliography of literature received by the Civil Service Commission library. Order No. 006-000-00816-0. Cost is $1.40. To order, write to the Public Documents Distribution Center, 5801 Tabor Ave., Philadelphia, Pa. 19120. Make checks payable to the Superintendent of Documents.

• **The HMO: Funding Mechanisms,** by Dan Maruna, is available from Protech Publications. Cost is $2.50. Use order number 3015.04. There is a 25% discount for *Business Insurance* subscribers. To order, write to Protech, 2182 Dupont Dr., Irvine, Calif. 62664.

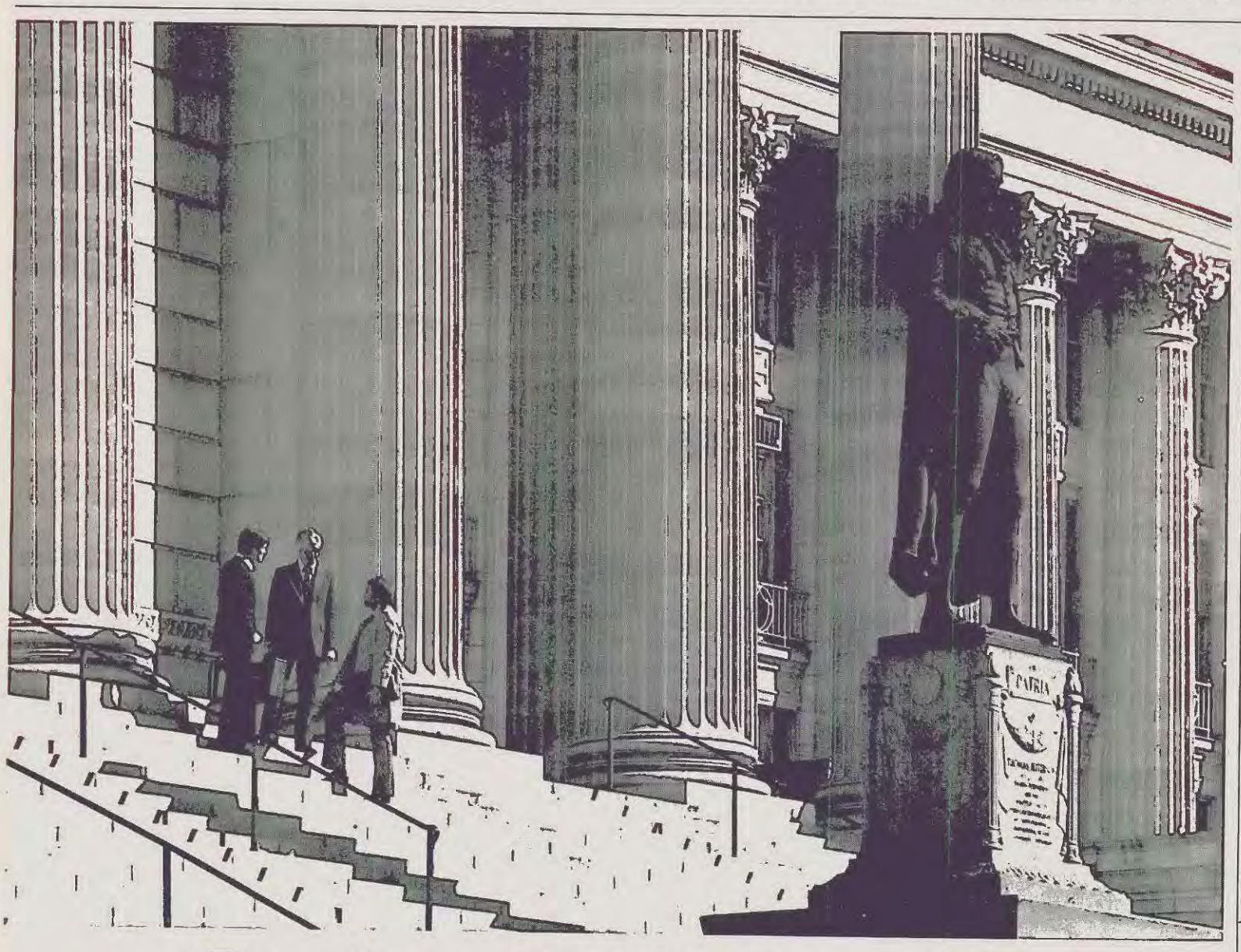
• **Looking for the Best Dental Care Plan for Your Group?** asks Delta Dental Plans Assn. which offers this comparative review of the characteristics of group prepaid dental programs. Emphasis is on administrative and provider compensation features of plans. Delta Dental Plans is a system of dental society-sponsored service corporations. Single copies are free, available by writing to James Bonk, Assistant vp, Delta Dental Plans Assn., 211 East Chicago Ave., Chicago, Ill. 60611.

dates for buyers

March 16: Horizons in Risk Management is the theme of the Massachusetts Risk and Insurance Management Society's eighth annual spring conference in Woburn, Mass. Liability insurance, workers' compensation and risk funding mechanisms will be discussed by panels in the afternoon. Dinner speaker is Paula W. Gold, assistant attorney general and Consumer Protection division chief in Massachusetts. Cost is $25. Contact: Lawrence J. Babbitt, Stop & Shop Cos. Inc., P.O. Box 369, Boston, Mass. 02101

March 16-18: New Jersey Institute of Technology—The seventh annual international product liability prevention meeting, will be held at the Cabana Hyatt House, Palo Alto, Calif. Twenty-three professional organzations are co-sponsoring the workshops, includng the American Society of Safety Engineers, Assn. of Trial Lawyers of America, National Safety Council, American National Standards Institute and the American Insurance Assn. Cost is $350 with a $25 discount for regstration before March 2; members of sponsoring organizations pay $325. Contact New Jersey Institute of Technology, Dept. of Continuing Education, 323 High St., Newark, N.J. 01702.

March 17: An Executive Briefing on Computer Risks: Security, Privacy and Legislation sponsored by the Computer Security Institute in New York City. To acquaint executives with the risks associated with computer use emphasizing computer security and privacy and examining the consequences of inadequate long range planning, management non-involvement and subtle social problems. Cost: $275. Also offered March 24 in Dearborn, Mich., and March 31 in San Francisco. Contact: John C. O'Mara, Computer Security Institute, 43 Boston Post Rd., Northboro, Mass. 01532.



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other loss prevention equipment. For the research program contact Myron J. Miller, manager of contract services, 1151 Boston Providence Turnpike, Norwood, Mass.; phone (617) 762-4300. For approvals contact P. E. Johnson, director, at the same address. Services are available on a contract basis worldwide. Offices of Factory Mutual International, an affiliate, are in London, Brussels, Frankfurt, Melbourne and Paris.

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International services offered include risk areas of property, casualty, marine, and the spectrum of risk management administration assistance plans.

Contact Leonard J. Silver, president, at 835 Glenside Ave., Wyncote, Pa. 19095; phone (215) 927-3404; cable: RISKCONTROL, Wyncote, Pa.

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FM International, based in London, offers property insurance and comprehensive property engineering services to foreign subsidiaries of North American policyholders, plus loss adjustment assistance and broad loss prevention guidance. Operating in 39 countries around the world, the firm also has branch offices in Paris, Frankfurt and Melbourne. A new office has been opened in Brussels. Innovations in an expanded program include production of European loss prevention reports in local languages; stationing of resident engineers around the U.K. and in Belgium; introduction of new, easier-to-read policy formats to facilitate changes in values or coverages, and a new appraisal (valuation) service, to become effective in 1977. Contact Howard E. Wolff, managing director, Kingsgate House, 66-74 Victoria St., London SW1 England, telex: FACMUTD 919468.

R. GREENWAY INC.

R. Greenway Inc. handles all classes of excess/surplus lines and reinsurance with special facilities for fire, marine cargo, product liability, and fine arts. A subsidiary of Greenway Insurance Brokers Ltd., at Lloyd's the firm specializes in rapid access to London and European insurance markets. Contact the company at company at 505 Park Ave., N.Y., N.Y. 10022; phone (212) 935-9124; telex; 426814 RGI UI.

GYORY ASSOCIATES INC.

This risk management and insurance consulting firm specializes in corporate risk management for property, casualty, group insurance, and pension programs. It also provides services in employee benefits, ERISA compliance, and a full range of personnel services. Contact Robert S. Gyory, president, 14-25 Plaza Road, Fair Lawn, N.J. 07410; phone (201) 797-8550.

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Frank B. Hall & Co. has established an international network of offices worldwide, 19 foreign offices in 12 major countries and 39 correspondent offices. Hall counsels clients in more than 100 countries. Its international operations are monitored, coordinated and controlled on a corporate level by the Hall Services Division (HSD). Offices are in Australia, England, Mexico, Hong Kong, Italy, Iran, Israel, Norway, France, Venezuela, Greece, Bermuda and Saudi Arabia.

Contact Albert J. Tahmoush, president and chief operating officer, 549 Briarcliff Manor, New York, 10510; phone (914) 769-9200; telex: 23438; cable: HALLCOY.

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Contact Derek Chilvers, John Hancock Place, Boston, Mass. 02117; In Brussels contact Jozef De Mey, John Hancock International Services, S.A., Rue Montoyer, 31—Box 4, 1040 Brussels, Belgium; phone: 513.89.15.

HIGHLANDS INSURANCE CO.

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INA service and claims facilities are located in more than 100 countries. Contact Mr. Philip L. Richey, vp, INA International Corp., PO Box 7728, Philadelphia, Pa. 19101, phone (215) 241-4182; telex: 834442; cable: "NORAMA" Philadelphia.

INSURANCE BUYERS' COUNCIL INC.

This risk management and insurance consulting firm offers international advisory services, using Dr. Kailin Tuan as special advisory. Dr. Tuan is professor of economics and insurance in the school of business, University of Baltimore. The firm works with multinational corporate clients including U.S. companies having international operations.

Contact William P. Davis, president, 22 West Rd., Baltimore, Md. 21204. Telephone: (301) 828-1656.

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This multinational network of insurance companies operating in over 20 countries provides coordinated programs of insured group benefit plans for the foreign subsidiaries of multinational corporations. These programs offer benefit informatoin services, central implementation and control, regular reporting and potential multinational dividends through experience rating. Contact Frank J. Smolar or Mary Ford, Insurope Secretariat, 45 Boulevard Bischoffsheim, B7, 1000 Brussels, Belgium; phone (02)

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217.81.63; telex: 24659.

INTERNATIONAL SERVICE CORPORATION

ISC, a subsidiary of the INA Corp., provides selected risk management services and most insurance-related services internationally. Regional head offices are located in Philadelphia, Brussels, Sydney and San Juan from which the activities of 29 branch offices and hundreds of agents are coordinated. ISC provides marine, claim and loss, recovery, loss prevention and rehabilitation services. They also conduct loss control conferences abroad.

In the U.S. contact: ISC World Head Office, 1600 Arch Street, Philadelphia, Pa. 19101; phone (215) 241-4374; telex: 83 4442; cable: Norama. In Europe contact: ISC Regional Head Office, 39 Boulevard de Waterloo, Brussels, 1000, Belgium; phone 5136870; telex: 23637; cable: Norama. In Asia contact: ISC Regional Head Office, 80 Alfred St., Milson's Point (Postcode 2061), PO Box 274 —Postcode 2061 Sydney, Australia; phone 920 1224; telex: 24789; cable: Norama. In Latin America contact ISC Regional Head Office, Banco de Ponce Bldg. Office 1806, 268 Munoz Rivera Ave., PO Box 1249, Hato Rey, San Juan, Puerto Rico; phone (809) 751-2908; telex 3252436; cable: Norama.

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This group specializes in political risk insurance services, including the risks of confiscation, nationalization, expropriation and contract frustration indemnities. Additionally, services for captive insurance companies are performed, including feasibility studies.

JLS also offers multinational corporations, risk management and insurance brokerage services on a coordinated, worldwide basis, including employe benefits, actuarial and pension services.

Contact Mr. Harvey Mallement, vp, The JLS Group, Inc., 437 Madison Avenue, N.Y. N.Y. 10022; phone: (212) 759-1600; telex: 426233 (JLSCO).

JOHNSON & HIGGINS

Johnson & Higgins provides risk and insurance management, loss control, employe benefits and actuarial services on a worldwide basis through 34 offices outside the U.S. and Canada. Each local office reports to the main office in New York. Johnson & Higgins has also established correspondent relationships with 71 offices in 3 countries. Direct services are presently provided in Brazil, Venezuela, Columbia, Argentina, Chile and Peru in South America; Australia, New Zealand, Singapore, Taiwan, Hong Kong and Japan in the Pacific; France, Italy and Switzerland in Europe; and Iran in the Middle East.

In concert with correspondents, J&H has established EUROBEN to coordinate employe benefit and actuarial consulting. Its Bermuda affiliate, Interocean Management Co., manages captives.

Contact Johnson & Higgins, 95 Wall St., N.Y., N.Y. 10005; phone (212) 482-2000; telex: 127873; cable: KERODEN.

KEMPER INTERNATIONAL INSURANCE CO.

Kemper International Insurance Co. underwrites worldwide outside the U.S. and Canada. All property and casualty lines are offered; special emphasis is placed on large property (HPR) and boiler and machinery insurance.

Together with National Loss Control Services Corp., Kemper International offers through KEMCI S.A., loss control and claim services in Western Europe.

Contact David B. Mathias, vp, Kemper International Insurance Co., Long Grove, Ill. 60049; phone (312) 540-2630.

In Europe Kemper S. A. Quai de l'Ourthe, 44/021, B-4020 Liege, Belgium; phone 041/42.76.40; telex: 41709. Kemci S.A. Quai de l'Ourthe, 44/021, B-4020 Liege, Belgium phone 401/42.76.49; telex: 41709. Australia and South Pacific Kemper Insurance Co. Ltd. P.O. Box 499, 53 Walker St. North Sydney, 2060, NSW, Australia; phone 92-5100; telex: 20555.

KWASHA LIPTON

Kwasha Lipton's international division assists multinational companies in the design, pricing and implementation of employe benefit and compensation programs outside the U.S. including local nationals, U.S. expatriates and "third country nationals." It performs actuarial valuations and cost projections of benefit programs throughout the world based on local practices as well as a customized uniform worldwide standard that the parent company can use to determine its true liabilities and for comparability.

Contact Vincent J. Simone, director of the international division, James J. Bolland, vp or Harry F. Bremer, vp at Kwasha Lipton Inc., 429 Sylvan Ave., Englewood Cliffs, N.J. 07632; phone (212) 279-6800 or (201) 567-0001.

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These insurance brokers providing multiple line facilities for property, casualty and inland marine insurance needs. Business placed in U.S., Canadian and British market including Lloyd's Network of corresponding brokers in U.S., Canada, U.K. and France. Contact Robert Lachance, president, 7000 Park Ave., Suite 303, Montreal, Quebec; phone (514) 279-7281.

L. B. LEAHY CO. INC.

These insurance consultants offer worldwide workers' compensation experience rating and classification services. Contact Laurence B. Leahy, president, L. B. Leahy Co., 35 E. Grassy Sprain Road, Yonkers, N.Y., 10710; phone (914) 961-2280.

MARSH & McLENNAN INTERNATIONAL INC.

Marsh & McLennan International offers insurance brokerage services worldwide through wholly-owned subsidiaries, affiliates, and correspondents. Coordination of services is provided by the New York office.

M&M International has subsidiary operations in Australia, Canada, Hong Kong, Japan, New Zealand, Puerto Rico, Singapore, Taiwan and Venezuela. Equity affiliates are located in Belgium, Brazil, El Salvador, France, Germany, Greece, Guatemala, Italy, Lebanon, Mexico, Spain, and the United Kingdom.

In addition to offering brokerage services in all lines of commercial and industrial insurance, M&M International offers loss prevention services through M&M Protection Consultants.

Contact Marsh & McLennan International Inc., 1221 Avenue of the Americas, N.Y., N.Y. 10020; phone: (212) 997-2000.

WILLIAM M. MERCER INTERNATIONAL

William M. Mercer International (a Marsh & McLennan Co.) provides actuarial and employe benefit consulting services outside North America. The head office research center and worldwide coordinating office is in New York. International employe benefits' consultants are located in that office and also in Chicago and Los Ageles.

William M. Mercer International has offices located overseas in the United Kingdom, Brussels, Spain, France, Switzerland, Puerto Rico, Hong Kong, Taiwan, Australia, and New Zealand. In other parts of the world there are wholly-owned Marsh & McLennan companies, joint ventures and correspondent relationships in about 40 countries.

Contact William M. Mercer International, 1221 Avenue of the Americas, N.Y. 10020, phone (212) 997-2000.

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Contact Marvin I Crystal, director, international operations, Metropolitan Life, One Madison Ave., N.Y., N.Y. 10010; phone (212) 578-2023.

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MULTINATIONAL BENEFIT ASSOCIATES

This firm provides information and insurance service facilities to international benefit consultants and brokers, and to multinational corporations. MBA was founded in 1976 by four leading European insurance companies who are members of Insurope. MBA acts on behalf of these four member companies as well as the other Insurope member companies. Contact Robert M. Pickrell, Multinational Benefit Associates Inc., 980 Post Road Darien, Conn. 06820; phone (203) 655-7928; telex: 0131448.

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This human resources consulting firm offers services to insurance clients seeking middle or senior management staff. In addition to the U.S., the firm operates in Puerto Rico, Canada, the Middle East, South America, Australia, New Zealand and England, France, Belgium and West Germany. Contact Thomas Cook, vp, 708 Third Ave., N.Y., N.Y. 10017; phone (212) 661-0460.

NIARS CORP.

This firm offers NIARB/NAIC model regulations/and national insurance advertising regulations in all English speaking countries. Contact Del Sachwitz or James F. Billig, NIARS, 8100 Penn Ave. South, Minneapolis, Minn. 55431; phone (612) 884-8600.

PETER D. NORMAN & ASSOCIATES LTD.

This firm is a Risk management consultant to Canadian-based multinational concerns, a specialist in professional negligence coverage worldwide. Contact Peter D. Norman, president, 833 River Road, Richmond, B.C. V6X 1Y2; phone (604) 273-3033.

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Philadelphia Manufacturers offers coverage for multinational firms throughout the world through FM International Ltd. The policies offer the same comprehensive coverage offered in North America. Contact William F. Moore Jr., vp, Philadelphia Manufacturers, PO Box 824, Valley Forge, Pa. 19482; phone (215) 687-8150.

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Pinkerton's offers a variety of services throughout the world through a network of correspondents including protection of executives, investigation services and security surveys. Contact E. C. Fay, vp, Pinkerton's Inc., 100 Church St., N.Y., N.Y. 10007; phone (212) 285-4840.

Pinkerton's of Canada Ltd. offers security services for corporate headquarters, plants and special events as well as a variety of investigative services. Contact L. Dagenais, Pinkerton's of Canada, 9083 Boulevard St., Michel, Montreal, Quebec, Canada, H1Z 3G6; phone (504) 325-0647.

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Prudential's international benefits program is a service to its multinational policyholders to help meet their employe benefits needs throughout the world. It has at least one associate insurer in almost every country in which private employe benefit programs are provided.

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Contact Richard J. LaBrecque, International Benefits Manager, 3 Prudential Plaza, Newark, N.J. 07101; phone (201) 877-6030.

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Canadian-based Reed Shaw Osler offers insurance brokerage and risk management services through 137 offices in 27 countries worldwide. Included are related services such as loss prevention engineering, computer risk analysis, average adjusting, claims settlement and reinsurance. An international headquarters was established in Geneva, Switzerland, in 1976, Stenhouse Reed Shaw International S.A.

Reed Risk Management International Ltd., a newly organized subsidiary in Toronto, offers a worldwide financial risk analysis service. Sten-Re Ltd. provides reinsurance facilities.

Contact J. W. Whittal, president, PO Box 250, Toronto-Dominoin Centre, Toronto, Ontario M5K IJ6; phone (416) 868-5780; telex: 06-219-611 Western hemisphere operations are conducted by Reed Shaw Stenhouse & Partners Ltd. Contact: Jack M. Moon, president, 2799 Palliser Square, Calgarly, Alberta T2G OP9; phone (403) 267-7010. In the United States, Reed Shaw Stenhouse Inc. is headquartered in New York. Contact: A. F. Salvatore, president, 1270 Avenue of the Americas, New York, N.Y. 10020; phone (212) 541-5073. Operations outside the Western Hemisphere are conducted by John S. Young, chairman and chief executive officer, A. R. Stenhouse Reed Shaw & Partners Ltd., 145 St. Vincent St., Glasgow, G2 5NX, Scotland; phone (041) 248-5070.

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Contact the firm at 127 John St., N.Y., N.Y. 10038; phone (212) 747-0890; or 1100 Milam, Suite 2450, Houston, Tex. 77063; phone (713) 651-3033; or in London at 12-13 Essex St., Essex House, London WC 2 R 3AA, England; phone 01/ 240-2477.

RISK PLANNING GROUP INC.

Risk Planning Group, Inc., is an international research and consulting firm which assists organizations in risk management, insurance and employe benefits problems. In addition to offices in Darien, Conn. and San Francisco, Calif., Risk Planning Group also has an affiliate office in France and associate consultant relationships in Belgium, England, South Africa, and the Philippines.

Services offered to international clients include overall reviews of risk management, insurance and employe benefit programs; self-insurance studies; captive insurance company feasibility studies. Also administrative studies of the risk management function, including job descriptions, training, risk/insurance management manuals and communications; loss quantification and loss and risk forecasting; risk and insurance management studies for companies which are merging or acquiring other companies, and risk management and insurance counsel for associations or groups.

Contact H. Felix Kloman, president, Risk Planning Group Inc., 24 Old King's Highway South, Darien, Conn. 06840; phone (203) 655-9791, or Jean-Paul Decottignies, director, Risk Factoring, S.a.r.l., 6Parc de la Berengere, 92210—Saint Cloud, France, phone 771-07-07.

ROYAL-GLOBE INSURANCE COMPANIES

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This group, known internationally as Royal Insurance, has total assets exceeding $3 billion, premium income of over

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Contact C. C. Molano, international department manager, 150 William St., N.Y., N.Y. 10038; phone (212) 732-8400; telex: TWX 710-5813885 (Royalglobe NYK); cable: ROYAL NEW YORK.

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Sapperstein, Hochberg & Haberman, Inc. and Adjusters Associates, Inc. are public insurance adjusters, in business since 1895. With offices throughout the United States and England, they service any occurrence worldwide. Contact Edwin H. Hochberg, president, 116 John St., N.Y., N.Y. 10038; phone (800) 221-3324 (toll-free, except N.Y. State) or (212) 233-4452 cable SAHOHAB.

SCHIFF TERHUNE INTERNATIONAL

Schiff Terhune offers worldwide service through its offices and selected correspondents. Comprehensive surveys are prepared and recommendations submitted to risk managers on operational insurance and employe benefits.

Terhune Management Services Ltd. in Hamilton, Bermuda function as consultants and operating managers of insurance and reinsurance companies, particularly captive insurers.

Contact Bruce W. Shinabarger, vp, 100 William St., N.Y., N.Y. 10038; phone (212) 425-3010.

SERVICEMASTER INDUSTRIES INC.

Servicemaster Industries Inc. provides disaster restoration services, including post-fire and water damage cleanup, smoke removal and large-loss cleanup on a worldwide basis. It also offers loss control consultation in property/casualty areas. Contact Robert A. Brewer, Servicemaster, 2300 Warrenville Road, Downers Grove, Ill. 60515; phone (312) 964-1300. Also Brain A. Smith, Servicemaster Ltd., Granby Building, 41 Granby St., Leicester, LE1 6EE, England; phone 44/533-52442; telex: SERMAS G 341987. Bruno Schneble SERVICEMASTER OPERATIONS AG Ackersteinstrasse 119 Postfach CH 8037 Zurich Switzerland; phone 01/565677. Y. Kawai SERVICEMASTER BUSINESS DIVISION, DUSKIN CO. LTD., Sekaicho Bldg. 1-2 Hondori, Nakatsu, Oyodo-Ku Osaka 531 Japan; phone 06-385-7476/7; telex: DUSKINCO 5234121

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The Travelers international department offers a full range of insurance programs to multinational corporations. Coordinated coverages for both property-casualty and employe benefits are provided. Property-casualty insurance is arranged to satisfy local legal requirements and can be consolidated into one worldwide master policy which acts as an excess and DIC cover.

For employe benefits, programs are designed to provide coverage based on local conditions and experience rating is available through the Travelers MIA Network, which operates in most of the free world countries.

Pension Plans for Third Country Nationals are arranged by The Travelers Corporation of Bermuda, Ltd. Funding is on deposit administration basis. Guaranteed monthly benefits are available through terminal funding contracts.

The Travelers operates a liaison office in Brussels to assist clients abroad.

Contact Richard M. Murray, vp, The Travelers International Department, One Tower Square, Hartford, Conn. 06115; phone (203) 277-3287; telex: 99-4467; cable: TRAVINCO. Also Michael G. Sandmann, Regional vp, The Travelers Corporation, Rue De la loi 83-85, Brussels, Belgium; phone 512-98-51; telex: 84625349.

THE WETZEL CO. INC.

The Wetzel Co. offers facilities for worldwide oil drilling and production, excess employers liability (maritime), commercial marine, aircraft products, commercial property and political risk coverage. Contact Frank Wetzel, president, 2000 South Post Oak, Suite 2400, Houston, Tex. 77006; phone (713) 626-3240; telex: 76-2053.

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"Winterthur" Swiss Insurance Company, in Winterthur, Switzerland, offers international insurance protection for property/casualty and employe benefits through its own network in all Western European countries. Outside of Europe coverages can be arranged through associated companies. Contact Marketing and Service Unit, c/o CNA Insurance, CNA/Plaza, NAMD, Chicago, Ill. 60685; phone (312) 822-4512.

For European services: Int'l. Division, Winterthur Insurance, General Guisanstr. 40, 8401 Winterthur, Switzerland; phone (052) 85-11 11; telex: 76785.

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letters

Continued from page 20

he is aware of the number of programs that have been terminated because of the administrative, and therefore, monetary requirements imposed upon small pension owners. Now it is true that his associations are correct for some of the nice large corporations that his firm is able to deal with, which have large numbers of employes, if you are comparing what the effect has been on the average employe who is covered under a Qualified Pension Plan. However, I would suggest that if we looked at the number of employers who are making decisions concerning Qualified Pension Plans for their employes, the effect that ERISA has had upon these numbers of employers decisions has been a disaster.

Now there is no doubt in my mind that Johnson & Higgins does not do much business with five or ten life companies. However, I would venture to say that the employes of these five and ten life employer groups that are having their pensions terminated because of the imposition of paperwork and expense, which is normally partially collected by firms such as Johnson & Higgins, that the employes of these firms would not share Mr. Becker's feelings.

I would, therefore, challenge Mr. Becker's ability to state that five or ten life employe companies is not an indicator of what is going on in the pension due to the imposition of ERISA by the federal government, when in fact the largest number of pension plans written in the country are probably represented by these same small employers.

Fred J. Schneider, Jr.
Fred J. Schneider & Assoc.,
Phoenix, Ariz.

Inadequate protection

To the Editor: I read with interest the article appearing in your Jan. 24 edition entitled "Burglary Focuses Need on Protecting Alarms." I personally deal with many precious metal operations and find that we have to protect our clients not only from the engineering departments of the insurance companies, but also the alarm companies themselves. The insurance companies have great engineering departments as relates to fire protection and industrial accidents. However, when it comes to security their expertise is definitely lacking. As to the alarm companies, they tend to undersell their product with the result that their client ends up with inadequate protection.

I would venture to say that the risk described in your article did not have a line security system, which should be an almost automatic requirement for any pre-

A SELF-INSURED $93,000 LOSS

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cious metal operation. I would appreciate knowing if this were true.

Herbert L. Emers
Herbert L. Emers Inc., Rhode Island

Henry K. Jewelers declined to discuss its security system with Business Insurance *and we were unable to obtain that information elsewhere.*

Advisory panel

To the Editor: Your first editorial advisory panel report in the Jan. 24 issue of *Business Insurance* was read with great interest. However, I was somewhat disappointed to see that you did not include a risk manager from the electric utility industry as a panel member.

As you are aware, the electric utility industry spends tremendous sums on insurance and are faced with very unique problems occasioned by the advent of nuclear power, etc.

At any rate, I am most pleased to see that a panel has been formed which should prove a benefit to all risk managers throughout the U.S.

Olice A. Steward
Director-Risk Management, Gulf States Utilities Co., Beamont, Tex.

We would welcome any utility risk managers who would like to join our editorial advisory panel. Just send your name to Susan Alt, Business Insurance *740 N. Rush St. Chicago Ill. 60611.*

A job well done

To the Editor: I enjoyed Kathryn McIntyre Roberts' article "Providers Urge Specific Coverage for Rehabilitation; Insurers Wary." I think she did an excellent job of presenting the salient points of the problem. Your editorial is particularly succinct and addresses the main aspects of the problem perfectly.

We appreciate the comment quoted in the last paragraph of Ms. Roberts' article, "We'll provide whatever the policyholder wants to pay for." I would have preferred that the senior insurance consultant quoted had said the carrier would provide a plan offering the most comprehensive rehabilitative services available at a reasonable and affordable cost. Occupational therapy services would then be included.

We are engaged in informing buyers of the benefits to be derived from the inclusion of occupational therapy services to inpatients and outpatients of acute care hospitals, to patients in rehabilitation centers, and to those being treated through home health care. We also feel very strongly that underwriters of health care policies can do a lot toward making these buyers aware of the benefits and cost savings to be realized through the provision of occupational therapy services. We are now working with representatives of the Health Insurance Association of America in producing a document to be forwarded to members of the HIAA apprising them of the role that occupational therapy can play in the early rehabilitation of those suffering from injury or illness.

I feel certain your *Editorial Opinions* and the article by Ms. Roberts will help in creating more public awareness of the need for inclusion of occupational therapy services in health care policies.

James J. Garibaldi
Executive Director, The American Occupational Therapy Assn. Inc., Rockville, Maryland

Needed: risk manager

To the Editor: It became quite evident to me while reading Ms. Krakowiecki's article on the "Multi-Company Risk Manager" (Feb. 7) that the companies which employ Mr. Friedman need a risk manager—desperately! For worker's comp and benefit purposes, by whom is he employed at the time of loss? This question is inconsequential as compared to the liability matter. By whom is Mr. Friedman employed and, therefore insured, when he runs a schoolbus off the road while traveling from one employer to the other?

As a consultant, the cover is clear—as an employe, we all know better.

F. X. McCahill III
Norton Simon Inc., New York, N. Y.

Product liability

To the Editor: Your editorial "Product Liability: A Crisis or a Problem?" (Jan. 10) does not convince me that we do not have a crisis in product liability insurance.

Our company is over 44 years old and has had two product liability claims, neither of which has resulted in a settlement as of this date.

Our insurance company advised us in October that they would no longer carry our product liability insurance. After much inquiry among companies in fields related to ours, we found that they were experiencing the same problem in obtaining product liability insurance.

After diligently searching the insurance market, we were able to obtain product liability insurance at a cost 20 times that which we paid in 1976. We have decided, as a business decision, to go bare as the coverage offered in 1977 by the carriers was one-sixth the coverage we had in 1976. Paying a premium almost equal to the amount of coverage seems to us to be against the whole idea of insurance.

Unless action is taken on a national level to solve the problem of extremely high insurance costs for product liability, more manufacturers will be forced to make the same decision we have.

Your editorial seems to draw some kind of semantic line between a crisis and a problem and hints that business reacts hysterically to crises, but, solutions can be found to problems.

We happen to feel that there is a crisis as far as the availability of product liability insurance at a reasonable cost and that crisis can be overcome, also, with methodical solutions.

Michael A. Gaskin
President, Taylor & Gaskin, Detroit, Mich.

AN INSURANCE COMPANY'S $68,000 LOSS

The $25,000 potential difference in this example is the way the insurance company reacts internally to the disaster. They paid the $93,000 claim, and USCC recovered $25,000 through the merchandising of salvable materials.

Because of the insurance industrys' years of involvement in claims adjusting, they have come to rely heavily on our loss recovery services to minimize their losses and protect their cash flow by achieving what is known as a high net recovery dollar.

Since your company has assumed a risk retention profile through higher deductibles, self-insurance programs or a captive insurance company, you will need to use the same techniques the insurance companies use to protect their cash flow.

If your company experiences a loss, the temptation may be to declare it a total loss and replenish it from your self-insured resources. Then write it off. This type of action can have a severe impact on your cash flow picture —unnecessarily.

USCC can come in and do for your cash flow what we've done for the insurance companies for years.

We will identify the salvable merchandise and its current market value, market it to our network of known buyers and return a significant sum of money to your cash flow or risk reserve, thus enhancing your total cash flow picture. At the same time, we will react quickly, maintaining product integrity, protection for products liability and documentation of the unique program we develop for your specific needs.

We are not new. We have been serving the insurance industry for more than 80 years, recovering millions of dollars for them each year. And we are anxious to do the same for your company.

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benefit tax slants

IRS reverses stand on pension offset plans

THE INTERNAL REVENUE SERVICE reversed its prior position on plans that offset pension benefits with benefits of profit sharing plans. Previously, the IRS held that such a plan did not meet the requirements of Section 401 because the profit sharing plan was not exclusively for the benefit of employes. The IRS now states that these plans will not fail solely because of the offset provisions. (Rev. Rul. 76-259)

Some qualified plans tie their benefits to those provided under the Social Security Act. New final regulations provide that plan benefits cannot be decreased because of increases in Social Security benefits under Title II of the Social Security Act (TD 7434, 9/28/76).

Interim ERISA guidelines issued by IRS removes uncertainty, for a while, for companies with qualified plans. Under the guidelines, issued as Rev. Proc. 76-31, complying plans will generally be treated as meeting all the requirements of ERISA until 1978. During this period, a plan can be drafted or amended without regard to subsequent changes in the guidelines.

The only exception is in the unusual instance where either the Internal Revenue Service or the Department of Labor corrects what they consider to be a fundamental error affecting a significant number of plans.

Employes fearing a tax audit of their income tax return this year can breathe a bit easier. In fiscal 1976, the Internal Revenue Service audited about one out of every 41 individual taxpayers with adjusted gross incomes between $10,000 and $50,000. The chances of being audited this fiscal year, which ends Sept. 30, are projected as one out of 47.

The General Accounting Office, a congressional watchdog agency, recently scolded the tax bureau for overauditing $10,000 to $50,000 annual income people, the taxpayer group that's been the most law abiding. ■

around the states

Hospital cost increases slowed in Maryland

ANNAPOLIS — Maryland's Health Services Cost Review Commission reports the average cost of running a hospital in the state in 1976 rose 3.1 percentage points less than the national average. In its annual report, the agency said the daily cost of treating hospital patients increased 11.8% in Maryland, compared to a national average of 14.9%. The seven-member commission sets rates for 35 of Maryland's 48 general hospitals.

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MADISON—Virginia Hart, chairman of the Wisconsin Industry, Labor and Human Relations Commission, says her agency will ignore a recent U.S. Supreme Court ruling and continue to require employers to pay sick leave benefits to pregnant women. Mrs. Hart said she fully expects a court test on her decision. The commission will adhere to a 1975 state court decision, which said the state could treat pregnancy as a job disability.

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HARRISBURG—Pennsylvania officials report that the number of lost-time work injuries rose to an all-time high of 141,729 last year. It was an 11% increase over 1975 and 5% above the previous highwater mark set in 1973. The work-injury rate (the number of lost-time injuries per 1,000 workers) was 32.4 last year. For 1975 the figure was 29.6.

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SACRAMENTO—Legislation has been introduced in the California Assembly that would give the state's 12,500 state police officers, prison guards and firemen the same pension benefits as Highway Patrol officers. "The nature of the work of peace officers and firemen makes it necessary to provide them with a retirement plan permitting earlier retirement," said the chief sponsor. "Their work requires greater physical and mental stress than most occupations. . . ."

•

RICHMOND—A three-bill package liberalizing Virginia's workers' compensation laws has been proposed in the state senate. The proposals would permit injured workers to choose their own physicians, permit gravely injured workers to receive lifetime compensation and allow workers to sue companies that "willfully and knowingly" violate state or federal safety laws."

•

DENVER—The Colorado Municipal League has warned that pension plans for police and firemen in Colorado face liabilities that exceed their capital funding by $355 million. The league said resources in firemen's retirement funds are $100 million short of liabilities, while all municipal police funds have a deficit of about $255 million. ■

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Appeal delays liability trial in DC-10 accident

LOS ANGELES—Two federal district court judges have allowed an immediate appeal of a crucial ruling in the liability trial stemming from the 1974 crash of a Turkish airline DC-10 outside Paris.

Judge Manuel L. Real ruled Jan. 4 that punitive damages could be awarded in the case since neither California courts nor the legislature had made a case for allowing punitive damages in personal injury cases but not in wrongful death situations.

A trial to formally determine the liability for the crash may have been delayed several years. Authoritative sources said the appeal could take some time due to the extreme complexity of the case. The date of the liability trial, meanwhile, has been moved to March 14.

The 9th Circuit Court of Appeals will now have to decide whether to accept the immediate appeal, a decision which could take several months, in the opinion of sources.

If the judges had not chosen to authorize an appeal or if the Circuit Court declines to hear the case, the tiral will take place on two issues: The strict liability of McDonnell-Douglas and General Dynamics for the crash and whether the conduct of the two companies warrants a punitive damage award.

The decision to permit an appeal is seen as a victory of sorts for the defense. Sources for the team of attorneys who represent McDonnell-Douglas Corp. and General Dynamics told *Business Iinsurance* that should the Circuit Court agree with their argument that there is sufficient precedent for prohibiting punitive damages in wrongful death cases, the 66 remaining plaintiffs in the case would have to settle their cases either in trial for compensatory damages or in out-of-court settlements. Until now, about $60 million has been paid out in out-of-court settlements to heirs of about 240 persons who waived their rights to punitive damages.

Should the Circuit Court accept the appeal, a further appeal of its decision to the U.S. Supreme Court is expected due to the implications of such a ruling on all product liability cases.

Trials on the issues of compensatory damages begin on March 14.

The fact that none of the remaining plaintiffs, most of whom are Japanese, will receive any money until the punitive damage question is resolved is another factor that is reportedly placing new pressure on plaintiffs to lay aside the punitive damage issue and settle now for compensatory damages. ■

Stanford, architects agree on arbitration

PALO ALTO, CALIF.—Stanford University and Houston architects Caudill Rowlett Scott Inc. have agreed to arbitration to settle the university's milti-million dollar claim against the firm.

The university says there are design deficiencies in a new two-floor $13.3 million addition to its medical center. "What we got was not what we thought we were getting," said Stanford's attorney Cassius Kirk.

The claim is based on several overlapping arguments. Mr. Kirk noted that although the dollar amount on the various charges adds up to $14 million, it's not an accurate figure.

"We don't expct to recover $14 million," he said, declining to say how much the university hopes to win. "We feel we have a substantial claim."

The architectural firm, a wholly owned subsidiary of CRS Design Associates Inc. (CRSDA), is covered by errors and omissions insurance through its parent company. William F. Perry, vp and secretary of CRSDA, said the company's professional liability insurance at the time was limited to an aggregate of $10 million for the policy year.

The company is insured by Northbrook Insurance Co. During the policy year in question—July 1, 1975 to June 30, 1976—the deductible was increased to $150,000 from $50,000 effective Feb. 22. Which deductible applies "has not been determined," Mr. Perry said, but he is assuming the $50,000 does.

CRSDA's annual limit and per occurrence coverage was decreased to $5 million with a $500,000 deductible on July 1, 1976. The policy remained with Northbrook, a subsidiary of Allstate.

Stanford's attorney charged the new building addition "was not designed for flexibility." Mr. Kirk specifically noted that it will someday cost more to add a third floor than the university had originally thought.

Construction delays and extra costs, as well as "numerous building code violations," are also cited by the university in its claim. Construction started August 1973 with a scheduled completion date of May 1975. The building is now expected to open this month.

CRSDA's Mr. Perry would not comment on the claim except to recite a statement in the company's annual report. "Management is of the opinion that most of the claims are without merit and intends to vigorously defend this position." ■

Corroon Acquisition

Corroon & Black of Illinois has acquired Business Underwriters Inc., another Chicago insurance agency. Russell W. Steger, president of Business Underwriters, will join Corroon & Black as a consultant.

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Labor department . . .

Continued from page 1
and was in hazardous financial condition.

But Donald Kunz, Common Market's attorney, has won an injunction in federal court prohibiting any action by the state until the ERISA preemption issue is decided.

In addition to the legal question state insurance officials wonder whether the Labor Department has the interest or the competence to deal with the problems created by these trusts.

Last summer, the California department of insurance received numerous complaints about several trusts including the National Multiple Employers Foundation. Chief counsel Khachadour, believing she had no legal standing under ERISA, forwarded the complaints to the regional office of the Labor Department. She repeatedly implored the office to take some action.

But the Labor Department failed to act. The Foundation stopped paying claims in mid-November and filed for bankruptcy Feb. 2. The Labor Department will not even directly acknowledge that it has begun an audit of the Foundation, but it seems likely that no action was taken until bankruptcy was imminent.

Dallas Salisbury said it is unfair to connect the audit with the bankruptcy. "I don't mean this as an excuse," he said, "but anytime you've got a number of balls in the air you don't have the time to get to all of them."

The Foundation's bankruptcy leaves thousands of claims unpaid, although it has not yet been determined exactly how many persons were hurt. Among those with outstanding claims is a 20-year-old quadraplegic in Indiana with more than $40,000 in unpaid medical bills.

During its investigtion of the Foundation, *Business Insurance* discovered a reinsurance contract between Contract Life Insurance Co. of Scottsdale, Ariz., and the Foundation. Contract Life was owned by Gerald E. Webb, founder of National Multiple Employers Foundation.

The reinsurance contract may have been invalid since the insurer was authorized only to accept a small amount of reinsured life coverage. But Contract Life received a major infusion of capital in February, shortly after the Foundation declared bankruptcy.

A call from *Business Insurance* about the arrangement prompted the Arizona insurance department to send an investigator to California to determine if any of the new capital came from the Foundation. The final results of that investigation are not yet available. The Labor Department, in auditing the Foundation to determine the assets and explore possible fraud, has not yet contacted the Arizona department.

Mr. Salisbury would not comment on the audit, even when asked if the failure to contact Arizona raised questions about the department's competence.

Other states have encountered similar problems. In December, Montana asked the Labor Department for an opinion on whether Employe Benefit Security Assn., a self-funded trust based in Bellevue, Wash., was a qualified ERISA trust. Chief counsel Charles Erdmann said the department told him by phone in January that it could not supply such a letter until July.

Montana has gone to court in the meantime in an attempt to assert jurisdiction over the trust.

The Labor Department also refused to aid two private attorneys in Ft. Wayne, Ind., who have pursued an important case involving the National Multiple Employers Foundation. Sherrill Colvin and Vince Heiny wrote the Labor Department last July asking for help; four months later the department said it could not provide any assistance though it would be interested in the outcome.

The attorneys represent Wayne Chemical Co. and Thomas C. Tribolet, the 20-year-old son of a Wayne Chemical employe. Mr. Tribolet's spinal cord was severed in a July 1975 accident. The Foundation at first attempted to deny the claim, the attorneys said, on the basis the youth was trespassing. Eventually it agreed to pay the bills until the youth reached 20.

At the cutoff point at the end of 1976, the attorneys said, the Foundation had paid $40,000 of the $80,000 in medical bills incurred by Mr. Tribolet. (The policy's lifetime maximum is $250,000.) So the attorneys went to court, arguing an Indiana statute required the Foundation to allow the youth to convert his coverage to an individual policy.

A federal district court judge in Ft. Wayne ruled that ERISA does preempt state regulation. But the judge held that Congress granted a broad power to federal judges to make common law in this area, and he applied the Indiana statute and required the Foundation to allow conversion. With the Foundation's bankruptcy, however, it is unclear if the bills will be paid.

The judge also ruled the local agents transferred Wayne Chemical's coverage from an insured plan to the trust without fully informing the company of the implication of the action. Thus the judge extended responsibility for the medical bills to the agents involved.

The Ft. Wayne decision has been appealed. David Brummond, chief counsel for the National Assn. of Insurance Commissioners, said that while he had no doubt the outcome was proper, "the decision was an atrocious job of legal reasoning and should be reversed on principal."

But by raising the issue of the responsibility of agents who sell these trusts, the Ft. Wayne decision has attracted nationwide attention. California is considering action against agents who sold the National Multiple Employers Foundation, said Ms. Khachadour. Such involvement will be used as evidence of incompetency in proceedings to revoke agent licenses.

Mr. DeLeon in Texas argued that the enthusiasm of many agents for these trusts would be dampened if Labor would issue fiduciary guidelines on the responsibility of agents. Labor should also require all trusts to list the employer groups involved, a move that would eliminate mass marketing to individuals, he said. "If they would require these things, we'll go a long way toward eliminating fly-by-night operations."

Mr. Salisbury with the Labor Department said ERISA's fiduciary responsibilities already apply to all those involved with the trusts although enforcement of those rules is a difficult problem.

In the meantime, the trusts continue to operate in a regulatory vacuum. The National Assn. of Insurance Commissioners has adopted a model bill to regulate all types of trust administrators. And the NAIC is preparing legal support for states taking action against the trusts.

But the result of actions in a number of states will be "a slew of decisions," warns Ms. Khachadour. She argued that forceful action is needed from the Labor Department. The department can take responsibility and regulate the trusts or it can rule the trusts do not qualify under ERISA, she said, "as long as we get some clarification."

Amending the law to allow state regulation is what ought to be done, said Colorado's Richard Barnes. The oversight committee in Congress has a responsibility to clarify the issue, agreed Mr. DeLeon. The NAIC is planning a lobbying effort to amend the law, Mr. Brummond said.

But Ms. Khachadour doubts that Congress will soon tamper with ERISA. Congress usually will not revise a major piece of legislation until enough time has passed to correct all the problems at once, she said.

The Labor Department's study of the preemption issue can have three outcomes, Mr. Salisbury said. It could recommend only federal regulation, only state regulation or a combination of the two.

The whole area is very difficult, Mr. Salisbury said, since no two trusts are alike. He would not give a deadline for completion of the study. ■

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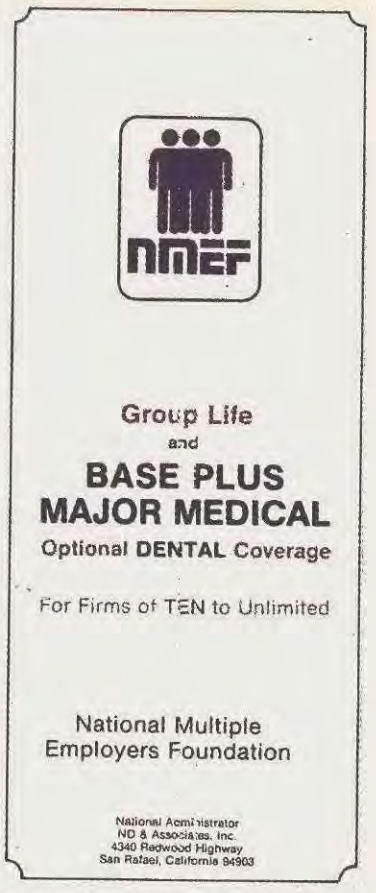

Cover of a National Multiple Employers Foundation brochure

Hospital . . .

Continued from page 1
introduced later this month.

The cost control program immediately came under fire from the American Hospital Assn. The association's director, Alexander McMahon, said any proposal that only controls one segment of the economy without provisions for controlling others is "inequitable and unworkable."

Mr. McMahon said hospitals will oppose limits that do not consider each hospital's situation. Mr. Califano, however, said previously that exceptions from the ceilings of an additional 1% would be permitted in unusual cases.

The AMA said it would have no comment on the proposal until its representatives met with Mr. Califano. The health care ceiling would not currently cover payments to doctors, though Mr. Califano conceded that HEW would be looking at that possibility in the future.

Most insurers, however, say they generally favor the proposal as one step to slow the rate of increases in hospital care costs. Last year hospital charges rose 15%, making the average daily cost $154 per patient for room and other services. ■

Hansa picks managers

Talbot, Bird & Co. has been selected U.S. manager of Hansa Marine Insurance Co. Ltd. of Stockholm, Sweden. Initially Hansa's operations will be confined to ocean and inland marine classes.

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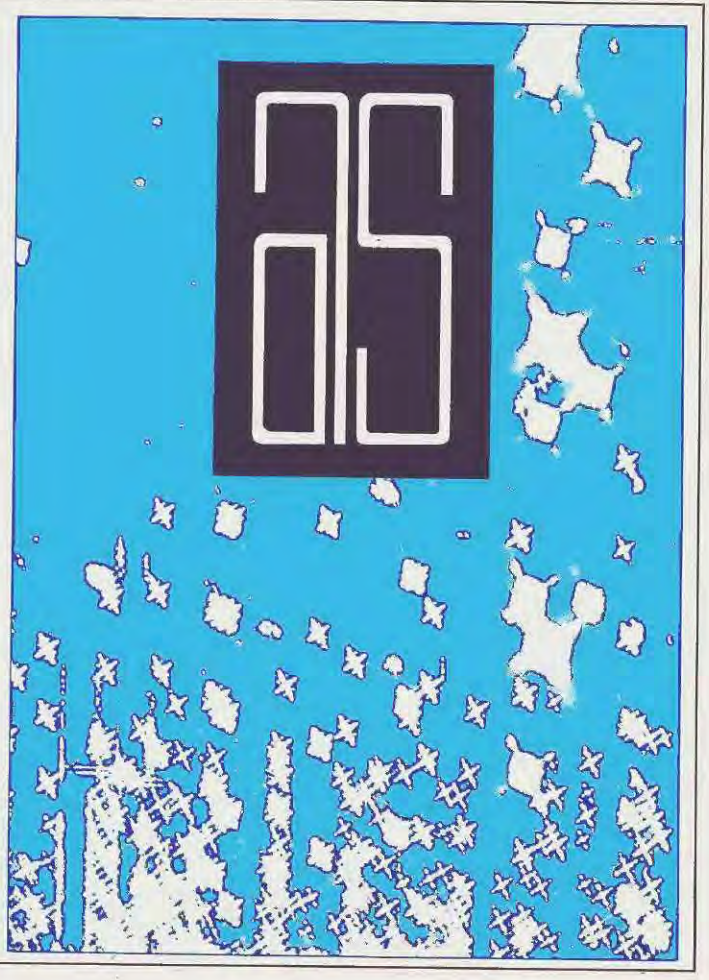

FAA controllers . . .

Continued from page 1

physicians to have job-related disabilities certified—a necessary step to obtain workers' compensation benefits or private insurance disability benefits.

With the change in law, the number of disability claims by FAA air controllers at the Hampton Air Route Traffic Control Center and at Hartsfield International Airport in Atlanta increased dramatically.

According to one source close to the case, 109 air controllers out of the 550 person force at Hampton and Hartsfield facilities left their jobs and claimed workers' compensation benefits between 1974 and mid-1976.

Sixty-four of those controllers, according to the North American complaint, had their job-related disability certified by the same Atlanta psychiatrist, Dr. Merton Berger.

Dr. Berger had evaluated air traffic controllers in the Atlanta area from 1965 to September 1974 as a consultant to the FAA. He left after allegedly disagreeing with various medical procedures.

Shortly before leaving the FAA, Mr. Berger began seeing air traffic controllers as private patients. On the basis of a single 50-minute office visit, and allegedly without employing any objective psychological tests, Dr. Berger certified that 64 of the air controllers had job-related neuroses and were entitled to disability benefits.

It's not known how many air controllers Dr. Berger declined to certify as having mental problems. But one FAA official charged that "99% of the controllers Dr. Berger saw were certified as disabled after one 50-minute visit."

Dr. Berger had not returned repeated calls by a *Business Insurance* reporter asking for his response to the charges. His attorney, John Dunaway, also refused to discuss the case.

The air controllers' visits to Dr. Berger did not stop with initial certification of disability caused by job-related neuroses.

Dr. Berger was allegedly aware that under the terms of some of the air controllers' income disability policies, they were required to consult regularly with the physician or psychiatrist who certified the disability.

So the air controllers continue to see Dr. Berger. It is currently estimated that 50 former air controllers, all of whom are receiving Office of Workers' Compensation Program (OWCP) benefits and/or monthly disability benefits are patients of Dr. Berger. The Atlanta pyschiatrist reportedly receives $60 for each monthly visit. The North American complaint estimates Dr. Berger's annual income at $25,000 from this group of patients alone.

The sudden increase in air controllers claiming workers' compensation benefits came at a time when improved technology had reduced the tensions and demands commonly associated with the air control job.

"The marriage of the computer to radar means the air controller doesn't have to do as much as before," said Jack Barker, an FAA spokesman in Atlanta. Computers, for example, now automatically keep track of the airplane's position, a tedious, demanding job that controllers once had to perform.

It's also unknown how many, if any, cases approved by Dr. Berger were rejected by the Labor Department as ineligible for worker's compensation.

But given the limited numbers of OWPC claims examiners—OWPC only has a 500-man staff that last year handled 200,000 new cases—rigorous evaluation of disability cases is impossible.

Some air controllers assumed second careers while receiving 75% of their former salaries tax free as well as sizeable benefits from their insurance disability policies.

In one widely publicized case, Glenn Pierce, a former air controller who left the FAA in July 1975 on workers' compensation, earned $17,000 in 1976 as a professional bowler. That was in addition to his $22,000 tax free income received from workers' compensation disability plans.

Because of the publicity surrounding Mr. Pierce's case—he was interviewed on the CBS news show "60 Minutes"—he was recently cut off from workers' compensation.

But the action taken in Mr. Pierce's case is the exception. William O'Keeffe, head of the Jacksonville, Fla., regional OWCP, said his office has not found a single case of fraud in workers' compensation since he took over in 1959.

The inability of the OWCP to find fraud is not surprising. The OWCP doesn't have anyone checking the continuing validity of disabilities claimed under federal workers' compensation rules.

The Labor Department previously employed such investigators in its workers' compensation program, but they were eliminated in the late 1960s. Current plans, however, are to add 123 investigators to the OWPC, said Albert Kline, associate director for federal employes compensation.

One FAA spokesman said many of the air controllers collecting benefits probably did have problems that made them unfit to continue their work.

But it is highly questionable, he said, whether the job, and not some outside factor, caused the disability. "What happens in a case where a controller's wife runs off with a neighbor and the controller flips out? The man may not be able to work, but you sure can't blame job pressures for his disability."

The crux of the problem, said Dr. Richard Butler, regional flight surgeon for the FAA in Atlanta, is that under workers' compensation a person makes more money by not working than if employed.

"Why should someone work if he makes more money by collecting workers compensation?" he asked.

According to the Internal Revenue Service, a married worker with an annual salary of $24,000 pays $5,560 in federal taxes giving him an after-tax income of $18,400. State income taxes reduce this amount still further.

So an air controller on workers' comp who collects 75% of a $24,000 salary ($18,000) tax-free and receives $1,000 monthly from an insurance income disability policy comes out way ahead.

On Dec. 21, 1976, North American stopped paying disability benefits to 12 air traffic controllers who held policies with the company.

Under the North American policy, the air controllers were entitled to benefits for an 84-month period if they could not resume their air controls duties during that time.

Depending on the premiums paid, the monthly benefits from North American policies ranged from $500 to $1,000.

One month later, North American sued the 12 former FAA employes and Dr. Berger who certified the air controllers' disabilities, to recover $179,025 in benefits paid to the men.

Dr. Berger is being sued for a total of $562,025 which represents the $179,025 paid to the 12 air controllers and $383,000 for benefits paid to 18 other air controllers he examined who held North American policies but are not named as defendants in the complaint.

Since the complaint was announced in U.S. District Court there have not been any new cases of air controllers in Atlanta seeking workers' compensation on the grounds of disability caused by job-related neuroses. ■

Code meetings

Shipping experts sponsored by the International Labor Organization have been meeting in Geneva to draw up an international code aimed at reducing accidents on board ships at sea or in port. Tanker explosions in recent months led to demands for greater safety measures for seamen.

Motel chain insured for rape settlement

NEW YORK—The entire $1.5 million out-of-court settlement accepted by singer Connie Francis in her negligence lawsuit against Howard Johnson's Motor Lodges was covered by the hotel's liability insurance policy with Liberty Mutual Insurance Co., *Business Insurance* learned.

The amount, though substantially less than the $2.5 million a jury awarded Ms. Francis, is still the largest ever awarded to an individual as a result of an assault case. The settlement was reached on the eve of an appeal of the $2.5 million award by Howard Johnson's to the U.S. Court of Appeals.

Ms. Francis—who was raped in her room at the Westbury, Long Island, motel—charged Howard Johnson's with negligence by the hotel's failure to provide her with "a safe and secure room."

In her testimony during the jury trial of her lawsuit, Ms. Francis said that her assailant, who has not been apprehended, gained entry to her room through a faulty sliding door that could easily be opened.

The management of the motel testfied that new locks were ordered for the doors, but had not arrived at the time of her stay.

Howard Johnson's and Liberty Mutual contested the original $2.5 million, which was upheld by a Brooklyn federal court judge.

Loss of the performer's potential earnings as a result of the rape was cited by the judge in his decision as justification for the large award.

He stated that the experience "would in all probability prevent her (Ms. Francis) from performing for at least 10 years."

The hotel chain had planned a further appeal of the award. But after negotiations between Liberty Mutual, its liability insurer and attorneys representing Ms. Francis, the settlement was reached. ■

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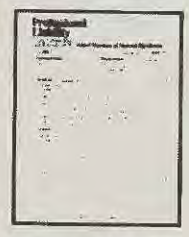

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people

Flexi-Van Corp. names McCarthy risk manager

Michael F. McCarthy, 45, former director of risk management at ITT Rayonier in New York, joined Flexi-Van Corp. in New York as risk manager. In his new position, Mr. McCarthy is responsible for the entire corporate risk program and employe benefits. He reports to the corporate counsel. At ITT Rayonier, **Dominick Zullo,** who was insurance administrator, was promoted to insurance manager.

* * *

Steve Graves, former corporate risk manager for SmithKline Corp., Philadelphia, left the company to join Johnson & Higgins brokerage firm in Philadelphia. In his new position as assistant vp and senior account executive, Mr. Graves will be involved with the newly developed risk management services department. At SmithKline, **Joseph Perello,** assistant manager of corporate insurance, has assumed Mr. Graves' responsibilities.

* * *

Dan Wagner, 34, was named to the newly created position of manager, corporate insurance and risk administration at Philips Industries Inc. in Dayton, Ohio. Previously insurance activity was a part of the tax group in the company's legal department, a spokesman for Philips said; now insurance will be a function of the corporate treasury department. Mr. Wagner, who has the CPCU designation and an Associate of Risk management degree, will evaluate existing coverage and develop the insurance function to advise, control and manage the total corporate insurance responsibilities. He is also president of the newly formed Dayton-Miami Valley chapter of Risk and Insurance Management Society Inc. Mr. Wagner was manager of industrial insurance at Hobart Corp., Troy, Ohio. No replacement for him there has been named.

* * *

William M. Goddard, 28, former claims supervisor at Liberty Mutual Insurance Co., joined Richardson-Merrell Inc. as assistant insurance manager, reporting to **Joseph R. Gullo,** director of insurance. His responsibilities include evaluation of workers compensation claims, loss control, plant engineering data and special projects.

* * *

John Cochran, 53, was named vp, employe benefits plans department at Provident National Bank in Philadelphia. He is responsible for all facets of administration of 800 employe benefit plans handled by Provident's trust department and reports to the senior vp and general counsel. Mr. Cochran, who has the CLU designation, was a pension and administrative officer at First Pennsylvania National Bank.

* * *

Eugene W. Bader, 30, was promoted to manager of corporate insurance at G. D. Searle & Co. in Skokie, Ill. Mr. Bader was formerly loss prevention manager and succeeds **Richard Markey,** who took a position with the Williams Cos. in Tulsa, Okla.

* * *

Andrew L. Ruff, 49, has been named manager of employe benefits, a new position at Borg-Warner Corp in Chicago. Mr. Ruff, who has been with Borg-Warner since 1957, will also continue as manager of pensions, a job he has held since last year.

* * *

William C. Hattendorf, 42, has been promoted to assistant treasurer and assistant secretary of Cooper Tire & Rubber Co. in Findlay, Ohio. Mr. Hattendorf was formerly manager of taxes and insurance. No replacement has been named yet.

* * *

Gary Tisserat, 30, has been named casualty administrator for Occidental Petroleum Corp. in Los Angeles, replacing **Bob Padalecki,** who was promoted to manager of insurance administration. Mr. Tisserat reports to **Robert F. Brooks,** manager of insurance and corporate benefits. Mr. Tisserat spent the last 4½ years as an insurance analyst for Litton Industries in Beverly Hills. No replacement at Litton has yet been named.

* * *

Wayne Morrison, 28, was hired as risk manager for Transamerica Corp., San Francisco, replacing Gary Bausom, who left the parent company Jan. 1 to serve as vp-risk manager for its Budget Rent-A-Car subsidiary in Chicago, as previously reported. Mr. Morrison has been with ESCO Corp. in Portland, Ore., for two years as risk manager, responsible for property and casualty programs. Before that, he had been property/liability insurance manager for Paccar Inc. No replacement for Mr. Morrison has yet been named at ESCO.

* * *

Ronald D. O'Nan, vp of administration, insurance and risk management for Budget Rent-A-Car in Chicago, a major Transamerica Corp. subsidiary, left the company to join Corroon & Black of Illinois in its risk management services operation. Mr. O'Nan had been with Budget for five years.

* * *

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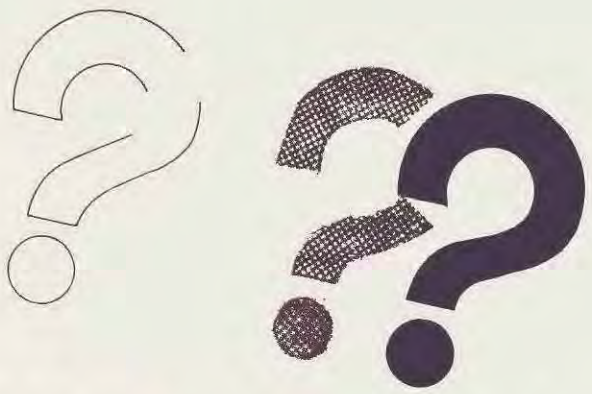

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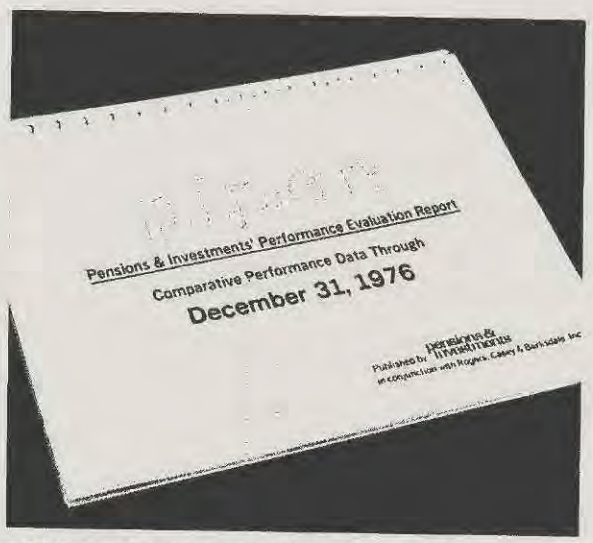

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