

business insurance

update:

James realigns duties of its top management

CHICAGO—Fred S. James & Co. Inc. chairman Charles O'Malley and president William E. Burch will split supervisory duties of chief executive, the brokerage has announced.

Under the new alignment, Mr. Burch will oversee employee benefits, self-insurance, general administration, financial

Continued on next page

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Captive fails to ring up GMA sales

By JERRY GEISEL

WASHINGTON—The new super-captive for America's grocery industry isn't ringing up sales among members of the Grocery Manufacturers of America.

It missed its Jan. 1 starting date and some observers say it may never be loaded with risks.

Business Insurance interviews with more than 25 GMA members turned up only one GMA company—Williams Foods Inc. of Westwood, Kan.—that has joined the program, although several said they are seriously considering it.

Comments of risk managers no longer interested in the super-captive describe what can stymie the growth of an alternative funding mechanism, especially in a competitive insurance market.

The heavily publicized and promoted multiple-owner Bermuda reinsurance company was conceived by GMA members more than two years ago as a means of bringing price stability for liability coverage.

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Photo: Mary Cairns

Grocery manufacturers haven't rushed to buy into the super-captive plan.

Grand jury probes reinsurance deals

By LEN STRAZEWSKI

NEWARK, N.J.—A federal grand jury here is investigating a local managing general agent as one marker on a tangled trail of phantom reinsurance on several large commercial risks, *Business Insurance* has learned.

Though most of the problem transactions were never completed, several large firms, including Warner Communications, Mobil Oil, pharmaceutical manufacturer Richardson Merrill Inc. and large California loan brokers, almost bought coverage with gaping holes in the reinsurance.

Spurred by insurer complaints, the grand jury investigation keys on whether Richard Browning of Metropolitan Insurance Managers Inc. of Collingswood, N.J., had authority to commit Switzerland General Insurance Co. of New York, Winterthur Insurance Co. of New York and Northern Assurance Co. (part of Commercial Union) to reinsure risks placed with at least three domestic and foreign insurers.

Switzerland General, Winterthur and Northern all deny granting Mr. Browning underwriting authority and deny knowledge of European Insurance Co. of Switzerland, which Mr. Browning said he represented as a fronting reinsurer for Switzer-

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land General, Winterthur and Northern.

In a complaint filed late last month in U.S. District Court for the Southern District of New York Switzerland General president Robert F. Keller accused Mr. Browning and two California excess/surplus brokers, Robert G. Burnham and Nicholas Fortunato, of acting in concert to wrongly bind Switzerland General to reinsure risks.

"Moreover, based on information I have received, it appears that the binding of such

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New research pegs benefits market

By KATHRYN J. McINTYRE

How did businesses with more than 100 employees spend \$24 billion in 1978 on 37,000 benefit contracts to fund more than 75,000 group employee benefit plans?

- The largest employers with more than 10,000 employees preferred self-funding, then a Blue Cross & Blue Shield plan and, third, a Metropolitan Life Insurance Co. plan, with the biggest employers that prefer to buy insurance choosing Metropolitan.

- Employers with more than 5,000 employees but fewer than 10,000 also preferred self-funding over a BC&BS plan. But when tapping the commercial insurers, they picked Prudential, Aetna Life Insurance Co. and Equitable, in that order, over Metropolitan.

- From small employers with just over 100 employees to employers with up to 5,000 employees, the choice always stacked up as a BC&BS plan, followed by self-funding, Aetna and Prudential. Connecticut General was the fifth most often tapped, except by employers with fewer than 300 employees, which picked Unionmutual.

The benefit funding choices of these employers are tallied in reams of computer printouts supplied exclusively to *Business Insurance* by 1981 Group Insurance Reports, a new service of Money Market Directories Inc. in Charlottesville, Va.

The information is culled from reports employers must make to the Department of Labor under the Employee Retirement Income Security Act.

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This is the first in a series of exclusive reports on information culled from Labor Department records by the 1981 Group Insurance Reports. Next week: The business community's top choice of brokers to market benefit plans and the insurers the brokers use most often.

How business funds group benefits

Group size	10,000 or over	5,000 to 10,000	1,000 to 5,000	500 to 1,000	300 to 500	100 to 300
1st	Self-funded	Self-funded	BC/BS	BC/BS	BC/BS	BC/BS
2nd	BC/BS	BC/BS	Self-funded	Self-funded	Self-funded	Self-funded
3rd	Metro Life	Prudential	Aetna	Aetna	Aetna	Aetna
4th	Conn. Gen.	Aetna	Prudential	Prudential	Prudential	Prudential
5th	Prudential	Equitable	Conn. Gen.	Conn. Gen.	Conn. Gen.	Unionmutual

Source: 1981 Group Insurance Reports

Chart: Toby Roberts

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Baseball club owners safe
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Mines find ways to dodge work comp
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update:

James execs realign duties

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cial services, data processing and reinsurance. Mr. O'Malley will supervise domestic and foreign property/casualty operations and support services, the firm said. Also, executive vp Daniel V. Malloy has been named director of James Employee Management Services Co.

Panda arrives without cover

LONDON—Chia-Chia, the giant panda from the London Zoo, has arrived in Washington to do his duty without the assurance of insurance.

Though the zoo said it would look for extra coverage for the panda who will mate with Ling-Ling in Washington, insurers told the zoo the panda is an uninsurable risk.

"A panda is uninsurable because we can't replace it," said Mark Jones, financial officer for the London Zoo.

The zoo does have insurance to cover the replacement costs of other animals; but the rare pandas are a different case. The pandas, which were gifts from the Chinese government, cannot be replaced, Mr. Jones said.

"That's why Chia-Chia is going to Washington, really—to replace himself."



Iranian assets awarded

NEWARK, N.J.—A federal judge has ordered \$503,000 in frozen Iranian assets to a Houston company that had filed suit against Iran. The case is the first in which a company has been awarded Iranian assets that were ordered frozen by President Carter in the hostage deal.

U.S. District Judge Lee Sarokin, who released the Iranian funds to Behring International Inc. of Houston, said international diplomacy moves should not influence constitutional issues in U.S. courts.

A spokesman for the U.S. Treasury Department said an appeal of the decision is unlikely because the case predates the Nov. 4, 1979 asset freeze.

Miners plan work stoppage

WASHINGTON—The United Mine Workers of America plans a two-day work stoppage March 9-10 to protest proposed changes in the federal black lung benefits program.

The job action, which includes a March 9 march on the White House by 5,000 UMW members, protests Reagan administration proposals to tighten eligibility standards for benefits to help restore the Black Lung Disability Trust Fund to solvency. (BI, March 2).

Risk act introduced in House

WASHINGTON—The Risk Retention Act, introduced in the Senate on the second day of the current session by Sen. Howard Cannon (D-Nev.), now has a House companion.

Rep. James J. Florio (D-N.J.), chairman of the House Commerce, Transportation and Tourism subcommittee, introduced the measure (H.R. 2120) that would make it easier for businesses to self-insure product liability risks through pooling.

Penthouse contests award

CHEYENNE, Wyo.—Penthouse magazine last week filed a brief here asking U.S. District Court Judge Clarence Brimmer to overturn a \$26.5 million libel judgment against the magazine or to grant a new trial.

A jury last month awarded that amount to Kimberli Jayne Pring, Miss Wyoming of 1978-79, who charged she was libeled by a Penthouse article that detailed the sexual exploits of a fictional Miss Wyoming (BI, March 2).

Suits lead to qualified audit

DENVER—Johns-Manville Corp.'s auditor has qualified the firm's 1979 and 1980 financial statements because of the growing number of asbestos suits it is defending.

The company said in January that auditor Coopers & Lybrand was likely to issue qualified statements because the number of pending asbestos suits rose to 5,087 from 2,707 (BI, Feb. 2).

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Vol. 15, No. 10—Business Insurance (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to Business Insurance, circulation department, 740 Rush St., Chicago, Ill. 60611. Copyright 1981 by Crain Communications Inc.

Court nears decision on captive tax benefits

By KATHRYN J. MCINTYRE

LOS ANGELES—An appeals court decision on the tax ramifications of dealing with a captive insurer is nearer now that three judges have heard oral arguments in the Carnation case.

Oral arguments were presented last month to three judges in the 9th Circuit Court of Appeals here who will rule on Carnation Co.'s appeal of a December 1978 Tax Court decision for the Internal Revenue Service (BI, Jan. 8, 1979).

That decision, the only Tax Court ruling on captives use, removed all tax advantages to Carnation's use of a captive insurer.

The Tax Court agreed with the IRS that there was no shifting of risk in the reinsurance of Carnation's property risks by its Bermuda captive, Three Flowers Assurance Co. Ltd.

Risk-shifting, according to a previous Supreme Court decision, is an essential element of an insurance transaction.

Where there is no risk-shifting and, therefore, no insurance, the premiums paid aren't tax-deductible as a business expense for insurance, but are instead deemed by the IRS to be a contribution of capital to the subsidiary.

The Tax Court decision hurt Carnation because it reduced

Three Flowers' foreign source income and so denied Carnation access to the foreign tax credit provisions of the tax code.

The Tax Court based its decision on Carnation's promise to its fronting insurer to increase to \$3 million from \$120,000 the capitalization of Three Flowers if it were needed. The capitalization promise counteracted the reinsurance agreement, leaving the transaction devoid of risk-shifting, the Tax Court said.

Carnation's attorney, J. Patrick Whaley, argued last month before the judges that "There was shifting of risk with the capital invested

Continued on page 26

Bond covers \$21.3 million fraud loss

By RHONDA L. RUNDLE

SAN FRANCISCO—Wells Fargo Bank expects to recover the full amount of a \$21.3 million embezzlement loss at a Southern California branch minus a \$1 million deductible included in its bankers blanket bond.

"The bond is written for substantially higher limits than the loss," said Richard R. Sanguinetti, vp and manager of the insurance department at the 11th largest U.S. bank, headquartered here.

Mr. Sanguinetti said he did not doubt the claim would be paid even though compiling proof of loss would take many months. "There are lots of factors to consider and the process will be very

Continued on page 25

Baseball club owners safe

KANSAS CITY, Mo.—If major league baseball players refuse to take the field May 29, club owners have \$70 million of bullpen help waiting.

Despite rumors to the contrary, the major league baseball club owners' strike insurance policy is healthy and ready to play, says broker Jasper Marino of Reed Stenhouse Inc. here who placed the policy.

"Cover notes were on the owners' desks in December, and the policies were delivered shortly after," he explained. "The coverage, of course, has all been marketed and there have been no complaints from the insurers."

Lloyd's is the lead underwriter of a \$50 million policy that supplements a \$20 million strike fund designed to compensate baseball club owners in case of a walkout. The policy is considered a major threat to the baseball players association's bargaining position.

Quoting unidentified insurance industry sources, the New York Times recently reported the coverage was in jeopardy and said insurers are considering denying claims against the policy because they were not properly informed of the risk.

"I saw the New York Times story, and there's absolutely no truth to any portion of the article," Mr. Marino said. "The coverage is in place, and there has been no difficulty with the insurers."

"The publicity, though, has certainly caused a lot of attention. My chairman called about the story and I also told him everything was in order," Mr. Marino continued. "I don't know who has been spreading the rumors, but I suspect other brokers are involved."

Mr. Marino would not disclose the premium for the strike insurance. —Len Strazewski



errors & omissions

• Among the big losses to hit Lloyd's in the past year was the constructive loss of three ships built by Avondale Shipyard (BI, Aug. 11, 1980). A Feb. 23 article incorrectly referred to the "big Allendale loss" instead of "Avondale loss."

Seafood importer sues over rejection coverage

By ELLIS SIMON

NEW YORK—Three seafood importers are suing broker Bayly, Martin & Fay and 13 European insurers for more than \$600,000 in unpaid claims they say are due under a defunct mass-marketed insurance program.

The plaintiffs charge that rejection claims weren't paid under the 1979 program marketed by BMF's New York office to provide the importers with ocean marine cargo, rejection and product liability insurance.

Rejection insurance reimburses a policyholder for losses when customers refuse a shipment or when a shipment fails an importing inspection. The policy pays when losses exceed the salvage value of a rejected shipment.

Seamark Corp. of Boston is seeking \$121,238 in federal court here and Balfour Maclaine In-

ternational Ltd. of New York seeks \$372,784 in state court, according to attorney Bethany Ralph, who represents both firms.

Farport International of Jersey City is suing for more than \$100,000 and has a new broker, said president Irving Farber.

Ben Kosloff Inc. of Chicago, which had been insured under the same program, has not sued, said its attorney Sam Tannenbaum of Becker & Tannenbaum of Chicago.

The Seamark suit also alleges

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Calling captive managers

Attention captive managers! Business Insurance will publish a listing of captive management firms in its April 6, 1981, issue which also will include a Spotlight Report on captives and the offshore insurance marketplace.

The issue will coincide with the annual meeting of the Risk & Insurance Management Society in San Francisco and will be distributed to all attendees. The captive management listing will be a valuable resource for our readers selecting or reviewing captive management firms.

To be listed, domestic and foreign captive managers should have returned the BI questionnaire by March 3, but we will take additional listings by telephone until Friday, March 13. Call editorial assistant Claudette Eisenzimmer at 312-649-5398.

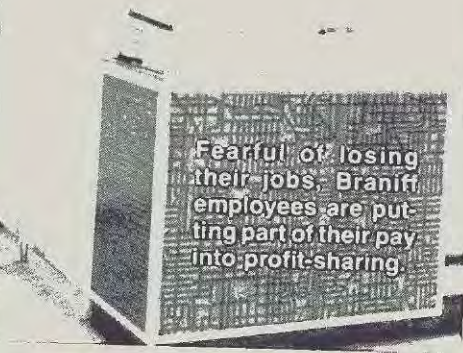
Profit-sharing may keep carrier airborne

By STEVE SHERWOOD

DALLAS—Approval of Braniff International's proposed profit-sharing plan by 3,328 Teamster workers is expected to be the ticket to a temporary 10% payroll savings for the troubled airline.



BI



Fearful of losing their jobs, Braniff employees are putting part of their pay into profit-sharing.

A 10% salary cut to be put into a profit-sharing plan is needed to keep the company afloat, the company says.

The Assn. of Flight Attendants' 2,900 members at Braniff voted unanimously March 3 to support the profit-sharing plan one day after the Teamsters gave their approval.

The Airline Pilots Assn. did the same March 4.

Final approval of the profit-sharing plum for taking the pay cut depends on how employees of the International Assn. of Machinists votes. The machinists, pilots and the flight attendants had approved a 10% pay cut last year without the profit-sharing offer. The Teamsters, representing the largest bloc of Braniff employees, voted the pay cut down last year.

This year, workers fear for their jobs.

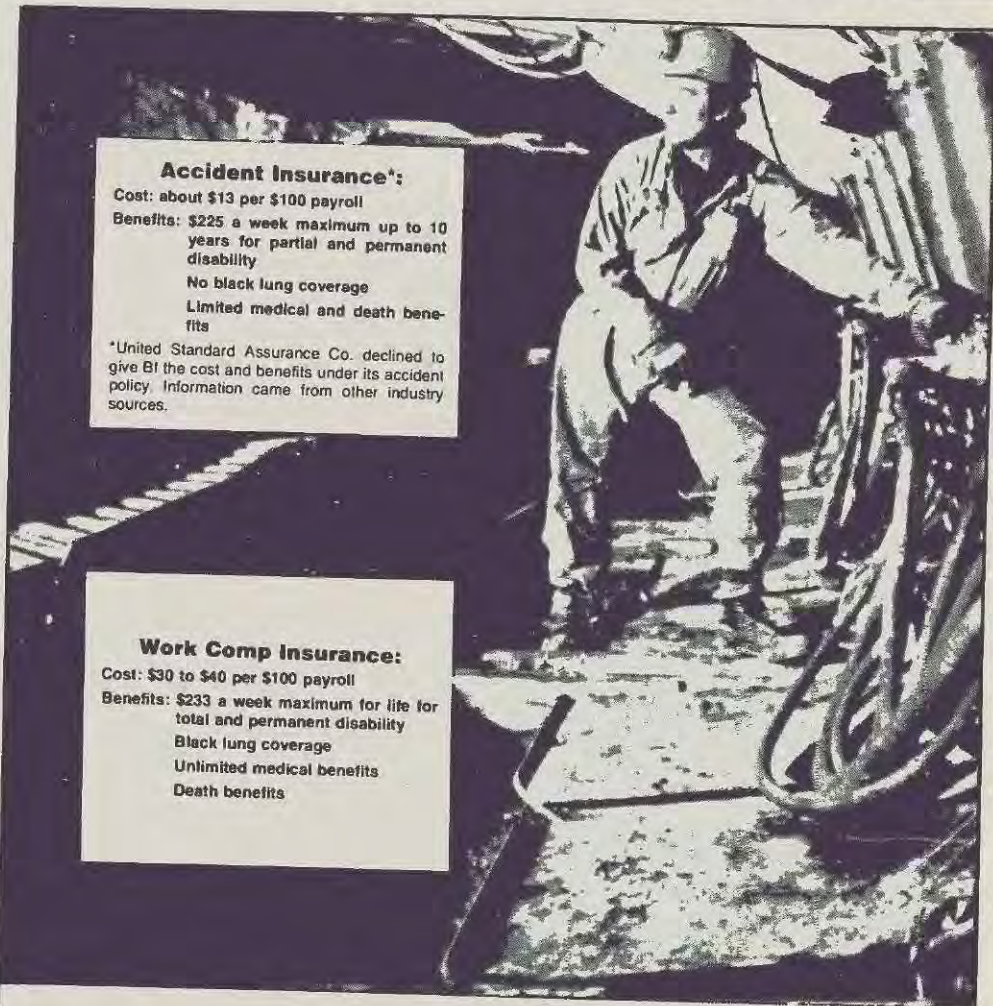
"It will take everyone working together to keep Braniff going," said Teamster Local 19 president Marvin Schlinke.

"Our goal is to maintain our careers," said Jean Jordan, local chairman of the Assn. of Flight Attendants.

Under the profit-sharing proposal, expected to save the company \$3 million a month, Braniff would withhold 10% of each employee's gross yearly salary until the company attains a 2% profit margin. The deferred salary would be put into a profit-sharing program beginning March 1 and ending Dec. 31, 1983.

The company's goal for 1981 is to break even, which means employees probably would not receive immediate return on their

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Accident Insurance*:

Cost: about \$13 per \$100 payroll
Benefits: \$225 a week maximum up to 10 years for partial and permanent disability
No black lung coverage
Limited medical and death benefits

*United Standard Assurance Co. declined to give BI the cost and benefits under its accident policy. Information came from other industry sources.

Work Comp Insurance:

Cost: \$30 to \$40 per \$100 payroll
Benefits: \$233 a week maximum for life for total and permanent disability
Black lung coverage
Unlimited medical benefits
Death benefits

Loophole lets mines dodge work comp

By EILEEN NORRIS

KENTUCKY—Coal mine operators here who have found ways to dodge costly workers compensation coverage soon may find the bottom dropping out of their scheme.

The Kentucky Insurance Department and Workers Compensation Board plan to ask the legislature to iron out a "wrinkle" in the law that allows employees to waive workers compensation coverage.

Some mine operators reportedly have encouraged employees to waive their right to coverage with the promise of steady work at a higher salary than those who keep the coverage.

In some cases, there has been no choice. A job applicant either rejects the workers compensation coverage or doesn't get the job, one state source said.

Another approach used by mine owners is to make workers in the mine "limited partners," with each worker

kicking in about \$400 to the business. That money is used to buy steel-toed boots, hard hats and mine lights for the "partner," who is then exempt from workers compensation coverage under Kentucky state law.

Kentucky and Arizona are the only states where employees can reject workers compensation coverage before injury, says the National Council on Compensation Insurance.

The rejection clause has proved to be more than just a little troublesome for Kentucky officials, who decided about six months ago to move in on those abusing the option.

The attorney general has yet to issue an opinion on the legality of sidestepping the coverage, but some officials already are convinced the practice is blatantly illegal.

In many cases, mine operators are providing workers with group accident in-

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Forecaster sees drop in health policy costs

By STUART EMMRICH

HARTFORD—The cost of group health insurance is going to drop in the next year.

That's what David Hemley says. The director of insurance forecasting for Chase Econometrics says prices for group health and medical coverage will decrease as much as 20%.

His prediction contrasts sharply with those of other insurance experts who have told benefit managers to be prepared to pay 30% to 40% more for benefit coverage. But Mr. Hemley has his reasons.

Inflation is one.

He says prices will drop because group insurance packages are going to be skimpier. Benefit packages will be pared down and stripped of many fringes as workers trade those benefits for larger weekly paychecks.

"Labor has been shortchanged by inflation," Mr. Hemley said. "There is less en-

chantment with fringe benefits as workers want more 'red meat' in their salaries. And as fringes get relegated to second class, what will happen to group health and medical?"

Besides including larger deductibles and more copayment of medical costs by employer and employees, Mr. Hemley said, the benefit packages themselves will be sharply reduced.

"There are a lot of labor negotiations coming up in the next few months and you will see workers asking for more money up front," Mr. Hemley said. "Something has to give, and I think we will see a substantial



David Hemley

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Prominent Wharton School hasn't stuck with tradition

By MARY ANN MATLOCK

PHILADELPHIA—The roots of American insurance education can be traced to the brownstone buildings of The Wharton School at the University of Pennsylvania in this historical city.

But the prestigious business school is not stuck on tradition. Over the years, it has abandoned the old notion that transfer of risk alleviates all of a risk manager's worries, and now focuses on analyzing and quantifying risks.

Billed as the first university to offer insurance degrees (from 1904 on), The Wharton School likes to tout itself as the biggest in terms of faculty, best and oldest educational institution for those interested in insurance.

It prides itself on two cornerstones: establishing the academic standards for three professional designations—the CLU, CPCU and CEBS—and offering full-time students bachelor's, master's and doctoral degree programs with a broad perspective.

"Our students are given perspective on insurance and how it relates to finance, business and government work," said Dr. Dan McGill, Insurance Department chairman. "It's much better

for students to have a broad outlook. We tie it all together."

The insurance department has a staff of 10 full-time academicians to teach courses such as risk and insurance; group insurance and pensions; principles of property/liability; social insurance; business insurance and estate planning; risk management; financing personal health care, and property/liability insurance problems.

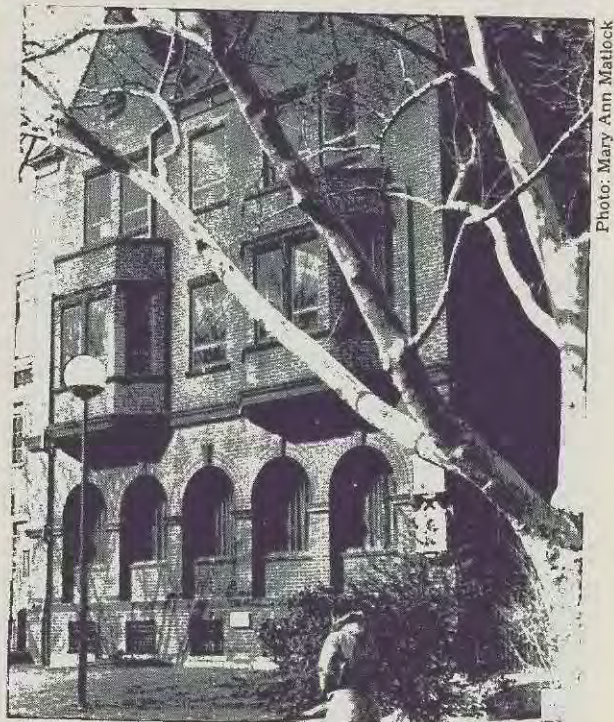
"In the past, we identified with the institutional approach," Dr. McGill explained. "Our courses historically described what was going on in the industry. But we made an effort 10 to 15 years ago to do away with that to develop a more theoretical approach."

While theory is the focus of most of the doctoral program, which is geared toward producing insurance teachers, students at all levels dabble in theory after some fundamentals are learned.

"We haven't abandoned the institutional because you can't apply insurance theory without a knowledge of the institution," Dr. McGill explained. But what this leader in insurance curriculum and others have abandoned is the notion that traditional

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insurance education



American insurance education can trace its roots to the Wharton School in Philadelphia

Photo: Mary Ann Matlock

Hazardous Waste Litigation Reporter

If your company has real or potential liability stemming from hazardous waste-related claims and litigation, the twice monthly Hazardous Waste Litigation Reporter is a must-read journal of record for you and your associates. Indexed, it averages about 60 pages.

This is the national report of hazardous waste litigation that gives you texts of pleadings, answers, depositions, court orders and authoritative national editorial coverage of court proceedings.

We also publish the Asbestos Litigation Reporter, the national journal of record of asbestos-related death and injury claims.

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PIA will switch to The Travelers for group plans

THE NATIONAL ASSN. of Professional Insurance Agents will switch to a new insurer for its group benefit trust plan April 1.

The Travelers Insurance Cos. will underwrite the program, beating out New York Life Insurance Co. in competitive bidding handled by George B. Buck Consultants. The trust underwrites group life, health and dental coverage for about 4,300 member agencies, with about 12,000 lives.

"We like everyone else had to look and see that our experience was getting high. Inflation and

benefit beat

medical costs were affecting the program," said a spokeswoman in the PIA benefits department.

"We have always had a flat rate and since we have a national program, we were not always competitive in some areas."

Under The Travelers program, rates for members will be determined by ZIP code and age classifications. Rates will go up "slightly," the spokeswoman said, but it is hoped they will not increase as much as they would have under the former insurer.

Benefits will not be changed, but a new \$500 deductible will be applied to medical costs. The plan will pay 90% of the first \$5,000 in costs over the deductible, and 100% of all further costs.

Interest index

Buck Consultants Inc.'s forward interest rate index, a device to help pension plan sponsors comply with Financial Accounting Standards Board disclosure requirements, rose to 12.7% for February, up from 12.4% in January.

The index helps pension plan sponsors select appropriate investment return assumptions so they can compare the market value of plan assets to the actuarial value of plan liabilities. FASB requires financial statements to include these disclosures for fiscal years ending on or after Dec. 15, 1980.

Teamsters fund

The pension fund of Teamsters Local 710 in Chicago must amend its rules to raise benefit levels and comply with the Employee Retirement Income Security Act, a federal judge has ruled.

The changes could mean an increase of up to \$58,000 in retirement benefits for some members.

The ruling by U.S. District Court Judge Thomas McMillen came in a 1976 suit filed against the fund by two members of Local 710. The suit charged that changes made by the fund, including a raise in the normal retirement age to 65 from 57, an alteration in the service credit formula and a reduction in early retirement benefits, violated ERISA.

Retiree work

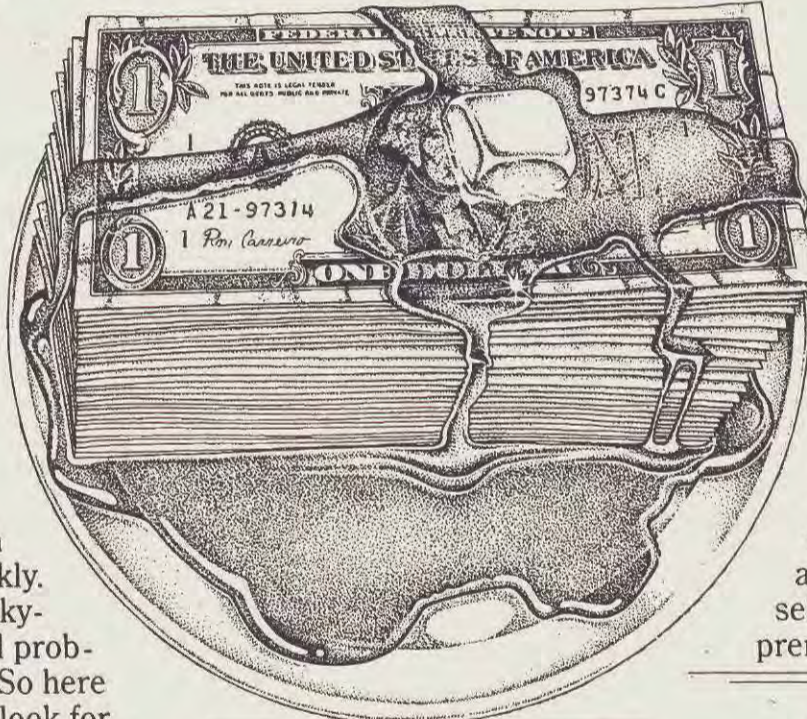
Retirees of The Travelers Insurance Cos. will now be able to work part-time for the company up to 960 hours a year without losing retirement plan benefits.

The Travelers retirees previously could work up to 40 hours a month for the company without losing benefits. Employment now will be computed annually.

In conjunction with the change, the company has set up a temporary employment program at its home office in Hartford. Retirees will be able to register with a company job bank to fill temporary positions for which they are qualified. The Travelers has been hiring workers from temporary service agencies to fill these positions arising from vacations, illness or heavy workload.

We'd like to know if you've made any benefit changes. Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

Are you being fed a sugar-coated dental program?



It may look like a bargain, but...

without the right controls a group dental program can turn sour very quickly. And when it does, sky-rocketing costs and problems can hurt you. So here are a few things to look for.

FINANCIAL AND MANAGEMENT KNOW-HOW

If your insurance company doesn't really know how to hold down costs, you end up paying.

At John Hancock, all claims are handled by dental specialists who have access to our on-staff dentist. So costly misuses are substantially reduced.

And our Cost Containment Team reviews with you periodic performance reports from our DENTSTAR computerized claim processing system. We'll point out plan adjustments you can make for even greater efficiency.

A COST-SAVING PROCESSING SYSTEM

A claim system that wastes time, wastes money. DENTSTAR is exclusively designed to handle the typically high volume of dental claims quickly and accurately. It instantly spots duplicate claims, overcharges and invalid data that could delay processing and cost you time, money, and aggravation. And since DENTSTAR is on-line nationally, our regional offices can help your employees wherever they are.

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We're Wausau Insurance Companies. Formerly Employers Insurance of Wausau. Formerly Employers Mutuals of Wausau. You'll notice the Wausau name is gaining emphasis. But it has always identified us since we began using our familiar trade-

mark, 27 years ago. Yet, there is change. We're not the same company we used to be. Today we operate a dozen

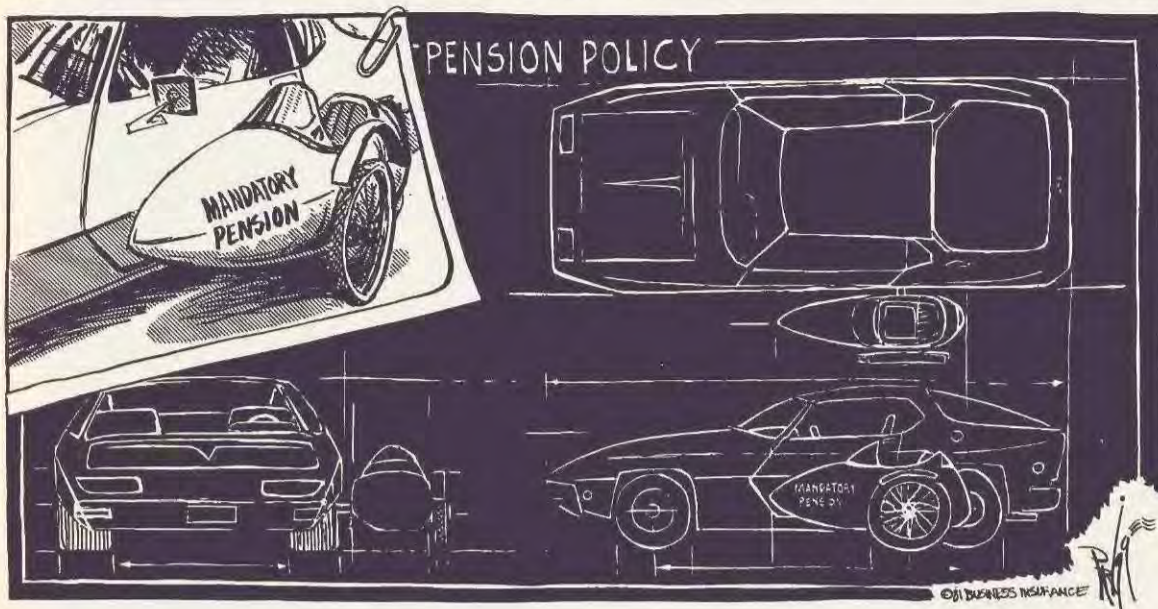
enterprises essentially devoted to serving the insurance needs of business. But we're also a growing force in personal lines. The Wausau story is simple. If you're looking for an effective insurance "partner" to help you control losses and costs, there's a sure way to know when you're on the right track. Just watch for this little railroad station.

**WAUSAU
INSURANCE
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editorial opinions



Blueprint for uproar

THE BLUEPRINT for the nation's retirement policy drawn by the President's Commission on Pension Policy has tucked within it designs to offend everyone.

Rather than scrap the blueprint as too offensive, we choose to take a more positive view of the uproar it is creating.

If everyone—business retirees and federal workers—feels slighted in the design, as early reaction indicates, it may be the blueprint is a fair allocation of resources.

We are, however, among the critics when it comes to building a mandatory private pension system in this country. We aren't convinced such a structure is needed yet to support our elderly.

We agree with the commission that the percentage of people vested in their pension benefit—25%—is too low, but we're disappointed the commission recommended a mandatory private pension system that vests 3% of salary.

We supported the earlier inclination of the commission to endorse faster vesting schedules. We think at least partial vesting after five years is a better way to ensure pension benefits for people who voluntarily or under duress must change jobs frequently.

It's not that 3% of salary is an exorbitant amount to require an employer to set aside for someone's retirement, considering major corporate plans cost 5% to 6% of payroll. Smaller employers could finance the benefit by reducing salary increases.

We object to the enormous amount of pa-

perwork that would be required to keep track of the mandatory 3%-a-year vesting.

We heartily endorse, however, the other recommendations of the President's panel. We hope Congress defers action on the mandatory plans until it sees if the other combined recommendations, when implemented, will be enough to erect a sound pension policy for our country.

Properly structured tax credits or deductions for personal savings toward retirement alone could be a big boost to increasing the amount of money available to retirees.

We agree with the commission's recommendations on Social Security, specifically increasing the retirement age and mandating the participation of government workers.

We also endorse the panel's recommendations on reducing the very rich benefits afforded federal workers.

Its other recommendations—streamlined administration of pension law development and enforcement, a law to govern public pension plans and a limit on the lump-sum payouts under pension plans—are worthy of adoption.

We thank the commission and its staff for the professionalism with which they approached their task and the wealth of information they have given us.

We trust that the Reagan administration will give the report its objective consideration, putting aside any bias against the commission because it was appointed by President Carter.

letters

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

In defense of Blue Shield

To the editor: I read with interest your article on "wraparound" major medical plans replacing the Blue Shield plans, by Eileen Norris, "Firms drop Blue Shield for wraparound plans," (BI, Feb. 9).

There is no doubt that eliminating the Blue Shield allows for a smoother flow of claims, although not always providing a premium savings.

What may be more important, in favor of Blue Shield, is what happens to the terminated employee. The departing employee could have a problem on his hands if he or a member of his family had developed a medical condition that would cause a problem with obtaining replacement insurance.

When a person has both Blue Cross and Blue Shield for a basic coverage, simply notifying Blue Cross & Blue Shield of his termination from the group would put him on a direct billing without any concern to pre-existing conditions. The private carrier will, of course, provide a conversion to a departing employee, but with a drastically reduced benefit and a fairly high cost when compared to Blue Shield.

Against the case of the comprehensive plan (eliminating Blue Cross as well) is the more severe penalty to the departing employee. Blue Cross for new individual subscribers will maintain their waiting period for voluntary illnesses as well as "presumptive" pre-existing conditions. The departing employee would be put in a precarious position not having either proper hospital benefits or medical benefits available immediately.

Even if this same departing employee obtained immediate employment elsewhere, the new carrier would have the pre-existing condition period (three-six-12 months) working against the employee and his family.

Unfortunately, unless the private carriers are willing to provide to departing employees the same full benefits that were available to them as employees, the insurance broker and/or the employers should examine the situation more carefully before discarding the Blue Cross and/or Blue Shield plans as basic coverage.

Mel Paul
Manager-group division
Nelson Charlmers Inc.
Newark, N.J.

Story misses the point?

To the editor: I read your article entitled "Hospital policy wards off risks of contamination" (BI, Feb. 23) and believe the point of our interview was missed somewhere.

Premiums are hopefully reflective of risk or chance of financial loss. The coverage we developed to provide business interruption and cleanup expense recovery for hospitals in case of a severe communicable disease is very inexpensive and became available to hospitals in February 1981.

We are experiencing a considerable number of inquiries about the coverage and expect the program to have widespread acceptance. We have sold no policies in the last two weeks since our beginning to

announce the availability of the protection because the hospitals are requesting copies of the coverage form for review.

Your article infers that hospitals have investigated the coverage and have made knowledgeable decisions not to purchase it. This is not the case. Also, any hospital that has had a "close call," like Northwestern Memorial, would most likely find it desirable to minimize the notoriety of the occurrence and thus take a very low profile on the impact the loss has had on their hospital.

Wayne H. Pearson
vp
Financial Guardian Inc.
Hinsdale, Ill.

Open rating in Montana

To the editor: In "Arizona will test open comp rating" on the front page of the Feb. 9 *Business Insurance*, you mentioned that no state allows open competition for workers compensation. This is not true. Montana has had open competition for workers compensation rates for two years.

I might add that it has been very successful to have open competition in workers compensation.

Melvin P. Hoiness
Hoines LaBar
Billings, Mont.

■ The Montana Insurance Department reports it does indeed allow deviations from National Council on Compensation Insurance rates, though the practice is not widespread and is tempered by the non-industrial climate and a competitive state fund.

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Published by Crain Communications Inc., Chicago, HERBERT ZELTNER, group vp; ALFRED MALECKI, J. J. GRAHAM, S. E. COHEN, LOUIS F. DE MARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKENSON, ARTHUR E. MERTZ, vice presidents; JAMES M. FRANKLIN, vp-finance and administration; MERRILEE P. CRAIN, assistant secretary.

Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). \$1 a copy. \$30 a year in U.S. Canada and all other foreign add \$14 for surface mail. Europe and Middle East only add \$32 for air delivery. First-class mail to Canada only, add \$36. WILLIAM STRONG, vp-circulation. PAMELA JANOUSEK, circulation manager; ROGER DiGREGORIO, fulfillment director. Circulation Dept.—Chicago. (312-649-5277). Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfilm copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.



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Tax write-off would spur worker contribution: Poll

By JERRY GEISEL

washington

WASHINGTON—Nearly three out of four American workers would contribute to their employer-sponsored pension plan or their own individual retirement plan if the contributions were tax-deductible, says a new survey.

If the contributions were deductible, the average person would contribute \$617 annually to

the company plan or his or her own plan, says the survey "Americans and Retirement: The Financial Crisis," conducted by pollster Roger Seasonwein Associates Inc. of New Rochelle, N.Y.

The survey of 1,000 persons, conducted for the American Council

of Life Insurance, an industry trade group, also revealed:

- Two-thirds of Americans believe business faces a shortage of capital and has too little money available for plants and equipment. An increase in savings, through tax-deductible pension contributions, will increase needed investment capital, more than half of those surveyed said.

- Nine of 10 Americans believe the current tax structure is keeping savings by individuals too low.

Several bills pending in Congress would permit tax deductions for employee contributions, but no action has been taken on them.

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BI-39

Runway safety

Nearly 25% of the airport runways in the United States are not protected against skidding accidents, a group of airport and airway suppliers charges.

Corrective work to make runways safer stopped when Congress failed last year to renew an airport aid bill because of a dispute over defederalization, according to the Air-Ground Group.

Nearly \$4 billion that has accumulated in the Aviation Trust Fund could be used to improve runways, but the money can't be spent until Congress renews the aid bill. A new airport aid bill (S. 508) is pending in a Senate Aviation subcommittee.

Expenses repaid

Trustees of a Detroit-based multi-employer benefit plan have agreed to repay \$51,000 to the plan for what the Labor Department says were excessive expenses.

The department charged that trustees of the Amalgamated Department Store and Retail Workers Insurance Fund "unjustifiably" held board meetings at the plan's expense in such distant places as Florida and Southern California and remained there longer than necessary to conduct business.

The trustees spent about \$18,000 for luncheons, dinners and receptions, \$5,000 for hotel rooms beyond board meeting days and a substantial amount to send the trustees' spouses to the meetings.

Under ERISA, plan funds may be used only to provide benefits to participants and pay reasonable administrative costs. The department said it did not consider the trustees' expenses to be reasonable or in the interest of participants.

The plan trustees have agreed to adopt guidelines to prohibit similar misuse of plan funds in the future, the Labor Department said.

The plan provides life and health benefits to about 6,300 members of the Amalgamated Clothing and Textile Workers Union.

Carrier safety

Federal enforcement of truck-related hazardous materials regulations is failing, says the National Transportation Safety Board.

The Bureau of Motor Carrier Safety, the federal agency in charge of these regulations, has done little "to plan its enforcement program for maximum effectiveness," the safety board says.

The BMCS "needs to reassess the appropriate and feasible role of a small federal enforcement program faced with a huge and rapidly increasing set of responsibilities," the NTSB added.



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Lloyd's exposure to guide head of Florida exchange

By STACY SHAPIRO

LONDON—The Insurance Exchange of the Americas will have a Lloyd's of London veteran as its chief executive officer beginning in June.

Alan Teale is hopeful his 28 years experience at Lloyd's and his expert knowledge of supervisory law will provide a great deal of expertise in helping set up the new Flor-

london line

ida insurance exchange.

Mr. Teale is the director of technical services and overseas affairs for the British Insurance Brokers Assn., which represents Lloyd's and non-Lloyd's brokers in London. He will leave for Miami at the end of May and take up temporary

offices with Arky, Freed, et al, attorneys for the exchange in Miami.

The Florida exchange could resemble its London counterpart more closely than do other U.S. exchanges because its enabling legislation allows it to be self-regulatory, Mr. Teale said.

The exchange hopes to open in 1982 with 9 syndicates capitalized at a total of \$9 million. Until then, Mr. Teale will spend most of his time "making certain we've got contractual agreements with all the hundreds of people interested." Then he will help form the syndicates, line up the brokers and take care of the other administrative details.

"They offered me the task and it's a beautiful climate," he said.

Sick leave bill

LONDON—A parliamentary bill requiring employers to pay the first eight weeks of an employee's sick leave has been postponed until next session in November.

The bill had been opposed by industrial employers here including the Confederation of British Industries, which is asking the government to review how it would compensate employers.

The British government now pays all sick leave benefits, but Parliament proposed employers pay them, said a spokesman for the Department of Health and Social Security. In exchange, employers would get a 0.6% deduction on national insurance contributions per employee and small businesses would receive special help.

But the CBI wants the government to allow a tax and national insurance deduction for the remittance, the spokesman said.

"Secretary of State Patrick Jenkin said he will continue on this bill, but the ways of compensation will probably be changed," the spokesman said.

The redistribution of maternity benefits also has been postponed by the government for at least two years. Employers are required by the Employment Protection Act of 1977 to pay an employee 90% of salary less a government contribution of \$20.65 per week for the first six weeks she is on maternity leave. The employer then reclaims the income from a maternity pay fund in the Department of Employment.

But a full-time employee can only receive this compensation if she has worked 16 or more hours per week and has been with the company for two years, or five or more years if she is part-time.

The government had proposed a massive grant to pay for the maternity benefits plus the other government compensation an expectant mother receives, but decided to postpone it.

Tracing goods

DJAKARTA—The mystery of a \$3 million consignment of caustic soda from Constanza, Romania, that disappeared on its way to Jakarta is being investigated by a loss adjuster on behalf of the Indonesian state insurance company.

Insurers face a substantial claim over the nondelivery of the shipment in 1979 and have hired Bob Bishop, who has made many investigations for the Lloyd's market. He is expected to visit Indonesia to examine details of the goods, which were dispatched on a Greek cargo ship nearly two years ago. ■



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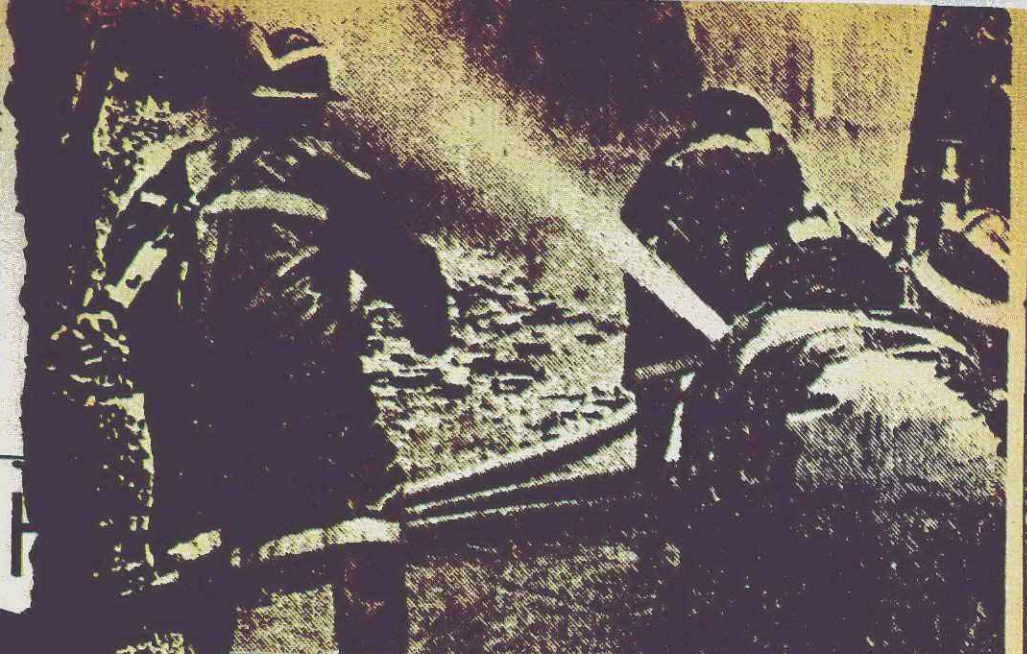
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Northland Foods Plant Heavily Damaged in Fire

Continued from Page One

... was caused to Northland Foods building, a four-story structure of 180,000 square feet. The burned building, purchased by Northland about two years ago from Hogstad Fish Co., measured 25 by 200 feet. It contained 100,000 square feet of area. A fire alarm was called in at 10:30 a.m. When firemen arrived, the building was engulfed in flames, and winds gusting from the north after an hour rolled thick smoke upward and across the Duluth harbor parallel to downtown. A light rain was falling after the fire department's arrival the roof collapsed and the wall crumbled in inches. A semi-trailer, loaded with goods, was inside the building, and it fell to the concrete floor. A second building, also a structure also damaged when firefighters moved it to the street. There was no damage to the building.

In addition to shipping and receiving operations are carried on in the lower level and first two floors of this building. The third floor is leased to the Northland Foods Manufacturing and Processing Co., a manufacturer. L. C. Ursprung, president of Northland Foods, said that some damage was done in the main building, a conveyor pass-through with the addition of some light damage to the lower level and first two floors of this building. The third floor is leased to the Northland Foods Manufacturing and Processing Co., a manufacturer.



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New York releases E/S report forms

around the states

NEW YORK—Two reporting forms needed to implement New York's controversial new excess/surplus lines regulation have been released by the New York Insurance Department.

Form EL-1 is to be used by non-admitted insurers to report New York-produced premium, by broker, to the department. Form EL-2 is to be filed by brokers and sent to underwriters at admitted insurance companies that have rejected the brokers' risks.

Underwriters must keep form

EL-2 on file for five years.

The state surplus lines brokers association is threatening a lawsuit to block enforcement of revised Regulation 41 because of the additional paperwork, which they maintain places an unreasonable competitive burden upon them (*BI*, Dec. 15, 1980).

The forms were contained in a Feb. 23 circular letter to licensed

New York property/casualty insurers and excess/surplus lines brokers from Insurance Superintendent Albert B. Lewis.

Form EL-1 must be filed with the department for fiscal years ending after Dec. 31, 1981. Form EL-2 must be used as of March 1.

The department is revising the risk rejection affidavit form it receives from surplus lines brokers.

It has requested that surplus lines brokers not submit affidavits until the new forms are available.

Work comp cut

TALLAHASSEE—Florida policyholders of Peninsular Fire Insurance Co. will pay an average 10% less for workers compensation coverage.

In 1980, the company wrote more than 1,500 voluntary workers compensation policies with more than \$7 million in premium.

The 10% reduction is in addition to the 11.4% reduction already approved by the Florida Insurance Department for the National Council on Compensation Insurance.

Peninsular cited favorable loss experience and increased competition in proposing rates 21.4% lower than those in January 1980 and 10% lower than those established for 1981.

"If Peninsular's example is followed by other carriers, the end result will be a round of healthy competition that has been lacking for years for workers compensation insurance," said Florida Insurance Commissioner Bill Gunter.

Outside injuries

AUSTIN—A law clerk may file a claim with his employer's workers compensation insurer for injuries he received while doing outside work for an associate of his employer, the Texas Supreme Court has ruled.

Clerk James Biggs had filed a claim against United States Fire Insurance Co., insurer of Amarillo attorney Tom Upchurch, after Mr. Biggs was injured in a fall from the roof of an apartment building owned by John Lesly, an associate of the law firm. Mr. Biggs was repairing the roof.

New commissioner

INDIANAPOLIS—Don H. Miller, retired president of Local Finance Corp. in Marion, has been appointed Indiana insurance commissioner by Gov. Robert D. Orr, replacing H.P. Hudson, who will resign March 27.

Mr. Miller, 66, also has been president of two Local Finance subsidiaries: Grand National Life, now dissolved, and the Guardian Agency. He retired from Local Finance in 1975.

Rates increase

NEW YORK—Blue Cross of Western New York Inc. has received New York Insurance Department approval for a 25.9% rate increase for standard coverage and a 10.9% increase on its prescription drug plan.

The increases, which took effect January 27 for new subscribers and March 1 for present subscribers, affects 292,877 subscribers to the standard plan and 131,818 to the prescription drug plan in the greater Buffalo area.

Under the approved rate filing, the cost of standard coverage for individuals covered under a group plan will rise to \$16.37 per month from \$13.30 per month. For families, the group rate will rise to \$43.09 from \$33.72.

Monthly rates for prescription drug coverage, with no copayment and including coverage for contraceptives, will rise to \$6.04 from \$5.44 for individuals and to \$14.20 from \$12.80 for families.

Illegal taxes

HARRISBURG—A school district may not file a claim with an insurer to pay for refunds of illegal taxes the district was ordered to make, the Pennsylvania Supreme Court ruled.

The Central Dauphin School District in suburban Harrisburg in 1974 levied an occupation tax on all district residents 18 or older. The Dauphin County Court later ruled the tax illegal and ordered the district to make refunds.

The district filed a claim for \$529,000 with American Casualty Co. under its protection policy. A lower court held the insurer liable for the money.

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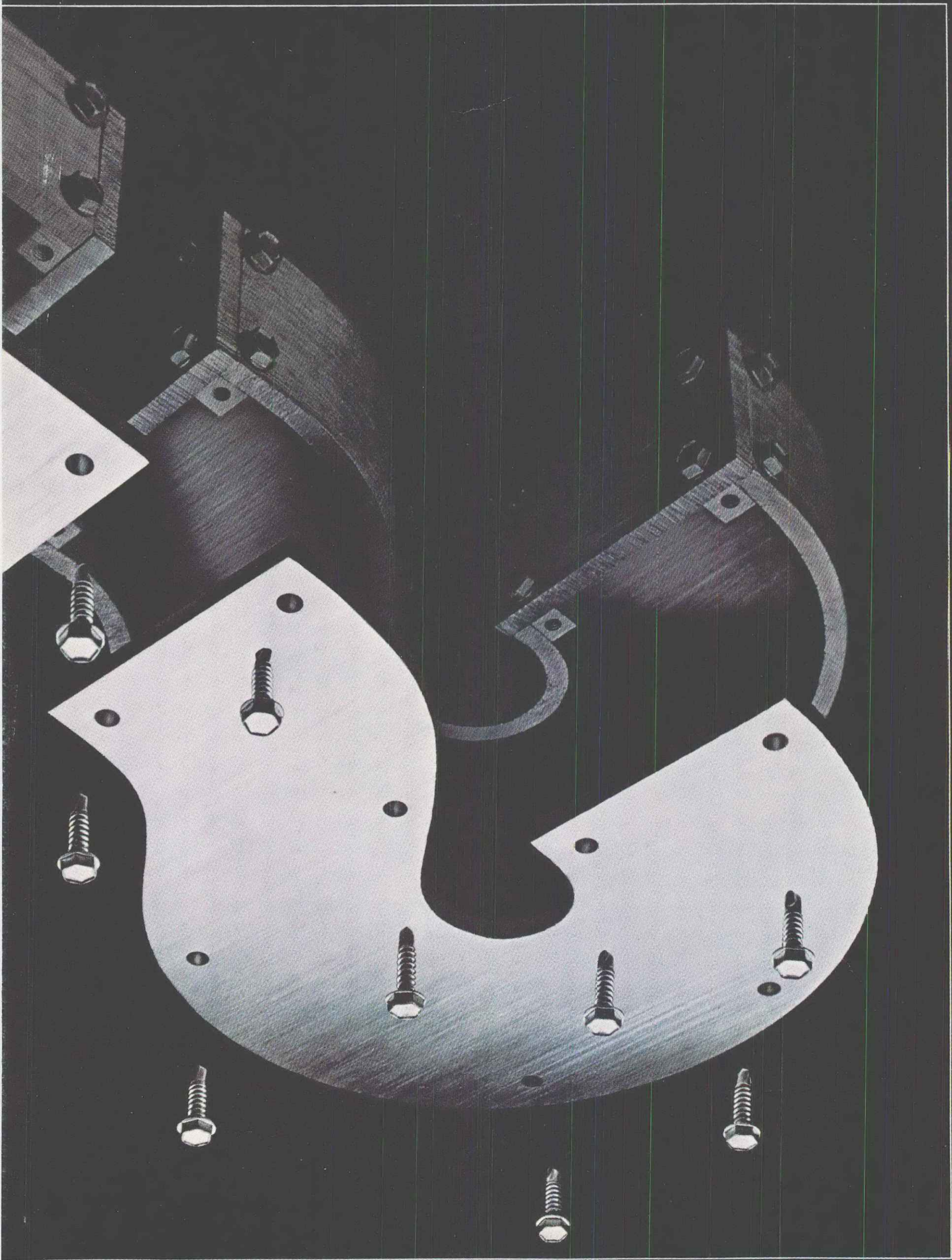
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Since much of the attraction of these films would come from the extraordinary special effects, *Lucasfilm* Ltd. had to be sure they could use their ingenuity and imagination without worrying about their insurance coverage. AFIA's flexibility gave them the program they wanted and the service they needed.

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THE TRAVELERS



Bank exposures

By Theodore Kolb

Some probable losses receive poor attention

DESPITE THE progress of risk management over the past 20 years, it appears to have barely scratched the surface of the banking industry. Financial institutions have surprisingly meager information on the subject. It is estimated that only about 2% of all banks have risk managers by job title.

The Risk & Insurance Management Society has a membership representing 3,483 firms worldwide. RIMS statistics indicate that of the 435 members representing financial institutions, 60 to 70 have the title of risk manager. While no other data is available from sources within either the insurance or banking industries, it appears there are no more than 300 to 400 executives in banking who truly fit the job description of risk manager or who perform the function either full- or part-time.

A possible reason for this is that of the 14,400 banks in the United States, 91% or 13,100 are classified as small or community banks, with assets of less than \$100 million. Banks with risk managers, either full-time or those assigned additional banking duties, are most likely to be among the 1,300 classified as medium to large.

According to the 1980 Bank Insurance Survey published annually by the American Bankers Assn., the percentage of banks purchasing insurance through brokers and agents is quite high for the major forms of coverage: 100% have blanket bonds, 76% have excess fidelity, 82% have safe deposit liability, 67% have directors and officers liability and 64% have umbrella liability. The validity of these figures is open to some question; since the sample from which they came was taken from 807 responses to a questionnaire sent to 2,404 banks, or only 6% of the 14,400 banks in existence.

If the statistics are credible, it follows that most banks do purchase insurance, which necessitates that in about 12,000 banks, a designated person

must be involved in the broker selection process at the very least, and determine liability limits, deductibles, policy forms and premiums. It would appear that to a great many of these quasi-risk-oriented bank officers, risk management is equated with insurance buying, and often the entire function is delegated to the insurance broker who happens to be in favor with one or more of the senior executives.

In such situations, not only is the actual practice of risk management either unrecognized or neglected, but

misapplication of funds. The Bank Protection Act of 1968 requires all banks to appoint an officer or other employee to establish and maintain a security program. Unfortunately, this is where many banks fall short in practicing loss prevention. The entire spectrum of possible losses, from property to human life, is given little or at best second-rate attention.

In probing for reasons for this apparent inconsistency in the attitude of financial institutions, two common characteristics surface: One is a built-

insurance continuity on mortgage properties.

Another widespread problem common to banking and frequently ignored is the persistent occurrence of work-related back injuries associated with the handling of coin bags. The average bank teller handles bags of coins weighing up to 55 pounds in the usual day-to-day operations, and often sustains low back strain if not properly instructed or if careless in lifting procedures.

Whereas the average armed robbery costs the bank less than \$10,000, it is not uncommon for the reserve on a back injury to be set at \$50,000 or higher, which affects the workers compensation loss experience modification directly for three years.

Photo: Mary Cairns



The walls of a bank contain many risks and vulnerabilities that require loss prevention plans.

The larger brokerages are equipped with highly professional consulting staffs who are prepared to render a vast array of services purporting to be risk management itself. These are available on a fee basis or can be offset by commissions for insurance placement.

It is my belief that for any financial institution that spends \$100,000 or more a year on premiums, an in-house risk manager can be cost-effective, in most cases from the first year.

The other benefits to be derived, however, would be far more significant than mere dollars. Objectivity in broker and insurance market selection would be a great gain over the pervasive influence of personal favoritism that goes along

with club memberships and "old boy" networks. A closer examination of exposures would be requisite for any new risk manager, and it is surprising how often a fresh look at existing coverages discloses serious gaps and omissions.

- Unidentified exposures that are not insured until after a loss occurs.
- Lack of expert appraisal of property values, leading to underinsuring or overinsuring specific risks.
- Failure to consider deductibles as a viable means of reducing the cost of insurance.
- Inability to recover for insured losses because of failure to observe policy conditions and/or lack of expertise in dealing with adjusters.
- Lack of in-house loss prevention.

Allowing an outsider to perform what should be a high-priority management function is to superimpose a risk on risk itself.

Banks have an inherent fear of loss of assets, notably money, through burglary, robbery and the myriad forms of employee dishonesty, defalcation and

in resistance to spending money or, to put it more tactfully, a highly developed sense of budgetary constraints. The other is a natural tendency to take risks, by the very nature of the business of lending. When combined, these two qualities can lead to serious deficiencies in the recognition of the importance of risk transfer, risk funding and above all, loss prevention.

There is also ingrained in banking a false sense of security that attaches to the payment of premiums for insurance. The insurance industry is guilty of fostering this tendency to erroneous thinking by offering policy forms indemnifying banks and their officers, directors and employees against every conceivable error and omission short of sheer idiocy or outright dishonesty. A perfect example is the single interest mortgage impairment policy, which relieves the necessity for monitoring in-

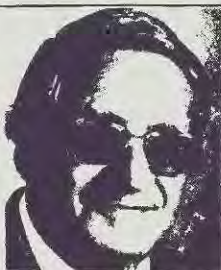
with club memberships and "old boy" networks. A closer examination of exposures would be requisite for any new risk manager, and it is surprising how often a fresh look at existing coverages discloses serious gaps and omissions.

The most productive task a risk manager can perform is loss prevention. Here the risk manager can exert the greatest effort and give the most important contribution to the protection of bank assets.

To the extent he can communicate the need for a safe work environment to all levels, loss prevention can pay for itself many times over.

For banks whose total insurance costs do not warrant a full-time salary, risk management should not be ignored.

An independent survey by a qualified risk management consultant can identify exposures and recommend proper handling.



Theodore Kolb is vp and head of risk management for Rhode Island Hospital Trust National Bank in Providence.

perspective

The wet blanket bond

By Carol Capossela

IT HAS BEEN said that the bankers blanket bond is the most litigated form of insurance ever written. Considering its relatively brief history in comparison with forms such as the marine open cargo policy—some of whose language has been in use for nearly 400 years—this statement is rather awesome. Yet it is not difficult to believe or to understand. The magnitude of loss potential to which this coverage responds makes the bankers blanket bond worthy of some analysis.

No special form of bankers errors and omissions insurance exists for the individual member of the profession, and like the manufacturer, banks cannot buy a specific type of insurance to cover their errors in business judgment.

Many bank insurance and risk managers have endeavored to point out to their own institutions that the bankers blanket bond is essentially a crime policy and not an errors and omissions form, although most are aware that by judicial interpretation, many claims originating in a banker's error have been paid by the bankers blanket bond. Probably the most familiar examples of such adaptive interpretation involve loan losses and forgeries. Bank officers have granted loans to otherwise ineligible applicants as favors for which they neither received nor expected any form of remuneration. Bank employees have cashed corporate checks for individuals who forged an authorized signature. In each case, the cause of the bank's loss was crime compounded by an error in judgment.

How did the bond develop into a combination crime and E&O policy and was it originally intended as such? That is something that cannot be established absolutely. The intent is becoming more and more critical an issue in litigation against insurers when the policy language is ambiguous.

Furthermore, even if a complete record of purpose and intent were to be available, it would surely show the underwriters could not have anticipated the loss occurrence arising from the circumstances that have expanded the scope of the bond. Quite possibly, the original authors of the bond were hoping to provide financial institutions with a tailor-made version of a commercial crime bond whose purpose is to indemnify the policyholder against loss because of employee dishonesty and external crime.

While the surety underwriters debated the question of rate adequacy, lawyers debated with the underwriters over minute points in order to demonstrate that particular claims, denied by the underwriters, were within the scope of coverage. Many such debates were won by the surety companies, but many more were concluded in favor of the policyholders.

The matter of the bond's present scope and future application is of timely importance in the light of the July 1980 revision. By generally accepted interpretation, the bond will continue to be capable of responding promptly and effectively in cases of robbery and other external crimes. Beyond that, the process of demonstrating a covered loss and collecting recovery from the insurer is governed by a series of restrictive endorsements and amendments to definitions that have established very precise conditions precedent to coverage.

Auditors, examiners and bank officers are often surprised to discover that coverage under the bond is so narrowly defined for exposures such as unauthorized ATM transactions, electronic funds transfer, uncollected funds and employee dishonesty. Bankers, like most corporate executives, tend to take the insurance industry at its word and interpret certain descriptive terms absolutely literally. The nomenclature of insurance products lends itself to some misunderstanding.

The bond was drafted over 50 years ago by a group of bankers, well before the first bank risk manager position was ever created. Presumably, its authors knew what kinds of losses were occurring and prepared a form of coverage intended to deal with them. The question remains, however, what were the bankers doing before the bond to protect themselves against the kinds of losses it eventually covered?

Undoubtedly, banks took greater care, however, to avoid a variety of losses not covered by these forms and stemming from external crime, fraud or forgery. The means by which such crimes could be perpetrated were less complicated than they are today; so too was the prevention of them.

Something else may have occurred in the last few decades to compound the situation. Another generation of bankers has replaced those whose efforts brought about the bond. Quite possibly, today's bankers hold a different outlook on crime. Rather than accepting crime insurance as the final measure of protection, bankers often perceive it as the first line of defense. Banking today is a volume business. Mergers and acquisitions have made giants out of yesterday's medium-sized financial institutions and eliminated many of the smaller ones. This has introduced a new concept in the issue of risk control.

Some bankers seem to believe banks can make up for crime losses through volume business and that if enough business is transacted, crime losses can never seriously cut into profitability. This philosophy may be borrowed from the retail industry along the lines of "selling below the suggested retail price." There is, however, one critical difference in that retailers can predict, plan and control the discounts on goods sold, leaving only the number of units sold as a variable. The frequency and amount of crime losses is an unquantifiable factor of fortuitous risk. If

used in any formula involving volume of business transacted, the conclusion must be faulty, since neither factor in the equation is a constant.

Another development partially responsible for a general lessening of loss control in the banking community is the introduction of bulk processing. Many accepted methods of handling large quantities of banking materials such as deposit and withdrawal slips, checks and coupons have failed to incorporate adequate loss control. To propose such considerations after these methods have been implemented is often seen as disruptive and an impediment to efficiency. Nevertheless, the use of these methods has been the cause of losses.

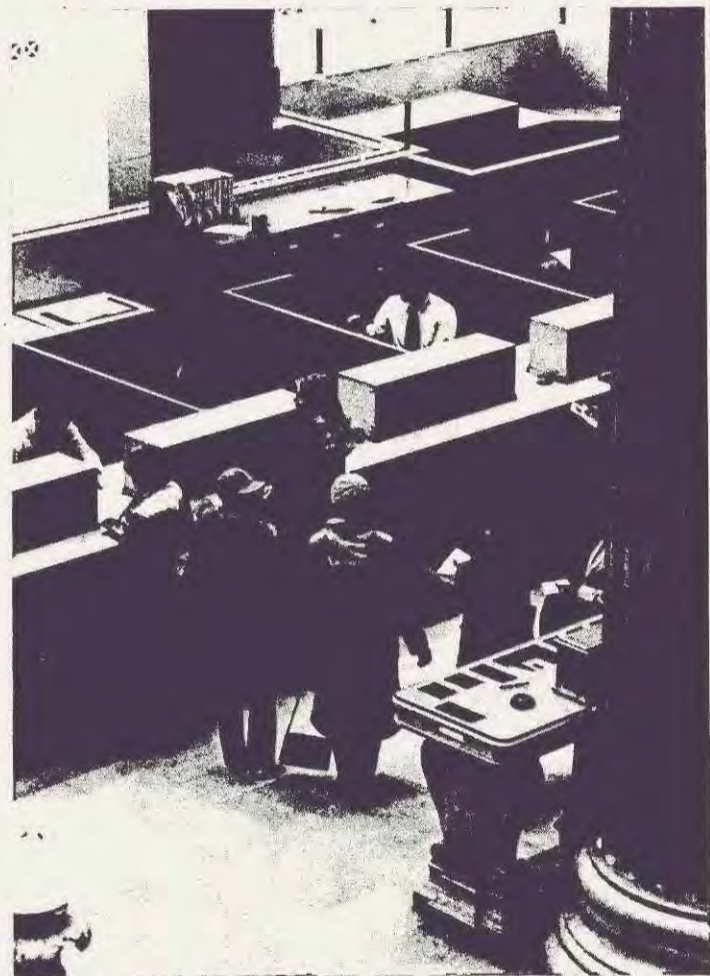
Banks must abandon whatever false security may have been generated by the bygone era of reasonable bond premiums and broadening bond coverage. The trend toward higher deductibles is not about to reverse, and although premiums may have stabilized somewhat very recently, the cost of bond coverage will probably continue to escalate gradually.

Bankers need to adjust their attitudes toward risk assumption and note the impressive results other industries have achieved in the types of risks that characterize their business through the use of energetic, conscientious and "targeted" loss-prevention technology. Risk avoidance should become a prime directive that every level of management and employees should be encouraged to follow. As is universally recommended, bank risk managers must secure a statement from senior management expressing its commitment to a preventive assets protection philosophy. The message of the statement must be kept alive by regular reminders of the efficacy of loss prevention. This is the part of the risk manager's job that is often mentioned but seldom explained, and may very well be the most challenging task he or she can undertake.

Bankers and bank risk managers must assess what alterations in the corporate philosophy are demanded by the confinements of coverage resulting from the July 1980 revision of the bankers blanket bond. For one thing, banks will have to embrace loss prevention in much the same way product

manufacturers treated quality control following the product liability insurance crisis in the mid-1970s. Risk managers will have to work closely with operations people to acquaint them with the more subtle changes regarding treatment of Automated Clearing House Assn. participation, Fed Wire or Bank Wire II. Branch administration personnel will have to be familiarized with the deletion of coverage as respects property losses by customers on bank premises. Persons responsible for the transportation of money and securities will have to be educated as to the significance of the words, "in the custody of a person designated to act as its messenger."

Most bankers agree the industry is overregulated by a number of authorities whose ostensible purpose is to pro-



The blanket bond is a sort of a crime and E&O insurance plan for financial institutions.

tect depositors' interests. Yet bond losses have continued to increase, giving some validity to the criticism that these internal controls promoted by regulators are not working.

Further examinations and audits by outsiders are likely to produce no substantially different results, especially since they are being promoted by groups interested in attaining goals such as premium reductions, lower deductibles and improved availability.

The future of the bankers blanket bond depends as much upon the actions of the banking community as the banks depend upon there being a future for the bond. Unless affirmative action in bond loss prevention is undertaken on a large scale, the bankers blanket bond is likely to be eroded by claims and litigation to a point where it becomes pure catastrophe coverage. ■

McGovern cashes in on Rich risk position

DENNIS F. McGOVERN, 36, is the new director of risk management and insurance at Gold Kist Inc. in Atlanta, replacing 16-year veteran **Robert E. Rich**, who left the firm to become vp-risk management services at Garlington-Hardwick & Co. Inc., a regional broker. Mr. McGovern, insurance manager at Gold Kist for the past five years, is now responsible for all property/casualty insurance programs at Gold Kist and the self-insured workers compensation program. A 10-person department reports to Mr. McGovern, who reports to the vp-finance. A graduate of Western Michigan University, Mr. McGovern previously was employed by Kroger, American Mutual Insurance and Colonial Stores.

comings & goings: buyers

LaSalle College in Philadelphia with a bachelor of science degree in business administration. He belongs to the Insurance Managers Assn. and the Risk & Insurance Management Society.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Mary Ann Matiock, Business Insurance, 708 Third Ave., N.Y., N.Y. 10017 or call 212-986-5050.

Paul Voyten, 39, has joined Powerine Oil Co. in Santa Fe Springs, Calif., as corporate insurance manager to replace **Leonard Fortner**, who joined the ministry. Mr. Voyten, who reports to director of finance Henry Del Castillo, has a bachelor's degree from Clarion State College and a law degree. He has 10 years experience in insurance and risk management for oil concerns and recently was corporate risk manager for WRH Industries in Carson, Calif.

The directors of CertainTeed Corp. in Valley Forge, Pa., have elected **John D. Kutzler** assistant treasurer. Mr. Kutzler will add benefits finance administration to his risk management responsibilities. He joined the firm in 1970 as an insurance analyst and now reports to vp and treasurer Donald S. Huml. Mr. Kutzler is a graduate of

datebook

MARCH 23-25. Fifth International Captive Insurance Company Conference in Bermuda, sponsored by Risk Planning Group Inc.; \$595. Risk Planning Group, 722 Post Road, Darien, Conn. 06820; 203-655-6791.

MARCH 23-26. A Guide to Product Safety and Liability Seminar in Miami, sponsored by Union College and University of Miami; \$695. University of Miami, Conference Services, 1320 S. Dixie Hwy., Suite 1045, Coral Gables, Fla. 33146; 305-284-3562.

APRIL 1-2. Minimizing Risk and Exposure in Managing Hazardous Wastes in Chicago, sponsored by the Institute for Sciences and Public Affairs and Advanced Management Research; \$595. ISPA, 1370 Ave. of the Americas, New York, N.Y. 10019; 800-223-6787.

APRIL 2. One-Day Benefit Briefing on Issues Facing Taft-Hartley Funds in San Diego, sponsored by the International Foundation of Employee Benefit Plans; \$120 for members, \$145 for nonmembers. Also **April 3** in Las Vegas, **May 13** in Seattle and **May 14** in San Francisco. IFEBP, 18700 W. Bluemound Rd., P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 5-10. 19th Annual Conference in San Francisco, sponsored by the Risk & Insurance Management Society; \$395 for full week, \$325 for partial week. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-557-3221.

APRIL 7-8. How to Improve Your Insurance Coverage and Reduce Costs Using the Risk Management Process Seminar in Las Vegas, sponsored by the International Risk Management Institute; \$435. Also **April 21-22** in Chicago, **May 5-6** in Philadelphia and **May 19-20** in New Orleans. IRMI, Suite 208, Building IV, 10300 North Central Expressway, Dallas, Tex. 75231; 214-363-9656.

APRIL 8. Mining Equipment Liability, Surface Mining Control and Reclamation Act and Mine Safety and Health Act Seminars in Huntington, W.Va., sponsored by the Energy Bureau Inc. and the Eastern Mining and Industrial Exposition; \$295 per session. Energy Bureau Inc., 41 E. 42nd St., New York, N.Y. 10017; 212-687-3177.

APRIL 9-10. International Litigation Seminar in Los Angeles, sponsored by the Practising Law Institute; \$325. Also **June 4-5** in New York. PLI, Department QNC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

APRIL 27-29. Fundamentals of Marine Insurance Course in New Orleans, sponsored by the American Management Assns.; \$555 for members, \$635 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-245-0800.

The Employee Benefit Communications Handbook **New!**

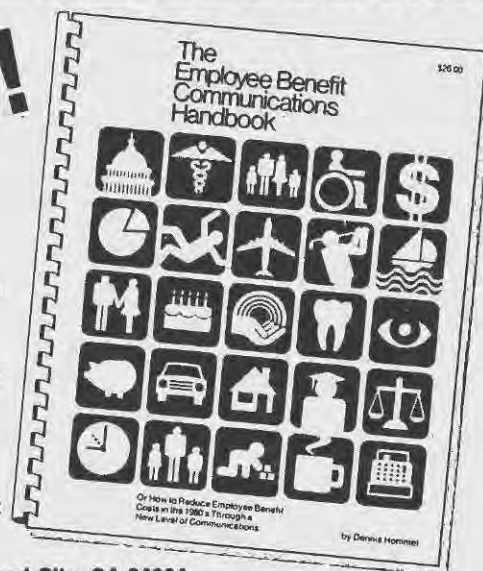
At last, here is an informative handbook for making benefit communications more effective! Successful step-by-step techniques are revealed to increase employee interest, understanding, appreciation and prudent use of benefits.

Written by award-winning creative director Dennis Hommel, this concise manual tells how to evaluate available media, select a communications consultant, plan an effective creative strategy, determine true costs and execute messages dynamically!

It also gives tips on how to gain management approval for an ongoing communications budget, and much more. Truly a valuable guide for any Benefit Manager.

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Now the NN insurance companies bring a new level of strength to the Armco Insurance Group

With the merger of NN Corporation and Armco Inc., the Armco Insurance Group is now a nationwide family of eighteen property, casualty and life insurance companies.

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EBI Cos. makes 4 new appointments

RICHARD J. PLESTINA was elected executive vp of EBI Cos. in Portland, Ore., and will continue to be responsible for the overall operations of EBI divisions and branches in Oregon and Washington. **Edward Facciani** joined EBI as division manager of the San Jose office and named resident vp. **Brian R. Shutts** appointed assistant vp in the San Jose office and will be responsible for developing workers compensation self-insurance programs for public and private agency clients in California. **Gregory Franceschi** appointed assistant vp responsible for the solicitation and sale of workers compensation insurance to national accounts.

Other insurer changes:

Edwin C. Bass promoted to director of group insurance mar-

comings & goings: industry

keting in the group insurance department of Prudential Insurance Co. in Newark.

Elliot Leitner elected vp of benefits at Chicago-based North American Co. for Life & Health Insurance. He was second vp.

Greg A. Loman promoted to underwriting manager of Northwestern National Life Insurance Co.'s new service office in Peoria, Ill. He will supervise underwriting for per-



Leitner

sonal and commercial lines.

Charles F. Sparell named assistant vp-loss prevention at Liberty Mutual Insurance Co. in Boston.

Paul J. Robitaille named branch manager of American International Group Inc.'s newly relocated offices in the Pan American Life Center in New Orleans. American International Underwriters of Louisiana, a member of AIG, elected **John R. McGregor** vp.

Other suppliers

Alvin L. Miller joins Carnow, Conibear & Associates in Chicago as director of industrial hygiene

and safety services.

Richard I. Citron promoted to Eastern area manager of A.S. Hansen Inc. in New York.

Philip A. Murphy joined Kevin F. Donoghue & Associates in Boston as senior vp and director of risk management services.

John L. Burgess and **Mark L. Blocker** named assistant vps responsible for sales and marketing at Maginnis & Associates in Chicago. **Joan O'Sullivan** and **Jeanette Uhlmann** named account executives. **Paul Ton** has been responsible for product development and casualty brokerage business and will add special risks duties.

James A. Paladino promoted to district vp of Equifax Services Inc. in Atlanta, succeeding **Jeff G. Brown**, who is retiring. Mr. Pala-

dino will be responsible for Florida branch offices and Caribbean operations.

Theodore Korzick appointed director of claims administration by Willse & Associates in Baltimore, which specializes in the creation and administration of self-insured health funds.

Excess/surplus

Jon Tennyson joins Swett & Crawford's Houston office as assistant vp responsible for the production and marketing of commercial casualty insurance.

Richard A. Adler promoted to vp-reinsurance marketing at Shand, Morahan & Co. in Evanston, Ill. Also promoted is **Thomas A. Momborg** to manager-market research. ■

markets

Facultative department established

PINE TOP Insurance Co. in Phoenix has established a facultative department under the direction of **John M. McCoy**.

Both Pine Top and The Central National Insurance Co. of Omaha will be used as reinsurers by the facultative unit. Its initial emphasis will be on casualty coverage, with all classes considered including primary, buffer, umbrella and excess umbrella.

New offices

Fitzpatrick Self-Insurance Administrators Inc. has opened an office at 369 Pine St., San Francisco, Calif. 94104; 415-986-4068.

Professional Insurance Programs Inc. has moved to 101 Eisenhower Parkway, P.O. Box 9, Roseland, N.J. 07068; 201-226-6262.

Acquisitions

Flenniken Insurance Services Inc. of Knoxville, Tenn., has reached an agreement in principle to merge with **Corroon & Black Corp.** Flenniken will keep its name and continue to operate with its present officers.

Insurance Management Corp. of Richmond, Va., has acquired **Thom Perry & Associates Inc.** of Portsmouth, Va. Thom Perry will immediately merge into Insurance Management Corp. of Tidewater.

Lloyd's venture

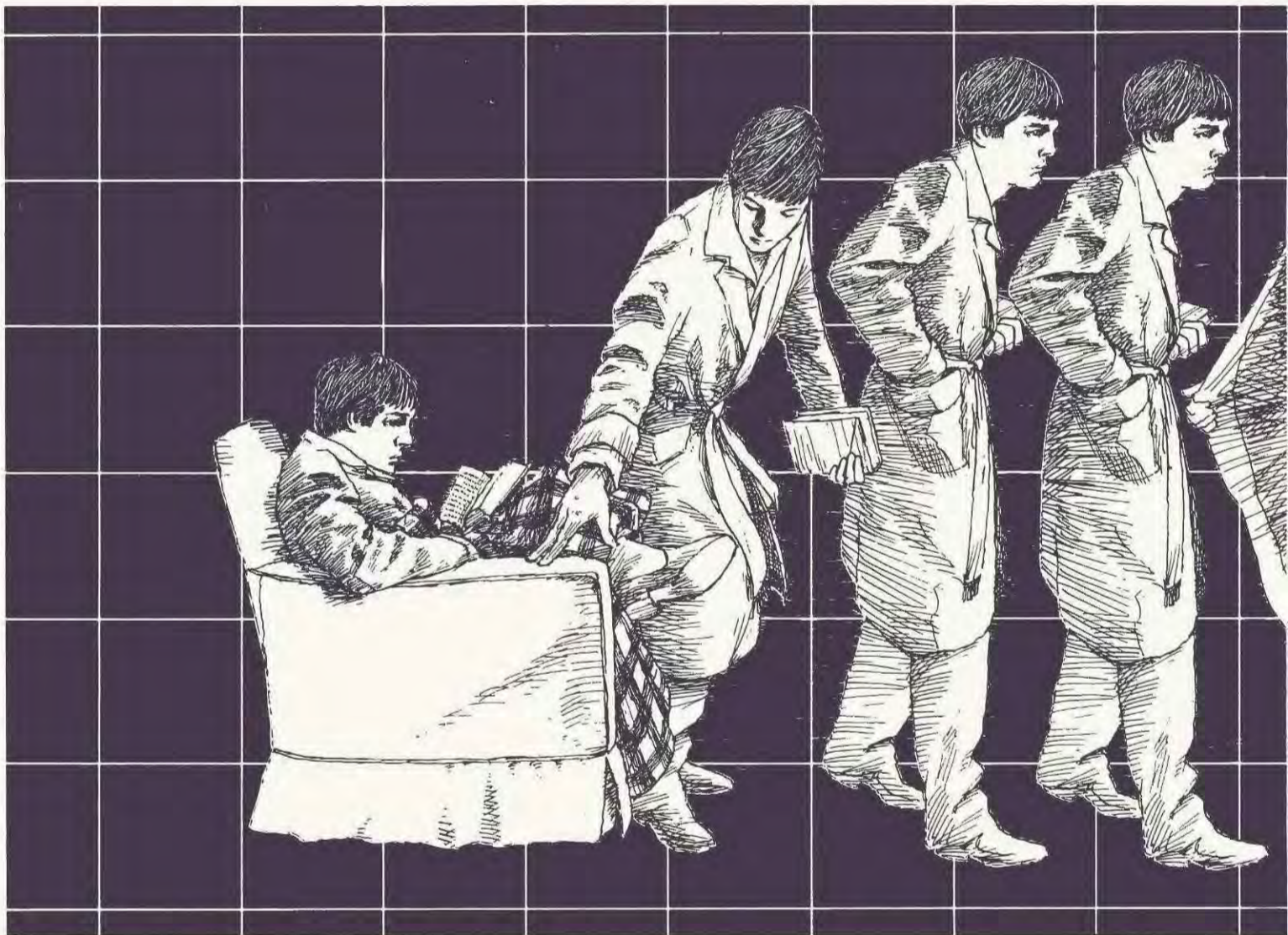
John Gallagher, senior vp of Chicago brokerage Arthur J. Gallagher & Co., is acting like a proud papa these days.

That's because Mr. Gallagher believes he's the first American chairman of a Lloyd's brokerage, an opportunity created when the committee of Lloyd's approved Gallagher's three-quarter majority interest in Gallagher Hinton & Vereker.

The joint venture arrangement was approved Jan. 30, Mr. Gallagher says. Arthur J. Gallagher now owns 74% of Gallagher Hinton, a firm started in 1974 as a joint venture with Hinton, Hill & Coles.

"We're thrilled to death," Mr. Gallagher said. "It's just going to make all the difference in the world to us."

"You're with portfolio once you control a Lloyd's broker," he added. "You belong to the club. Before, you were just operating through another firm." ■



IN LONG-TERM DISABILITY CASES:

IRA REHABILITATION WINS ACCEPTANCE AS CLAIMS-HANDLING STRATEGY WITH SOLID FINANCIAL BENEFITS.

The "whole person" method of rehabilitating injured workers was pioneered by International Rehabilitation Associates, IRA, more than a decade ago. While it has long been applied with humanitarian and economic benefits in workers comp and liability cases, carriers have only recently put this tool to work in the LTD area.

The impact of IRA's activities on behalf of

life insurance companies, at a time when inflation is pushing up claims payments, has been nothing short of revolutionary.

Through rehabilitation procedures, including job development and placement, IRA brings workers back into the mainstream of productive life. This is done in the fastest possible time consistent with good medical practice. The result: workers receive a much-

Loophole lets mines dodge work comp

Continued from page 3

insurance, but the benefits are much slimmer than those under workers compensation, said Jim Carigan, assistant director in the Kentucky Insurance Department.

Not only do miners give up their right to appeal their injury claim with the state Workers Compensation Board, but they also lose the occupational disease coverage for black lung not ordinarily included under a group accident policy, Mr. Carigan said.

But the savings can be big for the mine operators that successfully avoid workers compensation coverage, which can add about 40% to an operator's overhead or \$30 to \$40 in premium for every \$100 in payroll.

There are basically "two deals going on," says an underwriter in

Kentucky who asked not to be identified. Neither approach involves breaking the laws per se, but either could be a "bum deal" in the long run, the source said.

The first and most common approach is for a small mine operator to insure only a few employees under workers compensation so he can obtain an operating license from the state's Department of Mines and Minerals.

Every employer in the state must purchase workers compensation coverage for employees, but only mine operators are required to have it before going into business. However, the law allows workers to later reject it.

After an operator gets its license, the majority of the workers are insured with a group accident policy that costs the owner about one-third of the premium for workers

compensation coverage.

The state has 547 rejection forms on file from 96 coal companies for 1980 alone, said Scott Getsinger, legal counsel for the Workers Compensation Board.

The fairly steady increase in rejection notices tipped the state that there might be some abuses in the system, he said.

"What we're really concerned with is that workers are being told they have to sign a rejection to keep their jobs," Mr. Getsinger said. "If the rejection isn't voluntary, then it isn't valid."

"I would never recommend any mine worker reject his workers compensation benefits," he added. "When the legislature meets in January, we will ask them to do away with rejections altogether. In the meantime, we're contacting

coal companies to let them know what the law says."

The Workers Compensation Board also is concerned the employer might be taking on a risky, unknown liability in case of a mine catastrophe. Workers who give up their right to workers compensation have a right to sue their employer. Under the workers compensation system, a worker gives up the right to sue the employer in exchange for guaranteed benefits.

State law now also mandates insurance companies to bill an employer for workers compensation based on its total payroll, regardless of whether any employee has rejected the coverage.

It's questionable how mine operators think they're going to reduce their premiums by splitting coverage between workers compensation and group accident insurance,

Mr. Getsinger adds.

The United Standard Assurance Co. in Indianapolis underwrites a large bloc of the accident coverage for miners in Kentucky, said Jim Wolfe, a vp at United Standard.

"The accident coverage is just that—accident coverage," he said. "It pays for partial and permanent disability, but there are limits."

United Standard serves about 30 coal mine operations, said Mr. Wolfe, who added he sees nothing illegal about the coverage.

Although the insurance offers no coverage for black lung disease, it does pay a maximum of \$225 a week for every week off the job for up to 10 years. Workers compensation pays a maximum of \$233, but the state's benefit is payable for life if the injury is a total and permanent disability. It also pays death benefits and unlimited medical benefits, according to the Workers Compensation Board.

Jerry Roberts, director of the Kentucky board, said the insurer and employer will be faced with any liability problems in the end, not the employee who may have been ignorant about benefits.

The other known approach to sidestepping workers compensation coverage—forming mine "partnerships"—is thought to be less credible than the accident group insurance method. It involves partnerships in which two or three major partners receive 95% of the mines' profits and the remaining 5% is spread among numerous workers to qualify them as "partners."

Under Kentucky law, partners in a company have traditionally been excluded from the workers compensation coverage requirement to give small businesses a break from the heavy overhead of insuring major officers in a company.

Lately, however, the workers compensation board is seeing evidence of "sham partnerships" in which 20 miners might contribute a few hundred dollars each toward their operation as so-called "limited partners."

In reality, the workers are paying for their mining equipment, says Donald Campbell, attorney for the Department of Mines and Minerals.

Mr. Campbell said he is not comfortable with the exclusion because it could prevent partners who are really miners from having access to the workers compensation system in the event of an accident.

The Kentucky attorney general also has been asked for his opinion on the state's exclusion of partnerships from compensation coverage.

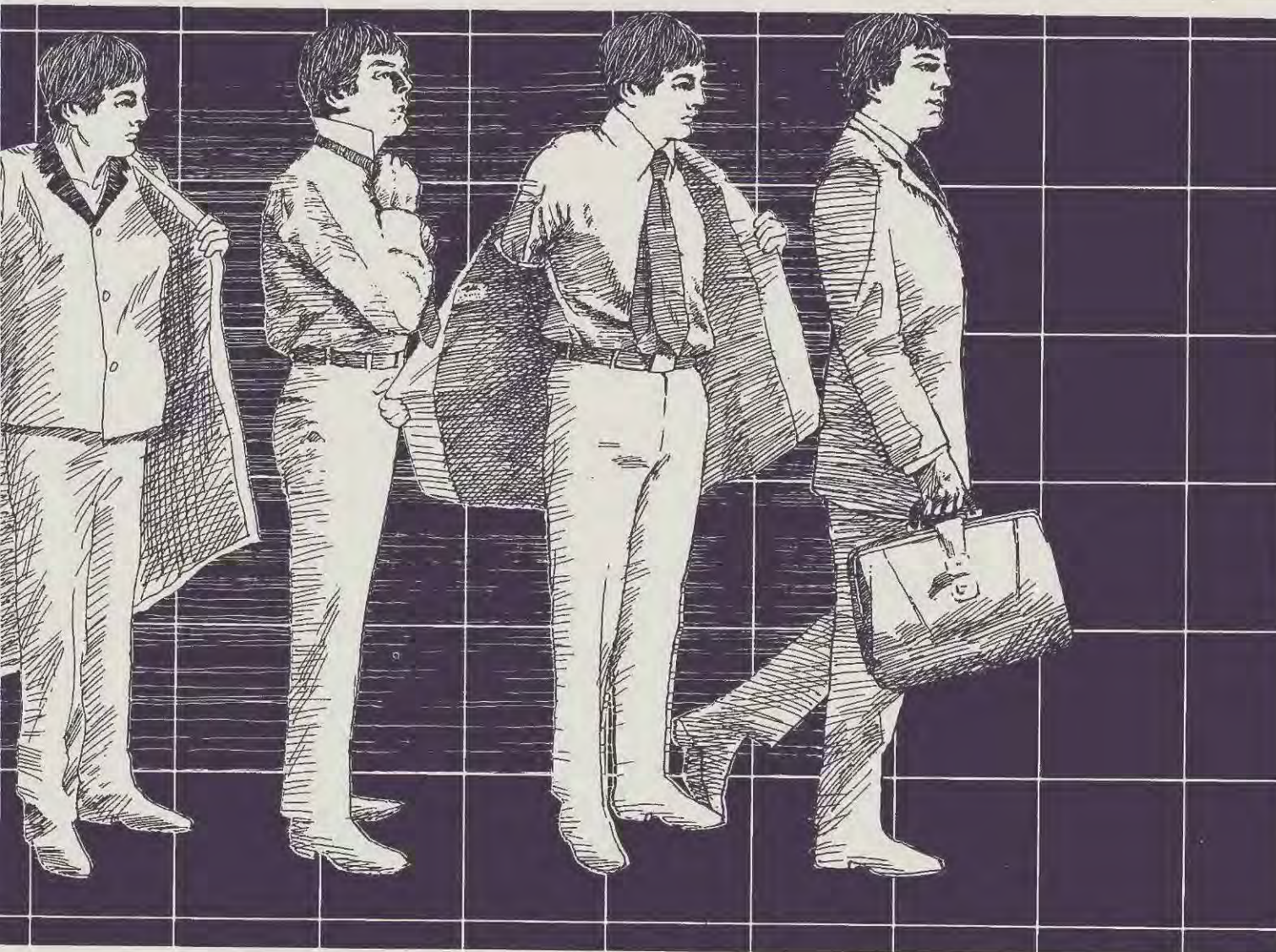
There are about 50 registered partnerships in the state's mining industry, said Mr. Campbell, who believes most are very small businesses operating in "good faith" partnerships.

The state will continue to hold that only the main officers of a company can be excluded from compensation coverage in a legitimate partnership, says Mr. Carigan of the state Insurance Department.

Others see the various interpretations of the law as a pure and simple matter of economics—both for the mine operator and the worker.

"If a guy wants a job and his boss tells him to reject work comp, he'll do it. If someone offers you \$9 or \$10 an hour in a high unemployment area like Kentucky, what are you going to do?" asked a source.

"It's a matter of simple economics. The small-time mine operator can't afford workers compensation and he's dealing with a job-hungry worker who has an eighth-grade education who can't afford not to take the job."



needed boost in pride and morale, and cases can be closed in far shorter periods than would normally be expected.

Faster recovery brings significant economic benefits for the carrier. IRA records, for example, show an average of \$12 saved for every dollar spent on rehabilitation: a 1200% return. (Indeed, the term "LTD" may hardly be applicable when IRA comes into the picture at an early stage.)

There are solid reasons for this level of performance. Since its founding, IRA has been guided by the belief that injured people can—and should—re-enter the work force after a disabling injury or illness. This applies regardless of the nature or period of disability; or the age, education or vocational experience of the individual.

IRA's sense of purpose, combined with its expertise in this field, has made it the nation's

largest independent rehabilitation firm. Today, the company is staffed by over 1,100 skilled professionals in 51 conveniently located offices across the U.S. and in Canada. IRA can deliver its multiplicity of services whenever and wherever needed.

No other company has so successfully turned theory into reality: the dollars-and-cents reality that is your best hedge against costly and protracted LTD payments.

IRA brochures explain how our innovative system of rehabilitation gives you financial leverage in LTD cases—and with liability and workers comp as well. Contact: George Welch, Chairman, International Rehabilitation Associates, Inc., 985 Old Eagle School Road, Wayne, PA 19807. Telephone: (215) 687-9450.



international rehabilitation associates, inc.

Captive finds few takers

Continued from page 1
erages.

Just one year ago, GMA members predicted the proposed program would net more than \$100 million in annual premiums for comprehensive general liability, auto and workers compensation risks.

As proposed, the GMA program would have dwarfed most other offshore group programs, which generate annual premium flows of \$1 million to \$10 million.

Sources close to GMA who support the captive now say the Jan. 1, 1981, starting date was unrealistic because more time was needed to collect underwriting information. They are confident the program will begin Jan. 1, 1982.

But others aren't so sure. "It is going to wither and die on the vine," said the risk manager at a major Midwestern food manufacturer. "They need two or three multinationals to make it go. They are not going to get them."

The proposed GMA program has been plagued by bad timing and bad luck. During the initial planning two years ago, most experts expected the market to tighten by 1981.

Instead, the market became even more competitive, and premium savings offered by the proposed captive were redundant.

"It can be compared to coming

out with a car that gets 40 miles a gallon and then gas dropping all of a sudden to 20 cents a gallon," said Lee McConnel, insurance manager at Hershey Foods Corp. in Hershey, Pa.

"If this program had been started three or four years ago, it might have had a chance," said Gary Swoverland, risk manager at Land-O-Lakes Inc. in Minneapolis. "But now they (GMA) could not make it pay."

"The GMA program won't do anything that you can't get from a paid-loss retro program or other loss-sensitive plans," one director of insurance said.

GMA members stressed the program was excellently designed and well-conceived, but the grocery industry didn't have the liability problems that sparked the drive of other trade associations to set up insurance companies.

Even during the liability insurance crunch of the mid-1970s, most GMA members never had major problems obtaining product liability insurance, although prices for smaller firms did rise sharply.

After the crunch ended, the size of many GMA members—many of them in the Fortune 500—guaranteed insurers, anxious to win their accounts, would offer a wide range of options.

Several insurance managers

backed off from the program, saying they were uncertain if claims-handling and loss-control services offered captive members by Kemper's NATLSCO unit would match the services they now receive.

Mr. Swoverland at Land-O-Lakes worried whether Kemper had sufficient staff to adjust work comp claims in areas where his company has plants.

Vernon Baker, assistant treasurer at Savannah Foods & Industries in Savannah, Ga., which is insured by Aetna Casualty & Surety, said, "We're very happy with our carrier's services and we'd sure hate to change."

Tactical errors, too, damaged the program. One risk manager objected when his firm was asked to pay \$8,000 to get a premium quotation. "I'm not going to pay that kind of money to anyone for a quote," the risk manager said.

Sources connected to GMA defended the quotation fee as necessary to recover feasibility study costs incurred by some GMA members. But the fees were dropped.

Conrad Hock, president of Williams Foods, the only company that apparently has joined the GMA program, blamed the "timidity" of risk managers for the failure of the program to meet its Jan. 1 target date.

"Some risk managers are a bit timid. They don't want to rock the boat. No one wants to be the first," Mr. Hock said. Instead of looking at current prices, risk managers should consider the long-term advantage of stability that the program offers, he added.

Mr. Hock believes the GMA program will be successful, but not until the market tightens. "We need a couple of big members, and then the rest will follow," he said.

So far about 50 members of the 140-member GMA have expressed interest in the program. Members include some of the biggest names in corporate America, including Kraft and Pillsbury. Premiums are expected to range from \$5,000 to as much as \$10 million.

J & H (Bermuda) Ltd. is managing the proposed captive. NATLSCO will adjust claims, while one of the Kemper Insurance Cos. will issue policies.

The group captive will insure workers compensation, auto and general liability exposures including product liability. Coverage in excess of \$50 million is expected to be available to owners.

someone you should know

"If we wait, you'll have a disaster in this country"



McColough

By JERRY GEISEL

Congress must act soon—within the next two years—to avoid a struggle that will pit the working population against the elderly, says the chairman of the President's Commission on Pension Policy.

The fear of such a struggle created by inadequate retirement benefits for the elderly is driving the big business executive to take some unpopular stands on retirement issues.

The most controversial of C. Peter McColough's stands is recommending mandatory pensions for all workers over 25 who have worked for a company for a year. He is learning to defend that and other proposals that the pension policy commission delivered to President Reagan Feb. 26.

But the Xerox Corp. chairman didn't ask for these headaches. In fact, Mr. McColough initially turned down former President Jimmy Carter when the president asked him in 1978 to head the proposed commission.

"I told him how busy I was and that I wasn't looking for a job," said Mr. McColough, who heads the nation's 36th largest company.

But Mr. Carter persisted. "If you care about your country, you'll serve," he said. And Mr. McColough accepted.

Once on the job, he displayed unwavering enthusiasm and energy to get the task done.

During the commission's meetings in Williamsburg, Va., where it hammered out its final recommendations, Mr. McColough seemed to relish the 11-hour workdays and drove the commission at a pace that exhausted a much younger reporter covering the meetings.

Mr. McColough says the commission's most surprising findings were the low proportion of people covered under private plans and the low percentage of the work force—about 25%—that is vested.

This low percentage is a "terrible injustice" and leads to great inequities. Ten-year vesting, the most popular vesting schedule offered under ERISA, doesn't help the worker who changes jobs every four or five years through no fault of his own, he says.

Mr. McColough is even convinced that Xerox's own 10-year vesting plan needs revamping. But he's shooting for corrective action around the nation and wants Congress to act now.

"If we wait and do nothing, you'll have a disaster in this country," Mr. McColough said.

An enormous increase in the number of retirees and a shrinking active work force needed to support the elderly are the elements of a demographic time bomb that could destroy America's retirement income system.

When Mr. McColough testified before the House Select Committee on Aging, he found most members cool to the pension commission's proposal to gradually raise the Social Security retirement age to 68 from 65.

Committee members say such a change would be unfair to those who have paid into Social Security with the expectation that they would receive a benefit at 65.

At the same time Mr. McColough was testifying on Capitol Hill, business groups such as the National Assn. of Manufacturers were issuing press releases denouncing mandatory universal pensions.

The decision to set up a pension plan should be made by an employer—not the government, NAM argues.

Mr. McColough has learned to quickly answer those critics. "People have to be put on notice now that the retirement age will have to be raised to keep the Social Security system viable. Notice has to be given that in the future, people will have to work longer," Mr. McColough said.

He also warns opponents of mandatory pensions to consider the alternative. With such a high percentage of the population not participating in private pension plans, political pressures will mount to increase Social Security.

A mandatory, advance-funded pension system, which would provide a new pool of investment capital for industrial expansion, is a much better alternative than expanding the pay-as-you-go Social Security system, he believes.

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Grand jury investigates MGA scandal

Continued from page 1
reinsurance, or offering to do so, by the defendants was either fraudulent conduct on their part or willful, grossly negligent and wanton disregard of their actual lack of such authority," Mr. Keller charged.

The trail, according to court documents and sources involved in the investigation, apparently began at the National Assn. of Independent Insurers convention in New Orleans last November, though earlier quotes can be traced.

There, Robert Burnham of Burnham Insurance Brokerage Inc. told another intermediary, Graham Mitchell of Transworld Intermediaries Inc., he had the authority to commit Switzerland General to 20% of a large political risk placed with Overseas Private Investment Corp./Overseas Investment & Reinsurance Group.

Mr. Burnham, according to Switzerland General's complaint, then told Mr. Mitchell and the original producer, David Foege of the Dama Corp., that formal authorization would come from a Switzerland General official working with Mr. Browning of Metropolitan Insurance Manager.

The commitment signed by an official of Switzerland General never arrived, though Mr. Foege received more than one unsigned telex purportedly from Switzerland General in December.

"At that point, we did what any good broker would do," Mr. Foege told BI.

"We took the coverage elsewhere and complained to Switzerland General."

Mr. Burnham, a court document notes, later withdrew his offer.

"I'm just glad we caught the situation," Mr. Foege said. "As always, we demand authorization signed and confirmed by a company official. Even a telex isn't good enough commitment."

The pattern is similar for other risks, say insurers and intermediaries who attempted to place reinsurance through Mr. Burnham, Mr. Browning and the other California defendant, Mr. Fortunato.

The brokers. Mr. Burnham and Mr. Fortunato, would offer reinsurance or a specialty coverage but not produce anything more than a verbal commitment from Mr. Browning, intermediaries said.

"Nicholas Fortunato came to us with a program for loan insurance at a price that was simply much better than any we had ever seen—at least 30% better," explained David Feldman, president of Capital Accumulations systems of Redondo Beach, Calif.

"When we checked with Switzerland General, we found out he had nothing," he said.

Mr. Fortunato's firm, Protectors Insurance & Financial Services, is no longer listed in the Los Angeles area. Mr. Burnham, however, did return calls to BI.

"As far as I know, I had authorization from Richard Browning, who had received authority through European Insurance Co. of Switzerland," Mr. Burnham said. "I was basically acting as a broker and getting a quote from a managing general agent."

"I had worked with Mr. Browning as an ocean marine expert. I had no reason not to trust him."

Winterthur Insurance Co. of New York, one of the insurers Mr. Burnham quoted, filed a complaint against him last week in U.S. District Court in Los Angeles.

"Our involvement seems very small. We just acted as brokers," he said.

In the United States, all side

trails eventually lead back to Metropolitan Insurance Managers and Mr. Browning, sources say. Court documents show Mr. Browning or others with his firm signed certificates of facultative reinsurance on risks that include Warner Communications and Mobil Oil property.

Though Warner Communications risk manager David Roth was not aware of the offer, Metropolitan quoted reinsurance for Warner's property insurer, Birmingham Fire & Marine Insurance Co., for Switzerland General.

Metropolitan offered reinsurance of \$4 million on a \$30 million excess of \$20 million policy and \$80 million on a \$200 million excess of \$50 million on another layer for a total reinsurance premium of more than \$23,000.

Metropolitan also offered to reinsure Allianz Underwriters for an offshore property risk owned by Mobil and others, taking \$60 million of a \$100 million excess of \$10 million policy for a reinsurance premium of \$855,000.

The reinsurance certificate cites Northern Assurance, Switzerland General and a Winterthur Swiss Insurance Co. as reinsurers. Mobil was also not aware of the reinsurance negotiations.

The reinsurance offers were not accepted by either insurer.

Although neither Mr. Browning nor his attorney could be reached for comment, more court documents indicate Mr. Browning claims authority through European Insurance Co., a subsidiary of McDonalds Mfg. Co. of Switzerland. He contends to be confused

about European's authority.

Some of the quotes listed "Swiss General," according to the testimony of reinsurance intermediaries Willcox Baringer & Co., which investigated reinsurance for a Richardson Merrill Co. captive on product liability risks.

Switzerland General later denied any knowledge of the use of Swiss General as corporate identification, though testimony says Mr. Browning affirmed he was referring to the large Switzerland General Insurance Co.

The Willcox Baringer research, filed as part of the Switzerland General complaints, also says Mr. Browning's overseas contact was Marc Weder, 51% owner of McDonalds Mfg. Co.

Mr. Weder, according to several

sources interested in the case, died in an automobile and train accident two weeks ago outside of Lausanne, Switzerland, and never produced confirmation of his firm's authority.

After the Switzerland General bid failed, Mr. Weder apparently tried to replace the Richardson Merrill quote with a small Swiss insurer, Helvetia-Unfall. The Swiss insurers later told Willcox Baringer it was misinformed about the risk and canceled.

Though most of the reinsurance was never actually considered in place, several intermediaries are now working to replace reinsurance and excess layers on programs they had thought were ready for use. An undetermined amount of reinsurance premium was paid to Metropolitan. ■

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Seafood importer sues

Continued from page 2
more than \$14,000 in premium refunds were not paid.

The insurance program purchased by Seamark in 1979, which also provided conventional ocean marine cargo and product liability insurance, was to have been offered to U.S. seafood importers by BMF with the endorsement of the Assn. of Seafood Importers.

BMF had been hired by the importers group in October 1978 to develop economical insurance for its members. The coverages were difficult to obtain because seafood shipments, particularly shrimp, are subject to high rejection rates.

But the association withdrew its endorsement of the BMF program in mid-1979 when European insurers replaced Lloyd's of London as the underwriters for the rejection coverage and Puritan Insurance Co. of Stamford became the product liability insurer, says Noel J. Blackman, past president of the association. The association was not satisfied with European insurers' security, he said.

The plaintiffs allege the insurers, BMF and International Adjusters Inc., denied claims for rejection of

frozen shrimp because of filth, salmonella and/or decomposition. The plaintiffs contend these perils were covered by the policy.

The insurers contend shipments subject to filth, salmonella and/or decomposition failed to meet standards in the policy.

The policy permits insurers to reject claims if the insured commodity was not "produced, prepared and packed in accordance with the regulations of the government or country of origin," states a response filed on behalf of the European insurers by Bigham, Englar, Jones & Houston, a New York law firm.

The insurers filed a counterclaim against Seamark, alleging nonpayment of premium.

Bayly, Martin & Fay last December sued to bring Allied Programs Inc., New York excess/surplus lines broker, into the case, alleging Allied contended the policies covered rejection due to "filth, salmonella and/or decomposition."

BMF senior vp Sam Alcorn says the insurers contend the shrimp shipments were not contaminated and could have been cleaned up and sold.

"We're becoming victims of a syndrome that when a company is not getting paid on claims they sue the insurers," he said.

At the time the program was being put together, Lloyd's was having "horrible" loss experience on seafood rejection claims and started restricting the scope of coverage it was writing, Mr. Alcorn noted. The European insurers that replaced Lloyd's were able to provide broader coverage, he said.

Attorneys for Bayly, Martin & Fay and the 13 European insurers declined to discuss the case.

Insurers named in addition to BMF are: Van Develde, a Belgian managing general agency; Lloyd's Continental SA of Belgium; Central Fire & General; Mentor Insurance Ltd. of the United Kingdom; Assicarlotta SPA of Italy; Compagnia Sile Assic. SPA of Italy; NCB SA of Belgium; Iron Trades Mutual Insurance Co. Ltd. of the United Kingdom; Preservatrice; Baloise Insurance Co. of the United Kingdom; Generali; Parcels & General Assurance Assn. Ltd. of the United Kingdom; Sphere, Drake Insurance Co. of the United Kingdom; Liverpool Marine & General Insurance Co. of the United Kingdom.

According to court papers, Central Fire & General, Preservatrice and Generali are European insurers, but their home countries were not known.

Plan keeps carrier airborne

Continued from page 3

money, but as Braniff becomes profitable, they would be paid back.

The 10% pay reduction will cost \$2,600 for the average employee making \$26,000 a year. Social Security and income taxes would be assessed on the \$23,400 paid.

"At the end of the year, if Braniff makes more than 2% profit, one-third of the excess profit would be distributed to the employees based on their original contribution," Mr. Schlinke said.

The average employee's \$2,600 would be returned if the company makes a 2% profit. If it makes more, the employee will receive more money, up to double his original \$2,600.

The Teamsters voted to support the profit-sharing plan this year, Mr. Schlinke said, because "all airlines have problems now. I think our people are saying, 'Let's give them some help.'"

Braniff's 1980 losses were \$128.5 million and \$44 million in 1979, blamed on fuel price escalation, deregulation of the airline industry and the recession. The combination brought increased operating costs, more competition from other air carriers for ticket fares and fewer passengers.

Braniff now owes 39 major creditors about \$40 million and is struggling to stay afloat. Lenders have agreed to defer all interest and principal payments until July 1, but several creditors made their postponements contingent upon approval of the profit-sharing plan by employees, a company spokesman said.

Teamster members at Braniff, including secretaries, receptionists, ticket agents, clerks and cargo people, are fairly well compensated, Mr. Schlinke said. "Their benefits include dental and eye care, full hospitalization, a good pension and air travel passes."

Under the Braniff-Teamster contract, employees receive cost-of-living increases based on the Consumer Price Index. On April 1, this would have increased each Teamster salary by 95 cents an hour, but the Teamsters also agreed to defer the cost-of-living raise.

Braniff president and chairman John J. Casey recently suspended his \$180,000 salary indefinitely to show the seriousness of his company's plight. Mr. Casey took over management of the airline on Jan. 7 after Harding Lawrence resigned.

Mr. Schlinke said Mr. Casey's gesture had less effect on the Teamster vote than the change in management.

School isn't stuck on past

Continued from page 3
insurance answers all needs.

"The trend in risk management is quantification. We're attempting to apply the latest math and actuarial techniques to dealing with pure risk," Dr. McGill said. "We also emphasize collective risk theory where you don't look at one risk. You examine how a firm can avoid catastrophe and how to establish what kind of reserves."

Undergraduate and graduate students can apply these principles to specializations including corporate risk management, employee benefits and social insurance and insurance company management.

The shift toward analyzing and quantifying risk began when insurance courses fell from popularity at Wharton.

"There was a trend to finance. It cut into our area about 10 years ago," Dr. McGill said. "Now insurance seems to be an area of greater interest."

That interest, however, is not expressed in record numbers of declared insurance majors. Only about 25 undergraduate, 25 graduate and 12 to 15 doctoral candidates list insurance as their major. However, 600 to 1,000 students annually enroll in elective insurance courses.

"We don't put emphasis on major," Dr. McGill said. "A bright person is all it takes. I hate to see a real narrow education."

Forecaster sees price cut

Continued from page 3

cutback in benefits. Whether it will be a cut of 30% to 40%, I don't know."

The trend toward self-insuring benefits also will continue, further forcing insurers to price their products competitively to hold on to market shares, he said.

Mr. Hemley predicts premiums for group health coverage will drop as much as 20% over the next year, before gradually rising to stable levels by 1985.

For the property/casualty insurers, Mr. Hemley sees the present underwriting cycle bottoming out later this year and then improving. Combined ratios will peak at about 103% later this year and then gradually return to about 100%, he predicted.

An expected slowdown in in-

vestment income returns and a continued rise in the cost of incurred losses will end most rate-cutting among property/casualty insurers by the end of this year, he says.

That squares with most other industry predictions about the end of intense price competition that has sacrificed underwriting income for investment dollars.

Underwriting income, an elusive goal for most insurers in 1980, will return to profitable levels later this year, eventually increasing 3% to 4%, Mr. Hemley said.

Investment income will continue to be an important factor in insurance company earnings, Mr. Hemley said. However, it probably will increase only about 12% in 1981, somewhat less than increases in recent years.

For many, a Wharton business education with or without a declared insurance major helps launch a career in risk management, employee benefit consulting or government. This is attributed to the movement of insurance into finance departments and a well-connected Wharton faculty.

"To be a risk manager, it's necessary to have an understanding of corporate finance, taxes and pull together major business disciplines," said associate professor Doug Olson. "This is one of the best schools in all areas, especially financial management."

"A lot of students go into employee benefit consulting that wouldn't even be called insurance majors," Dr. McGill said. This is possible because "fundamentally, we offer a sound education program. There are no gimmicks," he said.

The faculty members all have close ties to industry and government. This benefits the students.

For an example, he is a member of the Pension Research Council, funded by U.S. corporations and based at Wharton. Although students cannot serve on this research body, faculty members aid them in research or in finding summer internships and jobs.

Tuition and general fee per semester for a full-time student at Wharton is \$3,000 for undergraduates and \$3,150 for graduate and doctoral students.

Bond covers fraud loss

Continued from page 2

time-consuming," he explained.

Fireman's Fund Insurance Co. is believed to be the lead underwriter on the bond, with quota share participation on the first layer by Aetna Casualty & Surety Co., Lloyd's of London and Federal Insurance Co., a subsidiary of Chubb & Son Inc.

Wells Fargo declined to confirm the identity of its insurers or to discuss the maximum limits of its bond. Mr. Sanguinetti said the coverage includes a second and possibly other layers. Marsh & McLennan brokers the account.

Information still unraveling about the Wells Fargo fraud suggests a veteran operations officer at a branch in Beverly Hills, Calif., systematically siphoned funds into accounts of Muhammad Ali Professional Sports Inc.

The operations officer, an 11-year employee, disappeared during the lunch hour the same day internal auditors started questioning him about unusual interbranch transfers bearing his signature.

Wells Fargo has brought a civil lawsuit against the former employee, L. Ben Lewis, charging him with embezzlement. The complaint also names Muhammad Ali Professional Sports Inc. and its top officers as conspirators.

At a news conference last week, attorneys representing Harold J. Smith, owner of Muhammad Ali Professional Sports Inc., charged that the fraud involved at least six Wells Fargo branches and \$100 million.

A Wells Fargo spokesman said the bank stands by earlier statements about the fraud.

Defending the bank's security and internal controls, Wells Fargo chairman Richard Cooley has said the bank's bonding rating is one of the lowest in the industry.

"The bankers blanket bond covers a multitude of losses—burglary, forgery, extortion—but employee dishonesty accounts for 50% to 60% of the losses," reports Frank LeMunyon, secretary of the Surety Assn. of America.

"It is not unusual for the big

banks to carry \$40 million to \$50 million in coverage with high deductibles," he noted.

Large banks are individually rated according to loss experience and a blanket bond is typically written until canceled.

In California, a bank must show evidence of a bond to receive its certificate of authority to open for business, said Robert Cameron, deputy superintendent of banks in the Banking Department.

A bank that loses its bond would be encouraged by the department to get a new one, but there is no regulation that requires it.

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Benefits market

Continued from page 1

The major insurers of employee benefits and the amount of self-funding of benefit plans are identified by total number of contracts for each insured benefit, by number of covered employees for specific sizes of employee groups and by relative premium volume.

A contract is defined by Group Insurance Reports as a separately identifiable benefit with an associated number of covered employees and premium volume. About 37,000 such contracts are analyzed by the researchers, but they involve fewer than 37,000 insurance policies or self-funded plans. When possible from premium information available, the researchers broke out into contracts specific benefits under one policy.

Some variations in choice of supplier surface when one compares the suppliers with the most contracts to the suppliers with the most covered employees in their groups.

- Self-funding is preferred by the largest employers and used often to some degree by smaller employers, but in number of contracts, BC&BS plans dominate.

- Aetna Life Insurance Co. is the choice of the smaller employer, holding more contracts than any other commercial insurer excluding the dominant not-for-profit BC&BS plans.

- Metropolitan Life is the choice

of the largest employers. The insurer's number of 1978 contracts ranks it 10th largest, but its insured groups are the largest of the big groups.

- Prudential, although no more than fourth in market share of covered employees in the six group-size categories, was fourth in the number of contracts it sold employers.

- The Travelers Insurance Co. places seventh in number of covered employees in five out of six group-size categories and eighth in one and is seventh largest in number of contracts, but its premium volume is almost as large as Aetna's because it serves larger groups.

Premium volume is not reported for the insurers because the Labor Department's Form 5500 doesn't ask employers to allocate premium volume to insurers when more than one is used for one or more benefit plans. Premium volumes were recorded when only one insurer was identified. The resulting rankings by premium volume are valid, says David Bowerman, vp of Money Markets Directories Inc., because all the recorded premium volume figures are understated by about the same amount.

The company computerized the information on group benefit funding by obtaining microfilms of all the 5500 forms employers

send to the Department of Labor. It is the first time this volume of information has been computerized.

The 1981 Group Insurance Reports, which is being marketed to benefit suppliers and intermediaries to help them with their own benefit marketing, includes information on 32,000 of the 40,000 forms filed regarding group benefit plans, excluding pensions.

Of the 8,000 not analyzed, 2,000 involved noninsurable benefits and 2,000 were duplicate filings. The other 4,000 were unavailable.

Most groups receive more than one type of benefit, giving the researcher information on more than 75,000 benefits.

The information applies to the 1978 plan year because that is the most current information available from Department of Labor forms. The final deadline for Form 5500 on the 1978 plan year wasn't until Aug. 31, 1980.

Information on the 1979 plan year will be available from the company in December.

Although there are few surprises in the lineup of major funding methods and insurers used by employers to fund group benefits, the reports confirm the trends perceived by benefit managers and insurers.

Blue Cross & Blue Shield plans hold about 20% of the 37,000 contracts analyzed, taking the single largest market share by number of contracts and premium volume.

Self-funded plans—which include all plans that contain any self-retention, from small SIRs to huge ones—are the second most popular group benefit funding method, reported on 3,430 of the analyzed contracts.

The dollar amount of self-funding, however, is understated in

relation to premium volume because employers don't always state their self-funded costs. Therefore, no comparison of self-funding costs can be made with premiums of insurers.

Prudential Insurance Co. is the fourth largest underwriter of group benefit plans, according to the 1978 reports, with 1,669 of the contracts, but its premium volume is slightly less than that of seventh-ranked The Travelers Insurance Co. with 1,018 contracts.

In between Prudential and The Travelers, Connecticut General squeezes out The Equitable Life Assurance Society as the fifth largest in contracts held, with 1,132 contracts. The Equitable had 1,123 contracts and slightly less in premium.

Large gaps in the number of contracts develop as one reads down the list of the insurers with the most group benefit contracts.

Life Insurance Co. of North America had 831 contracts in 1978, but only half the premium volume of ninth-ranked Union Mutual Life Insurance Co. with 649 contracts.

Metropolitan Life Insurance Co. takes only 10th rank in the number of contracts written in 1978, but its premium volume is closer to that of fourth-ranked Prudential.

With more than 500 contracts are Provident Life & Accident Insurance Co. in the 11th spot and Mutual Benefit Life Insurance Co. in 12th, but Provident's premium volume is far higher.

Although John Hancock Mutual Life Insurance Co. comes in as only 13th in number of contracts written, its premium volume is 60% more than 11th-ranked Provident's.

Premium volume and number of contracts written drop even more on down the list. Most interesting, however, is the market standing of

Kaiser Foundation Health Plan, the largest health maintenance organization in the country. It held 370 contracts in 1978 and more in premium volume than John Hancock.

Kaiser's ranking as the 17th largest group benefit provider is even more interesting when one considers that these rankings are based on all group benefit plans and Kaiser is only a health care provider.

Health plans, of course, are the most often provided benefit reported on the 5500 forms. Basic health plans account for 20% of the 75,094 benefits. Major medical plans account for 12.5%. Hospitalization plans with Blue Cross account for 3% and medical/surgical plans with Blue Shield account for 2%.

HMOs have only half of 1% of the benefits.

Special health benefit plans were led by dental insurance, accounting for 5% of the benefits. Prescription drug and vision plans each accounted for just 1% of the total benefits.

Life insurance plans account for 21% of the benefits and accidental death and disability insurance accounts for 15%. Disability plans take another 10% and long-term disability accounts for another 7%. Travel and accident plans were 2% of all the benefits analyzed.

Groups of more than 10,000 employees purchase only 5% of all the 37,000 contracts analyzed.

The largest number of contracts is written for employees in groups of 100 to 300 (37%) and 1,001 to 5,000 (22%). The percentage of total contracts purchased by the other categories of employee group size are: 16% by groups of 301 to 500; 16% by groups of 501 to 1,000, and 4% by groups of 5,001 to 10,000. ■

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Court ruling

Continued from page 2

and capital invested pursuant to the subscription agreement."

He argued the case should be remanded for another hearing because the IRS has admitted there was risk-shifting on the \$120,000 capitalization.

Even if Carnation loses its argument on the \$3 million subscription agreement, establishing that there was risk-shifting on the \$120,000 will set the stage for Carnation to win future IRS challenges of its captive transactions, Mr. Whaley says.

He argues that each additional premium payment under the government's position on captives increases the captive's capital and so provides the needed capital to justify risk-shifting in the insurance transactions.

Other tax attorneys are anxiously awaiting the decision of the appeals court, even though many other captive transactions don't include such a subscription agreement.

The appeals court could rule on the economic family theory that the IRS uses in its Revenue Ruling 77-316 to disallow tax deductions for premiums paid to captives.

The Tax Court did not address the economic family theory, but the IRS argued the theory to the appeals judges.

The IRS's economic family theory maintains that because a captive insurer is part of the same economic family as the parent whose risks it insures, there is no risk-shifting and, therefore, no insurance.

Mr. Whaley hopes the judges will make a decision on the case within the next year.

The 9th Circuit previously overruled IRS attacks on corporate tax deductions for self-insured reserves to pay workers compensation claims. ■

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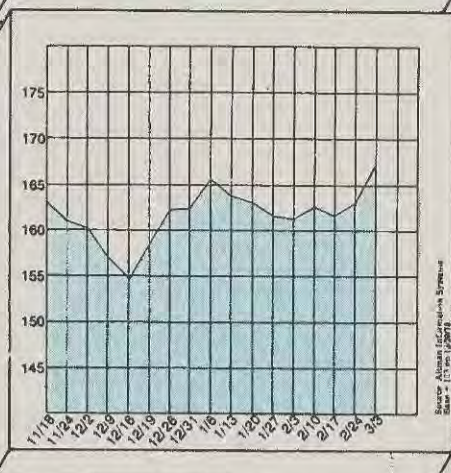
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BI Insurance Index



Insurance industry stocks made their strongest showing of the year last week with the *Business Insurance* stock index rising 4 points to 167.1 from 163.1. Forty-one stocks increased, only 16 dropped and 15 remained unchanged. Showing the largest gains were: Washington National Corp., 26.7%; First Colony Life Insurance Co., 16.2%; Ryan Insurance Group, 10.7%; Armco Inc., 10.4%, and CNA Financial Corp., 9.6%. Largest drops were: American Bankers Insurance Group, 6.6%; Carolina Casualty Co., 5.6%; American States Life Insurance Co., 5.1%; Farmers Group Inc., 3.8%, and Ohio Casualty Corp., 2.7%. The index gain was less than that of two of the three major market indicators.

A&A/Sedgwick link takes form of 'dual residency'

By HARVEY H. BUNDY III
Special to Business Insurance

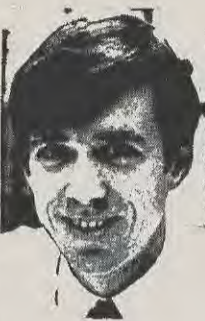
THE PROPOSED consolidation of Alexander & Alexander with Sedgwick Group, which will grab the distinction of world's largest broker from Marsh & McLennan/Bowring, will likely be a "dual-resident holding company."

Current plans point to the incorporation of this company in the United States although it will be managed and controlled in both the United States and the United Kingdom. As a result, the holding company will be a resident for tax purposes of both the United States and the United Kingdom.

The former shareholders of Alexander & Alexander and Sedgwick will become shareholders of the holding company and the shares will be traded publicly in both countries. It is intended that the managements of A&A and Sedgwick initially would equally share duties in the combined entity. The proposed structure is shown in the attached diagram.

There appear to be significant tax questions associated with the proposed form of a dual-resident company. For this reason, it is increasingly likely no form of combination will be consummated until late 1981 or 1982.

There has been a recent resurgence of investor interest in the insurance brokers. This is concentrated in Alexander & Alexander and Marsh & McLennan, the two companies with better recent operating results. Therefore, those two stocks are likely



Bundy

Harvey H. Bundy III, a partner at William Blair & Co. in Chicago, specializes in financial and insurance stocks. His monthly column on insurance brokerage stocks appears on this page the second Monday of every month.

BI ticker

to continue their above-average performance of recent months. We are hopeful new investors in both companies are aware of the likely flat-to-down earnings we anticipate for the next several quarters.

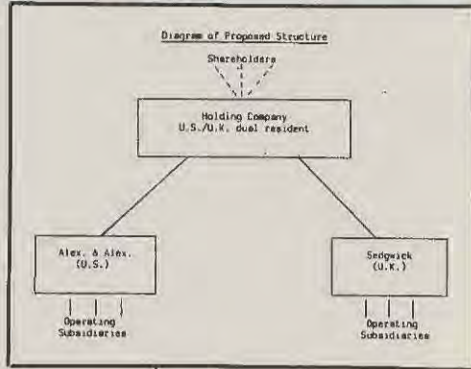
Elsewhere, February was a month of change for insurance brokers.

Through the acquisition of James S. Kemper & Co., Ryan Insurance Group vaulted to the top 10 national brokers. Rollins Burdick Hunter announced it is reaching outside the industry for a new chairman and chief executive officer and the future of Bayly, Martin & Fay is more clouded as its parent, Sperry & Hutchinson, contemplates a change in its independent status.

The acquisition of Kemper by Ryan will result in a firm with estimated pro forma 1980 insurance brokerage revenues of about \$37 million, roughly the same as Arthur J. Gallagher & Co. This still leaves a large gap between Ryan and Bayly, Martin & Fay, the next largest firm, but given the rapid rise of Ryan in the last few years, the company will bear close watching.

After founding the predecessor of Ryan Insurance Group 17 years ago, Patrick Ryan has overseen growth to current earnings of more than \$10 million. At the same time, Mr. Ryan has retained control of more than 50% of the outstanding stock.

Ryan entered the insurance brokerage business in April 1978 through the acquisition of the four agencies previously owned by GSI, a former subsidiary of Esmark. In 1980, Self-Insured Services was added to



the Ryan fold and Harold Hines, formerly president of Marsh & McLennan, joined the company. The combination of Mr. Ryan and Mr. Hines should result in continued dynamic growth, both internally and through acquisitions. Therefore, the Kemper acquisition, while significant, is only part of an ongoing expansion plan.

Rollins Burdick Hunter surprised industry people by reaching outside for a new chief executive officer. Over the last several months, RBH has been the subject of numerous takeover rumors, fueled by the 5% stock ownership positions of both NN Corp. and Sperry & Hutchinson. The recent hiring of Charles Hall reinforces the company's desire and intent to remain independent. Mr. Hall brings significant administrative talents to Rollins Burdick Hunter, and I am very enthusiastic about this addition.

On the international front, it is likely the form of consolidation between Alexander & Alexander and the Sedgwick Group will be a dual-resident holding company.

William Blair & Co. maintains a market in the common shares of Rollins Burdick Hunter and Alexander & Alexander Services. Edgar D. Jannotta, a partner in William Blair & Co., is on the board of directors of Rollins Burdick Hunter.

Broker Stock Performance

	Price	% Change	
		vs. 1/31/81	vs. 2/29/80
A&A	33 1/2	4.7	15.5
C&B	22 1/4	3.5	(9.6)
Hall	24 1/4	8.3	8.9
James	22 1/4	(5.2)	(1.1)
M&M	33 1/4	9.0	7.3
RBH	22	—	4.8
S&P 400	149.29	3.9	15.5

British Issues

3/3 Companies	Price	P/E	Div.	Yield	1 Week	
					High	Low
Comml Union	155	8.3	15.43	9.9	160	153
Eagle Star	242	8.3	14.28	5.9	246	240
Genl Accident	322	8.3	18.24	5.7	322	308
Gdn Royal Exch	342	9.0	20.71	6.1	342	328
Phoenix	268	8.4	20.00	7.5	268	260
Royal	385	8.4	34.29	8.9	388	376
Sun Alliance	798	10.8	42.14	5.3	798	776

Brokers	Price	P/E	Div.	Yield	1 Week	
					High	Low
CE Heath	217	10.6	13.87	6.4	223	213
Hogg Robinson	104	8.3	8.14	7.8	108	103
Alex Howden	106	8.8	10.00	9.4	109	104
JH Minet	98	12.2	6.45	6.6	100	95
Sedg Grp	129	11.8	7.14	5.5	131	126
Stenhouse Hldg	84	8.0	6.64	7.9	87	84
Stew Wrightson	227	10.5	17.14	7.5	238	225
Willis Faber	290	12.9	16.14	5.6	297	290

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

MAR. 3, 1981

2/25/81 THRU 3/3/81

MAR. 3, 1981

2/25/81 THRU 3/3/81

Insurance Cos.	NYSE	Price	% Chg.	P/E	Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	33.00	3.9	5.2	2.32	7.0	33.00	32.00	862.7
American Bankers Ins Group	OTC	7.13	-5.6	4.8	0.22	3.1	7.38	7.13	77.2
American Natl Ins Co	NYSE	27.13	1.9	5.1	0.50	1.8	27.13*	26.63	23.2
American Fin Corp Ohio	NYSE	37.88	4.8	5.8	2.00	5.3	38.00	36.00	115.2
American Gen Ins Co	NYSE	16.38	2.3	6.3	1.12	6.8	16.38	16.00	8.2
American Indty Finl Corp	OTC	80.25	4.2	11.3	0.50	0.6	80.25*	77.00	174.5
American Intl Group Inc	NYSE	12.88	0.0	5.4	0.68	5.3	12.88	12.75	62.9
American Natl Ins Co	NYSE	18.50	-5.1	6.3	0.72	3.9	19.50	18.50	1.5
American Sts Life Ins Co	NYSE	4.50	2.9	0.0	0.00	0.0	4.50	4.38	24.7
Aneco Reins Ltd	NYSE	2.13	0.0	6.1	0.05	2.4	2.13	2.13	0.0
Appalachian Natl Corp	AMEX	8.88	-1.4	7.7	0.50	5.6	9.00	8.75	2.5
Avenco Corp	NYSE	26.00	2.1	4.4	1.44	5.5	26.00*	25.00	3.2
Banks Iowa Inc	NYSE	36.50	0.0	5.3	2.16	5.9	37.00	36.00	7.2
Bitco Corp	NYSE	8.50	-5.6	4.0	0.32	3.8	8.75	8.50	3.2
Carolina Cas Ins Co	NYSE	10.38	0.0	3.8	0.50	4.8	10.38	10.38	2.2
Central Natl Finl Corp	OTC	41.75	4.0	4.9	2.68	6.4	41.75	39.75	92.9
Chubb Corp	NYSE	18.38	8.1	5.2	1.60	8.7	18.38	17.13	132.8
Combined Intl Corp	NYSE	49.00	3.2	6.4	1.76	3.6	49.00	47.88	264.8
Connecticut Gen Ins Corp	NYSE	24.38	2.1	6.5	2.40	9.8	24.38	23.50	145.3
Continental Corp	NYSE	19.50	0.0	14.9	0.52	2.7	19.50	19.50	9.1
Crawford & Co	OTC	96.00	3.8	8.0	2.80	2.9	96.00	92.50	0.0
Crown Life Ins Co	NYSE	26.38	4.5	4.9	1.44	5.5	26.38	25.25	59.8
Cum & Forster	NYSE	31.50	-1.6	5.1	1.20	3.8	31.50	31.00	6.3
Employers Cas Co	NYSE	20.50	-0.6	6.5	2.40	11.7	20.75	20.38	7.8
Equifax Inc	NYSE	28.63	-3.8	9.0	1.12	3.9	29.75	28.63	206.4
Farmers Group Inc	NYSE	39.50	16.2	13.5	0.80	2.0	39.50*	35.50	16.2
First Colony Life Ins Co	NYSE	20.13	0.0	6.6	0.80	4.0	20.13	20.00	6.4
Foremost Corp Amer	NYSE	225.00	0.0	9.3	10.00	4.4	225.00	225.00	0.4
Great West Life Assurn Co	NYSE	42.00	-0.6	3.9	0.72	1.7	42.25	42.00	71.5
Hanover Ins Co	NYSE	37.00	-1.3	7.4	2.40	6.5	37.50	37.00	38.7
Hartford Steam Boiler Insprtn	NYSE	34.25	-3.5	11.8	0.52	1.5	35.50	34.25	51.9
Integon Corp	NYSE	43.50	2.4	20.3	0.64	1.5	43.50	42.50	5.9
Jefferson Natl Life Ins Co	NYSE	30.88	-0.8	4.7	1.60	5.2	31.13	30.88	22.9
Kemper Corp	NYSE	38.38	0.7	5.3	3.00	7.8	38.88	38.00	52.4
Lincoln Natl Corp Ind	NYSE	30.75	6.5	8.4	1.28	4.2	30.75	28.63	239.3
Mgic Invnt Corp	NYSE	40.00	6.7	7.8	1.00	2.5	40.00*	37.88	37.1
Mission Ins Group Inc	NYSE	22.00	0.6	5.5	0.70	3.2	22.00	21.88	1.1
Nationwide Corp Ohio	NYSE	28.00	-0.9	6.2	1.25	4.5	28.50	28	37.6
Northwestern Natl Life Ins	NYSE	36.63	-2.7	6.1	2.04	5.6	37.25	36	51.8
Ohio Cas Corp	NYSE	15.88	3.3	4.3	0.92	5.8	16.13	15.38	151.8
Old Rep Intl Corp	NYSE	6.38	2.0	11.8	0.00	0.0	6.38	6.25	3.1
Pinehurst Corp	NYSE	17.75	0.0	6.4	0.64	3.6	17.75	17.75	1.7
Preferred Risk Life Ins Co	NYSE	43.00	4.9	6.4	1.88	4.4	43.00	41.50	23.0
Provident Life & Acc Ins Co	NYSE	23.38	0.0	14.1	0.70	3.0	23.38	22.88	101.8
Republic Natl Life Ins Co	NYSE	22.00	10.7	8.8	0.09	0.4	22.00	20.25	26.2
Ryan Ins Group Inc	NYSE	38.75	1.3	6.9	2.32	6.0	38.88	38.00	42.6
St Paul Cos Inc	NYSE	35.00	0.4	6.3	2.00	5.7	35.50	35.00	126.7
Safeco Corp	NYSE	28.50	2.7	4.7	1.20	4.2	28.50	27.75	13.0
Sri Corp	NYSE	18.50	8.0	4.3	0.80	4.3	18.50	17.25	70.4
Selbels Bruce Group Inc	NYSE	5.38	7.5	4.0	0.15	2.8	5.38	5.00	15.0
Statesman Group Inc	NYSE	35.00	0.0	6.3	2.00	5.7	35.50	35.00	126.7

Agents/Brokers	NYSE	Price	% Chg.	P/E	Div.	% Yld.	High	Low	Vol. (000)
Tokio Marine & Fire Ins Co	NYSE	148.75	-0.9	16.5	1.03	0.7	151.50	148.00	2.3
Travelers Corp	NYSE	42.00	5.7	4.9	2.88	6.9	42.00	40.25	378.8
United Fire & Cas Co	NYSE	36.50	4.3	10.1	1.00	2.7	36.50*	35.00	0.9
United States Fnd & Gty Co	NYSE	40.13	4.2	4.9	3.20	8.0	40.13	39.50	123.1
United Svcs Life Ins Co	NYSE	15.00	0.0	6.1	1.00	6.7	15.13	14.88	24.2
Uslife Corp	NYSE	25.63	7.9	5.9	0.72	2.8	25.63	23.63	207.2
Washington Natl Corp	NYSE	38.00	26.7	7.5	1.50	3.9	38.00	30.63	130.3
Zenith Natl Ins Corp	NYSE	15.00	-1.6	9.3	0.50	3.3	15.00	14.75	47.4
INSURANCE COMPANIES	AVERAGE			7.0		4.1			

Conglomerates/Holding Cos.	NYSE	Price	% Chg.	P/E	Div.	% Yld.	High	Low	Vol. (000)
Alexander & Alexander Svcs	NYSE	33.25	7.3	10.9	1.84	5.5	33.50	31.25	274.4
Baldwin & Lyons Inc	NYSE	30.75	0.0	5.4	0.80	2.6	30.75	30.50	2.6
Corroon & Black Corp	NYSE	22.25	0.0	9.4	1.72	7.7	22.25	22.00	13.4
Crump E H Cos Inc	NYSE	13.88	4.7	12.1	0.40	2.9	13.88	13.13	11.4
Hall Frank B & Co Inc	NYSE	23.63	0.0	8.6	1.60	6.8	24.38	23.63	33.1
Integrated Res Inc	AMEX	17.63	2.2	8.8	0.00	0.0	17.88	15.75	46.3
James Fred S & Co Inc	NYSE	22.75	1.1	9.8	1.60	7.0	22.75	22.25	47.4
Marsh & McLennan Cos Inc	NYSE	34.38	7.4	11.0	2.00	5.8	34.38	32.38	364.6
Penncorp Finl Inc	NYSE	6.00	-2.0	5.4	0.16	2.7	6.25	6.00*	156.6
Reed Stenhouse Cos Ltd	NYSE	12.00	0.0	11.4	0.56	4.7	12.00	11.00	5.0
Rollins Burdick Hunter Co	NYSE	22.00	1.1	10.6	1.24	5.6	22.00	21.75	16.0
AGENTS/BROKERS	AVERAGE			8.9		5.0			

Agents/Brokers	NYSE	Price	% Chg.	P/E	Div.	% Yld.	High	Low	Vol. (000)
Alexander & Alexander Svcs	NYSE	33.25	7.3						

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